

CHEMICAL INSIGHTS



Distribution Revisited

Since our last distribution focused newsletter, M&A interest in the sector has continued to soar

We've written frequently about the robust M&A market in chemicals and materials over the last several years, including most recently in our *Winter 2022 newsletter* "[2021 Recap and 2022 Outlook - Global Chemicals & Materials M&A](#)." At the time, we highlighted that despite ongoing uncertainty tied to inflation, stock market volatility, supply chain disruptions, and continued COVID-19 impacts, our view was that the strong M&A environment of 2021 would continue into the new year. Today, despite the S&P500 approaching bear market territory, rising interest rates, the war in Ukraine, and the potential for a U.S. recession, we continue to see strong interest from both private equity and strategic acquirers. We do not know if these macroeconomic headwinds will be short or long-lived; however, we can confidently state that buyer appetite for high-quality businesses has remained strong, and we view this as a positive indication that the robust M&A market is likely to continue for at least the near-term. Simply put, demand for quality acquisitions exceeds supply.

One industry segment in which we are particularly bullish about M&A is chemicals and materials distribution. To be clear, M&A activity in distribution is not new, but strong financial performance by distributors, the critical nature of their role in light of recent supply chain issues, and continued buyer interest in building scale through acquisition are significant drivers of our optimism. As we highlighted back in [2017](#), "well-managed distributors...haven't gone unnoticed, and both strategic and private equity buyers have been actively acquiring distribution companies." Key factors driving interest both then and now include: 1) the fragmented nature of the industry, 2) the "value-added" nature of many distributors' business models, and 3) the attractive financial profile of many distributors, including steady cash flows, growth potential, and balance sheet flexibility. Interestingly, the chemical industry has one of the lowest penetration rates for distribution relative to other industries (some estimate that only 10% of chemical sales are through distribution); this represents huge growth potential for market participants.

Despite meaningful M&A activity in recent years, the chemical distribution market remains extremely fragmented. More than one-third of the companies listed in ICIS' 2009 top North American chemical distributors have since been acquired, and others have emerged in their place. Brenntag, the largest chemical distributor globally, has completed >30 deals since 2017, yet still comments that the "market remains highly fragmented facilitating significant further consolidation potential."¹

¹ Brenntag Company Investor Presentation, March 2022

Select examples of "specialty" verticals

Univar, another leading global chemicals distributor, notes that the top three chemical distributors account for only ~10% of the global market.² This fragmented market has driven many distributors to grow outside of their original (and primary) geographic region of focus. For example, groups like Japanese specialty distributor Nagase / Prinova (The Ingredient House; 2021) and Netherlands-based Barentz International (Maroon Group; 2020) have recently completed acquisitions in the attractive and growing U.S. market.

The fragmented nature of the industry also offers fertile ground for financial sponsors to execute a "roll-up" strategy. The complexities of chemical manufacturing are not for the faint of heart, and distribution can be an ideal starting point for sponsors with an interest in chemicals. Financial sponsors are active across all parts of the chemical distribution value chain - from infrastructure and supply chain logistics to ingredients and other specialty distribution - across all sizes - sub-\$20M in revenue to >\$1B in revenue. As IMCD, a global specialty distributor, remarked on its recent investor call, "competition for M&A, certainly, private equity, of course, is for a very long time, active in the chemical distribution sector...so that competition has been around...I would say the level of competition for acquisitions is significant, but it always has been." A few of the more notable recent middle market roll-up strategies include CI Capital's Maroon Group (recently acquired by Barentz), Arsenal Capital's Applied Adhesives, New Mountain Capital's Aceto Corporation, SK Capital's Tilley-Phoenix, LeBaronBrown's LBB Specialties, OpenGate Capital's Chemsolv / Chemsphere platform and Gryphon Investors' Vivify Specialty Ingredients. Each of these investments prove that there is no single "right" answer to what makes an attractive distribution investment, though a common theme continues to be offering more "value-added" services for customers and a defined channel to market for suppliers.

