

Composites bucking the market trend in M&A

» During 2015 and 2016, the composites industry saw such impressive activity in mergers and acquisitions, it was perhaps to be expected that, in 2017, we would see a dip in transaction levels, especially given the global regulatory uncertainty and the impact that might have on larger, more complex deals. What we have seen this year, however, is a high level of dealmaking within the specialty materials and advanced composites sectors, because robust growth rates, substantial value propositions and sustainable margins remain attractive incentives for strategic buyers and financial investors.

Overall, business M&A transaction levels declined in the first half of 2017 in the historical centers of composites M&A activity — Europe and North America. Key median multiples of enterprise value/earnings before interest, tax, depreciation and amortization (EV/EBITDA) for all M&A transactions decreased slightly in both territories in H1 2017, with Europe down to 8.1x (8.3x in 2016) and North America proving a little more durable at around 10x for the past 18 months.¹ Our research, in late 2017, with a focus on the advanced composites sector, saw that transactions there were not subject to this activity and margin decline. There was, in fact, a pick-up in dealmaking through 2017 that (when 2017's final tally is evaluated) might well get very close to 2015 levels by year's end.

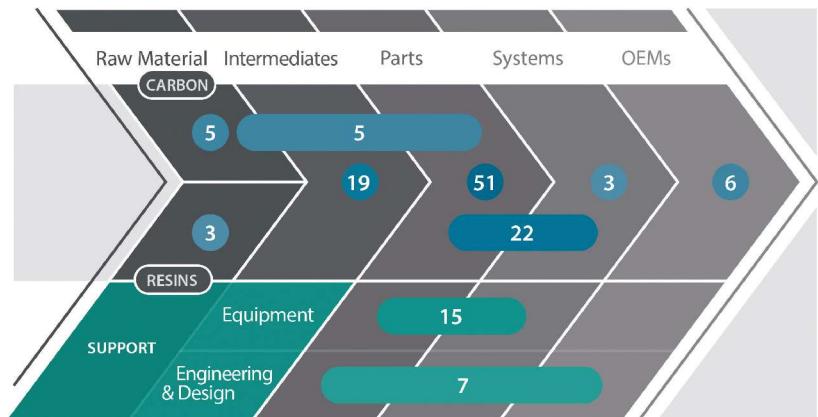
Private equity (PE) investors, with their elevated levels of deployable cash, are now taking a larger share of the overall M&A pie than ever before. However, this is less apparent in the composites market, and they're still the minority player to the large strategic acquirers, with their strong balance sheets and investment cash reserves.

M&A activity in speciality materials this year included highlights, such as Evonik's early 2017 confirmation of its acquisition of Air Products' speciality additives business, along with its US\$630 million purchase of JM Huber's silica business. In this column, we have chosen to look in greater depth at the advanced composites M&A transactions in the past 12 months, certain key transactions and sectors and some important industry trends that have appeared.

Consolidation in aerospace supply chains

Aerospace composites M&A transactions continue to lead the way financially, with probably the two largest deals completed in 2017 coming from the aero interiors segment. Zodiac Aerospace (US\$8.2 billion announced value acquisition by Safran) and B/E Aerospace (US\$8.6 billion announced value acquisition by Rockwell Collins) were both market leaders in interior components and systems, and

SUPPLY CHAIN ANALYSIS



■ The 2015-2017 M&A deal count shows that the fragmented center of the carbon fiber composites supply chain — those who (left to right) sell carbon fiber/resin intermediates, such as prepreg (19), and mold parts from carbon fiber and resin (51) plus those who supply resin (22) and equipment (15) to those who mold parts or assemble systems — were the most acquisitive. Source | PitchBook, FMG M&A Database

although their acquisitions have been publicly portrayed as adding diversity to the customer mix and product portfolio², it also seems likely the OEMs have been, to some extent, encouraging consolidation, with the expectation that the resulting larger, more robust and increasingly agile players can provide a more cost-effective supply chain to support the OEMs' challenges, such as increased growth rates and moves into newer markets.

Vertical integration and a focus on components

In contrast to aerocomposites, the automotive composites space is in a relatively early stage, with a more diversified supply chain. It was interesting to note that several key composites players, historically strong in automotive, added further component production, engineering and design capabilities to their market offerings in the past 12 months.

Altair formed Altair Engineering Finland with the purchase of Compoengineering, the Helsinki-based structural analysis specialist and developer of the composite design and analysis tool ESAComp, in September 2017.

Mitsubishi Rayon Co. Ltd. (MRC), currently the leading global producer of carbon fiber sheet molding compound, acquired all shares of Seattle-based Gemini Composites in March 2017 via its California subsidiary Mitsubishi Rayon Carbon Fiber and Composites Inc. Adding Gemini's breakthrough product development approach, design skills and expertise with forged composites parts were confirmed as the main drivers for MRC's strategic acquisition.

In the crowded parts-and-systems field, we have highlighted two recent deals that illustrate the strategic importance of this area and its diversity in terms of processes and scale. January's US\$825 million acquisition of Continental Structural Plastics Holdings »

Corp. (CSP) by Teijin Ltd. gave the Japanese fiber and raw materials producer a large boost toward its 2030 automotive composites annual sales target of US\$2 billion³. Just as interesting was LG Hausys' US\$43 million acquisition of a majority holding in c2i, the Slovakian composite part manufacturer that supplies BMW, Porsche, Bentley, Jaguar Land Rover and a number of aerospace and industrial applications. LG Hausys is clearly looking to take its materials and composite solutions through to finished parts, in support of the parent LG Group's strategic growth targets in the automotive parts sector.

Given the current surge in automotive composites development and the focus on electric vehicles, it's perhaps odd that we have seen so few major investments in composites technology from China — the biggest global EV market. And certainly, we have seen nothing on the scale of ChemChina's US\$1 billion takeover of resin transfer molding and injection molding machinery specialist KrausMaffei in 2016. We speculate that this lack could be due, in part, to regulatory controls within China. That country could be seeking more control over overseas M&A transactions in a bid to stem vast capital outflows that are putting pressure on foreign exchange reserves and the renminbi itself.

Despite the additional scrutiny, Chinese buyers did show some appetite for Western firms: Advanced materials manufacturer Qingdao GON Technology, for example, acquired a majority stake in Compositence GmbH, a German firm specializing in rapid

production of tailored preforms with carbon, glass and other fiber types for high-volume production applications in transport, aerospace and wind energy.

It's been an intriguing year for M&A activity, delivering some highly significant industry deals. Private equity investors and strategic purchasers have found the advanced composites sector attractive and an incentive to overcome "wait and see" market uncertainties. They have brought their large available capital reserves to the sector in 2017. We expect this trend to continue into 2018, with significant M&A activity driven by a variety of motivations, such as the need to acquire innovative technology or growth capital, to further consolidate the fragmented value chain or simply to satisfy the desire to create a position in an attractive advanced composites market. **cw**

REFERENCES:

- ¹ FMG research and *PitchBook*.
- ² Rockwell Collins release, 04/13/2017.
- ³ Teijin press release, 01/05/2017.



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David Schofield, co-founder and managing director of Future Materials Group (Cambridge, UK), a leading independent strategic advisory firm, has 25 years' experience in the specialty chemicals/advanced materials sector on a global level, with a focus on the areas of strategy and business development. Schofield previously held senior positions within Ciba-Geigy, Huntsman and Gurit AG.

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