YOUNG & PARTNERS
28th Annual Senior Chemical Executive Conference

Conference Summary

Strategic, Financial and Shareholder Issues For Senior Chemical Executives
December 3, 2015

11:30 a.m. **Registration**

12:00 p.m. **Welcoming Comments and Luncheon**

12:15 p.m. **Luncheon Keynote Speaker and Fireside Chat**

Creating Shareholder Value in the Current Era
Seifi Ghasemi, Chairman, President and CEO, *Air Products and Chemicals, Inc.*

A Fireside Chat with Seifi Ghasemi
Moderator: Peter Young, President and Managing Director, *Young & Partners*

1:15 p.m. **M&A and Financial Trends and Their Strategic Implications**
Peter Young, President and Managing Director, *Young & Partners*

1:45 p.m. **Outlook for the Chemical Industry**
Joseph Chang, Global Editor, *ICIS Chemical Business*
Robert Westervelt, Editor-in-Chief, *IHS Chemical Week*
Peter Young, President and Managing Director, *Young & Partners*

2:45 p.m. **From Private Equity to Successful IPO**
Christopher Pappas, President and CEO, *Trinseo S.A.*

3:15 p.m. **Break**

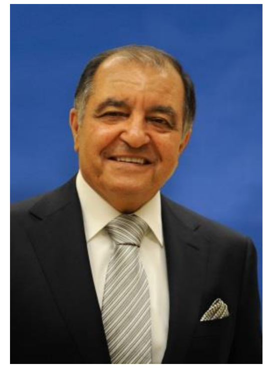
3:30 p.m. **The Changing Global Chemical Industry**
Gary Adams, Chief Advisor, *IHS Chemical*

4:00 p.m. **Shareholder Activists: Can They Create Value?**
Peter Feld, Managing Member, Portfolio Manager and Head of Research, *Starboard Value LP*

4:30 p.m. **Speaker Roundtable**
Moderator: Peter Young, President and Managing Director, *Young & Partners*
Participants: Conference Speakers

5:30 p.m. **Cocktail Reception**

Creating Shareholder Value



SEIFI GHASEMI
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER
AIR PRODUCTS AND CHEMICALS INC.

Air Products is a global industrial gases company. We have 20,000 dedicated employees. We operate in 50 countries and have 750 production facilities. The principles of the strategy that we implemented at Air Products are applicable to any large, public, multinational company operating mainstream businesses. The three essential elements of this strategy are a simple goal, employee engagement and cash prioritization.

A three-page vision/mission statement usually creates confusion so we focused on developing a clear and simple goal. "Air Products will be the safest and most profitable industrial gas company in the world." Safety and Profitability are issues that everyone understands, so the message has been easily disseminated company-wide. As a means of achieving profitability goals, we focused on the company's core competency of industrial gases and will be eliminating non-core businesses by spinning off chemicals and waste-to-energy projects (~20% of the company). This trend is prevalent among large, public companies as it improves their ability to create value, despite a subsequent reduction in scale.

Engaging employees at all levels requires tailoring organizational structure to the business model. This involves a comprehensive review of the model and fundamentally challenging the status quo.

Air Products had a global structure to support global operations. Our analysis of our model for industrial gases led us to conclude that although we have operations globally, our products are all produced and sold locally. Therefore the businesses should be run locally. This conclusion allowed us to eliminate several layers of management (~10% of the workforce).

In order to drive change, upper management needs to engage directly with employees at the base of the company. These employees are the drivers of change and the strategy cannot be executed without them. Middle management tends to maintain its power base by resisting material change. Upper management has to take the time and make the effort to communicate the goal to the masses if they expect to drive significant change. At Air Products, I personally met with and communicated our goal to 11,000 of our 20,000 employees. I emphasized the importance of safety, simplicity, speed and self-confidence in our company culture as the means to achieve that goal.

