

# Buying and selling companies in the chemicals sector

A step-by-step guide to finding the deal  
that's right for you.



Chemicals Sector



## Executive Summary

### The value of this guide

CDI Global has advised companies on mergers and acquisitions (M&A) for 40 years. We have a deep knowledge of the chemicals sector and understand the prime importance of making informed choices in this complex global industry. Opportunities are plentiful, but so are potential pitfalls. Until now you may have been sufficiently concerned by the latter to miss the former. This guide aims to explain both and demonstrate that, with the right expertise, there are deals to be made that can greatly benefit your business.

### Who is it for?

Companies throughout the chemicals sector and those seeking investment opportunities, such as private equity firms. In particular, senior executives and owners of smaller and middle market companies who want to know more about mergers and acquisition in chemicals, whether it has been on their 'to do' list or not. If you've never considered acquiring or divesting, we hope this guide will provide a fresh perspective.

### Key takeaways

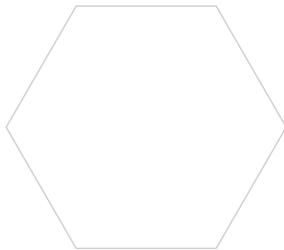
- The state of the chemicals sector M&A market in 2019
- The benefits of buying or selling
- M&A - the promise and pitfalls
- Auctions - is there another way to buy?
- Case study of a long term CDI Global client



### Get an experienced perspective on your chemicals sector ambitions

CDI Global works with chemicals businesses throughout the world to achieve the very best M&A outcomes. If you are considering buying or selling in the sector, or would simply like to discuss your options, sign up now for a free, no-obligation consultation with our chemicals experts by phone or Skype™.

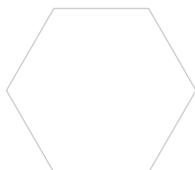
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## Why buy or sell in the chemicals sector?

An important driver can be the need to focus on strengths. Strip non-core elements out of the business and build excellence and speciality in your field. This may include buying competitors and complementary businesses. Acquisition is also effective for securing growth in new geographies or for increasing scale and market power in more mature market segments in Europe and North America.

That said, if your company is operating in a high volume, low margin commodity chemicals sector, the opposite approach – branching into a new high margin field – might be the correct strategy. The right acquisition can deliver Research and Development (R&D), production capacity and access to new markets in one deal. The chemicals sector is complex and there is simply no single best strategy.





# The Chemicals M&A Market in 2019

The market has been buoyant for much of the last two years and remains so into 2019. Healthy profits mean companies have the cash to buy while the strength of the dollar against the euro and the pound could now see US companies seeking more acquisitions in Europe. Asia remains a major player although activity there, in relative terms, currently is flat, while interest in Brazil and other parts of Latin America has strengthened. Mega deals such as the planned \$130 bn. Dow/DuPont combination should continue to provide opportunities for both strategic investors and private equity firms, as the combined companies prune their portfolios.





"WHEN CONSIDERING M&A, IT'S REALLY IMPORTANT TO GET AN INDEPENDENT ADVISOR TO TEST THE LOGIC OF THE DEAL, PUTTING FORWARD COUNTER STRATEGIES INCLUDING ORGANIC GROWTH OF YOUR COMPANY. IT CAN SAVE YOU A LOT OF HEARTACHE LATER."



## Where do the opportunities lie?

**Everywhere!** Most important is being clear on your strategic rationale for the purchase/sale you seek and having the means to find the right company to make the deal, wherever it may be. Valuations continue to be stretched with EBITDA multiples of 15 now being seen at the high end of the market. But, if you know where to look, there are opportunities elsewhere for companies with more realistic valuations. Popular sectors such as adhesives, coatings and chemical distribution are consolidating rapidly but plenty of openings remain for profitable M&A in these markets and others.

## What are the challenges?

Private equity firms in particular continue to find the most highly-valued companies out of reach because the premium often comes from post-acquisition synergies that are much easier for a strategic buyer to realize.

In spite of inflated valuations, buyers continue to compete in auctions because of the availability of cheap debt. But how long will this benign debt environment continue? Ill-judged acquisitions may never deliver the anticipated benefits, leaving buyers with a rising debt service cost and disappointing income returns - not a good place to be.

That's why, when considering M&A, it's really important to get an independent advisor to test the logic of the deal, putting forward counter strategies including organic growth of your company. It can save you a lot of heartache later.

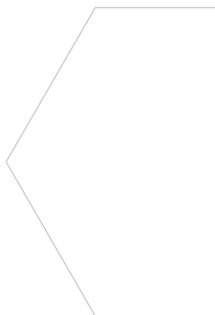
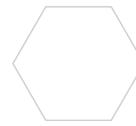
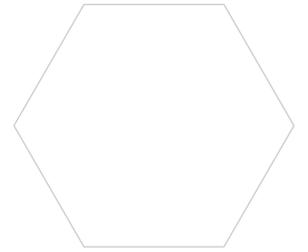
## The political environment...

