Akzo Nobel N.V.
Global Communications

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AkzoNobel confirms focus on its own strategy to accelerate growth and value creation

Decision follows extensive review and careful consideration of third unsolicited proposal from PPG, including direct engagement with Board members of PPG

AkzoNobel N.V. (AKZA.AS; AKZOY)

AkzoNobel today announces it has declined a third unsolicited, non-binding and conditional proposal submitted by PPG Industries on April 24, 2017, for all outstanding ordinary shares in the capital of AkzoNobel.

AkzoNobel has concluded its own strategy, presented on April 19, 2017, offers a superior route to growth and long-term value creation and is in the best interests of shareholders and all other stakeholders.

This decision follows considerable in-depth analysis of PPG's proposal by the Supervisory Board and Management Board of AkzoNobel, working closely with their financial and legal advisors. As part of this process, on May 6, 2017, Ton Büchner, CEO, and Antony Burgmans, Chairman of the Supervisory Board of AkzoNobel, met with Michael McGarry, Chairman and CEO, and Hugh Grant, Lead Independent Director of PPG.

In the execution of their fiduciary duties, the absolute focus of the Boards has been to determine whether the proposal by PPG fits with AkzoNobel's strategic objectives, is in the best interests of the company and creates long-term value for shareholders and all other stakeholders.

After extensive consideration, the company has concluded that the interests of shareholders and other stakeholders are best-served by its own strategy to accelerate growth and value creation. That strategy set out a clear road map for:

- The creation of two focused and high-performing Paints and Coatings and Specialty Chemicals businesses, to enable an acceleration of growth and enhanced profitability
- Significantly increased financial guidance for Paints and Coatings and Specialty Chemicals
- The clear separation of Specialty Chemicals within 12 months with the vast majority of net proceeds to be returned to shareholders
- Increased shareholder returns, including a 50% higher dividend for 2017 and €1 billion special cash dividend payable in November
- The creation of significant value for shareholders in the short, medium and long term, whilst also securing the interest of other stakeholders.

The extensive review and the meeting with PPG confirmed to AkzoNobel that its own strategy is better and does not contain the risks and uncertainties inherent in PPG's proposal. This strategy will build on the existing growth momentum within AkzoNobel and create a step change in value creation for shareholders and all other stakeholders.

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PPG’s proposal has been tested on four key areas: value, certainty, timing, and stakeholder considerations.

1. Value

The revised PPG proposal represents a value (cum dividend), as at April 24, 2017, consisting of €61.50 in cash and 0.357 shares of common stock of PPG per outstanding ordinary share of AkzoNobel[1].

AkzoNobel’s analysis concludes that PPG’s proposal:

- Undervalues AkzoNobel; it fails to provide appropriate value to AkzoNobel shareholders and does not reflect AkzoNobel’s current and future value
- Does not include an appropriate change of control premium, which needs to be based on a valuation reflecting AkzoNobel’s strategy, including the recently announced plans to separate Specialty Chemicals and accelerate growth in Paints and Coatings
- Implies a value for AkzoNobel’s Paints and Coatings business at a multiple below recent comparable transactions
- Contains risks as a result of its stock component
- Risks loss of value from regulatory remedies
- Risks potential leakage of value through loss of customers, key employees and partners.

2. Timing

AkzoNobel’s strategy contains a clear road map to value creation with a commitment to increase shareholder returns for 2017, create two focused businesses within 12 months and increased financial guidance for 2020.

PPG’s proposal, by contrast, contains no such commitments on timing other than generic statements. Moreover, it contains no explanation of how it would execute the complicated separation of individual businesses within the combined business as likely required by anti-trust authorities and does not address any of the inherent risks and uncertainties.

Recent transactions in the Paints and Coatings, or broader Chemicals sector, suggest the transaction would face complex regulatory hurdles that could take up to of 18 months to complete.

AkzoNobel’s analysis concludes that PPG’s proposal:

- Faces complex and lengthy regulatory hurdles which could take up to 18 months to complete
- Would require significant time to implement while containing inherent risks of completion
- Provides limited visibility in relation to the closing of the transaction and subsequent integration of the two businesses
- Would require substantial and complex structural changes and be vulnerable to regulatory-led delays

3. Certainty

PPG has not undertaken an acquisition of this size and is unproven in terms of an integration challenge as complex as the one proposed. This acquisition would be around 8 times the size of any previous acquisition conducted by PPG and more than three times the total value of acquisitions completed by PPG during the past decade.

It has been clear since PPG submitted an initial proposal that anti-trust clearance would play a major part in the deliverability of the proposal, given the significant geographic and segment overlap that exists between the two companies.

PPG provides no clarification on how it would neutralize the anti-trust risks for AkzoNobel stakeholders. The scope and timescale to gain all anti-trust clearances in relation to multiple product segments in multiple markets is not stated by PPG. All of this would expose AkzoNobel to considerable uncertainty over an extended period of time.

Furthermore, the acquisition of AkzoNobel's Specialty Chemicals business conflicts with PPG's stated strategy of exiting the Specialty Chemicals market.

