

# 8th ICIS World Surfactants Conference – Innovation Seminar

Hyatt Regency Jersey City, USA

May 10, 2018

**Mergers and Acquisitions:  
Megatrends Shaping the Future**

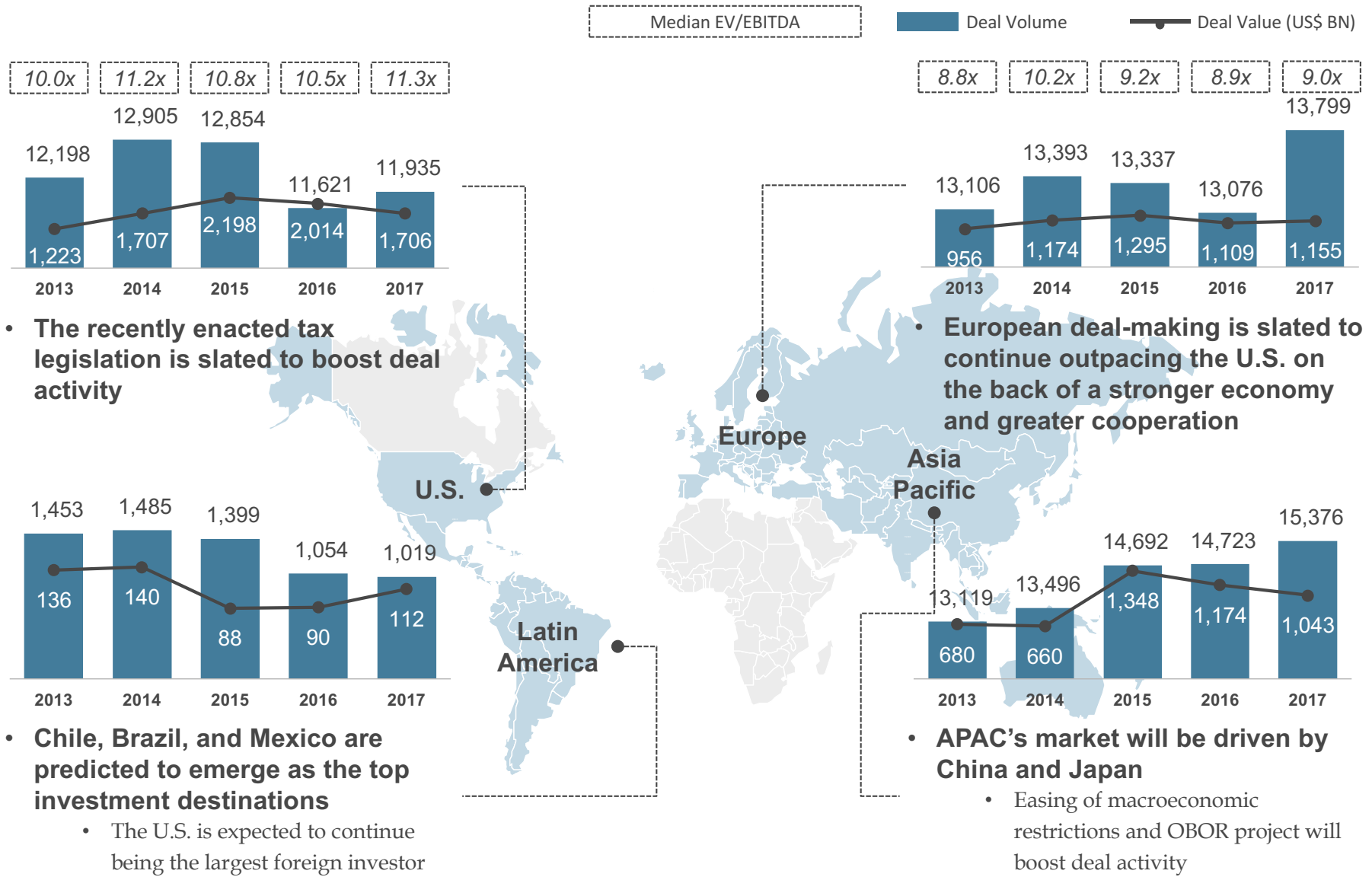
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# Global M&A



The global M&A market witnessed **38,957** deals in 2017, corresponding to a deal value of **US\$3,458 BN** and a median EV/EBITDA multiple of **9.5x**; the **Asia Pacific (APAC)** region accounted for the largest share geographically

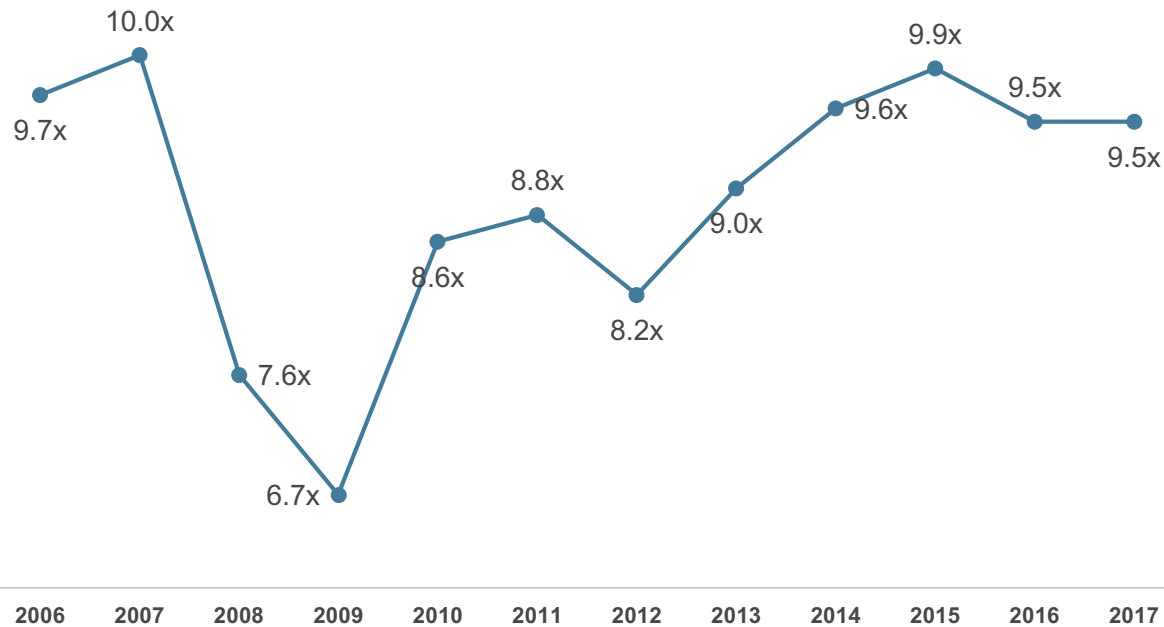
# APAC accounted for the largest share of the global M&A volume at 39.5% and 30.2% of the deal value, followed by Europe and the U.S.



