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News

Merger may lead to more area jobs

But Huntsman CEO says Hexion deal could take a year to be final

By TOM FOWLER and BRETT CLANTON
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The merger of Huntsman Corp. with Hexion Specialty Chemicals must clear significant regulatory hurdles, but it may bring jobs to the Houston area, Huntsman's CEO said Thursday.

The proposed deal, which Huntsman said Thursday it would accept over a previously announced merger with the Dutch chemical giant Basell, would create a company with sales of \$14 billion and more than 21,000 workers at 180 sites worldwide.

The transaction totals \$6.6 billion in cash, plus about \$4 billion in debt that Hexion will assume.

Huntsman's Texas employee base has dropped 80 percent since 2000 as high prices for natural gas — a key chemical feedstock — have eroded the competitiveness of the U.S. chemical industry, CEO Peter Huntsman said.

But he said about 900 employees still work for Huntsman in the Houston area, the company's manufacturing and research hub. Headquartered in Salt Lake City, its administrative office is in The Woodlands.

"I think there's a very real possibility we might even see an increase in the number of jobs in the Houston area," Huntsman said.

Hexion, a unit of New York private equity group Apollo Management, has about 300 employees in the area and was planning to build a research facility in Sugar Land before the deal was announced, said Hexion spokesman Peter Loscocco.

"We haven't had the opportunity to sit down with Huntsman to plan out what the organization will look like, but research will be part of that mix," Loscocco said. "Houston is where you have some critical mass in the chemical industry and a good talent base."

Huntsman shares closed down about 4 percent to \$26.39 Thursday. They had gained 46 percent since June 25, the day before the Basell bid was announced.

Huntsman and Basell, which is owned by U.S. industrialist Leonard Blavatnik's Access Industries, had agreed June 26 to merge in a deal valued at about \$6 billion, or \$25.25 per share, not including the debt.

Last week Apollo topped the bid with an offer of \$27.25 per share. On Monday Apollo raised its offer to \$28 per share after Huntsman's stock price shot up on the prospect of a bidding war for

the firm.

A bidding war never developed, however. Late Wednesday night Basell said it was standing by its initial bid, which it said valued Huntsman at a "full and fair" price. A Basell spokesman said Thursday the company had nothing more to add.

Under its agreement with Huntsman, Basell is entitled to a \$200 million breakup fee, which Apollo and Huntsman have agreed to pay.

Peter Huntsman estimated closing the deal with Hexion could take twice as long as the proposed Basell combination — about a year versus six months — because of review by antitrust regulators.

He said Huntsman and Basell had complementary business lines, while Hexion overlaps significantly in the adhesive and fasteners businesses.

Huntsman is the world's largest manufacturer of epoxy adhesives and second-largest manufacturer of a key ingredient in products such as foam insulation, coatings and adhesives.

For example, Huntsman estimates each of Boeing's new 787 jetliners will contain five tons of his company's resins.

Hexion is the top producer of adhesives used in plywood.

Sergey Vasnetsov, an analyst with Lehman Bros., said previously in a note to investors that "a significant divestiture in the epoxy" businesses would be required for antitrust regulators to approve the deal.

Huntsman said he hopes the Federal Trade Commission "will recognize what a global business this is and will allow us to fully merge."

About 43 percent of the combined companies' sales will be in North America; 37 percent in Europe, the Middle East and Africa; and 20 percent elsewhere, Hexion Chairman and CEO Craig Morrison said in a conference call Thursday.

Under terms of the agreement, Hexion will boost its price by 8 percent should the deal fail to close in 270 days.

Huntsman is the larger of the companies, with \$8.8 billion in sales in 2006 compared with \$5.21 billion for Hexion. But it's still not clear who will run the combined company.

"Apollo asked me to stay on beyond the time the merger closes, but exactly in what capacity that will be, I'm not sure," said Peter Huntsman, 44. "I've been working here for about a quarter of a century, so I would like to stay with it a while longer."

One of the motivators behind the sale is the desire of Huntsman's father — company founder and chairman Jon Huntsman — to raise money for philanthropic work.

The family formed a foundation recently with about \$500 million and hopes to add another \$800 million that will allow it to donate money to causes including cancer research and education in perpetuity, he said.

"This really takes 50 years of my father's labors and allows him to cash out and pursue a dream of funding humanitarian work," Huntsman said.

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