



Chemical Distribution – Industry Update

KPMG Corporate Finance LLC
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U.S. Chemical Distribution Industry Overview

- The U.S. chemical wholesaling* industry is expected to grow at a CAGR of 2.1% between 2021 – 2027, driven by factors such as rising demand across various end-user industries, ongoing traction towards digitization, and growing interest for green chemicals
- With the onset of the COVID-19 pandemic, growth of chemical distributors was impacted by various supply chain issues such as port congestion, container shortages, and skyrocketing shipping costs, coupled with increase in crude oil prices



166%

Rise in shipping costs in the last three months



82.1%

Players facing avg. delays of 11 or more days



84.5%

Companies out of stock of at least one imported product



89.3%

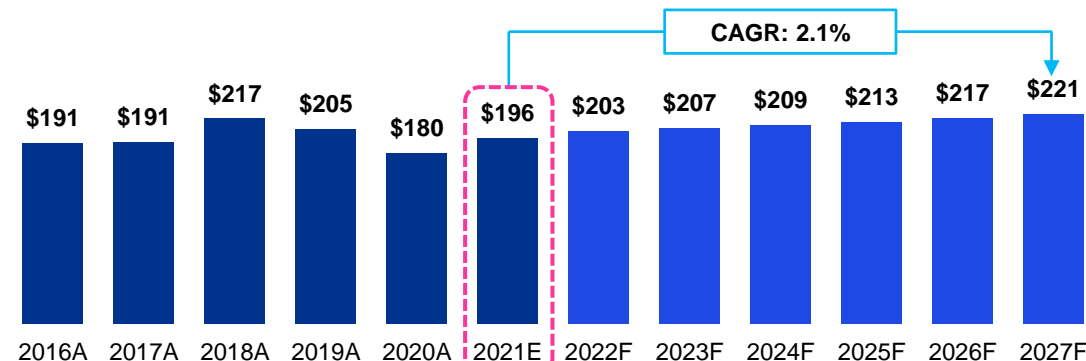
Companies reporting revenue losses due to shipping delays

As per a survey conducted in 2021 by National Association of Chemical Distributors (NACD)

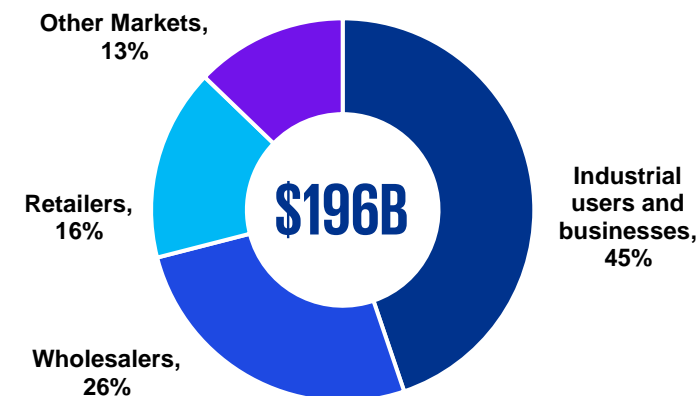
- To mitigate these supply chain challenges, distributors have been relying on **inventory rebuilding**, coupled with **increased investments in expansion of on-shore capacity**

As per 2021 L.E.K. Consulting U.S. Specialty Chemicals Study, **27%** of Chemical Distribution professionals anticipate continued investment in adding new on-shore capacity over the next three years

U.S. Chemical Wholesaling* Industry Revenue (in \$ Billions)



End-Market Segmentation – 2021 (in %)



Note: * Chemical Wholesaling industry includes companies wholesaling chemicals and related products, including compressed gas, chemical additives and synthetic rubber. This industry does not wholesale agricultural or medicinal chemicals, paints or varnishes, fireworks or plastics materials. Definition as per IBISWorld, Chemical Wholesaling in the US Industry Report, January 2022

Source: Broker Reports, News Articles, Wall Street Research, and other publicly available data.

