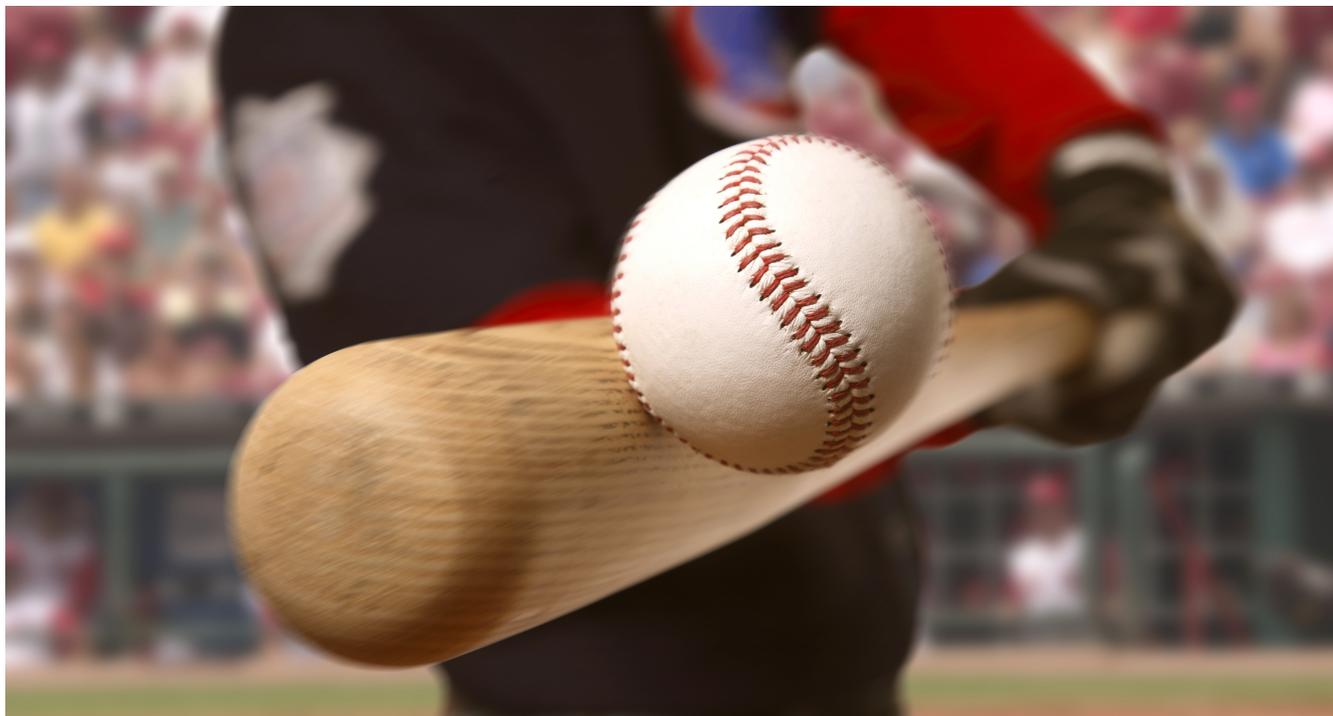


CHEMICAL INSIGHTS



The Sweet Spot: Value-Added Distribution

Over the past decade or so, one of the more significant trends in chemicals M&A has been a shift in strategic focus by large, diversified chemical companies and chemical-oriented private equity firms to specialty chemicals. The rationale for the interest in specialties is straightforward: because “specialties” typically are manufactured to perform specific end-use functions, but can be formulated with a range of different performance parameters, they provide manufacturers with opportunities for product differentiation and branding, and by extension, higher margins than more common commodity-type products.

But what of the suppliers just a step or two up the value chain, the distributors that furnish the intermediate raw materials that specialty manufacturers use to make their end-products? Well-managed distributors can have steady cash flows and growth potential equal to specialties, but sometimes are perceived as high volume, low margin businesses with few opportunities to establish their own distinctive brands. Even so, their advantages haven’t gone unnoticed, and both strategic and private equity buyers have been actively acquiring distribution companies.

