Inside this Issue

We are pleased to present our second quarter 2007 issue of The Chemical Intermediary, our review of insights, events and trends in chemicals and specialty materials.

In this issue we offer insight into private equity’s perspective on specialty chemicals, provide statistics and commentary regarding trends and developments in the global specialty chemicals industry, offer insight into the unprecedented growth in the titanium industry and update you on key developments at Lincoln International.

Key topics covered in this issue include:

- Spotlight Interview with John Televantos of Arsenal Capital Partners (p1-2);
- Q1 2007 Market Commentary (p2);
- Key Market Statistics—Specialty and Diversified Chemicals (p3);
- Sector insight on global titanium, which is driving growth of specialty materials manufacturers (p4);
- Announcement of Lincoln International's Top 25 worldwide M&A ranking (p5); and
- Announcement regarding Akzo Nobel's divestiture of Akcros Chemicals to GIL Investments (p5).

Spotlight Interview: Dr. John Televantos of Arsenal Capital Partners

John Televantos, Executive Vice President of Arsenal, specializes in specialty chemicals and materials. Dr. Televantos possesses significant relevant industry experience through his previous positions as President of Aqualon, a Hercules Inc. Company, President and Founder of Helios Chemical Company, Chief Executive Officer of Foamex International, Vice President of Development Businesses at Lyondell Chemical Co., Vice President of Strategy & Commercial Development at Arco Chemical Co. and Director of R&D for Specialty Chemicals at Union Carbide Corp. Dr. Televantos sits on the Boards of Directors of three Arsenal portfolio companies, specifically Interdynamics, Velsicol Chemicals and Vertellus Specialties. He is also on the Board of Balchem Corporation. He earned both his Bachelor of Science and PhD degrees in Chemical Engineering from the University of London, U.K.

Q: What sets you apart from other private equity firms in the chemicals industry?

A: Through knowledgeable internal resources as well as numerous external resources and contacts, we have extensive knowledge and experience in specialty chemicals and are comfortable investing in this sector over the long-term. Current and prior investments include Interdynamics, Reilly Industries, Rutherford Chemicals, Scientific Protein Laboratories (SPL), Sermatech International and Velsicol Chemicals. We leverage our staff and network to help our management teams create value through increased productivity, reduced costs and accelerated growth. We also offer a global view and experience, which is rare in the middle market.

Q: Do you have particular sector focus or expertise within chemicals?

A: Our network has a broad experience in most sectors of the specialty chemicals industry. We focus more of our energy on businesses that have strong growth drivers (market, demographics and product substitution), high customer intimacy, solutions providers and businesses with lower cyclicality, high gross margins and strong barriers to entry. We realize that many companies for sale have a mix of business lines, including those that possess these characteristics and others that do not. We are very comfortable with these mixed assets and in being able to transform them into higher value companies in a relatively short time.

(Continued on page 2)
Q: Any situations you would shy away from?
A: We do not invest in businesses that are commodity in nature, have high cyclical in sales and earnings, or are capital intensive. We do like companies that have complexity and improvement opportunities.

Q: In November, Arsenal closed on a $500 million second fund. Are you seeing increasing limited partner interest in chemicals?
A: Our limited partners are very supportive of our investment direction and continued interest in the specialty chemicals sector. We have demonstrated our ability to improve the growth profile and profitability of specialty chemicals companies, which will eventually translate into superior returns for our investors.

Q: We are seeing a good deal of M&A activity in the chemicals sector. What do you think is driving this activity?
A: We believe that specialty chemicals continue to provide opportunities for investment. As large companies re-focus their portfolios and smaller companies look for partners to help them grow, M&A activity will continue.

Q: How long do you think it can last?
A: There is no sign that portfolio realignment or smaller company opportunities will dry up anytime soon. Clearly there are other factors that affect the amount of M&A activity during any given period (such as financing market conditions and end-market dynamics), and we carefully monitor these various factors every day.

Q: In this market, how does a private equity firm compete against a corporate buyer in a competitive auction situation?
A: We believe we provide speed and certainty to a transaction. We are willing to undertake complex deals that many strategic buyers shy away from. We also support transformational changes where we can focus resources and capital to grow certain segments of a company and restructure the low growth opportunities. As a small and nimble firm with extensive acquisition expertise, we have the advantage of speed. We can move more quickly and reliably than many large, corporate buyers.

Q: There has been a good deal of ongoing discussion concerning the new REACH chemical regulations in Europe. Does REACH impact how someone like you would look at a business?
A: Our chemical businesses today have significant operations in Europe, so we are very conversant with REACH and how it will impact the chemical industry. We see it as just another regulation (albeit an important one) that we need to deal with. In some cases we can turn it into an advantage.

Q: What are some of the key questions a management team should think about when co-investing alongside a private equity firm?
A: When considering an investment with a private equity firm, management teams should consider the potential partner’s strategic capability to understand, debate and support management in the development of a plan and effective execution of a strategy. In addition, the private equity firm’s experience and track record in the particular sector is extremely important. Finally, the partner should have the willingness to provide enabling resources to execute a strategy when the internal company resources may not be sufficient.

