



Where The West meets The East

Mergers and Acquisitions

Operational Change plays a key role in increasing the ROIC of acquired Asian companies by an average of 179%

THE CHALLENGES

“In the 80’s the opportunity in Asia was to sell Western made Chemicals into a large growing market. In the 90’s the focus was on procuring base chemicals and intermediates from Asia to use in the western world. The Early 2000’s saw a major move of capital expenditure and capacity build up in the region by western companies who then moved the products globally. Here is the next phase – consolidation of the western and Asian producers into larger, truly global integrated producers.”

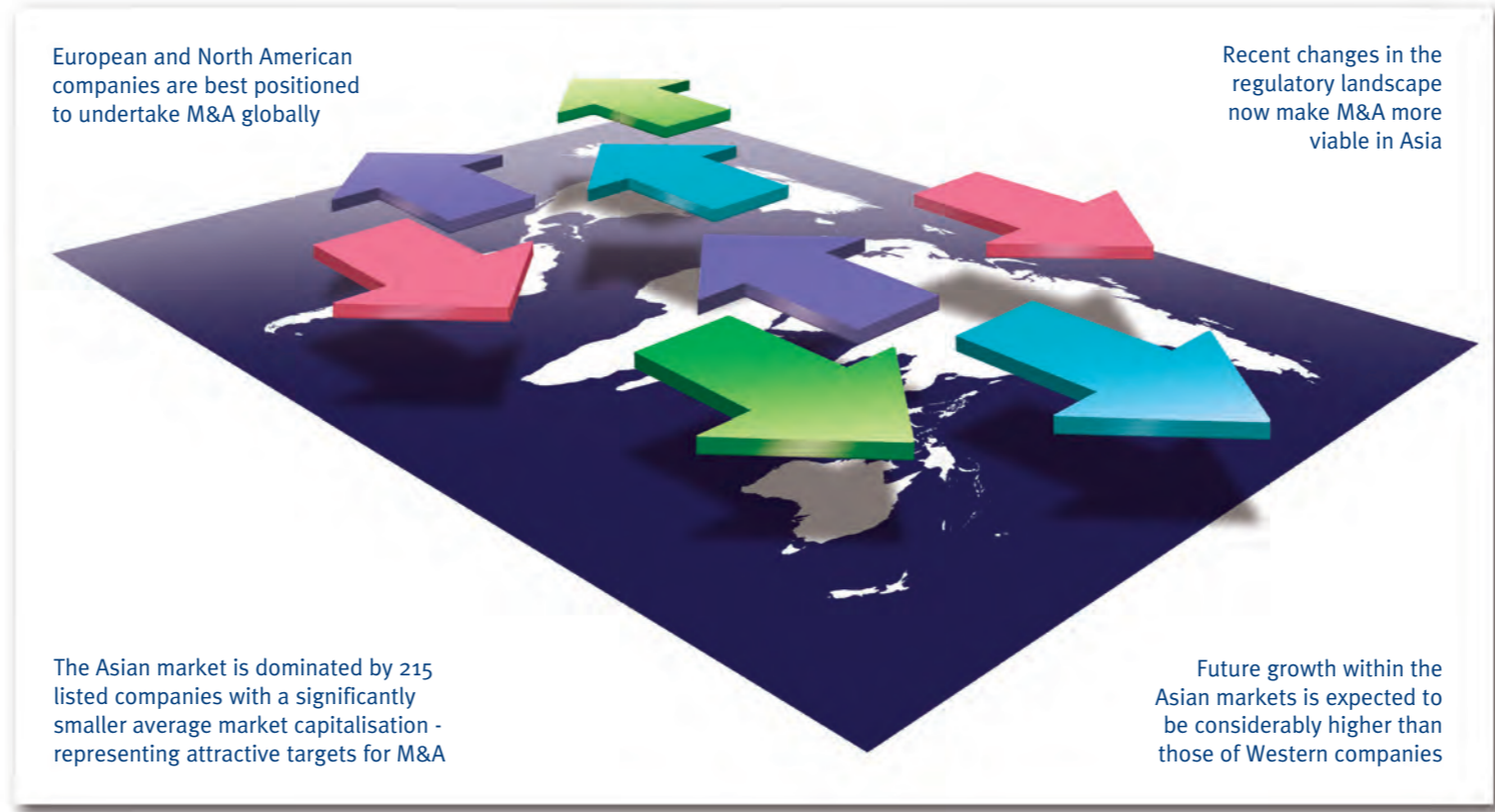
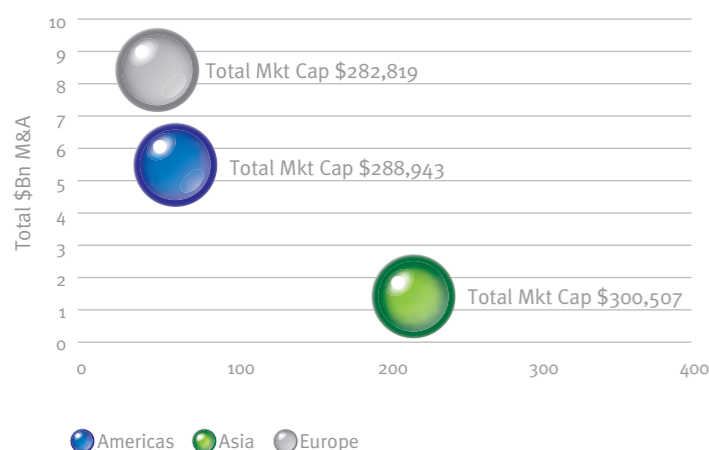
Dr Lyndon E. Cole, former Executive Vice President, Celanese

