

# Dow-Du Pont : Addition by Subtraction or Subtraction by Addition?

The potential merger of Dow Chemical and Du Pont would not create one gigantic juggernaut of a chemical company rolling across the global industry, but three nimble new entities with a sharp focus and lean structures perfectly positioned for maximum earnings. The latter is, at least, the image Dow and DuPont officials will likely present once the merger is finally announced, which most analysts believe could be in mid-December. Speculation spread across the industry and news media on Wednesday, 9 December, in the wake of reports that the two chemical industry giants were in the final stages of merger talks. The main thrust of this move appears to be unlocking value in the companies' agricultural and crop seed businesses, which reportedly would be spun off into a separate company following completion of the merger. According to various industry analysts, other potential new businesses created out of the merger could include a materials and materials sciences company and a specialty products company. A deal of this magnitude would, inevitably, require tremendous regulatory examination. "This deal actually makes less sense if they did not think about breaking up the merged companies," Jason Miner, a senior global chemicals analyst with Bloomberg Intelligence, said on 9 December. "Regulators are going to be the big question moving forward especially with regard to the combined ag businesses. Surely Dow and Du Pont would have put the businesses under scrutiny and must feel reasonably certain this will go through." Miner said he believes the merger, should it be approved, would solve several problems currently plaguing both Dow and Du Pont. "This merger should create new opportunities for the combined businesses of both companies," he said. "Dow's earnings have been affected by slow growth, and Du Pont's have been affected by commodity volatility."

The agricultural chemical industry has been the subject of intense scrutiny for several months involving major companies such as Dow, Du Pont, Syngenta and Monsanto, with other potential mergers and tie-ups discussed and dismissed. Both Dow and Du Pont have been shedding non-core and/or less profitable businesses in recent years. For example, in 2015, Dow sold its Chlor-Alkali unit to Olin Corp and Du Pont spun-off its Performance Chemicals unit to create The Chemours Co. Du Pont sold its Fibres unit to Koch Industries in 2004, which included brand names such as "Lycra" elastane and "Dacron" polyester. Dow is no stranger to the concept of chemical industry mega-mergers after purchasing two iconic US companies since 1999 – Union Carbide Corp and Rohm & Haas. Du Pont's major acquisition in recent years was Dutch enzymes producer Danisco in 2011. Beyond the ag chemicals businesses, the companies don't have much market commonality, according to Miner. "Shareholder activists on both sides are a big part of why this deal is happening," Miner said. "The overlap between the two companies is a lot less than it would appear."

Dow is heavy in basic chemicals and plastics, and has plans to expand capacity in the US Gulf Coast to take advantage of abundant shale gas supplies that underpin the "renaissance" of the country's petrochemical industry. Dow currently has capacity to produce more than 7.5 million tpa of ethylene in the US Gulf Coast, and is building a new 1.5 million tpa cracker at Freeport, Texas, for start-up in 2017. Du Pont, on the other hand, has one cracker with 1.3 million tpa of capacity. Du Pont has been busy investing in intermediates and bio-based chemicals, such as the bio-BDO joint venture between Du Pont Tate & Lyle Bio Products and Genomatica.

However, the deal is not yet done. There will be many more words written and blogs published debating its merits, and the 24-hour news cycle will pick apart the pros-and-cons of the proposed merger looking for winner and losers. Whether it is good or bad for the industry and employees will require more time and analysis.

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