PrimeStone

London, 24th March, 2023

Members of the Supervisory Board - Brenntag SE
Christian Kohlpaintner, CEO

Dear Doreen, Dear Richard,
Dear Members of the Supervisory Board,
Dear Christian,

Following our constructive meeting with Christian in London on March 13th, the public conference call with analysts and shareholders on March 8th, and the recent Frankfurter Allgemeine Zeitung interview, we note the continued resistance to announcing a full separation of BSP from Brenntag and setting it free, finally able to compete on equal terms with its better-performing peers.

We thought we would write this short letter to make a few important points for the future of Brenntag regarding strategy, communication, current cost inflation and governance, and to offer suggestions and proposals to set the company on the path to creating significant shareholder value.

1. First, despite assurances received from Christian that the two businesses are steered "more and more independent of each other", "any decision is taken with the end-game in mind" and that everything is done to "build optionality" regarding the separation of BES and BSP, we remain convinced that:
   - The main reasons publicly communicated for BSP's current underperformance are not valid, in particular the claim that BSP's mix is unfavourable
   - Horizon 2 on its own does not break the vicious circle in which BSP finds itself: lower growth and "commodity" image => lower attractiveness for Specialties suppliers, talents, targets and customers => in turn fuelling lower growth and suboptimal image
     - This is reflected in the share price performance when and since Horizon 2 was presented
   - What BSP has to do to catch up with peers can be done without being tied to BES and during the 18-24 months required to set it free. Doing so will actually be easier if a separation is announced.

   As a result, we urge you to announce the separation as quickly as possible together with the associated timeframe.

   Please refer to Appendix I for more details.

2. Second, we point out that you have so far used a rather equivocal line of communication on the separation and have given no indication it is actively pursued nor even being analysed with the proper focus and sense of urgency. This uncertainty, in the context of the shock inflicted on investors with the pursuit of Univar and the continuous claim that "bold moves" are still on management's agenda, is very detrimental to shareholder value. As an analyst told us recently: "*the share price does not attribute any value to the possibility that the business may be split*".

   We recommend you improve the clarity of communication, focus internal resources on the best bolt-on opportunities and stay away from "bold moves", which long time performing CEOs avoid.

   Please refer to Appendix II for more details.

3. Third, the last set of results have raised further concerns on the significant cost inflation in the business, which we find particularly troubling at the dawn of a possible pull-back in gross profit. This is a topic that we raised with you in prior meetings and that deserves all your attention at the risk of losing credibility.
   - Project Brenntag's benefits are nowhere to be seen in the cost base: despite rather flat volumes, Brenntag has "re-hired" 850 people out of the 1,300 jobs it has eliminated. Management has been very precise on the gross reductions but has not been transparent on the re-hiring. This is both a communication issue and a governance/control issue. The only thing that matters to investors and performance are the net benefits.
   - The cost structure seems frankly out-of-control on several dimensions both anecdotally and on a consolidated basis.

   We fear that the rising tide of gross profit inflation of the last 2 years has hidden a severe deterioration in Brenntag's cost structure and that the discipline that should have prevailed has been abandoned. As the tide recedes, management run the risk of failing to achieve their targets and lose further credibility. This would be a real pity.

   We encourage you to revisit your entire cost structure quickly, identify where costs have ballooned for no good reason and get leaner and better prepared for a toughening of the environment. This could be done in conjunction with the split of the two businesses by determining what each entity really needs to operate efficiently rather than focus on the allocation of existing costs and resources (Zero-Based Budgeting approach).

   Please refer to Appendix III for more details.

4. Finally, as you can see in Appendix IV, Brenntag's share price continues to underperform despite the presentation of Horizon 2 in November, the numerous interactions of management with investors over the last few months and the significant return of capital announced with the full year results.

