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# SECTOR SNAPSHOT



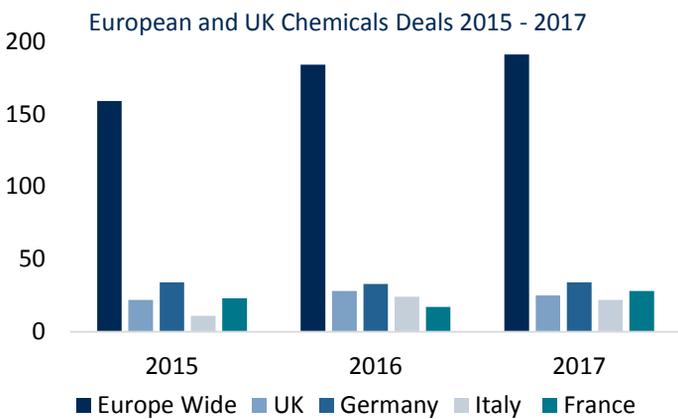
## EUROPEAN CHEMICALS AND PLASTICS M&A ACTIVITY AND VALUATIONS FOR 2017 AND Q1 2018

### UK and European Chemicals M&A steady through 2017

M&A activity in the chemicals market has been steady and surprisingly positive through 2017 and into 2018, in the face of significant upheaval in both the UK and Europe. Europe wide, chemicals continued to be an attractive sector for both trade and financial buyers with deal volumes similar over the past three years. In the UK, a similar pattern emerged, with the looming presence of Brexit seemingly having little impact. The attractiveness of the sector as the UK's largest exporter of manufactured goods, valued at £50bn annually, continued to entice buyers.

Leading up to and following the two amendments to REACH regulation by the European chemicals agency in 2017, we expected to see a decline in deals as companies divert resources to comply with the new directives, however, it became apparent that this did not materialise and the market continued on strongly.

### European and UK M&A Activity



UK and European deal volumes have remained steady throughout the last three years. We expect to see this continue as the chemicals industry sustains high levels of investor returns and profitability.

Year on year, the UK has seen deal volumes stay fairly consistent, but also high in comparison to other European countries, with only Germany surpassing the UK for the past three years, with 101 deals completed compared to 75 in the UK. In contrast, Italian and French deal volumes have been surprisingly sluggish, considering their status as the top European chemicals producers, with just 57 and 68 deals completed over the past three years, respectively.

The financial implication of Brexit has, in the short term, appeared to have had little effect on UK chemicals M&A, with H2 of 2017 seeing similar volumes to the previous year, alongside Q1 2018 volumes remaining consistent to those of both Q1 16 and 17, with the fall in the value of the pound making UK chemicals targets much more attractive to foreign investors.

### Europe's Most Significant Purchases

The largest deal of 2017 comes from German based BASF, with the purchase of Solvay's polyamide business on a 7x multiple. The business is the global No. 3 in polyamide based engineering plastics, with 12 manufacturing sites and 2,400 employees. The combination of BASF and Solvay's polyamide businesses now means BASF offer five in house engineering plastic brands to an expanded global market particularly in Asia and South America.

 <b>Kingspan</b> Have acquired  <b>Synthesia</b> For 234m EUR	 <b>BASF</b> We create chemistry Have acquired  <b>SOLVAY</b> asking more from chemistry Polyamide Business For 1.6bn EUR	 <b>THE CARLYLE GROUP</b> Have acquired  <b>AkzoNobel</b> SPECIALTY CHEMICALS For 10.1bn EUR
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The Irish building products group Kingspan Plc dipped into the construction chemicals market to purchase polyurethane, polyester polyols and resins producer Synthesia Group in December. The firm, based in Spain with operations in Central and South America, specialise in chemicals used in the insulation and building proofing market. This shows Kingspan is keen to vertically integrate its operations by bringing upstream suppliers in house.

