

## Q4 2008: Inside this Issue

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### Spotlight Interview: Dr. Mitsuo Matsumoto of Kuraray



Dr. Mitsuo Matsumoto

*Kuraray Co., Ltd. was founded in 1926 to commercialize the production of the chemical fiber rayon which was state-of-the-art at that time. As a pioneer in Japan's emerging chemical synthetic fiber production industry, the company moved to the industry forefront in 1950 with the achievement of production in polyvinyl alcohol (PVA) fiber and its raw material, PVA resin.*

*Over the last half century, Kuraray's technological expertise has developed numerous distinctive chemical products that have expanded its presence in markets worldwide. Today 75% of the company's sales come from chemicals and resins. In particular, several of the company's current products command the top share of the global market.*

*Kuraray's consolidated net sales in 2007 were ¥417 billion (€3.1 billion, \$4.1 billion) and operating income was ¥48 billion (€352 million, \$472 million). In recent years Kuraray has expanded the business through both M&A and organic growth. Kuraray conducts its business globally with*

*8 facilities overseas and almost half of consolidated sales derived outside of Japan. For further information, please visit <http://www.kuraray.co.jp/en/>.*

*Dr. Mitsuo Matsumoto is Executive Officer and General Manager of Corporate Strategy and Planning, Kuraray. Before this, he was responsible for Research and Development and New Business Development. He has 10 years of experience in M&A. Before transferring to the headquarters, he had been in charge of research and development at Central Research Laboratories for 18 years including organic synthesis and polymer synthesis and applications.*

*Dr. Matsumoto holds a PhD in chemistry from Kyoto University. He received the Chemical Society of Japan Award for Technical Development and has published approximately 180 patents.*

**Q: What is Kuraray's overall growth strategy? How important are acquisitions to that growth strategy?**

A: Since our founding in 1926 as a manufacturer of chemical fiber, Kuraray has achieved growth by focusing on its core business and also pursuing high growth new businesses. For example, while chemical fiber is still a part of our business we are also now a world leader in PVA film and resin and we have strong positions in a range of other chemicals and high performance materials. Our fundamental strategy continues to be a focus on both our existing core businesses as well as new technologies. While organic growth is important, acquisitions are critical to our growth plans.

Our most recent current mid-term business plan, started in 2006, calls for net sales of ¥450 billion (€3.3 billion, \$4.4 billion) by 2008 and ¥1 trillion (€7.3 billion, \$9.8 billion) by 2015. We are now formulating our new plan for the next three years, and we will continue to keep the same net sales target of ¥1 trillion (€7.3 billion, \$9.8 billion) for 2015. To achieve this goal we expect acquisitions will need to account for ¥200 billion (€1.5 billion, \$2.0 billion) of incremental sales.

**Q: In which sectors of your business are you most interested in acquisitions?**

A: Our first priority for M&A activity is our PVA and related businesses. This is our core business and in recent years Kuraray has expanded our PVA related business in Europe and Asia through acquisitions and strategic alliances. Our activities in America are relatively weak and this will be a key focus of growth for that part of our business in the near term.

Other important areas of our existing portfolio include fine chemicals, value-added resins, and medical devices. In those areas we will consider acquisitions of companies that possess unique technology and/or offer the potential for synergy.

Outside of our existing portfolio we are also looking to develop our presence in other products and markets. The two key areas of focus for us right now are 1.) materials for so-called "clean technology," such as waste water treatment, photovoltaics, and bio-based

*(Continued on page 6)*

## Current State of Chemicals M&A Market

Dear Friends and Colleagues,

The past few months have been quite challenging for many who engage in M&A activity, both on the buy side and the sell side. We thought it would be worthwhile at this stage to give you an update on the status of Lincoln International, an overview of current market conditions, and our "view from the trenches" based on Lincoln's ongoing activities. We will of course be happy to speak with any of you individually about this and would encourage you to contact us.

