

Special report: Mergers & acquisitions



Growth by acquisition equals success

David Schofield co-founder and managing director of Future Materials Group reviews recent merger and acquisition activity in the UK composites sector and beyond.

The cheque-books are out, and they are being left open. Mergers and acquisitions (M&As) in the advanced materials sector are showing no sign of reducing, and recent trends especially in the UK indicate a real appetite for acquisitions.

Whether it is to acquire market share, intellectual property, manufacturing capabilities, sector expertise or a mix of these and other reasons, the larger corporates especially continue to scout the market. That can be very good news for targeted firms, especially those with unique offerings in well-defined sectors. For investors in those enterprises, the trade sale is now not only the most favoured exit, but also the most likely.

Valuations, often contentious and always interesting, indicate that considerable premiums may be paid for those firms with a real strength in a market sector – especially at the moment in aerospace and automotive – and for those whose operations, products or services fill an obvious gap in the acquirer's portfolio.

Statements issued after M&A deals from the buyers consistently state that the purchase has been driven by customer demand: hardly unusual. But more often than not, further research indicates that purchase premiums have been paid to plug obvious holes in product and service ranges. Companies that acquire real understanding of where and to whom they are most saleable are able to demand high multiples, and efficiently complete deals in shorter timescales.

Clear corporate strategies

What are the drivers for the larger corporates in the advanced materials sector? Strategically, many are looking to be a 'one-stop shop'.

For several years, TenCate has been clear this is its strategy for acquisitions in Europe. Solvay with its over \$6 billion acquisition of Cytec, which in turn had previously acquired Umeco, has now transformed from a thermoplastic and automotive-centred player into a broad portfolio supplier, with new competencies in thermosets, and a much improved

position in the aerospace market.

This, the biggest acquisition in the advanced materials marketplace, also enables the Cytec division to devote greater resources to new product development and focus on increasing its penetration of the automotive market. The earlier Umeco acquisition had already provided additional scale and application development capabilities plus a well-respected and active supply chain.

Another example of multiple acquisitions is Meggitt's purchase of the UK's Cobham plc in August this year for around US\$200 million, and soon after the purchase of EDAC's composites division in the US from Greenbriar Equity. In just a couple of months, these two acquisitions moved Meggitt's composite strategy forward significantly.

With Cobham, the obvious intention is to take the skills and knowledge from the defence market and apply those initially to commercial aerospace. With EDAC there is already high market penetration in aerospace, around engine and ancillary systems. The job in hand must now be

Special report: Mergers & acquisitions



▲ **David Schofield, managing director of Future Materials Group**

on integrating these acquisitions and creating real synergies to develop new markets and new products.

Local differences

Deal data researched and monitored by Future Materials Group shows more commonalities than differences for country-specific mergers and acquisitions.

There's been considerable European activity in the advanced materials sector over the past year. In Germany we have seen probably 60% of all the acquisitions being by German companies of German companies, and the majority of those are private companies purchasing private companies. One difference between Germany and the UK, for example, is the willingness to purchase minority stakes. For example Porsche purchased 25% of Capricorn, Porsche's existing carbon fibre supplier. In the UK by far the greater numbers of deals are for complete buyouts.

Valuations are showing typically 9 to 15 times EBITDA (Enterprise Value/EBITDA) with a much broader range when measured against revenues – for example 1.2 times

revenue for a German distributor purchased by a carbon fibre manufacturer.

While 15 times EBITDA is very much at the higher level of valuations, it is not unusual to see typically a 10x valuation. Many analysts believe that 2013 was an ideal year for exits, but FMG research data shows that 2015 and 2016 promise to be equally strong years for business owners and investors to sell.

We are expecting not only to see smaller, specialist firms be acquired and added to the product portfolios of larger corporates, but also some of the more well-known players be acquired and consolidated into the majors' offerings. Toray snapped up 55% of Delta Tech in September, its second Italian prepreg acquisition in 12 months, as part of its Project AP-G medium-term strategy for global composites expansion.

The allure of new markets

In 2013, composite manufacturers were reporting record OEM backlogs for composite intensive commercial aircraft manufacture. The trend has increased since then: aerospace order books remain strong in response to continued increase in passenger demand.

In automotive, carbon fibre is fast progressing into the mainstream of advanced materials, with regulatory and consumer demand driving high composite usage, to offset weight particularly.

In addition the energy sector has shown a good degree of promise with its adoption of larger rotor turbine blades, for example, and potentially could be worth more than the aerospace market.

All the recent advanced materials market reports agree that the growth will continue, and continue to increase. As the sectors get larger, and the demand rises, so do the number and value of supply

contracts. For the smaller and mid-size manufacturers the opportunities are exceptional, but the risks are also high.

An acquisition – whether it be for all or part of the company – can provide investment capital, demand-side and supply-side stability, and direct help in accessing and entering new sectors. The opportunity is to accelerate market penetration and operational scale.

For the acquirer, there are several quick wins: buying new technology; gaining new markets and new customer relationships; consolidating supply chains; securing capacity; and building barriers to competition.

Looking at the longer term

There is also a longer-term view. OEMs put a value on reducing supply disruption, which favours larger contracts with larger suppliers. And that in turn demands well-managed and vertically integrated supply chains. It becomes increasingly more difficult to survive as an independent supplier positioned at the foot of the supply chain, and gain longer term contracts from major manufacturers. Business models and supply chain structures will continue to evolve, to try and meet the conflicting needs of security of supply, cost reduction, innovation and efficient capacity utilisation. As always there will be winners and losers in this process, often threatening today's incumbents.

And it's not only corporates who are looking for deals. Private equity is increasing its knowledge and activity in advanced materials, taking positions in companies needing capital to grow fast, and internationally. And these new players will benefit sellers particularly.

www.futurematerialsgroup.com

DATE	Target	Target ownership	Buyer	Buyer ownership	VALUE (mUS\$)	EV/EBITDA
Sep-15	EDAC composite division (USA)	PE	Meggitt (UK)	Public	340	12.5
Aug-15	Cobham composite division (UK)	Public	Meggitt (UK)	Public	200	10
Sep-15	Delta Tech (Italy)	Private	Toray (Japan)	Public	55% share	-
Dec-14	Saati Europe (Italy)	Private	Toray (Japan)	Public	-	-
Jul-15	Cytec (USA)	Public	Solvay (belgium)	Public	6400	14.7
Jul-12	Umeco (UK)	Public	Cytec (USA)	Public	411	10
Jul-15	Tencate (Netherlands)	Public	Private Equity	PE	760	8
Jan-13	Amber Composites (UK)	Private	Tencate (Netherlands)	Public	-	-
Mar-15	Capricorn Composite (Germany)	Private	Porsche (Germany)	Public	25% stake	-
Dec-14	c-m-p (Germany)	Private	DowAksa (USA/Turkey)	Public	50% stake	-
Dec-14	Formax (UK)	Private	Hexcel (USA)	Public	50% stake	-
Apr-14	Williams Hybrid Power (UK)	Public	GKN (UK)	Public	13.3 (100% stake)	-

▲ As this table shows, M&As in the advanced materials sector show no signs of slowing