The Blackstone Bid for Celanese AG

In late summer 2003, The Blackstone Group LP was contemplating whether to launch a tender offer for Celanese AG’s common shares as a means of effecting a friendly takeover. Blackstone needed to formulate specific terms of an offer. The transaction, if successful, would constitute the largest European public-to-private transaction in history.

The Blackstone Group LP in 2003

The Blackstone Group LP (Blackstone) was a private equity firm founded in 1985 by industry veterans Peter Peterson, its chairman, and Stephen Schwarzman, its CEO. The firm managed private equity funds, hedge funds, and other investment funds; invested in real estate and corporate debt instruments; and provided mergers and acquisitions (M&A) and restructuring advice to corporate clients. Its alternative asset-management businesses included the management of corporate private equity funds, real estate funds, hedge funds, funds of hedge funds, mezzanine funds, senior debt vehicles, and closed-end mutual funds.

Like other major private equity firms, Blackstone in 2003 was privately held and released limited information about its operations. Since its founding, Blackstone had raised more than $25 billion for alternative asset investing, including more than $14 billion for private equity investments. At $6.5 billion, the firm’s Blackstone Capital Partners IV was the largest institutional private equity fund ever raised.
Celanese AG in 2003

Celanese AG (Celanese) was a global industrial chemicals manufacturer headquartered in Kronberg, Germany. In 2002, Celanese had revenues of €4.3 billion (US$4.9 billion) and 10,700 employees worldwide. It was operating in a difficult market environment, reflecting the recent turn of the chemicals cycle: 2002 sales were down 9% from the previous year.

Celanese operated 25 production facilities in 11 countries in the Americas, Europe, and Asia, as well as six research & development centers. In 2003, Celanese generated 47% of net sales in North America, 41% in Europe, 11% in Asia and Australia, and 1% in the rest of the world. Nevertheless, in many respects, Celanese was a U.S. company. The bulk (62%) of Celanese’s assets were located in North America (48% in the United States), as were its employees (59% in North America, 42% specifically in the United States).

Celanese operated in five principal business segments: Acetyl Products (49% of sales at Q3 2003); Chemical Intermediates (19% sales); Acetate Products (13%); Ticona, which produced technical polymers (16%); and Performance Products/Nutrinova, which produced artificial sweeteners (3%). Celanese held No. 1 or No. 2 market positions in more than 70% of its product areas.

Celanese had a long and rich history with both European and North American roots. In 1912, a European entrepreneur, Alexander Clavel-Respinger, and Dreyfus brothers Henri and Camille founded Cellonit Gesellschaft Dreyfus & Co. in Switzerland to produce fireproof celluloid out of cellulose acetate. In the buildup to World War I, the Dreyfus brothers diversified into manufacturing airplane paint. At the same time, a U.S. Celanese company was set up. However, when the war ended in 1918, paint contracts dried up and Celanese switched to commercial production of acetate yarn. After World War II, the use of acetate tow in cigarette filters opened up a large new business area. Meanwhile, in the United States, Celanese also established plants in Texas for the production of acetaldehyde, formaldehyde, methanol, and acetone.


In October 1999, Hoechst spun off Celanese AG as a publicly traded stock corporation listed on the New York (NYSE: CZ) and Frankfurt (CZZ) stock exchanges. Immediately following the spin-off, Celanese stock traded at €16 per share. Ticona GmbH, a wholly owned subsidiary of Celanese AG, was established to operate the technical polymers business (polyacetal and ultrahigh-molecular-weight polyethylene) independently. During the third quarter of 2003, Celanese stock traded within a fairly broad range, reaching a high of €31.88 and a low of €20.52 on the Frankfurt Stock Exchange.
The company’s largest single shareholder was Kuwait Petroleum Corporation, which owned approximately 29% of Celanese’s outstanding shares. Institutional shareholders (including, for example, Fidelity Investments) held 55% (U.S. 30% and European 25%), retail investors 10%, and employees 6% of total shares.

The Chemical Industry and Celanese’s Position

The chemical industry consisted of manufacturers that converted raw materials (feedstocks) into chemical products used in a variety of industrial and consumer applications. For example, in its Chemical Products segment, Celanese purchased raw materials such as natural gas, ethylene, butane, and propylene to produce basic chemicals such as vinyl acetate monomer (VAM). VAM in turn was used by Celanese’s industrial customers in a variety of adhesives, paints, films, coatings, and textiles. Other examples of end-use markets that Celanese products served included pharmaceuticals and building products (Chemical Products), textiles (Acetate Products), and manufacturers of automotive and electronic products.

