DEALREADER | Chemicals

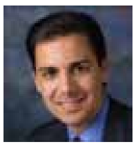
The Chemical Intermediary

Q4 2009

Q4 2009: Inside this Issue

Key topics covered in this issue include:

Chemicals M&A Trends and Outlook



Chris Cerimele
Global Co-Head of Chemicals, Managing Director
Lincoln International, LLC

Global M&A activity contracted significantly in the past twelve months, driven by the worldwide economic recession and continued tightness in credit markets. The number of transactions, however, has stabilized and the debt markets are improving. These developments offer hope that the M&A market has reached a bottom and is poised to recover.

The Steep Decline Seems to Have Abated

By way of background, overall M&A transaction activity (all industries) has declined sharply in the past twelve months. According to data provider FactSet Mergerstat ("FactSet"), in the trailing twelve months ("TTM") ended September 30, 2009, there were 5,167 transactions involving U.S. targets, down 29.7% from the same period one year prior. FactSet data show similar trends for transactions with E.U. targets (down 41.6%) and other parts of the world, with total worldwide transaction volume down approximately 33.7%.

M&A activity in the chemicals industry also felt the pinch. In the same TTM period ended September 30, 2009, there were 332 chemicals transactions worldwide, off 34.9% from the prior one year period. The volume of chemical transactions involving targets based in the U.S. and E.U. declined by 36.0% and 41.0%, respectively.

An examination of quarterly data shows that activity stabilized in 2009. Worldwide, there were 75-80 chemicals transactions in each of the first three quarters of 2009. While these numbers are low by historical standards, the consistency is encouraging.

The key factors behind the collapse of M&A activity were the sharp economic contraction and reduced liquidity in the financing markets.

World economies dropped sharply in the beginning of the year. According to the U.S. Bureau of Economic Analysis, U.S. GDP fell at a seasonally adjusted annual rate of 6.4% in Q1-2009. Eurostat estimated that the decline in GDP in Q1-2009 was

Chart 1: Chemicals Worldwide M&A Transactions by Quarter

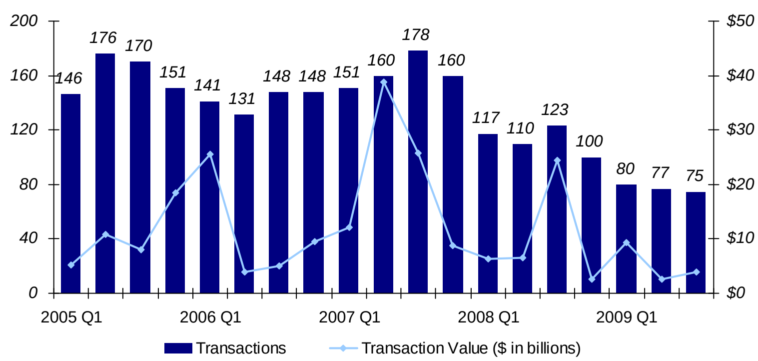


Chart 2: Chemicals M&A Transactions, U.S. Targets, by Quarter

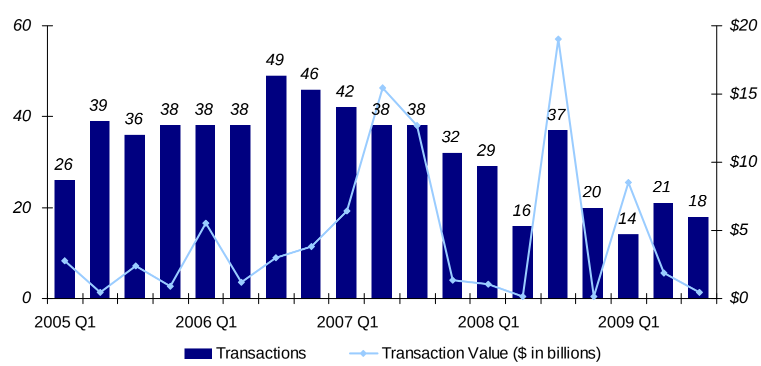
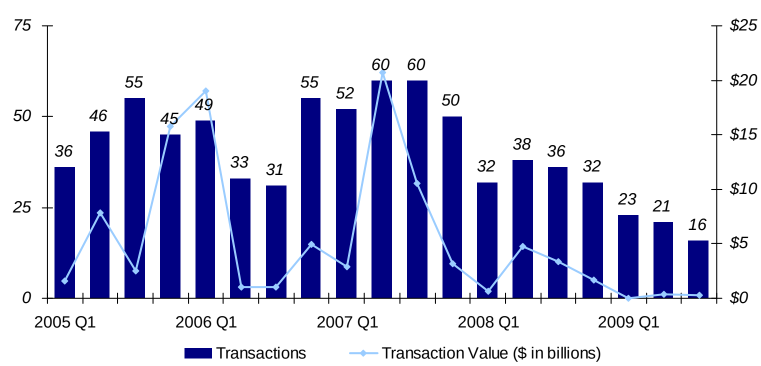


