

Mergers & Acquisitions Are an Integral Strategic Component

How to Build or Maintain Critical Mass in the Chemical Distribution Industry

In the drive to reach growth objectives, or to maintain and enhance “critical mass”, mergers & acquisitions (M&A) has been a theme for the chemical distribution industry for years. The industry leaders (by size and geographic reach) were all built through a series of such transactions. As the practice is further trickling down to the smaller and mid-sized company layer of the sector, and more distributors espouse external growth options, it is worthwhile to spend some time on a reflection of recent events in this context.

Although M&A activity has been slowed down to some extent by the Covid-19 pandemic, the basic drivers are still relevant. Thus, it can be expected that industry consolidation will even be accelerated by the effects of the global lockdown that has been causing a global economic crisis, disruptions in international trade, production outages, and thus stressed supply chains.

Other factors such as the digital and ecological transformation of

the chemical industry and its impact on value chains, trade conflicts, or Brexit will even increase the need to enhance critical mass and establish more widespread networks — and thus build more resilient businesses.

CHEManager asked executives and industry experts to share their views on the rationale for M&A activity in chemical distribution. We proposed to discuss the following aspects:



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- Have the key drivers for mergers & acquisitions in the chemical distribution industry changed due to the Corona crisis?
- Will industry consolidation and thus M&A activity continue or even speed up after the Corona crisis?
- Do you want to play an active role in the industry consolidation, and if so, what is your strategy?

Read the insightful answers of the experts here.

Industry Consolidation Will Offer Opportunities

Christopher Erbslöh,
Managing Director, C.H. Erbslöh

Growth in terms of turnover or volume is not our measure of success. We measure our success by looking at the solutions we can provide to our partners - customers and suppliers -. M&A might provide an option, if it helps us to gain resources or scope needed to provide solutions short term, which would otherwise take a long time to build. We thus tend to take a more opportunistic approach to M&A rather than having the buy-and-build approach as part of our core strategy.

C.H. Erbslöh and the LEL Alliance will continue with this approach, as we have a good set up for organic growth in our key geographic market, which is Europe. Other players in Europe will, however, continue to drive the trend for consolidation, not only in Europe, as their needs and strategies are rooted in different goals and philosophies. Especially stock-listed and investor-backed groups will continue and even accelerate their M&A activities globally, as they can only feed the hun-



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ger for ever growing profitability from their investors by increasing their geographical reach, and industries served, at a pace unachievable without acquisition. As long as the capital markets and interest rates do not change dramatically this will probably continue long-term, at altering paces. More industry consolidation may not be needed, but it will continue, and it will offer opportunities to all distributors, suppliers and customers in the industry, no matter what their size. The winners of the consolidation process will be those that uncover the opportunities, find solutions, and turn them into successes.

Industry Consolidation Will Continue

Dennis Verhaert,
M&A Director, Azelis

Not a lot has changed in this respect as the key drivers have remained the same. However, even though Covid is a global event, its timing and impact on economies and market segments have varied depending on the circumstances. As a result, some local champions exposed to a limited set of economies or market segments have been strongly affected by Covid. This has triggered a reflection in the market, with some smaller players seeing the benefits of being part of a global, more diversified, network. 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. Covid accelerated the use of digital technologies and the expectations of principals and customers to have access to digital value-added services, such as online portals. Additional opportunities that evolve from new digital innovations will



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further drive consolidation. Azelis has been, and will continue to be, an active consolidator of the specialty chemicals distribution industry. Covid did not slow down our M&A activity nor did it change our M&A strategy. M&A allows us to accelerate growth with strategic principals, expand geographically and provide a more comprehensive product portfolio to our customers. Whilst being a global player, we will continue to act locally to serve local needs with an entrepreneurial mind-set and the desire to provide sustainable innovation and formulation services to our customers.



The Rationale to Grow through Acquisition Remains

Neville Prior, Group Chairman,
Cornelius Group

The coronavirus crisis has certainly not diminished the will of acquisitive distributors to reduce their ambitions, and the previous rationale to grow through acquisition remains. This is likely enhanced as they seek „bargains“ in the wake of economic difficulties, subdued consumer demand and as smaller distributors face the prospect of enacting digital strategies alongside the need to embrace environmental, social and corporate governance. Alongside this, investors and financial institutions have plenty of funding looking for a home, so those organizations with private equity backing or publically quoted have pressure from that direction and are actively exploring options. Many distributors have found organic growth to be difficult and this will reinforce their acquisition strategies. In addition to these factors, it has become clear that a number of factors have changed the global scenario and distributors will need to adjust:

1. The face of consumerism has changed in the wake of Covid-19 with a focus on ethical and sustainable products coming to the fore.
2. Brexit has caused supply chain issues between the EU and the UK.



