PrimeStone

London, 20th December, 2022

Supervisory Board of Directors
Christian Kohlpaintner, CEO
Kristin Neumann, CFO
Brenntag SE

Dear Chairwoman, Members of the Supervisory Board,
Dear Christian and Kristin,

PrimeStone Capital LLP ("PrimeStone" or "we"), through the funds we advise, today owns 2% of the issued share capital of Brenntag SE.

We focus on making long-term investments in quality companies that can be improved and expanded. Our team has extensive experience investing in and sitting on boards of both private and publicly listed companies. We have a long history of following and investing in the chemical distribution industry as private equity investors in our previous career at Carlyle and as public market investors at PrimeStone. In relation to our investment in Brenntag, we have conducted in excess of 60 meetings and calls with management teams, owners, industry experts, investors, customers, suppliers and competitors.

We believe Brenntag to be a high-quality company comprising two different businesses that can be significantly improved and expanded after years of modest performance. We have had constructive meetings with management so far and have appreciated the accessibility, transparency and open-mindedness shown towards our suggestions.

On 25th November, Brenntag announced that it was in early-stage discussions regarding a potential acquisition of Univar Solutions Inc, news that shocked investors, analysts and market participants alike. Since the announcement, we have kept an open mind and embarked on additional due diligence with a view to evaluating the contemplated transaction. We also met Christian and Kristin on December 5th.

While discussions are at a preliminary stages and management gave us some assurances on the care with which they were approaching this opportunity, we have grown concerned. Given a few worrying comments made that day, the absence of required approval by shareholders for such a deal, the misalignment of incentives between you and investors (as you collectively own few shares), and our unequivocal due diligence findings regarding the contemplated acquisition, we feel we have no choice but to publish our analysis and conclusions so as to enable and stimulate a dialogue with your shareholders ahead of any decision by the Board as to whether to proceed with the proposed transaction.

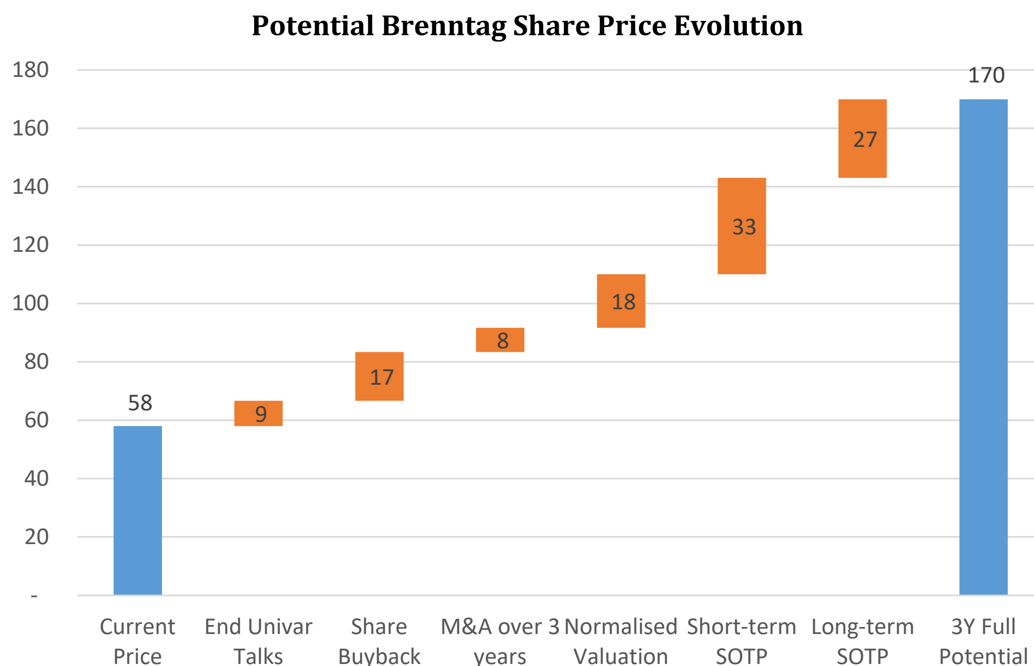
In this letter, we express our strong opposition to the acquisition of Univar and we offer a superior alternative to create significant value from the currently depressed valuation of Brenntag. We ask you to:

I. **Terminate Discussions with Univar Immediately and Refocus on Improving Brenntag Itself**: the risks and uncertainties of such an "empire-building" transaction are very high and vastly outweigh the potential benefits. Our interviews and analysis suggest that the dis-synergies could amount to 10-20% of combined gross profit and will likely wipe out all cost reductions if not more, as observed in the case of the Univar-Nexeo deal. The antitrust process is likely to be lengthy and difficult. The complex execution will also be a costly distraction from the core business, which truly needs to be improved, and from other opportunities that could be seized.
II. **Restore an Efficient Balance Sheet and Capitalise on Brenntag's Depressed Valuation**: Launch a €2.5bn share buy-back program to return to an efficient balance sheet with ~2x Net Debt to EBITDA by the end of 2023, capitalizing on the sharp contrast between investors'

scepticism and management's confidence in the company's performance in 2023 and beyond. This will improve EPS by 25% with no execution risk.

III. **Announce the Future Separation of Brenntag Specialties (BSP) and Essentials (BES) into Two Distinct Listed Companies**: After years of underwhelming performance and the welcome initial cost reduction and extensive operational separation led by Christian in the last two years, it is time to unleash the potential of Brenntag's two businesses by pursuing a full separation of these two world leaders. In particular, Brenntag Specialties needs to be released from the burden of being tied to the Essentials business, which has dragged it down for too long already: it is currently at a competitive disadvantage to attract customers, suppliers and M&A targets. Such a split will provide greater focus and accountability as well as a better strategic, operational and financial performance of each individual business. It will also offer investors the option to invest in only one of the two businesses and should lead to a significant rerating over time. We believe this could be done within the next 18 months.

We estimate that, should you follow our proposed path, the company's shares, which were worth €85 a bit more than year ago, and are today worth €58 after the market's punishment following the November 25th announcement, could be worth €150-170 in three years. Given the risks and complexity to successfully deliver on such a deal with Univar compared to the relative simplicity of our proposals, we hope you will recognise the merits of our proposed course of action. We are encouraged by management's response in our last two meetings: "*there is no fundamental disagreement with such a path*" (ie. share buy-back and full separation). Our conversations with some of Brenntag's long-term shareholders also give us comfort that our proposal would be widely supported.



Source: Bloomberg - PrimeStone estimates and analysis

The rest of this letter presents the facts and analysis that led us to our conclusion.

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I. Terminate Discussions with Univar Immediately and Refocus on Improving Brenntag Itself

We believe a combination with Univar is an ill-advised endeavour and should be abandoned immediately.

First, let's remember that both Univar and Brenntag were private equity-owned in the past: BC Partners bought Brenntag in 2006 and CVC acquired Univar a year later. Private equity investors are rational economic animals and would have definitely found a way to pursue such a combination had it made sense from a shareholder value creation standpoint. They did not. More on this below.

