The announcement of large deals continues unabated, although there is increasing uncertainty on the likelihood of deals completing.

Vir Lakshman
Head of Chemicals & Pharmaceuticals, KPMG Germany

HIGHLIGHTS

- M&A in the pharmaceutical sector continued to rally in Q3 2014 with the value of completed deals at $53 billion, almost triple Q2’s value.
- Deal completions for the pharmaceutical sector continued to lag behind with only one significant deal closing in Q3 2014 (Actavis/Forest). In terms of announced deals, yet another mega deal fell by the wayside in Q3, as AbbVie Inc. withdrew its offer for Shire PLC.
- In the chemical sector, the combined top 10 completed deals were valued at $11.2 billion. The aggregated deal value of the top 10 announced deals, $37 billion, more than doubled compared to the previous quarter.
- US continued to be the most active country in both sectors. In the pharmaceutical sector, the US was involved in each of the top 10 closed pharmaceutical transactions.
- Financial investors engaged in 16% of the pharmaceutical and 25% of the chemical deals in Q3 2014.
- KPMG’s Deal Thermometer indicates that the environment for M&A activity will remain ‘Hot’ in pharmaceuticals, while a slight shifting in chemical valuations suggests a more ‘Moderate’ M&A environment in chemicals.

FIGURE 01 Number of deals by sector 2012 – Q3 2014

FIGURE 02 Deal value by sector 2012 – Q3 2014 – $ billion

DEAL THERMOMETER – Q3 2014

Deal Appetite – Pharmaceuticals (Forward P/E Ratio)

Deal Capacity – Pharmaceuticals (Net Debt/EBITDA)

Deal Appetite – Chemicals (Forward P/E Ratio)

Deal Capacity – Chemicals (Net Debt/EBITDA)

KPMG’s Deal Thermometer signals the environment for M&A deals in chemicals & pharmaceuticals.

It combines the appetite for deals (changes in forward P/E ratios) with the capacity to fund deals (changes in Net Debt/EBITDA multiples).

‘Hot’ signifies an environment conducive to deal-making.

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Pharmaceuticals

In Q3 2014, the M&A market remained robust with higher completed deal values as compared with Q2 2014. The Actavis/Forest Laboratories deal was the primary contributor to the large deal value, accounting for 60% of top 10 deals value.

**Acquirees boost specialty drugs portfolio**
In July 2014, Actavis PLC completed the acquisition of US-based Forest Laboratories Inc. in a combined equity and cash transaction for $28 billion. The transaction supports expansion of Actavis’ North American specialty brand portfolio, the US specialty sales and marketing network and expansion of the specialty pharmaceutical R&D pipeline with over 25 additional products in various stages of development. Financial benefits include $1 billion operating and tax synergies within a three-year period, free cash flow of over $4 billion for 2015 and higher revenues from the specialty brand segment. The company expects to generate combined revenues of $15 billion by 2015.

Through Forest Laboratories, Actavis further acquired Furiex Pharmaceuticals Inc. The deal extends its gastroenterology operations adding Furiex’ Linzess, Asacol and Delzicol franchises and Eluxadoline to the portfolio. Eluxadoline is a potential drug for the treatment of diarrhea-predominant irritable bowel syndrome, with approximately 28 million affected patients in the US and Europe.

**Allergan escapes Valeant**
During October, Valeant Pharmaceuticals International Inc. increased its offer to acquire Allergan Inc. several times, from $176 to over $200 per share by the end of the month. This offer was valid until 18 December 2014 when Allergan’s extraordinary shareholder meeting is scheduled to take place.
In the meantime, Allergan evaluated various strategic options to avert a takeover by Valeant. For example, it considered acquiring Salix to increase its size stirring shareholder discontent. Actavis PLC also approached Allergan and Salix. Finally in November, Allergan accepted Actavis’ offer of $219 per share, creating one of the global top 10 pharmaceutical companies. At this price, Valeant will not be making any counter offers.
The deal value of the global top 10 completed deals in Q3 2014 was $47.3 billion

