Chemicalcompounds

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Third-quarter 2014 global chemicals industry mergers and acquisitions analysis

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.

Antoine Westerman

Pamela Schlosser

Despite a slight decline in deal volume in the third quarter, deal value grew significantly, sequentially and year over year, driven by nine mega-deals (valued at $1 billion or more). Chemicals M&A value in the quarter was the highest since the first quarter of 2011, and sector activity in 2014 is poised to show its highest annual value since at least 2010. Average deal value grew to $756 million, aided by the mega-deals, and was at its highest level in more than three years. The nine mega-deals in the third quarter, collectively valued at almost $24 billion, accounted for more than 78% of the quarter's deal value.

The largest deal in the quarter was the July announcement that US-based Albemarle Corporation agreed to acquire the entire share capital of Rockwood Holdings, a US-based manufacturer of specialty chemicals, additives, and advanced materials. Although the transaction is considered a merger, both companies announced that Albemarle is purchasing all of the outstanding shares of Rockwood in a cash and stock transaction valued at $6.3 billion. The deal is expected to close in early 2015.

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

- The proportion of acquisitions by financial investors declined slightly to 17.5% of deal volume compared with the previous quarter (21.4%), but was still above the average for 2013 (12.0%). The proportion of activity by acquirers in advanced economies declined in the third quarter, to just 47.5% of deals valued at $50 million or more. However, the United States remained a primary driver of activity.

- US-based players (targets and acquirers) were involved in approximately one-third of the third quarter's deal volume and almost half of the quarter's deal value. This is not surprising, given that the US economy appears to be rebounding — second-quarter GDP grew at a rate of 4.6%. This drove increased demand for end-use markets, such as automotive, construction, durable goods and plastics, and the concomitant increase in demand for chemicals.

- On a regional basis, Asia again led deal volume, with 23 deals (57.5%) valued at almost $12.3 billion. This activity was driven by China-based companies, which were involved in 18 of these deals, of which 16 were local market. This is similar to what we have seen recently, as China continues to consolidate its heavy industry in an effort to achieve economies of scale and scope, while consolidating smaller and underperforming companies. North America led deal value with 12 deals valued at more than $13.2 billion, with US-based companies driving over $13.1 billion of this activity. It should be noted that three of the quarter's nine mega-deals involved US-based targets or acquirers.

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We remain optimistic that deal volume and value will continue to be strong throughout 2014. Strong second-quarter GDP growth in the United States, along with improvements in other economies, such as India and China, should keep the momentum going forward. Significant third-quarter growth in transaction value is driving what is expected to be a significant increase in activity for the year. Three quarters into 2014, deal value has already exceeded that of 2013, and by the end of the year should exceed 2011 and 2012 as well. Much of this hike in activity is driven by an increase in larger deals, as companies combine to achieve greater economies of scale and scope.

We're pleased to present our third-quarter 2014 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 for a deeper dive into the data, or contact us to further discuss our insights.

Sincerely,

Antoine Westerman
Global Chemicals Leader

Pam Schlosser
US Chemicals Leader