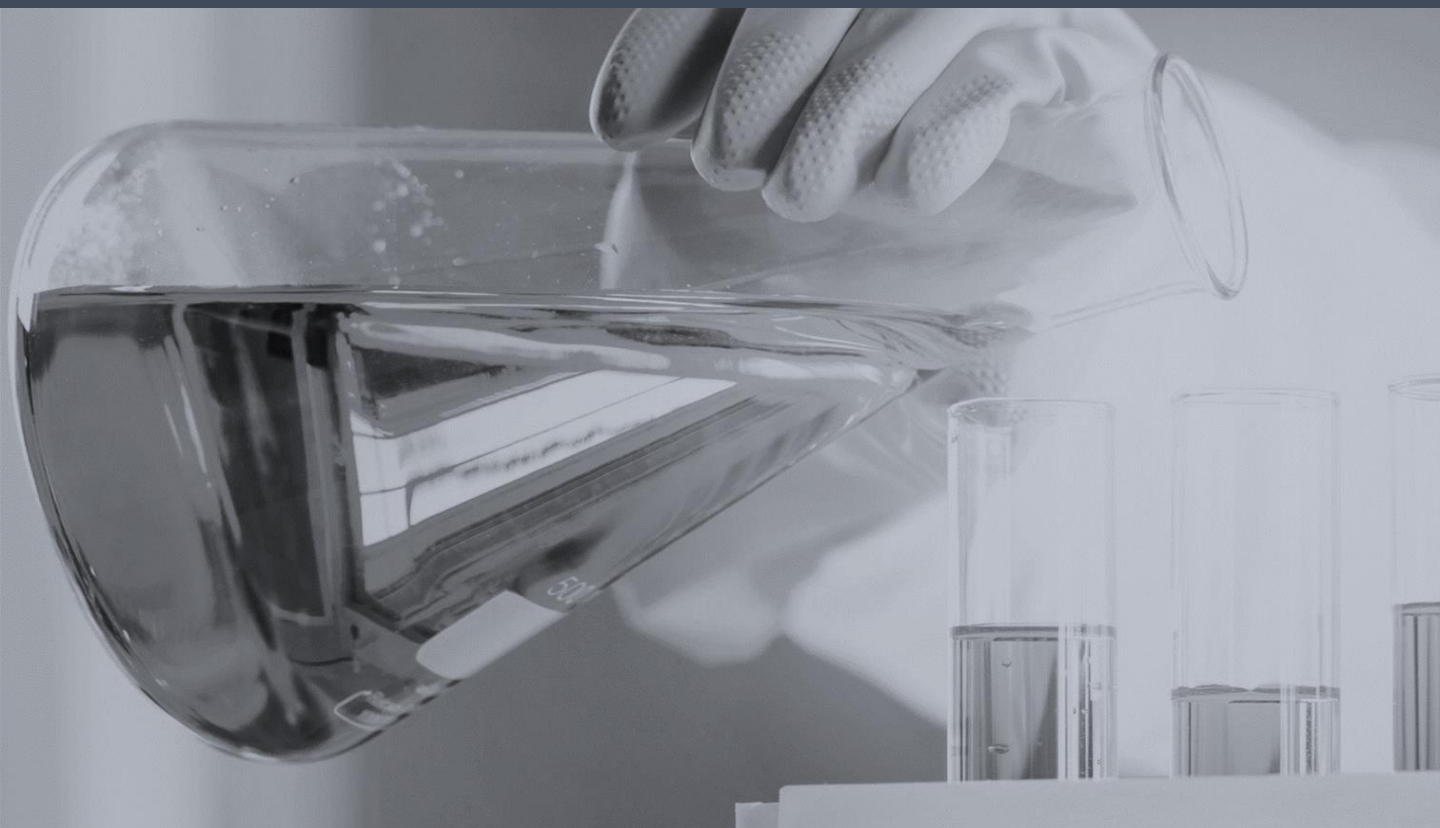




C O R P O R A T E F I N A N C E
I N T E R N A T I O N A L

Specialty Chemicals Global Market review H2 (Jul-Dec) 2023 Review



Introduction



- CFI Group is pleased to present the Specialty Chemicals Global H2 2023 (Jul-Dec) Review. This report provides commentary and analysis on current market trends and M&A activity within the Specialty Chemicals sector.
- As compared to 2022, there was a significant decline in 2023 global equity market valuation in the specialty chemicals industry. It was due to a substantially weaker demand from end-use industries, de-stocking after the unclogging of the supply chains, high energy cost, intensifying recessionary effects combined with rising interest rates, and inflation. The higher cost of borrowing, which was a roadblock to deal-making in 2023, could ease amid an anticipated rewind in monetary policies. While economic drivers and market outlooks vary across the chemical industry, we see specific industry sectors with high consolidation potential – namely construction chemicals and CASE (coatings, adhesives, sealants, elastomers).
- Multiples paid in transactions also show a negative tendency with multiples dropping towards and below the 10-year historical values. Despite these effects, the number of transactions remains high in H2 2023, suggesting a sustained necessity for portfolio evaluation and strategic transactions.
- The Asia-Pacific region (APAC) again proved to be a key growth driver, though not as much as expected during the start of the year and with shifts within the region. APAC is expected to continue to hold two-thirds of the chemical market in 2024.