Chart 3: Chemicals M&A Transactions, E.U. Targets by Quarter



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Lincoln International, European Investment Banking Firm of the Year

In September The M&A Advisor announced the recipients of the industry's inaugural Global M&A Advisor Awards. Award recipients from Africa, Asia, Europe and North America were selected by an independent panel of judges representing a cross-section of the M&A industry.

Global Award Finalists were divided into three regional groupings: Americas, Europe, Asia, Middle-East, Africa and Oceania. Transactions had to close between January 1, 2008 and March 31, 2009 and be valued at US $10 million. There was no maximum limit on deal size.

Judging is based on several criteria, including quantitative factors such as transaction value, impact on shareholder / company value and market share. Qualitative considerations include impact of transaction on the market/industry, ingenuity in structuring and/or negotiations, diligence and perseverance in consummating the deal and other unique attributes.

Lincoln International LLC was named Investment Banking Firm of the Year, in the European Region

by The M&A Advisor

Since 1998, The M&A Advisor has been the preeminent organization facilitating connections and recognizing achievement in the top performers of the M&A, turnaround and financing industries through its leading events and awards galas, M&A Alerts newsletter and online community. For more information, go to www.maadvisor.com. ■

Q3 2009 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 September, 2009, as collected by Capital IQ.

Specialty chemicals announced deal volumes were down in Q3 2009 when compared to Q3 2008, and up slightly from the previous quarter, Q2 2009. Q3 2009 included 40 announced specialty chemicals transactions compared to 52 in Q3 2008, a slight decline of 23.1%.

In Q3 2009, deal volume in the specialty chemicals industry grew by 17.6% over Q2 2009 levels, increasing from 34 in Q2 to 40 transactions in Q3.

By region, deal volumes in Europe were down from 14 transaction in Q2 2009 to 12 transactions in Q3 2009. Transaction volume remained steady in North America with 11 transactions in Q3 2009 compared to 10 transactions in Q2 2009. Asia and the rest of the world, however, saw transaction volumes grow by 70% from 10 in Q2 2009 to 17 in Q3 2009.

There were several notable transactions announced in the first quarter, as follows:

On September 28th, American Securities signed a definitive agreement to acquire GenTek Inc., a publicly traded (Nasdaq:GETI) U.S. manufacturer of industrial components and performance chemicals. American Securities agreed to pay $38.00 per share 100% of the outstanding shares of GenTek for an aggregate equity consideration of approximately $411 million in cash. American Securities will also assume approximately $262 million in net debt and liabilities in the acquisition. The transaction enterprise value of $673 million represents a multiple of approximately 5.5x June 30, 2009 LTM EBITDA of $123.2 million. The $38.00 per share offer price represents a premium of 40.7% over GenTek's September 25, 2009 closing share price of $27.00, the last trading day before announcement.

