

Chemical compounds*

Global Chemical mergers and acquisitions analysis
First quarter 2008



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Perspective: Our thoughts on the chemicals industry deal activity

Chemical deal activity dropped significantly in the first quarter of 2008 from the prior year with only \$11 billion of announced deals. This run rate is significantly lower than the 2007 deal level of \$112 billion, which was driven by both strong volume and 19 large deals that had a deal value of \$85 billion. Annualizing the first-quarter activity indicates a significant decrease from the 2006 and 2007 levels. This decrease was not unexpected given the current turmoil in the credit markets, which has made financing large transactions difficult. Analyzing data from deal activity in the first quarter of 2008 led to several interesting observations.

First, the large deal activity in the first quarter of 2008 was driven by strategic bidders outside the United States. The bidding companies of the four large transactions in the first quarter of 2008 were from Egypt, China, Australia and India. The absence of large deals driven by North American and Western European financial and strategic bidders can be attributed to the current credit-market crisis.

Our second observation was that the activity of small to mid-sized deals is still relatively robust in the context of a longer-term perspective. Annualizing the first-quarter deal volume results in just more than 600 deals, which is still within the range of annual deal activity over the past 10 years (1998–2007 deal volume ranged from 600 to 900 deals per year). The majority of these deals were relatively small, and the total deal value was much lower than recent years. We do not expect to see this change significantly until the borrowing environment recovers, allowing for financial and strategic buyers to finance larger deals and encourage sellers to move forward on transactions that have been held back over recent months.

Our third observation was that, although the level of private equity activity by deal value is down significantly (see page 2), financial buyers were still active in small to mid-sized deals with 37 financial deals (24% of the total number of deals) announced during the quarter. Twenty of these deals had a disclosed value less than \$50 million and only five had a disclosed value greater than \$50 million. Because the number of deals valued at more than \$50 million was so small, the total deal value of financial buyer deals is down significantly, another indication of how the tumultuous credit market has impacted the deal market for larger deals by financial buyers.

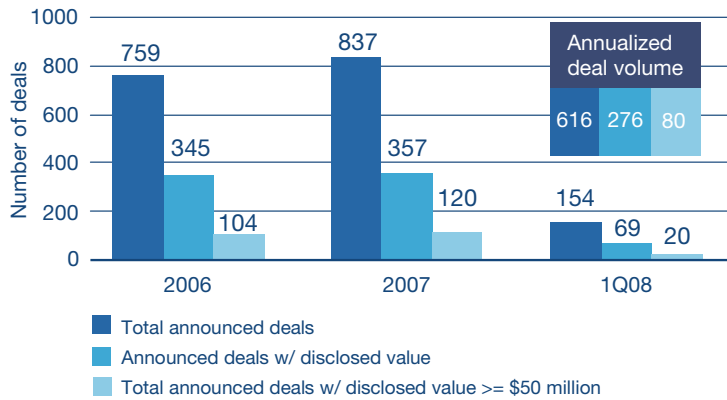
Although the credit-market situation slowed M&A market activity in the first quarter of 2008, we believe that several factors will fuel the M&A market in the chemicals industry as the debt markets return to equilibrium. These factors include: 1) funds that financial investors raised but have not yet invested; 2) strategic bidders that are continuing to search for bolt-on and transformational deals; 3) increased wealth and interest from emerging market bidders; and 4) strategic companies looking to be sold or to restructure their portfolios for a variety of reasons.

We expect that 2008 will be an interesting year for M&A activity within the chemicals industry, and an increase in activity eventually will transpire as the financing environment improves. We already see potential signs of increased large-deal activity with the April 3 announcement of Henkel's acquisition of National Starch's adhesives and electronic materials business (2.7 billion GBP) and a potential private equity bid for Evonik. We will continue to follow these and other M&A developments closely and look forward to reporting our findings each quarter.

Saverio Fato
Partner

Bruce Chalmers
Director

Deal activity by number of deals¹

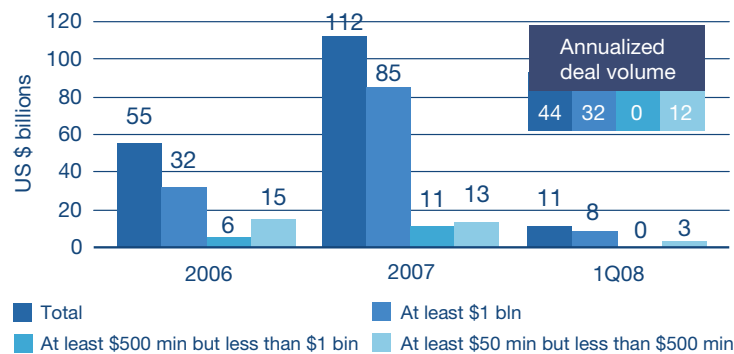


Q1 2008 deal value impacted by debt-market turmoil

2008 is off to a slow start with only 154 total announced deals—69 of those deals disclosed value, and 20 of those 69 disclosed deals were announced with values greater than or equal to \$50 million.

This sharply contrasts to 2007 deal volume, which reached 837 deals, the highest level achieved since 2000.

