



Pittsburgh Chemical Day 2017

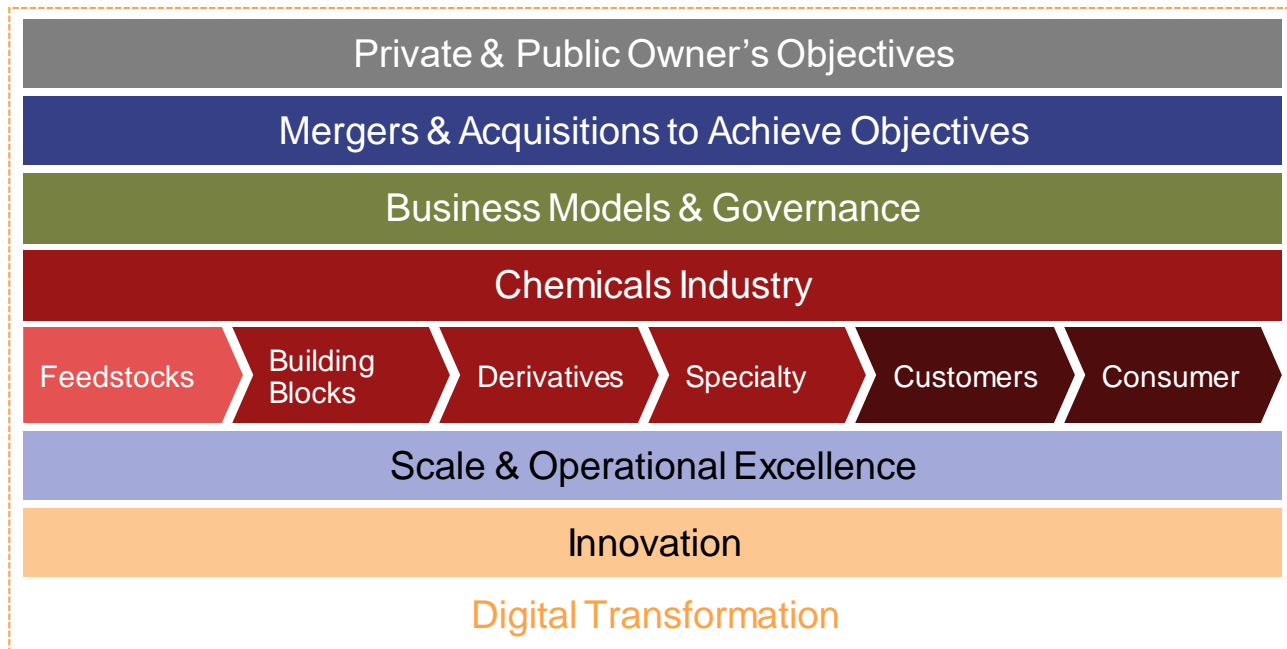
Bridging Scale and Diversification: M&A Outlook for the Chemicals Industry

October 2017

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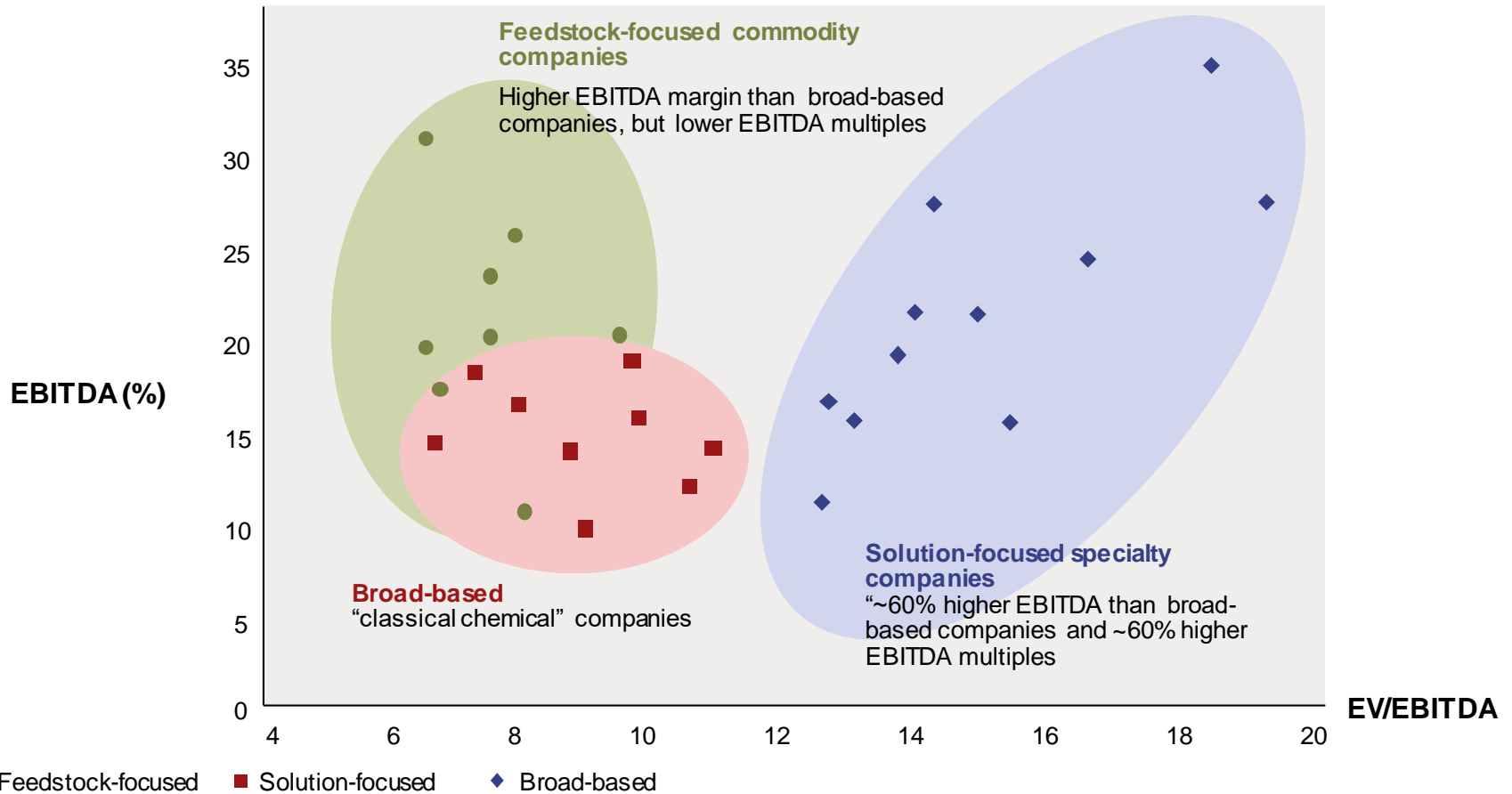
The chemical industry remains in a state of significant transition

