



Color & Comfort

# Acquisition of BASF Colors & Effects Business

August 29, 2019



**DIC Corporation**

Color & Comfort

- 1. Transaction Overview**
- 2. Pigment Strategy and Strategic Investment in “DIC111”**
- 3. Target Business Overview and Strategic Rationale**
- 4. Pro-forma Financial Highlights / Financial Impacts on DIC**
- 5. Post Merger Management Plan**

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## Transaction Overview

<b>Target Business</b>	BASF Colors & Effects business
<b>Purchase Price</b>	<p>985 million Euro (116.2 billion yen)</p> <p>The figure above is derived from adjusting cash and debt as of December 31, 2018 from the enterprise value (€1,150 million) of the target business. The actual cost of acquisition may vary depending on actual net cash/debt and differences in working capital, among others, at closing. (The exchange rates used are ¥118.00/€1.00. Figures are rounded.)</p>
<b>Closing Date</b>	Expected to close by the end of 2020
<b>Financing</b>	<ul style="list-style-type: none"> <li>▶ Planning to use cash on hand and new bridge loans</li> <li>▶ Considering appropriate financing plan to achieve an optimal financial structure (No equity offering plan)</li> </ul>
<b>Process Required</b>	<ul style="list-style-type: none"> <li>▶ Regulatory filings in each relevant jurisdiction as applicable &amp; clearances from the relevant authorities</li> </ul>

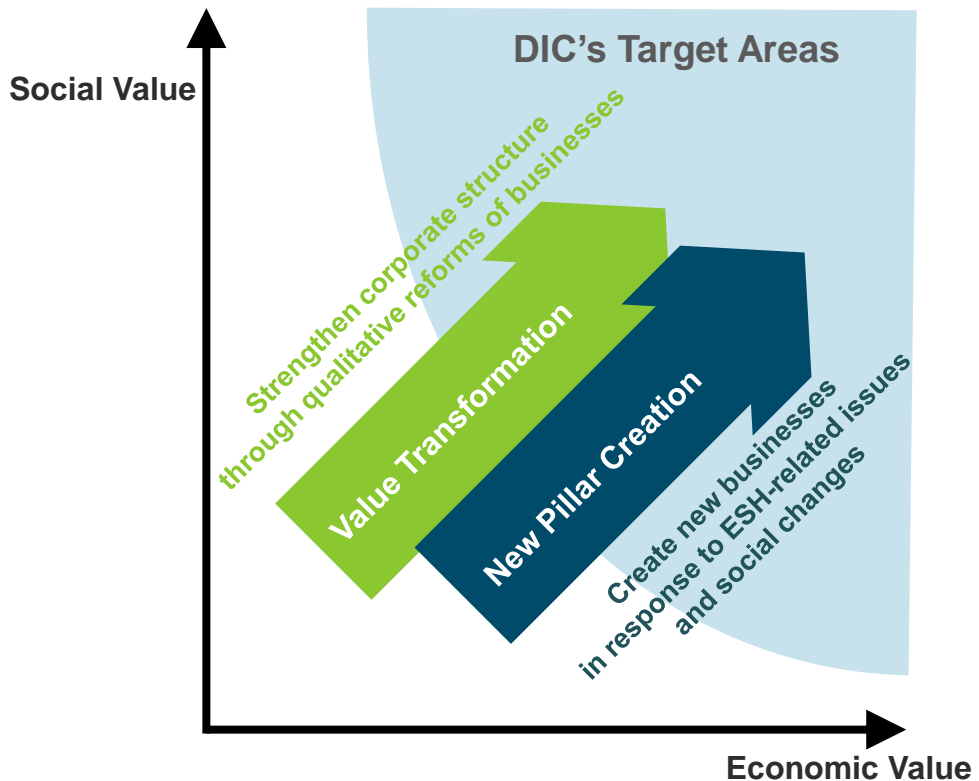
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# Strategies of the Pigments Business in “DIC111”

