Q3 2008: Inside this Issue

Key topics covered in this issue include:

Spotlight Interview: Peter Spitz of Arthur D. Little

Peter Spitz

Arthur D. Little, founded in 1886, is a global leader in management consultancy; linking strategy, innovation and technology with deep industry knowledge. We offer our clients sustainable engagement style, exceptional people, and a firm-wide commitment to quality and integrity. The firm has over 30 offices worldwide. With its partners Altran Technologies and Cambridge Consultants Ltd, Arthur D. Little has access to a network of over 16,000 professionals. Arthur D. Little is proud to serve many of the Fortune 100 companies globally, in addition to many other leading firms and public sector organizations. For further information, please visit www.adl.com

Peter Spitz has spent his entire career in the chemical industry. After earning B.Sc. and M.Sc. degrees in Chemical Engineering at MIT, he held management positions at Esso Research and Engineering and Scientific Design Company before founding Chem Systems Inc., which became a leading consulting firm with offices in five countries. He has published two books: Petrochemicals. The rise of an industry (1988) and The Chemical Industry at the Millennium (2003). His focus has always been on technology, strategy and financial transactions. He is now a senior advisor to Arthur D. Little's chemical practice.

Q: Two big topics of discussion in the chemical industry right now are the impact of high energy/feedstock costs and REACH. Starting with energy costs, how does the current situation compare to prior periods, such as the oil shocks in the seventies. Are we in new territory?

A: The current situation is unprecedented for several reasons. In the 1970s, crude oil prices spiked sharply, first in 1973 when the Yom Kippur War broke out, and then doubled again in 1978 when the Shah fell. Petrochemical companies actually did well during these periods because their inventory was suddenly worth much more and also because in both cases the industry was just overcoming a depressed period. In the current case, crude oil has been steadily increasing rather than spiking and this had no similar beneficial effects for the chemical industry. Also, in the earlier price fly-ups, there was plenty of crude oil supply in the world, whereas now demand is catching up to supply. The 1970s price crisis was completely the result of geopolitical developments.

Q: How are chemical firms reacting? We all have seen the enormous price hikes announced by Dow Chemical. Are others following suit?

A: Dow has announced two successive large price increases to cope with seriously eroding margins. Between 2002 and 2008, its energy and hydrocarbon-based feedstock costs have risen from \$8 billion to \$32 billion, according to CEO Andrew Liveris (Chemical Week, June 2, 2008). Other firms, particularly those in commodities, are experiencing similar increases and cannot help but follow Dow's lead. Huntsman, for example, has posted sharp price increases in addition to implementing "aggressive internal steps to manage costs".

Rohm & Haas is taking a somewhat different tack, imposing a monthly indexed raw materials and energy surcharge in the specialty materials business, which is based largely on petrochemical raw materials.

Q: Feedstock costs are much lower in other parts of the world, such as the Middle East and Venezuela. How does that play into the current crisis?

A: With every increase in crude oil and natural gas prices, the plants in these regions increase their competitive advantage relative to the traditional players but also relative to China and other, newer crude oil-based producers. There will probably not be a large shift in trade flows, but the low cost producers will just make a lot more money as prices in the home markets keep rising. Venezuela is not a big enough chemical producer to affect international trade to a great extent.

Q: Yet U.S. chemical exports are actually higher now than before. How can that be?

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Feature Article: International Mergers & Acquisitions

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Domestic Versus Foreign Acquirers: Managing an International Sale Process

David Beckham debuts with the Los Angeles Galaxy *futbol* team last summer. The National *Football* League plays in London last fall. Such events are symbolic of the rising level of cross-border acquisition activity occurring among European and U.S. companies and private equity firms. As these entities increase their appetite for international targets, business owners are prompted to scrutinize the advantages and commensurate challenges of selling to a foreign versus a domestic acquirer.

Merits of Domestic and Foreign Acquirers

Commonly, when introduced to the concept of a foreign versus a domestic acquirer, a seller will ask, "Is it worth the hassle?" This question, seemingly simple, is rooted in several complex themes – familiarity, transaction risk and the long-term fit of the business within the new organization. All are critical concerns in a successful sale.