<table>
<thead>
<tr>
<th>Bidder</th>
<th>Target</th>
<th>Therapy area</th>
<th>Value</th>
<th>Contingent Payments</th>
<th>Total Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actavis PLC</td>
<td>Forest Laboratories LLC</td>
<td>CNS, gastroenterology, women’s health, urology, etc.</td>
<td>28.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mallinckrodt PLC</td>
<td>Questcor Pharmaceuticals Inc.</td>
<td>Autoimmune and inflammatory disorders</td>
<td>5.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merck &amp; Co. Inc.</td>
<td>Idenix Pharmaceuticals Inc.</td>
<td>Human viral diseases</td>
<td>3.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Abbott Laboratories</td>
<td>CFR Pharmaceutical S.A.</td>
<td>Neurology, psychiatry and cardiology, women’s health etc.</td>
<td>2.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Roche Holding AG</td>
<td>Seragon Pharmaceuticals Inc.</td>
<td>Breast cancer</td>
<td>0.7</td>
<td>1.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Actavis PLC</td>
<td>Furiex Pharmaceuticals Inc.</td>
<td>Gastroenterology</td>
<td>1.1</td>
<td>0.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Nestlé S.A.</td>
<td>Valeant Pharmaceuticals Intl. – Injectable aesthetic dermatology products</td>
<td>Aesthetic dermatology</td>
<td>1.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Teva Pharmaceutical Industries Ltd.</td>
<td>Labrys Biologics Inc.</td>
<td>Chronic and episodic migraine</td>
<td>0.2</td>
<td>0.6</td>
<td>0.8</td>
</tr>
<tr>
<td>GTCR LLC**</td>
<td>Nordion Inc.</td>
<td>Medical isotopes and sterilization technologies</td>
<td></td>
<td></td>
<td>0.8</td>
</tr>
<tr>
<td>Prestige Brands Holdings Inc.</td>
<td>INSIGHT Pharmaceuticals, LLC</td>
<td>OTC women’s health and personal care products</td>
<td></td>
<td></td>
<td>0.8</td>
</tr>
</tbody>
</table>

* All numbers are in USD billion. Blue numbers are estimated values. ** Financial investors are italicized.
Sources: Thomson One, KPMG Analysis

The deal value of the global top 10 announced deals Q1–Q3 2014 was $290.2 billion

<table>
<thead>
<tr>
<th>Bidder</th>
<th>Target</th>
<th>Therapy area</th>
<th>Deal Status</th>
<th>Total Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pfizer Inc.</td>
<td>AstraZeneca PLC</td>
<td>Biopharmaceuticals</td>
<td>Withdrawn</td>
<td>117.1</td>
</tr>
<tr>
<td>AbbVie Inc.</td>
<td>Shire PLC</td>
<td>Neuroscience, gastrointestinal, internal medicine</td>
<td>Withdrawn</td>
<td>54.8</td>
</tr>
<tr>
<td>Valeant Pharmaceuticals International Inc.</td>
<td>Allergan Inc.</td>
<td>Eye care, neurosciences, dermatology, urologies</td>
<td>Withdrawn</td>
<td>53.0</td>
</tr>
<tr>
<td>Novartis AG</td>
<td>GlaxoSmithKline PLC - Oncology Business</td>
<td>Oncology</td>
<td>Pending shareholder and antitrust approval</td>
<td>16.0</td>
</tr>
<tr>
<td>Bayer AG</td>
<td>Merck &amp; Co. Inc. - Consumer Care Business</td>
<td>Consumer Care</td>
<td>Completed on 01 October 2014</td>
<td>14.2</td>
</tr>
<tr>
<td>Mylan Inc.</td>
<td>Meda AB</td>
<td>Respiratory, dermatology, OTC</td>
<td>Withdrawn</td>
<td>9.0</td>
</tr>
<tr>
<td>Roche Holding AG</td>
<td>InterMune Inc.</td>
<td>Pulmonology and orphan fibrotic diseases</td>
<td>Tender completed, merger pending</td>
<td>8.3</td>
</tr>
<tr>
<td>GlaxoSmithKline PLC</td>
<td>Novartis AG - Vaccine Business</td>
<td>Vaccines</td>
<td>Pending shareholder and antitrust approval</td>
<td>7.1</td>
</tr>
<tr>
<td>Eli Lilly &amp; Co.</td>
<td>Novartis AG - Animal Health Division</td>
<td>Animal health</td>
<td>Antitrust approval, merger pending</td>
<td>5.4</td>
</tr>
<tr>
<td>Mylan Inc.</td>
<td>Abbott Laboratories - Non-US generics business</td>
<td>Cardio/metabolic, gastrointestinal medicine etc.</td>
<td>Pending shareholder and antitrust approval</td>
<td>5.3</td>
</tr>
</tbody>
</table>

