

Restructuring and Refocusing in the Chemical Industry

Claudio Sonder

**Chairman of the Board of Management
Celanese AG**

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Who is Claudio Sonder ?

- ▶ Born in Brazil; German parents
- ▶ Chemical engineer and economist
- ▶ 60 years old; works for the same group of companies (Hoechst/Celanese) for 36 years (24 in Brazil; 12 in Germany)
- ▶ Spent the last 15 years restructuring businesses
- ▶ Married, with 3 children: Nicole, 28 ; Daniel, 26 (Fletcher '98) ; Rafael, 23 (Tufts '01)
- ▶ Hobbies: modern art, classical music, tennis, horseback riding

Overview of the Redesign of Hoechst AG and Formation of Celanese AG

- ▶ Distribution of shares in Celanese AG to holders of Hoechst AG shares, as a result of the spin-off of a substantial portion of industrial chemical businesses into “Celanese AG”, a newly formed, publicly-traded German company listed in both Frankfurt and New York




Life Sciences

Industrial Chemicals

Hoechst Marion Roussel




A Company of Ammour and Behring

Hoechst Roussel Vet

DADE BEHRING

Industrial Activities
and Other
Investments




Ticona



TRESPAPHAN

Other Businesses
and Activities

Celanese at a Glance

Who

- ▶ 12,000 people
- ▶ representing 65 nationalities
- ▶ speaking 20 languages
- ▶ across 24 time zones



What

- ▶ € 5.1 billion in sales
- ▶ a global leader in chemicals and technical polymers
- ▶ # 1 or #2 in key global product markets
- ▶ leading technologies
- ▶ 30 plants in 11 countries
- ▶ 5 R&D sites

