

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,

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