Human instinct gravitates towards familiarity and cautiously approaches the unknown. Domestic buyers are naturally more familiar with targets in their own country and the market dynamics impacting those assets. The buyer and seller in a domestic transaction enjoy cultural similarities – the business customs are identical, people act in a like manner and there are no language barriers. However, this same familiarity may also lead to seller trepidation when contacting domestic acquirers which are deemed competitors. The prospect of disclosing critical information to an arch enemy often results in sellers hesitating to contact competitors during a sale process. Conversely, sellers frequently view foreign competitors as less threatening than their domestic counterparts, partly, and perhaps ironically, due to the foreign acquirers' lack of familiarity with, and presence within, the local competitive landscape.

Sellers must also consider transaction risk. Although risk is inherent with any buyer, there typically is heightened concern surrounding a foreign acquirer's ability to secure financing and complete due diligence, both of which directly impact certainty of closing. A foreign acquirer and its lender may require extra time to familiarize themselves with local accounting principles and business standards. To mitigate this risk and in an effort to expedite the process of securing financing, the seller's advisor may recommend that the buyer work with the lender's local offices or affiliates. If unavailable, the foreign acquirer may be best served to team with a financier in the target's country instead. Of course, financing is a non-issue if the buyer is a strategic that can write a check from its cash-laden balance sheet or has pre-established credit lines dedicated for acquisitions. The difference in due diligence between U.S. and European acquirers is discussed later in this article.

Darren Redmayne

Perhaps the most important element to evaluate is the long-term fit of the selling business within the new organization. A domestic acquirer may fold the acquired asset into an existing division, lessening management's independence and control. Synergies tend to be focused on cost cutting initiatives. A foreign acquirer, on the other hand, likely views the target as an entry vehicle into a particular geographic

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Q2 2008 Market Commentary — Specialty Chemicals

The charts on page 3 provide a statistical summary of deal and market activity in specialty chemicals during the quarter and last twelve months ended June 30, 2008, as collected by Capital IQ. There were several notable transactions announced in the second quarter, as follows:

On April 21, Fujichem, Inc. entered into a stock purchase agreement to acquire Red Spot Paint & Varnish Co., Inc. for $63.2 million in cash. Red Spot reported sales of $75.8 million and operating profit of approximately $4.4 million for the year ended year ended October 31, 2007.

On April 28, Elementis Holdings Limited agreed to acquire Deuchem Co., Ltd. for £40.4 million. Deuchem Co., Ltd. recorded £37.9 million of revenue and £5.7 million of EBITDA. Deuchem Co., Ltd. manufactures and supplies additives and resins for coating and related industries in Asia.

On June 6, Ashland Inc. (NYSE: ASH) signed a definitive agreement to acquire the adhesive and atmospheric emulsions businesses from Air Products & Chemicals Inc. (NYSE: APD) for approximately $92 million. The acquired business generated sales of $126 million in 2007.

On June 6, Albermarle Corp. (NYSE:ABP) announced it signed a definitive agreement to acquire Sorbent Technologies, a provider of mercury control systems, for $6.00 per share or $20 million

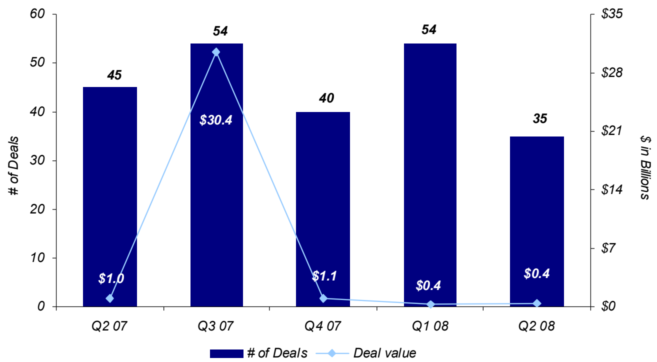
While deal volume was down sequentially in the 2nd quarter, announced deal value remained constant and a larger proportion of announced deals occurred outside of the U.S. and Canada.

Lincoln International's chemical industry indices held-up well for most of Q2 but suffered from weakness late in the quarter much like the rest of the market. For the trailing four quarters, both the LI Diversified Chemicals Index and the LI Specialty Chemicals Index have significantly outperformed the S&P 500 but the LI Diversified Chemicals Index is barely even for the time period.

