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PERSPECTIVES FROM A CHEMICALS EXECUTIVE:
VALUE OF A GROWTH CAPITAL PARTNER

OCTOBER 1ST, 2019

DISRUPTION IS NOW THE NEW NORMAL

AGENDA

- Digital Transformation
- Innovation
- Impacts of the China–U.S. Trade Dispute
- Expected Slowdown in the Overall U.S. Economy
- The Value of a Growth Capital Partner

Pittsburgh Chemical Day

DIGITAL TRANSFORMATION

PROCUREMENT / SUPPLY CHAIN

- Past: often intransparent and under-supervised
- Stronger focus on other parts of a company
- Realization with respect to the value of cost leadership
- Digital transformation offers unique opportunities to streamline procurement steps
- Key suppliers can be made aware of trends to improve their product offering
- AI and IoT will further enhance and optimize procurement processes such as RFP, platform trading, just-in-time delivery, etc.

DIGITAL TRANSFORMATION

R&D AND PRODUCTION

- Already advanced with regards to AI and IoT adoption
- Multiple areas, such as developing new and improved chemical formulations, will gain speed
- Long-term quality and time to market can be significantly improved
- Process controls and optimization can be further enhanced through the support of digital transformation
- Costs and environmental impact can be substantially reduced

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DIGITAL TRANSFORMATION

FINANCE & ADMISTRATION

- Digital transformation has already covered a large portion of the finance and administration area
- Even though it‘s some of the largest CapEx items for a company, it‘s also an area with the least resistance towards digital transformation
- Further cost improvements and better yields to the bottom line should be the result

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DIGITAL TRANSFORMATION

SALES & MARKETING

- Yet another area that has already seen a good amount of digital transformation
- Most notably in terms of CRM and e-commerce tools
- Challenge: only a smaller number of SME‘s have embraced digitalization
- Corporate culture/behavior and leadership acceptance of increased transperency are key success factors

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INNOVATION

THERE IS A HISTORY/TRADITION OF INNOVATION WITHIN THE CHEMICAL INDUSTRY, WITH A FOCUS ON PRODUCT INNOVATION AND PROCESS INNOVATION

- Speed of innovation between 1950‘s and 1970‘s was very high
- Constant flow of new products and new processes to produce better products faster
- Since the 1980s, the speed of innovation has slowed down
- In particular, larger chemical companies turned their focus to emerging markets
- Increasingly, returns from emerging-market businesses have outpaced the earnings generation capabilities of new products and processes requiring cost-intensive/extensive R&D

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INNOVATION

TURNING POINT: 2008 GLOBAL FINANCIAL CRISIS

- More and more, the chemcial industry shares in the volatility of other economies around the world
- Cyclical industries (e.g., the polymer industry) have become harder to predict, and even the specialty chemicals segment is facing disruptive elements that can threaten the existence of businesses almost instantaneously
- Majority of new innovations come from outside the chemical industry, oftentimes the off-spring of of university research programs, paired with venture/growth capital funding
- Large chemical players now invest in start-ups, outside of their regular R&D facilities and/or spin-off product groups/businesses not considered core, to yield earnings

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INNOVATION

BUSINESS MODEL INNOVATION

- The changes and volatility in past years have led chemical businesses to re-evaluate their business models
- Legacy business models are predominantly based on cost-plus or value- based methodologies
- Chemical companies are now looking at new models such as outcome-based, risk-sharing with customers in implementing new materials and products
- Creating partnerships or ecosystems will increase differentiation, reducing the negative commodity effect, and subsequently improving margins

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IMPACTS OF THE CHINA – US TRADE DISPUTE

GENUINE IMPACTS OF THE TRADE DISPUTES FOR THE CHEMICAL INDUSTRY

- $ 15 billion impact on imported chemicals & plastics from China*
- $ 11 billion on U.S. exports of chemicals & plastics to China*
- The ACC has stated, if this becomes a war of attrition, it has the potential to last for years, only doing more harm than good for both sides*
- The positive intention is to level the playing field from a global perspective
- Nevertheless, someone (namely, consumers) will have to pay for the $15 billion and $11 billion, which will have impacts on U.S. chemical manufacturers and their competitive capabilities.

*According to C&EN News as of 8/26/2019

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IMPACTS OF THE CHINA – US TRADE DISPUTE

POTENTIAL POSTIVES

- U.S. chemical manufacturers have taken precautionary measures and added in the costs of the tariffs with notifications regarding potential credit notes, should an agreement be reached

- Many companies have switched their supply focus, from China to India or Europe; however, pricing and capacity constraints have diminished the success of this move, given the sheer volume of capacity errected in Chinese chemical manufacturing over the past few decades

- Subsequently re-establishing U.S. chemical manufacturing capacity, in conjunction with the abundant availability of energy (based upon shale gas and downstream raw materials), makes for a compelling story

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IMPACTS OF THE CHINA – US TRADE DISPUTE

THE RENAISSANCE OF U.S. CHEMICAL MANUFACTURING

- Today, U.S. chemicals & plastics manufacturing accounts for over four million jobs and more than 25% of U.S. GDP
- According to the ACC, there are currently 334 projects announced, with accumulated $200 billion of value, 50% completed/underway and 40% in the planning phase
- Although the majority of these projects are upstream in basic chemicals or polymers (inorganic chemicals, petro chemicals, plastic resins, etc.), a substantial portion lies within specialty chemicals, growing in-line with industrial sectors at 2% or more per year
- Even if there were to be an agreement on tariffs between China and the U.S., the chemicals industry seems to be confident about further investment

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EXPECTED SLOWDOWN IN THE OVER US ECONOMY

IS U.S. ECONOMIC GROWTH COMING TO AN END AFTER 10 CONSECUTIVE YEARS OF EXPANSION?

- U.S. GDP, according to the Fed, will slow down: 2.1% in 2019, 2% in 2020, and 1.8% in 2021

- However, the U.S. manufacturing industry is expected to grow above GDP. The MAPI Foundation says increased capital growth and higher exports will boost manufacturing in coming years: 3.9% in 2019, 2.4% in 2020, and 1.9% in 2021

- The bottomline: the overall U.S. manufacturing industry is bullish about its outlook and expected performance, taking a certain degree of slowdown into consideration, but still considering this to be a good investment from a growth and returns perspective – in spite of the uncertainty the trade dispute creates

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THE VALUE OF A GROWTH CAPITAL PARTNER

LEADING AND MANAGING THROUGH BUSINESS TRANSITIONS DEMANDS A HOLISTIC APPROACH AND A GROWTH CAPITAL PARTNER

- The landscape of specialty chemicals has changed – however, the fundamentals for success remain
- Creating new business opportunities, whether new products, molecules, or new processes of commercialization, has not changed at its core
- Understanding and analyzing business opportunities from a holistic perspective remains key to building successful, sustainable businesses for all key stakeholders

THE VALUE OF A GROWTH CAPITAL PARTNER

LEADING AND MANAGING THROUGH BUSINESS TRANSITIONS DEMANDS A HOLISTIC APPROACH AND A GROWTH CAPITAL PARTNER

A growth capital partner can genuinely support achieving these goals:

- … by leveraging a team‘s experience
- … by further enhancing its growth-centric perspective
- … by nourishing a team‘s creativity to help companies navigating these business opportunities

THANK FOR YOUR ATTENTION!

I LOOK FORWARD TO SPEAKING WITH YOU ABOUT YOUR OPPORTUNITIES!

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