Source: William Blair Merger Tracker Q4 2017

## As global equity markets reached a new high, the median EV/EBITDA multiple remained relatively stable, nearing pre-financial crisis days

Global M&A - Median EV/EBITDA

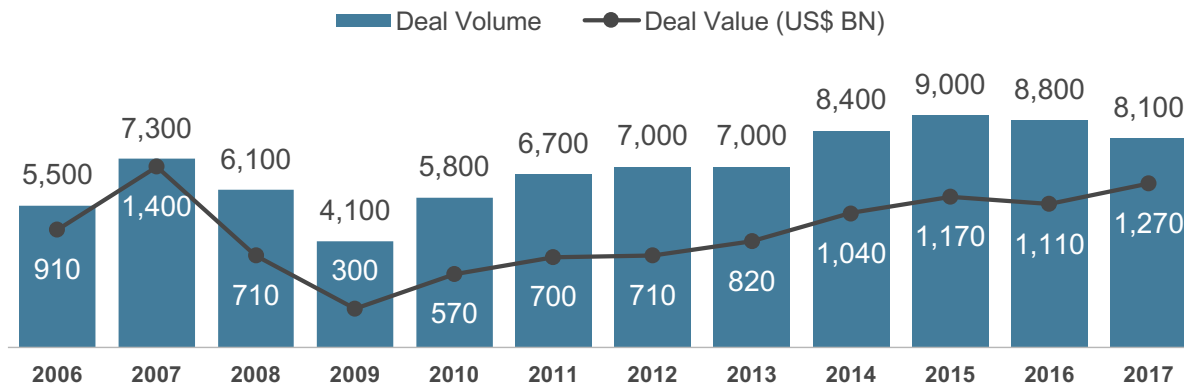


- Companies have become more cautious in pursuing large strategic deals as they struggle to find additional synergies to justify significant takeover premiums
- Owing to easy availability of cheap financing and doubts over equity market valuations, all-share deals dropped to a low in 2017, especially in the U.S.

**Private Equity (PE) sponsors globally contributed 20.8% to the deal volume and 36.7% to the deal value in 2017, with U.S.-based PE being responsible for 41.1% of the total global PE deal value and 47.7% of the deal volume**

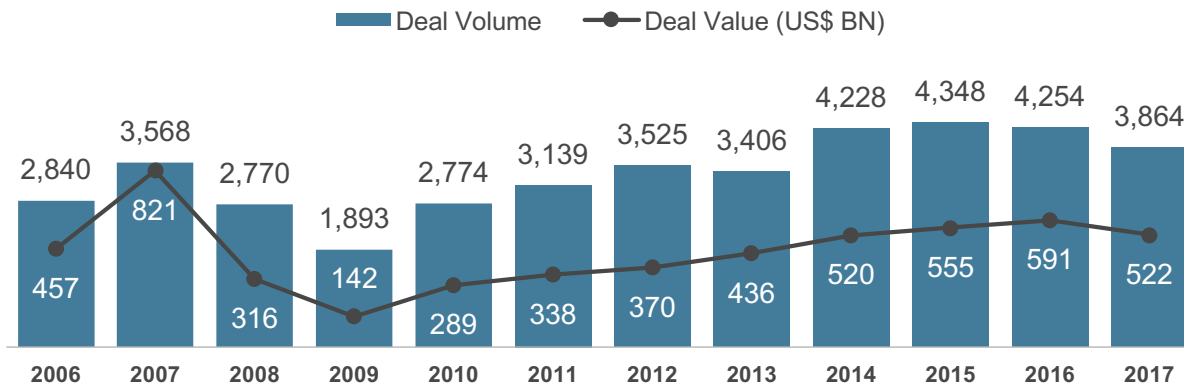
# 2017 witnessed global PE deal volume decline in U.S., dampened by high valuations and a relative lack of quality assets

### Global PE - By Deal Volume and Value



- With entry prices for assets remaining high and a significant quantum of capital competing for deals, capital deployment is to likely to continue posing a challenge in 2018

### U.S. PE - By Deal Volume and Value

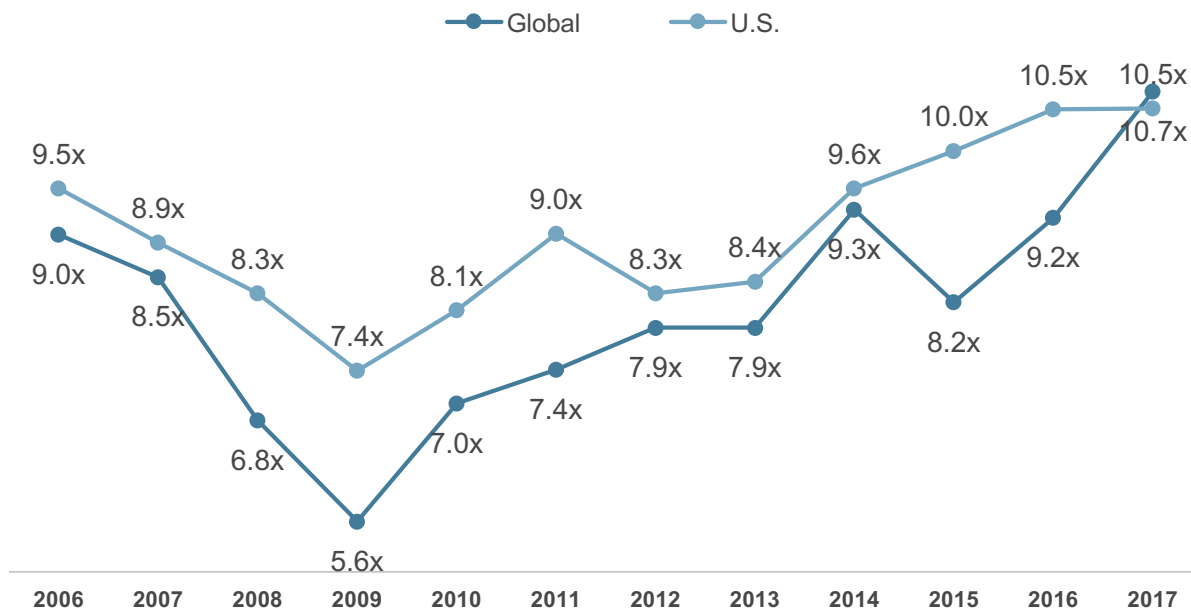


- ~89.0% deal volume in the U.S. happened with deal values ≤US\$500 MN

Source: McKinsey Global Private Markets Review 2018; Pitchbook

## Median EV/EBITDA multiples rose to their highest in the past decade, owing to multiple funds competing for the same transaction

PE - Median EV/EBITDA



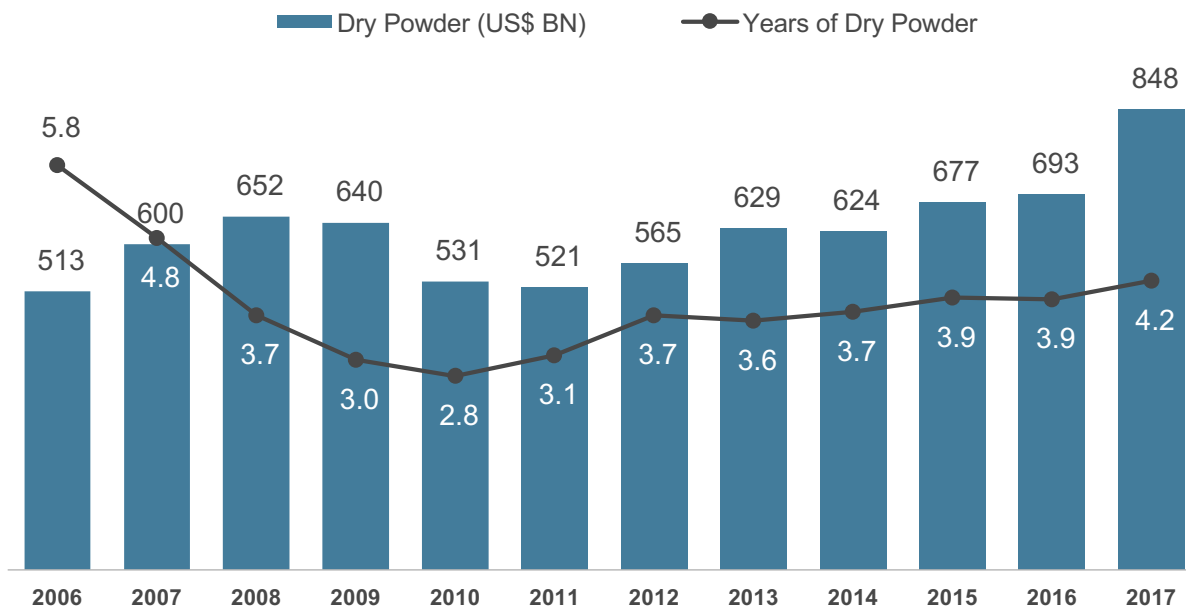
- The primary reason behind the 14.4% y-o-y increase in global deal size is attributable to growing multiples
- Consequently, GPs are making fewer investment choices, zeroing in on targets where they can still earn an attractive IRR; however, what constitutes attractive is undergoing revision amid the current environment



