Chemical compounds

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First-quarter 2014 global chemicals industry mergers and acquisitions analysis

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PwC is pleased to share with you our quarterly analysis of mergers and acquisitions (M&A) activity in the global chemicals industry. Chemical compounds offers insights on deals in the sector during the first quarter of 2014, as well as our expectations for M&A in the coming year.

After a relatively robust fourth quarter, sector M&A declined in both volume and value during the first quarter. However, deal value exceeded, and deal volume only slightly underperformed, the three-year average. Also, the sector saw significant gains in value when compared with the first quarter of 2013. Average deal value also increased against first-quarter 2013. Mega-deal activity was strong as well, with five deals announced at an overall value of $6.4 billion. In the largest deal, announced in February, US-based Ashland signed a definitive agreement to sell Ashland Water Technologies to private investment firm Clayton, Dubilier & Rice for approximately $1.8 billion.

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

- The proportion of deals involving financial acquirers increased in the first quarter, comprising almost 21 percent of deal volume, compared with 13.5 percent for 2013 overall. Interestingly, the proportion of deal value by financial acquirers soared to almost 40 percent, driven by expected growth in the global economy, particularly in advanced regions, and an improved business climate for chemical producers. These factors can make acquisitions more attractive in the long term. In the first quarter, two of the five largest deals involved financial acquirers.

- Activity by acquirers based in advanced economies grew in the first quarter, to 65.5 percent, compared with 56.7 percent for 2013. This increase in activity was likely driven by an improved economic outlook in a number of advanced nations, particularly the United States and the Eurozone. For example, US GDP growth is expected to climb to 2.6 percent in 2014, compared with 1.9 percent in 2013. Also, the Eurozone's economic recovery, which began in the second quarter of 2013, is now expected to continue, with a 2014 GDP forecast of 1.2 percent. As the recession ends, it is hoped that we will see a concomitant increase in European deal activity.

- In the first quarter, Asia and Oceania led globally in deal volume: The region was involved in 19 deals, valued at $6.0 billion. China was the key driver of Asian deal activity, with 13 deals valued at $3.6 billion. While the Chinese economy has slowed, it still outpaces that of most other nations, and its chemical industry is expected to continue to expand, driving further acquisitions. North America led the other regions in deal value, with 12 deals valued at more than $6.8 billion. In North America, the United States drove volume and value, with 10 deals valued at almost

$6.2 billion. These deals included the first quarter’s three largest acquisitions (all local-market deals) valued at a total of $4.4 billion. Europe was third in both deal volume and value, with three deals valued at $1.1 billion. Europe’s muted activity was likely due in part to prior uncertainty regarding the region’s economic recovery.

Despite the sequential decline in activity for the first quarter, given the improvement over the first quarter of 2013, we remain cautiously optimistic that the deal environment will improve. Even if growth remains flat, activity is likely to exceed that of 2013. Increased financial investor activity, a solid level of larger deals, and expected continued economic growth in the United States and the Eurozone all point to an improving deal environment.

We’re pleased to present our first-quarter 2014 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,

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