

DOWNSTREAM TAILWINDS SPUR HEALTHY TRANSACTION LEVELS

CHEMICALS SECTOR UPDATE | DECEMBER 2023



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PARTNERS**

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Chemicals

Downstream Tailwinds Spur Healthy Transaction Levels

KEY SECTOR TAKEAWAYS

Capstone Partners' [Industrials Group](#) is pleased to share its Chemicals report. Demand for refined chemical materials has supported sector participants through year-to-date (YTD) 2023. Elevated manufacturing orders and declining input costs created a favorable backdrop for mergers and acquisitions (M&A). Although sector transaction activity has cooled year-over-year (YOY), high-growth pockets of the market have demonstrated significant defensibility to-date. Several additional key report takeaways are outlined below.

1. Increased levels of manufacturing orders and declining input costs in the Chemicals and Plastics sectors have bode well for participants looking to expand production and capture heightened demand. Demand in key end market has softened going into Q4 2023 but is expected to grow heading into 2024, as reported in an [American Chemistry Council \(ACC\) Outlook report](#).
2. Destocking that had begun in Q3 2022 and continued through 2023 has largely been resolved. It is likely that expanded chemical manufacturing and restocking will continue into 2024.
3. Overall outlook for the Chemicals and Plastics industry has been positive, underpinned by favorable, low-cost natural gas, attractive feedstock positions and a strong domestic manufacturing base.
4. YTD sector deal flow has dropped 27.8% YOY yet has remained on pace with pre-pandemic levels.
5. The Manufacturing segment has continued to comprise the majority (78.5%) of sector M&A targets in YTD 2023 as manufacturers tend to capture higher margins compared to distributors.
6. The Plastics subsegment has enjoyed heightened demand, primarily driven by downstream, finished-product manufacturers looking for high performance materials and increasingly substituting metal components for high-grade plastic materials. Particularly attractive sub-sectors include Compounded Plastics, Specialty Plastics, and Masterbatch.
7. The Plastics subsegment has been the only area within the Chemicals sector to record YOY transaction volume growth through YTD 2023.
8. M&A targets in hot pockets of the market, such as Plastics and Food Ingredients, have continued to garner attention and premium valuations from acquirers.

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To learn more about Capstone's wide range of advisory services and Chemicals sector knowledge, please [contact us](#).

DOWNSTREAM DEMAND AND SOLID FUNDAMENTALS SUPPORT A ROBUST SECTOR OUTLOOK

The Chemicals sector experienced a significant transformation in YTD 2023, led by participants adjusting product portfolios, retooling supply chains, and advancing material innovation to deliver downstream customer needs. Customer preferences have often included a clear imperative for decarbonization and sustainability, while continuing to demand high performance and low cost from chemical and plastic inputs. Downstream demand for refined chemical materials grew modestly in YTD 2023 as 80% of surveyed chemical manufacturers reported either an increase or no change in new order volume from Q1 to Q2 2023, according to the ACC Economic Sentiment Index (ESI).¹ In addition, 75% of chemical manufacturers surveyed have indicated input costs declined quarter-over-quarter (QoQ) in Q2 2023, which bodes well for participants looking to expand margins, drive production and capture heightened demand from finished-product manufacturers in high-growth end markets.