**372 PE funds closed in 2017, with the aggregate capital being raised totaling US\$325.9 BN globally; while in the U.S., 247 PE funds were closed, with US\$233 BN being raised**

# Global PE dry powder was worth US\$848.3 BN in 2017 – quantum of dry powder indicates a significant opportunity for the M&A industry

Global PE Dry Powder – By Value and Tenure



- PE dry powder has been increasing at an average annual rate of 8.5% since 2011
  - Net addition to dry powder was 47.5% of the total fundraising for 2017
- A continuation of this trend over the coming years is likely to be troubling and has the potential to force many GPs to further reduce their hurdle rates and deploy capital in situations they otherwise would not

In the near term, global M&A is also expected to be defined by the **U.S. tax reform, increase in cross-border M&A activities (especially the revival of China's outbound M&A), and emergence of cross-sector convergence (especially technology convergence)**

**Enactment of the Tax Cuts and Jobs Act of 2017, which calls for a 21.0% U.S. corporate tax rate and the mandated repatriation of ~US\$1.5–2.0 TN of overseas cash, is expected to have a significant impact on global M&A**

### **Impact on Corporate M&A**

- **Increased power, quality, and liquidity of corporate earnings = More stimulating investment and M&A environment**
- **High earnings = Partially offset impact of continuous high valuations**
- **Lower taxes = Increase the number of non-core asset sales and corporate divestitures, and add to the supply of available targets**

### **Impact on Financial Sponsor M&A**

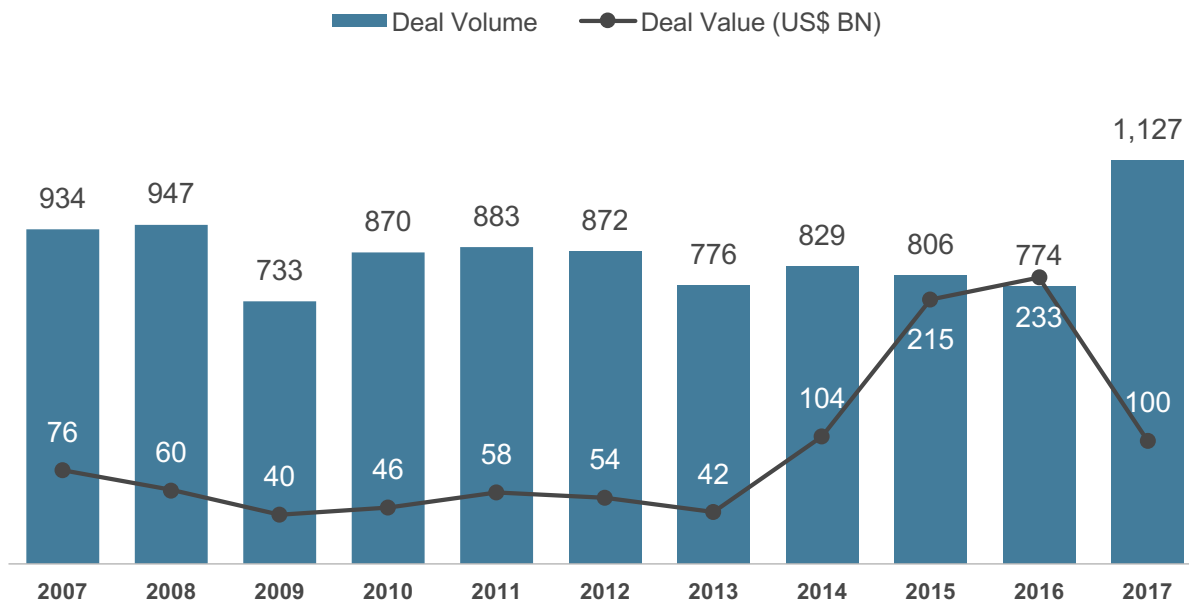
- **Increased cost of capital for acquisitions reliant on debt financing**
  - This will make PE firms less competitive, with cash-rich strategic players, especially if interest rates rise significantly
  - Factors likely to mitigate the impact of reduced deductibility include the unlimited ability to carry forward disallowed interest expenses
- **Improved bottom lines for planned targets due to lower tax rates**
- **Step up and immediately expense some costs under certain transaction structures, driving up deal volume**

# Chemical M&A

**The global chemical market witnessed 1,127 M&A deals in 2017, corresponding to a deal value of US\$100 BN and a median EV/EBITDA multiple of 10.2x; PE-backed M&As accounted for 4.9% of the total deal volume**

In 2017, chemical M&A deals grew 45.6% y-o-y, corresponding to a 57.1% decrease in deal value, from the record high of US\$233 BN in 2016

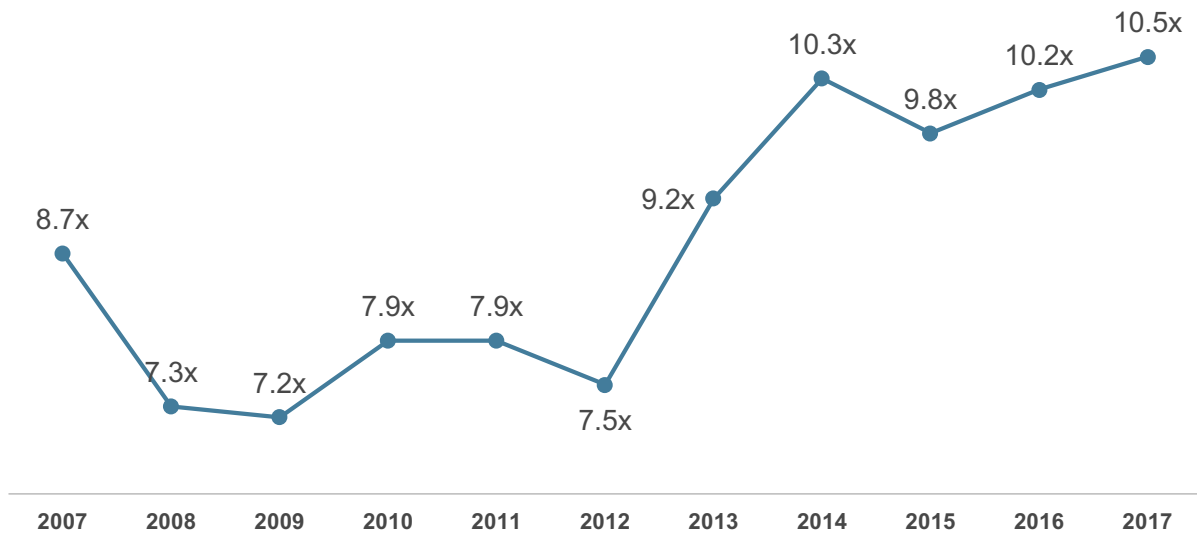
Global Chemical M&A - By Deal Volume and Value