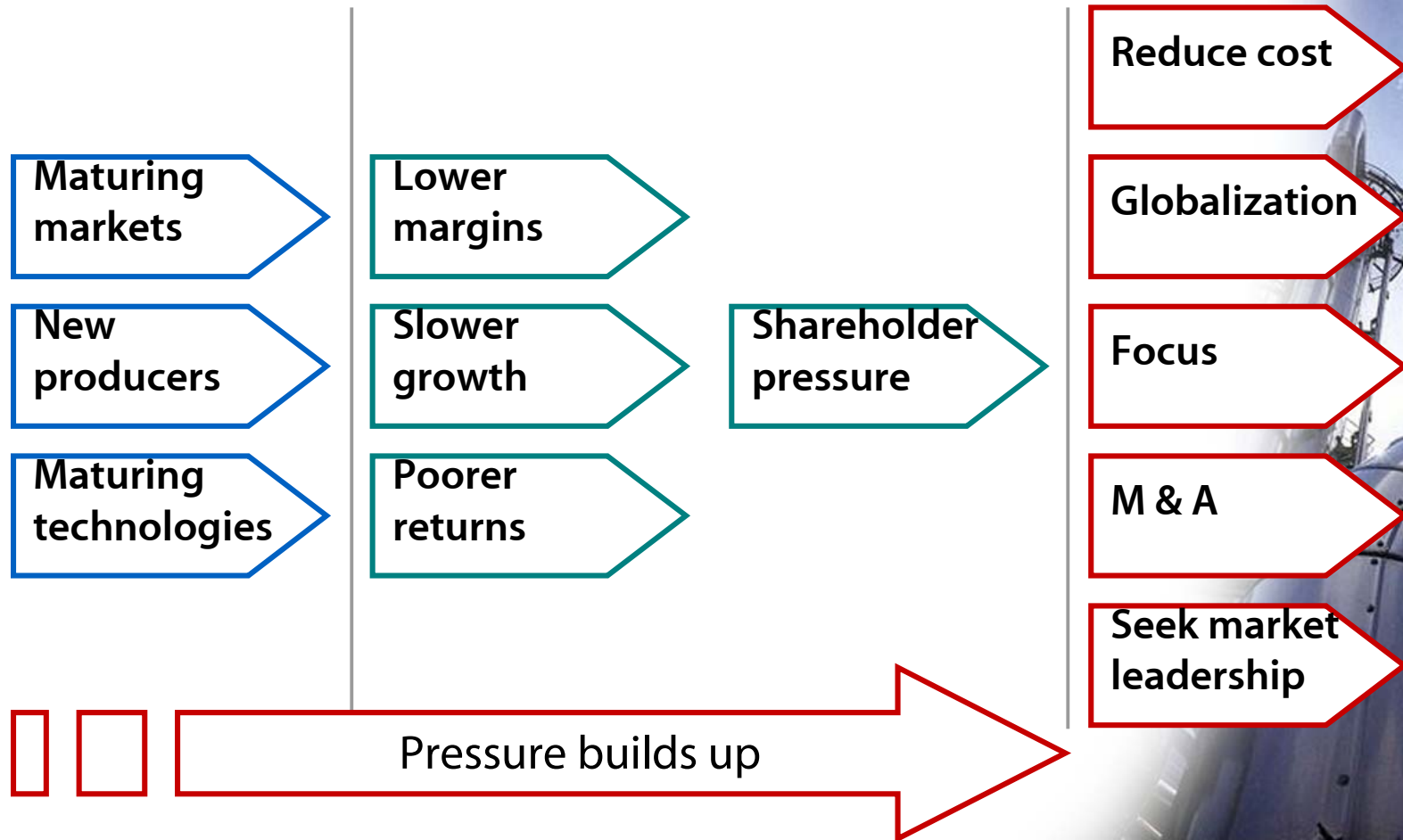


Agenda

- ▶ Drivers of change in the global environment of the chemical industry
- ▶ Chemical industry worldwide; key data at a glance
- ▶ Restructuring and refocusing
- ▶ Criteria for strategic intent
- ▶ Value creation
- ▶ Knowledge management
- ▶ People
- ▶ Corporate Governance
- ▶ Challenges and opportunities



Drivers of Change in the Global Environment of the Chemical Industry



Chemical Industry Worldwide

Key Data at a Glance⁽¹⁾

▶ Size	US \$ 1,700 bn
▶ Average growth	3.0%
▶ Average U.S. stock appreciation	6.0%
▶ Average U.S. dividend yield ^(a)	1.5%
▶ Average operating margin ^(b)	17.0%
▶ Average net profit margin ^(b)	10.6%
▶ Average R + D as % of sales	8.5%
▶ Capital spending as % of sales	7.7%

(1) Average 1999-2001

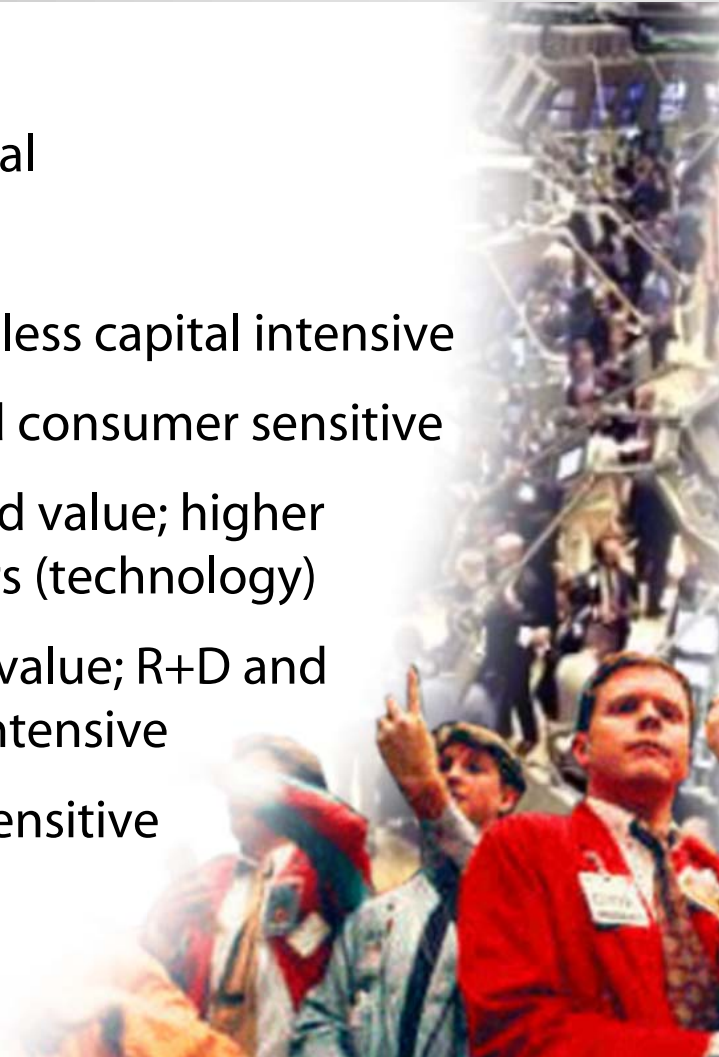
(a) 12 largest U.S. chemical companies;