Overview of Global Chemical Landscape



Investors are rewarding solution-focused chemicals companies with higher multiples than broad-based companies

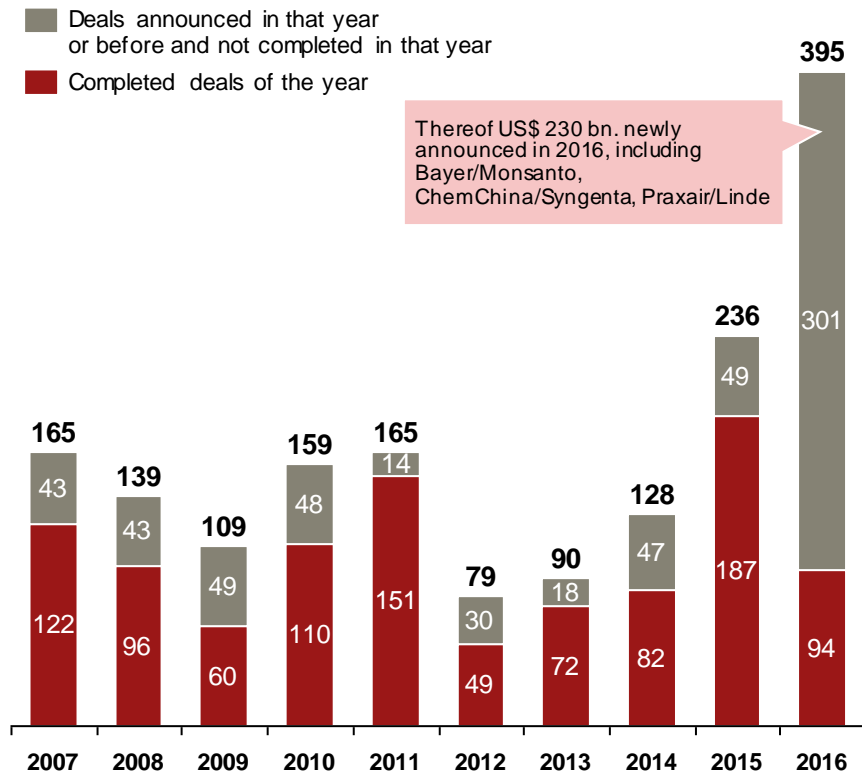
EBITDA % vs. EV/EBITDA multiple of top chemical companies, average 2014-2016



