

# **OUTLOOK 2007 + MERGERS & ACQUISITIONS THE COMING WAVE**

**ISM Chemical Group Spring Conference  
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# Forecasts from February 2006

## Forecasts:



**Another year of strong profits**



**Commodity stocks to move higher as investors realize good times are not over yet**



**Specialty chemicals will finally have their day as price increases go through**

## Verdict:



**True**



**Mixed**



**On the money!**

# Is Goldilocks Alive and Well?



- Supply/demand tight after years of underinvestment
- Specialty chemical profits surging
- Middle East capacity delays
- Steady demand growth with consensus US GDP forecasts of 3% for 2007
- Fed rate hikes halted – a cut to come?

# The Three Bears

- New global capacity coming on in China and the Middle East
- Slowdown in US and global economy
- Energy and feedstock price spikes



# Wall Street Crystal Ball

	E2007	% Change	Stock price*	P/E**
Dow Chemical	\$3.99	-6%	\$42.02	10.5x
Lyondell	\$3.65	8%	\$30.25	8.3x
Huntsman	\$1.64	14%	\$20.65	12.6x
Nova	\$3.17	116%	\$31.22	9.8x
Eastman	\$4.29	-14%	\$58.60	13.7x
Celanese	\$2.96	-1%	\$28.37	9.6x
Georgia Gulf	\$1.88	-35%	\$20.89	11.1x
DuPont	\$3.19	11%	\$51.07	16.0x
Rohm and Haas	\$3.58	4%	\$54.45	15.2x
Hercules	\$1.40	14%	\$20.07	14.3x
Chemtura	\$0.59	69%	\$11.67	19.8x
Albemarle	\$4.67	16%	\$81.78	17.5x

