



Chemical distribution

Global picture, trends and opportunities

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THE BOSTON CONSULTING GROUP

Agenda

What is the state, globally, of the chemical distribution market?

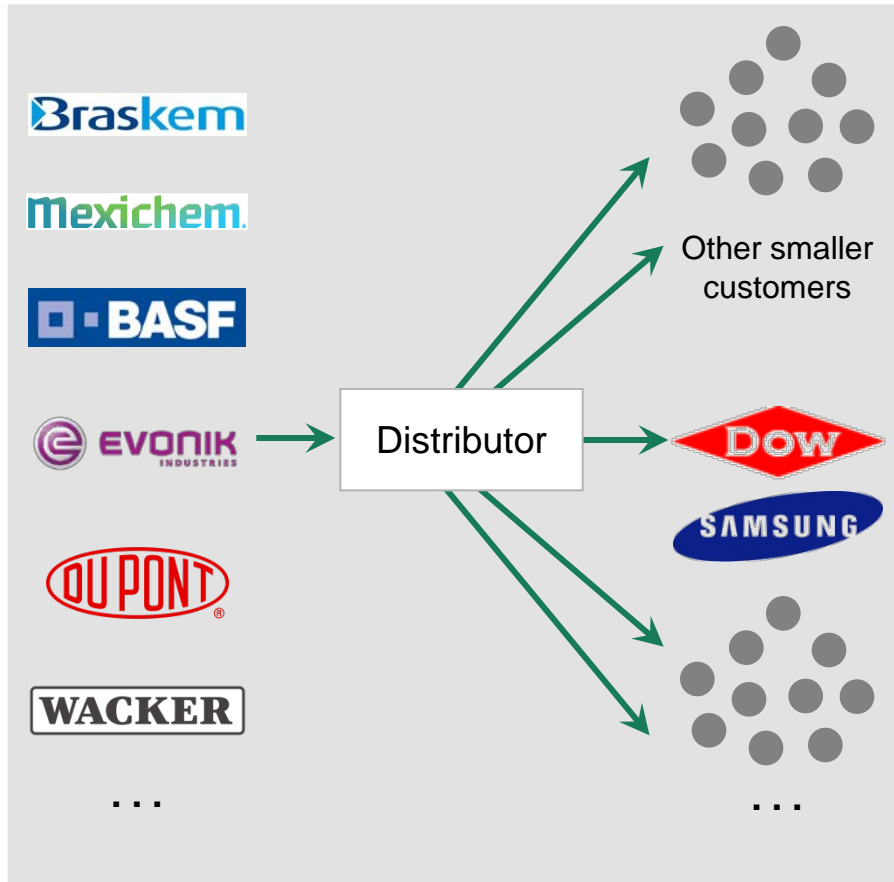
In particular, what is happening in Mexico and Latin America?

What global trends can forecast a brighter future for the Mexican Chemical Distribution market?

Chemical Distribution: A view from the Old World

- 1 **Chemical distributors are a vital part of integrated chemical supply chains from producers to customers**
- 2 **Chemical producers consider leading distributors as an important element of their go-to-market strategies**
 - Opening new markets and customer segments
 - Complexity reduction in marketing and sales
- 3 **Chemical customers value bundled supply and one-stop-shopping of many products from chemical distributors**
- 4 **Leading distributors grow faster than most producers**
 - Brenntag, the global market leader, is in the top league of value creators in the overall chemical industry
- 5 **Responsible care is a precondition for the license to operate in the entire chemical value chain**

Chemical distributors create value for producers: Realizing growth and managing complexity in marketing and sales



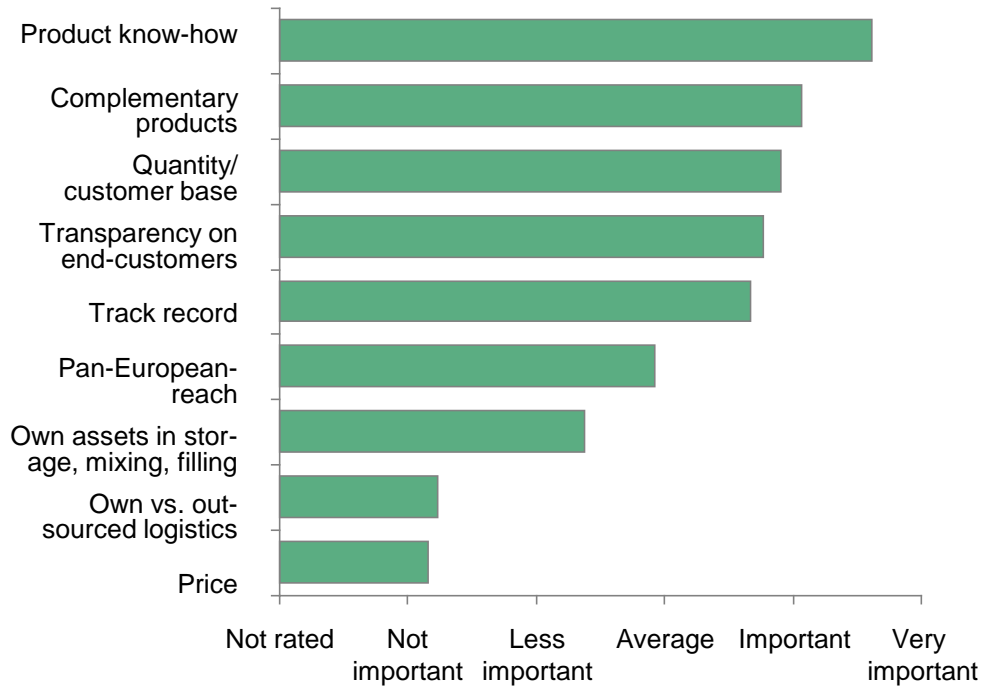
"Contract business—sales outsourcing"

