Mergers & Acquisitions:Silver Liningor Stormy Issue

The rapid increase of chemicals production in China, wider Asia, Latin America and the Middle East is making capacity in established regions redundant or under-utilized. This trend is fueling industry merger and acquisition (M&A) activity as much as the drive by firms to gain market share. It's being seen as a shaper of the U.S. industry in particular. M&A experts &#151 Lorelli Consulting, for instance &#151 have asked whether the glass is half full or half empty for sellers and buyers. In many cases, the answer is something of a surprise.
For example, excess capacity is a serious problem for one firm but an opportunity for another. For a seller, this is the silver lining. Lorelli says "acquire and rationalize" may be the strategy behind a deal. Significant synergy opportunities to the seller can translate into a higher price &#151 a price higher than the business is worth on a stand-alone basis. Lorelli says: In one chemicals transaction currently being considered, the seller's earnings are conservatively projected to increase by more than 50 percent if the buyer makes the acquisition and moves production to its own location. There is also the real estate value of the facility. This value is not always immediately apparent given potential environmental liabilities, but assets are an important consideration for some. The problems faced by producers also make U.S. businesses attractive for competitors keen to widen market share and gain a foothold in new businesses. There are barriers to change, but chemicals M&A is widening to include players from outside the usual triad of North America, Japan and Europe. Those keen to gain a foothold in established markets and buy market access for their products are looking at many different ways to achieve their aims. Strong growth in young markets is one thing, but steady growth in a well-established market is another. And industrial buyers, alongside some private equity firms, are prepared to pay higher premiums for the right businesses.

Pointers to M&A Success

When buying a business, you need to understand what "made" the business you're acquiring and how to preserve its success factors. So say experts at Lorelli Consulting. They have assembled five commandments to bear in mind as the sector pulls itself out of the worst downturn in two decades. Despite naysayers, M&A in chemicals is more often a win-win endeavor than a zero sum game. **&#149 #1: Thou shall not kill** The buyer must not stifle the acquired firm. **&#149 #2: Reject false synergies**Don't assume synergies will occur after the deal is signed. **&#149 #3: Beware of multiple multiples**Compare apples with apples rather than apples with oranges. **&#149 #4: Question hockey stick graphs**Find out how credible a seller's rosy forecast is. **&#149 #5: Exercise patience and perseverance** Chemicals is a business where the patient usually win.