

Q2 2010: Inside this Issue

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China: The Best Strategy for Pharmaceutical and Active Ingredient Manufacturers



Gian Mario Baccalini is President of Bulk & Pharma Development Srl

The pharmaceutical market represents one of the most important industries due to the high level of profitability, continued advances in medical treatments and a health system that is in continuous development to increase availability of care. Only one third of the world's population consumes pharmaceutical drugs in a routine way today, but all forecasts point to a more widespread utilization in the future. China will certainly play an important role in these future developments. The Chinese economy is growing at a rate of approximately 10% every year, and the Chinese population comprising 1.3 billion people has increasingly become attracted to what they call "occidental drugs" as opposed to their historical natural remedies. The combination of these two factors points to significant growth ahead for the internal demand of pharmaceutical products in China. To serve this internal market and also remain competitive from a cost perspective, European and U.S. manufactur-

ers should carefully consider making China a central theme in their strategy.

China has a long tradition of good level chemistry. There are more than 2,500 companies working on intermediates and active pharmaceutical ingredients ("APIs"). Two main concerns are frequently mentioned when considering Chinese manufacturing in the industry: the sustainability of the Chinese cost advantage in the future, and the reliability of their manufacturing to ensure high quality and safety standards in these critical products. Both concerns raise valid points, but there are several factors that point to sustainable cost advantages and increasing manufacturing quality.

The cost of Chinese products is extremely competitive, and even if the future salary, energy, pollution and quality costs will increase, the total cost will surely remain cheaper than that of manufacturing in Europe or the U.S. A key point for betting on China's future success in the Active Pharmaceutical Ingredients industry is the positive political and environmental situation, which creates very favorable conditions for business development. For example, the government's long-term planning is creating separate geographic areas completely dedicated to particular industries. API production, biotech, and pharma delivery systems and injectables will each be located in its own geographic cluster and provided with efficient services and a top level university dedicated to training highly qualified technicians in each particular area. Unlike in many European countries, where the bureaucracy is unsupportive of new activity and chemical operations have a reputation for being dangerous and highly polluting, China's government is actively promoting the

Chinese Unique Import Drug Licenses



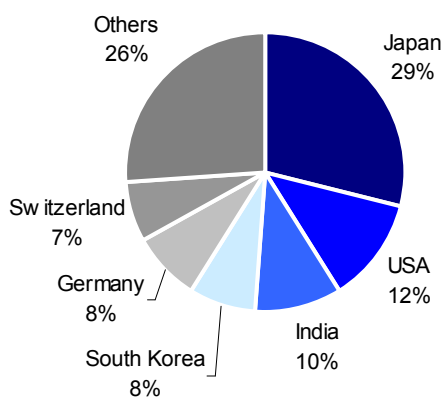
Source: Newport Horizon

development of these industries and providing the necessary support to ensure their success. As a point of comparison, building a new chemical facility in Italy requires the authorization of more than sixty local and national authorities, even though the chemical industry has developed high standards of safety and is ranked as the least dangerous industry in terms of the number of accidents at manufacturing facilities. China's government support implies that, even if other costs of production increase, manufacturing will maintain a cost advantage from the favorable regulatory environment.

The concerns around Chinese qualifications in manufacturing and their ability to meet the high standards required in the industry are not baseless. There have been many cases in the recent past in which poor manufacturing in the pharma industry led to dangerous products reaching the market. The Chinese government is taking multiple steps to improve the reliability of the industry and increase standards across facilities. SFDA, the Chinese equivalent of the Ministry of Health, is implementing increasingly strict controls and inspections,

(Continued on page 2)

Chinese Import Drug Licenses



Source: Newport Horizon

Federico G.M. Mennella, CFA, Appointed Co-head of Global Chemicals Practice

March 15, 2010—Lincoln International announced the appointment of Federico Mennella as co-head of Lincoln International's global chemicals practice

Lincoln International announced the appointment of Federico Mennella as co-head of Lincoln International's global chemicals practice. Mr. Mennella has completed a number of transactions in the chemicals space. His clients have included American Vanguard, Bayer, BASF, Evonik, Georgia Gulf, ISP, Monsanto, Polynt, Rhodia, RPM, Sanofi-Aventis, Solutia, and Itochu, among others.

