



Whatever happened to organic growth?

Why M&A, specialty gases and emerging economies are the order of the day in the global gases business.



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Whatever happened to organic growth in the \$72bn global industrial gases business?

As Praxair and Linde stand on the brink of a probable \$65bn merger of equals, Air Products makes its move for China's Yingde Gases, and various pockets of regional mergers and acquisitions (M&A) continue to proliferate, all in the wake of Air Liquide's \$13.4bn acquisition of Airgas last year, questions are posed of the organic growth prospects in the gases industry.

This is heightened by the increasing prominence of the specialty gases business as not only a niche within a niche, but an area of the gases industry in particularly strong growth mode. Specialty gases are a good space to be in right now.

Likewise, the emerging economies are also very much the order of the day for the industry. This is nothing new, but going where the growth is geographically has visibly taken

on greater significance in the last half-decade as industrial gas and equipment companies big and small alike have progressively set their stall in markets such as China, India, Indonesia, Thailand, Vietnam, and various countries in the Middle East.

Other emerging markets are still in their relative infancy (think Cambodia, Laos, Myanmar) but are sure to be the subject of stronger industrial gas build-out in the years to come, while a more established Iranian market is essentially open for business again following the well-documented lifting of many international sanctions. The lower-hanging (organic) fruit is clearly more associated with emerging economies than Western markets.

Underpinning all of this has been a continued focus on the core, a renewed evaluation of efficiencies and cost-cutting that has been openly stated in company financials and earnings releases since the onset of the global financial meltdown of 2008/9. The major industrial gas players

are perhaps leaner and more focused than ever before, with Air Products a prime example of an organisation that has restructured and repositioned itself to do what it does best in recent years, under the stewardship of award-winning Chairman, President and CEO Seifi Ghasemi.

High-profile M&A like Air Liquide-Airgas and Praxair-Linde simply make the question more overt – does a (probable) second successive merger of two of the industry's flagship players point to a lack of tangible organic growth prospects?

When asked this very question, Wayne Twardokus, Director at League Park Advisors, told *gasworld*, "I think we are beginning to appreciate that trees don't grow to the sky – we had an immense amount of macro growth being driven by Western economies in the 20th century and the Asian economy for the first part of the 21st century. Broad market participation may not be enough to generate the desired/expected results."

"I am a very positive person and think growth

will always be there given the types of products these companies produce, but also believe growth may be more concentrated in specific regions and markets."

James Barr, Senior Business Analyst at *gasworld* Business Intelligence, concurred, "The period of strong growth in Western markets may now be over – new innovations may drive small gains in demand, but a potential return to the growth levels of the 1990s and early 2000's is unrealistic."

"However, even after the proposed Praxair-Linde merger, there will still be important M&A opportunities for the remaining Tier One's and Tier Two's in the Americas and Europe – so inorganic growth will likely be the order of the day going forward, in the more developed markets."

"However, robust organic growth will still be witnessed in the up-and-coming markets in Asia for the foreseeable future."

Carving it out

High growth areas in younger markets may well be the order of the day for the industry, but organic growth can still be found in the more established markets of the Western world – it's just a case of carving it out over the long-term, and that requires innovation.

"There are certainly opportunities for our industry to re-imagine itself," Sue Graham Johnston – Managing Director, BOC UK, Ireland & Africa - The Linde Group – told *gasworld* in a December 2016 interview. "Innovative thinking is what creates new value for customers in any industry. The gases industry has a reputation for being solid

and dependable. There are certainly opportunities for our industry to re-imagine itself, and to become more in step with an increasingly digitised customer base. We also need to adapt more quickly to changes in economic conditions, customer priorities and environmental regulations."

"Innovation is certainly not new to the industrial gases business; it's just that we are at the start of an exciting new chapter in its story." She continued, "...three trends that will continue to shape the future of all industries are Communications, IoT, and Big Data. We are only just scratching the surface of applying those capabilities in industries like healthcare, manufacturing and resource management for food, water and energy."

Mack Valves CEO Ravin Mirchandani is another industrial gas professional that believes organic growth is still there to be found, and more often than not it lies in innovating. As an example, Mack Valves has been working to integrate the Internet of Things (IoT) into its products to unlock greater capabilities for its customers, as well as a new growth driver for the company. Mirchandani described in an earlier column for *gasworld*, "At Mack Valves, we had been grappling with building the Internet of Things (IoT) into our valves for some time, to allow valves to communicate with us as well as our customers, tracking crucial data points which over time could build valuable data for risk and trend analysis."

"Our engineering team

therefore decided to design our new cryogenic globe valve such that it includes space to imprint a QR code; QR codes allow for greater individualisation of data and can be scanned by using easily downloadable apps on a mobile phone."

"The QR code will now be an integral part of the new cryogenic interoperable globe valve that Mack Valve is launching in December 2016 and will be progressively rolled out to the rest of our product range in 2017.

Long-term

In the short-term, there is little doubt that inorganic growth – via M&A for example – is the order of the day for many in the global industrial gases business, big or small.

The scale and synergies that

can be achieved through these means are inescapable. As the most recent example, Praxair and Linde have revealed estimated annual synergies of their merger in the region of \$1bn and I understand that this 'sounds reasonable' from an analyst's perspective. That's a significant saving to be realised going forward.

Not all M&A will be on such a scale, however, and in the long-term it is a combination of organic and inorganic growth through innovation and business development that will prove more sustainable. Those trees may not grow to the sky, but they can branch out.

In addressing whatever happened to organic growth, the answer is that it never went away – it's just a case of finding it and innovating. 