

Q4 2010: Inside this Issue

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Recent M&A Trends in the Chemical Industry



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The Financial performance for the chemical industry has improved substantially during the past eighteen months. After suffering from a precipitous drop in demand during the fourth quarter of 2008 and the first quarter of 2009, chemical companies have successfully weathered the storm and have started to return to their historical levels of profitability. As shown in figures 1 and 2, quarterly revenues and EBITDA for the industry have shown an increasing trend since the first quarter, and have almost recovered to their 2008 levels. Even if economic activity has not fully recovered to the levels seen before the crisis, a more stable business environment and reduced uncertainty have helped companies in the industry to regain visibility into their future financial performance and increase their confidence to pursue long term strategic plans.

Improved business conditions have had a considerable impact on merger and acquisition activity. According to CapitalIQ, in the twelve month period ending December 31, 2010 there were 696 transactions announced in the chemical industry with a total value of approximately \$54 billion (excluding transactions with undisclosed values). These figures represent an improvement of 21% in the number and 114% in total value of transactions when compared to 2009. This improvement comprises increased activity by both strategic and financial acquirers.

With the recovery of the M&A markets, several themes have emerged as industry players seek to utilize acquisitions and divestitures to further their corporate

strategies. Four of the themes that have played a prominent role in recent transaction activity include:

- **Increased private equity activity.** According to the Pitchbook platform, there were 14 private equity backed deals in the chemical industry during the first eleven months of the year, which was on track to match the number of deals in 2009 but includes the largest private equity backed deals in the industry in the last three years. In September, Clayton, Dubilier & Rice agreed to acquire a 42.5% ownership interest in Univar in a transaction that values the company at approximately \$4.2 billion. In June, Bain Capital acquired the Styron division from Dow Chemical for approximately \$1.6 billion. Private equity groups have also been active in multiple other notable transactions, such as TPG Capital's \$930 million acquisition of Ashland Distribution and Arsenal Capital's acquisition of Royal Adhesives & Sealants from Quad-C Management. Announced transactions are a reflection of a broader underlying trend of increasing interest by private equity groups in acquiring chemical companies.
- **Focus on specialty chemicals.** The impact of the economic recession reinforced many company's intentions to focus on specialty chemicals, which provide more stable revenues, attractive margins and a stronger competitive position. Since publicly traded chemicals companies with a focus on specialty chemicals usually trade at higher multiples than companies perceived to offer commodity products, many of the leading chemicals companies are seeking to reconfigure their product portfolio by acquiring companies with attractive technologies and

Figure 1. Chemical Industry Revenues (\$ in billions)

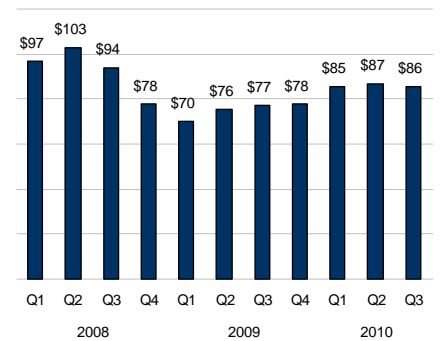


Figure 2. Chemical Industry EBITDA (\$ in billions)

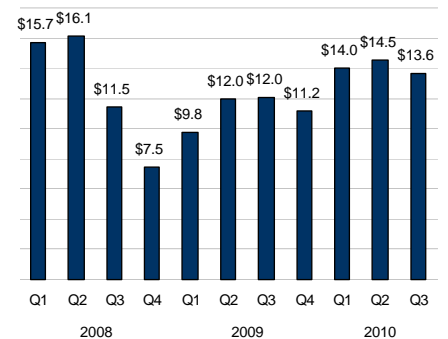
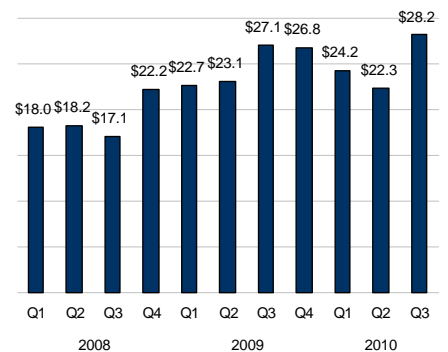


Figure 3. Cash on Balance Sheet (\$ in billions)



Source: Capital IQ. Includes companies in the Lincoln Diversified and Specialty Chemicals Indexes

(Continued on page 4)

Q4 2010 Market Commentary — Chemicals

The charts on the following page provide a statistical summary of deal and market activity in the chemical space during the last four quarters ended December 31, 2010, as collected by Capital IQ.