Q1 2007 Market Commentary — Specialty and Diversified Chemicals

The charts on page 3 provide a statistical summary of activity in specialty and diversified chemicals. After continuing at a steady pace over the prior four months, first quarter announced transaction volume declined 26%, from 42 transactions to 31 according to CapitalIQ, Inc. Total announced value of deals was approximately $1.6 billion. The decline appears to be fairly evenly spread from a geographic standpoint, with both Europe and the U.S./Canada notching approximately 22% - 23% declines in transaction volume.

Public companies participating in the specialty chemicals industry continue to trade at strong valuations. As shown in the chart on the following page, both the LI Specialty Chemicals and LI Diversified Chemicals indices have outperformed the market for Q1 2007. Overall, valuations remain strong with both large and mid cap EBITDA multiples trading above 9.0x as of 3/31/2007.

The $10.1 billion of transaction value shown in the first quarter of 2006 includes two large acquisitions completed by BASF (Degussa Construction Chemicals, for $3.3 billion, and Engelhard for $5.8 billion).

Despite what the charts say about M&A volume, we continue to observe a strong appetite for acquisitions among the strategic buyers that we speak with. Many companies continue to be flush with cash and are benefiting from strong market conditions, putting them in a strong position for acquisition growth. In addition, positive exchange rate dynamics between the dollar and the euro make U.S. acquisitions more economical for European companies.

The following deals were among the largest announced transactions for the first quarter of 2007:

- On February 23, 2007, The National Titanium Dioxide Company (NTDC) said it has agreed to acquire Millennium Inorganic Chemicals from Millennium Chemicals for approximately $1.05 billion in cash. NTDC will also assume $150 million in debt as part of the transaction.


- On February 12, 2007, Sigma-Aldrich Corp. acquired Epichem, Ltd. from Intel Capital for a reported consideration of $60 million in cash.
Q1 2007 Key Market Statistics — Specialty & Diversified Chemicals

M&A Transaction Activity vs. Deal Value
(Announced transactions and transaction values)

M&A Transaction by Region
(Announced transactions)

Most Active Buyers / Investors (Last Twelve Months)
(Based on announced transactions and transaction values)

Top 10 Buyers by No. of Deals
Company Name | No. of Deals | Deal Size ($mm)
--- | --- | ---
PPG Industries Inc. | 8 | $2,162
Akzo Nobel NV | 3 | 2,154
Tikkurila Oy | 4 | 1,488
Nippon Paint Co. Ltd. | 3 | 1,349
Tikkurila Oy | 3 | 1,349
European MasterBatch N.V. | 2 | 1,200
GE Advanced Materials | 2 | 390
Impreglon AG | 2 | 165
Sigma-Aldrich Corp. | 2 | 110
Valspar | 2 | 110
Total Top 10 | 31 | $10,383

Top 10 Buyers by Deal Size
Company Name | Deal Size ($mm)
--- | ---
Givaudan AG | $2,162
Carlyle | 2,154
Advent International Corporation | 1,488
Court Square Capital Partners | 1,349
Weston Presidio | 1,349
The National Titanium Dioxide Co. | 1,200
Chembula Corporation | 290
Chembula Corporation | 165
PPG Industries Inc. | 115
Kuala Lumpur Kepong Bhd | 110
Total Top 10 | $10,383

Public Market Performance

Enterprise Value / EBITDA

(1) LI Diversified Chems Index: FMC, CLX, EMN, RHA, HUN, CBT, POL, ASH, DD, EC, OLN, PPG, AKZA, BAS, CE, MON, DOW
(2) LI Specialty Chems Index: Includes all companies in the Large Cap and Mid Cap groups
(3) Large Cap group includes: ALB, APD, ARG, CEM, CYT, ECL, FUL, GRA, HPC, IFF, LZ, NLC, PPG, ROC, ROH, RPM, SIAL, VAL
(4) Mid Cap group includes: ARJ, CBM, FOE, MRD, NEU, OMG, SHLM, SMMX, SXT

SOURCE for all data on this page: CapitalIQ, Inc. (division of Standard & Poor’s), Lincoln International and public filings
Growth in the titanium market is fueling significant growth for both titanium manufacturers and the relatively few specialty materials manufacturers who supply to the industry.

The titanium industry is experiencing unprecedented growth as a result of strength in a number of key segments including commercial aerospace, chemicals, oil & gas and military, as well as emerging market demand in Asia. Titanium Metals Corporation (“TIMET”), a leading producer of titanium, recently stated that based on customer feedback, they expect demand for titanium mill product to double over a ten year period. The titanium industry is responding by investing in sponge and melt capacity to support growth. For example, Allegheny Technologies (“ATI”), another leading producer of titanium, recently announced plans to invest at least $925 million through 2009 to renew and expand their titanium, nickel-based alloy and superalloy melt capabilities and capacity.