Akzo Nobel's sale of its speciality chemical's division to a consortium led by private equity giant the Carlyle group, represents the biggest deal so far in 2018, and completes the restructuring plan to focus on its paints and coatings division. The sale is of one of the two newly created divisions of the business following the start of the internal restructuring triggered by the takeover battle with PPG in 2017.

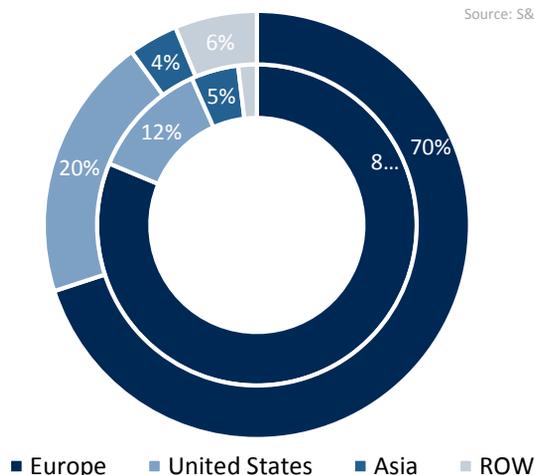
## Foreign Buyers Continued Interest in Chemicals

The UK chemicals sector has a significant proportion of foreign ownership, with over 10% of businesses owned by overseas parties, in comparison to just 2.7% across the wider manufacturing sector. US, German and Swiss owners dominate, with US parties holding 35% of foreign owned firms. This is reflected in the M&A data between 2015 and 2017, with 20% of all deals involving a US buyer, whilst European buyers purchased 21% of UK chemicals targets.

In comparison, the wider European chemicals M&A market is dominated by other European buyers, with only 18% of deals involving a party outside of the EU and Scandinavia. However, closer analysis shows, Germany and Italy saw a higher percentage of foreign buyers over the 3 year period with 48% and 56% of targets being bought by overseas parties. Demonstrating that the main hubs of European chemicals continue to attract international interest.

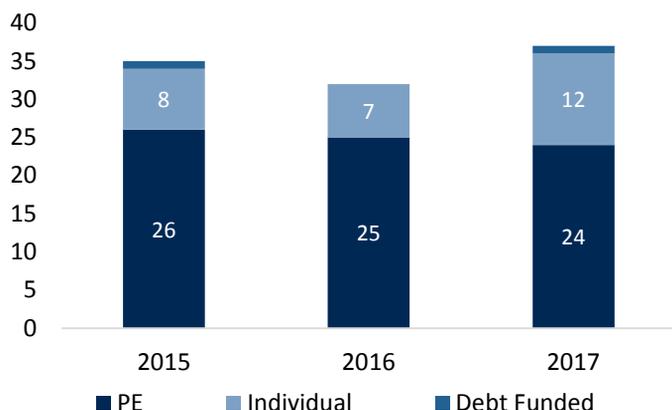
### UK and European Deals by Acquirer Location 2015 – 2018 Q1

Source: S&P CapitalIQ



## Private Equity Still Confident in Chemicals

### Financial Buyers for European Chemicals



Source: S&P CapitalIQ

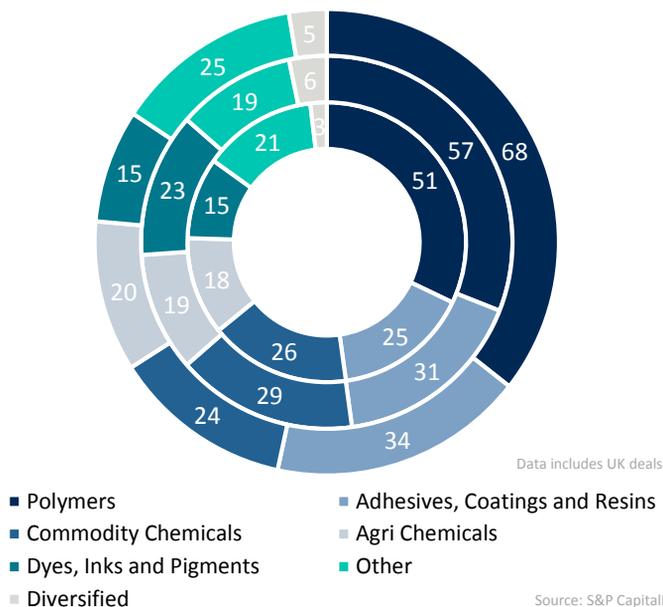


Chemicals M&A activity involving financial buyers across Europe has remained fairly flat over the past 3 years, with PE backed deals contracting slightly whilst debt funded deals have grown, helped by the availability of affordable credit.

