

STAYING AHEAD OF THE CURVE

A DRESNER PARTNERS NEWSLETTER

JUNE 2017

SECTOR: *CHEMICALS*



DRESNER PARTNERS
INVESTMENT BANKING

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SECTOR AND FINANCIAL OVERVIEW

2016 was an excellent year for chemicals M&A from both a dollar volume and valuation multiple perspective. Over \$200 billion in aggregate deal values were announced for the sector, and M&A volume continued to increase as the year progressed. Public trading multiples continued performing at near-historic highs, and a number of factors that supported a healthy M&A market in 2016 should remain in place in 2017, as buyers seek portfolio coherence, deploy capital, and capture value over volume.

In today's business environment, large chemicals corporations are being challenged to deliver profitable growth in a hypercompetitive, low-growth world. Post-recession, global economies have been unable to reach the 35-year GDP growth average of 3.5% in six of the past eight years. As such, the desire for deals is strong and conditions ripe for a high level of continued M&A activity in the chemicals industry in 2017. Strategic

acquirors have strong balance sheets with high cash balances, and private equity groups are successfully raising new funds. Additionally, in spite of the most recent interest rate hike, financing rates are still relatively low. As such, we believe the combination of slightly higher interest rates and relatively high valuations will actually bode well for the M&A markets, as buyers will want lock in lower rates while they can and sellers will attempt to cash out while valuations are high.

One attractive aspect for potential sellers in today's chemicals M&A market is that of consistently high valuations – the result of an abundance of money chasing a limited number of deals. Furthermore, strategics have begun to factor in synergy potential with more regularity into their bids, realizing that optically-speaking, a pro forma purchase multiple remains palatable, thereby driving multiples even higher.

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For example, Germany’s Evonik Industries is in the process of completing its \$3.8 billion acquisition of US-based Air Products’ performance materials division; announced in May 2016, the deal represents 15.8x EBITDA for the 12 months ended March 2016. Additionally, Evonik acquired the silica business of US-based JM Huber for \$630 million, or 10.5x FY2016E EBITDA in December 2016.

Given this market reality, private equity firms have largely taken a back seat amid the strong level of overall chemical M&A activity in the past several years, as strategic or industrial buyers have been more aggressive. However, with burgeoning war chests and still-cheap financing, their level of buying interest has not waned. While financial sponsors are starting to compete and win deals, they have tended to focus on targets more commoditized in nature and on businesses that compete in highly consolidated sub-sectors subject to regulatory approval issues.

For example, private equity firm Carlyle bought Atotech (metal and surface finishing coatings and chemicals for electronics and industrial) from France’s Total in October 2016 for \$3.2 billion, or 11.9x FY2015 EBITDA. Additionally, Blackstone announced acquisition of Solvay’s acetate filter tow business for approximately €1 billion, or 7x EBITDA in December 2016.

The election of Donald Trump is spurring optimism across the industrial arena in the US and globally, as the new administration’s policies are viewed as economically friendly and expansionary, while any concerns about anti-free trade policies have so far been minimized. Corporations and private equity firms are enthused about lower taxes and regulations, a friendly attitude towards the energy industry and the possibility that there will be less antitrust scrutiny than under the previous administration. Even as interest rates move up, lower corporate taxes under a Trump administration could support continued M&A activity.

Given the challenge many chemicals companies have to generate growth, large companies are willing to pursue acquisitions in order to boost their revenues and generate growth. In the near-term, the focus may be less on emerging markets, as growth in China, Brazil and Russia has slowed down, but regardless, M&A activity is expected to remain robust in 2017.