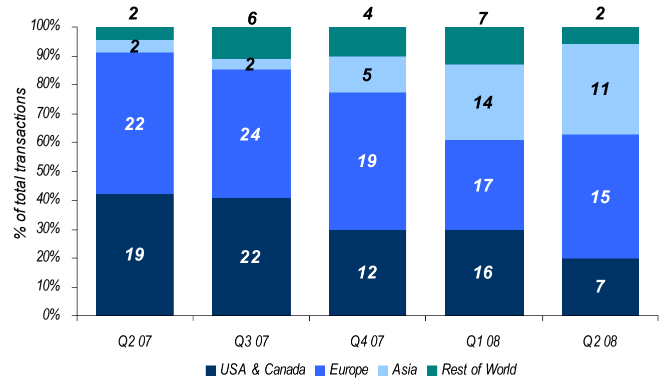
EBITDA multiples for public chemicals companies remained roughly constant for large cap companies at 8.5x at the end of Q2 from 8.4x at the end of Q1, ending a steady, three quarter decline in valuation multiples. Mid cap multiples showed continued weakness as multiples traded down to 6.8x in Q2 from 7.3x in Q1. ■

Q2 2008 Key Market Statistics — Specialty Chemicals

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



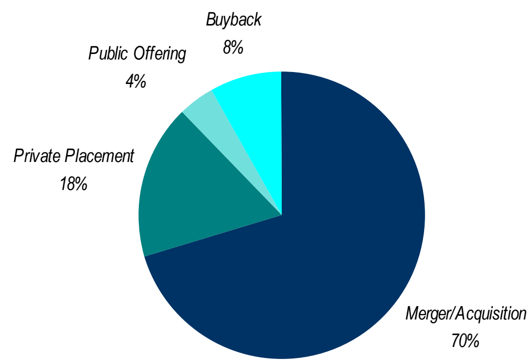
M&A Transactions by Region
(Announced transactions)



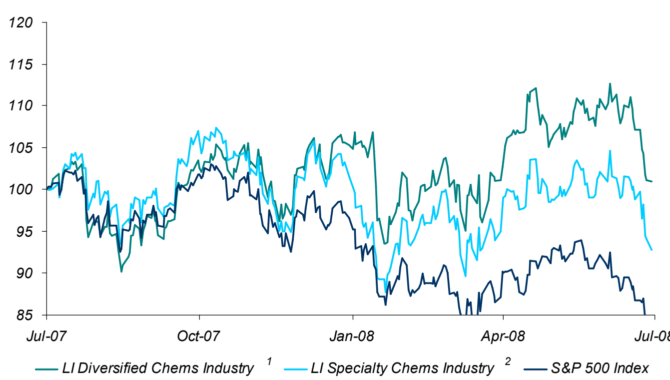
Most Active Buyers / Investors (Last Twelve Months)
(Based on announced transactions and transaction values)

Top 10 Buyers by No. of Deals		Top 10 Buyers by Deal Size	
Company Name	No. of Deals	Company Name	Deal Size ($mm)
Sherwin-Williams	4	Akzo Nobel	$ 18,448
Inchem Holdings International	3	Henkel	5,479
Clariant AG	3	PPG Industries	3,038
PPG Industries	3	Petroliam Nasional Bhd.	1,410
RASCHIG Gmb	2	CVC Capital Partners Ltd.	1,090
Mäder Group	2	InvestIndustrial Holdings Limited	659
Valspar Corp. (NYSE:VAL)	2	OM Group Inc.	333
Hercules Inc. (NYSE:HPC)	2	Calumet Specialty Products	267
Imperial Chemical Industries plc	2	Lubrizol Corp.	125
OM Group Inc. (NYSE:OMG)	2	Imperial Chemical Industries	106
Total Top 10	25	Total Top 10	$ 30,956

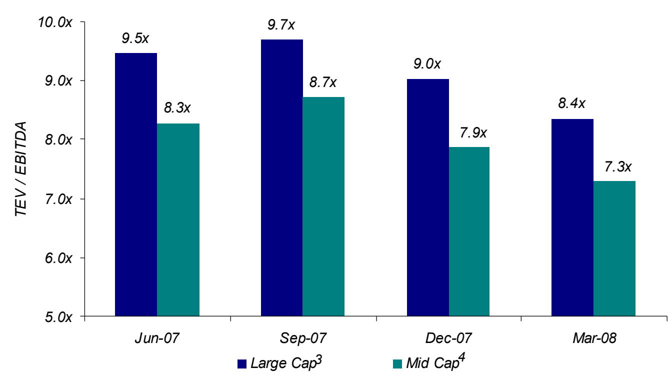
All Transactions by Type (Last Twelve Months)



