

CHEMICAL INSIGHTS



Strong Momentum in Chemical Distribution M&A

As we discussed in our most recent newsletter, the chemicals and materials science value chain seems to be returning to a period of normalized performance, as production outputs more closely reflect actual market demand. Recent shocks in supply chains that manifested in increased inventory holdings and subsequent destocking have subsided, and the industry has relearned a critical lesson from the volatility – the importance of supply chain reliability. Many companies adjusted the way they manage their businesses. For example, companies began identifying and qualifying alternative suppliers, on-shoring or near-shoring elements of their supply network, and reformulating products to utilize more readily available raw materials, all to fortify their supply chains against future disruptions. The value delivered by capable distributors of chemicals, ingredients and other specialty materials during this period became apparent, and many have seen their businesses flourish despite periods of choppiness as the destocking dynamic played its way out. In short, distributors are doing more, and being paid for doing it.

We have also seen a continuation of the long-term trend toward increased M&A activity, particularly among distributors. From 2010 to 2020, an annual average of 40 chemical distribution deals were completed globally. From 2021 through 2023, that figure rose to an average of 65 deals per year, a 60%+ increase.¹ This was driven by a few factors. First, the importance of the distribution business model has been enhanced as principal suppliers are increasingly focused on building stronger, strategic partnerships with distributors (again, reinforcing the importance of supply chain security). In addition, the highly fragmented distribution landscape continues to support consolidation and overall deal activity, particularly as larger distributors focus on adding scale, capabilities, product breadth, and global reach. This creates a strong environment to support inorganic growth and is the focus of this edition of our *Chemical Insights* newsletter.

To conclude our newsletter, we reflect on and thank our current and former clients as we reach Grace Matthews' 25th anniversary milestone. Since 1999, we have grown significantly, adding team members and expanding into new verticals, all while remaining true to our mission providing unbiased and deep M&A expertise in the chemicals and materials science value chain.

SECULAR TRENDS POINTING TO INCREASED UTILIZATION OF CHEMICAL DISTRIBUTORS

In previous newsletters we described how the chemicals and materials distribution market has strong fundamentals for continued growth. Distributors fulfill an important role in increasingly complex and dynamic global supply chains. Many market players have benefited from favorable secular trends, and those that have an ability to adapt to fill market gaps have been rewarded with healthy growth in recent years. Below, we highlight several dynamics that are supporting continued growth in the industry today and in the near term.

First, the distributor / principal supplier relationship is only getting stronger. Distributors are increasingly viewed more as 'channel partners' than simply distributors or customers. Successful distributors not only provide greater market reach, customer access, and 'last mile' services, but they also find ways to simplify aspects of a supplier's commercial, marketing, manufacturing, and logistics operations. A recent survey of chemical manufacturers by Boston Consulting Group found that 76% of principal suppliers expect the share of their outsourced sales to increase within the next three years.² Manufacturers are more frequently setting a strategy to streamline operations and focus on key (read: multi-million dollar) accounts. Undoubtedly, another driver of the trend toward more utilization of channel partners is distributors' increase in capabilities, expertise and value-added services.

¹ Independent Commodity Intelligence Services (ICIS) Top 100 Chemical Distributors, May 2024.

² BCG White Paper: Chemical Distribution: The Age of Winning, September 2023.

Teckrez, a value-added distributor of tackifier resins and monomers used in the production of adhesives, sealants, coatings, elastomers and other products, is a prime example of this. In late 2023, Grace Matthews advised the shareholders of Teckrez on their recapitalization by Hidden Harbor Capital Partners. Not only is the company world-renowned for its expertise and specialization in tackifier resins, but they also maintain exclusive, global supply partnerships, a broad logistics network, and repackaging and formulation capabilities, among other value-added services. This broad capability set contributed to their long track record of growth and strong market interest when seeking a potential acquirer.

As markets and supply chains become more complex, distributor networks are expanding as well. Distributors who can serve larger coverage areas are benefiting in two ways. First, they are deepening relationships with principal manufacturing partners, allowing these partners to simplify their operations. Second, they also increase their relevance and importance to customers who may lack the resources to source materials from both domestic and international supply sources. A clear illustration of the increasingly global nature of chemicals and materials distributors occurred in November 2023, when the Alliance for Chemical Distribution (ACD) re-branded from the association's former name, the National Association of Chemical Distributors (NACD). In the announcement, ACD cited as drivers for the name change the diversification underway in the chemical distribution industry and the critical role its members serve to ensure supply chains continue to operate.