Our view stems from the following:

1. Significant revenue dis-synergies would wipe out all cost synergies, if not more

a. Diversification and bargaining power preservation by suppliers and customers in Essentials

Univar and Brenntag are the two big behemoths of Essentials distribution, only followed by sizeable but much smaller regional players. When Univar integrated Nexeo, significant volumes were lost to Brenntag and regional competitors. Similarly, we believe a substantial share of the volumes allocated by suppliers to distributors would be lost. Customers of both Univar and Brenntag will also diversify their supplier/distributor base to reduce their exposure to the combined company, especially after the Covid-induced disruptions that put supply chain risks on everyone's mind.

> *"Customers with a meaningful exposure to both merging companies will have to look for alternatives and reduce volumes significantly. This happened very quickly in the Nexeo integration"*
>
> Former Divisional Leader -Univar-Nexeo

> *"Every large customer and many small ones are already looking at alternatives, we saw it happen on Nexeo. If I were planning for this, I would plan for 10-15% customer dis-synergies"*
>
> Former Executive Committee Member - Brenntag

> *"Brenntag and Univar are [our] two biggest distributors. Excluding plastics, they represent together ~60-65% of [our] distributors business ($3bn out of $5bn). [We] would probably shift 10-15% to regional distributors"*
>
> Former Manager of Distributors Relationships - $50bn+ Chemical Company

> *"On Nexeo, customers said that they needed to move significant volumes to another supplier as they didn't want to have all their eggs in one basket. This added up to 10-20% in lost volumes"*
>
> Former Executive Committee Member - Univar

b. Supplier conflicts in Specialties

It is an attraction of the specialty chemicals distribution industry that suppliers provide distributors with territorial exclusivity. Specialty distributors typically acquire assets that help them enter a new vertical, a new territory or provide them with new and not conflicting suppliers. Large combinations are very rare in this segment and there is a good reason for that: any such combination would involve significant overlap in verticals and territories, and hence conflicting supplier agreements.

> *"The real winners of a Brenntag-Univar deal would be IMCD and Azelis, as well as the regional distributors. There will be a lot of business coming their way from supplier conflicts, like we saw it happen on Nexeo"*
>
> Former Executive Committee Member -Univar

> *"After the Nexeo acquisition, we had a conflict in polyurethanes between BASF (Nexeo) and Dow (Univar). We decided to align with Dow and BASF then went to Azelis. We tried to retain some of that business but most of it effectively went to Azelis over a year or two"*
>
> Former Divisional Leader - Univar-Nexeo

> *"When we merged two entities in Specialties, we lost $20m out of $140m. I would budget at least 8-10% attrition, maybe up to 20% from supplier conflicts in Specialties"*
>
> Former Specialties Leader -Brenntag

<u>The Nexeo Precedent</u>

It is critical to look back at the Nexeo acquisition by Univar (announced in September 2018 and completed in March 2019) to understand the points made above. Despite being five times smaller, Nexeo is the only remotely comparable transaction that can be analysed. Univar, then $8.5bn in revenues acquired Nexeo Chemicals, which had revenues of $2bn. At the time of the acquisition, the core Nexeo Chemical business represented c.18% of Univar's core distribution business[1].

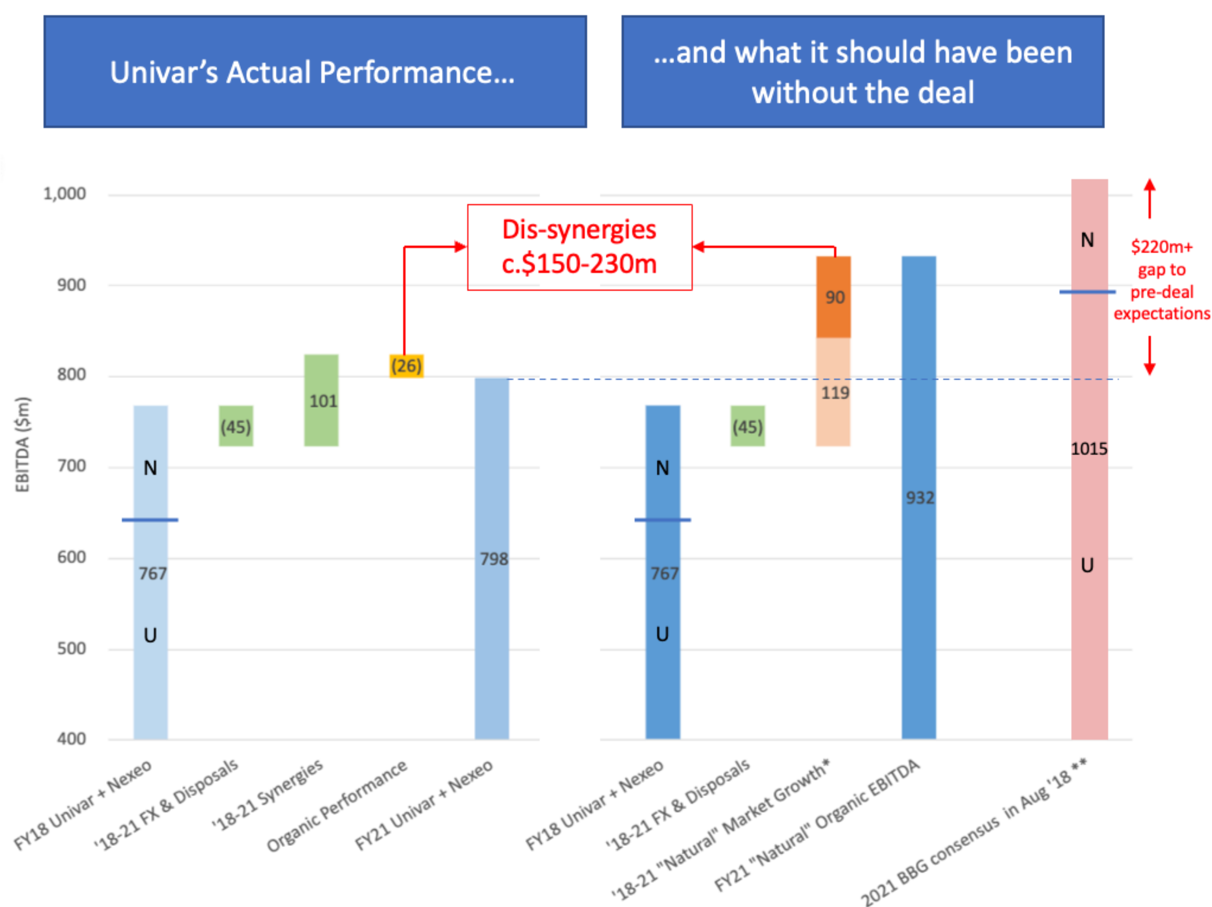
According to former executives, this acquisition had never been contemplated before the appointment of the new management team at Univar: it was deemed too complex and risky. Industry veterans were puzzled when it took place. Univar senior executives present at the time of the decision told us that the acquisition was pursued for two main reasons: to remedy the lack of organic growth and to acquire a state-of-the-art IT system.

