Inside this Issue

We are pleased to present our third quarter 2007 issue of The Chemical Intermediary, our review of insights, events and trends in chemicals and specialty materials.

In this issue, we offer insight into the active pharmaceutical ingredient (API) market, provide statistics and commentary regarding trends and developments in the global specialty chemicals industry, announce the opening of our new Vienna office and update you on key developments at Lincoln International.

Key topics covered in this issue include:

- Spotlight Interview with Guy Villax of Hovione (p1);
- Q2 2007 Market Commentary (p2);
- Key Market Statistics—Specialty Chemicals (p3);
- Announcement of Lincoln International’s Vienna office (p5); and
- Announcement regarding Buckingham Capital’s acquisition of CPAC in a take-private transaction (p5).

Spotlight Interview: Guy Villax of Hovione

Q: Hovione’s business strategy focuses on developing and manufacturing “challenging products for demanding markets.” What differentiates Hovione from other fine chemicals providers serving the pharmaceutical industry?

A: We believe there are three main differentiators: First, we do nothing but final APIs, we don’t do intermediates. Second, we go for margin not volume. And last, but not least, we look for difficulty, not the easy pickings. We don’t find excuses, and we go out of our way to find solutions for our customers—we want to make sure their projects find the best home even if that means giving business to a competitor. We are also constantly re-inventing the company whether this is in products, markets, technologies, or other key differentiators. In short, we are constantly on the lookout to transform threats into opportunities and to make the most out of the challenges that are constantly present in the pharmaceutical fine chemicals industry.

Q: Many PFC manufacturers shy away from servicing both patented and generic customers due to the rivalry between those segments, yet Hovione openly services both segments. How do you manage to do it successfully?

A: We were in business before these two segments were even identified as such. As a result, throughout our corporate history we never saw any reason to not take advantage of both. We were among the first producers of exclusive APIs in the 1960’s and 1970’s when we licensed out our modified molecules—corticosteroids in Japan and semi-synthetic tetracyclines in Europe. In the 1980’s we supplied the emerging U.S. generics industry.

Our sales breakdown is roughly 55% North America, 20% Europe, 20% Japan—and that has been that way for over 25 years while the split between the two segments fluctuates in long cycles. That said, the two businesses are very different in terms of key success factors, distribution channels, life-cycle, risk and margin profiles. We believe, however, that by being active in both we realize many significant industrial synergies. As a result, we find developing both segments important, as it enables us to be more competitive which, in turn, is good for our customers. Doing well in both areas is difficult, because each requires close attention, big bets and long-term views – and both compete for the same scarce resources such as R&D.

What I have seen in the market evidences how difficult it is to do this properly. When private equity groups buy into this business, often the new owners make big mistakes in areas such as pricing. This often is caused by the fact that when the companies lose money, they often tend to lower prices to capture more market share. By doing so they are demonstrating a lack of understanding of a key customer demand: assured supply and assured continuity. Big Pharma buyers are smart and competent, and they can calculate the correct price. When a manufacturer is too aggressive in its pricing, customers are often afraid that the supplier will not be around for long.

(Continued on page 2)
**Q2 2007 Market Commentary — Specialty Chemicals**

The charts on page 3 provide a statistical summary of activity in specialty chemicals. After a slow first quarter, second quarter transaction volume increased 45%, from 31 transactions to 45, according to CapitalIQ, Inc. Total announced and closed value of deals was approximately $1.0 billion. The growth in transactions was driven by increases in North America (10 in Q1 to 19 in Q2) and Europe which continued to show strong deal volume (18 in Q1 to 22 in Q2).

Public companies participating in the specialty chemicals industry continue to trade at strong valuations. As shown in the chart on the following page, both the LI Specialty Chemicals and LI Diversified Chemicals indices have continued to outperform the market through the second quarter of 2007. Valuation trends were mixed for the sector. Mid-cap EBITDA multiples dropped in the second quarter from 9.6x to 8.3x while large cap EBITDA multiples traded up from 9.1x to 9.5x.

