

Transform to sustain your value!











How chemical distributors can successfully navigate market downturns and transformation trends

PwC Deals
May 2023



After successfully managing post-pandemic markets, now chemical distributors need to adapt to rising macroeconomic challenges

Potential European macroeconomic scenarios

	 Fast recovery	 Systemic stagnation	 Conflating crises
 Inflation	Inflation remains transient , as central bank and political measures take effect	Severe inflation takes hold before central bank and political measures work	Sustained inflation potentially triggers a long-term wage-price spiral
 Gas prices	Negligible effect of gas-supply stop on prices due to substitution	Partial substitution of Russian gas causing gas prices to increase	Expensive gas imports cause a severe European energy crisis
 Covid-19 and other diseases	Labor supply and supply chains recover following a mild pandemic course	Labor supply and supply chains remain volatile due to the sustained pandemic	A severe resurgence of COVID-19 cases triggers labor and supply shortages
 Geo-political situation	Short-term stagnation of globalization, followed by political relaxation	Fostering of political blocks and increasing de-globalization	Escalation of political tension and focus on home markets
	 <i>fast market recovery</i>	 <i>hampered growth path</i>	 <i>long-lasting recession</i>

Chemical distributors have largely held up well over recent years, which were shaped by the pandemic.

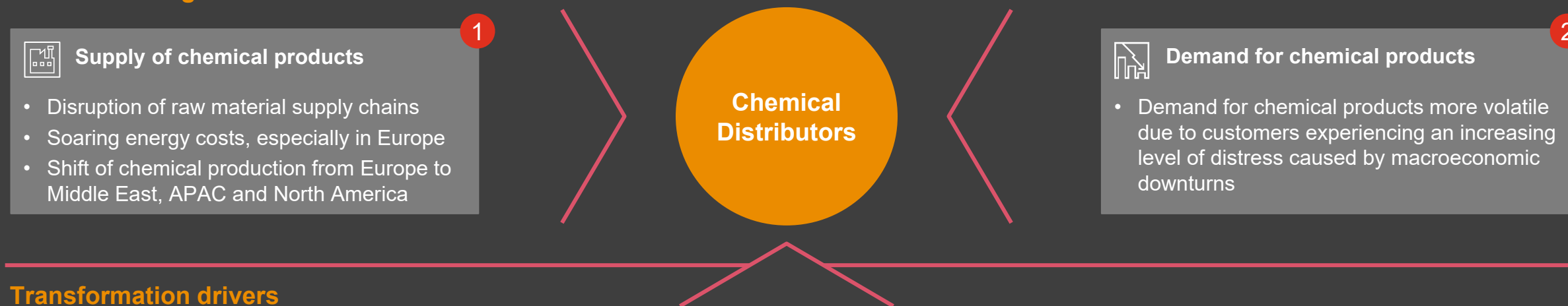
Looking ahead, **broader macroeconomic factors must be considered:**

- 1** Strong **downward** corrections of **GDP predictions** and **unprecedented challenges** for the **European chemical industry**
- 2** Ongoing **supply chain volatility** and low predictability of market developments
- 3** **De-globalization trends** in response to rising geopolitical tension

In the chemicals value chain, rising market challenges and transformation trends for chemical distributors are manifold

State of the industry

Market challenges



Act now to stay successful!

How chemical distributors can manage upcoming challenges



Manage position amid supply & demand

- Conduct scenario planning and risk assessment based on market indicators and potential impacts
- Increase supply chain resilience by improving flexibility and focusing on stronger regional supply networks



Leverage scale via M&A

- Secure market share in an accelerating consolidation of the regional markets, especially in Europe and APAC
- Take advantage of economies of scale and build a resilient portfolio & geographic footprint



Be a pioneer in digitization

- Provide customers and partners with the level of digital solutions they expect
- Leverage digital sales channels to boost revenues and sales efficiency



Overcome regulatory pressures

- Invest in the right capabilities now to meet the continuing increase in regulatory requirements
- Reinforce the position as a valuable partner by expanding regulatory services for suppliers and customers



Excel in the ESG transformation

- Proactively drive your ESG transformation to remain attractive to partners
- Reinforce the position as a valuable partner by expanding sustainability services for suppliers and customers