REPRESENTATIVE TRANSACTIONS

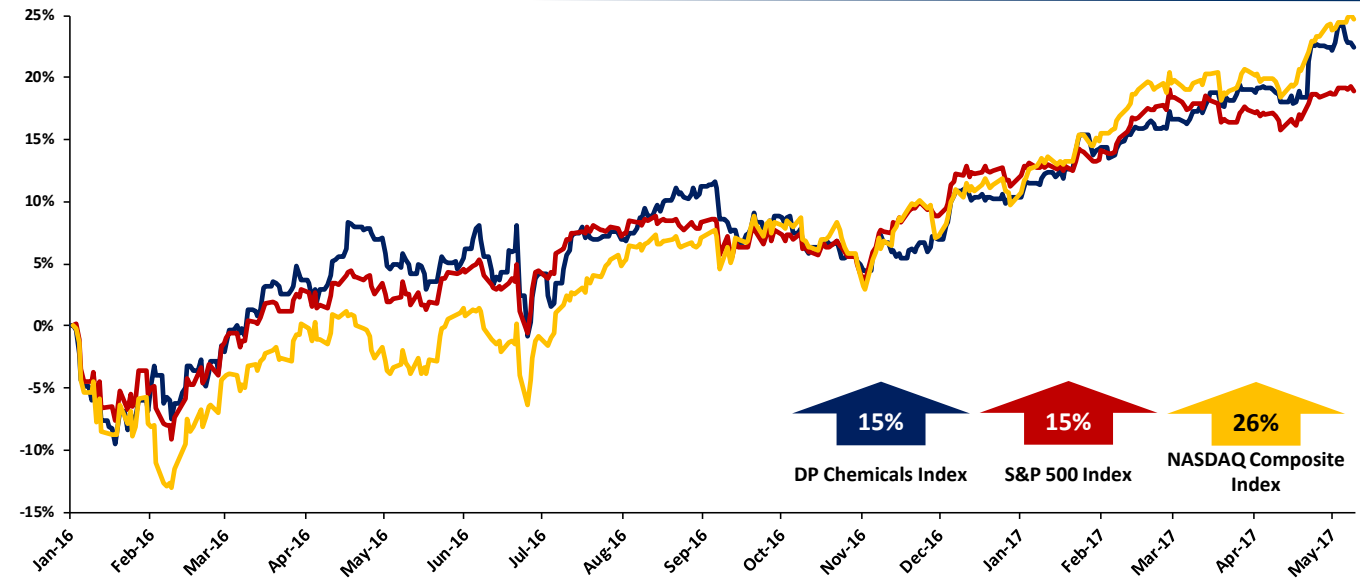
ChemDesign
Custom Toll Manufacturing
for Chemical Industry
a portfolio company of
RESILIENCE
CAPITAL PARTNERS
has been acquired by
Lubar & Co.
Sell-Side Advisor
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REVEL
Manufacturer of Waxes
and Ceramic Shell Products
has acquired
Calwax
CORPORATION
Buy-Side Advisor
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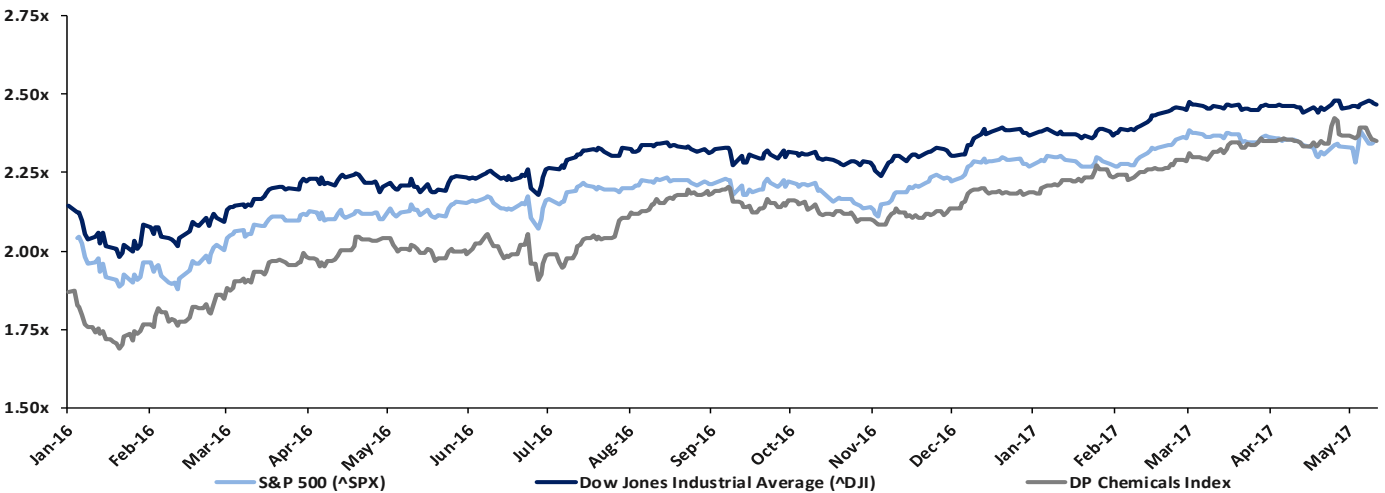
CVC
Producer of Specialty
Chemicals
has been acquired by
Emerald Performance Materials™
Sell-Side Advisor
IMAP

