

Dow Chemical and DuPont are in advanced merger talks

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Dow Chemical and DuPont are in advanced talks to merge, according to a Wall Street Journal report last night that cited people familiar with matter. The deal would be followed by a three-way breakup of the combined company, the report said. Dow chairman and CEO Andrew Liveris would be executive chairman of combined company; DuPont CEO Edward Breen will keep the CEO title, according to the report. The companies could announce a merger by tomorrow.

Spokespersons for Dow and DuPont separately declined comment on the report. Dow shares were trading up 9.5% at \$55.75/share at 12:30 pm on the news. DuPont shares were up 10.7% and trading at \$73.75/share at 12:30 pm.

Top chemical deals

(in million of US dollars by equity value)

Acquirer	Target	Value	Year
Akzo Nobel	ICI	\$16,990	2008
Merck KGaA	Sigma-Aldrich	16,743	2015
Linde	BOC Group	15,519	2006
Dow Chemical	Rohm & Haas	15,423	2009
Basell Holdings	Lyondell Chemical	12,700	2007

Source: Young and Partners (New York)

Dow and DuPont have a combined market capitalization of more than \$120 billion. A deal would dwarf industry's largest deal to date, AzkoNobel's 2008 acquisition of ICI for \$17 billion (table). Dow ranked third in CW's 2014 Billion Dollar Club of the largest chemical makers by revenue with sales of \$58.2 billion last year. DuPont ranked eighth with 2014 revenue of \$24.7 billion.

Both companies have activist investors who have separately pushed for both to evaluate their portfolios. DuPont named Breen as chair and CEO in November, succeeding Ellen Kullman, who resigned abruptly in early October. Breen, who joined DuPont's board in February, served as CEO of Tyco International from 2002-2012. Breen oversaw two break-ups as he restructured Tyco resulting in the spin-offs of Covidien, Tyco Connectivity, ADT Corporation and the merger of Tyco Flow Control with Pentair. Kullman's departure followed five months after DuPont prevailed in a proxy fight against activist Trian Partners and founder Nelson Peltz. Dow Chemical and hedge fund Third Point (New York) reached an agreement last November that resulted in the addition of two Third Point nominees to Dow's board. Third Point had criticized Dow management and called on the company to evaluate spinning off its petrochemicals business.

Breen and Liveris have separately indicated in recent months that both companies are in discussions on deals in agricultural chemicals. The cyclical downturn in agriculture has pushed agchem makers to consider consolidation—a sentiment confirmed by nearly all senior

executives at the big six agricultural chemical firms. The top ranks have remained unchanged since Novartis and Zeneca combined their ag businesses to form Syngenta in 2000, although significant consolidation has occurred in recent years among tier-2 producers, who typically focus on pesticides.

“There will be a number of regulatory and tax issues that will have to be examined and dealt with if the proposed merger and subsequent break-up into three is in fact what the two parties are contemplating,” says Peter Young, president of Young and Partners. “This will include structural aspects of the many joint ventures and partially owned companies of Dow and DuPont with others, as well as the impact that other previous transactions, such as the divestitures by Dow and the tax-free spinoff of Chemours by DuPont will have.” Young adds that “a discussion of the merger of the two companies would probably not have happened if the change in the CEO of DuPont had not happened.”