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Distribution mergers and acquisitions have picked up in the past two years

Full steam ahead for global M&A

Consolidation activity in chemical distribution is racing ahead with a number of deals at robust valuations. Players race for scale to target IPOs

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Mergers and acquisitions (M&A) in the global chemical distribution sector are set to roll ahead as players aim to build scale in a fragmented marketplace amid slow economic growth and a competitive environment.

Headline M&A in chemical distribution has picked up in the past two years, and certain players are aggressively expanding as they approach potentially lucrative IPOs (initial public offerings).

"Larger companies are still keen on M&A and a number of mid-size companies are trying to increase their geographic footprint," said Guenther Eberhard, managing director of Switzerland-based distribution consulting group DistriConsult.

"There is certainly demand for quality assets, and it is not a bad time to sell," he added.

In June 2016, WL Ross Holding, a special purpose acquisition company (SPAC), acquired US-based Nexeo Solutions in a deal valued at $1.575bn from private equity firm TPG Group, effectively taking it public while TPG retains about a 35% stake in the company.

Nexeo Solutions aims to accelerate growth, including through M&A, with its new capital structure (see CEO interview on page 44).

Belgium-based Azelis is quickly building scale approaching its planned IPO, which could take place between 2017-2019 (see CEO interview on page 47). It acquired US-based KODA Distribution Group, itself a prolific consolidator, in December 2015.

Netherlands-based IMCD bought out US-based MF Cachat in June 2015, marking its entry into the US specialty chemicals and food ingredients market, and adding around $300m in annual sales.

US-based Maroon Group has been one of the most acquisitive chemical distributors, having made three sizeable acquisitions in the past 12 months: D.B. Becker, CNX Distribution and U.S. Chemicals (see interview on page 52).

And US-based Hawkins acquired Stauber Performance Materials in January 2016, entering the nutritional, food, pharmaceutical, cosmetic and pet care industries, and adding around $117m in annual sales.

Meanwhile, the top two global distribution giants – Germany-based Brenntag and US-based Univar – continue making several acquisitions every year (see CEO interviews on pages 38 and 42).

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Managing director, DistriConsult

"There is continuing consolidation in chemical distribution but there are still many companies in this space. Accordingly, there is potential for even more consolidation," said Allan Benton, vice chairman and head of the chemicals group at investment bank Scott-Macon.

THE IPO PHENOMENON

One reason why M&A activity is so robust today is the successful IPOs of chemical distributors such as IMCD and Univar, with equity prices subsequently trading at solid or full valuations.

Companies typically need to gain sufficient scale to pull off an IPO, and are eyeing such an outcome. There is a race to build enough scale to become attractive to investors in the public market, while the IPO window is still open.

Today there is great demand and appetite in the public equity markets for large, global chemical distribution companies with stable

SELECT CHEMICAL DISTRIBUTION M&A

Buyer	Target	Price	Sales (target)	Completed	Business
WL Ross Holding	Nexeo Solutions	$1.575bn	$3.9bn	Jun-16	Global chemicals and plastics - #5 in the world*
Maroon Group	U.S. Chemicals			May-16	US specialty chemicals for the CASE, lubricants and plastics sectors
Maroon Group	CNX Distribution			Jan-16	US specialty chemicals for the CASE, plastics, oil and gas and chemical processing industries
Hawkins	Stauber Performance Ingredients	$157m	$117m	Jan-16	US specialty chemicals and ingredients for the nutritional, food, pharmaceutical, cosmetic and pet care industries
Azelis	KODA Distribution Group		$602m	Dec-15	North American specialty chemicals for the CASE, construction, personal care/HI&I, lubricants/metalworking, agriculture, pharma/nutrition and urethanes markets
Brenntag	J.A.M. Distributing Company, G.H. Berlin-Windward	$440m	$780m	Nov-15	US lubricants for the industrial, commercial, automotive, and marine markets
Univar	Future Transfer, BlueStar Distribution			Oct-15	US agricultural chemicals
Brenntag	TAT Group	€87m	€145m	Sep-15	Asia industrial chemicals for the coatings, pharmaceutical, plastics and electronics sectors
Maroon Group	D.B. Becker		$45.5m	Aug-15	US specialty chemicals for the paints, inks, coatings, adhesives, polyurethanes, construction and plastics markets
IMCD	MF Cachat		$300m	Jun-15	US specialty chemicals for the coatings, construction, plastics, advanced materials and food sectors

