

# Chemicals Executive M&A Report 2020

Is this the new normal or just  
a passing phase?

Photo by Tomasz Szczurowski  
Kearney, Warsaw

# Executive summary

Our annual M&A report explores global activity in the industry. This year, we also discuss the implications of the pandemic and shed light on the impact of the circular economy.

## Mega-deals or mega-crash?

- Although chemicals M&A seems to be on a growth path, a deeper look reveals a significant slow-down that started well before the COVID-pandemic and will likely continue into 2021.
- From the current low level of deals, we expect activity to rebound within the next two years, with a potentially strong upswing driven by deals from 2019 and 2020.

## Who will win, and who will miss out?

- Financial investors could be the winners in the post-COVID world, while national oil companies might miss a good opportunity for downstream development if they don't act fast.

## Where to focus and why?

- Deal rationale has shifted back to the less risky approach of consolidation and scale with a focus on exploiting bottom-line synergies.
- To reduce risk in a COVID-19 world, acquirors are focusing on the core: the home market, supply chain reliability, and mitigating demand volatility.

## Is the circular economy disrupting chemicals M&A?

- Although the circular economy has become part of the M&A agenda, chemicals investors are still focusing on their core operations.
- Circular economy considerations are slowly gaining weight in M&A, with Europe clearly leading the way.

## Kearney's view on the future of chemicals M&A

Six trends will shape the environment:

- Fierce competition for a limited number of attractive targets
- Increased pressure on broad-based and integrated players as a result of the valuation gap with focused specialty companies
- Broad-based and integrated players falling prey to activist or financial investors
- Private equities pursuing major deals at attractive prices
- Strategic players reverting to lower-risk tuck-ins
- State-driven feedstock players eyeing downstream acquisitions

# M&A activity and outlook

## Mega-deals or mega-crash?

At first glance, chemicals M&A appears to be growing again, with deal value rising after a significant drop in 2018. However, a deeper look reveals a significant slow-down that started well before the COVID-pandemic and will likely continue into 2021 (see figure 1 on page 3).

Excluding two big deals—Aramco’s acquisition of a 70 percent stake in SABIC and the Dow–DuPont spin-off, M&A activity dropped sharply in 2019. The COVID-19 pandemic is expected to have a major impact on 2020, even though most deals were in the final stages in the first quarter of the year before the full impact of the pandemic was felt. That being said, even with extrapolated data from the first half of 2020, deal activity is expected to be lower than in 2019. However, the pandemic is not the sole cause for the decline in deals. Simply put, most regions have fewer large targets on the market, and deal activity is concentrated on smaller deals.

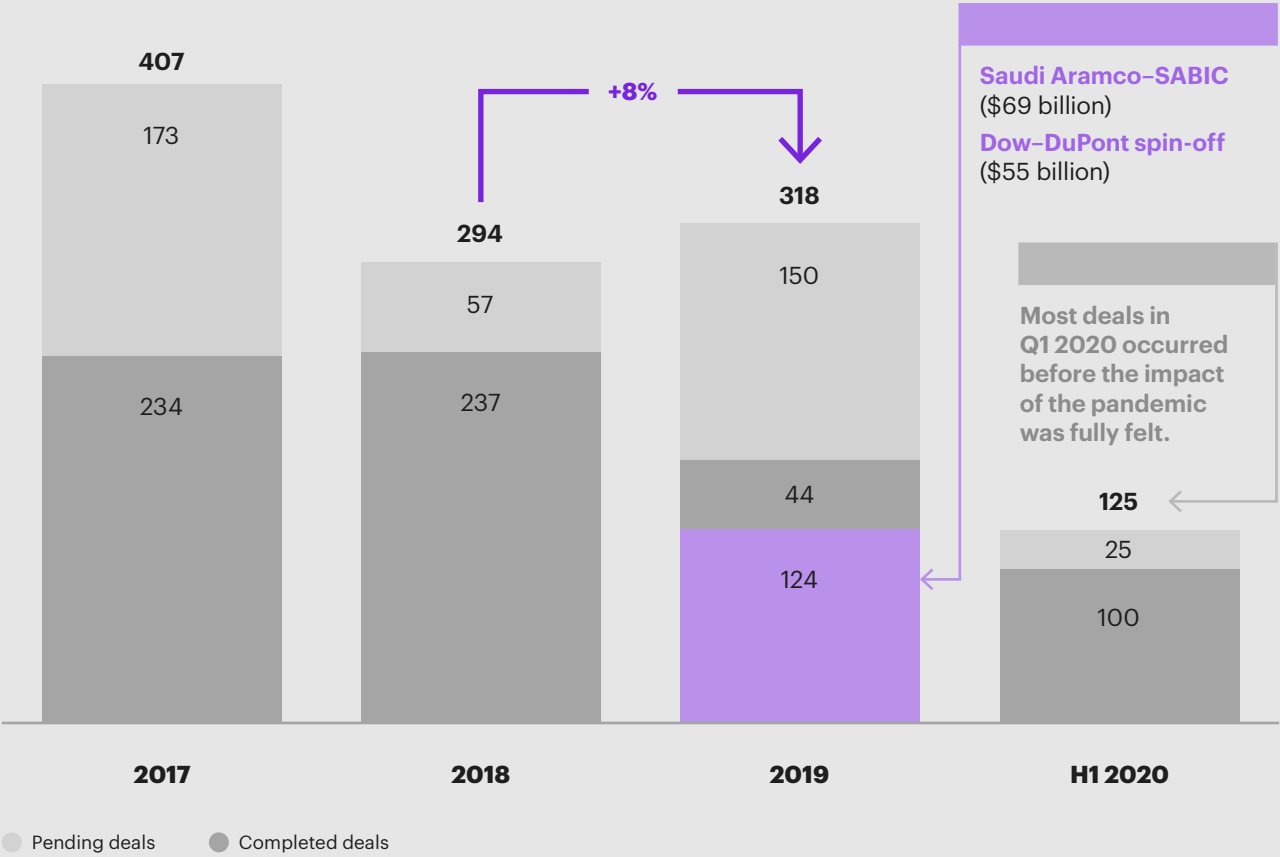
Looking ahead, there are no mega-deals on the horizon. The ticket size shrank in both 2019 and 2020, with the exception of the Aramco–SABIC and Dow–DuPont deals in 2019 and the BP–INEOS deal in 2020—aligning with the fact that there were fewer large targets available on the market. Amid the pandemic, this presents a double-negative impact: smaller targets and slower deal flow in general.