For 2018 and onward, we predict a particular interest by private equity in environmentally friendly, green chemical companies, as consumer interest in environmentally friendly products trickles down to the chemicals sector, alongside the diverse collection of niche high margin businesses making the sector highly attractive.

## EU vs. UK Sub-Sector Analysis

### European Chemicals Deals by Sub-sector 2015 -2017



Data includes UK deals

Source: S&P CapitalIQ, Other includes; Explosives, Gases, Construction Chemicals, Fragrance, Cosmetics & Flavour and Distribution

The European chemicals market, is marked with a diversity of deals, with M&A activity across a number of sub-sectors. However, in both markets around 50% of the deals were focused on two spaces, Polymers and Adhesives, Coatings and Resins, demonstrating that specialist chemistry focused on particular markets has become the dominant force in the European chemicals space. In comparison, diversified groups made up only 3% of deal volume, in both Europe and the UK, during the same three year period.

However, the data shows basic commodity chemicals make up a significant minority of deals within both Europe and the UK at 15% and 11% respectively, indicating there is still space in these developed markets for profitable commodity businesses.

Other specialist businesses have seen consistent deal volumes through the past three years, with both Agri chemicals and Dyes, Inks & Pigments strong sub-sectors, attracting a significant amount of M&A activity.

## UK Chemicals show Resilience

The UK chemicals sector has seen substantial growth in productivity, more than doubling between 1996 and 2016, with growth of 25% between 2009 and mid 2017. This pattern of growth far exceeds all other manufacturing industries with the exception of the automotive market. Reflecting the high level R&D investment in the sector, with £1bn invested in 2016.

The sector has shown great resilience in the face of high energy prices, commodity price swings and the political upheaval of the past two years, to retain the industries impressive GVA figure of £12.1bn and output growth of 27% (since 1990).

UK chemicals businesses have reacted well to the rise of Asian chemical manufacturing over the past 15 years, through an increasing focus on specialty products to differentiate themselves in a crowded market.

Economies of scale have helped keep the sector competitive, with lower prices, compared to the small fragmented general manufacturing sector in the UK. However, the UK market still contains a large number of small chemicals companies operating in the specialities bracket benefitting from the growing need for more niche products.

## Adhesives, Coatings and Resins Strong in 2017

The adhesives, coatings and resins sub-sector has seen a strong 2017 and Q1 2018, with a number of notable deals both in the UK and Europe, with international buyers flocking to purchase IP based, highly profitable businesses to add to their portfolio, or in a bid to consolidate in an increasingly competitive market

Across Europe, 34 deals were completed in 2017 and four in Q1 2018 including eight in the UK, up from 31 in 2016. Six deals involved private finance across 2017 and 2018, demonstrating that the sector still draws in private cash due to its attractive margins and speciality products driving strong revenue streams.

The notable transactions in the space include the sale of Plascoat, the specialist thermoplastic coatings manufacturer, by IPT, to Axalta, the large US listed coatings specialist, This transaction rounded off a year of acquisitions for the US giant, with its purchase of UK based Spencer Coatings, Swiss coatings Distributor CH Coatings and IVA France and China.