Cash is the ultimate driver of shareholder value. Metrics based on cash should be used to evaluate success. The differentiator between good and bad CEOs is how they allocate cash once it is generated. There are numerous examples of undisciplined CEO's allowing ego to dictate capital allocation decisions that destroy companies. Cash belongs to the shareholders and decisions regarding how it is spent should be approached with sober restraint. We applied this thinking at Air Products by taking total control of the use of cash. Every project over $3 million needs the approval of both the CEO and the CFO. This capital allocation discipline has rubbed off on my business unit managers who have begun thoroughly scrutinizing capital allocation decisions.

As a means of tying our desire to motivate our employees to our prioritization of cash (our metric for success), we built a bonus structure dependent on the EBITDA generated by local profit centers as opposed to the EPS of Air Products as a whole. For upper management, we established long term incentives based on total shareholder return. Specifically a significant part of the CEO's net worth should be in the company, a requirement that private equity firms have implemented successfully. This puts management in the same boat as the shareholders.

In summary, the strategy we implemented at Air Products involved setting a simple goal, engaging the employees and prioritizing cash. This strategy has resulted in a 7.2% increase in EBITDA margins over 7 quarters, a significant increase in value for our shareholders.

A Fireside Chat with Seifi Ghasemi

PETER YOUNG, PRESIDENT AND MANAGING DIRECTOR, YOUNG & PARTNERS
SEIFI GHASEMI, CHIEF EXECUTIVE OFFICER, AIR PRODUCTS AND CHEMICALS INC.

Young: As everyone knows, you are originally from Iran. You were born in the town of Mashhad. Tell us some things about your early childhood, your family, and your education at a special school organized and funded by the international oil companies operating in Iran at the time.

Ghasemi: I was born in the eastern part of Iran. My father was a university professor. I was the eldest of four brothers. The oil companies were under a lot of pressure from the Iranian government to hire indigenous Iranians for management roles. The oil companies set up a special school at the refinery to prepare students for these roles. The classes were all in English and included an education in the humanities and basic engineering. I was accepted into the school and I graduated at the top of my class in 1966. I applied to various graduate schools and got into MIT, Caltech and Stanford. I chose Stanford and, after one semester, I earned a scholarship. After graduating with a masters degree in mechanical engineering, I met my wife and got a job in San Diego. In 1971, my wife and I moved back to Iran and I taught at the Abadan Institute for 3 years. In 1973, the price of oil went through the roof resulting in a massive capital influx for Iran. The shah, interested in industrializing the country, created a nationalized steel company led by the president of the Abadan Institute. The president took me on as his number two. We grew the company to about 300,000 people by 1979. I eventually took over the job of running the company at age 39. Then, the world changed. We were arrogant in thinking that there was no possibility of the leftist and Islamic organizations taking power. Once they did, Iran was no place for me. I had a very difficult time getting out.

Young: Now your wife and child were already out?

Ghasemi: Yes and we were very lucky in that regard. I had to walk out of the country on foot. However, I do consider myself very lucky in that I was able to survive and get to Europe. I returned to the United States and started from scratch.

Young: Any comments on the influence that your upbringing in Iran has had on your career?

Ghasemi: The most important thing I learned from my experience in Iran is that situations are never as stable as you think. This applies to companies as well. Nobody ever thought that General Motors could go bankrupt. You always have to keep your eyes on the ball with regard to the organization's stability. Secondly, my experience instilled in me a sense of fearlessness. I've never been worried about being fired because nothing can be worse than what I've already been through.

Young: You left out a very interesting part of your career. When you came out of school you worked for William Lear, the founder of Lear Jets?

Ghasemi: Bill Lear had just made a lot of money from the sale of Lear Jets. I had always loved planes and during the interview he put me in the co-pilot seat of one of his jets. I took the job. He was determined to develop a steam-powered, clean alternative to the internal combustion engine. He wanted to fit the entire system into an Indy racecar. We were unable to make him understand that this wasn't feasible. Eventually I got frustrated and left for the job in San Diego.