Given the ongoing and exceptionally challenging situation for the entire global economy, the decline is expected to continue into 2021, with chemicals executives who participated in Kearney’s 2020 Chemicals Executive M&A Report being very pessimistic about M&A prospects across all geographies (see figure 2 on page 4). Across regions, the number of executives who expect to see a decline in M&A transactions has more than tripled to one year ago, especially in China and India.

**The decline is expected to continue into 2021, with chemicals executives very pessimistic about M&A prospects across all geographies.**

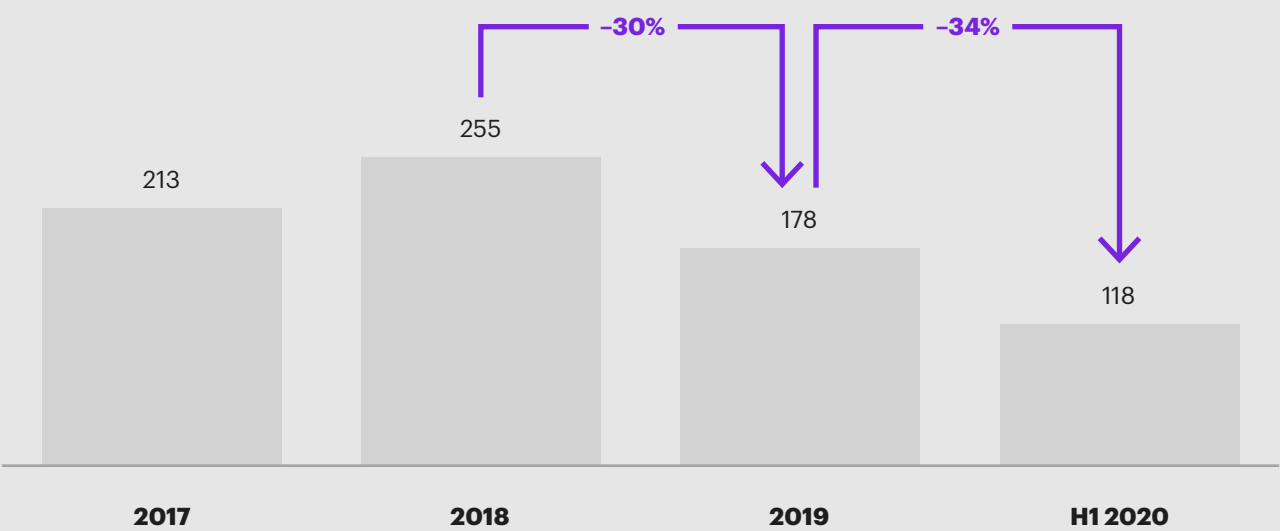
Figure 1  
**Chemicals M&A activity is facing a major slow-down**

Chemicals M&A activity  
(Based on transaction dates, deal value in \$ billion)



**Chemicals M&A deals have gotten much smaller**

Completed chemicals M&A deals (adjusted)  
(Average deal size in \$ million)



Source: Kearney's Chemicals Executive M&A Report 2020

# Impact of COVID on the deal landscape

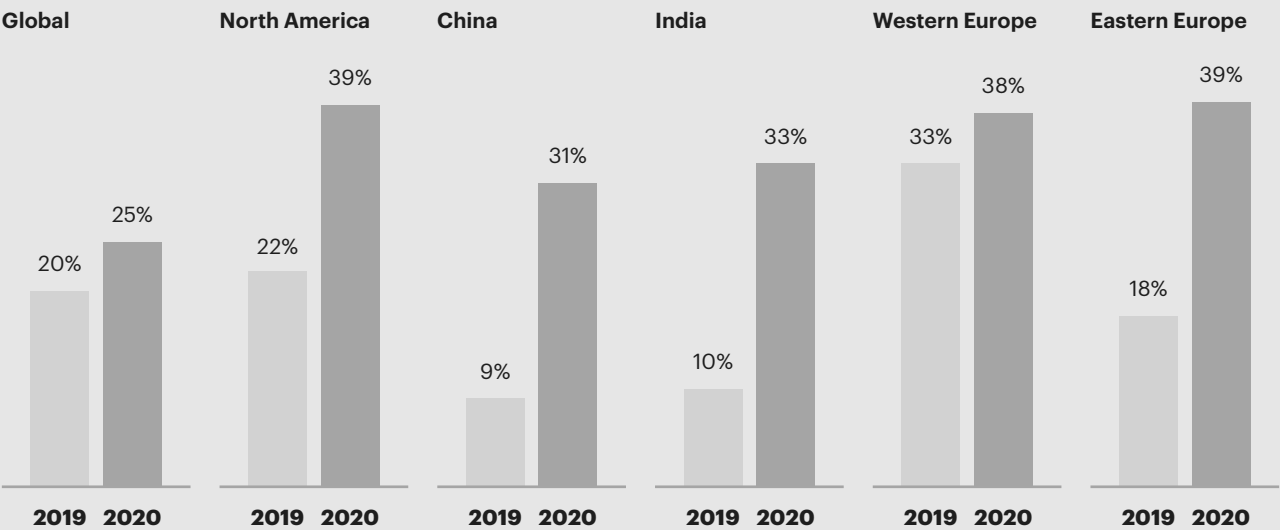
In late 2019 and the first half of 2020, several expected deals were postponed because of the economic slowdown and the immediate shock from COVID-19 (see figure 3 on page 5). Lined-up Chinese and Southeast Asian deals got cancelled starting from the first quarter of 2020. The deal pipeline in Europe and the Americas dried up shortly thereafter and has yet to recover amid investors’ fears and sellers’ lack of focus on M&A.

