



## Inside This Issue

Lincoln's perspectives on chemicals M&A in 2019

Lincoln extends expertise in chemicals & materials with two premier transactions in Q1 2019

Update on chemicals & materials public company performance and valuations

Market update on chemicals & materials transactions

# Lincoln's Perspectives on Chemicals M&A in 2019

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## How is 2019 shaping up for Chemicals M&A?

There continues to be strong momentum in the chemicals sector, with levels of interest consistent across investor populations. A number of more general PE funds are entering the specialty chemicals space, particularly as they consider the sector's ability to weather potential market volatility. Certain chemicals tend to display less cyclicality. The amount of debt available is also enabling a competitive position among PE firms in auctions that might otherwise see a strategic prevail.

Speaking of strategics – there have been a fair amount of large transactions occurring amidst a period of consolidation. Many companies are going through their portfolios, evaluating

performance and strategic fit and selling non-core assets – which creates even more opportunity for private equity. We're seeing specialty carve outs achieve higher multiples than commodity type carve-outs, as PE firms are more focused on the specialty side of the industry.

On the buy-side, a number of investors are looking for bolt-on acquisitions. The sweet spot tends to be \$25m-\$250m in enterprise value. There is significant acquisition appetite as buyers look for growth, margin, new technologies and access to new customers and markets.

## Are any subsectors performing particularly well?

There are a number of subsectors that are faring well, particularly adhesives, sustainability, ingredients and flavors & fragrances. If you consider things that fare well regardless of economic conditions like food and beverage or healthcare, you start to recognize why chemicals continues to thrive. Those less cyclical businesses use chemicals across the entire chain, not just the products. An example of high interest in the ingredients sub-sector is Eurazeo's acquisition of Iberchem in Spain. Eurazeo is reported to have paid close to 16x EV/EBITDA for

Iberchem, a global leader in flavours and fragrances especially in emerging markets.

Chemicals go across all sectors. We often partner with our other industry colleagues to make sure we are delivering the right advice and outcome for our clients. Chemicals plays a pivotal role in everything in our every day lives – they help cars run more efficiently, make planes lighter, ensure food is healthier, deliver pharmaceuticals with greater efficacy and more.

## What is your perspective on the debt markets – are you seeing signs of concern?

Acquisition multiples are one to two turns ahead of where they were a couple years ago. I personally think this is driven by the strong M&A and debt markets. PE firms have ~\$1 trillion of dry powder for equity investments. Assuming a third to a half of the purchase price is in equity, that means there are \$2-3 trillion of acquisitions that will be made in the next few years. In addition, the debt markets, driven by private debt funds and BDCs, are providing PE firms the necessary leverage to be competitive in processes.

Investors previously would submit a letter of intent and begin their financing process after being granted exclusivity. Lately, PE firms are engaging lenders earlier in the process to differentiate themselves from other bidders and to provide the sellers more certainty of close. In fact, we have seen a few letters from PE firms offering break-up fees if they can't secure the debt in less than 30 days. At these elevated purchase multiples, I would expect this type of differentiation to continue.

## How is what you're seeing translating globally?

In the UK and Europe, Brexit has people trying to figure out how severing from the EU will impact deal activity. In China, new complexities are arising around pollution and an effort to regulate and control it, slowing incremental investment there slightly. Moreover, most large U.S. chemical companies are already well invested in China and therefore are seeking to diversify. India and Brazil therefore remain interesting, but people are still figuring out how to play in these growth markets, especially with geopolitical uncertainty.

Ultimately, foreign and U.S. strategics are finding the U.S. to be the most attractive market for new investment – even if it is a little more expensive. In fact, many strategics that historically looked at Europe and Asia for growth are now eyeing the U.S. with more enthusiasm given the recent corporate tax law changes, relatively strong economic growth and geopolitical stability. Having said this, Europe remains important as there is a sense of moderate growth coming back to mainland Europe and Europe also remains the gateway to faster growing Eastern Europe.



# Marco Polo Case Study



## Description:

Marco Polo International, Inc. ("Marco Polo" or the "Company"), headquartered in Melville, NY, is a leading global distributor of plastic resins and other hydrocarbon-based commodity raw materials to a broad base of blue-chip customers. The Company has grown into a significant player in the global chemical distribution industry over the past three decades, with a strong domestic market share complemented by a presence in South America, Asia and Europe. In recent years, the founders of the Company had been aggressively pursuing organic and inorganic options to further accelerate growth. Marco Polo ultimately decided on targeting a partnership with a global business with scale who could provide access to distribution networks in additional geographies.