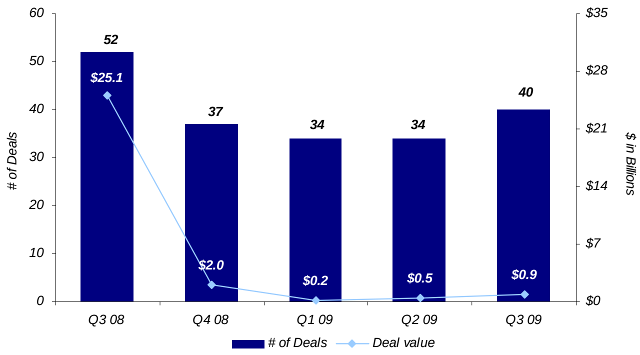
In September, COL Capital Ltd, a publicly traded (SEHK:383) Hong Kong based investment holding company, acquired a 68.72% stake in Greenfield Chemical Holdings, Ltd ("Greenfield"). COL Capital offered HK$1.50 per share, or HK$281.3 million ($36.3 million) for the 68.72% stake in Greenfield, a publicly traded (SEHK:582), Hong Kong based holding company involved in manufacturing and trading paints and related products. The HK$1.50 ($0.19) per share offer price represents a discount of approximately 6.25% compared to the preannouncement trading price of HK$1.60 ($0.21) per share. COL Capital has announced that in intends to acquire the remaining stake outstanding valuing Greenfield at a total implied equity value of HK$409.3 million ($52.8 million). Lincoln's chemical industry indices continued to show signs of recovery in Q3 2009. The indices had declined significantly June 1, 2008 through Q1 2009. For the trailing four quarters, both the LI Diversified Chemicals Index and the LI Specialty Chemicals Index outperformed the S&P 500 Index. While the Lincoln chemical industry indices remain depressed compared to 2008 highs, they have recovered from their March 2009 lows and are near or at the levels they were twelve months ago. Improvement in the equity markets combined with a stabilization of economic performance in the chemical industry in the second quarter has continued through Q3 2009.

Total enterprise value ("TEV") / EBITDA multiples for public specialty chemicals companies increased for both large and small cap companies in Q3 2009 as compared to Q2 2009. Multiples for large cap companies grew from an average of 8.6x at the end of Q2 2009 to 9.8x at the end of Q3 2009, while small cap multiples traded up from 7.0x at the end of Q2 2009 to 8.5x at the end of Q3 2009. ■

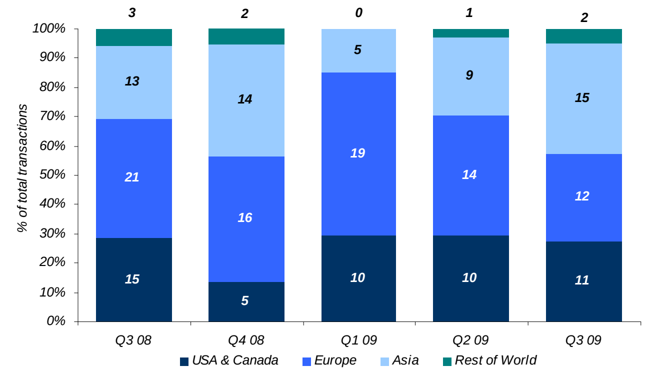
Sources: Capital IQ, Mergermarket, press releases, public filings
Exchange rate used: 1 HK$ = $0.129

Q3 2009 Key Market Statistics — Specialty Chemicals

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



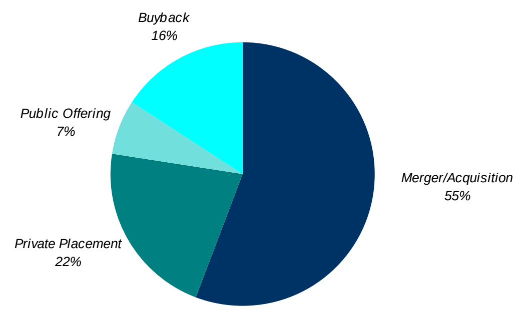
M&A Transactions by Region
(Announced transactions)



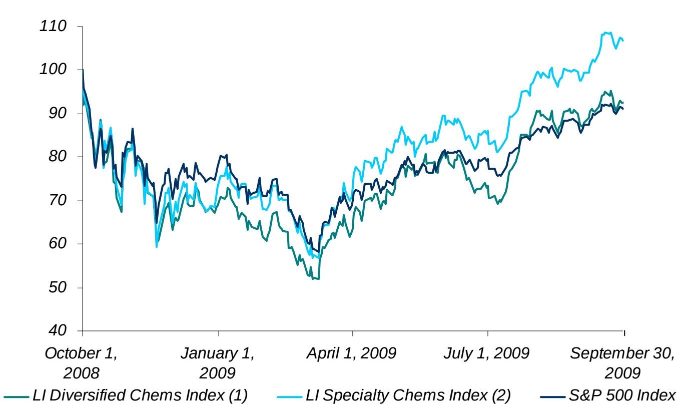
Most Active Buyers / Investors (Last Twelve Months)
(Based on announced transactions and transaction values)