- Owing to a slowdown in organic sales growth, many companies consider M&A a necessity to secure higher growth
- Strong outlook for 2018:
  - Higher valuations continue to be mitigated by improving economic conditions
  - Continued inexpensive financing
  - Acquisition of assets to drive earnings gains
  - Rising deal appetite

## Strong deal appetite and relative scarcity of quality assets have pushed median deal multiples for the industry to trade at an all-time high

Global Chemical M&A - Median EV/EBITDA & EV/Revenue

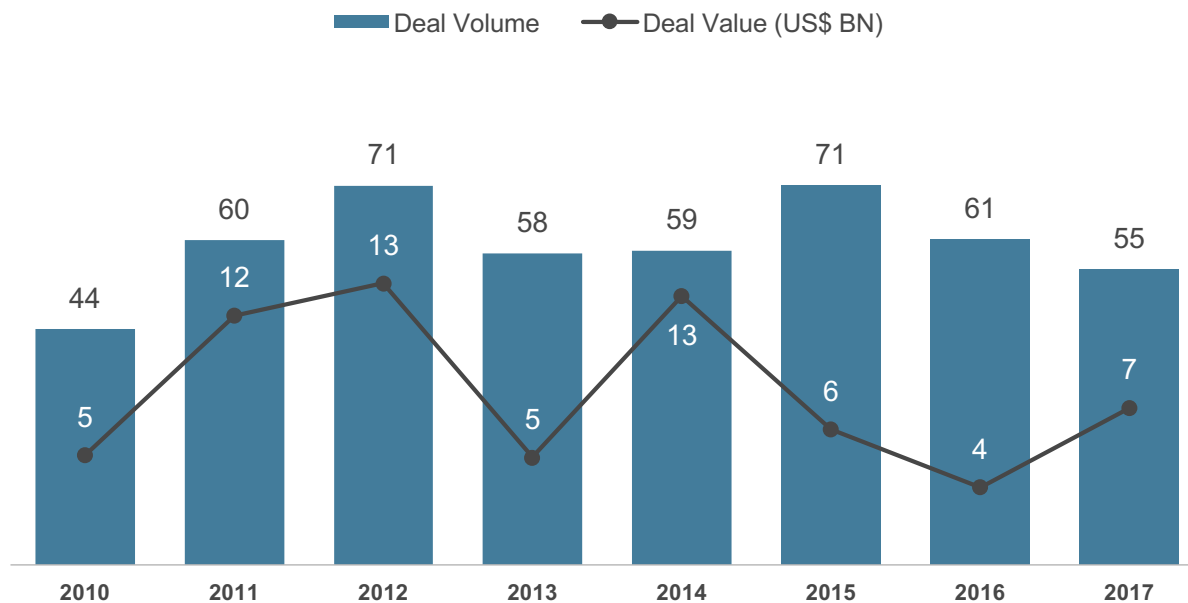


- The chemical industry's deal valuation has been rising since 2012 owing to a demand-supply imbalance amid low deal flow and high capital availability
- Sectors of coatings, adhesives, sealants, and elastomers (CASE); intermediates; and polymers are expected to witness an average deal multiple of ~12.5x going into 2018



## Even with record levels of available capital, PE-backed chemical M&A activity in 2017 was the lowest since 2010 owing to high valuations

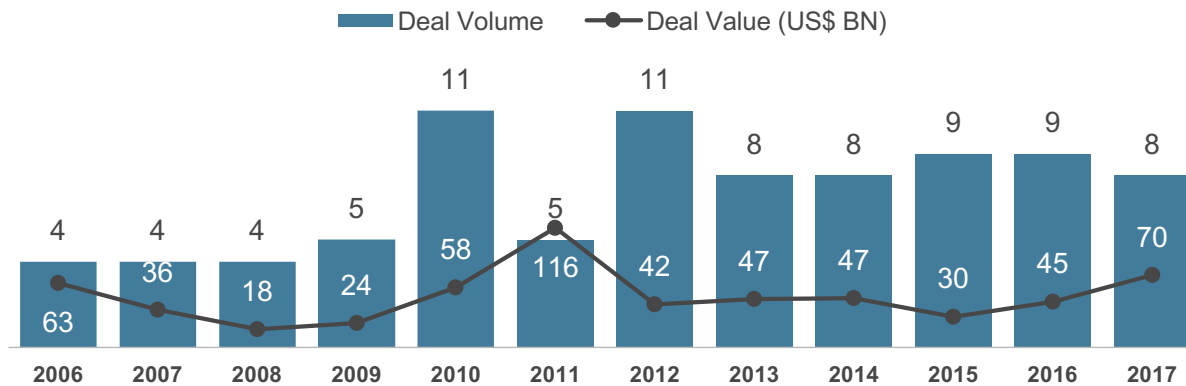
Global PE-backed Chemical M&A - By Deal Volume and Value



- PE deal activity has been decreasing since 2015 as funds are refraining from overpaying for assets
- The commodity chemical sub-sector is specifically being avoided by PEs, which are choosing to compete in the specialties sub-sector

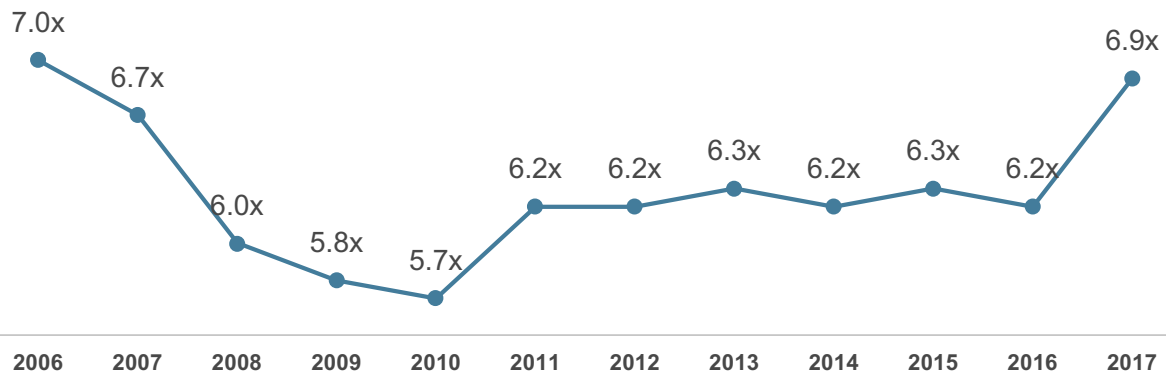
## In the North American market, PE-backed chemical M&A declined 11.1% y-o-y in 2017, while deal value rose 55.6% owing to megadeals

North American PE-backed Chemical M&A - By Deal Volume and Value



- North American PE-backed chemical M&A formed 14.5% of the global M&A
- For 2018, as valuations of specialty chemical companies are expected to stay high and PEs continue to remain reluctant to acquire Asian and commodity chemical companies, PE activity in chemicals is expected to remain lukewarm