Hancor
Manufacturer of HDPG
piping
has been acquired by
ADS
Sell-Side Advisor
IMAP

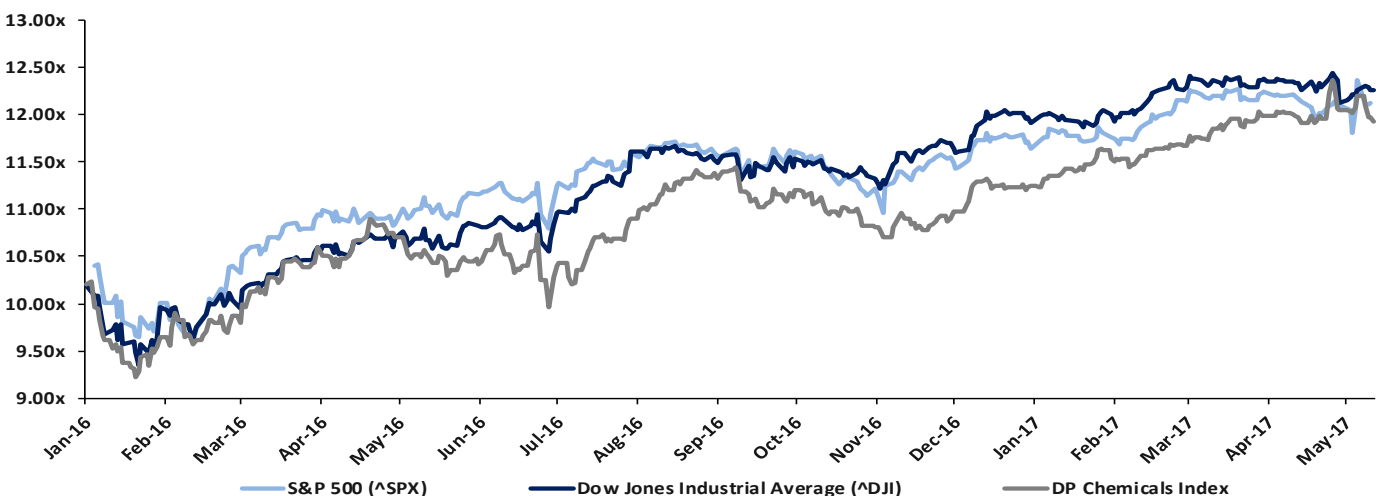
LTM Relative Stock Price Performance ⁽¹⁾



