# Summary of Speaker Presentations

**Young & Partners Senior Chemical Executive Seminar**
**"Strategic, Financial, and Shareholder Issues for Chemical Executives"**
**October 27, 2009**
**Yale Club**
**50 Vanderbilt Avenue - New York City**

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| 11:30 a.m. | **Registration** |
| 12:00 p.m. | **Luncheon Speaker**<br>**Current Chemical Strategic, M&A and Financial Trends**<br>Peter Young, President, *Young & Partners* |
| 1:00 p.m. | **The Chemical Industry Under Financial Stress**<br>Kyle Loughlin, Managing Director and Team Leader, *Standard and Poor's* |
| 1:40 p.m. | **The State of the Petrochemical and Plastics Industry**<br>Gary Adams, President, *CMAI* |
| 2:20 p.m. | **Lessons Learned: Beating the Industry Downturn**<br>Seifi Ghasemi, Chairman and Chief Executive Officer, *Rockwood Specialties Group, Inc.* |
| 3:00 p.m. | **Transformation During Economic Turmoil - The Dow Chemical Company Example**<br>Carol Dudley-Williams, Senior Vice President, Basic Chemicals, *The Dow Chemical Company* |
| 3:40 p.m. | **Asia Revisited: Where Do We Go From Here?**<br>Alice Young, Partner and Chair, Asia Pacific Practice, *Kaye Scholer LLP* |
| 4:20 p.m. | **Roundtable: Perspectives on the Current Economic and Financial Crisis**<br>Moderator: Peter Young, President, Young *& Partners*<br>Participants: Conference Speakers |
| 5:00 p.m. | **Closing Comments** |

## <u>Reception and Dinner – Saybrook Room</u>

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| 5:00 p.m. | **Cocktail Reception** |
| 6:00 p.m. | **Dinner**<br>**Keynote Dinner Speaker:**<br>**Perspectives on the Future of Private Equity in the New Environment**<br>Joshua J. Harris, Managing Director and Co-Founder, *Apollo Management, L.P.* |

**Summaries of the Speaker Presentations**

(These summaries were prepared by Young & Partners and were not reviewed by the speakers.)

**LUNCHEON SPEAKER**

## Current Chemical Strategic, M&A and Financial Trends

Peter Young, President, *Young & Partners*

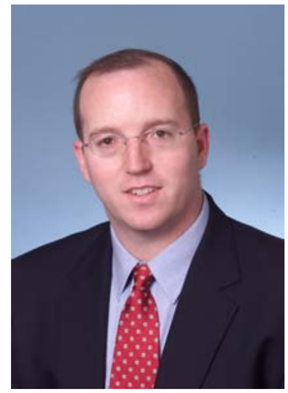
The global financial and economic crisis continues to be severe, and has significantly stressed nearly all industries. The housing market remains weak, and high unemployment has strained consumer spending as well as consumers' ability repay mortgage and credit card debt.. The lack of credit capacity provided by lending institutions has severely handicapped many companies' ability to finance inventories and operations. There are signs that credit is easing for investment grade companies, but access to capital for non-investment grade companies remains more challenging. As a result of the global recession, a large number of chemical companies are under financial stress due to depressed earnings and cash flows, high levels of debt or debt service, and the inability to refinance maturing debt. Many companies are struggling to refinance, restructure or renegotiate terms of their debt.

On the chemical industry M&A landscape, the equity value of completed deals in the first quarter was $0.3 billion vs. $20.8 billion in the second quarter and $1.62 billion in the third quarter, for a total of $22.7 billion during the first three quarters of 2009 (versus $40 billion completed in 2008.) As of September 20, 2009 the backlog of announced but not closed deals stood at $7.5 billion. Although most of the main drivers of M&A activity continue to persist, the financial and economic crisis caused a significant slowdown in the M&A market. Young & Partners believes that M&A valuations are gradually reaching trough levels in both commodity and specialty chemicals. However in 2009, the prolonged debt crisis, the economic recession, and retreating buyers will cause chemical M&A volumes to be much lower than in 2008. However, there are clear signs of a thawing of credit availability, a stabilization of economies around the world, and a slow thawing of the M&A market for chemicals. As the global economy continues to stabilize and the credit markets continue to improve, Young & Partners expects the M&A market to improve substantially in 2010. The current crisis in the financial markets and the weak global economic environment will continue to severely inhibit all equity financings, including IPOs. We expect continued improvement in the debt financing markets as long as the global economic and financial trends continue to show improvement.