Young: When you came back from Iran, you started your career with The BOC Group. What was that transition like?

Ghasemi: I wanted to get a job with low visibility as there was still a danger of blowback from my time in Iran. I took a job within a division of BOC located in St. Mary's, Pennsylvania, a town of 700 people. I went from running the National Steel Company of Iran to a project engineering role in this small town. Eventually, I worked my way up the ranks and moved to Pittsburgh.

Young: Eventually you became the CEO of Rockwood, a private equity backed company. Can you tell us about that transition?

Ghasemi: I was the COO of a company [BOC] with $12 billion in sales and KKR proposed that I run Rockwood which had $750 million in sales. I was very impressed with their thinking on value creation. I was convinced that if I really wanted to make an impact and create some wealth for myself, this was the right thing to do. Rockwood was private and backed by KKR so I had a lot of time to actually run the company. I explained to KKR that I wanted to grow Rockwood into a multi-billion dollar company and take it public. They were very supportive. From the day I started to the day I finished, the same four people from KKR were on my board. That experience taught me that substance trumps form. I'm trying to apply that same thinking at Air Products.

Young: Why the decision to take Rockwood public as opposed to selling?

Ghasemi: By 2005, we had grown the company to ~$3.5 billion in sales. I understood KKR's desire for liquidity, however I believed that there was more value to be created. I made a deal with KKR to let me use the money from the IPO to de-lever the company. That gave us room to continue to grow the company substantially. In 2010 they sold the majority of their shares at ~$45 per share and earned a decent return on their investment. Four years after that Albemarle bought Rockwood for ~$83 per share.

Young: How did you end up becoming the CEO of Air Products?

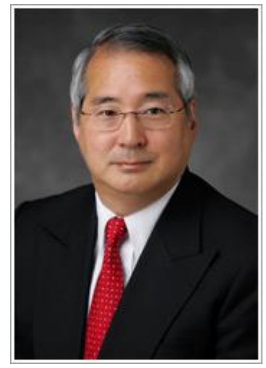
Ghasemi: In September 2013, I got a call from Pershing Square. They were gearing up for a proxy battle over seats on the board of Air Products and wanted to propose me as a potential candidate. I declined as I did not want to be part of a proxy battle. A month later, I received another call from Pershing Square. They were now going to settle with the company and would be recommending two people for board. I agreed on the condition that the current board members invite me to join. They did and I was part of the selection committee to find the next CEO.

Young: What key things should CEO's of chemical companies focus on?

Ghasemi: I believe very strongly that the key thing for CEO's to focus on is operational excellence. If a business is running optimally, it can survive in the worst of circumstances. Everything else [growth, acquisition opportunities, etc.] will fall in line.

Outlook for the Chemical Industry

PETER YOUNG
PRESIDENT AND MANAGING DIRECTOR
YOUNG & PARTNERS



The Fragile State of the Global Economy

Although economic growth has been stable in the U.S., India and China, it has been weak in Japan, Europe and many emerging markets such as Brazil and parts of Southeast Asia. Many countries are either in political turmoil (Egypt, Thailand, Ukraine, Turkey, Syria, Iraq, Israel/Gaza, ISIS activity in the Middle East) and/or under severe pressure in terms of capital flows, economic performance and exchange rates.

Currently there are ongoing concerns about the weak growth in Europe, oil related revenue and economic disruptions in Russia/Middle East/Latin America, economic stress in other developing market countries, and the potential structural/growth problems in China.

We are clearly seeing a slowdown in the Chinese economy which is reinforced by the lower government target for 2015, high levels of corporate and government debt, an apparent real estate bubble, and disruptions in the Chinese equity markets.
Europe in particular has a long way to go before it will be able to achieve stability because it faces a euro zone-wide structural problem which requires a structural change that will be difficult to implement.