M&A activity continued to be strong throughout specialty chemicals and in particular in the paints and coatings sector. PPG, Impreglon and Carboline all closed deals and Akzo Nobel announced the acquisition of Chemcraft International in the second quarter of 2007. Akzo Nobel also made an offer of £7.2 billion ($14.8 billion) for Imperial Chemical Industries on June 4th. ICI rejected the offer and there is continued speculation as to whether Akzo will submit a revised offer.

The Huntsman Corporation was the target of a bidding war between Bassell and Hexion Specialty Chemicals Inc. Bassell made an offer of $9.6 billion for Huntsman on June 26th. Subsequently Hexion made a competing offer of $10.6 billion. On July 12th, Hexion announced it had signed a definitive agreement to acquire Huntsman for $28 per share. The deal is subject to regulatory approval in the U.S. and Europe, as well as Huntsman shareholder approval. Hexion has up to 12 months, with a 90 day extension under certain circumstances, to close the transaction.

The following deals were among the largest announced transactions for the second quarter of 2007:

- **On June 24, 2007**, Israel Chemicals Ltd. announced it had agreed to acquire Supresta LLC, a portfolio company of Ripplewood Holdings LLC, for approximately $352 million in cash.
- **On April 23, 2007**, Dalton Investments LLC agreed to acquire Nippon Fine Chemical Co., Ltd. for approximately $170 million in cash.
Q2 2007 Key Market Statistics — Specialty Chemicals

M&A Transaction Activity vs. Deal Value
(Announced transactions and transaction values)

Most Active Buyers / Investors (Last Twelve Months)
(Based on announced transactions and transaction values)

Top 10 Buyers by No. of Deals

<table>
<thead>
<tr>
<th>Company Name</th>
<th>No. of Deals</th>
<th>Deal Size ($mm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPG Industries Inc.</td>
<td>4</td>
<td>2,152</td>
</tr>
<tr>
<td>Impreglon AG</td>
<td>3</td>
<td>1,349</td>
</tr>
<tr>
<td>Tikkurila Oy</td>
<td>3</td>
<td>1,200</td>
</tr>
<tr>
<td>European MasterBatch N.V.</td>
<td>3</td>
<td>352</td>
</tr>
<tr>
<td>Nippon Paint Co. Ltd.</td>
<td>3</td>
<td>223</td>
</tr>
<tr>
<td>Quest Specialty Chemicals, Inc.</td>
<td>3</td>
<td>110</td>
</tr>
<tr>
<td>Chemicals Corporation</td>
<td>2</td>
<td>89</td>
</tr>
<tr>
<td>Akzo Nobel NV</td>
<td>2</td>
<td>75</td>
</tr>
<tr>
<td>Total Top 10</td>
<td>27</td>
<td>5,812 ($mm)</td>
</tr>
</tbody>
</table>

Top 10 Buyers by Deal Size

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Deal Size ($mm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Givaudan AG</td>
<td>3.4</td>
</tr>
<tr>
<td>Court Square CP / Weston Presidio</td>
<td>2.0</td>
</tr>
<tr>
<td>The National Titanium Oxide Company Ltd</td>
<td>1.300</td>
</tr>
<tr>
<td>Israeli Chemicals Ltd</td>
<td>352</td>
</tr>
<tr>
<td>Dalton Investments LLC</td>
<td>170</td>
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<tr>
<td>Chemline Corporation</td>
<td>165</td>
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<tr>
<td>Rockwood Holdings Inc.</td>
<td>140</td>
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<tr>
<td>Kuala Lumpur Kiehling Bhd</td>
<td>110</td>
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<tr>
<td>Illinois Tool Works Inc.</td>
<td>89</td>
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<tr>
<td>UMECO plc.</td>
<td>75</td>
</tr>
<tr>
<td>Total Top 10</td>
<td>5,812 ($mm)</td>
</tr>
</tbody>
</table>