With the benefit of hindsight, this acquisition was a disaster. The IT integration worked well and management over-delivered on cost synergies (ie. on what they could control). However, the commercial performance of the combined business compared to its peers (including Brenntag), was very poor. This is confirmed by our interviews: Univar lost a lot of business during the integration.

[1] Core Nexeo Chemical business excluding Environmental Services business as percentage of Univar's core business (excluding Canadian Agchem business and Distrupol both exited and disposed subsequently)

The numbers speak for themselves. According to our analysis:

- Univar bought $127m of EBITDA for $1.4bn[2], assuming $100m of net synergies or 6.2x EBITDA post-synergies
- It worked hard for three years, and ended up suffering from dis-synergies costing at least $150-230m of EBITDA
- Univar's EBITDA including Nexeo eventually fell short of expectations investors had prior to the deal by more than $220m. It ended even below what was expected for Univar alone by $90m.
- Univar's 2021 Adjusted EPS ended at $2.2 or c.20% below the level that analysts expected before Nexeo was acquired ($2.8), whereas the industry did rather well; Brenntag and IMCD both exceeded in 2021 the expectations analysts had for them in 2018.



Source: Company reports – PrimeStone analysis
FX & Disposals: cumulative impact of FX translation as well as M&A which mainly includes the disposals of Environmental Sciences business in Dec-19, the Canadian Agriculture services business in Nov-20 and Distrupol in Apr-21
Synergies: cumulative impact of cost synergies as reported by Univar ($30m in 2019, $46m in 2020 and $25m in 2021)
* Low end of range assumes Univar+Nexeo's EBITDA would have developed in line with Brenntag's organic EBITDA growth between 2018 and 2021, excluding the full cost savings benefits of Project Brenntag ($145m dis-synergies). High end of range assumes performance in line with Brenntag's actual organic EBITDA growth ($235m dis-synergies)
** Bloomberg consensus for Univar 2021 EBITDA in August 2018 ($888m) + Nexeo Chemicals 2018 EBITDA as 2021 consensus unavailable ($127m)

Note that the above assessment assumes Univar should have performed more or less in line with Brenntag, but the comparison over the same period of time with IMCD and Azelis, which both grew EBITDA organically by 54% (vs. 27% for Brenntag), suggests even greater dis-synergies.

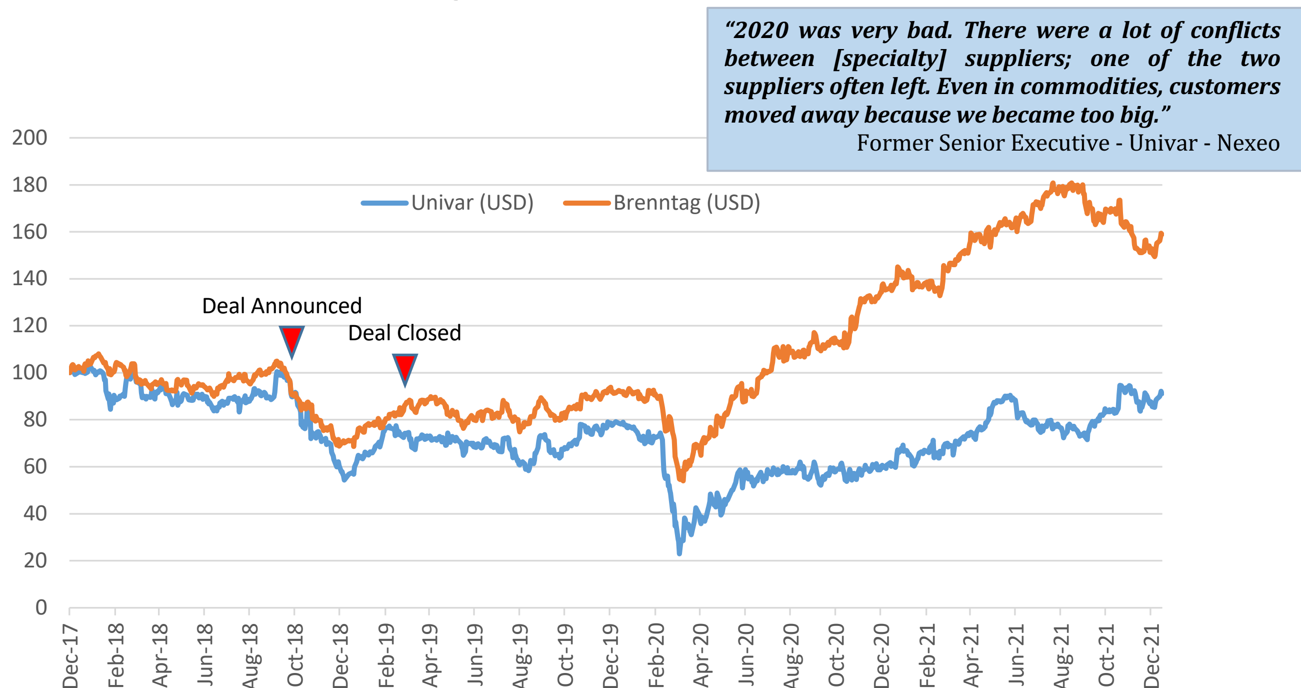
Our interviewees acknowledge that it was very difficult to assess before the deal precisely how much business would be lost. They mention with the benefit of hindsight that management were overoptimistic. **They now estimate that roughly 10% to 20% of the combined business went to competition.** In fact, the impact of $150-230m of lost EBITDA shown in our analysis above

[2] Initial purchase price of $2bn adjusted from the disposal of the plastics business for an enterprise value of $640m

represents the equivalent of **c.7-11% of the combined 2018 gross profit**[3]. This is approximately double the amount that we were told McKinsey had estimated prior to the acquisition (3-5% in dis-synergies), which shows how difficult such dis-synergies are to forecast.

Univar's share price performance tells a similar story: as one former senior executive from Univar told us, the acquisition integration turned into a "mess".

> ***"2020 was very bad. There were a lot of conflicts between [specialty] suppliers; one of the two suppliers often left. Even in commodities, customers moved away because we became too big."***
> Former Senior Executive - Univar - Nexeo



As Univar is c.45% the size of Brenntag, while Nexeo Chemicals was less than 20% that of Univar, it can be feared that the percentage of lost volumes and dis-synergies would be materially higher than the 7-11% experienced on Nexeo. This is what other interviews indicate would happen should the deal go ahead.

