**AFPM: M&A machine is fully loaded**

02 April 2012 00:00 [Source: ICB]

**the market** environment is conducive for further deal activity in 2012, with strategic and financial buyers at the ready. What's next on the selling block?

The chemical mergers and acquisitions (M&A) market is off to a solid start in 2012 with a surge in deal activity, including one high-profile hostile take-over attempt. And conditions appear to be ripe for a strong level of deal activity.

More assets hitting the selling block and relatively low public valuations could tempt buyers into another flurry of acquisitions.

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"The M&A market is picking up after being quiet since August 2011 through the end of last year," says Chris Carlisle, head of chemicals for Europe, Middle East and Africa for global investment bank **Nomura**. "It only feels like it will get busier this year."

"None of the fundamentals have changed at all. In fact, some conditions have become even better. We see 2012 as a continuation of the strong market and an improvement on 2011," says Telly Zachariades, partner at global investment bank **The Valence Group**.

"Much of the M&A market is driven by CEO confidence, and they are more confident regarding the overall market outlook now than several months ago," he adds. "Plus, there may also be increased M&A activity this year due to the anticipated expiry of the Bush-era capital gains tax rate reductions, which may cause private companies - both private equity as well as family-owned - to try to close a sale prior to December 31, 2012."

US-based **Westlake Chemical** kicked off the first major volley on January 13 with a hostile takeover bid for US-based **polyvinyl chloride** (PVC) and building products producer **Georgia Gulf**.

After Georgia Gulf rejected the bid, Westlake raised its initial offer of $30/share (€22.8/share) to $35/share, or $1.2bn on an equity basis, on February 1. Including the assumption of net debt and lease obligations, the total value comes to about $1.7bn. That offer was also rejected.

On February 21, during the company's fourth-quarter conference call, Westlake president and CEO Albert Chao said that it could walk away if Georgia Gulf did not come to the negotiating table.

The other big bang in the chemical M&A market is US-based **Eastman Chemical**'s planned $3.4bn acquisition of US-based chemical and materials firm **Solutia**, announced on January 27. Including the assumption of debt, the deal is valued at $4.7bn.

"Strategic buyers are very well capitalized and are being aggressive," says Leland Harrs, managing director of US-based investment bank **The PrinceRidge Group**. "These companies are taking big bets for growth."

Other notable recently completed deals include global private equity firm **Apollo Management**'s €1.1bn ($1.44bn) acquisition of Belgium-based amines producer **Taminco** from UK-based private equity firm **CVC Capital Partners**, and Thailand-based **Indorama**'s $795m acquisition of US-based **ethylene** oxide (EO) and monoethylene glycol (MEG) producer **Old World Industries**.

The latter deals highlight two key aspects of the chemical M&A market - the interest of companies in emerging markets in Western assets, and the potential re-emergence of financial buyers.

"We expect the M&A market to improve in 2012 versus 2011," says Chris Cerimele, director and head of chemicals at US-based investment bank **Houlihan Lokey**. "There is continuing interest from both strategic and financial buyers and the debt markets are in good shape."

"The tone of the M&A market is good, with sentiment on the economic outlook improving. The outlook for Europe has improved compared to several months ago and the US is continuing its recovery. Also, chemical stock prices have moved up, which improves psychology and the willingness of companies to pay up for assets," says Harrs.

**ASSETS ON THE BLOCK**

More assets are coming up for sale. US-based **DuPont's automotive coatings business** is already being circled by private equity firms, according to sources in the financial community.

"Many companies already in this space that are large enough to acquire this business have real overlap concerns, and other industrial buyers are not likely to enter this business," says one source. "But [financial] sponsors are excited, in particular since the auto-refinish business is so cash generative."

Another major asset poised to hit the block shortly is US-based **Cytec Industries**' coatings resins business. On January 31, the company announced it had retained global investment bank **J.P. Morgan** to explore alternatives for the business. A decision will take place "no later than the second quarter of 2012," according to Cytec.

Other likely divestitures include Sachtleben, the 61:39 **titanium dioxide** ($TiO_2$) joint venture between US-based Rockwood Holdings and Finland's Kemira. Rockwood CEO Seifi Ghasemi reiterated that the $TiO_2$ business is not a core asset for the company and that "we would continually evaluate our options about what we want to do with the business."

Also look for private equity firms holding chemical assets to continue to seek exits. "There is still pent-up supply of divestitures that will be coming out from private equity owners, as there were not many in 2009 and 2010," says The Valence Group's Zachariades.

**ONE-ON-ONE DISCUSSIONS**

While there have been fewer straight-out auctions of chemical assets, there are still robust one-on-one discussions taking place, notes Houlihan Lokey's Cerimele.

"With continuing uncertainty in the economic landscape, sellers are concerned whether they will be able to get the right value in an auction," he says. "In one-to-one discussions, buyers are willing to offer good value for the right asset. Both buyers and sellers are initiating these discussions," he says.

Chemical companies have been experiencing relatively slow organic growth, so many are seeking to generate higher growth externally through M&A, says Zachariades. In addition, companies have sufficient cash and access to low-cost debt financing to make acquisitions, he adds.

**FINANCING AVAILABLE**

Financial buyers may also become more active, as there is "clearly financing available for the right deals, particularly in the US," says Zachariades. Even acquisitions of Europe-based companies with a US presence can get US financing. Apollo Management's €1.1bn acquisition of Taminco was funded predominantly by debt raised in the US.

"Any European asset looking to raise leveraged debt with enough of a US presence should be assessing optionality around US financing. Also the 'covenant-lite' loan structures are easier to obtain in the US. The deal was funded with $350m and $120m term loans and $400m in high-yield debt raised in the US," says Carlisle.

**M&A VALUATIONS**

Chemical M&A valuations for specialty chemical deals rose to record levels in 2011, according to Allan Benton, vice chairman and head of the chemical industry practice at US-based investment bank Scott-Macon. "As long as interest rates stay low and there is some pick-up in the economy, we could see another strong year for M&A," says Benton.

The median multiple of total enterprise value to earnings before interest tax, depreciation and amortization (EBITDA) for specialty chemical deals closed hit 10.7 times in 2011 - up from 9.5 times in 2010 and exceeding the prior peak of 9.8 times in 2007, notes Benton.

The median EBITDA multiple for commodity chemical transaction multiples closed also rose - to 6.5 times in 2011 versus 6.1 times in 2010.

Median specialty chemical EBITDA margins moved up from 8.3% in 2010 to 14.0% in 2011, so businesses were more profitable. Also, strategic buyers were very active in 2011, accounting for 84% of the specialty chemical transactions and 80% of the commodity chemical transactions," says Benton. These buyers typically pay higher valuations for assets.

**NOTABLE M&A ACTIVITY IN 2012**

| Buyer | Target | Price (equity) | Status |
|---|---|---|---|
| Eastman Chemical | Solutia | $3.4bn | Pending |
| Westlake Chemical | Georgia Gulf | $1.2bn | Rejected |
| Indorama | Old World Industries | $795m | Completed |
| Apollo Management | Taminco | $1.5bn | Completed |
| Arsenal Capital Partners | Evonik colorants | NA | Agreed |

SOURCE: Companies, ICIS



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