

3rd Quarter U.S. M&A Activity Rebounds In The Chemicals Industry

PwC US

NEW YORK — Merger and acquisition (M&A) volume and value in the chemicals industry rose in the third quarter of 2013, with one mega deal (worth more than \$1 billion) driving the increase in overall deal value, according to PwC US. A majority of the deal volume in the third quarter was driven by U.S.-based deals, as the chemicals industry continued to look for domestic opportunities.

In the third quarter of 2013, there were 23 chemicals transactions valued at \$50 million or more, totaling \$4.9 billion, compared to 18 deals representing \$3.5 billion in the second quarter. The sole mega deal – valued at more than \$1.3 billion – contributed to a 10 percent increase in average deal size compared to the second quarter.

“With the return of mega deal activity, and increased involvement among acquirers in advanced economies, chemicals M&A activity rebounded in the third quarter, although deal levels remain historically low as companies focus on capturing the full value of their transactions,” said A.J. Scamuffa, U.S. chemicals leader for PwC. “We’re seeing a considerable number of companies engage in strategic reviews of their assets and how they are managing them in an effort to best align their business strategies with growth opportunities ahead. Supported by strong balance sheets, companies appear poised to increasingly execute on their M&A strategies, and we expect additional deals to come to market in the near term.”

The third quarter marked an absence of financial investors, contributing to the drop in year-to-date activity among financial investors to just over six percent of all deals. However, this reduced activity does not reflect the level of interest among private equity (PE) players for chemical assets. “PE firms continue to remain interested in the sector, as they await deals that best fit their criteria. Most notably, we’re seeing interest in the middle market by financial investors. GDP growth and attractive financing options are in place for private equity players to pursue deals, but they remain very methodical about managing their asset portfolios,” added Scamuffa.

On a regional basis, North America drove deal value year-to-date with a total of 24 deals worth more than \$50 million valued at \$5.52 billion. This activity mainly emanated in the U.S., which accounted for 22 of the 24 deals, half of which were local market transactions, demonstrating that U.S.-based companies are continuing to invest domestically. In the third quarter alone, U.S.-based acquirers recorded seven deals worth more than \$50 million, representing \$2.2 billion, or 45 percent of total third quarter global deal value.

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Although North America led in deal value on a year-to-date basis, Asia holds rank in deal volume for 2013 thus far with 29 deals worth more than \$50 million totaling \$5 billion. "Japan will be a key region to observe in the coming years. While there was only one deal in the third quarter, Japan is rebounding from an economic recession, GDP is growing and we may see an uptick in activity over the coming quarters," continued Scamuffa.

Despite increased M&A activity in the chemicals industry in the third quarter, continued global economic uncertainty may likely continue to pressure the deal environment in the fourth quarter. "If current M&A trends continue, 2013 deal volume and value may both be at the lowest point in the past 10 years. However, given the increasing focus on realigning company portfolios, among both big and small players, we are cautiously optimistic regarding growth in 2014," concluded Scamuffa.

PwC's chemicals M&A analysis is a quarterly report of announced U.S. transactions with value greater than \$50 million analyzed by PwC using transaction data from Thomson Reuters.

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