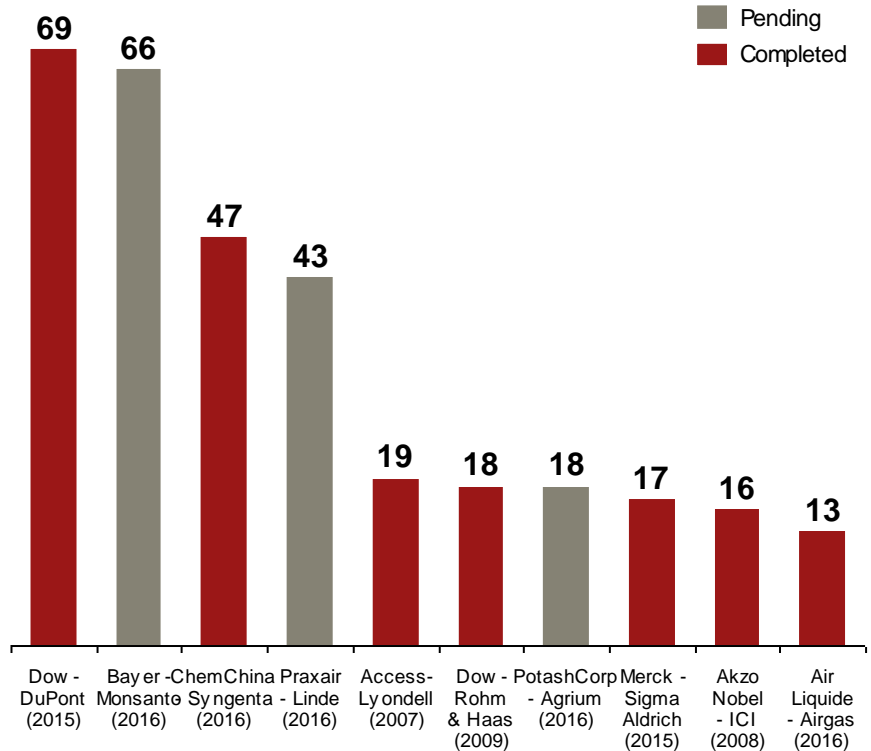
Note: EV is enterprise value. EBITDA is earnings before interest, tax, depreciation, and amortization. Source: Bloomberg, A.T. Kearney analysis

2016 M&A activity reached a new record including a backlog of newly announced deals

Chemical Industry Announced and Pending Deals (\$USD B)

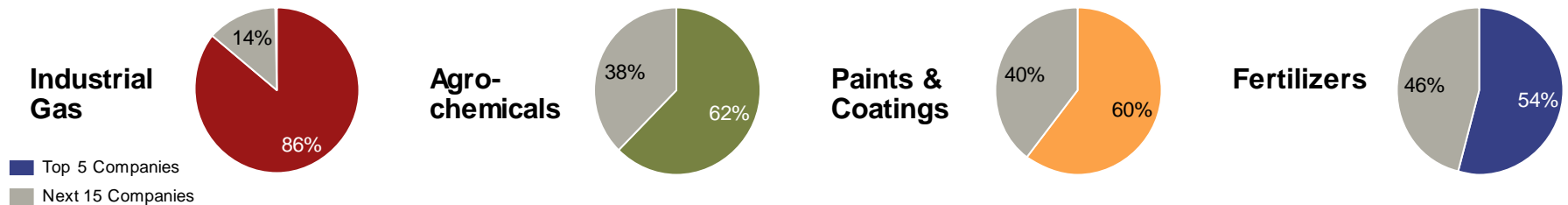


Pending megadeals at the end of the 2016 and other large recent deals (USD bn)



Consolidation in key value chains has been a major theme in global chemicals M&A

Value Chain Consolidation (Revenue Consolidation by Top 20 Companies)



Top Companies and FY 2015 Revenues²

■ ■ ■ ■ M&A Announced with Deal Value >\$1bn as of 1Q17

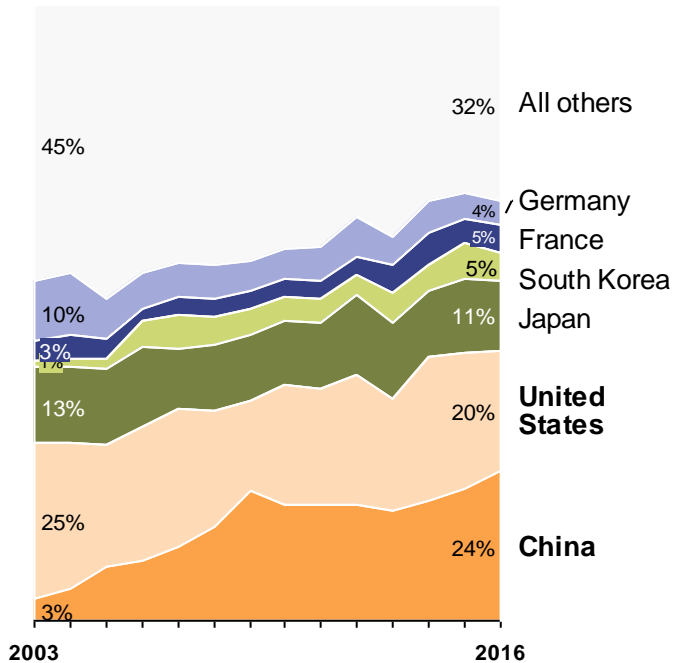
Company	Revenue (\$ bn)	Company	Revenue (\$ bn)	Company	Revenue (\$ bn)	Company	Revenue (\$ bn)
Air Liquide	23.3	Monsanto	15.0	PPG Industries	14.2	China Co-op Group	21.7
Linde	22.3	Syngenta	13.4	AkzoNobel	10.9	Agrium	14.8
Praxair	10.8	Bayer Crop Science	11.3	Sherwin-Williams	10.2	Yara	10.2
Air Products	8.6	DuPont Agriculture	9.8	RPM International	4.6	Mosaic	8.9
Taiyo Nippon Sanso	4.7	Dow Ag. Sciences	6.4	Nippon Pain	4.5	Yunnan Yuntianhua	7.7
Air Water	2.7	BASF Ag. Solutions	6.4	Valspar	4.4	PotashCorp	5.8
Westfalen	1.8	FMC	3.3	Axalta	4.1	Israel Chemicals	5.4
Messer Group	1.3	Sumitomo Ch.	3.2	BASF Coatings	3.6	OCP	4.8
Yingde Gases	1.2	ADAMA	3.0	Kansai Paint	2.9	CF Industries	4.3
SOL Group	0.8	Nufarm	2.0	Asian Paints	2.3	SinoFert Holdings	4.0

