

Specialty Chemicals in the Gulf 2020



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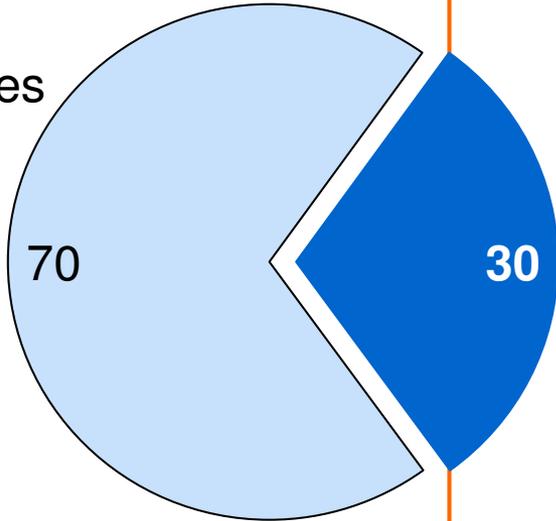
Specialty chemicals is a very fragmented field

Global chemicals¹ market 2008

Percent

100% ≈ USD 2.5 trillion

Commodities



Specialties

Segments

Market size
USD billions

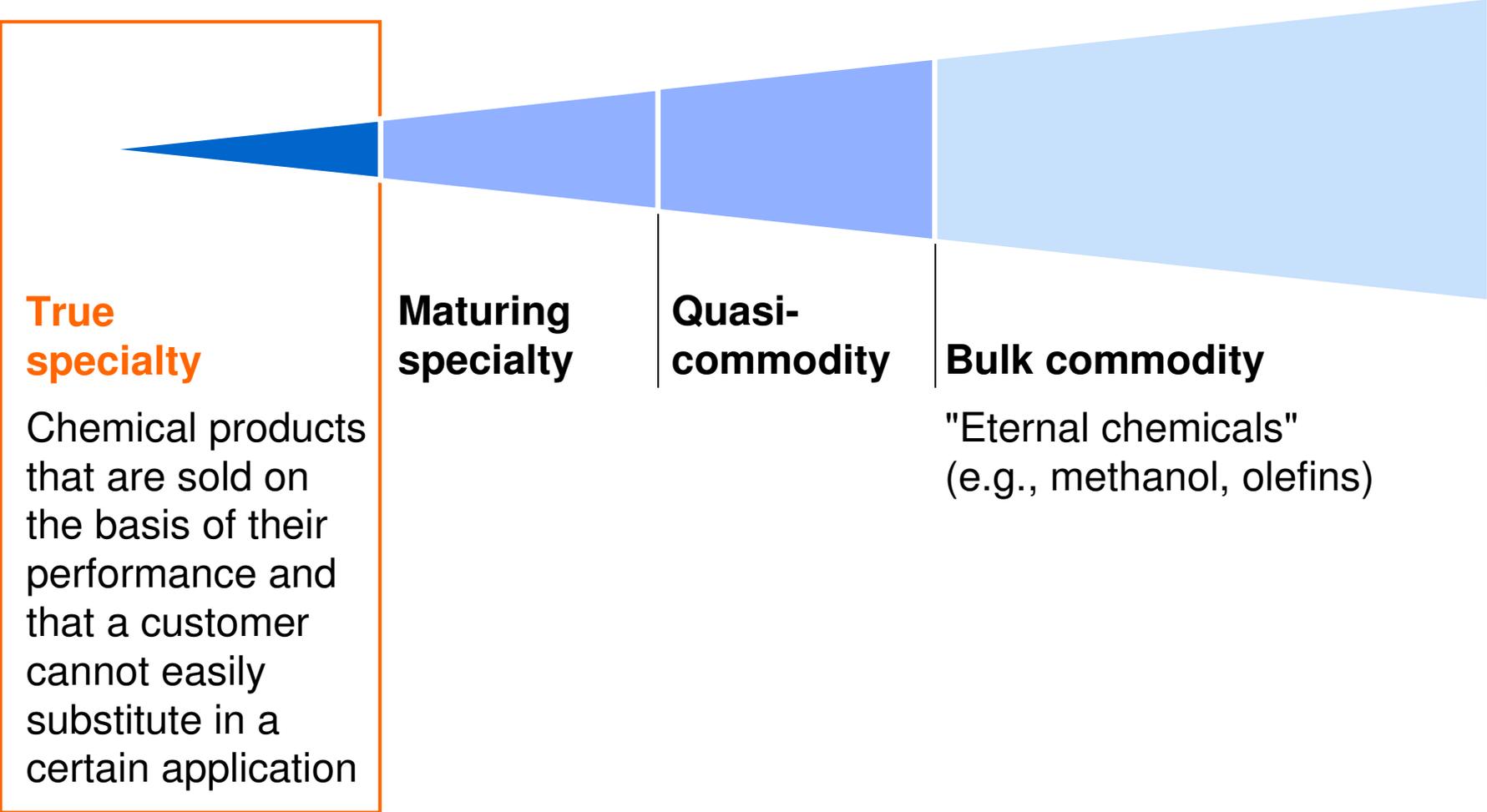
1	Paints and coatings	90
2	Active pharmaceutical ingredients	75
3	Crop protection	50
...	↑ 20 other segments	353
...	↓	
24	Cosmetic chemicals	10
25	Textile chemicals	9
...	↑ Other	113
...	↓	

