

## **Evonik Buys \$3.8 Billion Chemical Unit from Air Products**

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Evonik Industries AG agreed to acquire the performance-materials unit from Air Products & Chemicals Inc. in a \$3.8 billion deal to increase U.S. sales of high-margin products used in coatings, insulation and household detergents.

The purchase of the materials and coatings-additives operations is expected to close by year-end, Evonik said in a statement Friday. The business has 1,100 employees and generates \$241 million of earnings before interest, taxes, depreciation and amortization on annual sales of \$1.04 billion, Air Products said in a separate news release.

Evonik Chief Executive Officer Klaus Engel is making the company's biggest acquisition, gaining curing agents and plastic additives that generate profit margins of more than 23 percent.

The deal allows Air Products CEO Seifi Ghasemi to advance his plan of shedding assets unrelated to industrial gases such as hydrogen, outlined shortly after he joined the Allentown, Pennsylvania-based company in 2014. He plans to spin off Air Products' electronics-materials business as Versum Materials.

For Air Products, the deal "is consistent with management's refocus on gas and will cut construction and protective-coatings exposure," Jason Miner, an analyst at Bloomberg Intelligence, said in a note. It also "should extend the margin surge that has boosted performance well beyond peers," he said.

Amid a heated mergers and acquisitions market in chemicals, Engel this week sought to reassure investors that he wouldn't overpay for assets, saying on a call with analysts that the financial discipline Evonik showed in 2015 will continue this year. The Essen, Germany-based company expects tax benefits totaling \$500 million, with synergies reaching \$80 million a year.

"The strategic fit is really good, in that respect it is a super deal," said Markus Mayer, an analyst at Baader Bank AG, who rates Evonik shares hold. Mayer spoke before the release, but after Bloomberg reported that a deal was imminent.

Evonik gained 4 percent to 29.07 euros at 5:22 p.m. in Frankfurt, with volume more than triple the three-month average. Air Products shares gained 1.2 percent to \$145.02 at 11:38 a.m. in New York.

### **Tax Leakage**

The price tag compensates for taxes to be paid by Air Products resulting from a straight sale, rather than the option of spinning off the unit with electronics. Evonik is paying about 15.2 times earnings, or about 10 times earnings after accounting for synergies and tax benefits.

Solvay SA paid a similar multiple for aerospace composites maker Cytec Industries. Both companies have sought to exit commodity chemicals and move into higher-margin markets where demand is more resilient to economic cycles. Apollo Global

Management LLC bought Belgian amines-maker Taminco Group for about 11 to 12 times earnings in 2011.

#### Electronics Decision

Air Products said it's on track to separate its electronic-materials division by the end of September and "will continue to evaluate whether debt and equity market conditions are favorable for a tax-free spinoff."

Ghasemi, who orchestrated the breakup of Rockwood Holdings, was hired in 2014 after activist investor Bill Ackman and his Pershing Square Capital Management LP became Air Products' biggest investor, demanding changes to better compete with rival Praxair Inc. Pershing Square is now the sixth-biggest stockholder with a 3.5 percent stake after selling 12.9 million shares, according to data compiled by Bloomberg.

The sales will strengthen Air Products' balance sheet as the company prepares to bolster spending on its operations in industrial gases following recent industry consolidation. Air Liquide SA of France is in the process of buying its U.S. rival Airgas Inc. for \$13 billion.

"As a result of these moves, Air Products will be in an even stronger position to take advantage of the exciting investment opportunities to grow our core Industrial Gases business," Ghasemi said in the news release.

Lazard advised Air Products on the sale, while JP Morgan and the Valence Group advised Evonik.