## DIC’s Future Vision

Become a unique global company that is trusted by society by providing value (safety and peace of mind, color and comfort)

Two strategies for business portfolio transformation



\*1 As of 2018/12 Actual

## Basic Strategies

### “Value Transformation”

Strengthen corporate structure through qualitative reforms of businesses

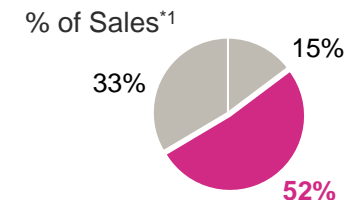
#### Packaging & Graphic

**Packaging materials that bring safety and peace of mind**

**Printing materials**  
Packaging inks  
Jet Inks etc.

**Packaging materials**  
Polystyrene  
Film etc.

Concentrate resources on high-value-added products (packaging solutions, specialty inks)



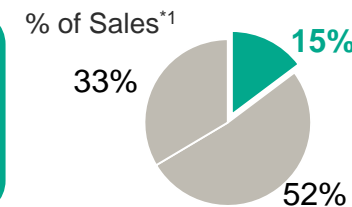
#### Color & Display

**Color and display materials that make life colorful**

**Color materials**  
Functional pigments  
Natural colorants etc.

**Display materials**  
Liquid crystal materials etc.

Ensure balance between acceleration of growth through shifting of resources to strategic products and maintenance of stability through rationalization of existing products



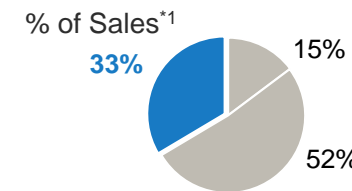
#### Functional Products

**Functional products that add comfort**

**Performance materials**  
Waterborne / UV-curable resins  
Electrical / Electronic materials etc.

**Composite materials**  
Compounds tapes for automotive application  
Hollow-fiber membrane modules etc.

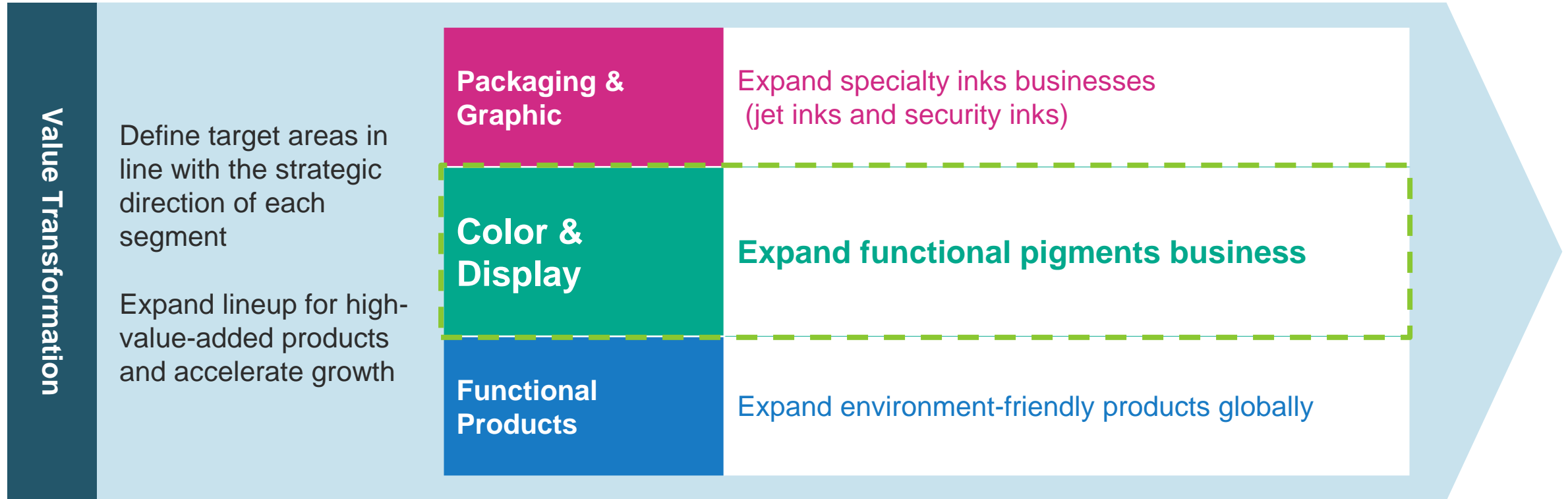
Achieve social contribution and growth by strengthening lineup of environment-friendly and functional products