Σ ~ 700

¹ Excluding pharmaceuticals and soaps/detergents

Specialty chemicals are subject to a life cycle

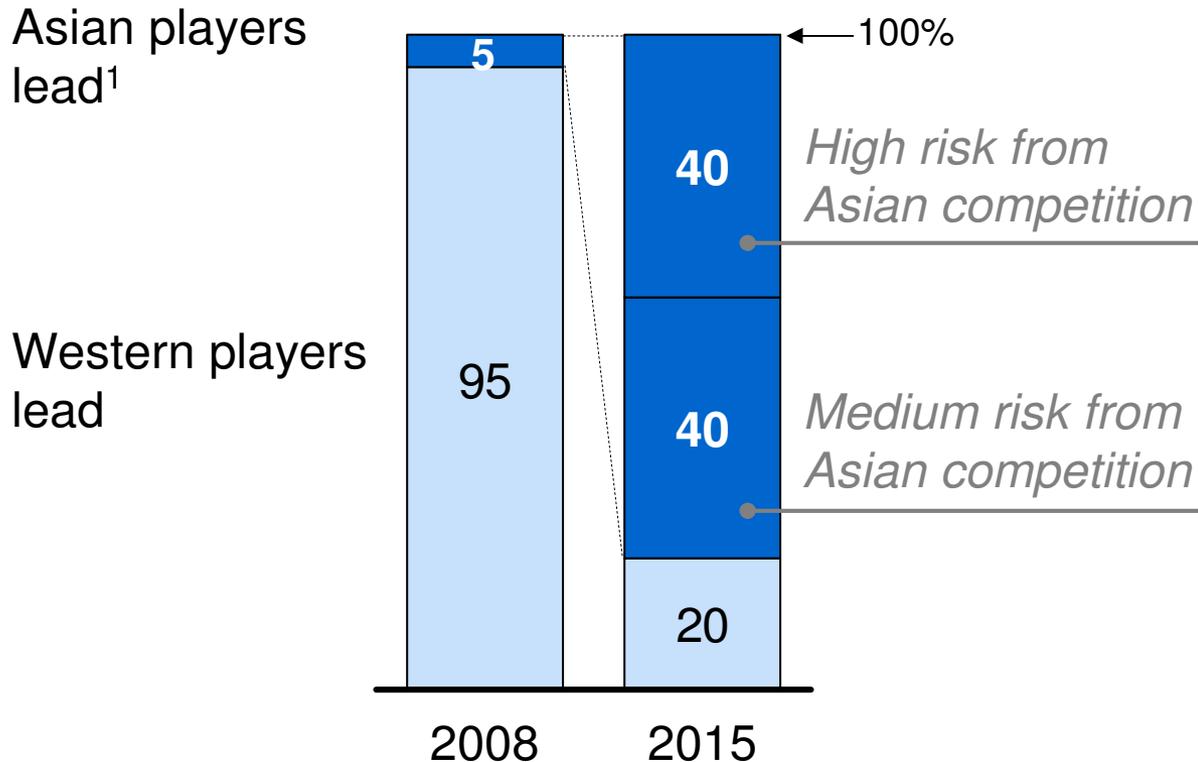
Degree of commoditization



Increasing Asian competition increases commoditization pressure

Revenue at risk for Western players

Percentage



Advantages for Asian players

- Huge and growing market
- Low labor cost
- Fast growing technology base

¹ Portion of global market where Western players cannot earn a positive ROS

Incumbent specialty players need to have true competitive advantage

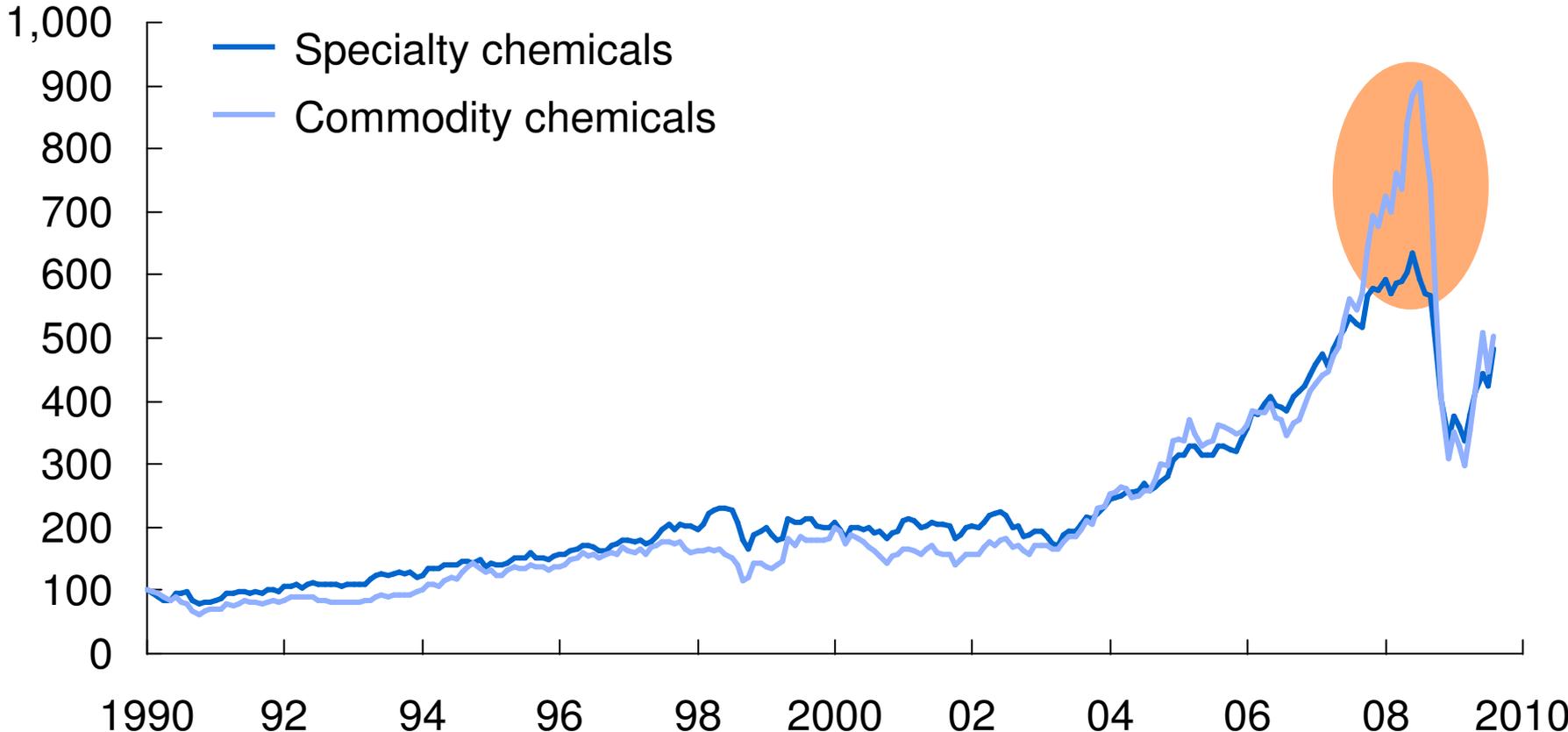