Although the picture for 2020 and potentially for 2021 is somewhat grim, deal activity is expected to rebound in 2022 thanks to several canceled or postponed deals in 2020 and 2021 and a return in momentum. As a result, we expect to see even stronger M&A activity after 2022 when the backlog fully hits the market.

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Figure 2  
Chemicals executives have a grim outlook for M&A deals in 2020

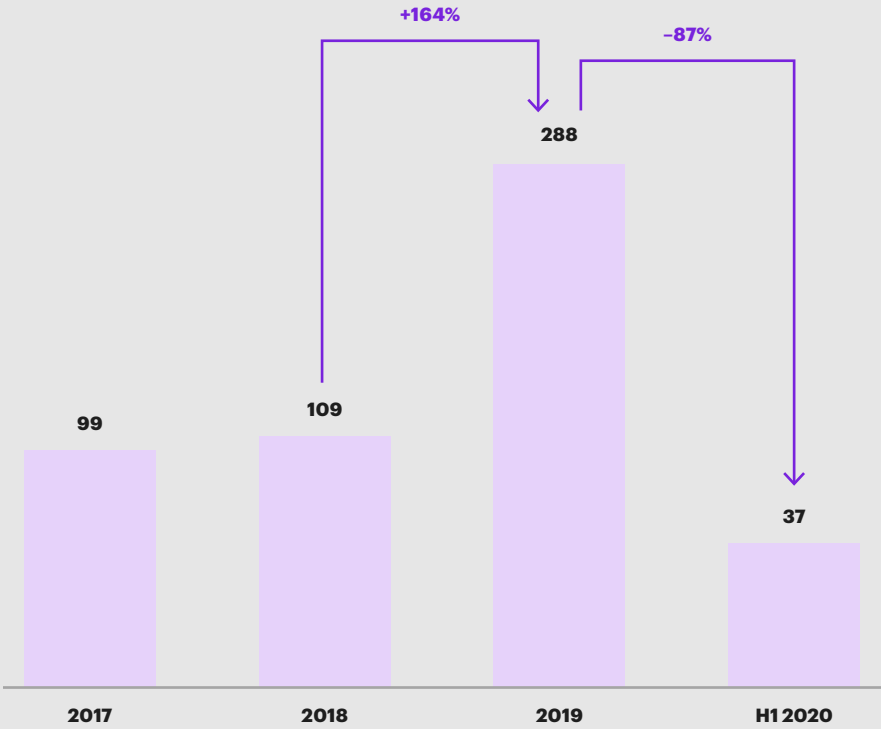
% of executives who believe M&A activity will continue to decline



Source: Kearney’s Chemicals Executive M&A Report 2020

Figure 3  
**Out of last year's robust deal pipeline, several deals were put on hold because of the pandemic**

Value of announced deals  
(\$ billion)



Source: Kearney's Chemicals Executive M&A Report 2020

# Investor types and focus

## Who will win, and who will miss out?

Financial investors and to a lesser extent strategic investors are expected to be most active, primarily because of potential attractive target valuations and a larger number of more distressed companies on the market. Financial investors are expected to grow their presence while strategic investors pursue focused tuck-ins in specialty segments.

Meanwhile, state-controlled players have been slow to capitalize on potentially favorable pricing for select targets and might miss out on a strong opportunity. More national oil companies are seeing M&A as a good way to diversify their portfolios further downstream, even into specialties, including SABIC's stake in Clariant and PETRONAS Chemicals Group's acquisition of Da Vinci Group. This could be a strong opportunity for national oil companies to acquire mid-sized chemicals companies to extend their portfolios rather than buying them from financial investors at a later stage and likely higher valuations. Financial investors are targeting all end sectors, including specialty chemicals, trade and distribution, and petrochemicals, with a bias toward the specialty chemicals segments, primarily because of a higher perceived future upside. Of all the sectors, petrochemicals and basic chemicals show the least interest in M&A, primarily because of a lack of targets, higher volatility, and lower anticipated cash flows, especially if low oil prices continue (see figure 4 on page 7).

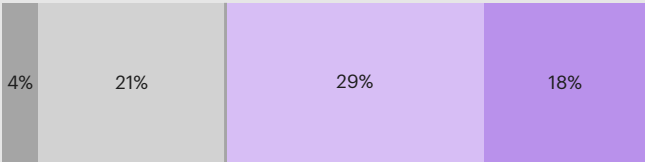
The trend of petrochemicals and basic chemicals companies moving from the public to private or state-driven ownership will likely continue. Financial investors are expected to jump on opportunities as soon as they come to market, especially for focused specialty chemicals targets. They could also make some bold moves by leveraging their large investment funds, lower valuations of integrated and broad-based players, and lower profit levels. Strategic investors will remain conscious of the persisting low-demand environment, following a low-risk approach by pursuing tuck-ins that are focused on driving consolidation of segments and achieving scale where they choose to play.