“Our members are dedicated experts who ensure the raw materials, intermediates, and finished products our world depends on reach their intended destinations safely and efficiently, but they have grown and diversified. With our rebranding to ACD, their industry organization is growing and diversifying with them.”

– ACD President and CEO Eric Byer



It is quite clear that chemicals, ingredients and materials distributors are playing an increasingly important role in the overall economy. For adept distributors, this is good news, as many welcome volatility and change in their industry as an opportunity to demonstrate their value and grow. Manufacturers and customers alike are increasingly reliant on distributors to help them navigate these changes to deliver more efficient and better outcomes.

STRONG FUNDAMENTALS FOR DISTRIBUTION M&A ACTIVITY

Favorable secular trends and a fragmented market have accelerated M&A activity in chemicals, materials and ingredients distribution in recent years. Strategic buyers are aggressively seeking to consolidate the market, enter new geographies, add capabilities and reach new end markets. Similarly, private equity has increasingly recognized the attractiveness of distribution business models and jumped in headfirst. The table below shows deals from several of the most active strategic acquirers in North America, most of which are PE-backed, and illustrates the heightened level of M&A activity in the last few years, despite a tumultuous supply chain environment. New private equity platforms in that time period include Tilley Distribution (SK Capital), Shrieve (Gemspring Capital), and Integrity Partners Group (OpenGate Capital), among others.