   As a result we ask you to:

   (i) **Clarify before the AGM the Board's view when it comes to the future of BSP:** after all, Doreen, Richard and another candidate are proposed by the Supervisory Board for (re)election; we think shareholders are entitled to know before they vote where the Supervisory Board's leadership stands on the matter and where it wants to drive the business

   (ii) **Strengthen Brenntag's governance through two main measures:**
      a. **the appointment of two Supervisory Board members we would like to nominate and introduce you to as soon as practicable**
      b. **the reduction of the term of all Supervisory Board members to one year only**, in the context of which, we would kindly ask all Supervisory Board members not up for re-election this year to voluntarily stand down and put themselves up for re-election so as to align themselves with the newly elected members. This would fit nicely with
         i. **ISS: "***Under best practice recommendations, companies should shorten the terms for directors when the terms exceed the limits suggested by best practices….the general principle that director accountability is maximized by elections with a short period of renewal*" – Continental Europe – Proxy Voting Guidelines – Effective post 1/2/23
         ii. **Glass Lewis:** "*In light of the empirical evidence suggesting staggered boards reduce a company's value and the increasing shareholder opposition to such a structure, Glass Lewis supports the declassification of boards and the annual election of directors.*" Policy Guidelines 2023 - Continental Europe

   We are convinced these measures will be widely supported by shareholders.

*

As you can see from the above, urgent action is needed on several fronts: strategy, communication, cost discipline.

Regarding the separation of BSP and BES, we understand you want to be 100% sure to deliver before making an announcement and you cited Project Brenntag as an example of something you had worked on for a year behind the scenes before announcing. Well, investors want to be 100% sure you are driving the business in the right direction and making efficient use of the company's resources, both its capital and its people. Right now, they are confused by your communication and actions and unconvinced like us that Horizon 2 on its own actually breaks the vicious circle that BSP is stuck in. They are left holding underperforming shares, and the financial numbers they are looking at make them fear a risk of short-term underperformance. We hope all this can be addressed quickly.

In fact, we fear that further inaction on your part will continue to keep Brenntag's share price depressed and make the company vulnerable to an opportunistic offer by private equity similar to the one accepted by Univar's board at an uncompelling valuation. Such a scenario would be an unmitigated disaster for Brenntag's shareholders who would not be able to participate in the value creation associated with the separation.

Meanwhile, we propose to have a short call with Doreen and Richard at their earliest convenience to discuss the above governance matters so as to reach a mutually satisfactory solution before the AGM notice is sent. In full transparency, in absence of such an agreement, we intend to nominate two candidates to the Supervisory Board with knowledge of the industry, outstanding track record of value creation and a real sense of urgency with a view to impulse an overdue step change in business performance and share price appreciation. Please note that we also reserve the right to propose other items on the AGM agenda.

We look forward to discussing all these measures at your earliest convenience and will happily travel to you to do so face to face.

Yours respectfully,

Franck Falézan

Benjamin Devaux

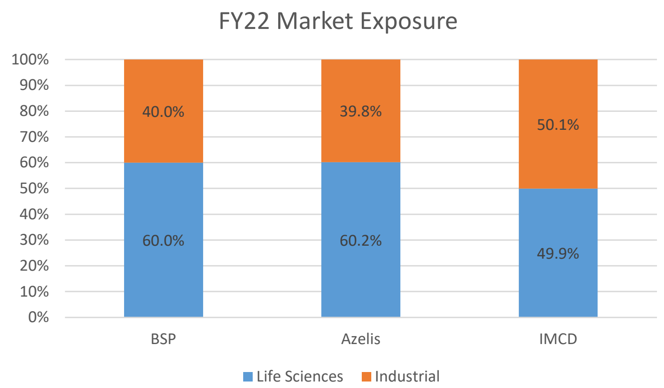
Appendix I

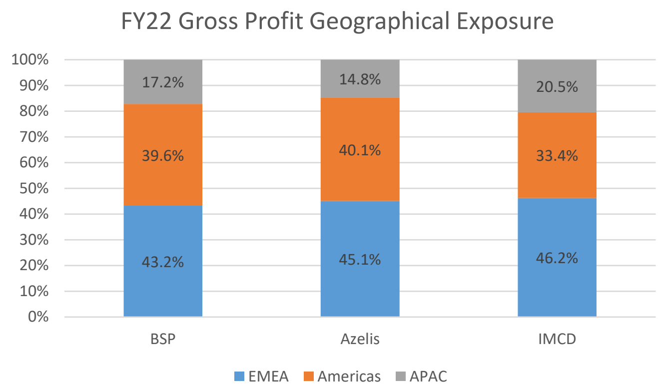
BSP continues to underperform and not for the reasons communicated