* All numbers are in USD billion. Blue numbers are estimated values.
Sources: Thomson One, KPMG Analysis
China and India were the most active markets in the Asian region during Q3 2014. Deals in Asia were largely domestic in nature, with the trend expected to continue in the near future.

In Q3 2014, several transactions in the Indian pharmaceutical market are indicative of consolidation in the generics area. For example, Sun Pharmaceutical Industries Ltd. announced it would acquire for $4 billion the generic player, Ranbaxy Laboratories Ltd.. Strides Arcolab Ltd. also announced the acquisition of Shasun Pharmaceuticals Ltd. for $197 million to boost its generic drugs portfolio.

The largest Asia outbound transaction during Q3 2014 was US-based Ambit Biosciences Corp. acquired by Daiichi Sankyo Ltd., strengthening the cancer treatment drug pipeline.

Inversion transactions have been on the rise, in particular in the pharmaceutical sector. Generally, a US company engages in an inversion when (i) a US company domiciles itself to a non-US jurisdiction (a stand-alone inversion) or (ii) a smaller non-US company in form acquires with its stock the US company (an acquisition based inversion). These transactions facilitate US companies relocating their headquarters to lower tax jurisdictions and permits a freer movement of cash between its operations.

On 22 September 2014, the U.S. Treasury Department issued a notice of intent to issue regulations to limit tax inversion focused deals. This notice seeks to limit the ability to avoid the application of the US anti-inversion rules. It also seeks to limit the benefits of inversions by reducing the available transactions to move cash from the US company’s non-US subsidiaries in an efficient manner and transfer such non-US subsidiaries from the US company’s ownership to the non-US company.

Following the issuance of the notice, US-based Salix Pharmaceuticals Inc. terminated the $2.7 billion merger with Italy’s Cosmo Technologies Ltd., citing the changed political environment as the reason.
In Q3 2014, chemical deals continue to be bolt on transactions. In comparison to Q1 and Q2, the aggregated value of the top 10 completed deals rose again in Q3 up to $11.2 billion. China, followed by the US, dominates with four of the global top 10 completed deals involving Chinese targets.

The largest completed deal with US involvement on both sides is the $2.1 billion acquisition of the PetroLogistics Group by Koch Industries Inc. through its subsidiary Flint Hills Resources LLC. The deal represents the largest acquisition in the subsidiary’s history and the first chemical asset since 2007, strengthening the ability to compete globally. It includes the merger of Flint Hills Resources’ subsidiary, FHR Propylene LLC, with PetroLogistics.

Albermarle Corp.’s announced purchase of Rockwood Holdings Inc. for $6.2 billion represents the largest US domestic deal in Q3 2014. The acquisition aims to create a premier specialty chemicals company with market-leading positions across four high-margin businesses: lithium, catalysts, bromine and surface treatment.

In Q3 2014, financial investors were involved in 25% of the completed deals with four of the top 10 completed deals undertaken by PE houses, investment companies/groups or individual investors.