Deal activity by total deal value

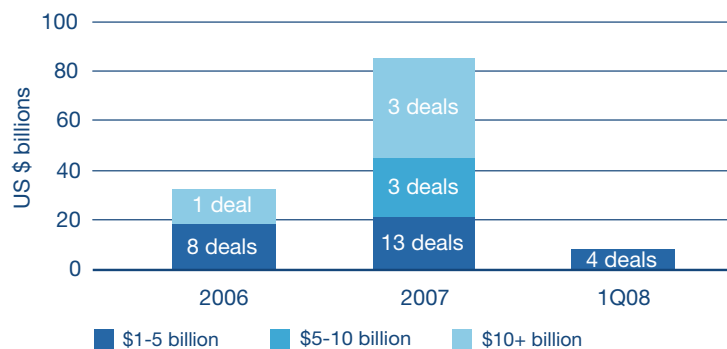


The remainder of our analysis focuses on announced deals with transaction values greater than \$50 million. Because there were many deals with transaction values less than \$50 million, the average deal size was relatively small: the 241 deals in 2006 were worth approximately \$2.5 billion (\$10.2 million on average); the 237 deals in 2007 were worth approximately \$2.5 billion (\$10.5 million on average); and the 49 deals in Q1 2008 were worth approximately \$0.6 billion (\$12.2 million on average).

At only \$11 billion, Q1 2008 deal value is significantly lower than 2007. This decrease was driven by both the significant decrease in deal volume as well as fewer large deals (valued at more than \$1 billion).

Large deals (\$1 billion plus)

Value (and number of deals in category)



Q1 2008 had only four deals announced with transaction values greater than \$1 billion. These four deals had a total deal value of approximately \$8 billion.

In contrast, 2007 had many large deals: three were worth more than \$10 billion and three were worth more than \$5 billion but less than \$10 billion. In 2006, only one deal was greater than \$10 billion and none was between \$5 billion and \$10 billion. The three large deals in excess of \$10 billion in 2007 were ICI, Lyondell Chemical and GE Plastics.

¹Note: 2006 and 2007 deal activity in this report exceeds the deal activity as enumerated in the Q4 2007 M&A report because the source continually updates deal activity in prior periods as deals are discovered.

Deal activity by investor type—private equity activity ‘holds’ based on number of deals

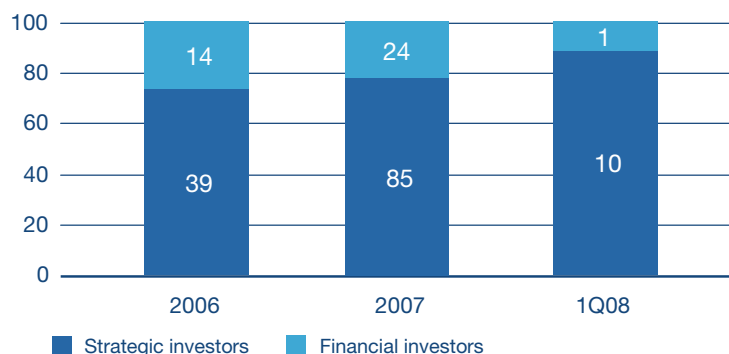
The mid-2007 debt-market turmoil’s impact was expected to be felt in Q3 and Q4 of last year, but it appears to have been delayed until the first quarter of 2008. Financial investor deal value accounted for only approximately 10% of the total deal value in Q1 2008, down significantly from just more than 20% in 2006 and 2007.

Although the Q1 2008 deal activity for larger deals was down significantly from prior years, middle market and smaller deals continued to be active overall and, specifically, for financial investors. In Q1 2008, 37 financial bidder deals were announced (20 with disclosed values less than \$50 million and five with disclosed values more than \$50 million), and these types of deals accounted for approximately 24% of total announced deals.