Public Market Performance



Enterprise Value / EBITDA (Last Twelve Months)



(1) LI Diversified Chems Index: AKZA, ASH, BAS, CBT, CE, CLX, DOW, EMN, DD, 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, HPC, IFF, LZ, NLC, PPG, ROC, ROH, RPM, SIAL, VAL
(4) Mid Cap group includes: ARJ, CBM, FOE, NEU, OMG, SHLM, SMMX, SXT

SOURCE for all data on this page: Capital IQ, Inc. (division of Standard & Poor's), Lincoln International and public filings

3rd Quarter Deal Activity Starts Off with a Bang

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Specialty chemical assets are in high demand. The following deals are a testament to the growth/value propositions and strong fundamentals in the space, attributes industry insiders have been aware of for a while. This sentiment reverberates in the deal flow Lincoln International has been observing in the middle market. Buyers are willing to pay premiums for specialty assets that command higher margins and provide avenues for growth and diversification.

Furthermore, we are seeing significant interest in cross border transactions. Europeans in particular are on the lookout for deals that align the dual purposes of opportunistically "dollar-izing" assets and realizing strategic synergies. We have seen interest from Asian buyers as well. We expect these trends to become more prevalent as the current cycle of consolidation continues

If the beginning of July is any indication, the U.S. chemical sector appears to be embarking upon a new wave of deal activity, driven primarily by strategic buyers looking to build more profitable and diversified portfolios of assets. On July 10th, Dow Chemical, the largest U.S. chemical maker, agreed to acquire specialty chemical maker Rohm and Haas for approximately $18.7 billion in cash, including assumed debt. Then on July 11th, the following day, chemicals and Valvoline motor oil maker Ashland Inc announced that it would acquire rival specialty chemical maker Hercules Inc in a $2.6 billion cash-and-stock deal, or a $3.4 billion deal including assumed debt.

These blockbuster deals are indicative of continuing M&A activity in the specialty chemicals industry, despite the challenges in the M&A market overall. Though M&A activity across most industries has retreated from the buyout-fueled highs of 2007, the specialty chemicals market represents a relative bright spot.

Many industry observers expect deal activity to accelerate going forward. Prominent strategic M&A considerations for buyers include product portfolio diversification towards higher margin specialty chemicals and seizing growth opportunities domestically and internationally. Though not a factor in the deals featured in this article, cross border deal activity is expected to be a significant fixture in the M&A landscape going forward as competitors look to foreign markets for continued growth and foreign competitors look to seize upon opportunities in the U.S., especially given the relative weakness of the dollar.

Dow Acquiring Rohm & Haas

Dow Chemical's announced $18.7 billion acquisition of Rohm & Haas serves to bolster its role as a leading global chemical player. The deal provides significant diversification for Dow and effectively inserts Dow as a meaningful contender in the higher-margin specialty chemicals market. Dow said the deal will make it the world's leading specialty chemicals and advanced materials company. The combined company will have over 100 plants worldwide. Dow Chairman and Chief Executive Andrew Liveris summed up the transformational nature of the deal best: "The addition of Rohm & Haas' portfolio is game-changing for Dow."

"The addition of Rohm & Haas' portfolio is game-changing for Dow."

- Andrew Liveris, Dow Chairman and Chief Executive Officer

Through its combination with Rohm & Haas, Dow significantly changes its business mix as well as its prospects for growth going forward. Based on 2007 statistics, Dow estimates that its revenue mix amongst "performance" and "basic" chemicals would increase from 51% and 40%, respectively, to 69% and 31%, respectively, on a pro forma basis. This, combined with the additional growth prospects that Rohm & Haas' business brings to the table, contributes to Dow's strategic rationale.

Outside of its strategic implications for Dow and its sheer size, this deal is significant for a number of reasons. First, the $78.00 per share cash consideration represents a significant premium for Rohm and Haas shareholders. This represented a 74% premium relative to the pre-announcement price and a 28% premium to its 2008 closing high for Rohm and Hass shares. The resulting multiple of 2008 expected EBITDA was 11.5x. Rohm & Haas benefited from what was rumored to be a quick but spirited auction process.