Examples

1 Distinctive technology		Liquid crystal technology
		Specialty enzymes and microorganisms
2 Superior customer-oriented innovation		Roundup Ready seeds
		Post-it notes (and quite some others)
3 Value-added service		Comprehensive full-service offering
		Water treatment services
4 Regulatory advantage		Oil field biocides
		Arachidonic acid
5 Recognized product brand (by end consumer)		"Carefree Cooking"
		"Guaranteed to Keep You Dry"

For the first time in living memory, specialties were clearly outperformed by commodities in 2007/08

Total returns to shareholders (TRS), January 1, 1990 - August 1, 2009

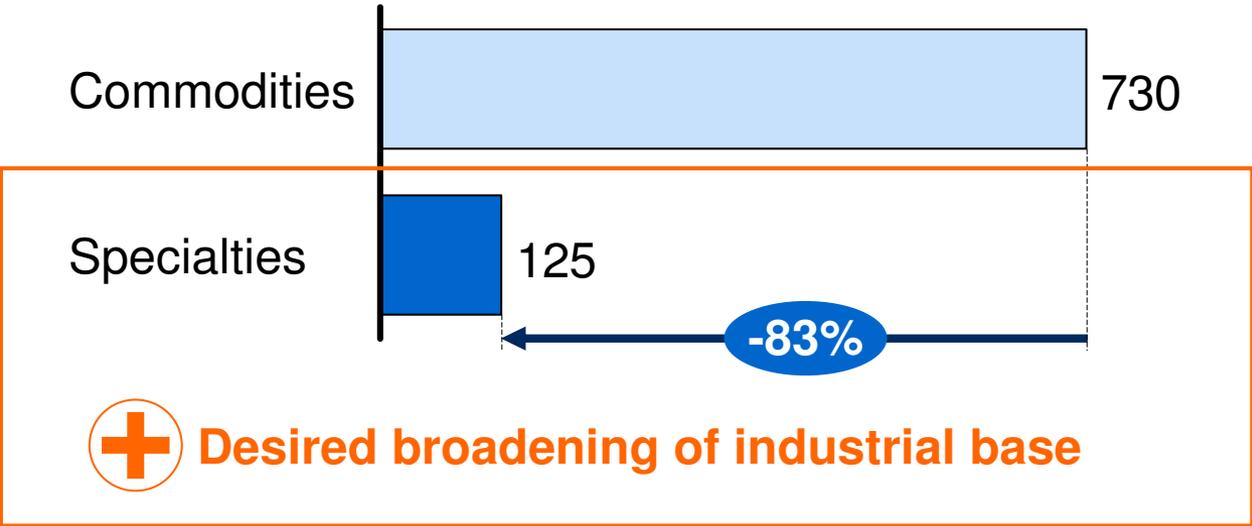
Index¹ (100 = 1990)



¹ Indices based on 46 specialty chemical companies and 31 commodity chemical companies

Attraction of specialties for the Middle East – high labor intensity

Property, plants, and equipment (net) per employee¹
USD thousands



¹ Based on samples of 10 major specialty chemical and 10 major commodity chemical companies

In order to develop a competitive specialty chemicals sector, Middle Eastern countries would need to tackle the following challenges