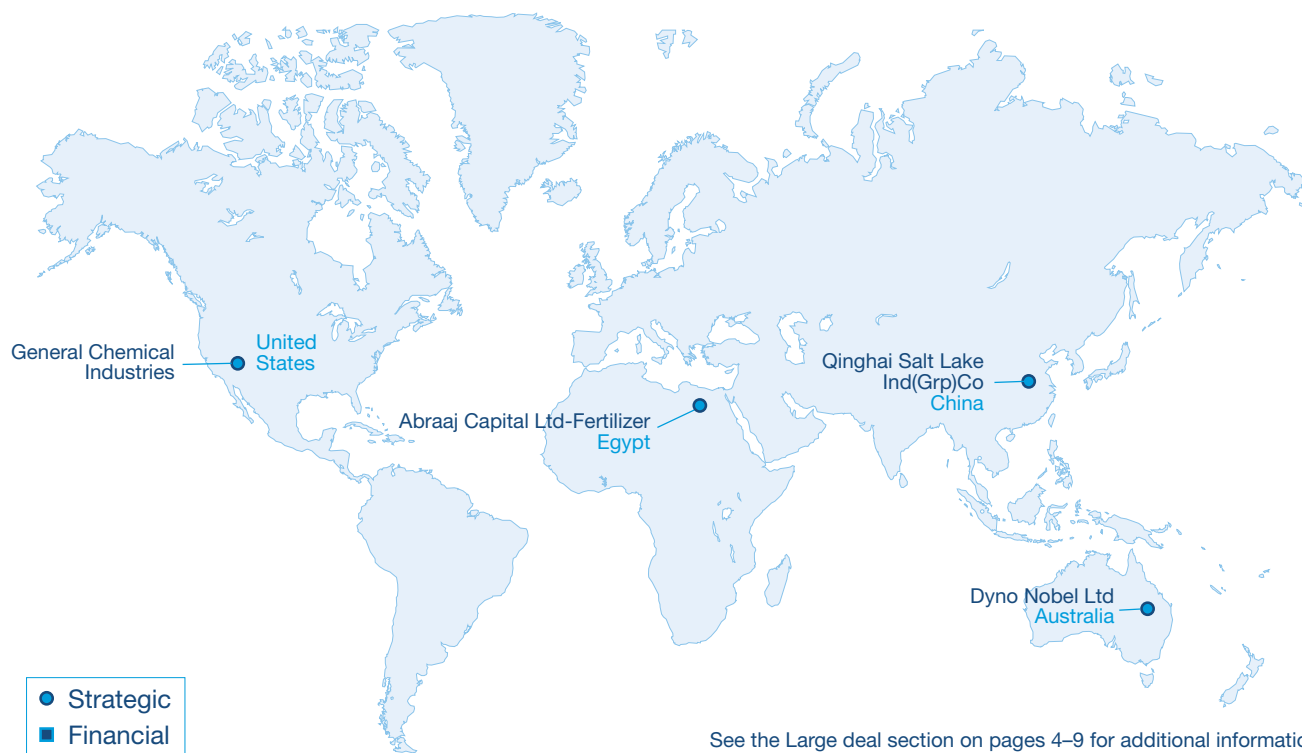
It should be noted that the data above does not fully reflect the true level of financial bidders’ activity and the impact that they have had on the bidding process. Some bidding processes have had financial bidders influence prices by requiring strategic bidders to pay more to win bids. Additionally, some of the winning bidders were portfolio companies of private equity firms. Although the acquiring legal entity was a strategic bidder, the deal process was influenced by the ultimate shareholders (i.e., financial investors). As an example, Apollo’s portfolio company Hexion has been a recently active strategic bidder, and it is currently in the acquisition process for Huntsman (see the large-deal section on pages 4-7 for additional information).

Deal activity by investor type

Measured by percentage of deal value (actual deal value shown in chart)



Regional distribution of 2008 large deals



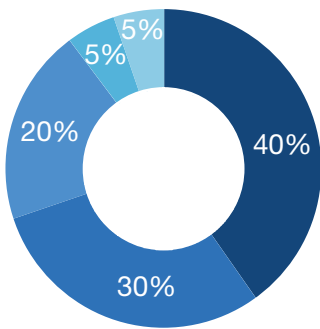
See the Large deal section on pages 4–9 for additional information

Regional distribution of deals

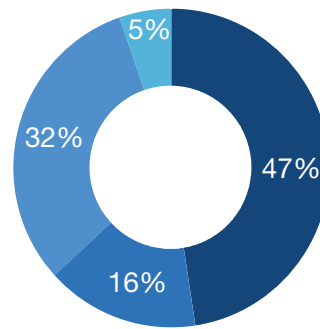
The regional distribution of deals displays the decrease in M&A activity in North America and Western Europe, which were more equally distributed in the prior year, offset by the increase in the Asia-Pacific and Middle East regions. The high levels of activity in Asia-Pacific and the Middle East, as measured by deal value, were driven by one intra-regional transaction in each region. These were the two largest transactions in the quarter (see the large-deal section on pages 4-7 for additional information). The majority of the announced transactions (65% by number and 83% by value) were intra-regional deals.

Regional distribution of Q1 2008 deals

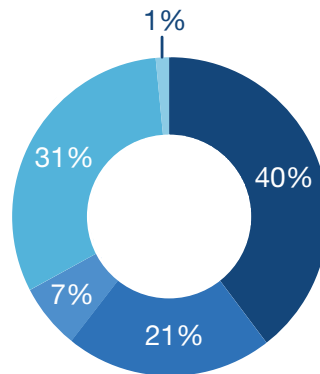
Number of deals by target region for 20 deals



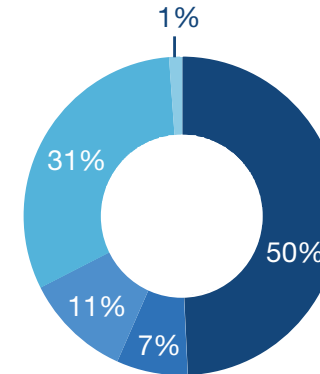
Number of deals by acquirer region for 20 deals



By value of deals by target region \$10.9 billion total value



By value of deals by acquirer region \$10.9 billion total value



■ Asia Pacific
 ■ North America
 ■ Western Europe
 ■ Middle East
 ■ South America
 ■ Africa
 ■ Eastern Europe

