

M&A Quarterly Market Report: Q1 2021 Review

# Global Specialty Chemicals

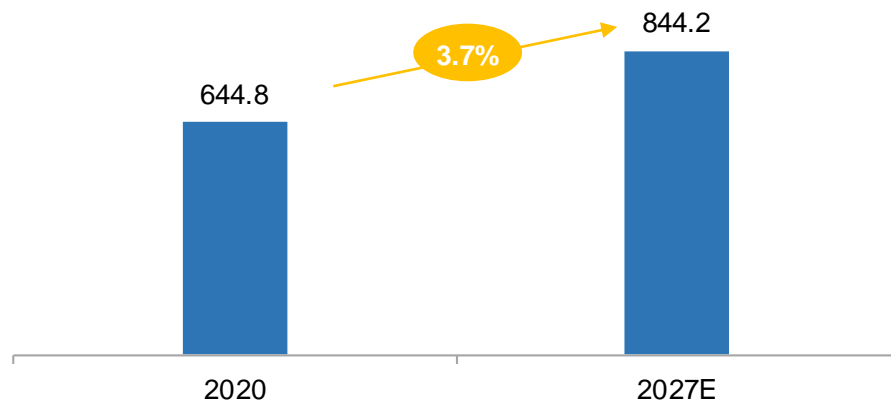


# Industry Overview (1/2)

Global specialty chemicals market projected to grow at 3.7% to USD844.2 billion by 2027

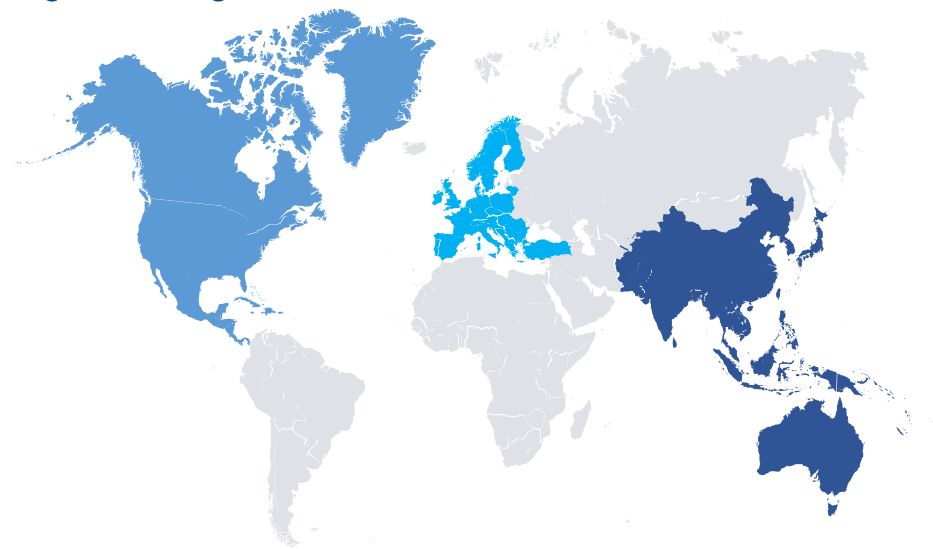
## Global Specialty Chemicals Market Size

USD Bn



- The global specialty chemicals market size was valued at USD630.0 billion in 2019 and USD644.8 billion in 2020. It is expected to expand at a CAGR of 3.7% from 2020 through 2027.
- Growth would be driven by the increasing demand for these chemicals from the food, textile, and automobile industries.
- Increased R&D of specialty chemical products with advanced and optimum features is another catalyst for growth.
- The rise in demand from Asian countries, such as China and India, due to rapid industrialization has bolstered the specialty chemicals market.

## Regional Insights



**APAC** is the fastest growing market by region owing to its huge customer base. Within APAC, China is the largest consumer of construction materials, feed additives, specialty polymers and coatings, etc. Asia has the highest consumption value for chemicals used in semiconductor fabrication.

