

Chemical compounds

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First-quarter 2013 global chemicals industry mergers and acquisitions analysis

To help provide further insights on recent mergers and acquisitions (M&A) activity, PwC is pleased to share with you our quarterly analysis of M&A activity in the global chemicals industry.



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At the year's start, deals declined in value, with M&A activity in the chemicals industry at its slowest since the global recession in mid-2009; deal value decreased from \$13.4 billion to \$5.3 billion in the first quarter of 2013, primarily due to a drop-off in mega deals (transactions worth more than \$1 billion). U.S. transactions nevertheless led deal activity in the sector during the first quarter, driving nearly 45 percent of total deal value as companies focused on domestic growth – six deals worth \$50 million or more, with a total value of \$2.4 billion, out of a total of 22 deals worth \$50 million or more valued at \$5.3 billion.

While the United States successfully passed tax legislation, progress regarding sequestration has stalled, and \$85 billion in cuts to the US budget became effective March 1. Simultaneously, recession has returned to some eurozone member states – most notably, in Cyprus. As these issues constrain growth, investor concern is increasing. On a positive note, Japan, a major chemicals producer, performed better than expected in the fourth quarter of 2012.

PwC analysts are monitoring several additional trends expected to affect the values and locations of deals in the chemicals sector:

- Some developing nations are rebounding. China's manufacturing is on the upswing, with its Purchasing Managers' Index (PMI) rising in March on the heels of an increasing GDP in the fourth quarter of 2012; the nation led deal activity in the BRIC countries, with six transactions worth more than \$50 million. And the government of India projects a return to much stronger growth by 2014, despite a sluggish 4.5 percent growth rate in the fourth quarter, its slowest pace in 15 quarters. These trends, along with a concomitant uptick in deal activity for companies in these countries, are expected to drive accelerated demand.
- As new sources of energy become available in the United States, chemicals producers are finding new opportunities for growth, driven in part by low-cost fuel sources; shale oil and gas production is under way in several regions, notably western Pennsylvania (Marcellus reserves), eastern Ohio (Utica reserves), and North Dakota (Bakken reserves). Consequently, many US companies may soon seek organic growth. With these players looking beyond acquisitions for growth opportunities and pursuing competitive advantage through low-cost energy and feedstocks, the recent decline in deals is not surprising.
- The growth in end-user markets is also fueling the demand for chemicals. In the automotive sector, demand in the United States and China, although near a 20-year low, is growing. At the same time, construction spending is shifting: by 2020, developing nations are expected to account for a major portion of global



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construction spending. These trends are expected to affect M&A in the long term, with a shift from acquisitions by advanced economies to those by companies in the developing regions, particularly China and India.

- Strategic investors remained active in deal making, accounting for nearly 91 percent of transactions valued at \$50 million or more during the first quarter.

While the M&A environment looks to remain constrained in the near term, improvements in the deal arena may be just ahead. As developing nations see a return to increased economic activity, it is expected that regional firms will look more toward inorganic opportunities as a path for growth. Also, despite sovereign debt challenges in the eurozone, more activity is expected from US companies as they look for new opportunities to increase geographic reach and expand their product portfolios.

We're pleased to present our first-quarter 2013 analysis as part of our ongoing commitment to provide you with a deeper understanding of M&A trends and prospects in the industry.

Launch the data explorer at <http://www.pwc.com/us/en/industrial-products/publications/chemical-compounds.jhtml> for a deeper dive into the data, or contact us to further discuss our insights.

Sincerely,



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Global Chemicals Leader



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