- Usually formal contractual relationships with "principals" (often mutual exclusivity)
- Distributors often with high switching cost for their suppliers (principals)
- High level of data integration
- "Window of opportunity" (i.e., consolidation of sales partners; complexity reduction of marketing and sales) when major chemical producers ("principals") are restructuring their distributor base
- Product-wise often—but not always—specialties

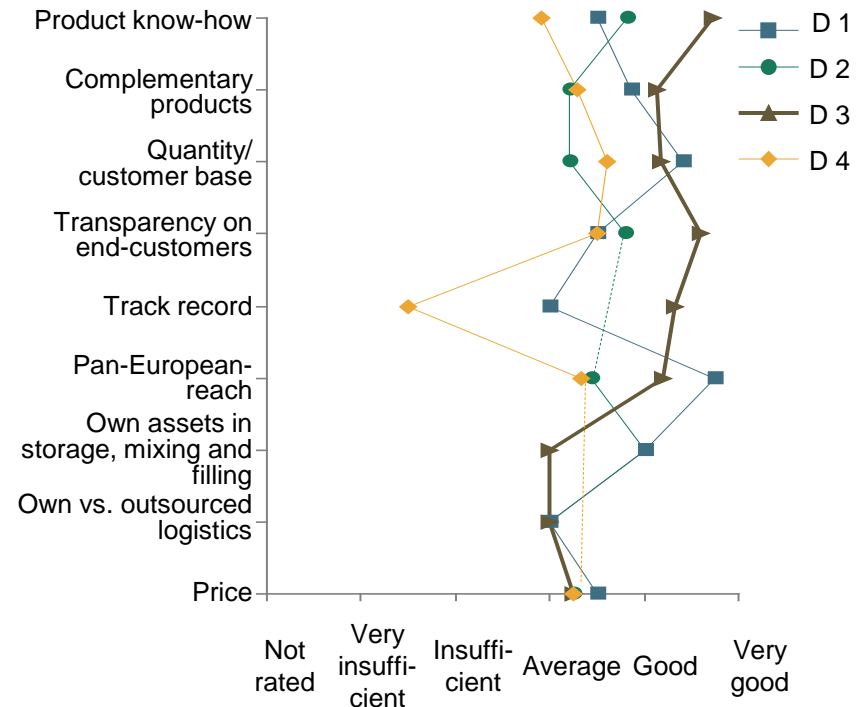
Key criteria for producers to choose chemical distributors

Interview results of specialty chemicals suppliers

Importance of success factors

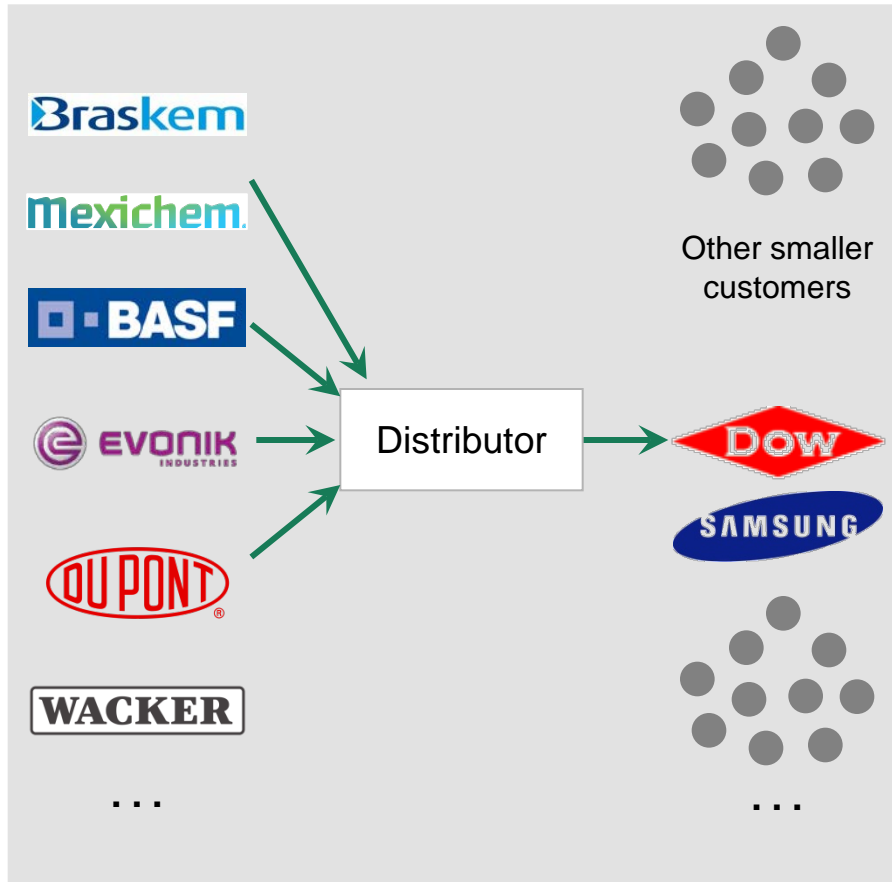


Performance of major distributors



Source: Market expert interviews; BCG analysis

Chemical distributors create value for customers: Single sourcing and technical serve