**North America** is the second-largest market for specialty chemicals. It is also a leading consumer of biocides, cosmetic chemicals, food additives, lubricating oil additives, oil field chemicals, printing inks, surfactants, etc.

In **Europe**, stringent environmental norms are forcing companies to eventually shift their manufacturing base. Additionally, Western Europe is the major consumer of nutraceuticals as well as flavors and fragrances.

Source: IHS Markit, Psmarketresearch, Aranca Research

# Industry Overview (2/2)

Market highly fragmented with numerous players holding a large share

## Key Market Trends

- In the short term, growth would be mainly driven by a sharp increase in construction activities, especially in APAC and MEA.
- On the other hand, rising environmental regulations, depleting fossil fuel reserves, and negative impact of the COVID-19 pandemic will hinder growth in the market.
- The specialty chemicals market was dominated by agrochemicals, which are projected to grow mainly due to the increasing population and higher demand for food worldwide.
- APAC leads the global market owing to its vast customer base, generating demand for specialty chemicals. Robust growth in the construction sector and industrial production in the region is adding to this demand.

## Sub-Sectors

 <b>Additives</b>	 <b>Flavors &amp; Fragrance</b>
 <b>Adhesives &amp; Sealants</b>	 <b>Industrial Coatings</b>
 <b>Agrochemicals</b>	 <b>Paints, Varnishes, and Lacquers</b>
 <b>Dyes and Pigments</b>	 <b>Personal Care</b>
 <b>Electronics</b>	 <b>Water Treatment</b>

Source: Infiniti Research, Mordor Intelligence, Aranca Research

## Market Concentration

**Consolidated**  
(Market dominated by 1–5 major players)

**Fragmented**  
(Highly competitive market with no dominant players)



Specialty Chemicals Market

## Growth in Emerging Markets

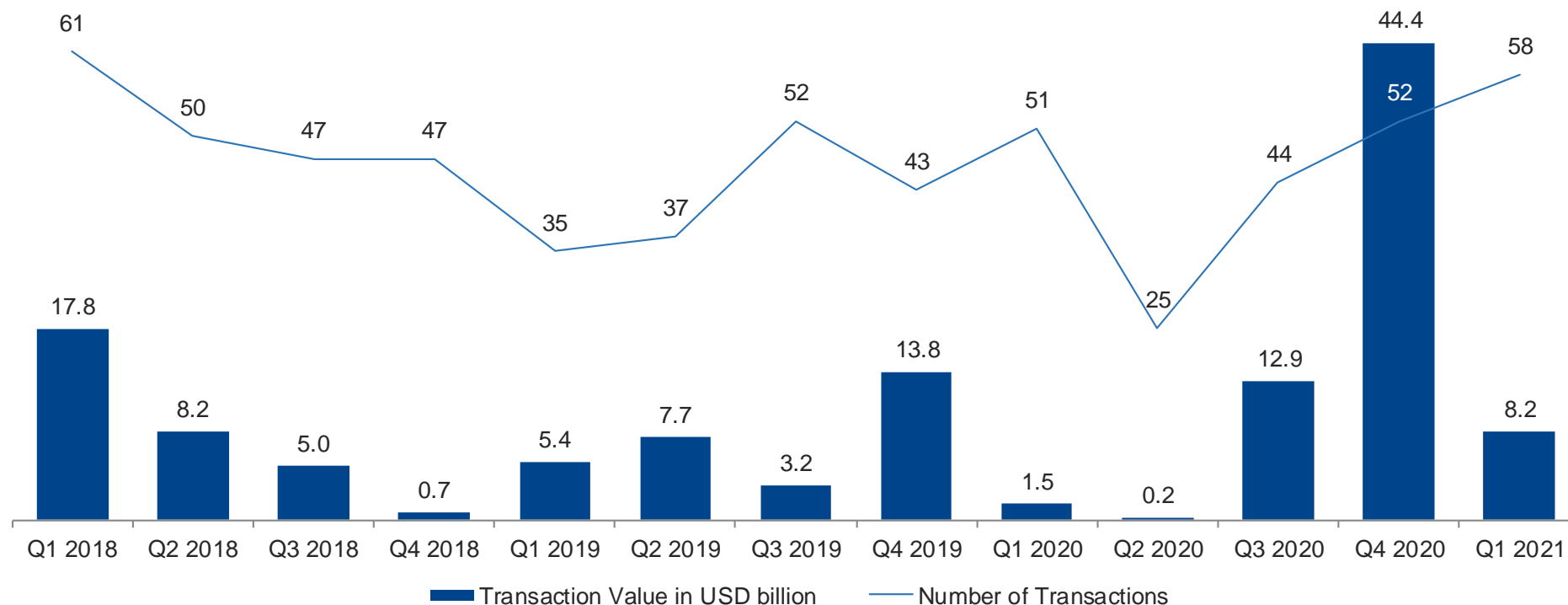
- Emerging markets give companies the opportunity to provide customized product offerings via expansion and growth.
- Increasing industrialization and the need for improved crop quality is spurring demand for low-cost, efficient chemical systems in developing countries.
- The sudden spike in demand for niche chemical products is likely to influence export volume in developing countries.
- Companies can achieve lower costs due to supportive government policies, cheaper labor costs, and better manufacturing capabilities.