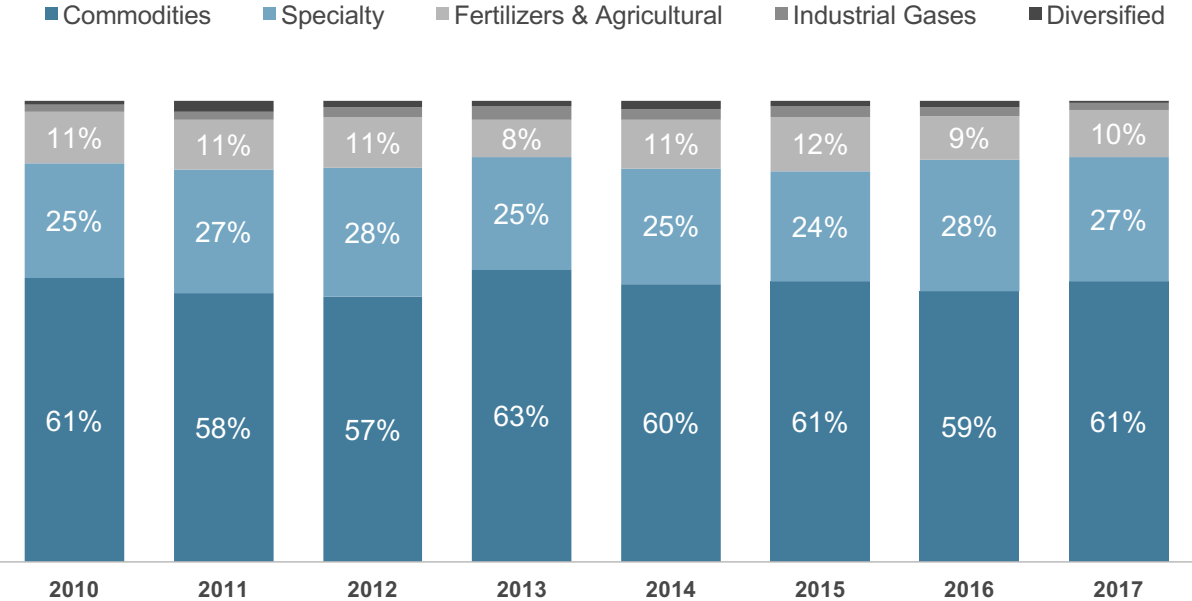
North American PE-backed Chemical M&A - Median EV/EBITDA



In recent times, global chemical M&A has come to be defined by increased investment in the **commodities and fertilizers & agricultural sectors**, expected increase in **megadeals**, and emergence of **novel dynamics**

# Commodities and fertilizers & agricultural chemicals witnessed the largest increase in M&A volumes over 2016-17, including some of the largest announced deals

Global Chemical M&A - By Target Sector

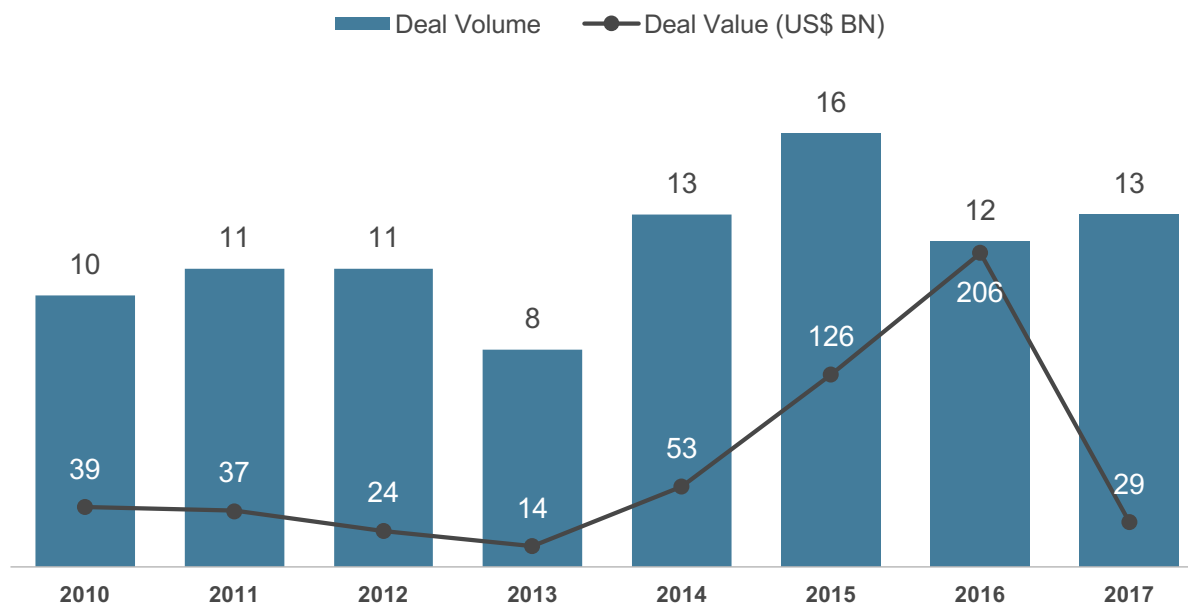


- Continued interest from state-owned enterprises and traditional oil & gas companies going downstream, in order to capture more of the chemical value chain
- 2018 is slated to witness strong deal activity in the specialty chemicals segment - coatings in particular - from both strategic and financial investors

Source: Deloitte 2018 Global Chemical Industry Mergers and Acquisitions Outlook

While the pace of megadeals in 2017 slowed back to pre-2015 levels as deal activity in many sectors was challenged by regulatory constraints, the same is expected to feature relatively more strongly in 2018

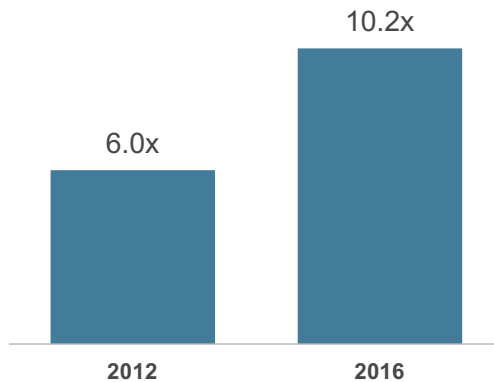
Global Chemical M&A - Over US\$1 BN



- Specialty chemicals, especially, is slated to witness more megadeals in 2018
  - In 2017, several large transactions were explored within the coatings sector, but no deals were announced
  - See Appendix for listing of announced Megadeals

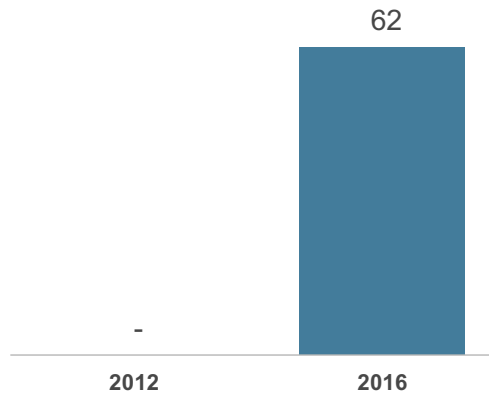
## A variety of new dynamics involving larger transactions with more 'merger-of-equals' deals, greater number of activist investor campaigns, and greater average deal size are helping drive M&A

Median EV/EBITDA



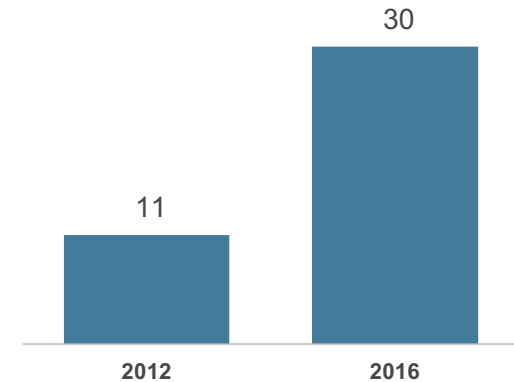
- Rising multiples suggest that it is a seller's market – particularly the case for small and mid-sized acquisitions

MOE Deal Value (US\$ BN)



- The number and size of 'merger-of-equals' deals is increasing significantly in the industrial gases, crop protection, fertilizers, and coatings segments









