

Specialty Chemicals

INDUSTRY UPDATE JUNE 2024



Lower Profits

Volatile input costs, such as crude oil, gas, and petrochemicals, have constrained industry profits. Geopolitical tensions in the Middle East and the Russia-Ukraine conflict have driven up commodity prices and restricted chemical exports. Additionally, supply chain issues, along with a higher interest rate environment, are set to escalate operating costs and diminish profitability.

Sustaining Demand

Reduced manufacturing activity due to the COVID-19 pandemic, inflation, and high interest rates have adversely affected the industry. However, the growing demand for niche chemicals and a surge in construction activity are anticipated to bolster industry growth. Consequently, industry revenue is projected to expand at a Compound Annual Growth Rate (CAGR) of 0.9%, reaching \$39.5 billion over the next five years.

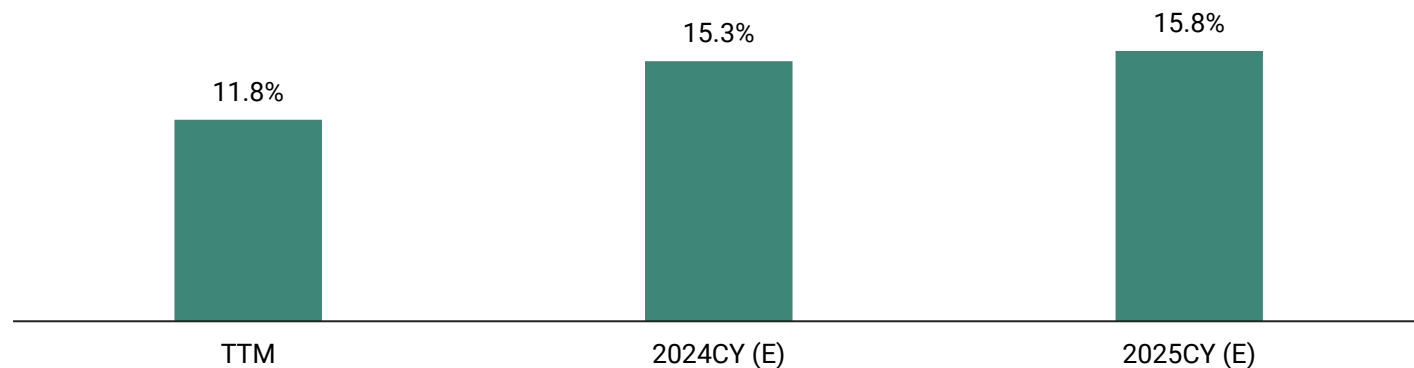
Strategic M&A Activity

Increasing input and operating costs are expected to incentivize mergers and acquisitions (M&As) among industry leaders to reduce purchase prices, mitigate cyclical demand fluctuations, and achieve greater economies of scale. Consequently, large manufacturers have engaged in joint ventures and strategic alliances both domestically and internationally to foster innovation.

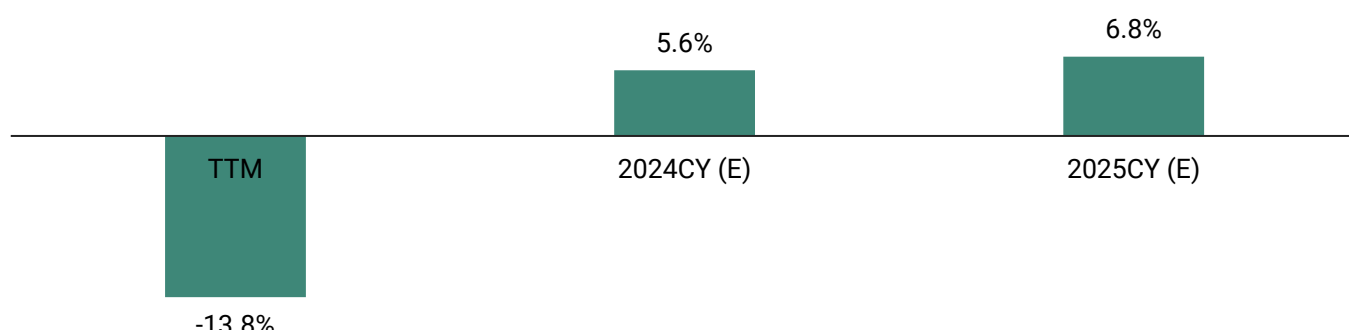
SPECIALTY CHEMICALS HEADLINE TRANSACTIONS