You acknowledge the difference in performance between BSP and its peers. On the results calls and in the press, you have been justifying it citing business mix (BSP having less Life Sciences and more Asia than peers), as well as lower skills and capabilities.

- Extract from FY 2022 earnings call's Bloomberg transcript: *"Thanks for the question, because I think it's a highly relevant one. And I mean, it's clear that we fully recognize that -- the performance gap... **So our exposure towards life sciences is less**...**The regional exposure we should not forget. We have quite an exposure in Asia...to be fair that the second half in Asia was really difficult business wise**."*
- *Extract from FAZ article:*
    - FAZ: *Can the specialty business survive on its own? The split-up demands also come from the fact that your competitors are growing much faster there.*
    - CK: *We are not deaf to the arguments. However, **the somewhat weaker performance at Brenntag Specialties in comparison has primarily to do with the portfolio, i.e. the high exposure to Asia, and the fact that we are still less focused on life sciences than others**. Topics are also our price and margin management. However, I see no reason why our specialties business should not develop at the same level as that of our competitors. We just have to strengthen it consistently.*

As we had already discussed, this argument does not stand scrutiny. BSP's industry and regional mix is very similar to that of its Specialties peers. In fact, IMCD have more Asia and more Industrial chemicals than BSP and they perform a lot better.





Source: Company Reports

As for the supposedly lower skills or capabilities, given the key success factors in Specialties distribution, we assume it is referred to formulation engineering and selling skills, which have literally nothing to do with BES and can be improved as the BSP is separated and continuously thereafter, as suggested by Christian to FAZ.

To build these skills further, one needs to train and equip our workforce well but also to make sure we can attract and retain talent. We showed in our previous correspondence that Brenntag was far less attractive than pure-play peers for talented Specialties sales persons and that the flows were in favour of the latter by a ratio of 7 to 1.

We had also hinted at the fact that we had knowledge of some people currently leaving Brenntag Specialties for pure-play peers because they felt, like us, that BSP was at a competitive disadvantage and did not make their job easy. As an example, Brenntag just lost a very experienced (15 years) Food Sales Leader in a key European market to Caldic this month. This is anecdotal but the statistics mentioned above are pointing in the same direction: in absence of becoming a true pure-play distributor, BSP will keep struggling to attract and retain talent without overpaying, particularly in verticals it wants to grow into and where it has to compete with more aggressive and successful peers.

Appendix II

Communication is extremely ambiguous and verges on misleading

We have been critical of ambiguous communication in the past and remain so. On one hand, management assert their preference for a strategy "under one roof", highlighting synergies that the businesses benefit from in HR, finance, IT and more recently indirect purchasing. At the same time, they acknowledge that they are taking into account the potential separation in all structural decisions, such as in the DiDex implementation, in the formation of 2 legal entities in the US, or the design of "splitable" shared service centres. They also recognise that Brenntag is a "commodity" brand and that choosing a new name for BSP will be a "defining moment".

Here is what everyone could read in the FAZ last week:

- "*CEO Christian Kohlpaintner explains why the Essen-based chemical distributor Brenntag should not be broken up*"

And slightly further:

- "*The industry around us has already largely been sorted into two blocks of Industrial chemicals and Specialty Chemicals…we are gradually making these two businesses more and more independent of each other."*

Investors deserve clarity. So do employees, suppliers and customers. They can all read "the writing on the wall". It is counterproductive to say that the businesses should be managed as separately as possible, let them think they are going to be separated and go out in the press to say the exact opposite. This is inefficient and reflects either a lack of strategic direction and clarity, the inability to make the necessary decisions or the willingness to delay the inevitable for no valid reason.

