GRADIENT



OBJECTIVE

Provide checklist of critical tasks and takeaways for conducting technical due diligence for mergers and acquisitions (M&As).

BACKGROUND

Since 2014, there have been over 600 M&A transactions in the global chemicals sector each year. In 2016, global chemical M&A activity reached over \$200 billion in value, and this trend is expected to remain strong for 2018 and beyond. Environmental Health and Safety (EHS) professionals and product stewards are an increasingly critical part of technical due diligence teams, which can ensure successful M&As for both buyers and sellers. In many cases, performing technical due diligence work during an M&A process can help assign appropriate value to the acquisitions and mitigate liability for the buyer, and can help the M&A proceed smoothly and without delays for the seller.

M&A PHASES

Define M&A Strategy

Identify Targets and Executive M&A

Due Diligence

Executive Transaction

Post-merger Integration

WHY?

Successfully conducting technical due diligence for an M&A must start with identifying the reasons behind the M&A. Potential reasons include:

Focusing the business around core competencies (*e.g.*, growing the core business areas),

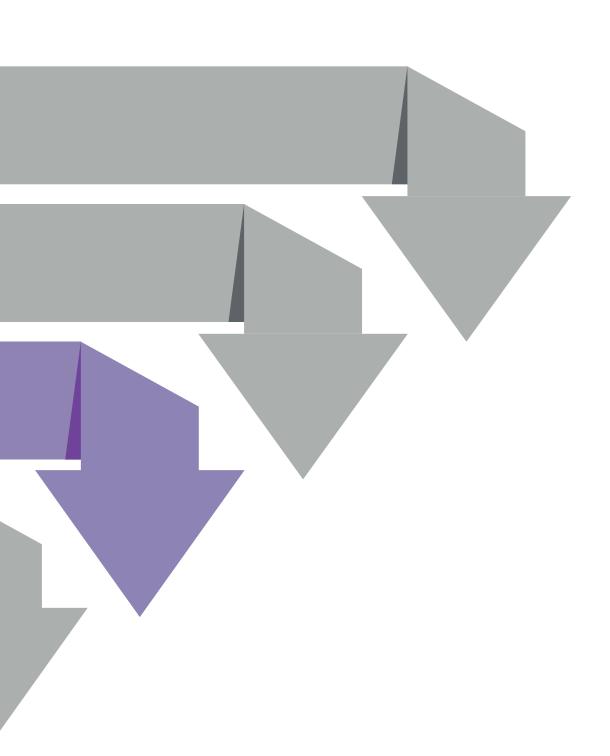
Reshaping the company's product portfolio (e.g., diversifying by adding new markets, such as consumer products),

Selectively entering new jurisdictions (*e.g.*, Asia, Middle East).

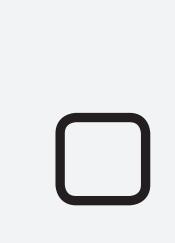
OBJECTIVES FOR TECHNICAL DUE DILIGENCE

- Confirm what the buyer knows about the seller and its products.
- Mitigate surprises in the M&A process that would impede the buyer's objectives.
- Look for issues that would kill the deal.
- Look for issues that the buyer can use in negotiations.
- Assess the level of effort for post-intergration work.

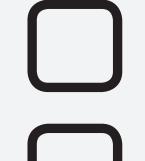
How to Conduct Technical Due Diligence for Mergers and Acquisitions



Gain Access to Seller's Data

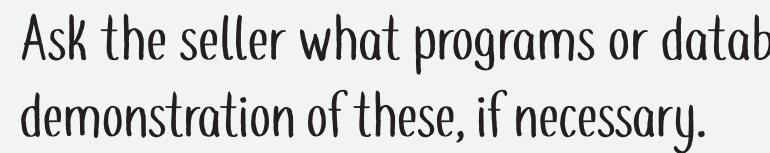


Decide who should review the seller's data. Many sellers and buyers are direct competitors, so sellers often will not divulge everything in the deal. Identifying a trusted third party (*e.g.*, consultants, lawyers) to review the data can help ensure the data review is thorough and complete.



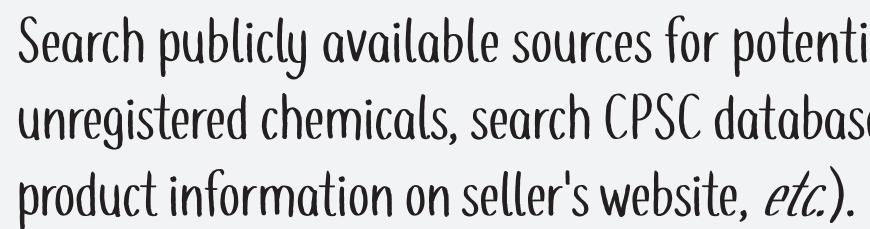
Request standard operating procedures or protocols from seller.

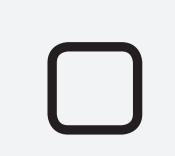
Ask the seller how their data are organized.