For example, the largest financial deal involves Clayton Dubilier & Rice LLC buying Ashland Inc.’s water treatment unit, which has a strong global footprint with 31 manufacturing facilities across 17 countries and 5 continents. The target’s name changed to Solenis, which also includes former brands such as Betz Laboratories, Drew, Stockhausen and Hercules, serving pulp, paper, oil and gas, chemical processing, mining, biorefining, power and municipal markets.

German involvement in M&A activity increased in Q3 over Q2 2014 as German targets provide access to technology and geographic expansion. For example, US-based Westlake Chemical Corp.’s purchase of Vinnolit Holdings GmbH aims to bring Westlake a European market presence along with new specialty PVC products by leveraging Vinnolit’s world class technical centers.

Buoyancy in German specialty chemicals, was further reinforced this quarter, as Ineos Industries Holdings Ltd. exercised its option to buy the remaining Styrolution Group GmbH shares from BASF SE. German based Styrolution is a leading global provider of styrenic applications for everyday products across a broad range of industries.

Bayer AG also announced during Q3 2014 its plan to spin-off and float its Bayer MaterialScience business on the stock exchange. This will provide the capital markets with another opportunity to invest in a German based chemicals company while freeing Bayer to focus on its LifeScience business.

On the acquirer side, German firms are attracted to the US market for its low energy costs and expanding economy in comparison to lack luster growth in Europe along with high energy prices. Record-low interest rates are also helping to fuel US deal activity.

For example, Merck KGaA announced the acquisition of US-based Sigma-Aldrich Co. LLC for $17 billion. Merck expects synergies of approximately $340 million within the first three years due to broader but complementary products and services and a more efficient supply chain. It will further strengthen Merck’s global geographic presence, especially in North America and Asia.
### The deal value of the global top 10 completed deals in Q3 2014 was $11.2 billion

<table>
<thead>
<tr>
<th>Bidder</th>
<th>Target</th>
<th>Business area</th>
<th>Total value *</th>
</tr>
</thead>
<tbody>
<tr>
<td>Samsung SDI Co., Ltd.</td>
<td>Cheil Industries Inc.</td>
<td>Scratch resistant resins, semiconductor materials</td>
<td>3.5</td>
</tr>
<tr>
<td>Koch Industries Inc.</td>
<td>PetroLogistics LP and PetroLogistics GP LLC</td>
<td>Propane dehydrogeneration</td>
<td>2.1</td>
</tr>
<tr>
<td>Clayton Dubilier &amp; Rice LLC**</td>
<td>Ashland Inc. - Water Treatment Business</td>
<td>Specialty chemicals for water treatment</td>
<td>1.8</td>
</tr>
<tr>
<td>Huafang Textile Co., Ltd.</td>
<td>Zhejiang Jihua Energy Chemical Industry Co., Ltd.</td>
<td>Sulfuric and fatty acids, chlor-alkalies</td>
<td>1.6</td>
</tr>
<tr>
<td>Westlake Chemical Corp.</td>
<td>Vinnolit Holdings GmbH</td>
<td>PVC</td>
<td>0.7</td>
</tr>
<tr>
<td>Baosteel Group Corp. and Warburg Pincus LLC</td>
<td>Henan Jinkai Chemical Investment Holding Group Co., Ltd.</td>
<td>Industrial gases assets</td>
<td>0.5</td>
</tr>
<tr>
<td>Goldman Sachs-led consortium</td>
<td>Daesung Industrial Gases Co., Ltd. (68%)</td>
<td>Industrial gases</td>
<td>0.4</td>
</tr>
<tr>
<td>Wu Zishen, Morgan Stanley Private Equity Asia, Prosper Sino Development Ltd. and Full Alliance International Ltd.</td>
<td>Yongye International Inc. (67%)</td>
<td>Fertilizer</td>
<td>0.3</td>
</tr>
<tr>
<td>Hubei Xingfa Chemicals Group Co., Ltd.</td>
<td>Hubei Taisheng Chemical Co Ltd. (51%)</td>
<td>Glyphosate</td>
<td>0.2</td>
</tr>
<tr>
<td>Suncor Energy Inc.</td>
<td>Chemtrade Logistics Income Fund Montreal East business</td>
<td>Sulphur removal and compliance services</td>
<td>0.1</td>
</tr>
</tbody>
</table>

* All numbers are in USD billion. Blue numbers are estimated values. ** Financial investors are italicized.