Attract the new generation

- Stand out as an attractive employer to win the battle for skilled workers and drive the transformation agenda

Facing unstable supply chains and decreasing production, especially in Europe, supply chain resilience becomes increasingly important

1 Situation: Supply chain issues

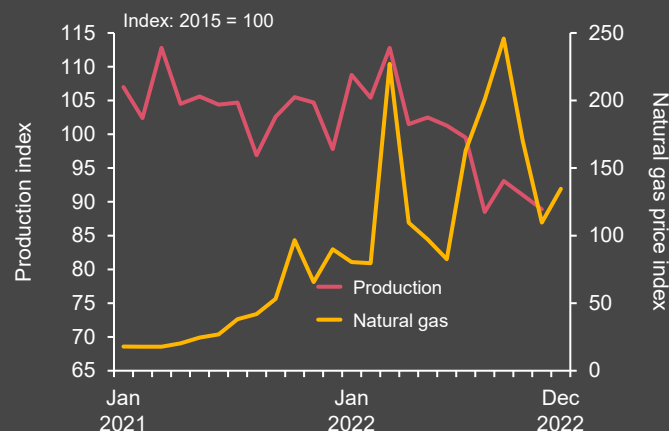
50% German chemical companies face supply disruptions¹

-18% Reduction in chemical production in Europe in 2022²

Global supply chains face multiple risks:

- **Rising geopolitical tensions between countries;** trade wars are the reality, and reducing dependencies on China is on the agenda of many Western governments, which reinforces "*China plus one*" strategies and regionality
- **Stable supply of raw materials and cheap energy are no longer a given.** The war in Ukraine further aggravates the situation, especially in Europe
- **Uncertain pandemic development still poses a risk to labor supply and supply chains**

Production index of chemical products in Europe and Dutch TTF gas future prices³



Potential measures

- 1 Secure business-critical principals** and identify potential fall-out risks early to be able to react accordingly
- 2 Revise global sourcing and warehouse footprints** jointly with suppliers to increase flexibility and strengthen regional networks
- 3 Review supplier structure** to identify new suppliers which are less affected by rising energy prices wherever reasonable

Macroeconomic uncertainty is causing profit margins to decrease and thus lowering the purchasing power of downstream industries

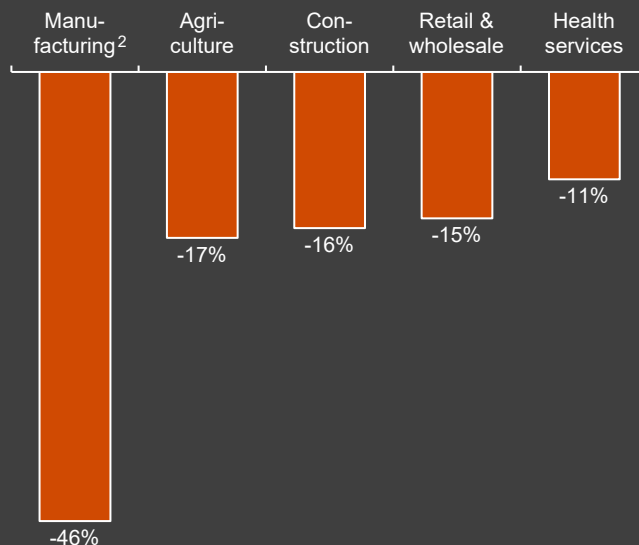
2 Situation: Pressure on customers' profit margins

Especially European markets suffer from a challenging environment:

- Especially **manufacturing**-based businesses are heavily affected by the **difficult macro-environment** and face **severe decreases in profit margins**
- **Outlook for 2023 remains gloomy** in many customer segments of chemical distributors – especially in the Chemicals and Construction industries

If the macroeconomic downturn continues, chemical distributors might lose their pricing power due to customers' increasing level of distress

Projected relative decrease in profit margins compared to historic profit margins in selected downstream industries¹



Potential measures

- 1 **Conduct scenario planning and risk assessment for the business** based on market indicators and potential impacts
- 2 **Determine the level of distress of customers** and adjust commercial terms and conditions where required
- 3 **Improve access to customers in less volatile product segments and regions**

