MARCH 2021

DRESNER PARTNERS
INVESTMENT BANKING

CHEMICALS INDUSTRY TRENDS AND M&A OVERVIEW

M&A Trends & Key Deal Drivers

- **M&A to Build a Pure-Play Powerhouse:** Chemicals companies continue to use M&A to grow their market share leading businesses and unload marginally profitable businesses in which they are not industry leaders, as customers demand deeper product expertise, and investors increasingly value the resilience of pure play business strategies
- **M&A to Tap New Markets:** M&A is still a major contributor to the top-line growth for large commodity and specialty chemical companies, which use bolt-on acquisitions to gain access to new geographies, products and end markets
- **Redirecting Oil from Transportation/Power to Chemicals:** Oil & Gas companies have turned their attention to M&A opportunities in the chemicals market as the largest projected increase in demand for oil over the next 15 years is expected to come from the chemicals industry rather than transport and power
- **Short-term COVID Impact**: Disruptions in the global supply chain will continue to drive chemical companies to re-assess overseas manufacturing, acquire additional regional assets and develop cross-border alliances to mitigate supply chain risk

Impact of COVID-19 and the Ongoing Oil Price War

- The chemicals industry is being hit with an unprecedented one-two punch: the ongoing pandemic and a global price war in the oil markets
- These two disruptors will lead to a major reshaping of the chemicals industry – companies that are able to emerge from the pandemic crisis in a relatively strong position will turn to M&A to gain market share, and/or invest in new technologies that serve higher-margin niche markets
- Chemical companies in cyclical end-markets will renew their efforts to either seek diversification into less cyclical end-markets or double-down and consolidate cyclical end-markets, seeking value through synergies and increased market share
- As M&A activity restarts in the chemicals industry, a few major themes will define the deal making environment:
  - In this relatively low-interest, high-P/E environment, chemical industry megamergers are lurking at every corner as companies seek to diversify risk and benefit from economies of scale
  - Special Purpose Acquisition Companies (SPACs), will continue to be a way for relatively low performing privately-held companies to attain shockingly high valuations, thus enabling even underperforming mid-size commodity chemical companies to end up public at astounding multiples
  - As the pandemic concerns ease and the global oil price war attenuates, cycle-resistant chemical assets will command very attractive M&A premiums

Environmental, Social and Governance Investing

- From OSHA-driven operator safety enforcement to EPA-driven regulatory compliance, Environmental, Social and Governance (ESG) principles have long been a part of the chemicals sector
- However, ESG has most recently become a prevalent conversation topic among two chemicals industry stakeholders: shareholders (including investment firms) and lenders
- Initially, smaller investors with a particular "idealistic" focus on sustainability were at the leading edge, but in the last year two years leading institutional investors such as BlackRock, Fidelity and State Street Capital have put significant capital behind ESG-related investment decisions
  - BlackRock and Fidelity, for example, both run ESG-focused funds which selectively own shares in chemical companies
- As a result, publicly traded chemical companies find that ESG is now a major theme in discussions with investors, a trend that seems likely to accelerate
- We envision a larger group of investors becoming more enamored with ESG-driven investment strategies

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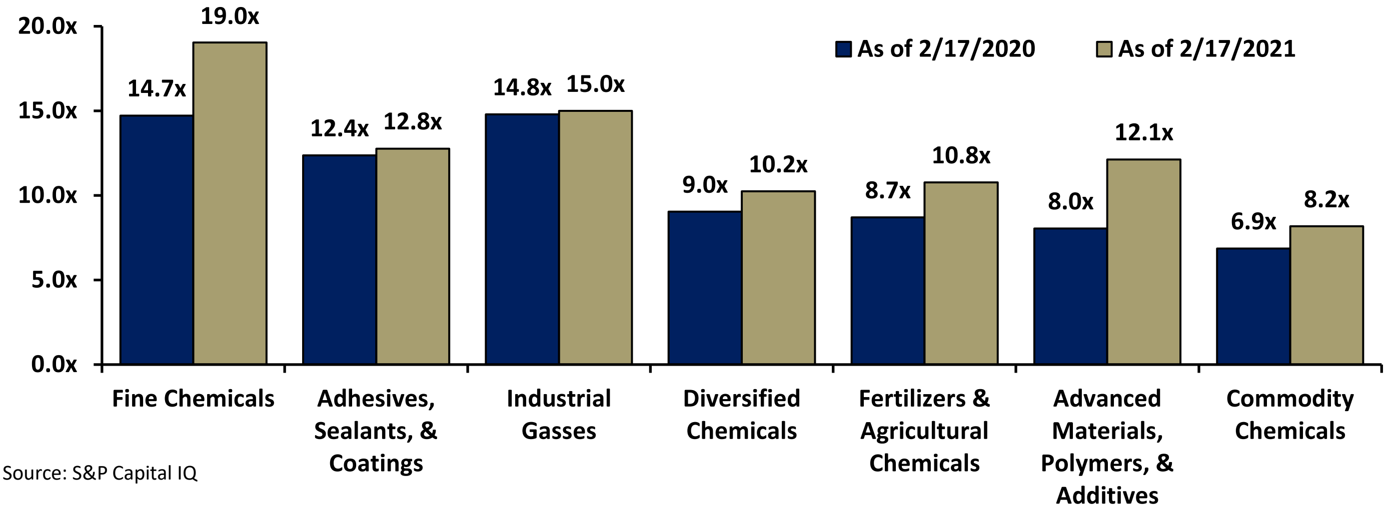
Public Company Valuations by Chemicals Subsector (Enterprise Value / NTM EBITDA)

