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SECTOR SNAPSHOT



EUROPEAN CHEMICALS AND PLASTICS M&A ACTIVITY AND VALUATIONS FOR 2018 AND H1 2019

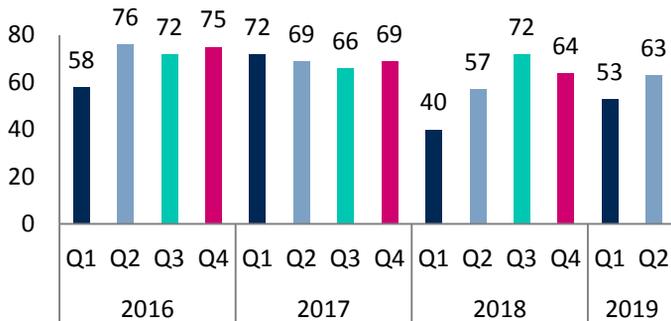
UK and European Chemicals M&A remained steady through 2018

M&A activity within the UK and European chemicals sectors has remained steady throughout 2018 completing 233 deals, with a further 116 deals being completed during the first half of 2019. Global uncertainty surrounding trade tensions and Brexit remain, yet continued profitability among strategic buyers, an abundance of capital among financial buyers and the underperformance of organic growth strategies have continued to drive M&A activity as shareholders seek higher returns on investments.

Looking forward, despite continued uncertainty, Cefic, the European trade association for the chemicals industry, is forecasting a mini rebound anticipating 0.5% growth in output compared to the 0.5% decline seen in 2018. We believe this will transpire into both the UK and European markets with both continuing to consolidate and attract global investors.

European and UK M&A Activity for 2018

European Chemicals Deal Volume 2016 - 2018



Source: S&P CapitalIQ

Despite a relatively slow start to 2018 European chemicals deal activity remained steady, with 233 deals completed. This was despite Europe wide production declining 0.5%, political uncertainty, and continuing global trade wars. However, production is forecast to rebound in 2019, and we anticipate that European M&A activity will follow suit, although much is dependent on the outcome of Brexit negotiations and global economic and political uncertainty.

Year on year, the UK has seen deal volumes remain fairly consistent, with 37 deals being completed during 2018 compared with 36 in 2017. UK activity was high in comparison to other major European producers with the UK ranking first in terms of deal volume and fourth in value, putting the UK ahead of traditional leaders Germany and France who have dominated the European chemicals sector in recent years.

This activity comes as the fractured UK chemicals sector continues to consolidate, as smaller specialist manufacturers, with strong products and intellectual property attract significant attention from abroad. We anticipate that smaller, specialist deals will continue to drive the UK chemicals M&A market through 2019 and 2020, with acquirers seeking new products and technologies as well as geographical presence.

Significant Transactions in the European Market

The largest deal of 2018 came from US private equity firm **The Carlyle Group** who led a consortium of investors to acquire **AkzoNobel's Speciality Chemicals** division for €10.1bn in March 2018. The deal came amidst record levels of available capital driving high deal valuations, allowing financial buyers to outbid strategic rivals. The deal saw the Dutch multinational complete its extensive restructuring plan to focus on its Paints and Performance Coatings division, with Speciality Chemicals set to target growth through innovation and customer focus.

| | | |
|--|---|---|
| Have acquired For 1.5bn EUR | Have acquired the European business of For 5bn EUR | Have acquired For 10.1bn EUR |
|--|---|---|

Praxair agreed to sell the majority of its European gas business to **Taiyo Nippon Sanso** for €5bn in July 2018. The deal was conditional upon the \$90bn merger between Praxair and The Linde Group which completed in October 2018. The acquisition by Taiyo Nippon Sanso represented an opportunity to enter the European market and establish a global footprint.

Saudi Aramco completed the acquisition of the remaining 50% stake in **Arlanexo** from **Lanxess** for €1.5bn in August 2018. Arlanexo is a Dutch manufacturer of synthetic rubber and elastomers for the automotive, tire, construction, and oil and gas industries. Formed in 2016 as a joint venture between Saudi Aramco and Lanxess, the deal comes as Saudi Aramco continues to diversify its downstream portfolio and strengthen its energy and chemical value-chain capabilities, whilst enhancing its focus on sustainability in product development.