Public Market Performance

Enterprise Value / EBITDA

(1) LI Diversified Chems Index: FMC, CLX, EMN, RHA, HUN, CBT, POL, ASH, DD, EC, OLN, PPG, AKZA, BAS, CE, MON, DOW
(2) LI Specialty Chems Index: Includes all companies in the Large Cap and Mid Cap groups
(3) Large Cap group includes: ALB, APD, ARG, CEM, CYT, ECL, FUL, GRA, HPC, IFF, LZ, NLC, PPG, ROC, ROH, RPM, SIAL, VAL
(4) Mid Cap group includes: ARJ, CBM, FOE, NEU, OMG, SHLM, SMMX, SXT
SOURCE for all data on this page: CapitalIQ, Inc. (division of Standard & Poor’s), Lincoln International and public filings
Q: The past two years have seen a significant increase in general consolidation activity as fine chemicals firms have merged, restructured operations or shut down unprofitable facilities. What is your view on how much remains in the market and how much additional consolidation needs to occur?

A: Looking at the last 20 years, our industry seems to go in cycles. They seem to be driven by large amounts of other people’s money being thrown out of the window. While significant value is being destroyed, people celebrate with champagne and bonuses; only many years after the party is over does everyone realize the enormity of the mistakes.

A number of companies are paying the piper after an acquisitions binge. Currently, there seems to be easy money available in the Shanghai and Mumbai stock markets so that might tell us where the next mistakes might come from.

I still believe there are many plants that should be closed down. The most critical factor in the ability to price competitively is the life expectancy of a plant and that is exclusively driven by GMP compliance. After you have starved an API plant of Maintenance and Quality people, after you have limited capital expenditures for several years—no customer can run the risk of having a pre-approval inspection at your shop. Since the last five years have been difficult, one can expect many plants to be out of compliance and in dire need of being shut down.

Q: Historically, Hovione has achieved growth through organic initiatives while other industry participants decided to make strategic acquisitions. Would Hovione ever consider an acquisition?

A: Naturally—getting something that fits well for a fair price might just outweigh my natural preference for a greenfield site development. As a private company, we are not in a hurry. We prefer to do things well even if it takes longer. We are also very sensitive to the importance of nurturing our company culture. We are convinced that when you buy a going concern, you need to get the culture right. Our business may be called custom synthesis, but in reality it is a service business.

Q: What sorts of candidates would interest you the most?

A: Horses for courses. Low cost capacity in Asia and technology boutiques in the West would be my preference. My CFO is dead keen on buying companies similar to Hovione in Europe.

Q: If you were an outside investor considering acquisitions in fine chemicals, what are some key considerations you would make in evaluating a potential opportunity?

A: Outside investors should be careful when evaluating acquisitions in fine chemicals. Drug development is a lengthy and risky process, so careful evaluation of a firm’s development portfolio is important. The FDA pays close attention to manufacturers and imposes strict regulations. In addition, capital expenditure requirements are often high, and relatively high customer concentration is normal. Investors can make money in this industry, but one should recognize that this has been a risky bet over the past several years and it is important to evaluate each opportunity carefully.

With that said, my first step is to do a plant visit. I always look in the parking lot and count the cars—this is especially meaningful in India. The plant tour gives me a sense of inventory turnover, quality of housekeeping and recordkeeping, HSE performance. It is always interesting to see how management talks to their people.

Q: What is your sense of the opportunities for PFC in the next 5-10 years?

A: I see lots of challenges that can be big opportunities. Tougher regulations, a few emerging but strong new competitors from Asia, more drugs getting approved and also more outsourcing from Big Pharma. In fact, if private equity groups start taking an interest in Big Pharma, the resulting restructuring will mean change—and specifically for us this would result in a lot of opportunities since much of the current API production will cease to be captive and be up for grabs.
Lincoln International Opens Office in Vienna: Witold Szymanski, Managing Director of Austria and Central/Eastern Europe, to Lead Office

We are pleased to announce the recent opening of our office in Vienna, Austria. Austria and Central/Eastern Europe together represent one of the world’s most dynamic and growing economic regions. Lincoln International’s local presence will help to expand and strengthen the firm’s relationships with current and prospective clients in Austria and serve as a hub for clients throughout the Central and Eastern European countries.