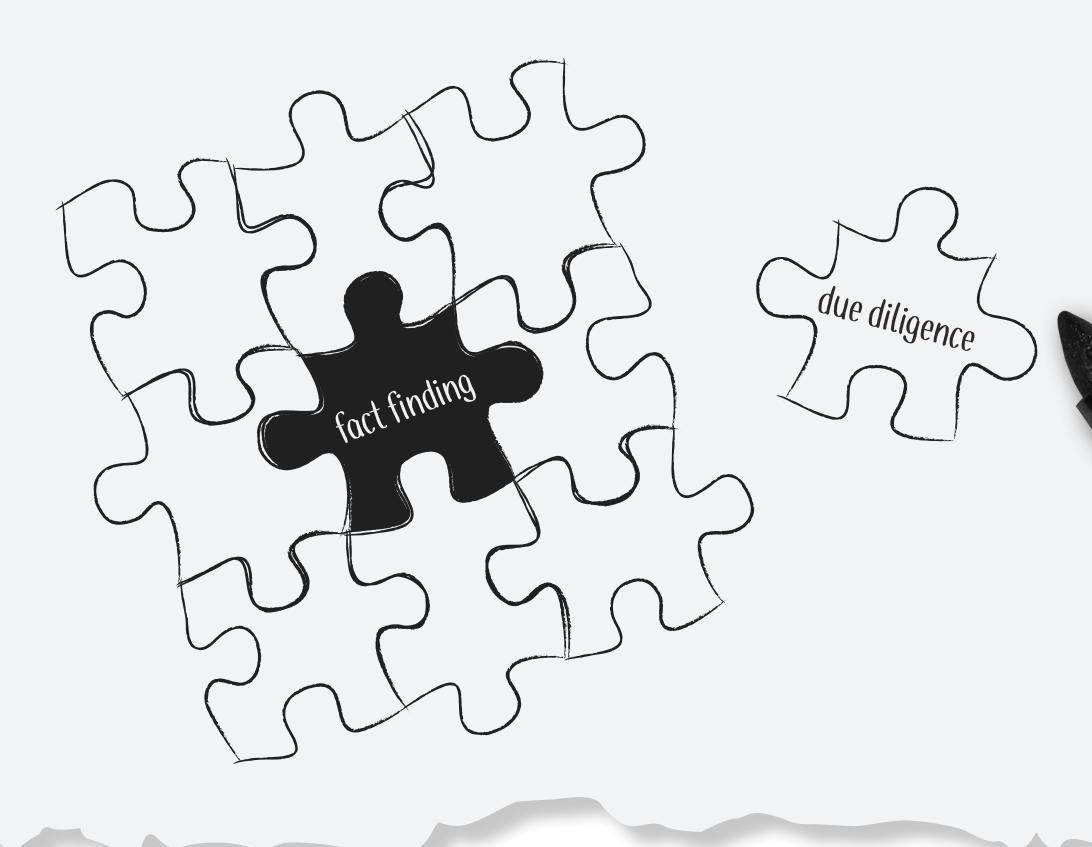
Ask the seller whether there are any known restrictions on any of their chemicals or products (*i.e.*, TSCA test rule, SNUR, or Consent Order).

Request product SDSs and labels from the seller. Limit the initial request to a representative number of products, focusing on those that are of most interest to the buyer.





If seller registered chemicals with a regulatory agency, inquire about the validity of those registrations (expiration dates, tonnage limits, study ownership, *etc.*).



CHFCKIST

Ask the seller what programs or databases are used for each type of data. Ask for a

Search publicly available sources for potential issues (search chemical inventories for unregistered chemicals, search CPSC database for complaints, review annual reports or

> Notes: CPSC = Consumer Product Safety Commission SDS = Safety Data Sheet SNUR = Significant New Use Rule TSCA = Toxic Substances Control Act

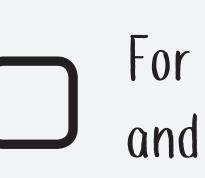


Review and Report on the Data

- be performed.

- Conduct follow-up.

Prepare for Post-integration Work



For Known product non-compliance, research fines associated with non-compliance and summarize other potential ramifications.

systems.

TAKEAWAYS

Jiaru Zhang, M.P.H.

SCHC 2018

Decide what information you want to extract from the data so a targeted search can

Assign data review (internally or externally).

Analyze data and identify follow-up questions and/or requests.

Research regulatory hurdles beyond the seller's current business areas.

Summarize and report to buyer.

Estimate and report how long correcting the non-compliance issues will take, if the M&A deal goes through.

Plan for integrating the seller's data management systems with the buyer's current

• Get a seat at the table. Make sure technical due diligence is part of the M&A. Good technical due diligence can help assign appropriate value to the target acquisitions and mitigate liability for the buyer.

• Always start with the reasons behind the M&A. Technical due diligence will not be efficient or effective if the team does not know why the buyer is interested in acquiring the seller's company/products.

• Start small. Sellers may be overwhelmed if they have to turn over a mountain of data at the onset of the due diligence process. Start by asking for a small amount of information and build off that initial request.

• Stay flexible. Effective technical due diligence requires fine-tuning along the way. The team should review the data as they are received, decide on what the next critical information needs are, and ask the seller for more information to fulfill those needs.

• Look beyond the seller's current business areas. Investigate potential hurdles that may hinder the buyer's potential to sell or profit from the acquired products in the future (*e.g.*, higher volume, doing business in a new country).

• Prepare for post-integration work. Work will continue after the deal goes through. Companies must plan for incorporating new chemicals or products into their existing portfolio, which may require new resources or adapting existing resources. There is a high risk of destroying the value of the newly acquired products or company if post-integration is not well executed.