TARGET	ACQUIRER	ACQUISITION SYNOPSIS
		In June 2024, Solenis, a leading global producer of specialty chemicals, acquired Aqua ChemPacs, LLC, for an undisclosed sum. Aqua ChemPacs specializes in manufacturing concentrated, pre-packaged eco-friendly cleaners and hand soaps. This acquisition is set to enhance Solenis's Diversey portfolio, which includes hygiene, infection prevention, and cleaning solutions.
		In April 2024, Cyanco, a U.S.-based leader in the manufacture and distribution of sodium cyanide for gold processing, was acquired by Australia-based Orica for \$640 million. The transaction was financed through Orica's existing cash reserves, undrawn debt facilities, and a \$262 million underwritten institutional placement. Sodium cyanide is a specialty chemical essential for gold mining, and Cyanco supplies it to gold mines in the Americas and Africa. This acquisition will broaden Orica's chemical mining vertical, complementing its existing commercial explosives and blasting business lines.
		In January 2024, American Pacific Corporation (AMPAC) was acquired by the specialty chemicals manufacturer Newmarket for \$700 million. The transaction was financed through cash on hand and borrowings under Newmarket's revolving credit facility. This acquisition provides American Pacific with a foothold in the market for chemical solutions that support U.S. national security and space exploration initiatives.

EBITDA MARGINS



REVENUE GROWTH



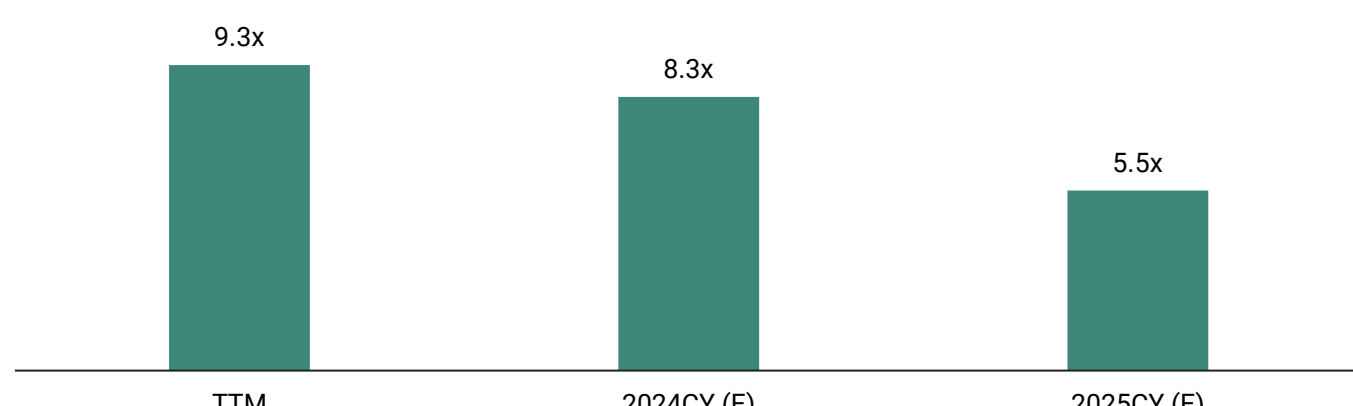
TRENDS TO WATCH

Renewable Energy Impact: Due to volatile commodity prices, manufacturers will transition from crude oil to renewable energy sources to lower operating costs and increase industry profit.

