Better inorganic growth in chemicals and life sciences

With so many companies pursuing pro-active acquisition-based growth strategies, how do they do it and how can you do it better?

This article is based on a talk, panel discussion, and networking event that took place in London in March 2023, co-hosted by corporate development consultancy CCD Partners and trans-Atlantic law firm Womble Bond Dickinson, in association with Women in Chemicals.

Keynote Speaker:

Ted Clark

Co-founder and prev. CEO of Royal Adhesives & Sealants

Found and acquired a "platform" investment, made 18 further acquisitions with a series of PE backers before exiting to HB Fuller in 2017.

Panelists:

Steve Holland

Prev. CEO of Brenntag

Drove organic growth of the world's largest chemical distributor whilst overseeing more than 60 acquisitions.

Bob Girton

Partner at Edgewater Capital

Chemicals, materials, and life science private equity investor with a decade of experience making investments and acquisitions.

Kevin Cook

CEO of Sterling Pharma Solutions

Led an MBO and carve out forming Sterling as a standalone business in 2016, since building the business with PE backers, now on acquisition number five

Hosts:

Matt Dixon

Managing Partner at CCD Partners

Chemicals and life sciences M&A advisor with experience leading over 20 deals, including from both the sell-side and the buy-side.

Lucy Pringle

Partner at Womble Bond Dickinson

Commercial lawyer with specialism in supporting chemicals businesses and 15 years advising on day to day contracts, global supply chain, and business critical projects.

Why all strategic leaders should be considering inorganic growth strategies

Many sub-sectors of the chemicals and life sciences industries are driven by innovation, as entrepreneurial owner-managers launch new technologies / products and new services, vying to disrupt and reshape the market. Such sub-sectors are often highly fragmented and well-suited to buy-and-build strategies.

Strategic leaders in such sub-sectors are often considering one or more of the following:

- launching their own buy-and-build strategy, both to grow inorganically but also to defend their existing position from potential disruptors,
- divesting their business to a buy-and-builder, perhaps to allow more rapid roll-out of a new product or realise cost or other synergies, or
- simply tracking the competition and any potential buy-and-build opportunities so they can predict likely moves and react appropriately.

With this in mind, we assembled a panel of highly experienced buy-and-build CEOs and investors to discuss how they have approached their own buy-and-build strategies, what they think made them successful, and to take questions on the topic from a room of other C-suite executive leaders. The following is a summarised and paraphrased record of those discussions, organised into the top five takeaways of the day.

1. Develop a compelling thesis

Your thesis (or vision) is a short and punchy explanation of the opportunity and why you will outcompete and succeed over others. Used as the opening gambit to persuade investors and targets alike that you're the right company to work with.

Generally, a thesis should appeal to preconceptions and work on an emotional level. You're not trying to reason your case with detail, that comes later, rather you should aim for clarity and credibility.

Ted:

Developing a thesis requires an understanding of the market dynamics and identifying an opportunity that you (ideally uniquely) can exploit. Is it your expertise at building companies, a technology, a cost advantage, or some other factor that will be the key to your success?

Kevin:

Sterling's thesis was and is to offer Western-based pharma services to innovators including a strategic objective to become a fully transatlantic business. One of the reasons we partnered with PE firm GHO in 2019 was that they had extensive experience taking companies transatlantic – and that has really paid off.

Steve:

In the case of a large global player, there is significant momentum and established positions in various markets. This is both a constraint and a source of potential competitive advantage. When they look at acquisition proposals (typically 20+ at any one time), to speed up decision making, they might categorize them into "buckets" such as:

1.Synergistic (to eliminate costs)
2.Specialty function (to expand offering)
3.Geographic (to enter new markets)

Case Study:
Royal Adhesives' First Steps

After developing his thesis, Ted formed a partnership with a buy-side advisory firm and a private equity firm, to find and acquire a platform company - a process that ultimately took less than nine months

2. Pro-actively prepare a detailed business plan and "Success Scorecard"

Once you have at least an outline of a thesis you should start building out the details in order to test the achievability of the thesis and make appropriate tweaks where needed.

Questions to be answered include:

- are there enough targets?
- do they do what we need?
- can we afford them?
- who will run this business?

