



Chemical Industry



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Perspective on first quarter 2011 deal activity:

The Chemical Industry had a strong first quarter as many companies had strong volume growth, increased capacity utilization and higher margins. As shown in figures 1 and 2 on the following page, chemical companies have successfully weathered the storm and have begun to approach pre-downturn levels of profitability with quarterly revenues and EBITDA for the industry increasing since 2010, and approaching 2008 levels. Benefiting from the stability of the macroeconomic environment, chemical companies have begun to regain confidence in their future financial performance and their ability to pursue long term strategic objectives. Chemical companies are now poised to take advantage of their strengthened balance sheets (as shown in figure 3) as well as the improved financing environment to pursue strategic acquisitions. Private equity groups have also regained their appetite for chemical acquisitions due to the improved performance of chemical companies and the increased availability of credit.

Improved business conditions have had a considerable impact on merger and acquisition activity. According to CapitalIQ, in the twelve month period ending December 31, 2010 there were 735 transactions announced in the chemical industry with a total value of approximately \$56.5 billion (excluding transactions with undisclosed values). These figures represent an improvement of 31.7% in the number and 213.9% in total value of transactions when compared to 2009. The transaction momentum in 2010 has continued in Q1 2011 with 217 announced transactions with a disclosed value of \$21 billion. When compared to the quarterly average for 2010, Q1 2011 represented increases of 41.8% and 90.9% in announced transactions and transaction values, respectively.

With the recovery of the M&A markets, several themes have emerged as industry players seek to utilize acquisitions and divestitures to further their corporate strategies. Themes that have played a prominent role in recent transaction activity include:

Increased Private Equity Activity:

U.S. based private equity groups had amassed nearly \$500 billion of dry powder by the end of 2010. Additionally, with the economy strengthening and default rates continuing to fall, banks' health and propensity to lend is improving. This has resulted in more aggressive leverage levels, looser covenants and tightening spreads, particularly for companies with EBITDA exceeding \$10 million. Notable private equity deals announced in 2011 include Rhone Capital's acquisition of the carbon black business from Evonik Degussa for €900 million and AXA Private Equity's acquisition of a majority stake in NOVACAP SAS from Bain Capital Private Equity and Rhodia SA for approximately €240 million. These transactions are indicative of a broader underlying trend of increasing interest by private equity groups in acquiring chemical companies.

Specialty Chemicals:

The impact of the economic recession reinforced many company's intentions to focus on specialty chemicals, which provide more stable revenues, attractive margins and a stronger competitive position. Since publicly traded chemicals companies with a focus on specialty chemicals usually trade at higher multiples than companies perceived to offer commodity products, many of the leading chemicals companies are seeking to reconfigure their product portfolio by acquiring companies with attractive technologies and strong positions in specialty markets and divesting businesses offering less specialized or commodity products. Some notable specialty chemical deals (other than Rhodia) announced in 2011 include Berkshire Hathaway's acquisition of Lubrizol Corporation for \$8.8



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billion, Solvay SA's acquisition of Rhodia SA for €3.9 billion, Clariant AG acquisition of a 96% stake in Sud Chemie from One Equity Partners and SC-Beteiligungsgesellschaft for €1.4 billion, and Imerys SA's acquisition of Luzenac Europe from Rio Tinto for \$340 million.

Growth of Emerging Markets

The increasing economic importance of China and other East Asian countries coupled with the anemic economic recovery in developed nations and expected higher growth rates in developing economies, have contributed to create a strong interest in investing in developing countries. A number of western companies have shown an interest in making acquisitions in China, India and Brazil, or making significant investments to build capacity in East Asia. Examples this year include RPM International Inc. acquiring a 23% stake in Kemrock Industries & Exports (based in India) for \$45 million and PolyOne Corporation acquiring Uniplen Indústria De Polímeros (based in Brazil) for \$21 million.

