



Edica-Garnett Partners

Indicative Case Studies

General Industry & Emerging Markets



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***Edica-Garnett Partners,
with extensive experience in materials
industries, regularly advises corporate
executives on strategy and the execution of
that strategy globally***

**Indicative Case Studies
A Cross-Section of the Materials Sectors**

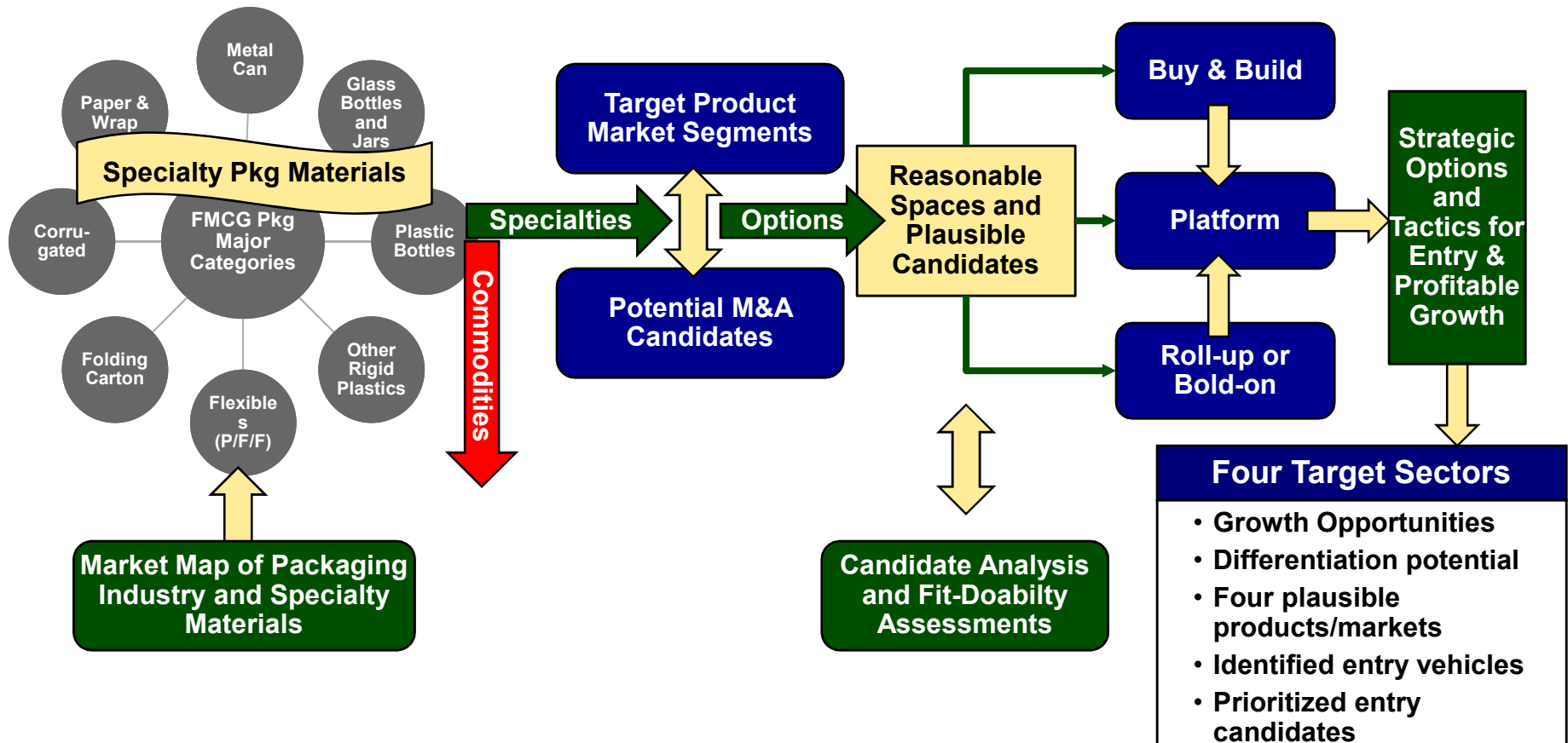
Fifteen **Coating NBO platforms were defined through trend analysis and five were developed into initial investment proposals to management**

New Business Opportunity Themes	Comment
Corrosion Solutions via coatings innovation	Provide a comprehensive set of technologies that are “safe”
Migration Control	Eliminate hazardous ingredients or prevent exposure
Geographic Diversification	Mostly about China, improve cost structure / serve local market
Surface Excellence from paints and coatings	Broad surface performance and affects technologies
Nano Solutions in Coatings	Build in nano with inorganic, sol-gel and colloids technologies
Cool Roof Coatings	Leverage emerging interest in “green buildings”
Innovative Additives	Multi-functional additives - adding functionality to inorganics
Pillar Growth	Current position is just one leg on a stool, add others
Packaging Graphics	Play in new plastics packaging technologies
21st Century Coatings	VC-like approach, invest in emerging coating technologies
Security, Reliability & Traceability – coatings innovation	Additives that ensure quality, safety and authenticity of products
Dirt and Bug Busters – Durability & Antimicrobial	Focus on resistance to surface damage, degradation & microbes
Additives-R-US for coatings	Focus on 70-80% of functional additives; roll-up position
High Performance Protective Coatings	Extend market participation with selected products
Meto-Kote Contract Coating Model in Dispersions	Decapitate dispersion activities (on-site or at central plant)

After screening through investment platforms, EGP worked with the client on M&A strategy and targeting

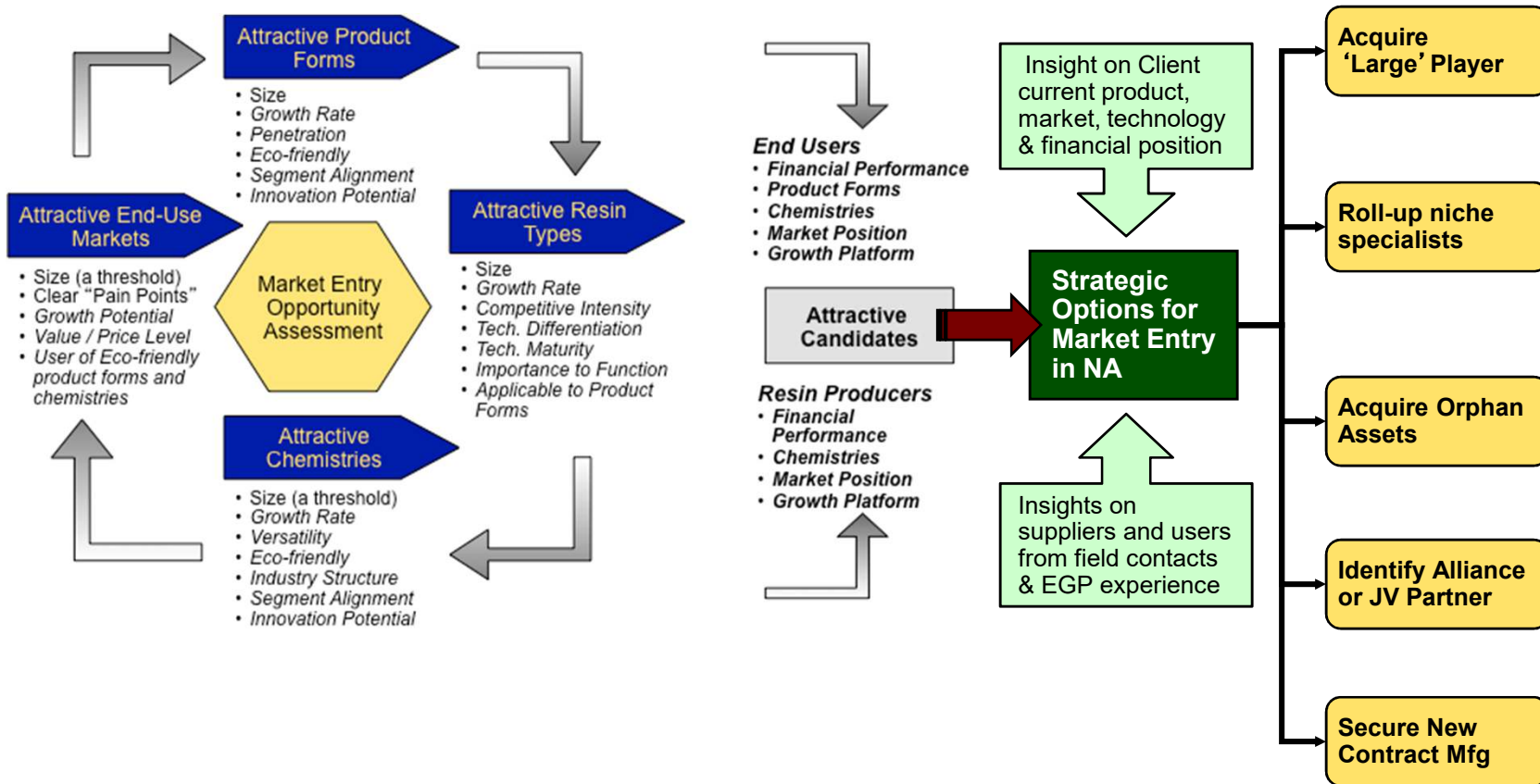
M&A led growth in specialty materials: Finding acquisition candidates in suitable products to be acquired and successfully grown