The consequences of two major political developments are prominent in 2019. But will they affect the chemical M&A market?

The vote to leave the EU has potentially widespread ramifications for Britain's economy and international trading position. However, the UK has not been a fertile ground for chemical investment in recent years. If it leaves the EU single market and customs union, some British companies may seek a European presence, but most of those large enough to do so are established there already.

In the US, president Donald Trump wants to increase domestic production of oil and gas. However, any long-term windfall in raw material costs for US chemical companies will stimulate customers to push for price reductions, minimizing the advantage. In one area, the new administration may have an impact. President Trump has promised to reduce Capital Gains Tax. If this happens, a number of the older owners of private chemical companies may decide to cash out, providing additional acquisition targets for M&A.





"Identify the Right Opportunity"

# What to do if you're looking to buy





**"It's vital that you have a clear rationale for seeking an acquisition in the first place, underpinned by your company's growth strategy."**

## 1 The starting point:

It's vital that you have a clear rationale for seeking an acquisition in the first place, underpinned by your company's growth strategy. This will provide the framework for defining the criteria when choosing your target.

## 2 Next steps:

Specify criteria and decide which are critical/important, then quantify each one (e.g. target size, profitability, growth rate, sales in key segments, etc.). A preliminary list of targets can be drawn up but, at this point, a reality check is crucial. Do you have the time or expertise to locate the best targets? If not, you need help from an expert in the sector who will also advise on how and when to approach the companies in question.

## 3 Finance:

Engage with potential debt or equity providers to ensure they understand and back the plan, and that you will have sufficient financial firepower to do the deal. Also calculate how any extra leverage might affect the company.

Be mindful of fluctuations in currency exchange rates. They tend to be self-hedging, if the changing value of debt and profits go hand in hand, but investing heavily in emerging economies/markets with volatile currencies can be tricky to manage, if they constitute a significant proportion of your corporate earnings.

## 4 Identifying the right opportunity:

Many companies seek to strengthen their core when acquiring; but other businesses may diversify, either into higher margin sectors or to hedge against shocks in specific markets or geographical areas. M&A here requires a very rigorous approach as almost every opportunity will be different. Whatever the strategy, ideal targets for acquisition will likely have one or more important characteristics:

- i. a steadily growing sales and profit profile
- ii. good growth potential based on factors such as holding a niche position and/or valuable intellectual property
- iii. fragmented supplier and customer bases, so relatively immune to cost/price pressures and more able to sustain margins.

## 5 Auctions:

On the face of it, auctions appear a good solution for time-poor senior executives seeking acquisitions. Initially the selling company does all the work, hiring an investment banker to prepare a glossy prospectus to be read at your leisure. But there are three immediate disadvantages:

- i. the prospectus will often go to many other potential buyers
- ii. you may receive it irrespective of the suitability of the offer
- iii. the focus for the bank conducting the auction is getting the best price for the seller.

So your chance of acquiring a company that's a good fit at a reasonable price is diminished. And companies can waste a lot of time evaluating prospectuses to discover there would be little strategic benefit acquiring what's for sale.

Following the herd is rarely fruitful. Unfortunately, companies disappointed by auctions can allow this to colour their view of M&A as a whole, to their detriment. This is a missed opportunity as other approaches are available, such as specialist search, which can be extremely effective.

