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chemical

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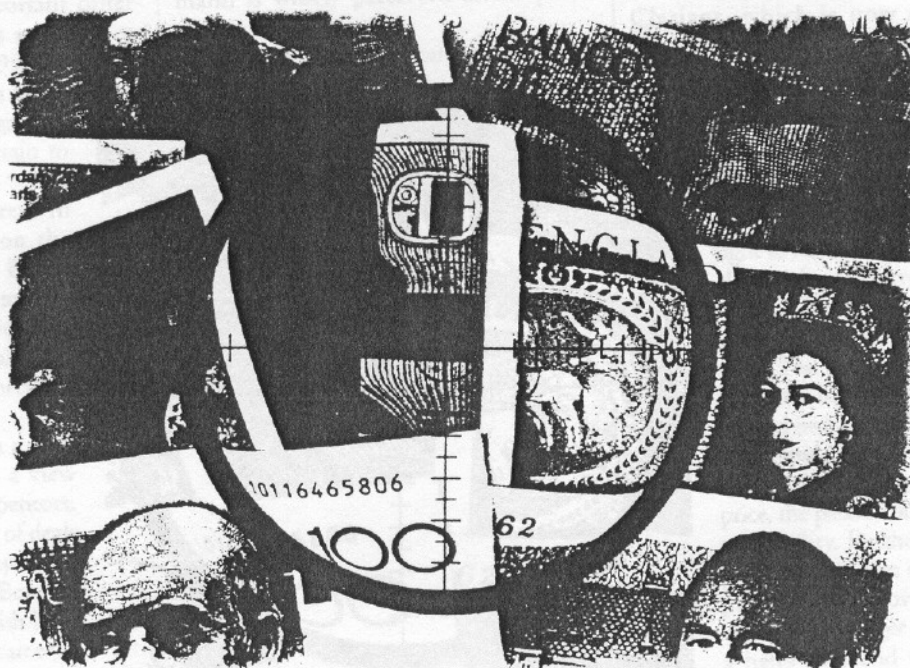
BASF Warns of Asian Overcapacity

National Starch Buys Grace's Adhesives

Targeting Europe



M&A's Next Frontier

M&A D-Day

Bankers Stage Invasion of Europe

THE ISSUES ARE OF CORPORATE governance, not political ideology. The weapon of choice is the spin-off, not the Spitfire. But the U.K. is once again the launching point for an Anglo-American invasion of Europe.

There are two more important differences between the mergers and acquisitions (M&A) raiders of 1997 and their grandfathers of 1944: This time, the success of their campaign is in doubt, and their task is certain to take more than one year.

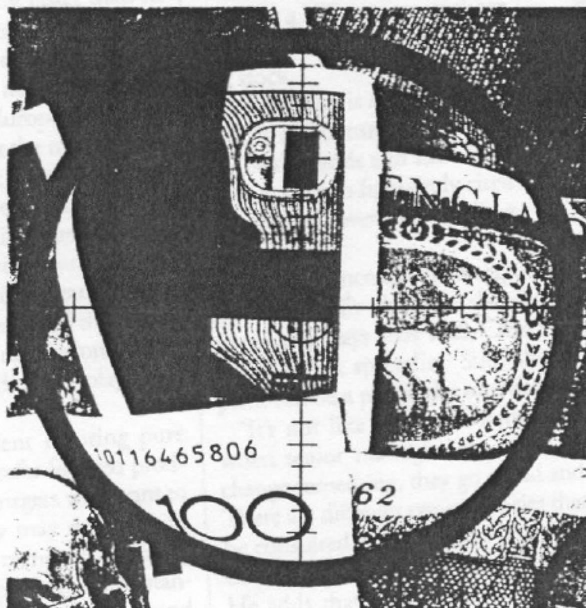
"There's far more interest in restructuring and M&A on the Continent," says Charles Bohn, who moved from New York to London a year ago to head up Citibank's chemicals and pharmaceuticals practice. "I won't call it 'an Americanization' because it's not."

Rather, Bohn considers it a refocus on shareholder value, a view shared by most of his competitors.

"There's a latent 25 years of deals to be made in Europe," says John Garcia, Credit Suisse First Boston's chemical practice head. British-born Garcia has spent all of his career in New York, but is moving back to the U.K. temporarily.

The pulse of European chemical M&A has quickened in recent months. Clariant announced that it would absorb Hoechst's specialties businesses and in return become a 45%-owned subsidiary of the German giant. In one week, ICI and Unilever announced plans to sell major businesses. The Ciba Specialty Chemicals spin-off date was set. But by all accounts, it was Hoechst's November decentralization announcement that sparked Europe's renaissance of the art of the deal. Hoechst chairman Jürgen Dormann is widely perceived as the prime mover.