- Despite the hurdles faced in the global chemical market, Indian chemical companies are poised for a promising resurgence in margins. The anticipated recovery, set to materialize from the second half of FY24 will be due to a strong domestic demand and increased global interest in sourcing from India. The growing prominence of specialty chemicals and niche applications, coupled with robust capital investments by Indian chemical firms, underpins this positive trajectory. Lastly, the 'China Plus One' strategies employed by major customers fuel this development.
- The Global Chemical Industry is entering 2024 with a positive outlook. Despite the challenges in the past two years, the chemical industry is set to rebound with moderate growth in 2024. While challenges remain, the combined effect of rising demand and industry focus on sustainability, decarbonization, digitalization, and innovation is creating a strong foundation for growth and success in the years ahead.
- Acquirers that held back in 2023 due to uncertainty may be ready to execute in 2024. The stock market is recovering, driving up public market valuations of selling companies, and leading to more common ground in deals. With a mix of potential tailwinds and headwinds, 2024 appears poised for a cautious return to stronger dealmaking activity and higher valuations again.
- While large-scale mergers may remain elusive, increased mid-market transactions, sector-specific consolidation, and innovative deal structures will most likely define the year.



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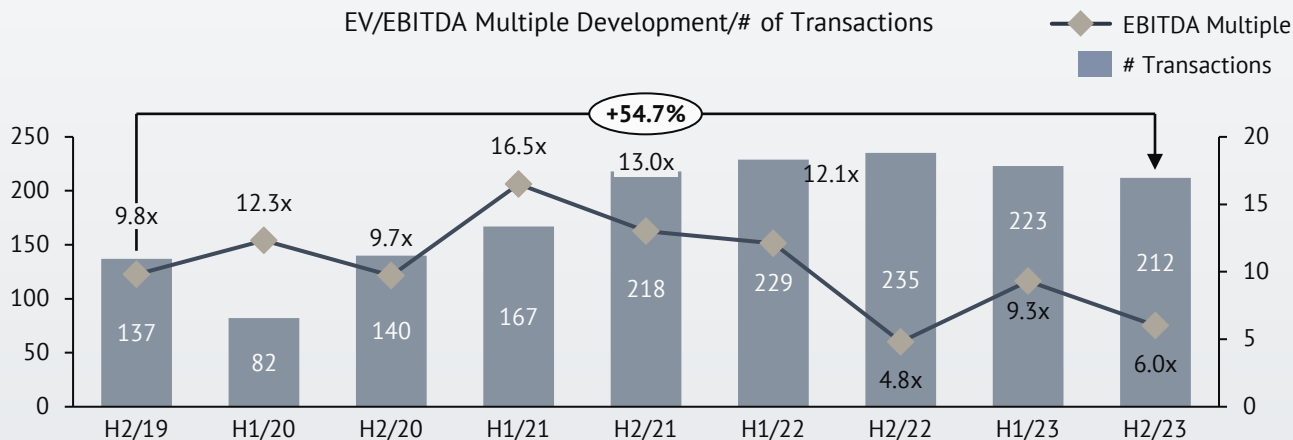
- *Ranked 7th in India terms of number of deals for 2022 - Thomson Reuters mid market League Table*
- *Ranked 7th in Japan by a total number of deals for the past eight years from 2011 to 2022 in a Bloomberg's M&A financial advisor ranking.*
- *Ranked 16th in Europe terms of number of deals for 2022 - Thomson Reuters mid market League Table*

Global Transactions and Multiples



Basic Chemicals

EV/EBITDA Multiple Development/# of Transactions



The global median EV/EBITDA multiple for transactions in the Basic Chemicals sector continues to trend negatively from the all-time high in 2021.