The only bright spots for the global economy have been the lower price of oil, the current strength of the U.S. and Chinese economies, and signs of a revival of growth in India.

In summary, it is clear that there will be a continuation of global political, economic and financial stress for some time.

The Chemical Industry

Chemical companies as a whole have done well since the economic and financial crisis in 2008 – 2009. As demand recovered, capacity initially was mothballed and new capacity was added rationally. As a result, cash flows have been strong.
The dramatic increase in shale oil and gas supplies in the U.S. has benefited U.S. chemical companies in terms of both raw material and energy costs, increasing the competitiveness of the U.S. chemical industry. Earnings have been positive overall, but there are pockets of weakness, particularly in Europe and a number of emerging markets.

U.S. companies have been negatively affected by the strength of the dollar in terms of reported earnings.

The dramatic fall in the price of oil is benefiting the global chemical industry overall. However, it has reduced the cost advantage of U.S. chemical companies that was based on shale gas and has had a clearly negative effect on chemical companies that sell to the oil and gas exploration industry.

Although CEOs are more optimistic than they were in 2009, they are understandably still exercising caution. The key issue is whether the fragile global economic and financial conditions remain stable or are negatively disrupted.

The Stock Market and Valuations

Although the stock market has experienced a slump and significant volatility since August and the Young & Partners chemical industry stock market indices have also suffered, the current valuations of chemical companies are still strong. The stock market has been favoring the chemical industry due to the industry's strong earnings fundamentals.

The U.S. and European chemical companies are currently trading at a valuation premium to the general market. However, the U.S. basic chemicals are slightly below the general market multiple and U.S. fertilizer companies are at a significant discount and out of favor.

Economic/Financial Outlook

We believe that much of the world will struggle to achieve growth in a very difficult geopolitical and economic environment. China and India will have high growth rates on a comparative basis, but both will struggle to maintain their higher growth rates. The U.S. will have solid, but modest growth. Europe will continue to be weak and emerging market countries and oil based economies will continue to be difficult places to do business. Obviously, the prosperity of the chemical companies will be driven by the economic environment.

Stock Market Outlook

Disruptive news on a regular basis (geopolitical, Eurozone problems, emerging market country turmoil, etc.) has driven the volatility of the stock market globally. However, we believe that the flow of funds macro trends will continue to drive investors to the U.S. and partially the European equity markets as long as the alternative investments continue to be unattractive. In essence, money has to find a home.

The chemical industry stock market performance is heavily driven by macro trends. Hence, the future performance of chemical share prices will depend on the global economic/financial picture. It is unclear where the industry valuation is heading given the overall uncertainty and recent volatility in the economic and financial markets.

Outlook for the Chemical Industry

JOSEPH CHANG
GLOBAL EDITOR
ICIS CHEMICAL BUSINESS

One of the big themes this year has been the collapse in commodity prices. Copper, aluminum, Iron Ore and Brent Oil have all seen declines over the past year. China has gone through eight consecutive months of contraction in the manufacturing economy. The US has also lost momentum in the manufacturing economy. China's devaluation in August triggered market chaos and capital flight contributing to commodities deflation. Chinese exports became incrementally more competitive while imports became less competitive. A significant headwind for US chemical companies doing business oversees has been the tremendous increase in the value of the US dollar.

Natural Gas is very cheap. Naptha, based on crude oil, has also come down. The environment for ethane has become more competitive as 2015 saw a flattening of the cost curve. The prices of US petrochemicals are highly correlated with the price of crude oil. The price of HDPE (polyethylene) will, to some extent, follow the price of crude oil. The gap between US, Europe and Asia for polyethylene margins has converged as Naptha prices have come down with crude oil. Europe and India are still importing US ethane despite this gap closure in margins. Polyolefins segment EBITDA margins are at a record 30-40%.