Edica-Garnett Perspective on NBO Targets and M&A Strategy



Of particular focus were barrier coatings for paper packaging, coatings for flexible packaging structures, protective coatings for glass packaging

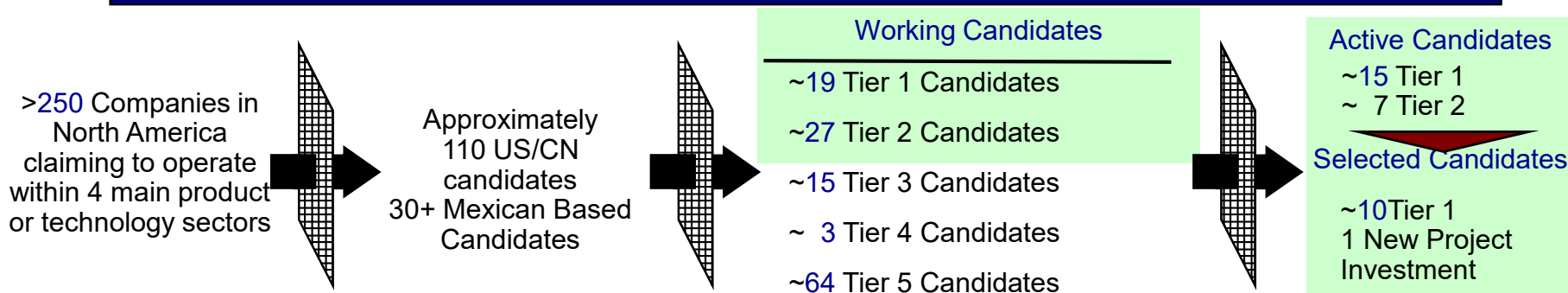
Entry options considering attractiveness of end-markets, product forms, chemistries and dynamics of global/regional market development



Based upon current competencies and business positions as well as assessment of attractive candidates, options were ID'd and prioritized

For a supplier of functional food ingredients we developed a working list of 11 prioritized candidates from which 5 are in discussions and 1 LOI is in review

M&A Candidate Search: Identification, Screening and Selection



- List Creation**
1. Firms claiming to be 'suppliers' of target ingredients
 2. Review of multiple sources (trade groups, trade press, meeting participants, TFG project team knowledge)
 3. Conversations with industry domain experts

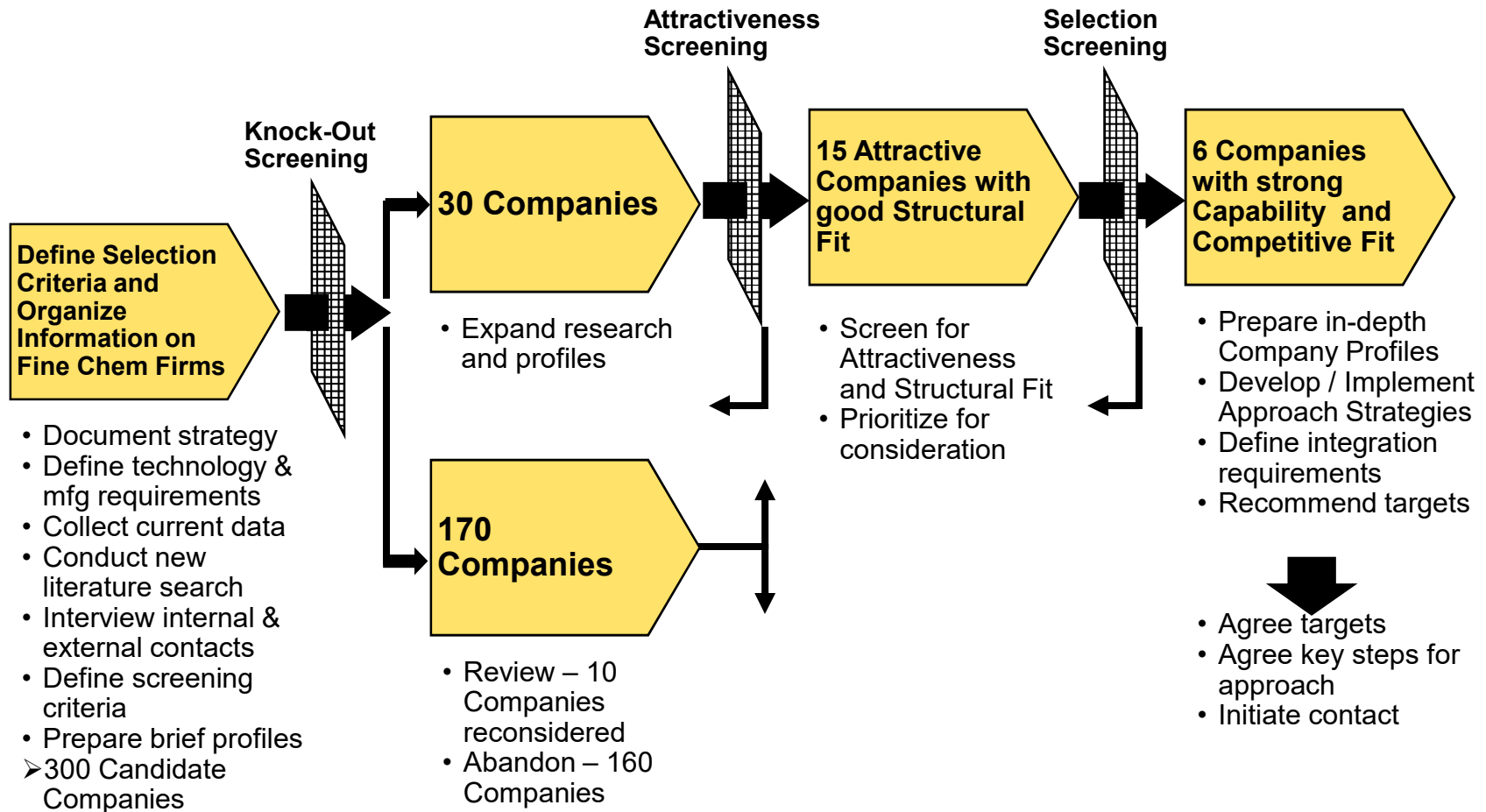
- Focusing the List**
1. Eliminate categories: Distributors, Traders, Import-Export firms, blenders
Too large
Unlikely to sell / committed to ownership / growth
 2. Too limited in target products; wrong products
 3. Ingredients & Solutions

