

A Changing Landscape

How 25 Years of Mergers and Acquisitions Reshaped the Industry

By Brian Deveaux

There are few subjects that have impacted the industrial gas industry in the United States over the past 25 years more than mergers and acquisitions (M&A). Not only has M&A activity impacted the players involved in the industry, but it also has reshaped the structure of the supply chain for how gases are produced and distributed to end user customers.

Consider that in 1990, the major players in the US market included BOC, Air Liquide, Air Products, Messer, AGA, and Praxair (known still in 1990 as the Linde Division of Union Carbide Company), each of which had both production (on-site/bulk merchant gas) and distribution (packaged gas) segments of their business. Airgas, Matheson, Valley National Gases, and several thousand privately owned (i.e. independent) businesses focused almost exclusively on the packaged gas segment of the market. Linde AG had very little presence in the US and there were no major players whose business was focused exclusively on the production segment of the market.

This picture would begin to change in the 1990s, but the pace of change would pick up dramatically in the first part of the new millennium. Figure 1 contains a chronological list of a few of the more meaningful transactions to occur in the industry between 1990 and 2015. The paragraphs that follow elaborate on some of these transactions and highlight the impact they have had on the structure of the US market.

See: "Decades of Deals," *CryoGas International*, August/September 2006, page 68, to learn more about how M&A impacted the industry prior to 1990.

The 1990-1999

In 1992, the Linde Division of Union Carbide Company (UCC) was spun out into its own publicly traded company called Praxair. This independence from UCC set the stage for a period of rapid growth for Prax-



air, much of which would come through acquisitions. Some of the notable acquisitions for Praxair in the 1990s included Liquid Carbonic in 1995; Wilson Oxygen (TX) in 1996; Parry Corp. (OH) in 1996; GasTech (IN) in 1998; and Whitmore Oxygen (UT) in 1998.

Linde AG (Linde), whose presence in the US was somewhat limited entering the decade, expanded in the area of technical gases in 1996 with the acquisition of Sunox (NC) through its Atlanta-based subsidiary, Holox. Linde would enter the hydrogen and carbon monoxide business through a cooperative agreement with Millenium Petrochemicals and would expand further in the US in 1999 through its acquisition of the medical oxygen business that became known as LifeGas.

Airgas started the 1990s at less than \$300M in total revenue; it would exit the decade at more than \$1.5B. From 1990 through 1999, Airgas acquired a total of 229 companies, including 42 acquisitions in 1996 alone. Also in 1996, Airgas entered into a joint venture with National Welders Supply, the largest privately owned distributor of industrial, medical, and specialty gases at the time. National Welders had 45 locations in five southern states, three air-separation units, and \$120 million in annual sales. This investment pushed Air-

gas over the \$1 billion sales mark for the first time in its history.

Other notable transactions to occur in the 1990s included the formation and subsequent initial public offering for NuCO₂; the acquisition of Texas-based Tri-Gas by Nippon Sanso subsidiary Matheson, forming Matheson Tri-Gas; and the merger of Standard Welders Supply with Mid-South Oxygen to form nexAir.

The 2000-2009

While the decade of the 1990s had its fair share of significant M&A transactions, none would reshape the industry like the transactions that would occur in the first decade of the new millennium. The deal frenzy of the 2000s started early in the decade and remained strong until the global financial crisis which began in 2008. By the end of the decade, the major players in the US market had changed, and the structure of the supply chain for packaged gases had been altered in a meaningful way.

Linde had been holding purchase negotiations with both Messer Griesheim of Germany and AGA of Sweden since mid-1999, but had been unable to complete a deal with either. When the EU Commission was unwilling to approve a takeover of Messer, Linde refocused its efforts on AGA and was ultimately successful in

acquiring the business in 2000. AGA had established a strong presence in the US through its acquisition of Burdax (OH) in the late 1970s and several subsequent addition acquisitions. Linde would solidify its position in the US with its 2006 purchase of BOC, but after BOC had sold its packaged gas business to Airgas in 2004.