Second, the deal featured a creative financing arrangement wherein Warren Buffett's Berkshire Hathaway teamed up with the Kuwait Investment Authority to provide approximately $4 billion in financing in the form of convertible preferred stock in addition to $13 billion in debt financing. With many debt investors on the sidelines given recent woes in the credit markets, buyers across the spectrum are turning to more creative forms of financing to get deals done.

Market reaction has been mixed. Of course, Rohm & Haas shareholders are pleased with the transaction premium but many analysts and investors feel Dow could have overpaid for the transaction at an 11.5x 2008 expected EBITDA multiple. Dow contends that, taking into account only cost synergies, the run-rate EBITDA multiple is a more palatable 7.7x. The run-rate cost synergies figure of $800 million (pre-tax) reflected in the lower multiple will be phased in over two years.

Time will tell whether the transaction is too aggressively priced but its significance in the current market cannot be ignored.

Ashland Acquiring Hercules

Ashland's deal to acquire Hercules for approximately $2.6 billion is a cash and stock deal wherein Hercules shareholders will receive $18.60 per share in cash and 0.093 of a share of Ashland common stock for each share of Hercules common stock. At announcement, the proposed deal represented a 38% premium to the previous close of Hercules shares.

Ashland's deal rationale follows logic similar to that of Dow's acquisition of Rohm & Haas, namely a broadening of scale and breadth in the specialty chemicals business segment. The deal better positions the combined company for growth and should drive stronger and less cyclical earnings.

Approximately, 75% of pro forma revenues will come from specialty chemicals and 35% of pro forma revenue will come from international business.

The Hercules deal gives Ashland an enhanced presence in the water-treatment arena, servicing the pulp and paper industry, and would contribute three new businesses to Ashland: specialty additives and ingredients; paper and water technologies; and specialty resins.

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Ashland CEO James O'Brien remarked, "We expect our financial profile to be enhanced significantly through reduced earnings volatility, improved profitability an stronger cash flow generation."

Some analysts anticipate that a competing bid may emerge for Hercules, given the relative value of the transaction and the relatively low break-up fee involved of $77 million, reflecting 3% of the purchase price at announcement. Generally speaking, low break up fees are associated with negotiated deals so as to not preclude competing bids. Given the size of the transaction relative to the market capitalization of Ashland, it will be interesting to see how this transaction plays out in the event of a competing bid emerging.

Summary

July's deal activity in the chemicals sector has certainly raised some eyebrows. Though it remains to be seen whether this flurry of activity is a harbinger of things to come, the key drivers for continued consolidation appear to be in place. Also, large deals for marquee assets within an industry like Rohm & Hass and Hercules are known to set the stage for continued merger activity within an industry as other players vie for competitive position going forward. For the market in general, one message is clear: big deals are still being done. ■

"We expect our financial profile to be enhanced significantly through reduced earnings volatility, improved profitability an stronger cash flow generation."

- James O'Brien, Ashland Chief Executive Officer

Lincoln International Continues Strong Growth

Lincoln International is pleased to announce the addition of two new seasoned bankers to its growing M&A practice. E. Franklin Harris has joined Lincoln as a Managing Director in the New York office and Alyssa Morrisroe has joined the firm as a vice president in its Los Angeles office.

The past six months have been a busy period of growth for Lincoln adding the more than 30 bankers and three new offices—the most recent an office in Tokyo headed by Tetsuya Fujii. Lincoln now has 130 bankers worldwide at its 9 locations as well as strategic partnerships with China Everbright and ICICI.

Franklin Harris is primarily responsible for establishing and strengthening the firm's relationships with financial sponsors, with a particular emphasis on sponsors located on the East Coast. In addition to business development, Franklin oversees the execution of selected M&A and financing transactions.

E. Franklin Harris

Franklin has approximately 15 years of experience in investment banking and has completed a wide range of mergers and acquisitions, financings and other advisory assignments. His clients have included financial sponsors, owner-entrepreneurs and larger public and private corporations. Franklin has worked with clients in all phases of their life cycle, including high growth, stable or maturing and distressed situations. Most recently, Franklin has focused his attention on assisting financial sponsors in building their businesses, generally, and in finding, financing and monetizing their investments, specifically.