> *"I would expect customers with a big exposure to shift 20% to smaller distributors, while on the supplier side, conflicts in Specialties particularly may lead to straight loss of suppliers"*
> Former Brenntag Relationship Manager - $50bn Chemical Company

> *"Our exposure to the combined company would be very significant. I'm a bit worried to be frank, we would start looking for alternatives if this were to happen. For sure they will not see any growth, quite the opposite. It is not a welcome merger, it will be an opportunity for other distributors"*
> Head of Procurement - €10bn Chemical Company

> *"Assuming $15bn of COGS for Brenntag and $8bn for Univar for a total of $23bn, I would say the combined group could lose $2bn to $5bn of business as suppliers redistribute their volume to other competitors"*
> Former Senior Executive - Univar

Speaking to a former executive in charge of managing distributors at one of the largest chemical suppliers in the world, we learned that c.15% of their overall business was going through

[3] Base line 2018 gross profit including Univar ($1.9bn), Nexeo (c. $370m) adjusted for the Environmental Services, Canadian AgChem and Distrupol exits, resulting a base level of c. $2.1bn in 2018

distribution and roughly 40% through Brenntag and 25% through Univar, a combined 65%. It does not take much to imagine that they would rebalance 6-13% of their total business to others.

According to our analysis, gross cost savings from the transaction could amount to €500-700m, before any antitrust-related forced disposal (see next section). **If the combined gross profit declined by 10%, the business would lose c.€680m of gross profit, totally wiping out the cost savings. Should it lose 20% of its business, this transaction would have a vastly negative impact on profits.** This is also without taking into account potential disruptions to service levels brought about by site consolidations, and salesforce integration.

With such a low margin for error, the disturbing precedent of the Nexeo acquisition and given our calls with current or former managers, customers and suppliers all pointing to a high risk of significant volume losses, we think management cannot have a high degree of confidence that they will achieve a worthwhile profit improvement. This is not a risk worth taking, especially for a transaction of this magnitude.

This situation is probably best summarized by two quotes from our due diligence:

> *"Competitors are drooling about this transaction. They know they will gain a lot of volume. They have already started calling suppliers and customers to steal volumes away from both Brenntag and Univar."*
>
> Former Senior Executive - Brenntag

> *"This transaction will be every independent and regional distributor's delight if it happens"*
>
> Former Senior Executive - Univar

2. Long antitrust process during which the uncertainty will favour competitors who are "drooling for such a transaction"

a. Substantial local market shares in Essentials in the US and in some European countries leading to an 18-month process with likely painful and costly remedies

Our interviews have highlighted significant concerns from customers given the high local market shares driven by the geographic location of distribution assets and a real fear that such a position would be used to extract better pricing where possible. There are precedents. In 2011, in Europe, when Univar acquired Quaron, it was not able to buy the French business, then number three[4] behind Brenntag and Univar. The division was sold to privately-owned Stockmeier. The process took a year from announcement to closing.

Even back in 2006, Bain Capital, Brenntag's then owner, thought such a combination unrealistic: *"Also, In terms of the exit route, a trade sale was deemed unlikely because a horizontal merger with one of the large competitors such as Univar or Ashland would not be allowed by competition authorities"* (source: 2012 Case Study Technische Universität München). More than a decade later, we do not see how various authorities would consider favourably a combination between the number one and two players.

b. Unfavourable US administration in place

The current US administration has made it very clear that they were unhesitating in rejecting industrial combinations, even when talented and experienced management teams thought they could convince them otherwise. The blocked acquisition of Simon &

[4] Quaron moved to Phase 2 Review: https://www.autoritedelaconcurrence.fr/en/communiques-de-presse/1-october-2010-distribution-chemicals

Schuster or the stance taken on the Microsoft/Activision case are good examples. Antitrust reviews will focus on market shares by geography, by product and by vertical, and the modest top-down market shares are of limited relevance.

3. Distraction from fixing some of the operational weaknesses of Brenntag and preventing other smaller, less risky and more synergistic acquisitions

a. Underwhelming historical performance and need to focus on improving Brenntag itself

Stepping back, it is worth remembering that despite its high quality, Brenntag has had underwhelming results for many years before the Covid-induced boom. Since, it has again significantly lagged its competitors. This was reflected in the performance of its shares:

Annualised TSR (%)	2015-19 5-yr pre-Covid	2015-10/22 Incl. Covid boom
Brenntag	3%	6%
DAX	6%	4%
IMCD	24%	23%

Source: Bloomberg

In addition and most importantly, our interviews have revealed significant enduring issues related to the quality of customer service, which has been branded by some of our contacts as ranging from "cumbersome" to "very difficult". This seems to have gone on for years and has not been addressed yet. Project DiDex should help. So will the separation of BSP and BES.

We trust the Board gets reported Net Promoter Scores by country and business on a regular basis. Some companies even report them to investors. These scores should be enough to demonstrate that Brenntag's management still have a lot on their plate.

Large acquisitions are rarely positive for customers' experience, even when the acquirer is already well run. We do not believe Brenntag is in a position to risk damaging its current standing further; on the contrary it needs to improve rapidly.

b. Lost opportunities

A combination with Univar would prevent Brenntag from acquiring smaller companies, at the minimum during the antitrust review process, but also most likely during the integration period when teams would be focused inwardly. In fact, Univar has made very few meaningful acquisitions since the announcement of the Nexeo acquisition.

Over the period, Brenntag would miss on investing €1.5-2bn in attractive acquisitions that will instead be seized by competitors. These smaller bolt-ons are less risky and highly accretive when properly integrated. Usually financed with the company's cash flows and acquired at lower multiples, they would contribute to a cumulative c.10% accretion over three years.

4. **Top management has a relatively short experience of this industry and the senior team has no track record of significant integrations**

   With all due respect, Brenntag's CEO and CFO are relatively new to the chemicals distribution industry and would be embarking on a transaction that most industry veterans we spoke to describe as "very risky" or with even harsher words. Even the few who see in it a "theoretical" strategic logic, view it as a "huge enterprise" where "a lot could go wrong".

   The comment made by management at the end of our last meeting that a Univar acquisition could be a way to gain size and therefore be capable of one day potentially acquiring an IMCD or Azelis, companies trading at multiples double that of Brenntag and the integration of which would undoubtedly present gigantic dis-synergies, is disconcerting at best. While we admire bold thinking, we would be extremely disappointed if management turned out to be "empire-builders".

   We also note that the team has no experience of large integrations. One should not be fooled by Project Brenntag's execution that management present as having helped "build the muscle" to make such an integration possible. First, it is quite difficult to see the actual bottom line impact of Project Brenntag yet: expenses have kept growing and the company has over the implementation period still lagged IMCD and Azelis in EBITDA growth performance, possibly because as our on-the-ground checks indicate the program is not totally over yet. But second and most importantly, a Univar integration would be orders of magnitude more challenging than Project Brenntag given the commercial and supply challenges, and the IT integration.