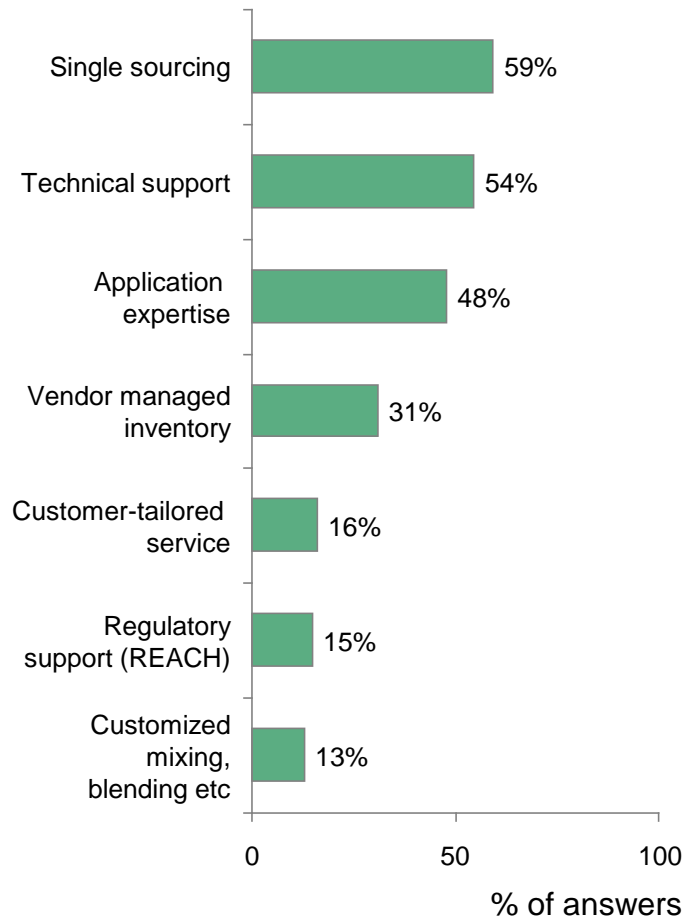


"Contract business—single sourcing"

- Quite often formal contractual relationships with customers
- Outsourcing of parts of the procurement function with high switching cost for customer
- "Window of opportunity" as more and more customers restructure their procurement
- Typical business model for smaller customers (with diverse chemicals supply base—however with rather low overall volumes)

Key criteria for customers to choose chemical distributors

Growth opportunity



Current constraint

"Currently we purchase from 5-6 distributors – currently a single distributor doesn't offer all the products and the required support we need."

- *paint company* -

"Distributors have far better speed and flexibility of delivery than chemical suppliers—unfortunately they lack the technical expertise we need in some categories."

- *specialty company* -

"We would love to get rid of all the inventory management—unfortunately no one is offering something for medium-sized companies."

- *specialty company* -

"We would value distributors even more, if they had more application expertise to revise formulations with us."

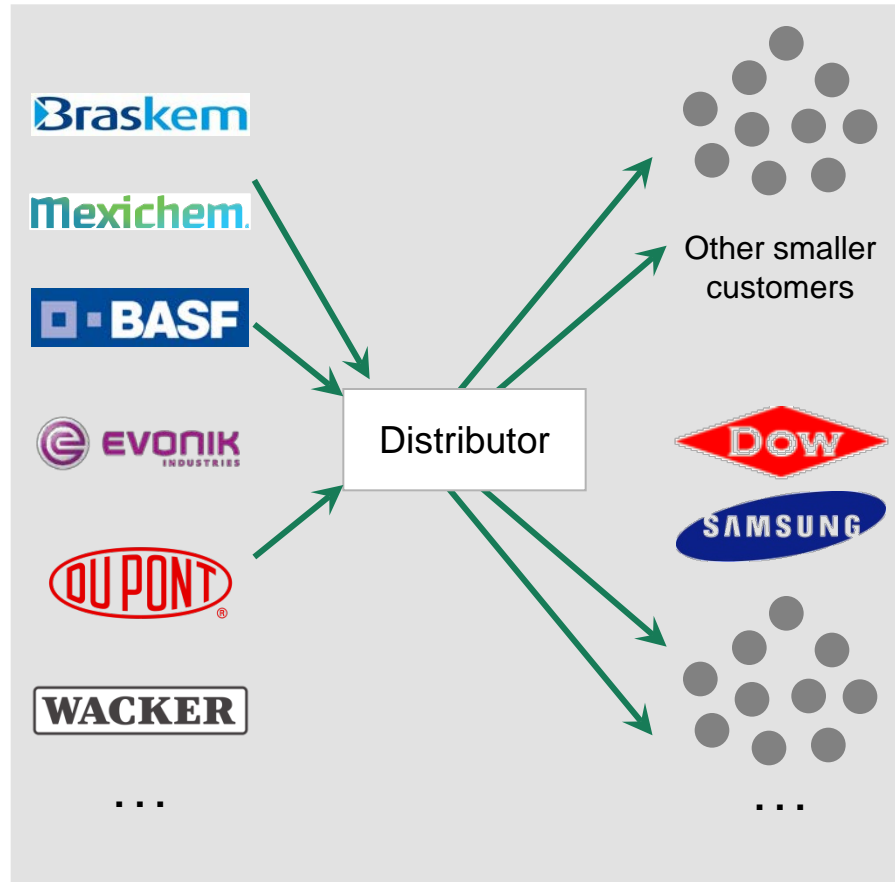
- *Asian specialty company* -

"We are a coating company - REACH is mainly a topic for chemical suppliers"

- *coating company* -

Note: Quotes reflects statements from more than one individual
Source: Customer survey; BCG analysis