Prior to joining Lincoln International, Franklin was most recently head of the financial sponsors group at Miller Buckfire. Earlier in his career, Harris was a senior vice president on Lehman Brothers' M&A team and spent seven years in Donaldson, Lufkin & Jenrette's healthcare and M&A groups.

Franklin holds an MBA from Harvard Business School and Bachelor of Science degrees in Applied Biology and Management from the Georgia Institute of Technology, where he graduated with highest honors.

Alyssa Morrisroe is primarily involved on advisory services for the firm's Aerospace and Defense Group. Alyssa has spent nearly a decade focused on various segments of the aerospace and defense industry. As a result, she has strong relationships throughout the industry and a well established understanding of the particular strengths of and challenges facing the industry.

Alyssa has spent over 12 years advising middle market clients on transactions including mergers and acquisitions (sell and buy-side) and capital raises. She has closed dozens of transactions, including sales of private companies, corporate divestitures, sales for and to private equity firms as well as buy-side assignments and debt and equity financing. Alyssa has also conducted numerous cross-border transactions, particularly during the years she spent in the UK, and is familiar with the unique challenges as well as the opportunities that these represent.

Alyssa Morrisroe

Prior to joining Lincoln International, Alyssa spent over eight years with Jefferies Quarterdeck (previously, Quarterdeck Investment Partners), out of their Los Angeles, London and Washington, DC offices. Prior to Jefferies Quarterdeck, Alyssa held positions with CIBC, Coopers & Lybrand and Donaldson, Lufkin & Jenrette. Alyssa holds a Bachelor of Arts degree from the University of California at Berkeley. ■

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A: The main reason, of course, is the weak dollar, which has made U.S. chemical exports much more competitive. Also, Asian demand remains very high and construction of new plants in the developing nations has often been delayed. Further, don't forget that the Middle East's main advantage is in methane and ethylene derivatives, which make up only a fraction of the total chemical industry output. I should point out that the resurgence in exports has only reversed to a small extent the unfavorable U.S. balance of trade in chemicals. Up to a few years ago, the U.S. chemical industry was one of the few U.S. industries with a $20 billion positive balance of trade.

Q: Longer term, what impact will high energy and crude oil prices have on the movement of production to Asia and the Middle East?

A: This movement is inexorable and would be occurring even if crude oil prices were in a more "reasonable" price range, say $70 - $90 per barrel. U.S. and European producers of petrochemicals have for some time understood that they have to go into partnerships with resource holders or get out of the business. Dow, Exxon Mobil, Shell, Total and CP Chemical are aggressively pursuing this approach. Some are also partnering with the large Chinese chemical companies to share in the growth of this tremendous market.

Q: Are there other effects caused by high energy costs – for example, do higher transportation costs have an impact on market dynamics?

A: High energy costs may in fact have one beneficial effect on domestic companies. There is now some talk about "reverse globalization". High transportation costs represent, in effect, a tariff on shipments to the U.S. from China. According to a recent CIBC study, the cost of shipping a 40-foot container from China to the U.S. has risen from $3,000 to $8,000. When you consider inland freight costs on both sides plus ocean shipment, the cost of transporting heavy Chinese goods to the U.S. is so high that U.S. firms can regain competitive advantage on some items, such as hot-rolled steel sheet. To the extent heavy, expensive-to-ship finished goods will be less competitive in the U.S. on a delivered inland basis, this is good news for domestic end product manufacturers and chemical producers. High transportation costs will, of course, also make Mexico a more important source of imports.

Q: Can you talk about which industry segments have already moved to Asia and what is likely to remain there?

A: The American Chemistry Council tracks this under the heading "Lost Chemistry", which surveys decline in net trade with the world in downstream industries. Between 1997 and 2007 the ACC figures that the U.S. lost $32 billion in embedded chemistry or chemistry content of the net trade. The biggest losers were textiles, textile mill products, plastics and rubber products and computer and electronics, all largely to Asia. This situation will not be reversed. However, China claims that it is deemphasizing energy-intensive, highly polluting processes. This, plus the point about high transportation costs augurs well for U.S. manufacturers in sectors like construction and transportation. A bright note, also, is that the U.S. has consistently maintained a positive net trade in chemicals with China, while losing substantial net chemistry in downstream manufactured goods.