The decrease in multiples and slight decrease in transactions can be attributed to several factors. Geopolitical tension in Europe and the Middle East but also regulatory changes influence both metrics.

Even though deal activity has slightly decreased YoY, it is expected that it will increase again in 2024. The general sentiment is that the peak in interest rates has been overcome,

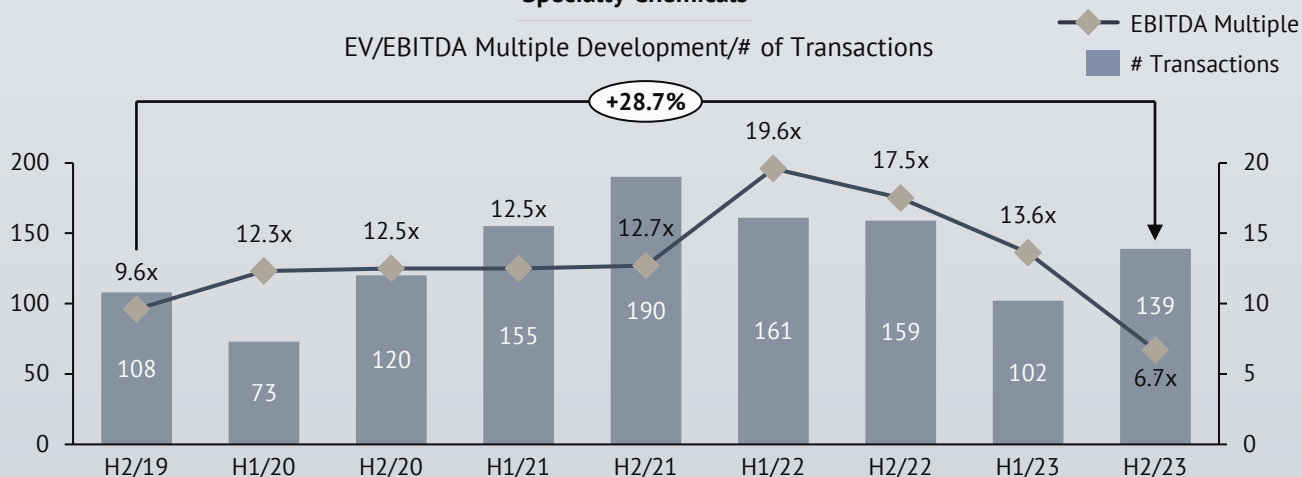
making financing on a larger scale available again.

Chemical companies face notable pressure as customer preferences increasingly emphasize decarbonization and sustainability. Simultaneously, these companies must meet the demand for high performance and cost-effectiveness. Balancing these priorities requires strategic agility and innovation.

Overall, the M&A environment in the Basic Chemicals sector has witnessed better times. Similar to H1 2023, the industry is still facing headwinds but with more hope for 2024.

Specialty Chemicals

EV/EBITDA Multiple Development/# of Transactions



The global Specialty Chemicals' M&A environment has witnessed an increase in transactions but a decrease in multiples for H2 2023. Part of the decrease is attributable to a statistical effect, as the number is based on a relatively small sample of transactions with published data.

The Argos Index®, which tracks transactions involving private equity, confirms the overall negative trend, exhibiting a continuous decline since 2021, with a slight recovery in 2022 before descending again to 9.0x EBITDA in 2023.