# M&A Transactions Trend – Total Transaction Value and Transaction Volume

Second highest transaction volume recorded in Q1 2021 in last three years, but with lower value

M&A transactions in the industry were interrupted with the onset of the pandemic. Nonetheless, their numbers rose drastically and have been on an upward trajectory since Q2 2020, with more and more transactions aimed at managing company portfolios as a result of pandemic-induced cost pressures and the shifting outlook for the future.

Geographically, recovery has been good in China, sluggish in Europe, and somewhere in between in the US.



Note: Volume and total transaction value might differ due to lack of availability of undisclosed transactions.

**Average Valuation Multiples: EV/Revenue – 3.1x and EV/EBITDA – 24.7x**

Source: S&P Capital IQ, Aranca Research

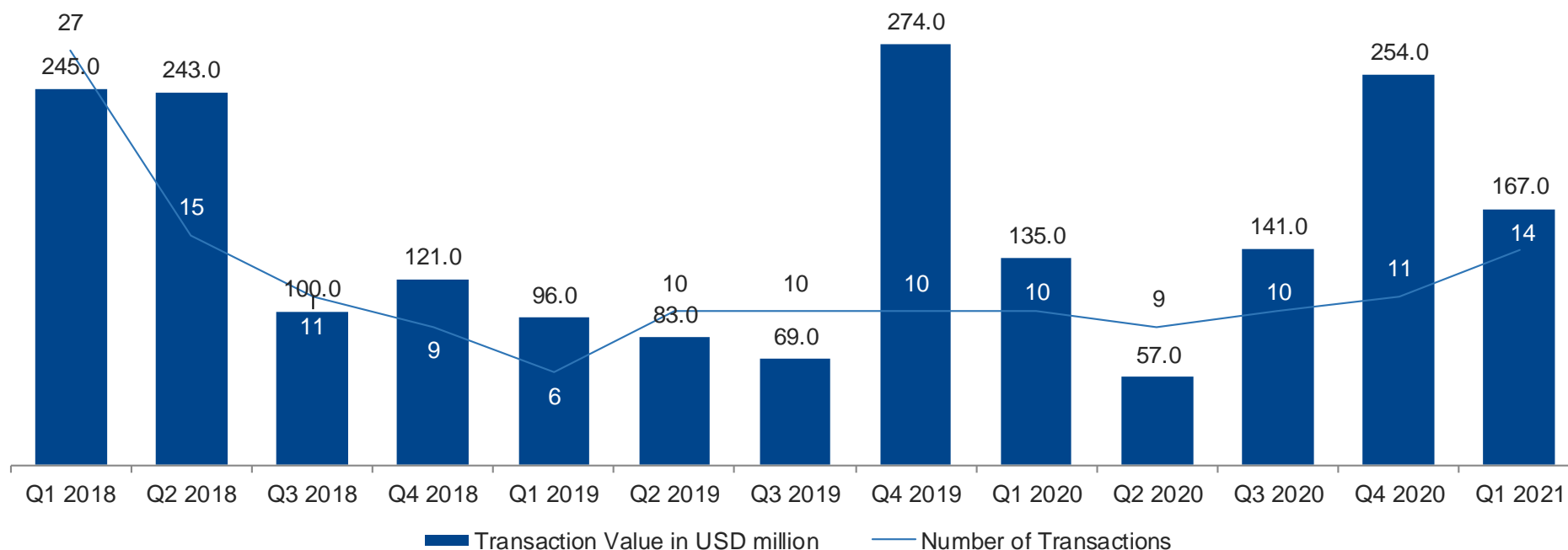
## M&A Transactions Trend – Under USD50 Million