# Strategic Investment in “DIC111”

Budget 250 billion yen for strategic investments to accelerate business portfolio transformation through complementary acquisitions

Planning to expand lineup for high-value-added products of each business segment, and grow product offering.



**The Acquisition of BASF Colors & Effects is the best strategy to achieve “Value Transformation” in “DIC111” and matches the investment strategy for accelerated growth through complementary acquisitions.**

# Color & Display Business Overview and Strategies

## Business Overview

Color and display materials that make life colorful

### Color Material Product Division

- Organic pigments
  - Pigments for displays
  - Effects pigments for cosmetics
- Health foods  
Natural colorants



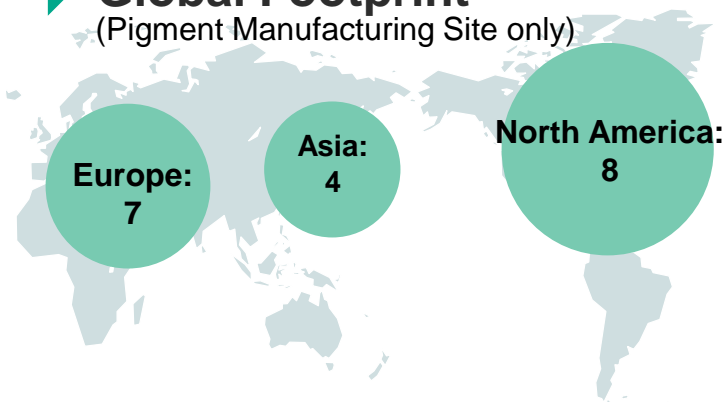
### Display Material Product Division

- TFT Liquid crystal materials
- STN Liquid crystal materials



## Global Footprint

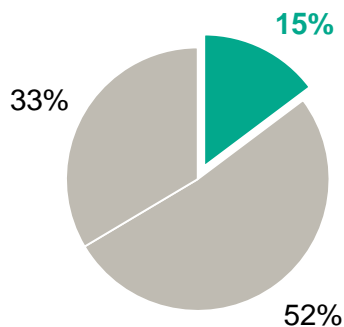
(Pigment Manufacturing Site only)