Selected Q1 2011 Chemicals M&A Transaction Activity

Announced deal volumes and transaction value during the first quarter of 2011 were up significantly from the first quarter of 2010. Deals announced in Q1 2011 numbered 217, compared to 153 in 2010. Announced transaction value for Q1 2011 was \$21.0 billion, a significant increase from \$10.9 billion in 2010.

There were several notable transactions announced in the first quarter, including:

- On March 13, Berkshire Hathaway Inc. (NYSE:BRK.A) reached an agreement to acquire Lubrizol Corporation (NYSE:LZ), a specialty chemical company that produces additives, lubricants and performance chemicals for the transportation, industrial, and consumer markets worldwide. Berkshire agreed to pay \$8.8 billion in cash for 100% of the outstanding shares of Lubrizol. The transaction's enterprise value of \$10.4 billion represents a multiple of 1.7x LTM revenue and 7.5x LTM EBITDA. The transaction is expected to be completed during the third quarter of 2011.
- On January 28, a group of buyers consisting of Aditya Birla Management Corporation, Thai Carbon Black Public Co, SKI Investment and Thai Carbon Black Public (SET:TCB) entered into a definitive agreement to acquire Columbian Chemicals Company from One Equity Partners LLC. Columbian Chemicals Co. manufactures rubber and industrial carbon black products. The purchase price of approximately \$880 million will be entirely debt funded. ANZ, Bank of America, HSBC, RBS and Standard Chartered are participating in the financing of the transaction. The acquisition was completed on June 21, 2011.
- On January 27, Binani Industries Limited (BSE:500059) reached an agreement to acquire Composite Products, Inc., a manufacturer of long fiber thermoplastic composites used in glass fiber filled polypropylene and glass fiber filled nylon. The terms of the transaction were not disclosed.

(Continued on page 4)

Figure 1. Chemical Industry Revenue (\$ in billions)

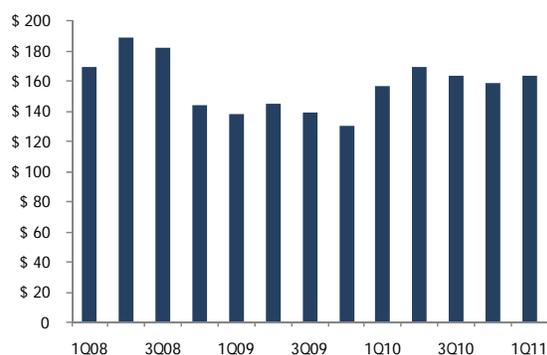


Figure 2. Chemical Industry EBITDA (\$ in billions)

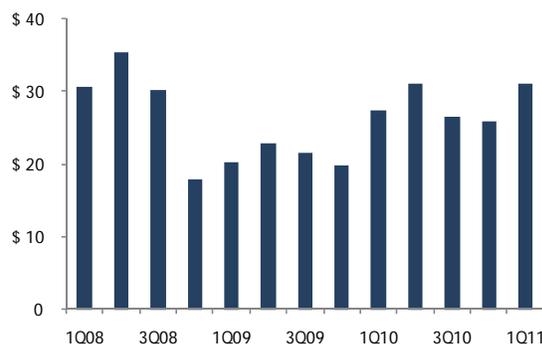
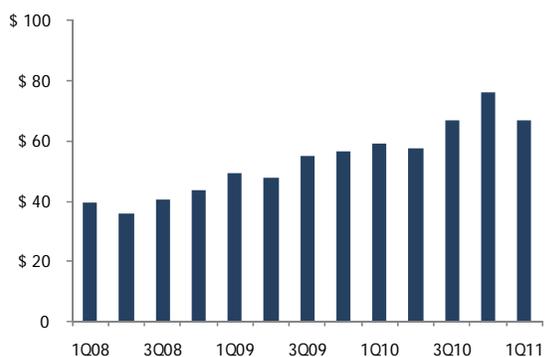