Figure 4  
Target sectors reflect the relative optimism about specialties that could be more resilient in the uncertain post-COVID recovery

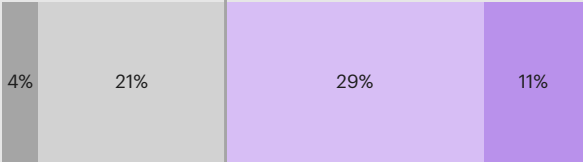
Development of M&A activity for sectors (Share of answers in executive survey)

- Strongly decline
- Decline
- Increase
- Strongly increase

Specialties and fine chemicals



Trade and distribution



Petrochemicals and basic chemicals



Source: Kearney's Chemicals Executive M&A Report 2020



# Changing deal rationale and focus

## Where to focus and why

Over the past few years, deal rationale has been changing depending on the macroeconomic environment. In today's uncertain market, the predominant rationale has shifted back to the less risky approach of consolidation and scale with a focus on exploiting bottom-line synergies. When oil prices were higher in 2013 and 2018, regional expansion and product extension were high on the list for deal rationale. But in 2019 and 2020, consolidation and vertical integration were the main factors because of a more depressed GDP outlook, escalating economic volatility, and politically driven interventions.

In today's uncertain market environment, deal activity will once again focus on consolidation and scale, where risk is lower and cost synergies drive success with an emphasis on exploiting bottom-line synergies (see figure 5 on page 9). To reduce risk in a COVID-19 world, acquirors are also focusing on the core: the home market, supply chain reliability, and mitigating demand volatility.

When evaluating targets, supply chain reliability is crucial, as is the home market footprint. The pandemic has disrupted global supply chains, which unsurprisingly has resulted in acquisitions as a way to localize supplies. That being said, this could change quickly once we have reliable treatments and vaccines and as international trade resumes. We have already seen a knee-jerk reaction to M&A, with acquisitions happening as quick responses to market conditions—indicating that the approach to local supply chains maybe short-lived.

To reduce M&A risk, buyers have shifted their attention to home-market acquisitions—the market they understand best and feel most comfortable in. But, just like supply chain reliability, this could change quickly once global trade picks up pace. However, the number of viable targets may not be huge, especially in emerging markets, and the technology base is still not competitive, which is forcing companies that are looking for growth to turn their attention to overseas opportunities. This could result in a short-term spike in valuations for select local players that would otherwise not be top-priority targets. Local players looking for long-term acquisitions to improve their supply chain reliability might find it prudent to wait before making a move.

As a result of these frequent changes in strategy, acquirors are still struggling to capture the necessary top-line synergies from their acquisitions. And they could continue to struggle to gain any real value from synergies because of the often insufficiently well-defined M&A and post-merger integration strategies and capabilities. Especially given the potentially attractive valuations, players with a well-defined approach to integration and capturing synergies can gain more value from today's acquisitions in the long term. Players that are willing to take more risks can engage more in international expansion, securing access to growth markets.

Figure 5  
**Deal activity will focus on consolidation and scale, where risk is lower and cost synergies fuel success**

M&A deal types  
(share of answers in executive survey for “increase” and “strongly increase”)

2013–18		2019		2020
①	Consolidation and scale	Regional expansion	>	Consolidation and scale
②	Product extension	Product extension	>	Vertical integration
③	Regional expansion	Consolidation and scale	>	Business diversification

Source: Kearney’s Chemicals Executive M&A Report 2020

# The role of the circular economy

## Is the circular economy disrupting chemicals M&A?

Most chemicals companies know that the circular economy is a crucial topic, and they are slowly starting to take it up as part of their M&A agendas. While this is a step in the right direction, there is a long way to go since investors are still focused on their core operations.

Any acquisitions in the circular economy will be focused on areas that can have a tangible short-term impact on core operations, such as energy efficiency and extending product life (see figure 6 on page 11). Executives have also highlighted an interest in new production and technology-focused acquisitions, such as chemicals recycling. However, this may happen down the line. Instead of outright acquisitions, executives are more often looking for a partnership-based approach to M&A in the circular economy, highlighting the uncertainty and perceived risk in this space.

From an efficiency point of view, the focus on circular economy-driven acquisitions is consistent with the M&A focus on more traditional areas, such as efficiency and supply chain reliability. This sentiment reflects that chemicals players might not yet be looking to make circular economy acquisitions for top-line expansion. However, several large chemicals producers have announced ambitious 2025 and 2030 recycling targets and might not have the in-house capabilities needed to execute on those goals. As a result, many companies might not meet their short- and mid-term targets, but their 2030 targets could still hold. This presents an opportunity for large players, especially in polymers, to get ahead of the curve by making some selective acquisitions. Because consumer sentiment for recycling is still high despite the pandemic, the early movers gain a leading edge by capturing a larger share of the market, which should also translate into a bigger market share for virgin polymers and chemicals.