# of Activist Campaigns



- Activist investors have become increasingly important in the chemical industry and are taking up a significant role in restructuring initiatives

**M&A in surfactants is witnessing similar dynamics affecting the M&A trend in the overall chemical industry . . .**

## Some key surfactant-focused transactions include the following:

| Target   | Acquirer   | Deal Value  | Deal Description  |
|--|--|-------------|---|
| <br><b>HUNTSMAN</b><br>European<br>Differentiated<br>Surfactants Business | <br><b>innospec</b><br><small>specialty chemicals</small> | US\$200 MN  | <ul style="list-style-type: none"> <li>• Enhances Personal &amp; Home Care, and Oilfield Services businesses in Europe</li> <li>• Expands presence to new markets</li> </ul>                                      |
| <br><b>KCI</b>  | <br><b>samyang</b>  | US\$65.2 MN | <ul style="list-style-type: none"> <li>• Samyang acquired 44.2% stake in KCI</li> <li>• Manufactures chemicals used to make cosmetics</li> <li>• Strengthens existing operations and new businesses</li> </ul>    |
| <br><b>ELEMENTIS</b><br><small>SPECIALTIES</small>                       | <br><b>KLK OLEO</b>                                      | US\$45.9 MN | <ul style="list-style-type: none"> <li>• Kolb Distribution, a subsidiary of KLK Berhad, acquired Elementis Specialties Netherlands</li> <li>• Grows its downstream chemical specialties business</li> </ul>       |
| <br><b>BASF</b><br>We create chemistry                                  | <br><b>Stepan</b>                                       | -           | <ul style="list-style-type: none"> <li>• Stepan acquired BASF Mexicana's surfactant facility and a portion of its Associated Surfactants business</li> <li>• Part of growth strategy for Latin America</li> </ul> |



Apart from expanding to new markets and strengthening current business, M&A in the surfactant sub-sector is also motivated by portfolio optimization decision, activist shareholders, and PE investment

### Portfolio Optimization

- Example: Elementis' divestiture from its surfactants business
- Did not fit with its wider strategy due to a "lack of scale and material capital" requirements
  - The divestiture allowed it to focus on higher margin growth opportunities

### PE Investment

- PE firms would rather invest money in established complex operations than to build new grassroots facilities
- Example: Huntsman's lookout for bolt-on acquisitions in the epoxy resins, amines, and surfactants domains

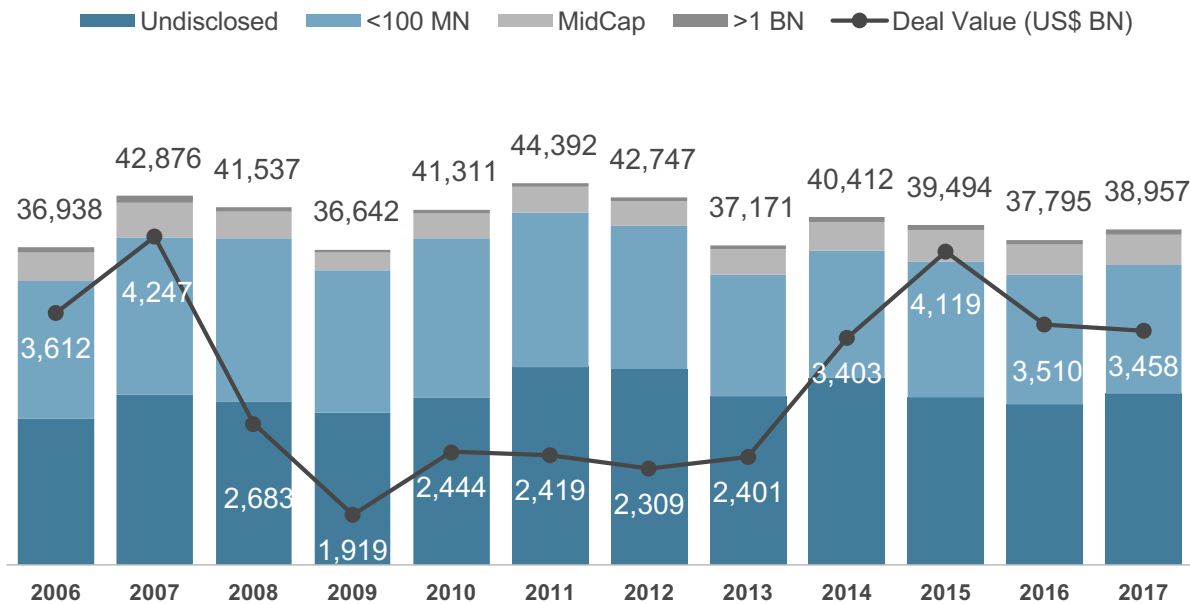
### Activist Shareholder

- Results in difficulty in closing of large transformational deals
  - Cancelling of Huntsman's merger of equals with Clariant
- Example: Akzo Nobel selling its Performance Chemicals business to PE firms on the insistence of Elliott Management

# Conclusion

# Global M&A volume is anticipated to be consistent with previous years while value will become a larger concern with nervous equity markets

Global M&A - By Deal Volume and Value



- Underlying strategic drivers expected to boost M&A in 2018
  - Search for growth and yield
  - Use of consolidation to achieve synergies
  - Deployment of unspent capital
  - Drive business model changes
- Deal activity 2019 onwards expected to relatively cool down, dampened by:
  - Higher interest rates
  - Cyclical easing in global trade and investment growth
  - Correction in equity prices back toward fundamentals