(b) 35 largest chemical companies worldwide; source: HPP Science

Restructuring and Refocusing (1)

Segmentation by sector

- ▶ Commodities ⇒ highly cyclical
- ▶ Industrial gases ⇒ less cyclical
- ▶ Specialties ⇒ less cyclical, less capital intensive
- ▶ Coatings and adhesives ⇒ industry and consumer sensitive
- ▶ Agro-chemicals ⇒ higher added value; higher entry barriers (technology)
- ▶ Pharmaceuticals ⇒ high added value; R+D and marketing intensive
- ▶ Personal care ⇒ marketing sensitive



Restructuring and Refocusing (2)



Criteria for Strategic Intent (1)

- ▶ Business fundamentals (growth, cyclicality)
- ▶ Size and critical mass
- ▶ Market positions
- ▶ Technology strength
- ▶ Entry barriers
- ▶ Earnings quality
- ▶ Cash flow dynamics
- ▶ Sustainability, Responsible Care
- ▶ Management track record
- ▶ Valuation



Criteria for Strategic Intent (2)

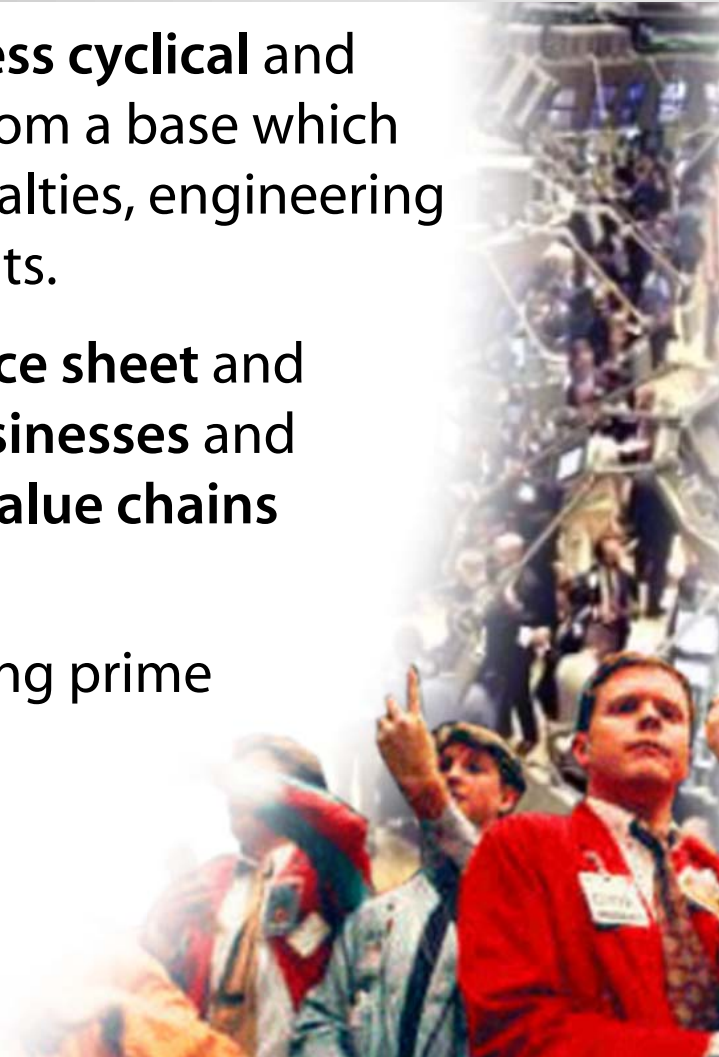
Main Challenges for the Chemical Industry according to A. T. Kearney

	Turnover	Costs
External	<ul style="list-style-type: none"> ▶ Non-traditional suppliers entering core markets ▶ No technological breakthrough expected ▶ Global economic downturn ▶ Consolidation of competition leading to overcapacities 	<ul style="list-style-type: none"> ▶ Tighter legislation ▶ Complex and long launch processes for new chemical substances ▶ High, volatile raw material costs ▶ Inflation (including high personnel co
Internal	<ul style="list-style-type: none"> ▶ Weak product pipeline ▶ Expiration of key patents ▶ Mergers & acquisitions have weakened employee ownership/customer relationships ▶ Sourcing initiatives at major customers ▶ Adherence to obsolete and outdated portfolio strategies 	<ul style="list-style-type: none"> ▶ No major process innovation leading to cost digression ▶ Missing focus on cash management (process-driven rather than institutionalized) ▶ Poor realization of synergies arising from mergers and acquisitions ▶ Weak sustainability and implementation of cost reduction programs ▶ Complex and bureaucratic organizational structures and processes