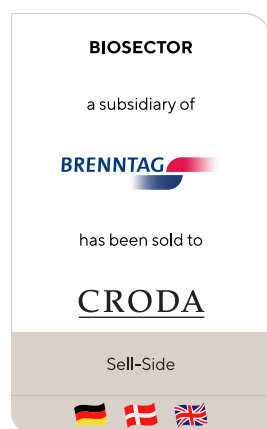
## Key Process Preparation Items:

- Given the objectives of the shareholders, Lincoln International designed a broad, highly coordinated sale process leveraging the firm's global footprint
- Lincoln International worked with Marco Polo to both anonymize materials and stage disclosure of sensitive information to ensure that the integrity of Marco Polo's supplier and customer relationships were maintained throughout the process

## Key Insights from the Transaction:

- Relationships and sustainability with customers and suppliers are critical to providing comfort to buyers
- For international buyers, it was critical to demonstrate synergies and a complementary fit between the two companies' geographic operations
- After significant discussions with several parties and negotiations, Lincoln International negotiated a minority investment by ITOCHU at a premium multiple
- Lincoln International leveraged its intimate knowledge of the sector and deep relationships within the resins distribution industry to bring Marco Polo's shareholders a successful outcome with the potential for significant future value creation

# Biosector, a Subsidiary of Brenntag, Case Study



## Description:

Biosector (the "Company"), headquartered in Frederikssund, Denmark and subsidiary of Brenntag AG, is a leading adjuvant specialist for vaccines serving the top key human and veterinary vaccine producers, innovative R&D organizations and blood fractioning companies. Adjuvants are critical components of vaccines, enabling for a higher efficacy and an improved safety profile, while potentially reducing the antigen concentration. The Company's product portfolio comprises of well-known and innovative aluminum-based and saponin-based adjuvants renowned as Alhydrogel®, Adju-Phos® and Quil-A®. The strict regulation framework of pharmaceutical drugs and long-life cycles of launched products provide a strong visibility of sales and high barriers of entry for new competitors or substitute products. Biosector is running the only aseptic and GMP certified manufacturing site in the world and has R&D know-how, resulting in a promising pipeline of innovative next generation adjuvants.

## Key Process Preparation Items:

- Lincoln International developed a credible equity story highlighting the potential for monetizing the pipeline, production technology and product innovation
- Delayed marketing to enable Biosector to demonstrate commercial success of recently introduced products in current trading and thereby realizing a higher valuation

## Key Insights from the Transaction:

- Engagement of multiple international strategics, as well as financial acquirers throughout the process, maintaining competitive dynamics until signing
- Efficient and well-structured due diligence phase allowed to sign and close the transaction three months after indicative bids
- Biosector's unique product innovations and pipeline
- Croda International plc, a UK specialty chemicals company, emerged as the final bidder. Lincoln International realized an attractive valuation for Brenntag, including a significant strategic premium for this quality asset

## Market Intelligence

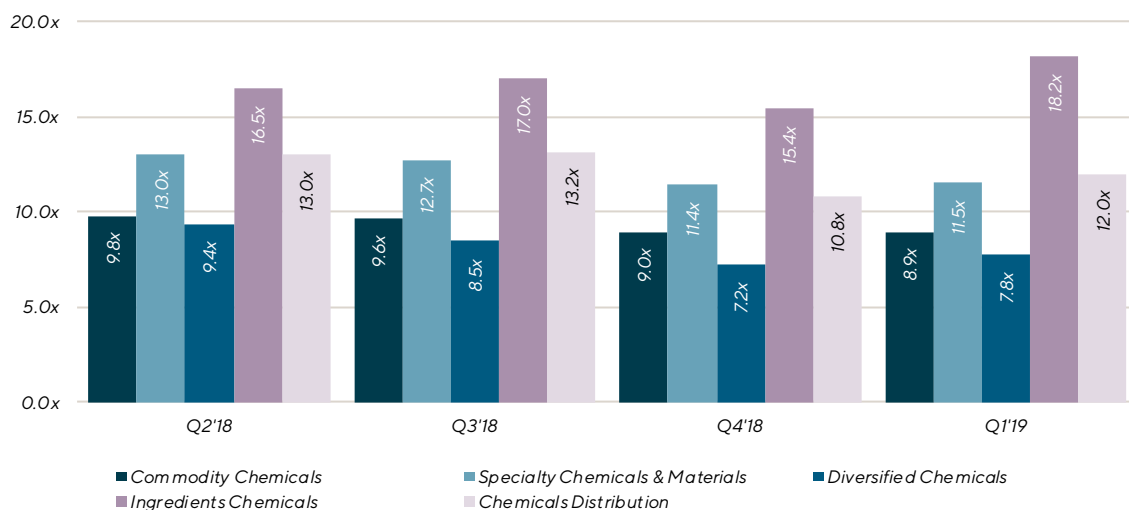
After a volatile end to 2018 and start to 2019, all the Lincoln International chemicals & materials indexes and S&P 500 began to improve and show positive signs. Chemicals & materials companies were impacted in Q1 2019 by various macroeconomic factors that included trade uncertainty and tariff concerns, the Fed taking a pause on interest rates increases, economic weakness in Europe and Asia, rising raw material prices, decline in unemployment and volatility in the oil & gas market. EV / EBITDA multiples remained inline with Q4 2018 due to the ongoing factors giving the market an unclear direction.