Source: William Blair Merger Tracker Q4 2017

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# Appendix

## Some key strategic chemical transactions of 2017 are:

### Global Chemical M&A

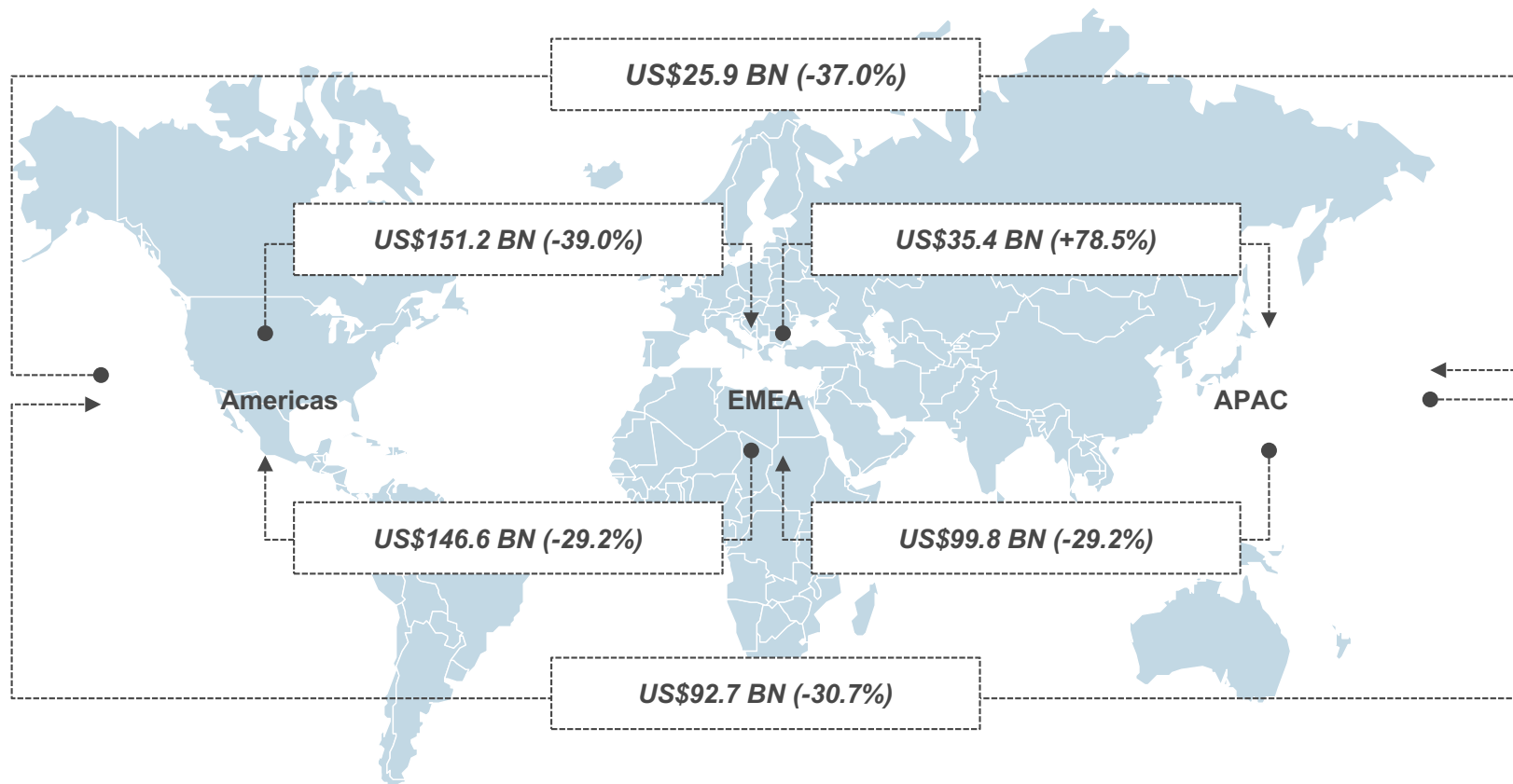
| Announcement Date | Target Name   | Target Nation | Acquirer                               | Target Business Description  | Deal Size (US\$ BN) | Deal Status | Sub-Sector                 | EV Multiple |        |
|-------------------|---|---------------|--|--|---------------------|-------------|----------------------------|-------------|--------|
|                   |   |               |  |  |                     |             |                            | Revenue     | EBITDA |
| 13-Oct-17         | Bayer – Crop Science Business                         | Germany       | BASF                                   | Provides crop science services in the areas of seeds, crop protection, and non-agricultural pest control | 7.0                 | Pending     | Fertilizers & Agricultural | –           | –      |
| 19-Sep-17         | Solvay – Polyamides Business                          | France        | BASF                                   | Manufactures nylon plastics  | 1.9                 | Pending     | Specialty                  | –           | –      |
| 27-Apr-17         | Shanghai SECCO Petrochemical                          | China         | Sinopec Shanghai Gaoqiao Petrochemical | Manufactures petrochemical products  | 1.7                 | Pending     | Commodity                  | –           | –      |
| 05-Mar-17         | Shanghai Enjie New Material Technology                | China         | Yunnan Chuangxin New Material          | Manufactures lithium battery isolation membrane  | 1.6                 | Pending     | Specialty                  | –           | –      |
| 24-Feb-17         | Daesung Industrial Gases                              | South Korea   | Korea Industrial Gas                   | Produces and sells various gases and related products in South Korea                                     | 1.8                 | Completed   | Industrial Gases           | –           | –      |
| 21-Feb-17         | National Titanium Dioxide – Titanium Dioxide Business | Saudi Arabia  | Tronox                                 | Manufactures and supplies titanium dioxide products  | 2.2                 | Pending     | Specialty                  | –           | –      |

### U.S. Chemical M&A

|           |  |               |                             |   |     |           |                            |   |   |
|-----------|--|---------------|-----------------------------|---|-----|-----------|----------------------------|---|---|
| 17-Apr-17 | Williams Olefins                             | United States | Nova Chemicals Corp         | Produces, distributes, and stores polymer-grade ethylene and propylene                                    | 2.1 | Completed | Industrial Gases           | – | – |
| 31-Mar-17 | DuPont Crop Protection                       | United States | FMC Corp                    | Offers additives, composites, construction materials, crop protection, and dietary supplement ingredients | 1.6 | Completed | Fertilizers & Agricultural | – | – |
| 27-Mar-17 | Sealed Air – Care & Related Hygiene Business | United States | Bain Capital Private Equity | Provides food safety and security, and product protection solutions                                       | 3.2 | Completed | Specialty                  | – | – |

## Cross-border M&As accounted for more ~16.0% of the deal volume in 2017, driven by strategic acquisitions undertaken by companies branching into different continents to expand their revenue base

- **China, the U.S., and the UK are slated to emerge as the forerunners of cross-border M&As in 2018**
  - While Chinese companies are expected to increase levels of cross-border activity within APAC, the U.S., and Europe, the newly established U.S. tax regime is slated to encourage overseas acquisitions by U.S. companies
  - In the UK, outbound acquisitions are likely to rise, more so in the presence of an attractive private equity market



# The U.S., China, the UK, Germany, the Netherlands, and Japan are expected to lead deal activity in 2018



## New Tax Legislation

- Expected to increase domestic corporates' investment pool
- Make them more attractive for external investors



## Continued M&A Activity

- Agricultural chemicals and petrochemicals segments, with the Belt & Road initiative



## Continued M&A Activity

- Continued economic growth, strong capital markets, and continued interest from PE, in addition to portfolio optimization steps



## Chemical Focused

- Look for attractive margins
- Most activity likely to be by way of divestitures
- Driven by portfolio optimization



## Continued M&A Activity

- Fueled by the availability of cash and cheap debt
- High earnings to drive growing demand in many end markets



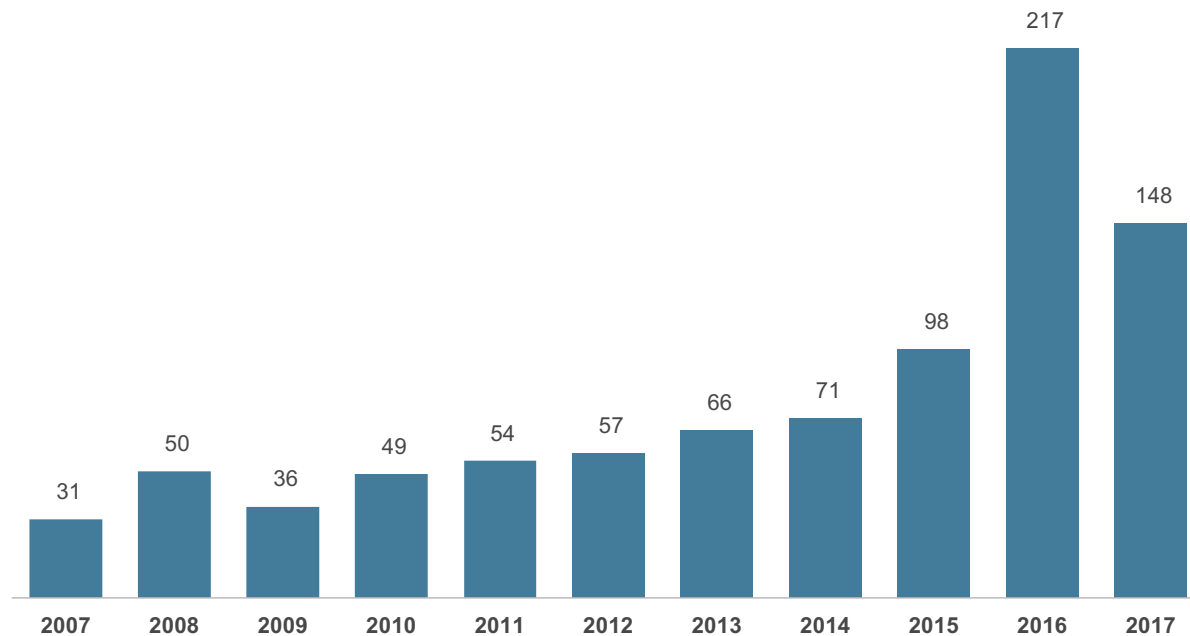
## Active Chemical M&A

- M&A being the key tactic for achieving growth and enhancing corporate value in mid-term business plans