- Organization into Tiers for Consideration**
1. Product Positions
 2. Markets and applications
 3. Size of business – platform in NA
 4. Manufacturing Capabilities/Mfg Technology
 5. Technical Capabilities/Product Technology
 6. Geographic scope
 7. Functionalities provided

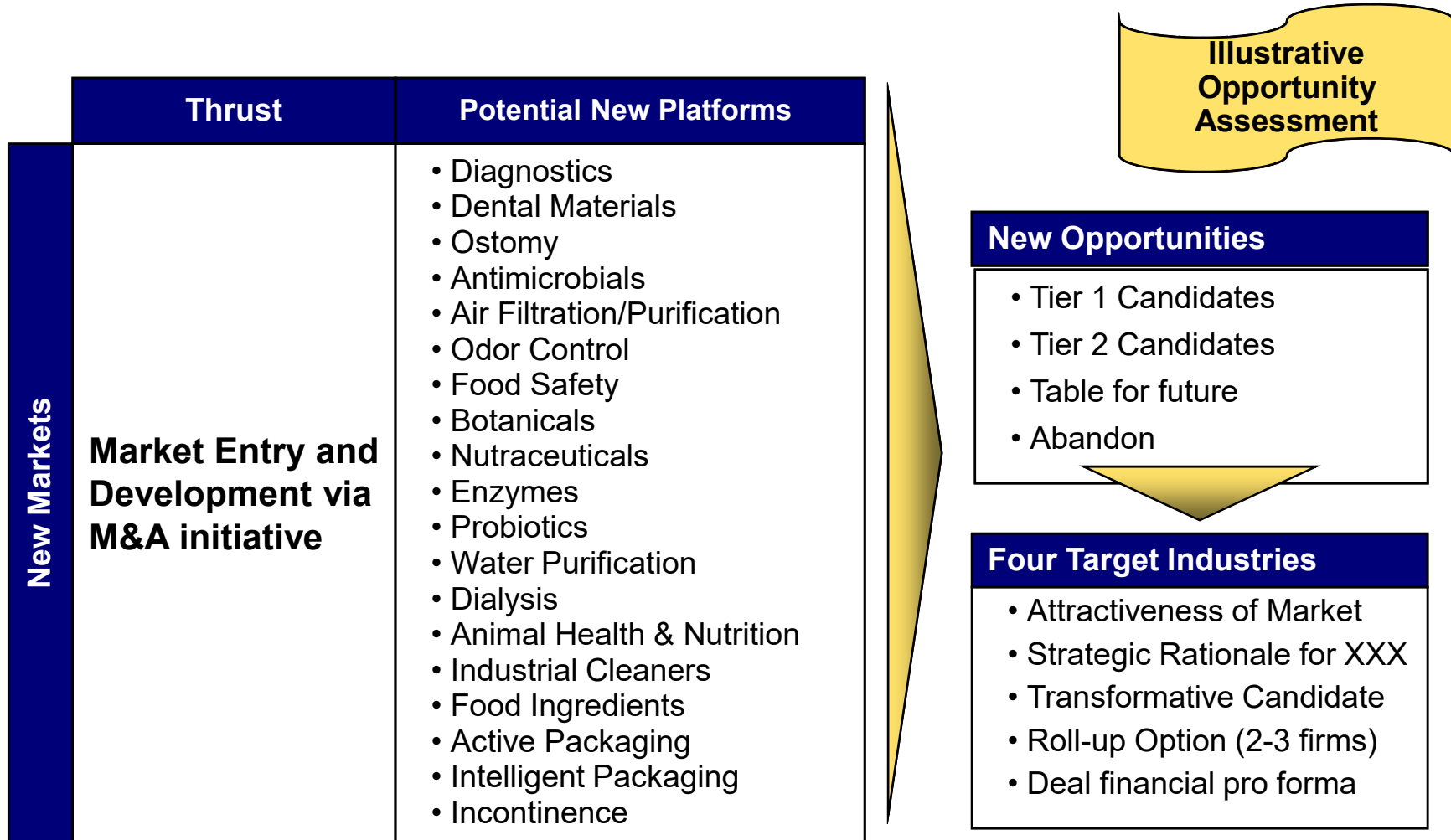
Deliverable

Final Candidates: 11 companies selected as promising were contacted by TFG leading to in-person meetings with TFG and client execs with 5 now in discussion and 1 LOI in review

A European firm sought specific fine chemical capabilities in NA and 6 companies, out of some 200, comprised the final recommendations

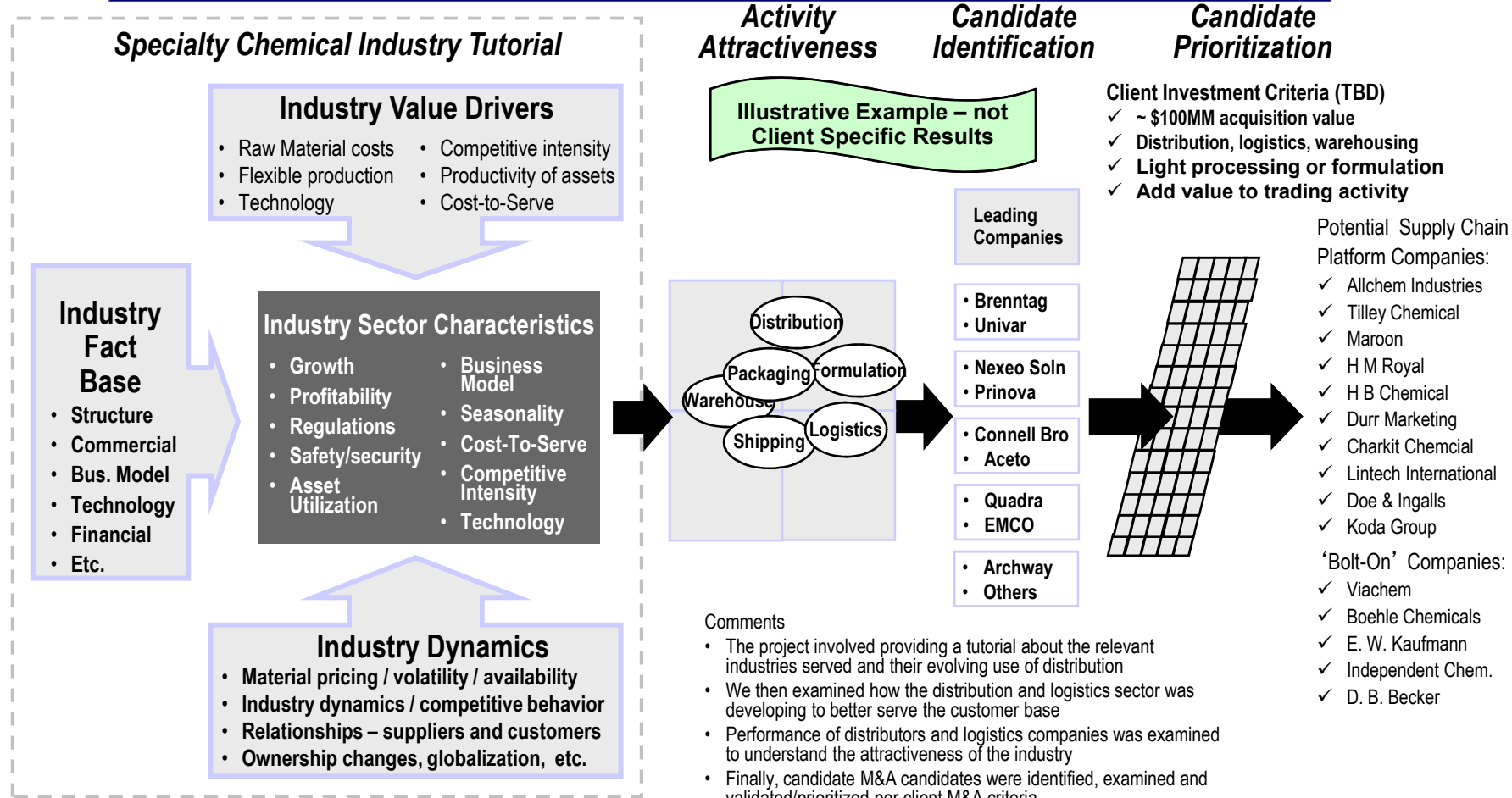


For a B2B business we screened 19 potential new platforms, identified 4 investment targets and related M&A candidates