1. Company allocation to segments defined by Capital IQ classifications and industry reports, followed by manual screening; Agrochemicals and Fertilizers split into separate segments;
 2. Segment specific as far as available, based on Capital IQ or Coatings World;
 Source: Capital IQ, CoatingsWorld, A.T. Kearney analysis

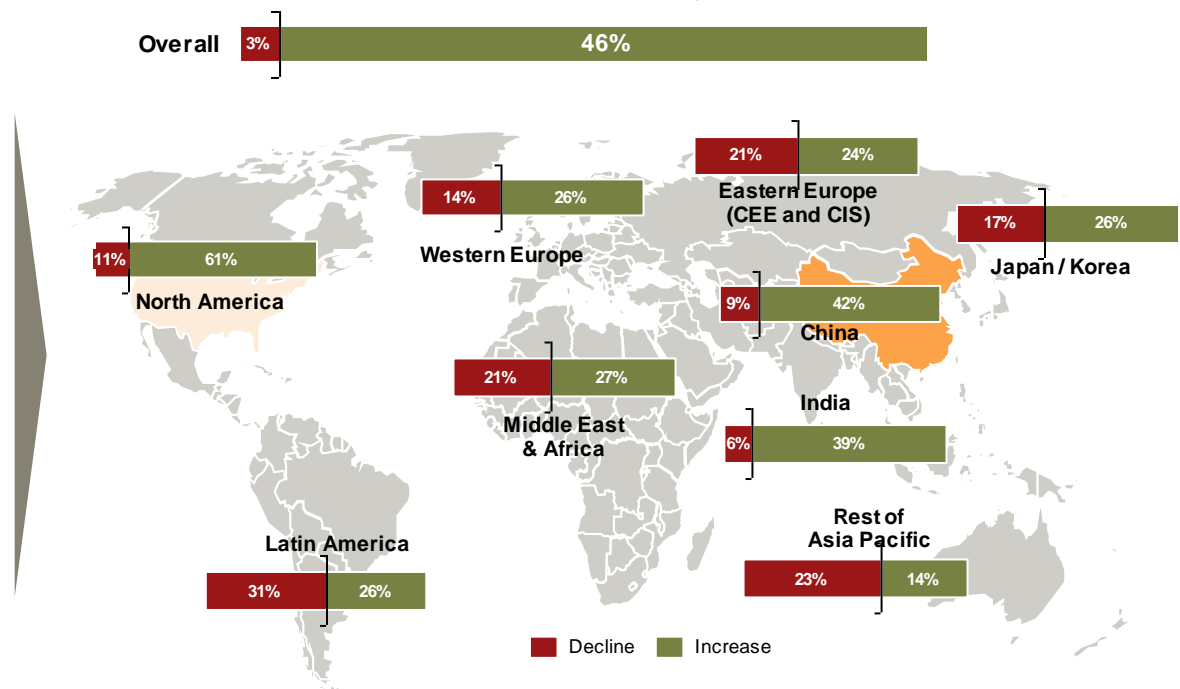
Outlook: China and USA are the largest chemicals acquirer country with further activities expected in these two countries