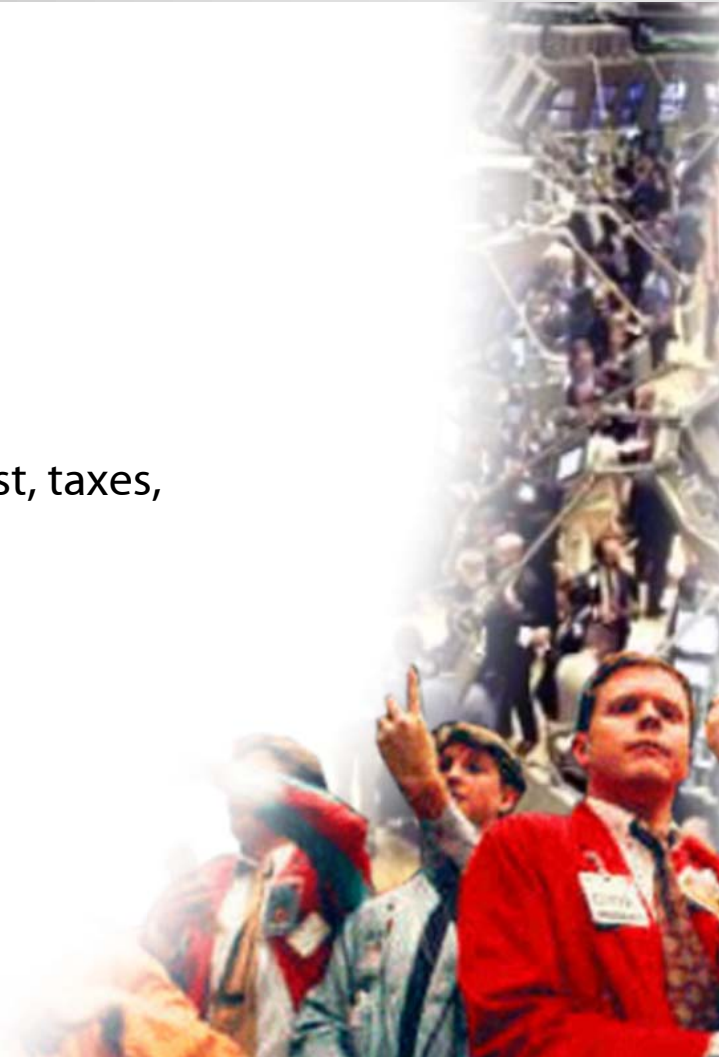
Celanese's Strategic Intent

- ▶ Celanese AG is transforming itself into a **less cyclical** and **higher value** added chemical company from a base which includes chemical commodities and specialties, engineering polymers, plastic films and food ingredients.
- ▶ Celanese AG will use its **asset base, balance sheet and equity position** to strengthen its **core businesses** and expand into **higher-growth, integrated value chains** and /or businesses.
- ▶ Celanese AG will continue to **grow** pursuing prime **global market positions, technologies,** superior operating **performance** and **shareholder value creation.**