Often it is useful to identify 8-12 key areas that underpin the plan and thesis and use them to evaluate, score, and prioritise potential target markets and companies.

Ted:

We spent 6 months building a database on every adhesive and sealants company we could identify, profiling and categorizing them. We used our thesis and business plan to develop a set of criteria to "score" each target for fit. This allowed us to focus our efforts where it really counted and also to clearly communicate why each target was attractive to us and why they should talk to us.

Kevin:

Ultimately you never know what opportunities will present themselves across the spectrum of geography, capability, and capacity. Adaptability and a structured way to assess targets is key here, it is important to be able to flex and tailor your scorecard to different targets as they arise.

Bob:

It is crucial to plan the people aspects of the business plan. Over the last 30 years investing and acquiring, more often than not, when issues have arisen, it boils down to gaps in our execution, not in our thesis. Know your team and their capabilities and experience. It takes a completely differentiate skillset in integrating one site with 20-30 employees versus companies of 200+ employees with numerous locations.

> "In my experience there is no such thing as a perfect acquisition. Each opportunity comes with its own strategic merits and demerits. The important thing is to have enough good quality data matched with a tailored methodology that allows leaders to make strategic decisions suited to their specific circumstances."
>
> Gunnar Staaf,
> Pharma-Services Partner, CCD Partners

3. Engaging with targets and building a pipeline

Consistently finding good and available targets over several months and years requires development of a "pipeline" of opportunities. This means engaging with targets ideally before they are for sale, developing the relationship, and selling your buy-side proposition.

There are several techniques that can be used to improve the chance targets engage in discussions, including:

- Tailoring your approach
- Making it easy to deal with you
- Using intermediaries for warm introductions
- Seeing people in person, shaking hands, putting the miles in

Ted:

We took the approach that we should focus on face-to-face meetings. The team and I were travelling all over the place shaking hands, being passionate about the vision, and getting people to want to be a part of it. I believe this was a crucial part of building an actionable pipeline. You have to put yourself and your idea out there. Of course, this takes time and resources, but I would say it is worth it.

Steve:

On the whole, large well-known players have the luxury of many people coming to them. Nonetheless, they can still put a lot of effort into developing relationships with sellers pre-deal and managing their pipeline of opportunities. Sellers often find it difficult to give up their "baby" and only want to sell to someone they feel they can trust and that will continue their legacy.

Bob:

In a typical year, we look at 400+ opportunities with the goal of investing in 3 to 5. Half the deals we do are owner-operators, the other half are corporate carve outs. It is important to note that engaging decision-makers, addressing their specific needs/wants, and executing the deal require very different skillsets.

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4. Deal making and integration

Once one or more targets are engaged and you are making offers and conducting due diligence, the deal making process has begun. It is important to plan the subsequent integration before completion, ensuring you develop a shared vision and integration plan (including culture) with the sellers.

At all times make sure you have people on your team with experience in both deal-making and integrating companies, and who can move quickly and systematically.

> "Most successful buy-and-build teams include a mix of senior executives, board advisors, consultants, and specialist advisors. Acquirors and investors also frequently like to see shortlists of executives likely to be available to fill gaps should a deal go through."

Steve Mothersole,
Talent Partner, CCD Partners

Steve:

The deal-making process can be brutal: accounting, legal, IT, EHS, and lots of other forms of due diligence can put great strain on buyers and sellers alike. The process creates reams of "hard" data and "softer" aspects (such as culture and personalities) to review, understand, and then reflect in the deal terms and integration plan.

Ted:

Getting people to agree culturally with what we were trying to achieve and why was extremely important for nearly all the deals we did. Sharing the vision and making the people feel that they were part of something larger than themselves won hearts and minds. The team is the most important step in creating something special.

Bob:

I encourage everyone to get a specialist M&A attorney, not rely on a commercial attorney alone. In fact, consultations with a suite of specialist advisors should begin at least six months in advance (we typically do this 12 months ahead). The attorneys in particular will also stay on for a number of months post-deal to support post-closing deliverables and actions.

5. Value creation, working towards the end-game

It is important at all times to remember the core drivers of ultimate exit and end equity value (or returns on equity for corporates / public companies).

For example, for private companies, what are the exit routes, who will buy the business? Will it be a secondary private equity deal, a strategic, or a public listing? What are each of these buyers going to value the most?

