

## **Global megatrends will drive increased merger and acquisition activity in the African chemicals sector, says Deloitte**

**Johannesburg, 24 April 2014** - Water scarcity and demand for food are the key global megatrends driving merger and acquisition activity in the African chemicals industry, particularly in the vital water treatment and agrochemicals sectors. This is the view of Deloitte Sub-Saharan Africa Chemicals and M&A leaders considering the impact of the global megatrends on Africa.

The recently released Deloitte '[\*2014 Global Chemical Industry Mergers and Acquisitions Outlook\*](#)' report identified three key end markets that will drive 2014 M&A activity globally, namely:

- Agrochemicals, driven by accelerating population growth and an expanding middle class;
- The development of bio-based/green chemicals, which concentrates on replacing and substituting petro-based feedstock and chemicals with bio-based or green chemicals;
- Health and nutrition, which is spurred by increasing consumer awareness of health and nutrition, and governments seeking solutions for the challenges presented by the economic and societal costs of unhealthy populations.

Patrick Earlam, Southern Africa's Chemicals Sector Leader at Deloitte explained that when it comes to Africa, "we will find significant chemical sector activity being driven by the need to address the availability of clean, potable water for industrial manufacturing and domestic consumption and the agrochemicals sector with its focus on food security."

Furthermore, Africa's population growth, rising economy and a growing middle class are prime drivers for the expansion of the agrochemical and water treatment activities within the chemicals sector. The availability of agricultural land in Africa has enhanced interest in the continent as an investment destination in the agrochemicals space.

"With seven of the world's 'top 10' growing economies situated in Africa, the key decision to be made by those looking to expand into the African continent will be whether to 'build or buy'," says Greg Benjamin, Manufacturing Mergers and Acquisition (M&A) Advisory Leader at Deloitte.

In the local landscape, AECI recently acquired (subject to certain conditions present) the African water treatment business of Clariant, the Swiss specialty chemicals company. According to the AECI SENS announcement, "the acquisition is in line with AECI's strategy to extend its presence in Africa in the provision of water treatment solutions for a broad range of industrial and municipal customers". Also in the company's announcement, Mark Dytors, Chief Executive of AECI, mentioned this acquisition will enhance the African footprint established by AECI in the water treatment market subsequent to the acquisition of GE's Chemical and Monitoring Solutions business in Africa in 2012.

By comparison, growth in the global agrochemical market is being driven by the need for food security. This has prompted an emphasis to develop innovative products to increase the yields and availability of many agricultural commodities. These products range from herbicides, pesticides and fertilizers to genetically modified seeds that can be used to increase outputs and increase the global availability of key agricultural commodities.

Internationally, the emphasis on crop protection has provided the context for recent M&A deals such as the acquisition of Becker Underwood by BASF for US\$1.02 billion. “The acquisition has reinforced BASF’s status as a leading global provider of technologies for biological seed treatment as well as seed treatment colorants and polymers,” explains Benjamin.

The emphasis being placed on crop production by the Becker Underwood transaction can be gauged by the fact that BASF announced the acquisition would become part of a newly established ‘Functional Crop Care’ global business unit as part of BASF’s Crop Protection Division. The new unit will see BASF merging its existing research, development and marketing activities in the areas of seed treatment, biological crop protection, plant health, as well as water and resource management with those of Becker Underwood.

“Although South Africa can be expected to be a leader in the African agrochemical and water treatment sectors, the potential roles of China and India should not be overlooked,” says Benjamin. “Both are increasing activity around the globe and are looking for opportunities to ensure food security for their growing populations.”

“Africa with its growing wealth and abundance of agricultural land is a natural target for investment. How rapid the growth will be in this arena, however, depends largely on the development of supporting infrastructure across the continent,” concludes Earlam.

Deloitte is the Knowledge Partner in this year’s Manufacturing Indaba that takes place on May 19-20 2014 at Emperors Palace, Johannesburg. The firm’s participation here forms part of its mandate to be a strategic advisor to business and an enabler of innovation and growth by way of its industry insights and research – across chemicals, construction, automotive, metals, aerospace & defense, industrial products & services and forestry, paper and packaging - on how to transform manufacturing into a high-performing industry of excellence. The firm is directing its efforts in facilitating and developing relationships and conversations with key industry bodies, clients, the DTI and the Manufacturing Indaba to improve SA’s current global competitiveness ranking of 24<sup>th</sup>, according to the [2013 Deloitte Competitiveness Survey](#).

To view the full ‘2014 Global Chemical Industry Mergers and Acquisitions Outlook’ report, please visit [www.deloitte.com/chemicals](http://www.deloitte.com/chemicals).

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