The US is going through a big build out of ethylene capacity. There are 6 projects under construction today most of which are slated to start up in 2017. These projects will add 8.1m tonnes/year of new capacity. This is more capacity than the past 2 cycles have added. Commodity cycles are caused by patterns of over-investment and under-investment. Currently, we are in a recovery period so companies are spending again.

Many China CTO/MTO (coal-to-olefins/methanol-to-olefins) capacity expansions have been delayed or canceled. The flattening of the cost curve has made China CTO less competitive. China will continue to be a large importer of polyethylene through 2020.

There are 3 new propylene plants under construction. The spread between US propylene and propane has compressed a great deal. China has increased its capacity to move towards self-sufficiency in propylene.

Iran has a number of planned projects for petrochemical production.

In conclusion, the macroeconomic outlook is becoming more challenging. The US petrochemical wave is on its way. Crude oil will dictate petrochemical margins. High oil prices will benefit US gas-based producers. China will become increasingly self-sufficient in propylene. Europe and India will import US ethane. It will become more and more difficult to dodge boom-and-bust cycles.

Outlook for the Chemical Industry

ROB WESTERVELT
EDITOR IN CHIEF
IHS CHEMICAL WEEK

Growth in this decade is much weaker than was expected. From 2011 to 2015 BASF cut forecasted growth for 2010-2020. Global GDP was cut from 3.0% to 2.5%. Chemical production was cut from 4.0% to 3.0%. Industrial production was cut from 3.8% to 2.4%. Shaving 1% of growth through 2020 equates to about $400 billion in expected sales growth lost.

Historically, the percentage change in chemical production year-over-year has been much more volatile than that in Real GDP. The forecast for percentage change through 2020 for both chemical production and Real GDP has become more moderate.

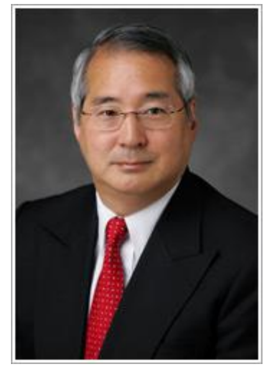
The purchasing manager's indices are signaling little manufacturing growth. The US, China, Eurozone, and Japan are all just over the 50% expansion/contraction threshold. The US chemical industry is being dragged down by the strong dollar, the collapse of the oil sector and the effect the drop in feedstock prices has had on the inventory cycle. There is a lot of variation in how well/poorly chemical companies exposed to certain markets are doing. Companies exposed to housing, automotive and electronics are doing well while those exposed to oilfield chemicals are doing poorly.

Global chemical capex spending peaked in 2014 and is projected to ramp down through 2020. This is primarily driven by spending decreases in China. However, Northeast Asia [China] still accounts for the lion's share of industry capital growth going forward. Spending precedes online capacity so capacity will likely peak in another 1-2 years. Capital spending in North America is still ramping up and will likely peak in 2017. The American Chemistry Council is currently tracking 246 US projects with a combined cumulative value of $155 billion. Over 60% of that spending is from investors outside of the US. Global capital spending in ethylene, urea, polyethylene and methanol capacity additions will dominate through 2034. More than 140 million metric tons of ethylene and 100 million metric tons of polyethylene capacity will be added globally.

US chemical margins are still strong despite weak revenue growth. This is primarily a result of cost control and price initiatives, particularly in downstream derivatives. Chemical industry revenue in the 2Q 2015 was $127 billion, a decline of 6% year-over-year. Operating margin in the industry at the end of 2Q 2015 was unchanged year-over-year at 12.1%.

The risk of recession still remains generally low. IHS forecasts global GDP growth of 2.9% in 2016 up from 2.6% in 2015. US growth will accelerate from 2.4% to 2.9%. Growth in the Eurozone will improve from 1.4% to 1.7%. Growth in China will decelerate from 6.8% to 6.3% but will remain a key driver of chemical demand. India will be the strongest performer with over 7% growth in both 2015 and 2016.

