

Mergers and Acquisitions in the Fine Chemicals Industry

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Outlook in the U.S. M&A Market by Type of Acquirer

Key Considerations in 2008 by Type of Acquirer

PE Firms	<ul style="list-style-type: none">• Still active buyers but at lower valuations due to financing constraints• Segmented market<ul style="list-style-type: none">– Traditional PE firms only have robust interest in high performing businesses– Value funds (hedge funds) with interest in more storied, underperforming deals
Domestic Strategic Acquirers	<ul style="list-style-type: none">• Generally not as aggressive due to declining stock market• Conditions vary by industry<ul style="list-style-type: none">– Challenging industries include:<ul style="list-style-type: none">– Building and construction– Retail– Capital equipment manufacturers– Better performing industries include:<ul style="list-style-type: none">– Business services, including distribution
International Strategic Acquirers	<ul style="list-style-type: none">• Continued globalization, especially within certain sectors<ul style="list-style-type: none">– Niche manufacturing– Chemicals• Growth of emerging economies such as India and China• Continuing U.S. dollar weakness emboldens international acquirers to seek U.S. acquisitions

While overall M&A activity is slowing down, there continue to be many areas of opportunity and activity within several sub-segments and geographies remains strong

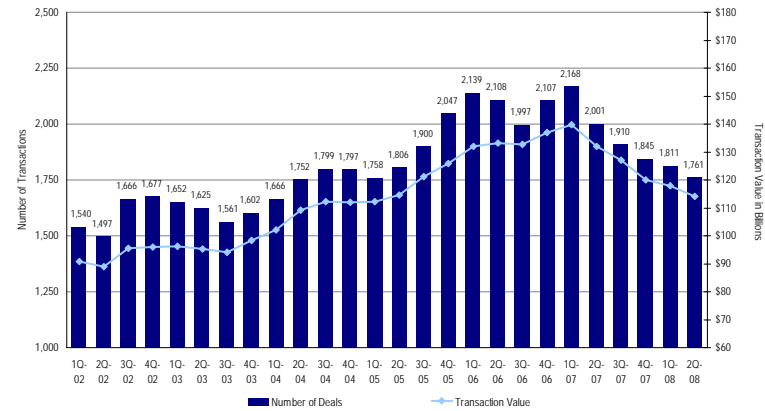
LBO Middle Market Activity

Current conditions in the leveraged loan market influencing M&A activity

Market Dynamics

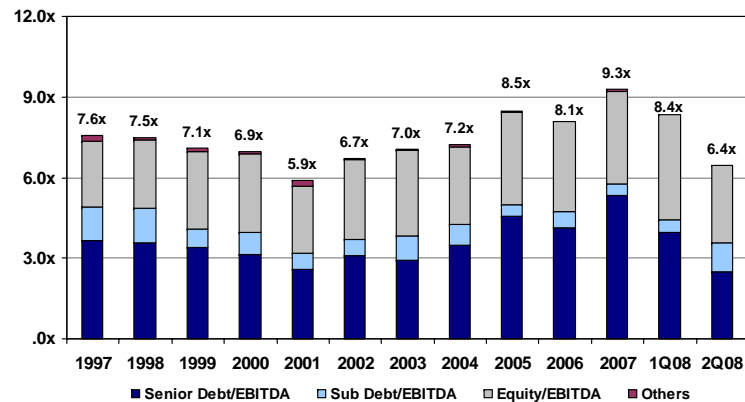
- Equity as a total percentage of capital is at an all time high
- Financial buyers are willing to commit higher levels of equity with a view of refinancing when credit markets recover
- Increased use of seller notes and earn outs bridge the gap between purchase prices and available financing

Middle Market M&A Transaction Volume (Rolling TTM)



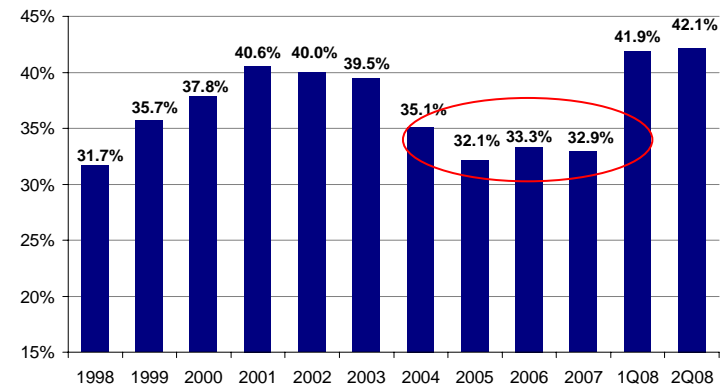
Source: Factset Mergerstat Note: Transaction Values between \$10 million to \$250 million