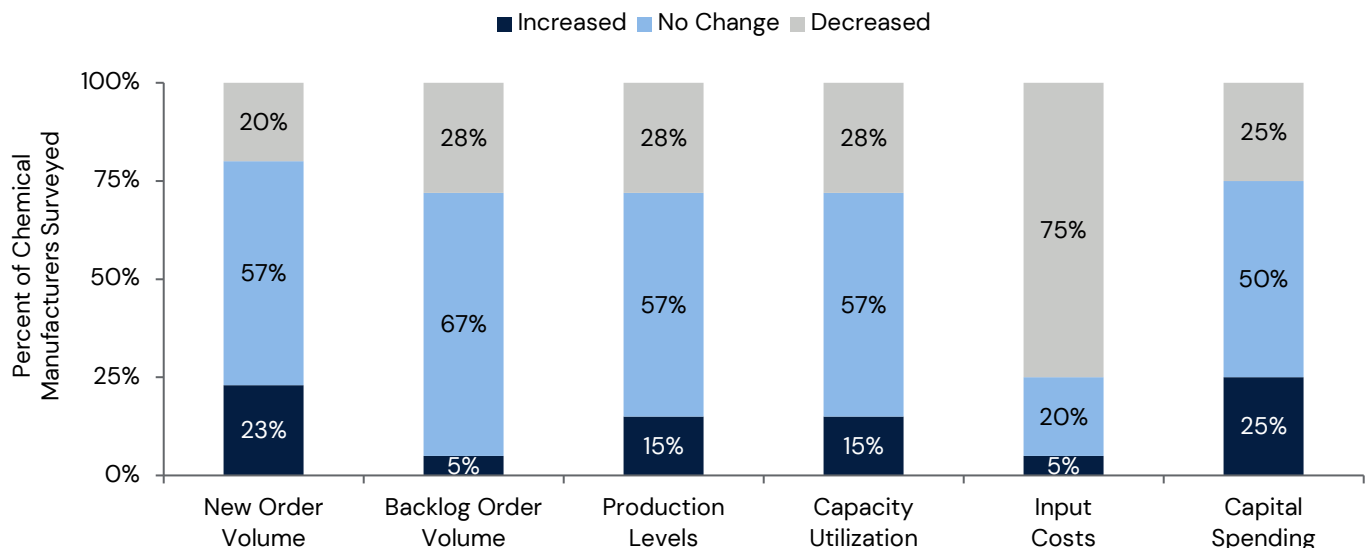


Doug Usifer
Managing Director

“U.S. chemicals and plastics manufacturing output and end market demand showed modest YOY growth YTD 2023. Destocking abatement, a solid U.S. industry manufacturing base, strong energy fundamentals and lower input costs all point to a very bright outlook going into 2024 and beyond.”

Growing manufacturing orders and declining input costs have resulted in a strong long-term growth outlook for the Chemicals sector. Of note, the global Specialty Chemicals market is expected to reach \$616.2 billion by 2030 through a compound annual growth rate (CAGR) of 5.1% from 2023 to 2030, according to Grand View Research.² Although the Asia Pacific region captured the lion’s share (48.5%) of the market in 2022, North America’s market share has remained healthy at nearly 25%. While M&A activity in the sector has moderated to date in 2023, Capstone expects deal volume to rebound in 2024. Through year-end 2023, transaction activity will continue to mirror pre-pandemic levels as sector participants shore-up operations in anticipation of a market rebound in 2024.

Chemical Manufacturers Report Healthy Order Volume, Declining Input Costs in Q2
(Percentage change from Q1 2023 to Q2 2023)



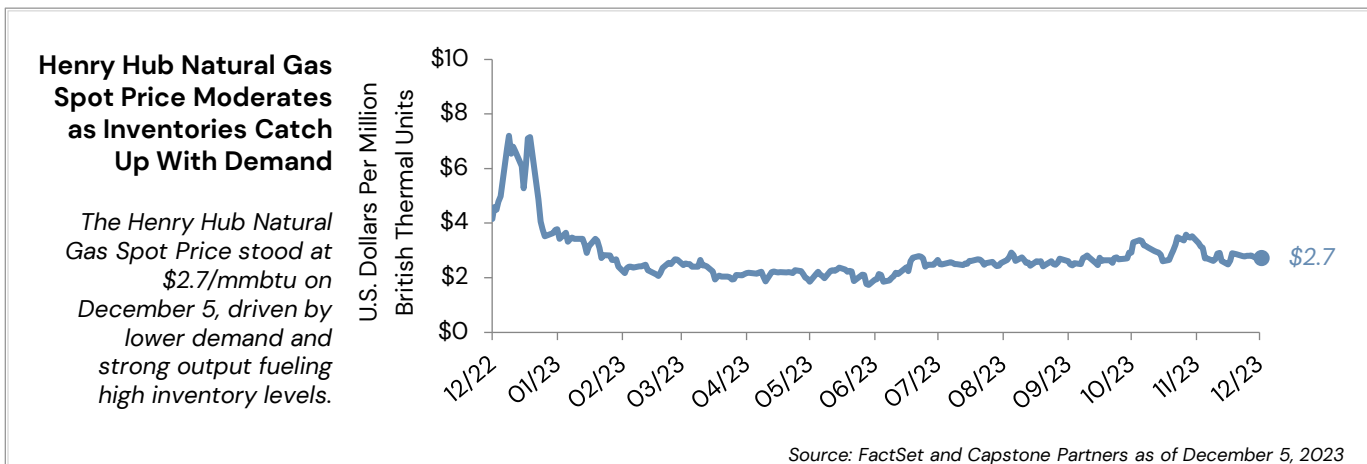
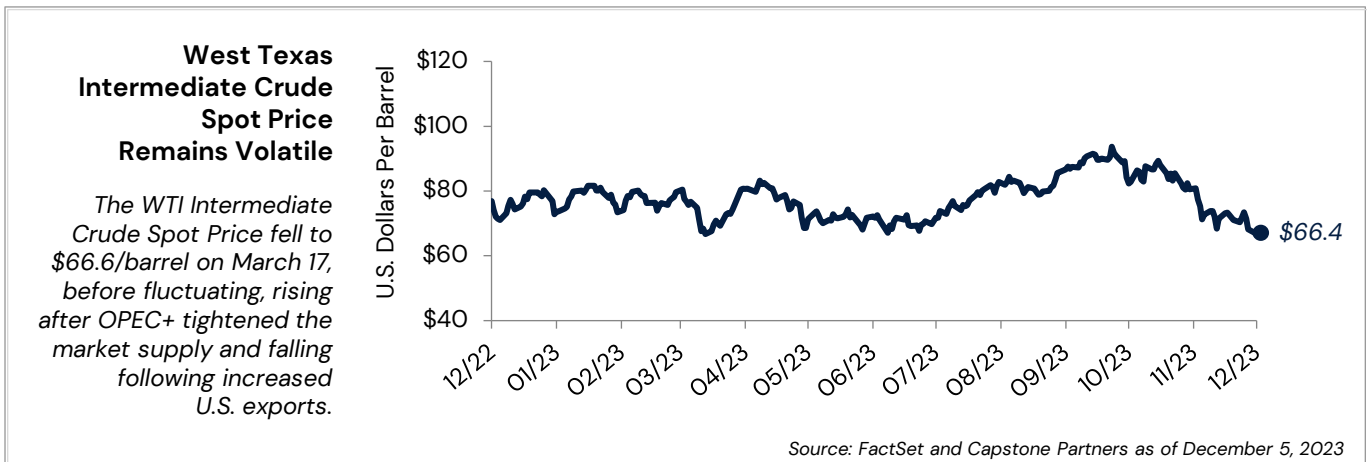
Source: American Chemistry Council and Capstone Partners

