Chemical M&A market retreats

Heightened uncertainty, high interest rates and falling valuations put the freeze on deal-making. Depressed Q1 activity foreshadows a weak 2024

Peter Young Young & Partners

With the exception of the long delayed Novozymes merger with Chr. Hansen for $12.4 billion, the chemical mergers and acquisitions (M&A) market turned down dramatically in Q1. Heightened economic uncertainty, rising geopolitical turmoil and global military conflicts, high interest rates, the prospect of a long downturn in the commodity chemical industry, structural weakness in the European chemical industry, and falling valuations have all converged to suppress the interest of buyers to buy and for sellers to put their businesses up for divestiture.

These factors have overwhelmed the typical drivers of activity such as the strategic priorities of companies seeking synergistic additions, the ongoing consolidation in China and the rest of Asia, the liquidity needs of private equity firms, and the portfolio rearrangement goals of strategic players.

The number of deals that have closed tells the story. Only 11 deals over $25 million in size closed in Q1 2024, a significant slowdown on an annualized basis (44 deals) from the 75 deals that closed in 2023 and the 86 deals that closed in 2022.

Only 11 deals over $25 million in size closed in Q1 2024, a significant slowdown on an annualized basis (44 deals) from the 75 deals that closed in 2023

In terms of dollar volume, $20.2 billion worth of deals closed in Q1 2024 compared to $57.1 billion for all of 2023. Although that would seem to be an increase on an annualized basis, if you remove the long delayed Novozymes/Chr. Hansen deal that was announced in 2022 in a different M&A environment, the dollar volume was $7.8 billion or only $31.2 billion on an annualized basis - a major drop in activity.

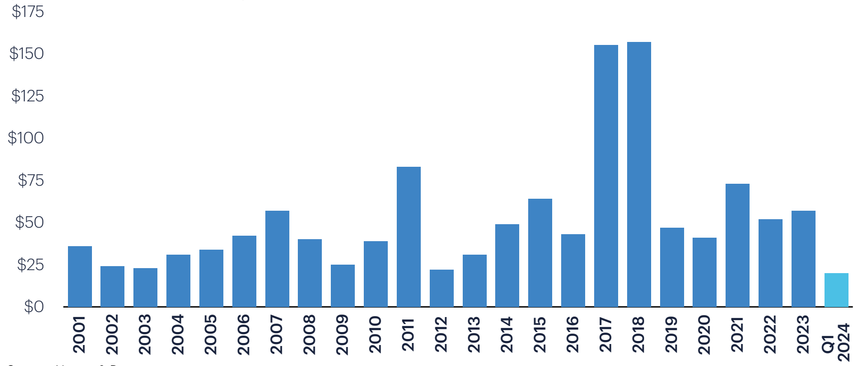
The weak pipeline of deals further supports the picture of a weak M&A market. The value of deals announced but not closed as of the end of Q1 2024 was only $21.7 billion (19 deals), which usually reflects about six months of forward M&A deal completions.

What is our prediction for Chemical M&A for the rest of 2024 and beyond? We predict

Shutterstock

Acquisitions of worldwide chemical companies – equity value

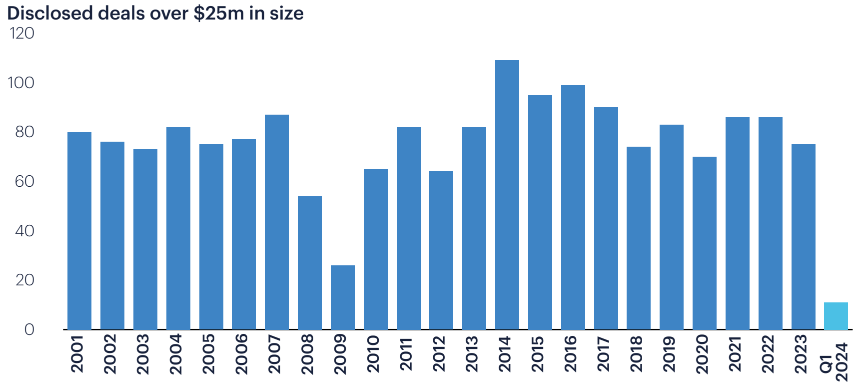
$bn, disclosed deals over $25m in size



Source: Young & Partners

Acquisitions of worldwide chemical companies – number of deals

Disclosed deals over $25m in size



Source: Young & Partners

that the deal volume for all of 2024 will be around $50 billion comprising about 50 deals. This would be moderately below 2023 in dollar terms, boosted by the Novozymes/Chr. Hansen $12.4 billion deal, but well below 2023 in terms of the number of deals.

The factors suppressing M&A activity are unlikely to go away and the drivers of M&A activity are not going to escalate.

The breakdown

Deals completed in Q1 in Asia and the Rest of the World (ROW) category were 54.6%, whereas the US was 27.3%, and Europe was 18.2% of deals completed globally. Asia and ROW are marching to a different drumbeat, the US is a steady and favorable place to make chemicals, and Europe is in the doldrums in terms of costs, regulations, demand and excess capacity.

A major contributor to the drop in activity has been the retreat in the commodity chemical M&A market. There were only three commodity chemical deals completed in Q1 - two in Asia and one in the Middle East. There is very limited interest on the part of strategics to acquire commodity chemical businesses given the prospects of weak profits and overcapacity.

The major increases in capacity in China, the rest of Asia and the Middle East go beyond what is called for with regard to the normal commodity chemical cycle. Of course, private equity investors are reluctant to buy commodity chemical businesses because the ability to control your own destiny is less compared to less cyclical businesses.

There has been a major drop in commodity chemical M&A valuations in the last two years that reflects the lack of buyers.

Specialty chemical M&A volume has also fallen, but at eight deals, the fall was not as severe as in commodities. Specialty chemical M&A multiples have also fallen, but again, not as severely as in the case of commodities.

Implications for management

For those who want to sell chemical assets, the market has weakened and valuations have come down, but specialty chemicals M&A is still moderately healthy. Commodity chemical businesses will be very challenging to sell. Owners of European chemical assets will be facing difficult decisions about their businesses. We expect to see many closures and divestitures at low valuations.

The weak pipeline of deals further supports the picture of a weak M&A market. The value of deals announced but not closed as of the end of Q1 2024 was only $21.7 billion (19 deals)

For buyers, this is a reasonable time to be buying specialty chemical businesses with less competition from other strategic players. Commodity chemicals will be much easier to acquire at lower multiples, but there has to be a strategic rationale, even at the current lower valuations. ■

Peter Young is CEO of Young & Partners, an international strategy and investment banking firm that focuses on the chemical and life science industries. Young & Partners has served a global client base of companies in Europe, North America, Latin America and Asia for the last 28 years. *Email: pyoung@youngandpartners.com, www.youngandpartners.com*