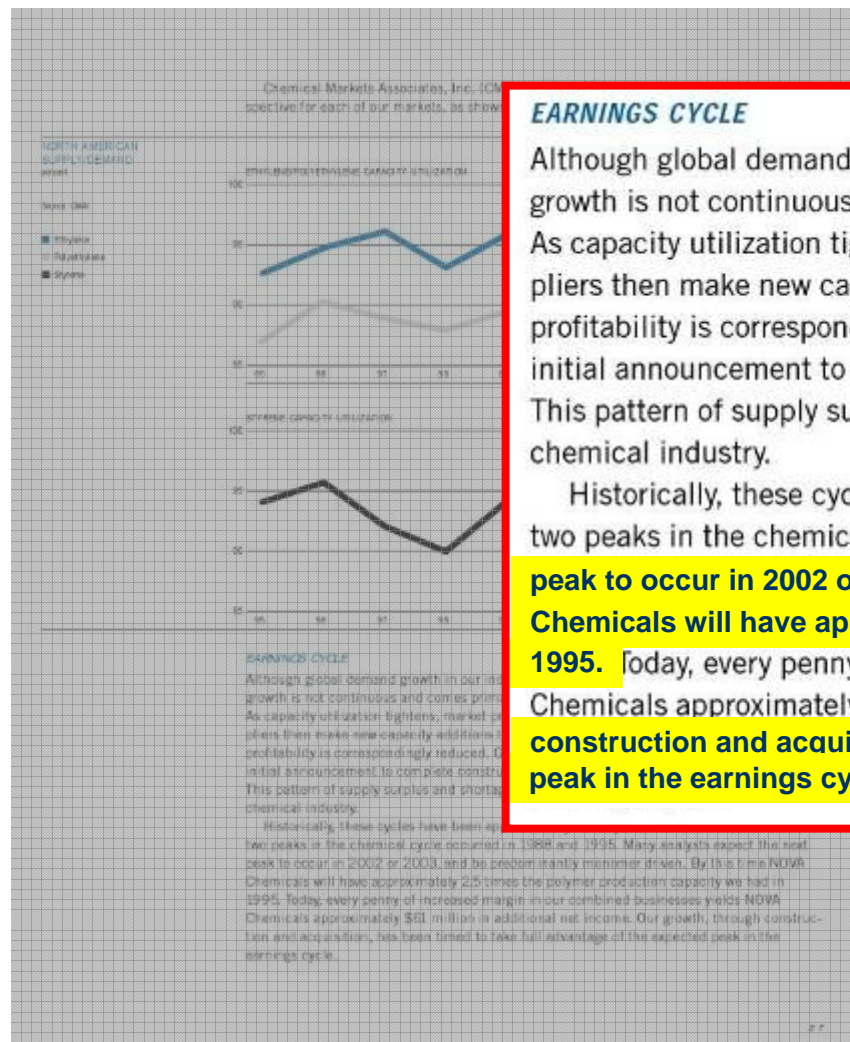
Source: Yahoo! Finance

\*Prices as of close of Feb. 9, 2007

\*\* Based on estimated 2007 EPS

# Prior Projections in 2000

## Why the Peak Never Came in 2002-2003



Source: Nova Chemicals

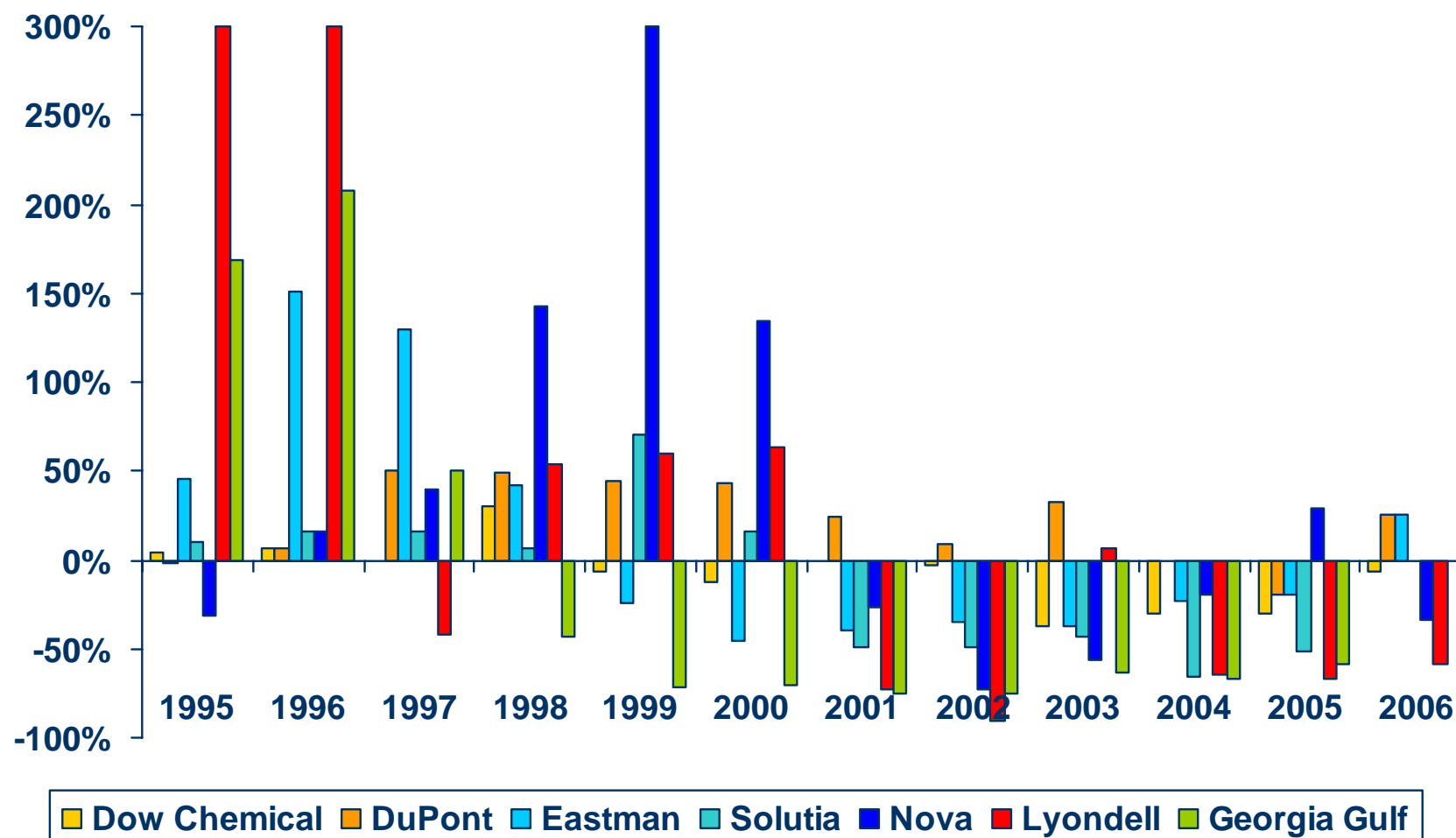


# Why a Crushing Downturn is Unlikely

- North American producers have vowed never to build new capacity
- High natural gas prices derail justification
- Companies hoarding cash