FEEDSTOCK ADVANTAGES CONTINUE AS OIL PRICES DECLINE

In September, Saudi Arabia and Russia, the world’s second and third largest oil producers and members of the OPEC+ (Organization of the Petroleum Exporting Countries Plus) and its allies announced production cuts to limit the supply of oil and support prices, according to *The Washington Post*.³ The move caused the West Texas Intermediate Crude Spot Price (CRU) to hit a 2023 high of \$91.7/barrel on September 28, according to FactSet. Prices have since moderated to \$66.4/barrel as of December 5. Elevated production, recessionary fears, and a strengthening U.S. dollar brought oil prices below \$70/barrel in March, a significant drop from the \$120/barrel peak in early 2022. Going forward, Western Nations’ ability to continue to reduce OPEC+’s power over the Energy market will be critical to mitigating volatility.

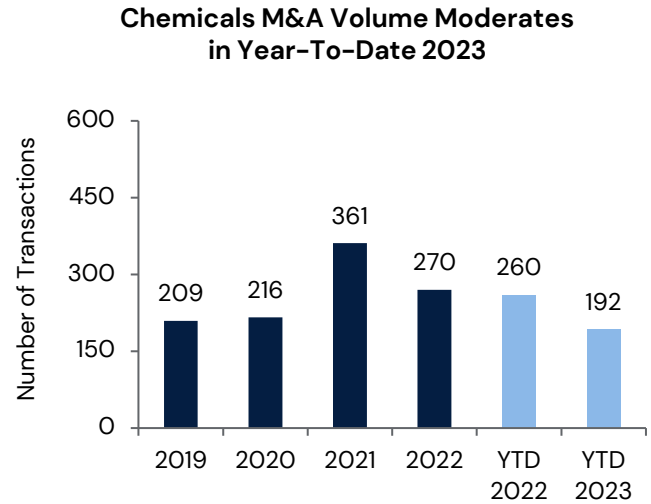
A notably cold winter and hot summer have caused natural gas prices to surge, preventing inventories from normalizing. Across the EU (European Union), governments have put out energy consumption limits to protect their infrastructure and energy consumption. The Henry Hub Natural Gas Spot Price has fallen 35.0% from an elevated \$4.2/mmbtu on December 5, 2022, to \$2.7/mmbtu a year later. Additional injections of natural gas will be necessary to ensure a sufficient supply in the event of a significantly cold winter.

The current commodity price environment is expected to preserve the U.S. feedstock advantage for export competitiveness. With limited incremental OPEC+ supply, the economies of scale for discounted Russian crude oil to Asian buyers could reshape the economics behind naphtha-based olefins. However, this has not yet materialized in a trade balance for global polymers. Unless the EU or OPEC+ expands supply of natural gas and crude oil in the near-term, the U.S. is anticipated to maintain its feedstock advantage through year-end 2023 and into early 2024.



MANUFACTURING SEGMENT BUOYS M&A MARKET

M&A volume in the Chemicals sector has continued to moderate from 2021’s peak, with 191 transactions announced or completed through December 5. Sector deal flow to-date has dropped 26.5% YOY, yet has remained on pace with YTD 2019 levels, indicating long-term resilience in the M&A market. M&A volume has been supported by a well-capitalized strategic buyer pool, accounting for the majority (62.5%) of sector deals. Private strategics have comprised the lion’s share (40.6%) of deals, with acquisition strategies including bolstering margin strength, expanding geographic and end market presence, and acquiring key product service lines. Sponsors have remained resilient despite a difficult transaction financing environment, comprising 37.5% of sector M&A deals to-date, up from 33.5% in the prior year period.



