

Q1 2009: Inside this Issue

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Spotlight Interview: Chemicals and Health & Nutrition insight by Dr. Michael Witzel



Dr. Michael Witzel

Dr. Michael Witzel is an Advisory Director to Lincoln International. He has served as CEO of Gelita AG, has been Executive Vice President at Degussa (now a Business Area of Evonik Industries) and President Degussa Health and Nutrition, Member of the Board of Management of SKW Trostberg and is now Managing Partner of Sensus Texture Group.

Q: What are the most critical challenges most of the leading chemical giants, but also the mid-cap chemical companies have in 2009?

A: The biggest challenge for the chemical industry - regardless if we look to the global players or small and mid-cap chemical companies - is definitely to manage the impact of the financial crises.

This crisis and its implications will hit companies and their markets heavily in the upcoming quarters. In particular the automotive, construction & materials,

industrial goods, and technology industry sectors will be hit the hardest.

We have already seen the first of these consequences in the fourth quarter 2008 with strong decreases of demands for products of the chemical industry due to the collapse of demand in the above mentioned industries though significantly lower GDPs, customer destocking activities, evident in lower raw material prices, and aggressive working capital management.

Q: Do you see any specific challenges on a regional basis, i.e. in Europe, the US or Asia?

A: There are certainly differences in how this crisis is managed on national or on trade basis, and which programs and plans are working in what way. However, most of the chemical companies are anyway working internationally or even worldwide.

I think that those companies who are less exposed to cyclical industries and more aligned to non cyclical industries like food, non-food consumer goods, healthcare, or utilities will likely be less affected in the upcoming quarters.

Q: What is your expectation about the M&A environment in the chemical industry for 2009 versus 2008?

A: We will certainly see a lower number of transactions, longer processes, significantly lower closing certainty, as well as smaller transaction volumes. In addition, I would expect more activities from strategic rather than financial investors. I expect a development towards higher consolidation activity in certain sub-segments, e.g. plastics, distribution or custom manufacturing, as

well as specific strengthening of market positions or regional footprints. The envisaged acquisition of Ciba by BASF, the delayed closing of the Rohm & Haas acquisition by Dow Chemicals, or the Pfizer / Wyeth transaction are prominent examples of significant consolidation steps in the chemicals and pharmaceutical sector.

In 2009 I would expect some M&A activity in certain specialty chemicals sub-segments at least from Akzo, Cytec, DSM, Ecolab, Lonza, Lubrizol, Sika, Wacker and also from others, but very specific and focused acquisition steps on a smaller scale.

Q: Does the current and expected lower valuation multiples initiate further consolidation activities in the European chemical industry, if yes, in what subsectors in particular?

A: Certainly lower multiples will attract investors, but only those who have clear strategic plans for their businesses, and the regional development supports these strategies. The relevant target business activities and / or companies may be more important in the actual situation, the must, for example, have stable balance sheets, a secured and low risk cash flow profile, a sufficient equity basis and some independency from the potential credit crunch on the financial markets.

Q: Do you expect some exits of PE-firms from some of their chemical investments in 2009? If you think yes, who would be potential buyers?

A: I am not sure that the actual situation is the best time to exit an investment. From a value creation perspective I would recommend to optimize the

(Continued on page 6)

Lincoln Advises Schwabe Pharmaceuticals on the Acquisition of Enzymatic Therapy

In November of 2008, Lincoln International announced the acquisition of Enzymatic Therapy, Inc. ("Enzymatic") from North Castle Partners, LLC, a Greenwich-based private equity firm, by Nature's Way Holding Company ("Nature's Way"), a wholly owned subsidiary of German-based Dr. Willmar Schwabe Pharmaceuticals ("Schwabe").

Enzymatic is a leading developer, manufacturer and marketer of highly efficacious natural medicines. Located in Green Bay, Wisconsin, Enzymatic has established several strong brand name products, including Enzymatic Therapy™, Phyto-Pharmica™, Integrative Therapeutics™ and Remifemin™.

The combination of Enzymatic and Nature's Way creates an unsurpassed portfolio of clinically validated natural products and ingredients. Lincoln International acted as the exclusive financial advisor to Schwabe and Nature's Way.

"Lincoln was a very valuable asset to Nature's Way and Schwabe. Their exten-

sive analysis, timely advice and persistence throughout the process helped achieve a great outcome for Nature's Way. Enzymatic has had a great track record under North Castle, and we look forward to welcoming Enzymatic, its customers and employees to the Nature's Way organization," said Dr. Dirk Reischig, President of Nature's Way.