Key Trends & Drivers



Growing prominence of digitization

NACD, along with major industry players, recently launched a digital e-commerce platform called BluePallet, to streamline transactions between suppliers and customers

- Driven by the combined effect of remote working and social distancing resulting from COVID-19, chemical distributors have increased their focus on digital tools
- Benefits associated with digitization, including the ability to develop value-added services using AI and proven advantages of digital marketplaces, are expected to increase adoption of digital tools by chemicals distributors



Soaring consolidation activity amongst players

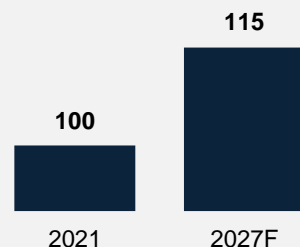
"...In this fragmented market, accretive bolt-on acquisitions are a good use of cash to drive growth. We expect acquisitions will also drive cost synergies, be additive to our overall growth rate and margin improvement goals"

- **Nicholas Alexos, CFO, Univar Solutions**

- Highly fragmented nature of chemical distribution market continues to spur M&A activity in the industry
- Increasing government regulations are also inducing small and medium-sized distributors to explore a sale, as such players often face difficulty in complying with complex rules and regulations
- For instance, the U.S. government has set a target to reduce emissions of Greenhouse Gases by 50% by 2030, impacting the chemicals market as well



Increasing industrial production



- Industrial Production Index (IPI) is an indicator measuring the output of mining, manufacturing, electric, and gas industries. The IPI is anticipated to continually increase over the next 6 years
- Industrial production is directly correlated to demand for chemicals



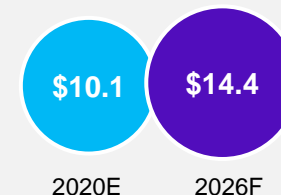
Shift towards eco-friendly initiatives

As per 2021 L.E.K. Consulting U.S. Specialty Chemicals Study, demand for green chemicals has increased by more than 50% over the past 3 years

- With rising awareness of negative impact of chemicals on the environment, along with new government regulations encouraging greener practices, there is an ever-growing shift of demand towards eco-friendly chemical products
- Distributors are also adopting sustainable practices such as returnable containers to reduce waste generation and implementing additional safety solutions during transportation to avoid accidents/spills etc.



Rising demand for construction chemicals



Size of the U.S. Construction Chemicals Industry (in USD billions)

- With the re-opening of construction activities after pandemic-induced delays, the U.S. construction chemicals industry is expected to grow at a faster-than-GDP CAGR of 6.0% between 2020E – 2026F, reaching \$14.4 billion
- Similar to the Industrial Production Index, rise in construction will benefit the chemicals distribution industry

Source: Broker Reports, News Articles, Wall Street Research, and other publicly available data.

Select Public Comparables

Market Commentary

- Public valuations of the major chemicals distributors have remained robust over the past five years
- IMCD has historically enjoyed a valuation premium over larger peers Univar and Brenntag (and Nexeo – while it was a public company) which is driven, in part, by IMCD's higher margins and perception that a greater proportion of its sales are derived from specialties, healthcare and life sciences vs commodities
 - Azelis derives ~60% of sales, and IMCD approx. 50% of sales, from life sciences clients
- The sector (along with the broader economy) recovered quickly from pandemic enforced shutdowns, although, some supply chain issues remain
- Over the last few months, stock prices in the sector have pulled back somewhat reflecting increased economic uncertainty going forward