SELECT NORTH AMERICAN DISTRIBUTION ACQUISITIONS SINCE 2019

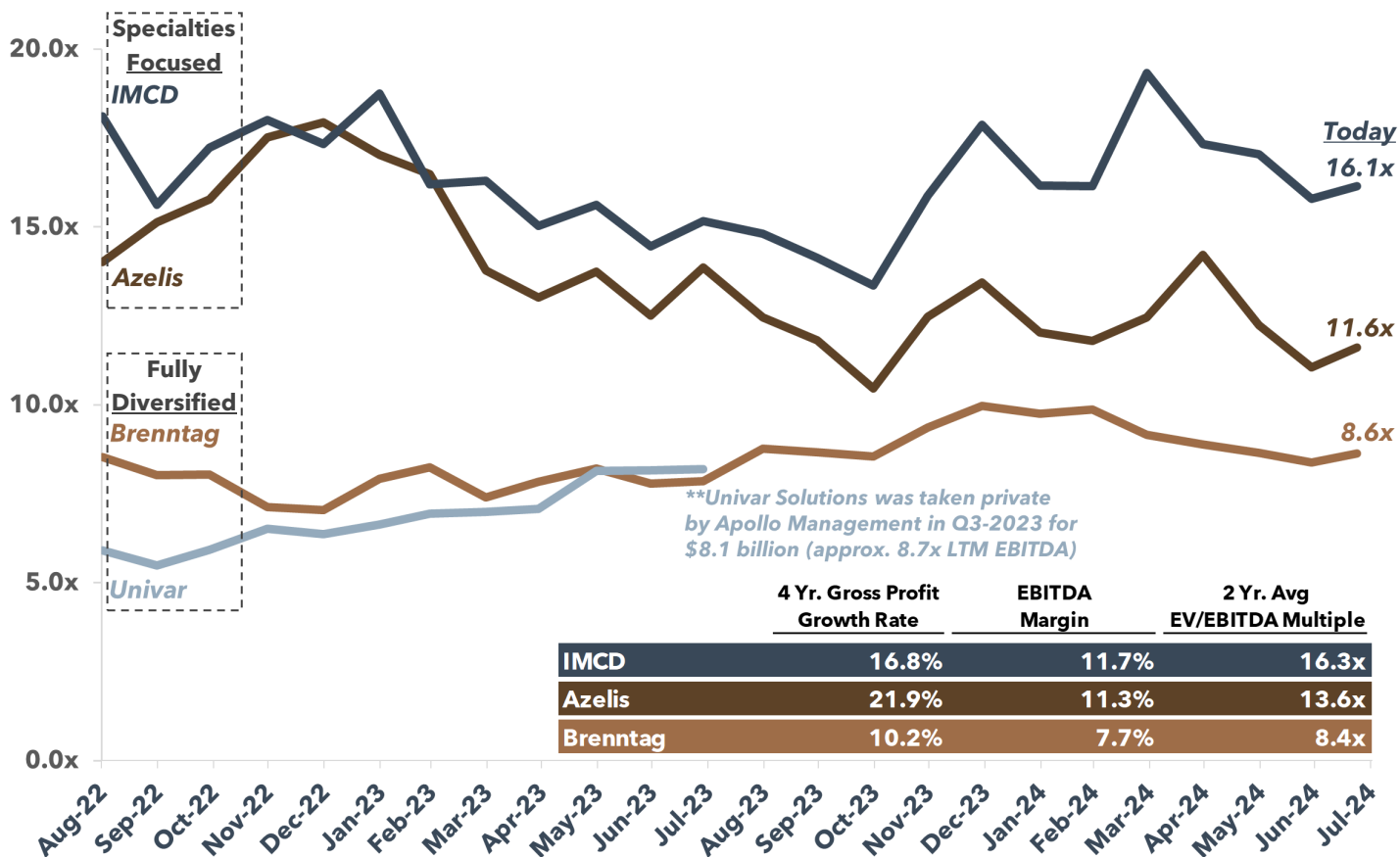
Company / Private Equity Owner	Select Acquisitions
BRENNTAG	OWI Chlor Alkali INDUSTRIAL CHEMICALS CORPORATION JM SWANK AlphaChemica MATRIX CHEMICAL SUPRO SALES AND SERVICE
Univar Solutions / APOLLO	VALLEY SOLVENTS & CHEMICALS FloChem Mosaic <i>**Hydrofluoroisilic Acid Business</i>
LBB Specialties / LBB Industries	DEBRO CustomChemicals Dien CENTERCHEM Custom INGREDIENTS, INC. <i>uniquely qualified for innovation</i>
Barentz. / Cinven	MAROONGROUP THE CARY COMPANY <i>**Raw Materials and Specialty Chemicals Distribution Business</i> Pestell GROUP Amsyn HOLLAND CHEMICALS CAMBRIAN
TILLEY DISTRIBUTION / SK CAPITAL	ISI <i>INGREDIENTS SOLUTIONS, INC. SPECIALTY HYDROCOLLOIDS</i> Callahan Chemical Company PHOENIX
Shrieve / GEMSPRING	TLC INGREDIENTS GILBERT & JONES CHEM ONE CLP CHEMICALS ICP
IPG INTEGRITY PARTNERS GROUP / OPENGATE CAPITAL	CHEM SOLV SOLVENTS CHEMISPHERE West Penetone
RelaDyne / AIP	Sun Coast RESOURCES, LLC GREAT LAKES LUBRICANTS Michigan Petroleum technologies ALLIED OIL & SUPPLY, INC. Orange Line Oil Company <i>WE DELIVER WHAT OTHERS ONLY PROMISE YOU</i> FARLEY
CADENCE PETROLEUM GROUP / WELLSPRING CAPITAL MANAGEMENT LLC	Apollo Oil PUGH LUBRICANTS HALCO LUBRICANTS MSS Mid-South Sales HP NELSON Oil Company <i>100 YEAR HISTORY</i> Brewer-Hendley Oil Company

We fully expect M&A activity in distribution to continue in the near term, driven by several contributing factors. First, demand visibility and outlooks have improved as inventory destocking has largely subsided. From its peak in Q2-2022 to the end of 2023, average inventory levels for companies in the Grace Matthews Chemical Index (100 publicly traded chemicals and material science companies) declined 14% – generating cashflow! Potential sellers of distribution businesses now have more reliable forecasts from customers and more dependable supply chain relationships to confidently forecast demand, a critical factor buyers need to understand prior to underwriting an acquisition.

Chemical distribution is also a highly fragmented market. According to the most recent ICIS list of top chemical distributors published in May 2024, the top 5 distributors in North America had a market share of 54%. This figure is even lower in Europe, at 32%. The reality is that there are hundreds of independent distributors, collectively fulfilling a critical role in the supply chain. The sheer number of companies, coupled with well-capitalized strategic and private equity buyers, creates a recipe for consolidation through M&A.