### Status of Lincoln International

First, let us say that while every M&A advisory firm is feeling the impact of the current market conditions on their business, Lincoln International is holding up well right now. We expect to complete approximately 70 transactions on a worldwide basis in 2008, which is roughly even with our results in 2007. Further, Lincoln has closed ten transactions worldwide since the beginning of September.

Our global chemicals team, with senior officers in Europe, Japan and the U.S., is currently working on approximately 20 assignments in the chemicals space. This is an almost doubling of activity since last year and reflects the significant effort and investment we have made in growing the practice. We remain very committed to the chemicals sector, in good times and bad.

### State of the Market

The market is clearly down right now, driven primarily by the credit crunch. According to Standard & Poor's, total U.S. mid-market new issue loan volume for the first nine months of 2008 was approximately \$7 billion, compared to almost \$29 billion for the full year 2007. Loan volume has been erratic and declining, with the situation changing almost daily. The impact in Europe has been less pronounced, but the impact is clearly being felt across the globe.

As a result of the credit crunch M&A activity, especially for bigger deals, is down. According to Mergerstat, the total number of deals completed in the U.S. was down 25% for the twelve months ended September 30, 2008 compared to the prior period. For deals above \$1 billion in transaction value the decline was 45%. In Europe, total deal volume was down approximately 16%, with deals over €1 billion down almost 40%.

### Our View from the Trenches

Given that we are still very active in the market, we will share with you what kind of activity we are seeing in general.

- 1. Sellers are more cautious.* We see two kind of sellers who are very active in this market, with most others generally taking more of a "wait and see" approach. The first are high quality companies that would be attractive in any market. These companies are often still able to command strategic valuations, especially from buyers who have cash and can realize synergies. The second category of sellers is those who have a reason to sell. These could be troubled assets, non-core divisions, or otherwise good businesses that for a variety of reasons simply need to be sold.
- 2. Private Equity is being more creative and resourceful.* Private equity has the challenge of financing acquisitions in a difficult credit environment. In many cases, firms are plugging loan shortfalls with additional equity, often as high as 50% or 60% of total capital compared with the more typical 30% to 40%. Some larger funds are even making all-equity purchases of smaller deals. Funds are also seeking creative deal structures such as earnouts and seller notes to help bridge the funding gap. There is still a good deal of private equity money that needs to be put to work, and funds are being increasingly creative and resourceful
- 3. Strategic buyers, particularly non-U.S., remain active.* Large corporations and sovereign wealth funds represent a rapidly growing proportion of total deals. These entities have plenty of cash and do not need to raise financing in the difficult credit environment. For them, the current market is a buying opportunity due to the weak U.S. dollar, PE's difficulty with financing, the weak equity markets, and increasing worries of a recession. We are seeing most of the interest coming from Japanese and European companies looking for acquisitions in the U.S. For the right business, these companies can be very reliable buyers who will offer strong valuations when the strategic fit is good.

### Outlook

We cannot predict whether or not recent actions by governments and central banks around the world will improve the situation in the near term. We do not see a major improvement in the current status quo for M&A activity between now and the end of the year. Beyond that, it will depend on how soon credit markets loosen up. We are hopeful that the situation will improve in 2009.

### Summary

While the M&A market has been impacted by the global credit situation, the mid market still remains active and Lincoln remains active and strong. With the right buyer and seller, many deals can and will get done in this market. However, success often requires a more resourceful and coordinated global approach.

Sincerely,

**Chris Cerimele**  
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**Dr. Dietmar Nienstedt**  
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*Chris Cerimele and Dietmar Nienstedt are Global Co-Heads of Lincoln International's Chemicals Group.*

## Lincoln International Advises Cognis on Sale of Pulcra Chemicals

*Lincoln International's recently completed assignment with Cognis and Pulcra Chemicals Group illustrates our ability to bring both industry and transaction expertise to bear in placing a privately-held company with an appropriate strategic acquirer.*

Lincoln International acted as the exclusive financial advisor to the privately-held specialty chemicals company Cognis GmbH ("Cognis") in connection with the sale of Pulcra Chemicals Group ("Pulcra") to Fashion Chemicals GmbH & Co. KG ("Fashion"). Fashion is investor backed by DSD, managers and international business partners of the group. Cognis will receive cash proceeds from the transaction amounting to €26.3 million (\$35.3 million). Additionally Fashion took over €15.0 million (\$20.1 million) of financial liabilities.