Prior to joining Lincoln, Mr. Mennella was in charge of the Global Chemicals M&A business for JPMorgan Chase, as well as head of Consumer and Industrial M&A at JP Morgan. Mr. Mennella also gained

extensive M&A experience in the chemicals sector while head of U.S. M&A at Deutsche Bank and a senior banker at Lazard. Mr. Mennella is a member of the Board of Directors of Hovione SA, a leading developer and manufacturer of APIs based in Lisbon, Portugal.

Lincoln International's chemicals group completed over 25 transactions since 2006, including eight in 2009. "Federico's extensive experience in the chemicals industry, coupled with his cross-border relationships and contacts, has greatly contributed to building Lincoln's successful chemical franchise," said Jim Lawson, chairman and managing director. "Therefore, we are very excited that Federico has agreed to take a formal leadership role and drive the global chemicals group to the next level of activity and expertise."

In addition to Mr. Mennella, the chemicals group includes a number of experienced managing directors, including Ed Hanlon in the U.S., Jean-Rene Hartpence in France, Dirk Langenbach in Germany and Tetsuya Fujii in Japan, assisted by dedicated professionals in various geographies. The group's clients range from leading chemicals companies to a number of private equity groups and entrepreneurs active in the chemicals sector. The chemicals group often works in conjunction with Lincoln's growing healthcare practice. ■



Federico Mennella
Managing Director

Q1 2010 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 twelve month period ended March 2010, as collected by Capital IQ.

Specialty chemicals announced deal volumes were up slightly in Q1 2010 compared to Q1 2009, and the previous quarter. Q1 2010 included 36 announced specialty chemicals transactions compared to 34 in Q1 2009.

By region, deal volumes in Europe were up from 11 transaction in Q4 2009 to 18 transactions in Q1 2010. Transaction

volume in Asia also increased from 7 transactions in Q4 2009 to 13 transactions in Q1 2010.

A notable transaction announced in the fourth quarter, included Aurelius AG's February 12th, (XTRA:AR4) acquisition of Isochem SA a producer of fine chemicals for €58 million (\$73 million). The acquisition price represents 0.5x 2009 revenue of \$163 million.

The LI Diversified Chemical Index has closely tracked the overall performance

of the S&P 500 Index, while the LI Specialty Chemical Index has roughly tracked, but underperformed the S&P 500 Index since March 2009 values through Q4 2009.

Total enterprise value ("TEV") / EBITDA multiples for public specialty chemicals companies fell slightly for both large and small cap companies in Q1 2010 as compared to Q4 2009. This decline is likely due to the increase in average LTM earnings among the component companies.

Sources: Capital IQ, Mergermarket, FactSet MergerStat, press releases, public filings

(Continued from page 1)

and increasing the level of scrutiny to receive authorization for API production. They want to avoid that some not controlled API or dosage form could be produced outside the quality rules. They want to change this attitude in a very short time. Careful selection of partners will remain indispensable to guarantee safety, but overall conditions will likely improve.

In the future, marketing and business development strategies will likely remain under the control of historical big players like the leading European and American companies. Production and, in a short time also R&D, will most likely be carried out in China. The University of Shanghai has been generating a consistent number of people with post-graduate degrees that will soon be able to develop new techniques in

biotech. Sooner or later, the Chinese will increase the value-added nature of their activities and switch from only providing a cost-effective means of production to having more advanced methodology for producing in the best way, providing consistent quality and low cost while limiting pollution.

