Chemicalcompounds

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Second-quarter 2015 global chemicals industry mergers and acquisitions analysis

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Welcome to Chemical compounds, PwC's quarterly analysis of M&A activity in the global chemical industry. We're pleased to present our second-quarter 2015 summary as part of our ongoing commitment to provide you with a deeper understanding of M&A trends and prospects in the industry.

Overview

The second quarter saw strong growth in volume, however, value declined substantially. Likewise, average deal value declined, to just over $210 million for deals valued at $50 million or more. This was the lowest quarterly average deal value since the third quarter of 2013. Thus, while more deals have been announced, we have been seeing companies pursue smaller deals that strengthen their existing portfolio of assets. The high-value specialty chemical segment remained attractive to investors, accounting for more than half of the quarter's value. Also, financial investor activity once again advanced as a proportion of deal volume in the second quarter.

Megadeals

There was only one megadeal, valued at almost $1.5 billion. China-based Henan Billions Chemicals Company agreed to acquire the entire share capital of Sichuan Lomon Titanium Industry Co., a China-based manufacturer of titanium dioxide pigment for industrial and commercial purposes, from Sichuan Lomon Corp., Tibet Lomon Investment Company and Li Jiaquan, for a total $1.45 billion in cash.

Regional

Weakness persists in the Chinese market, with a sluggish housing market and excess inventory levels. However, the Chinese government's attempts to spur growth by cutting policy rates and expanding public investments may improve the Chinese market outlook. Despite these headwinds, the Asia and Oceania region still accounted for 39 deals valued at over $7.6 billion in the second quarter. Of these 39 deals, 37 involved China-based targets, of which all but one were local-market deals, as China continued to consolidate its heavy industry in an effort to improve efficiency, reduce pollution from older operations, and increase exports.

M&A Outlook

We remain optimistic that the increased volume seen so far this year will continue. The US chemical industry, valued at $812 billion, is set to grow, as manufacturing gains momentum, particularly in the chemical-intensive sectors, such as automotive, aerospace, and rubber and printing. Also in the United States, abundant natural gas supplies and continuing low oil prices are making investments attractive in the chemical industry; however, the stronger dollar continues to hurt US chemical exports. Recovery in the building products and housing markets could also spur growth in the chemical industry.

Looking forward, we see the possibility of significant activity in the agricultural chemicals segment, which has been a historically underrepresented part of the chemical industry. In May 2015, it was rumored that a large US-based seed and pesticide manufacturer was considering a merger with a Europe-based manufacturer of agricultural chemicals, and in July, a large fertilizer producer offered more than $8.5 billion to acquire a Germany-based fertilizer producer. If these transactions were to take place, it is likely that we could see additional deals in the agricultural chemicals space as other companies seek to compete in scale and scope. PwC will continue to monitor these possible transactions, and their impact on the overall deal environment.

At the same time, companies are focused on optimizing their portfolios to create more value for shareholders and to generate higher margins, making bolt-on and other acquisitions an attractive means of increasing geographic reach, market share, and new markets. Most strategic players see acquisitions as their best opportunity to achieve these goals. In addition, private equity exits are on the rise, accounting for more than 25 percent of the second quarter's activity. Historically, financial investors have had a five- to seven-year acquisition/divestment cycle, thus we may be seeing more transactions of this type in the future.

Finally, investor activism remains a driver of deal activity. We have been seeing investors actively working to change strategy, including mergers and acquisitions. For example, activist shareholders may put pressure on businesses to divest units that do not meet various criteria such as future earnings growth.

We hope this analysis will serve as a useful tool for monitoring trends and shaping your organization's business strategy.

Launch the data explorer at 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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