Sources: Thomson One, KPMG Analysis

### The deal value of the global top 10 announced deals Q1–Q3 2014 was $37 billion

<table>
<thead>
<tr>
<th>Bidder</th>
<th>Target</th>
<th>Business area</th>
<th>Deal Status</th>
<th>Total value *</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merck KGaA</td>
<td>Sigma-Aldrich Co. LLC</td>
<td>Biochemicals, organic chemicals and lab equipment</td>
<td>Pending antitrust approval</td>
<td>17.0</td>
</tr>
<tr>
<td>Albemarle Corp.</td>
<td>Rockwood Holdings, Inc.</td>
<td>Lithium production, products and services for metal processing</td>
<td>Pending shareholder and antitrust approval</td>
<td>6.2</td>
</tr>
<tr>
<td>Eastman Chemical Company</td>
<td>Taminco Corp.</td>
<td>Alkylamines, acids and derivatives</td>
<td>Pending shareholder and antitrust approval</td>
<td>2.8</td>
</tr>
<tr>
<td>PPG Industries Inc.</td>
<td>Consorcio Comex, S.A. de C.V.</td>
<td>Coatings and related products</td>
<td>Completed on 05 November 2014</td>
<td>2.3</td>
</tr>
<tr>
<td>Arkema SA</td>
<td>Bostik SA (part of Total S.A.)</td>
<td>Adhesives</td>
<td>Pending antitrust approval</td>
<td>2.2</td>
</tr>
<tr>
<td>FMC Corporation</td>
<td>Cheminova A/S (part of Auriga Industries A/S)</td>
<td>Crop protein products</td>
<td>Pending antitrust approval</td>
<td>1.8</td>
</tr>
<tr>
<td>Ineos Group AG</td>
<td>Styrolution Group GmbH (50%)</td>
<td>Styrenics</td>
<td>Completed on 17 November 2014</td>
<td>1.5</td>
</tr>
<tr>
<td>Consolidated Energy Co., Ltd.</td>
<td>Methanol Holdings (Trinidad) Ltd.</td>
<td>Methanol</td>
<td>Antitrust approval, merger pending</td>
<td>1.2</td>
</tr>
<tr>
<td>Mitsubishi Chemical Holdings Corp.</td>
<td>Taiyo Nippon Sanso Corp. (24%)</td>
<td>Industrial gases and related equipment</td>
<td>Pending</td>
<td>1.0</td>
</tr>
<tr>
<td>NIPSEA Holdings International Ltd.</td>
<td>Nippon Paint Co., Ltd. (19%)</td>
<td>Paint, coatings, surface treatment</td>
<td>Pending</td>
<td>1.0</td>
</tr>
</tbody>
</table>

* All numbers are in USD billion. Blue numbers are estimated values.

Sources: Thomson One, KPMG Analysis
The European chemical industry significantly under-performed the Bloomberg European 500 Index in Q3 2014.

**CAPITAL INDEX**

In Q3, four of the top 10 completed deals were domestic Chinese deals. Two of these deals aim to strengthen the buyer’s product portfolio. For example, Baosteel Group Corp. was motivated to expand beyond steel into higher growth industrial gases. US-based PE house Warburg Pincus LLC and Baosteel have a strategic partnership exploring and developing projects in the industrial gases segment. Xingfa Chemicals Group Co., Ltd. looked to strengthen its glyphosate business by acquiring Taisheng Chemical Co Ltd.

