Chemical M&A Boosted In Q4

PwC US

Chemicals mergers and acquisitions (M&A) activity in the fourth quarter of 2013 saw a large uptick that helped level off 2013 overall deal volume and value, largely due to divestitures and mega deals – those valued at more than $1 billion, according to *Chemical Compounds*, an analysis of M&A activity in the chemicals industry by PwC US.

Deals in the fourth quarter of 2013 hit the highest levels of the year with 36 chemical transactions valued at $50 million or more, totaling $18.8 billion, compared to 23 deals representing $4.9 billion in the third quarter. Six mega deals contributed $10.7 billion of the total amount, compared to one mega deal worth $1.3 billion in the third quarter. Average deal value during the fourth quarter also had the strongest showing since the third quarter of 2012, reaching $522 million.

For the full year 2013, both M&A volume and value in the chemicals industry continued the downward trend that began in 2010. Total deal volume in 2013 declined to 102 deals, a 23 percent decrease compared to 2012 which totaled 132 deals. Total deal value dipped more than 44 percent to $35.2 billion. For the year, average deal value fell to $345 million, indicative of the decline in larger deals overall. Divestitures accounted for 45 deals valued at $19.2 billion.

“Improving economic conditions in the U.S., a quality supply of divested assets, and opportunities from shale gas has supported the fourth quarter’s M&A environment,” said A.J. Scamuffa, U.S. chemicals leader for PwC. “Specialty chemical targets played a major factor in fourth quarter deal value, accounting for five of the six mega deals completed in the final three months of 2013. Buyers have been attracted to targets with higher margins and lower cyclicality, and the specialty market fits that criteria. At the same time, we’re seeing ongoing interest in chemical businesses and assets that have benefited from the ongoing expansion of shale gas, which has decreased raw material and energy costs. As we noted in *Shale Gas: Reshaping the U.S. Chemicals Industry*, shale gas has helped drive domestic re-shoring activity and brought about a favorable shift in the U.S. balance of trade.”

Fourth quarter activity marked the return of financial investors, according to PwC. Of the 36 deals worth more than $50 million in the fourth quarter, financial investors accounted for 10 of them for a total value of $6.0 billion.

North America-involved deals led 2013 deal value with 39 deals worth more than $50 million valued at $18.8 billion. A large proportion of the value was the result of five mega deals – all which were U.S. – with a combined value of more than $7 billion. Asia and Oceania led in volume with a total of 47 deals valued at $11.7 billion, the majority of which were local China deals that’s continuing to be a

significant driver of activity. The Eurozone saw a decline of more than 61 percent in deal value.

“As China’s economy continues to diversify, consolidation allows the industry to improve operational efficiencies among key players,” said Scamuffa. “The decrease in Eurozone deal activity can be attributed to a struggling economy as much of the region was in recession during 2013, leading to increased investor caution on larger deals that would normally drive value.”

“Looking forward, we expect to see a comparable amount of deals completed in 2014. The improving global economic landscape, increase in business confidence, shale boom, and more aligned buyers and sellers should keep activity moving at a brisk pace. Companies are shifting portfolios and carving out non-core assets that will likely lead to strong deal activity in the short term for 2014, however, we anticipate value to remain light, given acquirers are cautious and risk averse and seem unwilling to execute on larger, more transformative deals where the downside potential is greater,” concluded Scamuffa.

For information on *Chemical Compounds* [1] and to access the full Q4 2013 report, visit: http://www.pwc.com/us/en/industrial-products/chemicals.jhtml [2]

Source URL (retrieved on *07/23/2014 - 12:14pm*):
http://www.chem.info/articles/2014/02/chemical-m-boosted-q4

Links:
[1] http://www.pwc.com/us/en/industrial-products/publications/chemical-compounds.jhtml
[2] http://www.pwc.com/us/en/industrial-products/chemicals.jhtml