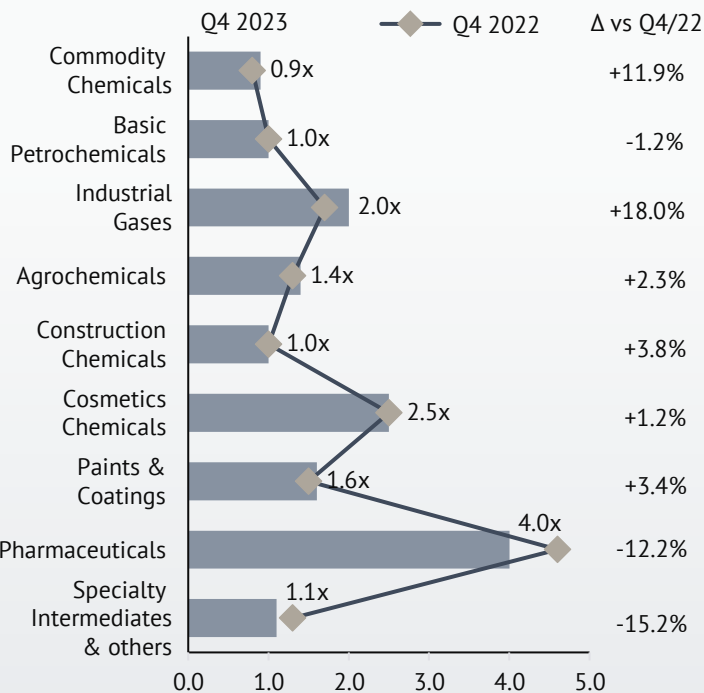
Overall, financial investors, especially private equity firms, have been and are getting more involved in the Specialty Chemicals sector. Even though there has been quite a bit of deal flow in the sector, there still are major opportunities. Private equity firms are expected to influence the M&A environment significantly in the coming years.

Similar to Basic Chemicals, the industry continues to encounter challenges, yet there is increased optimism for 2024.

Global Trading Multiples

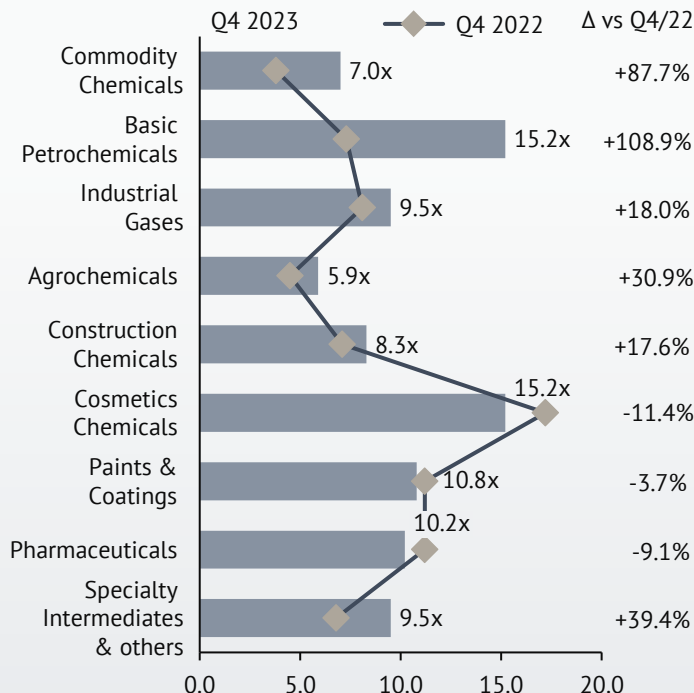


Median TEV/Revenue



Median 1.4x	Mean 2.2x
+2.3% vs Q4 2022	-0.2% vs Q4 2022

Median TEV/EBITDA



Median 9.5x	Mean 12.6x
+31.2% vs Q4 2022	+15.3% vs Q4 2022

In 2023, specialty chemicals sector valuations fell, yet global valuation multiples rose due to a sharper decline in company profitability relative to market valuations.

The Industrial Gases sector had the most notable increase in TEV/Revenue multiples, going from 2.0x to 2.4x, whereas Pharmaceuticals and Specialty Intermediaries & others experienced a decline. Similarly, TEV/EBITDA multiples also generally increased, with Petrochemicals more than doubling its multiple from 7.0x to 15.2x, highlighting a significant jump; Cosmetics Chemicals and Pharmaceuticals bucked this trend with reduced multiples.

In terms of TEV/Revenue multiple, Industrial Gases have seen the highest increase within the last year. In 2023, the sector overcame supply chain obstacles that it had experienced in 2022. In 2023, it could position itself for future growth.

Despite high TEV/Revenue valuations in Pharmaceuticals, the sector experienced a 12.2% decline, possibly due to high-profile drug failures, and market access shifts, but still remaining on an above-average level.

Due to an increase in revenues coupled with a decrease in profitability, Specialty Intermediates & others saw a decrease in terms of TEV/Revenue while simultaneously

experiencing a notable increase in TEV/EBITDA multiples.



