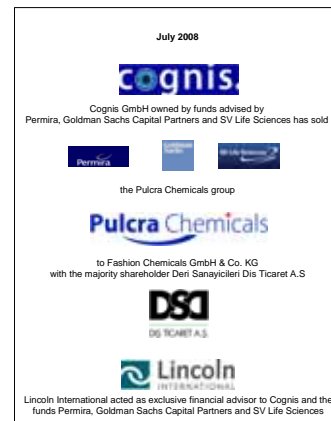
In the sale of Pulcra Lincoln had to overcome the challenge of selling a Global

business with regional business models, significant supply and service relationships with former parent company Cognis, and weak performance starting in Q4 and continuing through the end of the process.

Cognis GmbH is owned by funds advised by Permira, Goldman Sachs Capital Partners and SV Life Sciences. In 2007, Cognis reported sales of approximately €3.6 billion (\$4.8 billion). The sale of Pulcra is in line with Cognis' strategy which has been one of focusing on its core businesses driven by the personal care, wellness and sustainability trends.

Pulcra Chemicals, a supplier of process chemicals to the fiber, textile and leather industries operates service centers and production sites in Brazil, China, Germany, India, Indonesia, Italy, Mexico, Spain, Turkey and the USA. Currently, approximately 460 employees are employed worldwide. In 2007, Pulcra

Chemicals reported total sales of €248 million (\$333 million). The company has strong presence across all key growth regions. It is among top three competitors in China and India, and the leading supplier in Brazil and Turkey.



## Lincoln International Advises AUCTUS on Sale of Abieta Chemie GmbH

*Lincoln International's recently completed assignment with AUCTUS and its portfolio company Abieta Chemie GmbH demonstrates our ability to add value to private equity transactions through industry knowledge and superior transaction expertise.*

Lincoln International AG was assigned as the exclusive sell-side advisor by the German private equity firm AUCTUS Management GmbH ("AUCTUS") to structure the bilateral negotiation process and to maximize value in the sale of Abieta Chemie GmbH ("Abieta") to a subsidiary of Arizona Chemical Company ("Arizona") of Jacksonville, Florida. Arizona is a portfolio company of Rhone Capital III L.P.

Based in Gersthofen, Germany Abieta Chemie GmbH focuses on the development and production of resin based emulsifiers and other preliminary products for the chemical industry. As a highly reputable and innovative supplier Abieta serves the major plastic manufacturers,

the color and pigment industry as well as adhesive producers. Its products are mainly used to manufacture synthetic rubber used in car tires, rubber moldings, or special adhesives, as well as thermo-plastic synthetic materials. Abieta had 2007 sales of €23 million (\$31 million).

Lincoln International was faced with challenge of an expedited sale process as



AUCTUS made the decision to sell the company after a very short 16 month holding period. In fast-tracking the project, AUCTUS risked losing the competitive environment for the company. Lincoln International however was able to achieve an excellent valuation based on strategic concepts and potential synergies and succeeded in signing an agreement only 18 weeks after the project kick-off including a buyer's insurance solution.

AUCTUS specializes in businesses with €20 to €150 million (\$27 to \$201 million) in sales and transaction volumes between €10 and €50 million (\$13 to \$67 million). Since 2006 the funds have purchased more than 20 companies. AUCTUS is permanently interested in acquiring further businesses in the area of the chemical industry.

## Lincoln International Opens Office in Tokyo, Hires Managing Director Tetsuya Fujii

Lincoln is proud to announce the opening of our Tokyo office. This is the firm's third new office this year, following its London and Madrid office openings.