"What he's done for shareholders is very important, and it can't be easily dismissed," says Stephen P. Schaible, an American sent to London to lead J.P. Morgan's chemicals and pharmaceuticals practice there. "Other [CEOs] are going to be hard-pressed not to take a look at [restructuring]."



Over the past few years there have been a number of high-profile transactions in Europe (*timeline, p. 22*). Although Bohn and others trace the trend back to the ICI-Zeneca demerger, there is no denying that the unification of Novartis was a landmark. In advance of that deal, Sandoz spun off Clariant, which is now merging with Hoechst's specialty businesses; and Master Builders Technologies, which was recently acquired by SKW Trostberg. As a condition of the Novartis deal, Ciba Specialty Chemicals will be spun off next week to slug it out with the enlarged Clariant for the right to call itself the biggest specialty chemicals company in the world.

The Ciba spin-off itself could have some far-reaching implications. The *Financial Times* says that Novartis has found a way to get around Switzerland's tax laws, which make spin-offs prohibitively expensive. By lowballing the initial stock price, the parent company incurs less tax liability. Further, the only people who will own the stock at that price will be Novartis shareholders, so they will get the equivalent of a hefty dividend when they turn around and sell it at the higher price the market is certain to set.

Despite the success that many European companies are likely to have following the Anglo-American model, there is no reason to assume that this is the only way—or

even the only rational way. "Look at Bayer. They say, 'We're an integrated chemical and pharmaceutical group, and we're going to stick to our guns,'" says Norbert Reis, Morgan Stanley's London-based chemical industry adviser.

Bayer has been particularly good at generating returns for shareholders, despite its diverse mix of businesses—contrary to strategists who favor the focused, pure-play approach to corporate structure.

Yet there are many who believe in the inevitability of the U.S. view of corporate governance and shareholder primacy. "It really only takes one company to do it," says Salomon Brothers' New York-based industry specialist Peter Vermylen. "When the rest see the results—the stock rising faster than its peers'—then the dominoes will fall."

The U.S. fascination with keeping product portfolios narrow is not what is driving the restructuring of Europe. The pure-play advocates believe that the more diverse a company is, the harder it is for a stock analyst—or a CEO—to understand it all, with negative connotations for its share price. But since many European stock analysts are country-specific generalists rather than industry-specific specialists, and that many European companies are run by committees rather than individuals, the pure-play argument loses some force.

Another U.S. argument favoring pure plays is that investors prefer focused product portfolios. Fund managers who want to invest in biotechnology may not want to invest in chemicals. If a company operating in both fields splits up, then fund managers could hold the biotech shares and sell the chemical shares to someone who has different investment objectives. This line of thinking was a major part of the decision to break up Monsanto.

But European investors tend to be longer-term stakeholders—national governments, civil service pension funds, families, or money-center banks. None of these entities would consider reading quarterly earnings reports, even if European companies were required to issue them. This long-term perspective is seconded by nationalism; many of the shareholders are chartered specifically to invest in their domestic economies. One reason why Millennium Chemicals stock was low-priced when it was floated on the New York Stock Exchange (NYSE) is that, as a Hanson property, its owners were largely U.K. pension funds, which were required by law to invest solely in U.K. securities. When Millennium was established as a U.S. company, those shareholders were forced to sell the stock.

Privatization is a major theme in this restructuring. DSM in the Netherlands and EniChem in Italy are two frequently cited examples of governments selling their stakes.

"States are increasingly recognizing they're not necessarily the best shareholders for companies," says Peter Hall, Chase's London-based M&A specialist. Still, shuttering a plant can be a politically untenable option.

