DuPont Acquires Rogers for $5.2 billion, Further Expanding into High-growth Market

Introduction

On Tuesday November 2nd, American tech giant DuPont closed the deal to acquire engineering materials maker Rogers Corp. The all-cash transaction values Rogers at approximately $5.2 billion, and the firm's shareholders will receive $277 per share, representing a 33% premium over ROG price on November 1st, 2021. Through this last acquisition, Dupont aims to expand its core business. According to the company media release, synergies will come from Roger's advanced materials for high-growth secular end markets, including electric vehicles, advanced driver assistance systems, 5G telecommunications and clean energy.

About DuPont

DuPont de Nemours, Inc., has originated from a merger and a subsequent spinoff. The 2017 merger involved Dow Chemical and E.I DuPont de Nemours, leading to DowDuPont.. The merger deal was worth an estimated $130 billion. As mentioned, the spinoff of DuPont from DowDuPont took place in 2019, from which originated the current business reality.

DowDuPont was split into three separate publicly traded companies operating in agriculture, materials science, and specialty products. After the spinoff, DuPont has renewed its marketing and branding to mark its independence from the old DowDuPont. Today DuPont de Nemours, Inc provides technology-based products through three segments: Electronics and Industrial, Water & Protection, and Mobility & Materials. Dupont's product mix ranges from Aerospace to Healthcare and covers more than ten different industries.

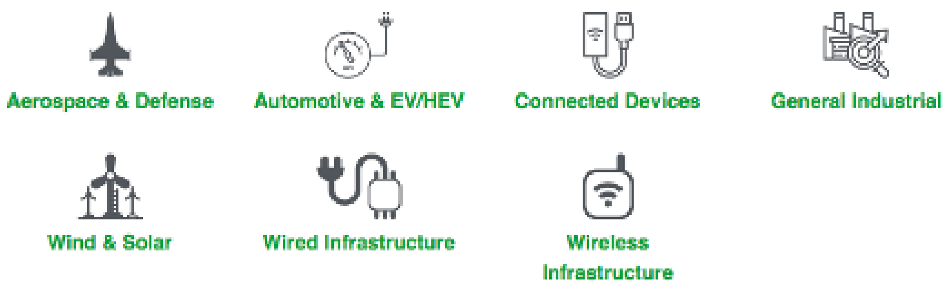
Industries where Dupont operates - Source; dupont.com

The company is now targeting a list of sustainability commitments that are supposed to be achieved by 2030. This came after the 2017 scandal that accused DuPont of contaminating a town in West Virginia with toxic chemicals, poisoning thousands of people. Due to this event, the company has been devoting a lot more attention to certain issues such as transparency with employees and the community.

DuPont operating EBITDA in the third quarter of this year was $1.09 billion, representing a 20% increase compared to operating EBITDA in the prior year. According to the DuPont release, the improvement was driven by the ongoing recovery in key end markets impacted by the COVID-19 pandemic. Operating EBITDA is split as follows between divisions: $475 million Electronics & Industrial; $353 Water & Protection; $280 million Mobility & Materials.

About Rogers

Rogers Corporation was born in 1945 after the renaming of Rogers Paper Manufacturing Company, founded in 1832 by Peter Rogers. Headquarters are in Chander, Arizona. The company is made of two business segments: Advanced Electronics Solutions (AES) and Elastomeric Material Solutions (EMS). According to Rogers' website, the first division develops technologies used in wireless infrastructure, radar systems, high-speed digital, hybrid-electric vehicles, high-voltage rail traction, laser systems and wind and solar power conversion. The material segment creates solutions that apply in smartphones, aircraft and rail interiors, automobiles and apparel.



Industries where Rogers operates - Source: rogerscorp.com

Rogers Corporation's innovative engineered materials are in high demand as worldwide markets deploy 5G wireless communications infrastructure. Advanced Connectivity Solutions provide clients with a vanguard technology portfolio, putting Rogers in a leader position in wireless networks, power amplifiers, and smart antennas that are improving global connectivity.

In the third quarter of this year, revenues were $238.3 million, representing a 1.4% sequential growth. The amount refers for $135 million to the AES Unit, whose revenues decreased by 3,9% from the previous year. On the other hand, EMS registered record sales of $98 million in Q3 2021 driven primarily by EV and Portable Electronics demand.

Industry analysis:

The chemical industry has seen a strong recovery since the beginning of 2021, with increasing demand from major end markets such as construction and health and safety. This was driven in part by a rebound in the US GDP, which is growing between 6.0% and 6.5% over the course of 2021 after declining by 3.5% in 2020.

During the first half of 2021, the industry suffered supply chain disruptions. The main causes are the extreme weather events and the short supply caused by the lack of raw materials and logistic issues following the covid pandemic and the lockdowns when significant chemical capacity, particularly along the U.S. Gulf Coast, remained idle. As supply chain challenges ease, idle capacity should come back online and support stockpiling. In fact, some basic chemicals have already reached pre-glycemic sales levels in Q3 2021 on an annual basis.

The year 2022 could mark the full recovery for the post-pandemic U.S. chemical industry. As the industry moves into 2022, strong demand for raw materials and specialty chemicals is indeed keeping prices robust throughout the year. The industry is also experiencing an increase in capital expenditures as major players in the industry focus on capacity building and expansion into growing end markets through both organic and inorganic pathways. However, the sector could face margin pressures due to commodity cost inflation, which is likely to remain high until the first half of 2022.

