The Rationale to Grow through Acquisition Remains

Neville Prior, Group Chairman,
Cornelius Group

"Many distributors have found organic growth to be difficult and this will reinforce their acquisition strategies."

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.
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.

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 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 sizable 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.

Consolidation in the Chemical Distribution Market will Continue

Thomas Dassler,
Managing Director, Häffner

"The pandemic showed how resilient the business model of most chemical distributors was."

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.

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 Activities Are a Key Growth Driver

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

"Specialty chemical distribution is, in fact, growing fast[er] than chemical production."

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

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 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.