Dan Primack

Huntsman/Hexion Ripple Effects in Secondary Market

Apollo Management

Posted on: October 6th, 2008

Last Monday, Delaware Chancery Court found that Apollo Management portfolio company Hexion must honor its merger agreement with Huntsman, after rejecting Apollo's claim that Huntsman had experienced an adverse material event. This is obviously bad news for Apollo and Hexion, but could have wider reverberations.

That's the message coming from NYPPEX, an online marketplace for trading "secondary" stakes in private equity funds. The company has issued client research warning that stakes in Apollo's fifth, sixth and seventh funds could decline "12% to 20% over the next six months" (Apollo holds Hexion in both Funds V and VI, as it was a rollup). Both broadly speaking, NYPPEX says that other buyout funds vintage 2005-2007 could be vulnerable to similar value drops on the secondary markets, "to the extent such buyout funds have relied on material adverse event provisions to cancel proposed acquisitions."

In other words, NYPPEX believes that the ruling could possibly cause a review of past deal terminations that came after PE firms claimed MAE. This comes on top of an overall secondary market cool-down when it comes to trading large-cap buyout fund stakes, driven by uncertainty over leveraged loan prices. Not a good time to be trying to unload that position in Apollo, Blackstone, Carlyle, KKR, etc.