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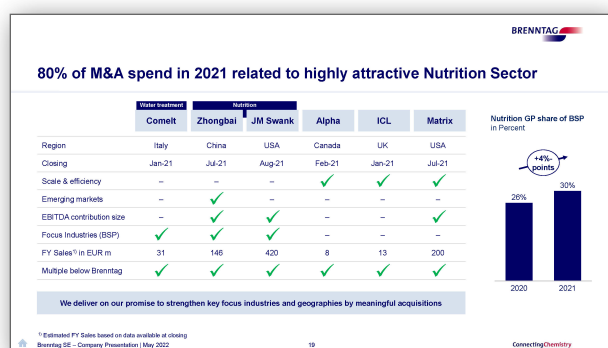
The many different faces of chemical distribution today

Today's successful distributors have carved out their "sweet spot" in a variety of ways. Whereas some have expertise in sourcing hard to find and/or unique raw materials, others seek value in offering a breadth of services, including formulating, blending, qualifying, and packaging. Some have differentiated via sustainability, offering clean label products and steering customers away from fossil fuels, while others have invested heavily in infrastructure and logistics, building their own delivery fleets and controlling "last mile" service - this last capability is particularly relevant in today's strained supply chain environment. One theme of particular focus today is digitalization - there is an ongoing "arms race" among the major distributors to develop the digital tools needed to effectively manage a complex, often global, business and a growing list of products and customers. As IMCD states in their [1Q2021 investor presentation](#), "this includes using Artificial Intelligence and data collection to support business intelligence, and a customer portal providing 24/7 access to relevant product and commercial data." As you can imagine, distribution models centered around technology, whether for multinational and diversified or specialized participants, have been a critical differentiator in today's marketplace. Most importantly, there is no clear definition as to what constitutes "value-added" and which business model leads to greater distribution success. We have seen this dynamic directly impact M&A activity within chemical distribution, particularly for buyers that are evaluating whether to "buy" versus "build" a particular capability and/or service offering.

² Univar Company Investor Presentation, February 2022

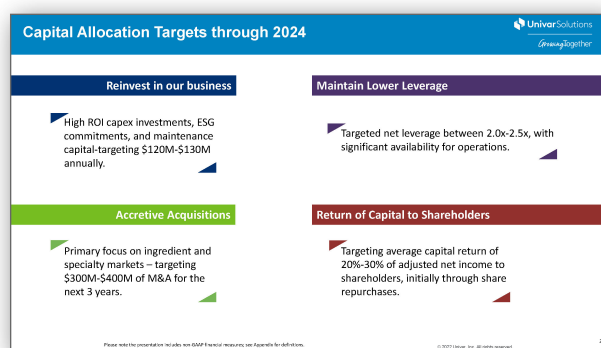
While M&A activity remains strong across the chemical distribution landscape, it is no surprise that there is a particular emphasis on highly attractive, growth-oriented segments. This includes some of the “hottest” end markets within chemicals, such as nutrition / food ingredients, life sciences, personal care, and agriculture chemicals, to name a few. Each of these categories is likely to be viewed as a “specialties” product segment by distribution buyers, and consequently receives greater attention in the marketplace. While ongoing consolidation continues to add scale to the largest distributors, a key reason “specialties” receive outsized attention is the constant effort to remain “close to the customer.” In today’s distribution world, organizations with deep technical and market expertise (often seen in specialty distribution businesses) are increasingly sought out by customers. As leading distributor Hawkins summarized in its recent investor profile, a key “focus is on growing specialty branded products, backed by science, delivering to the customer with technical expertise.”³ For further proof of the heightened focus on these high value, technical categories, look no further than recent investor presentations from Brenntag and Univar, who both make repeated and direct references to their targeted M&A strategies in these categories (see excerpts below).