Lincoln International's Tokyo team will provide merger and acquisition advisory services to Japanese corporations that are focused on cross-border business development, primarily acquisitions. The Tokyo-based team will also identify and contact potential Japanese acquirers for North American and European sell-side assignments being executed by Lincoln International's North American and European offices. On a case-by-case basis the Tokyo team will work on out-in (foreign company buying or investing in a Japanese company) as well as in-in (domestic) transactions.

Because close to 90% of Japanese M&A transactions are mid-market in size, Lincoln International is positioned to provide significant value added assistance to Japanese companies.

The Tokyo office will be led by Managing Director Tetsuya Fujii. Prior to joining Lincoln International, Fujii served as a Senior Vice President, M&A Group, in the Investment Banking Division of Lehman Brothers' Tokyo office. He also worked for Deutsche Securities as a Director,

Mergers & Acquisitions of the firm's Global Banking Group. Prior to Deutsche, Fujii spent four years at Credit Suisse First Boston, eventually serving as Director and Acting Head of Japan M&A. Fujii began his career in 1989 at The Long Term Credit Bank of Japan ("LTCB"), where he advanced in his ten-year tenure to Vice President, US Corporate Finance in the firm's Chicago office and acted as a liaison for the firm's Tokyo M&A Group. Fujii graduated from Hitotsubashi University in Tokyo, Japan and received an MBA from the Kellogg School of Management at Northwestern University in Evanston, Illinois, USA.

Lincoln International's founders and senior management have had significant prior association with prestigious Japanese institutions in the 1990's, and have developed an understanding of the Japanese market and culture as a result. During his time at LTCB, Fujii worked with Jim Lawson, Co-Chairman, and Rob Barr, President-North America. Prior to starting Lincoln Partners, now Lincoln International in 1996, Lawson and Barr had worked for Peers & Co., an M&A advisory firm which was acquired by LTCB. This history will help to facilitate the smooth integration of the Tokyo office into the Lincoln International platform.

In addition, John Herrmann, Vice Chairman - North America based in the firm's New York office, will work closely with the Tokyo office and will be Chairman of Lincoln International - Japan.

Herrmann started and for a number of years led the international M&A boutique investment bank, The Bridgeford Group. Bridgeford was established in September 1990 as a wholly-owned subsidiary of The Industrial Bank of Japan ("IBJ") - a predecessor of Bridgeford's current owner, Mizuho Financial Group.

"Lincoln International's fully-integrated global platform is unique to the mid-market and exactly what Japanese firms need as they increase focus on cross-border M&A business development," said Fujii. "Lincoln not only has impressive global reach, but many of their investment bankers have deep expertise within specific industry sectors."



Tetsuya Fujii

## Q3 2008 Market Commentary — Specialty Chemicals

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

On July 10, Dow Chemical Co. (NYSE: DOW) entered into a definitive agreement to acquire Rohm & Haas Co. (NYSE: ROH) from Haas family trusts for approximately \$15.3 billion in cash. Rohm & Haas Co. had June 30, 2008 LTM revenue of \$9.6 billion.

July 22, 3M Co. (NYSE: MMM) entered into an agreement to acquire EMFI S.A. for €85 million in cash on July 22, 2008. EMFI S.A. generated €82.3 million of revenues in 2007. In a related transaction, 3M Co.

(NYSE: MMM) entered into an agreement to acquire SAPO S.A. President of EMFI S.A. and SAPO S.A., Jean Luc Mendler will continue in this position.

On September 14, BASF SE (DB:BAS) made an offer to the board to acquire Ciba Holding Inc. (VIRTX:CIBN) for CHF 3.4 billion (\$3.0 billion). The offer per share of CHF 50 is a 64.3% premium over the volume weighted average price of Ciba shares over the preceding 60 trading days and a premium of 32% over the closing share price on September 12, 2008. The target business generated LTM sales of \$5.6 billion.