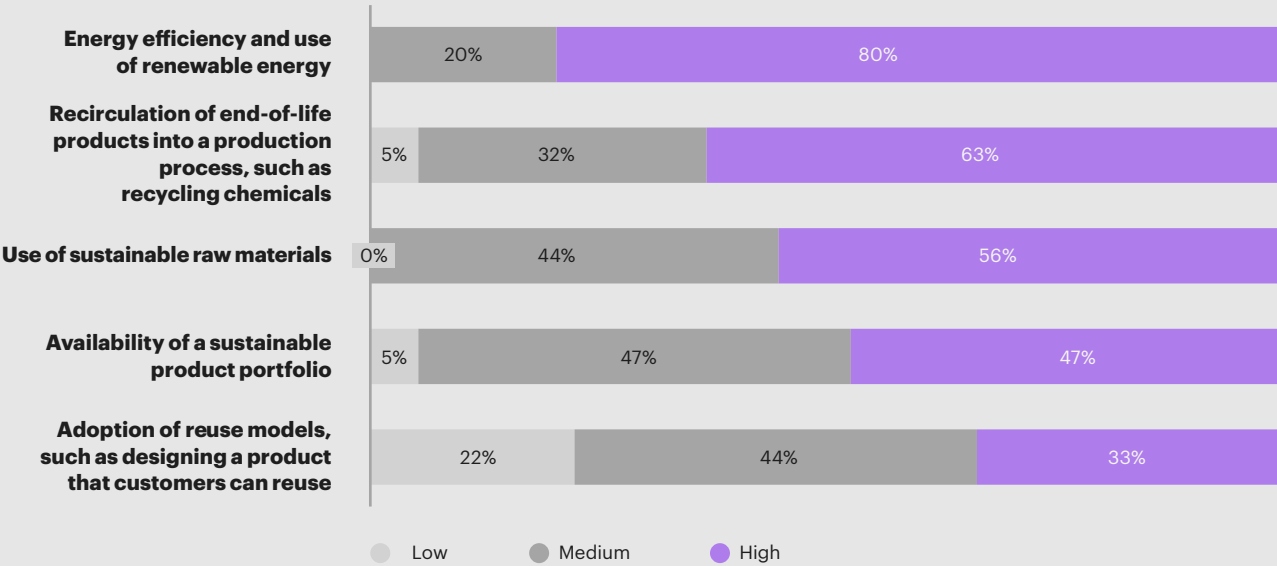
While circular economy considerations are slowly but surely gaining weight on a global scale, the dynamics of each region are changing how it impacts chemicals M&A. Europe is clearly leading the way, whereas North America, Asia, and the Middle East are just starting to add the topic to their M&A agendas (see figure 7 on page 12). This is reflective of Europe being a recycling leader and offering a larger base of suitable targets. Asian countries are just getting on board the circular economy movement, but the growth there is expected to be rapid, especially in China, and M&A could be a tangible way to secure the capabilities needed to fuel that growth.

When it comes to deal rationale in the circular economy, R&D capabilities are a key factor.

When it comes to deal rationale in the circular economy, R&D capabilities are a key factor. In fact, Chinese and other Asian players are likely to acquire European players to bring the necessary technology to their home markets and establish local supply chains—highlighting a potential opportunity for players in Asia and the Middle East to become early movers by making acquisitions when valuations may be still relatively attractive. Interestingly, M&A targets’ carbon emission footprint has a strong influence on the decision of whether to acquire a company. Although this holds true with European players being the front-runners, it could lose importance once Asian players enter the fray.

Figure 6  
**Chemicals acquirers are focusing on circular economy activities that are close to their core operations**

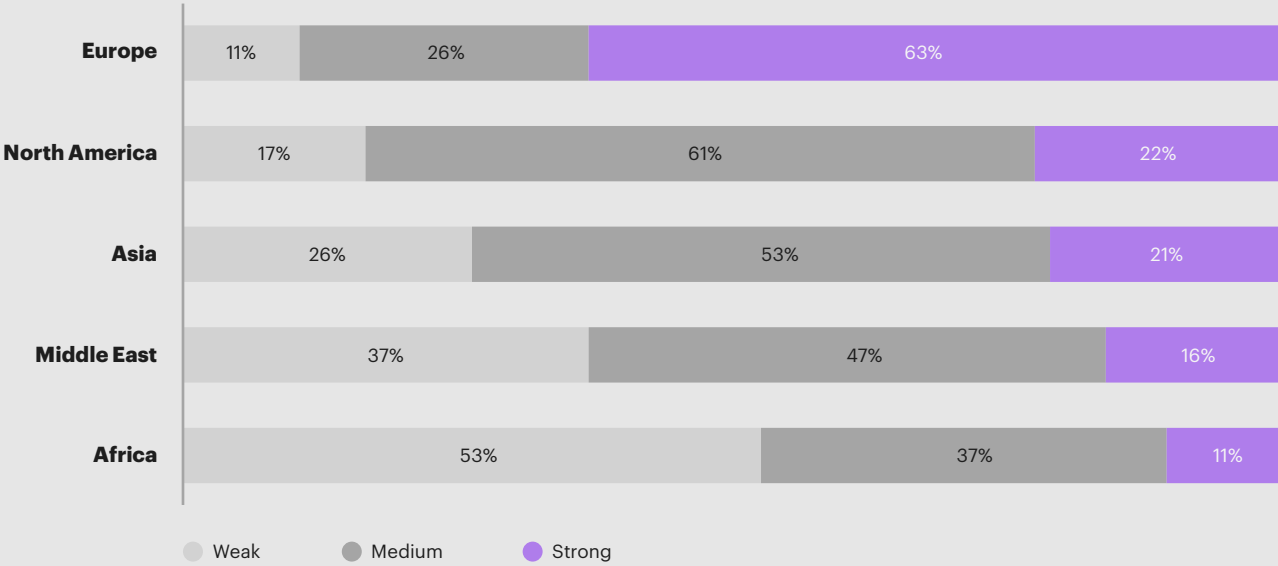
Aspects of the circular economy that companies and investors focus on  
(Share of answers in executive survey)