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3. The crisis has exposed the fact that too much manufacturing is concentrated in very few counties, and in particular China.

4. Geopolitical tensions are leading to an enhanced East-West divide.

This will lead distributors to require more local presence and hence drive further along the acquisition trail.

Like every distributor, Cornelius is considering what the future looks like and whether acquisition plays a part. Whilst we will not be looking to a multi-acquisition strategy, we will consider opportunities that play to our strengths and that make strategic sense. This would not divert us from an organic growth strategy, after all, our principals want to see us growing their market penetration and ensuing sales growth.

Consolidation in the Chemical Distribution Market will Continue

Thomas Dassler,
Managing Director, Häffner

The key drivers for M&A in chemical distribution did not change significantly as a result of the Corona crisis. On the contrary: the pandemic showed how resilient the business model of most chemical distributors was, due to their high level of diversification and flexibility. While business volume in the textile cleaning and automotive paint and coatings sectors suffered major setbacks during the first wave, characterized by numerous and widespread factory closures, other market segments such as life science (food, raw materials for disinfectants) continued to generate exceptionally good earnings. Since April 2020, the EBITDA multiples of chemical distributors stocks more than made up for their initial Covid-19 set-back. The segment currently trades well above 12x. In particular, distributors with innovative as well as sustainable and specialized products are currently achieving record multiples. Companies that are heavily dependent on the automotive industry are presently experiencing below-average valuations.



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The consolidation in the chemical distribution market will continue. In addition to the product portfolio, as well as exclusive partnerships with suppliers, customer base and segments, strategic coverage and geographic location are important factors in the selection of a potential acquisition target.

The Häffner Group strives to achieve its organic growth by further developing its strategic business fields in close cooperation with our customers and suppliers.

At the same time, we are always on the lookout for strategically suitable acquisitions in Germany and abroad to accelerate our growth.

M&A Is an Integral Strategic Component

Christian Kohlpaintner,
CEO, Brenntag

The industry consolidation is primarily driven by factors irrespective of the Corona crisis. The most significant of which are a highly fragmented marketplace, favorable profile for the distribution trade, and inexpensive financing. Thus, industry consolidation will continue. And Brenntag will take an active role in this as it is an integral component of our overall growth strategy. We will continue to allocate some €200–250 million for M&A per year and sharpen our focus towards emerging markets and Asia, in particular China. We want to grow in selected industry segments and strive to identify targets delivering a more siz-



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able operating EBITDA contribution. In 2021, we already started executing this approach with signing an agreement to acquire Zhongbai Xingye, a specialty food ingredients distributor in mainland China.

M&A Activities Are a Key Growth Driver

Thomas Sul (top) and Natale Capri (bottom),
Co-Heads Business Unit Performance Materials, DKSH

M&A activities in the specialty chemicals distribution industry have accelerated considerably in the past years. After a Covid-related dip in early 2020, we saw M&A activities picking up and, since last autumn, accelerate faster as both strategic and financial buyers actively pursue transactions. Specialty chemical distribution is, in fact, growing faster than chemical production and leading listed and private distributors are focused on M&A activities as a key growth driver.

We expect this trend to continue as there is ample room for consolidation due to the fragmented market structure. The main reasons driving further market consolidation via M&A are regional cross-selling opportunities and an increasing need and scalability of value-added services such as regulatory compliance, advanced technical and formulation expertise, digitalization and transparent reporting.

We at DKSH are a pure specialties player with a blanket coverage of Asia and Western Europe where we serve over 30.000 customers. We have a strong presence in life science as well as in industrial chemicals and are entrusted by many of the global leading players in chemicals and ingredients. Our team is continuously scouting for M&A opportunities that are complementary to our setup. We don't buy for size and will only acquire if there is a strategic fit. Over the last 10 years we have



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“Leading listed and private distributors are focused on M&A activities as a key growth driver.”

completed seven acquisitions, the last one being Axieo in Australia and New Zealand, our largest acquisition to date. Axieo was fully integrated after 7 months even during the pandemic and has been performing very well.

With a strong and healthy balance sheet and experienced management team, we are confident to further expand our organization with M&A in the future to provide even better services for our suppliers and customers through cross selling, more value-added services and innovation through our extensive network of formulation labs.

Chemical Distribution Industry Proved Remarkably Resistant

Thorsten Harke,
President, Harke Group

We think that the key drivers for M&A activities in the chemical distribution industry are still intact, ranging from completing product programs, adding technical expertise and regional coverage for offering better services to customers and principals up to increased efficiency and productivity.

Chemical distribution industry proved remarkably resistant against the Corona crisis up to now.