5. **A Financial Deal, With Most of The Value Created from Re-leveraging**

   Finally, from a financial standpoint, given the likely price to be paid to Univar's shareholders and management's stated willingness to preserve Brenntag's investment grade rating, we believe that not only would Brenntag be issuing shares to buy a competitor at a significant premium to its own multiple but also that, in an optimistic scenario in which there would be some accretion to Earnings per Share, it would actually come from the simple re-leveraging of the balance sheet. This option is also available to Brenntag without acquiring Univar.

   We estimate that a re-leveraging to 2.5x-3.0x EBITDA to buy back Brenntag shares would be just as accretive as a Univar deal, even in an unrealistic blue-sky case assuming de-minimis dis-synergies.

For all the reasons detailed and substantiated above, we believe that pursuing Univar would be a historic strategic mistake. The longer discussions go on, the more anxiety is created at suppliers and customers. Talks need to end right away. We ask that management turn the page, and refocus their attention onto creating real shareholder value with a standalone Brenntag by building upon what has been started. This is covered in the next two sections of this letter.

II. Restore an Efficient Balance Sheet and Capitalise on Brenntag's Depressed Valuation

We believe the valuation of Brenntag to be depressed, even in the context of the modest historical performance. The contemplated deal has made things even worse. The company now trades at a 7x 2022 EBITA and 9x 2022 PE in comparison with its historic multiples of 12x and 15x respectively.

Like management, we think the market underestimates the resilience of the business, its cash flow generation profile during recessions, its ability to thrive in times of supply chain disruptions or mutations, and its ability to hold on to a big part of the gross profit gains made in the last two years.

The business is relatively unlevered (c.0.5x Net Debt to EBITDA at the end of 2023 pre IFRS16), especially given its cash flow generation profile. As a reminder, Bain Capital acquired it in 2003 with 4.2x Net Debt to EBITDA and BC Partners acquired it in 2007 with 6.5x Net Debt to EBITDA. To be clear, we do not recommend such high levels of leverage but we use these data points as evidence of the strength of the business and its ability to comfortably carry more debt than it has today.

Management is a lot more optimistic than the market regarding the group's performance in 2023 and beyond. Unlike their predecessors, they are not afraid to take on additional leverage as evidenced by their desire to at least analyse the Univar acquisition.

These elements suggest an obvious way to create shareholder value: restoring an efficient balance sheet that preserves the company's strategic flexibility while optimising the cost of capital. **We recommend doing so by launching a €2.5bn share buy-back program which will lift Earnings per Share by roughly 25%.** After all, management would be buying more of Brenntag, a world leader they are most familiar with, at a very attractive valuation and without execution risk and distraction.

It is worth noting that Univar, facing the same dilemma and market dynamics, and starting with a higher leverage ratio (2.1x Net Debt to EBITDA at the end of Sept 2022), accompanied its Q3 earnings with the announcement of a $1bn share buy-back, equivalent to c.23% of its share capital at the time. This is roughly equivalent to our suggested quantum.

III. Announce the Future Separation of Brenntag Specialties (BSP) and Essentials (BES) to Form Two Distinct Listed Companies

For years, investors in Brenntag were told by management, with the blessing of the Supervisory Board, of the strengths of the "one-stop-shop" or "integrated" approach. But shareholders never saw the tangible benefits of this strategy reflected in the financial performance nor the share price development.

We commend Christian and his team for recognising that Specialties and Essentials are two very different businesses: the first is a sales & marketing business in which product and formulation expertise is critical; the second is a logistics business in which sourcing capabilities, distribution assets and lowest cost to serve are the main sources of competitive advantage. The Capital Markets Day organised last month in London was extremely effective in making that point and of course led analysts and investors to wonder and ask questions about an eventual separation.

Such a view is validated by the fact that pure-play competitors, both publicly-listed (IMCD, Azelis) and privately-owned (eg. Safic-Alcan, Barentz, Caldic) are not only surviving but thriving. They are performing much better than Brenntag.

According to our work, BSP's performance is significantly dragged down by being under the same roof as BES and it cannot fully leverage its position as the undisputed world leader: its position vis-à-vis customers, suppliers and acquisitions targets is negatively affected. This can and has to be solved, the sooner the better, given the fact that value is being wasted as time passes.

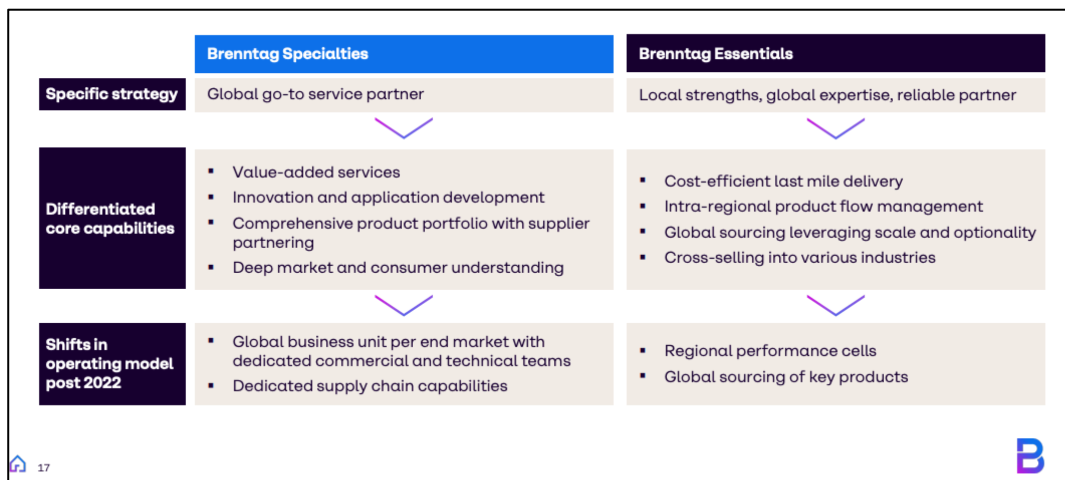
Both BSP and BES are world leaders in their respective market. Given their absolute and relative size, the functions they share can be split with minimal cost inefficiencies. Indeed the evidence suggests they could be run more efficiently independently. They are large enough to be listed separately. They should be.