For a client seeking entry to the NA Specialty Chemical distribution industry we helped them first understand the sector and then select M&A candidates

Specialty Chemicals Industry M&A Strategy Framework



Comments

- The project involved providing a tutorial about the relevant industries served and their evolving use of distribution
- We then examined how the distribution and logistics sector was developing to better serve the customer base
- Performance of distributors and logistics companies was examined to understand the attractiveness of the industry
- Finally, candidate M&A candidates were identified, examined and validated/prioritized per client M&A criteria
- Finally, targets were selected and strategic rationale and compelling stories developed for each

For a Japanese Trading firm tied to a larger Automotive Group, Distributors and Contract Manufacturers were “targeted” for M&A against agreed criteria...

➤ **Targeted Segments:**

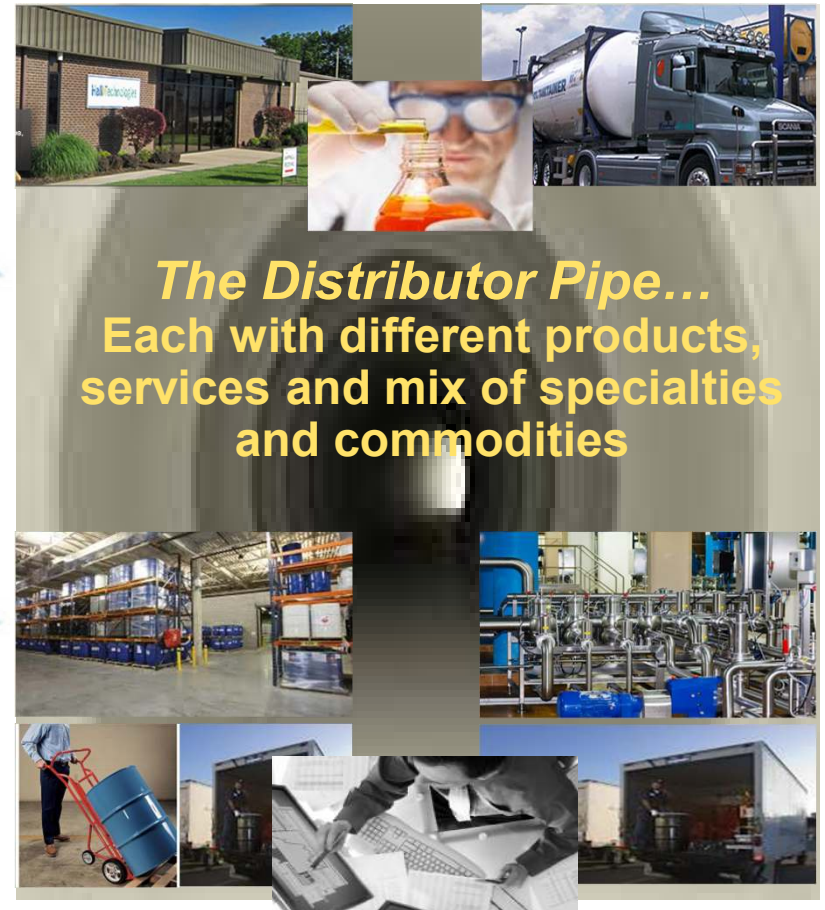
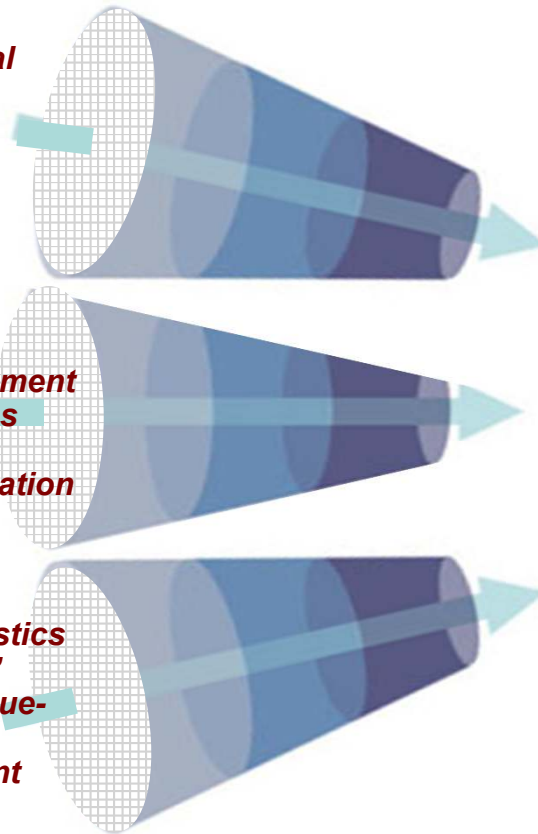
- *Cosmetics & Personal Care*
- *Detergents*
- *Food Additives*
- *Lube Additives*
- *Oil Field Chemicals*

➤ **Characteristics:**

- *Size of Revenues*
- *Share of sales in Segment*
- *Proportion Specialties*
- *Minimal Regulatory*
- *Solid, profitable operation*

➤ **Business Models:**

- *Distribution not Logistics*
- *“owns the customer”*
- *Stocking but also value-added mfg services*
- *Technically competent*
- *Clear channel focus*

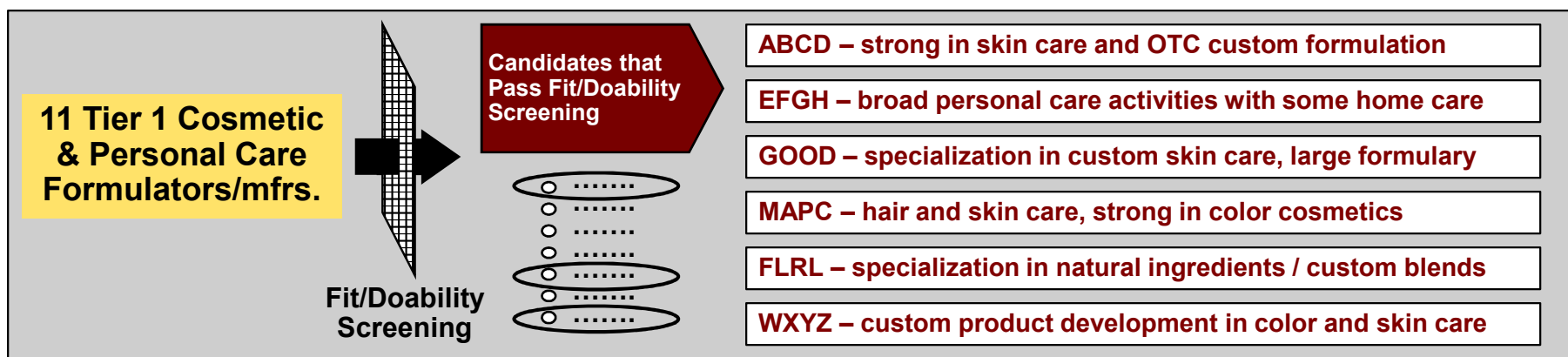
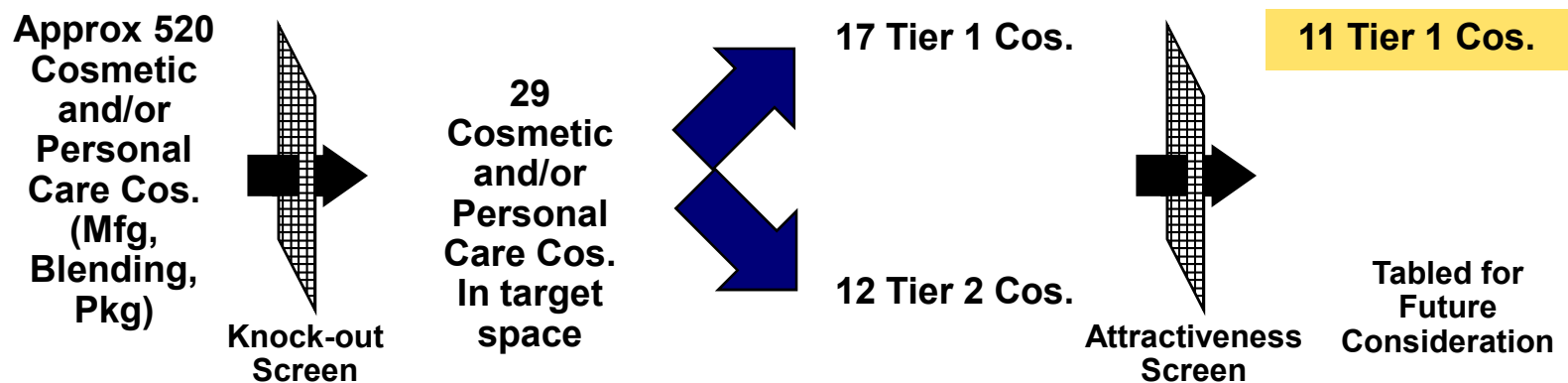