Large deals in Q1 2008

Month announced	Target name	Target nation	Acquirer	Acquirer nation	Status	Value of transaction in US\$ bln	Category
Feb	Abraaj Capital Ltd-Fertilizer	Egypt	Orascom Constr Ind SAE	Egypt	Pending	3.39	Fertilizers & Agricultural Chemicals
Jan	Qinghai Salt Lake Ind (Grp) Co	China	Qinghai Digital Net Invest	China	Pending	1.98	Specialty Chemicals
Mar	Dyno Nobel Ltd	Australia	Incitec Pivot Ltd	Australia	Pending	1.85	Commodity Chemicals
Jan	General Chemical Industrial	United States	Tata Chemicals Ltd	India	Completed	1.01	Specialty Chemicals

Large-deal summary for Q1 2008

The following outlines the large deals announced in Q1 2008.

Abraaj Capital/Orascom Construction

Orascom Construction Industries (OCI) announced that it has signed an agreement with United Arab Emirates-based Abraaj Capital (Abraaj), which has agreed to merge its fertilizer production operations under OCI for a combined cash and shares equity consideration of approximately US\$1.59 billion (US\$874.5 million in cash and the issuance of approximately 12.77 million new OCI shares through a capital increase to Abraaj, subject to approval by OCI shareholders in an extraordinary general meeting),² with OCI also assuming US\$1.1 billion in net debt.

The capital increase shares are to be issued at the price of EGP 607.93 per share (US\$221.1 per global depository receipt). The agreed share price reflects a 14% premium to the average close since OCI announced its divestment of the cement group. Following the capital increase, Abraaj shall be a 5.95% shareholder in OCI.

The fertilizer operations of Abraaj include: 100% ownership of Egyptian Fertilizers Company (ammonia/urea); a 20% stake in Notore Chemical Industries Ltd (ammonia/urea); and a strategic alliance with Dana Gas (the Middle East's largest privately owned natural gas operations).

OCI is a construction contractor based in Cairo that employs more than 40,000 people in more than 20 countries. OCI's investments in fertilizers include a 30% stake in Egyptian Basic Industries Corporation (ammonia) and a 51% stake in Sorfert Algeria (ammonia).

With the completion of the merger, the fertilizer group would be well on its way to being ranked among the world's top five producers of nitrogen-based fertilizers and ammonia, with a total combined annual capacity of 4.2 million tonnes by 2010. (OCI press release, February 21, 2008)

²Press release is based on an assumed ex-div share price, which reduces the purchase price by US\$0.7 billion from the agreed stock price at date of announcement.

Large deals in 2007

Month announced	Target name	Target nation	Acquirer	Acquirer Nation	Status	Value of transaction in US\$ bln	Category
Jun	ICI PLC	United Kingdom	Akzo Nobel NV	Netherlands	Completed	16.26	Specialty Chemicals
Jul	Lyondell Chemical Co	United States	Basell NV	Netherlands	Completed	12.36	Specialty Chemicals
May	GE Plastics	United States	SABIC	Saudi Arabia	Completed	11.60	Commodity Chemicals
Dec	Dow Chemical Co-Petrochemicals	United States	Petrochemical Inds Co KSC	Kuwait	Pending	9.50	Commodity Chemicals
Apr	Orica Ltd	Australia	Investor Group	United States	Withdrawn	8.34	Commodity Chemicals
Jul	Huntsman Corp	United States	Hexion Specialty Chemicals Inc	United States	Pending	6.24	Specialty Chemicals
Jul	SigmaKalon Group BV	Netherlands	PPG Industries Inc	United States	Completed	3.04	Specialty Chemicals
Nov	Nufarm Ltd	Australia	Investor Group	China	Withdrawn	2.77	Fertilizers & Agricultural Chemicals
Dec	UAP Holding Corp	United States	Agrium Inc	Canada	Pending	2.62	Fertilizers & Agricultural Chemicals
Oct	Arysta LifeScience Corp	Japan	Industrial Equity Invest Ltd	Ireland-Rep	Completed	2.19	Fertilizers & Agricultural Chemicals
Jun	PQ Corp	United States	Carlyle Group LLC	United States	Completed	1.50	Specialty Chemicals
Jun	Egyptian Fertilizers Co SAE	Egypt	Abraaj Capital Ltd	Utd Arab Em	Completed	1.41	Fertilizers & Agricultural Chemicals
Jul	LG Petrochemical Co Ltd	South Korea	LG Chem Ltd	South Korea	Completed	1.20	Specialty Chemicals
Jul	Taminco NV	Belgium	Investor Group	United Kingdom	Pending	1.09	Industrial Gases
Jul	Aromatics(Thailand)PCL	Thailand	PTT PCL	Thailand	Intended	1.08	Specialty Chemicals
Feb	Lyondell Chemical Co-Inorganic	United States	Cristal	Saudi Arabia	Completed	1.05	Specialty Chemicals
Sep	Chandra Asri Petrochemical Ctr	Indonesia	Barito Pacific Timber Tbk PT	Indonesia	Completed	1.05	Specialty Chemicals
Aug	HT Luxembourg Sarl	Luxembourg	Arcapita Bank BSC	Bahrain	Completed	1.04	Commodity Chemicals
Oct	Foseco PLC	United Kingdom	Cookson Group PLC	United Kingdom	Completed	1.00	Specialty Chemicals