Q: Let's turn to the topic of REACH. How does this new European regulatory framework compare to past efforts?

A: REACH was strongly backed by Europe's "greens," in part because the so-called sixth amendment to a directive on the safety of chemicals was not working. In Europe, when serious testing on "new chemicals" began in 1981, thousands of what were termed "already in use" chemicals were grandfathered. Under REACH, these grandfathered chemicals will start being tested, beginning with the largest volume and most hazardous chemicals. Europe, of course did not have a legislation like TSCA in this country. I should point out that in the U.S., the EPA and the industry a few years ago undertook a voluntary program under TSCA to make an assessment on high production volume (HPV) chemicals which should be completed by 2012.

Q: How are chemical firms reacting?

A: REACH pre-registration began on June 1st and U.S. firms were generally on board in getting themselves ready. The industry has no choice but to comply, given its manufacturing and sales presence in Europe, but challenges must be overcome. Some companies are concerned about chemicals they source to manufacture a product that is then imported into Europe. Companies are also concerned about protecting confidential information, since REACH requires more public disclosure than, for example required under TSCA.

Unquestionably, complying with REACH increases the cost of doing business. It is thought that a number of smaller firms will not want to incur the added cost and will either not sell into Europe or decide to sell or shut down.

Q: Many have described REACH as a non-tariff trade barrier. What impact do you think this will have on trade with Europe?

A: There has been some concern, for example, that European authorities will establish a list of "substances of very high concern" where importers would have to notify the European Chemical Agency of articles in which listed substances are present in concentrations greater than 0.1 percent. More generally, there were claims that REACH compliance will be complex and expensive, requiring massive reformulations, business disruptions, etc. A number of members of the World Trade Organization (WTO) have expressed concern that the possible unwieldiness including access, use of data and capacity of the IT system will, in effect, provide a non-tariff trade barrier.

My discussions with chemical business leaders directly involved in dealing with REACH makes me believe that the potential problems have probably been exaggerated. But we are only at the beginning of the process.

Q: Will there be more regulations involving the chemical industry?

A: Other regulatory initiatives include North America's plan to share data and information on risk screening under the Security and Prosperity Partnership (SPP); the United Nations' 2005 framework for a globalized system of classifying and labeling of chemicals (GHS); and the recently enacted plant security law. Mandatory Greenhouse gas (GHG) emission reductions are also of considerable concern to the industry. The American Chemical Council (ACC) says that one of the bills introduced in Congress would require "massive reductions in coal use and enormous increases in natural gas and renewable fuel use."

Referring to both rapidly rising energy/raw materials costs and the effect of the REACH program, our goal (at AD Little Inc) is in helping shape business values that takes advantage of whatever business scenarios evolve. ■

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market, and its valuation may reflect a market entry "premium." The seller's management team is critical, as they will be relied upon to run the business post-acquisition while the parent company sits thousands of miles away. Further empowering management is the potential opportunity to "play with a larger train set," given the revenue synergies a foreign owner may provide via international growth opportunities.

How to Manage a Foreign Acquirer During the Sale Process

A seller's advisor can take actions at every stage of the marketing process to ensure maximum participation by foreign acquirers (especially strategics). At the onset, a strategic buyer carefully weighs the resources required to participate in any sale process. This bar is even higher for a target 3,000 miles away, thus requiring additional time to garner the buyer's blessing to pursue the opportunity. By contacting foreign acquirers a few weeks earlier than domestic buyers, a seller may level the playing field and prevent domestic parties from moving too far ahead and scaring off international interest. The advisor may also consider using its local offices to introduce the target (in the local language) in order to maximize marketing effectiveness.

Once a foreign party is engaged in the process, the seller may contemplate additional actions to intensify interest. For example, on a recent Lincoln International sell-side engagement, several buyers within close proximity of each other expressed interest in the target. Instead of relying solely on phone calls or marketing documents as the primary communication method, Lincoln and its client boarded a plane and visited the parties during a two-week, mini "road show." The invitation was well received by the foreign acquirers, as it required little effort on their part, and enabled the seller to convey the investment thesis enthusiastically and in-person. Ultimately, the buyers gained a first hand understanding of the business without leaving their home soil and management had the chance to meet and evaluate several potential owners early in the marketing process.