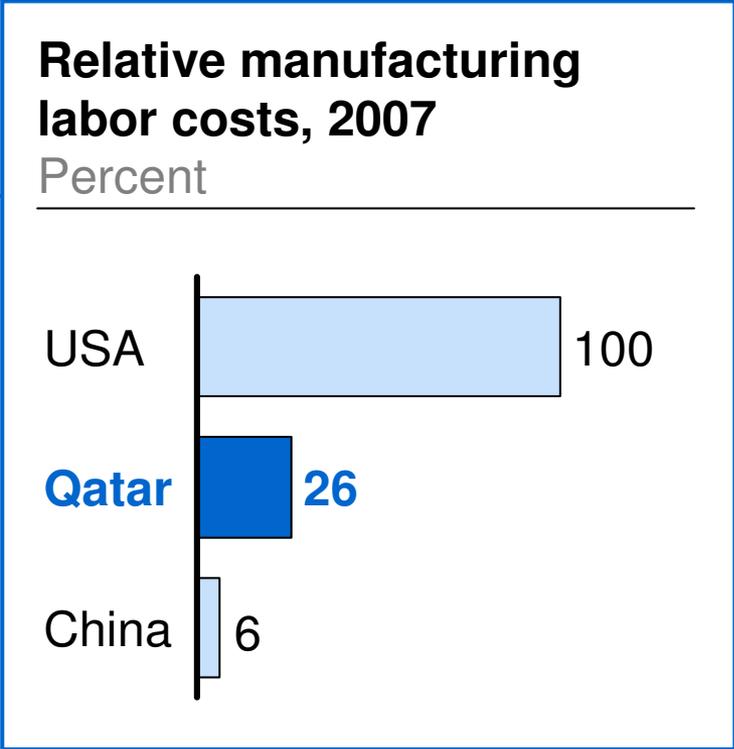
High labor costs



Limited local markets



Challenging access to technology



In order to develop a competitive specialty chemicals sector, Middle Eastern countries would need to tackle the following challenges



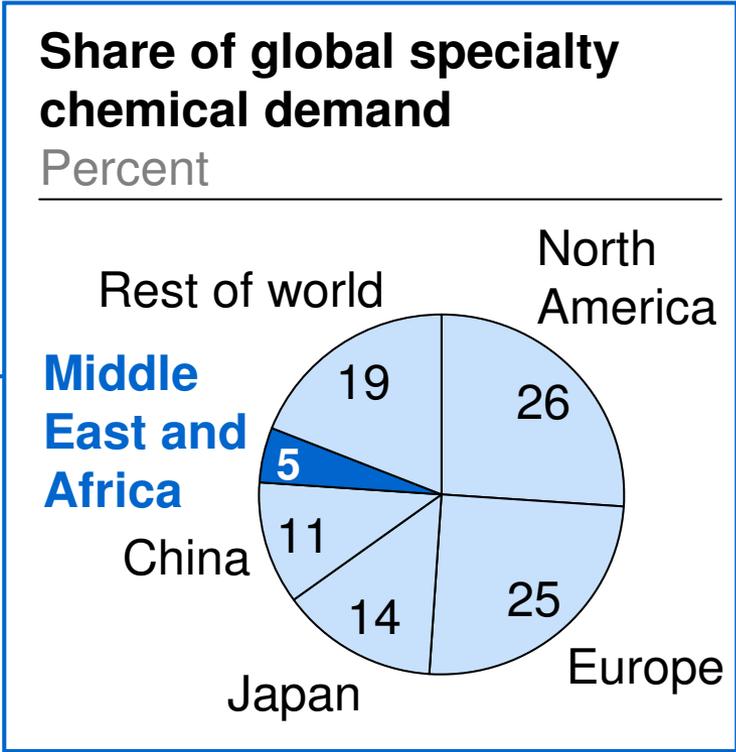
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Challenging access to technology



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High labor costs



Limited local markets



Challenging access to technology

Most production and application technology for specialty chemicals is only available via licensing or acquisition of incumbent companies

In order to develop a competitive specialty chemicals sector, Middle Eastern countries would need to tackle the following challenges



High labor costs



Limited local markets



Challenging access to technology



Raw material base (naphtha cracking)

3 thoughts



Focus on products with local advantage

Leverage energy/feedstock cost advantage (e.g., graphite products) and build on existing value chains (e.g., for plastic additives)



Alliances with Western companies

Seize opportunities in current economic climate to enter in partnerships or to make strategic acquisitions