Brenntag Investor Presentation



Source: Brenntag Company Presentation, May 2022

Univar Investor Presentation



Source: Univar Solutions Q1 2022 Corporate Presentation

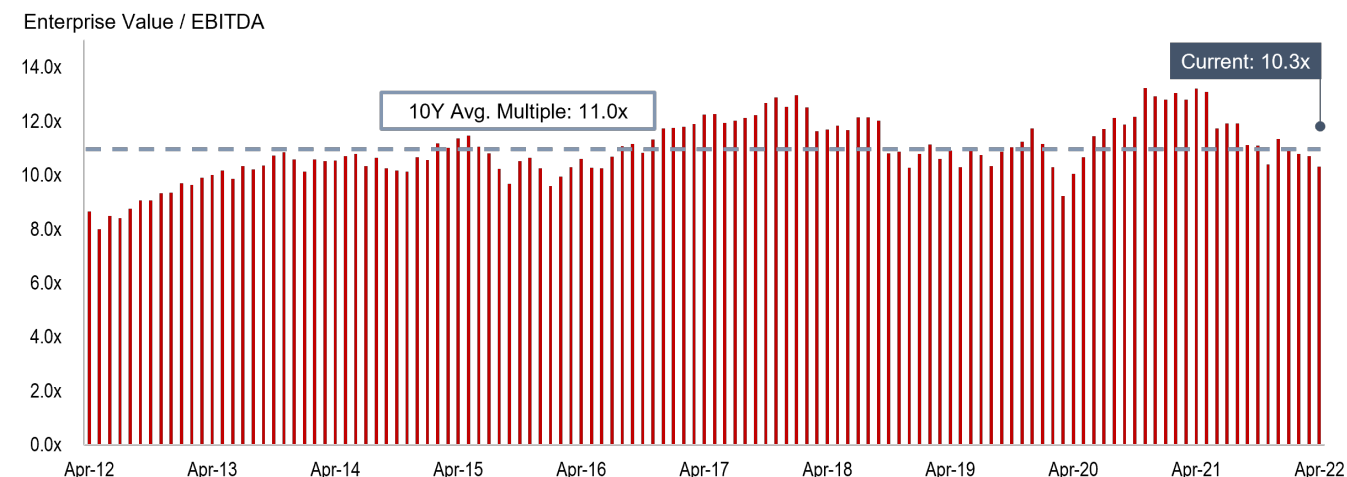
Deciphering the noise in the marketplace, and what it may mean to you

For private owners of chemical distribution businesses, what does all of this mean? It is likely that you have seen increased competition from publicly-owned and private equity-backed distributors, and may find yourself wondering – what happens next? When selling your distribution business, owners and management must clearly articulate the differentiation of their business model – why has the business been successful historically and how do you ensure that this continues going forward? The answer to these questions will ultimately be a key factor in determining buyer interest. One important caveat: valuing distribution businesses is complicated, and often ties into a buyer's plans for the acquisition – mistakes can be costly and pre-process preparation is a must. As we referenced earlier, there is no “right” business model within chemical distribution – there are a variety of models that can be successful.

Given the current global uncertainty, we are frequently being asked by owners about the appropriate time to launch a transaction process. As we highlighted, despite macroeconomic headwinds, our view continues to be that market appetite for high-quality businesses remains robust. As it relates to situations specific to each business, our answer to the question “is now a good time?” comes down to whether potential sellers have an ability to support the case for current run-rates as sustainable going forward. A simple comparison of historical, current, and projected performance may not be useful, as nearly all distributors have been materially impacted by supply chain dynamics both positively (e.g., price increases driving higher top-line growth) and negatively (e.g., supply chain issues reducing volumes). Here we recommend a deep dive reviewing all recent performance drivers and the development of a detailed, bottoms-up projection model to support the company's expected outlook. In some instances, sellers may be best suited to wait and proceed with a sale process after demonstrating another quarter or two of strong performance (which further supports current run-rate levels as truly indicative and sustainable going forward). We like to start a process by spending time with the shareholders and management to identify exactly what our clients own, and what they want in a successful transaction – what is the business worth, what options do they have, where are the potential challenges, and how can we best highlight strengths and opportunities? This pre-process preparation is critical to increase the likelihood of a successful outcome. As we regularly advise our clients, no one can control M&A market conditions, but we certainly can control preparation, which in our view, is critical to success in M&A.

³ Source: Hawkins Investor Presentation, Fiscal 2022, Quarter 3, February 2022

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



Source: Grace Matthews and Capital IQ

The Grace Matthews Chemical Index tracks the Enterprise Value / EBITDA ratios ("EV / EBITDA multiples" or "EBITDA multiples") of 96 publicly traded chemical companies that span multiple sub-sectors and geographies. The Index aggregates the latest reported financial data and stock prices, and tracks valuation trends and operating metrics across different industry sectors. Index averages are equally weighted, as opposed to weighting by market capitalization.

Recent Grace Matthews Distribution Transaction: Chemsolv, Inc.

Chemsolv, Inc., a leading distributor of commodity and specialty chemicals based in Roanoke, Virginia, was acquired by OpenGate Capital in December 2021. Grace Matthews advised Chemsolv on the transaction.