Large-deal summary for Q1 2008 (continued)

Qinghai Salt Lake Ind/Qinghai Digital Net Invest

Qinghai Digital Net Investment Share Holding Group Co Ltd (QD) agreed to merge with Qinghai Salt Lake Industry (Group) Co Ltd, a chemicals manufacturer, in exchange for 2.976 billion new QD ordinary shares, valued at 14.284 billion Chinese yuan (USD \$1.98 billion), in a reverse takeover transaction. The shares were valued based on QD's closing stock price of 4.8 yuan (USD \$0.666) on January 24, 2008, the last full trading day prior to the announcement. Upon completion, QD is to become the surviving entity. The transaction was subject to the shareholders' and regulatory approval. (Thomson)

Dyno Nobel Ltd/Incitec Pivot Ltd

Australia-based Incitec Pivot Limited (IPL) announced that it has entered into a scheme implementation agreement with Dyno Nobel Ltd (Dyno Nobel) under which IPL proposes to acquire all of the shares in Dyno Nobel which it does not already own (the IPL scheme).

The proposed transaction values Dyno Nobel at A\$3.3 billion based on the implied offer price of A\$2.80 per share.

Under the terms of the agreement, Dyno Nobel shareholders will receive 0.01406 IPL shares and A\$0.70 in cash per share, representing a mix of 75% scrip and 25% cash.

IPL has secured a A\$2.4 billion facility from a consortium of leading commercial banks to fund the cash component of the IPL scheme and to refinance existing IPL and Dyno Nobel debt. IPL, an ASX top 50 company, is a chemical manufacturer supplying agricultural fertilizers and industrial chemicals for Australian and international markets. IPL has a market capitalization of approximately A\$7.5 billion.

Dyno Nobel, also listed on the ASX, is a leading supplier of industrial explosives and blasting services to the mining, quarrying, seismic and construction industries. Dyno Nobel is the market leader in North America and the second largest supplier in Australia. It employs more than 3,500 people and has 36 manufacturing facilities in Australia, Canada, the United States, Indonesia, Mexico and Papua New Guinea.

Concerning the transaction, Julian Segal, IPL's managing director and CEO, said: "The combination of IPL and Dyno Nobel will create a leading global chemicals company favorably positioned to benefit from the hard and soft commodity super cycle. There is a natural fit as both businesses have nitrogen-based manufacturing at their core."

Segal further commented that, "The combined group will have revenues in excess of A\$3.5 billion, a market capitalization of more than A\$9 billion and be among the top 30 companies on the Australian Securities Exchange." He also said, "The acquisition is anticipated to be earnings accretive in the first full year, increasing to low double-digit accretion in year two, and meets IPL's 15% internal rate of return investment criterion."

The IPL scheme is conditional on, among other things, Dyno Nobel shareholder approval, regulatory approval and confirmatory due diligence by IPL on Dyno Nobel. (*Incitec Pivot Ltd press release, March 11, 2008*)

General Chemical Industrial/Tata Chemicals Ltd

Tata Chemicals, part of the Tata Group, announced on March 27, 2008, the successful completion of the acquisition of US-based General Chemical Industrial Products Inc. (General Chemical) for a total consideration of \$1.01 billion, making Tata Chemicals the world's second largest soda ash company.

General Chemical's subsidiary, General Chemical (soda ash) Partners, is one of the largest soda ash producers in the United States with a capacity of 2.5 million tpa of natural soda ash.

Tata Chemicals had previously acquired the Brunner Mond Group of companies in 2005/06, a leading producer of soda ash with a presence in the UK, Netherlands and Kenya, and after this acquisition, Tata Chemicals's total global capacity is approximately 5.5 million tonnes of soda ash per annum.

The acquisition also gives Tata Chemicals access to two of the lowest cost natural soda ash reserves in the world (Wyoming, US, and Magadi, Kenya).

Funding for the acquisition was arranged through a mixture of term financing of \$500 million and bridge financing of \$350 million, raising a total of \$850 million.

Homi Khusrookhan, managing director of Tata Chemicals, said: "The company's global scale, spread and presence in natural soda ash will be of great strategic advantage to us in the years ahead. General Chemical is a company we have admired for many years, and the significant presence we will now have in the Green Valley Basin in Wyoming is going to be hugely advantageous for us going forward. While size is important, the ability to be able to construct the world's premier soda ash business is even more exciting." (*Tata Chemicals press release, March 27, 2008*)

Henkel/Akzo Nobel—adhesives and electronic materials

Although this transaction was announced after Q1 2008, we draw attention to it this quarter due to its proximity to Q1 2008 and its relatively large magnitude.