Huafang Textile Co., Ltd. and Zhejiang Jiahua Energy Chemical Industry Co., Ltd. came together for a different reason – Huafang leveraged its IPO listing to acquire a stronger business to augment its loss-making textile business.

In July 2014, Yongye International Inc. completed its privatization delisting its stock from the NASDAQ stock exchange. Wu Zishen, as Chairman and CEO of Yongye, through the acquisition, hopes to get more control over the company while his co-investors hope to benefit from Yongye’s high growth.

**LEVERAGING SYNERGIES USING CLEAN ROOMS**

An increasing number of M&A deals is driven by the need to rationalize surplus capacity in the market. This places significant restrictions on the ability to carry out full-scope due diligence. As a result, several companies are using clean rooms in the pre-closing phase to compare and scrutinize relevant data.

This approach allows concrete action plans to be defined, so that once control passes, deal synergies can be leveraged and managed without delay.

Typical activities include:

- Analysis of customer databases for overlaps in order to assess overall sales impact and market positioning. Review terms of business (payment, delivery) to accelerate post-closing negotiations with customers.

- Evaluation of target’s distributor network using historical sales data and qualitative information (via interviews with sales representatives). Upon deal completion, management is able to decide, without delay, which distributors to go with.

- Profitability analysis of target’s sales in order to identify underperforming products and low volume customers to take corrective action from day 1.
Basis of data preparation

Values and volumes used throughout the report are based on completion date as provided by Thomson Reuters’ database Thomson One as of 1 October 2014, and supplemented by additional independent research. This report includes disclosed and undisclosed values for M&A transactions including minority stake purchases, acquisitions of remaining interest, and recapitalizations and it explicitly excludes self-tenders and spinoffs. The published numbers of deals and deal values are based on the analysis of target companies which operate in the following subsectors:

Pharmaceuticals:
- Medicinal chemicals & botanical products
- Pharmaceutical preparations
- In vivo and in vivo diagnostic substances
- Biotechnology – biological products, except diagnostic substances
- Pharmaceutical wholesale (added starting in Q2 2014)

Chemicals:
- Clay, kaolin, ceramic & refractory minerals
- Chemical and non-metallic mineral mining, except fuels
- Fertilizers and agricultural chemicals
- Industrial gases
- Specialty chemicals
- Chemical wholesale
- Plastics and rubber components

KPMG’s Deal Thermometer is based on financial data as provided by S&P Capital IQ of public companies in the same sector as noted above with a market capitalization at quarter end of at least a $1 billion. For the pharmaceutical sector, this comprises 159 public companies. For the chemical sector, this comprises 179 public companies.

All figures in this report are shown in US Dollars ($).

Sources
Online databases:
- Thomson One (Thomson Reuters)
- Mergermarket
- S&P Capital IQ
- Bloomberg

Publications:
- Various companies’ press releases

Imprint
Publisher
KPMG AG Wirtschaftsprüfungsgesellschaft
Tersteegenstrasse 19–31
40474 Dusseldorf
Germany

Contact
Vir Lakshman*
Partner, Transaction Services
Head of Chemicals & Pharmaceuticals, Germany
T +49 211 475-6666
vlakshman@kpmg.com

Christian Klingbeil
Partner, Valuations
T +49 89 9282-1284
cklingbeil@kpmg.com

Christian Specht
Partner, M&A
T +49 69 9587-2240
cspecht@kpmg.com

Authors
Rita Duran
Senior Manager, Chemicals & Pharmaceuticals, KPMG in Germany

Helen Christmann
Chemicals & Pharmaceuticals, KPMG in Germany

Sebastian Heinisch
Chemicals & Pharmaceuticals, KPMG in Germany

Contributors
Linda Lin
Partner, KPMG in China

Jens Riegger
Senior Manager, KPMG in Germany

Henry Zhang
Senior Manager, KPMG in China

www.kpmg.de

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