Year-to-date (YTD) ended December 5
Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

The Manufacturing segment has continued to comprise the majority (79.9%) of sector M&A targets in YTD 2023 as manufacturers tend to capture higher margins compared to distributors. Manufacturing participants with proven product performance in key end markets, and valuable intellectual property (IP) assets and technology-supported processes have increasingly piqued strategic and private equity buyer interest, often serving as a platform for future tuck-in acquisitions. The Specialty Chemicals subsegment (which includes food ingredients) has represented 67.7% of sector deals to-date. However, the Plastics subsegment has remained a hot pocket of activity and the only area within the Chemicals sector to record YOY transaction volume growth through YTD 2023 (see page eight).

Chemicals Sector Valuation Analysis		
Valuation Method	Average Revenue Multiple	Average EBITDA Multiple
Chemicals Sector M&A Transactions (2020-YTD)	2.0x	10.8x
Chemicals Sector Public Company Trading Multiples (LTM)	1.4x	10.2x
Industrials Industry M&A Transactions (2020-YTD)	1.8x	10.8x

Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

Valuation Insights

Chemicals sector M&A transaction multiples have averaged a robust 2.0x EV/Revenue and 10.8x EV/EBITDA from 2020 through YTD, remaining on pace with the broader Industrials industry average of 1.8x EV/Revenue and 10.8x EV/EBITDA during the same period. Although average sector multiples have been uplifted by large-scale deals, middle market businesses (less than \$500 million enterprise value) have continued to attract strong pricing as acquirers have demonstrated a willingness to roll up focused, smaller manufacturing and distribution specialty chemicals companies at premium valuations. Of note, Iron Path Capital-backed PureTech Scientific acquired The Chemours Company’s (NYSE:CC) Glycolic Acid business for an enterprise value of \$137 million (June 2023). Through the acquisition, PureTech has positioned itself as a leader in organic synthesis of ultra-high purity hydroxy acids for the Life Sciences space.

HEALTHY DEMAND FUELS PLASTICS M&A ACTIVITY

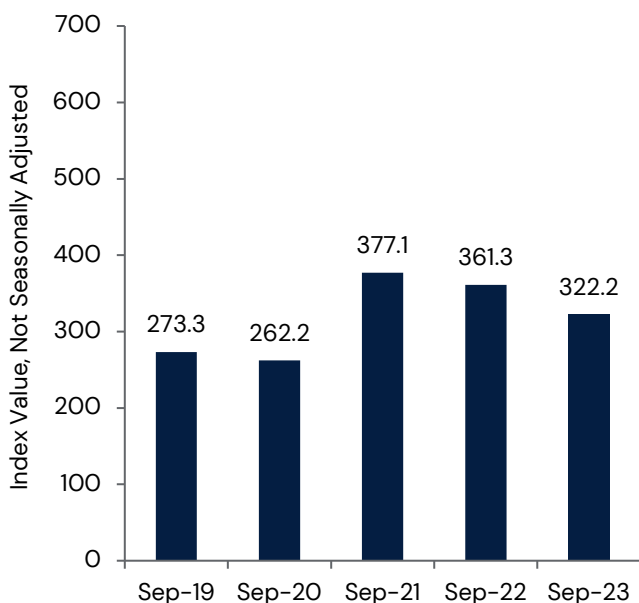
Elevated Demand Spurs Strong Plastics Pricing

The Plastics subsegment has enjoyed heightened demand through YTD 2023, primarily driven by downstream, finished-product customers including Aerospace, Automotive, Pharmaceutical and Semiconductor manufacturers. The need for high performance plastics performance (e.g. strength, adhesion, modulus) and also substituting metal components for high-grade plastic materials such as thermoplastics and thermosets has driven the increase. As a result, purchasers of engineered plastic components and resins have demonstrated a low degree of elasticity, exemplified by the Plastics Material & Resin Manufacturing Producer Price Index (PPI) reaching an index value of 322.2 in September 2023, according to the U.S. Bureau of Labor Statistics.⁴ Although this marks a decline of 12.1% YOY, the 2023 value has remained above pandemic levels, outpacing the index value in September 2020 and 2019 by 17.9% and 18.6%, respectively. Purchaser inelasticity has also contributed to healthy levels of M&A activity and a strong growth outlook in the subsegment. Of note, the U.S. Plastics market was valued at \$87.9 billion in 2022 and is forecasted to reach \$119.4 billion by 2030 through a CAGR of 3.9%, according to Grand View Research.⁵