Other European Activity

The UK chemicals sector has attracted a significant amount of overseas interest with 55% of deals involving an overseas acquirer, notably from US, Germany, Italy, and Sweden, as buyers are lured to niche UK manufacturers. This, combined with the fragmented nature of the UK market, means future UK M&A activity will primarily be driven by opportunities to consolidate and acquire new specialist technologies and products.

This trend was highlighted by **Sun Chemicals** acquisition of security and specialist inks manufacturer **Luminescence** in June 2018. Family-owned Luminescence manufacture a range of products for the security ink market including currency, passports, and brand protection inks. The acquisition provides access to Luminescence's technological reputation as well as providing a platform for future growth within the \$2.7bn security ink market.

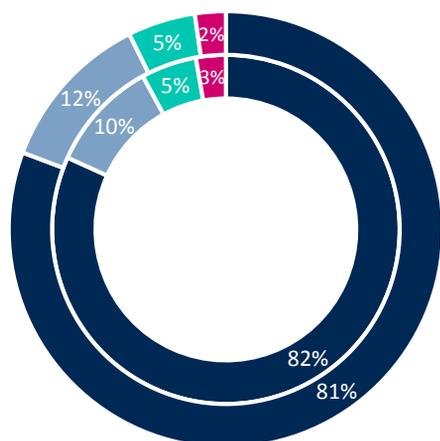
The wider European chemicals M&A market meanwhile is dominated by European buyers, with only 19% of deals in 2018 involving a party outside of the EU. Closer analysis shows, the main European buyers by number as the UK, France, Germany, and Italy with the US making up the top 5 globally.

However, in terms of deal value the US and Japan led the way having been involved in several major cross-border deals. As well as previously mentioned multi-billion-pound deals for Arlanexo and Praxair, notable deals include the acquisition of **Ivy Group** by **Westlake Chemical**, a premier manufacturer and supplier of chemical products, for \$270m. The acquisition complements Westlake's existing compounding division, adding new technology and products to its existing portfolio as well as reinforcing their global presence.

Sinochem International also completed the acquisition of Spanish ABS resin manufacturer **Elix Polymers** from **Sun European Partners** for €200m. The integration of Elix Polymers into the Sinochem group will allow them to position their brand quickly into the Asian and Chinese markets, whilst strengthening its stance in the European and American markets. Sun, meanwhile are looking to identify further investments in Spain.

European Deals by Acquirer Location 2017 and 2018

Source: S&P CapitalIQ



■ Europe ■ United States and Canada ■ Asia / Pacific ■ ROW

Have acquired

For undisclosed value

Have acquired

For 270m USD

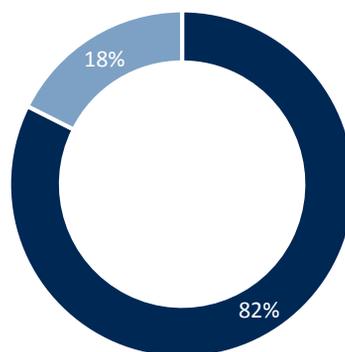
Have acquired

For 200m EUR

Private Equity Shows Continued Interest

Private equity, funded by record levels of capital, continued to play an active role in the European chemicals sector completing 41 deals during 2018. While the volume of deals shows little growth compared to previous years, value has increased significantly due to the completion of several major European deals including **Carlyle's** €10.1bn acquisition of **AkzoNobel's** Speciality Chemicals division, enabling Carlyle to expand their global presence. As well as this, **Rhone Capital's** made a €700 million agreement to acquire 45% of civil explosives manufacturer **MaxamCorp**. It was thought that high valuations would deter private equity but this has been addressed by funding being sourced on a consortium basis in the case of the AkzoNobel transaction.

Financial Buyers for European Chemicals



■ Strategic Buyer
■ Financial Buyer

Private equity within the UK meanwhile accounted for 15% of completed transactions. Notable deals included **Strategic Value Partners (SVP)** acquisition of polyurethane foam manufacturer **Vita** for an undisclosed fee. SVP aim to support Vita's growth plans through maintaining and developing customer partnerships as well as driving the strategic direction of the company. The UK also witnessed a number of management buyouts including that of Kent based galvanising and powder coating specialist **British Metal Treatments** from AIM listed **Camellia**.