# Capital Spending as % of Depreciation

## Major/Commodity Chemicals



Source: CMR



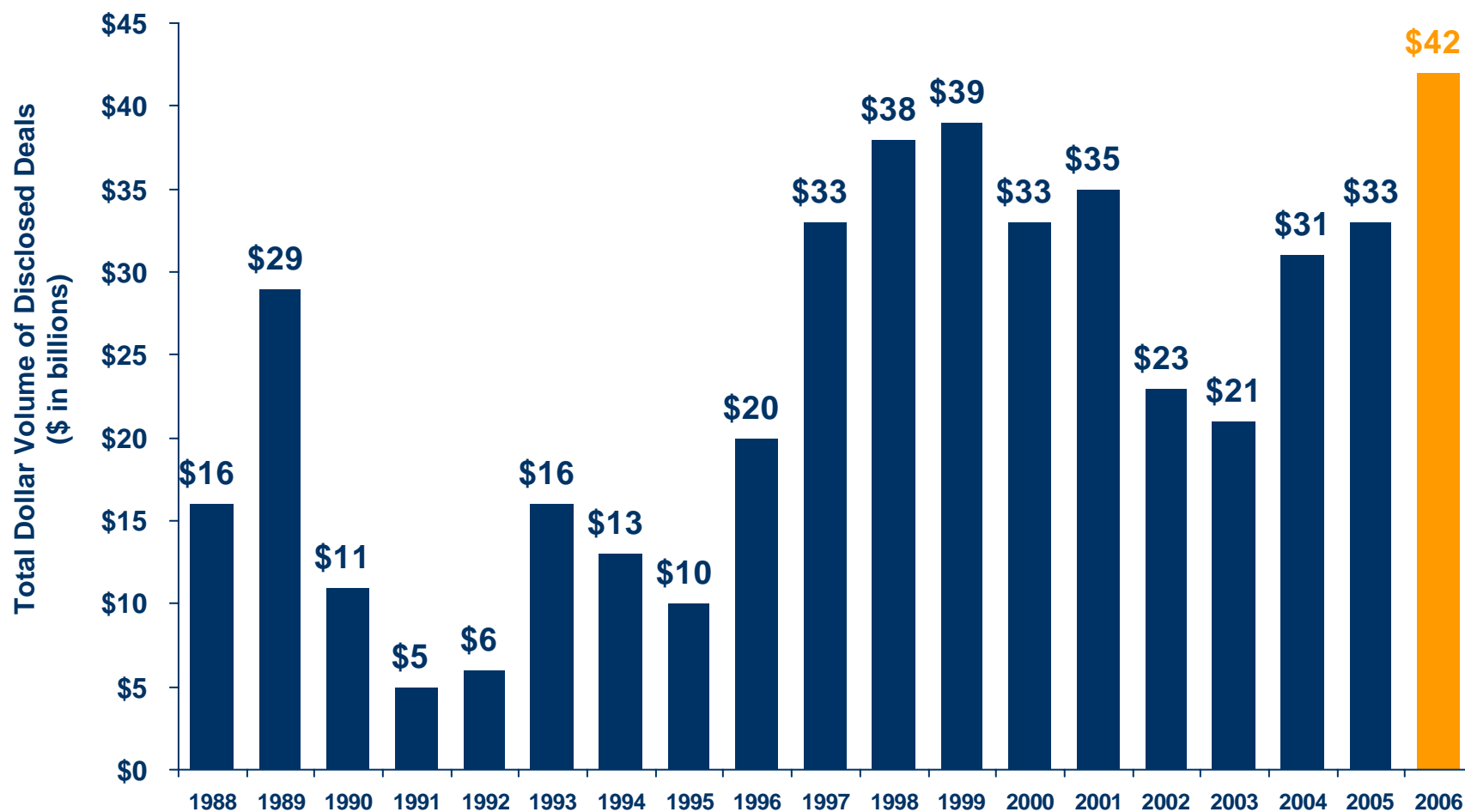
# Predictions 2007

- Commodity chemical companies will post surprisingly solid profits as the downcycle is delayed
- Commodity stock prices to rise
- Specialty chemical firms to continue earnings momentum. Stocks of laggard companies catch up to leaders.
- Private equity attempts to take public companies private!

A surreal illustration of a man in a business suit surfing on a giant dollar bill that is riding a massive wave. The man is holding a briefcase and has a small dinosaur-like tail. The background is a sunset sky. The text 'Mergers and Acquisitions' is in blue and 'The Coming Wave' is in orange, both with a drop shadow.

