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EUROPEAN CHEMICAL FINANCING VOLUMES WITH CATCH-UP POTENTIAL – GERMANY LAGGING BEHIND

By Marcel Lange

The international chemicals market is immense and one that is constantly changing, especially in terms of its composition. While just over 10 years ago, Europe and the US dominated the global market with a combined share of more than 50%, with Europe accounting for 27.5% and the US 23.5%. Nonetheless, these two former major chemicals powers have been outpaced by Asian competition and as of 2017 together only account for 30.6%. The strong industrial growth and competitive positioning of the chemicals industry in the Far East enabled Asia to grow and become the new major chemicals power with a market share of 61.7% in 2017 (up from 38.8% in 2007).

A look at the IPO market underlines Asia's fundamental strength: over the past 5 years, 1,574 IPOs were recorded across all industries – by comparison, only 830 European and 824 US companies went public. However, even more striking is the trend in chemical IPOs over the last 5 years: while respectively 12 chemical companies were listed in Europe and the US, Asia accounted for a remarkable 125 IPOs – almost 8% of all Asian IPOs are thus in the chemicals sector.

Albeit, the impression should not be deceiving: Europe is and will remain an extremely important market for chemicals. Over 1,400 chemical com-

panies are headquartered on the “Old Continent” (excluding Russia). A total of 689 chemical companies alone are headquartered in the UK, Germany and France, which together account for 45% of all European chemical companies. With 241 chemical companies and a market share of 15% in Europe, Germany ranks 2nd behind the UK (with 279 companies and 21% share.)

Chemical companies trail their life science peers in the European Venture Capital market

Measured by the sheer size of the market, 1.1% of GDP in Europe is attributable to companies in the chemicals industry. The extent of Venture Capital (VC) activities in this area is, however, rather modest: the European chemicals industry accounts for merely 0.4% of the total VC market in Europe by capital raised.

Record highs were reached in 2015 in terms of total deal volume (EUR 210m) and deal count (64) in the European chemicals VC market. Over the last 5 years, the average volume of VC transactions of European chemical companies was merely EUR 2.9m, compared with EUR 9.4m for life science companies. Moreover, with an average annual VC deal volume of EUR 129m and a VC deal count of 45, the European chemicals market is significantly less active than the equivalent life science market that saw an average annual VC deal volume of EUR 2,066m and 219 VC deals.

In short, the chemicals industry is totally underrepresented in Europe, lagging behind the life science sector by about 10 to 15 years. Over the last 5 years, European life science companies have raised EUR 10.3bn in VC financing, starkly contrasted by the EUR 645m of VC financing raised by European



Top-5 Active EU Countries by Deal Volume (L5Y)

Rank	Country	Target Volume (in EURm)	# Deals
1		284,2	93
2		117,3	24
3		96,0	9
4		42,9	12
5		23,2	11

Source: PitchBook as of 11/02/2019, FCF Equity Research

chemical companies. German chemical companies appear to receive less interest from VC investors. Over the last 5 years, 9.9% of the total European life science VC funding was invested in German companies, while only 3.6% of total European chemical VC funding was invested in German companies. Although Germany has many chemical companies (ranked 2nd in Europe), it hardly plays a role for VC investors. Germany lags the dominant nations UK and France and does not even fea-

ture a Top 5 investor hub in Europe.

Germany ranked 5th in terms of total deal volume over the last 5 years, surpassed by countries like the Netherlands and Spain, underscoring Germany's relative insignificance in the European chemicals VC market. Meanwhile, Germany ranks outside the Top 5 by deal count, even falling behind nations such as Ireland, Belgium and Finland.

German IPOs convince with performance

After all, Germany is prominently placed in one category: IPOs. Only 12 European chemical IPOs exceeding a volume of EUR 10m were recorded in the last 5 years, 3 of which took place in Germany (representing a 25% share). Surpassing all expectations, even by international standards, the mega-IPO of Covestro, Bayer's plastics subsidiary, raised EUR 1.5bn in 2015. Yet this IPO distorts the picture significantly. If one excludes Covestro from the analysis, 2015 was even a below-average IPO year in Europe.

On closer inspection, however, the German IPOs reveal one thing: a strong performance. In other words, it can be worthwhile for investors to subscribe to German chemical IPOs when they come to market. The 3 German IPOs were the only offerings in Europe that consistently delivered strong average returns of +15.4%, +14.2% and +45.1% over a 1-month, 3-month and IPO-YTD horizon, respectively. Not least these figures suggest: the reluctance of investors in the chemicals sector, especially in Germany, is unfounded and perhaps even irrational in the long-term. This leaves room for hope and catch-up potential for the German chemicals market.

About FCF Fox Corporate Finance

FCF is a specialized Investment Bank and Financing Specialist, advising public and private small/mid-market companies in the German speaking regions.

FCF focuses on four primary client segments:

- **Mid-Markets:** Medium-sized clients with sustainable business models in typical "Mittelstand" industries, such as automotive supply, communications, industrial machinery, logistics, etc.;
- **Real-Tech:** R&D-driven clients with proof-of-concepts in technology sectors, entering the commercialization stage with first revenues;
- **Growth:** Fast growing clients in highly innovative markets, that had a successfully market entry and are seeking to expand widely;
- **Life Sciences:** Highly innovative clients that have their DNA embedded in developing cutting-edge biotechnology, med-tech, health-tech and pharmaceuticals solutions

FCF arranges, structures, and places equity and debt capital transactions and supports its clients' growth, IPO / Pre-IPO, acquisition and standard balance sheet (re-)financing strategies at the best available terms. Founded in 2005 and headquartered in Munich, FCF has direct relationships and works with all leading German, European and international/US financiers, lenders and investment houses addressing German small/mid-cap companies.

Marcel Lange, Vice President of FCF Fox Corporate Finance GmbH

Top-5 European Investor Hubs by Invested Capital (L5Y)

Rank	Target Country	City	investea Volume* (in EURm)	Top Investors
1		Paris	124,6	SOFINNOVA, ALYERAB, UNICAPIS
2		London	70,2	CHAMONIX, bcf, PARKWALK
3		Geleen	21,9	Brightmarks Venture Partners
4		Oxford	21,7	OXFORD CAPITAL, oxford technology, woodford
5		Barcelona	21,4	LURICA, ClearCapitalize

Source: PitchBook as of 11/02/2019, FCF Equity Research

Post-IPO Performance of European Chemical IPOs (L5Y)

Company	Country	IPO +1M (in %)	IPO +3M (in %)	IPO YTD (in %)
		+28%	+146%	-71%
		+12%	+1%	+28%
		+17%	+37%	+104%
		+148%	+132%	-2%
		+6%	+34%	-7%
		-6%	-24%	-68%
		+17%	+5%	+3%
		-4%	-5%	+80%
		+0%	-2%	+170%
		-1%	+8%	-52%
		+8%	+7%	-58%
		+4%	+27%	-69%

Source: S&P Capital IQ as of 25/02/2019, FCF Equity Research