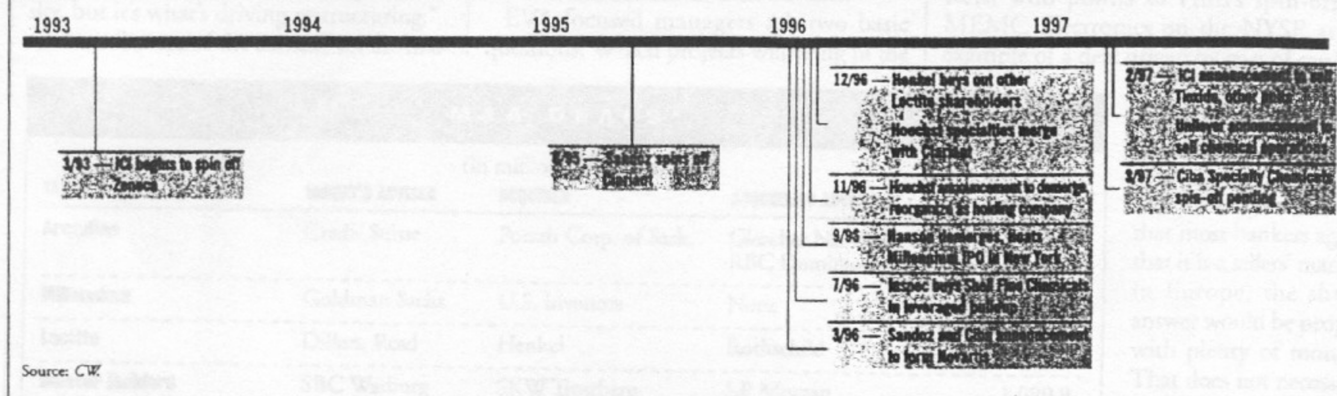
"It's not like in North America where, when senior management sees a need to change something, they go ahead and do it. There are different constituencies that must be consulted," says Hugo Heath, a chemical industry adviser for Schroders in London. He adds that management is often more firmly entrenched in Europe, where shareholder activism is almost unheard of. "In the U.S., it's fair to say every company is for sale at some price. But outright takeover proposals are more likely to be rebuffed here."

"It's still hard to do a deal in Europe because of social and labor issues," says Omar Abboud, who heads Merrill Lynch's chemical M&A practice from New York but spends a lot of time overseas. "North America has traditionally been the most active [M&A environment] and will continue to be active," he says. "But this is a special time in Europe (*p. 29*).

So the question remains, why are European chemical companies embracing such wrenching change? The answer is that Europe itself is embracing change, and the restructuring of the chemical industry is just one example. "The German companies were put under considerable pressure by the recession of the early '90s," a recession from which the Continent is still reeling, according to Jeremy Lucas, coleader of Deutsche Morgan Grenfell's (DMG) chemicals practice.

Some of Europe's economic wounds are self-inflicted. As national governments struggle to meet national debt and budget deficit targets in advance of European economic and monetary union, subsidies to protected industries are often seen as speed bumps on the road to a common currency. These and other austerity measures caused increased unemployment in Germany and France. Meanwhile, the U.K. has not committed to monetary union, freeing the pound sterling to strengthen against the continental currencies—and indeed against a dollar that has not been stronger since the gold standard was abandoned in 1973. The U.K.'s domestic economy has also charted its own course—upward—in contrast to its nearest neighbors

OLD WORLD, NEW STRUCTURE



Source: *CW*.

Iannaccone: Entrepreneur rising.

"If monetary policy is run on a pan-European basis, [countries' attitudes] won't be so much 'us-versus-them'. They'll be acting and rationalizing as a block," says Garcia. "With one currency, there'll be one competitive vision. Maybe this sounds pie-in-the-sky, but it's what's driving restructuring."

The influence of the bankers on the market should not be underestimated. DMG and Morgan Stanley say that the return-on-investment model—Economic Value Added (EVA)—favored in the U.S. is catching on with European managements, in part because of the ministrations of their advisers.

EVA-focused managers ask two basic questions: Which projects will bring in the greatest return on capital invested, and where can the company go for the cheapest capital? "People at the operating management level understand that capital markets play a role in how one structures a business," says Reis, who points to Hüls's spin-off of MEMC Electronics on the NYSE as an example of a deal driven by cost of capital.

M&A DEALS*

(in millions of dollars)