Average Purchase Price and Equity Contribution by Sponsors for Deals With EBITDA of \$50M or less



Source: Standard & Poor's Leveraged Commentary and Data

Equity as a Percentage of Total Capitalization



Source: Standard & Poor's Leveraged Commentary and Data

Pharma Fine Chemicals: Recent Trends and Their Impact



How do Western Firms Compete Against Asia?

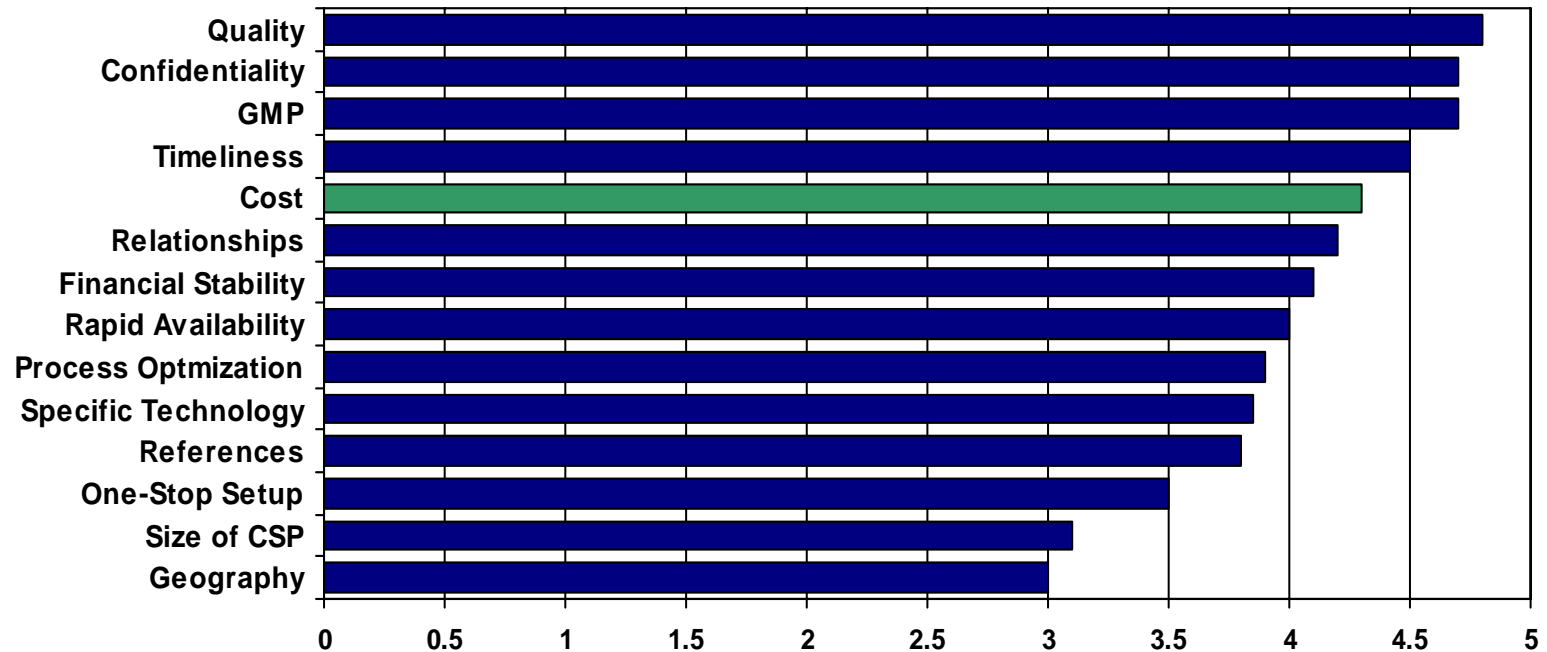
<i>Competition</i>	<ul style="list-style-type: none">• Avoid head-on competition with low cost producers
<i>Trust</i>	<ul style="list-style-type: none">• Become a “trusted development partner”
<i>Expertise</i>	<ul style="list-style-type: none">• Emphasize technical and analytical expertise and know-how• Focus on sophisticated, difficult and / or unusual technologies
<i>Quality and Timeliness</i>	<ul style="list-style-type: none">• Manufacture quality products at quick speeds