Historically 20–25% of total transactions (with disclosed values) are worth less than USD50 million

Historically, Q1 2021 has been more active in terms of transactions with a size of <USD50 million but fared slightly below average in terms of the total ticket size of transactions, with USD180.4 million being the average of the last three years.

A number of carve-out transactions have been witnessed in the recent quarters that focus on aligning business with the future outlook, as companies tend to address increasing uncertainties in the market.

Companies involved in transactions worth <USD50 million are sold at a discount compared to larger ticket transactions when valued at EV/EBITDA while EV/Revenue multiples lie fairly close.



Note: Volume of transactions under USD50 million might differ from the actual number due to lack of availability of undisclosed transactions.

**Average Valuation Multiples: EV/Revenue – 2.9x and EV/EBITDA – 18.5x**

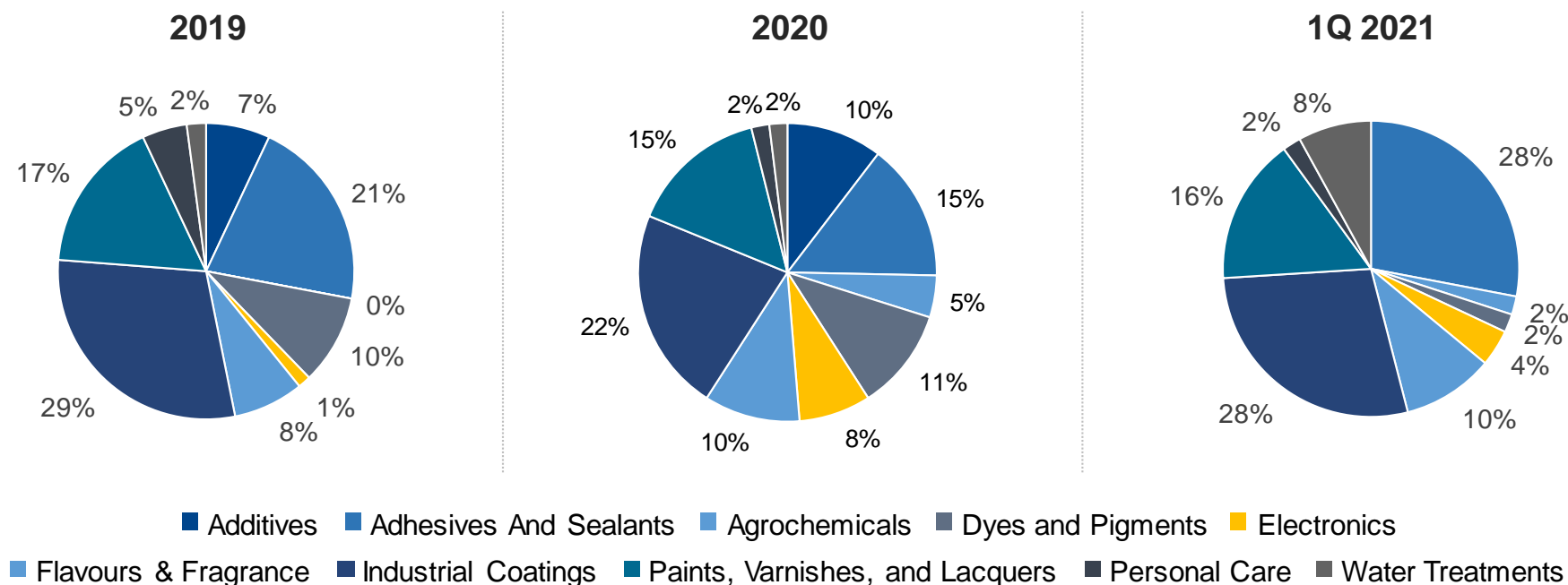
Source: S&P Capital IQ, Aranca Research