Source: Kearney’s Chemicals Executive M&A Report 2020

Figure 7  
**European chemicals players are clearly leading the way in the circular economy**

Expectation for chemicals M&A activity triggered by the circular economy  
(Share of answers in executive survey)



Source: Kearney's Chemicals Executive M&A Report 2020

# The outlook for 2020 and beyond

## Kearney's view on the future of chemicals M&A

Based on recent changes and some longer-term shifts in M&A as well as the economic conditions and outlook, we expect six trends to shape the chemicals environment:

### **Overall fierce competition for a limited number of attractive targets coming to market**

In today's uncertain environment, sellers are expected to act carefully when selling assets in order to capture the most value. This will likely reduce the number of attractive targets that are up for sale in the short to mid-term. In chemicals terms: a supply-demand imbalance will drive prices up.

Strategic players and financial investors in particular are looking to gain access and build scale in the few remaining resilient specialty chemicals markets, leading to ever-higher multiples in attractive market segments such as food, personal care, fragrances and flavors, and disinfectants. Several markets, including agrochemicals, are already highly consolidated, and the remaining attractive targets will be heavily sought after. Bidding wars can be expected.

### **Pressure on broad-based and integrated players will increase as a result of the growing valuation gap with focused specialty companies**

Looking back over the past decade, we can clearly see a widening of the valuation gap between integrated players that operate along chemicals value chains and chemicals players that have broad product portfolios compared with more focused specialty chemicals players. This gap has been growing in terms of the EBITDA multiple from around two to almost five.

Looking ahead, confidence in integrated and broad-based players could shrink because of investors' perception about their higher exposure to volatility (for example, driven by frequent shifts in feedstock competitiveness of regions) combined with a need for higher capital investments and, in the case of broad-based players, limited synergies between the various businesses that are overcompensated by the complexity of the set-up.

### **Broad-based and integrated players could even fall prey to activist or financial investors seeking value creation via separation**

Recent pushes from activist investors in Europe, the United States, and Asia have fueled fears of integrated and broad-based players as multiples and EBITDA margins have both been under pressure. These fears lead to aggressive cost-savings programs and planned portfolio adjustments at major industry players.

### **With a high level of investment funds at hand, private equities could rise to the occasion and pursue transformative big deals at attractive prices**

Private equities' M&A footprint is expected to grow in the coming years with high interest in chemicals targets amid strong pressure to invest record funds raised in recent years and months. In addition, private equities are rumored to be scouting for larger targets as lower multiples and EBITDA levels resulting from the ongoing crisis fuels their appetite and could offer unique opportunities to create value when markets rebound.

### **Strategic players will revert to lower-risk tuck-ins with safe value creation via cost synergies**

Because strategic players are under pressure, investment budgets are tighter, and there is a smaller appetite for adventure. Uncertainties in the market diminish confidence in top-line value potential and focus strategic players on pursuing deals that promise bottom-line synergies where they have a better track record of implementation.

### **State-driven feedstock players going downstream could benefit from low valuations and state-mandated demand stabilization**

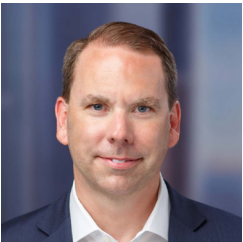
China's state-driven interventions could prove successful if they manage to spur domestic demand; first economic indicators are pointing in that direction. National oil companies could exploit the M&A market conditions to build their downstream portfolios in order to better monetize their hydrocarbons.

# Conclusion

In conclusion, we expect several pre-COVID trends to accelerate in today’s unstable environment: fierce competition on the few remaining attractive targets and pressure on broad-based and integrated players. In addition, persisting market uncertainties could extend to a mid- to long-term shift in deal rationale to safe bets that are more likely to create value. From what we are seeing today, the magnitude of change caused by the circular economy is yet to be determined. Could it be the driver of a new wave of deals?

Looking ahead at Kearney’s Chemicals Executives M&A Report 2021, we look forward to sharing our analysis of how the market has transformed and take a close look at whether our hypotheses hold true. Stay tuned for our next study.

