Chemical M&A activity turns up

Deals picked up in Q2 after a trough in Q1 and should propel a recovery for 2023 versus 2022 as players adapt to the new business and financing environment

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Chemical industry mergers and acquisitions (M&A) have been in the doldrums for some time now, but it is clear that there has been a major uptick in volume starting in Q2 this year.

The numbers for Q1 were dismal and appear to be a trough, with only 16 deals over \$25m in value worth \$8.6bn completed. These numbers were well below the quarterly averages for 2022.

There are other examples of how weak Q1 was. The number of deals completed in Europe in Q1 were stunningly zero. With major turmoil in Europe driven by the war in Ukraine that drove up electricity, oil and gas prices and weakened economies, the idea of acquiring a European business was not very popular.

In addition, there was a significant gap in buyer and seller price expectations, with sellers still clinging to higher prices from recent history and buyers looking for lower prices to reflect the business turmoil and uncertainty.

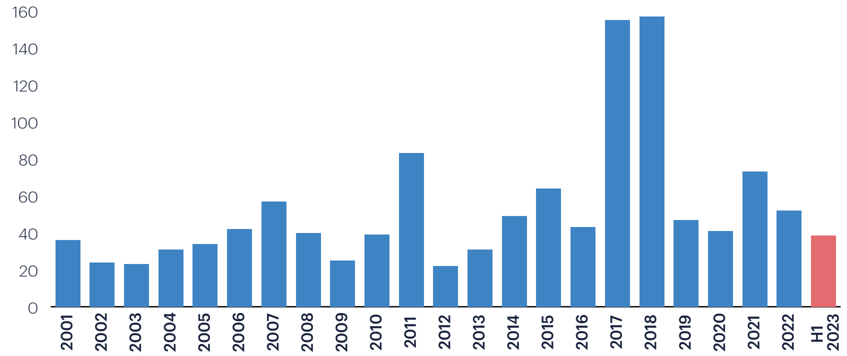
The number of private equity acquisitions completed in Q1 was also zero. Higher and increasing interest rates, limited availability of acquisition financing, and the economic uncertainties severely curtailed acquisition activity. Private equity acquisitions have relentlessly dropped every quarter for over a year. There were 8 deals completed in Q2 2022, 5 in Q3, 3 in the Q4, and then zero in Q1 2023.

But there was a major upturn in Q2 in most of the major categories. 25 deals worth \$29.8bn closed in Q2, up from the 16 deals worth \$8.6bn that closed in Q1. The long delayed DSM/Firmenich transaction accounted for \$18.1bn in the Q2 total. However, no matter how you look at the dollar numbers and the DSM/Firmenich deal, there was clearly a pickup in Q2. On an annualised basis, Q2 was well above the pace last year when a total of \$52.4bn of deals closed.

Even though interest rates have continued to increase, some debt financing has become available, specialty chemical valuations have softened and private equity firms have been anxious to come off the sidelines

Acquisitions of worldwide chemical companies – equity value

\$bn, disclosed deals over \$25m in size



Source: Young & Partners

On another front, 8 deals were completed in Europe in Q2 versus zero in Q1, a reflection of some reduced anxiety about business conditions in Europe and sellers accepting lower valuations.

Debt financing available

Even though interest rates have continued to increase, some debt financing has become available, specialty chemical valuations have softened and private equity firms have been anxious to come off the sidelines. Reflecting that, 4 private equity acquisitions were completed in Q2, with 3 of the 4 in the US and 1 in Europe.

What is our prediction for Chemical M&A for the rest of 2023 and beyond?

Our prediction is that 2023 will end up well above 2022 in dollar volumes and modestly higher in terms of the number of deals. Economic uncertainty, higher interest rates, and weakening earnings will suppress activity, but this will be offset by larger chemical companies refashioning their overall business portfolios and trying to get out of commodity chemicals, private equity companies that have to divest portfolio companies, and strategic acquisitions.

Weakened valuations will both stimulate buyers and inhibit sellers. The only factors that may cause a few larger deals to happen are the efforts of Abu Dhabi's ADNOC and others to add chemical operations in Europe and the US to diversify. The ADNOC offer for Germany-based Covestro and effort to merge Borealis and Borouge are two examples. However, it is not clear which of the proposed deals would close. In any case, these proposed deals are clearly not part of mainstream trends. ■

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