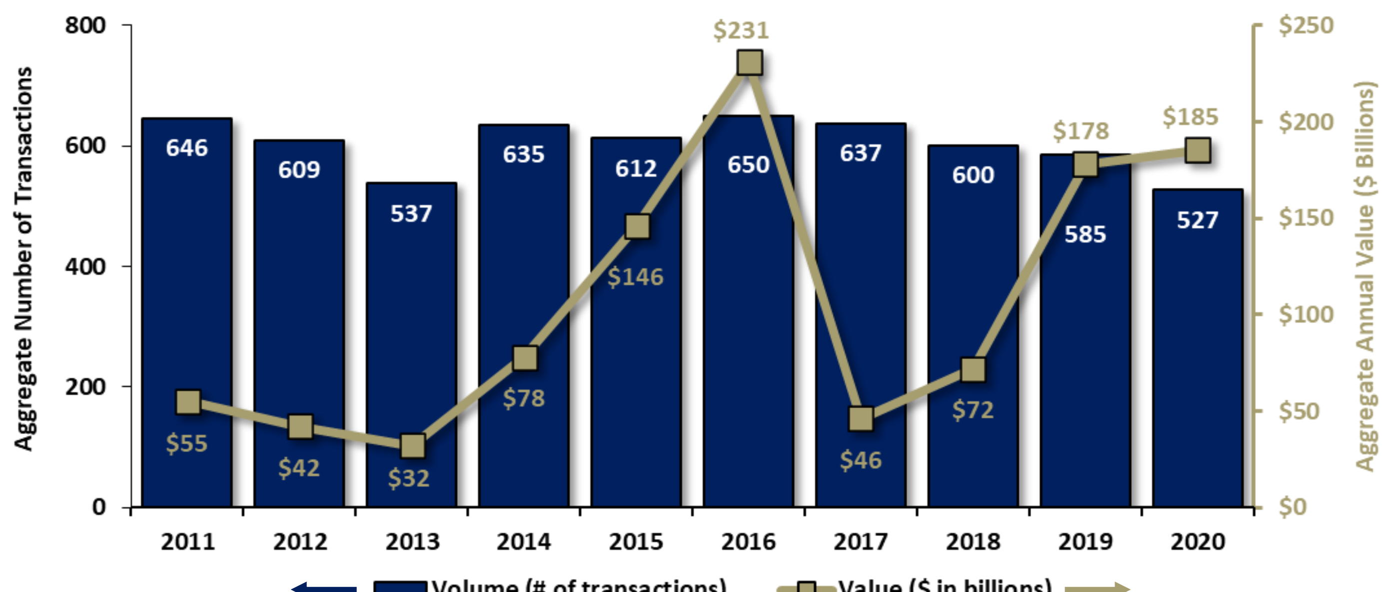


Source: S&P Capital IQ

Chemicals Subsector M&A Trends – 2020 Review

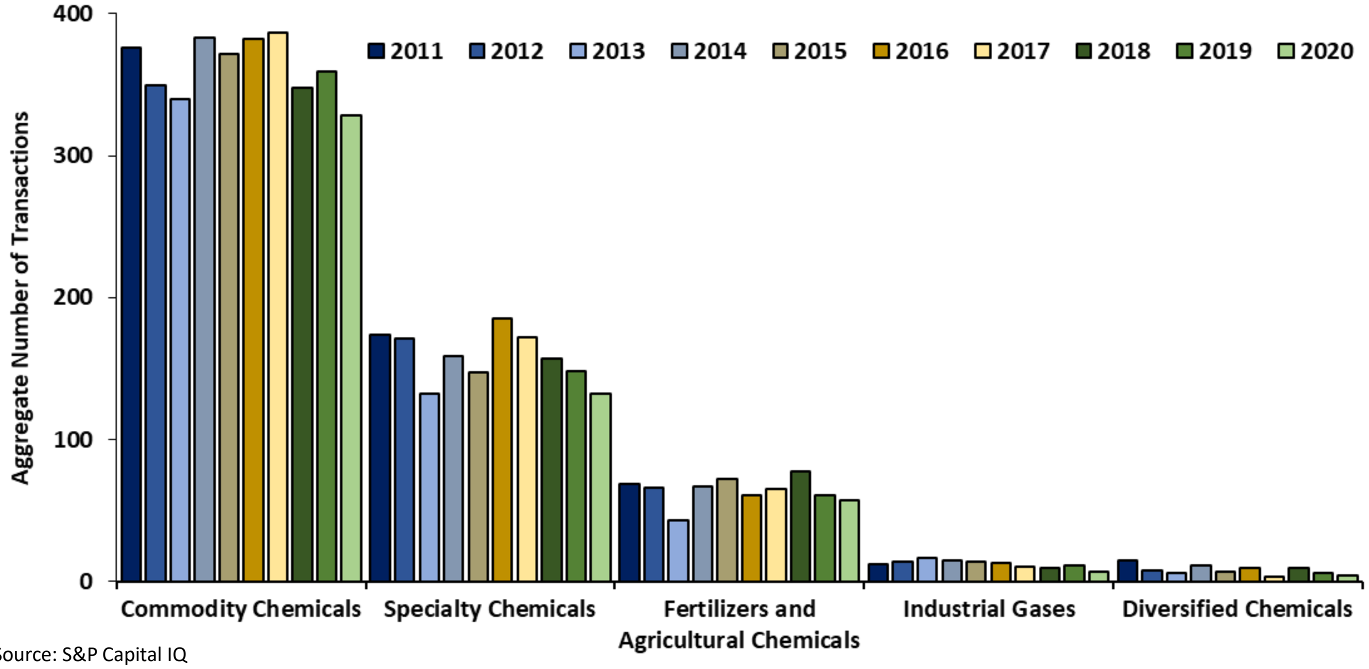
- The **Commodity Chemical** sector continued to invest a large percentage capital towards organic growth. The COVID-19 pandemic slowed global economic growth, weakening the demand for basic chemicals. As a result, commodity chemical companies took this opportunity to use excess cash flow for M&A growth in adjacent products and end markets. The excess petrochemical capacity that is scheduled to come on-line in 2021 meant oversupply and depressed prices for some petrochemicals companies. This situation drove many commodity chemical companies to spend much of 2020 focusing on driving efficiencies rather than using M&A to add to capacity
- The **Diversified Chemicals** sector has seen larger chemical companies streamlining their portfolios including BASF, Clariant, Dow Chemical, DuPont and Evonik. These companies have sold or initiated sale processes for more than one business in the past three years, while also being absent as acquirors in the sector (except for smaller bolt-ons or technology acquisitions)
- A weak start to the U.S. growing season, ongoing U.S./China trade dispute and weak agricultural commodity prices depressed M&A activity in the **Fertilizers and Agricultural Chemicals** sector
- M&A in the **Intermediates and Specialty Materials** sector had a continued focus on food flavorings and additives being driven by carve-outs as larger companies looked to optimize their portfolios. Since valuations of specialty chemical companies often exceed the value of the combined business, ownership/management of these companies continued to look to sell such assets to focus on core operations of the business

Global Chemical Industry M&A



Source: S&P Capital IQ

Deal Volumes by Chemicals Subsector



Source: S&P Capital IQ

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, and Palo Alto. For almost 30 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 Mergers Alliance, a global organization of leading middle market merger and acquisition advisory firms. As the exclusive US representative in Mergers Alliance, Dresner Partners maintains a well-established network of international offices in more than 25 countries. Thomson Reuters' 2020 league tables report Mergers Alliance advisers as having completed 70 global transactions, with an aggregate transaction value of more than $2.0 billion. Our relationships with global legal and accounting firms, 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.

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