Plastics M&A Market Flourishes Year-to-Date

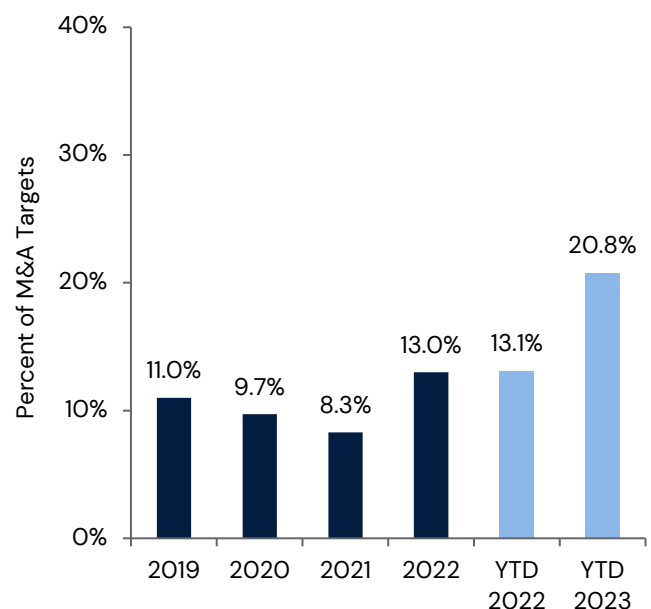
M&A activity in the Plastics subsegment has continued to thrive through YTD 2023, with 40 transactions announced or completed. This marks an 17.6% increase YOY, with M&A targets in the subsegment accounting for 20.8% of total sector deals to-date compared to 13.1% (34 deals) in YTD 2022. The rise in transaction volume has been supported by acquirers buying into the Plastics segment, and in particular key subsegments like Thermoplastic Elastomers (TPEs). The second half of 2023 has also continued the trend of strong Compounded Plastics deal flow including Geon’s acquisition of TPE provider Polymax Thermoplastics and Hexpol’s acquisition of Star Thermoplastic Alloys and Rubbers. Strategic buyer appetite, 65.0% of subsegment deals in YTD 2023, represents heightened activity compared to 47.1% in the prior year period. Driven by a more difficult lending environment, private equity activity has cooled, accounting for only 35.0% of subsegment deals to-date. Similar to the broader Chemicals sector, manufacturers with high-technology, high-IP business models have garnered premium valuations from acquirers, evidenced by an average subsegment M&A multiple of 10.8x EV/EBITDA from 2020 through YTD.

Plastics Material & Resin Manufacturing Producer Price Index Remains Elevated



Source: U.S. Bureau of Labor Statistics and Capstone Partners

Plastics Companies Comprise More Than One-Fifth of Sector Deals



Year-to-date (YTD) ended December 5
Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

PLASTIC AND FOOD INGREDIENT DEALS HEADLINE M&A ACTIVITY



Doug Usifer
Managing Director

“The Plastics and Food Ingredients subsectors, in particular, have been active in M&A in 2023, driven in part by the favorable long-term fundamental demand outlook in their key end markets served. In addition, the targets’ high value product and service portfolios combined with reputation in the end market in many cases have enabled deeper access to these markets and underpinned this M&A activity.”



In August 2023, private equity firm TJC announced its acquisition of DuPont de Nemours’ (NYSE:DD) Delrin® business for an enterprise value of ~\$2 billion. Delrin® develops an acetal homopolymer resin (POM-H), one of the most crystalline engineering thermoplastic materials available. POM-H is typically utilized to bridge the gap between metals and plastics and is specified for high-load mechanical applications such as gears, safety restraint components, door and conveyor systems, medical delivery devices, ski bindings, and zip fasteners. The wide array of industrial and commercial applications piqued TJC’s interest in the business segment and the transaction showcases sponsors’ heightened acquisition appetite in the Plastics subsegment.

DuPont’s motivation for the divestiture of Delrin® largely focused on operational efficiency, as noted by CEO Ed Breen. “Today’s announcement largely completes our planned exit of the former M&M segment, advancing our position as a premier multi-industrial company. This transaction is structured to maximize value for our shareholders, providing significant cash proceeds at close to be deployed in line with our strategic priorities while providing an opportunity for DuPont to participate in future upside potential upon exit of our retained equity interest in the Delrin® business,” said DuPont CEO, Ed Breen, in a press release.⁶

Koninklijke DSM (ENXTAM:DSM) acquired Firmenich International in April 2023 for an enterprise value of \$19.9 billion, equivalent to 4.1x EV/Revenue and 23.4x EV/EBITDA. Following the close of the transaction, the combined entity rebranded as DSM-Firmenich (ENXTAM:DSFIR). Firmenich manufactures flavors, fragrances, and natural and synthetic chemical ingredients. Firmenich’s synthetic ingredient manufacturing capabilities have become increasingly pertinent to the company’s research and development (R&D) efforts, testing more than 2,000 new molecules per year, according to Firmenich’s website.⁷ The acquisition is expected to further enhance R&D initiatives, expand geographic presence, and spur new growth opportunities in the global Fragrance, Taste, Texture, and Nutrition markets for the combined entity.

The transaction is also anticipated to produce significant fiscal synergies for DSM. Of note, Firmenich’s projected ~\$369 million in annual adjusted EBITDA and ~\$528 million in annual revenue are forecasted to uplift DSM’s Food & Beverage division, supporting double-digit earnings per share (EPS) accretion, according to a press release.⁸ In addition, the combined entity is expected to reach an adjusted EBITDA margin between 22% and 23% by year-end 2023, according to the press release.