Announced deal volumes and transaction value during the fourth quarter of 2010 beat the fourth quarter of 2009. Deals announced in the fourth quarter 2010 numbered 184, compared to 166 for 2009.

There were several notable transactions announced in the fourth quarter:

- On December 14, Lanxess AG (XTRA:LXS) reached an agreement to acquire DSM Elastomers BV, a subsidiary of Royal DSM NV (ENXTAM:DSM). DSM Elastomers BV is a manufacturer of biotechnological and chemical products for the pharmaceutical, food and feed, automotive, and electronics industries. Lanxess AG agreed to pay €380 million as consideration for DSM Elastomers BV on a cash and debt free basis. The transaction is expected to close in the first few months of 2011.
 - On December 7, Arkema SA (ENXTPA:AKE) reached an agreement to acquire the coatings resins business of Cray Valley and Cook Composites & Polymers and the photocure resins businesses of Sartomer from Total SA (ENXTPA: FP). The enterprise value of the transaction is €550 million.
 - On November 30, Arsenal Capital Partners, Inc. completed the acquisition of Royal Adhesives and Sealants, LLC, a manufacturer of adhesives, sealants, encapsulants, potting compounds, and mirror mastics. Terms of the transaction were not disclosed.
 - On November 30, Harima Chemicals Inc. (TSE:4410) and Mitsubishi Corp. (TSE:8058) entered into a definitive agreement to acquire Momentive Specialty Chemicals Inc.'s ink & adhesive resins business. The transaction enterprise value of \$120 million represents a multiple of approximately 0.4x the acquisition target's LTM revenues. The transaction is expected to close by February 2011.
 - On November 30, Hexpol AB (OM:HPOL B) completed the acquisition of Excel Polymers, LLC, a manufacturer of elastomeric materials and additives for the transportation, construction, oil and gas, roller, electrical, industrial, and printing industries. The transaction enterprise value of \$220 million represents a multiple of approximately 10.5x Excel's LTM EBITDA.
 - On November 12, Indorama Ventures Public Company Limited (SET: IVL) signed a definitive agreement to acquire Grupo Arteva S. de R.L. de C.V., a manufacturer of polymers and polyesters, and the polyester resins and staple assets of INVISTA, Inc., both of which are subsidiaries of Koch Industries. Indorama agreed to pay \$229 million in cash and to assume \$17 million of liabilities as consideration.
 - On November 5, TPG Capital signed a definitive agreement to acquire Ashland Distribution Company, a subsidiary of Ashland Inc. (NYSE:ASH). Ashland Distribution Company is a distributor of chemicals, plastics, fiber reinforcements, and fine ingredients in North America, and a distributor of plastics in Europe. The transaction enterprise value of \$930 million represents a multiple of approximately 0.3x Ashland Distribution Company's LTM revenues.
 - On October 23, DAK Americas, LLC, a subsidiary of Grupo Alfa S.A.B. de C.V., signed a definitive agreement to acquire Performance Polymers (PET) business and related assets from Eastman Chemical Co. (NYSE: EMN). The transaction includes three production facilities in Columbia, SC. DAK Americas, LLC agreed to pay \$600 million as consideration to Eastman Chemical Co.
- Additionally, a number of notable previously announced transactions closed in the fourth quarter:
- On December 10, BASF SE completed the acquisition of Cognis GmbH, a German specialty chemical company focused on care chemicals, nutrition & health products and functional products. The transaction was announced in June, however did not receive European Union approval until November 30. The transaction enterprise value of approximately €3.1 billion represents a multiple of approximately 7.3x LTM adjusted EBITDA.
 - On December 9, OMNOVA Solutions Inc. (NYSE:OMN) completed its acquisition of Eliokem SAS, a manufacturer of antioxidants, coating resins, elastomeric modifiers, rubber latices, rubber and polyblends, rubber reinforcing resins, rheological polymers, and toner resins. The transaction enterprise value of \$297 million represents a multiple of approximately 6.0x Eliokem SAS's LTM EBITDA.
 - On November 30, Rhodia SA (ENXTPA:RHA) completed the acquisition of 87.5% of Feixiang Chemicals Co., LTD., a producer of fatty amines, surfactants and fine chemicals in China. The transaction enterprise value of \$489 million represents a multiple of approximately 2.0x Feixiang Chemicals' LTM revenues.