M&A and Financial Trends and Their Strategic Implications



PETER YOUNG
PRESIDENT AND MANAGING DIRECTOR
YOUNG & PARTNERS

M&A Trends – First Three Quarters of 2015

On an equity value basis, $31 billion of deals greater than $25 million in value were completed globally in the first three quarters of 2015. This was made up of $17 billion in the first quarter, $7 billion in the second quarter, and $9 billion in the third quarter.

This compares to $31 billion in the first three quarters of 2014 and $49 billion for all of 2014.

In terms of numbers of transactions, 70 deals were completed in the first three quarters of 2015 versus 64 deals in the first three quarters of 2014, a slightly higher pace through three quarters. However, since there was a massive surge in the number of deals completed in the fourth quarter of 2014, it is unlikely that we will match or exceed the 108 deals completed in 2014.

We are operating in line with last year, which is a big drop off from the big increases in both dollar volumes and numbers of deals that we experienced in 2012 to 2013 and from 2013 to 2014.

Asia/ROW led in the first three quarters of 2015 in terms of where deals were completed, accounting for about a record 54% of deals completed worldwide. The U.S. and Europe were tied for second with 23% of deals completed worldwide each.

Financial buyers accounted for 13% of the total number of deals completed in the first three quarters of 2015. This is a lower market share compared to the norm. However, at 23% on a dollar volume basis, financial buyers, on average, appear to be doing larger deals than the industry average.

Looking forward, the value of deals announced but not closed as of September 30, 2015 was $36.8 billion (34 deals) compared to $22.8 billion (27 deals) as of June 30, 2015, a sign that deal activity will remain relatively strong.

Of the $38.6 billion of backlog, however, only $18.5 billion worth of deals have closed or are expected to close in the fourth quarter ($17.4 for the Merck/Sigma Aldrich deal and $1.1 billion for the Apollo/OM Group deal).

Debt Financing Trends – First Three Quarters of 2015

Global non-bank debt financing was $23.4 billion in the first three quarters of 2015 versus $22.3 billion in the first three quarters of 2014. Investment grade debt totaled $16 billion in the first three quarters of 2015 compared to $19 billion in the first three quarters of 2014. High yield debt issuance was $7.1 billion in the first three quarters of 2015. This compares to $3.3 billion issued in the first three quarters of 2014 and is already higher than the $5.1 billion issued for all of 2014. However, the high yield market has become more challenging in the fourth quarter.

Equity Financing Trends – First Three Quarters of 2015

In the first three quarters of 2015, only $2.7 billion of equity was issued as a result of 7 offerings. There was only one IPO. With strong cash flows, excess cash, access to low cost debt financing, and no large M&A deals requiring subsequent balance sheet adjustments through the issuance of equity, the chemical industry's need for public equity has been limited. Nevertheless, chemical IPO activity has always been very modest over the years. There were only seven last year and five the year before. Only two have been completed this year, one very small and the other very difficult.

From Private Equity to Successful IPO

CHRIS PAPPAS
PRESIDENT AND CHIEF EXECUTIVE OFFICER
TRINSEO SA

Trinseo was carved out of Dow Chemical in 2010. We have $5.1 billion in revenue and 200 employees based in 27 countries. More than 50% of our sales are in Europe.

We have two divisions in our portfolio: Performance Materials and Basic Plastics and Feedstocks (BP&F). Performance Materials is the higher margin, more stable business. 75% of the capital generated from the commoditized Basic Plastics and Feedstocks business is invested into Performance Materials. We are not building the commoditized business.

We are downstream of the cracker business and the butadiene/benzene business. Therefore, we don't have large capex expenses because we are never building butadiene/benzene plants. We are happy being purchasers of those materials under long-term contracts at competitive market prices. Everything that is transferred within the company is transferred at market prices. This allows us to judge individual business as if they were stand-alone units and buying from the market.

