

Bs Business Services	Cn Construction	Co Consumer	Fd Food & Drink	Hc Healthcare	Ind Industrials	Tmt Technology, Media & Tele- coms	Wt Waste & Energy
-----------------------------------	---------------------------	-----------------------	---------------------------	-------------------------	---------------------------	--	--------------------------------

THE CHEMICALS & COATINGS FAST 25

INTRODUCING THE CATALYST CORPORATE FINANCE CHEMICALS
& COATINGS FAST 25

CUTTING-EDGE, VERSATILE, QUALITY-DRIVEN:

The UK's fastest-growing chemicals firms are thriving in tough global markets, as Ali Robertson and Jeremy Harrison explain.

The chemicals and coatings sector is a UK success story. Thriving businesses serve an increasingly international customer base, thanks to a strong track record in innovation and advanced manufacturing. The chemicals sector as a whole invests around £4 billion a year in R&D, according to the Chemical Industries Association. This is helping to deliver resilient growth in the face of challenging economic circumstances.

This is the theme that underpins the Catalyst Chemicals & Coatings Fast 25, a new ranking of the UK's fastest-growing, privately owned chemicals and coatings manufacturing businesses. These companies, chosen and ranked on the basis of the revenues they have recorded over the past two years, come from a diverse range of sub-sectors. These include cleaning and hygiene chemicals, industrial coatings, and flavours and fragrances, but all are growing rapidly.

To qualify for inclusion to the Fast 25, companies must have had at least £5 million worth of revenues and EBITDA of £1m in their latest accounts, and to have filed three years of accounts at Companies House. These accounts should show two successive years of revenue growth. They must also be registered in the UK as private, independent and unquoted companies.

The UK stands out as a global leader in chemicals and coatings, with a record for innovation, a highly skilled workforce and high-quality products all playing well in international markets. The UK's standing is certainly one reason why several UK businesses have been targeted by overseas buyers. But differentiating on quality is also a key factor in the way firms in the sector have survived and prospered through changing market environments.

"As long as you're well funded and well invested, you can ride out the ebbs and flows of business dynamics," says Joel Leeson, managing director of Fast 25 member Leeson Polyurethanes, which boasts compound annual revenue growth of more than 15 per cent over the past two years. His business's success has been driven by exceptional exports performance on a global scale. Having built strong sales to markets as diverse as Russia and

Australia, the company is now focusing on opportunities in continental Europe.

Similarly, Knutsford-based Stirling Lloyd, which makes waterproof coatings for buildings, tops the Fast 25 with revenue growth of more than 26 per cent a year. The business has won a string of awards in recent years for its exports performance, with recent projects in countries ranging from Saudi Arabia to Hong Kong and from Poland to Turkey, in addition to strong domestic sales.

Adaptability and reinvention is a common theme among our top-ranked businesses. At Nottinghamshire-based Aquaspersions, for example, where growth has been running at more than 15 per cent annually, the company was quick to see the opportunity to diversify beyond its core synthetic and natural rubber latex markets, innovating to launch new products and expanding into areas such as PVC.

Simon Bell, managing director of Holchem Group, an industrial cleaning products business boasting annual sales growth of more than 13 per cent over the past two years, says keeping this innovation going is a constant challenge, spanning both people and technology. Continually updating employee skills and constantly reinvesting in new technology is key. As is ensuring that raw materials are available to support new products, whether their introduction is driven by customer needs, legislation, sustainability or other factors.

Businesses in the sector also recognise the importance of branding and new sales channels, particularly in consumer-facing markets. For example, Doff Portland, the best-performing agrochemicals business in the Fast 25, invested heavily in its brand four years ago. It has since reaped the benefit, with sales of its garden care products establishing it as the UK's largest independent in this marketplace. Its revenues are up by more than 22 per cent a year.

Star Brands, meanwhile, manufactures branded and private-label household goods

£4bn
annual chemicals
sector investment in R&D

that in many cases date back to the 1930s, but more recently the business has built a thriving online sales operation. It has also recognised the demand for more environmentally friendly products, altering its product mix accordingly. Sales are up by almost 17 per cent a year.

This level of growth – and almost half the businesses in the Fast 25 have recorded double-digit annual sales increases over the past two years – has been achieved despite a difficult economic backdrop. Fast 25 companies have been able to shrug off the drag of slowing global growth through diversification and differentiation.

However, further uncertainties loom large on the horizon, particularly in the context of international markets. The prospect of a more protectionist environment for trade comes courtesy of the Trump administration in the US. Meanwhile, the two-year negotiations over the terms of the UK's exit from the European Union will have further specific impacts on the chemicals and coatings sector, with the fall in the value of sterling already increasing the cost of raw materials.