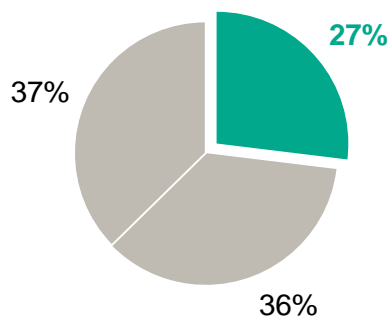
## Financial Contributions

2018/12A

### Net Sales



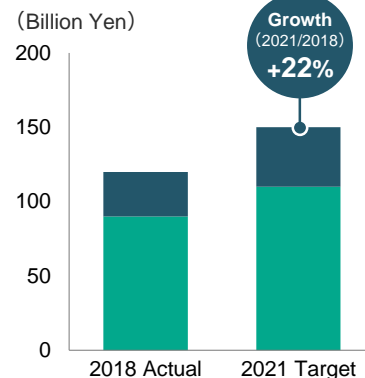
### Operating Income



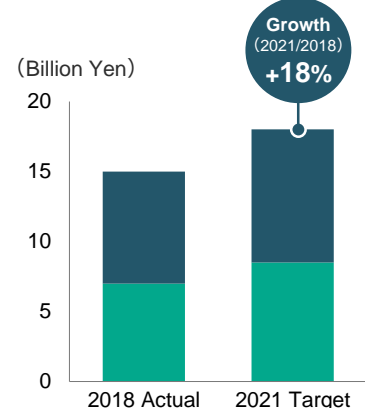
## Strategies

Ensure balance between acceleration of growth through shifting of resources to strategic products and maintenance of stability through rationalization of existing products

### Net Sales Target



### Operating Income Target



■ Functional Pigments (Cosmetics, Non Impact Printing and Displays)  
■ General Purpose Pigments, Natural Colorants, LCs, Others

### Color Materials

#### Effect pigments business

- Expand production and supply capacity for special pigments
- Expand lineup of metallic pigments and pearlescent pigments
- Expand lineup by bringing new products into the digital printing market

#### Accelerate "Value Transformation" through complementary acquisitions

- Expand natural colorants business (Linablue)

### Display Materials

#### Expand product lineup of pigments (for displays)

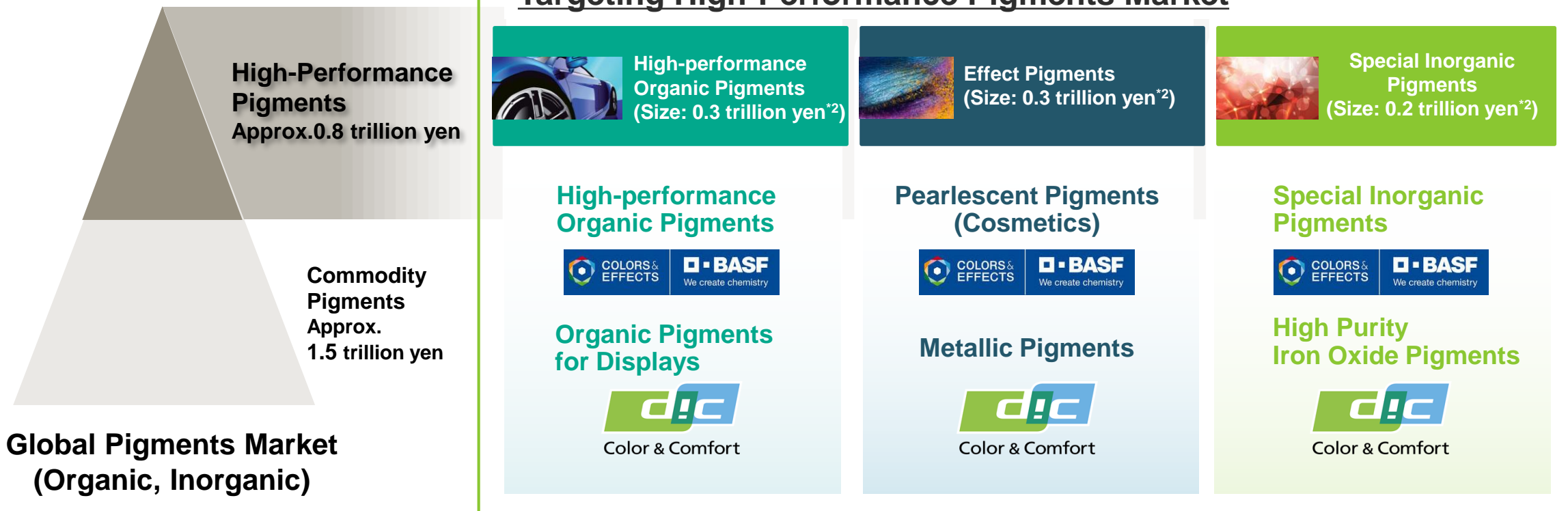
- Expand sales of TFT liquid crystal and accelerate market development in China
- Enter into the QD inks business



