

The Evolution of Chemical Industry M&A

Chemical Companies Can Use Transactions to Reshape and Thrive in an Ever-Evolving Industry

Every year, the chemical industry sees hundreds of mergers and acquisitions (M&A). This constant churn has meant that over the last decade, approximately 20% of industry revenue has changed ownership. Traditional M&A drivers, such as consolidation and portfolio extension, are still important, according to our research. But many transactions also show that the nature of M&A is evolving, as chemical companies look for ways to contend with ongoing volatility and move to a more sustainable future.



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M&A is an important tool for change in the chemical industry. Like products, applications and processes, it is a source of growth and innovation for chemical companies as they seek to optimize their portfolios, adopt new business models and navigate their way through a constantly evolving industry.

A Snapshot of the Industry M&A Landscape

In recent years, the chemical industry has seen several exceptionally large transactions and several waves of consolidation. But beneath these high-profile spikes in activity lies a steady level of M&A that has continued, even through global economic slowdowns.

Most of these transactions, if we look at total deal value, have taken place within companies' home markets. For example, our research—the Accenture Chemical Industry M&A Study—revealed that deals where North American buyers targeted North American companies account for a significant percentage (75%) of their transactions. Similarly, deals with European buyers and sellers are in the majority (55%) in Europe. But there is some notable inter-regional activity. A large percentage (42%) of deals involved European buyers focused on North American companies, with roughly one-third (35%) of Chinese buyers fixed on European com-

panies and about one-fourth (24%) of Japanese/South Korean buyers turning to North American targets (fig. 1)

So, what's behind these cross-regional transactions? It may relate to the benefits that can be accrued from extending into regions that have notable advantages. For example, it seems likely that companies in Japan and South Korea, which have mature chemical industries with a good technology base, are looking to North American targets to make further gains in their specialty positions. Chinese chemical companies, on the other hand, are often in need of more advanced technology, which likely drives their interest in European companies.

The Drivers of M&A

Our analysis of buyer rationales behind M&A transactions suggests that chemical companies are fairly risk-averse in their approach. With consolidation and portfolio extension cited by buyers as the rationale for a combined 67% of transactions, it seems that they are focusing largely on what they already know rather than looking to diversify into entirely new areas. Even the 11% of transactions where forward/backward integration was cited as the driver for buyers could reflect an interest in wanting to expand the existing business without taking significant risks.

For their part, sellers cited a range of reasons for their actions. More than half the transactions involved the sale of a whole company, with “investor exit” and “synergies” being the most common reasons. About one-fifth of the transactions involved the sale of a segment of the business to refocus the portfolio, or because the segment was underperforming or encountering financial or antitrust issues.

The research also uncovered two trends that are changing the nature of M&A in the industry: the increased participation of private equity firms, and the growing influence of greenhouse gas (GHG) emission requirements in M&A-related decisions.

Private Equity is Raising the Bar

Private equity is playing an increasingly active and prominent role in the M&A arena. In the last ten years, private equity has executed between \$16 billion and \$23 billion in transactions each year—a figure that accounts for 9% to 43% of total transaction value annually, and 23% of total transaction value on average over the entire period. Some of these deals have involved relatively small companies, but many have been in the multibillion-dollar range.

Private equity groups have proven to be highly effective players in chemical industry M&A. Frequently, they buy



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assets from chemical companies, increase their value over the course of a few years, and sell them for substantially more. In general, they tend to sell assets at higher multiples compared to chemical company sellers (fig. 2).

This suggests that chemical companies are missing out on higher multiples because they are foregoing opportunities to restructure and optimize businesses before selling them. Setting up lean and simplified organizational structures and cost-effective business platforms, business services and operating models typically enables sellers to capture more value in a transaction, especially if the improvements are documented and evident in the company's actual financial performance.

At times, chemical companies may believe that making those changes is too daunting a challenge. However, it is striking to see how quickly such changes can be implemented by new owners after a merger or acquisition—a clear demonstration that such value-creating changes are feasible and implementable. However,