Yet buyers are not simply seeking growth for the sake of building scale. The focus is on value creation for customers, supply partners, and shareholders. Perhaps the most obvious example of this was the announcement by Brenntag, the world’s largest chemical distributor, that they would separate financial reporting of the company into two segments - Brenntag Essentials and Brenntag Specialties. The Essentials segment is focused on process and industrial chemicals and last-mile services, while the Specialties segment is oriented towards performance chemicals and ingredients sold into the nutrition, beauty & care, pharma and material science markets. Looking at the trading ranges of similar public companies, it is obvious why Brenntag would implement such a strategy. The chart below illustrates how IMCD and Azelis, two distributors in Europe focused on specialty chemicals and ingredients end markets, have traded at meaningfully higher valuations relative to Brenntag in recent years. One key driver of this differential is the relative growth rates of the markets they serve. Specialties markets, such as life sciences, personal care, nutrition, and ingredients are growing at above-GDP growth rates, which in turn command higher valuations. By separating Essentials and Specialties reporting, investors now have better visibility into the performance and growth trends of both segments to compare to industry peers.


EV / EBITDA MULTIPLES AND STATISTICS OF PUBLIC CHEMICAL DISTRIBUTORS



Source: S&P Capital IQ as of July 25, 2024. 4-year Gross Profit annual growth rate is from 2019 through 2023, EBITDA margins are for full year 2023.

Since 2016, Grace Matthews has advised on a significant number of chemicals, ingredients and material science distribution transactions. We often joke with our distribution clients that they probably receive a new email every day from a different group wanting to acquire their business. With all the activity in the market and improving outlooks, we would not expect this pace to slow down any time soon. Recently, we are seeing strong interest not only from domestic market players, but also from companies in other regions of the world contacting us to express interest in cross-border distribution M&A. The sheer size, diversity and relative stability of the North American market compared to other geographies is compelling international distributors to seek growth through M&A in North America.

RECENT GRACE MATTHEWS CHEMICALS, INGREDIENTS AND MATERIALS DISTRIBUTION TRANSACTIONS

 has been recapitalized by  Grace Matthews advised Teckrez, LLC Value-Added Chemicals Importer & Distributor	 has been acquired by  Grace Matthews, Inc. advised DX Group Hybrid Manufacturer / Distributor of Industrial Chemicals	 has been acquired by  Grace Matthews, Inc. advised ChemSolv, Inc. Diversified and Specialty Chemicals Distribution	 has been acquired by  Grace Matthews, Inc. advised The Ingredient House Food and Beverage Ingredients Distribution	 has sold its Automated Fueling Stations business  Grace Matthews, Inc. advised Jacobus Energy Petroleum Distribution	 has been acquired by  Grace Matthews advised Water Science Technologies Hybrid Manufacturer / Value-Added Distribution	 has been recapitalized by  Grace Matthews advised Aakash Chemical and Dye-Stuffs Value-Added Pigments & Dyes Distribution	 has been acquired by  Grace Matthews advised Applied Adhesives Value-Added Adhesives Distribution
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THE IMPORTANCE OF BEING PREPARED AND SALE PROCESS TIMING

For distribution business owners considering a sale process in the near-term, we believe pre-process preparation is key to success. First, we recommend owners spend time considering exactly what they want in a transaction (e.g., cultural fit, plans for employees, value/terms, opportunity to remain invested). It’s also critical to identify and address potential buyer challenges as well as strengths and opportunities for the business. In particular, run-rate sustainability of business performance is a major diligence area for potential buyers. As we noted previously, for many distributors, the last two years have been marked by surges in demand but also chopiness as destocking occurred, making it trickier to address questions related to performance sustainability and run-rate. We encourage owners to evaluate not just whether market conditions are right, but also, perhaps more importantly, whether the business is ready. Entering a sale process with momentum in the business and being prepared for buyer due diligence is critical to unlocking value and increasing the likelihood of a successful outcome.

GRACE MATTHEWS CELEBRATES 25 YEARS

In late summer 1999, five people opened the doors of Grace Matthews in a small office in Milwaukee, Wisconsin. Like many of our current and former clients, they were entrepreneurs with some borrowed money, a vision to hang out their own shingle, and fulfill a market need. Their goal: to provide clients in the chemical and materials science industry with unparalleled M&A advisory services, rooted in deep industry expertise and a “tell it like it is” mentality. In the past 25 years, four has grown to 19 professionals, and our tenure, depth and breadth in the industry has grown significantly as well. We now have expertise in diverse sectors ranging from upstream commodity chemicals, intermediates, additives and industrial minerals, to formulated and high-purity applications in life sciences, ingredients and composites, among others. We have completed over 150 assignments within our focus markets, and with a young team, we are incredibly optimistic about the future. To all of our current and former clients, mentors, advisors, and friends of the firm, we extend a heartfelt thank you for your continued trust and support.



