

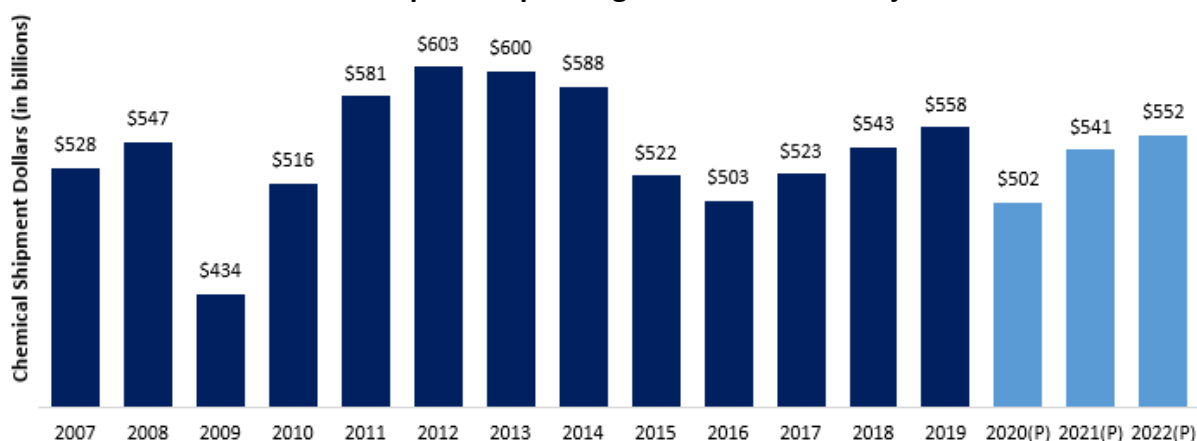
# CHEMICALS INDUSTRY UPDATE

## 1H 2020

The chemicals industry was significantly impacted by two unprecedented and monumental events over the past few months: (i) the onset of the COVID-19 pandemic, and (ii) an ongoing price war that has caused a significant decline in the price of oil. During the first half of 2020, most chemical companies experienced decreased demand for their products, as end-use markets such as auto, construction, consumer staples, pharmaceuticals and nutraceuticals were, and continue to be, heavily impacted by COVID-19 shutdowns. The ongoing price war in the oil market creates additional headwinds, as falling oil prices could lead to steep price cuts for chemical companies when faced with lower demand in a down economy.

Companies that are able to emerge in a relatively strong position will likely turn to M&A to either gain market share or invest in new technologies or formulations to serve niche high-margin applications.

### Chemical Shipment Spending—Historical and Projected



Source: American Chemistry Council

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#### CARLETON MCKENNA & CO:

*We believe businesses are the economic engine of our society, and that business owners deserve and require a proactive advocate throughout life changing transactions.*

#### FIRM OVERVIEW:

Carleton McKenna & Co. is an independent investment banking firm providing M&A Advisory, Capital Raising, and Pre-Transition Advisory services. We deliver hands-on transaction execution, with clear, insightful strategy to drive extraordinary success.

We work with middle market closely-held businesses, multi-generational family businesses, portfolio companies of financial sponsor firms and divisions or subsidiaries of public companies focusing in Manufacturing & Specialty Chemicals, Consumer Products, SaaS, Healthcare and B2B Services.

Our Team is made up of finance and accounting experts, operators, C-Suite and Board professionals, lawyers, consultants, and marketing professionals. These diverse experiences and skills drive extraordinary results for our clients.



## Post-Crisis Strategy Insights For Chemicals Companies



### Manufacturing Automation

Where possible, adoption of cloud data and automation will optimize manufacturing processes to create significant long-term savings.



### Re-examine Workforce Management

Rethink internal operations and the optimal ways to organize your workforce. As non-production roles are increasingly conducted remotely, look for ways to reduce costs in areas such as real estate.



### Invest in Competitive Advantages

Invest in technology and/or proprietary formulations to further scale or advance your competitive advantages. Focus on creating products that allow for higher prices by providing niche and differentiated solutions.



### Support Customers and Suppliers

Look for opportunities to further connect with customers on both the buy-side and pricing-side and help customers and suppliers withstand this volatile period.