**CONFERENCE SPEAKERS**

**The Chemical Industry Under Financial Stress**

Kyle Loughlin, Managing Director and Team Leader, *Standard and Poor's*



S&P believes that the economy is getting better and we have reached bottom. In terms of specific credit measures, the cumulative 5-year default rate from 1981-2008 for the Investment Grade rating categories was 1.2%, but has been 16.6% for the Speculative Grade rating categories. S&P expects additional corporate downgrades for all regions as default rates accelerate across the globe. Its view is that the rated U.S. corporate universe continues to exhibit a risky credit profile, and lower-grade corporate issuers are likely to lead to increased default supply. Spreads have tightened materially from record levels but remain elevated as investors, the credit market, and the economy tread cautiously through a recessionary period.

In the first half of 2007, GDP growth in the US was 3.8%, the S&P 500's earnings had consistent growth, chemicals volumes were growing, the number of corporate defaults was 12, and global high yield bond issuance was $207 billion. However, in the first half of 2009, US GDP Growth was -1.0 %, S&P 500's earnings had 4 quarters of decline, chemicals volumes were sharply down, the number of corporate defaults were 119, global high yield bond issuance was $66 billion, and weak operating results and the lack of capital markets liquidity heightened credit concerns.

On the M&A front, activity is limited, but strategic repositioning remains a focus. Companies have curtailed discretionary outlays during the downturn, but continue to emphasize M&A to improve competitive positions. The outlook is still slightly negative, but trends are stabilizing. On the bright side, we expect sequentially improving earnings, balance sheets that are in reasonable shape, and the positive effects of management actions to preserve credit quality during the downturn. Some portfolios have actually strengthened and diversified. Economic activity is strongly correlated to chemical defaults. Credit markets are thawing, there are more high yield bonds and leveraged loans being issued, and covenant pressures are less. Essentially, the economic outlook is still weak but improving, and that credit metrics and rating trends have stabilized. Unfortunately, the credit cycle recovery is still in early stage, and the focus remains on financial flexibility.

## The State of the Petrochemical and Plastics Industry

Gary Adams, President, *CMAI*

Rather than being negative about where we are in the cycle, we should look at opportunities that present themselves as the cycles occur. It appears to me that we are in a period of opportunity. The petrochemical commodity cycle is alive and well, and the market has become larger. Incremental supply into this market is just as large on the increment as it used to be. However, the industry will face excess capacity, additional consolidation, closure, and the need for global management. Towards the year 2013 we will see the severity of the competitive cycle of the raw material side of the business. The positives are that stimulus programs are stimulating demand around the world, that we have a very supportive monetary policy that is supportive of growth, and a resulting sense of improving confidence. From a year a go, it certainly looks better. We have relatively low inflation, and the excess capacity we currently face can absorb inflationary pressure for some period of time. Therefore we have cautious but improved confidence, and a new attitude of conservative spending is being developed.

Petrochemicals is a consumer products business. When we consider basic petrochemical plastics and its end product, 2/3 go into consumer products, which are non-durable goods. Hence, in a recession consumer goods suffer, which is why we need the consumer to come back to bolster this business. Surviving this year became the prime focus of many. The industry's challenge is Middle East capacity and the fact that Asia-India continues to invest in local capacity, but it has needed "New Gulf" exports to grow. Market imbalance is the worst in decades, and competitive conditions force "beneficial" closures, which are critical to achieving 2012-2013 recovery. Earnings will vary by region, and raw material supply economics will be a critical element. Asia remains the epicenter of over-supply pressures, and oil-based producers define the margin**,** which means that location is key for profitability. Demand in China, driven by the economic stimulus, makes 2009 better than expected. The worst of the "demand side" of the downturn is behind us, but the worst of the "supply side" of the downturn is still to come. The basic chemicals and the plastics industry profit recovery will lag the global economic recovery by a couple of years, and regional imbalances will vary greatly by product and market.

