Global chemical industry mergers and acquisitions to rebound in 2010
The big M&A bounce
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The global chemical M&A market is poised to recover significantly in 2010, according to Young & Partners

"We expect the chemical M&A market to improve meaningfully in 2010 in terms of number of deals completed," says Peter Young, president of New York, US-based investment bank **Young & Partners**.

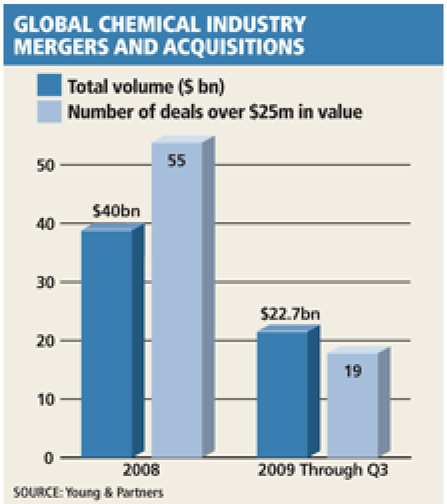
"World economies are stabilizing, the financing market has improved, and buyers and sellers are starting to close the gap with regard to their price expectations," he adds. "Barring a substantial wild-card hit to the financial system from the commercial real estate or other loan market, these factors will drive a recovery," he added.
Through the first three quarters of 2009, $22.7bn (€15.2bn) in chemical sector deals valued over $25m on an equity basis were closed, compared with $40bn for all of 2008, according to Young & Partners.

However, three big deals announced in 2008 - US-based **Dow Chemical**'s acquisition of compatriot specialty chemical giant **Rohm and Haas**, German major **BASF**'s buyout of Swiss specialties firm Ciba and Japan's **Mitsubishi Rayon**'s purchase of UK-based **methyl methacrylate** (MMA) producer Lucite International - accounted for about $20bn of those closed transactions through the third quarter (Q3), notes Young.
Even with an additional $7.5bn of announced but not closed deals as of the end of the Q3, "we are unlikely to exceed $30bn for all of 2009," says the banker.

However, an improving chemical M&A market was demonstrated by a pickup in the number of deals over $25m in size, which totaled four in Q1, seven in the Q2 and eight in Q3, says Young. "This is a small sign that market volume is improving, and we expect this trend to continue into the fourth quarter and 2010," he says. "The first quarter of 2009 was likely the volume trough of the global chemical M&A market."

UNCERTAIN TIMES

After the the M&A market peaks and a major downturn follows, there is typically a large gap between buyer and seller price expectations. "Six to nine months ago, potential buyers couldn't forecast their own earnings, much less those of their acquisition targets," Young points out. "Uncertainty breeds inactivity."
Private equity buyers were just about knocked out of the game through Q3, accounting for only 5% of the number of completed deals and 0.2% (disclosed deals) of total dollar volume, according to Young & Partners. In 2007, private equity accounted for 22% of the number of deals, and 15% in 2008.



However, since the third quarter, activity has perked up. Recent acquisitions of chemical companies by financial buyers include **GenNx360 Capital Partners** buying Clariant's silicones business in late August, and American Securities acquiring US-based chemical, valve and auto parts firm GenTek for $411m in late October.

The recovery of the overall financing market bodes well for chemical M&A activity. Even the high-yield financing market is coming back, which is particularly important for financial buyers. "We are seeing sporadic high-yield debt issuance in the chemical industry, but it is still not robust," notes Young.

Nonbank debt issuance totaled $20.8bn in the global chemical industry through the first three quarters, versus $11.1bn for all of 2008, according to Young & Partners. High-yield debt issuance improved to $1.9bn through Q3 compared with $330m for all of 2008. However, this is still far off the $13.3bn issued in 2006 and $6.2bn in 2007 during the height of the M&A market.