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	3	Skion GmbH	$ 1,148
Altana AG	2	American Securities	673
BASF SE	2	BASF SE	371
CIN-Corporacao Industrial do Norte SA	2	Mitsubishi Plastics Inc.	351
Johnson Matthey plc	2	Hempel A/S	148
Lanxess AG	2	Lanxess India Private Ltd.	113
Skion GmbH	1	21 Centrale Partners	103
American Securities	1	Shanghai Pengxin Group Co., Ltd.	73
BASF SE	1	Morita Holdings Corporation.	69
Mitsubishi Plastics Inc.	1	COL Capital Ltd.	57
Total Top 10	17	Total Top 10	$ 3,106

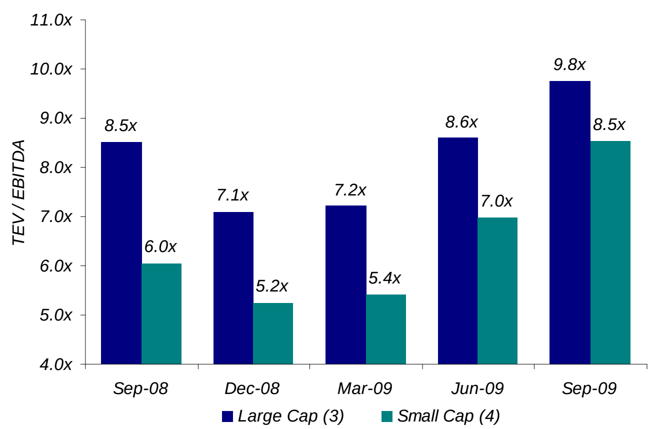
All Transactions by Type (Last Twelve Months)



Public Market Performance



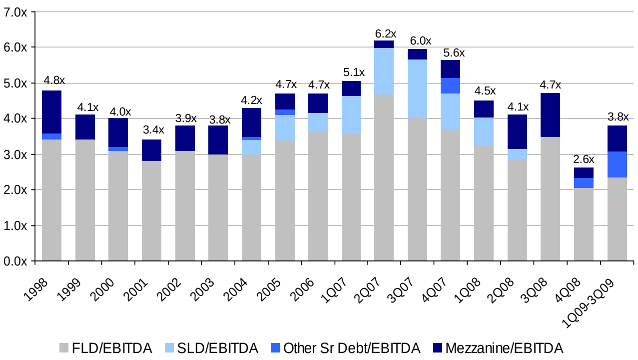
Enterprise Value / EBITDA (Last Twelve Months)



(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: APD, ECL, PPG, SIAL, LZ, ARG, ALB, IFF, VAL, NLC, RPM, ROC, CYT, SXT, NEU, GRA, FUL, OMG, ARJ, SHLM, FOE, CBM
(3) Large Cap group includes companies in the LI Specialty Chems Index with greater than $2.0 billion in market capitalization
(4) Small Cap group includes companies in the LI Specialty Chems Index with less than $2.0 billion in market capitalization
(5) SOURCE for all data on this page: Capital IQ, Inc. (division of Standard & Poor's), Lincoln International and public filings

(Continued from page 1)

Chart 4: Average Total Debt Multiples of Middle Market Transactions ($ in billions)



2.4% for the EU27 and 3.1% for Japan when compared to the prior quarter (seasonally adjusted, not annualized). While the rate of decline was already slowing significantly in the second quarter, the economy remained weak, with U.S. GDP decreasing at a seasonally adjusted annual rate of 0.7% in Q2-2009, and GDP decreasing by 0.2% in the EU27 and 0.9% in Japan.

For the chemical industry, the economic contraction in 2009 was compounded by widespread inventory de-stocking that occurred in the beginning of the year. The de-stocking masked the true underlying demand and made it very difficult for companies to forecast their future performance.

Although many chemical companies have indicated that their businesses have now bottomed, the uncertainty created by the severe economic environment slowed M&A activity for much of the year for two key reasons. First, for most companies survival became priority #1. Many firms came under financial distress and were unable to focus on transactions. Others with strong balance sheets and ample cash reserves often slowed their investment activities because few could predict how bad it would get. Second, in many cases the uncertain and rapidly changing environment made it nearly impossible for buyers to evaluate an acquisition target's true financial condition and forecast. Owners considering a sale of their businesses faced similar challenges.