Airgas' acquisition of BOC's packaged gas business followed a similar transaction with Air Products in 2002 through which Airgas acquired Air Products packaged gas business. The Air products acquisition added 88 locations to the Airgas footprint including 36 gas fill plants and 44 retail stores. The BOC acquisition would add an additional 120 locations across 21 states. While these transactions greatly expanded Airgas' packaged gas footprint across the United States, its 2006 purchase of eight air separation units (ASUs) and related bulk gas business from Linde more than tripled Airgas' oxygen and nitrogen production capacities and transitioned Airgas into a major player in the US merchant gas business. Only a year later, Airgas would acquire the packaged gas business of Linde in a deal that included 130 locations in 18 states, with more than 1,400 employees, generating \$346 million in revenues. Other notable acquisitions by Airgas in the decade included Puritan Bennett (2000); UIG (2003); Aeriform (2006), and Merriam-Graves (2008).

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2004 also saw a major move by Air Liquide into the US market when it acquired Messer's businesses in Germany, the UK and the US. Following the lead of Air Products and BOC, Air Liquide divested the packaged gas portion of Messer's US business, which it accomplished through the sale of its Gas Technology & Services (GTS) division to a management-led buy-out group, and subsequent sale of its Constair subsidiary to Praxair. Furthermore, in order to complete its acquisition of Messer's US assets, Air Liquide was required by regulators to divest six ASUs and related assets operated by Messer in Cali-

fornia, Texas, Louisiana, and Mississippi. The buyer for these assets was Matheson Tri-Gas.

This 2004 purchase of Messer's bulk gas assets would mark the beginning of a period of rapid growth for Matheson Tri-Gas. Part of the impetus for this growth was the merger of Matheson's Japanese parent Nippon Sanso with Taiyo Toyo Sanso (also in 2004). The newly formed Taiyo Nippon Sanso Corporation (TNSC) had its sights set on becoming a global leader in the industrial gas industry. With TNSC's support, Matheson would acquire Linweld (2006); Polar Cryogenics (2007); Five Star Gas and Gear (2008); AERIS (2008); Advanced Gas Technologies (2008); and ETOX (2009). Of particular note is Matheson's 2009 acquisition of Valley National Gases from private equity firm CI Capital.

CI Capital (known at the time as Caxton Iseman Capital) had acquired Valley National Gases in 2007 for a reported \$327M (Source: Capital IQ). Under CI's ownership, Valley completed eight acquisitions of its own, expanding from 75 branches to 95 branches covering 18 states. According to interviews with CI management, the firm had not intended to exit its investment as quickly as it did, but concluded "we're getting a great price for the business and we're very happy with the outcome." CI's interest in the industry would re-emerge in 2011 when it acquired a controlling interest in Tech Air (Danbury, CT).

Praxair remained an active acquirer in the 2000s starting with a joint venture between Praxair, Welco Gases and CGI Industries in 2000. This JV would eventually expand in 2007 to include the GTS portion of Messer's business that had been spun out to its management team in 2004. Other meaningful acquisitions for Praxair in this decade included Mittler Supply (2007) and Kirk Welding (2008).

Other noteworthy transactions to occur in the 2000s included a five-company merger in Northern California that created AERIS; Norco's 2008 acquisition of Gases Plus; and NuCO₂ being taken private by Aurora Capital Group. Also of note in this decade is Norco's emergence as a producer or bulk merchant gases, having built its first ASU in 2002 followed by a second one in 2009. While not directly related to any specific acquisition, there is no doubt that Norco's growth, which has been fuel-