***The Distributor Pipe...
Each with different products,
services and mix of specialties
and commodities***

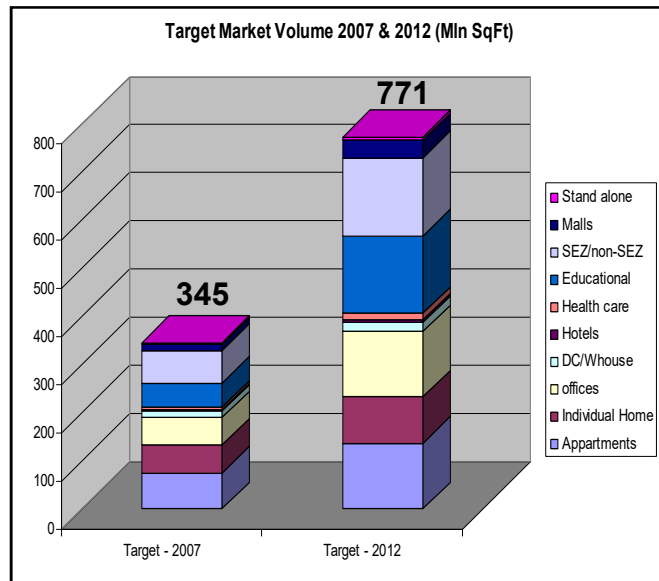
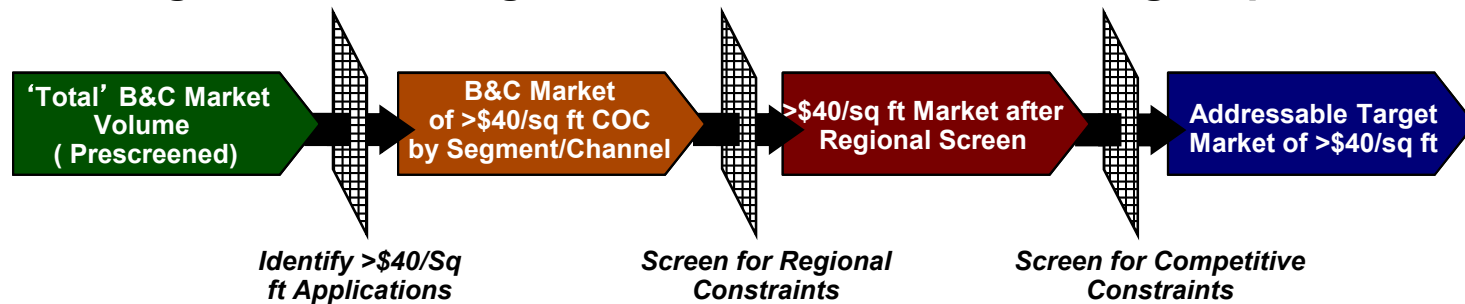
Our goal was to best match our client’s acquisition objectives against distributors & CMs with different markets/products served and business models

... the search and screening of **Cosmetics & Personal Care** formulators and contract manufacturers started with a list of ~520 targets

Screening, Prioritization and Selection of M&A Candidates

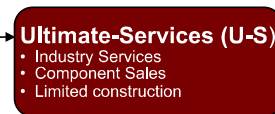
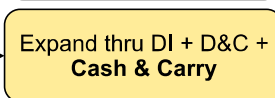
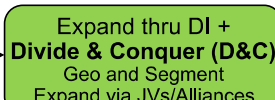
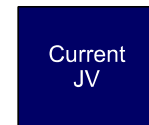


An addressable B&C market was ID'd using a structured screening by value, region, market segment and channel and strategic options defined



Comments

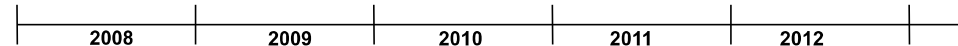
- An existing JV is focused on becoming a large construction company with integration
- The current "proof of concept" stage focuses on building 7 malls for Retail



- After "Proof of Concept"**
- The JV can grow and compete as a fully integrated Const. Co ...

OR

- Redirect as primarily a Services & Components Company



Comments

- Screening involved addressing both application and channel factors, determining what was built, by whom and technology
- Residential, Offices, Education and Industrial applications represented the largest opportunity

**Indicative Case Studies
Emerging Markets**

Case Study - 1: China

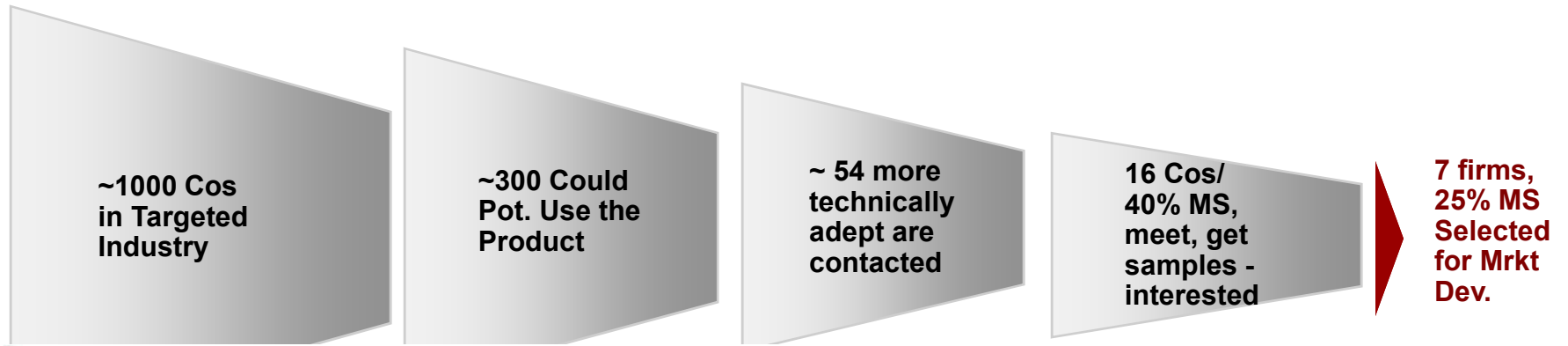
“The Case - 1”