On April 3, 2008, it was announced that Henkel had taken over Akzo Nobel's adhesives and electronic materials businesses that were previously owned by National Starch. "This acquisition represents a milestone in our 130-plus-year corporate history and points Henkel clearly in the direction of further profitable growth," said Ulrich Lehner, chairman of the management board of Henkel KGaA. The acquisition was preceded by the carve-out of the businesses to be acquired by Henkel and the requisite antitrust and anticompetitive investigations by the relevant authorities. In 2007, these two business segments of National Starch generated sales of 1.25 billion GBP (about 1.83 billion euros). The purchase price was 2.7 billion GBP (about 3.7 billion euros). Following the integration, annualized sales of Henkel's adhesives technologies business sector will increase to about 7.5 billion euros. Henkel expects synergies from the acquisition of 240 million to 260 million euros per year and anticipates it will realize full synergy potential by 2011. "We will do everything in our power to integrate this excellent company with its outstanding employees and products quickly and smoothly," added Lehner. Henkel will provide an update on the integration process in connection with the publication of the Q1 figures on May 7, 2008.

By acquiring the adhesives and electronic materials businesses of National Starch, Henkel substantially strengthens its leading position in the global adhesives markets, particularly in the industrial segment. The businesses of National Starch and the existing Henkel adhesives technologies portfolio excellently complement each other.

Within Henkel's adhesives technologies business sector, the acquisition will have a particular impact on the packaging and wood adhesives businesses, as well as on the electronics business. The combination of the two businesses now enables customers to source both solutions from a single supplier.

Henkel also sees a significant strengthening of its regional market positions. The share of sales accounted for by the Asia-Pacific region will, with the acquisition of the National Starch businesses, increase from 8% to around 12%, and the share of sales of the adhesives business in this region will actually double due to the already strong position of both companies. At the same time, the strong market position enjoyed by Henkel in Europe, particularly in the growth region of Eastern Europe, can be leveraged to accelerate expansion by enabling brands and technologies from National Starch to be marketed via the Henkel sales and distribution network already established in this region. *(Henkel press release, April 3, 2008)*

The following provides details of any changes and updates in the status of 2007 deals that were included in the Q4 2007 edition of Chemical compounds. Please refer to the Q4 2007 edition for detailed background behind each of the large deals listed on page 5.

Orica Ltd/Investor Group

There had been no further public announcement concerning this transaction since the initial announcement that the bid had been rejected on April 18, 2007; the deal is now formally listed as withdrawn.

Huntsman Corporation/Hexion Specialty Chemicals

On April 7, 2008, it was announced that Hexion exercised its right to extend the termination date under the merger agreement by 90 days, from April 5 to July 4, 2008. The extension is in connection with allowing the FTC additional time to review the merger. Under the terms of the merger agreement, the per common share price will increase at a rate of 8% per annum, beginning on April 5, 2008.

Arysta LifeScience/Industrial Equity Investments Limited (IEIL)

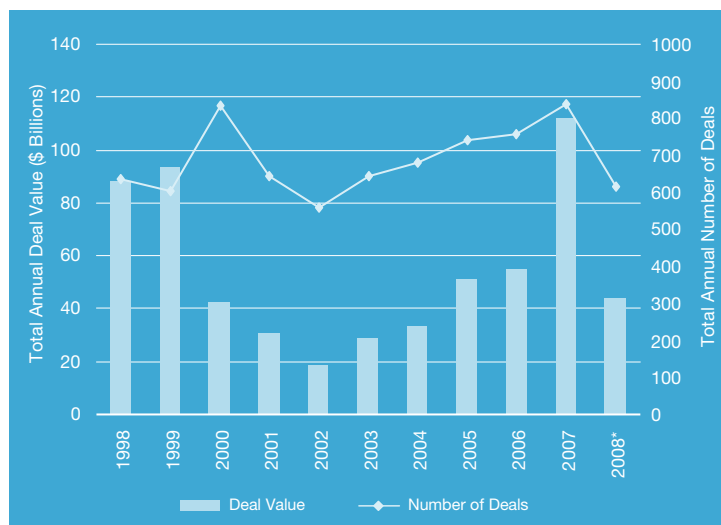
IEIL announced the completion of this transaction on March 6, 2008. The enterprise value is approximately JPY 250 billion (USD 2.2 billion). *(Arysta press release, March 6, 2008)*

Foseco PLC/Cookson Group PLC

On April 4, 2008, it was announced that this transaction was complete, with Foseco shares de-listed from the London Stock Exchange on the same day. *(Foseco press release, April 4, 2008)*

Historical analysis of chemical deals

10-year comparison of annualized Q1 deal activity



*Annualized Q1 2008 deal activity (154 deals with a deal value of \$11 billion)

Methodology

Chemical compounds is a quarterly analysis of deals in the global chemicals industry. Deal information was sourced from Thomson Financial using the Thomson-defined industry sector of chemicals and allied products. This analysis includes all mergers and acquisitions for disclosed or undisclosed values, leveraged buyouts, privatizations, minority stake purchases and acquisitions of remaining interest announced between January 1, 2008, and March 31, 2008, with a deal status of completed, intended, partially completed, pending, pending regulatory approval, seeking buyer, seeking buyer withdrawn, unconditional (i.e., initial conditions set

forth by the acquirer have been met but deal has not been completed) or withdrawn. Geographic categories generally correspond to continents with exceptions for Australia (included in the Asia-Pacific category), Europe (divided into Western Europe and Eastern Europe categories based on UN definitions) and the Middle East (defined as a separate category based on US CIA World Factbook). Where the number of deals is referenced in this analysis, it means the number of all deals with disclosed or undisclosed values unless otherwise noted.