Distribution transactions come with their own set of challenges. Unlike manufacturing firms, customer relationships usually are distributors’ primary assets, which from a potential buyer’s perspective are not easily transferred or scalable. Channel conflicts are also common, as when suppliers overlap and differences relating to geographic exclusivity have to be resolved. For these reasons, a potential acquisition has to be carefully analyzed pre-closing to determine how it will fit into the prospective parent and how the combined companies will perform from both an operational and financial perspective.

Typical of a consolidating industry, chemical distribution is characterized by a handful of national or multi-national strategic companies that have the lion’s share of the market, and a huge number of small, medium-sized, or regional players. Because they are focused on smaller geographies or markets, the smaller distributors have developed “value-added” business models that keep them close to their customers and in some cases have allowed them to create their own

branded products. "Value-added" distribution has really caught on since the end of the recession, with the result that successful distributors today often specialize in a particular market and offer services that enable their customers, many of whom may have felt under-served by the majors, to focus on their core strengths. Far different from the old "pallet breaker" model of distribution, the value-added approach allows distributors to partner with customers and realize "specialty"-type margins. In addition to the classical services like warehousing, repackaging and logistics, distributors are being compensated for services their customers are more than willing to outsource to them. The scope of value-added services distributors provide can be very broad, encompassing quality control, inventory management and logistics, regulatory compliance, and even custom blending and application development.

In many cases, distributors have opportunities to add value on both sides of the value chain, partnering with their suppliers as well as their customers. Understanding their suppliers' capabilities, some distributors have established their own in-house R&D labs that essentially act as a manufacturer's outsourced product and application development arm. Being closer to the end markets, such distributors decrease the risk of new product development for manufacturers and play an important role in bringing new products to market.

A line frequently heard from marketing and sales reps at chemical distribution companies goes something like "...we listen carefully to our customers, and then offer a solution, not just a product..." Though this may sound like just another marketing cliché, it encapsulates exactly how the value-added model works. The distributor's sales force is usually on the front line of service delivery, and it's important that they be technically sophisticated. Most reps will have degrees in chemistry or chemical engineering, and many will have experience in manufacturing or R&D. For many small or specialized distributors, the "sales reps" actually will be among the most senior personnel in the business and play multiple roles within the company. Most importantly, they will be good listeners, and understand that a long-term relationship with a customer is more important than a short-term sale.

"...the value-added approach allows distributors to partner with customers and realize 'specialty'-type margins."

As important as the sales reps are, the delivery of services is usually a team effort. As one owner of a successful distribution business put it, good sales reps are like "doctors who still make house calls, but who know when to call in the specialists." For value-added distributors, accounts may be serviced by a team that includes not only the sales rep, but also field technicians, manufacturing and R&D personnel, and sometimes even the CEO. To deliver what the customer needs, the team partners with the customer to solve unique operational issues, providing services that range from everything between minor tweaking of a raw material formulation to devising an engineered custom "cocktail" solution. Some distributors will also supply field services such as tuning a customer's equipment to work with the supplied material. Follow-on checkups cement the supplier/customer relationship, and on-demand troubleshooting is always available.

Aakash Chemicals is an example of a successful value-add distributor that puts all the pieces of the puzzle together. Grace Matthews recently represented Aakash in a recapitalization and investment by the private equity firm CenterOak Partners. Aakash is a growing distributor that has evolved from an importer of dyes for the textile industry into a global distributor of pigments, liquid colorants, specialty resins and other additives for the plastics, coatings, inks, textiles, and agricultural industries. Specializing in inorganic materials that have few domestic sources of supply, Aakash has established a network of vendors - most based in developing economies - which excel in sourcing and refining materials, but lack application and end market expertise and a networked sales organization that can get their products to the large markets in North America and Europe. The company has its own R&D department that works with vendors to develop innovative color solutions that meet the needs of its end market customers.