Q1 2019 chemical production was a mixed performance for the three months. Trends related to pigments, construction-related resins and performance chemicals were inconsistent, along with specialty chemicals easing after a strong finish to 2018, which aligns with trends in manufacturing. Areas with a more positive performance were resins used in packaging, consumer and institutional applications, inorganic chemicals, synthetic rubbers, fertilizers and fibers.

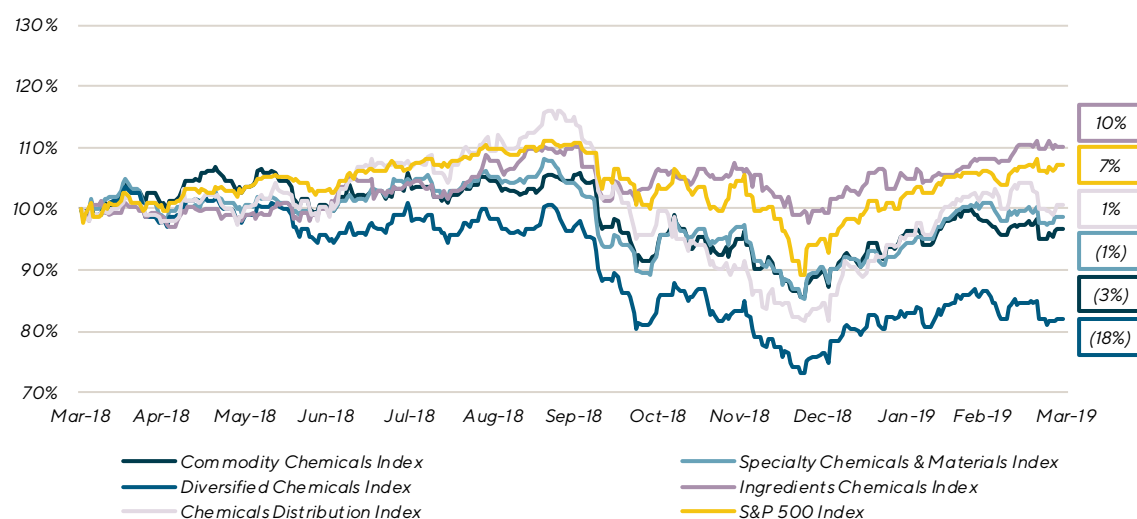
Source: American Chemistry Council

## Chemicals & Materials Public Comparables

### Historical Enterprise Value / LTM EBITDA



### Stock Market Performance



### Public Companies Valuation Statistics

Company Sector	Number of Companies	Quarterly Stock Performance	% of 52 Week High	EV / LTM		P / E Multiple	Net Debt / LTM EBITDA	LTM Growth		LTM Margin	
				Revenue	EBITDA			Revenue	EBITDA	Gross	EBITDA
Commodity Chemicals	17	3.8%	72.1%	2.10x	8.9x	19.5x	2.9x	8.3%	(2.4%)	28.6%	19.4%
Specialty Chemicals	31	10.0%	81.4%	2.08x	11.5x	24.4x	2.4x	7.7%	2.7%	33.0%	16.1%
Diversified Chemicals	13	6.6%	78.2%	2.05x	7.8x	19.7x	2.0x	11.4%	11.0%	30.3%	17.5%
Ingredients Chemicals	7	12.3%	85.5%	4.95x	18.2x	32.9x	2.3x	4.7%	1.2%	40.3%	23.6%
Chemicals Distribution	4	16.7%	82.1%	0.87x	12.0x	20.0x	2.6x	8.0%	8.6%	19.7%	6.7%
<b>Median</b>				<b>2.08x</b>	<b>11.5x</b>	<b>20.0x</b>	<b>2.4x</b>	<b>8.0%</b>	<b>2.7%</b>	<b>30.3%</b>	<b>17.5%</b>