Chemical manufacturers were divided into two types: specialty and commodity chemical firms. In 2003, Celanese was primarily a commodity chemicals firm (approximately 70% of sales). Commodity chemicals were relatively simple, low-value-added products usually sold in large quantities at a relatively low price per unit. Commodity chemical markets were characterized by significant price competition. In the Chemical Products segment, Celanese listed over 15 competitors (including major competitors such as BASF, British Petroleum, Eastman Chemical, and DuPont) and in Acetate Products seven competitors (including Acordis, Eastman, and Rhodia).

Celanese maintained a leading position in many of its markets by achieving and continuously improving its low-cost position through proprietary technologies and vertical integration. Since 2001, Celanese had implemented several restructuring programs to improve efficiency and profitability. Celanese also sought to lower costs by advanced process control and Six Sigma statistical tools. Celanese’s products held a No. 1 position in the Acetyl (VAM), Acetate Products (acetate tow), Ticona (polyacete), and Performance Products (sorbates) segments. It held No. 2 and No. 3 positions in Chemical Intermediates products (oxo alcohols & acylic acid) and other Acetyl products (polyvinyl alcohol, methanol).

The Cyclical Nature of the Chemical Industry and Implications for Celanese

Cyclical in demand and supply were constant features of the commodity chemicals business. It generally required two to three years for additional capacity, either plant expansion or new construction, to come online and be fully operational. In periods of rising demand, large plants were constructed, sometimes at a rate outstripping actual demand growth, due to a need to achieve economies of scale. When demand fell, the industry’s high fixed costs caused chemical producers to compete aggressively on price in order to maximize capacity utilization. Investors were aware of the industry cycle, and analysts spent considerable effort trying to forecast turning
points. Often, for example, commodity chemicals stocks trended upward as much as six months before an actual improvement in chemical production economics.

In years of tight supply, including some due to raw material shortages, firms experienced high operating rates (over 90%), higher selling prices, and attractive margins. In contrast, years of oversupply — due to economic recession in end-use markets, reduction in business activity in end-use markets, or excess plant capacity — resulted in depressed operating margins, declining capacity utilization rates, and lower selling prices. The two Celanese divisions that were the most sensitive to changes in the U.S. economy were Acetyl Products and Chemical Intermediaries, which together represented 55.6% of estimated 2003 EBITDA. The cyclicity of the chemical manufacturing business was exacerbated by the natural cyclicality in many of the end-user markets (automotive, electrical, construction, and textile industries), over which Celanese had no control. Overcapacity in end-user markets affected demand for and pricing of Celanese's products. Celanese, with 12% of total 2003 sales derived from the automotive sector, was more vulnerable than other chemical producers to swings in this sector. To compete effectively, Celanese had been cutting costs and looking for efficiencies.

Finally, Celanese was also especially vulnerable to the vagaries of the chemical cycle in its Acetyl Products segment (methanol, formaldehyde, acetic acid, and vinyl acetate monomer). Some analysts speculated that the acetyl's market had hit a low point in the chemicals cycle in 2001, and had already recovered to a mid-cycle position by 2003 (see Exhibit 1 for corresponding trend in the Celanese stock price). However, identifying where in the cycle the industry was in late 2003 remained a significant challenge fraught with uncertainty.

Managing Raw Materials Risks

Commodity chemical producers such as Celanese also faced volatility in raw materials prices and uncertainty about the availability of some raw materials. Raw materials prices were affected by capacity issues, general business activity, and government regulation. Raw materials were used as primary inputs, intermediate inputs, and for energy requirements (petrochemicals, electricity, and coal). In the United States, the chemical industry accounted for 7% of U.S. energy consumption. Half of energy inputs were used by chemical companies as raw materials, the other half for fuel and power. As raw inputs to the Chemical Products segment, Celanese purchased natural gas, ethylene, butane, and propylene; for the Acetate Products segment, it also bought wood pulp. Celanese sought to improve its profit margins by passing increases in raw materials prices on to the market when preexisting contractual obligations did not prevent that.

