M&A: A view from within

With Rick Kowey, guest columnist

The competitive landscape of the US industrial gas business has changed considerably over the last decade. In 2001, there was still a plethora of independent distributors and producers, ranging in size from small, local, one or two-store businesses to several large regional companies formed by the fusion of firms in the same regional geography. The major gas companies (MGCs) were also very different back then, with just about all of them sporting significant packaged gas distribution businesses.

Since then, the MGCs have embraced different strategies with regard to US packaged gas distribution, with notably Praxair, Airgas, and MATHESON focused on improving their geographic presence or extending the reach of packaged gas business through the acquisition of independent distributors. The frenzy of acquisitions during this time was illustrated by the owner of one independent distributor who told us in 2008, “It feels a little like deer season, and I’m among the deer.”

Feeling threatened by proposed changes in tax laws, rising liability insurance, government healthcare, and in many cases, the lack of a clear succession plan for the business, many independents have been more than tempted to sell their businesses – trying to choose the right MGC who would not only give them the best price, but would stand the best chance of taking care of their loyal employees and customers. MATHESON’s brand slogan, ‘National Reach, Local Values’ has gone a long way toward assuring independent owners that we would do our very best to retain the people, culture, and the success formula that personified the acquired distributor business in the first place.

While this article has highlighted the US situation so far, it is not a stretch to say that a similar dynamic is at work in South America, China, India, the Middle East, Europe, and other world geographies, as global MGCs or large regional gas companies have sought solidification of their strategic depth and breadth in emerging market areas through the acquisition of independent producers and distributors.

When I was asked by **gas**world to address the changing face of the industrial gas industry as a result of the global dynamic caused by M&A activity, the first question that popped into my mind was, “the face as perceived by whom?” In my mind, there are four perspectives that have to be considered – those of MGCs, independent distributor shareholders, end customers, and independent distributor employees. I thought it might be worth commenting briefly on each from MATHESON’s experience.

Major gas companies

From our vantage point, the rapid pace of M&A over the last 10 years in the US has driven up competition between MGCs and related EBITDA acquisition multiples. It has also required MGCs to accept higher deal prices for larger acquisitions, or settle in on a more granular strategy of piecing together multiple acquisitions to build a presence in a targeted geography. Even in other parts of the world, MGCs have had to adjust their strategies by focusing on a much more limited selection of acquisition candidates of two extremes: small local businesses or virtually inaccessible, large companies.

Independent distributor shareholders

Faced with many of the same challenges noted above, as well as increased competition from MGCs, distributor stakeholders of well-run businesses have been enticed by the lucrative deals offered by MGCs competing for their business.

However, they also feel compelled to ensure that their employees, customers, and perhaps family members working in the business are taken care of in terms of livelihoods and promising careers. MATHESON’s experience has proven that an acquisition strategy addressing distributor shareholder concerns can be the tipping point to come to MATHESON.

End customers

Not unlike our individual experiences with restaurant chains taking over the town diner, industrial gas customers face the same trepidation with regard to disruption in quality of service, product/brand continuity, and long-term relationships. By finding a way to maintain the independent distributor success formula and keep the local organisations intact, MATHESON has had good success convincing end customers that the new combined entity resulting from the acquisition of an independent distributor provides ‘1+1=3’ value in terms of local presence and unprecedented access to technology, resources, and global brand.

“...an acquisition strategy addressing distributor shareholder concerns can be the tipping point”

Independent distributor employees

That first meeting when the sale of the independent distributor to an MGC is announced is indeed one of the scariest and most upsetting events for independent distributor employees. Their worst fear is being gobbled up by an inflexible MGC which will not appreciate the value of the distributor workforce or formula for success. While there will always be some workforce synergies in any acquisition, MATHESON has erred on the side of maximising the future potential of the enterprise by preserving the culture and as much of the local workforce as possible.

In summary, the M&A activities centered on independent distributors and producers across the globe have had a major impact on all stakeholders – from MGCs to employees. The degree to which the trend renders a positive or negative effect truly depends first and foremost on the MGC. It is my opinion that the best chance for a positive impact on all parties occurs when the independent distributor reaps a fair deal price, based on the value it brings to end customers and the MGC preserves that value by keeping the local teams and culture intact. That is and has been the formula that MATHESON endeavours to execute. ❑

ABOUT THE AUTHOR

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