## Following the November 2016 rule to curb irrational outbound investments amid accelerated capital outflows, China's outbound M&A volume declined 31.8% over 2016-17; this trend, however, is expected to improve

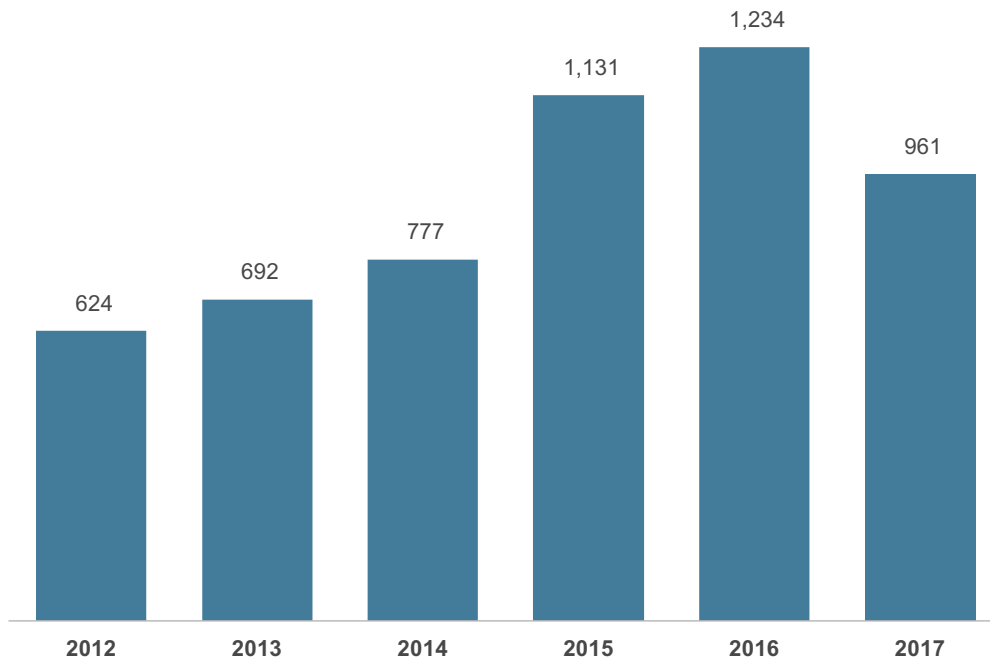
China's Outbound M&A Deal Value (US\$ BN)



- A stabilized Yuan and the successful completion of China's 19th Party Congress are expected to drive M&A activities in 2018
  - Under the OBOR initiative, the infrastructure, power, and utilities industries, especially, will likely benefit
- Chinese investors have increasingly started seeking the mitigation of funding risks within their economy by using offshore vehicles, or teaming up with one or more PE investors with offshore funds

**In a bid to undertake consumer-centric innovations and adopt technology, cross-sector M&As are becoming a prominent driver across sectors; this is resulting in increased investment by companies to remain competitive**

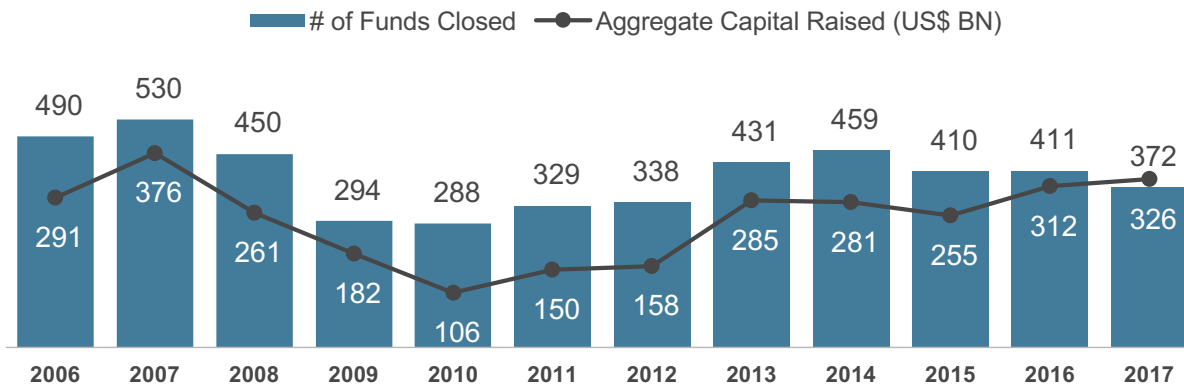
Cross Sector Deal Value (US\$ BN)



- 2017 witnessed US\$961 BN worth of M&A volume across sectors, ~21.0% above the 10-year historical average of US\$794 BN
- Technology has become one of the prominent targets of cross-sector M&As
  - As more devices become smart and connected, and processes become automated, non-tech companies are investing in tech – not to disrupt the industry but to remain competitive
  - As of 2016, non-tech companies acquired US\$128 BN worth of technology firms vs. US\$13 BN worth of acquisitions in 2013

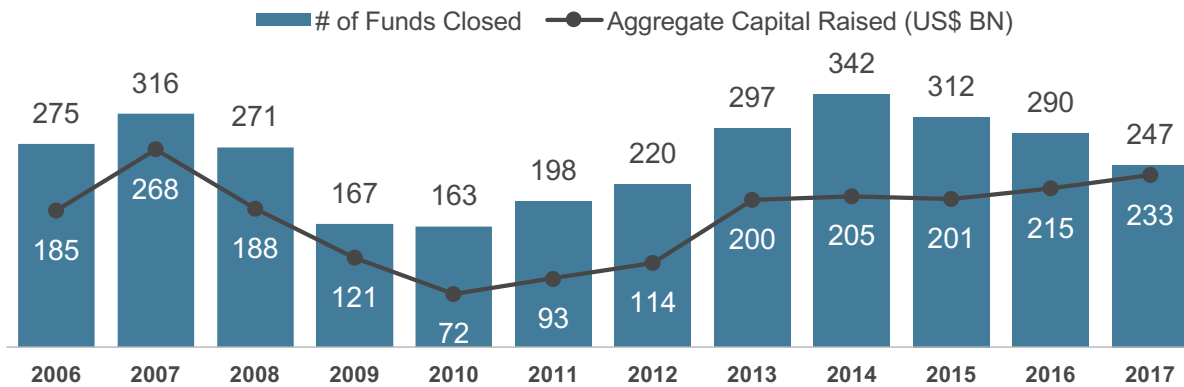
# With record capital being raised by PE firms, relatively larger funds are emerging, increasing dry powder reserves and, thus, competition

Global PE - By Aggregate Capital Raised and Funds Closed



- The significant amount of capital raised by PE firms underlines the growing trend of large investors placing an increasing portion of their money with PEs that promise returns exceeding the stock market

U.S. PE - By Aggregate Capital Raised and Funds Closed



- In the U.S., uptrend in PE fundraising is attributed to LPs consolidating around fewer and more established GPs to negotiate a better fee structure, gain access to co-investment opportunities, and reduce costs