The deal volume and deal value were marginally down in the Q3 2008 as compared with Q2 2007. The activity in Asia was higher with the proportion of the transac-

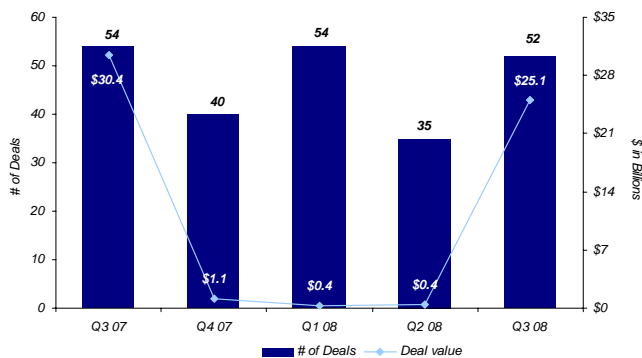
tions in Asia increasing in Q3 2008 as compared with Q3 2007.

Lincoln International's chemical industry indices held-up well for most of Q3 2008 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 marginally outperformed the S&P 500 but the LI Diversified Chemicals Index is barely even for the time period.

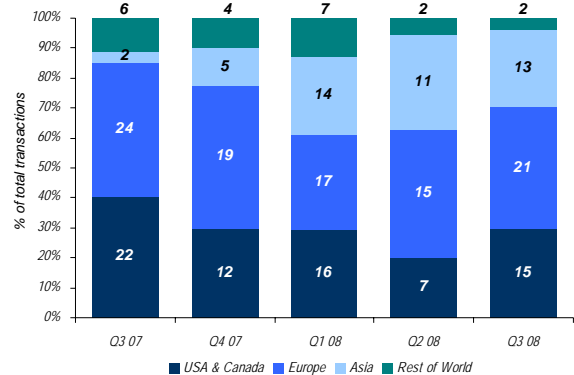
EBITDA multiples for public chemicals companies marginally reduced for large cap companies from 7.8x at the end of Q3 2008 from 8.4x at the end of Q2 2008. Mid cap multiples showed continued weakness as multiples traded down to 6.1x in Q3 2008 from 6.6x in Q2 2008.

# Q3 2008 Key Market Statistics — Specialty Chemicals

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



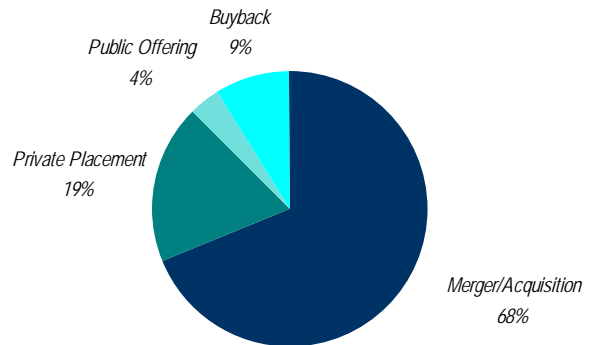
**M&A Transactions by Region**  
(Announced transactions)



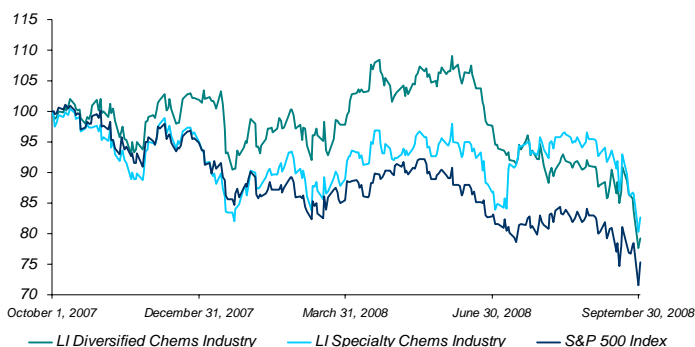
**Most Active Buyers / Investors (Last Twelve Months)**  
(Based on announced transactions and transaction values)