Pressure on Western firms has been an important factor driving consolidation

Key Outsourcing Concerns

Importance of Key Factors to the Outsourcing Decision

- Quality of product remains most important factor of outsourcing
 - #1 concern 2006, 2007 and 2008
- Companies are outsourcing to foreign outlets as long as quality remains high and costs remain low
- Though cost is an important factor in the outsourcing decision, it is only #5 on the list; equaling its highest ranking in the past 3 years



Source: *Contract Pharma* magazine's 2008 Annual Outsourcing Survey. Includes Pharma and Biopharma results.

Fine Chemicals Outsourcing

Big Pharma has been shedding manufacturing capacity



14 of the top 20 pharmaceutical companies by revenue have announced divestitures of and/or closures of its manufacturing facilities since beginning of 2007

Big Pharma has been actively taking steps to reduce its manufacturing footprint via outsourcing

According to SOCMA's annual survey, 70% of the participants expect customers to outsource more in the future

The pharmaceutical industry is expected to outsource anywhere from 30% to 50% of its manufacturing going forward

Recent Announcements Confirm Pharma Outsourcing Trend



DrugResearcher.com: "Merck divests API plant; hands out large contract"

02/01/2008 - "Merck & Co. has handed the reins of one of its US active pharmaceutical ingredient (API) manufacturing facilities over to new a owner, who has also secured a lucrative contract manufacturing deal with the drug giant. The closure of the sale of the facility, located in Riverside, Philadelphia, was announced yesterday by the proud purchaser, PRWT Services."



Time Online "AstraZeneca to outsource manufacturing"

9/17/2007 - "AstraZeneca, Britain's second-largest pharmaceutical company, is planning to outsource all its drug manufacturing activities within ten years. David Smith, AstraZeneca's executive vice-president of operations, said that the company aimed to become a pure research, development and marketing organization. 'Manufacturing for AstraZeneca is not a core activity,' Mr. Smith said. 'AstraZeneca is about innovation and brand-building . . . There are lots of people and organizations that can manufacture better than we can.'"



DrugResearcher.com: "Pfizer to continue with manufacturing cuts"

04/22/2008 - "U.S. drug giant Pfizer plans to close or sell off an additional 13 manufacturing facilities as part of an effort to cut its number of production plants to 44 by the end of 2009. CFO Frank D'Amelio explained that Pfizer was able to employ such an approach because it has 'a wide array of outsourcing opportunities at various stages of implementation.' Pfizer's plan will be a further boost for the contract manufacturing sector, which have benefited from 'big pharma's' move towards outsourcing."



DrugResearcher.com: "GSK to strip down through outsourcing and offshoring"

10/26/2007 - "GlaxoSmithKline (GSK) is planning to strip itself down closer to the bare bones of the business through further outsourcing and offshoring... As with most pharma firms in today's tough business climate, GSK has already been embracing outsourcing and offshoring to a certain extent in order to tighten its purse strings, however, as more parts of the business are seeing the fruits of this strategy, the firm is stepping up its resolve in this regard."



Company Press Release (3/11/2008): "Nycomed and Cadila Healthcare have signed a letter agreement with the intent to amend their existing joint venture agreement to include the chemical production of active pharmaceutical ingredients (APIs) by the joint venture company Zydus Nycomed in India. Based on this agreement, Nycomed plans to transfer the current chemical production from the sites in Linz (Austria) and Singen (Germany) to the new joint venture within the next three to four years."