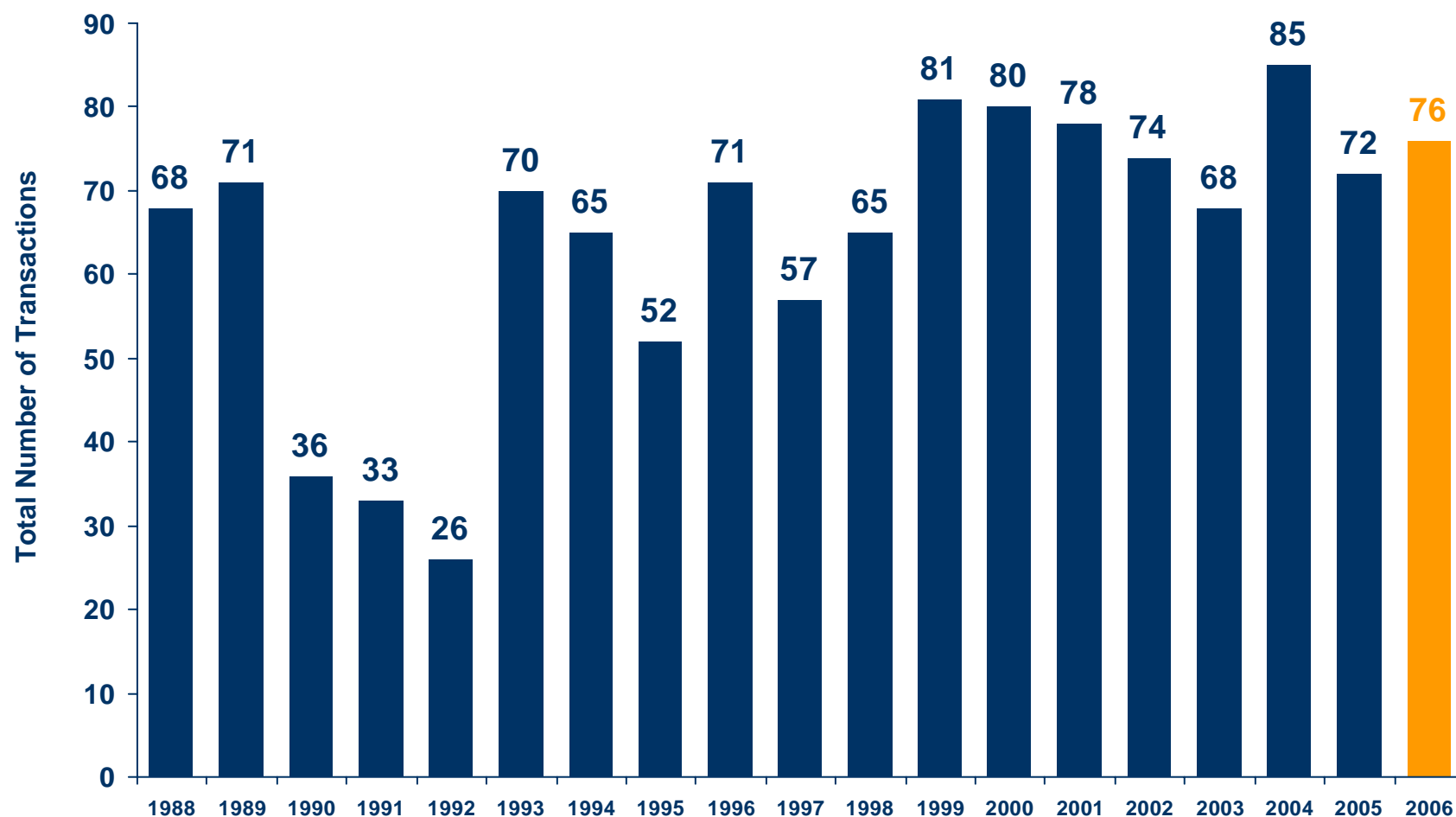
# Mergers and Acquisitions The Coming Wave

# Global Chemical Industry M&A



Source: Young & Partners.