# Global Pigments Market Overview and DIC and BASF Colors & Effects' Position

- The value of the global pigments market is estimated at approx. **2.3 trillion yen**<sup>\*1</sup>
- Estimated global sales of high-performance pigments is approx. 0.8 trillion yen<sup>\*2</sup> and growing at 3.4%<sup>\*2</sup> annually by 2023

## Targeting High-Performance Pigments Market



\*1 DIC estimates based on Frost & Sullivan, Allied Market Research, Technavio

\*2 Smithers Rapra "The Future of High-Performance Pigments to 2023"

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## Target Overview

### Companies Overview



- Company / Brand : BASF Colors & Effects
- Foundation : 2016 as carved out (18 companies)
- Headquarters : Ludwigshafen, Germany
- Representative : Alexander Haunschild
- Consolidated Sales : c.1Bn euro (2018/12A)
- Consolidated EBITDA : c.120M euro (2018/12A)
- Employee : c.2,600
- Facilities : 11
- R&D Lab : 4
- Business: Manufacturing and sales of organic/inorganic/effect pigments
- End Market: cosmetic/plastic/construction/automotive/printing/agriculture etc.

### Strong Performer in High Growth / Value-added Niche / Specialty Pigments Field

High-performance Organic Pigments



Effect Pigments (Cosmetics)

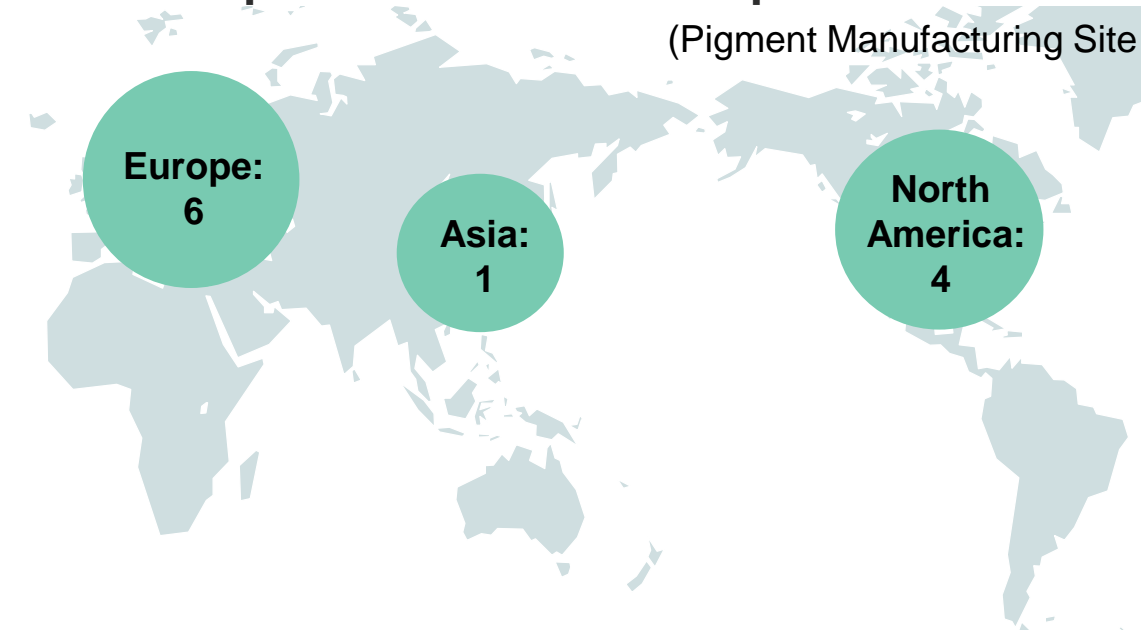


Special Inorganic Pigments



### Global Footprint Centered in Europe and North America

(Pigment Manufacturing Site only)



