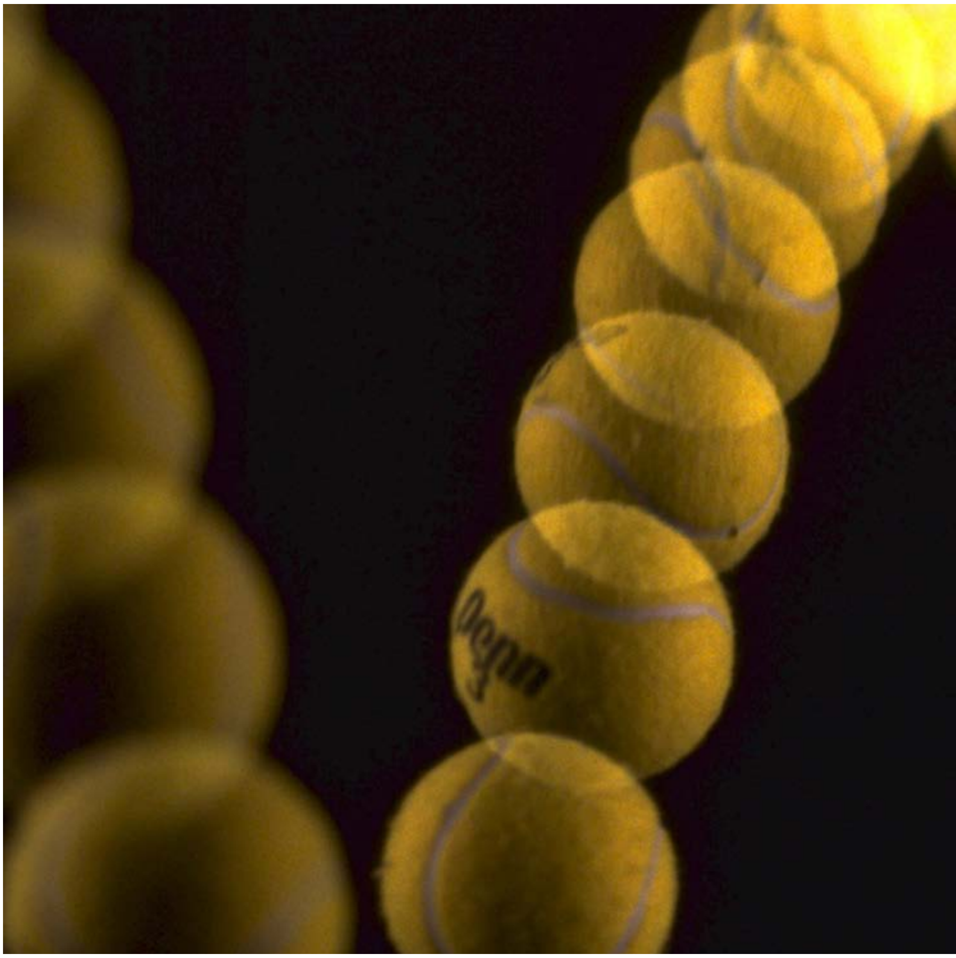


Strategic and financial buyers and sellers are reaping the benefits of a healthy M&A market

Chemical M&A rebound continues

Deal activity rose by 20% in the first half of 2013 versus the same period last year. For all of 2013, transactions are expected to be in the range of $35bn-40bn

PETER YOUNG YOUNG & PARTNERS

Global chemical industry mergers and acquisitions (M&A) activity has continued its recovery from last year's plunge, which saw only \$22bn in deals close after \$82bn in 2011.

On an equity value basis, \$19bn of deals greater than \$25m in size closed worldwide in the first half of 2013. On an annualised basis, dollar volume is almost double the \$22bn trough level last year.

In terms of numbers of transactions, there were 42 deals completed in the first half of 2013 compared to 35 deals completed in the first half of 2012. This is a 20% increase in the number of deals completed – again, a clear indication of a recovery.

Although the market in the first half picked up in terms of the number of deals and dollar volume, as we predicted in the fourth quarter of last year, the number of very large deals continues to be modest compared to the pace in 2011.

Although CEO concerns about the problems visible across the global economic and financial landscape are reduced, the uncertainties that remain are still significant.

For that reason, the current annual pace in dollar terms is still far below the pace in 2011, although equal in terms of the number of deals completed. In addition, valuations are higher this year. Even average-to-weak chemical businesses are commanding higher valuations.

Asia and the rest of the world category led in terms of activity, with just over 45% of the deals completed worldwide. This category has been in the lead for more than five years as buyer interest in Asia has been high and the number of available businesses to acquire has gone up. The US has been steady at 33% and Europe has fallen to only 22% of the deals completed as buyer interest in Europe has waned.

Financial buyer activity is in line with last year in terms of number of deals. These buyers completed 32% of the deals on a dollar volume basis, driven by DuPont's sale of its coatings business for \$4.9bn to The Carlyle Group.

The recent revival of the chemical M&A market has been a positive for both strategic and financial buyers and sellers. Sellers are now able to complete divestitures and achieve prices that are more attractive.