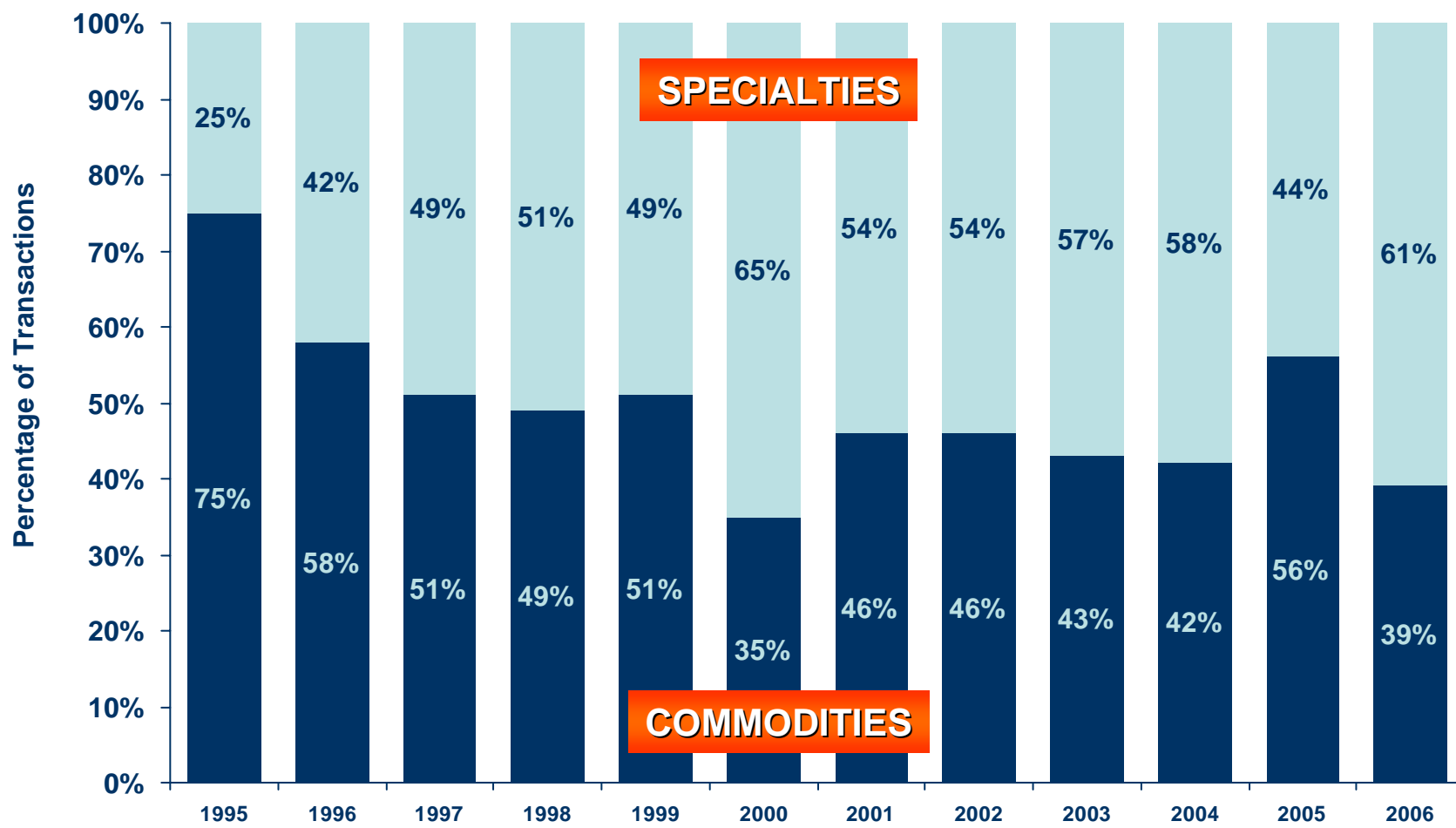
# Number of Deals



*Note: Only deals >\$25m.*

*Source: Young & Partners.*

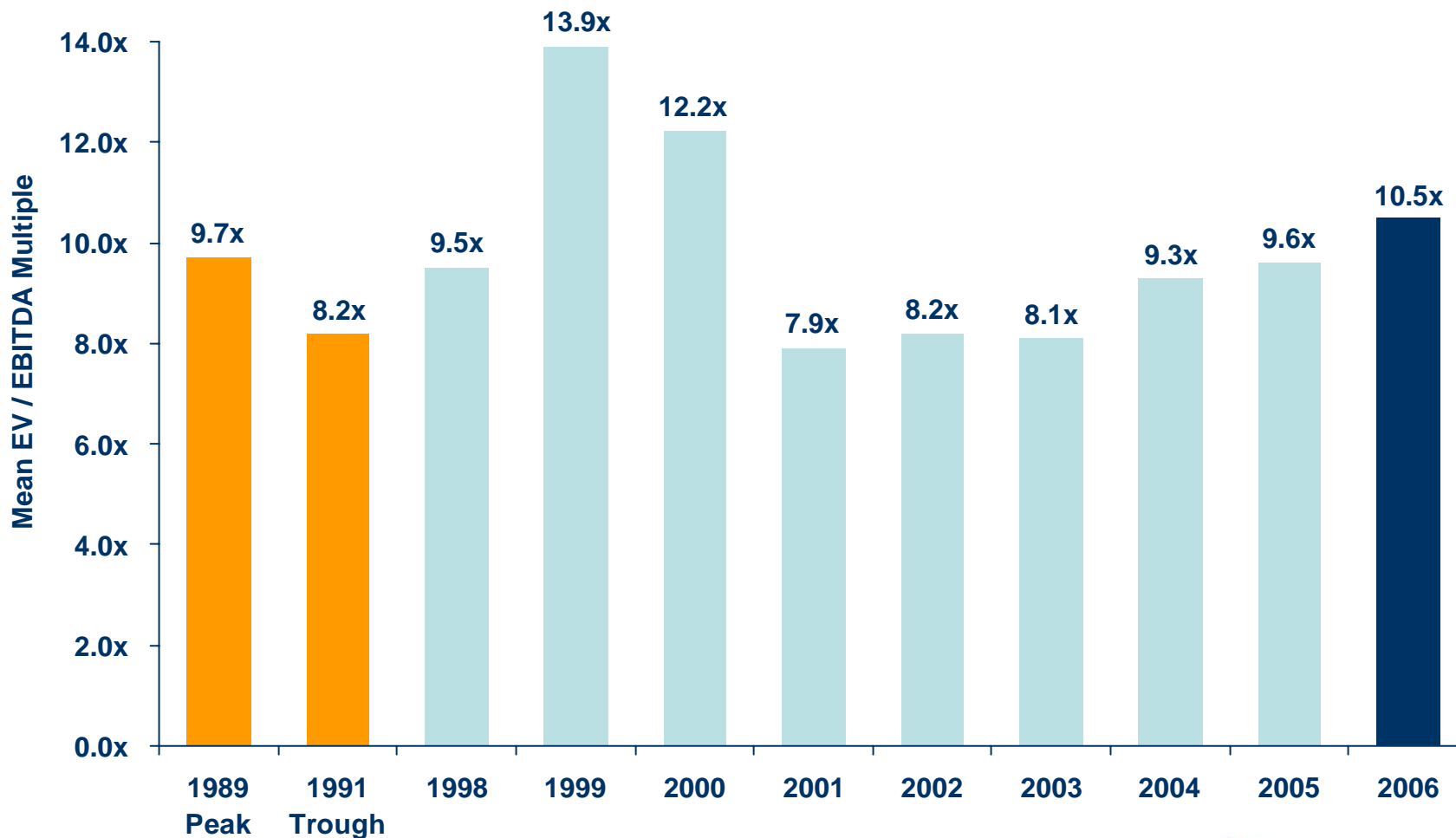
# Specialties In, Commodities Out



Source: Young & Partners.

# Valuations Rise

## Specialty Chemical Transaction EBITDA Multiples



Source: Young & Partners.

# Hot Sector: Coatings

Buyer	Target	Geography	Price
PPG Industries	Ameron's coatings business	US, Europe, Australia, New Zealand	\$115m
PPG Industries	Spectra-Tone Paint	US	N/A
PPG Industries	Protec	New Zealand	N/A
PPG Industries	Shanghai Sunpool Building Material	China	N/A
PPG Industries	50% Dongju Industrial	Korea	N/A
Akzo Nobel	Flood Company	US	N/A
Akzo Nobel	Sico	Canada	\$254m
Akzo Nobel	Balakom	Czech Republic	N/A