Basic Petrochemicals increased its TEV/EBITDA multiple more than 108% compared to 2022 Q4. This significant rise was not due to an increase in enterprise values, which remained steady, but rather a notable decrease in EBITDA from its all-time highs in the post-COVID raw materials price rally. Consequently, Steady enterprise value with shrinking EBITDA resulted in doubling the multiple.

Rising demand expectations for electric vehicles and renewable energy solutions are fueling growth prospects for the Commodity Chemicals sector well into 2024. Reflecting this optimism, the TEV/EBITDA multiple for Commodity Chemicals in 2023 almost doubled.

Cosmetic Chemicals have experienced a moderate decline in its TEV/EBITDA multiple. This can be attributed to the sector specific M&A environment in which strategic buyers are more dominant, looking for synergies and purely financial investors are more selective.

Tombstones



<p>ZEOCHEM[®]</p> <p>has acquired</p> <p>SORBEAD INDIA[™]</p> <p>and</p> <p>Sudambe CHEMICALS</p> <p>CFI buy-side  </p>	<p>ADITYA BIRLA CHEMICALS</p> <p>acquired</p> <p>CIP</p> <p>CFI Sell Side  </p>	<p>ipox[®] customized epoxy</p> <p>has been acquired by</p> <p>BRUNO BOCK</p> <p>CFI sell-side </p>	<p>Joy for Life J-オイルミルズ J-OIL MILLS, INC.</p> <p>has been sold to</p> <p>三菱ガス化学 MITSUBISHI GAS CHEMICAL COMPANY, INC.</p> <p>CFI sell-side </p>	<p>CHT SMART CHEMISTRY WITH CHARACTER.</p> <p>acquired</p> <p>keimadditec SURFACE</p> <p>including the activities of its subsidiary</p> <p>silcona</p> <p>CFI buy-side  </p>
<p>KANSAI NEROLAC PAINTS LIMITED</p> <p>acquired 55 % stake in</p> <p>RAK PAINTS</p> <p>CFI valuations & opinions  </p>	<p>CHOKSEY[®]</p> <p>entered into a joint venture with</p> <p>SAINT-GOBAIN</p> <p>CFI joint-venture  </p>	<p>PETER / LACKE[®] the coating experts</p> <p>has acquired shares it did not already own in its JV</p> <p>PETER / LACKE[®] the coating experts Poland</p> <p>CFI buy-side  </p>	<p>sto</p> <p>has acquired the 50,2 % it did not already own in</p> <p>JONAS[®]</p> <p>CFI buy-side  </p>	<p>A.Vogel</p> <p>acquired the shares it did not already own in</p> <p>Bioforce</p> <p>it's UK distributor Bioforce UK Ltd</p> <p>CFI buy-side  </p>

Dealmaking across multiple sectors is being driven by globalization, the evolution of consumer preferences and supply chains, and the need to achieve scale or integrate vertically amid fierce competition.

We hope you find this edition informative, and we would encourage you to reach out to our sector specialists (Malte Jantz and Raj Shroff) if you would like to discuss our perspective on current sector trends and M&A opportunities or our relevant sector and transaction experience.

Corporate Finance International (CFI) is a group of middle-market investment banks and corporate finance advisory boutiques with over 200 professionals specializing in cross-border acquisitions, divestitures, capital raising, and related services all over the world. Our group focuses exclusively on middle-market transactions, with deal sizes ranging from EUR 10m to EUR 500m.

Our Specialty Chemicals team provides best-in-class, cross-border M&A advisory services to family and entrepreneurially owned companies, private equity funds, family offices, venture capitalists, start-ups and publicly traded companies. Our extensive sector knowledge and transaction experience spans the Pharmaceutical, Cosmetics, Construction Chemicals, Paints and Coatings, Sealants and Adhesives as well as Additives and other fine and specialty chemicals domains.

Our professionals have global relationships with leading chemicals companies and financial investors. Thoughtful advice, extensive experience in structuring and negotiating complex transactions, and a sector focus that supports in-depth understanding of trends and developments impacting our clients, has resulted in a track record of long-term relationships with clients seeking extraordinary value.

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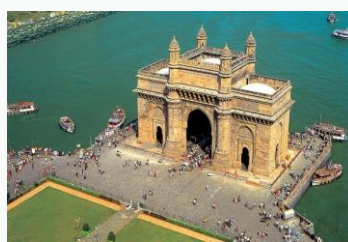
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