

Mergers and acquisitions in speciality chemicals



Matt Dixon, Managing Director – Global Chemicals Lead, at Corbett Keeling

An exclusive interview with Matt Dixon, Managing Director – Global Chemicals Lead, at Corbett Keeling, a London-based member of Globalscope, the international mergers and acquisitions (M&A) network.

It is a well-recognised mega-trend that modest global growth in the speciality chemicals industry has driven many of the M&As seen in recent years. When organic growth slows, pressure from shareholders drives many companies to adopt a 'buy and build' approach to growth.

However, Mr Dixon says that for many of his clients in speciality chemicals, such mega-trends are frequently not so important. While there are obviously a great many factors involved in individual cases, he identified two main trends driving M&A in speciality chemicals at the moment: expanding services and expanding market access.

Expanding services

"Many of our clients have niche positions, so they each have a different set of issues to deal with," he says. "Of course, a primary concern is always that someone else will replace your niche product, but on the other hand you are likely to represent an ideal 'buy and bolt-on' option for another company, and that's a trend we won't see going away soon."

In fact, Mr Dixon suggests that this is a key factor driving many M&As right now. A gap in a company's offering may be most easily filled, or an offering may be most easily expanded, by simply acquiring another company.

For example, the relatively recent Dow Corning merger successfully expanded Dow's formulation offerings in the pharmaceutical sector, and numerous pharmaceutical companies are snapping up biopharmaceuticals and other small R&D entities in an effort to regain the upper hand in the innovation race.

It is also seen in the contract services sector, as CMOs increasingly work towards integrated offerings, buying up smaller entities to plug gaps in their service offerings. Examples include AMRI's acquisition of Gadea, which expanded their offering in technically complex APIs, or Bushu Pharmaceuticals' acquisition of Spera Pharma, which expanded their offering into R&D.

Expanding market access

"It's also a matter of market access," Mr Dixon explains. "Obviously, buying a company in a different geographic region enables the buyer to extend their reach."

In particular, according to Mr Dixon's experience, US companies are continuing to try to establish bases in Europe, and vice versa. "US customers like buying from locally-based US entities," Mr Dixon points out, "And the same is true in Europe too – it's just human nature."

We asked Mr Dixon whether there is also a trend for companies in China and India to buy into the US and Europe. In his opinion, while there is a lot of interest from companies in China and India looking to acquire sites in the West on an opportunistic basis, at the moment completed examples are relatively rare.

Looking to the future

Mr Dixon sees no reason why these drivers for global M&A would change over the next few years, bar some macro-event like a global recession. Asked whether Brexit might be such an event, Mr Dixon was dismissive, saying "Brexit isn't macro enough!"

In his view the speciality chemical industry is a global marketplace. National events like Brexit are simply more likely to divert supply chains away from the UK if the UK becomes less competitive outside the EU – if anything, a potential driver of more M&A activity.

Maximizing value

With regard to lower-mid market private company M&As, the greatest challenge is ensuring founders – often entrepreneurs in niche markets – realise the true value of their assets.

"One of the things that frustrates me is that many companies are approached by one buyer, and then sell to that buyer without taking a step back to properly prepare and consider the broader market," he says. "It's frustrating because they are often throwing away value. When I'm preparing a business for sale, I always start with an overall assessment of who all the best buyers might be (in my experience these are often unknown to the seller at the beginning of the process), the strengths and weaknesses of the business both internally and in its market position, what could be improved, and – most crucially – how to position the business to persuade buyers to pay maximum value."

Mr Dixon's mission is making sure that companies professionalize themselves – removing their opacity, identifying their potential, and maximizing their value in an M&A situation. "Chemicals is a rapidly growing part of our business as all these factors often apply meaning my team and I can really add value," he says.

With no end in sight for the trend for M&As satisfying the industry's requirements for extended service offerings and market access, this looks likely to continue.

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