About Nature's Way

Nature's Way was founded in 1968, and has improved the life of millions of consumers by bringing the healing power of nature through herbal formulations. Nature's Way is headquartered in Springville, Utah, and its products are sold through leading natural products retailers throughout the United States and in 40 other countries.

About Dr. Willmar Schwabe Pharmaceuticals

Dr. Willmar Schwabe Pharmaceuticals, headquartered in Karlsruhe, Germany, was founded in 1866. Today, the group is

a world-class leader in herbal medicines and comprises six companies in Germany and more than 20 subsidiaries and joint ventures around the world. For more than 140 years, Schwabe has been dedicated to providing patients and health care professionals with clinically proven herbal medicines and natural health care solutions.



Q4 2008 Market Commentary — Specialty Chemicals

The charts on the following page provide a statistical summary of deal and market activity in specialty chemicals during the quarter and last twelve months ended December 31, 2008, as collected by Capital IQ. There were several notable transactions announced in the fourth quarter, as follows:

On November 5, Skion GmbH made an €882.3 million (\$1.1 billion) offer to acquire the remaining 49.9% stake in Altana AG (DB:ALT). The offer of €13.00 per share (\$16.5) is to be financed by cash on hand. As of December 15, Skion GmbH had increased its stake to 76.3%. Altana AG had LTM September 30, 2008 revenue of €1.4 billion (\$1.8 billion) and LTM EBITDA of €271.7 (\$345.9 million). The implied transaction enterprise value was €1.8 billion (\$2.3 billion), or 1.3x LTM revenue and 6.6x LTM EBITDA.

Ashland, Inc.'s (NYSE:ASH) acquisition of Hercules, Inc. (Formerly NYSE:HPC) received regulatory approval on October 6, 2008 and was closed on November 13, 2008. The transaction was valued at approximately \$3.3 billion total enterprise value, or a 8.8x 2007 TEV/EBITDA multiple.

BASF SE (DB:BAS) completed the acquisition of Ciba Holding, Inc. (VIRTX:CIBN) on November 14, 2008. BASF had announced on September 14, 2008, a tender offer per share of CHF 50 (\$43.2) a 32% premium over the closing share price on September 12, 2008. Outside of the tender offer BASF SE acquired a 13.2% stake in Ciba Holding Inc. for CHF 444.4 million (\$384.0 million) on November 12, 2008, or CHF 49.5 (\$42.8) per share. The Ciba Holding Inc. generated LTM sales of CHF 6.2 billion (\$5.4 billion) and LTM EBITDA of CHF 758.5 million (\$655.3 million). The implied transaction enterprise value was CHF 5.5 billion (\$4.8 billion), or 0.9x LTM revenue and 7.3x LTM EBITDA.

Deal volumes and deal values were down as a whole in Q4 2008 as compared with Q4 2007, with the exception of activity in Asia which was higher as a proportion of worldwide transactions.

Lincoln International's chemical industry indices have declined similar to the overall market since the beginning of January 2008. These indices have however limited their decline since Q3 2008. For the trailing four quarters, the LI Diversified

Chemicals Index underperformed and the LI Specialty Chemicals Index marginally outperformed the S&P 500.

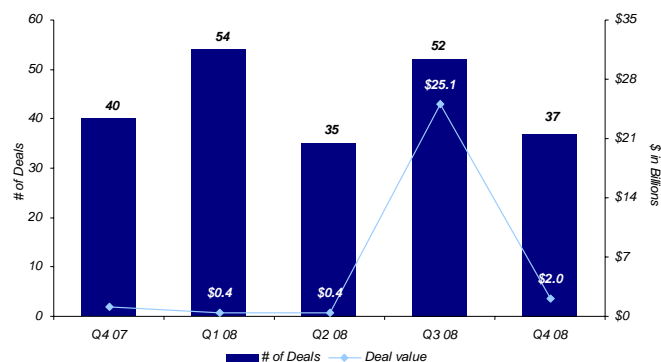
EV / EBITDA multiples for public chemicals companies declined sharply for both large and mid cap companies from Q3 to Q4 2008. Multiples for large cap companies dropped from an average of 7.8x at the end of Q3 2008 to 6.2x at the end of Q4 2008, while mid cap multiples showed increased softness as multiples traded down to 4.9x in Q4 2008 from 6.1x in Q3 2008.