M&A Outlook

% of M&A Transactions



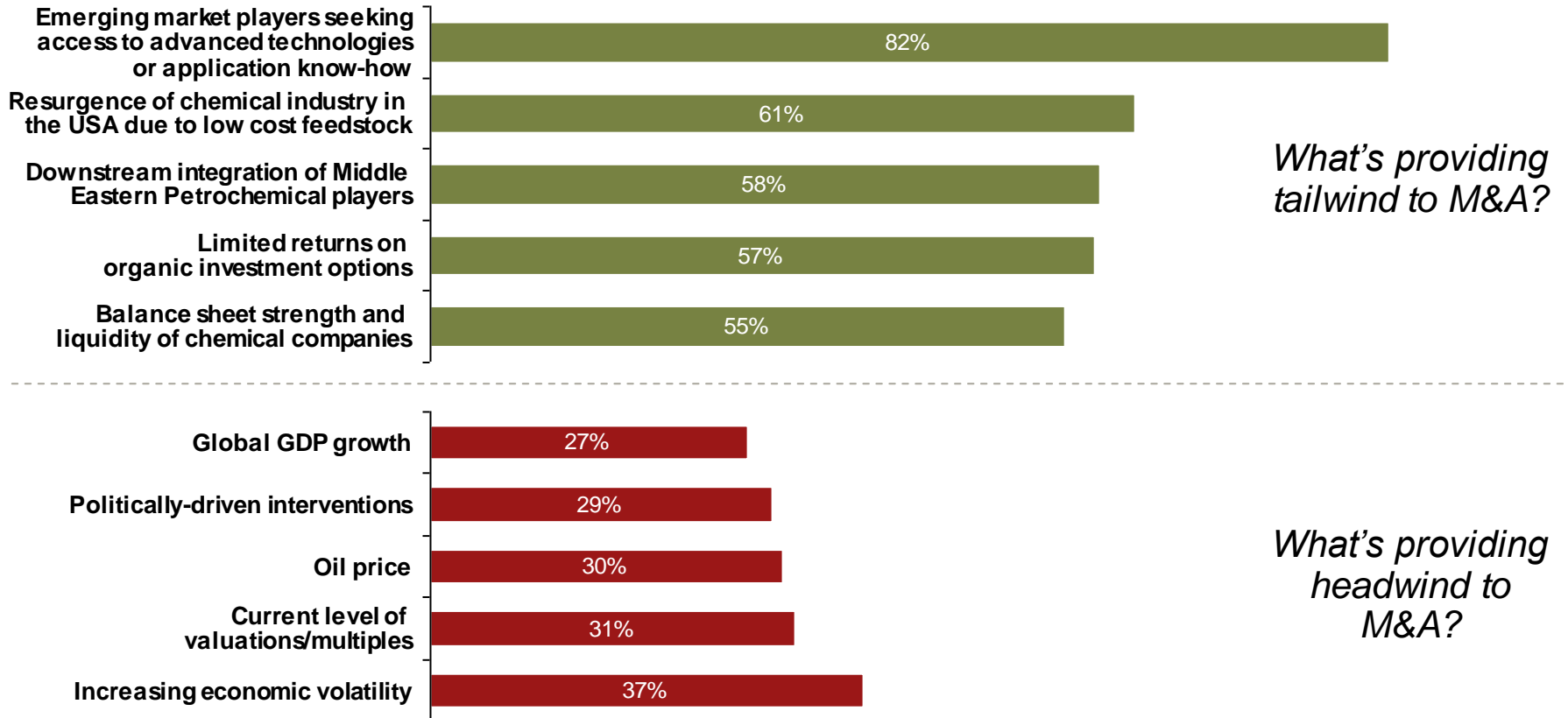
Outlook: Development of M&A Activity by Regions (Share of Answers in Executive Survey in %¹)



1. The share of answers stating 'Stable' outlook is not graphically displayed
 Source: Survey responses, A.T. Kearney analysis

Several drivers support continued M&A, but chemicals executives see economic volatility as a potential disruptor

Top drivers and impediments of future M&A activity, share of executives selecting trend¹



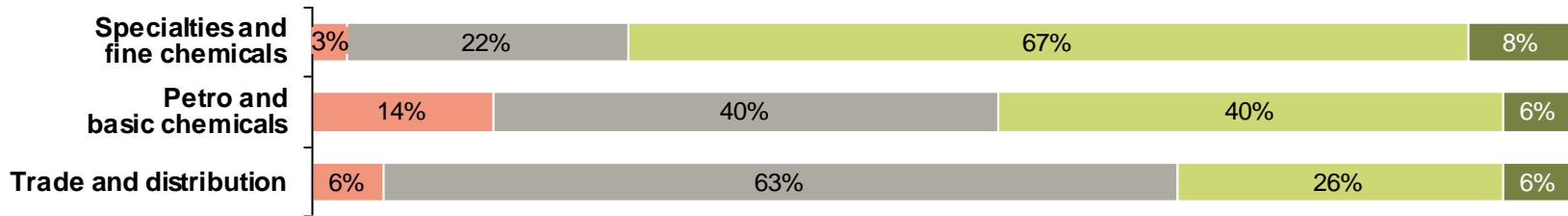
1. Percentage of respondents who stated either driver or impediment
 Source: A.T. Kearney executive survey; A.T. Kearney analysis

Specialty and fine chemicals remain the busiest segments, led by acquisitions from strategic investors

