

Slow growth to spur another round of consolidation in Chemicals

While there may be macroeconomic and geopolitical reasons for M&A activity to temporarily slow down (US China trade war, uncertainty around Brexit, unrest in Hong Kong, recent attacks Saudi Arabia), an increase in M&A activity is nevertheless expected in the Chemical space.

According to EY, deals will “flourish this year.”

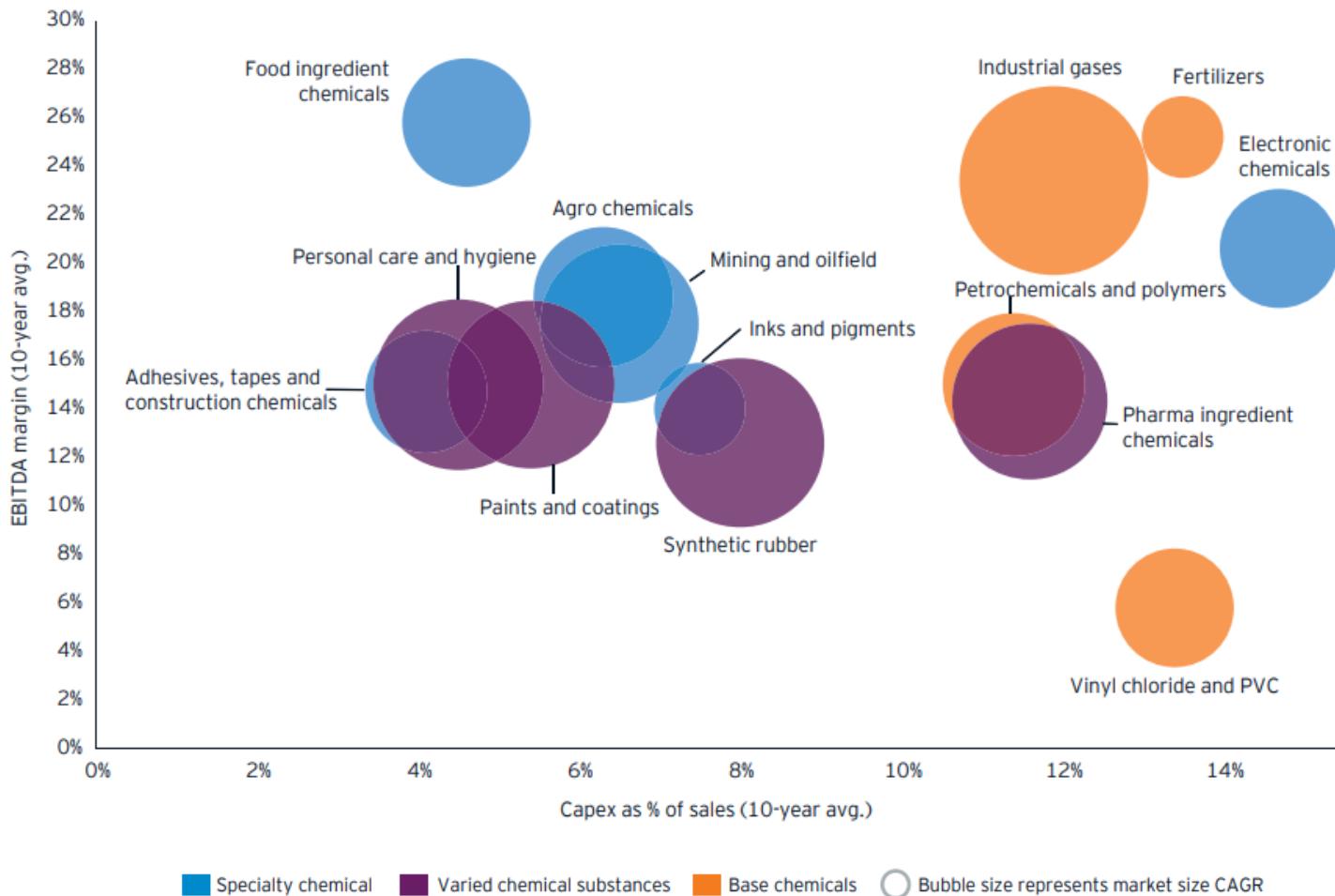
The consulting firm says the need to expand earnings and fend off competition will cause more consolidation in subsectors such as food ingredient chemicals, personal care chemicals, paints and coatings, construction chemicals, and other specialty chemicals. This subsector M&A activity will be primarily driven by companies with lagging financial performance looking for additional growth and profitability improvements.

The breakup of DowDuPont into three new companies has already created trickle-down M&A activity as they cast off noncore businesses.

Increased M&A activity to take place in subsectors such as food ingredient chemicals, personal care chemicals, paints and coatings, and construction chemicals.

“Chemical companies pursuing a geographical expansion strategy have primarily looked at targets in Asia-Pacific and other developing countries. In contrast, chemical companies focused on gaining market share via M&A often looked at targets in more mature regions such as Western Europe and North America.” – **Frank Jenner (Ernest Young Global Chemical Industry Leader)**

Attractiveness map for selected chemical subsectors based on profitability (EBITDA margin), market growth and asset intensity (capex as % of sales)



In addition to the individual growth prospects of each subsector and the assumed across-the-cycle EBITDA margin levels, industry experts consider the asset intensity of each subsector (e.g., capex as a % of sales over the cycle) to be an important metric that drives attractiveness of subsectors.

A hypothetical DuPont breakup could trigger other consolidation across Specialty Chemical sub-industries

September 1 marked the two-year anniversary of the DowDuPont merger and thus the date when DuPont could pursue further tax-free strategic options.

DuPont's four businesses are Nutrition & Biosciences (N&B), Transportation & Industrial (T&I), Electronics & Imaging (E&I), and Safety & Construction (S&C).

- The recent sale of the Compound Semiconductor Solutions business of \$450 million to South Korean company SK Siltron (reported within E&A) is an example of portfolio fluidity.
- DuPont's N&B business is up for grabs with DSM being among suitors exploring potential bids for ~\$25B, Bloomberg reports.
 - DSM is a ~70% Nutrition, ~30% Materials business with targets to grow (both organically and through acquisition) in Nutrition markets.
 - The acquisition of DuPont Nutrition & Biosciences would extend its cultures/enzymes/texturants/flavor offerings, whilst adding excipients, antioxidants, plant proteins, and probiotics portfolio.
- In addition to DSM, DuPont also has reached out to other potential bidders including Ireland's Kerry Group and Swiss fragrances and flavorings maker Givaudan.

Celanese to Consider Breakup in Strategic Review

- Should Celanese opt to split it would be the latest large chemicals group to undergo a strategic transformation.
- Many believe a spin-off CE's commodity-oriented Acetyls/Acetate Tow business to be most logical

Clariant Said to Discuss \$1.5 Billion Unit Sale With PolyOne:

- Clariant has been seeking about \$1.5B for its plastic additives unit, Masterbatches.
- According to Bloomberg, talks with Polyone are the most advanced, though Masterbatches has garnered interest from other companies and private equity firms as well.

DuPont, Celanese, and DSM have been most vocal about their potential strategic interests to date; however investors should not assume that they are the only potential participants.