Nippon Paint	Rohm and Haas' auto coatings	US	\$220m
Valspar	Huarun Paints	China	\$290m

Source: ICIS Chemical Business Americas.





# Hot Sector: Fine Chemicals

## Then and Now

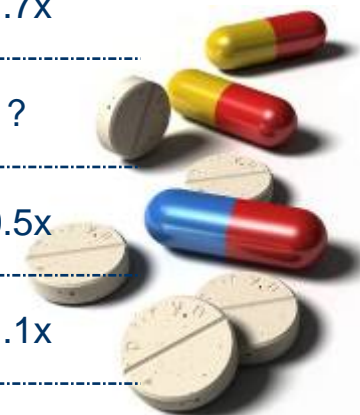
### THEN: GROWTH AT ANY PRICE

Date	Acquirer	Target	Price	Price/Sales
May-98	AlliedSignal	Pharmaceutical Fine Chemicals	\$390m	3.5x
Feb-00	Clariant	BTP	\$1.8bn	3.0x
Feb, Mar-00	Solutia	CarboGen, Amcis	\$118m	3.9x
Jul-00	Rhodia	ChiRex	\$545m	3.7x

### NOW: FIRE SALE

Date	Acquirer	Target	Price	Price/Sales
Nov-05	Ampac	Aerojet Fine Chemicals	\$114m	1.7x
Mar-06	Shasun	Rhodia's fine chemicals	?	?
Apr-06	TowerBrook Capital	Clariant's fine chemicals	\$89m	0.5x
May-06	Dishman	Solutia's pharma services	\$74.5m	1.1x

Source: ICIS Chemical Business Americas.