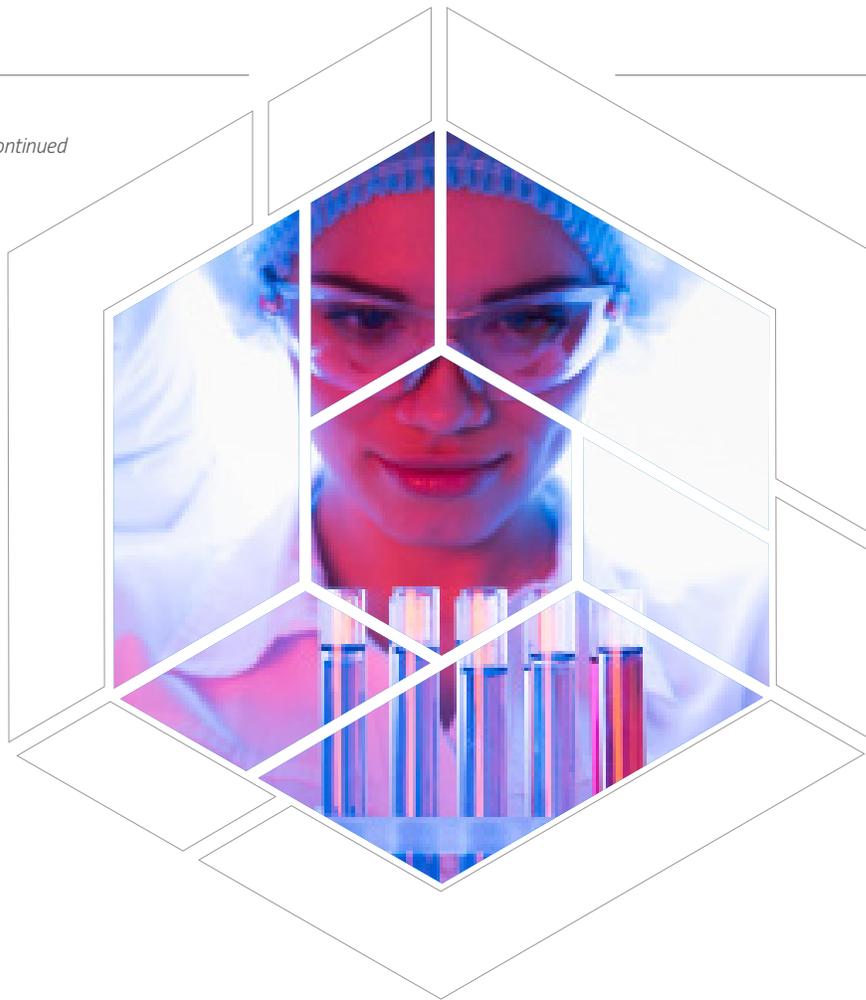
## 6 Why use a specialist?

If you're going to hire a senior manager, would you simply browse the speculative CVs received in the past three months? More likely you'd engage an expert in executive search to source a shortlist of the best contenders. So why should your approach to M&A be any different?

Serendipity is not an effective strategic tool. You need experienced advisors who will help you diagnose your requirements and know where to find what you need, anywhere. You need someone who understands your sector inside out and talks your language, yet also works cross-border as a matter of course, with a global knowledge and reach. Someone who is also used to managing the whole M&A process, dealing with the myriad of accounting, legal and specialist advisors and driving the deal home.



What to do if you're looking to buy...continued



**"Oversight is incredibly important -- avoiding costly mistakes is a key priority in your due diligence process."**

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## Due diligence:

In many respects, due diligence for M&A in the chemicals sector follows a similar path to other industries, with familiar warning signs of a bad deal:

- i. the seller appears not to be irrevocably committed to selling
- ii. the seller has limited or poorly prepared due diligence materials
- iii. the seller may not have proper support from professional advisors
- iv. the timetable is unclear or key deadlines in the process are missed or not respected by the seller
- v. the business starts to under-perform or miss key financial targets
- vi. the seller reneges on key aspects that have already been agreed
- vii. due diligence uncovers one or more 'skeletons in the cupboard'

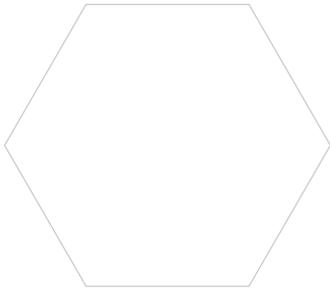
However, cross-border deals in the chemicals sector can have specific pitfalls, especially when dealing in certain Asian countries

where regulatory and accounting standards are different. Once again expert advice is needed to avoid costly mistakes. If your new acquisition brings with it hidden environmental liabilities, it can have a ruinous impact on your whole business, not just the new company. You need to find these during due diligence, and for that you need expert help.

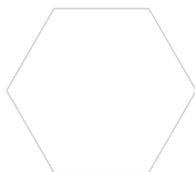
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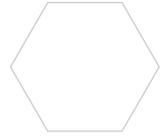
## Managing the transition:

With the deal nearing agreement, you will need clear plans (30-day, 90-day or similar) on what will be done immediately the new business is acquired. It's vital to get role changes and/or redundancies implemented quickly. Will the owner or senior managers continue to be involved? Will you have to act to prevent departures of key personnel? You need to have clear answers to these important questions.



# What to do if you're looking to sell?





## 1 The starting point:

For private companies, this often arrives when the owner reaches a certain age and wants to enjoy the fruits of their labours. Is the next generation willing or able to pick up the reins? If not, thoughts turn to selling.

## 2 Next steps:

Do you sell all the business or keep a stake? The latter could be an attractive option if you're confident about future growth with your shares becoming more valuable in time. Even if you sell everything, be prepared for buyers who want to lock you into the business for a period, post-sale, particularly if they're paying a high price. Typically, buyers will have very well defined requirements and what they want is usually simple – certainty about what they are buying and the risks and liabilities that come with it.