TARGET	TARGET'S ADVISER	ACQUIRER	ACQUIRER'S ADVISER	VALUE
Arcadian	Credit Suisse	Potash Corp. of Sask.	Gleacher NatWest/ RBC Dominion	$1,741.8
Millennium	Goldman Sachs	U.S. investors	None	1,683.1
Loctite	Dillon, Read	Henkel	Rothschild	1,269.6
Master Builders	SBC Warburg	SKW Trostberg	J.P. Morgan	1,080.9
Viridian	Scotia McLeod	Agrium	RBC Dominion	985.6
Thompson Minwax	Merrill Lynch	Sherwin-Williams	Smith Barney	830.0
Sandoz's U.S. herbicides	Morgan Stanley	BASF	None	778.0
Hoechst's specialties	J.P. Morgan	Clariant	SBC Warburg	611.0
Texaco's propylene oxide	Credit Suisse	Huntsman	None	600.0
Olin's isocyanates	Goldman Sachs	Arco Chemical	Morgan Stanley	565.0
Grace Cocoa	Merrill Lynch	ADM	None	470.0
CPS Chemical	Schroders	Allied Colloids	None	390.0
Evode	Lazard Frères	Elf Atochem	None	315.9
Shell Fine Chemicals	None	Indspec	Deutsche Morgan Grenfell	311.6
BTR's Taiwanese chemicals	Robert Fleming	Investors	None	300.0
First Miss's fertilizers	Credit Suisse	Mississippi Chemical	Donaldson, Lufkin & Jenrette	292.0
Gas Natural[1]	None	Investors	None	280.4
Novamax	Lazard Frères	Henkel	Merrill Lynch	275.0
Finnish Chemicals	Salomon Brothers	Erikem	None	232.0
Metsa-Serla's chemicals	Credit Suisse	Industri Kapital	None	229.1
Kemira	Goldman Sachs	Investors	None	213.7
Praxair's plants	None	AGA	None	200.0
Arco's copolymers	None	Nova	None	160.0
Sodi-Devnya[2]	None	General Chemical	None	160.0
Israel Chemicals	None	Israel Corp.	None	128.4
W.R. Grace Amicon	Merrill Lynch	Millipore	Credit Suisse	125.0
SCM Metals	None	OM Group	Donaldson, Lufkin & Jenrette	122.0
Polifarb Wroclaw	None	Polifarb Cieszyn	None	120.0
St. Clair Paint	None	ICI	None	109.5
Cytec's acrylics	Goldman Sachs	Sterling Chemicals	None	103.0

* Announced with disclosed value second-half 1996. 1) Spanish industrial gases company. 2) Bulgarian inorganics company. Sources: Securites Data (Newark, NJ); Lorelli & Co. (Chapel Hill, NC).

Another question remains: If all these companies want to sell off assets, who is going to buy them? Considering that most bankers agree that it is a sellers' market in Europe, the short answer would be people with plenty of money. That does not necessarily mean Americans, though. "How much of our business is intercontinental? About 90% of the pipe dreams and 10% of what really happens," says Reis, whose bank advised on the Novartis merger, which involved two parties in the same city.

However, there could be some unexpected buyers for European chemical properties. "This restructuring bodes well for strategic, entrepreneurial buyers—chemical veterans with financial muscle," says Christopher P. Iannaccone, Chase's chemicals v.p. in London and another transplanted American.

The model for this sort of enterprise, which has come to be known as a leveraged buildup (LBU), is Freedom Chemical. It starts when a financier retains a knowledgeable industry executive in advance of buying a company. What separates an LBU from a leveraged buyout is that little debt is involved in an LBU. The partners generally pay cash to buy a company with few lia-

bilities. Then they borrow against the equity they have on the company's pristine balance sheet to buy another company. Indspec and BTP are the most noteworthy U.K. companies that have grown through this method.

In many cases, though, there is likely to be a shortage of buyers. Although no country wants to see its local ethylene plant shut down, there is simply, by all accounts, an overcapacity of basic chemical production in Europe.

"National priorities and a lack of U.S.-like infrastructure—for example, an extensive ethylene pipeline network—makes for a much more complex decision-making process," says Chase's London-based chemical specialist Michele Colocci. "Restructuring is happening but at a slower pace."

Vermylen: Dominoes will fall.

Hall: Governments selling stakes.

U.K. companies, though, have been as active as U.S. companies in restructuring over the past few years. "It's been around the U.K. for quite some time, but is only now reaching some parts of continental Europe," says Hall.

A lot of European companies are resisting restructuring. Their executives say that there are strategic links or back integration issues connecting their product lines. Many different products are often produced in the same facility and serviced by the same supply chains.

Some managers say that a Hoechst-style demerger would have profoundly negative effects on employees, customers, and other stakeholders who are unlucky enough not to hold any stock. And they stress the allure of a diverse portfolio, pointing to the example of European Vinyls Corp. This Belgian company is as focused as any in the U.S., but market for its single product—polyvinyl chloride—is in the tank right now, and so is its share price.

"People keep saying 'shareholder value' but that's not necessarily the core concept" behind European restructuring, says Schroders' London-based chemical industry adviser Hugo Heath. "These companies are trying to balance the demands of all stakeholders. But that balance is starting to shift toward the institutional investor."