## Strategic Rationale

### Enhancement of Enterprise Value through Realization of Color Business Growth Strategies



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Organic Pigments for Displays

Metallic Pigments

High-Purity Iron Oxide Pigments

Operations Centered in North America and Asia



High-performance Organic Pigments

Pearlescent Pigments (Cosmetics)

Special Inorganic Pigments

Operations Centered in Europe

1

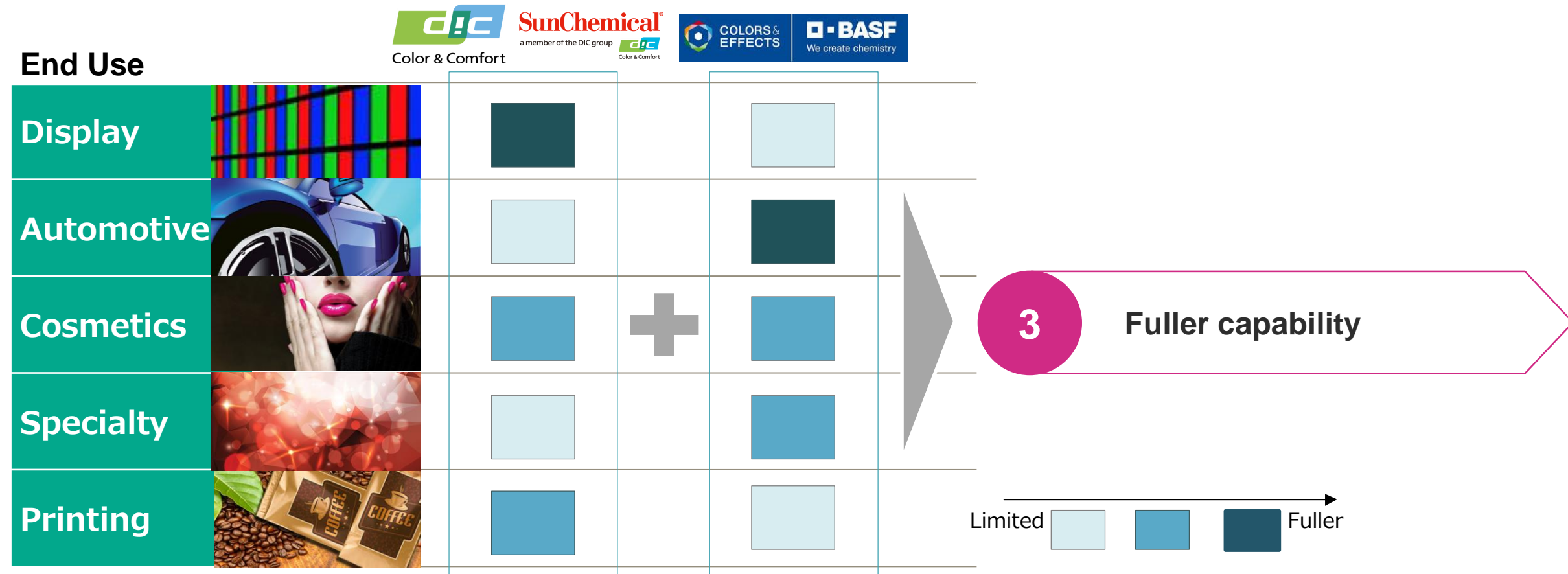
Highly complementary product

2

Regional compatibility

# Strategic Rationale (Cont'd)

## Enhancement of Enterprise Value through Realization of Color Business Growth Strategies



Realize “Value Transformation” of product portfolio in “DIC111”