For your part, be clear about your minimum price and whether you wish to stay involved in the business in future. Don't compromise on these points. There is usually no need for negotiations to become as complex as they often do. Again, an experienced M&A advisor can usually nip issues in the bud. They also know where to find potential problems in the small print – anything that could claw back money from you as the seller in future years or leave you with residual liabilities (particularly with environmental issues or pension schemes).

## 3 Finance:

It is the buyers who ultimately fix the value of your business. It's important that you have a view, and make your calculations accordingly, but in the final analysis what they are willing to pay is the critical issue. Every deal is different, so basing your valuation on what has happened previously can lead to disappointment and disruption to your business planning. Be clear, but also realistic, about your price expectations and be prepared to walk away if these are not met.

Also, in any deal, be careful about committing to significant investment to make your business more saleable. This may be necessary to remove an obstacle to sale (e.g. an environmental issue) but investment aimed at producing future growth may not impress buyers, particularly if the future profit uplift is reflected in the expected sale price. Buying on a promise is not attractive to either strategic acquirers or private equity.

If your buyer is a Chinese company, it's important to understand if they are state-owned/financed or one of the growing number of private enterprises, as it may impact on their ability to raise the finance required. State-directed companies may seek acquisitions as part of a national strategy or economic plan. In contrast, private companies might face difficulties moving capital out of China to finance equity portions of any acquisition.



## 4 Due Diligence:

What does a 'good' buyer look like?:

- i. has the right attitude and commitment to do the deal
- ii. can provide proof of sufficient finances to complete the transaction
- iii. has the resources, in particular the right people, to progress the deal

A final important consideration is whether the buyer is willing to meet terms you may set for the treatment of your staff after you depart. You must decide how important that is and be very clear if it is a requirement. In addition, for a privately owned company, do you want the company name and brand to continue?



# Case Study



## Solvay's acquisition of US Chemlogics group

How CDI Global maintains relationships with our clients, sometimes for decades, is unique in chemicals sector M&A.

**Fifteen years ago CDI Global worked for The Lubrizol Corporation, diversifying its business portfolio with a number of global mid market acquisitions.** One of the several companies we acquired for Lubrizol was Chemron Corporation which gave them an entree into the personal care industry. The former owner Bill Frost then built another successful company several years later; The Chemlogics Group and approached CDI Global because he had been so impressed with the team's work when Lubrizol acquired his previous business. Over the next few years CDI assisted Chemlogics in acquiring complementary businesses in order to capture the growth opportunities in the oil field sector at that time.

CDI Global then worked as part of the Chemlogics team for the next five years growing Bill's business until the time came to sell. By then, Chemlogics was doing extremely well in the North American oil field services market, but not so well internationally. It needed a large company that could expand Chemlogics globally.

CDI Global screened several potential buyers but worked seriously with only six, including Solvay, a Brussels-based global chemical company. CDI Global's cross-border strengths then came into play. Our offices and industry specialists in Europe gave us credibility with Solvay and assisted negotiations between Brussels and Chemlogics in California.

Reflecting on the deal, Rick Sommer, Chairman of CDI Global said "One of the unique aspects of CDI Global is being able to provide value added services, not just in the M&A process which a lot of banks, bankers and consultants do, but when, for example, we do cross-border work.

Solvay acquired Chemlogics for \$1.3 bn; a good result for both parties. Jean-Pierre Clamadieu, Chief Executive Officer of Solvay said.

**"This acquisition accelerates Solvay's transformation into a Group with higher growth and stronger margins, while increasing its exposure to the growing U.S. energy market."**



**"To compete with the top investment banks of the world, our clients must have confidence in the individuals in CDI Global, in our professionalism and our ability to perform by delivering them the right fit with the right buyer."**

# About CDI Global

We hope this 'how to' guide has stimulated your interest in M&A – and alerted you to both its potential opportunities and hazards. Our 40 years' experience has shown CDI Global where these lie.

**We have the knowledge.  
Would you like to reap the benefit?**

We believe CDI Global is unique for our:

- Chemicals sector expertise – unlike banks and investment advisors, our team have both worked and conducted M&A in the industry. They know its structure and dynamics inside out.
- Bespoke and pro-active approach. We go out and find your best deal.
- Extensive network of contacts, particularly among privately owned companies in the chemicals sector.
- Cross-border expertise and global footprint. CDI Global has expertise on the ground in each territory and operates on the basis of cross-border cooperation.
- Focus on best strategic fit, not just best price.
- Commitment to the long-term, both in our strategic advice and when working with clients.
- Respect we have earned from both parties in our transactions – based on trust and our professionalism.



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