1. Specialties and Essentials are Fundamentally Different Businesses

Specialties and Essentials are different businesses that do not belong with each other:

- Different key success factors and value propositions for customers and suppliers: see slide from Brenntag's 2022 CMD below

- Different sales processes and salespeople/profile: Specialty salespeople are functional experts, Essentials salespeople are more traditional relationship managers or order takers
- Different logistics infrastructure: pure-play Specialty distributors typically outsource their logistics entirely whereas it is a source of competitive advantage for Essentials distributors
- Shared costs are small in the cost structure and are not greatly affected by scale

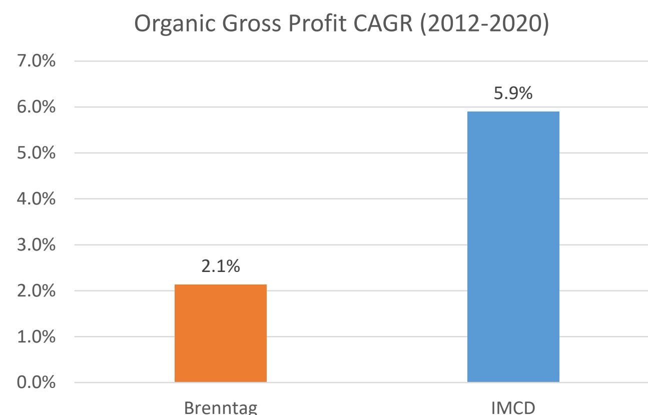


Source: Brenntag 2022 CMD

2. The "One-Stop-Shop" Model Has Underperformed Pure-Play Distributors

If Brenntag were deriving any competitive advantage from having Specialties and Essentials under the same roof, it would outperform good pure-play competitors both on Specialties and Essentials. Or at least, it would have outperformed for some period of time in the last decade. This has not been the case. In fact, Brenntag has underperformed large publicly-held competitors and, according to our interviews and conversations with owners or managers, sizeable privately-owned players as well.

Looking from afar, it is hard to tell that the world leader of Specialty chemical distribution is buried within Brenntag and accounts for almost half its profits

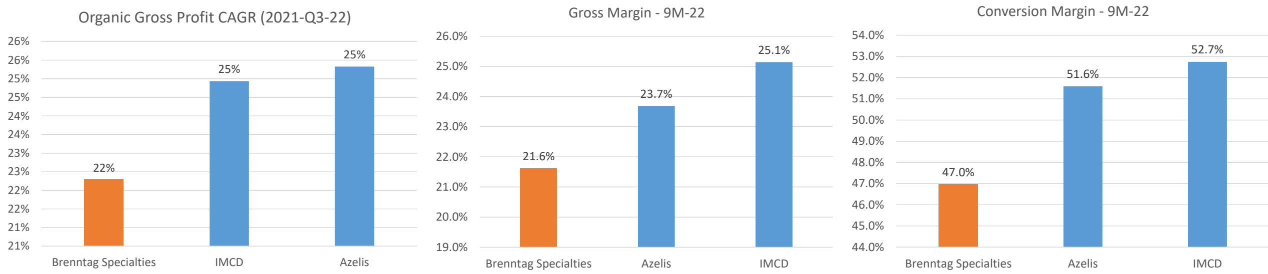


Source: Company Reports, PrimeStone estimates

Of course, the business mix is different and unfortunately, Brenntag only started to report details of the two divisions' performance recently. But one can still get a good sense that the set-up is not optimal. Essentials is a GDP+ business. Assuming organic performance at Brenntag Specialties has grown in line with IMCD or Azelis, then it follows that Brenntag Essentials has grown well below GDP between its IPO and the Covid-induced boom, even when adjusting for geographic presence. If on the contrary, Brenntag

Essentials has grown in line with GDP in its covered geographies, then the company has vastly underperformed IMCD and Azelis in Specialties.

This can also be seen since Brenntag has been reporting both of its divisions separately. The underperformance extends itself to all key metrics available.



Source: Company Reports. Note: Brenntag Specialties conversion margins presented after 35% allocation of central costs

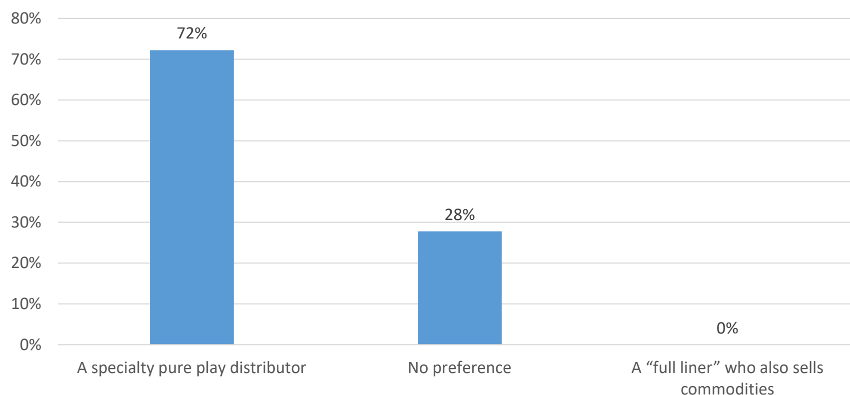
3. Brenntag Specialty (BSP) is Dragged Down as Part of a Full-Line Provider

As Brenntag has taken incremental steps towards standalone businesses with the separation of the sales forces and of the logistics infrastructure, the relative underperformance of the Specialties business has remained. **We believe this lagging performance stems from the structural competitive disadvantages of the integrated model, be it the "One-Stop-Shop" or "Under-The-Same-Roof" model, compared to the pure-play specialty model on three key dimensions: attracting suppliers, customers and M&A targets.**

a. *Suppliers*

Specialties suppliers have a strong preference for pure-play distributors that have the product/market expertise to market their products effectively. Even with a dedicated Specialties salesforce, Brenntag's perception as a one-stop-shop with an Essentials offering puts it at a competitive disadvantage when trying to win new Specialties suppliers. A proprietary survey of Specialties suppliers largely validates this hypothesis.

When choosing a distributor for your products, do you have a preference for a type of distributor?



Source: PrimeStone survey conducted during three tradeshows: Chemspec 2022, FECC 2022 and CPHI Frankfurt 2022 (n=48)

> *"Our approach with distributors is to look for specialists, we usually prefer global specialty pure-plays like IMCD or Azelis and also use local champions. The one-stop-shop model doesn't have enough focus/expertise for us"*
>
> Manager of Distributor Relationship Manager, Chemical Company (€5bn Rev.)

b. *Customers*

When it comes to customers, the decision makers selecting a specialty chemicals distributors are product development and R&D teams who are attracted to the distributors with the best product expertise and product portfolio. Brenntag's Essentials' offering is of little value to these product people, and actually tends to act as a deterrent as customers contact points with Brenntag often involve Essentials people, who have little technical expertise in specialty products.

Most customers have multiple suppliers[5] and having "one invoice" is unlikely to be a key competitive advantage for "one-stop-shop" players. The "one invoice" might appeal to the procurement people executing on the orders, but it is rather irrelevant to the product development and R&D teams, who make the decisions. If this created a competitive advantage, one would expect it to show in the financial outperformance of the "one-stop-shop" players; as mentioned above, it does not.