Founded in 1979, Chemsolv is a diversified distributor offering more than 1,000 chemicals including solvents, plasticizers, coolants, lubricants, surfactants, diesel exhaust fluid, additives, and other products. Its customers participate in a variety of end markets such as paints and coatings, construction, energy, chemical intermediates, and transportation. Chemsolv also provides a number of value-added services including solvent recovery, blending, packaging, and formulation support.

Chemsolv will continue to operate under the leadership of its current President, Jamie Austin.

"Today represents an important point in Chemsolv's 40+ year history through our partnership with OpenGate," said Austin. "Our business is well-positioned for growth and expansion, and we're looking forward to continuing to serve our customer base."

"Chemsolv's entrepreneurial mindset, market expertise and reliability has earned it a strong reputation with its suppliers and customers," commented Eric Sabelhaus, Director at Grace Matthews. "We look forward to their continued growth and success in partnership with the team at OpenGate."



Select Distribution Transactions

Transaction values in \$US millions					
Announced Date	Acquirer / Target	Target Description	Enterprise Value (EV)	EV / Sales*	EV / EBITDA*
May-22	Advent International / Imperial Dade	Distributes foodservice disposables, industrial chemicals, and janitorial supplies			
Apr-22	Applied Adhesives / Prime Industries	Distributes adhesives, sealants, and dispensing equipment solutions			
Mar-22	Barentz / Unipex	Distributes life science ingredients and specialty chemicals			
Mar-22	LeBaronBrown Specialties / Debro	Distributes chemicals for use in industrial specialties, home & personal care, and food ingredients			
Feb-22	Archer-Daniels-Midland / Comhan Products	Distributes industrial chemicals and food ingredients			
Feb-22	RelaDyne / Northcoast Industrial Distributing	Distributes lubrication and chemical products			
Jan-22	Aceto / Multiple Targets	Multiple transactions announced to support Aceto's hybrid manufacturing / distribution model: A&C, A&C Bio Buffer, Cascade Chemistry, Finar, Islechem, Synto Fine Chemicals			
Jan-22	Chemsolv / Chemisphere	Distributes chemicals and solvents			
Jan-22	OpenGate Capital / Chemsolv	Distributes industrial chemicals, silicones, solvents, lubricants, and metalworking fluids			
Jan-22	Stonepeak Partners / Rinchem	Provides chemical management infrastructure and logistics services for high purity, pre-packaged chemicals and gases			
Jan-22	Tilley-Phoenix Group / Callahan Chemical	Distributes ingredients and compounds for food and beverage, personal care and cosmetics, pharmaceutical, and CASE industries			
Dec-21	Gryphon Investors / Vivify Specialty Ingredients	Distributes colorants, functional ingredients, and additives			
Dec-21	Hawkins / NAPCO Chemical Company	Manufactures and distributes water treatment chemicals			
Dec-21	Tilley Company / Phoenix Aromas and Essential Oils	Distributes flavor and fragrance materials			
Dec-21	Univar Solutions / Sweetmix Distribuidora de Mat�rias Primas Industriais	Distributes food ingredients and specialty chemicals			
Nov-21	GTM Holdings / Caldic	Distributes food ingredients, specialty chemicals, and functional solutions for life sciences and industrial markets			
Sep-21	CHEMSPEC / Rit-Chem Co.	Distributes specialty chemicals and additives for performance and life sciences sectors			
Sep-21	Prinova Group / The Ingredient House	Distributes specialty ingredients for the food and beverage industry			
Sep-21	Tilley Company / Ingredients Solutions	Distributes functional ingredients used in food and beverage applications			
Aug-21	LeBaronBrown Specialties / Centerchem	Distributes functional specialty ingredients for personal care and food & beverage applications			
Aug-21	Brenntag / Matrix Chemical	Distributes acetone and other solvents			
Jul-21	IMCD / Materias Qu�micas	Distributes specialty and industrial chemicals			
Jun-21	Brenntag / JM Swank	Distributes food ingredients	\$304	0.6x	
Mar-21	Arsenal Capital Partners / Applied Adhesives	Distributes adhesives, sealants, and dispensing equipment solutions			
Mar-21	Barentz / The Cary Company (raw materials, specialty chemicals distribution business)	Distributes specialty chemicals and materials			
Jan-21	GPD Companies / Distrupol (Univar Solutions subsidiary)	Distributes thermoplastic polymers and elastomers	\$137		

Note: For transactions in which a less than 100% stake is acquired, enterprise value represents the implied EV as if a 100% stake were acquired. Enterprise values also include contingent consideration.

