

Special Report

Portfolio Transformation in Chemicals Industry



Portfolio Transformation in Chemicals Industry

An effective strategy for unlocking shareholder returns

Driven by changing customer needs and evolving end-market growth dynamics, a focused market approach based on portfolio restructuring has emerged as an effective strategy among chemical manufacturers for enhancing shareholder value

What are the factors driving chemical companies to review portfolios?

1. Significant feedstock price volatility impacting production plants' competitive position
2. Shift in market composition induced by changes in profit pool across the value chain
3. Long-term financial and strategic commitments, including need for unlocking synergies across diverse businesses
4. Better growth prospects across new/emerging end-use applications

Companies with focused portfolios have consistently delivered high total shareholder returns.

Total Shareholder Returns, 2011–20

Portfolio Type	Median Annual TSR	North America	Europe	China
Agrichemicals	6%	10.2%	2.1%	1.8%
Commodity	5%	6.9%	16.7%	2.7%
Focused Specialty	13%	13.7%	12.0%	8.2%
Diversified Specialty	7%	11.9%	4.8%	1.4%

- Based on analysis of 238 publicly listed chemical manufacturers with market capitalization of > USD1 billion
- Focused specialty – Portfolios where a single product segment such as paints and coatings, adhesives, flavors and fragrances, construction chemicals, or electronic chemicals contribute >80% of revenues

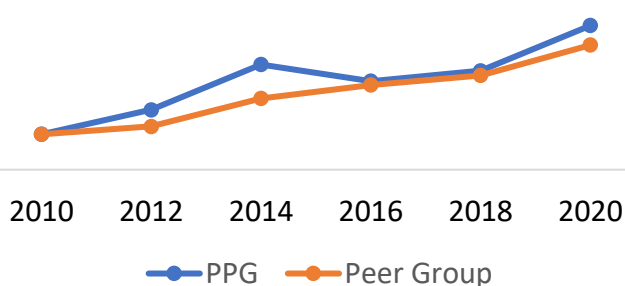
Notable Transformations in Portfolios – Case Studies

Strategies such as restructuring portfolios and sharpening focus have helped industry leaders unlock significant shareholder value; these companies have consistently outperformed benchmarks over the last decade.

Company	Portfolio Shift	Approach
PPG	55% coatings in 2004 90%+ coatings in 2020	Transformed from a diversified chemicals company to a focused leader in the paints and coatings segment
Polyone	2% specialty in 2005 70%+ specialty in 2020	Restructured portfolio from volume-driven commodity products to specialty materials
Hexcel	70% composites & pre-pegs in 2004, 100% in 2020	Transformed into an advanced materials company with focus on the aero-space segment
Sasol	35% specialty chemicals in 2000 to 70%+ in 2020	Stopped investing in crude refining capacity; pursued acquisitions in the performance chemicals space Result : 15% annual TSR
Lotte	33% polymers in 2000 70%+ polymers in 2020	Preempted demand change and focused on high-value performance polymer products Result : 37% annual TSR

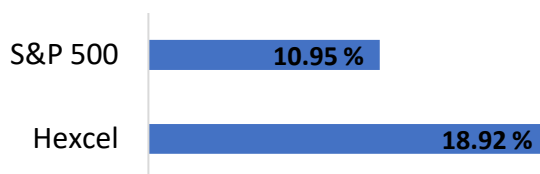
Becoming more focused has helped PPG to consistently outperform its peers...

Cumulative Total Shareholder Returns



Hexcel too has benefited from its transformation over the last decade...

Total Shareholder Returns, 2010–20



PPG's peer group includes 3M, Akzo Nobel, Dow Chemicals, Eastman Chemicals, and Masco Corp.

How do companies approach restructuring?

A strategic approach towards developing focused portfolios



Identify long-term growth opportunities

Assess emerging market dynamics to identify most attractive markets to compete in, including evaluating target segments, customers, geographies, and parts of value chain where the company intends to operate



Evaluate current portfolio's strengths

Identify competitive strengths and deficiencies by assessing market share, customer/channel satisfaction, price benchmarking, access to raw materials, distribution channel structures, strength of IP portfolio, etc.



Map value creation and destruction across portfolio

Objectively evaluate metrics which drive shareholder value such as revenue growth, return on invested capital, and total shareholder returns



Test resilience of portfolio

Analyze the risk factors and undertake sensitivity analysis to identify the potential impact of future scenarios on the portfolio



Act – Invest/divest

Consider insights gathered from portfolio review to chart out a long-term strategic roadmap; identify areas to pursue organic/inorganic growth and those requiring investment/divestment



500+

Strong, professional team across multi-disciplinary domains

2500+

Global clients

120+

Sectors and sub-sectors researched by our analysts

80+

Countries where we have delivered projects

ABOUT ARANCA



Growth Advisory

CXOs in Strategy, SBUs, Sales, Marketing, CI/MI, Innovation



Technology | IP Research & Advisory

R&D, Tech Scouting, Open Innovation, IP Teams, Product Development



Valuation & Financial Advisory

CFOs in Start-ups, PE/VC Firms, Corporate M&A Teams, Mid-market Companies



Investment Research & Analytics

Brokerage, Hedge Funds, IRPs, I-Banks, AMCs, Investor Relations

Connect with our Team



Prasad Kulkarni

Vice President, Chemicals, Growth Advisory

+91.22.3937.9999
prasad.kulkarni@aranca.com

For more details: www.aranca.com | <https://www.linkedin.com/company/aranca> | <https://www.aranca.com/knowledge-library>

Decide Fearlessly

From startups to the Fortune 500, private equity and global financial firms, Aranca is the trusted research and advisory partner for over 2500 companies

www.aranca.com



This material is exclusive property of Aranca. No part of this presentation may be used, shared, modified and/or disseminated without permission. All rights reserved.