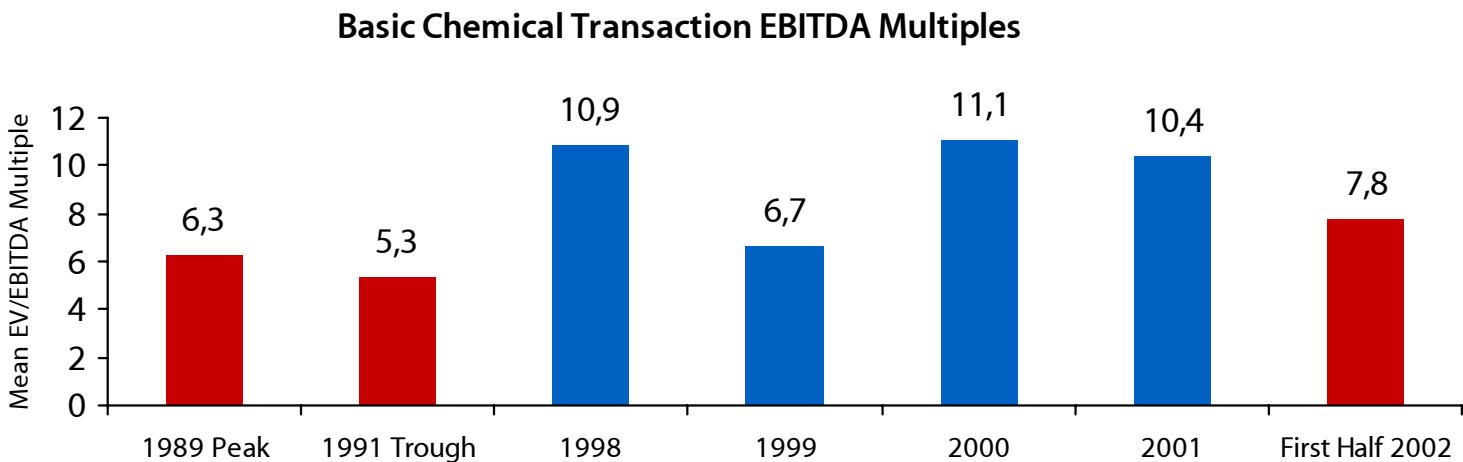
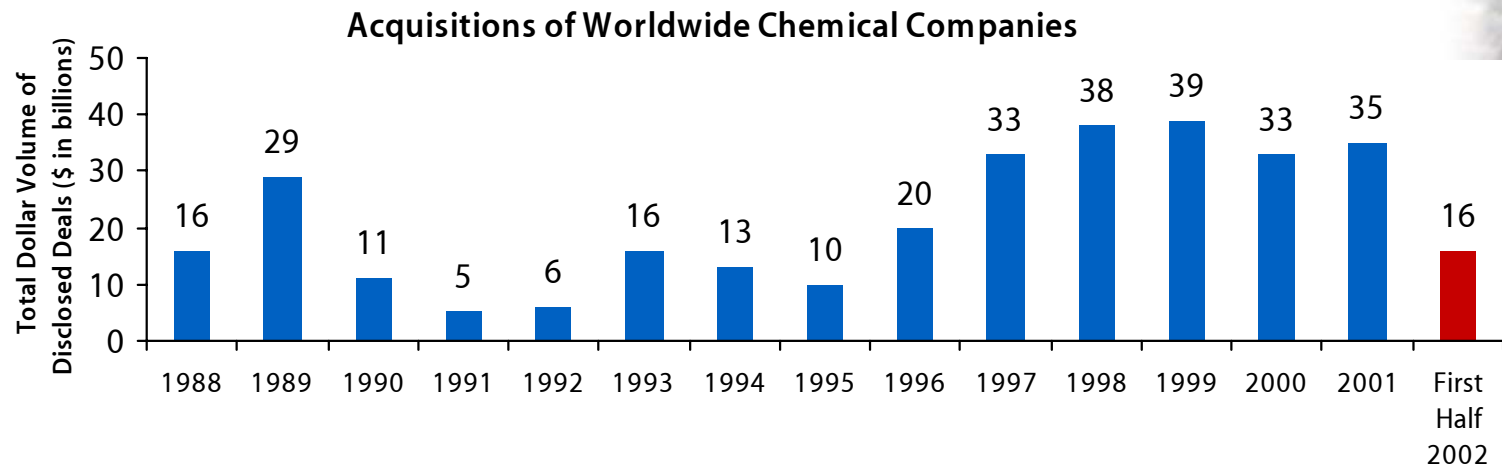


Value Creation (1)

- ▶ **Valuation parameters**
 - look forward
 - relative peer analysis
- ▶ **Commonly used measures**
 - price/earnings
 - price/cash flow
 - enterprise value/EBITDA (earnings before interest, taxes, depreciation and amortization)
 - DCF
 - ROCE
- ▶ **Absolute values**
 - management quality
 - strategic position (R+D and pipeline)
 - global and regional strengths