Left Photos: Grace Matthews’ original M&A four team members in 1999 - clockwise from top left: John Beagle, Doug Mitman, Ben Scharff, Trent Myers.
Right Photo: Select members of Grace Matthews team at a 2024 family outing at a recent Milwaukee Brewers game.

Select Chemicals and Materials Science Distribution Industry Transactions

Closed Date	Acquirer / Target	Target Description
Jul-24	Brenntag / Industrial Chemicals Corporation	Colorado-based industrial commodity chemical distributor
Jul-24	Hawkins / Wofford Water Service	Distributor of water treatment chemicals and equipment
Jun-24	Hawkins / Intercoastal Trading	Distributor of water treatment chemicals and equipment in Maryland, Delaware and Virginia
May-24	Safic-Alcan / Beck Ingredients	Distributor of nutraceutical chemicals in Spain and neighboring regions
May-24	Painters Supply & Equipment / AeroCoat	Distributor of coatings and painting solutions for the aviation and military sectors
May-24	Brenntag / Quimica Delta	Chemical distributor in Mexico with last mile coverage in Central Mexico
May-24	Wynnchurch Capital / Reagent Chemical & Research	Specialty distributor of hydrochloric acid
Apr-24	Valudor Products / LidoChem	Distributor of raw chemical materials and specialty fertilizers
Apr-24	Brenntag / Lawrence Industries	Distributor of specialty chemicals, minerals, and catalysts across the United Kingdom and Ireland
Mar-24	Univar Solutions / Valley Solvents & Chemicals	Distributor of industrial solvents and chemicals
Jan-24	Shrieve Chemical / TLC Ingredients	Distributor of food ingredients, industrial chemicals, and phenolic resins
Nov-23	Hidden Harbor Capital / Teckrez	Provider of tackifier resin and acrylic monomer solutions
Nov-23	Vivify Specialty Ingredients / Access Ingredients	Distributor of specialty ingredients for personal care industry
Nov-23	Brenntag / Old World Industries (Chlor Alkali Business)	Distributor of caustic soda, potassium hydroxide, methanol, sulfuric acid and glycols
Oct-23	Offen Petroleum / Douglass Distributing (Wholesale Division)	Distributor of fuel in North Texas and Southern Oklahoma
Oct-23	Shrieve Chemical / Gilbert & Jones	Distributor of industrial chemicals throughout North America
Oct-23	Cadence Petroleum Group / Hoosier Penn Oil	Distributor of lubricants in Indiana and surrounding states
Oct-23	Integrity Partners Group / West Penetone (Military/Aerospace Division)	Distributor of cleaners, degreasers, and maintenance chemicals for the aerospace and defense industry
Sep-23	Univar Solutions / FloChem	Distributor of chemicals and related dispensing systems in Eastern Canada
Aug-23	RelaDyne / Great Lakes Lubricants	Distributor of petroleum products across Michigan and surrounding states
Aug-23	IMCD / Sachs Chemical	Distributor of chemicals for the pharmaceuticals industry
*Aug-23	Apollo Global / Univar Solutions	Global distributor of commodity and specialty chemical products
Jun-23	Azelis / Gillco Products	Specialty ingredient provider in the food and nutrition market
Jun-23	Batory Foods / Tri-State Companies	Food ingredients broker, distributor and logistics provider
Jun-23	PVS Chemical / DX Group	Manufacturer and distributor of chlor-alkali
May-23	First Reserve Management / Palmdale Oil	Provider of bulk lubricant and fuels
Apr-23	Audax / Krayden	Distributor of adhesives, sealants, coatings, soldering materials, cleaners, and solvents
Apr-23	Formerra / Total Polymer Solutions	Distributor of polymer materials and technologies
Mar-23	RelaDyne / Sun Coast Resources	Distributor of fuels and lubricants across the United States

*Transaction values for privately held businesses are typically not disclosed. Apollo's take-private of Univar Solutions in August 2023 was valued at approximately \$8.1 billion (0.7x and 8.7x Revenue and EBITDA, respectively).