## Synergies Expected through Integration of DIC / SUN Chemical and BASF Colors & Effects

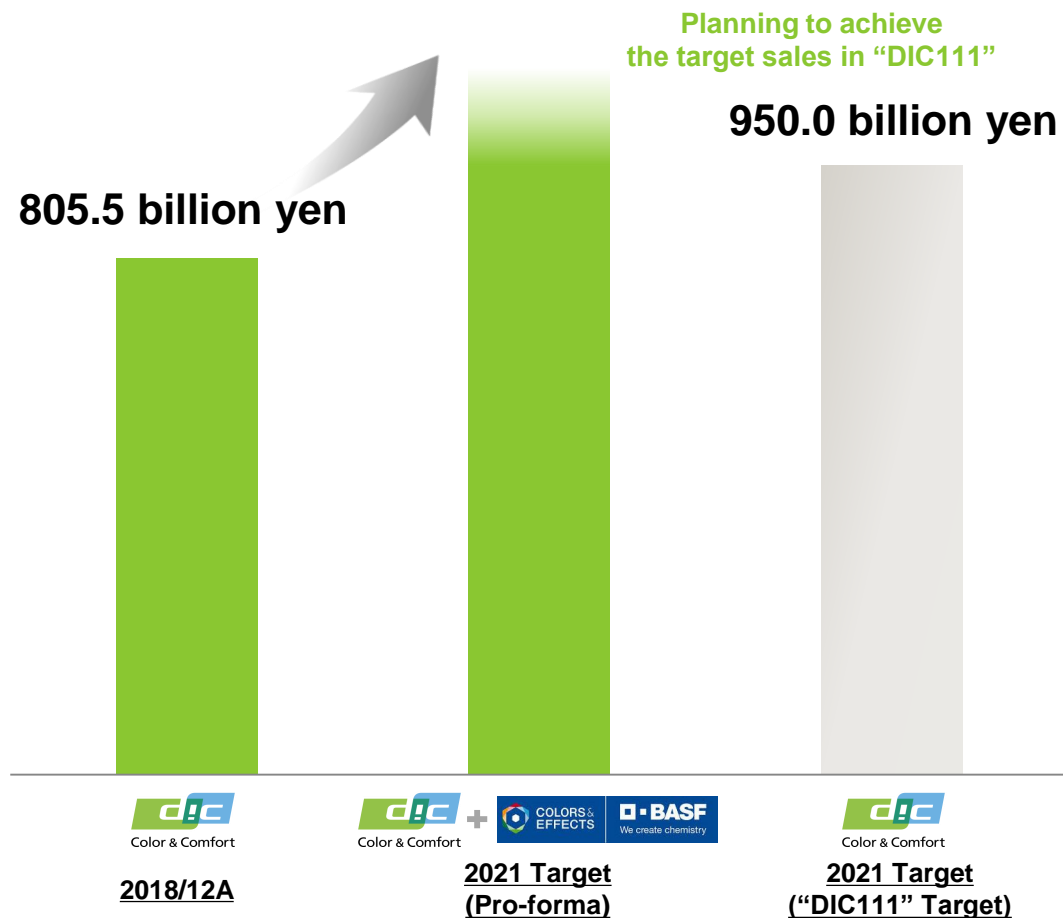
- 1** Complement of product / raw material lineup
  - Expanding functional pigments (high performance / effect / special inorganic pigments etc.)
  - Lower costs through integrated value chain manufacturing from raw materials
- 2** Expansion of markets and applications
  - Better solutions for global customers
  - Deepening and expanding areas related to cosmetic / specialty applications
  - Expanding applications for automotive related coatings and plastics
- 3** Improving R&D / product development capabilities through the integrated technologies and IPs
  - Enhancing our functional pigments business
  - Improving display / cosmetic pigments
- 4** Optimization of business operations
  - Improving efficiency of sales channel / supply chain / product line
  - Internalizing raw materials and reducing raw materials cost by joint purchase

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# Contribution of the Acquisition to the Consolidated Financials