Hence, we do not think that economic difficulties will be the decisive driver for further M&A activities. Yet, with the Covid crisis, central banks are currently virtually flooding the markets with cheap money, which will surely push M&A activities further as people are looking for investments, with loans for M&A projects being cheap currently, driving up transaction prices (inflation).

However, one has to be aware that the phase of exceptionally low interest rates will not last indefinitely and might reverse in the not-too-distant future, at which point of time not only M&A markets, but also chemical markets and the economy as a whole will strongly consolidate. This means the risks of M&A transactions are increasing with the high prices being



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paid, and a strong consolidation is to be expected eventually when interest rates will rise again. With the currently dramatically rising raw material prices, freight rates, etc. all over the world, this might happen soon.

Therefore, we continue to look actively for acquisition opportunities, yet are becoming more careful and selective, the higher the price-earnings ratio is rising for these acquisitions. Our management philosophy is long term oriented, and therefore the achievable synergies and strategic value of these transactions have to rise together with the higher transaction prices, in order to allow us to remain profitable also at times, when the artificially created, inflationary boom is turning to the usual bust.

Corona will Have Little Influence on Consolidation

Peter Stockmeier,
Managing Partner, Stockmeier Group

At the beginning of the Corona crisis, Stockmeier decided to put all ongoing M&A activities on hold in order to see the impact of the pandemic. Fortunately, the past business year was very successful, allowing us to resume our activities in this area.

We expect the consolidation in the world of distribution will continue and that the current Corona situation will have little influence on this.

The requirements for our industry through regulations such as the Biocide Regulation, but also topics such as sustainability, supply chain laws, etc. are increasing. In addition, we are investing in the area of digitalization. All this causes costs that are easier for a larger unit to handle.

Stockmeier has shown successful growth over the last 2 decades, both organically and



“Consolidation will continue and the current Corona situation will have little influence on this.”

through various acquisitions. We will continue this course and further expand our strong position in the European chemical distribution market. As a family-owned company, we want to be a reliable partner for our principles and customers operating throughout Europe, and we will continue to strive for this goal on a long-term basis.

Key Drivers for M&A Have not Changed

Frank Schneider,
Member of Group Executive Committee, IMCD

The key drivers for mergers & acquisitions have not changed for the chemical distribution industry. This has always been a market with great consolidation potential. In 2020 and during the first months of 2021 we have seen a very dynamic business environment for the chemical distribution and the chemical industry overall.

A crisis typically brings new risks and challenges, and Covid-19 indeed has affected day-to-day business processes as well as M&A activities. However, the accelerated digital transformation that we have seen in the industry, but also within our company has facilitated the creation of new opportunities. In IMCD's case, it fast-tracked the identification of targets and the initial contact through to the due diligence and closing.



“The accelerated digital transformation has facilitated the creation of new opportunities.”

How and if there will be a sustained effect from this crisis, is hard to judge. However, we do not expect M&A activities to slow down in the future. For IMCD, mergers & acquisitions are a central element of our growth strategy. We will continue to strive to strengthen market segment positions and to drive geographical expansion on our way to rapidly globalize our network.

Consolidation will Pick up Speed

Felix Thalmann,
CEO, Büfa Group

The Corona pandemic is having an impact on all areas of our lives. Many topics such as sustainability, digitalization, innovations and also the topic of consolidation will have an even higher priority after the global crisis than before.

Consolidation will pick up speed because economies of scale and good local as well as global networking will become increasingly important. Irrespective

of the industry, a major consolidation push will set in; global players will partially take over niche players. This is because the pandemic has exposed the weaknesses of companies and accelerated negative developments in some businesses. Particularly where the consequences of the corona crisis are not yet fully foreseeable, such as in smaller or medium-sized companies, the challenging economic situation will lead to a corporate change.

World trade will not decline after the pandemic, but it will change permanently. Global supply chains are fragile, so they need to be constantly improved and made more secure. Alternative options and routes, such as the Silk Road, need to be built. Basically, companies will adapt their supply strategies in order to position themselves for the future. A company must remain adaptable — this also means



“A company must remain adaptable — this also means investing and disinvesting in other companies.”

ans investing and disinvesting in other companies. There will also be some new companies that will master new challenges with innovation and flexibility. Presumably, the agile start-up scene will also emerge stronger from the pandemic.

As a traditional and family-owned company, Büfa recognized early on that it would have to be flexible in meeting the faster pace of corporate change. With our three business divisions operating in the chemicals, cleaning and composites sectors, we are broadly positioned. In addition, we invest in innovative ideas and companies and we actively participate in consolidation processes in various areas. Partnering with other market players will also become increasingly interesting in order to position ourselves in a versatile way, to combine forces, utilize synergies and ultimately to be better able to absorb crises.