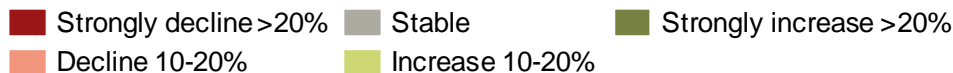
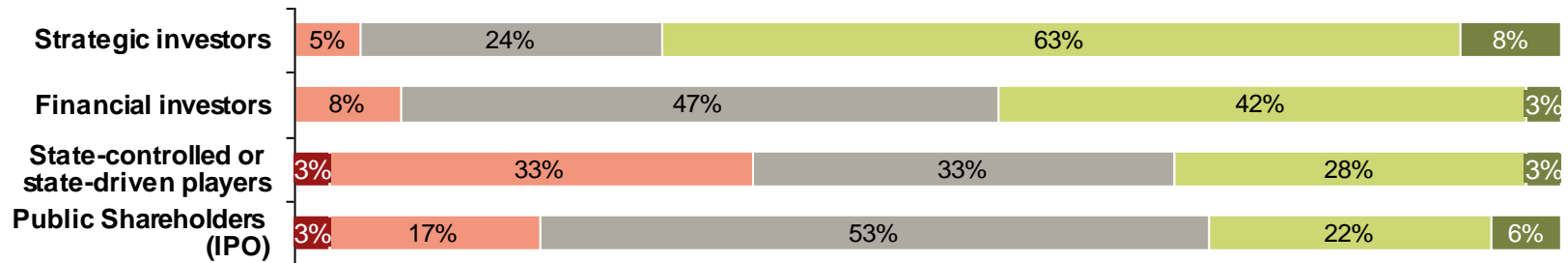
Development of M&A activity for sectors and investors

(Results from executive survey in %)

Sectors



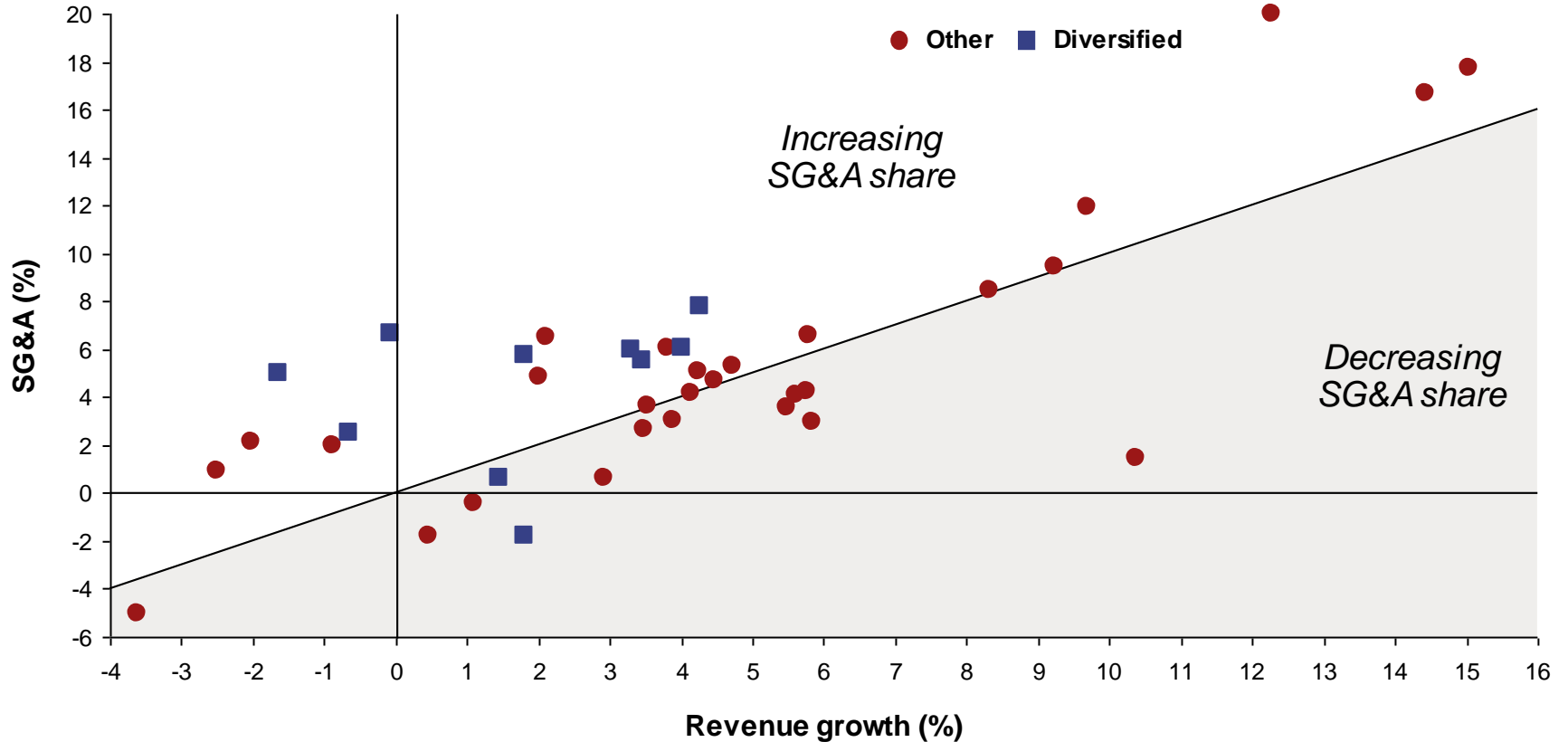
Investors



Companies are struggling in successfully realizing SG&A cost synergies compared to their industry peers