SELECT TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise	EV/LTM	
				Value (mm)	Revenue	EBITDA
12/04/23	American Pacific	NewMarket (NYSE:NEU)	Manufactures specialty chemicals, primarily oxidizers.	\$700.0	-	-
12/02/23	Polymax Thermoplastic Elastomers	GEON Performance Solutions	Develops and manufactures thermoplastic elastomers.	-	-	-
11/14/23	Star Thermoplastic Alloys & Rubbers	HEXPOL (OM:HPOL B)	Develops and manufactures thermoplastic elastomers.	\$26.5	1.3x	-
11/13/23	Sio Silica	Pyrophyte Acquisition	Manufactures quartz silica.	\$721.5	-	-
11/09/23	Chemtrade Lubricant Additives Business	Trecora Resources	Manufactures lubricant additives.	-	-	-
11/06/23	Recochem	CapVest Partners	Manufactures automotive and household chemical products.	-	-	-
11/02/23	Old World Specialty Chemicals	Brenntag North America	Distributes chemicals.	-	-	-
10/30/23	Miami Products & Chemical	Hawkins (Nasdaq:HWKN)	Manufactures industrial chemicals.	\$15.0	-	-
10/24/23	Gilbert & Jones	Shrieve Chemical	Supplies inorganic specialty and industrial chemicals.	-	-	-
10/02/23	CedarChem	Solenis	Manufactures water treatment chemicals.	-	-	-
09/05/23	FloChem	Univar Solutions	Distributes chemicals.	-	-	-
08/28/23	LRBG Chemicals	Bakelite Synthetics	Manufactures chemical resins.	-	-	-
08/24/23	Nutrinova	Mitsui & Co. (TSE:8031)	Manufactures functional food ingredients.	\$675.0	3.9x	14.7x
08/21/23	DuPont (NYSE:DD) Delrin Resins Unit	TJC	Manufactures engineered polymers.	\$1,997.5	-	-
07/27/23	Rochester Midland	Peak Rock Capital	Manufactures specialty chemicals.	-	-	-
07/21/23	Chase (NYSEAM:CCF)	KKR & Co. (NYSE:KKR)	Manufactures protective materials including adhesives and sealants.	\$1,330.4	3.4x	13.6x
07/03/23	Adare Biome	DSM-Firmenich (ENXTAM:DSFIR)	Develops and manufactures postbiotic ingredients.	\$300.1	-	18.0x
05/10/23	Livent (NYSE:LTHM)	Allkem (ASX:AKE)	Manufactures and sells performance lithium components.	\$3,810.1	4.1x	8.5x
05/10/23	KMG Chemicals	FUJIFILM (TSE:4901)	Manufactures specialty chemicals and performance materials worldwide.	\$700.0	1.9x	-
04/28/23	Firmenich International	Koninklijke DSM (ENXTAM:DSM)	Develops fragrances, flavors, and natural and synthetic ingredients.	\$19,858.2	4.1x	23.4x
03/14/23	Univar Solutions (NYSE:UNVR)	Apollo Global (NYSE:APO)	Distributes commodity and specialty chemical products.	\$8,112.5	0.7x	7.8x
03/08/23	Diversey Holdings	Solenis	Provides hygiene, infection prevention, and cleaning solutions.	\$4,515.6	1.6x	14.6x
01/11/23	Sweet Ingredients Portfolio of Kerry	IRCA	Manufactures sweet and cereal products.	\$537.6	-	-