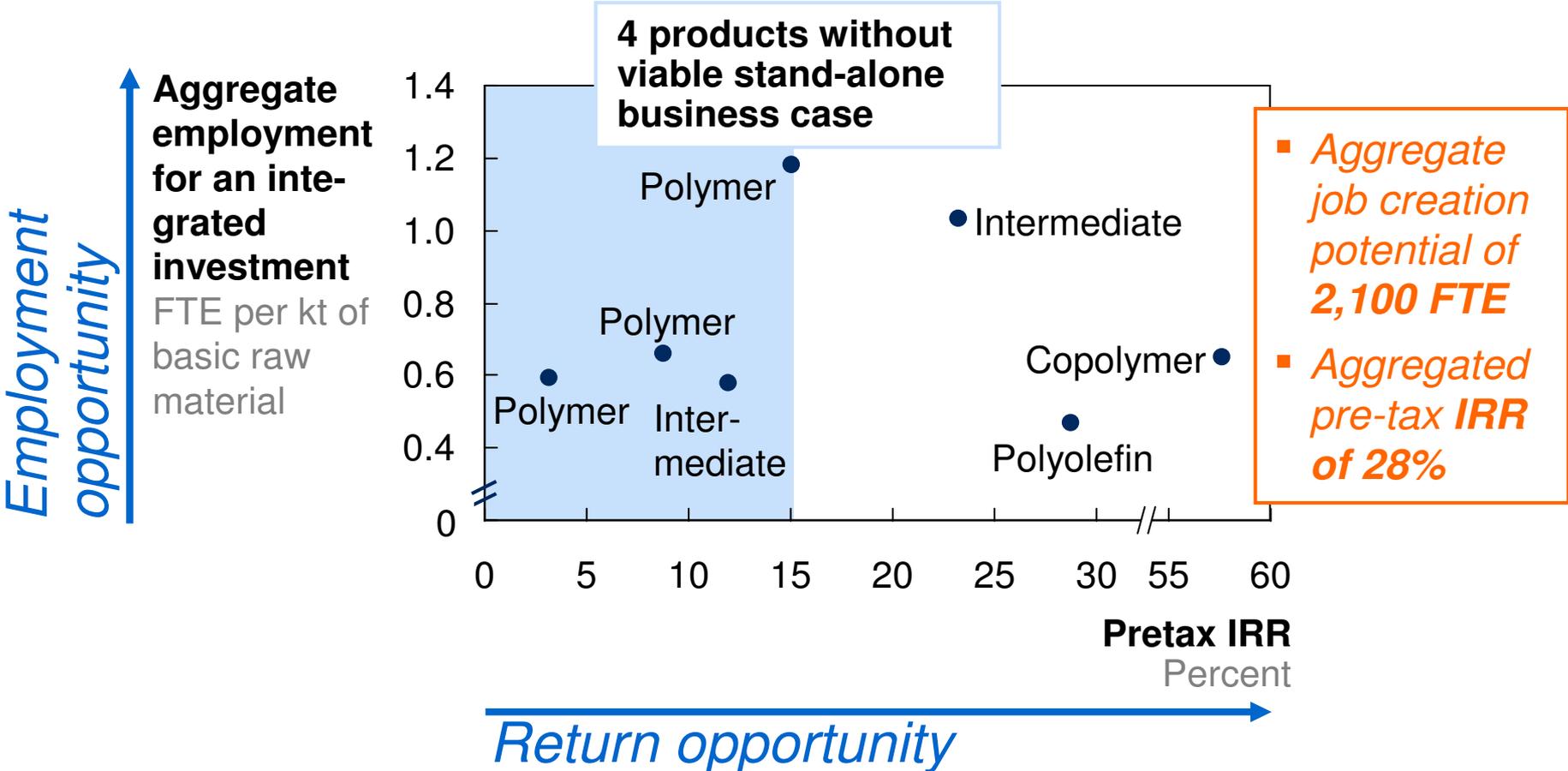


Focus on productivity

Extend feedstock advantage through integration with bulk petrochemicals and aim at reaching world-class productivity levels

Colocation of specialties and commodities may improve profitability but is factually a cross-subsidy