Assist MNC X in testing and gaining acceptance for a new polymer additives platform in China and then develop an entry & execution strategy, including KAM plans

Case 1: Assist MNC X in testing and gaining acceptance for a China additives platform and then develop an entry & execution strategy, including KAM plans



A target group of customers was developed thru market and industry analyses, meetings & interactions and then down-selected in discussions with X

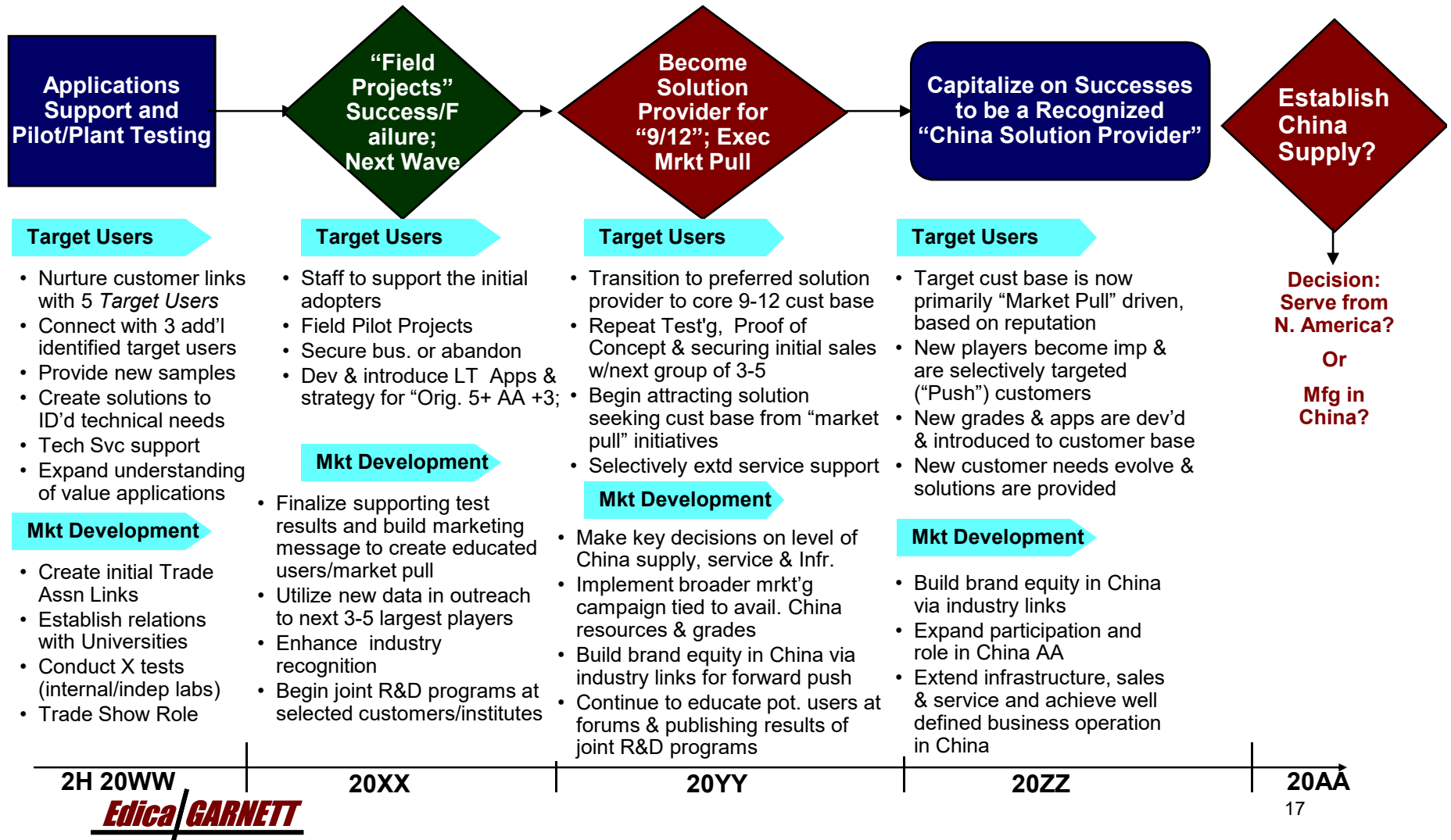


KAM Strategies

Short-Term	Customer Strategy	Strategic Action
Co: XX	• X • X	• X • X
Longer-Term	Customer Strategy	Strategic Action
Co: XX	• X • X	• X • X

The implementation plan was developed recognizing entry activities & timing have implications for both target users and China market development

High-level Implementation Plan



Case Study - 2: China

“The Case - 2”

Determine the viability of a \$1B Chinese asset acquisition, linked to a 20 year service agreement with the Target, in an industry under likely restructuring

Case: 2 Determine the viability of a \$1B Chinese asset acquisition, linked to a 20 year service agreement with the Target, in a likely restructuring industry

Phase 1 – Kick-off



- Ensure alignment with X's objectives
- Review the EGP Process, especially interaction with Target
- Information requests & transfer to the EGP team

Phase 2a – Industry Outlook



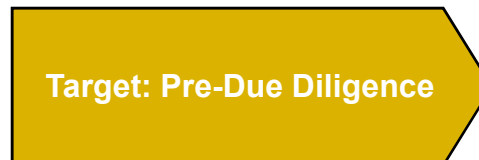
- Structural Review (*impacting RMs, product and downstream industries*):
- Central Government Review
 - Provincial Policies in Practice
 - Conclusions: Implications for product industry & pressure test Xs assumptions

Phase 2b – Industry Outlook



- Competitive Economics, incl'd industry cost-curves
- Price and Margin Analysis, incl'g pricing & margin models as Gov policies, RMs, products and the consuming industry evolves
- Conclusions: Pressure test Xs assumptions and Develop conclusions on Industry consolidation in the 5-20 yr period

Phase 3 – Pre-DD



- Define/Agree with X on what is important other than evaluating a technical 20 yr survivability
- Evaluate Target's portfolio of businesses that will be serviced by Xs service agreement – should the deal proceed - from a LT profitability, customers, vendors and competitors perspective
- Provide insights on Target's parent Holding Co, on issues agreed to w/X's mgn't
- Conclusions: Pressure test Xs assumptions and develop independent conclusions

Phase 4 – Project Viability



- Review/Fine-tune comparative economics and profitability from Phase 2b
- Review Pre-Due Diligence conclusions
- Develop conclusions regarding the durability and attractiveness of the Target

Case: Phase 2 assesses the industry and Governmental framework

Phase 2a – Industry Outlook



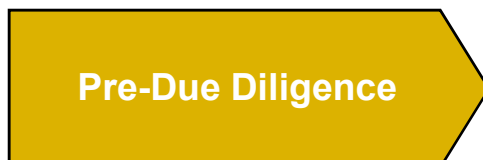
Phase 2b – Industry Outlook



- **Phase 2A:** Designed to understand how the target industry will evolve given Central Government industry policy and how it is likely to be implemented in practice at the provincial/local level.
- **Phase 2B:** Takes a hard look at both costs and margins in the industry to create a financial filter to understanding industry consolidation.
 - *Understand and forecast RM pricing and industry product pricing in developing competitors netbacks & margins from target provincial markets*
 - Gov policies and how they would be implemented provincially was likely to change over time for each element of the value chain. Gov. decisions to move from controlled or semi-controlled markets in various parts of “the chain” would reflect macro and micro-economic issues, as well as political issues. At the same time, the industry was developing new technologies that would influence margins and pricing across the value chain, resulting in stronger competitors and customers, as well as the shut down of others. EGP had to create pricing models to address all the above - through the value chain. This included global pricing, CIF China pricing, China import pricing vs. provincial pricing, margins driving shutdown economics vs. political policies that keep underperforming assets operating that drives down margins - all through the value chain (sometimes in different sequences) during the 20 year time period.
 - *Group facilities by technology within RM proximity regions and product consuming regions addressing delivered costs and FOB netback margins to assess facility viability. This included industry cost curves and decisions on pain vs. shutdown periods*
 - *Screen and filter the industry using structural issues, such as the Governmental role in establishing policies impacting the nature of raw materials and domestic product & downstream supply & consumption patterns*
 - *Consolidation & Supply Growth: Assess which regional plants will likely be shutdown, which will see growth and which regions will likely be impacted by imports*
 - *For those left standing, assess competitive netback economics to customers & customer relationships to test revenue & margin models to determine if the target could pay the service fees*
 - Address and identify potential other industry game changers, such as allowing imports to play a role in industry pricing and rationalization that will help dictate the nature of the industry in the future

