Chemicals Practice

The M&A wave in chemicals: Bigger, faster, and more specialized

Long-term trends make M&A in the chemicals sector both a vehicle for growth and a play for safety.

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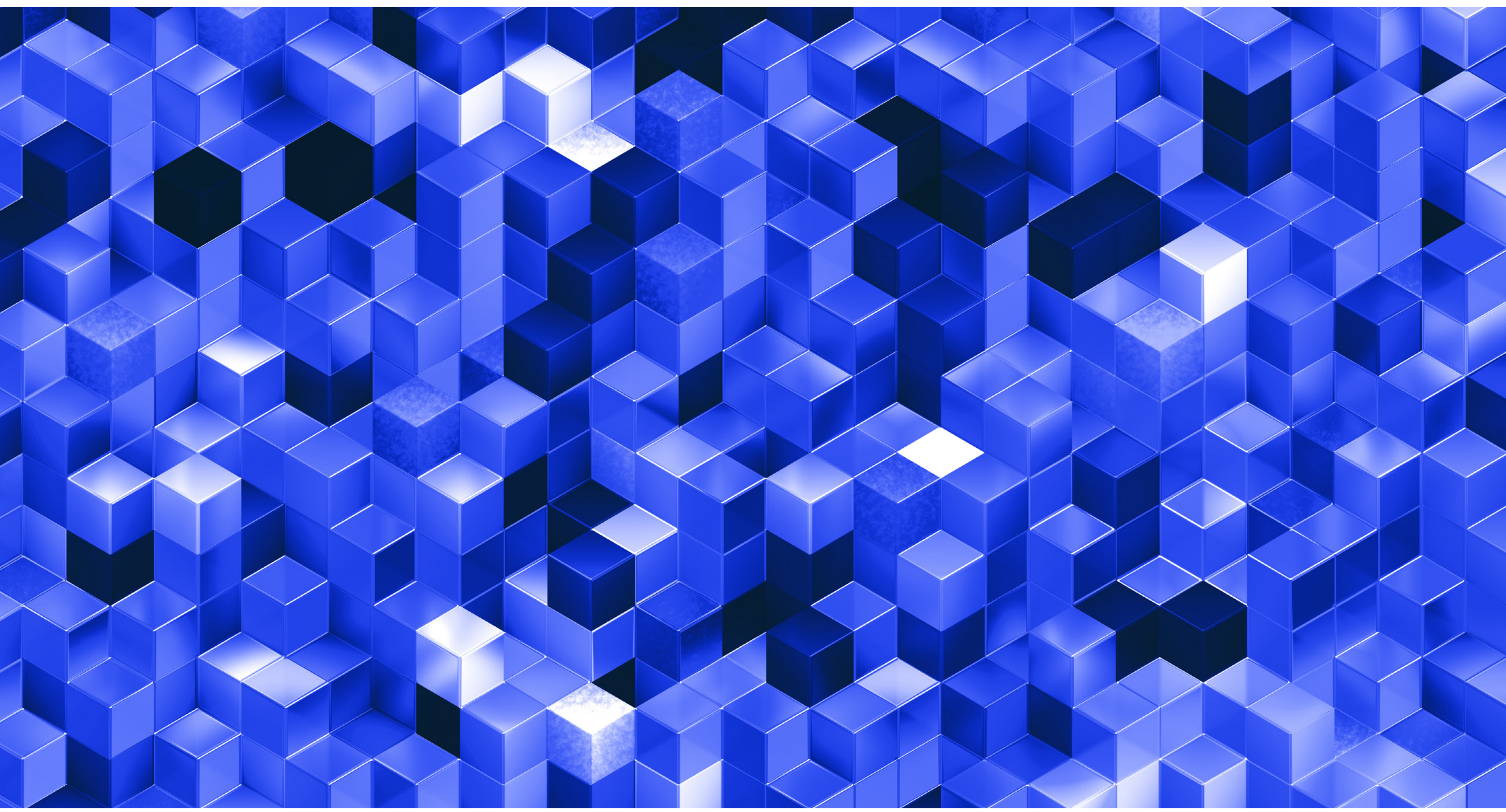