NOTE: *According to the ICIS Top 100 Chemical Distributors listing SOURCE: Companies, compiled by ICIS

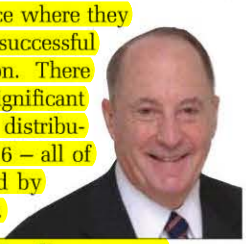
margins and growth prospects. However, the IPO market is notoriously volatile, with long periods where raising money is not feasible.

"Specialty chemical distribution companies may be following the footsteps of IMCD which is the leading publicly traded international specialty chemical distributor with higher EBITDA (earnings before interest, tax, depreciation and amortisation) growth rates than other publicly traded chemical distributors, and which emphasises an asset light business model," said Benton.

"IMCD came public in June 2014 and is trading at a very high multiple of TEV (total enterprise value) to latest 12 months EBITDA of 18.7x. This compares to the median TEV/EBITDA of 10.8x for all other publicly traded chemical distributors which distribute a mix of specialty and commodity chemicals," he added.

And even 10.8x EBITDA is a healthy valuation for a chemical distributor, he noted.

"Private equity firms see chemical distribution as a good space where they can exit with successful IPOs," said Benton. There have been three significant IPOs by chemical distributors from 2014-2016 – all of which were owned by private equity firms.



"Private equity firms see chemical distribution as a good space where they can exit with successful IPOs"

ALLAN BENTON
Vice chairman, Scott-Macon

Private equity firm APAX Partners bought Azelis from investment group 3i in 2015 with an eye towards building scale and going public. Investment group WL Ross took Nexeo public through its SPAC in 2016. Univar, which was owned by private equity firm Clayton, Dubilier & Rice (CD&R) and investors led by CVC Capital Partners, went public through an IPO in 2015. Private equity firm Bain Capital took Azelis public in 2015.

Along with relatively stable margins, another aspect of chemical distribution that makes these companies attractive to private equity firms is that they require relatively modest capital expenditures (CAPEX) compared to chemical producers which often face big outlays for new plants or expansions.

"There is not much CAPEX involved. While warehouse space and storage do require CAPEX for distribution companies, many also use public warehousing instead of their own storage facilities and lease transportation equipment," said Benton.

M&A VALUATIONS

Transaction multiples have climbed for chemical distribution assets through the years. For the past five years, the TEV/EBITDA median multiple for these deals was 9.3x EBITDA. This compares to TEV/EBITDA of 7.6x for deals in the prior five years, according to Benton of Scott-Macon.

"Low interest rates and available financing are contributing to the higher deal multiples," he said.

BREXIT IMPACT

For global chemical distributors with a presence in Europe, Brexit could pose a challenge. But most of the impact will likely be from dampening of economic activity rather than potential restrictions on trade. M&A activity is not likely to be adversely impacted in the long term, noted Eberhard of DistriConsult.

"Brexit won't hamper deals in the long run. It does have a dampening effect, as the uncertainty means people will think twice before they invest – they may wait three to six months. But in general, life goes on," said Eberhard.

Economic activity in the UK may slow down, and UK/EU trade activity will depend on bilateral treaties, which take time to negotiate, he noted.

However, there was certainly an immediate currency effect, with the collapse in the UK pound versus the US dollar and euro, he said.

"UK distributors were scrambling to adjust pricing and figure out when to buy stock. If you source in US dollars and euros but sell locally in pounds, you have to adjust pricing or your margins can get wiped out," said Eberhard.

LATIN AMERICA CHALLENGES

Latin America continues to be challenging from a business standpoint, and in terms of M&A activity. While tough economic conditions and currency declines could lead to buying opportunities, few are taking the bait thus far.

"In Brazil, it is unclear which direction it will go. We still have to see what kind of government and hence policy will prevail. Normally you will see interest in M&A when green shoots start to emerge, but I doubt players are keen to make major deals today," said Eberhard. ■