The strategies to maximize foreign acquirer participation continue into the latter stages of a transaction. For instance, a dinner the evening before a site visit often is an effective icebreaker, leading to a more productive, informative meeting the following day. The opportunity to meet in a less formal setting may help overcome some of the uncertainties and cultural differences that might exist between the buyer and seller. In due diligence, the use of electronic data rooms are a must for any target hoping to solicit international interest. The ability of a buyer and its vendors to access information online anywhere in the world, at anytime, neutralizes the inefficiencies and costs that may make foreign buyer participation otherwise prohibitive.

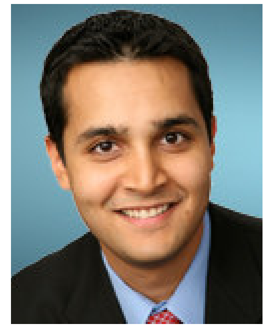
Recognizing Localized Issues

Just as every deal has its nuances, every region has its unique hot buttons. For example, in the U.K., pension-related matters are a top priority. Meanwhile, environmental issues are a primary focus in the U.S. Even more divergent are U.K. and U.S. perspectives on reps and warranties. In the U.S., a buyer and seller may engage in a bitter debate over the reps, warranties, caps and indemnifications provided in a purchase agreement. Conversely, the only rep a U.K. financial sponsor provides is that the group owns the shares it is contemplating selling. A knowledgeable advisor, particularly one with local presence in key geographies, can quickly discern those issues on which a foreign buyer will focus, allowing the seller to address such concerns proactively before they become an impediment to the sale.

Understanding the Due Diligence Process

A discussion of domestic and foreign acquirers is incomplete without highlighting that the due diligence process is notably different in the U.S. and Europe. In the U.S., independent vendors (primarily large accounting firms) play a prominent role in finalizing the due diligence process. However, diligence is backend loaded, as these advisors are typically not hired by the buyer until after entering into an exclusivity period with the seller. In Europe, the seller will often engage an independent accounting firm to draft a due diligence report before starting the sale process. By having this report completed earlier, the seller mitigates the risk of a buyer backing out of a transaction during the exclusivity period and the buyer is able to more accurately assess the target prior to investing substantial human and financial resources. Once the exclusivity period begins, the independent accounting firm ceases to work on behalf of the seller and instead, provides additional services, as required, to the buyer.

If a seller decides to move forward with a foreign acquirer, the buyer is well advised to use locally-based legal counsel and due diligence vendors. Though a small nuance, the use of professionals with domestic knowledge and experiences is critical to ensure a speedy diligence process with minimal hurdles.



Saurin Mehta

Conclusion

So what does this tell us when choosing between domestic and foreign buyers? Unfortunately, the most common answer is, "It depends." Every deal has unique dynamics that impact which buyer is best suited for a given target. The seller must sift through these complexities to determine whether and how to include financial buyers in its sale process.

One thing that is certain, however, is that corporations and private equity groups in Europe and the U.S. continue to remain hungry for acquisitions. Financial sponsors have raised record equity capital over the last few years and despite the recent credit crunch, moderate liquidity still exists for debt checks under $200 million. Valuation multiples and debt pricing for targets with sound fundamentals remain reasonable and buoyed by competition among strategic and financial buyers. Perhaps most importantly, many European firms are capitalizing on the opportunity to acquire U.S. targets at "bargain" prices given the continued strengthening of the Euro over the dollar.

While possibly daunting at first, a seller is well advised to consider foreign buyers in an effort to generate the highest value and best terms for its asset. With the aid of an experienced advisor, a number of strategies are available to maximize foreign buyer participation in a sale process. The vigilant execution of these techniques may enable a seller to capture the coveted "entry premium" a foreign buyer may place on a target designated as a market entry vehicle.

In closing, it is important to note that this article revolves around U.S. and European buyers and sellers. As India, China and other developing regions continue to become more acquisitive and alter the M&A landscape, the domestic versus foreign buyer debate is certain to evolve over the next several years. ■

Lincoln International's Global Footprint

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Upcoming Event
Chris Cerimele of Lincoln International will be speaking on the topic of fine chemicals mergers & acquisitions at the Pharma ChemOutsourcing Conference on Monday, September 8. The program will be held at the Ocean Place Resort in Long Branch, New Jersey. For more information visit www.chemoutsourcing.com

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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