Similarly, after the Horizon 2 presentation that insisted on bolt-on acquisitions and said nothing about larger acquisitions, followed by the Univar venture that drove the 18% share price decline wiping out close to €2bn of shareholder value, we do not understand why management keep saying that "bold moves" are still on the agenda. Management's duty is not to explore everything that might create value, it is to allocate resources (including their and their team's time) in the most efficient way possible and not waste them. As we told Christian, note that the largest acquisitions by pure-play Specialties distributors typically have very limited overlap and potential dis-synergies with their existing business and are thus limited in size. Despite having very easy access to capital, Azelis and IMCD have only completed bolt-on acquisitions with at most respectively \$130m and \$300m in revenues. Caldic has completed a few larger acquisitions but mostly by absorbing companies with complementary geographic coverage ie. with very limited overlap, which it is finding harder to do now that its scope has expanded so much.

The contrast between these two quotes illustrates our point clearly:

- Extract from Brenntag FY 2022 earnings call's Bloomberg transcript: "*We will also continue to explore bolder moves when the opportunity arises*" – Brenntag CEO

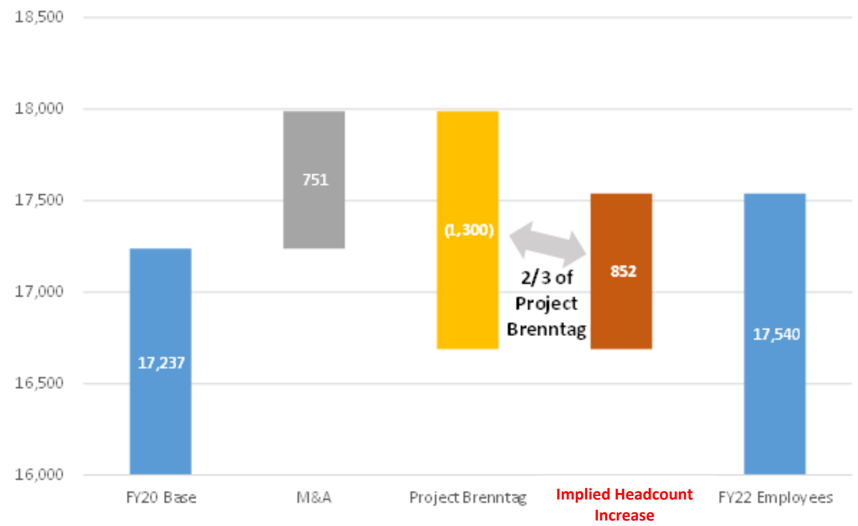
- Extract from Azelis FY 2022 earnings call's Bloomberg transcript: "*And then on […] large-scale M&A […] I feel we will continue just what we have been doing, We'll follow our strategy to move into markets where we feel we still can strengthen the lateral value chain, either with a smaller asset we acquire, with principals we work with elsewhere, or maybe like, for example, when you look into ROCSA, we do a little bit of a bigger one, where we feel we don't have the market presence and we need a springboard to further grow then in this market. So, that will be our path forward and an industry combination of some of the behemoths, I don't see that being beneficial for anybody.*" – Azelis CEO

Appendix III

Project Brenntag's bottom line impact is nowhere to be seen and costs are out of control