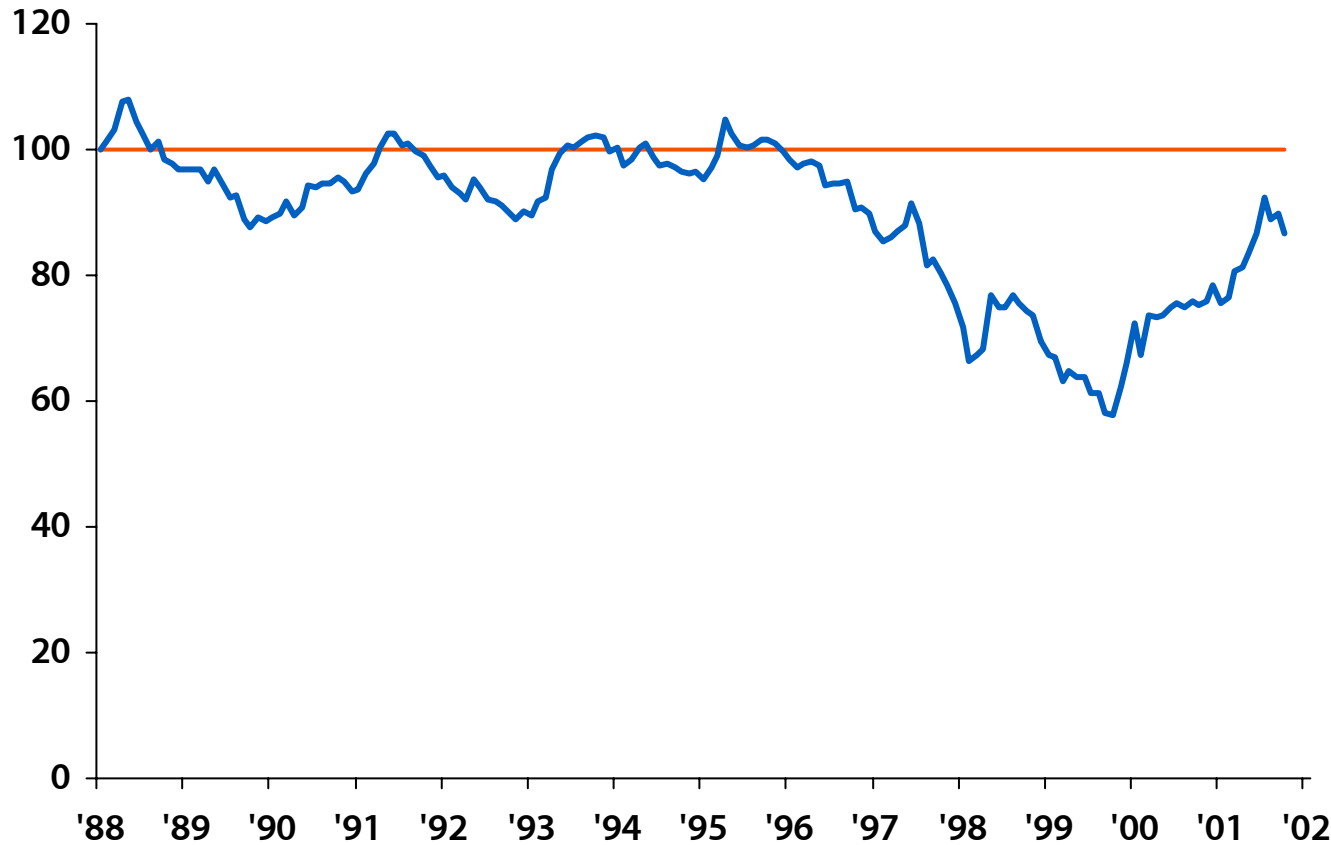
Value Creation (2)



Source: Young & Partners

Value Creation (3)

Chemical Stock Performance



MSCI Chemical Index vs. MSCI World Index

Closing Stock Prices September 24th, 2002



Knowledge Management

- ▶ Generating and applying knowledge
 - Generating new ideas, methods, processes and applications
 - Emerging technologies
- ▶ Leveraging knowledge
 - don't reinvent the wheel; technology funds/venture capital, strategic partnerships
- ▶ Connecting knowledge
 - networking, electronic access to knowledge
- ▶ Encouraging knowledge-sharing
 - R+D joint ventures, relevant competitive intelligence



People

- ▶ Good management and success: it's all about people
- ▶ Motivation: aligning with the strategy
- ▶ Compensation: a centerpiece of value creation
- ▶ Culture: a factor of satisfaction
- ▶ Skills: indispensable dynamic instrument of quality



Corporate Governance

- ▶ Good citizenship
- ▶ Social responsibilities
- ▶ Ethical principles
- ▶ Transparency and controls
- ▶ Information flow to all stakeholders
- ▶ Risk assessment
- ▶ Company Boards injecting innovation into the company and its value creation process

Challenges and Opportunities

- ▶ Focus on assets which confer competitive advantages and superior returns
- ▶ Growth and innovation as indispensable elements of long term value creation
- ▶ Good reputation in implementing a strategy as the most valuable kind of corporate asset