Top 10 Buyers by No. of Deals		Top 10 Buyers by Deal Size	
Company Name	No. of Deals	Company Name	Deal Size (\$mm)
3M Co.	3	Dow Chemical Co.	\$ 18,792
PPG Industries Inc.	3	BASF SE	5,457
BASF SE	2	InvestIndustrial Holdings Limited	659
Clariant AG	2	Wind Point Partners	327
Dow Chemical Company	2	OM Group Inc.	316
Endless LLP	2	Calumet Specialty Products Partners LP	267
Iconic Holdings Limited	2	Close Brothers Private Equity LLP	232
InvestIndustrial Holdings Limited	2	3i Group Plc	211
Mäder Group	2	Endless LLP	147
Perstorp Holding AB	2	3M Co.	134
<b>Total Top 10</b>	<b>22</b>	<b>Total Top 10</b>	<b>\$ 26,542</b>

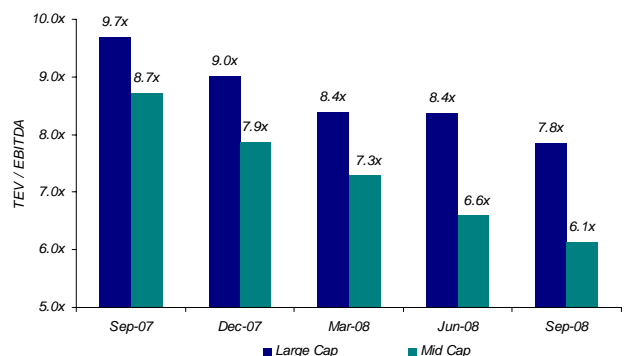
**All Transactions by Type (Last Twelve Months)**



**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, 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

(Continued from page 1)

materials, and 2.) materials for high growth fields such as electronics, information and displays. Our expansion in these areas will be driven primarily via acquisition.

**Q: What are some of the characteristics you are looking for in an acquisition? (e.g., size, growth profile, geographic location, etc.)**

A: As a general rule, Kuraray targets companies with high technology and highly value-added products under the control of good management. The ideal size depends on the business. For example, if we found something that was a good fit with our core business then we would be much less concerned about size even if the target had over US \$1 billion of sales. On the other hand, for a new business we would not invest as much initially. In that case, the target would be a business with sales volume between tens of millions and several hundred million US dollars. Geographically, our main target regions are North America and Europe.

**Q: In the recent past, Kuraray has sometimes pursued a strategy of downstream integration for some of its businesses. For example, you have for a long time been a major producer of PVA resin and in recent years you have begun making PVB resin and PVB film. Is downstream acquisition a continuing part of your strategy?**

A: Kuraray completed two large acquisitions in recent years. We acquired the PVA and PVB business from Clariant in 2001, and the PVB film business from HT Troplast in 2004. Since then we have made significant additional investments in both acquisitions and have enjoyed strong results. When it comes to acquisitions our main emphasis is whether the target business possesses synergy with Kuraray's existing business. Downstream integration is an easy way to expand the business, but it is not the primary focus of our acquisition strategy.

**Q: Do you find that Japanese companies in general are still interested in cross-border M&A? If so, then what is driving this interest?**

A: Yes, I think Japanese companies are still interested in cross-border M&A because they acknowledge the limitations of the Japanese domestic market and must turn to overseas markets for additional growth.

Over the last ten years, globalization of Japanese companies has accelerated. Japanese companies are becoming more

confident in their ability to manage overseas operations and acquisitions. The globalization of management systems in Japanese companies also has been accelerating cross-border M&A activity.

**Q: Is cross-border M&A for Japanese companies growing?**

A: Yes, as mentioned above, Japanese companies must expand their business overseas in order to generate growth. To give a comparison of activity levels, the average number of outbound M&A transactions (Japanese companies buying non-Japanese targets) during the three years from 1995 to 1997 was 230 per year. The same number during the three years from 2005 to 2007 is 400 per year. I would expect to see this trend continue in the foreseeable future.