Three Commonly Observed Buyer Categories

Western Strategic

- Western Firms have been both buyers and sellers
- Seeking niche or add-on acquisitions
- Focus on technologies or capacity expansions
- Also may seek regulatory advantages

Asian

- Emerged as buyers in 2005
- Fine chemicals firms usually seeking customer or technology acquisition
- Generic pharmaceutical firms seeking to in-source fine chemicals production

Private Equity

- Often independent; may work with an industry executive or expert
- Seek platforms for further acquisition
- Typically have a 2 – 4 year hold period, then seek to exit their investment
- Require significant acquisition financing

Transaction Volume Remains Strong

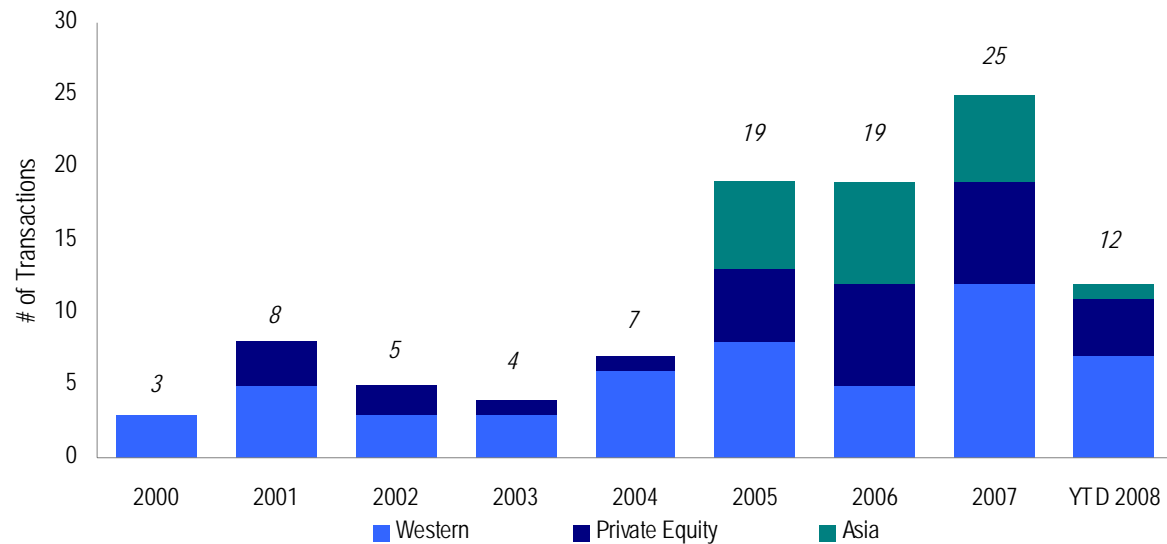
Past Transaction Struggles

- Tough M&A Market as well as difficulty in the Fine Chemical Market from 2000-2004
- Weak drug approvals, excess custom manufacturing capacity, rising competition from India and China, and less outsourcing

Mid-2000's Market Momentum

- M&A conditions improved
- Indian firms flooded the market
- Big Pharma outsourcing trend

Fine Chemical Transactions by Buyer Category



Source: Lincoln International

Recent Announcements Confirm Fine Chemical Acquisition Trend



Lonza

"Lonza is looking to acquire in the Bioscience and Life-Science areas" – Stephan Borgas, 07/24/2008

- Sold three subsidiaries and acquired two companies in the past twelve months, including the acquisition of Amaxa Biosystems, a biotechnology manufacturer



SIGMA-ALDRICH

Goldman Sachs Research Report 03/24/2008 "Sigma-Aldrich expected to make bolt-on buys in 2008"

–The company anticipates, materials science, contract research services, analytical services, and pharma services to be key growth areas.

- Five acquisitions in the past 24 months, including the acquisition of Advanced Separation Technologies, Inc.



Daiichi-Sankyo

June 2008 announced acquisition of Ranbaxy Laboratories of India for approximately \$4.5 billion. Ranbaxy is the largest Indian pharmaceutical firm in sales and Ranbaxy had acquired seven companies in the past 18 months.

- Also announced the pending acquisitions of a division of Merck Pharma GmbH and U3 Pharma AG



**AMPAC™
FINECHEMICALS**

12/14/2007 – Announced retention of Lincoln International to assist in seeking acquisitions



DR. REDDY'S

April 2008 announced the acquisition of BASF Chemical's Contract Manufacturing Business and Related facilities for \$39.8 million and acquisition of Dowpharma's small molecules business in Mirfield and Cambridge, United Kingdom.