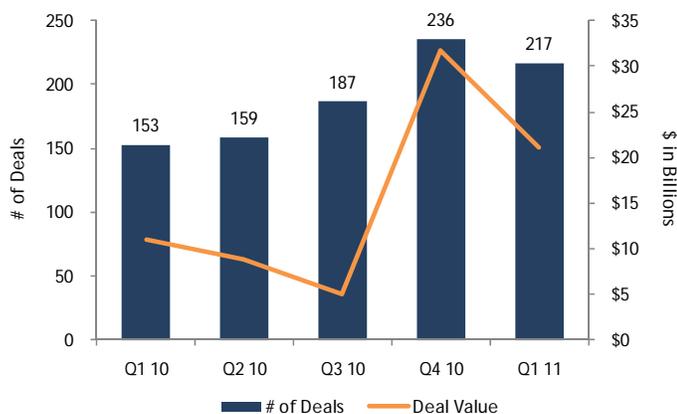
Figure 3. Cash on Balance Sheet (\$ in billions)



Includes public companies in the Dresner Partners Chemicals index
Source: Capital IQ

KEY MARKET STATISTICS - CHEMICALS

M&A Transaction Activity vs. Deal Value



Announced transactions and transaction values
Source: Capital IQ

Most Active Buyers (Last Twelve Months)

Top Buyers by No. of Deals		Top Buyers by Deal Size	
Company Name	No. of Deals	Company Name	Deal Size (\$ mm)
Lanxess AG	4	Berkshire Hathaway Inc.	\$10,367
Indorama Ventures Public Co.	3	Uralkali JSC	8,434
Akzo Nobel NV	2	Solvay SA	7,830
Cargill, Incorporated	2	Sealed Air Corporation	4,418
Coromandel International Ltd	2	Ashland Inc.	3,200
Honam Petrochemical Corp.	2	China National Chemical Co.	2,797
Illinois Tool Works Inc.	2	Clariant AG	2,496
NCI Gestion, S.A.S.	2	China National Bluestar Co.	2,000
Orica Ltd.	2	Honam Petrochemical Corp.	1,508
Origin Enterprises Plc	2	China Lumena New Materials	1,426
Total Top 10	23	Total Top 10	\$44,476

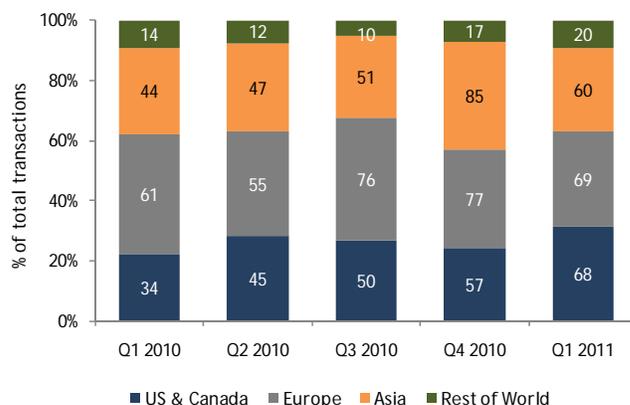
Announced transactions and transaction values
Source: Capital IQ

Public Market Performance



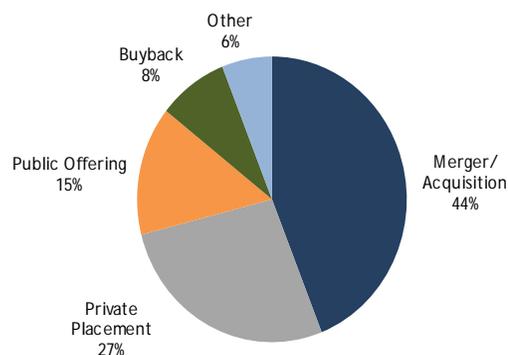
Indexes are market cap weighted
Source: Capital IQ