One of the critical areas of focus for most chemical companies in 2022 is likely to be sustainability and decarbonization. Many chemical companies are expected to increase investment in research and development (R&D) capabilities and leverage advances in decarbonization and recycling technologies to reduce their and their customers' carbon footprint, as well as reduce plastic waste. 2022 should also see more industry players create targets and plans for reducing emissions and monetizing waste.

Deal Structure:

On November 2, 2021 Rogers Corporation announced that it has entered into a definitive merger agreement to be acquired by DuPont in an all-cash transaction. Under the terms of the agreement DuPont will acquire Rogers for approximately $5.2bn.

The transaction delivers substantial value to Rogers' shareholders, who will receive $277 in cash per share, representing a 33% premium over Rogers' closing share price on November 1, 2021, and a 46% premium to the 1-month volume weighted average share price.

DuPont expects to realize approximately $115m in pre-tax run-rate cost synergies by the end of 2023. The estimated one-time cost to achieve these synergies is approximately $75m. DuPont expects the deal to be accretive to its top-line growth, operating EBITDA, free cash flow, and adjusted EPS upon closing. The enterprise value multiple of the transaction is approximately 19x estimated fiscal 2022 EBITDA on a stand-alone basis and approximately 14x including cost synergies.

Deal Rationale

The deal is expected to close in the second quarter of next year, subject to customary closing conditions, including approval by Rogers shareholders and receipt of applicable regulatory approvals. Before that, DuPont and Rogers will continue to operate as separate companies. Once the deal is sealed, Rogers will be integrated into DuPont's Electronics & Industrial business unit, which accounted for roughly one-third of the company's $4.1 billion of net sales in the most recent quarter.

With unmatched application engineering expertise and leading positions in markets where its advanced technology solutions offer competitive advantages, Rogers has been a global leader in engineered materials and components. The acquisition of Rogers Corporation will expand DuPont's leadership position in advanced materials for high-growth secular end-markets, including electric vehicles, advanced driver assistance systems (ADAS), 5G telecommunications and clean energy. Ed Breen, Executive Chairman and Chief Executive Officer of DuPont said, "We are sharpening our focus on high-growth, high-value opportunities in sectors with steady long-term secular growth trends where our global innovation leadership enables a competitive advantage."

Building on DuPont's recent acquisition of Laird Performance Materials, the acquisition of Rogers further strengthens the company's position as the leading electronic solutions provider in the industry. DuPont has already built an unmatched portfolio that is ideally positioned to capitalize on rapid demand acceleration in high-growth markets. As electric vehicles, 5G telecommunications and clean energy are quickly developing and expanding, DuPont's proven history of application engineering excellence and deep customer relationships provide the company an edge over its competitors.

For Rogers, it will benefit from DuPont's global reach and strong technical and commercial depth. The combination also provides Rogers resources and support to allow Rogers to scale for success.

From a financial aspect, the combination will help DuPont accelerate top-line growth, strengthen operating EBITDA margins and significantly improve cross-cycle earnings stability. It will make DuPont a faster growing, higher margin business, while maintaining a conservative balance sheet and substantial capability for future growth, putting them in line with best-in-class multi-industrial peers.

DuPont expects to realize approximately $115 million in pre-tax run-rate cost synergies by the end of 2023. The cost synergies associated with both the Laird Performance Materials acquisition and the intended Rogers acquisition represent 6% of the combined revenue, including DuPont Interconnect Solutions. The estimated one-time cost to achieve these synergies is approximately $75 million.

Market Reaction

After DuPont (NYSE: DD) announced the merger with Rogers (NYSE: ROG) on November 2nd, both stocks surged. DuPont shares closed at $80.42 on Friday, up 12% from Monday. Rogers was trading at $269.50 last

Friday, representing a 29.4% increase from the beginning of the week. DuPont and Rogers are trading at $81.02 and $269.55 as of Wednesday, November 10th, showing less fluctuation as of this week.

Investors are apparently excited that DuPont will gain entry into fast-growing market sectors such as electric vehicles, 5G telecommunication, and clean energy. At the same time, DuPont announced plans to divest parts of its mobility and materials business, mapping a promising future of top-line growth to unlock greater value for shareholders. The company also reported strong numbers on its third-quarter financials, with its sales surged 18% to $4.3 billion and adjusted earnings per share soared 89% year over year. The growth is driven by strong volumes across all segments as well as a dip in the number of outstanding shares. However, the Arizona-based chemical company lowered its outlook for 2021 because of the ongoing semiconductor shortage that hits demand from the automotive sector.

Soon after the deal was announced, multiple analysts rushed to upgrade their ratings and price targets on DuPont stock. For example, Credit Suisse raised its price target to $95 from $76, and BMO Capital bumped its price target to $101.

For Rogers, the company reported third-quarter results on Tuesday. Although with a top-line sales rise of 18% year over year, the ongoing shortage of microprocessors limited the company's third-quarter success. However, DuPont's generous takeover offer at $277 per share, representing a 33% premium over Rogers' closing price on Monday evening and a 46% value boost over the average share price in the last 30 days, made the market makers ignore the disappointing report to focus on the game-changing event.

Deal Advisors

Evercore is serving as DuPont's lead financial advisor, Goldman Sachs & Co. LLC as a financial advisor and provider of fully committed financing, and Skadden, Arps, Slate, Meagher & Flom LLP as its legal counsel.

J.P. Morgan Securities LLC served as exclusive financial advisor to Rogers on the transaction; Covington & Burling LLP and Hinckley, Allen & Snyder LLP served as outside legal counsel.

TAGS: DuPont, Rogers Corporation, M&A, materials, chemicals