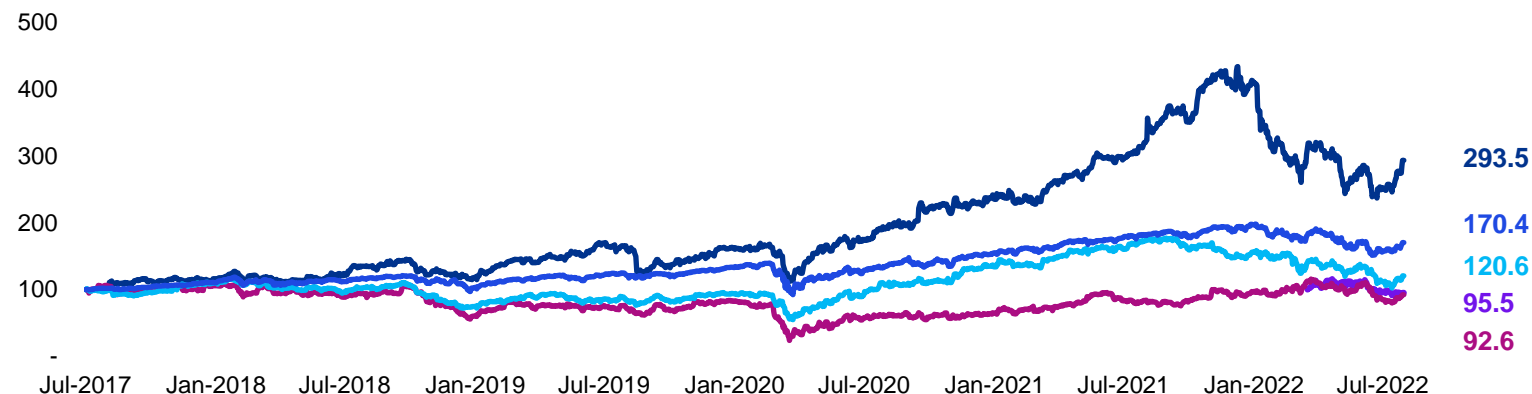
Note: * Azelis Group was listed on 17-Sep-21

Source: Broker Reports, News Articles, Wall Street Research, and other publicly available data.

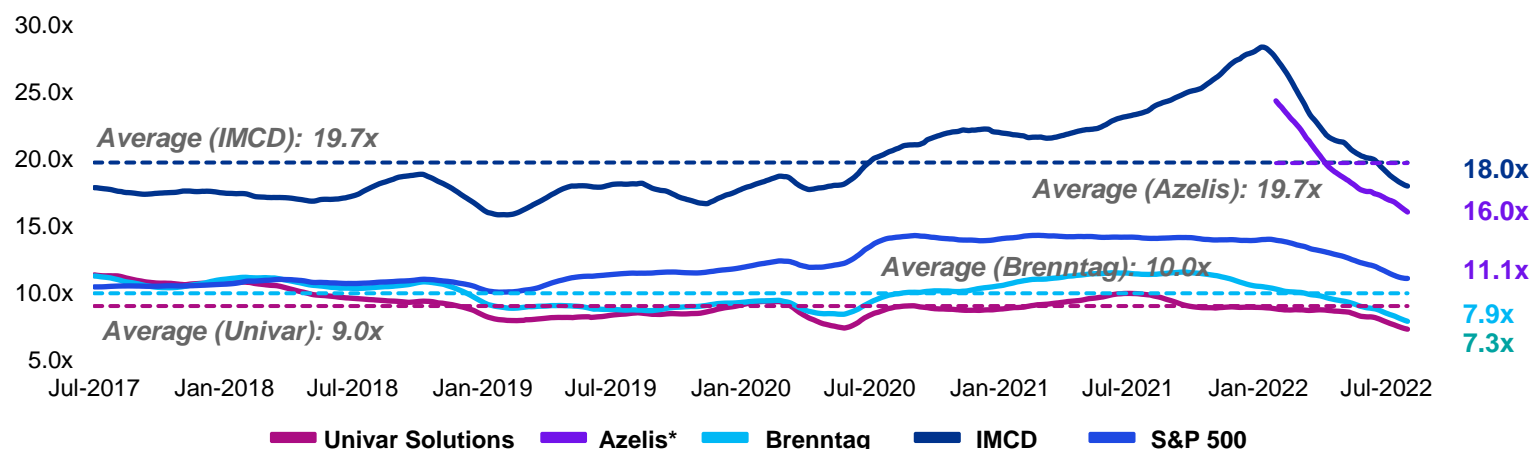


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Indexed Stock Price v/s S&P 500