Trinseo is composed of the last set of assets Dow sold on the heels of the Rohm and Haas Company acquisition. As part of their restructuring, Dow collected what they thought was a scalable, saleable set of assets. These assets were never run as a division. I was approached by a number of bankers who encouraged me to meet with private equity firms as a potential candidate to run this business. Bain Capital convinced me that this could be a very exciting opportunity.

There were a number of things we needed to accomplish a successfully "carve out" from Dow Chemical. We had many intersections with Dow. We had no IT, finance, human resources or legal departments. We faced challenges in company morale, personnel capability, workload versus bandwidth, etc. We leveraged this opportunity to develop a new company culture and build both human resources programs and IT systems.

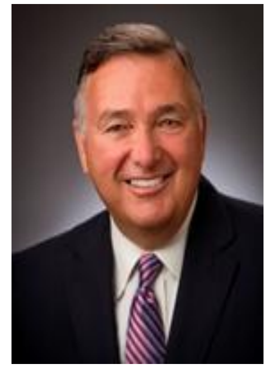
The next step was to "optimize and improve." Business rebounded in 2010 and we thought due to the cyclicality of the business, this rebound would drive up our value. We took a $400 million dividend in 2011 increasing the debt from $800 million to $1.2 billion. We had plans to go public in July 2011. Then things really slowed down and we had to put the IPO on the shelf. This prompted a top to bottom restructuring. We trimmed ~$100 million in costs, renegotiated our feedstock contracts, upgraded our IT systems and built in public company processes in preparation for the IPO. The experience taught us that the best laid plans don't always work, to be ready to weather storms with a strong balance sheet/cash flows and the importance of IT systems that provide critical business intelligence.

Trinseo filed for an IPO in March 2014. We restructured the balance sheet to prepare for the offering. We rebranded from Styron to Trinseo around the IPO event. We realigned our business groups to better tell our story. "BP&F is a cash generating, cyclical machine and Performance Materials is an investable set of growth technologies." We also had to establish credibility with investors and financial analysts. Most importantly, we had to show results. We have done from $216 million in EBITDA in 2012 to an expected $525-536 million EBITDA in 2016. Our steady cash flow improvement has allowed us to de-lever from 4.8x [Net Debt/Adjusted EBITDA] in 2012 to 1.7x expected in 2015. Our stock is up ~55% from our IPO price and 83% YTD.

The future of our company is bright. There are structural changes in the styrene/polystyrene industry that have led to reduced capacity, synergies and higher operating rates. We are investing in our rubber, latex and performance plastics businesses while taking advantage of the cyclical rebound in polycarbonate and styrenics. We are now evaluating strategic growth options prudently and patiently. We are going to be moving through a phase where Bain Capital will likely monetize through a series of secondary offerings.

The Changing Global Chemical Industry

GARY ADAMS
CHIEF ADVISOR
IHS CHEMICALS



Key issues for the global chemical industry include crude oil pricing outlook, demand growth, U.S. liquid natural gas supply, infrastructure investment, non-conventonal vs conventional production technologies, China, the lifting of sanctions against Iran and sustainability.

A rapid change in raw materials pricing paralyzes supply chains as buyers anticipate lower prices. The resulting price declines ultimately stimulates demand. Lower margins force reassessements of capital spending which sets the stage for tight conditions in the future.

There are a large number of chemicals that are based on oil refinery products. These tend to be priced against crude oil. Price makers driven by gas or coal have not seen price changes nearly as drastic in the last several quarters. We are living the downside cases [lower oil prices] of the models IHS was engaged to develop for many of the large multi-billion dollar capital investments.

We've also seen an increase in demand from substitution. Prices for paper and glass have not moved nearly as much as the prices for methanol or polypropylene. The chemicals industry has leveraged this to drive growth.

North America is well supplied with LNG. There is sufficient ethane supply to not only handle the current wave of new US ethylene crackers, but to export as well. Propane supply is also in abundance. Ethane prices can only rise so high before propane becomes a competitive feedstock in the cracker.