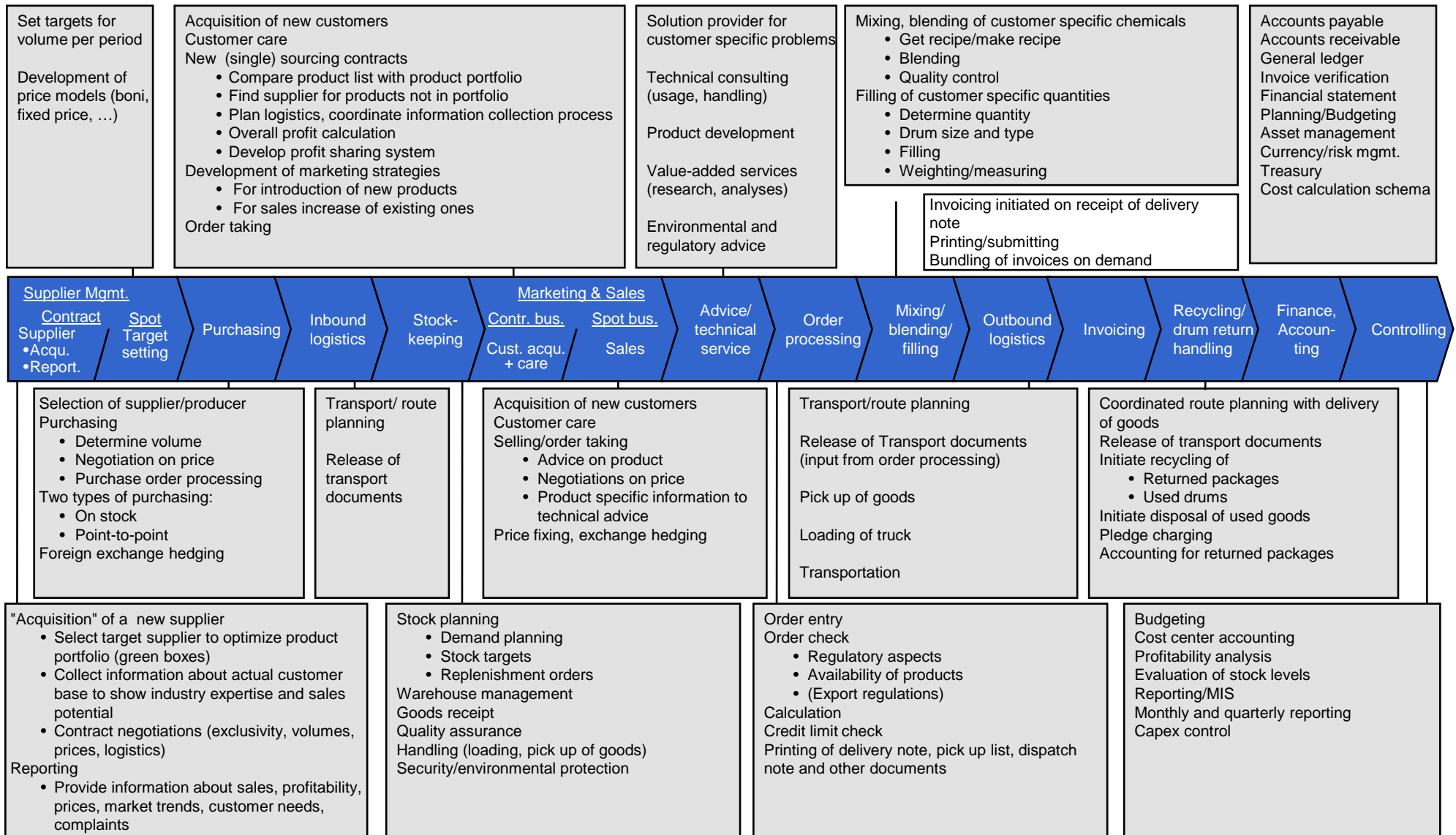
Chemical distributors create value for the whole value chain: Extending market reach and providing value added service



"Value Added Services"

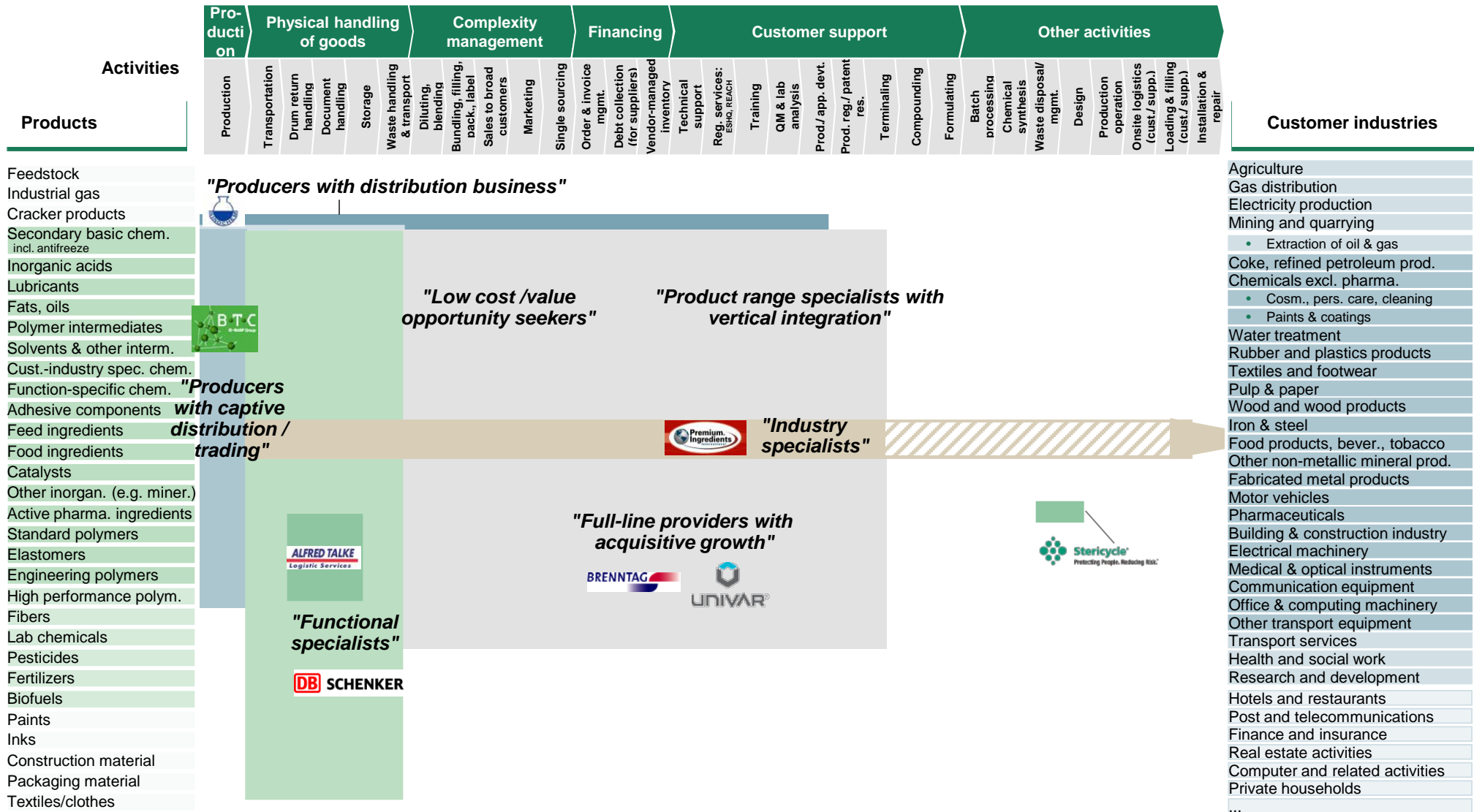
- Very often local business with a need for high customer proximity
- Bundling of demand for several products into one customized delivery
- Drum exchange service and waste disposal material loop
- Addition of value adding steps -examples
 - Material services ,
e.g. formulation/blending, licensed production, filling/labeling
 - Immaterial services,
e.g. VMI, certification, training