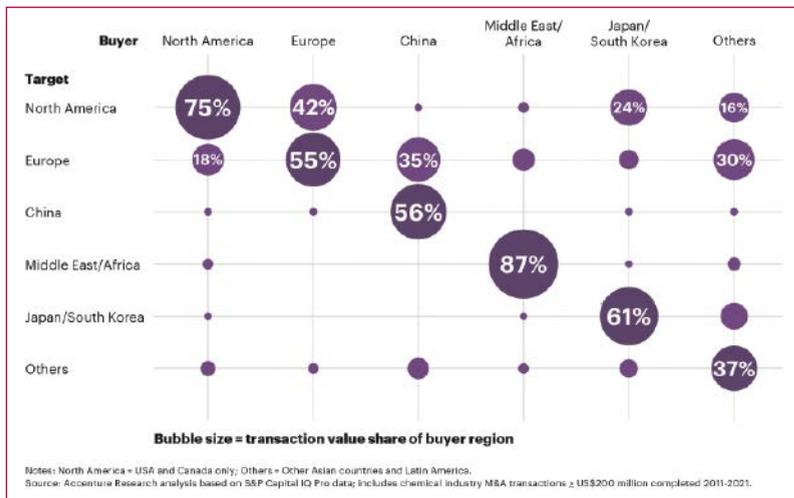


Fig. 1: Regional preferences in M&A

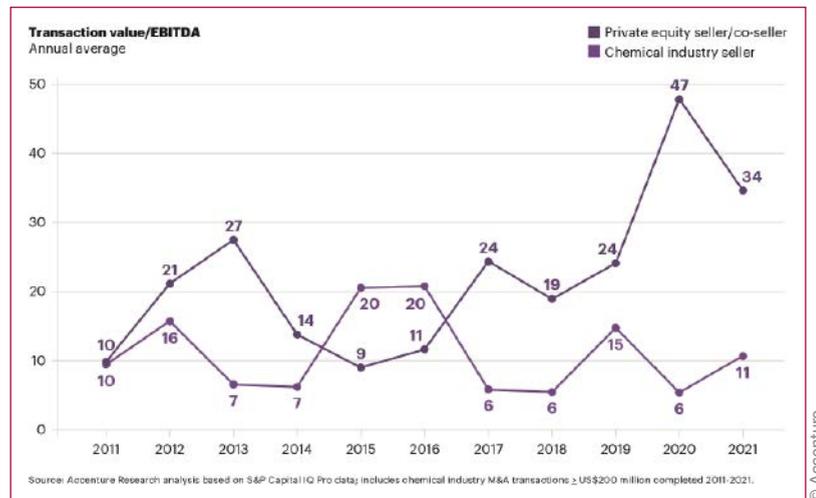


Fig. 2: Private equity vs. chemical company multiples in M&A

such efforts are often impaired by the seller organization’s legacy mindsets and management attitudes. For chemical companies considering a sale, it is important to keep in mind the value that such efforts can bring. Typically, each million dollars in cost savings and profit improvement has the potential to create millions more in value, based on the transaction multiple.

Factoring in GHG Emissions

Reduction in GHG emissions—a major issue in the industry—appears to be emerging as an important factor in M&A decisions. In order to meet their net-zero goals, chemical companies will have to make significant capital investments in GHG emission-intensive businesses such as ammonia, ethylene and propylene production. In Europe, for example, according to research we conducted with NexantECA, achieving the EU Green Deal’s 2050 net-zero GHG emissions

goal will cost the industry about €1 trillion in direct improvements, the relocation of plants to be near green energy sources, the cost of downtime incurred through the transition, and so on.

Those demands appear to be playing a role in M&A. The research identified a pattern in which companies are selling businesses that produce both higher levels of GHG emissions and relatively lower financial returns. For example, one company divested a large fertilizer business that contributed 50% to its GHG emissions but only 5% to its EBITDA, while another divested a synthetic rubber business responsible for 25% of the company’s emissions and just 9% of EBITDA.

For businesses looking at these costs, the question is whether to invest in reducing GHG emissions or to divest the GHG-intensive assets to get them off the books. In some cases, at least, they may be choosing the latter approach. It seems clear that GHG considerations, while not the sole driver of M&A activity, appear to be

having a growing influence on the decisions being made.

What Chemical Companies Can Do

M&A has played a prominent role in the chemical industry over the last decade, and that can be expected to continue in the years to come. Understanding M&A trends and how to best approach these deals will be key to engaging in successful and value-creating transactions.

One important action is the deployment of technology as a value lever for M&A. This will allow companies to capture the benefits from insights, automation and future-ready platforms for divestments and to accelerate the integration of acquired businesses. On a related note, chemical companies should aim to complete restructuring efforts prior to a sale in order to reduce the chance of leaving value (in the form of increased multiples) on the table. They should also

take a fact-based approach to assessing the impact that transactions will have on GHG emissions to avoid conducting “fire sales” of GHG-intensive businesses.

Given the importance of M&A in the industry, chemical companies should view M&A as a core capability with an end-to-end perspective that extends from well before transactions to well after. And they can’t forget about people and culture, as effective change management is essential, particularly for the small but influential group of individuals in leadership positions. Such capabilities will be key to helping chemical companies use M&A to reshape themselves and thrive in a constantly evolving industry.

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