Case: Phases 3/4 assess & develops conclusions on the long-term viability of the Target and its ability to meet the proposed service agreement

Phase 3 – Pre-DD



Phase 4 – Project Viability



- **Phase 3** focuses on:
 - Finalizing the Target Co profitability and competitive economics across its portfolio, as the Target’s parent would be accountable for the service agreement (“hard issues”)
 - Understanding the structural and internal dynamics of the Target and its parent to understand whether it will be a viable customer and partner over the next 20 years (“soft issues”)
- **Phase 4** EGPs final conclusions on the long-term viability of the investment initiative, considering:
 - Government policies and industry restructuring – for RMs, product and downstream consumption
 - Product market positioning
 - Key competitor strategies & competitive economics
 - Profitability/margin scenarios
 - Targets other products that will allow it to service the supply agreement even if product sales are “temporarily” struggling
 - The type of customer it is likely to be (“cultural issues”)
- Review of EGP conclusions and identify differences if any vs. Xs conclusions (*EGPs conclusions were accepted*); *Further assisted, as was needed, in preparing for the Board Presentation*

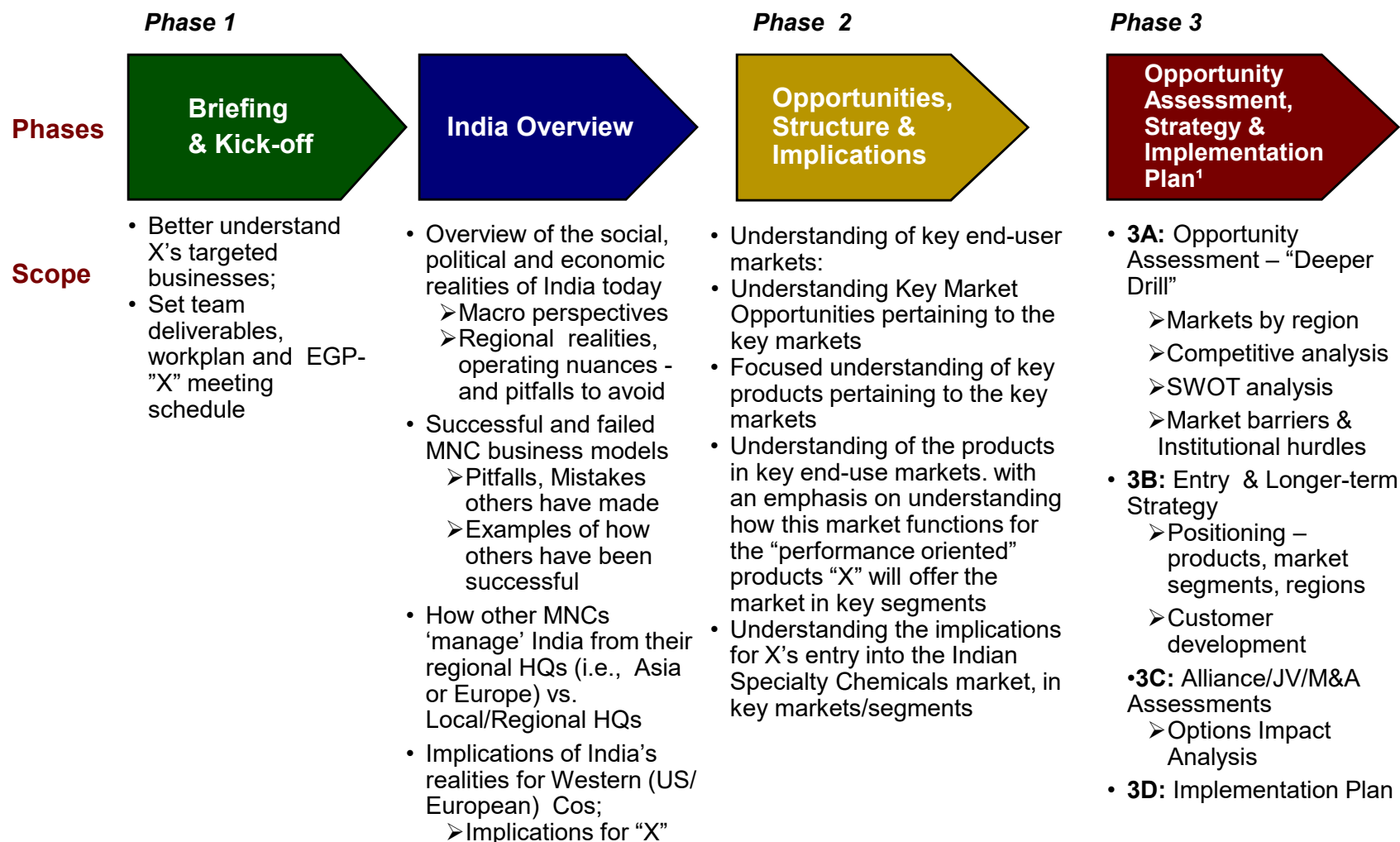
Case Study – 3: India

“The Case - 3¹”

Provide Company X with a working understanding of India, the business dynamics in each market/by State in which it may participate and work with its business team in developing a profitable growth strategy encompassing both organic and JV/Alliances and/or M&A growth

¹ For simplicity, “The Case” includes elements of three related projects for the client

Case 3: Develop a “working understanding” of India, assess market opportunities and jointly create a Strategy for Entry



¹Depending on project, was done in 2-4 Phase elements

Phase 2: Designed to provide an understanding of targeted industries...

PHASE 2: Opportunities, Structure & Implications

Product Lines	Key End-use Markets	Protective	Automotive	Architectural	Marine	Pressure Sensitive	Structural/Composites	Residential	Non-Residential
Specialty Additives 1	- Coatings - Adhesives - Composites - Const Chem	X - - -	X X - -	- - - -	X - - -	- - - -	- X X* -	- - - -	- - X* X**
Specialty Additives 2	- Coatings - Adhesives - Const Chem	X - -	X X -	X - -	X - -	- X -	- - -	- X -	- X -