The business model of chemical distributors covers the whole value chain – Option space for distinct business models



Source: Interviews; BCG analysis

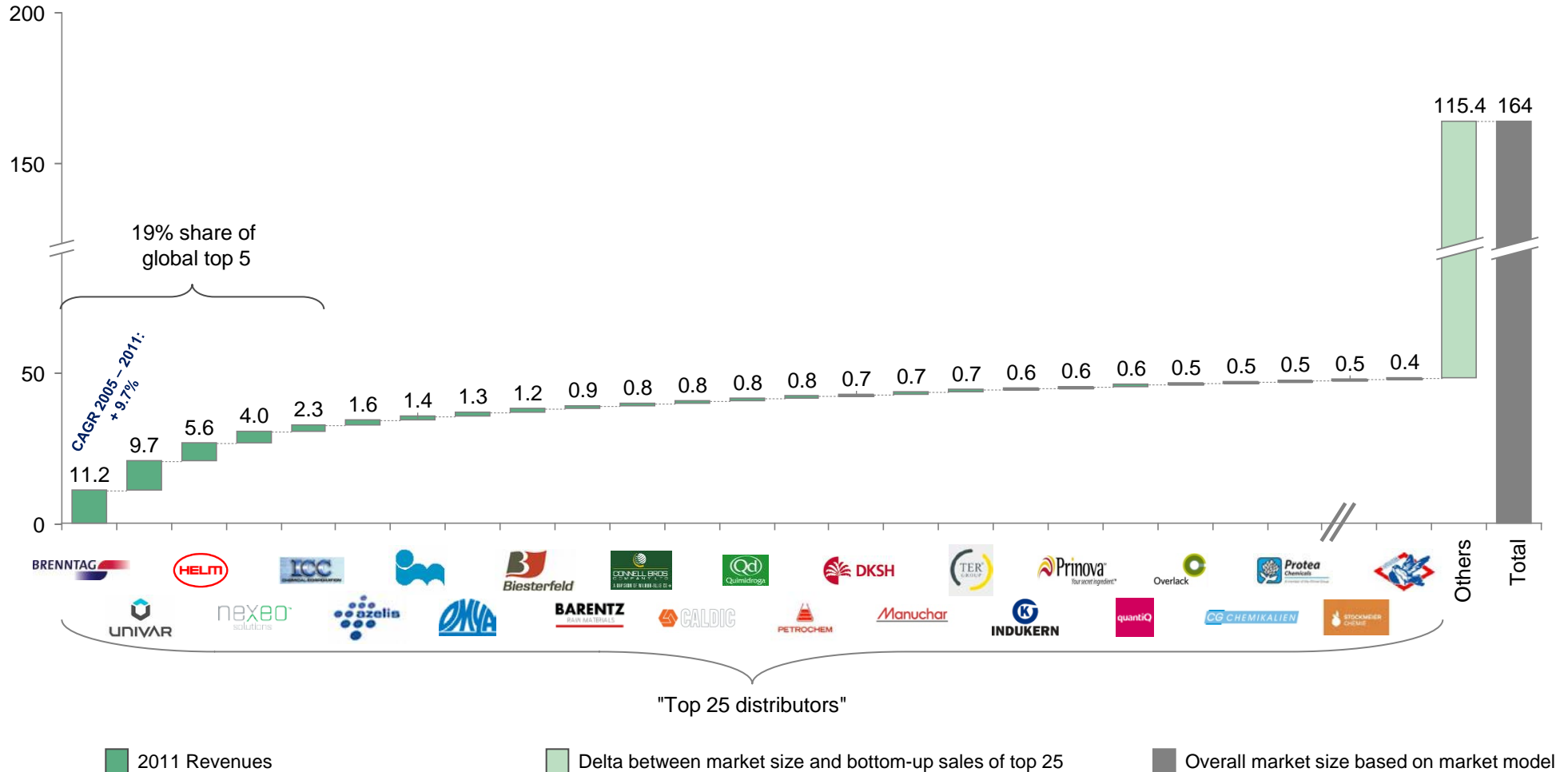
Business models in Chemical Distribution: Value chain coverage – product portfolio – customer industries/application