The challenge for those larger companies in the West is how they can secure their future growth – and whether acquiring Asian targets would boost their long-term profitability. A focus on Asian targets would make sense for many companies, but the integration of cross continental companies, whilst not doomed to failure, brings a set of unique and complex challenges.

Without a doubt European and North American companies are best placed to execute M&A in Asia, but there are now leading Asian companies that have the capability. They have the financial capacity and the advantage on the ground in that there is cultural congruity and they have premium equity valuations, which can be used to leverage acquisitions. There are about 20 potential Asian acquirers – companies that have the three key strengths mentioned above – premium share value, high operational efficiency and good financial capacity. These include major players in Japan, China and South Korea, as well as a few leaders in countries such as India and Thailand. So competition does exist and they will get stronger as time passes.

As European and Northern American companies emerge from day-to-day management in the current economic downturn, thoughts will inevitably return to growth and M&A. If Celerrant is right, much of the action could be in Asia over the next decade, as regional and multinational producers fight it out for a share of the fast expanding market in the region.

Dollar Value of M&A vs. Number of Firms



THE SITUATION

In recent years, European and North American chemicals companies have experienced considerable growth in their respective regions, boosted by M&A activity, but the opportunity for future local M&A growth in these mature markets has all but dried up. However, the situation in Asia appears to be opening up for M&A consolidation. On the whole, the Asian players lag behind their Western counterparts in terms of average returns but future growth rates are expected to be considerably higher. From 2004 up to the second half of 2008 the Shanghai Index posted a gain of over 300% within Asia with the industry showing a greater 5-year revenue growth than that of Western counterparts.

A recent extensive study by Celerrant into the performance of 329 publically quoted chemicals companies shows that there are 215 listed chemicals companies in Asia, 61 in the Americas and 53 in Europe. Total market capitalisation for the companies in each of the three regions is similar – at around \$280bn-300bn - but the average values differ markedly. In Asia, the average market capitalisation is just \$1.23bn, compared with that in the Americas of \$5.06bn and that in Europe of \$5.88bn.

Based on a variety of metrics, the valuation on Asian chemicals companies are 30-40% higher than their Western counterparts and their stock prices have performed far better than those companies in North America and Europe. The down side is that although Asian companies are valued at a premium, they underperform on nearly every operating metric.

This lucrative market is still highly fragmented and dominated by a plethora of relatively small companies in terms of market capitalisation. As such they represent attractive take-over targets, especially in the current economic climate given that Asian economies and markets are growing at a faster rate than those in Europe and North America.

Recent changes in the regulatory landscape make M&A possible. Asian, European and North American companies are best positioned to make the leap into this market. However, Asian companies will be looking to each other for growth, and try to form a bloc that will counter the threat from the West. They have the advantage on the ground with cultural congruity, premium equity valuations, and a deeper understanding of operating challenges within their borders.

HOW CAN CELERANT HELP?

Celerrant has just completed a comprehensive study of all listed chemicals companies around the globe. Our research has found that broad consolidation in North America and Europe has diminished opportunity for further growth through acquisition in these regions. The opposite is true within the Asian market. Asia has yet to begin the process and it is vital that Western companies, who are looking for non-organic growth, look to this region.

However, there are challenges... cultural congruity, higher comparable valuations and less disciplined organisational processes will all come into the equation. For companies willing to meet these challenges by adjusting the internal business process and reflecting Western standards of efficiency, Celerrant research demonstrates that a 179% percent increase in ROIC is realistically achievable.

ROIC Improvement Opportunity



As the global leaders in post merger change implementation Celerrant represents the best support partner to aid your company’s future growth.

Celerrant’s chemical experts are well positioned to facilitate a strategy and targeting workshop with your executive team. Using the operational and financial data already collected on the 329 listed companies, rapid analysis can be prepared to demonstrate the financial and operational impact of your future strategic decisions. By involving operational change experts from the outset, the two largest acquisition risks are reduced - selecting the right target and operationally integrating the newly acquired company. Celerrant is prepared to begin supporting this process today.

We have over 20 years experience of delivering successful, sustainable change for the world's leading companies and last year we realised over \$1 Billion in savings for our clients. Why did those clients choose us?

Results Certainty

We make a significant proportion of our fees contingent on the delivery of financial and operational results

Speed of Action

We quickly identify the most significant opportunities and implement improvements

Global Reach

We deploy our experts to any location and have a proven track record of delivering change across regions

With over 600 employees and offices in 11 countries, Celerant are the largest independent player in the operations sector of the global consultancy market.

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