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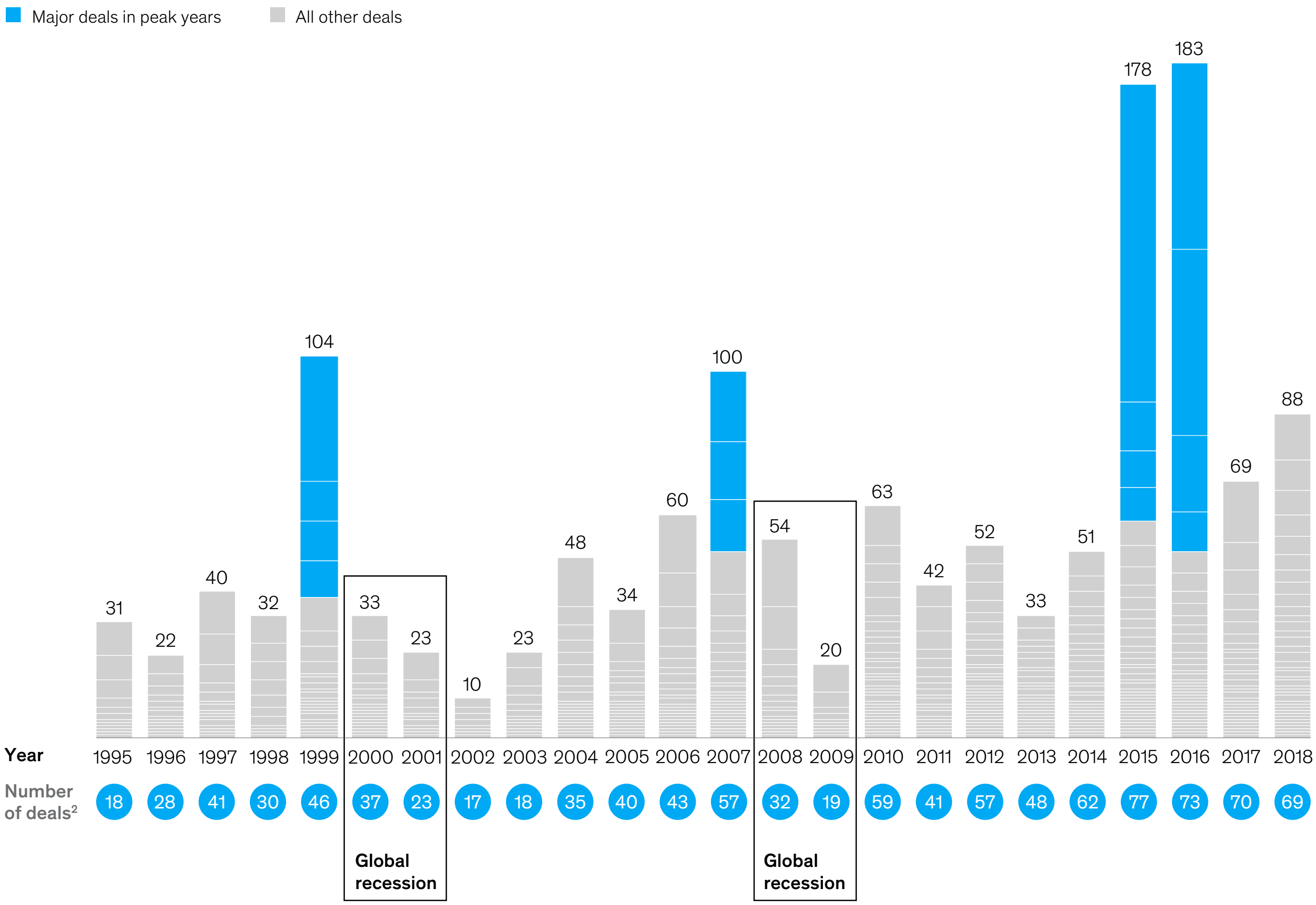
The chemicals sector has seen a wave of M&A activity from 2014 to 2018. This activity is consistent with the sector's once-every-decade spike in M&A. Factors such as the need for vertical integration (1980s), low growth as the result of oil and gas shifting capital from chemicals (1990s), and growth in emerging markets (2000s) spurred past decades' M&A increases (exhibit).[1]

Exhibit

The chemical industry has seen a wave of M&A activity over the past five years.

Total M&A activity in chemicals and agriculture,[1] $, billion



[1] Nominal, by date of announcement.
[2] Deals greater than $250 million total value at date of announcement.

The recent spike in M&A activity reflects broad trends in the industry. First, M&A is a response to the need to focus on pure plays to better serve customers that expect deeper product expertise and to appeal to investors who increasingly value pure players. In addition, M&A is a major contributor to top-line growth among large companies, which use bolt-on acquisitions to access new geographical markets, market segments, products, and technical applications.

[1] Feedstock, such as petroleum, are raw inputs in industrial processes.

New, formidable competitors have also made M&A a strategically sound defense. Oil and gas companies have turned their attention to the chemical market in response to decreasing growth in the liquid fuels market—the largest increase in oil demand from 2018 to 2035 will come from chemicals instead of transport and power. At the same time, state-owned enterprises in the Middle East and China have moved into materials to access markets and technologies and to build their capabilities.

M&A has consistently helped companies in the chemical sector create value. In fact, large chemical companies that have pursued large-deal M&A generate an excess of 1.8 percent in total shareholder returns (TSR) compared with the general population of chemical companies; those that engage in programmatic M&A create an extra 1.7 percent in TSR.[2] To increase the odds of creating outsized returns for shareholders, industry players should build capabilities across all stages of M&A. Since the trends driving the current surge in M&As will persist, chemical companies should build distinctive capabilities across all stages of M&A and continue to look for opportunities to better serve customers and grow.

[2] The sample analyzed the largest 2,000 companies in the chemical sector by market capitalization from December 31, 2007, through December 31, 2018 (if they were still publicly traded). This analysis excludes companies headquartered in Latin America and Africa; fertilizer and palm oil producers; and consumer packaged goods, retail, and distributors.

Eleven companies from the larger sample underwent large-deal M&A, defined as an acquisition in which the target's market capitalization was equal to or greater than 30 percent of the acquirer's. Seven companies engaged in programmatic M&A. At the median, the market capitalization of targets was 15 percent of the acquirer's.

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