## Sales Estimates and Target of "DIC111"

Consolidated Net Sales Estimates (Pro-forma Basis)\*1

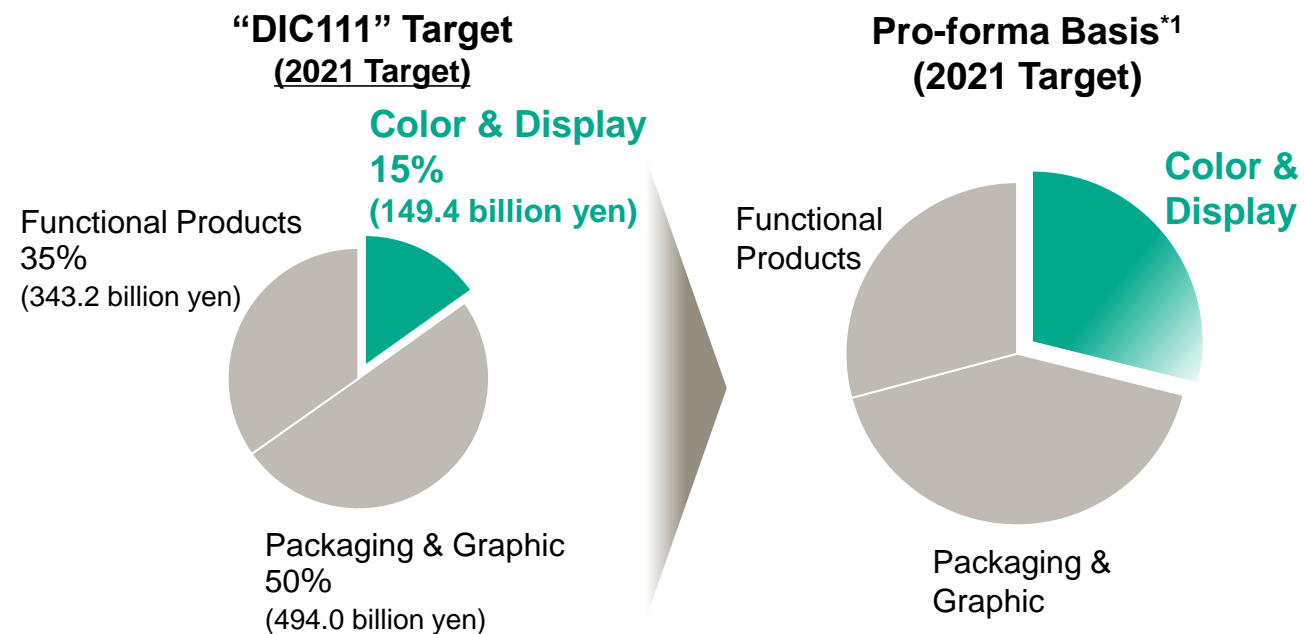


\*1 Including synergy effects

\*2 Excluding intersegments transaction

## Strengthening Color & Display as the Pillar support the company

Net Sales Forecasts by Segment



Total Sales Estimates  
950.0 billion yen\*2



## Financial Impacts

### ■ Financing

- ✓ Planning to use cash on hands and bridge loans
- ✓ Planning to refinance using an approach that will ensure an optimal financial structure (No equity offering plan)

### ■ Balance-sheet Management

- ✓ DIC has declared its plan to maintain its ‘D/C ratio\*<sup>1</sup> at around 50%’ in “DIC111” and it is expected to remain at or below this level after the acquisition
- ✓ Planning to improve financial health by using operating cash flow as debt repayment

### ■ Credit Rating

- ✓ Managing finance policy to maintain “A rating zone ” from JCR\*<sup>2</sup>

### ■ Shareholder Returns

- ✓ Planning to maintain 30% of dividend payout ratio announced in “DIC111”

\*1 D/C ratio: the indicator of measuring financial soundness

D/C (Debt-to-capital) ratio = Interest-bearing debt / (Interest-bearing debt + Net assets)

\*2 JCR = ‘Japan Credit Rating Agency, Ltd’

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# Post-Merger Management Structure of Global Pigments Business

Step by step integration, aiming to realize synergies early through “Global One Operation”





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