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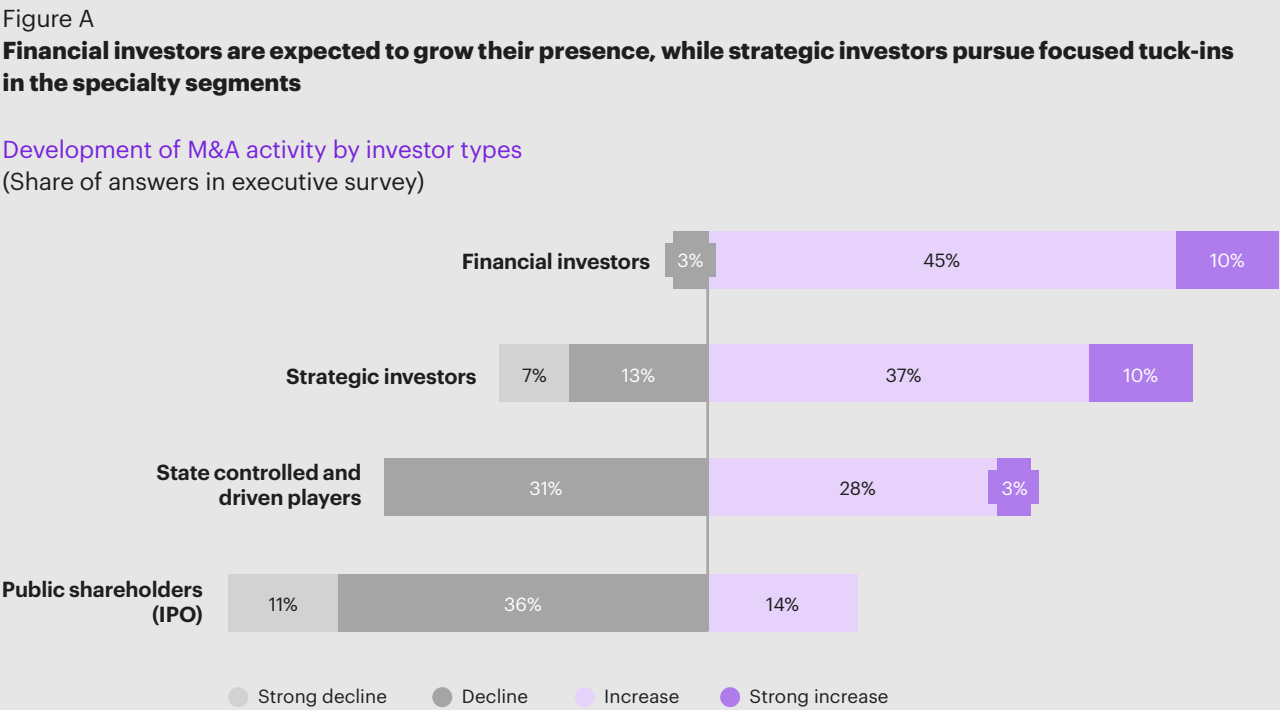


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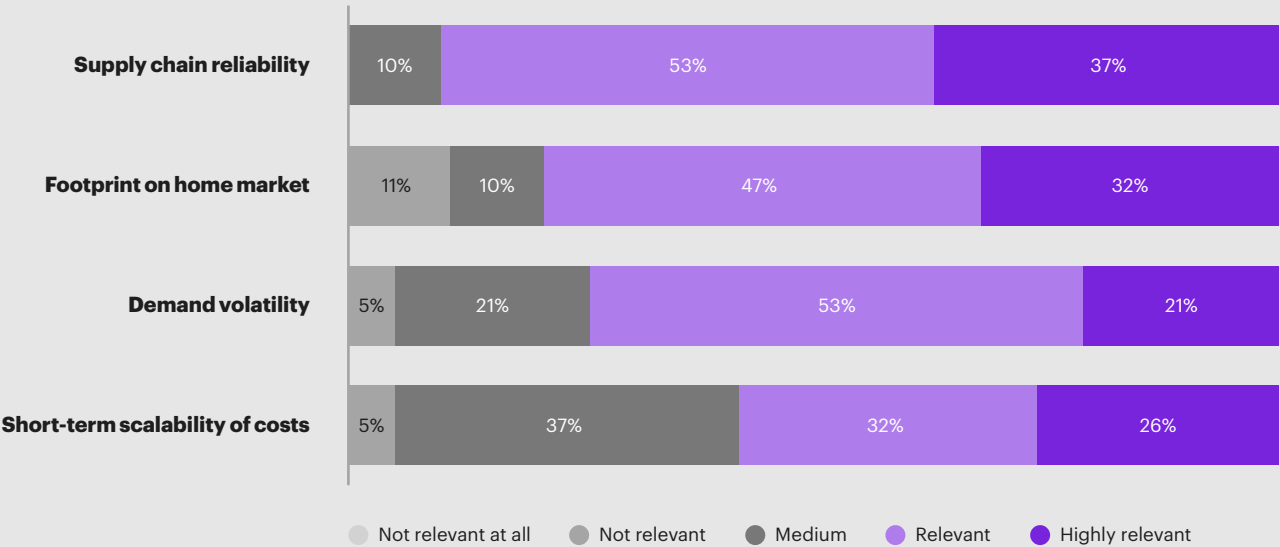




Note: IPO is initial public offering.  
Source: Kearney's Chemicals Executive M&A Report 2020

Figure B  
COVID-induced uncertainty has put a spotlight on risk as a factor in M&A deals

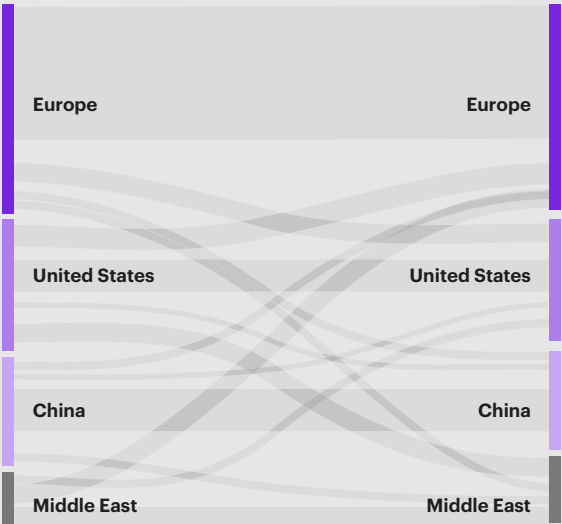
Relevance of factors in target evaluation  
(Share of answers in executive survey)