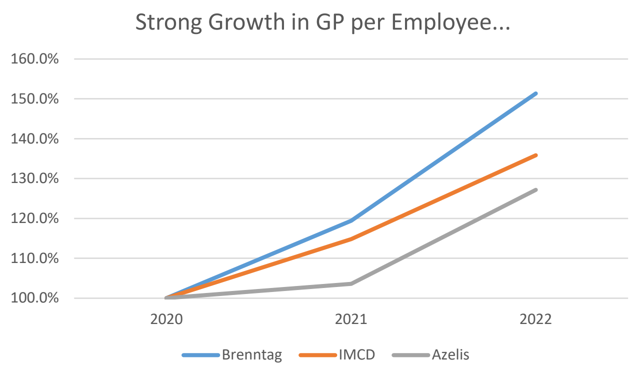
Project Brenntag has involved the closure of 100 sites and the reduction of 1,300 positions in the workforce. The benefits have been tracked and communicated in detail to the market. The problem is that the results are nowhere to be seen. During a period in which management acknowledge volumes have been rather flat, it looks as if they have hired a total of 850 FTE, wiping out 65% of Project Brenntag's claimed reduction. Brenntag has been very precise on the Project Brenntag savings, but very vague on the reinvestments

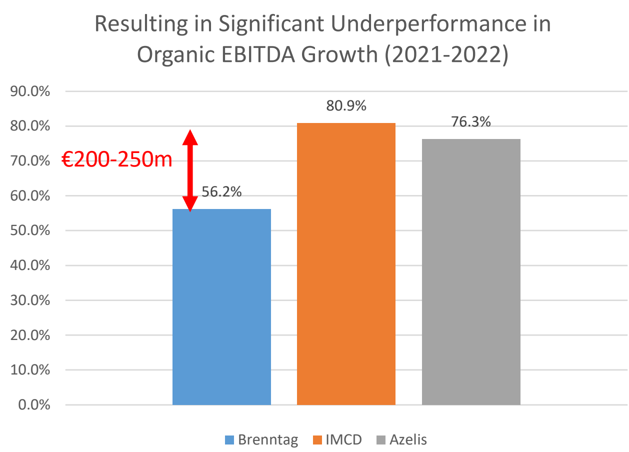
Brenntag FTE bridge

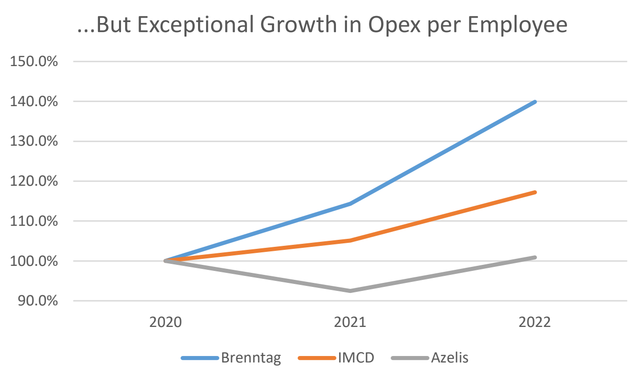


Source: Annual Reports

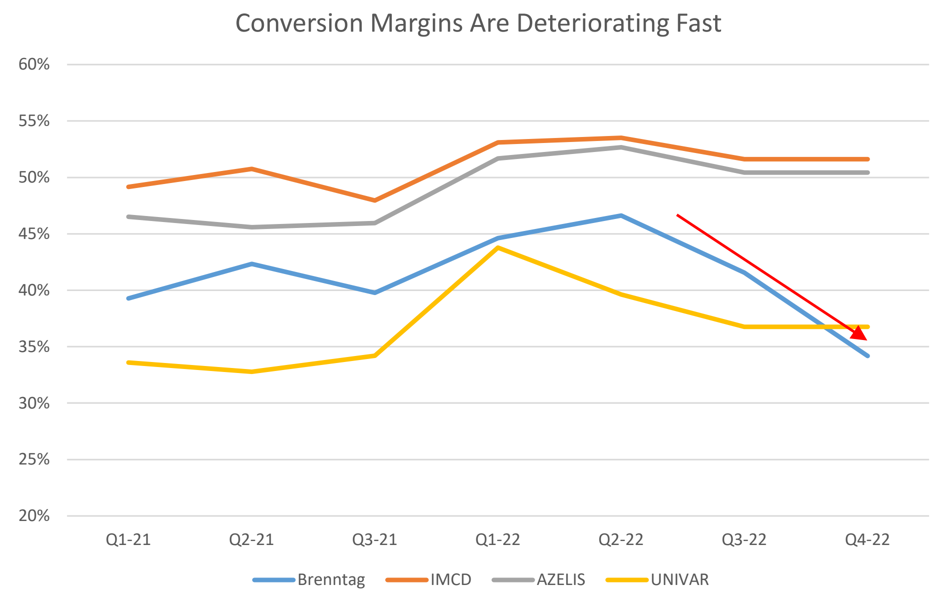
This has transpired very clearly in financial performance: while Brenntag has beaten its peers in growing its gross profit per employee in 2021-22, its operating expenses have literally ballooned, such that the organic EBITDA growth is 20%+ behind its peers (an EBITDA gap of more than €200m).







