

# Dow/Rohm & Haas merger analysis

*What was Dow's motive for purchasing Rohm & Haas and was it a good deal? Additionally, why would Rohm & Haas choose to sell?*

When I first heard about the Dow/Rohm & Haas merger the first question I asked was "Why?" From my perspective Rohm and Haas had finally secured a leading position in most of the markets in which it participated. Sales were good, profit was acceptable, shareholder dividends were flowing. In addition, arch rivals like Union Carbide was no longer a problem (acquired by Dow), S. C. Johnson Polymers was also history (acquired by BASF) and announcements had been made of Rohm & Haas expanding into China, India and the Middle East. In other words, Rohm & Haas was at the peak of its historical performance. Later I found out what Dow was offering (i.e., \$15.3 Billion – WOW!!!) combined with the fact that the Haas family had indicated that they would like to diversify their portfolio of holdings. Now it made sense.

Of course the real question besides "Why did Rohm & Haas decide to sell" was "Is this a really good deal for Dow considering the awesome purchase price they have offered?" Looking back, Dow has never been considered to be a cheap buyer of assets. Their requirement by the SEC to sell off the assets in this business arena (i.e., UCAR) will probably force them to take a significant loss compared to what they paid. In addition, finding someone to buy everything in the present economy might be difficult if not impossible. If the UCAR assets are sold separately (i.e., emulsion polymer assets; acrylic acid/monomer assets) then there is the question of supply of essential raw materials. If you are the purchaser of the emulsion polymer assets you will want to make sure that you get a long term supply agreement from either Dow or the purchaser of the acrylic acid/monomer assets at a price and terms that would allow you to be competitive (i.e., provide you with quasi producer economics).

At the moment, the acrylic acid/monomer assets are supporting the emulsion polymer assets inside Dow. Once sold off separately, that will no longer be the situation. In addition, whoever purchases the acrylic acid/monomer assets will want to make certain that there is an outlet for the bulk of the capacity as today there is over capacity in the global marketplace. In other words, selling the various assets may not be as

big a problem as getting a negotiated settlement of raw material supply/purchase post closing.

Regardless of these irritating M&A problems, the question remains, "Is this a good deal for Dow?" I feel it is the deal of the century for Dow, which has attempted to get into various portions of the specialty chemicals business for several decades. They have entered/exited the specialty polymer business at least two or three times over the past few decades.

It was only when they purchased UCAR that the industry started taking them seriously. Dow has competed with Rohm and Haas in various markets for years (i.e., ion exchange; agriculture chemicals, monomers, polymers, etc.). However, in the specialty polymer arena Dow was not able to become the number one supplier as long as Rohm and Haas was around. Dow has already purchased Rohm and Haas's Agriculture Business. Under that deal, Dow purchased Rohm and Haas' fungicide, insecticide, herbicide and other product lines, as well as license to all agricultural uses of biotechnology assets. Dow also owns part of the manufacturing sites of Rohm and Haas in Colombia, Brazil, Italy, France, all of the Nantong, China, plant, and assets owned by the company in Muscatine, IA. The cost of that acquisition was \$1.0 billion.

With the proposed Rohm and Haas acquisition, Dow will become the number one supplier of acrylic polymers to the coatings industry and in addition become a much more formidable competitor in the global market place, especially inside China. The sell off of the UCAR assets will not cause Dow a big problem. UCAR was not the largest supplier of technology prior to the Dow acquisition and post acquisition by Dow, that situation has not changed very much.

Of course, in addition to the acrylic acid/monomer/polymer business Dow will also be picking up Rohm and Haas's position in the electronic chemical arena, ion exchange, plastics, etc. All of these businesses compliment or expand Dow's position.

Did Dow pay too much for Rohm and Haas? Normally, I would be quick to say yes and by a large margin. However, in this instance, Dow is

paying for all the decades of hard work and inventiveness, creativity and market savvy that Rohm and Haas has accumulated. Rohm and Haas will be handing Dow a "pat hand" in numerous markets. This is one of those acquisitions where goodwill is truly a valuable part of the purchase. Rohm and Haas has established a solid, reputable name for acrylics around the globe. The brand names Rhoplex, Primal, Acrysol and Rhopaque among others are well known throughout the coatings industry. Similar levels of brand recognition have been established in other markets served by Rohm and Haas emulsions (i.e., adhesives, graphic art, floor care, textile and nonwovens, caulks/sealants, cement/concrete additives, etc.).

In addition to Dow now having firmly established, time and customer proven products/brands in the market place they will also be acquiring an extremely well established R&D and manufacturing group. The expertise and ability of these groups is legendary. Although Dow is a true global player, they were never able to take the UCAR technology into all global markets. Rohm & Haas has established assets, infrastructure support, selected the best channels to customers around the globe. They have made enormous inroads into China and have been working hard to establish a solid footing in India, Russia and the Middle East.

Is all of this worth what Dow is paying for Rohm and Haas? Well, what was Dow's option? There is an old saying that if you have sufficient time and money all things are possible. By purchasing Rohm and Haas Dow has shortened the amount of time it would take them to establish a similar position in the global market place by a considerable amount. The price agreed to is a fair price and acknowledges the difficulty of anyone establishing what Rohm and Haas has accomplished. One area of concern might be that with the failing global economy it would be very easy for Dow to start focusing on maximizing profit (i.e., cost cutting). This usually means the layoff of people. In the specialty chemicals business, it is the people that make a difference, not reactors and products per se. If Dow takes a

short-term profit approach this acquisition may not yield the value that Dow or Rohm and Haas feels is there.

My advice to Dow is to take it slow and easy. Learn before you choose to act, know where the value resides in your acquisition and don't throw out the baby with the bath water. Sure, the economy is in the tank at the moment, but it won't last forever. If you choose to let go of essential holders of intellectual know-

ledge they won't be there when you need them. **CW**

*See Chemark's ad this month on page xx.*

**About the author:** *Dan Watson is vice president of Chemark's Far East operation and specialist in acrylic systems globally. He is the author of Chemark's Coatings Highlights and served for more than 28 years in the Far East for Rohm & Haas.*