The company's deep technical knowledge and application expertise is put to work in the service of its customers, who have come to depend on Aakash to deliver customized solutions. All materials and products from vendors are imported to Aakash's facilities, where they undergo quality control testing and if necessary, additional light reprocessing. Aakash tests combinations of resin systems, additives and pigments in order to deliver a product the customer knows will work exactly as intended, every time. Customer accounts are serviced by deeply experienced, senior people in the organization that are skilled in offering a complete menu of value-added services which include import logistics, regulatory compliance across multiple legal systems, quality control, R&D support, specialized blending, as well as the traditional distribution services such as repackaging, bundling, and warehousing. In essence, the Aakash business model is to function as a multi-national intermediary, providing a global market for its vendors and custom blends of products and services for its customers.

It stands to reason that the value-added model of distribution pioneered by small and medium- sized distributors has begun to attract the interest of major strategics and private equity. Despite all the M&A activity in recent years, chemical distribution is still a fragmented industry where five companies – Brenntag, Univar, IMCD, Azelis, and Nexeo Solutions – have a combined global market share of about 40%. These companies themselves are conglomerations of smaller distributors they have acquired over the years. With the exception of Azelis, all are publicly traded and have ample capital for additional acquisitions. They are continuing to buy smaller firms, with Brenntag alone acquiring or announcing 12 acquisitions over the past two years. The challenge for these large distributors is to maintain the “high touch” strategy of value-added distribution while continuing to scale up globally. Their solution is to establish industry-specific verticals within the organization, enabling them to provide localized expertise to their customer base while retaining the economies of scale and geographic reach of a global organization.

Private equity investors have also shown increasing interest in value-added distribution companies, and are executing “roll-up” strategies to build global distribution networks that rival the publicly-traded firms. Azelis, one of the few remaining major independents, was acquired by Apax Partners in March 2015. Apax has supported Azelis’s continued growth through acquisitions, which include Koda Distribution (2015) and the Italian distributor Ametech (2016). Another example of a roll-up strategy is Maroon Group, a specialty distributor of additives, pigments and resins acquired by CI Capital Partners in 2014. In less than two years, Maroon Group has built a strong portfolio of national distributors for the CASE markets (coatings, adhesives, sealants and elastomers) with the acquisition of Addipel (2014), CNX Distribution (2016), U.S. Chemical (2016), and most recently, Lincoln Fine Ingredients (2017).

Case Study: Applied Adhesives

Based in Minnetonka, Minnesota, Applied Adhesives is a leading supplier of hot melt, water-based, and reactive adhesives for the packaging, assembly, graphic arts, and paper converting industries. The Company partners with the world’s leading adhesive and dispensing equipment manufacturers, including Henkel, HB Fuller, Bostik, and Nordson, to provide premier adhesives solutions to manufacturers throughout North America. The Company provides key value-added services that improve its customers’ processes and optimize profitability through insightful, experience-based adhesives recommendations. Applied Adhesives is the result of a strategic combination between Ward Adhesives and Applied Products, which was completed in 2012.



The Company was majority owned by Ellipse Capital, a Chicago-based private equity firm that invests in distribution businesses. Management also held a significant minority ownership position in the business. In the fall of 2016, Applied’s shareholders engaged Grace Matthews to explore a sale process that would provide liquidity to Ellipse Capital and other investors. Grace Matthews contacted both strategic buyers in the distribution industry as well as private equity groups that could deploy additional capital and resources to continue building the Company’s growth trajectory.

Grace Matthews executed a timely, efficient sale process that generated a significant amount of interest from both strategic and private equity buyers. Ultimately, the shareholders entered into a transaction with Goldner Hawn Johnson & Morrison (GHJ&M), a Minneapolis-based private equity firm with a commitment to driving value through operational excellence and by partnering with management to support organic growth and bolt-on acquisitions. The transaction provided liquidity to Ellipse Capital while allowing management to maintain a significant ownership in the business and brought Applied an experienced partner committed to executing the Company’s growth strategy.