The Chemical Industry in 2003

Commodity chemical producers faced a challenging economic climate in 2003. Total U.S. industry production of chemicals was projected to decline by 4% by the end of 2003. A group of 20 major U.S. commodity and diversified chemicals companies tracked by Standard & Poor's posted a $766 million net loss in the third quarter of 2003, compared with a net income of $1.2 billion just one year earlier. Performance was affected both by higher raw-materials and fuel costs, as well as
reduced manufacturing demand. In the first two quarters of 2003, many industrial customers decided to reduce inventories in response to price increases by chemical manufacturers, but there were some signs that this trend had improved by the third quarter of 2003. Many chemical manufacturers also faced higher expenses for pension benefits, because both low interest rates and a declining stock market since 2000 had reduced the returns on pension fund assets.

More broadly, three secular trends were forcing long-term changes in the chemical industry. These were globalization, consolidation, and regulation. The U.S. chemicals industry was considered mature, with only modest growth expected in key markets (automobiles and construction). In contrast, Latin American and Asian countries, with their rapidly developing economies, were viewed as the markets of the future. To respond, U.S. chemical suppliers were building production facilities overseas, often to serve their U.S. customers that were relocating there. Consolidation among chemical industry players was an ongoing phenomenon, as it promised efficiencies in manufacturing and purchasing. Finally, increasing environmental regulation and litigation on both sides of the Atlantic imposed costs and risks that were hard to predict. The European Union was conducting risk assessments of 140 chemicals, including VAM produced by Celanese, for their carcinogenic risks. In the United States, Celanese was subject to Superfund requirements to clean up contaminated production sites, and many companies had asbestos liability exposure related to their products and premises.

Blackstone’s Interest in Celanese

It was against this industry backdrop that Blackstone was evaluating a potential acquisition of Celanese. Blackstone had been considering this move for nearly two years, since early 2002. Strategically, in Celanese’s Chemical Products segment, Blackstone saw significant opportunity to expand through further downstream integration. Blackstone believed this would increase its Chemical Products segment margins, reduce earnings volatility, and increase its valuation multiple. Blackstone also viewed the Ticona business as attractive, given its broad geographic scope, strong customer relationships, favorable strategic alliances, and attractive market positions in polyacetal and ultrahigh-molecular-weight polyethylene.


In January 2003, a Blackstone executive called Celanese to reaffirm Blackstone’s interest in proceeding with an acquisition. Throughout the spring and summer of 2003, Blackstone analyzed publicly available data to further inform its perspective on the value of Celanese in preparation for active negotiations. Blackstone focused special attention on the financial health of several of Celanese’s businesses, in addition to its large unfunded pension obligations. As required by the
German Stock Corporation Act, Celanese had a two-tier board system consisting of a board of management (Vorstand), comprising four directors, and a supervisory board (Aufsichtsrat), comprising 12 members, half elected by employees and half by shareholders. Of the six employee representatives on the supervisory board, four were Celanese employees and two were union representatives. Blackstone was acutely aware that the employees on the Aufsichtsrat would be keenly interested in any plan that Blackstone had regarding a supplemental, up-front cash contribution to the pension plan as a component of the deal. Blackstone’s deal team would also need to carefully consider another element of the deal that would interest members of the Vorstand: Blackstone’s proposed stock option pool for management.

Blackstone also came to believe that Celanese’s value was sensitive to the current state of the chemicals cycle and prospects for an early rebound in the cycle. Blackstone’s views were not unique: Many investment analysts regarded Celanese as one of the most cyclical European chemical companies, with the largest relative pension deficit and most aggressive actuarial assumptions (asset growth, discount rate) among its European peers. However, these assumptions were based on historically higher returns of U.S. equities as compared with European equities. Among European chemical companies, Celanese was viewed as having the biggest risk to cash flow if pension plan assets did not increase. It was heavily dependent on the level of economic activity, especially in the United States, and vulnerable to fluctuations in base energy and feedstock prices. Blackstone’s deal team and investment committee would need to consider carefully the myriad assumptions underlying both operating and pension fund performance. The firm expected to perform extensive due diligence in these areas in support of a final bid.
Exhibit 1: Celanese AG share price (Q1 2002 – Q3 2003, euros per share)$^2$