Source: Market study; BCG

Global chemical distribution landscape shows few large distributors and a sizable gap to mid-tier

Sales 2011 in \$B



Source: ICIS, Company websites, BCG analysis
 Chemical Distribution - ANIQ Oct 2012 -Final.pptx

Brenntag is a top value creator in the overall chemical industry

Brenntag, a success history

Chemical Distribution Industry gaining more attention due to Brenntag's IPO

- IPO in 2010 – beforehand owned by two sequential PE firms
- Complete exit of PE firm in several steps

Brenntag's multiple levers of organics growth & acquisition strategy

- Example of acquisitions in 2012:
 - ISM/Salkat Group, Australia & New Zealand
 - The Treat-Em-Rite Corporation, Texas, USA

Stock performance

IPO's media coverage

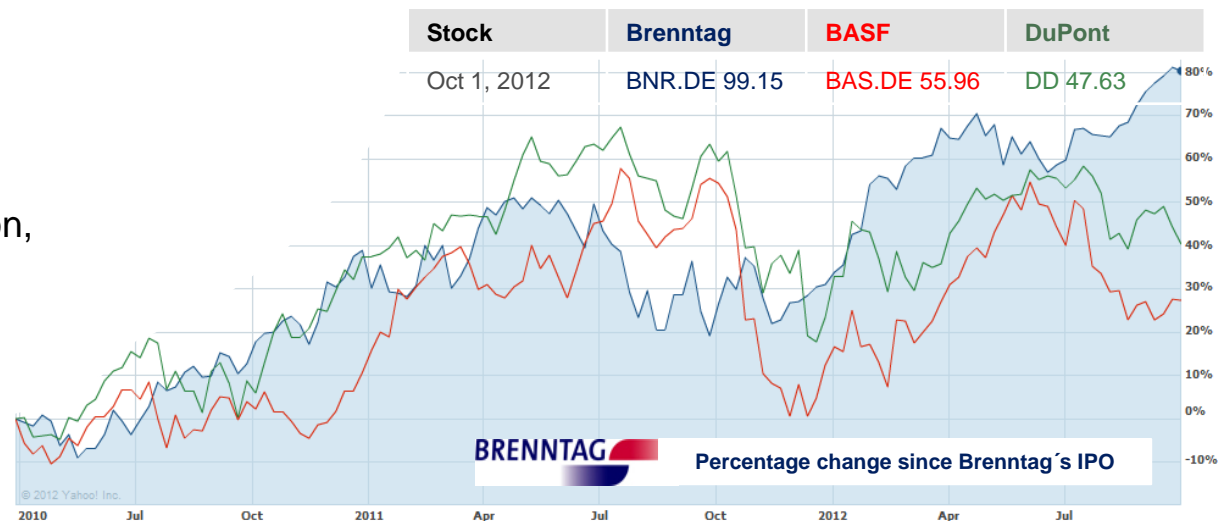
Brenntag Fulfills Investor's Wishes,
17 Mar 2010

Handelsblatt

The Right Chemistry Between Brenntag and Investors –
IPO a Success, 29 Mar 2010

DOW JONES

Brenntag's stock performance vs. leading chemical manufacturers



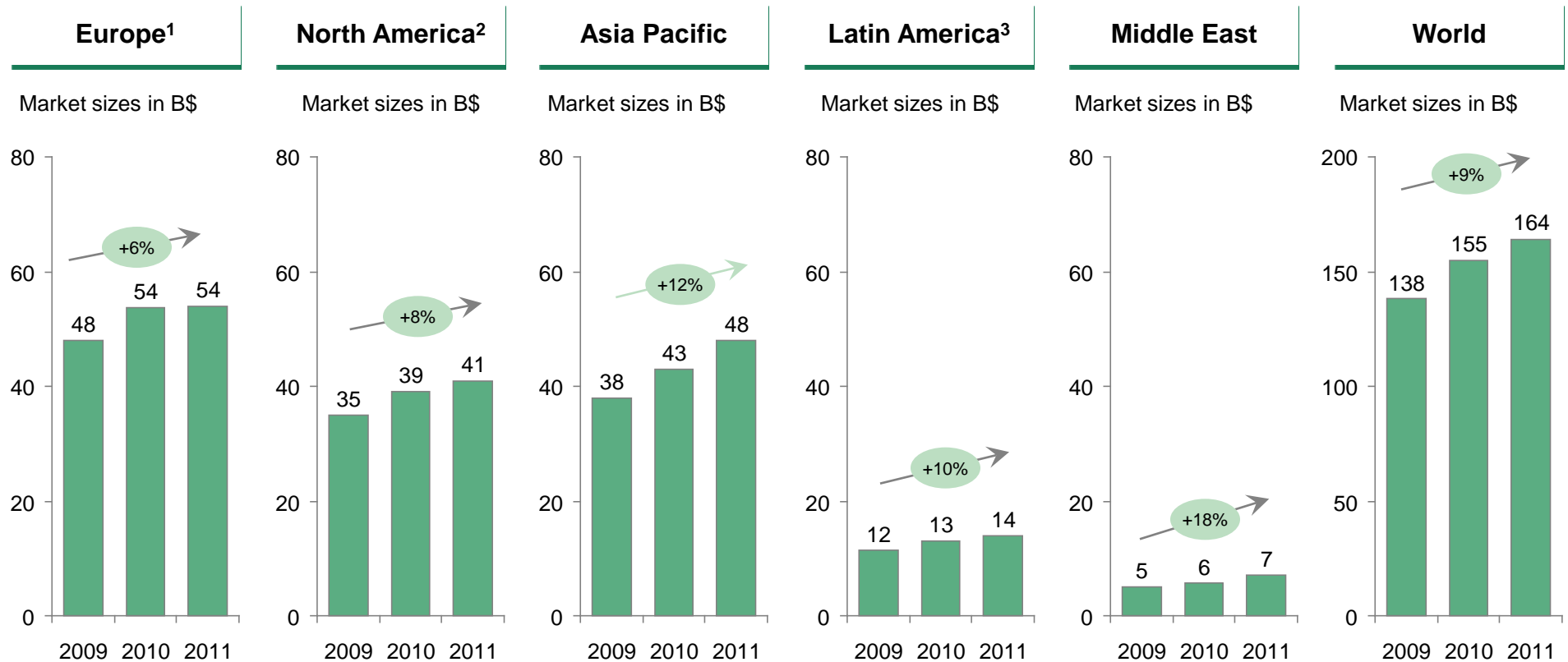
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In particular, what is happening in Mexico and Latin America?