Grace Matthews: Select Material Science and Chemical Transactions

<p>CPS PERFORMANCE MATERIALS CORP</p> <p>through its subsidiary, GEO Specialty Chemicals, has sold its DMPA business to</p> <p>Perstorp</p>	<p>KaMin PERFORMANCE MINERALS Value from the Ground Up</p> <p>has entered into a definitive agreement to acquire the kaolin minerals business of</p> <p>BASF We create chemistry</p>	<p>the ingredient house Discover the Quality within</p> <p>has been acquired by</p> <p>Prinova NAGASE Group</p>	<p>ETREM</p> <p>has been acquired by Wind Point Partners' portfolio company</p> <p>ASCENSUS</p>
<p>BRUNO BOCK THIOCHEMICALS</p> <p>through its subsidiary, Evans Chemetics, has sold its Thioester Business to</p> <p>REAGENS</p>	<p>CHEMSOLV SOLVENTS</p> <p>has been acquired by</p> <p>OPENGATE CAPITAL</p>	<p>Randolph PRODUCTS</p> <p>has sold certain assets to</p> <p>SHERWIN WILLIAMS</p>	<p>Ferrovia Services, LLC Vegetation Management</p> <p>has been recapitalized by</p> <p>AUXO Auxo Investment Partners</p>
<p>GABRIEL</p> <p>a portfolio company of Audax Private Equity has been acquired by</p> <p>HUNTSMAN</p>	<p>KOSTUSA</p> <p>has been acquired by H.I.G. Capital's portfolio company</p> <p>Recochem</p>	<p>Diamond Vogel PAINT & COATINGS</p> <p>has sold its Colorado and New Mexico store locations to</p> <p>GUIRY'S COLORSOURCE SINCE 1899 WHERE COLOR COMES FROM.</p>	<p>CUSTOM PAK PRODUCTS INCORPORATED</p> <p>has been acquired by</p> <p>PLZ AEROSCIENCE CORPORATION</p>
<p>RHEOGISTICS Advancing Rigid PVC Processing</p> <p>has been acquired by</p> <p>THE INTERNATIONAL GROUP, INC.</p>	<p>Chemours</p> <p>has sold its methylamines business to Belle Chemical Company, an affiliate of</p> <p>Cornerstone Chemical Company</p>	<p>WST</p> <p>has been acquired by</p> <p>Italmatch Chemicals</p>	<p>EPOXIES ETC.</p> <p>has been acquired by Arsenal Capital Partners' portfolio company</p> <p>Meridian Adhesives Group</p>
<p>CABOT</p> <p>has sold its Specialty Fluids business to</p> <p>SINOMINE</p>	<p>H.B. Fuller</p> <p>has divested its surfactants, thickeners and dispersants business to</p> <p>Tiarco, LLC a subsidiary of Textile Rubber & Chemical Co., Inc.</p>	<p>QUALICHEM</p> <p>has been acquired by</p> <p>Yushiro</p>	<p>ActiveMinerals INTERNATIONAL, LLC®</p> <p>has been acquired by</p> <p>GOLDEN GATE CAPITAL</p>

Grace Matthews Client Listed First

Grace Matthews Overview

Grace Matthews is recognized globally as a leader in transaction advisory services for manufacturers and distributors throughout the material science and 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 multinational corporations; buy-side work for large public companies, major multinationals, 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
- Construction Chemicals, Building Products
- Contract Manufacturing, Custom Synthesis
- Distribution, Equipment, Infrastructure
- Food Ingredients, Flavors, Fragrances
- High Purity, Electronic Chemicals
- Industrial Minerals, Inorganic Chemicals
- Intermediates, Industrial Chemicals
- Lubricants, Greases, Metalworking Fluids
- Oilfield & Water Treatment Chemicals
- Paints, Coatings, Inks
- Personal Care, Soaps, Medical Materials
- Plastics, Colorants, Additives
- Tolling, Private Label Products
- Additional Chemical Sectors

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 200 transactions involving global corporations. Our team approach is unique in investment banking, with a combination of extensive industrial, financial and M&A experience.

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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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