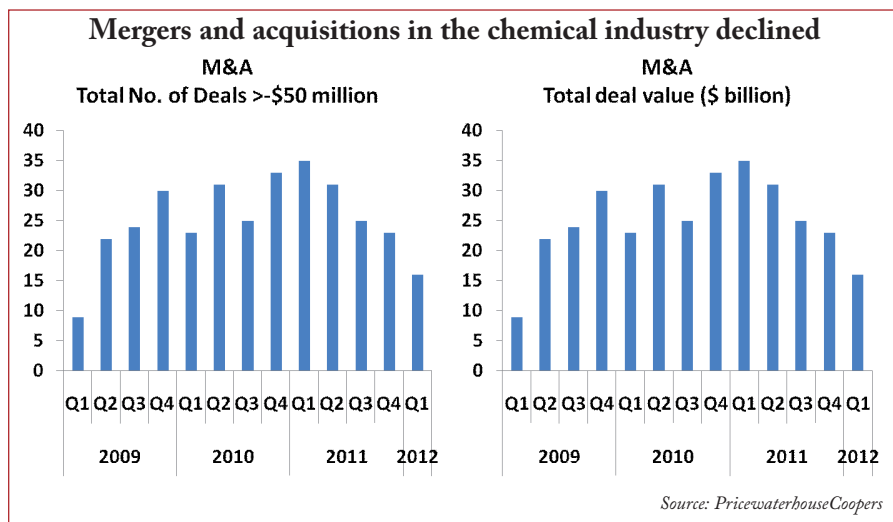


# Not a 'big' deal anymore

The revival in mergers & acquisitions (M&As) in 2012 has taken some time to catch its breath. After a strong start to the year, global deal volumes slowed as uncertainty again weighed on the markets. The volatility around the Eurozone and the uncertainty about the direction of the global economy indicates that deal-making will remain difficult.



## ■ Dr Mosongo Moukwa

Worldwide, M&A activities are witnessing a downside. Globally, the value of M&A totalled \$ 481.2 billion during the first quarter of 2012, a 35 per cent decrease from comparable 2011 levels. The global volume of deals slowed down by 21 per cent compared to last year, with fewer than 9,000 announced deals. While many deal makers feel that the number of transactions will continue to rise, the pace of the activity remains uncertain. Compared to the fourth quarter of 2011, the value of announced M&As fell 15 per cent during the first quarter of 2012 to mark the fourth consecutive quarterly decline in worldwide deal-making.

Deal-making in the Americas, typically the world's biggest market for M&A, saw values of \$ 1 billion-plus deals reach \$ 84.9 billion by the end of February 2012, with 37 deals, the lowest level at this point in the year since 2003. Companies with relatively strong balance sheets and cash available

have their fingers on the pause button. Executives' confidence appears to have been shaken by fears of a slowdown in the economic recovery and persistent worry about the Eurozone.

The biggest question is whether management teams can be persuaded to pursue acquisitions they have already been weighing. Companies have their cash balance increased, while debt to capital levels have declined, suggesting that potential acquirers are becoming better positioned to enter into negotiations. Some analysts suggest that unless there is a major slowdown of the world economy, there is some room to grow.

## Private equity M&A

The majority of deals struck have been by strategic buyers, looking to augment existing business. Strategic investors may be seeking revenue growth and access to new markets through acquisitions in the face of valuations that are low by historic standards. Worldwide, private equity-backed M&A activity totalled \$ 49.6 billion during the first quarter of 2012. Private equity deal-making in

the high technology, energy & power and industrial sectors accounted for 55 per cent of activity during the first quarter of 2012. Accounting for 10 per cent of worldwide M&A during the first quarter of 2012, private equity-backed M&A decreased 16 per cent compared to 2011 levels.

If the economy continues to grow slowly and interest rates remain low, an increase in M&A activity can be seen as many strategic acquirers look to make their business model more immune to cyclical volatility by investing in assets with few cyclical end-user markets. Also, financial investors could choose to sell out to strategic investors, which could boost M&A activity, if equity market performance makes initial public offering (IPO) less attractive.