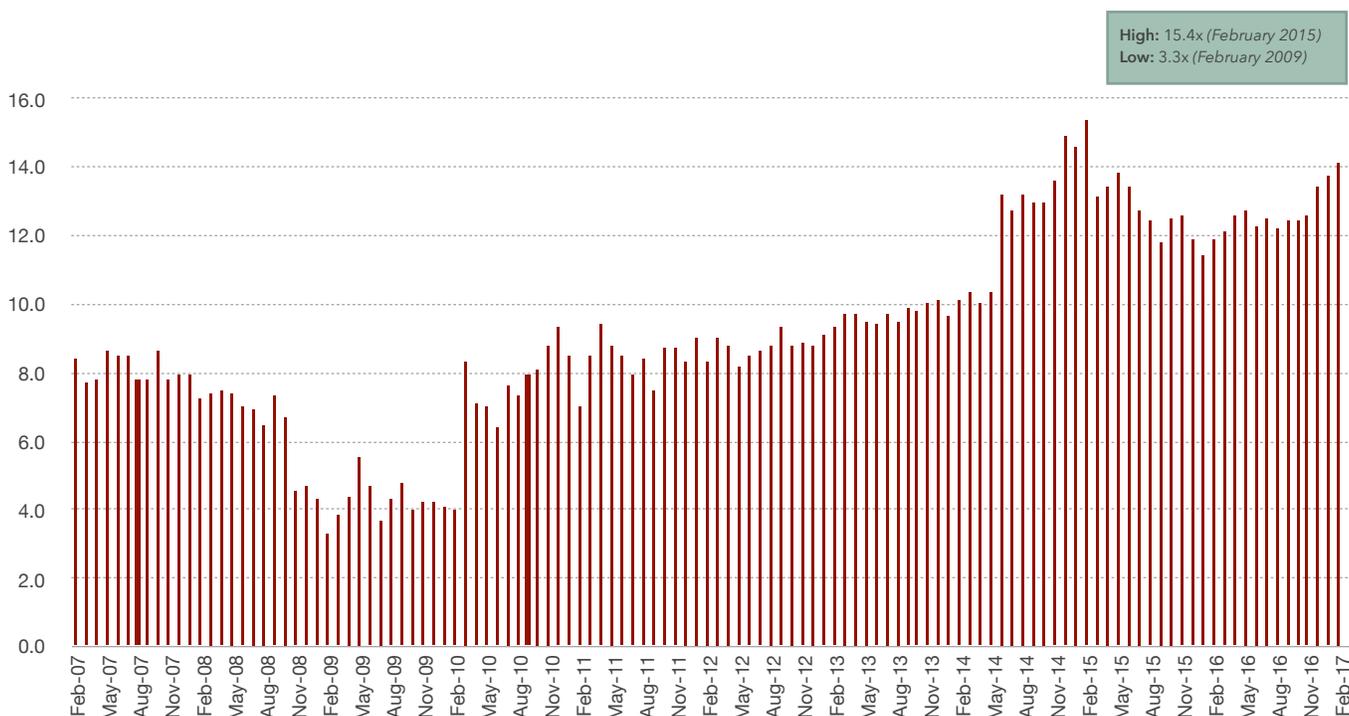
Select M&A Transactions: Chemicals Distribution