This has become even more apparent in the second half of 2022, where the savings of Project Brenntag are fading away, and one is left to see a dramatic erosion in conversion margins.



The details of cost items is scary:

	2020	2021	2022	CAGR
Personnel Expenses	1,107	1,205	1,380	11.7%
D&A and Impairments	298	374	406	16.9%
Outwards Transportation	232	272	324	18.1%
Property Related and other	38	36	42	5.8%
Maintenance and energy costs	164	183	257	25.2%
Audit and advisory fees	56	60	132	53.3%
Lease expenses	49	52	76	24.4%
Other service	37	44	59	25.8%
Insurance expenses	34	51	52	22.7%
Miscelaneous	182	226	286	25.2%
Operating Expenses	**2,197**	**2,503**	**3,014**	**17.1%**

These progressions, although they include acquisitions for an estimated c.4%, are worryingly impressive. For instance, we fail to understand how one could spend close to €250m in Audit and Advisory Fees over the last three years and €132m in 2022 only. We would welcome a detailed explanation.

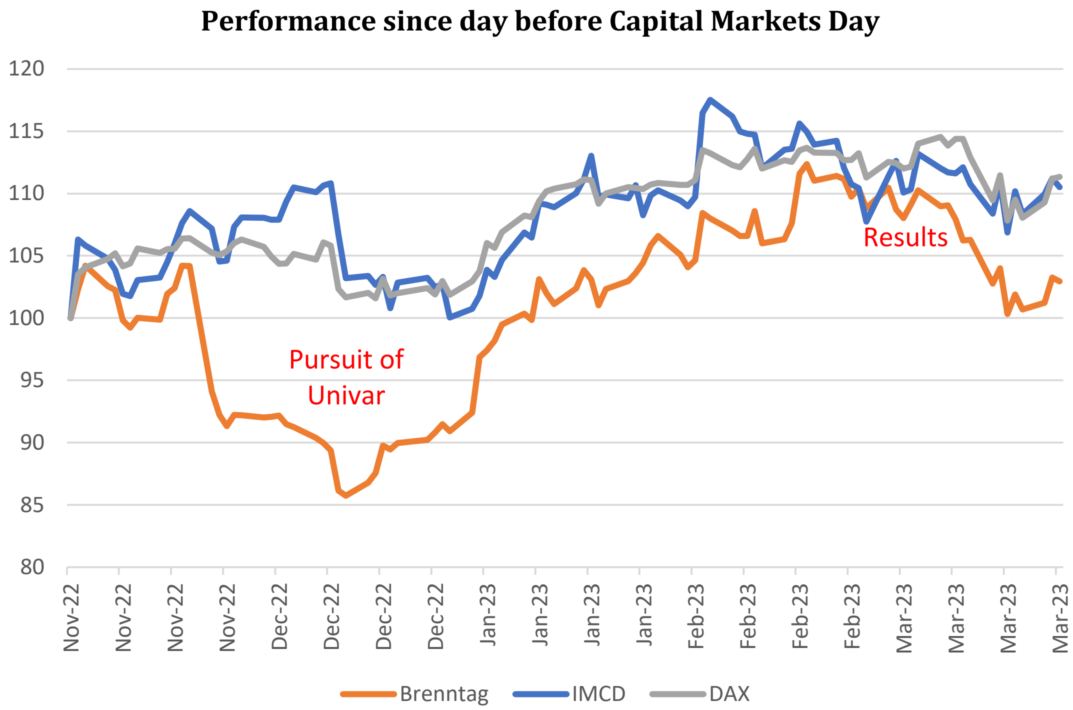
Unsurprisingly, analysts fear that the margin normalisation combined with the surge in costs may provoke a margin squeeze.