Merger Integration Services

Capturing sustained economic value in a merger or acquisition is one of the most significant challenges for today's growth-minded companies. Despite the best intentions, research shows that deals often fall short when the time comes to begin transforming carefully developed strategy into the right mix of people, process and technology. Smart buyers can take steps to improve their odds.

We help clients execute rapid integrations to achieve desired synergies and allow for a quick return to "business as usual." Doing so adds shareholder value, frees up human and financial capital for reinvestment in core operations, and enables our clients to complete a greater number of transactions in a shorter period of time. Our focus is on execution. You and your strategic advisors set the objectives for your deal. We work to help you take the actions necessary to reach them.

PwC's seven fundamental tenets to successful integration are:

- 1. Accelerate the transition.** There is no value in delay. It is critical to focus on obtaining bottom-line results as quickly as possible to maximize shareholder value. Prolonged transitions slow growth, diminish profits, destroy morale and productivity, and lead to missed opportunities and loss of market share. Accelerated transitions result in more rapid return on deal investment, better capitalization on post-deal opportunities, and reduced organizational uncertainty.
- 2. Define the integration strategy.** Integration tactics must be implemented in ways that capture and protect the value of the deal. Rapidly converting acquisition strategy into integration strategy and clearly communicating the strategy are of paramount importance.
- 3. Focus on priority initiatives.** Resource workload limitations demand that integration efforts be prioritized. Shareholder value must drive the allocation of resources for meeting those priorities.
- 4. Prepare for Day One.** Critical "Day One" tasks need to be identified early, before longer-term, more detailed planning commences. This allows for prompt identification of long lead-time items, well before they can turn into closing-day surprises. A detailed plan should then be created, including all actions that will be put in place on Day One.
- 5. Communicate with all stakeholders.** Communicate early and often with all stakeholders—customers, employees, investors, suppliers/vendors and the general public—providing information that addresses their special concerns yet is consistent in overall theme and tone. Communications should articulate the reasons behind the deal, reveal timing for key actions, and be candid about both what is known and what is unknown. Feedback mechanisms should be included to ensure two-way dialogue.
- 6. Establish leadership at all levels.** Swift selection of key management posts early in the transition is critical for minimizing uncertainty, assigning accountability, defining functional authority and establishing role clarity. Companies need to quickly define organization structure and operating model, and clarify key management roles and interrelationships. In addition, during the initial phases of integration, a team-based control structure should be established to link integration strategy and leadership with task-level action and to coordinate issue, action and dependency management across the organization.
- 7. Manage the integration as a business process.** Mergers and acquisitions rarely fail due to flawed strategy. Rather, failure is most often a result of not executing the strategy in a timely fashion. Successful integration must happen quickly and systematically—the period of time between deal announcement and deal close, and the first 100 days post close, are critical to realizing quick wins and preparing the combined company to maximize value over the long term.

PricewaterhouseCoopers Merger Integration Services

Speciality Chemicals case study

Issue	A \$250 million division of a leading specialty chemicals company was acquiring a \$200 million competitor. The client required assistance in the global integration (North America, Europe and Asia) of the acquisition.
Approach	<p>PwC provided assistance in the information technology, finance and communications areas of the acquisition. The integration team was actively involved in the due diligence, integration planning and integration execution phases of the project.</p> <p>The PwC communications specialists worked with the client team in planning and preparing key employee, customer and vendor communications and announcements to highlight the benefits of the deal and reduce stakeholder uncertainty.</p>
Impact	The client recognized the value of integration planning early in the diligence process when they were able to close the deal less than 30 days after regulatory approval, which reduced stakeholder uncertainty. In addition, the strong integration services provided to the client allowed PwC's team opportunities to introduce information technology effectiveness, finance effectiveness and operations effectiveness specialists to the client. The results were add-on process improvement projects relating to adoption of a single ERP solution, simplification of the close and consolidation process, and increased supply chain management efficiencies.

Excerpt from *Five Frogs on a Log: A CEO's Field Guide to Accelerating the Transition during Mergers, Acquisitions and other Gut-Wrenching Change*

Edited by Gregg Nahass, M&A Partner, PricewaterhouseCoopers LLP

Delivering shareholder value through effective integration principles

There is no value in a prolonged transition. It adds cost, slows growth, destroys profit, and reduces or postpones the payback. The basic principles to an accelerated transition are simple:

1. Determine the economic **value drivers**.
2. Launch small, fast-paced, short-term **transition teams** that will accelerate implementation of the value drivers.
3. Aggressively **manage communications** in order to secure stakeholder support and acceptance.
4. Align **organizational roles and responsibilities** to ensure clarity of direction.
5. Select and deploy **role models** who support the desired culture.