Source: Capital IQ, PitchBook, FactSet, and Capstone Partners

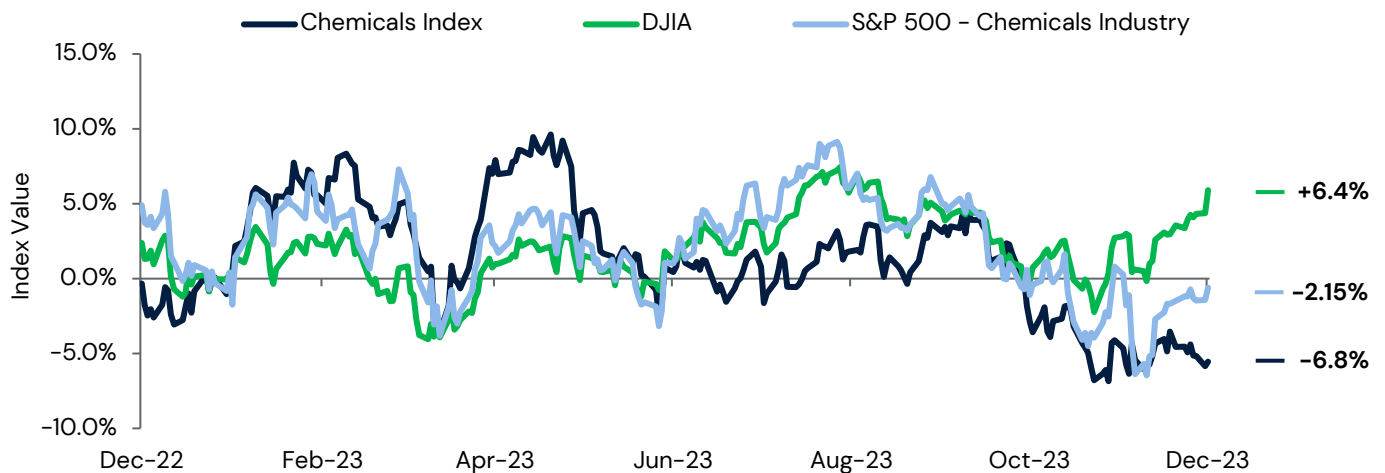
PUBLIC COMPANY DATA

Company	Price	% 52 Wk	Market	Enterprise	LTM			EV / LTM	
	12/05/23	High	Cap	Value	Revenue	EBITDA	Margin	Revenue	EBITDA
Akzo Nobel N.V.	\$77.04	90.0%	\$13,143.1	\$17,812.2	\$11,372.8	\$1,402.4	12.3%	1.6x	12.7x
Arkema S.A.	\$98.72	91.6%	\$7,350.0	\$9,249.6	\$10,371.5	\$1,508.3	13.9%	0.9x	6.1x
Asahi Kasei Corporation	\$6.85	97.7%	\$9,490.1	\$14,430.4	\$18,218.7	\$1,858.4	10.2%	0.8x	7.8x
BASF SE	\$46.96	80.6%	\$42,001.0	\$63,886.6	\$76,582.3	\$3,285.4	4.3%	0.8x	19.4x
Bayer Aktiengesellschaft	\$34.41	49.1%	\$33,618.7	\$74,940.9	\$50,566.3	\$10,671.0	21.6%	1.5x	7.0x
Brenntag SE	\$84.58	98.2%	\$12,487.1	\$14,820.4	\$18,635.2	\$1,534.1	8.3%	0.8x	9.7x
Dow Inc.	\$51.14	84.0%	\$35,869.4	\$48,879.4	\$45,860.0	\$6,824.0	14.9%	1.1x	7.2x
DuPont de Nemours, Inc.	\$70.88	90.0%	\$30,481.4	\$38,396.4	\$12,274.0	\$3,101.0	25.3%	3.1x	12.4x
Eastman Chemical Company	\$83.57	90.6%	\$9,904.1	\$14,827.1	\$9,376.0	\$1,516.0	16.2%	1.6x	9.8x
Exxon Mobil Corporation	\$100.44	83.2%	\$401,436.0	\$417,575.0	\$350,391.0	\$71,519.0	14.8%	1.2x	5.8x
Formosa Plastics Corporation	\$2.56	85.1%	\$16,285.7	\$16,839.2	\$6,291.5	\$225.9	NA	2.7x	NM
LG Chem, Ltd.	\$357.98	55.0%	\$26,981.7	\$43,526.5	\$42,084.4	\$4,335.2	10.4%	1.0x	10.0x
LyondellBasell Industries N.V.	\$92.82	91.0%	\$30,107.3	\$40,095.3	\$41,384.0	\$5,473.5	13.2%	1.0x	7.3x
PPG Industries, Inc.	\$142.65	93.3%	\$33,636.9	\$39,501.9	\$18,081.0	\$3,001.3	16.6%	2.2x	13.2x
Saudi Basic Industries Corporation	\$21.36	82.2%	\$64,085.1	\$68,871.0	\$43,043.7	\$5,600.0	13.1%	1.6x	12.3x
SPC	\$0.14	70.5%	\$3,436.2	\$3,360.3	\$12,964.8	NM	NA	0.3x	NM
Unilever PLC	\$47.90	78.1%	\$119,709.8	\$148,975.1	\$66,460.7	\$12,887.6	19.4%	2.2x	11.6x

Mean	13.6%	1.4x	10.2x
Median	13.9%	1.2x	9.8x
Harmonic Mean	10.5%	1.0x	9.1x

EV = enterprise value; LTM = last twelve months
 NM = not meaningful
 \$ in millions, except per share data

Capstone's Chemical Index Average Return Dips Below Dow Jones and S&P Chemical Index



Chemicals Index includes: 2010, 338, 1301, 3407, AO51910, AKZA, AKE, BAS BAYN, BNR, DD, DOW, EMN, LYB, PPG, ULVR
 Note: Chemicals Index is Market Capitalization Weighted
 Source: Capital IQ and Capstone Partners as of December 5, 2023

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Doug joined Capstone Partners from Atlas Advisors where he focused on the firm’s Industrials practice. He has over 30 years of experience in investment banking and industrial sectors including chemicals, plastics, waste and scrap metal. Prior to Atlas, Doug worked at National Starch as Business Director, Food Emulsions, and Encapsulation, where he was General Manager of a \$40MM global specialty food ingredients business. He also worked on M&A transactions including National Starch’s acquisition of Penford’s resistant starch business. Before to National Starch, Doug worked at Engelhard Corporation in several capacities, including Business Development Manager, Corporate New Ventures; Marketing Manager, Special Effect Pigments; Manager, Technology and Market Development, Performance Additives/Specialty Minerals. While at Engelhard, he worked on M&A transactions including the acquisition of Mearl Corp, a U.S. producer of pearlescent pigments and iridescent films. He previously worked at Cambrex Corporation (pharmaceutical fine chemicals) and Hoechst Celanese (electronic products and plastics). Doug holds MS and Ph.D. degrees in Organic Chemistry from Rensselaer Polytechnic Institute and an MBA in Finance from Rutgers University.