Global EBIT will pull back slightly in the short-term before accelerating as demand growth exceeds supply. IHS forecasts an extended period of higher [than the historical average] global aggregated profits.

China's 13th 5-year Plan is much more sophisticated than we've seen in the past. It has historically been exclusively focused on production.

Recent shifts in the Chinese chemical industry have been centered around feedstock, ownership and geography. Conventional petrochemical growth has ceded to growth in unconventional chemicals. Major State Owned Enterprises are losing market share to private companies. Private Sector growth is projected to expand from 17% of the total in 2009 to >45% in 2020. There is increased focus on foreign investment by Chinese private companies. Demand growth remains mainly in the East and South. Capacity growth is shifting to western provinces to leverage "stranded coal" feedstock.

The Iranian petrochemical industry is much less efficient than it could be. Politics aside, Iran has the potential to become a major player in the global petrochemical industry. One example of this potential is the partially completed production of an integrated ethylene network.

We will continue to see chemical trade expand and globalize, connecting resource-rich producers with high growth markets. There will need to be significant investment in all levels of logistics infrastructre to support the volume increases.

Shareholder Activists: Can They Create Value?

PETER FELD
MANAGING MEMBER
STARBOARD VALUE LP

Activism is an investment strategy. Our goal is to invest in companies that we think are undervalued for company-specific issues. These issues should be fixable. We get involved to fix them and create value for shareholders. We define winning as generating long-term returns for the investors in our fund. We like to make sure the companies we invest in are healthy, well-performing companies. We have built our reputation around exiting our investment with the company healthier than when we first invested.

Public companies can lose ownership mentality over long periods of time. This can happen when management teams and boards do not have significant equity exposure. As a shareholder advocate, we try to bring that mentality to the boardroom. We tend to target companies that are in the bottom quartile in terms of performance of their respective industries over multiple years.

When management teams repeatedly produce initiatives to improve performance without any demonstrated results, there is a credibility issue. An important part of activism is bringing credibility/accountability back to boardrooms.

Starboard tends to find itself in the middle of the activist spectrum between private engagement and public contention. Operational Activism focuses on issues around how companies manage their business. Transactional/Capital Structure Activism focuses on capitalization and strategic issues. Starboard has built its brand around operational turnarounds. Our investment horizon is typically 2-3 years. We have had a14.7% Net Annualized Return since inception.

We evaluate potential investments based on “Value, Plan, and Path.” We have found that adhering to these parameters, regardless of industry, size or environment, results in success. Value is based on “best in class” execution independent of the quality of management or current earnings. If we can invest in companies at significant discounts to where their peers trade, we can realize very healthy returns. Plan refers to our strategy for correcting the company’s issues. These are action items that should be within management’s control that will result in cash flow/earnings improvement. Path refers to our ability to implement our changes. We have to determine if the company’s corporate governance mechanics lend themselves to outside influence. It is important for us to determine if our involvement would be favorably received by the existing shareholder base.

The changes we pursue are tailored to each investment. We have been involved in 87 active engagements. We’ve nominated corporate directors to the boards of 56 of these companies. We’ve been able to negotiate settlements in 41 engagements. 16 engagements involved proxy contests ending in shareholder votes. As a result, we have added or replaced approximately 145 corporate directors on 46 boards.

Our goal is to work cordially and constructively with every company we invest in. However, there are going to be circumstances where there is fundamental disagreement. Public company governance is ultimately a democratic process. We try to strike a reasonable balance between the need for growth and profitability. The proxy contests are signals to companies that we are willing to pursue our agenda exhaustively.

Starboard is a public market participant that takes a private equity approach to investing. We have invested across a wide variety of sectors across the years. In chemicals, we’ve invested in LSB Industries, Calgon Carbon and we are currently invested in WestRock.