The LI Diversified Chemical Index has closely tracked the overall performance of the S&P 500 Index, while the LI Specialty Chemical Index has significantly outperformed the S&P 500 Index since December 2009.

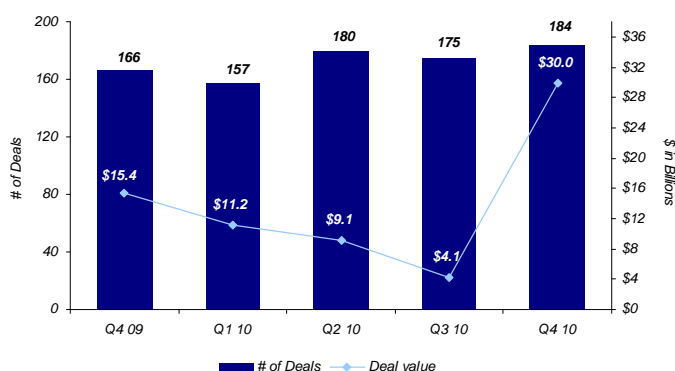
Total enterprise value ("TEV") / EBITDA multiples for public specialty chemicals companies rose for both large and small cap companies in Q3 2010 as compared to Q2 2009, but were down relative to Q3 2009 multiples. This decline is likely the result of the improved financial performance experienced by most chemical companies after the economic crisis of 2009, which was already been priced in by the public markets at the end of 2009. Additionally, the spread between large and small cap multiples has declined from Q2 2010 levels but is still significantly larger than at Q3 2009. Multiples for large cap companies were 8.7x at September 2010 as compared to 8.3x in June 2010 and 9.8x in September 2009. Multiples for small cap companies were 6.5x at September 2010 as compared to 5.2x in June 2010 and 9.2x in September 2009.

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

Q4 2010 Key Market Statistics — Chemicals

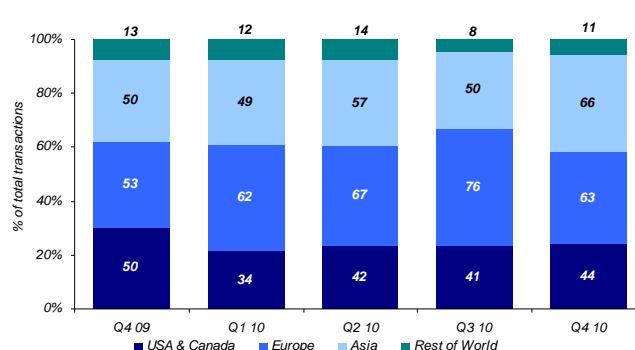
M&A Transaction Activity vs. Deal Value

(Announced transactions and transaction values)



M&A Transactions by Region

(Announced transactions)

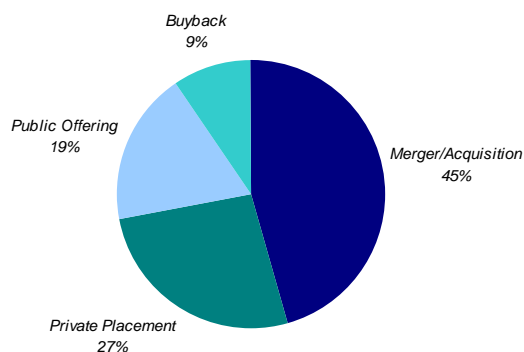


Most Active Buyers / Investors (Last Twelve Months)

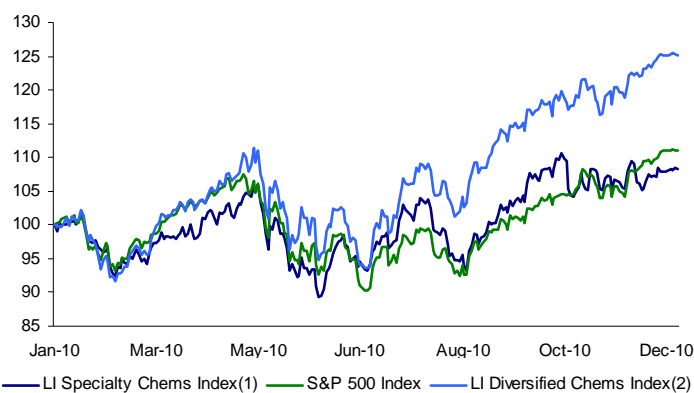
(Based on announced transactions and transaction values)

