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## HEARD ON THE STREET

# Who Knew the Paint Industry Could Be This Exciting?

A counterbid by Japan's Nippon Paint has forced European coatings giant Akzo Nobel to abandon takeover talks with U.S. rival Axalta

*By Stephen Wilmot*

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The otherwise quotidian world of paint is turning into a feeding frenzy of merger activity. Money is to be made betting on the prime targets.

The latest news: Japan's Nippon Paint is interested in Axalta Coating Systems, pushing aside a bid by Dutch rival Akzo Nobel, which itself has been a target for industry leader PPG Industries. It is unclear what price Nippon has offered for Axalta, though it will need to be more than its current enterprise value of \$11.7 billion including debt.

Akzo's retreat before a smaller rival isn't as odd as it sounds. Earlier this year the Dutch company refused to negotiate over three separate bids from Pittsburgh-based PPG, which vies with Cleveland-based Sherwin-Williams [SHW 0.11% ▲](#) for the top spot in the global paints industry. Investors, noisily led by New York activist Elliott Management, wanted Akzo to negotiate.

Chairman Antony Burgmans blocked PPG by invoking arcane clauses of Dutch law, leaving him little credit with investors to draw on in support of a punchy takeover. The Axalta deal, billed as a "merger of equals," always looked like a poison pill to keep PPG away, but investors were happy to swallow it as long as Akzo could promise merger synergies without a hefty takeover premium. Nippon's all-cash offer has made that impossible.

Nippon Paint is making a huge bet. With an enterprise value equivalent to \$10.6 billion, it is slightly smaller than Axalta. The offer looks serious, though. The Japanese company has no net debt and a clear ambition to be a global player. It got a toehold in the U.S. in March by buying Los Angeles-based Dunn-Edwards for \$608 million.



Nippon Paint is seen in this photo on Wednesday. PHOTO: THOMAS WHITE/REUTERS

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Crucially, Nippon Paint's key shareholder implicitly stands behind its management. Almost two-fifths of the company's shares belong to Wuthelam Holdings, the investment vehicle of Singaporean billionaire Goh Cheng Liang. Mr. Goh distributed Nippon paint for decades before his son, now director of the board, spearheaded a 2014 merger. Having jumped 17% when news of Akzo's interest broke last month, Axalta shares were up 3% in premarket trading Wednesday.

Akzo's inability to compete with Nippon Paint leaves it vulnerable. PPG has done its best to temper expectations of another round of bidding, but this could just be a negotiating ploy. The numbers should still work: The dollar has weakened against the euro this year, but PPG's share price has outperformed Akzo's,

which is still 18% below the level of PPG's final bid. PPG's "put-up-or-shut-up" quiet period expires next month.

There is an outside chance Sherwin-Williams could also be interested in Akzo. In the spring it had its hands full with the acquisition of smaller rival Valspar, but this completed in June. Organic growth for both Sherwin and PPG has been patchy this year, underlining the appeal of acquisitions as a way to boost profits.

In a consolidating market it makes sense to own the takeover targets. It is clearer than ever that these include Akzo Nobel as well as Axalta.

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