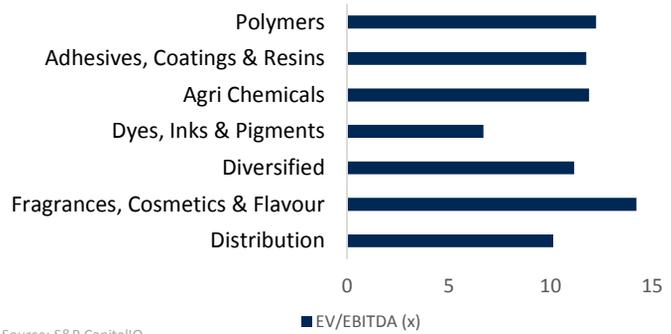
## About Us

Orbis is a mid-market corporate finance boutique advising on a wide range of M&A transactions covering the Industrials sector, in addition to food & consumer, technology, media & telecoms, and healthcare. Orbis also has an active investment portfolio held through its investment vehicle Intrinsic Equity.

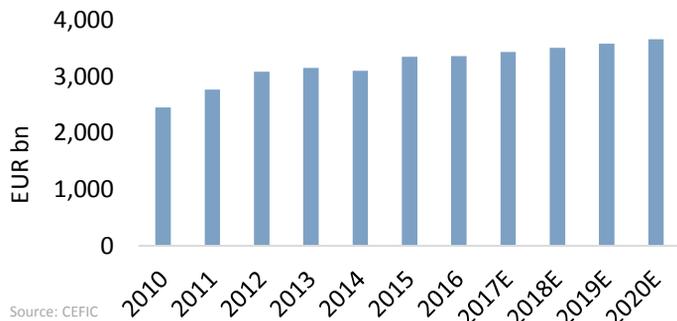
If you are considering your strategic options for enhancing the value of your business or your client's business, please contact either Chris or Simon.

## Global Chemicals Market

### Global Listed Chemicals Valuations by Sub-Sector



### Global Chemicals Market Revenues



The largest public transaction in the sector was private equity house Helvetica Capitals' acquisition of Swiss Industrielack AG from Arbonia AG, whose sell off of its Coatings business unit was finalised with this deal.

2018 started with two notable transaction in the segment, the sale of the Leuna adhesives & coatings manufacturing site by Synthomer to Alberdingk Boley and the 69.1m EUR sale of Forestali, the Italian adhesives manufacturer, to Italian listed private equity firm Equita pep spac.

AXALTA  
Have acquired  
Plascoat  
ORBIS

HELVETICAPITAL  
Have acquired  
ILAG  
For 107m EUR

EPS  
EQUITA PEP SPAC  
Have acquired  
FORESTALI  
For 69.1m EUR

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Orbis is an independent corporate finance advisory firm, working with business owners, management teams and investors to advise them through every aspect of corporate finance.

The partners have over 100 years of deal-making experience and combine their broad network of global relationships with deep sector knowledge and investor skills to deliver a specialist M&A experience.

Orbis is the UK partner for Clairfield International, a global investment bank, offering clients access to over 400 corporate finance professionals situated in over 20 countries across the globe.

## Orbis Partners : Services

A complete range of M&A services providing a wealth of experience to our clients

- Company Sales**
- Extensive mid market M&A expertise and experience across the team.
  - International reach – over 20 countries and growing.
  - Over 90% of all sale mandates involve an overseas party.

- Acquisition Support**
- Listed and private clients.
  - Research and origination - internal research team and tools.
  - Strategic and financial assessment.
  - Deal management.

- Due Diligence**
- Experienced and informed advice.
  - Extensive experience within the UK and of international transactions.
  - Tailored reports.
  - Partner led.

- Management Buy Out**
- Deal leadership and fund raising.
  - Align interests with management team.
  - Co-investors on 15 deals.

- Capital Raising**
- Supporting existing business to fund development.
  - Supportive investor bringing focus on value creation.
  - Co-investors on 3 deals.

- Business Improvement**
- Independent advice and planning strategy led by sector insights.
  - Turnaround and profit improvement credentials.
  - Leading the team through uncertainty whilst developing a game plan.
  - Co-investors and principal.

## Orbis Partners : Sectors

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and Telecoms

Healthcare

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