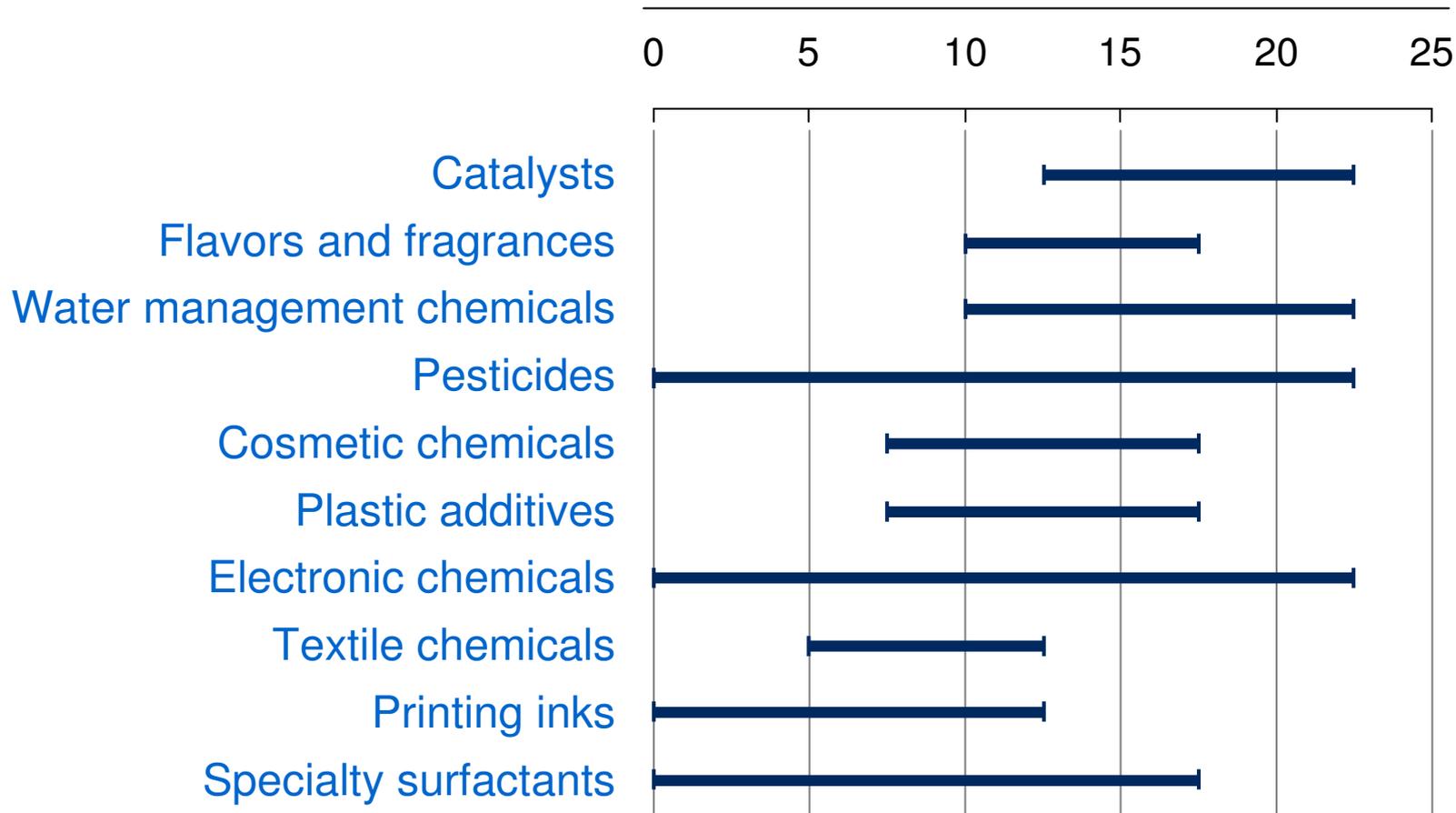
Integrated site – portfolio investment case example (end products of value chains only)



Differences in productivity between specialty players are enormous and potentially big enough to help compensate high local labor costs

Typical ROIC ranges

Percent



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