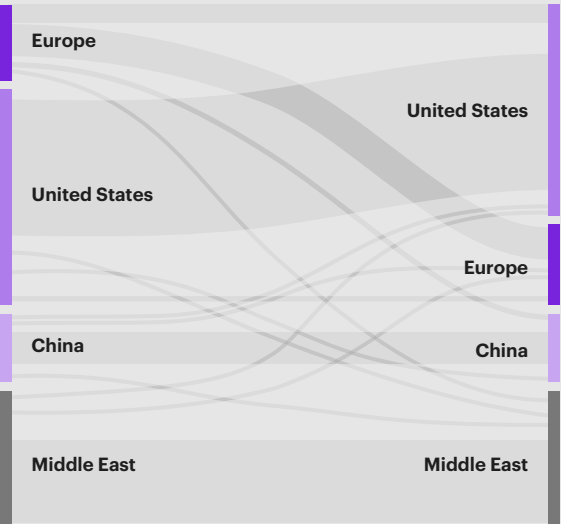
Source: Kearney's Chemicals Executive M&A Report 2020

Figure C  
To reduce risk, buyers are shifting their attention to their home markets

M&A deal value from acquirer  
to target region in 2018



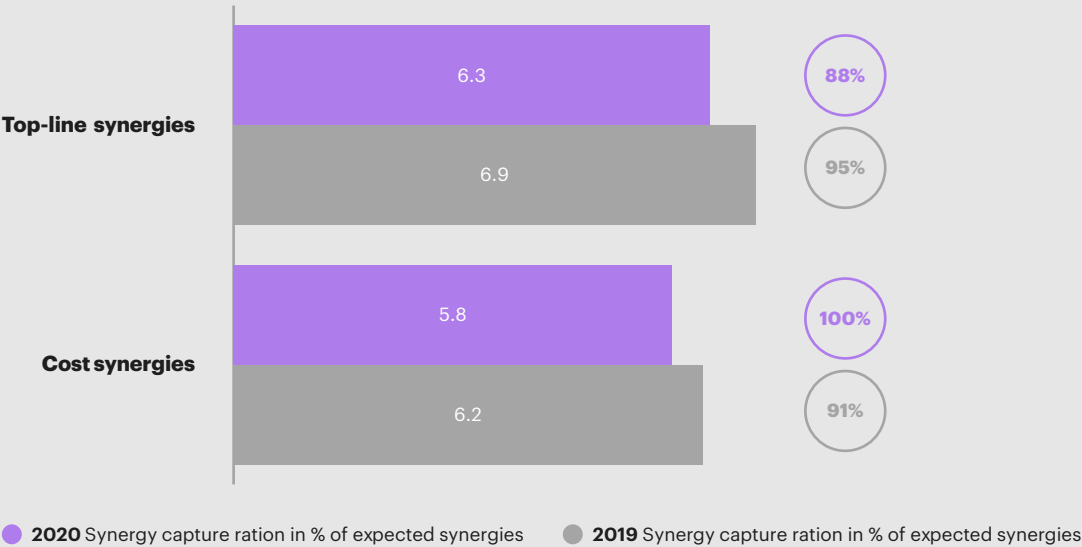
M&A deal value from acquirer  
to target region in 2019



Source: Kearney's Chemicals Executive M&A Report 2020

Figure D  
**Acquirors are still struggling to capture top-line synergies**

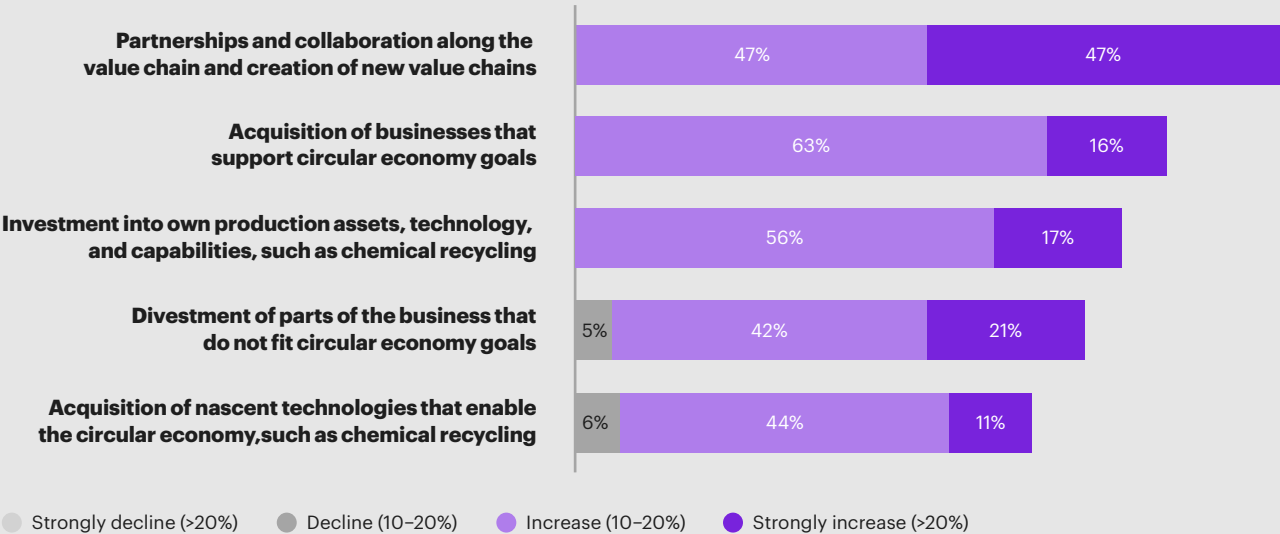
Synergies expected and achieved in a typical M&A deal with post-merger integration  
(Expected synergies: 1 = low to 10 = high)



Source: Kearney's Chemicals Executive M&A Report 2020

Figure E  
**Executives are looking for partners in the circular economy, highlighting their uncertainty and perceived risk in this space**

Type of strategic routes in relation to the circular economy  
(Share of answers in executive survey)



Source: Kearney's Chemicals Executive M&A Report 2020

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