The best time to invest in China is now. Today, the business model is not yet consolidated, but we have to invest now to understand what future profitability will be and participate in the development of the successful business models that will mark the industry in years to come. China has demonstrated that it can become competitive in many other technologies, and in a short period of time it will in this field as well. They are learning the intricacies of working in a regulated system and what it means to interact with the big Pharma world. The Chinese are attracted by West-

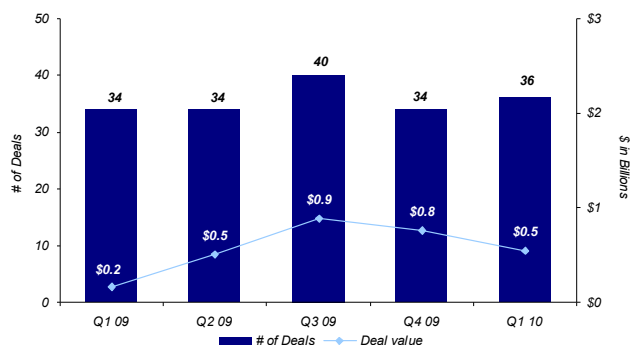
ern products and this is the moment to intervene to bridge the gap supporting them with Western technologies.

Branded products are not yet significantly produced in China, and in a market of one billion and three hundred million people this is an interesting opportunity. There is no clear marketing message with the dosage form product, there is not yet any anti-cancer therapy application, there is no development of the all traditional vaccines, in which the Chinese have a long and beautiful history. They are not marketing-oriented and we can help them to grow and build up a serious strategy together. We are speaking about a market with 1.3 billion people. Both for the internal market and to remain relevant in the global market, a strong presence in China is critical. ■

Q1 2010 Key Market Statistics — Specialty Chemicals

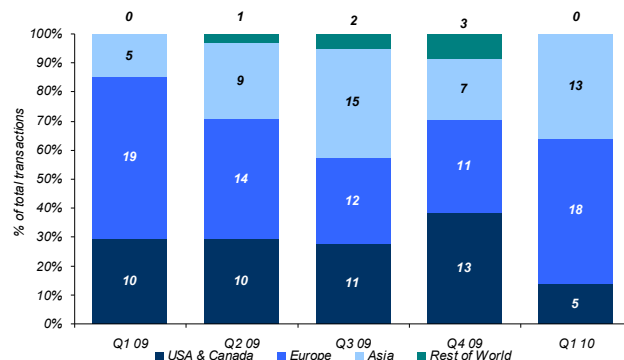
M&A Transaction Activity vs. Deal Value

(Announced transactions and transaction values)



M&A Transactions by Region

(Announced transactions)

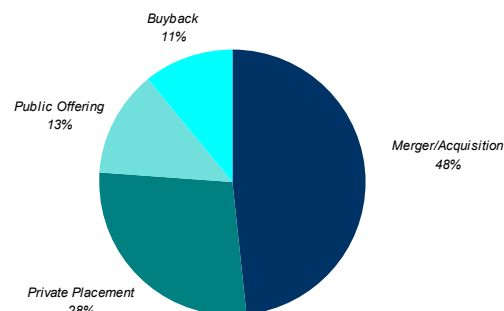


Most Active Buyers / Investors (Last Twelve Months)

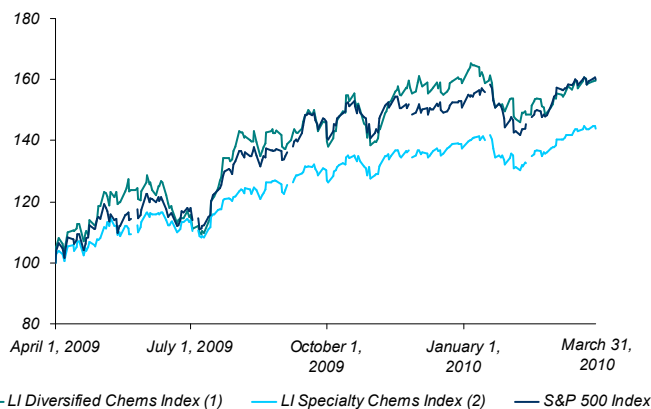
(Based on announced transactions and transaction values)