NTM EBITDA Multiples of Chemical Distributors (3-M Rolling Average)



M&A Activity Remains Robust

- The Chemicals Distribution market continues to see significant M&A activity with both strategies (e.g. Azelis, Brenntag, Univar and IMCD) and sponsor backed groups actively looking to further consolidate the industry
- Financial sponsors in particular have a long history of investing in the space (Univar, IMCD, Brenntag and Azelis were all, at one point, owned by PE groups) and there are several PE-backed platforms active today
- Within the last 12 months Advent International (Caldic), American Industrial Partners (RelaDyne), Gryphon Investors (Vivify) and OpenGate Capital (Chemsolv) have all made platform investments in the space
- We expect the robust deal-making environment to continue for the medium-term at least – as evidenced by Avient’s recent announcement regarding the sale of its Distribution business to H.I.G. Capital for \$950 million (or close to 10x trailing EBITDA)
- In addition, we are aware of a few other assets in-market (or soon to be)
- **“We believe that industry consolidation will continue. The underlying drivers have remained the same, such as the trend to rationalize and simplify distributor relationships, market globalization, and increasing regulatory requirements.”**, Dennis Verhaert, M&A Director, Azelis, 2021

| Sponsor-owned roll-up acquisitions | | | | |
|------------------------------------|------------------------------|--|---|---|
| PE Firm | Platform | Description | Representative Addons | |
| Cinven | Barentz | Distributor of life sciences and specialty performance ingredients | <ul style="list-style-type: none"> Holland Chemicals Maroon Group | <ul style="list-style-type: none"> The Cary Company (<i>Select Businesses</i>) |
| SK Capital | Tilley Chemical Company | Chemical distribution company catering to specialty chemical and lubricant markets | <ul style="list-style-type: none"> Callahan Chemical Ingredients Solutions | <ul style="list-style-type: none"> Phoenix Aromas and Essential Oils |
| American Industrial Partners | RelaDyne | A distributor of lubricants, less-than-truckload fuel, chemicals, and other related products | <ul style="list-style-type: none"> Orange Line Oil Company | <ul style="list-style-type: none"> The Farley Company |
| OpenGate Capital | Chemsolv | Chemical distributor of solvents, plasticizers, coolants, surfactants, additives, and other products | Chemisphere | |
| Gemspring Capital | Shrieve Chemical Company | Distributes industrial chemicals, performance fluids, and specialty lubricants | CLP Chemicals (<i>Styrene Business Unit</i>) | |
| Gryphon Investors | Vivify Specialty Ingredients | A distributor of colorants, functional ingredients, and additives to consumer and industrial markets | N/A | |
| Advent International | Caldic | Provider of value-add life sciences and specialty chemicals solutions | <ul style="list-style-type: none"> Active Pharmaceutica | <ul style="list-style-type: none"> Food Industry Technology |
| LBB Industries | LeBaronBrown Specialties | A specialty chemical & ingredient distribution company | <ul style="list-style-type: none"> AIC Centerchem Custom Chemical Services | <ul style="list-style-type: none"> Custom Ingredients Debro Dien |
| One Rock Capital Partners | GPD Companies | Distributes plastics, polymer products, and engineering resins | <ul style="list-style-type: none"> Baritec Distrupol | <ul style="list-style-type: none"> Lautrup Chemicals Nevicolor |
| H.I.G. Capital | Recochem | A distributor of automotive aftermarket and household fluids | <ul style="list-style-type: none"> Adam’s Polishes Kost USA | <ul style="list-style-type: none"> P.O.R. Products |

Source: Broker Reports, News Articles, Wall Street Research, and other publicly available data.



Let's Connect



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