At the same time it is key to not forget the basics of value growth, buying low and selling high (multiple arbitrage), using organic growth combined with efficient balance sheet management, and realization of synergies to free up funds for further acquisitions and investments. The aim is to nurture a self-propelling virtuous circle of value creation.

Case Study:
Royal Adhesives' Ultimate Exit

HB Fuller paid $1.6bn for Royal Adhesives & Sealants because it generated consistent growth and high EBITDA margins, as well as fitting into HB Fuller's stated strategic objective to focus and grow in engineering adhesives and other specialized market segments. Royal had become a company that HB Fuller valued at 12x EBITDA.

Kevin:

A target's weakness may create strength when combined with another business (for example, customer concentrations can cancel out or be diluted). So don't necessarily be put off, particularly if you are planning a number of acquisitions that might mitigate or dilute the issue (this doesn't mean you shouldn't factor issues into the pricing, though!).

Bob:

Corporate carve outs can be a great source of value, but you need to know what you're doing and have a plan. Get the right people onboard, either to create the systems and infrastructure needed for a standalone or extend the systems of an existing platform to create value.

Ted:

Despite making 18 acquisitions at Royal I actually would say that I mostly focused on organic growth, realizing cost synergies through integration, and driving the balance sheet. This all generated cash which allowed us to deleverage and ultimately make more acquisitions. This was the ultimate realization of the original thesis and the cornerstone behind the value we generated in the final exit to HB Fuller.

Feature: Women in Chemicals

The speakers and delegates at this year's event, through their ticket purchases, supported Women in Chemicals, represented on the day by Silke Fuchs.

The chemicals industry has been, and largely remains, male dominated. Women, and the industry, would both benefit from companies taking concrete steps to better attract, retain, and promote women.

Some examples of ways leaders can help women thrive:

1. Create a women's network and give it Board level support
2. Profile senior female role models – 'you can only be what you can see'
3. Ensure senior men and women in the business act as mentors and (even better) sponsors of junior women
4. Identify and remove barriers (e.g. publishing maternity policies as standard so job applicants don't have to ask and arranging meetings at times which don't clash with the school run)
5. Build women into your succession planning strategy to give plenty of time to gain the required experience and skill set
6. Make clear whether senior roles can be done on a part-time basis and don't count women out of opportunities because they work part-time
7. Tell women when they are ready for promotions and ask them to apply

A link to a full article on the same topic, originally published in The Manufacturer, can be found below.

Lucy Pringle, Chair of the WBD Women's Network

Silke Fuchs, Finance Chair of Women in Chemicals

> "A McKinsey & Co study found that for every 10% the gender diversity of the average company increases, there is a corresponding 3.5% increase in the company's EBIT. Harnessing female talent is also an important solution to the industry's skills shortage and succession planning issues."
>
> Lucy Pringle,
> Partner, Womble Bond Dickinson

Further Reading and BIG 2024

For more details and to register interest for next year's BIG 2024 event:
- https://www.ccdpartners.com/BIG2024

Further reading:
Ted Clark's book "Buy and Build CEO" is available on Amazon here:
- https://amzn.eu/d/8pfZjXZ

Related articles:
- https://eiexchange.com/content/growing-a-venture-with-private-equity-a-buy-and-build-approach
- https://www.themanufacturer.com/articles/getting-more-women-into-manufacturing-what-can-you-learn-from-a-lawyer/
- https://www.ccdpartners.com/top-3-things-to-understand-before-appointing-m-a-advisors
- https://www.ccdpartners.com/pe-explained

BIG 2023 attendee companies and other details:
- https://www.ccdpartners.com/BIG2023

Womble Bond Dickinson's chemicals team:
- https://www.womblebonddickinson.com/uk/sectors/manufacturing/chemicals

Women in Chemicals:
- https://www.womeninchemicals.com/

About the author
Matt Dixon leads CCD Partners' M&A advisory arm and says the best part of his job is meeting entrepreneurial, creative, and driven executive leaders and working with them to build and grow successful companies. The "Better Inorganic Growth in Chemicals and Life Sciences" event is Matt's attempt at creating a "turbo-charged" version of these meetings, bringing together a wider group of top executive leaders to share their respective experiences, tips, tricks, and top takeaways.