Still, in a global marketplace, it is difficult to make the case that national character makes more difference than such fundamentals as access to cheap feedstocks and proprietary technology. The critical success factors are not "location, location, and location," as the real estate agents' mantra goes, but rather "leadership, leadership, and leadership." At least, that is the M&A advisers' consensus.

"Europe is really, really vulnerable to new competition," says Heath, who sees an immediate threat from indigenous companies in Asian markets and a looming one in the feedstock-rich Middle East.

In response, European chemical companies are recognizing the need to pick their products carefully and sloughing off pieces of their portfolios that are accidents of history. "It's very obvious you've got these great companies that are trading businesses among themselves," says Lucas. "It's more important to be number one in your product in the world than to have the biggest portfolio in your home country," says Ulrich Geldmacher, Lucas's partner at DMG.

Of course, restructuring cannot occur in the absence of money.

Bankers are out to prove that M&A is just the beginning of their relationship with a company. Once the deal is in place, they can lend the money to make the acquisition happen (*p. 34*), sell the undesirable assets that came with the package, find precisely the right jv partner to give a geographical or technological edge, and manage the company's cash flow to maximize its returns and shield it from tax authorities.

Heath: Not for sale at any price?

M&A advisers have a lot of preaching to do before winning all the converts they seek. Their own estimates of how long it will take range from two to 20 years. Supposing that the middle ground—say, 10 years—proves to be most accurate, that could provide the bankers with a lifetime's worth of work. Ten years from now, conglomeration may once again be in vogue.

As Vermylen points out, it was just 10 years ago that big European combines were fishing for chemical assets in the U.S., buying up properties such as Inmont Coatings, bought by BASF, and Beatrice Chemicals, bought by ICI.

—WILLIAM FREEDMAN *in London*

Home Fires Burn Along Wall Street

U.S. Bankers Don't Stray Far

Regardless of whether a merger or acquisition (M&A) deal is being done in Europe or the U.S., it is often U.S. banks or U.S.bankers who are being called in to do the work.

Credit Suisse takes the top honors in the six-month and full-year tables for chemical industry M&As (*pp. 32, 33*). Although it is a European bank and its chemical industry head, John Garcia, is British, it has a strong U.S. component in First Boston, which it acquired completely last year. Despite Garcia's recent return to his native country, he brokers deals out of New York, where he still keeps an office.

"We're still keeping the same commitment in North America," Garcia says, "but we're increasing our business in Europe. We haven't abandoned the U.S. for one second."

"We're not taking our eye off the ball here," says Chase's New York-based chemical M&A specialist Telly Zachariades. "We're adding bodies in Europe, but we're not shifting them from the States."

Zachariades says he has "30 deals in various stages. I've never had this many things

happening at the same time before." Still, he says, "it'll reach a significant slowdown—if not later this year, then next."

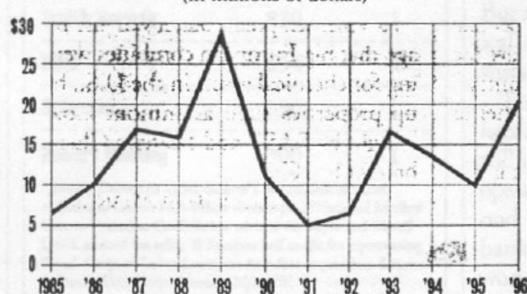
Like Credit Suisse, Schroders, a U.K. bank, has benefited from acquiring a U.S. institution. Its U.S. unit, the former Wertheim & Co., has a long history of service to the chemical industry. "We've been focused on the chemical business longer than anyone," says Kenneth Siegel, Schroders' U.S. chemical practice head. He says that in today's domestic market, "there's still tremendous interest. Loan rates are low, share prices are high, and availability of money is not a problem."

Abboud: Companies prepare to stretch.

Fischbein: Optimism drives M&A.

M & A YEAR-BY-YEAR*

(in millions of dollars)



* Disclosed value of completed deals greater than $25 million worldwide. Spin-offs are included, joint ventures are not. Source: Young & Partners (New York).

Merrill Lynch is a quintessential U.S. institution. Starting out as a retail brokerage, it has become a leading global investment bank over the past few years.

"The U.S. banks have been very capable of providing global capabilities," says Omar Abboud, Merrill's chemicals M&A head. "The U.S. banks are further along [in cross-border transactions] than our European colleagues." Abboud says 1996 was a record year for his team and that "1997 could surpass it. It's a sellers' market, executives are optimistic, and companies are prepared to stretch" as they place a value on a target.