> *"If I have the choice, I usually go for Azelis or IMCD over Brenntag for Specialties. In order to consider them [Brenntag], you would need to see that they take specialty seriously, there has to be a full re-branding of the company, and it has to come through the Key Account Management as well (which are most often commodity people). Today, if I look at the top, I feel like "they don't really know where their strength is" – they need to rebrand, since being two under the same roof doesn't work."*
>
> Global Procurement Manager - Chemical Company (annual spend of €100m with chemical distributors)

> *"Today I have five different points of contacts with Brenntag (e.g. for solvents, resins, basic polymers etc.), but none of them are technical experts, so when I need technical help on emulsifiers or surfactants, it's much faster for me to go to Azelis.* ***If Brenntag were to split the business between commodities and specialties with two points of contacts and real technical expertise on the specialties side, that would be a major improvement for me compared to today****"*
>
> Global Procurement Manager - Chemical Company (annual spend of $35m with Brenntag)

> *"If Brenntag or Univar were to create a pure-play specialty business, the top 20 suppliers would be ecstatic, as they won't be bundled with industrial chemicals"*
>
> Former Senior Executive - Univar

[5] According to a proprietary customer survey (n=162), 6% of customers buying both specialties and essentials products only had one supplier

c. M&A Targets

As the third pillar of growth in chemicals distribution, M&A is another area of competitive disadvantage to attract high quality specialty players. The most attractive M&A targets in the Specialties segment "don't see themselves" becoming part of Brenntag and see a better cultural fit inside pure-play specialties distributors. This is illustrated in a few highlighted quotes:

> *"We were approached by Brenntag and Univar but I was not interested to speak with them as the fit was much better with IMCD or Azelis who have the same culture as us"*
>
> Chemicals Distributor CEO - Acquired by IMCD

> *"I tried to buy MF Cachat and ET Horn, but the owners saw a better fit with IMCD than Brenntag, which they viewed as an Essentials player"*
>
> Former Senior Executive - Brenntag

> *"We are not looking to sell at the moment, but if we were, we would only consider a deal with a pure-play specialty distributor, definitely not a full-liner like Brenntag"*
>
> Current Senior Executive – Swiss Specialty Distributor

Finally, if one was still in doubt on the topic, IMCD's CEO, Piet van der Slikke, widely recognised as one of the best and most experienced CEOs in the industry, summarised it well at a recent investor conference:

> *"**Brenntag is not in a better position by having Commodities and Specialties. There's no advantage whatsoever to have the two under one roof. The dynamics of selling Specialties and Commodities are totally different. And Specialties manufacturers are not very inclined to put their products with a Commodities distributor. <u>So, we have a big advantage there</u>**".*
>
> Piet van der Slikke, CEO IMCD – October 2022

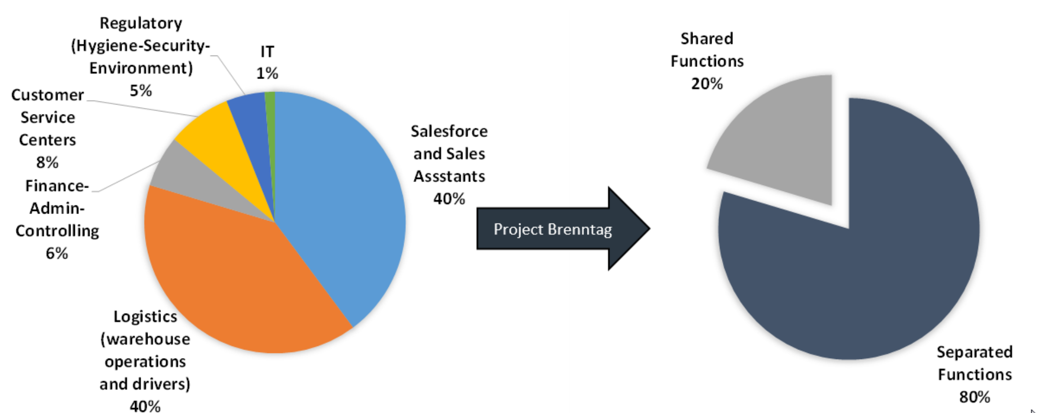
4. Separating BSP and BES Should Not Create Much Cost Inefficiencies

a. Core functions are already separated with limited shared functions hence dis-synergies potential

The core functions of salesforce and logistics have already been separated as part of Project Brenntag. In fact, as mentioned above, Specialty distributors typically outsource logistics as it is not seen as strategic. In discussions with management we understood that BSP outsourced roughly half of its activity to third parties already. The other half is managed internally by BES. This could of course be maintained or modified over time should BES and BSP become independent.

The remaining shared functions are mainly support functions including customer service centres, HR, Finance and IT. These shared costs only represent ~20% of the workforce, 10% of the Opex below gross profit or ~1.6% of revenues.

Feedback received from former employees indicates that a separation of these functions would be a relatively straightforward exercise. Even if the costs rose by 10%, this would only add c.€20m or 1.1% of EBITDA, a negligible amount given the benefits at stake.



Source: Breakdown of Brenntag's Workforce. Company Reports, PrimeStone estimates

b. Peer benchmarking and historical data validate the sustainability of profitability KPIs

As highlighted earlier, Specialties peers Azelis and IMCD have higher gross margin and higher conversion margins despite being approximately half the size of Brenntag Specialties, which suggests that Brenntag's profitability metrics are at least sustainable (and can actually be improved), were it to be split into two separate organisations.

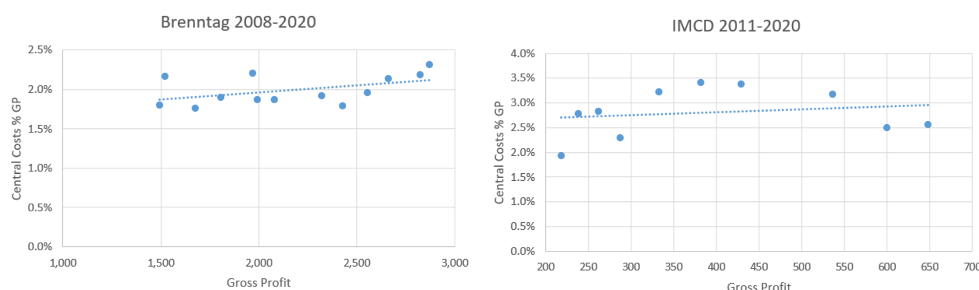
A similar logic can be applied to central costs where Brenntag's current central overheads are sufficient to accommodate holding costs for the Specialties and the Essentials businesses as standalone units. The analysis of historic and current cost structures suggests that scale effects on support functions are limited given the already large size of each individual division and a separation should therefore not lead to a material increase. In fact, it would actually force a review that may lead to savings.