### Aggressively Cut Costs

Improve your cost structure to further insulate your company from further demand uncertainty. These efforts include: finding alternative sources for cheaper inputs, automating processes where possible, and rethinking certain aspects of doing business, such as travel budgets.



### Improve Resiliency of Supply Chains

The current economic and geopolitical environment has highlighted the importance of a diversified supply chain. In addition to creating competitive dynamics that can help to lower input prices, diversification of suppliers can reduce the risks caused by a pandemic, trade war, or other unforeseen disruption to supply chains.

Source: William Blair Research

## Benchmark Valuation Impact on Chemical Indices (EV/NTM EBITDA)

	As of 2/20/20		As of 6/8/20		Change in EV/NTM EBITDA Multiple	
	Value	Multiple	Value	Multiple	Δ since 2/20/20 to 6/8/20	% Change
Fine Chemicals	14.8x	14.8x	16.4x	16.4x	1.6x	10.6%
Industrial Gases	14.7x	14.7x	15.4x	15.4x	0.6x	4.4%
Adhesives, Sealants & Coatings	12.2x	12.2x	15.4x	15.4x	3.2x	26.6%
Diversified Chemicals	9.3x	9.3x	11.9x	11.9x	2.6x	28.0%
Fertilizers & Agricultural Chemicals	8.7x	8.7x	9.1x	9.1x	0.4x	4.5%
Advanced Materials, Polymers & Additives	8.6x	8.6x	10.2x	10.2x	1.6x	18.9%
Commodity Chemicals	7.0x	7.0x	9.6x	9.6x	2.6x	37.3%

Source: Capital IQ

## CHEMICALS INDUSTRY UPDATE—1H 2020

### Impact of Revenue Change on EBITDA in the Chemical Industry—by Sector

	% EBITDA Change	% Revenue Change								
		(20.0%)	(15.0%)	(10.0%)	(5.0%)	0.0%	5.0%	10.0%	15.0%	20.0%
Adhesives, Sealants, & Coatings		(20.2%)	(15.2%)	(10.1%)	(5.0%)	0.0%	5.1%	10.1%	15.2%	20.3%
Advanced Materials, Polymers & Additives		(4.0%)	(3.0%)	(2.0%)	(1.0%)	0.1%	1.1%	2.1%	3.1%	4.1%
Commodity Chemicals		(36.2%)	(27.2%)	(18.1%)	(9.0%)	0.1%	9.1%	18.2%	27.3%	36.3%
Diversified Chemicals		(14.7%)	(11.0%)	(7.3%)	(3.6%)	0.0%	3.7%	7.4%	11.1%	14.7%
Fine Chemicals		(15.8%)	(11.9%)	(7.9%)	(3.9%)	0.0%	4.0%	8.0%	11.9%	15.9%
Fertilizers & Agricultural Chemicals		(39.3%)	(29.5%)	(19.7%)	(9.8%)	(0.0%)	9.8%	19.7%	29.5%	39.3%
Industrial Gases		(11.4%)	(8.5%)	(2.8%)	(2.8%)	0.0%	2.9%	5.8%	8.6%	11.5%
Overall Chemicals Industry		(17.8%)	(13.3%)	(4.4%)	(4.4%)	0.0%	4.5%	8.9%	13.4%	17.8%

Source: Capital IQ & S&P 500

The illustrative model (above) shows historical correlations between revenue and EBITDA for various segments of the chemicals industry from 2006 through Q12020. Lower value-add segments such as commodity chemicals and fertilizers & agricultural chemicals have significantly greater EBITDA sensitivity to revenue changes than other segments.

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CM & Co. is the exclusive sell-side advisor to a manufacturer of specialty adhesives and coatings supplying transdermal nutritional support products.



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has sold its wholly-owned subsidiary

Kool Seal Coatings LLC

to

The Sherwin-Williams Company

The undersigned served as financial advisor to KST Companies LLC

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(OTC: PNK.SORB)

has been sold to



(NYSE: ALB)

The undersigned served as the exclusive financial advisor to Sorbet Technologies Corporation

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