There are three banks that call themselves "Morgan": German-British Deutsche Morgan Grenfell and its U.S. cousins—investment bank Morgan Stanley and commercial bank J.P. Morgan. When Sandoz and Ciba decided to merge last year, it was these U.S. banks that were retained to do the job.

J.P. Morgan is widely considered the first commercial bank—that is, essentially a lending institution—to make it big in chemical industry M&A. It is the job of the M&A practitioner to advise people to grow by acquisition, but J.P. Morgan eschewed such advice itself and grew its own chemical industry practice internally.

Sometimes practice head Purna Saggurti has had to talk clients out of making an offer. "We'll tell a client, 'You can get to the next level, but it'll cost you *x*, and you won't be able to give shareholders the returns you're used to,'" Saggurti says. "So the prospective buyers will turn around and say, 'Okay, we're not a buyer. We're a seller.'"

Although many of these New Yorkers are focused on Europe, not all agree that the Continent is the key location that recent anectodal evidence suggests. When asked why practitioners are moving to London, private banker Peter Young says, "Beats me." According to Young, president of Young & Partners, "By any measure, Europe is not the hot area."

Young points to data that suggest a far greater domestic share in the aggregate totals. His research suggests that North America, not Europe, is the perpetual driver of the chemical industry's M&A market. In addition, industrial chemical deals lead the more publicized specialties deals in numbers and value of deals. Of the $19.7 billion in chemical deals tracked by Young & Partners in 1996 (*chart*), most of the value came from upstream businesses.

"The real hot area is commodity chemicals," Young says. "Of 68 transactions worldwide, 41 were commodities and 27 were specialties. Going by dollar amounts, the results would be even more skewed." He also says that 37 of those deals involved U.S. targets, versus 14 European sellers and a smattering of Asians and others.

An increasing number of firms are offering M&A advice to the chemical industry. Many longtime practitioners have noticed a rise in targets' valuation multiples lately, as well as a groundswell of possible buyers. Young & Partners, for instance, may be the only private investment banking firm serving the chemical industry, although Young estimates that "at least 30-40" such firms serve high-technology industries.

Meanwhile, J.P. Morgan has blazed a trail that other commercial banks are girding to follow. "We're moving toward M&A because we're requested by our customers," says Jean Cayanni, who manages Bank of America's (BofA) chemical and rubber practice. "Although we've traditionally been a commercial bank, we're becoming more active in public markets"—generally the domain of investment banks in the U.S. but less well defined elsewhere.

SECOND-HALF M&A*

(in millions of dollars)

ADVISER	VALUE	DEALS
Credit Suisse	$2,988	5
Goldman Sachs	2,565	4
RBC Dominion	1,857	1.5[1]
Merrill Lynch	1,700	4
J.P. Morgan	1,692	2
SBC Warburg	1,692	2
Morgan Stanley	1,343	2
Dillon, Read	1,270	1
Rothschild	1,270	1
Scotia McLeod	986	1
Gleacher NatWest	871	0.5[1]
Smith Barney	830	1
Lazard Frères	591	2
Schroders	390	1
DMG	312	1
Robert Fleming	300	1
Salomon Brothers	232	1

*June-December 1996; deals of $100 million or more.
1) Receives half credit for representing Potash Corp. of Saskatchewan on Arcadian acquisition. Sources: Securities Data Corp. (Newark, NJ); *CW*.

Industry veteran Margery Fischbein has spent the past year starting up Citibank's chemical and pharmaceutical M&A practice. Although Citibank has had some M&A presence as well as a vibrant chemical and pharmaceutical industry group, Fischbein serves in a newly created position

combining the two.

"My mandate—what I was hired to do—is to be an industry-focused M&A specialist," she says. Although she is bullish about the short-term prospects in that assignment, she takes a more cautious view of coming trends. "The M&A business is extremely active. It's mature and probably past-peak, but I'm [still] looking ahead to a very good year. Even if interest rates go up, earnings should stay strong and managements' optimism should continue as a driver."

FULL-YEAR M&A*

(in millions of dollars)

ADVISER	VALUE	DEALS
Credit Suisse	$9,680	11[1]
Merrill Lynch	6,630	9[1]
J.P. Morgan	3,639	10
Morgan Stanley	2,806	3
Goldman Sachs	2,787	5
Salomon Brothers	1,927	2
RBC Dominion	1,857	1.5[2]
SBC Warburg	1,692	2
Lazard Frères	1,451	4
Dillon, Read	1,270	1
Rothschild	1,270	1
Gleacher NatWest	1,144	1.5[2]
Scotia McLeod	986	1
Smith Barney	830	1
DMG	654	4
Schroders	390	1
Robert Fleming	300	1

*January-December 1996; deals of $100 million or more. 1) Includes Grace's $4.2-billion divestiture of National Medical Care to Fresenius. Credit Suisse advised the buyer and Merrill Lynch advised the seller. 2) Receives half credit for representing Potash Corp. of Saskatchewan on Arcadian acquisition. Source: Securities Data Corp. (Newark, NJ); CW.