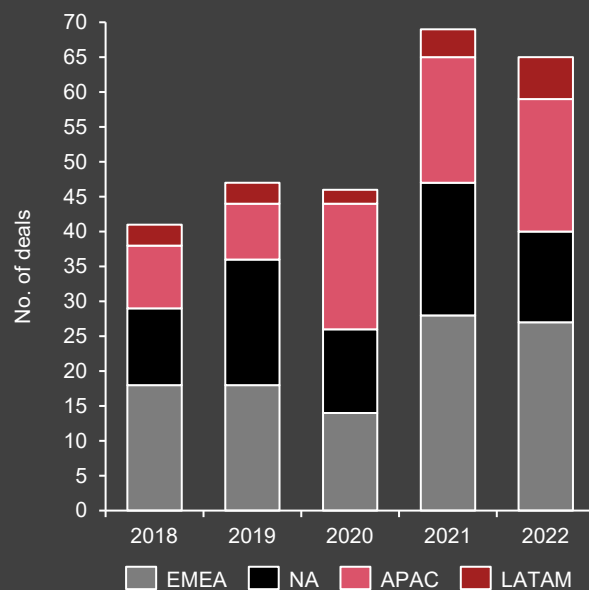
Leveraging scale and diversification via M&A will be essential to stay competitive in a consolidating and volatile market environment

3 Situation: High level of M&A activity

Deal numbers in the chemical distribution industry were at an all-time high in the past two years:

- **Market consolidation is increasing.** While large companies are leading the way, mid-sized players increasingly engage in M&A to **exploit economies of scale** – laggards might risk becoming the next target
- Larger companies, in particular, acquire smaller, specialized companies in series to **fill product gaps**. Also, **diversification** is increasingly important to be less dependent on single segments and regions in a volatile market environment
- M&A is used to **boost market entry and expansion into growth regions** to secure long-term growth – especially for distributors in the ailing European chemical industry

Deals in the chemical distribution industry



Potential measures


- 1 M&A comes in all forms – from bolt-on acquisitions to JVs: **Evaluate which transaction types fit the risk profile**
- 2 **Assess potential M&A opportunities** for diversification and growth in a difficult market environment
- 3 Put M&A into action: **Make use of decreasing valuations** and leverage cash at hand

Digitization of the chemical industry is accelerating: distributors must embrace the digital experience to meet customer expectations




4 Situation: Increasing digital customer expectations

With an increasing number of millennial buyers, digitization speed of the sales experience is accelerating – and Europe is a frontrunner. Many chemical distributors risk being left behind:

 Distributors' investments in digital infrastructure amounted to <1% of sales in 2022

 Growing digital marketplaces like CheMondis intensify competition from distributors & manufacturers and can no longer be ignored – especially for standardized products

Customers expect from chemical distributors to...

 <p>Buy fast and smooth</p>	<p>Digital channels enable a smooth and efficient sales experience by offering 24/7 ability to find products, place and track orders, retrieve documents or request technical support with just a few clicks</p>
 <p>Find products they need</p>	<p>Data analytics give access to real-time and AI-driven insights. Monitoring customer interests and trends helps to leverage cross-sell potential & provide actionable insights to sales teams</p>
 <p>Stay up-to-date on the latest trends</p>	<p>Digitally backed multi-channel marketing approaches are key to promoting brands with tailored information to new customers and collaborating online to drive innovation with existing customers</p>

Potential measures

- 1 **Assess the organization's level of digitization** and establish the digital backbone to take the next step
- 2 **Build digital sales channels** to win customers, generate data and **leverage data-driven insights**
- 3 **Connect digital solutions** to create a **user-friendly** and efficient platform and derive maximum value from data
- 4 Make sure to **have the right people and skills** on board to successfully drive the digital journey

ESG and sustainability trends are challenging the entire chemical industry – but distributors can also tap into new opportunities

5 Situation: Environmental objective of ESG changes business models

“Where the distribution sector per se can make a big difference is when it comes to our own operations and to advising our customers on circular economy principles [...]”¹

- Dorothee Arns, Director General of FECC

- Governments and customers – but also distributors themselves – acknowledge the **importance of sustainability** resulting in a growing need for greener chemical products
- **Three major objectives** are impacting the chemical industry in particular:



Decarbonization of supply chains & operations



Waste reduction & circular economy



Reduction of water consumption

Chemical distributors can support producers and customers in their sustainability efforts:

What producers need...