Average EV / LTM Revenue ⁽¹⁾



Average EV / LTM EBITDA ⁽¹⁾



Source: S&P CapitalIQ as of May 11th, 2017

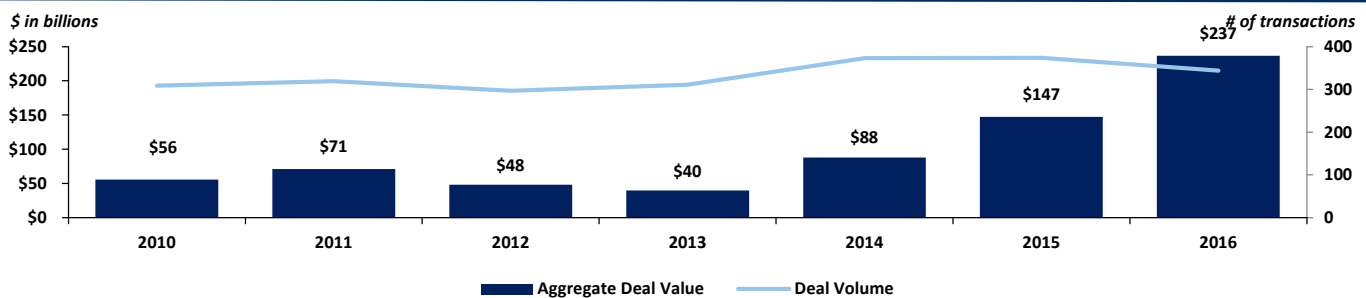
1) Dresner Partners Chemical Index consists of 100 global chemical companies

Selected Chemicals M&A Activity

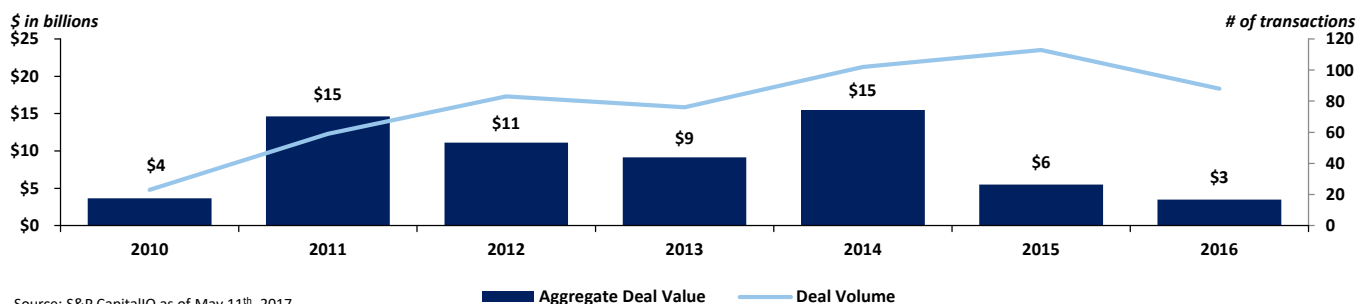
The following table summarizes selected Chemicals M&A transactions in 2016 and first quarter 2017

(in \$000s)			Transaction	Enterprise	LTM	LTM	Enterprise Value /	
Announced Date	Buyer	Target	Value	Value	Revenue	EBITDA	LTM Revenue	LTM EBITDA
Mar-2017	Henkel AG & Co. KGaA	Grace Darex Packaging Technologies	\$1,050	\$1,050	\$300	-	3.5x	-
Feb-2017	Elementis plc	SummitReheis, Inc.	\$360	\$360	-	-	-	-
Feb-2017	SK Global Chemical Co., Ltd.	The Dow Chemical Company, Ethylene Acrylic Acid Business Unit	\$370	\$370	-	-	-	-
Feb-2017	Brenntag AG	Petra Industries, Inc.	\$20	\$20	\$12	-	1.7	-
Jan-2017	H.B. Fuller Company	H.E. Wisdom & Sons, Inc.	\$122	\$122	\$100	\$11	1.2x	11.1x
Dec-2016	Evonik Industries AG	Huber Engineered Materials, Silica Business Unit	\$630	\$630	-	-	-	-
Dec-2016	The Blackstone Group, Private Equity Group	Solvay Acetow GmbH	\$1,075	\$1,075	\$583	-	1.8x	7.0x
Sep-2016	LANXESS Deutschland GmbH	Chemtura Corporation	\$2,654	\$2,468	\$1,698	\$298	1.5x	8.3x
Sep-2016	Chemtrade Logistics Income Fund	Canexus Corporation	\$671	\$660	\$421	\$72	1.6x	9.1x
Aug-2016	Innospec Inc.	Huntsman Corp., European Personal Care and Home Care Business	\$225	\$225	\$230	-	1.0x	-
Jul-2016	PolyOne Corporation	Gordon Holdings, Inc.	\$86	\$86	-	-	-	-
Jun-2016	Westlake Chemical Corporation	Axiall Corporation	\$3,824	\$3,623	\$3,276	\$325	1.1x	11.1x
May-2016	Bayer Aktiengesellschaft	Monsanto Company	\$65,678	\$64,065	\$13,502	\$3,734	4.7x	17.2x
May-2016	Reichhold LLC 2	Polynt Group Sarl	\$700	\$700	-	-	-	-
May-2016	Evonik Industries AG	Air Products and Chemicals, Inc., Performance Materials Division	\$3,800	\$3,800	\$1,040	\$241	3.7x	15.8x
Apr-2016	LANXESS Aktiengesellschaft	The Chemours Company, Clean and Disinfect Business	\$230	\$230	\$110	-	2.1x	-
Mar-2016	The Sherwin-Williams Company	The Valspar Corporation	\$11,431	\$11,279	\$4,264	\$697	2.6x	16.2x
Feb-2016	Akzo Nobel N.V.	BASF Coatings GmbH, Global Industrial Coatings Business	\$529	\$529	\$334	-	1.6x	-
Feb-2016	China National Chemical Corporation	Syngenta AG	\$46,506	\$45,098	\$13,411	\$2,747	3.4x	16.4x