Investment bank Donaldson, Lufkin & Jenrette (DLJ) has recently stepped up its M&A practice, domestically and in Europe. Although DLJ recently acquired U.K. M&A house Phoenix to pave its way into Europe, it is still focused on its home market, especially on supplying equity to the chemical industry. "There's a need for us as partners in some situations and as buyers in others," says Andrew Rush, a managing director of DLJ's merchant banking operation.

To that end, Rush—whose team has bought and sold companies such as Hampshire Chemical, Fiberite, and OSi Specialties—has been touting his bank's $3-billion fund to invest as private equity in chemical, health care, and electrical equipment ventures. He promotes the leveraged buildup model, which allows entrepreneurs with solid financial backing to grow businesses through acquisition, without becoming overburdened by debt.

DLJ chemical industry practitioner Peter Bacon disagrees with fellow Schroders alumnus Young on the direction of the industr M&A focus. "In '97, there won't be mu activity on the commodity side," Bac says. "People are finding it hard to agree price. But in '98 and '99, as the trou comes, there'll be more agreement."

Bacon and Young agree on a more cruc point, that M&A will always have a hon in the U.S., that for every Hoechst Unilever there is a Monsanto or Olin. " soon as you restructure once," Bacon say "you go ahead and do it again." —

Chemical Companies Forgo Public Financing

Industry's Credit is Solid

IN MANY INDUSTRIES, MERGERS AND ACQUISITIONS (M&A) booms tend to trigger a stepping-up in stock and bond issuance. But at least during the current cycle, chemical companies are finding other ways to sustain the fervor of their acquisitiveness.

Three reasons for eschewing public markets are frequently cited: First, companies are still generating significant cash flows from operations and do not need more capital; second, borrowing privately from a relationship bank is preferable to owing money to a worldwide syndicate of bondholders; and third, the low interest rates of two years ago provided companies with an excellent window of opportunity to refinance high-cost debt, and that window has since shut. "The Sorgentis, Harrises, and Huntsmans of the world built businesses by staying private," says J.P. Morgan chemicals practice head Purna Saggurti, "and they never had any difficulty paying for businesses."

Although the U.S. stock market is enjoying the most sustained bullishness in its history, public stock offerings are almost unheard of in the chemical industry these days. Koppers (Pittsburgh), a Donaldson, Lufkin & Jenrette client, has so far shied away from actually floating the equity that it has already registered with the Securities an Exchange Commission. Family-controlle companies such as Huntsman and Koc have yet to offer shares. And such medium size private companies as Hatco, Flint Ink and Schenectady International—whic almost certainly have enough revenues to b taken seriously should they float thei stock—are still motivated to maintain th autonomy that only private entrepreneur enjoy. That is, they enjoy it providing tha their credit is good. As long as that is so commercial banks such as J.P. Morgan Chase, Citibank, and Bank of America ar

EQUITY ISSUES*

(in millions of dollars)

ISSUER	LEAD MANAGER	DATE	PROCEEDS
Millennium	Merrill Lynch	10/2	$1,741.8
Gas Natural[1]	SBC-Warburg	12/2	570.0
Kemira[1]	Goldman Sachs	10/22	366.0
TVK[1,2]	Credit Suisse	7/8	284.0
AECI[1]	Goldman Sachs	10/1	178.0
Desc[1]	Merrill Lynch	7/18	108.0
Zoltek	Merrill Lynch	7/3	74.0
Crompton & Knowles	Salomon Brothers	8/15	14.3
Consep	Value Invest	10/23	6.0

* Public and private placements; second-half 1996. 1) Split between U.S. and glob markets. 2) Hungarian privatization. Source: Securities Data (Newark, NJ).

willing to provide the sort of discreet financing that does not make its way into the public eye.

Millennium's was the only major U.S. chemical stock to come to market since General Chemical's came out in May (*table, p. 34*), and the circumstances surrounding the Millennium float were unique. U.S.-based Quantum Chemical had been acquired by U.K.-based Hanson. When Hanson decided to demerge, it understood that, since most of Quantum's facilities were in the U.S., it made more sense to have its equity dollar-denominated to match the assets. So Hanson grafted on a few other chemical operations, renamed the newly enlarged unit, and planned a New York Stock Exchange-traded issue.