Transaction values in \$US millions

Announced	Acquirer / Target	Target Description	Transaction Value	TEV / Sales*	TEV / EBITDA*
Mar-17	Goldner Hawn / Applied Adhesives	Value-added distribution of hot melt, water-based, and reactive adhesives			
Feb-17	Maroon Group / Lincoln Fine Ingredients	Specialty chemicals distributor and manufacturer for personal care/food & beverage/pharmaceutical			
Feb-17	Brenntag / Petra Industries	Distribution, blending, packaging, terminal services	\$19.8	1.7x	7.9x
Jan-17	CenterOak Partners / Aakash Chemicals	Value-added distribution of pigments, dyes, specialty resins and other additives			
Dec-16	Maroon Group / Cadence Chemical	Specialty chemicals distribution			
Dec-16	Ravago / Hart Chemicals	Specialty chemicals/food ingredients distribution			
Oct-16	Brenntag / NOCO Energy lubricants business	Lubricants and related chemicals distribution	\$36.7	0.2x	8.3x
Sep-16	Brenntag / Mayes County Petroleum Products	Lubricants distribution	\$15.5	0.4x	6.2x
Aug-16	Azelis / Amentech (Italy)	Agrochemicals distribution			
Jul-16	IMCD / Mutchler	Distribution of pharmaceutical raw materials and services			
Jun-16	IMCD / Chemicals and Solvents (EA) Ltd. (Kenya)	Specialty chemicals distribution			
Jun-16	Brenntag / Warren Chem (South Africa)	Specialty chemicals for pharma and food industries distribution			
May-16	Maroon Group / U.S. Chemicals	Specialty chemicals distribution			
Apr-16	Brenntag / Whanee Corp	Specialty chemicals distribution (South Korea)	\$11.3	0.6x	5.8x
Mar-16	Univar / Nexus Ag	Agrochemicals distribution			
Mar-16	WL Ross Holdings / Nexeo Solutions	Chemicals and plastics distribution	\$1,160.0	0.4x	8.4x
Jan-16	Maroon Group / CNX Distribution	Specialty chemical distribution			
Dec-15	Brenntag / Plasticchem (South Africa)	Distribution of high performance polymers	\$9.3	0.3x	4.7x
Dec-15	IMCD / Selectchemie (Brazil)	Distribution of pharmaceutical ingredients			
Nov-15	Brenntag / JAM Distributing	Lubricants distribution			
Nov-15	Brenntag / G.H. Berlin-Windward	Lubricants distribution			
Nov-15	Univar / Arrow Chemical	Distributor of active pharmaceutical ingredients and nutraceuticals			
Oct-15	Azelis / KODA Distribution	Specialty chemical distribution	\$550.0		
Sep-15	Brenntag / TAT Group (Singapore)	Industrial chemicals distribution	\$71.9		
Jul-15	Maroon Group / D.B. Becker Co.	Specialty chemical distribution			
Jun-15	KODA Distribution / Colonial Specialty Chemicals	Metalworking and industrial lubricants distribution			
May-15	Brenntag / Quimicas Meroño (Spain)	Industrial chemicals distribution			
May-15	IMCD / M.F. Cachat	Specialty chemicals distribution			
Apr-15	KODA Distribution / Unipex Solutions Canada	Specialty chemicals distribution			
Dec-14	Brenntag / Fred Holmberg & Co.	Organic and inorganic chemicals distribution and blending			
Sep-14	Hawkins Inc. / The Dumont Company	Water treatment chemicals distribution			
Jun-14	Composites One / Nexeo Solutions composites business	Composites distribution			
Feb-14	Nexeo Solutions / Archway Sales	Specialty distributor to CASE markets	\$125.0		
Feb-14	KODA Distribution / The DeWolf Companies	Specialty chemicals distribution			
Jan-14	KODA Distribution / Marcor Development	Specialty chemicals distribution			
Dec-13	Nexeo Solutions / Chemical Specialist and Development	Bender and distributor of solvents, additives, lubricants and oilfield chemicals			
Sep-13	Brenntag / Zytex Group distribution business (Mumbai)	Food ingredients distribution	\$13.7	1.5x	7.3x
May-13	Univar / Quimicompuestos (Monterey, Mexico)	Commodity chemicals distribution			
Mar-13	Brenntag / Lubrication Services	Lubricants distribution	\$42.0	0.3x	5.6x
Jan-13	Brenntag / ALTIVIA Corp.	Water treatment chemicals distribution	\$125.0	1.6x	9.3x

* TEV = Total Enterprise Value (equity value, plus funded debt, minority interests and preferred shares; less cash and cash equivalents)

Grace Matthews Chemical Distribution Index: Enterprise Value / EBITDA (Last 10 Years)



Source: Grace Matthews & Capital IQ

The Grace Matthews Index: Distribution Chemicals tracks valuation and performance metrics for five publicly traded chemical distribution companies. The Enterprise Value/EBITDA (“EV/EBITDA”) averages presented in the index are simple averages, which avoids having companies with larger market capitalizations dominating the index, as would be the case if the index contributions were weighted by market capitalization.