- Information on market trends & demands
- Marketing & distribution support of new products
- Guidance for new and updated regulations

What chemical distributors can offer...

- Knowledge of market trends and demands
- Marketing & sales skills for sustainable products
- Expertise in chemical and trade regulations

What customers need...

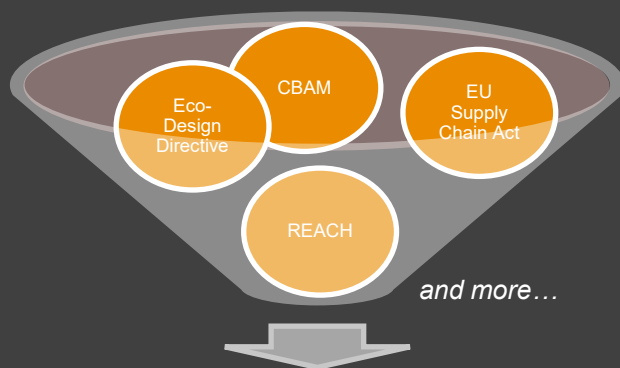
- Increased offering of sustainable products
- Advice on substitution of hazardous products
- Smooth import and handling of products

Potential measures

- 1 Expand service offerings in sustainability** to support producers and customers – from regulatory services to application know-how
- 2 Choose a holistic decarbonization approach for supply chain and operations**, also cover scope 3 emissions along the value chain
- 3 Collaborate with chemical producers to support development and introduction of greener products and solutions**

Based heavily on the ESG agenda, the EU is increasing regulatory requirements for chemical distributors




5 Situation: EU has the most comprehensive chemicals legislation globally



- **Already >40 legislative instruments in the EU** relevant to the chemical (distribution) industry
- **Constantly new regulations and updates to existing ones** put further pressure on companies in the industry to meet legal requirements
- **Regulatory experts** to navigate regulations and handle the workload **are a scarce resource**

Regulators require distributors to...

due to ...

 Monitor imports from non-compliant countries & ESG standards	Ban on endocrine-disrupting, persistent, mobile and bio-accumulative substances
 Revise & provide comprehensive product information	Introduction of new hazard classes and classifications incl. labeling requirements
 Report on ESG performance – for companies under the CSRD¹	ESG reporting duties for companies with >250 employees, >€40 m sales or >€20 m in assets ²

Potential measures

- 1 Review existing regulatory expertise** and identify key focus areas for improvement
- 2 Build a task force and capabilities** to manage upcoming regulatory challenges
- 3 Expand service offerings** by advising producers and customers on regulatory concerns and challenges




Skills shortage and an aging workforce challenge organizations: new talents are looking for a purposeful and digital working environment

6 Situation: Skilled workers and talents are needed to stay future-fit

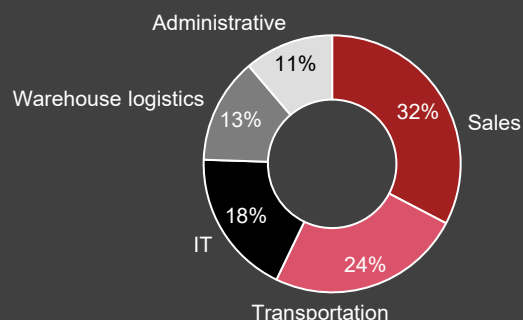
The need for skills and talents to drive distributors' transformation agendas is growing:

- Chemical distributors state that **skills shortages affect sales teams the most**; IT experts are also hard to find, but are the key to driving digital agendas
- **Demographic change** affects the chemical industry; share of employees >60 years old has more than doubled over the last 10 years

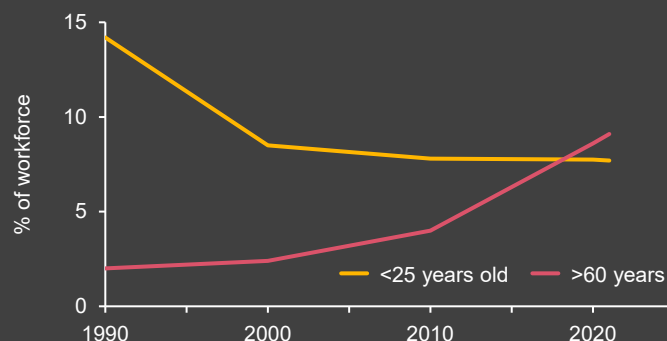
What are young talents looking for today?

