In June 2019, we attended ACG's 12th Annual Industrial Conference. Here are five of our top takeaways from Bob Girton's presentation on **'Specialty Chemicals'**

*Prepared by TresVista*

## 5 THINGS YOU MISSED –

1 **The Chemicals Market in Numbers:** The global chemical market was valued at ~$890bn in 2017 and is expected to grow at a CAGR of ~5.5% through 2022. Investments in the chemical industry, which contributes ~25% of the U.S. GDP, remains attractive, with projects worth a total ~$204bn as of May 2019. Since 2010, U.S. petrochemical producers have announced significant capacity expansions, reversing the decade-long decline. The year 2017 witnessed ~$12bn investments in Research and Development and ~$29bn in CapEx, which is expected to rise to ~$43bn by 2024. The anticipated rise in investments is due to affordable supplies of natural gas and NGLs, which are the key feedstocks for chemical makers in the U.S.

2 **Key Trends in the Specialty Chemicals Market:** The Specialty Chemicals market was valued at ~$450bn in 2017, with CASE, Agrochem, Polymers, Resins and Additives leading in terms of share. Some key trends include the need for environmentally-friendly and biodegradable products; the regulatory push for the 'Green' application; the increasing feedstock due to the expansion of shale oil and gas in the U.S.; and the increased demand from the automotive sector for paints, coatings, lubricants, and adhesives.

3 **Specialty vs. Commodity Chemicals—Valuation Spread:** The valuations of specialty and commodity chemicals were fairly close through 2008, after which a huge spread has emerged. The divergence in multiples is best explained by the investors' focus on stability of earnings—recurring revenue, pricing power, and sticky relationships being a few characteristics that specialty chemical companies offer as compared to their commodity counterparts. Another possible reason for divergent valuations could be increasing M&A in the sector, as companies seek scale to enhance their competitive position and lower costs.

4 **Outages in China—Stricter EIA:** China has been witnessing increasing shutdowns in its chemical facilities from the EIA, following a few tragic events leading to explosions and fires. The stronger enforcement trend in China is likely to continue for the next few years, eventually leading to a decline in its share of the market. This would result in facilities being moved back to Europe and the U.S. China's reputation for low-cost labor is also changing, with ~33% of jobs reshored from China over 2010-2018, as labor costs have increased by 12-15% YoY.

5 **PFAS-Related Materials—An Upcoming Story:** PFAS (per-& poly-fluoroalkyl substances) are substances that are fire-, heat-, stain-, and water-resistant, and used in consumer products since the 1950s. It is expected that PFAS is going to become increasingly regulated by the EPA. The first commercial productions of PFOS and PFOA was started by 3M during the 1940s, while negative health effects were identified during the 1960s. Currently, there are no validated standard EPA methods to analyze PFAS levels. To address the sampling and analytical gap, the EPA had issued guidance for federal cleanup programs which are expected to be rolled out in a phased manner.