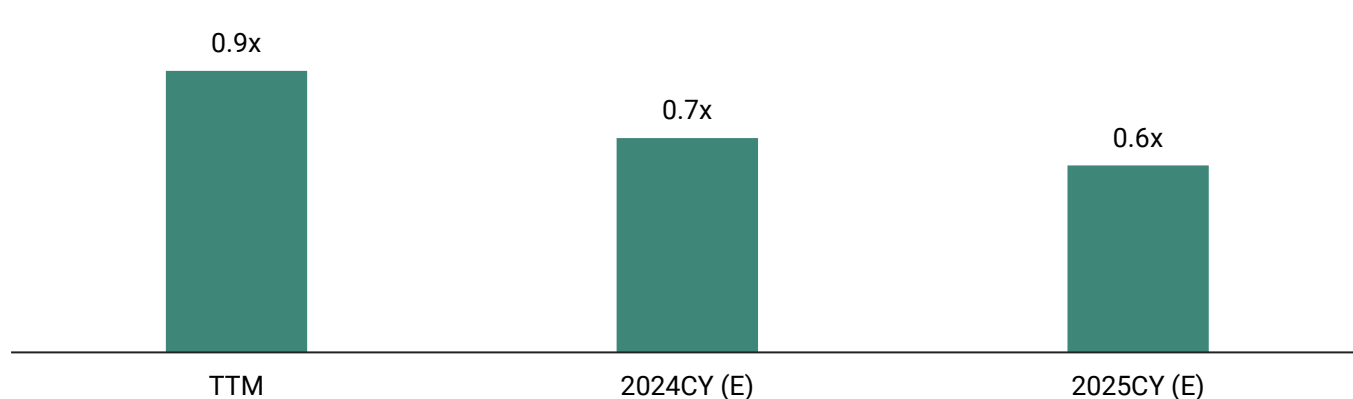
Automation Impact: Manufacturers incur significant expenses to hire skilled workers for specialist manufacturing. Automation and manufacturing innovations will streamline processes and offset labor costs.

Regulatory Changes: Manufacturers will have to cope with changing environmental regulations. The U.S. government will likely increase chemical regulation to reduce greenhouse gas emissions and mitigate climate change. New regulations will likely raise operating costs and cause manufacturers to restructure production processes to comply with new laws.

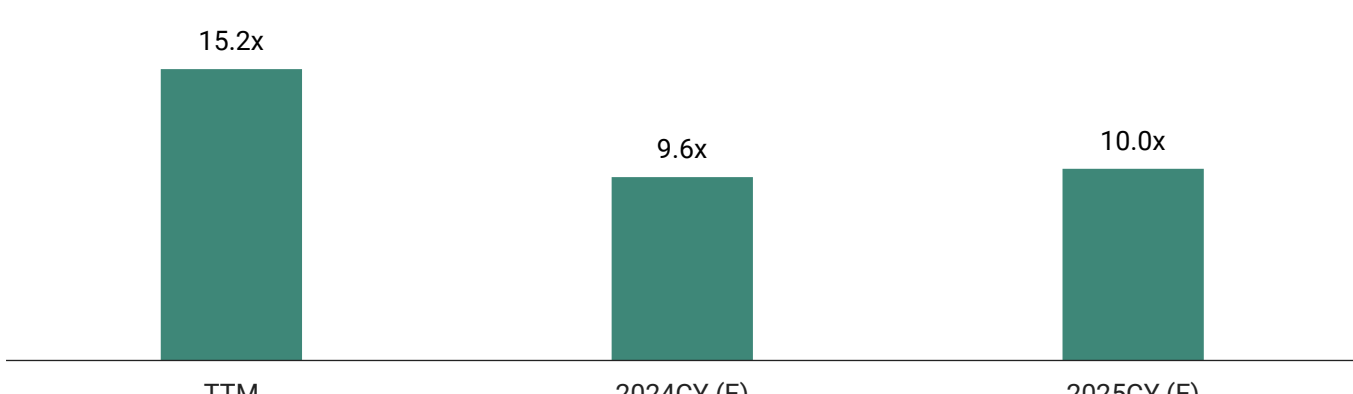
ENTERPRISE VALUE / EBITDA



ENTERPRISE VALUE / REVENUE



PRICE / EARNINGS



Sources: Pitchbook, IBISWorld

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