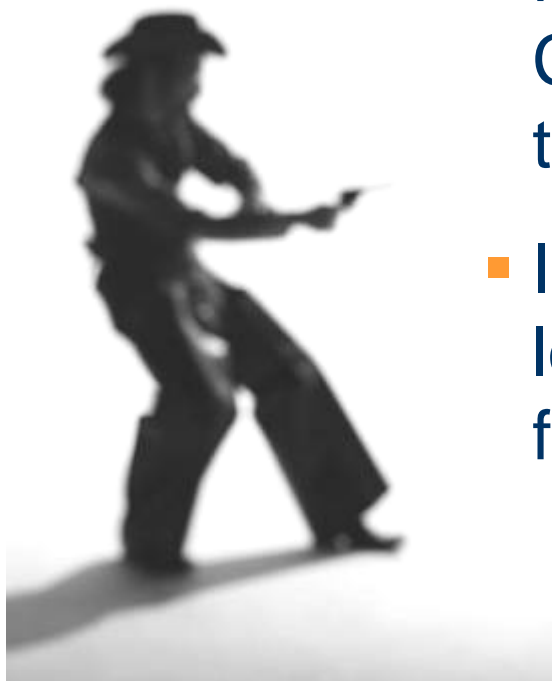


# The Coming Wave

## Finger on the LBO Trigger

### ACT ONE

- MacDermid CEO and Court Street Capital Partners bid \$32.50 per share to take company private
- Initial buyout multiple of 9.1x EBITDA, lower than the average of 10.5x EBITDA for specialty deals in 2006



# Going Private: Key Ingredients

- Low public valuations
- Disagreement with consensus view
- Abundant financing at low rates
- Private equity cash seeking deals