**Lessons Learned: Beating the Industry Downturn**

Seifi Ghasemi, Chairman and Chief Executive Officer, *Rockwood Specialties Group, Inc.*

Rockwood is a global specialty chemicals and advanced materials company. In 2008 it had Net Sales of $3.4 billion, Adjusted EBITDA of $639 million, and free cash of $101 million. Rockwood's business segments in 2008 were Specialty Chemicals (Chemetall), which is the largest global producer of lithium products and the second largest global producer of products & services for metal processing, Pigments & Additives, and Advanced Materials. Rockwood's strategy and management philosophy has been to have a small corporate center, to have self-sufficient and accountable business units, detailed operating metrics, short term incentive plans based on cash generation, and long term equity plans for key executives. More importantly, Rockwood focuses on on-site communications with and motivation for all employees. Moving forward, Rockwood will focus on its core businesses, strive to improve financial ratios, and invest in its businesses.

Rockwood has an outstanding portfolio of market-leading global businesses, 19% Adjusted EBITDA margin in 2008, excellent free cash generation, organic growth potential, and significant long term growth potential in lithium. Hence, Rockwood is weathering the current recession well. Keys to beating the downturn are to constantly analyze events, anticipate possible future trends, and preparation for the worst case scenario.

During the crisis, leadership is provided by staying calm and setting clear and focused goals for the organization**.** Our goal was: *"Whatever the sales are, we must maintain EBITDA margins*." We were focused on the goal to cut plant fixed costs by 10% and to cut SG&A by 20%. We have total transparency amongst all employees to share information, have frequent meetings, our leadership is very visible, we get involved in details, and provide guidance on how to achieve goals. We pay for one-off restructuring charges at the corporate level, monitor progress towards goals during the crisis on a weekly basis, monitor pricing behavior closely, and motivate the team to maintain a positive and winning attitude. These goals are achieved by being engaged and visible, knowing the details of the problems that the team faces, helping and guiding them to solve the problems, and making quick decisions to remove road blocks.

**Transformation During Economic Turmoil - The Dow Chemical Company Example**

Carol Dudley-Williams, Senior Vice President, Basic Chemicals, *The Dow Chemical Company*

From Main Street to Wall Street, businesses have been forced to adapt so they can survive. Although we had to downsize and cut back spending dramatically, we did not waver from our long-term strategy to transform Dow into an earnings growth company based on valuable specialty businesses. We have been shedding unprofitable businesses that are based on old commoditized products and technologies and focusing our attention on true market-driven technologies that position Dow to address global trends and growth markets. The acquisition of Rohm and Haas (completed in April 2009) helps us transform our company with improved margins, greater earnings predictability, and enhanced growth opportunities. We have expanded our customer offerings in key industry growth segments and our geographic reach, especially in emerging markets. We have deepened and broadened our R&D capabilities and, as a result, our patent disclosures have nearly tripled in the past five years.

Dow is building a new platform of businesses based on Advanced Materials, Health & Agricultural Sciences, Performance Products & Systems, and Basics. By directing our energy and efforts towards the customer, we find ourselves involved game-changing technologies. Examples of this in Dow today include our AERIFY™ diesel particulate filter, which removes soot without compromising diesel engine performance, and our DOW™ POWERHOUSE™ Solar Shingles, which incorporate solar cells right into building materials, making solar energy more attainable and affordable. We are also investing in a joint venture that uses our advanced materials knowledge to develop high-power battery technology for hybrid and electric vehicles. These products were not made by Dow in the past, but represent how evolutionary Dow has become, resulting in innovations that accelerate growth. We are also aligning our R&D efforts with global mega trends – Health & Nutrition, Energy, Infrastructure & Transportation, and Consumerism. Dow's 2015 Sustainability Goals span all operations, from manufacturing to R&D and marketing and well beyond traditional footprint reduction. So far this year we have accelerated cost reductions and acquisition-related cost synergies, saving $1.3 billion since our acquisition of Rohm and Haas. We have reduced structural costs by more than $600 million in the first half of 2009, and we are exiting businesses that do not align to our transformation strategy, through plant closures, the sale of Morton Salt, and the divestiture of other non-strategic businesses.

**Asia Revisited: Where Do We Go From Here?**

Alice Young, Partner and Chair, Asia Pacific Practice, *Kaye Scholer LLP*

Asia is a region of many countries and diversified economic forces, where there is a clear distinction between emerging versus mature markets, agricultural versus industrial markets, Socialist/ Communist versus democratic regimes, and natural resource rich versus scarce regions. It has a wide variety of languages, religions and traditions. It is generally low-cost compared with developed western countries, and it is a region with significant growth. Asia is facing challenges related to an evolving legal, political and infrastructure system, which creates the potential for political and social turmoil.