**Q: What regions of the world are most important to a company like Kuraray for acquisitions, and why?**

A: Kuraray's products are specialty value-added chemical products that are mainly targeted for the developed countries. Therefore North America and European countries are the main targets. Kuraray has holding companies both in the US and Europe and it makes post-merger integration easier in these regions. However, developing countries such as BRIC [Brazil, Russia, India and China] have potentially large markets, so in the long run we will have to think about M&A in those regions.

**Q: Japanese companies in the past have struggled to keep up with the relatively fast pace of a typical investment banking auction process in the US and Europe. Is this still the case for Kuraray?**

A: Many Japanese companies do struggle to keep up with the fast pace of a Western auction process. Japanese firms have a very consensus-oriented decision process that can sometimes take more time. The tradeoff in timing is that once we decide that an acquisition has strategic merit, we can move deliberately with much less chance of dropping out of the process. So while our decision process can take more time, we believe it offers a seller much greater certainty of closing.

Kuraray is quickly catching up. We have a dedicated, professional corporate development group, led by me, that reports directly to our President. This structure gives us a much more streamlined decision process. Our team has a good deal of experience participating in Western auctions and we understand the needs and requirements

of the sellers and their investment bankers. Many would be surprised about how quickly we can move if a strong strategic opportunity presents itself!

Kuraray has been developing favorable and reliable relationships with several investment banks and Lincoln International is one of the most notable. It is very beneficial for the promotion of our M&A activities that we have an advisor who understands Kuraray's strategy and business approach.

**Q: Turning to more general economic concerns, how is the Japanese market holding up in the current global market crisis?**

A: At this moment, the Japanese financial system is relatively stable compared to those of the US and Europe. However, the Japanese commercial activity, and in particular its manufacturing sector, largely depends on overseas markets. Therefore, decelerating economic growth in the US, Europe and Asia should have a negative impact on Japanese economics in the coming one or two years.

On the other hand, Japanese financial institutions which had been directly affected by the financial crisis in Japan over ten years ago and finished their restructuring are relatively healthy compared to those of the US and Europe. This has led them to invest in US investment banks and commercial banks in the recent crises.

**Q: How do you think the situation impacts Japanese chemical companies such as Kuraray? What are some of the challenges and opportunities?**

A: Japanese chemical companies such as Kuraray face a similar situation as mentioned above. Also, unstable crude oil price should impact Japanese chemical companies, which largely rely on oil countries for their raw materials. In such circumstances, Middle Eastern countries and China, which have natural resources, should be our threat.

However, we believe the M&A market should be favorable for strategic players like Kuraray in the current economic situation. Given that private equity firms are facing increasing challenges raising acquisition financing, a large company such as Kuraray, with our strong cash position and access to capital, has a significant advantage in this market.

## Apollo, Hexion and Huntsman - Changing Landscape in M&A

*Manish Rele is an Associate at Lincoln International, LLC in Chicago. Mr. Rele can be contacted at +1 (312) 506 2741 or by email: mrele@lincolnternational.com*

In July 2007, Apollo-owned Hexion won the bidding war to acquire Huntsman for \$28.00 per share, outbidding Basell's \$25.25 per share. The deal was valued at \$10.3 billion, to be financed through an \$8.4 billion senior secured term loan and \$5.95 billion in notes from Credit Suisse and Deutsche Bank. Because of the competitive nature of the transaction, Hexion agreed to a "tickling fee", increasing the purchase price if the deal did not close by April 5, 2008. Hexion also agreed to a "hell or high water" provision, and Hexion's obligations were not conditioned on financing or solvency. In the initial agreement, Hexion agreed to a no "financing out" provision by which if the arranged financing for the deal falls through, Hexion is not excused from executing the transaction.