AkzoNobel's analysis concludes that PPG's proposal:

- Requires significant and value-eroding disposals in order to achieve anti-trust approval
- Would result in disruption to business momentum and dislocation as a result of forced divestitures of integrated manufacturing facilities and supply chains
- Would be subject to significant integration risk.
- Conflicts with PPG's stated strategy of exiting the Specialty Chemicals market

4. Stakeholder considerations

PPG's statements on the wide range of relevant stakeholder interests do not hold up to scrutiny or adequately address the uncertainties and risks for AkzoNobel stakeholders.

As such, PPG fails to reflect the standards in Dutch public takeovers in relation to securing non-financial covenants, including appropriate representation and veto rights in its Board to safeguard AkzoNobel stakeholder interests.

PPG's proposals in relation to stakeholder concerns - affecting employees, pensions, location of headquarters, R&D and sustainability - are limited, or describe existing contractual arrangements.

PPG provides no commitments or evidence to support its assertion that employees of AkzoNobel will have any benefit under its ownership, nor does it give any indication how long various existing employee arrangements would remain unaffected and in place. On that point, PPG makes no meaningful commitments at all.

PPG's failure to provide such guarantees or adjust its projected minimum $750 million synergy target creates widespread anxiety and uncertainty for thousands of jobs across AkzoNobel's 46,000-strong workforce.

PPG's statement that it will not relocate any of AkzoNobel's production facilities from Europe to the US is essentially meaningless given that many AkzoNobel products, by their very nature, are often manufactured and distributed close to the markets they serve. The proposal makes no commitments regarding the potential closure of factories.

In relation to pensions, PPG's commitment to fulfil AkzoNobel's current top-up schedule to close the deficit in its UK pension schemes is an offer to respect an existing and ongoing obligation.

Sustainability is at the heart of how AkzoNobel does business. AkzoNobel regards its global leadership in sustainability and commitment to improve the communities in which it operates as an integral part of business success. Customers are increasingly identifying sustainability as a key element of their purchasing decisions. By contrast, PPG lags in the area of sustainability:

- AkzoNobel has maintained a top 10 position in the Dow Jones Sustainability Index for the last 11 years
- AkzoNobel is ranked considerably higher than PPG in recognized indices including Sustainalytics and Bloomberg ESG
- In 2016 alone, AkzoNobel's Human Cities initiative involved 300 projects impacting over 9 million people. This compares with PPG's Colorful Communities program which, in the total period since its launch, has impacted 1.8 million people across 60 projects.

AkzoNobel's analysis concludes that PPG's proposal:

- Creates significant risks and uncertainties for thousands of jobs worldwide
- Does not recognize or substantiate any commitments to bridge the significant cultural differences between both companies
- Fails to sufficiently address significant stakeholder concerns, uncertainties and risks
- Lacks meaningful commitments or solutions customary in major transactions

Conclusion of extensive review

Taking all of the above factors into consideration, including the meeting with PPG, the Boards of AkzoNobel have concluded that PPG's proposal is not in the best interests of the company, its shareholders and all other stakeholders.

Ton Buchner, AkzoNobel CEO, said:

"As part of our fiduciary duties we conducted an extensive review of the third proposal from PPG. This process included myself and Antony Burgmans meeting with the CEO and lead independent director of PPG to understand their proposal in more detail.

"The PPG proposal undervalues AkzoNobel, contains significant risks and uncertainties, makes no substantive commitments to stakeholders and demonstrates a lack of cultural understanding.

"By contrast, AkzoNobel has outlined a compelling strategy to accelerate growth and value creation which we believe will deliver significant long-term value for our shareholders and all other stakeholders. We will deliver this within a clear timeline, without the substantial level of risks and uncertainties attached to the alternative proposal.

“We have a strong track record of delivering on our commitments and are fully focused on accelerating growth momentum and enhanced profitability with the creation of two focused, high-performing businesses – Paints and Coatings and Specialty Chemicals – which will lead to a step change in growth and long-term value creation for shareholders and all other stakeholders.”

This is a public announcement by AkzoNobel N.V. pursuant to section 17 paragraph 1 of the European Market Abuse Regulation (596/2014). This public announcement does not constitute an offer, or any solicitation of any offer, to buy or subscribe for any securities in AkzoNobel N.V.

[1] *AkzoNobel shares trade ex-dividend, in relation to the final 2016 dividend of €1.28 per share, as of April 27, 2017*

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AkzoNobel creates everyday essentials to make people’s lives more liveable and inspiring. As a leading global paints and coatings company and a major producer of specialty chemicals, we supply essential ingredients, essential protection and essential color to industries and consumers worldwide. Backed by a pioneering heritage, our innovative products and sustainable technologies are designed to meet the growing demands of our fast-changing planet, while making life easier. Headquartered in Amsterdam, the Netherlands, we have approximately 46,000 people in around 80 countries, while our portfolio includes well-known brands such as Dulux, Sikkens, International, Interpon and Eka. Consistently ranked as a leader in sustainability, we are dedicated to energizing cities and communities while creating a protected, colorful world where life is improved by what we do.

Not for publication – for more information

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