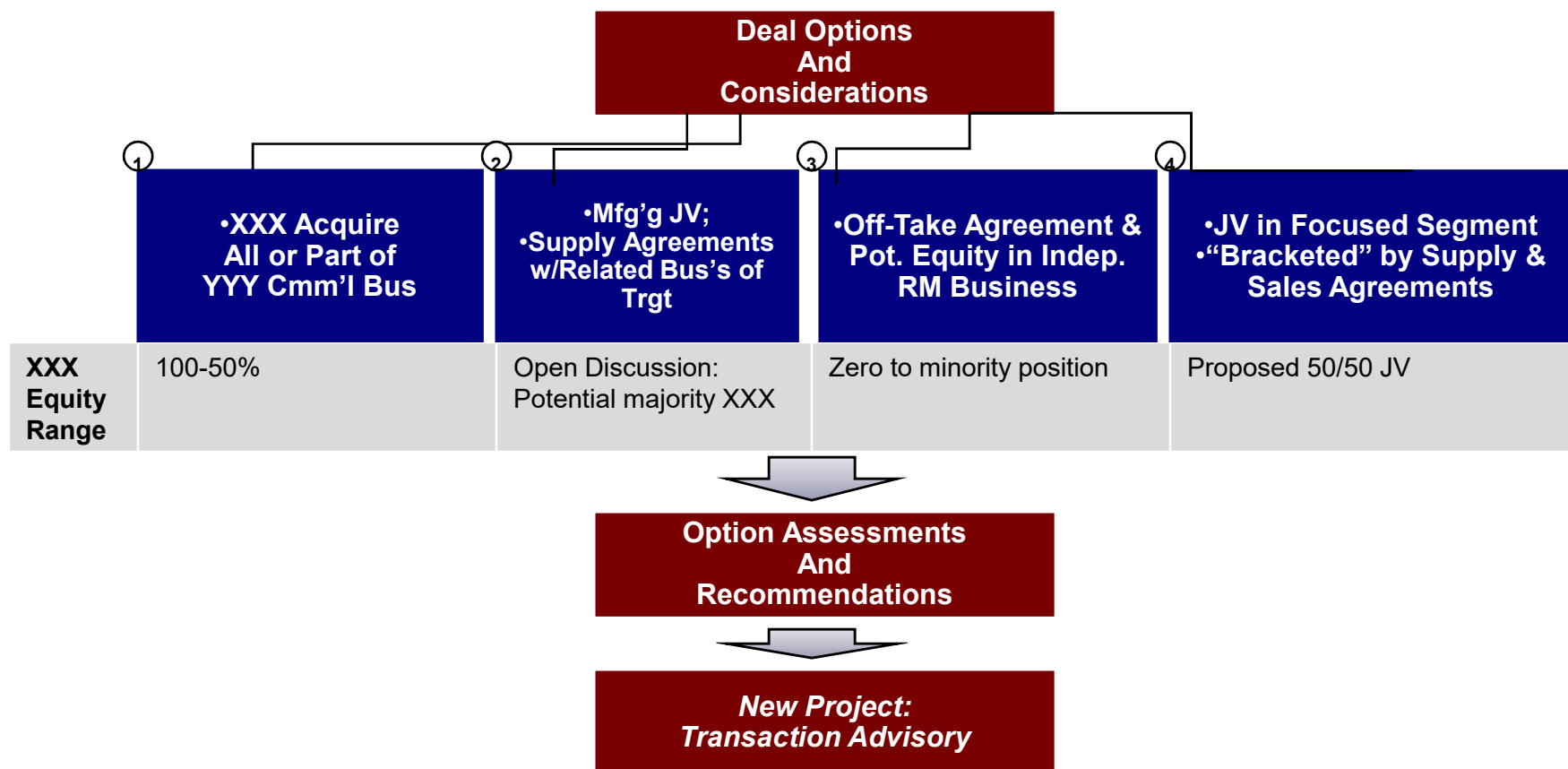
* Includes pipe & tank reinforcements and aerospace ** Specifically Concrete Additives

- Broad understanding of key end-user markets by Segment (Coatings, Adhesives, Composites, Construction Chemicals):
 - Size & Growth
 - Demand drivers and trends
 - Future outlook (what will this industry look like 5 years from now and why)
 - Key Players
- High level understanding of Spec. Additives 1 and Spec. Additives 2 *Opportunities (surfactants, defoamers and wetting agents), pertaining to the key markets (see above)*
 - Size & Growth
 - Demand drivers & future outlook (what will this industry look like 5 years from now and why)
 - Understanding of both the commodity and “Green Trends” and their implications
- Focused understanding of Spec. Additives 1 and Spec. Additives 2 *Opportunities (surfactants, defoamers and wetting agents), pertaining in the key markets.* Overlaying “X” provided product line technology descriptors on the Indian market, provide an understanding of:
 - Position (share % and volume) of market “X” type products represent today, rate of transformation and what it may likely represent in 5 years
 - The trends and drivers supporting EGP assumptions and forecasts, and insights into what may drive the forecast higher or lower
 - Understand “Green Trends” and their implications for “X” type products over time (Spec Additives 2 in waterborne systems; Spec. Additives 1 in waterborne, ultra-low VOC and zero emission/plasticizer systems)

Phase 2: Designed to provide an understanding of targeted industries... (cont'd)**PHASE 2: Opportunities, Structure & Implications (Cont'd)**

- Understanding...
 - Competitive Environment– key MNCs (Independent or in an Indian JV) and Independent Indian players, including insights on non-MNCs
 - Key Players: Who they are and high level perspective of S/Ws and relative importance
 - How the key end-use markets are served:
 - Channels to market, i.e., direct sales vs. role of distributors, etc.; including insights on how non-MNC customers are served
 - Entry barriers, i.e., Regulatory and/or Institutional issues significant to entry
 - Key Success Factors (KSFs) and illustrative successful business models
 - Pricing: Indicative current pricing; Domestic pricing models how they do/don't relate to int'l pricing and future pricing/margin models
 - Construction industry (emphasis on more specialized “X” products) – customer/market structure insights:
 - Major customers and customer structure (MNCs vs. local; how does it differ?)
 - Important trends, including adoption of international standards by local players
 - Growing importance of local players
- Understanding the implications for X's entry into the Indian Spec Additives 1 & 2 Additives markets, with its “performance products” in key markets/segments
 - Given our broad perspective of the market opportunity and the competitive environment, what does EGP envision the “win” is for X
 - Segments to target (where to focus), hurdles to overcome
 - Level of participation in the “more commodity” sectors to be a player in the “performance” sector
 - Revenue and margin implications
 - With input from “X” on “opportunity trigger points” and EGP insights on time required for market entry, est. the timing and nature of that entry

Phase 3C: Alliance/JV/Acq. Assessments; New Project: Deal/Venture Advisory



Results/Outcome:

- *EGP was asked to lead negotiations with the Indian target, in what was to become a RM JV (for security) and a majority position (w/Board control) in the Target's commercial facilities & global business, tied to a flexible 5 year buy-out clause (for internal reasons).*
- *An activist investor in the Client Parent, caused all deals to be frozen. The Indian target, impressed with EGP, asked EGP to advise them on strategy and a US acquisition...*

Case Study - 4: India

“The Case - 4”

Assist MNC X exit a contentious Indian joint venture, without incurring extraordinary operating costs and potential decades of legal costs

Case 4: Indian JV Break-up: Risk Assessment, Derisking and Transition Advisory

Background:

- **The foreign MNC had one Indian subsidiary in a locally staffed JV**
- Distribution contract with vol. commitments & heavy exit clauses
- Manufacturing contract with volume commitments and investments in machinery
- Decision to exit the JV based on JV partner issues; However, the MNC client wanted to stay active in India...
- Both partners had gone the legal route in earlier JVs, citing violation of contracts

Process in Dissolving the Indian JV:

- A coordinator was appointed
- Used adverse audit reports to force the Parties to negotiate
- Coordinator advised on negotiation option with each partner, with regular interactions and senior advisory direction & support by our team.
- Distribution partner was sold assets and certain future brand rights in lieu of penalties of exit
- Manufacturing agreement were terminated, negotiating minimum payments
- Staff given golden handshake
- Exit was announced surgically; Process took 1 year

Process in Reestablishing its Indian position transitioning out of the JV:

- Worked with vendors to stay with new management in interest of future business.
- Revamping the sales and marketing teams to shift from commodity to application based selling
- Appointment of a temp MD for 18 months to oversee the transition.
- Creation of a proactive engagement and communication plan mitigated the risk of labor disruptions expected through the instigation of outgoing management
- Establishing a transparent customer communication program as an essential part of a successful change management effort

Outcome: “Peaceful Resolution”

- *No regulatory issues invoked*
- *No extensive court proceedings occurred*
- *Avoided what can be a decade of “proceedings” by becoming the trusted channel/conduit, enabler & mediator between the partners*
- *Foreign entity bought-out partner on acceptable terms to all*