chemicalweek

Banker: M&A down in 2012, but market is improving

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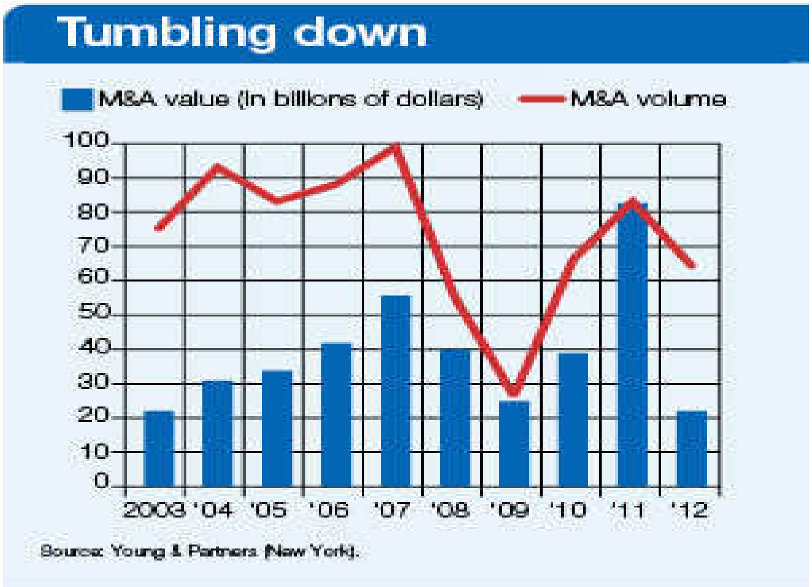
Global M&A in the chemicals sector fell 73% year-on-year (YOY) during the course of 2012, to $22 billion, according to data compiled by Young & Partners (New York). Deal volume slipped as well, although less dramatically—down 23%, to 64 deals. Seven deals over $1 billion were completed during 2012, less than half of the 17 $1-billion-plus deals completed in 2011.

The total value of completed deals was actually 12% lower than the previous trough in 2009, Young & Partners says. Valuations declined and fewer high-quality businesses were up for sale than in previous years, the firm says. "There was also a pronounced softening of the average valuation multiples, particularly in specialty chemicals," says Peter Young, president of Young & Partners.

Economic uncertainty drove weakness in the M&A market despite an environment that would ordinarily give rise to a stronger market, Young says. Last year was "clearly a much slower M&A market, despite strong cash balances, pressure from shareholders to grow, and easy access to debt at low interest rates," Young says. "The primary reason was the high level of concern about the global economic and financial outlook." A number of uncertainties, including the euro crisis, the US fiscal cliff and presidential election, and slowing growth in China, were beyond the control of executives, leading to caution around M&A, Young says.



The figures also highlight a shift in deal activity toward Asia. Some 39% of deals completed in 2012 were based in Asia or parts of the world other than Europe and North America, Young & Partners says. US-based deals fell directly behind that, with the number of European deals lagging the other regions. "The overall increase in Asia activity … has been astonishing compared to just a few years ago," Young says.

Commodity chemical deals were more common than specialty deals, making up 61% of deal volume, according to Young & Partners. Private equity firms were active, but somewhat less so than at their mid-

2000s peak. Private equity buyers accounted for 14% of deal volume and 17% of deal value, Young & Partners says.

Young expects the market to pick up in 2013. “The pipeline of M&A deals has been increasing starting at the end of the second quarter of 2012,” Young says. “Uncertainty is partially diminished,” meaning that 2013 should see some improvement, he adds.

As of 31 December 2012, there was $13.2 billion in chemicals M&A transactions announced but not yet completed, according to Young & Partners. These include some deals that have been completed since, such as private equity firm Carlyle Group’s (New York) $4.9-billion acquisition of DuPont’s automotive coatings business and PPG’s $2.1-billion spin-off of its commodity chemicals business to Axiall, formerly Georgia Gulf. These deals are “a small sign of some pickup in activity,” Young says. The coming year should be “solid but not spectacular” in terms of chemicals M&A activity, he adds.