Chemical M&A finishes strong in 2015 as deal pipeline surges

M&A activity in the chemical industry totalled $65 billion in 2015, up 30% from 2014, according to data compiled by Young & Partners (Y&P; New York). The figure was helped by a $34-billion surge in deals completed in the fourth quarter, led by Merck KGaA's $17-billion acquisition of Sigma-Aldrich. The result is the second-strongest annual total, trailing only the $82 billion of 2011. The Y&P data include transactions with values over $25 million.

Early indications are that 2016 will be even stronger in terms of overall value, with roughly $150 billion in chemicals deals announced but not yet closed. The number of transactions did slip, with 90 deals in 2015 versus 108 in 2014.

"The value of chemical M&A has been increasing in substantial steps each year from the trough of $22 billion in 2012," says Peter Young, president of Y&P.

Although overall M&A remains strong, it is a tale of two markets, with specialty chemicals handily outperforming commodity peers. "There has been a splintering of the M&A market as the volume and valuation and commodity chemical deals fell dramatically starting at the beginning of 2015, while specialty chemical volumes and valuations hit a peak," Young says.

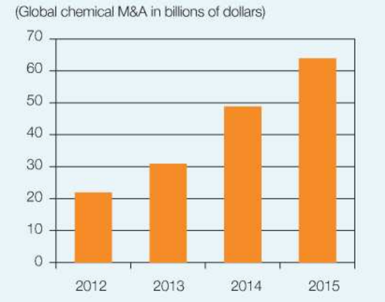
Activity continued to shift eastward. Deals outside of the United States and Europe, most heavily influenced by Asia, accounted for 51% of transactions worldwide, the highest share since Y&P started tracking deals in 1986. The United States and Europe followed, with 26% and 23% respectively.

Private equity buyers were squeezed as strong valuations and difficulty in high-yield markets left financial sponsors on the sidelines. "Private equity firms accounted for 9% of the total number of deals completed in 2015," Young says. "This is a startling loss of share compared to the historical norm, which has been 20–25%."

The drivers of M&A should remain similar in 2016 as industry works through an exceptionally large backlog of deals underscored by the pending merger of Dow Chemical and DuPont. The value of the 35 deals announced but not closed at year-end 2015 was $99 billion, Young says. ChemChina's $43-billion bid for Syngenta in early February 2016 has pushed that figure up to its current total.

"We expect dollar value to be higher, but the key will be how many of large, marquee deals actually get done," Young says. "There is considerable certain around a number of these deals. Either way, we expect the number of ideas to stay at very strong levels of 85–95 for the year."

Chemical M&A on rise*



*Transactions valued at more than $25 million. Source: Young & Partners (New York).

Strategic, financial, and external drivers of M&A remain in place. "Demand for growth in excess of what can be achieved organically, the need to use a buildup of cash, ongoing restructuring, consolidation in ag, pressure from activists, and consolidation and industrial rationalization in China will continue to be drivers of deal activity," Young says. Market share should also continue to shift toward Asia.

Private equity investors still have funds available, but "difficult debt markets and heavy competition from strategic buyers will continue to take their toll except in cases where strategic buyers are not interested," Young says.

The volatility in equity markets is also likely to impact M&A. "Equity markets have been volatile since major declines in August and September 2015," Young says. "This impacted valuations of many chemical companies and has had an indirect impact on the M&A market," Young says. "The meltdown in January [2016] has damaged pubic chemical valuations and has heightened uncertainty about where public valuations will head." —ROBERT WESTERVELT