Grace Matthews Index: Current Values for Distribution Chemicals

	Total Enterprise Value (\$ millions)	LTM EBITDA (\$ millions)	LTM EBITDA Margin %	EBITDA, 1 Yr Growth %	Total Enterprise Value / EBITDA
Brenntag AG	\$10,577	\$884	7.6%	3%	12.0x
Hawkins Inc.	\$631	\$61	12.4%	36%	10.3x
IMCD N.V.	\$2,939	\$167	8.9%	15%	17.6x
Nexeo Solutions, Inc.	\$1,628	\$44	4.2%	6%	NA
Univar Inc.	\$7,169	\$484	6.0%	(15%)	14.8x
High	\$10,577	\$884	12.4%	36%	17.6x
Low	\$631	\$44	4.2%	(15%)	10.3x

As of March 21, 2017

Grace Matthews: Select Chemicals and Materials Transactions

 <p>has been acquired by</p> 	 <p>has been recapitalized by</p> 	<p>Buckman</p> <p>has sold select Canadian assets to</p> 	<p>Henry</p> <p>has been acquired by</p> 
 <p>has sold its global automotive interior rigid thermoplastics coatings business to</p> 	 <p>has sold its Baytown Operations to</p> 	 <p>has been acquired by</p> 	 <p>a division of</p>  <p>has been acquired by</p> 
 <p>has sold its global Polyolefin Catalysts business to</p> 	 <p>has sold its pressurized polyurethane foam adhesives business to</p> 	<p>DELOSCAPITAL</p> <p>sold its portfolio company</p>  <p>to</p> 	 <p>has acquired</p> 
 <p>has been acquired by</p> 	<p>TAYLOR</p> <p>Innovative Science. Applied Technology.™</p> <p>has been acquired by</p> 	 <p>has been acquired by</p> 	<p>Silbond</p> <p>has been acquired by</p> 
 <p>has been acquired by</p> 	<p>PCHEM</p> <p>has been acquired by</p> 	 <p>has sold certain assets to</p> 	 <p>has acquired select assets of the Capcure business from</p> 

Grace Matthews Overview

Grace Matthews is recognized globally as a leader in transaction advisory services for manufacturers and distributors throughout the chemical value chain. Grace Matthews' clients include privately held businesses, private equity funds, and large, multinational corporations.

Grace Matthews' practice is global in scope, and focuses on several areas: sell-side transactions and divestitures for private companies, private equity holdings, and multi-national corporations; buy-side work for large public companies, major multi-nationals, and sponsor-backed chemical platforms; leveraged transactions and recapitalizations, strategic advisory analysis, and transaction fairness opinions. Areas of expertise include:

- Adhesives, Sealants, Tapes
- Catalysts, Petrochemicals
- Chemical Intermediates
- Construction Chemicals, Building Products
- Distribution, Equipment, Infrastructure
- Food Ingredients, Flavors, Fragrances
- High Purity, Electronic, Custom Synthesis
- Industrial Minerals, Inorganic Chemicals
- Oilfield & Water Treatment Chemicals
- Paints, Coatings, Inks
- Personal Care, Soaps, Medical Materials
- Plastics, Colorants, Additives
- Tolling, Private Label Products
- Additional Chemical Sectors, Other Industries

Grace Matthews is a privately held investment bank with successful chemical industry transactions dating back to the early 1990s. Grace Matthews principals have completed over 100 transactions involving global corporations such as AkzoNobel, 3M, Lubrizol, BASF, DuPont, Sherwin-Williams, PPG Industries, Ashland, Ceradyne, DSM, ICI, Borregaard, Air Products, Landec Corporation, The Home Depot, Hexion Specialty Chemicals, ITW, PolyOne, Weatherford, and Evonik, to name a few.

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Grace Matthews, Inc. (www.gracematthews.com) is an investment banking group providing merger, acquisition, and corporate finance advisory services for chemical companies both in the U.S. and internationally. Grace Matthews is global in scope and well known for its strong track record of success dating back to the early 1990s.

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