# Wrestling With Consensus



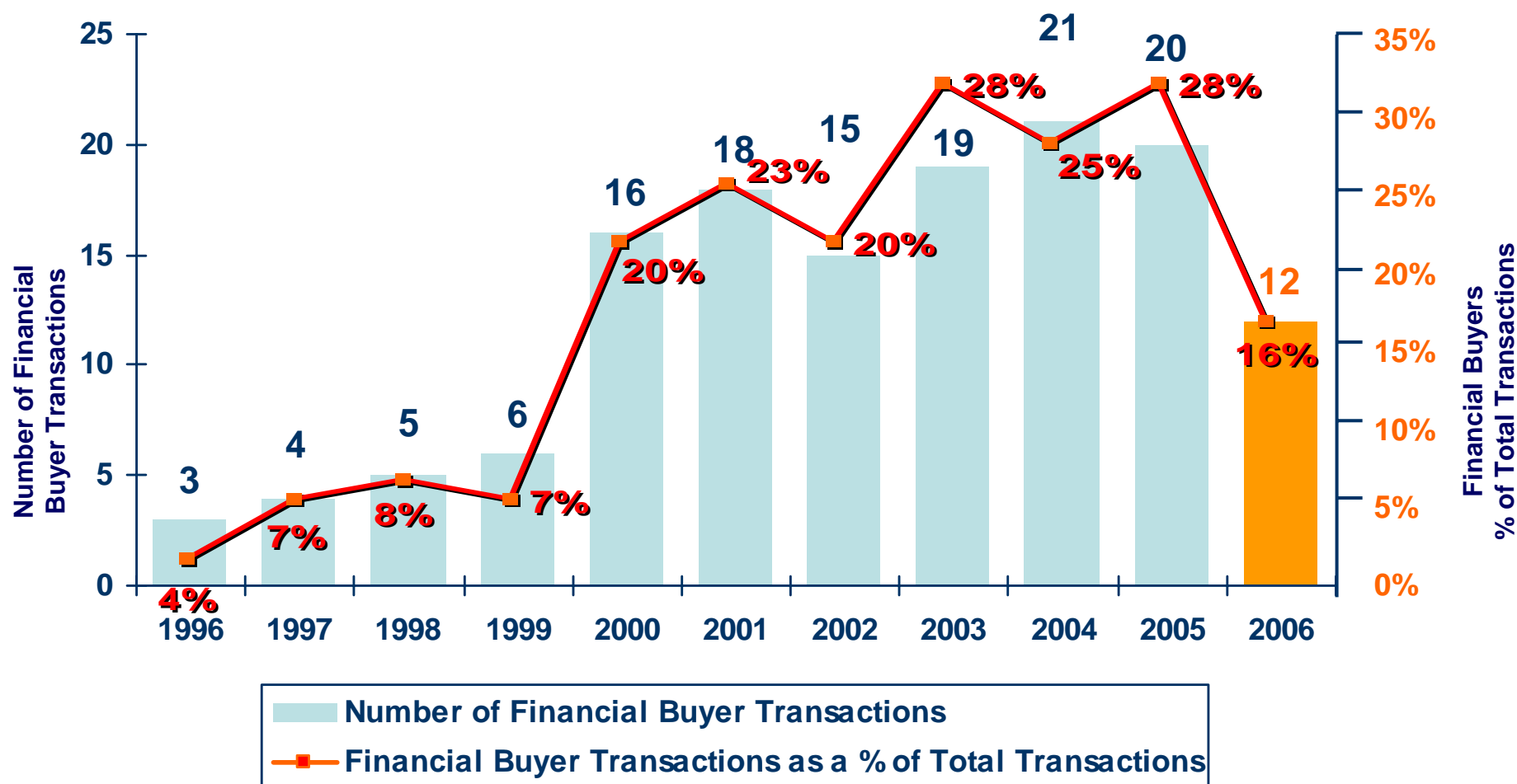
## CONSENSUS VIEW

- US and global economy to slow in 2007.
- Commodity chemical cycle has peaked and is headed down. Coming Asian and Middle East capacity will quash margins.

## SOME MANAGEMENTS DISAGREE!

- Little domestic capacity set to come on line. Tightness to continue in the years ahead. Strategy of portfolio restructuring will bear fruit.

# Financial Buyers Lose Share



Source: Young & Partners.

# Recent Financial Buyer Deals

Buyer	Target	Price
Apollo Management	GE Advanced Materials	\$3.8bn
BC Partners	Brenntag	\$4.1bn
Wendel Investissement	Groupe Materis	\$1.27bn
One Equity Partners	Columbian Chemicals	\$600m
AXA Private Equity	Eliokem	\$166m
Sun Capital Partners	Lubrizol's specialty businesses	\$270m
TowerBrook Capital	Clariant's fine chemicals	\$89m
Lion Chemical Capital	Chemtura's EPDM and rubber chemical assets	\$163m
Close Brothers Private Equity	Chemtura's industrial water additives	\$85m

Source: ICIS Chemical Business Americas.

# Private Equity Warchest



- Blackstone \$15.6bn (closed)
- Carlyle Group \$15bn (pending)
- Goldman Sachs \$19bn (pending)
- KKR \$15bn (pending)
- Texas Pacific \$15bn (pending)
- Permira (UK) \$14bn (closed)

*Source: Private Equity Analyst, The Wall Street Journal.*



# Who Will be the Next LBO Target?

Company	Stock Price	LBO Valuation*	% Upside
Lyondell	\$25	\$42	64%
Celanese	\$18	\$29	60%
Nova	\$33	\$53	59%
Olin	\$16	\$24	50%

*\*Valuation under “New School” scenarios #3 and #4.  
Source: BB&T Capital Markets.*



# Pioneer Companies

## An LBO Analysis

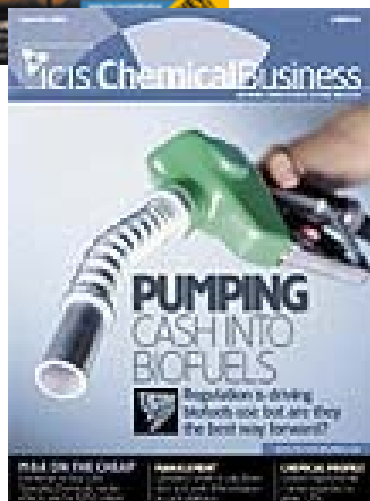
- Stock price: \$25
- Market cap: \$290m
- Net debt: \$53m
- Enterprise value (EV): \$343m
  
- Free cash flow (FCF) 1H 2006: \$40.8m
- Annualized free cash flow: \$80m
  
- $EV/FCF = 4.3x$

*Source: ICIS Chemical Business Americas.*

# M&A Conclusion

- Record M&A activity in 2007
- Consolidation to continue in coatings and fine chemicals
- LBOs of public chemical companies – commodities and specialties

# Thank You!



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