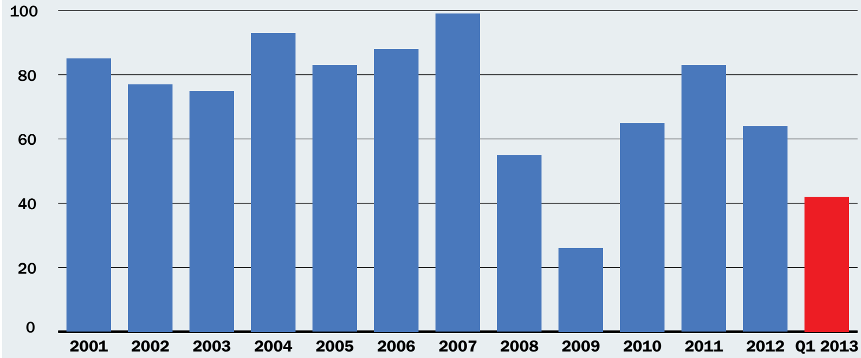
Buyers are paying reasonable prices and are experiencing fewer failed auctions where the seller has conducted a sale process, but did not accept the final auction price.

M&A has become an increasingly important tool in the chest of senior management as they manage their product and business portfolios, geographic strategies, and financial objectives. Strategic transactions have become an important part of the job of chemical in-

Rex Features

ACQUISITIONS OF WORLDWIDE CHEMICAL COMPANIES - NUMBER OF DEALS

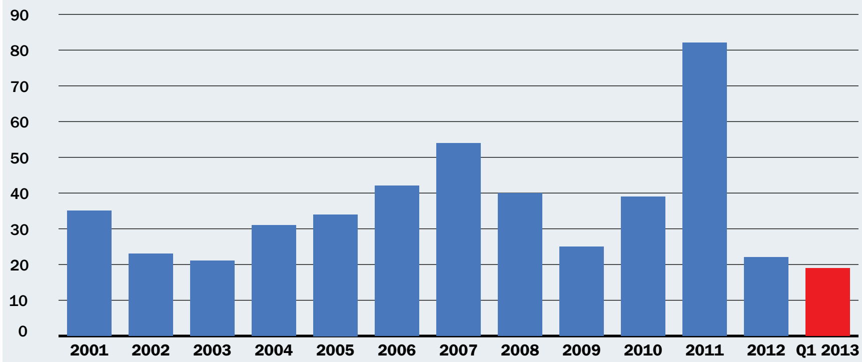
Total number of transactions over $25m in size



SOURCE: Young & Partners

ACQUISITIONS OF WORLDWIDE CHEMICAL COMPANIES

Dollar volume of disclosed deals in $bn, equity value



SOURCE: Young & Partners

dustry senior management. A healthier M&A market opens up alternatives that are critical for the success of industry participants. An unhealthy M&A market constrains the pursuit of important alternatives.

RESIDUAL ECONOMIC UNCERTAINTIES

Although the global economy has partially stabilised over the last couple of years, unstable economic and financial conditions persist.

Debt levels remain high at all levels – country, local government and individual. Economic growth is weak in Europe, stable in China and weak in other emerging markets such as Brazil, Indonesia and India. The US economy is growing slowly, but the government is facing budget and debt ceiling negotiations.

The expectation of a pullback in the US Federal Reserve bond purchasing program has rattled markets and increased interest rates. This has also put emerging market countries under pressure in terms of growth and exchange rates.

In Europe, the sovereign debt and economic crisis continues. The current efforts to impose a eurozone-wide structural remedy, coupled with increased liquidity, and individual government efforts to curb deficits through spending cuts and tax increases are not all progressing well and have created difficult political challenges.

Events in Syria and Egypt have created a heightened sense of uncertainty in the Middle East with the future in that part of the world very difficult to predict.

WHAT WILL THE FUTURE BRING?

Young & Partners believes the recent partial recovery of the M&A market will be sustained through the rest of 2013 and into early 2014. M&A market volume will rise from $22bn last year to a stronger level in the $35bn-$40bn range for this year.

Acquisition financing will be available, but at slightly higher interest rates. Valuations will continue to modestly improve from last year's trough for chemicals overall, but the increases will continue to be greater for weak-to-average businesses since high quality businesses did not experience a major drop in value during the trough.

But the trajectory going forward will depend heavily on the future condition of the global economy and financial system.

The most likely scenario will be a global economy that will remain weak, but one that sustains itself in the near to medium term.

The US economy will continue to show positive signs, buttressed by the shale gas and oil windfall. Europe will be on a very slow path to recovery. China will continue to grow in the medium term, and other emerging markets such as Indonesia and India will continue to struggle.

In that scenario, chemical M&A will be solid and stable. But if there is a more significant downturn, we will see an adverse impact on the chemical industry overall and on the related equity and M&A markets. ■

Peter Young is president and managing director of Young & Partners, an international chemical and life science investment banking firm headquartered in New York. He has more than 26 years of experience in chemical and life science investment banking. Young & Partners is one of the leading investment banks serving the chemicals and life science industries worldwide. The firm provides mergers and acquisitions, restructuring, financial advisory and debt and equity services to large and medium-sized clients in Europe, North America, Latin America and Asia.