Regulation, in particular, is an unknown, with EU rules such as the REACH regime having influence well beyond Europe. The UK is unlikely to want to disadvantage its

chemicals sector in the global market by relaxing regulatory standards, but complexity may become an issue as it seeks to set its own rules. Exporters will need to meet international compliance standards too.

Tariffs are also a potential headache. If the UK is unable to complete free-trade deals with EU member states, exports to these countries would face standard World Trade Organization tariffs. That would add 6.5 per cent to the cost of many speciality chemicals for buyers in the EU that source UK products, dealing a blow to competitiveness.

There's also the question of intellectual property law, which provides crucial protection to British companies that build their businesses on R&D and innovation. Any suggestion that UK companies might henceforth lose rights to Europe-wide patents and trademarks would worry many in the industry.

Still, investors in the chemicals sector remain optimistic. Ben Wildsmith, portfolio director at private equity house NorthEdge Capital, which recently sold chemicals manufacturer Fine Industries to a Chinese buyer, says the industry is widely admired. "Mid-market chemicals companies with the right qualities will

always be attractive acquisition targets," he says. "They have the qualities that investors look for in a strategic asset: manufacturing expertise, well-trained staff, healthy levels of funding and good management."

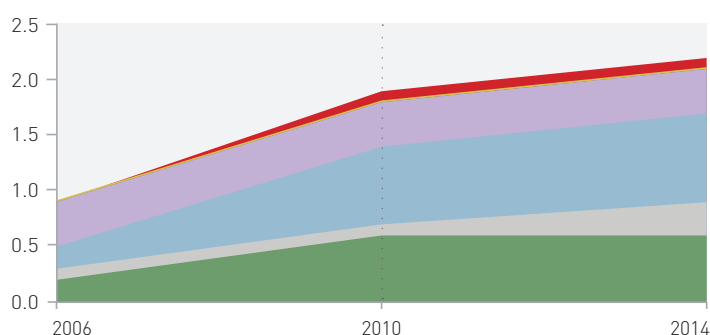
Doug Usifer, a managing director at Catalyst's US partner firm and a specialist in the chemicals sector, shares that view. "We look for companies that are growing strongly and meeting an unmet need, and with strong defensible technology and know-how, because that leads to businesses with good margins," he says. "There are good businesses in the UK that are attractive to US buyers."

It helps, of course, that the sharp decline in sterling since last June's referendum on EU membership has made British companies cheaper to overseas buyers (and also helped UK companies' export efforts). The depreciation of the pound has effectively reduced the price of UK chemicals companies by about 20 per cent in dollar terms.

Non-US buyers have not had it so good, but there have still been savings. "A key element of our strategic plan was to acquire a presence in the UK market," says Aravind Mani, head of marketing and strategy at India's Manali Petrochemicals, the recent acquirer of UK polyurethane specialists Notedome. "The recent foreign exchange movements created an environment where we could do so for a reduced purchase price." Indeed, the price tag for the deal came down 10 per cent courtesy of the falling pound.

In the end, however, it's quality rather than price that is really driving interest in the UK's chemicals and coatings companies, whether from would-be acquirers or international customers. The phenomenal rates of growth achieved by so many of the companies in the Fast 25 demonstrates how successfully the sector is now capitalising on its hard-won reputation for innovation and excellence.

Regulatory costs index in European Chemicals industry



Source: EU Commission Report, Cumulative Cost Assessment (CCA) for the EU Chemical Industry, 2016