The growth of titanium in the commercial aerospace market is being driven not only by the well-documented increase in demand for commercial airplanes, but also by the increasing amount of titanium used in new models of commercial aircraft. Record new aircraft demand is the result of robust air travel, demand for new, fuel-efficient aircraft, an aging fleet among major airlines and the growth of profitable, low cost and international airlines. ATI estimates that total aircraft deliveries will increase from 1,268 in 2006 to 1,546 in 2008. Boeing and Airbus are sold-out on production for the next 3-5 years. Demand for fuel efficiency improvements has led the aerospace industry to use a higher percentage of light weight materials such as composites and titanium. Because titanium interacts better with composite materials, the use of titanium in newer model aircraft has significantly expanded. The tables below illustrate these dynamics.

According to TIMET, titanium continues to gain acceptance in many emerging market applications, including automotive, energy (including oil and gas) and architecture. Rapid growth of the Chinese and other Southeast Asian economies has brought unprecedented demand for titanium-intensive industrial equipment. TIMET’s net sales growth into emerging markets exceeded 50% in each of 2005 and 2006. TIMET has said they believe emerging market demand could grow at double-digit rates over the next several years.

### Selected Industry Participants

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<thead>
<tr>
<th>Specialty Materials (Master Alloys, Powders and Coatings)</th>
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<tr>
<td><strong>Titanium Producers</strong></td>
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<tr>
<td>Alcoa/ Howmet (US)</td>
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<tr>
<td>Allegheny Technologies (US)</td>
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<td>Baoji Titanium (China)</td>
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<td>Carpenter Technology (US)</td>
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<tr>
<td>Daldio Steel (Japan)</td>
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<td>Kobe Steel (Japan)</td>
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<td>Peryman Company (US)</td>
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<td><strong>Raymor Industries/ AP&amp;C (Canada)</strong></td>
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<td><strong>Se-Jong Materials (Korea)</strong></td>
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<td><strong>Uralredmet (Russia)</strong></td>
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### Increasing Use of Titanium in Aircraft

<table>
<thead>
<tr>
<th>Boeing</th>
<th>Airbus</th>
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<tbody>
<tr>
<td><strong>Model</strong></td>
<td><strong>First Delivery Year</strong></td>
</tr>
<tr>
<td>737</td>
<td>1965</td>
</tr>
<tr>
<td>747</td>
<td>1966</td>
</tr>
<tr>
<td>777</td>
<td>1990</td>
</tr>
<tr>
<td>787</td>
<td>2008</td>
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Note: Includes Airbus, Boeing, regional jets and military jets. Source: Allegheny Technologies and public information.
Lincoln International’s recent assignment with Akzo Nobel regarding the sale of Akcros Chemicals highlights our ability to execute a well coordinated, global marketing process for a middle market business. As is the case with many chemicals businesses, Akcros has significant operations in both the U.S. and Europe. Lincoln International put together a joint team comprised of professionals located on both continents and successfully coordinated our efforts on a global basis.

In April 2007, Akzo Nobel N.V. (“Akzo Nobel”) completed the sale of Akcros Chemicals, a developer and producer of polyvinyl chloride (“PVC”) additives, to U.K.-based private investment firm GIL Investments Limited (“GIL”). Terms of the transaction were not disclosed.

Akcros Chemicals, headquartered in Eccles, United Kingdom, manufactures mixed metal and tin stabilizers, epoxy plasticizers, biocides and driers, as well as markets a full range of complementary products such as impact modifiers, processing aids, viscosity modifiers, bonding agents and antistatic agents. The company sells its products to customers worldwide and maintains its position as one of the market leaders in both Europe and North America through its strategically located operations.

Under the terms of the deal, Akcros Chemicals’ sites in Eccles, United Kingdom and New Brunswick, NJ, United States, along with all of the approximately 160 employees at these locations, transferred to GIL. An agreement was also reached whereby Akzo Nobel continues to operate two smaller, related production operations in Greiz, Germany and Itupeva, Brazil. Employees at these two locations, who provide toll production services to GIL, remain with Akzo Nobel.

“Transferring the bulk of the PVC additives activities to a new owner is the best way forward for the business, which will continue to operate under its current name,” explained Leif Damer, member of Akzo Nobel’s Board of Management responsible for Chemicals.

Lincoln International acted as the exclusive financial advisor to Akzo Nobel and worked closely with the senior management team of Akcros Chemicals to complete this transaction.
Lincoln International’s Global Footprint

About Lincoln International

Lincoln International Group ("Lincoln International") specializes in merger and acquisition services and private capital raising for leading organizations involved in mid-market transactions. With offices in Chicago, Frankfurt, Los Angeles, New York and Paris, and strategic partnerships with China Everbright and other partner firms in Asia, Lincoln International has strong local knowledge and contacts in the key global economies. The organization provides clients with senior-level attention, in-depth industry expertise and integrated resources. By being focused and independent, Lincoln International serves its clients without conflicts of interest. More information about Lincoln International can be obtained at www.lincolninternational.com.

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