Millennium has not shared in the stock market's surge. It started trading at about $22/share in October, it sank steadily through December, ending the year at about $18/share. Its share price has since rebounded by about a dollar.

The Millennium offering was the only major equity deal in the industry in second-half 1996. The other U.S.-based deals were fairly small. One was a secondary offering of American Depositary Receipts—blocks of nonvoting shares floated in New York by non-U.S. companies. In this case, the proceeds went to Desc, a Mexican conglomerate with chemical operations. Four European entities floated half their new equity on London's public market and sold half to private U.S. investors. Crompton & Knowles raised $14.3 million in equity capital to defray modest expenses related to the Uniroyal Chemical acquisition. Consep, a small pesticide business, made a secondary offering to raise $6 million.

Hungary's newly privatized chemical industry embraced the markets in July. As the government sold its stake in TVK, U.S. carbon fibers producer—and *CW* Hot Prospect (*CW, Dec. 18/25, 1996, p. 47*)—Zoltek successfully raised capital to acquire Hungarian assets.

Saggurti: Money is a private matter.

On the debt side, there was considerably more action, but the amounts were smaller. Millennium raised $750 million in debt securities in conjunction with its stock offering, and that was the biggest bond to trade hands in second-half 1996 (*table*). Two of the other major debt issuers were Sterling Chemicals, which was recently acquired by a specially created holding company; and International Specialty Products, which recently folded its holding company.

Often a bank will use M&A capabilities as a way of getting into a company's executive suite, then try to extend services such as capital market underwriting to the new client. When there is little demand for placing new debt or equity, these banks offer other financial services. Merrill Lynch notes its strength in commercial paper and tax strategy. Citibank touts its cash management and trade finance expertise.

But the financial environment can change rapidly, as can the chemical cycle. So bankers are keen to keep their relationships with their clients up-to-date. A year from now, chemical companies may well be clamoring for infusions of fresh capital. —WF

DEBT ISSUES

(in millions of dollars)

ISSUER	LEAD MANAGER	MONTH	PRINCIPAL	TYPE	COUPON (%)	S&P RATING	MATURITY
Millennium America	Goldman Sachs	Nov.	$500	Sr. notes	7.000%	BBB-	2006
Agrium	Merrill Lynch	Dec.	393	Tender offer	NA	NA	NA
ISP Holdings	Bear Stearns	Oct.	325	Sr. notes	9.000	B+	2003
Sterling Chem.	Credit Suisse	Aug.	275	Sr. sub. notes	11.750	B+	2006
Praxair	Morgan Stanley	Oct.	250	Notes	6.900	BBB+	2006
Millennium America	Goldman Sachs	Nov.	250	Sr. debentures	7.625	BBB-	2026
IMC Global	Merrill Lynch	Dec.	249	STRYPES[1]	NA	NA	NA
Union Carbide	Morgan Stanley	Oct.	200	Debentures	7.750	BBB	2096
SQM	Salomon	Sept.	200	Loan partic. certs.	7.700	BBB+	2006
Sterling Chem. Holdings	Credit Suisse	Aug.	192	Sr. sec'd disc.	0.000[2]	B+	2008
Tri Polyta	Merrill Lynch	Nov.	185	Guar. sec'd notes	11.375	BB-	2003
Engelhard	J.P. Morgan	July	150	Sr. unsec'd notes	7.000	A	2001
Nova Chemicals	Credit Suisse	Aug.	150	Debentures	7.000	BBB+	2025[3]
Aristech Chemical	Merrill Lynch	Nov.	150	Notes	6.875	BBB	2006
Humpuss	Credit Suisse	Nov.	150	Mortgage notes	NA	NA	2009
Nova Chemicals	Credit Suisse	Aug.	125	Debentures	7.250	BBB+	2028[3]
Freedom Chemical	Merrill Lynch	Oct.	125	Sr. sub. notes	10.625	B-	2006
Astor	DLJ	Oct.	110	Sr. sub. notes	10.500	B-	2006
Engelhard	J.P. Morgan	July	100	Sr. unsec'd notes	7.375	A	2006
Airgas	Nationsbank	Sept.	100	Med.-term notes	7.750	BBB-	2006

* Underwritings of $100 million or more, second-half 1996. 1) Service mark for a mezzanine security developed by Merrill Lynch. 2) Yield was 13.500%. 3) Puttable. NA: Not available. Sources: Chase Securities (New York); Securities Data Corp. (Newark, NJ).