Have acquired a 45% stake in

For 700m EUR

Have acquired

For undisclosed value

Have backed the MBO of

For undisclosed value

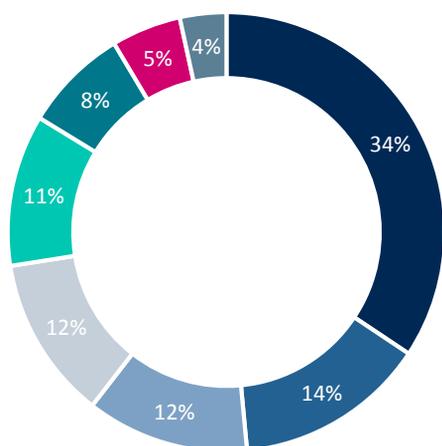
European Sub Sector Analysis – 2018

At a European level, the plastic demand is at 49 million tonnes and continues to maintain its stable trend and demand. Polymers continued to dominate the European Chemicals landscape accounting for 34% of completed deal volume in 2018. Activity is being driven by large corporates diversifying to include downstream operations. This included the previously discussed acquisition of Arlanxco by Saudi Aramco.

Another notable performer included the commodity chemical sub-sector, accounting for 14% of completed deals. This indicates there is still an active M&A market for commodity businesses as well as the more specialist niche manufacturers. Specialist sub-sectors such as agri chemicals have seen deal volume increase over the past year, completing 28 deals during 2018, compared to an average of 19 over the previous three years, demonstrating the continuing growth potential within the sub-sector.

One notable agri deal was the agreement for **BASF** to acquire the seeds and crop protection businesses of **Bayer** in a deal worth €1.7bn. The deal follows from a previous agreement reached between both companies in 2017. The transaction complements BASF's crop protection business and biotechnology activities, adding new capabilities as well as a platform for growth. The transactions allowed Bayer to divest prior to its acquisition of Monsanto in June 2018.

Chemicals Deals by Sub Sector – 2018



- Polymers
- Commodity Chemicals
- Adhesives, Coatings and Resins
- Agri Chemicals
- Other
- Distribution
- Dyes, Inks and Pigments
- Diversified

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 Peter.

H1 2019 Summary

Despite continued trade tensions, slowing economic growth and the political uncertainty surrounding Brexit, European chemicals M&A activity midway through 2019 has been strong, completing 116 deals during H1, an increase of 19 over H1 in 2018. The UK sector performed well completing 14 deals compared to 13 in 2018, falling only behind France in terms of volume.

Deal value was also robust with several large European deals being completed, including the €3bn acquisition of the methacrylates business of **Evonik Industries** by private equity investor **Advent International**. Advent see this as an opportunity to support the independence of the methacrylates business, pursuing long term internal growth strategies. **Umicore** has also reached an agreement to acquire **Freeport Cobalt's** cobalt refining and cathode precursor activities in Finland for \$150m. The acquisition represents a key development in the creation of an integrated battery materials value chain for Umicore.

Looking forward to the rest of 2019 the challenges of 2018 show little sign of waning, yet we believe several key factors will continue to drive deal volume for the rest of the year. In the age of the circular economy and digitalisation, corporations are increasingly seeking to become more digital and environmentally-focused. Niche manufacturers, therefore, will prove attractive scalable opportunities for larger corporates looking to complement organic growth through acquisitions. Corporates are also streamlining their product portfolios through divestment and subsequent acquisitions. The increasingly active private equity market will continue to use this as an opportunity to support independent chemical along with follow up bolt-on acquisitions.

Amidst these factors and our own experiences, clients are continuing to attract premium prices, in particular from international strategic buyers. We, therefore, conclude that it remains an ideal time to consider the sale of your business.

Advent International
GLOBAL PRIVATE EQUITY

Have acquired



EVONIK
INDUSTRIES
Methacrylates

For 3bn EUR

umicore

Have acquired



Freeport Cobalt

For 150m USD

 **SDIPTech**

Have acquired

Water Treatment Products

For 23m GBP

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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.

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

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- 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.

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and Telecoms

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Food & Consumer