Despite challenging market conditions, Lincoln International closed 12 transactions between September and October 2008. At a time when overall M&A activity is declining, particularly in the United States, Lincoln's recent successes are evidence that despite the challenging market, deals are still getting done.

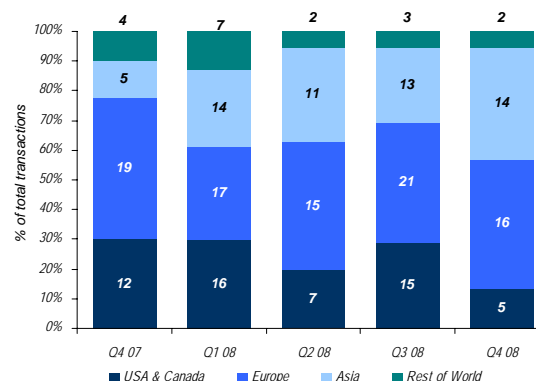
Source: Capital IQ, Mergermarket
Exchange rate used: €1 = \$1.273;
CHF 1 = \$0.864

Q4 2008 Key Market Statistics — Specialty Chemicals

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



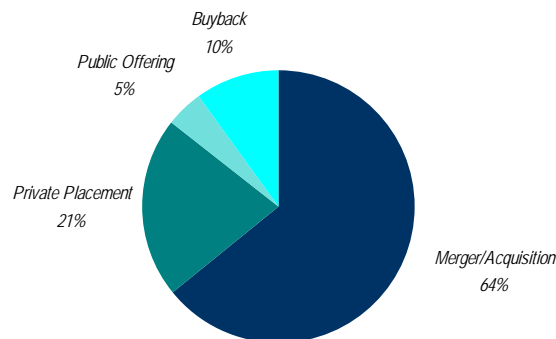
M&A Transactions by Region
(Announced transactions)



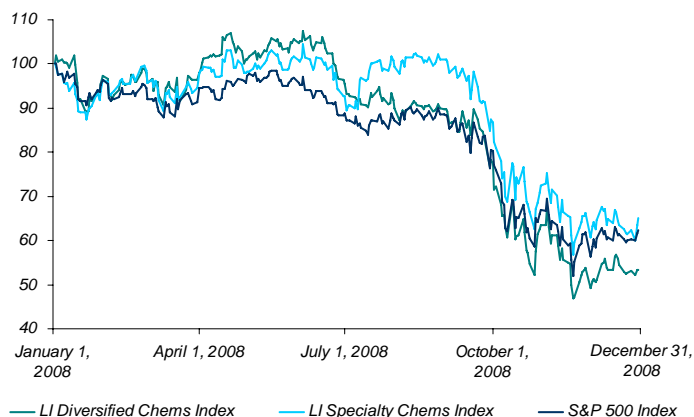
Most Active Buyers / Investors (Last Twelve Months)
(Based on announced transactions and transaction values)

Top 10 Buyers by No. of Deals		Top 10 Buyers by Deal Size	
Company Name	No. of Deals	Company Name	Deal Size (\$mm)
Akzo Nobel NV	4	Dow Chemical Co.	\$ 18,792
BASF SE	3	BASF SE	5,181
3M Co.	3	Skion GmbH	1,148
Sherwin-Williams Co.	3	InvestIndustrial Holdings Limited	507
Dow Chemical Co.	2	Snow Phipps Group, LLC	300
Chemetall Corp.	2	CBPE Capital	232
Altana AG	2	3i Group plc	211
Dufa Deutek SA	2	JC Hempel's Skibsfarve-Fabrik A/S	148
Flint Group	2	3M Co.	134
Iconic Holdings Limited	2	Endless LLP	131
Total Top 10	25	Total Top 10	\$ 26,784

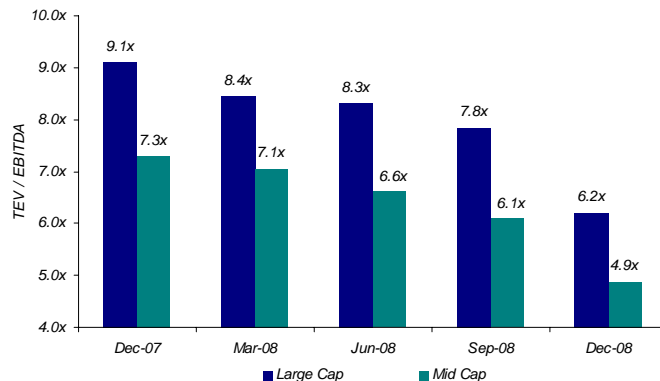
All Transactions by Type (Last Twelve Months)