Industrial Gas Industry Transactions 1990 – 2015

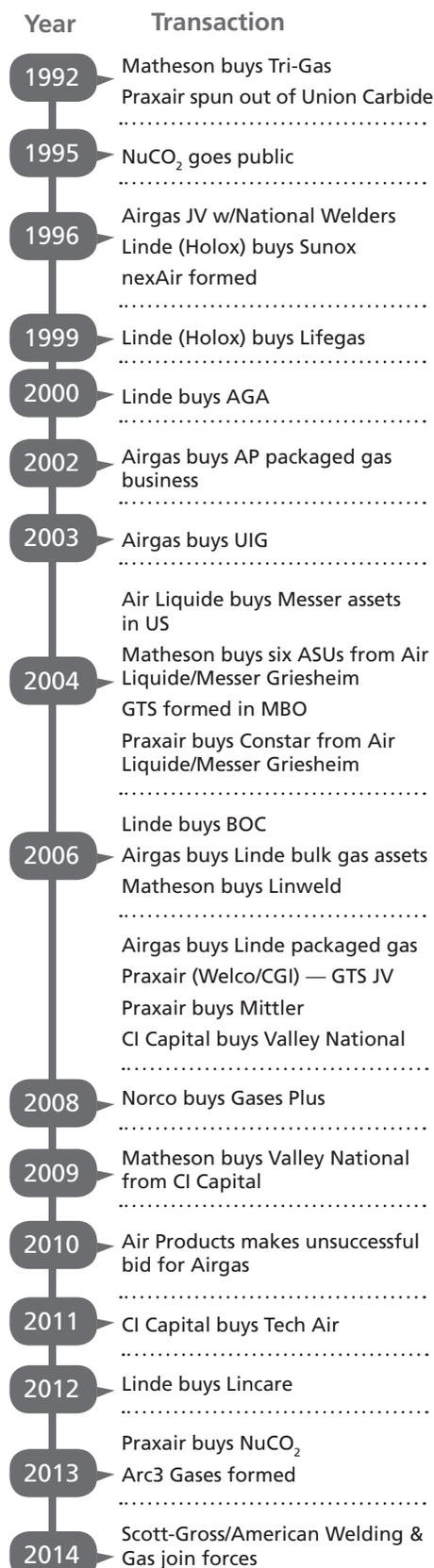


Figure 1

led in part by an estimated 20 acquisitions over the past 25 years, factored into the decision to make these investments.

See "Norco, Inc. — Big Decisions, Big Projects," on page 44.

2010-2015

Following in the wake of the global financial crisis that began in 2008 and continued well into the current decade, M&A activity in the industry slowed somewhat. Impending tax changes created a flurry of activity toward the end of 2012, but even that level of activity paled in comparison to the activity of the prior two decades. Perhaps one of the most notable transactions of the first half of the current decade is the one that didn't happen. A bid by Air Products to acquire Airgas in 2010, which started off as a "friendly" overture, quickly turned hostile. After a year-long battle that would include several key decisions by the Delaware Chancery Court, Air Products formally withdrew its tender offer in February 2011.

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Airgas has remained one of the most active acquirers throughout the first half of this decade with notable acquisitions including Pain Enterprises (2011); ABCO (2011); Nordan Smith (2012); and Encompass Group (2013). Praxair has also remained active where its notable acquisitions have included TWSCO (2011); American Gas Group (2011); AOC (2012), and NuCO₂ (2013). In May 2010, Matheson acquired Western International Gas & Cylinders (TX), the largest acetylene wholesaler in the world, and manufacturer of cylinders, valves, and related handling equipment. Matheson's other acquisition activity this decade has included its acquisition of Continental Carbonic (2014) and Sims Welding (2015).

One of the most active acquirers of late has been CI Capital-backed Tech Air. With



its July 2015 acquisition of L&M Welding Supply, Tech Air has completed eight acquisitions in the last 12 months, expanding its business to 30 branch and fill plant locations serving customers in the Northeast, South, Southwest, and West.

Other transactions of note to occur since 2010 include the 2013 acquisition by Norco of 10 respiratory care and medical supply locations from Care Medical/Walgreens; the 2013 transaction that saw two multi-generation family-owned business, Arcet Equipment Company (VA) and Machine & Welding Supply Company (NC) join forces through a 50/50 merger to form Arc3 Gases; and Scott-Gross (KY) joining forces with American Welding & Gas (MT) in 2014 to create one of the largest independently owned distributors in the US.

Where Are We Today?

As noted previously, the US industrial gas players in 1990 included six major producer/distributors and several thousand distributors (including several publically traded companies). The transactions of the past 25 years have not only changed the names and the number of players, but more importantly have changed the dynamics of the supply chain. Today we see an industry with three major producer-only companies, four producer/distributors (including Norco), and the estimated number of independent distributors at less than 1,000.

Where Are We Heading?

I believe we are heading back toward a picture that looks more like the picture we saw in 1990 than what we see today

(i.e. more producer/distributors and fewer producers-only). Air Products expressed a clear desire to get back into packaged gases based on its hostile bid for Airgas in 2010 and I suspect that desire remains intact under the new Air Products regime. Air Liquide and Linde management are likely having similar discussions in their boardrooms. Whether the Airgas board would be receptive to another overture is anyone's guess. With Mitsubishi's new majority ownership at the Taiyo Nippon Sanso level, MATHESON's long-term strategy in the US is likely under review. With the continued emergence of large independent regional distributors (e.g. Norco), I suspect we will see more independents considering investing in their own production capacity.

Will we ever get back to the point of having no major players focused exclusively on the production segment of the market? I suspect not, but whatever happens, mergers and acquisitions will certainly continue to play a major role in how the industry takes shape in the future. ■

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