During the first half of 2009 the credit markets also remained tight, adding further obstacles to M&A activity. As an example, Chart 4 illustrates the sharp decline in total debt multiples in middle market transactions. During 2007, average debt multiples were above 5.0x in all four quarters, reaching their maximum level of 6.2x in Q2-2007. In contrast to these high leverage multiples, the average debt multiple in Q4-2008 reached a low of 2.6x. Although activity in 2009 was low, S&P estimates that average debt multiples rebounded to 3.8x in the first nine months of 2009. Lincoln is continuing to observe steady improvement in the debt markets.

Signs of a Revival

Is the M&A market on the path to recovery? There are several reasons for optimism.

A major determinant will be clarity in economic growth. As noted previously, the fall in GDP across many parts of the world moderated in the second quarter. Eurostat has not published figures for Q3, but preliminary estimates published by the U.S. Bureau of Economic Analysis indicate that the U.S. economy grew at a seasonally adjusted annual rate of 3.5% during Q3-2009. Many corporations are cautiously optimistic that a bottom has been reached and have increasing confidence in their ability to forecast performance for the next twelve months. The more that the uncertainty of future performance can be removed from the equation the easier it is for both buyers and sellers of businesses to have confidence in completing transactions.

There are recent signs that the volume of activity and the types of deals getting done is improving. The Wall Street Journal ("WSJ") and data provider Dealogic reported that August 2009 was on track to be the worst month for M&A since 1995. However, August 31 was the busiest single day in U.S. M&A in nearly three months and pushed the volume for the month up 40%. This turnabout was driven by Walt Disney Co.'s announced $4 billion acquisition of Marvel Entertainment Inc. and Baker Hughes Inc.'s purchase of oilfield services company BJ Services Co. for $5.5 billion.

In the chemicals industry there have been several recent noteworthy transactions in the third quarter, although nothing on the scale of the larger deals announced in 2008 such as Dow-Rohm & Haas or BASF-CIBA. Some of the larger Q3-2009 chemicals transactions have included Dow Chemical's sale of its 45% stake in Total Raffinaderij Nederland to Total SA for approximately $800 million, including inventory; Hunstman Corporation's announced stalking horse bid for certain assets of Tronox Incorporated for $415 million; Sekisui Chemical Co.'s acquisition of the PVA business of Celanese Corporation for $173 million; Lanxess Corporation's acquisition of Gwalior Chemical Industries Ltd. for €82.4 million; Ashland's sale of Drew Marine to private equity firm J.F. Lehman & Co. for $120 million; and Clariant's sale of its specialty silicones business to private equity firm GenNx360 Capital Partners for an undisclosed sum.

The noteworthy element regarding these recent transactions is the change in deal complexion. Many recent deals are driven by strategic initiatives, such as a desire for growth on the part of buyers or strategic realignment on the part of sellers. This contrasts with many deals completed earlier in the year, which were driven more by desperation and/or financial distress. Healthy companies are beginning to think more about transactions now, both on the buyside and the sellside.

M&A activity for the full third quarter of 2009 remains down compared to prior periods. However, activity in the latter part of the quarter indicates that the negative mindset in corporate boardrooms toward M&A is changing.

Conclusion

The era of the hyper M&A market driven by easy access to financing is clearly behind us. 2009 has been a particularly challenging year for transactions and as with economic performance, transaction activity may take some time to recover fully. There are signs, however, that the potential bottoming of economic growth in many parts of the world is helping generate greater confidence to pursue healthy, strategic transactions. ■

Sources: FactSet MergerStat, Eurostat, Mergermarket, Capital IQ, S&P, public filings

Note: E.U. targets include EU member countries, Albania, Bosnia, Herzegovina, Liechtenstein, Montenegro, Serbia, Swit-

Lincoln International Expands U.S. Restructuring and Special Situations Group

Lincoln International is pleased to announce the addition of another seasoned professional to its growing ranks. Mr. Joe Radecki has joined the firm as a Managing Director and Head of the Restructuring and Special Situation Group in the United States. He will be based out of Lincoln International's New York office.

Mr. Radecki began his career at Drexel Burnham Lambert in the 1980s, and he has focused full time on the restructuring advisory business for over 20 years. Previously, Mr. Radecki headed the financial restructuring groups at several investment banks, including Jefferies, CIBC and Piper Jaffray. He has led the execution of approximately 100 restructuring transactions over the course of his career, including debtor and creditor assignments, as well as out-of-court and in-court restructurings. Mr. Radecki has been consistently named one of the "Leading Restructuring Advisors" by Turnarounds & Workouts magazine.