Public Market Performance



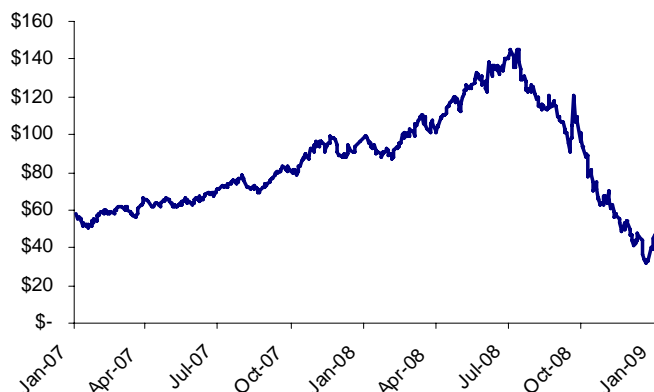
Enterprise Value / EBITDA (Last Twelve Months)



- (1) LI Diversified Chems Index: AKZA, ASH, BAS, CBT, CE, CLX, DD, DOW, EMN, FMC, HUN, MON, OLN, POL, PPG, RHA
 - (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, IFF, LZ, NLC, PPG, ROC, ROH, RPM, SIAL, VAL
 - (4) Mid Cap group includes: ARJ, CBM, FOE, NEU, OMG, SHLM, SXT
- SOURCE for all data on this page: Capital IQ, Inc. (division of Standard & Poor's), Lincoln International and public filings

Q4 2008 Key Commodity Trends

World Crude Oil Prices (\$ per barrel)



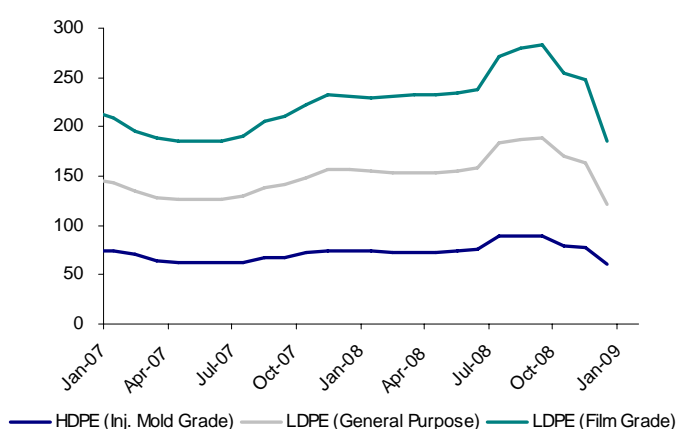
US Natural Gas Price (\$ per MMBtu)



Naphtha Prices (\$ per barrel)¹



Polyethylene Prices (cents per pound)



Source: Bloomberg

(1) Conversion of 9 barrels per metric tonne

Q4 2008 Commodity Report

The charts above provide a graphical analysis of key chemical commodity price movements during the quarter and last twenty four months ended December 31, 2008, as collected by Bloomberg.

World crude oil prices experienced a sharp decline through Q4 2008. Prices fell from \$98.53 per barrel on October 1, 2008, based on the mid line of the front-month Nymex crude oil contract, down to a low of \$31.41 per barrel on December 22nd. Crude oil traded below \$40 per barrel for the first time since January of 2005. This significant market correction has resulted in rapidly decreasing pricing in other chemical industry inputs.

Natural gas has not seen as sharp a

price decline as crude oil. The Nymex Division natural gas futures contract, widely used as the benchmark price saw a decline from \$8.265 per MMBtu to \$5.622 to close the year December 31st, a 32% price reduction.

Crude oil and natural gas prices play a defining role in driving down the cost of other chemical commodities including naphtha and polyethylene illustrated above.

Naphtha is an intermediate product from the distillation of crude oil and feedstock in the steam cracking production process of ethylene. Naphtha prices roughly track crude oil pricing as evident from the similar price decline in naphtha per barrel

prices over Q4 2008 from \$82.9/bbl on October 2nd to \$29.25 to close the year December 31st, a 65% decline.