The *Growth Markets* are: China, India, Vietnam, Thailand, Indonesia, Cambodia, and the Philippines. **China** is the third largest economy in the world; and it is expected to be second largest economy in the world by 2020**.** It has a large consumer market, with a rising middle class. The downside is rapidly rising labor costs, energy costs, commodity prices, inflation, and concerns about bank lending problems arising from forced stimulus lending. **India** is second fastest growing economy in the world with the fourth largest economy**,** and the fourth largest chemicals producer in Asia, but it suffers from poor infrastructure. **Vietnam** has cheaper labor and land, and political stability. **Thailand** has legal reforms and privatizing petroleum, transportation, telecom and other industries, but has a shortage of skilled labor.

The *Mature Markets* are: Japan, South Korea, Taiwan, Hong Kong, Singapore, and Malaysia. **Japan** has a weak economy hit by the economic downturn, strong infrastructure, and a weak chemical industry due to cost position. **South Korea** is the 10th largest economy in the world, but has high labor cost concerns. **Taiwan** has a strong rule of law and low corruption, but it is not a key region for the chemical industry. **Singapore** has a strong IP protection, skilled workforce, but only 4 million people and no raw materials. However, it has forged an important role in refinery and petrochemicals as a regional base. **Malaysia** is a maturing market, but it has inefficient government bureaucracy and has lost its labor cost advantage. Looking ahead, particularly in China, the dangers are severe softening of economic growth, energy and environmental issues which are electricity and oil shortages, increased concerns about environmental pollution, supply and demand imbalances, shortages of raw materials, corruption**,** political instability**,** and the rise of labor costs and unemployment. On the other hand, the opportunities are growing domestic markets, strong R&D spending and availability, and accelerated investment in educational institutions.

**DINNER SPEAKER**

## Perspectives on the Future of Private Equity in the New Environment

Joshua J. Harris, Managing Director and Co-Founder, *Apollo Management, L.P.*

Are we in bear market rally or in a financial recovery? Equities have shown signs of recovery, with the S&P up 60% from March 2009 lows, whereas credit prices have increased but remain discounted. We still anticipate $10 trillion in losses, primarily related to commercial real estate debt, which could put further pressure on the markets. Traditional leveraged buyout activity has been stalled during the credit crisis, and private equity is a cyclical business. The age of the mega-buyout has passed, and there is an impending wall of maturities hanging over the credit markets. History has shown us that periods of high defaults are followed by periods of relative stability. 2009 was a peak year for defaults given overleveraged companies and the macroeconomic recession. While we believe the default rate has peaked, unlike the past two cycles, we expect the default rate to remain elevated during the next several years as balance sheets remain under pressure. For private equity, this means that firms were heavily investing in 2006-2007, but now financial leverage is less available and they are not able to consummate larger transactions. Longer-term changes to the private equity market are de-leveraging and making smaller investments.

Optimizing maturities is critical in this credit environment. Apollo has been one of the most active sponsors in leading debt exchanges, extending maturities, and reducing liabilities amongst its portfolio companies and in new situations. Chemical companies do not possess characteristics well-suited for private equity because of their high volatility and complexity, legacy liabilities, regulation, and EH&S considerations. Most chemical companies' earnings are down substantially and are expected to trough in Q3 2009. Short-term focus is liquidity preservation and balance sheet strength. Chemical M&A activity has fallen off dramatically, many strategic buyers are in an integration mode and have balance sheet constraints, with debt financing still scarce. However, recent capital market improvements have actually had a dampening effect on M&A activity in the chemicals sector, as distressed sellers were "bailed out" by the market. Transaction multiples have trended down in 2009, although the trend is influenced by a generally lower quality of businesses being sold in the current difficult economic environment. Apollo's evolving chemicals strategy in 2009 thru 2010 is "de-leveraging" through smaller, lower leverage deals that have higher probability of success. It finds opportunities in carve outs/divestitures, restructurings, and distressed acquisitions for control. Apollo has been the leader in chemical private equity investing, with 11 major transactions, all with positive returns and most with full or partial realizations.