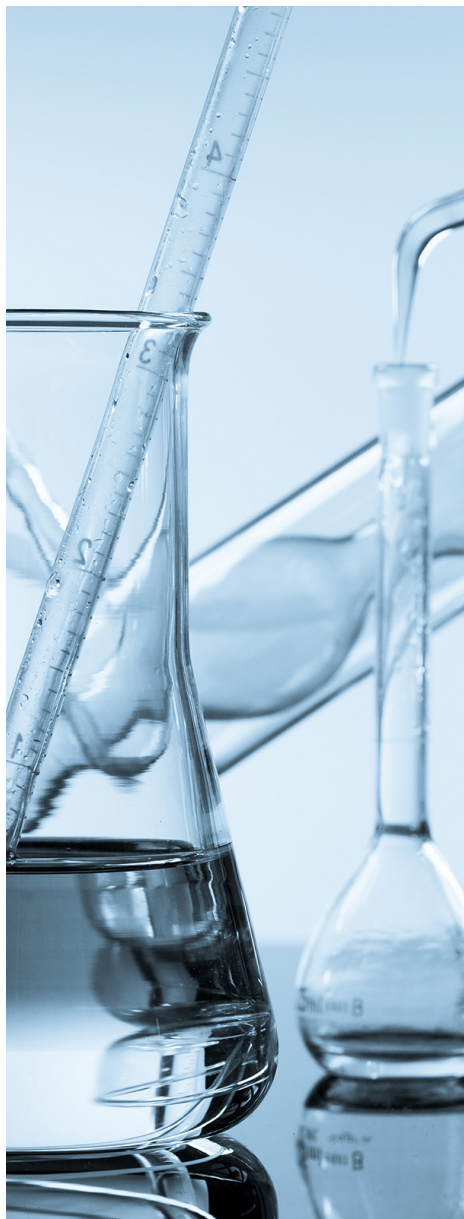
Source: Capital IQ, ThomsonONE, Wall Street research and company data

## Selected M&A Transactions

(\$ in millions)

Closed	Target Company	Acquiring Company	Enterprise Value	EV / LTM	
				Revenue	EBITDA
Mar-19	Global Plastics LP	Marco Polo International, Inc.	-	-	-
Mar-19	Plastics Distribution Business of Nexeo Solutions	One Rock Capital Partners, LLC	\$640	-	-
Mar-19	U.S. Water Services, Inc.	Kurita Water Industries Ltd.	270.0	1.57x	-
Mar-19	Söll GmbH	OASE GmbH	-	-	-
Mar-19	ProPolymer Coatings	Tnemec Company, Inc.	-	-	-
Mar-19	Brancher SAS	TETU GROUP SARL	-	-	-
Mar-19	Langley-Smith & Co Ltd.	Safic-Alcan UK Limited	-	-	-
Mar-19	Chemroy Canada, Inc.	Azelis Holding S.A.	-	-	-
Mar-19	H.B. Chemical Corporation	Ravago Holdings America, Inc.	-	-	-
Mar-19	Centec International Limited	BIP Organics Ltd	-	-	-
Mar-19	BCC Products, Inc.	Polytek Development Corp.	-	-	-
Mar-19	JSC Chimprom Volgograd	Promyshlenniy Tekhnologii	103.2	-	-
Mar-19	New England Resins & Pigments Corporation	Brenntag AG	-	-	-
Mar-19	Imerys Fused Minerals Hull Limited	Niche Chemical LLC	-	-	-
Feb-19	The Additive Advantage, LLC	International Flavors & Fragrances Inc.	-	-	-
Feb-19	Synova SA	TOTAL S.A.	-	-	-
Feb-19	CTM Coatings Inc	ParexGroup SA	-	-	-
Feb-19	Polymer Concentrates, Inc.	Chroma Color Corporation	-	-	-
Feb-19	Diera - Fábrica De Revestimentos	Barbot - Indústria de Tintas, S.A.	2.6	-	-
Feb-19	PLANTURA Italia srl	Benvic Europe SAS	-	-	-
Jan-19	Arysta LifeScience Corporation	UPL Corporation Limited	4,200.0	-	-
Jan-19	Applied Plastics Co., Inc.	Vance Street Capital LLC	-	-	-
Jan-19	Allcolour Paint Limited	Cloverdale Paint Inc.	-	-	-
Jan-19	AquaFinesse LLC	Clearon Corp.	-	-	-
Jan-19	LCY Chemical Corp.	KKR & Co. Inc.	1,151.9	0.74x	6.4x
Jan-19	G.H. Chemicals Ltd./Microzinc Inc.	EverZinc	-	-	-
Jan-19	AIS Specialty Products, Inc.	Momar, Inc.	-	-	-
Jan-19	Biosector, a subsidiary of Brenntag AG	Croda International plc	-	-	-
Jan-19	Hydrocolloid Product Line of Solvay SA	PMC Ouvrie SAS	-	-	-
Jan-19	LECICO GmbH	Avril SCA	-	-	-
Jan-19	Next Polymers Ltd.	Celanese Corporation	-	-	-

Source: Capital IQ, Mergermarket, Pitchbook and company data



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