Select Recent Grace Matthews Chemicals and Materials Science Transactions

 <p>has been recapitalized by</p> 	 <p>has been acquired by Platte River Equity's portfolio company</p> 	 <p>has been acquired by</p> 	 <p>has sold its Technologies & Catalyst business to</p> 
 <p>has been recapitalized by</p> 	 <p>has sold its glycolic acid business to PureTech Scientific, a portfolio company of</p> 	 <p>has been acquired by</p> 	 <p>has been acquired by</p> 
 <p>has been acquired by</p> 	 <p>has been recapitalized by</p> 	 <p>has sold its Menomonee Falls, WI-based aerosol manufacturing business to</p> 	 <p>has acquired the Industrial Solutions Group of</p> 
 <p>has been acquired by</p> 	 <p>has been acquired by Renovo Capital and its portfolio company</p> 	 <p>has acquired the kaolin minerals business of</p> 	 <p>through its subsidiary, GEO Specialty Chemicals, has sold its DMPA business to</p> 
 <p>has been acquired by Wind Point Partners' portfolio company</p> 	 <p>through its subsidiary, Evans Chemetics, has sold its Thioester Business to</p> 	 <p>has been acquired by</p> 	 <p>has been acquired by</p> 

Grace Matthews Overview

Grace Matthews is recognized globally as a leader in transaction advisory services for manufacturers and distributors throughout the chemical and materials science 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 multinational corporations; buy-side work for large public companies, major multinationals, and sponsor-backed platforms; leveraged transactions and recapitalizations, strategic advisory analysis, and transaction fairness opinions. Areas of expertise include:

- Adhesives, Sealants, Tapes
- Agricultural Chemicals
- Construction Chemicals & Building Products
- Contract Manufacturing & Custom Synthesis
- Distribution
- Environmental Services
- Electronic Chemicals
- Food & Beverage Ingredients, Flavors & Fragrances
- Industrial Minerals
- Inorganics, Ceramics, Catalysts
- Intermediates, Additives, Colorants
- Life Sciences
- Lubricants, Greases, Metalworking Fluids
- Nutraceuticals & Supplements
- Paints, Coatings, Inks
- Paper, Films, Packaging Materials
- Personal Care, Soaps, Cleaners
- Petrochemicals & Derivatives
- Plastics, Composites, Molded Materials
- Polymers & Resins
- Process Technology & Licensing
- Water Treatment & Oilfield Chemicals

Over the past 25 years, Grace Matthews has successfully completed more than 150 transactions. Our deep industry knowledge, M&A execution skills, and global network of industry contacts are key differentiators that drive success on engagements across the entire chemical and materials science industry.

M&A Team

John Beagle

Chairman, Co-Founder
jbeagle@gracematthews.com

Kevin Yttre

President, Managing Director
kyttre@gracematthews.com

Ben Scharff

Managing Director
bscharff@gracematthews.com

Andy Hinz

Managing Director
ahinz@gracematthews.com

Jon Glapa

Director
jglapa@gracematthews.com

Andrew Cardona

Director
acardona@gracematthews.com

Eric Sabelhaus

Director
esabelhaus@gracematthews.com

Chris Hayes

Associate
chayes@gracematthews.com

Matt Stouder

Associate
mstouder@gracematthews.com

Kyle Tamboli

Associate
ktamboli@gracematthews.com

Jack Chandler

Senior Analyst
jchandler@gracematthews.com

Drew Gebhardt

Analyst
dgebhardt@gracematthews.com

Jordan Boswell

Analyst
jboswell@gracematthews.com

Gabby Caranto

Analyst
gcaranto@gracematthews.com

Paulina Romero

Analyst
promero@gracematthews.com

Senior Advisors, Finance, Marketing & Administration

Doug Mitman

Co-Founder, Senior Advisor
dmitman@gracematthews.com

Tom Osborne

Senior Executive
tosborne@gracematthews.com

Bridget Spaulding

CFO
bspaulding@gracematthews.com

Elizabeth Jasinski

Marketing Specialist
ejasinski@gracematthews.com

Katie Long

Office Manager
klong@gracematthews.com

Headquarters

833 East Michigan Avenue
Suite 1420
414.278.1120
www.gracematthews.com



25 YEARS : 1999-2024

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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