-  Digitally developed environment to further drive digitization
-  Support in translating ESG considerations to their work
-  High degree of collaboration and extensive career opportunities

Shortage of skilled workers by function (2022)



Age structure of the chemical industry in Germany








Potential measures

- 1 Rethink HR marketing approach:** Proactively search for the right people and connect with young talents entering the job market
- 2 Take a stand on ESG considerations** to make 'purpose' an integral part of the employee experience
- 3 Improve working culture** by establishing flat hierarchies and flexible working models

Act now to stay successful!

Detailed toolbox for chemical distributors to manage rising challenges

Challenges	Short-term	Mid-term	Long-term
 Macro-economy	Conduct scenario planning and risk assessment for the business based on market indicators and potential impacts	Revise sourcing and warehouse footprints jointly with suppliers to increase flexibility and strengthen regional networks	Improve access to customers in less volatile product segments and regions
 Consolidation	Evaluate which transaction types fit the risk profile – from bolt-on acquisitions to JVs	Assess potential M&A opportunities for diversification & growth in a difficult market environment	Put M&A into action: Make use of decreasing valuations and leverage cash at hand
 Digitization	Assess the organization's level of digitization and establish the digital backbone to take the next step	Build digital sales channels to win customers, generate data, and leverage data-driven insights	Connect digital solutions to create a user-friendly and efficient platform approach and derive maximum value from data
 Regulatory & ESG	Review existing regulatory & sustainability expertise and build capabilities to handle upcoming challenges and also support partners	Choose a holistic, decarbonized approach for supply chain & operations ; also cover scope 3 emissions along the value chain	Collaborate with chemical producers to support the development and introduction of greener products & solutions
 Workforce	Rethink HR marketing approach: Pro-actively search for right people & connect with young talents entering the job market	Take a stand on ESG considerations to make 'purpose' an integral part of the employee experience	Improve working culture by establishing flat hierarchies and flexible working models

We support you when times get challenging!

What we can offer...



From **strategy**
through **execution**



Leveraging the power of
PwC to offer a **unique
transformation setup**



Global footprint can
deliver the highest
value for global clients

Why us?

Top-ranked advisor for trusted financials

We have a wealth of expertise and experience in providing trusted financials that go beyond a pure P&L view. This includes top-notch scrutiny and a holistic approach covering all balance sheet, cash or tax aspects relevant to such specific situations

Unique operational excellence and transformation know-how

We combine essential know-how along transformation phases with deep operational, financial and strategic insight, including local legal and labour law expertise from our global network

High industry and functional expertise

Our functional and industry expert teams deliver unparalleled insights and best practices to ensure a fast and impactful transformation

Strong value creation focus

Our value-based transformation approach identifies the key value areas fast, and in combination with our expert network we provide relevant insights to generate and implement value

Your Contact Partner

Chemicals



Volker Fitzner
Partner
Global Chemicals Lead
volker.fitzner@pwc.com

Deals



Christian Eilinghoff
Director
Integrations & Divestments
christian.eilinghoff@pwc.com

Supply Chain



Anja Eilers
Partner
Operations & Supply Chain Lead
anja.eilers@pwc.com

Digitization



Christian Kaspar
Partner
Digitization Lead
christian.kaspar@pwc.com

ESG



Claudia Niendorf-Senger
Director
Sustainable Services
claudia.niendorf.senger@pwc.com

Deals



Katja Haug
Senior Manager
Value Creation
katja.haug@pwc.com

Regulatory



Kolja von Westerholt
Director
Product Compliance
kolja.von.westerholt@pwc.com

People



Nanette Ott
Director
People & Organization
nanette.ott@pwc.com