Polyethylene prices have come down as input costs have declined. The greatest price decline over the past quarter was seen in film grade Low Density Polyethylene ("LDPE") with a 37% decline. Prices of High Density Polyethylene ("HDPE") and general purpose LDPE from declined 32% and 33% respectively from September 30th to December 31st.

Source: Bloomberg,
ICIS Chemical Business

M&A Deal Watch: Dow Chemical's Acquisition of Rohm & Haas Goes on Hold

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On July 10th, 2008, Dow Chemical ("Dow"), the largest U.S. chemical maker, agreed to acquire specialty chemical maker Rohm and Haas for approximately \$18.7 billion in cash, including debt. The \$78.00 per share cash consideration represented a 74% premium for Rohm and Haas shareholders relative to the pre-announcement price and a 28% premium to the 2008 closing high of the company's stock price. The resulting multiple of expected 2008 EBITDA was 11.5x. Rohm and Haas benefited from what was rumored to have been a quick but spirited auction process featuring BASF as the next highest bidder. The deal provides significant diversification for Dow as a meaningful contender in the higher-margin specialty chemicals and advanced materials market. Dow has been able to get an approval from the European Commission and the U.S. Federal Trade Commission, pending divestitures of certain assets.

The deal featured a creative financing structure wherein Warren Buffet's Berkshire Hathaway teamed up with the Kuwait Investment Authority ("KIA") to provide approximately \$4 billion in financing in the form of convertible preferred stock in addition to \$13 billion in debt financing.

On December 1, 2008, Dow and Petrochemical Industries Company ("PIC"), a wholly owned subsidiary of Kuwait Petroleum Corporation ("KPC"), announced signing of a joint venture formation agreement to create K-Dow Petrochemicals. The 50:50 joint venture would become a leading supplier of petrochemicals and plastics. The total enterprise value of the K-Dow joint venture was expected to be approximately \$17.4 billion and included a special cash distribution of \$1.5 billion to each shareholder upon closing. Dow expected to receive \$9 billion from KPC as total pre-tax proceeds including the special cash distribution. The proceeds from this transaction would have helped Dow with the acquisition, however on December 28, 2008 PIC and KPC informed Dow about Kuwait Supreme Petroleum Council decision to reverse its prior approval of the agreement between Dow and PIC to enter into K-Dow Petrochemicals, 50-50 joint venture Company.

Subsequent to the collapse of the joint venture, Dow has been in negotiations

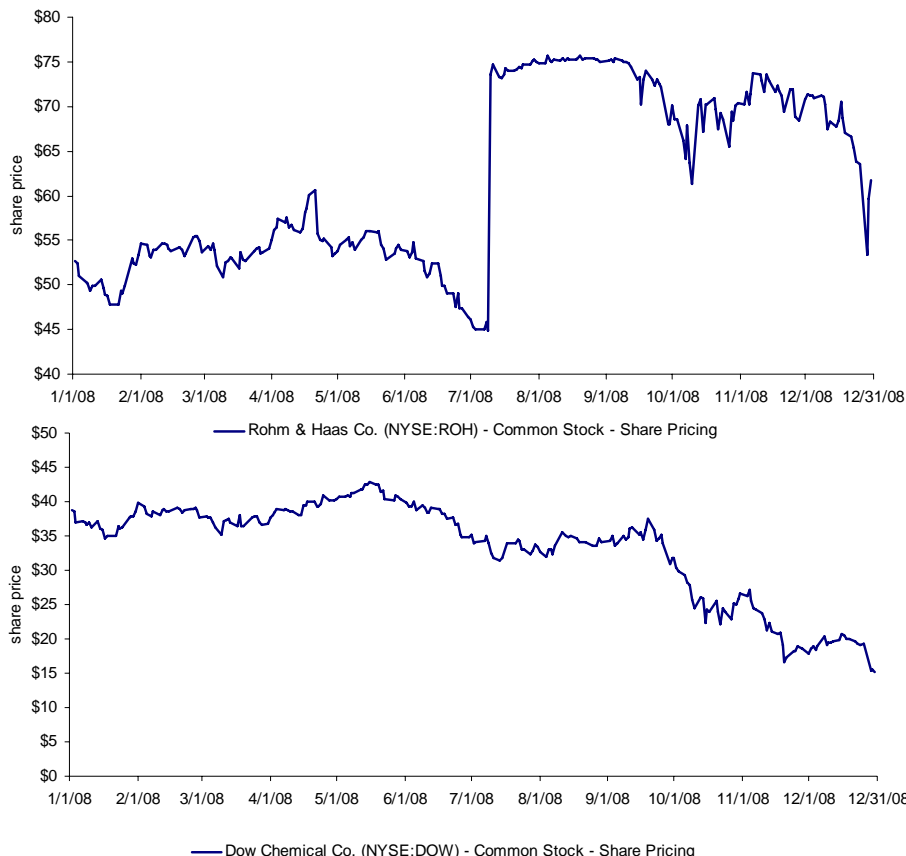
with its lenders in an attempt to alleviate pressure from leverage covenants on its \$13 billion term loan to finance the acquisition, in addition to selling unnamed Dow assets or looking to new parties to provide equity to appease the rating agencies. A price recut for Rohm and Haas could also be a possibility.