Post signing of the definitive agreement, the credit markets deteriorated leading to declining business activity and margins at Huntsman. The Q1 2008 financial reports were below expectations which led Hexion to appoint Duff & Phelps in June 2008 as its advisers to assist Hexion in reviewing business activities of Huntsman. Duff & Phelps concluded that the combined company would likely be insolvent, and if the transaction is completed under the current arrangement Hexion's credit rating would likely be lowered by one or two notches (currently B2 according to Moody's). As a result, Hexion filed a complaint with the Delaware court seeking a declaration that the downturn in Huntsman's business constituted a Material Adverse Effect ("MAE") to the company's business and it was not obligated to close the merger of the combined entity as it would be insolvent, and that its liability for not closing the transaction was capped at the \$325 million break-up fee. In response, Huntsman also commenced litigation obtaining a temporary restraining order prohibiting Hexion from taking any action to materially delay or terminate the merger.

Despite Hexion's claim of the combined entity to be insolvent, in September 2008, the Delaware Court ordered Hexion and Apollo to fulfill the contractual obligation to go through with the acquisition of Huntsman at \$28.00 per share and ordered them to make their best ef-

fort to close the acquisition of Huntsman and finance the deal. The court ruled that despite a downturn in the business of Huntsman, no MAE had occurred, and Hexion had breached its obligations to use reasonable best efforts to facilitate the merger. The court ruled that if the transaction is not completed, Huntsman can seek as much as \$3 billion in damages, which will likely result in the bankruptcy of Hexion and extinguish all of Apollo's initial \$1 billion equity investment in Hexion. In a separate court ruling in October 2008, Credit Suisse and Deutsche Bank, the banks financing the deal, were prohibited from filing any lawsuit seeking to declare that the combined Hexion-Huntsman entity would be insolvent.

**"While both Hexion and Huntsman can be successful as separate companies, they cannot now support the debt load that was agreed to at the time the transaction was put together," -**

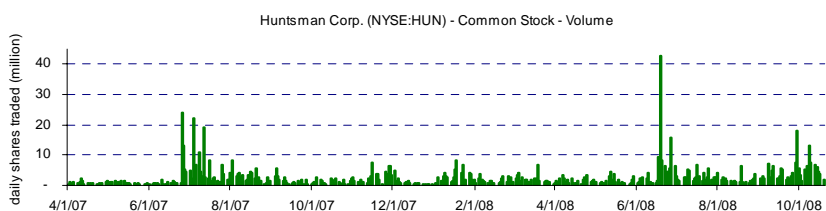
**Craig Morrison, CEO Hexion**

On October 9<sup>th</sup>, to make the debt-heavy capital structure feasible in the current markets, Apollo agreed to contribute \$540 million to Hexion in an effort to as-

sist in closing the acquisition of Huntsman. Apollo also agreed to waive the \$100 million transaction fee it would have received for arranging the deal and suspend for three years the ongoing monitoring fees Apollo would receive from Hexion after completion of the acquisition. This, in addition to the \$416 million offered by Huntsman shareholders to leave in the combined entity, will put nearly \$1 billion in additional equity and largely eliminate any concerns about the company's solvency. Furthermore, since the court ruling both the European Union and the US Federal Trade Commission have completed reviews of the transaction and approved the continuation of the merger.

Based in Columbus, Ohio, Hexion Specialty Chemicals is a leading producer of commodities such as formaldehyde, bisphenol A and epichlorhydrin, as well as formaldehyde-based thermoset resins, epoxy resins and versatic acid and its derivatives. The company is also a supplier of specialty resins for inks and specialty coatings sold to a very diverse customer base. The company reported June 30, 2008 LTM revenue of \$6 billion.

Based in Salt Lake City, Utah, Huntsman Corp. is a global manufacturer and marketer of differentiated chemicals. Its operating companies manufacture products for a variety of global industries. The company reported June 30, 2008 LTM revenue of \$10 billion.



## 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 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](http://www.lincolninternational.com).

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