

Chemical compounds

November 2013

Third-quarter 2013 global chemicals industry mergers and acquisitions analysis



Antoine Westerman



Anthony J. Scamuffa

To help provide further insight 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.

Increases in volume as well as value drove a rebound of chemical activity in the third quarter, with average deal value growing by 10 percent over the second quarter. The gain was boosted by a surge in mega-deals (valued at \$1 billion or more), including Huntsman's agreement to purchase Rockwood Holdings' titanium oxide business for \$1.1 billion. Huntsman also plans to sell shares in the new business through a future IPO.

The United States led in deal value and volume globally during the third quarter; overall, however, deal activity during the quarter was still well below the average for the subsector for the last three years.

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

- Acquirers in advanced economies drove more than 60 percent of deals valued at \$50 million or more. Third-quarter activity by US-based acquirers was robust, with seven deals valued at \$2.2 billion, or 45 percent of total deal value during the quarter. These deals played against a rising GDP, which expanded at a 2.5 percent annual rate between April and June.
- While an extended partial shutdown of the US government could result in slower growth during the fourth quarter, there are also positive economic indicators: the US budget deficit in June was 4.3 percent of GDP, compared with 10.1 percent in February 2010.
- North America leads deal value in 2013, with 24 deals valued at more than \$5.5 billion. The United States is driving deal volume and value globally so far, with 22 deals valued at nearly \$5.2 billion; half of those deals were local market, showing that US-based companies continue to invest domestically. Europe's 20 deals were valued at almost \$5.2 billion, and more than half resulted from inbound investments from other regions.
- When it comes to deal volume during the first three quarters of 2013, Asia led other regions, with 29 deals valued at \$5 billion. China was out front on Asian deal activity, with 19 deals. The high proportion of local deals—17—is to be expected, given the Chinese government's emphasis on consolidation, as outlined in its most recent five-year plan.

- The Eurozone continues to face economic challenges: GDP grew 0.3 percent in the second quarter (compared with the previous period) but contracted 0.6 percent, on a year-over-year, seasonally adjusted basis. Also, industrial production contracted 1.5 percent in July, and unemployment increased to 12.1 percent, also in July. Eurozone-based acquirers were responsible for four deals valued at \$840.8 million and drove only 17 percent of third-quarter global deal value.
- Japan continues to experience positive economic growth, with GDP expanded at an annualized 3.8 percent in the second quarter; it was the third consecutive quarter of growth. The sole Japan-based deal was Mitsubishi Chemical Holdings' planned increase in ownership of industrial gas manufacturer and distributor Taiyo Nippon Sanso, valued at \$313 million.

Eurozone economic challenges could blunt global gains in fourth-quarter M&A activity, despite the third-quarter increases. And the United States economy could slow significantly, thanks to the partial government shutdown, which could squeeze funds for nonorganic growth as revenues decline in the face of reduced economic activity. Deal volume and value in 2013 could rank as the lowest in the last decade, if current M&A trends continue.

Nevertheless, there is reason to be optimistic about growth in 2014, if the third-quarter momentum can be extended; the Eurozone economy begins a recovery, as expected; and US debt and government funding issues are resolved.

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

We encourage you to launch the data explorer at www.pwc.com/us/chemicalcompounds for a deeper dive into the data or contact us to further discuss our insights.

Sincerely,



Anthony J. Scamuffa
US Chemicals Leader



Antoine Westerman
Global Chemicals Leader