## Lull in the chemical industry

Despite the decline in deal volume, mega deal activity (deals valued at \$ 1 billion or more) was a positive note in an otherwise difficult quarter. The five mega deals announced in first-quarter 2012 drove almost \$ 10 billion of the \$ 12.7 billion announced for all deals. The volume of smaller deals (those valued at less than \$ 50 million as well as those with undisclosed values) declined substantially to 202 in the first quarter compared with 312 deals in fourth quarter 2011. Total value for these smaller deals declined as well, falling to \$ 779 million in the first quarter from \$ 1.35 billion in fourth quarter 2011. Given the current economic and business climate, it appears that although fewer deals are being announced, they tend to be larger than in recent quarters.

In the first quarter of 2012, most M&A activity for deals valued at \$ 50 million or more involved strategic investors. Financial investors have been

constrained by a need for quicker profits, while strategic investors tend to have more flexible timelines. In light of a potential slowdown in earnings, strategic investors may show more interest in M&As as a way to supplement weakening organic growth.

Deal experts say that while buyout firms are poised to benefit from positive mergers environment, they face more constraints than they did in the credit boom. The resurgence of corporate buyers has made many auctions pricier. While debt financing remains cheap and plentiful, private equity firms are hard-pressed to write big equity checks.

Unusually, many deals announced this year have yielded rise in the stock of the acquirer. While often the buyer's shares go down amid fears that the deal might be overvalued, advisers say that the phenomenon highlights shareholders' approval in the right cases.

One area that seems to be active is corporate divestiture. The global value of corporate spin offs, whereby a division of a company is spun off as an independent listed business or is sold, is set to rise in 2012. Over the past quarters, there is an increasing trend towards companies

refocussing on core operations and actively looking at divesting non-core ones.

### Activities in coatings industry

The paints and coatings industry has a long history of mergers and acquisitions, driven primarily by the search of strategic positioning in the industry. In the past, financial buyers took a bigger slice of the transactions. The industry made

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gains in 2011, but many companies have not returned to pre-recession levels. More assets available for acquisition and low public valuation could drive increased buying.

If the economy continues to show sluggish improvement, and interest rate remains low, M&A activities could

increase as strategic buyers pursue growth by acquisition in the face of economic uncertainty. Indeed, M&A activity in the coatings sector has started to intensify in recent months. For example, DuPont has hired Credit Suisse Group AG to lead the potential sale of its performance coatings unit. Valspar Corp, the US paint maker, has recently ruled itself out of bidding for the \$ 3 billion coatings business that DuPont Co is looking to sell.

Mergers and acquisitions have played a significant role in the paints and coatings industry. Today, the global paints and coatings market represents about \$ 106 billion. The top five producers of paints and coatings represented about 40 per cent of the industry value in 2011 and mostly operated in multiple segments and regions. Akzo Nobel (\$ 13 billion), PPG (\$ 10 billion), Sherwin Williams (\$ 6.5 billion) and DuPont Performance Coatings (\$ 4.3 billion), and Valspar (\$ 3.7 billion) are leading the pack.

### The better picture

A recovery in M&A is expected to ultimately resume, but the current anaemic pace may continue until equity markets regain their footing. Until then, the M&A environment might not be conducive to large strategic deals and unsolicited transactions. Analysts are predicting a 10 per cent decline in M&A activity in 2012, based on the historical relationship between mergers & acquisitions and performance on the S&P 500, the main share index in the US. The estimate would imply around \$ 40 billion in equity value of deals done in 2012 in North America. ■



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A handful of mega deals in chemical industry in 2011 & Q1 2012

Month announced	Target	Acquirer	Status	Value of transaction (in \$ billion)	Category
Mar 11	Lubrizol Corp	Berkshire Hathway	Completed	8.79	Commodity chemicals
Jul 11	Nalco Holding Co	Ecolab Inc	Pending	8.11	Specialty chemicals
Apr 11	Rhodia SA	Solvay SA	Completed	4.64	Specialty chemicals
Feb 11	Sued Chemie AG	Clariant AG	Completed	2.63	Specialty chemicals
Dec 11	Taminco NV	Apollo Global Management LLC	Completed	1.43	Specialty chemicals
Apr 11	Evonik-Carbon Black Business	Investor Group	Completed	1.30	Specialty chemicals
Jul 11	Arch Chemicals	Lonza Group Ltd	Completed	1.20	Specialty chemicals
Jan 12	Solutia Inc	Eastman Chemical Co.	Pending	3.40	Specialty chemicals