## M&A Transactions Trend – By Sub-sector

Industrial Coatings leads sub-sector, recording ~24% of total transactions in last three years

Volume growth varies largely across end markets within sub-sectors. The Personal Care and broader Industrial markets are better positioned for a healthy recovery. Recovery in automotive demand will play an important role for Paints, Industrial Coatings, and Adhesives & Sealants but it will support their growth disproportionately.

### Share of Transactions



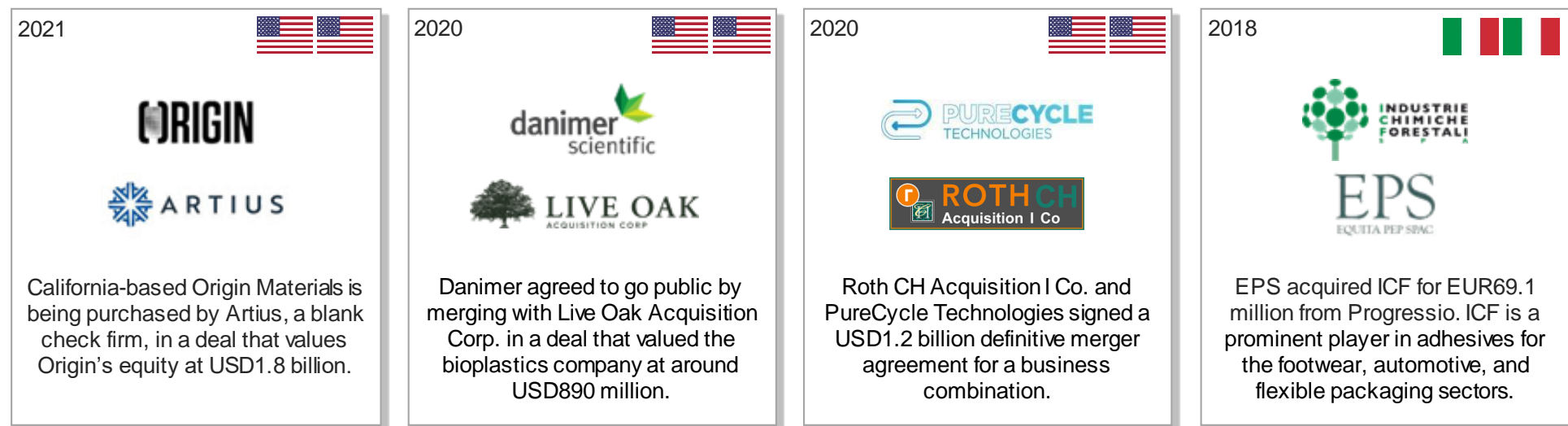
A similar trend can be seen in the transactions in 2018, with Adhesives & Sealants and Industrial Coatings registering more than 20% of transaction volumes each.

Source: S&P Capital IQ, Aranca Research

## Select SPAC Activity in Specialty Chemicals Space

SPAC market activity remains largely subdued even considering overall chemicals sector

While the technology sector has seen the largest share of SPAC activity, the chemicals industry has been an area of interest for some, especially emerging technologies with a sustainability angle, such as recycling, battery materials, or renewables.