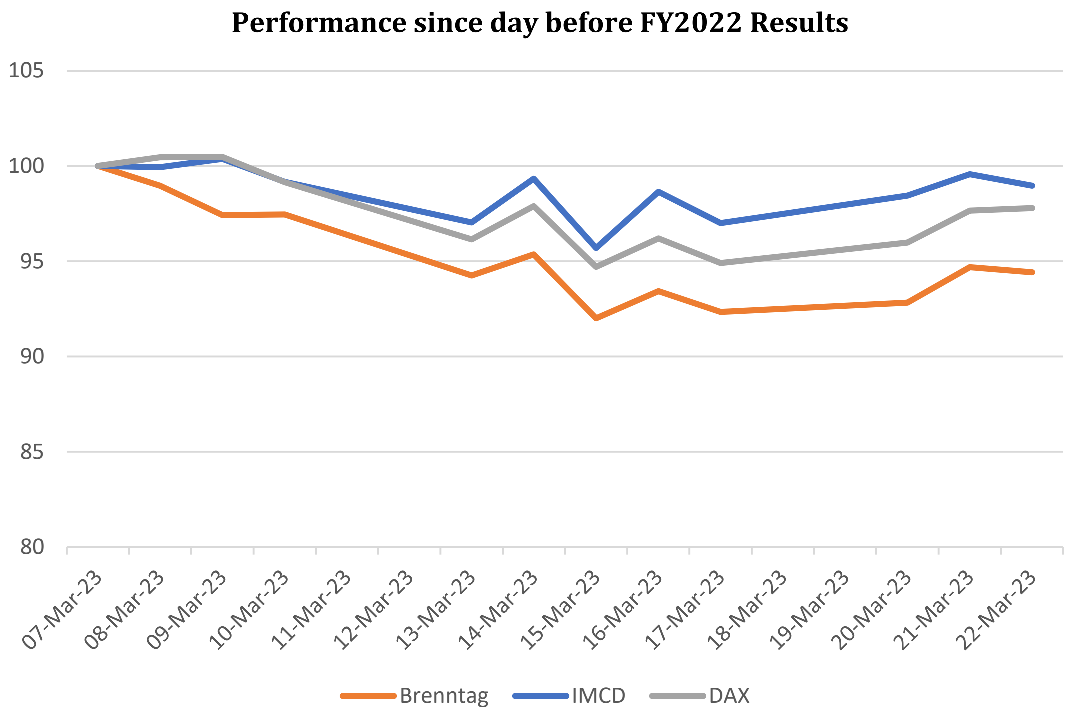
This is what JPMorgan analyst had to say when he downgraded the shares post results:

> ***No visible P&L benefit from ongoing cost efficiency programs:*** *BNR has indicated that it has achieved ~€169m cost reduction vs. 2019 base from its Project Brenntag through site network optimization (100 sites closed) and >1,300 job cuts.* ***As we have consistently highlighted, the benefit from these cost takeouts over past two years has been difficult to parse in the P&L as opex has grown ~12% CAGR organically from 2019 to 2022 even with no volume growth****. Some reinvestments from cost cuts might aid future growth but in the near-term a more sticky cost-base raises the downside risk if the normalization in GP/unit is worse than expected. Further, in the past two years BNR's opex ex. D&A intensity has worsened vs. IMCD and Azelis (Figure) which might raise further questions on the benefit of the current company structure vs. a potential split into two independent commodity and specialty businesses.*

Appendix IV

Brenntag shares continue to massively underperform





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