M&A Transactions by Region



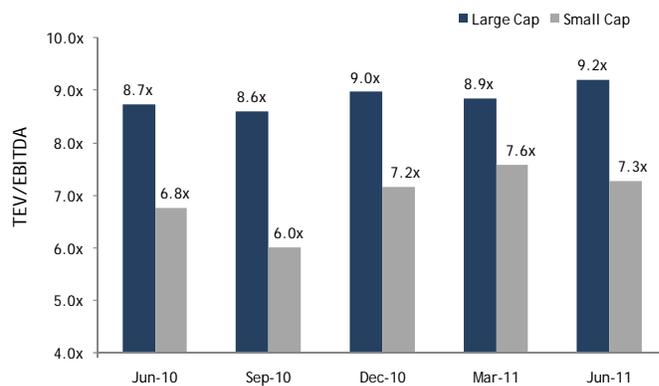
Announced transactions
Source: Capital IQ

All Transactions by Type (Last Twelve Months)



Source: Capital IQ

Enterprise Value/EBITDA (Last Twelve Months)



Large Cap group includes specialty chemical companies with more than \$2.0 billion in market cap
Small Cap group includes specialty chemical companies with less than \$2.0 billion in market cap



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- On January 9, DuPont Denmark Holding ApS entered into a definitive agreement to acquire Danisco A/S (CPSE: DCO), a producer of food ingredients, enzymes, and bio-based solutions. DuPont agreed to pay \$6.6 billion in cash and assume \$500 million of net debt. The transaction's enterprise value of \$7.3 billion represents a multiple of 2.4x LTM revenue and 12.9x LTM EBITDA. The transaction closed on May 16, 2011.

Additionally, a number of notable previously announced transactions closed in the first quarter, including:

- On February 28, Olin Corp. (NYSE:OLN) completed the acquisition of the remaining 50% of Sunbelt Chlor-Alkali Partnership, a producer of produce chlorine, caustic soda, and hydrogen. The transaction enterprise value of \$307 million represents a multiple of 2.0x LTM revenue and 4.4x LTM EBITDA.
- On January 28, H.I.G. Capital completed its acquisition of Cornerstone Chemical Company, a manufacturer of melamine, acrylonitrile, sulfuric acid, and other key intermediate chemicals used in the production of products used in water treatment, oil recovery, agriculture, plastics, furniture, flooring, and performance coatings. The transaction enterprise value of \$180 million represents 0.3x LTM revenue.
- On January 12, Lubrizol Corporation (NYSE:LZ) completed the acquisition of the Performance Products Group of Nalco Co., which produces chemicals relating to personal care, cosmetics and household products manufacturing. The enterprise value of \$164 million represents a multiple of 3.6x LTM revenue.

The DP Diversified and Specialty Chemical Indices have both outperformed the S&P 500 over the last twelve months by 33% and 24%, respectively, with the separation beginning in September 2010 and continuing throughout 2011.

Total enterprise value (TEV)/EBITDA multiples for both large and small cap public specialty chemical companies have trended upward from 2010 levels. The gap between large and small cap public companies has remained around 2.0x TEV/EBITDA, except in Q1 2011 when the gap narrowed to 1.3x.

Methodology:

Dresner Partners Chemicals Index consisted of publicly traded chemical companies in the following indices:

DP Diversified Chemicals: AKZA, ASH, BAS, CBT, DD, DOW, EMN, FMC, HUN, KRA1V, OLN, PPG, SOA, SOLB.

DP Specialty Chemicals: ALB, ARJ, BCPC, CHMT, CHR, CLN, CRDA, CYT, DSM, ECL, ELM, EMSN, FOE, FUL, GIVN, GUR, IFF, IOSP, IPHS, JMAT, KWR, LZ, MTX, NEU, NLC, NZYM B, OMG, OMN, POL, RHA, ROC, RPM, SCL, SHLM, SHW, SIAL, SIK, SUC, SXT, UMI, VAL, VCT, WCH, YULC.

Merger and acquisition transaction values were compiled from Capital IQ based on the Chemical industry classification.

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Dresner Partners is a middle market investment bank founded in 1991, specializing in merger & acquisition advisory, institutional private placements of debt and equity, valuation and financial consulting. We are deeply committed to exceeding client expectations and maintaining the highest levels of integrity. Our experienced professionals have the foresight necessary to navigate through highly complicated transactions to maximize value for our clients.