At Lincoln International, Mr. Radecki will be joining a Restructuring and Special Situations Group that has a distinguished record of completed distressed M&A and capital raising transactions. During the last several years, Lincoln International has represented publicly traded corporations, privately held businesses, portfolio companies of leading private equity firms, and commercial and institutional lenders in sale, refinancing and restructuring assignments. Lincoln International's experience includes both consensual, out-of-court transactions, as well as those effected through Chapter 11 or similar in-court proceedings.

Jim Lawson, Co-Chairman of Lincoln International, commented, "Joe brings to Lincoln International his deep experience in both the strategic assessment and tactical implementation phases of restructuring assignments. Lincoln's historical restructuring efforts primarily focused on the sale or refinancing of distressed or over-levered businesses. By teaming up with Joe, Lincoln will now be able to assist our clients at an earlier stage in assessing their strategic alternatives, including their stand-alone restructuring options, and in implementing their best alternatives, either out-of-court or, when necessary, in-court."

Patrick Goy, a Managing Director at Lincoln International, will remain Co-Head of the Restructuring and Special Situations Group and will continue to market Lincoln International's restructuring services and to execute selected distressed M&A assignments. Mr. Goy stated, "Joe's restructuring execution skills, reputation for getting the best results possible, relationships with bankruptcy professionals and leadership experience are a perfect complement to what we have been doing at Lincoln. I look forward to working with Joe to further build our restructuring effort."

Franklin Harris, a Managing Director at Lincoln International who focuses on financial sponsor coverage, said, "Coming out of the credit bubble of 2006 and 2007, it is no surprise that a significant number of today's restructurings involve sponsor-backed companies. By adding Joe's expertise to Lincoln's capital raising and industry-specific M&A capabilities, we will be able to best serve our private equity clients as their portfolio companies grapple with the recession and current credit crunch. In addition, Lincoln's increasing restructuring work is resulting in more investment opportunities for our sponsor clients who are positioned to provide capital for turnaround situations."

Mr. Radecki attended Georgetown University, where he graduated Magna Cum Laude. Mr. Radecki began his investment banking career in 1983 at Drexel Burnham Lambert in Los Angeles, where he spent much of his time working on restructuring assignments. In 1990, Mr. Radecki and a group of other Drexel executives moved to Jefferies, where he ultimately became head of the Jefferies restructuring group. In 1998, he joined CIBC in New York to lead their restructuring practice. In 2006, Mr. Radecki joined Piper Jaffray in New York to lead and build their restructuring business. In 2008, he started his own independent restructuring advisory firm.

Mr. Radecki's clients have included American Restaurant Group; Coho Energy, Inc.; Eschelon Telecom; Forman Petroleum; GEO Specialty Chemicals; Grove Worldwide; Harrah's Jazz Company; Horizon Offshore, Inc.; Lazy Days

Joseph J. Radecki Jr.

R.V. Center, Inc.; Maxim Crane Works; National Energy Group; Presidio Oil Company; Radio Unica Corporation; Southern Mineral Corp.; Summit Business Media; Sunshine Mining and Refining; Tesoro Petroleum Corp.; Trump Castle Funding, Inc.; Trump's Taj Mahal; Universal Trailer Corporation; VICORP Restaurants, Inc; and World Airways, among others.

In addition to advising companies, Mr. Radecki has advised numerous creditor groups in Chapter 11 cases, including American Rice Inc.; Bucyrus-Erie Corporation; Flagstar Corporation; Marvel Entertainment; Mirant Energy Corp.; Scotia Pacific Corp.; Sleepmaster LLC; and Scotia Pacific Corp. Additionally, Mr. Radecki has advised court-appointed representatives in such high profile asbestos bankruptcies as Congoleum Corporation; Federal-Mogul Corporation; USG Corporation; and W.R. Grace Corp. ■

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

About Lincoln International

Lincoln International specializes in merger and acquisition services, debt advisory services, UK pension advisory services and providing fairness opinions and valuations for leading organizations involved in mid-market transactions. With offices in Chicago, Frankfurt, London, Los Angeles, Madrid, New York, Paris, Tokyo and Vienna, and strategic partnerships with China Everbright in China and ICICI Securities, Inc. in India, 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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