Global Chemical M&A Activity & Volume (1)



Private Equity Global Chemical M&A Activity (1)



Source: S&P CapitalIQ as of May 11th, 2017

1) Aggregate deal volume only include disclosed transaction values

ABOUT DRESNER PARTNERS

Dresner Partners is a FINRA-registered, middle-market investment bank headquartered in Chicago, Illinois with offices in New York City, Fort Lauderdale, Palo Alto, and Irvine, CA. For more than 25 years, Dresner Partners has provided financial advisory services to middle market companies throughout the world, including institutional private placements of debt and equity, merger and acquisitions advisory, financial restructuring and corporate turnarounds, valuations and strategic consulting services. Dresner Partners is also a member of IMAP, an exclusive global organization of leading merger and acquisition advisory firms.



Through our IMAP partnership, Dresner Partners maintains a well-established network of international offices in over 30 countries. Thomson Reuters' most recent annual league tables report IMAP advisers as having completed 179 global transactions, with an aggregate transaction value of more than \$6 billion. Our relationships with global legal and accounting networks, and multinational private equity groups are extremely valuable when completing a cross-border transaction. We have people on the ground with first-hand knowledge of the local cultural and business environment.

SELECTED DRESNER / IMAP TRANSACTIONS

ESSENTRA
Plastic, fibre, foam and packaging components
Milton Keynes, United Kingdom

Acquired 100 % of Business Operations of

DAKOTA
PACKAGING
Dakota Packaging Limited
Producer and supplier of specialist packaging
Dublin, Ireland
Advised on Sale of Company

ALWERNIA
Production and distribution of chrome compounds
Alwernia, Poland

Acquired 100 % of Business Operations of

ALWERNIA
Zakłady Chemiczne Alwernia S.A.
Production of phosphate and chrome compounds
Alwernia, Poland
Advised on Sale of Company

KBComponents
KB Components
Plastic Industry Group
Örkelunga, Sweden

Acquired 100 % of Business Operations of

PLASTUNION
Plastunion AB
Manufacturer of plastic injection moulding
Andersborg, Sweden
Advised the Seller

AGU
Agu Holding B.V.
Producer and wholesaler of
bicycle wear & accessories
Alkmaar, Netherlands

Acquired 100% of Shares of

FFWD
Fast Forward Wheels B.V.
Development & distribution of
carbon bicycle wheels
Zwolle, Netherlands
Advised the Buyer

Radka
Radka spol.s r.o. Pardubice
Distributor of specialty chemicals
Pardubice, Czech Republic

Acquired 49% of Shares of

Radka Ukraine Ltd
Distributor of specialty chemicals
Striliciv, Ukraine
Advised the Buyer

A. Schulman
A. Schulman, Inc.
Plastic compounds and resins
US

acquired 100% of

DELTA PLAST
Deltaplast AB
Masterbatches
Sweden
Represented the Seller

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