

DSM and Firmenich Merger: Story Structure In European Event-Driven Equities

July 11, 2022 | By Alex Gavrish, Etalon Capital Ltd; author of "Story Investing"

Story Structure

Best investments are just like good [stories](#) or movies: with a three-part story structure (complication, development, resolution), important turning points, intrigue, drama, and surprises.

A strictly analytical approach to investment management does not provide us with tools for dealing with uncertainty.

The closed and fixed form of analytics leaves no place for imagination.

And without imagination, we are just not capable of fathoming uncertainty, fathoming the future.

Narrative, by its nature, allows us to understand the time dimension better: order of events, their length, and different time periods.

For example, [George Soros](#), in his book ["Alchemy of Finance"](#) describes how he analyzed certain investment situations.

In order to see the big picture and analyze the case, he uses terms borrowed from the world of literature, movies, and theatre. He calls the overall cycle "scenario" and different stages of the cycle "act one", "act two", "act three", and "act four", and puts an emphasis on the main "actors": the shareholders.

I think that the use of such terms is not a coincidence: it serves well the purpose of looking at how the situation develops over time.

M&A Situations

Some M&A transactions present an opportunity to develop a good investment thesis.

A large merger is an important, transformative corporate event.

It can change the investment thesis and story of a company.

It just takes time for a company's story structure to develop and for share prices to reflect fundamental changes and developments.

As a result of this, shares can decline or trade sideways despite the fact that the transaction has great fundamental logic and benefits for shareholders.

All of this creates opportunities for investors. After a certain period of time, it is easier to take a step back and look at the company's [story](#) and story structure.

DSM and Firmenich Merger

At the beginning of June 2022, Royal DSM [announced](#) that it will [merge](#) with Firmenich, creating a new leading company in nutrition, beauty, and well-being.

As a result of a transaction, DSM shareholders will own 65.5% percent of the combined company while Firmenich shareholders will get 34.5% percent plus a cash payment of EUR 3.5 billion.

The combined company will have a market capitalization of approximately EUR 38 billion (based on DSM's recent share price of EUR 142.3).

In April 2022 DSM [announced](#) that it will sell the Protective Materials business to segment to [Avient Corporation](#) for EUR 1.44 billion.

In May 2022 DSM [announced](#) that it will sell the Engineering Materials business to Advent International and [Lanxess](#) for EUR 3.85 billion.

Accounting for cash expected to be received from these sales and cash payment to Firmenich shareholders, Net Debt is estimated to be EUR 2 billion, and the combined company will have an Enterprise Value of about EUR 40 billion.

Based on DSM-Firmenich's presentation, the combined company had a FY 2021 EBITDA of EUR 2.3 billion. This means that based on current DSM's share price the combined company is valued at an EV/EBITDA valuation multiple of x17.6.

We believe that a large merger or acquisition is helping investors identify the story structure in a company's shares and develop an investment thesis around such an event. However, such types of M&A transactions are associated with a prolonged period of integration of two companies, and it might take a prolonged period of time until the market and investors "absorb" the transaction.

For examples, shares of International Flavors & Fragrances, which [announced](#) a [merger](#) with DuPont's Nutrition & Biosciences Business in December 2019, did not perform exceptionally well since then. We [wrote](#) about this situation back in October of 2020.