The Vienna effort will be led by Witold Szymanski, who recently joined the firm as a Managing Director. He is a seasoned investment banking professional and has been involved in M&A transactions and privatizations as well as business development since 1989 with strong ties to the Austrian and CEE financial community. He previously spent 15 years with the Raiffeisen Banking Group in Austria and within the CEE region in different responsibilities including the development and management of the bank’s advisory and M&A arm, management of privatisation funds and a private equity vehicle for mid market investment within CEE. From 1990 until 2004 he was member of the Supervisory Board of the Raiffeisen Bank in Poland.

“As we continue to expand, Austria/CEE offers a multitude of opportunities for us in a wide range of industries,” said Michael Drill, CEO of Lincoln International Germany. “Our Vienna office provides us with a dedicated local team and will allow us to deepen our ties with CEE-based companies. Also, Witold and his team will allow us to better access emerging buyers from that region for our global sell-side business.”

“We are convinced that bringing the Lincoln International platform into Austria and the CEE will create huge opportunities. I am very impressed by the quality of the client relationships, execution skills and industry expertise that Lincoln International is able to offer,” said Witold Szymanski.

Lincoln International Assists Buckingham Capital Partners in the Acquisition of CPAC, Inc. (NASDAQ: CPAK)

Lincoln International’s recent assignment with Buckingham Capital Partners regarding the take-private of CPAC highlights our ability to help sophisticated investors raise capital to finance acquisitions in specialty chemicals.

In April 2007, Lincoln International advised Buckingham Capital Partners (“BCP”) in the merger between CPAC, Inc. (“CPAC”) and Buckingham Capital Partners II, L.P. BCP acquired 100% of the publicly-traded common stock of CPAC for $8.65 per share. Total consideration paid by BCP, including payments to option holders and the assumption of $4.6 million of outstanding debt and $5.9 million of cash, amounted to $43.4 million. Concurrent with the merger, the common shares of CPAC were delisted from the NASDAQ Global Market and ceased trading on April 13, 2007.

Based in Leicester, NY, CPAC is a specialty chemicals company with operations in two primary business segments. The Fuller Brands segment manufactures commercial, industrial, and household cleaning products, as well as custom brushes and personal care lines. The CPAC Imaging segment develops and markets innovative imaging chemicals, equipment and supplies used in photo development processing.

Lincoln International served as exclusive financial advisor to BCP and structured and arranged the private placement of $28.9 million in domestic senior credit facilities, €2.4 million in foreign senior credit facilities and $11.0 million of junior capital to complete the acquisition. Lincoln International also assisted BCP with the negotiations of the credit agreements and related transaction documents.

"Lincoln International entered the process while we were still competing for the deal,” said Shail Sheth, Managing Partner, Buckingham Capital Partners. “Their extensive experience and relationships helped us secure attractive financing proposals in a short period of time, allowing us to strengthen our bid, an important factor in enabling us to win the auction.”

Mr. Sheth also noted, “Lincoln International’s capital raising expertise allowed us to take advantage of the favorable conditions in the credit markets and arrange attractive senior credit facilities that included borrowings secured by CPAC’s foreign assets. This incremental debt capacity reduced our required equity investment and resulted in a more favorable capital structure for BCP with improved return characteristics."
Lincoln International’s Global Footprint

About Lincoln International

Lincoln International specializes in merger and acquisition services and private capital raising for leading organizations involved in mid-market transactions. With offices in Chicago, Frankfurt, Los Angeles, New York, Paris, Vienna, and strategic partnerships with China Everbright and other partner firms in Asia, Lincoln International has strong local knowledge and contacts in the key global economies. The organization provides clients with senior-level attention, in-depth industry expertise and integrated resources. By being focused and independent, Lincoln International serves its clients without conflicts of interest. More information about Lincoln International can be obtained at www.lincolninternational.com.

Upcoming Event

Chris Cerimele of Lincoln International will be speaking on the topic of fine chemicals mergers & acquisitions at the DCAT/ISM Sourcing Summit ‘07 on Wednesday, October 24. The program will be held at the Hyatt Regency Hotel in New Brunswick, New Jersey. For more information visit www.dcat.org.

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