## SPACs Searching for Targets within Chemicals Space

SPAC	Potential Focus	IPO Size (USD million)
Mason Industrial Technology, Inc.	Specialty Chemicals, Industrial Tech, Advanced Materials	500
Anzu Special Acquisition Corp. I	Chemicals, Industrial Tech	420

Source: S&P Capital IQ, Spactrack, Chemweek, Aranca Research



# Top 10 M&A Transactions by Value – Last Three Years

Total transaction value above USD55 billion, with a mix of strategic and financial buyers

Date	Target	Buyer	Transaction Value (USD billion)	Strategic / Financial Buyer
Mar-18	Nouryon Cooperatief U.A.	The Carlyle Group Inc. & GIC	12.5	Financial
Dec-19	Hitachi Chemical	Showa Denko K.K.	9.9	Strategic
May-18	Frutarom Industries	International Flavors & Fragrances Inc.	7.2	Strategic
Nov-20	W. R. Grace & Co.	40 North Management LLC	6.0	Financial
Feb-21	Lonza Specialty Ingredients	Cinven Limited & Bain Capital Private Equity	4.7	Financial
Apr-19	LORD Corporation	Parker-Hannifin Corporation	3.7	Strategic
Apr-19	DuluxGroup	Nippon Paint Holdings	3.1	Strategic
Sep-18	MPM Holdings Inc.	KCC Corporation, Wonik QnC Corporation & SJL Partners	2.9	<ul style="list-style-type: none"> <li>■ KCC Corporation (Strategic)</li> <li>■ Wonik QnC Corp. (Strategic)</li> <li>■ SJL Partners (Financial)</li> </ul>
Jan-18	Clariant AG	Saudi Basic Industries Corporation	2.5	Financial
Feb-18	A. Schulman, Inc.	LyondellBasell Industries N.V.	2.3	Strategic

Source: S&P Capital IQ, Aranca Research



Industry map comprises 10 different sub-sectors with numerous active strategic and financial buyers



# Outlook

## Portfolio adjustments, availability of private capital to significantly drive acquisition activity in coming months



Though M&A in the overall chemical industry was initially impacted by the pandemic, transactions have now increased since the last year.



Valuations of companies engaged in M&A and on stock exchanges have recovered and have held up since the past year. We have seen more successful companies or divisions approach the market during the pandemic, whereas businesses that were severely affected by COVID-19 are still undergoing internal restructuring and are being held back.



An industry trend of portfolio management of companies, which was becoming a norm even before the pandemic, has gained more traction as the companies focused on divestment of underperforming or non-core assets to raise funds amid the economic downturn.



As a result, companies are being compelled to think carefully on which end markets they want to focus. This is likely to lead to more portfolio adjustments to divest non-core businesses as well as increased acquisitions to strengthen the core business.



The desire of many companies to improve their ESG characteristics as well as growth prospects in recent times is expected to further drive acquisitions. Some transactions have shown that it is not uncommon for companies to sell cyclical or mature businesses with low growth prospects and high capital intensity in order to reinvest in specialty firms with higher growth and more stable margins.



Globally, private equity firms are sitting on pent-up funds that they are looking to invest profitably. Consequently, competition among financial and strategic buyers would intensify, fueling acquisition activity in the coming period.

**Source:** Houlihan Lokey, Aranca Research



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# Connect with our Team



**Salman Ahmed**

Analyst, Investment Research

+91.22.3937 9999  
salman.ahmed@aranca.com



**Kunal Doctor**

Senior Manager, Investment  
Research

+91.124.668 9999 (Extn: 327)  
kunal.doctor@aranca.com



**Avinash Singh**

AVP, Investment Research

+91.124.668 9999 (Extn: 951)  
avinashg.singh@aranca.com

*For more details:* [www.aranca.com](http://www.aranca.com) | <https://www.linkedin.com/company/aranca> | <https://www.aranca.com/knowledge-library>



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