IHS Chemical Week

Dow Chemical and DuPont discussing merger

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Dow Chemical and DuPont are in advanced talks to merge—a combination of US industrial and chemical icons that would dwarf the industry's largest deal to date, AzkoNobel's 2008 acquisition of ICI for $17 billion (table). Details of the deal were first reported by The *Wall Street Journal* on 8 December. The merger would be followed by a three-way breakup of the combined company, according to published reports. Dow and DuPont shares rallied more than 10% on 9 December, closing at $51.06/share and $74.10/share, respectively, showing investor enthusiasm for the combination.

Dow chairman and CEO Andrew Liveris would be executive chairman of the combined company, and DuPont CEO Edward Breen would keep the CEO title, according to reports. Spokespeople for Dow and DuPont have separately declined to comment.

Dow was third in *CW's* latest Billion-Dollar Club, a ranking of the largest chemical makers by revenue, with sales of $58.2 billion in 2014. DuPont ranks eighth, with 2014 revenue of $24.7 billion. The two companies have each faced activist and investor pressure to consider more aggressive portfolio rationalization than they have undertaken to date.

"Business specialization has long been the road to the creation of shareholder value in the chemical industry generally and in the paints and coatings and industrial gases sectors in particular," says Jeffrey Zekauskas, analyst with J.P.Morgan. "Should the transaction unlock $2–4 billion in synergies, or 3–5% of consolidated sales, we estimate the benefit to Dow would be roughly $8–16/share and the benefit to DuPont would be roughly $9–18/share."

Breen and Liveris separately indicated in recent weeks that the companies were discussing deals for their respective agricultural chemicals businesses. The cyclical downturn in agriculture has pushed all agchem makers to consider consolidating. "We believe the primary driver of the merger is the tax-efficient combination of the DuPont and Dow ag businesses, a combination we believe would be strategically sound, highly complementary, and create substantial value," says David Begleiter, analyst with Deutsche Bank. Predeal market capitalizations of Dow and DuPont are similar, $60–65 billion each, which should enable a tax-efficient merger of equals and subsequent split, Begleiter adds.

If a merger and split were to occur, the breakup would likely create three separate $20 billion-plus companies (chart). In agriculture, the combined Dow and DuPont would be the leader overall position in agchems, with combined revenues of $18.5 billion. It would be number two in seeds, behind Monsanto, and essentially tie for second place with Bayer, behind Syngenta, in crop protection chemicals. The inclusion of DuPont's nutrition business, including Danisco food ingredients and DuPont's soy-based ingredients, would boost overall sales in the business to $21.9 billion.

The combination of Dow and DuPont's basics and polymers business would have annual sales of $39.5 billion. Dow would contribute leading positions in polyethylene, elastomers, and plastomers, as well as basic petrochemicals, including ethylene and propylene. DuPont has leading positions in elastomers, including fluoroelastomers, engineering plastics such as nylon and acetal, and packaging resins and films. The combined unit could also include Dow's urethanes and industrial solutions business.

Advanced materials would have sales of $20.6 billion and include Dow's consumer and coatings and infrastructure segments, as well as DuPont's safety and protection and electronic and communication segments.

The deal would likely draw antitrust scrutiny, but the companies' products directly overlap in only a few areas. Areas that could be reviewed include herbicides, corn and soybean seeds, photovoltaics, displays, and semiconductor packaging materials, as well as certain biobased plasticizer product lines.

"There will be a number of regulatory and tax issues that will have to be examined and dealt with if the proposed merger and subsequent breakup into three is in fact what the two parties are contemplating," says Peter Young, president of Young & Partners (New York). "This will include structural aspects of the many joint ventures as well as the impact that other previous transactions, such as the divestitures by Dow and the tax-free spin-off of Chemours by DuPont will have." Young adds, "A discussion of the merger of the two companies would probably not have happened if the change in the CEO of DuPont had not happened."

Top chemical deals			
(in millions of US dollars by equity value)			
Acquirer	Target	Value	Year
Akzo Nobel	ICI	$16,990	2008
Merck KGaA	Sigma-Aldrich	16,743	2015
Linde	BOC Group	15,519	2006
Dow Chemical	Rohm & Haas	15,423	2009
Basell Holdings	Lyondell Chemical	12,700	2007
Source: Young & Partners (New York)			