What global trends can forecast a brighter future for the Mexican Chemical Distribution market?

Asia and Latin America with high growth rates in chemical distribution



1. Incl. Western and Central & Eastern Europe 2. North America includes USA and Canada 3. Incl. Mexico

Note: Small differences due to rounding

Source: ICIS, chemagility, BCG analysis

Chemical trade between Latin America and other regions grew by more than 50 % since 2009 – significant net imports

Mexico

Billion USD, at current prices

Year	Exports ¹	Imports ²	Balance
2011	14.2	39.5	-25.4
2010	11.9	34.1	-22.2
2009	10.1	27.8	-17.7



Brazil

Billion USD, at current prices

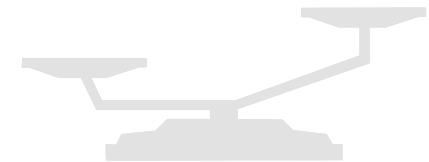
Year	Exports	Imports ³	Balance
2011	15.1	41.8	-26.8
2010	12.2	32.3	-20.1
2009	10.5	25.3	-14.8



LATAM

Billion USD, at current prices

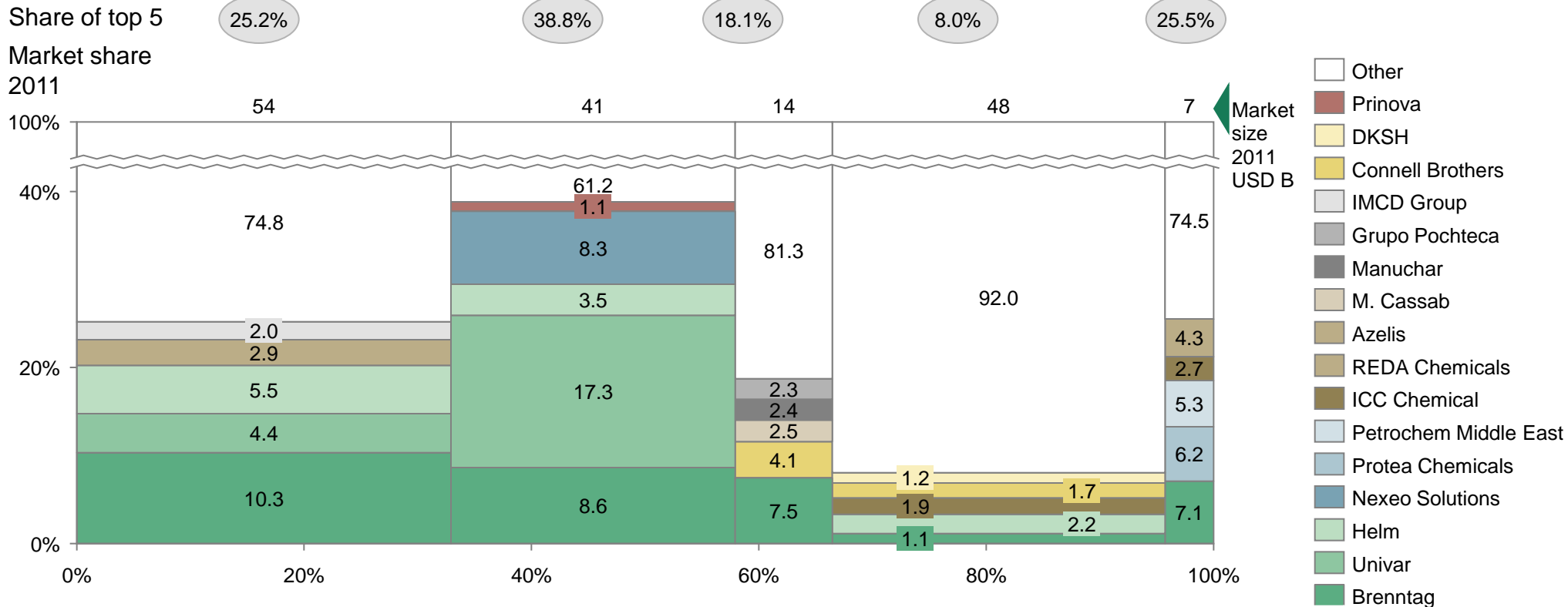
Year	Exports	Imports	Balance
2011	55.6	154.2	-98.6
2010	44.7	124.4	-79.6
2009	39.2	99.9	-60.6