The holding pattern

After the initial announcement is made, the company promptly gets put into a holding pattern. Positions are not filled, infrastructure projects are put on hold, financial investments are postponed, etc. The result: competitors get a free throw of the dice, middle management and employee frustration runs high, and the critics come out of the woodwork. While the company sorts through the inevitable lists of things to do, the external market and all the players are in motion.

West-side baseball—Played on the streets of Chicago's west side, it's like regular baseball in almost all respects. The most important difference is the basic rule of play. After the pitcher pitches the ball, and for as long as the ball remains in the air, anybody can kick the bases anywhere they want. Consider the batter's dilemma. To get a hit, he has to keep his eye on the ball. However, he knows that as soon as the ball leaves the pitcher's hand the field is in motion.

Following the announcement of a merger or acquisition, companies are virtually standing still while the field is in motion. Mergers and acquisitions set in motion a whole new set of changes in people, relationships, practices, procedures and behaviors. It diverts managers and distracts employees.

Transition teams

Five frogs on a log—Five frogs are sitting on a log. Four decide to jump off. How many are left? Five. Why? Because deciding and doing are not the same thing.

Deciding is easy; executing is hard. After the deal is done, management typically awakens to the cold reality that strategy and execution are two different animals. The executive team charges headfirst into the transition minefield with no map, no armor and no clue. Implementation becomes a detail lost in hype and left to overworked, underinvested transition teams and steering committees.

With no clear sense of direction, companies tend to gravitate toward one of two planning extremes. They either form too many transition teams and end up with a "planning circus," or they scrupulously avoid anything representing a participative process and end up creating a small "members-only" club. Pursuing the members-only path stalls cooperative decision making and reduces support and buy-in.

Planning circus—There's an old yachtman's creed: If you can't tie good knots, tie a lot of them. Many companies think that this applies to selecting transition teams. The basic idea is sound, but this method of teamwork tends to add work and prolong the transition. In other words, it becomes a planning circus. The result is always suboptimal. Size slows speed and dilutes accountability.

The primary purpose of a transition team is to implement strategy, not develop or validate strategy. The transition team's charter is to make progress on things that create real economic value, real fast. The process of forming and chartering these teams is aimed at defining concrete deliverables, creating clearly defined roles and committing the organization to specific timetables for taking action.

San Francisco 49ers analogy—The 49ers adopted a strategy that helped them win five Super Bowls. Rather than call plays from the sideline and risk mistakes and confusion during the highly emotional early stages of a game, the 49ers decided on a game plan and then scripted the first few series of plays. The same strategy works for launching transition teams. Decide on the game plan (the value drivers) and script the plays (transaction team action plans).

Transition team selection process:

1. Group value drivers into categories.
2. Assign a transition team for each cluster of value drivers.
3. Staff transition teams with a few (three to five) of the best and brightest people. Configuring teams on the basis of functional knowledge, line of business, special initiative or market segment is common. Cross-functional teams may be used in more complex value drivers. Representatives from both companies are important, but there is no room for horse-trading.
4. Select a transition team captain; the executive committee should do this.
5. Sponsor each transition team by a member of the executive team.
6. Assign timelines and accountability.

Launching the transition

1. Conduct a two-day offsite launch of all the transition teams simultaneously to create a sense of urgency and to energize the teams to act.
2. Create a common understanding of the reasons for the transition, the value drivers and the actions that must be taken over the next few months to accelerate progress.
3. Create concrete action plans for each value driver with assigned accountability and committed time schedules.

Stakeholder analysis

The communication of change is not about announcements. It's about gaining support and capturing buy-in. All stakeholders quickly begin to speculate about the implications of the deal for them. This speculation is immediate and concurrent with the announcement itself. Consequently, only a fraction of the message is absorbed. It is colored by personal biases, concerns and misconstructions. Every group of stakeholders has its own mix of concerns. Understanding those concerns is a primary objective of stakeholder analysis.

Stakeholder analysis helps surface the early urgent concerns (EUCs) that create distractions and disrupt operations. EUCs will erupt into crises if not dealt with immediately.

Snake analogy—If a snake crawled into your home, you wouldn't convene a committee to determine its genus and species and how best to dispose of it. You would grab a stick and kill it, right? The same solution applies to EUCs. Identify them fast and eliminate them fast, or lose support fast.

Stakeholder analysis involves three steps:

1. Identify all stakeholder groups across all locations. Stakeholders include employees, customers, suppliers, contractors, strategic partners and major investors.
2. Gather data quickly from as many stakeholder segments as time and resources permit. This is done through focus groups, interviews and surveys as soon after the announcement as possible.
3. Consolidate information gathered and build a database of clear statements of concerns, perceptions and preferred communication channels by stakeholder groups.

Delivering Shareholder Value—PricewaterhouseCoopers has extensive experience helping multi-national companies win the Merger and Integration Super Bowl. We tailor the principles outlined in this paper to our clients business needs to help them score the winning touch down and deliver increased value to their shareholders.

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PricewaterhouseCoopers chemicals experience

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