Top 10 Buyers by No. of Deals		Top 10 Buyers by Deal Size	
Company Name	No. of Deals	Company Name	Deal Size (\$mm)
CIN-Corporacao Industrial do Norte SA	3	American Securities	622
Evonik Industries AG	3	Mitsubishi Plastics Inc.	351
Lanxess AG	3	Mexichem Flúor SA de CV	350
A. Schulman, Inc.	2	Skion GmbH	237
Dominion Colour Corporation	2	A. Schulman, Inc.	231
Flint Group	2	Lanxess India Private Ltd.	113
Tandem Capital Gestión, SCR, S.A.	2	MHM Holding GmbH	103
American Securities	1	Sumitomo Metal Mining Co. Ltd.	91
Mitsubishi Plastics Inc.	1	BASF Catalysts Asia B.V.	91
Mexichem Flúor SA de CV	1	Aurelius AG	79
Total Top 10	20	Total Top 10	\$ 2,267

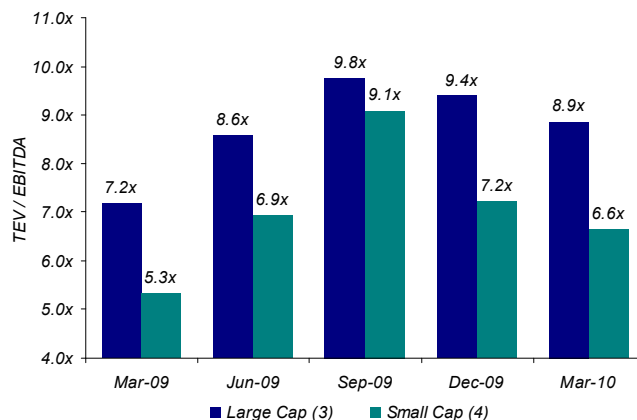
All Transactions by Type (Last Twelve Months)



Public Market Performance



Enterprise Value / EBITDA (Last Twelve Months)



- LI Diversified Chems Index: AKZA, ASH, BAS, CBT, CE, CLX, DD, DOW, EMN, FMC, HUN, MON, OLN, POL, PPG, RHA
- 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
- Large Cap group includes companies in the LI Specialty Chems Index with greater than \$2.0 billion in market capitalization
- Small Cap group includes companies in the LI Specialty Chems Index with less than \$2.0 billion in market capitalization
- SOURCE for all data on this page: Capital IQ, Inc. (division of Standard & Poor's), Lincoln International and public filings

Lincoln International's Global Footprint



More than 65 professionals in the U.S.

More than 55 professionals plus an 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

Lincoln International Opens Office in Amsterdam Headed by Eric Wijs

Lincoln International opens office in Amsterdam: Eric Wijs, Managing Director and Head of the Benelux, to lead office.



Lincoln International is pleased to announce the opening of its Amsterdam office, marking another important step in its global expansion. Eric Wijs has been appointed to lead the new office and will add substantial knowledge and global experience in healthcare M&A to Lincoln International's already strong international, multi-industry footprint.

The Benelux represents an important economic region in Europe with strong connections to North America, Germany, France, the UK and Asia — key markets where Lincoln International is already present. The firm's local presence will help to expand and strengthen its relationships with current and prospective clients in this important market.

Prior to joining Lincoln International, Eric was a Managing Director with Lazard where he served for 11 years in its financial advisory practice in Amsterdam, Paris and London. Eric established Lazard's Amsterdam office in 2004 and advised clients in the Benelux, France, UK and Germany on

M&A transactions, IPO's, capital raisings and restructuring. Before joining Lazard Eric worked with Baring Brothers in London and ING Bank in Amsterdam. He graduated in business administration from the Erasmus University Rotterdam and holds a CEMS Master. ■

About Lincoln International

Lincoln International specializes in merger and acquisition advisory services, private capital raising and restructuring advice on mid-market transactions. Lincoln International also provides fairness opinions, valuations and pension advisory services on a wide range of transaction sizes. With ten offices in Asia, Europe and North America, and strategic partnerships with leading institutions in China and 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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