Dow has been negotiating with its lenders, a group led by Citigroup, over the 4.25x total leverage covenant. Currently, the \$13 billion term loan has to be refinanced in one year; however the repayment could be accelerated by the lenders in the event of the covenant breach. A covenant to fund the deal indicated that should Moody's downgrade Dow to Baa3 or lower or S&P downgrade Dow to BBB- or lower and if the Company's total leverage ratio exceeds 4.25x, it will accelerate payment of the term loan.

On December 30, 2008, S&P lowered its grade on Dow by two notches from A- to BBB; Moody's dropped its rating on Dow by one notch from A3 to Baa1. The downgrade from the ratings agency even if above the covenant thresholds makes servicing the acquisition related debt difficult and expensive. In order for Dow to stay within the 4.25x leverage covenant Dow should be able to pay cash to

the lenders on the term loan as soon as first half of 2009. Dow had expected to pay this through the payment received from the K-Dow joint venture. Considering the K-Dow joint venture failure, Dow will now have to consider cutting dividends, issuing new equity or both within the year. In addition, Dow has been looking at third parties to inject more equity. Warren Buffet's Berkshire Hathaway is one of the parties Dow is in discussion with. Dow at this point does not believe KIA would back out of its equity commitment for the Rohm and Haas deal as it would be too big of a reputation risk. Dow is considering suing Kuwait for the \$2.5 billion breakup fee.

Dow confirmed on January 26, 2009 that it will not be able to close the proposed offering on or before January 27, 2009. Dow believes that recent material developments have created unacceptable uncertainties on the funding and economics of the combined enterprise. Rohm & Haas is suing Dow Chemical to complete the merger. Dow will be charged \$3.3million "ticking" fee for every day that the merger is delayed.



Lincoln International's Global Footprint



More than 70 professionals in the U.S.

More than 55 professionals plus a 19-person advisory board in Europe

Office in Japan and strategic partnerships in China and India

★ Indicates Lincoln International office

★ Indicates strategic partnership and/or Lincoln International personnel

(Continued from page 1)

business competitiveness and the cost position now and exit in the next upturn, but some financial investors may seek to avoid some significant cash / equity injection requirements at some investments also due to refinancing needs of the existing and high debt levels.

Q: Will we see a larger number of Asian chemical strategic investors looking at potential targets in Europe and / or the US?

A: Investment from Asia - China, India and other Asia - will certainly come in the next years. Looking back to the enormous development of Asian chemical companies in the last years it is clear that they will not only participate in

the attractive growth opportunities in Asia but will also gain market shares in Europe and the US. I am sure that specialty chemical companies will build up positions to be closer to the customer by acquiring and vertical integrating suitable targets, and also by taking advantage of the current lower valuation expectations.

Announcement

In December, Dr. Dietmar Nienstedt of Lincoln International spoke on the topic of chemical conglomerates and the new phase of portfolio diversification through M&A transactions at the Financial Times Deutschland round table talk in Frankfurt, Germany. He also has been appointed as a Member of the Board at Lincoln International AG in Frankfurt, Germany, by the Supervisory Board.

About Lincoln International

Lincoln International specializes in merger and acquisition services, private capital raising, UK pensions advisory and providing fairness opinions and valuations for leading organizations involved in mid-market transactions. With offices in Chicago, Frankfurt, London, Los Angeles, New York, Madrid, Paris, Tokyo and Vienna 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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