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Neve serves as a Market Intelligence Analyst at Capstone Partners covering the Industrials industry. Prior to joining the firm’s Market Intelligence Team, Neve was an intern at the Bank of New York Mellon and Gray Private Wealth. Neve graduated with a Bachelor’s of Science degree in Finance from Bentley University.



FIRM TRACK RECORD

Capstone Partners maintains an active Industrials practice in the middle market, with Chemicals being an important vertical within our focus. This market presence allows Capstone Partners to provide chemical companies with up-to-date market data and access to key decision makers among the industry's most active acquirers and investors.



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ENDNOTES

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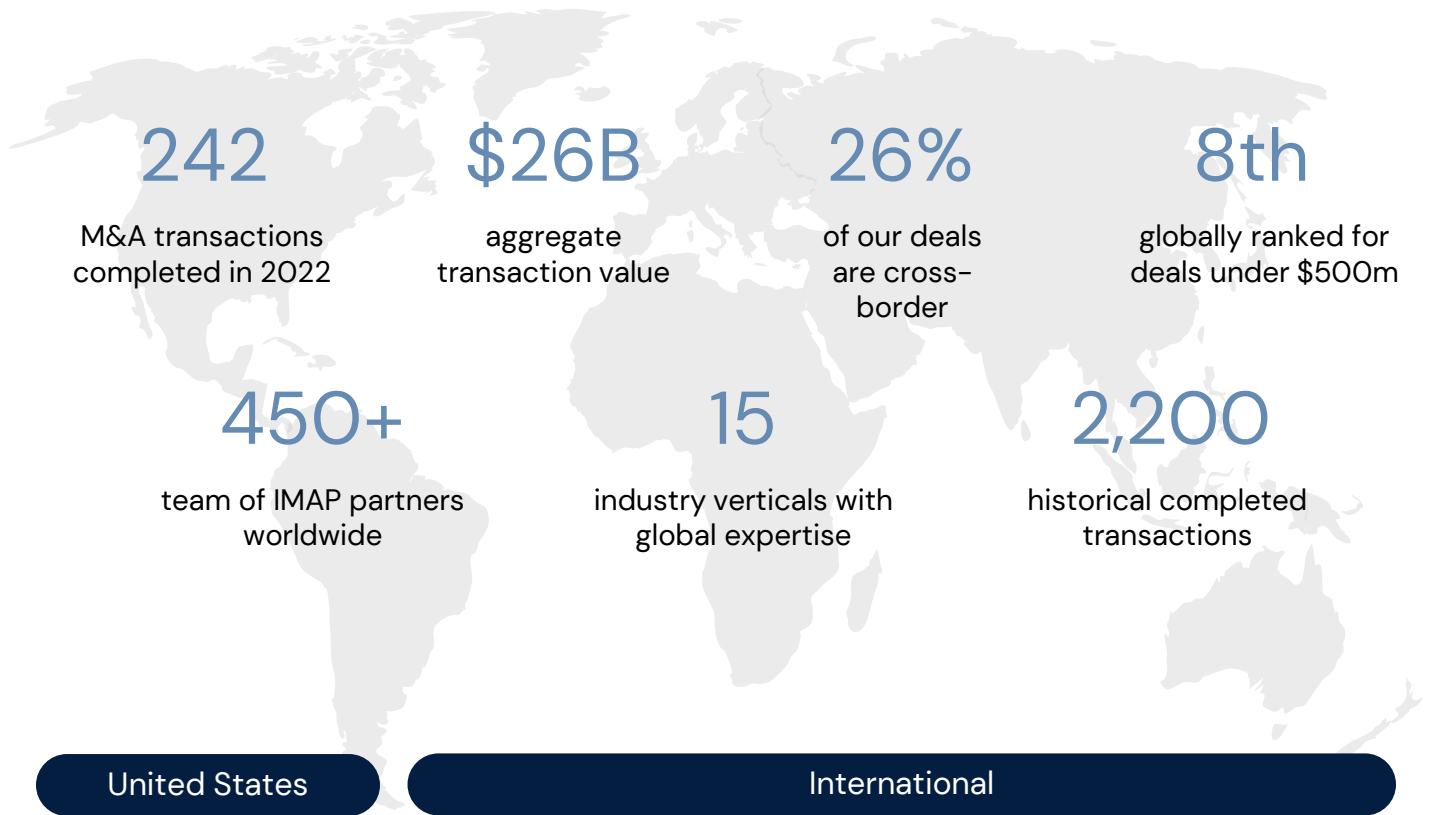
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