1. Coverage: Includes processing zones 2. Coverage: Includes processing zones; Method of valuation: Imports are valued f.o.b. 3. Method of valuation: Imports are valued f.o.b.
Source: World Trade Organization

Latin America with high fragmentation of the chemical distribution industry

Share of top 5
Market share
2011



Ranking	Europe	North America	Latin America	Asia – Pacific	ME&A
1	Brenntag	Brenntag	Brenntag	Brenntag	Brenntag
2	Helm	Helm	quantiQ	Helm	ICC Chemical
3	Univar	Univar	M. Cassab	ICC Chemical	Protea Chemicals
4	Azelis	Nexeo Solutions	Manuchar	Connell Brothers	Petrochem Middle East
5	IMCD Group	Prinova	Grupo Pochteca	DKSH	REDA Chemicals

Major regional differences in the market shares of the top 5 chemical distributors

		Europe			North America			Latin America			Asia-Pacific		
		2011		2010	2011		2010	2011		2010	2011		2010
Market size (B\$)		54.0		53.8	41.0		39.0	14.0		13.0	48.0		43.0
Market shares and position	1	Brenntag	10.3%	9.7%	Univar	17.3%	14.9%	Brenntag	7.5%	7.4%	Helm	2.2%	2.5%
	2	Helm	5.5%	5.5%	Brenntag	8.6%	8.3%	quantiQ	4.1%	3.2%	ICC Chemical	1.9%	1.9%
	3	Univar	4.4%	3.5%	Nexo Solutions	8.3%	8.7%	M. Cassab	2.5%	2.8%	Connell Brothers	1.7%	1.7%
	4	Azelis	2.9%	2.9%	Helm	3.5%	3.7%	Manuchab	2.4%	2.6%	DKSH	1.2%	NA
	5	IMCD Group	2.0%	2.1%	Hydrite Chemical	1.1%	1.2%	Grupo Pochteca	2.3%	1.9%	Brenntag	1.1%	0.7%
Top 5		25.2%		23.8%	38.8%		36.7	18.1%		17.4%	8.0%		NA

Fragmented competitor landscape with sizable gap between Brenntag and the top 2–5

Top 5 with lower market share than in North America

Gap between top 3 and followers

Numerous national, medium-sized distributors

Fragmented landscape

Very fragmented market landscape (not a homogeneous region, mostly local competitors)

High market fragmentation in chemical distribution in Latin America

Characteristics	Latin America
Market size	US\$ 14 Bn
Growth 2009-2011 (CAGR)	10%
Number of main Distributors	726
Top 10 Market Share	21%
Distribution Model(s)	Chemical Distributors, Traders, Agents
Shipment Models	Predominately Road
Suppliers / Principals	Foreign / Domestic Producers
Regulatory Environment	Responsible Distribution – Brazil, Mexico. GHS ¹ implemented in most major countries



Ranking	Company	Revenue 2011
		US\$ M
1	Brenntag	1,046
2	quantiQ	572
3	M. Cassab	344
4	Manuchar	332
5	Grupo Pochteca	325
6	Bandeirante Brazmo	244
7	Indukern	144
8	Makeni	104
9	Univar	100
10	Quimisa	95

1. Globally Harmonized System of Classification and Labeling Chemicals

Sources: World Chemical Distributor Directory, www.chemagility.com, ICIS 2012 – Top 100 Chemical Distributors

Mexico still with a low share of chemical distribution vs. overall chemical market

Characteristics	Mexico
Industry structure	<p>Highly fragmented</p> <ul style="list-style-type: none"> Few local & regional leaders with a large number of smaller family businesses
Share of chemical distribution conducted via 3rd. party distributors, 2010	~ 8% ¹
M&A activity, rationale:	<ul style="list-style-type: none"> Tier-1 (Global) distributors such as Brenntag and Univar looking for high growth rates outside developed nations, increasingly focusing on Asia-Pacific and Latin America
M&A activity, 2011 (case example):	<p>Purchasing company: Brenntag Purchased company: Amco International S.A.de C.V. Strategic rationale²:</p> <ul style="list-style-type: none"> Improve full-line portfolio and expand it into aroma chemicals, essential oils and food ingredients
Market Outlook, 2013 – 2020:	<ul style="list-style-type: none"> Consolidation trend, improving margins Opportunity for larger regional players seeking growth through M&A A push from suppliers and their customers for better practices & raising standards Streamlining and development of distribution channels



Share of chemical distribution in Europe is around 12% and 13-14% in the US

1. Source: ICIS; BCG

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Key hypotheses for the market for chemical distribution in Latin America

Value chain perspective	Chemical distribution is a vital element of the overall chemical value chain – and needs to be recognized as such
HSEQ	"Responsabilidad Integral" (Health, Safety, Environment, Quality) is essential for the "license to operate" for any chemical distributor
Consolidation	Even higher fragmentation in Latin America than elsewhere – will lead to a significant consolidation
Institutionalization	Strong drivers to institutionalize chemical distribution companies: The requirements of the producers, the overall value chain perspective, the consolidation
Growth ahead	The share of third party distributors will present an over-proportional growth in Latin America
Industry Associations	Industry Associations in the chemical industry have a vital role in promoting HSEQ and institutionalization of business models from an overall value chain perspective

Chemical Distribution: The future in Latin America

- 1** **Chemical distributors will become a vital part of integrated chemical supply chains from producers to customers**
- 2** **Chemical producers in Latin America will consider leading distributors as an important element of their go-to-market strategies**
 - Opening new markets and customer segments
 - Complexity reduction in marketing and sales
- 3** **Chemical customers will increasingly value bundled supply and one-stop-shopping of many products from chemical distributors**
- 5** **Responsible care will be a MUST HAVE - A precondition for the license to operate in the entire chemical value chain**