Top Buyers by No. of Deals		Top Buyers by Deal Size	
Company Name	No. of Deals	Company Name	Deal Size (\$mm)
Braskem S.A.	5	Qinghai Salt Lake Potash Co. Ltd.	\$11,545
Indorama Ventures Public Company Ltd	5	Uralkali JSC	8,434
Akzo Nobel NV	4	CF Industries Holdings, Inc.	5,430
Lanxess AG	4	BASF SE	3,351
Biomagnetics Diagnostics Corp.	3	China National Chemical Corporation	2,801
Evonik Industries AG	3	Bain Capital Private Equity	1,665
Shiva Global Agro Industries Limited (B:	3	Honam Petrochemical Corp.	1,508
The Sherwin-Williams Company	3	Lumena Resources Corp.	1,424
UralChem OJSC	3	Corn Products International Inc.	1,400
		Mineracao Naque S.A.	1,030
Total Top 9	33	Total Top 10	\$38,589

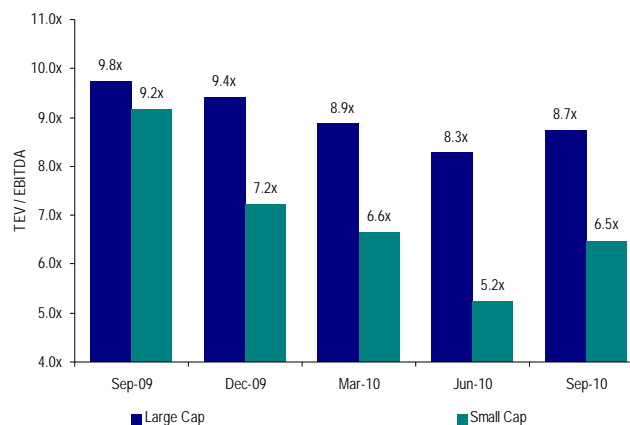
All Transactions by Type (Last Twelve Months)



Public Market Performance



Enterprise Value / EBITDA (Last Twelve Months)



(1) 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

(2) LI Diversified Chems Index: AKZA, ASH, BAS, CBT, CE, CLX, DD, DOW, EMN, FMC, HUN, MON, OLN, POL, PPG, RHA

(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)

strong positions in specialty markets and divesting businesses offering less specialized or commodity products. Two of the largest chemical companies, Dow Chemical and BASF, have been actively using M&A to focus their portfolios on specialty chemicals for a number of years. During 2010, Dow sold its Styron business to Bain Capital for \$1.63 billion and explored the sale of other commodity plastics businesses. BASF acquired Cognis for an enterprise value of €3.1 billion and has evaluated alternatives to withdraw from the styrenics business. Multiple other publicly traded companies are also pursuing a similar strategy, with Eastman, PolyOne, Royal DSM and Momentive Performance Materials, among others, recently announcing the sale of commodity oriented businesses.

- **Emphasis on emerging markets.** The increasing economic importance of China and other East Asian coun-

tries, coupled with the anemic economic recovery in developed nations and expected higher growth rates in developing economies, have contributed to create a strong interest in investing in developing countries. Lincoln has observed a significant number of companies with an interest in making acquisitions in China, India and Brazil, or making significant investments to build capacity in East Asia. For example, Rhodia completed the acquisition of Feixiang Chemicals, located near Shanghai, on November 30, 2010. Albemarle recently announced that it has completed the construction of R&D facilities in South Korea and has begun construction of a manufacturing facility. Other companies are also seeking to increase their presence in developing countries, either through acquisition or direct investment.

- **Sector consolidation.** Several sectors within the chemical industry have undergone substantial consolidation in

recent years, including coatings, adhesives and sealants, and surfactants. Both public companies, such as PPG, RPM and Rhodia, and middle market companies owned by private equity groups, including for example ADCO Global, Quest Specialty Chemicals, Vantage Chemicals and Emerald Materials, are seeking to build their platforms through acquisition and lead in the consolidation of some of these industry segments.

Chemical companies in Lincoln's diversified and specialty chemical indexes had approximately \$28 billion in cash on their balance sheets at the end of the third quarter, the highest level in the last three years. Lincoln expects that, as long as the economic environment remains stable, merger and acquisition activity will remain at a healthy level during 2011 as strategic companies seek to rebalance their portfolios and private equity groups pursue attractive opportunities to invest in Chemicals. ■

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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