

# Chemicalcompounds

May 2015

## First-quarter 2015 global chemicals industry mergers and acquisitions analysis

To help provide insight into recent mergers and acquisitions (M&A), PwC is pleased to share Chemical compounds, our quarterly analysis of M&A activity in the global chemicals industry.



**Pamela Schlosser**

### Overview

In the first quarter of 2015, on a sequential basis we saw significant declines in both deal value and volume. However, when compared on a year-over-year basis for 1Q14 there was a slight increase in both volume and value. Despite this significant decline in deal volume and value in 1Q15 compared to 4Q14, average deal value grew significantly on a sequential basis. This rise in deal value was partially driven by four megadeals (deals valued at \$1 billion or more) and average deal value grew to \$416 million, aided by the aforementioned megadeals. The four megadeals in the first quarter of 2015, collectively valued at over \$9.1 billion, drove more than 62 percent of the quarter's deal value.

### Megadeals

In the largest deal of the first quarter, US-based Dow Chemical Company announced plans to divest its chlorine operations and merge them with US-based Olin Corp. in a deal valued at \$5 billion. According to the announcement in March, Dow's US Gulf Coast chlor-alkali and vinyl, global chlorinated organics and global epoxy businesses would join Missouri-based Olin, as would the Dow factories on the US Gulf Coast. Olin would pay \$2 billion in cash, \$2.2 billion in stock, and would assume \$800 million in pension and other liabilities. The deal is expected to close by the end of 2015. Similar to the Dow deal, Tronox Ltd. definitively agreed to acquire the alkali chemicals unit of FMC Corp., a Philadelphia-based diversified chemical manufacturer, for \$1.64 billion in cash.

### Regional

On a regional basis, Asia again led deal volume with 31 deals valued at almost \$6.5 billion. This activity was driven by China-based companies, which were involved in 24 of these deals and all 24 were local-market deals. We continue to see China consolidate its heavy industry in an effort to achieve economies of scale and scope. China's consolidation includes smaller and underperforming companies in order to reduce pollution and increase supply demand from a growing middle class.

North America led deal value, with nine deals valued at more than \$10.7 billion. US-based companies drove this activity with over \$10.6 billion in deals. It should be noted that of the four megadeals in the first quarter, all four involved a US-based target or acquirer. In contrast and consistent with the recent past, Europe lags behind in deal activity and, interestingly, there were no deals valued over \$50 million in Europe this quarter.



### **M&A Outlook**

This quarter's activity was impacted by factors such as historically high chemical valuations, oil prices, uncertainties in demand (China and Europe), geopolitical issues (Russia and the Middle East), and an uncertain European economic environment. Their impact going forward will depend on how quickly these uncertainties begin to clear.

The proportion of acquisitions by financial investors in 2015 increased to 30.6 percent of deal volume compared to the previous year (22.2 percent) and 2013 (14.3 percent). We continue to see strategic investors evaluate their businesses and carve out underperforming or non-core assets to sell. Additionally, investor activism is continuing to put pressure on large chemical businesses to optimize share price. Therefore, we would expect the level of financial sponsored activity to remain at a similar or slightly higher level for the remainder of 2015. At the same time, easy credit will continue to support financial engineering as a means to create shareholder value.

In the near term, we anticipate modest growth in volume and flat to slight growth in transaction values. We expect to continue to see increased use of alternate transaction structures, including spinoff and Reverse Morris Trust (RMT) transactions as compared to outright trade sales. As noted above, financial investors, who tend to have a higher risk tolerance versus strategic investors, will continue to play an active role, however, the current high valuations could begin to put strain on getting these types of transactions done.

We're pleased to present our first-quarter 2015 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 [www.pwc.com/us/chemicalcompounds](http://www.pwc.com/us/chemicalcompounds) for a deeper dive into the data, or contact us to further discuss our insights.

Sincerely,



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