Kraton acquires Arizona Chemical for $1.37 billion
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Kraton Performance Polymers (Houston), a leading producer of styrene block copolymers, has agreed to acquire pine-chemicals maker Arizona Chemical (Jacksonville, FL) from private equity firm American Securities (New York) for a cash price of $1.37 billion.

Arizona Chemical posted revenue of $863 million for the 12-months ended 30 June. Adjusted Ebitda for the period was $184 million. The deal values Arizona Chemical at 7.4 times adjusted Ebitda for the 12 months ended 30 June. Arizona Chemical’s products are based on two primary feedstocks, crude tall oil and crude sulfate turpentine, both of which are wood pulping co-products. It has a leading market share of 22% in pine-based chemicals, according to Kraton. The second-largest maker of pine chemicals is WestRock, which operates the speciality chemicals operations of the former MeadWestvaco, with 11% market share. WestRock has announced plans to spin off the specialty chemical business as Ingevity around the end of the calendar year.

Arizona has a stable and attractive margin profile with an attractive cash flow profile, according to Kevin Fogarty, Kraton president and CEO. Fogarty says more than 50% of Arizona Chemical’s sales are directed into Kraton’s core markets, particularly in adhesives, roads and construction, coatings, and oilfield chemicals. “In addition, given the renewable nature of Arizona Chemical’s product and technology offerings, the complementary growth we foresee can be accomplished while reducing our overall exposure to hydrocarbon-based feedstocks,” Kraton says.

Fogarty says the pretax cost savings will be $65 million/year, which Kraton expect to achieve by 2018. “We expect to generate free cash-flow of more than $450 million over the first three years of combined operations, which will be available for debt reduction and allocation to stockholders,” Fogarty says.

Kraton will finance the purchase through debt facilities that have been committed by Credit Suisse Securities (New York), Nomura Securities International (New York), and Deutsche Bank Securities (New York). Following the acquisition, Kraton’s long-term debt is expected to be approximately $1.78 billion, including about $1.35 billion of “covenant-lite” term loans, with the balance comprising senior unsecured notes, the company says. The acquisition is subject to regulatory and other customary approvals and conditions, and it is currently expected to close in late 2015 or early 2016.

“[Kraton] will retain adequate liquidity through a $250-million, asset-based, revolving credit facility, which we expect to be largely undrawn,” says Stephen Tremblay, executive V.P. and CFO of Kraton. “We expect the strong free cash flow profile of both Kraton and Arizona Chemical will allow the combined company to rapidly delever from net leverage at closing of approximately 4.6 times to approximately 3.0 times by year-end 2017.”
Financial advisers for Kraton are Lazard (New York), J.P. Morgan (New York), and Nomura Securities International. Legal advisers for Kraton are Baker Botts (Houston) and Cleary Gottlieb Steen & Hamilton (New York).

Financial advisers for the sellers are Credit Suisse (New York) and Morgan Stanley (New York), and the legal adviser is Weil, Gotshal & Manges (New York).