- Announced six acquisitions in 2008



ALBEMARLE®

07/08/2008 – Albemarle Corporation has signed a global agreement with Dr. Reddy's that appoints Dr. Reddy's as a non-exclusive distributor of Albemarle's bulk ibuprofen API. Dr. Reddy's will market, sell and distribute the API to its global client base.

- Announced six acquisitions in the last twelve months, including the acquisition of DSM Pharma Chemical



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Fine Chemical Valuation

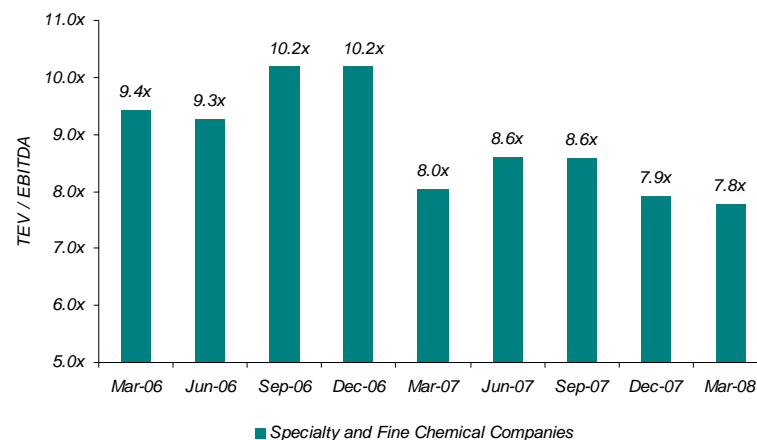
Fine Chemical Transaction and Public Company Comparables

Date	Target Company	Acquiring Company	Transaction Value	Multiple		
				Revenue	EBITDA	EBIT
Jan-08	FineTech Laboratories	RxElite Inc.	\$19	3.2x	NA	NA
Nov-07	Evotec (Chem and Pharma Dev. Buisiness)	Aptuit, Inc.	64	1.7x	NA	NA
Sep-07	PPG (Fine Chemicals Business)	Zambon Group SpA	65	0.7x	5.4x	11.0x
Jun-07	HollisterStier Laboratories	Jubilant Organosys Ltd.	122	2.2x	11.2x	NA
Jan-07	Groupe Novasep	Gilde Investment Management	553	1.5x	7.9x	15.9x
Oct-06	Cambrex Corp. (Bioproducts / Biopharma)	Lonza Group AG	460	2.4x	NA	NA
Jun-05	Aerojet Fine Chem.	American Pacific	119	1.8x	10.8x	NA
		Average		1.9x	8.8x	13.5x
		Median		1.8x	9.4x	13.5x

Current Revenue and EBITDA Multiples

	Enterprise Value / LTM		Enterprise Value / 3-Year	
	Revenue	EBITDA	Avg. EBITDA	High EBITDA
Albemarle Corp.	1.8x	10.5x	12.4x	10.6x
American Pacific Corp.	1.0x	4.6x	12.0x	4.8x
Cambrex Corp.	1.2x	5.6x	7.1x	5.8x
Chemtura Corporation	0.7x	6.5x	6.5x	6.3x
Daicel Chemical Industries Ltd.	0.8x	5.8x	6.7x	5.8x
Lonza Group AG	3.3x	14.4x	19.0x	14.4x
PCAS SA	0.6x	5.1x	6.3x	5.1x
Recordati SpA	1.5x	5.9x	7.9x	6.5x
Siegfried Holding AG	1.7x	10.1x	9.1x	8.5x
Sigma-Aldrich Corp.	3.7x	13.5x	15.3x	13.9x
Mean	1.6x	8.2x	10.2x	8.2x
Adjusted Mean¹	1.5x	7.9x	9.6x	7.8x
Median	1.3x	6.2x	8.5x	6.4x

Enterprise Value / EBITDA



Note: Specialty and Fine Chemical Companies are listed in the 'Current Revenue and EBITDA Multiples' table

Conclusion

Market

- The global fine chemicals market is large and highly fragmented

M&A Activity

- M&A activity in recent years has increased, driven primarily by the emergence of Asia and evolving trends among the customer base

Debt Market

- U.S. loan market conditions have adjusted to historically normal levels but mid-market M&A continues to be active

Long-Term Trends

- Further rationalization among Western firms
- Continued growth of Asian firms
- Increased outsourcing trends among big pharma customers