Brenntag does not have lower central costs, suggesting no scale benefit

Central Costs Benchmarking (2021)	Brenntag	IMCD	Azelis	Univar	Average
Revenues	14,383	3,435	2,827	9,536	
Gross Profit	3,379	836	650	2,393	
EBITA	1,082	374	268	647	
Central Costs	**102**	**29**	**25**	**32**	
Central Costs % Revenues	0.7%	0.9%	0.9%	0.3%	**0.7%**
Central Costs % GP	3.0%	3.5%	3.8%	1.3%	**2.9%**
Central Costs % EBITA	9.4%	7.8%	9.2%	5.0%	**7.9%**

Source: Company reports – PrimeStone analysis

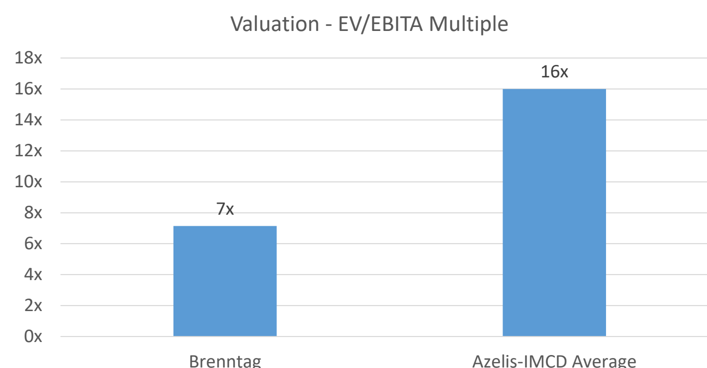
As they grew 2-3x , Brenntag and IMCD's central costs did not decrease, suggesting no scale benefit



Source: Company reports – PrimeStone analysis

5. The Discounted Valuation Attributed to Brenntag by Financial Markets Provides Considerable Upside in Case of Separation

As for valuation implications, we note that Brenntag trades at a steep discount to pure-play Specialty distributors.



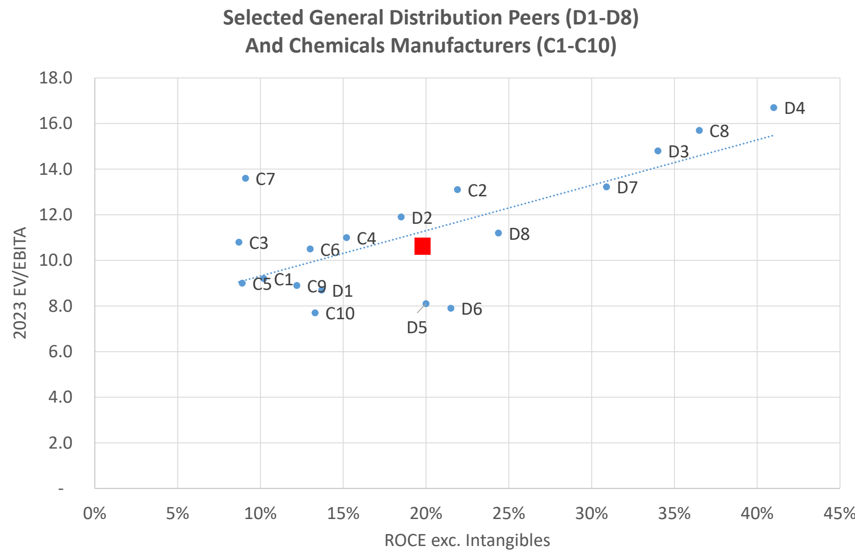
Source: Company Reports, PrimeStone / Bloomberg 2023 estimates

Of course, the reason specialty pure-plays trade at >100% premium to Brenntag is their superior performance. This message is also conveyed by the analyst community when it values Brenntag on a SOTP basis.

We believe this reflects the fact discussed above that BSP is dragged down by the current model "under-the-same-roof" but also the lack of transparency, of clear track record, and also the fact that investors in Brenntag are "forced owners" of two businesses with fundamentally different dynamics.

If BSP, the world leader in Specialty distribution, is worth the same multiple as comparable companies, then the current share price reflects a negative value for BES, which cannot be the case given the quality and strength of this business.

On the contrary, we believe that BES should be valued at c. 10-12x 2023 EBITA, i.e. at only a small discount to Brenntag or Univar historical valuations, when Specialties accounted for a lower proportion of their earnings, and in line with a basket of chemicals producers and broader distributors with similar ROCE characteristics.



Source: Company Reports - Bloomberg estimates

Equally, with BSP, once independent, we see no reason for it not to emulate Azelis, which with the right team and focus, under private equity owners, turned itself from an average performer to a true leading player on par with IMCD. One could argue that BSP, which benefits from greater scale and reach should eventually trade at a premium reflecting its leadership position and earnings power.

Brenntag trades very far from its Sum Of The Parts Valuation (EV/EBITA)

Source: Company Reports PrimeStone estimates. Note: short-term SOTP assumes 10x EBITA for BES and 14x EBITA for BSP in the short-term, and 16x in the long-term

*

In summary, we conclude that the combination of a share buy-back and a full separation of Specialties and Essentials would create significant shareholder value and help the shares reach €150-170 driven by:

- **+15% from terminating the talks with Univar and refocusing on the business**
- **+25% from a share buyback program to get back to management's leverage target**
- **+10% from small bolt-on acquisitions**
- **+20% from earnings/multiples normalising in line with long-term historical averages**
- **+30% from separating BSP and BES**
- **+15% as time passes and both independent businesses' performance catches up with that of peers**

All this is in management's control and presents a low risk of execution.

The share buy-back can be started immediately. The separation cannot of course be done precipitously but it has to be started. Based on our own experience of carving out businesses and preparing them for a sale or a listing when we were private equity investors, and based on comparable projects undertaken by other companies, we estimate that this could be completed within the next 18 months.

***

Before concluding, we note that this transaction could take place without any shareholder approval because you are authorised to do deals of such size and issue stock for the necessary amount. We do not believe this to be proper governance and ask management and the Supervisory Board to think of ways to remedy this situation at the next AGM by giving a bigger say to shareholders and limiting the risks to which insiders can commit the company, especially in the context of their little share ownership and hence misalignment of interests. The latter also needs to be resolved of course and share ownership by insiders needs to grow significantly.

Today, Brenntag is at a crossroads and you need to make a decision that will shape its future:

- On one hand, we see a large transaction with some theoretical strategic rationale but with significant clearly identified risks: dis-synergies, antitrust, execution and distraction. Risks that materialised in a most relevant situation, destroying significant shareholder value.
- On the other hand, management can focus and aggressively pursue the recent strategy of separation in line with what was presented last month at the Capital Markets Day, and its logical conclusion: a full separation. This involves far fewer risks and will create the conditions for better operational and financial performance and should lead over time to a significant re-rating.

After an openminded and in-depth investigation of both options, our unequivocal findings lead us to think that the latter is a far more attractive proposition.

Should the Board and management decide to ignore the evidence discussed above and still pursue a transaction with Univar, we think shareholders may well be founded in notably requesting a special audit of the due diligence process and, according to our advisors, getting the protection from the "business judgement rule" could be tricky and give rise to potential liabilities (Cf. Monsanto/Bayer current litigations).

We trust you will recognize that given the risks involved, our commitment to Brenntag and the fact that shareholders have no say in the matter, we had no choice but to share our analysis and findings with you, Brenntag's shareholders and analysts before a decision was made.

We look forward to our continuing constructive dialogue and to your reply.

Yours respectfully,

PrimeStone

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