Revenue growth vs SG&A growth 2007-2016

(major chemicals serial acquirer companies)^{1,2}



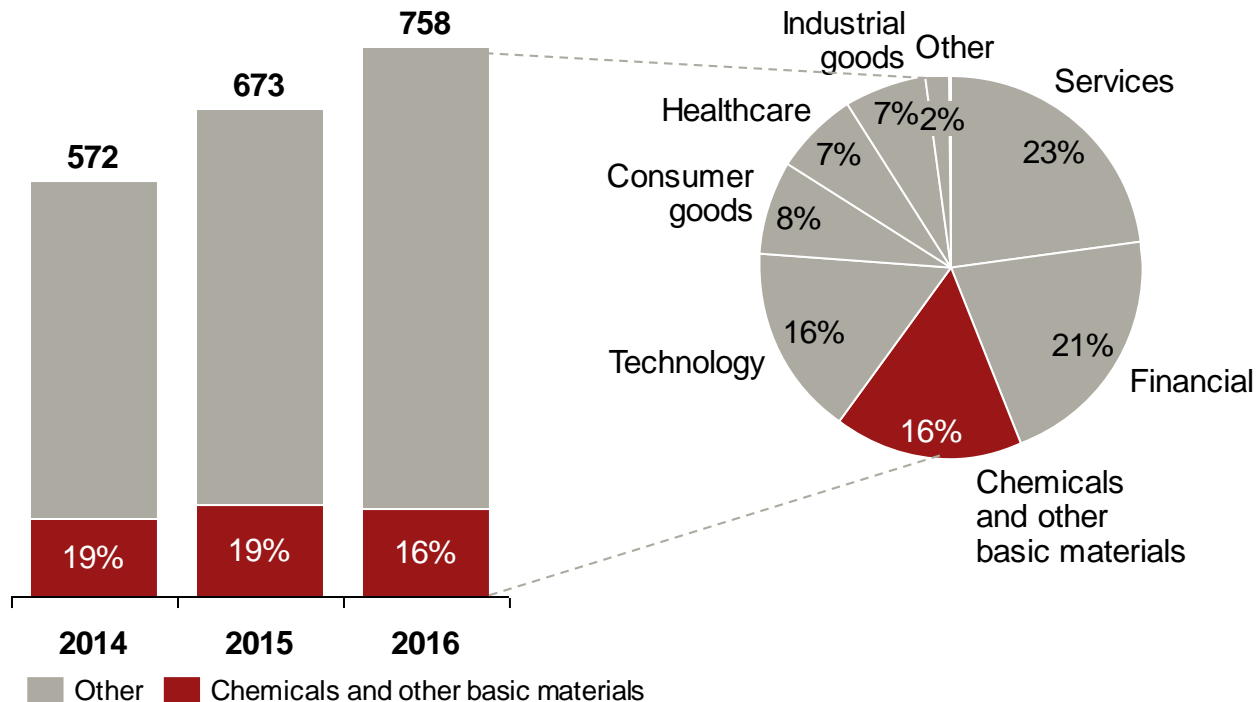
1. Companies chosen had more than 15 of acquisitions between 2007 and 2016

2. For companies yet to release the 2016 financials as of February 6th, the analysis was carried out with 2006-2015 financials

Source: A.T. Kearney Analysis; Capital IQ Company Financial Reports, Dealogic

Activist focus on chemicals remained roughly stable in 2016 – Corvex was involved in the Bayer/Monsanto deal

Companies Publicly Subjected to Activist Demands (number of companies)



From our perspective, buyers must learn and leverage practices to ensure their success in addressing common challenges

M&A Success Factors



M&A Strategy



Due Diligence



Integration

M&A Objectives Linked to Corporate Strategy

- Form the guardrails for M&A opportunities
- Build the storyline for investors, employees and business partners

Operationalized M&A Opportunity Research and Outreach

- Define specific deal criteria refreshed linked to M&A objectives
- Manage pipeline of potential targets and disciplined outreach program

Unique Value Creation Strategy

- Develop a deeper understanding of the target's industry and competitors
- Find ways to leverage the unique capabilities and identify unique synergies

Clear Synergy Targets Early and Transparency Over Time

- Be aggressive in setting / demanding synergy targets
- Continue to verify and refine estimates throughout the process

Clear Leadership and Direction

- Define and communicate new organization broadly
- Align employees towards common objective

Strong Integration Structure, Processes and Tools


- Coordinate initiatives centrally, execute projects locally
- Proactively identify risks that threaten to diminish value creation

Open, Frequent and Timely Communication

- Communicate frequently to all stakeholders to minimize anxiety and pre-empt circulation of misinformation

Well organized mergers follow a purposeful approach to execution

A.T. Kearney's Merger Integration Framework



Strategic Intent and Operating Model

- Articulate deal rationale and objectives
- Define the future state business model




Integration Management Office (IMO)

- Develop Master plan coordinated across teams which identifies and addresses interdependencies and risks
- Track, manage and report on integration program progress and issues



Value Capture and Business Integration

- Build a plan to beat the committed synergy case and deliver quick wins to fund the program
- Develop functional-level integration plans needed to enable the integration objectives



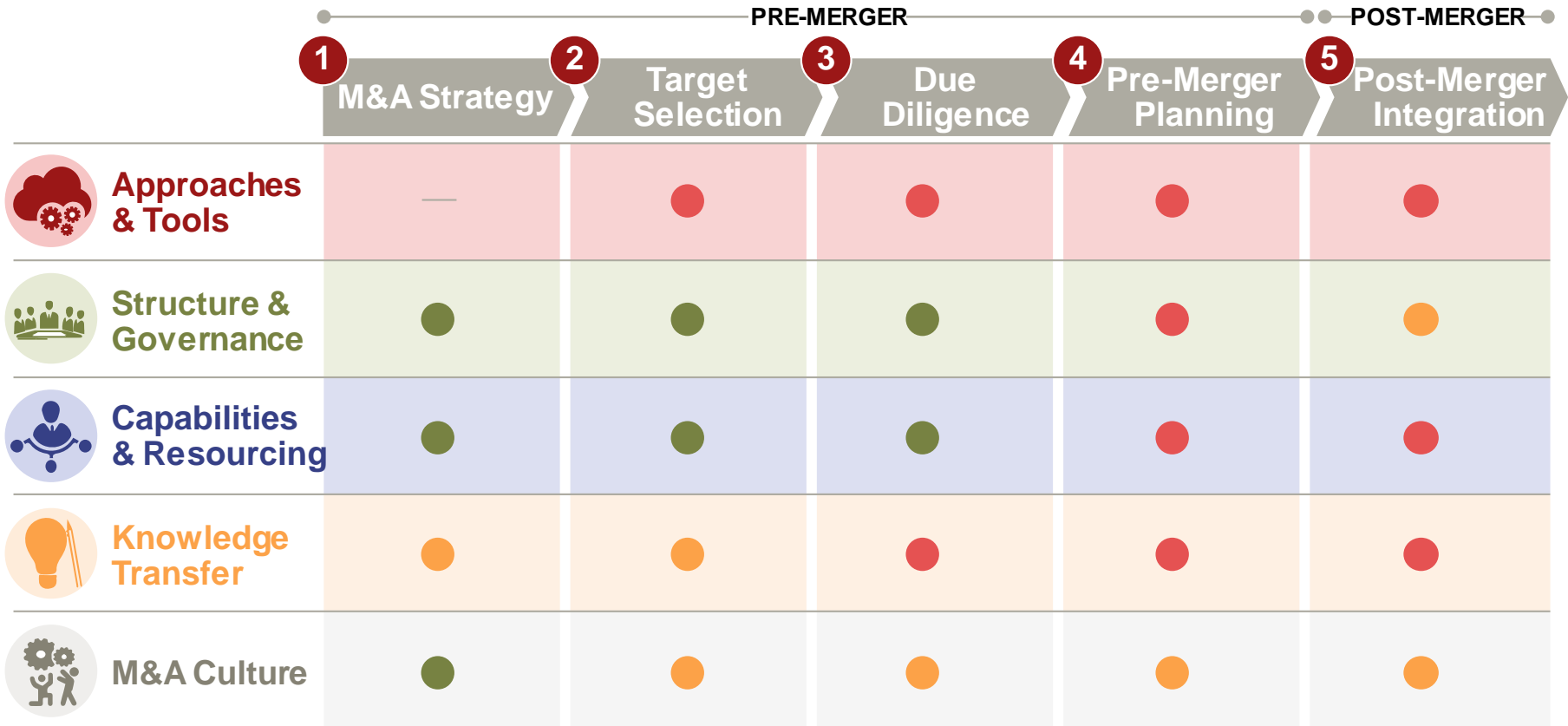
People Integration

- Design organization structure, governance and culture to enable synergies and strategic objectives
- Deploy a change and talent management plans to accelerate employee continuity, clarity and adoption to new ways of working

Diagnostic: do you have the right components in place? How powerful is your M&A engine?

M&A Engine Diagnostic

Client example



● Most effective ● Somewhat effective ● Least effective

Q&A



Thank You!

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