THE FAST 25

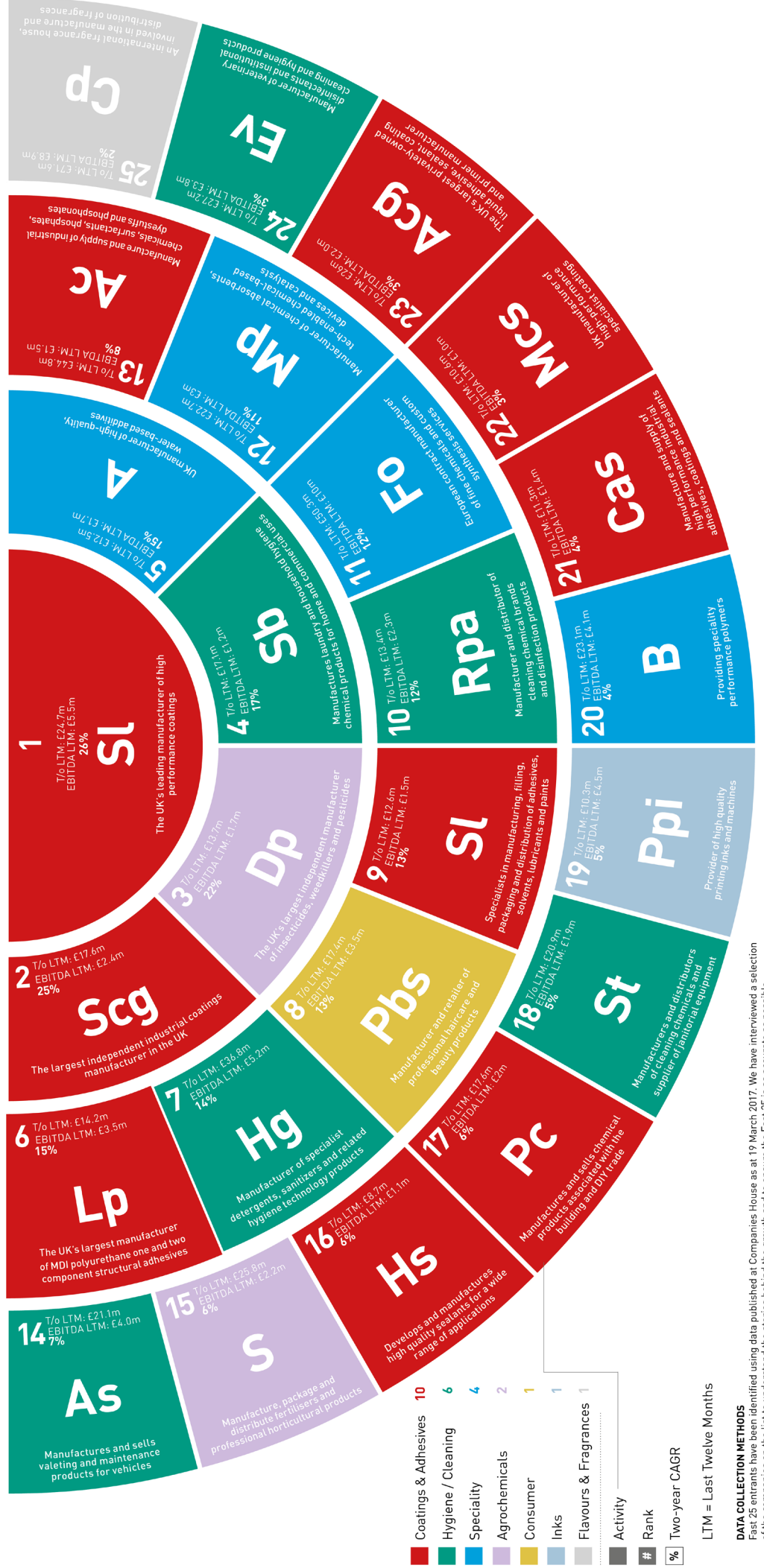
1 **Sl** Stirling Lloyd
2 **Scg** Spencer Coatings
3 **Dp** Dorf Portland
4 **Sb** Star Brands
5 **A** Aquaspersions

6 **Lc** Leeson Polyurethanes
7 **Hg** Holchem Group
8 **Pbs** Professional Beauty Systems
9 **St** Sanglier
10 **Rpa** RP Adam

11 **Fo** Fine Organics
12 **Mp** Molecular Products
13 **Ac** Airedale Chemical
14 **As** Autosmart
15 **S** Synthchemicals

16 **Hs** Hodgson Sealants
17 **Pc** Palace Chemicals
18 **St** Shorrock Trichem
19 **Ppi** Perfectos Printing Inks
20 **B** Bitrez

21 **Cas** Chemique Adhesives And Sealants
22 **Mcs** Manor Coating Systems
23 **Acg** Apollo Chemicals
24 **Ev** Evans Vanodine International
25 **Cp** CPL Aromas



DATA COLLECTION METHODS
Fast 25 entrants have been identified using data published at Companies House as at 19 March 2017. We have interviewed a selection of the companies on the list to understand the stories behind the growth and to ensure the Fast 25 is as accurate as possible.

LTM = Last Twelve Months

London

2nd Floor
77 Queen Victoria Street
London EC4V 4AY
T +44 (0) 20 7246 0500

Birmingham

16th Floor, Bank House
8 Cherry Street
Birmingham B2 5AL
T +44 (0) 121 654 5000

Nottingham

21 The Triangle
ng2 Business Park
Nottingham NG2 1AE
T +44 (0) 115 957 8230

www.catalystcf.co.uk

Catalyst Corporate Finance LLP
is a limited liability partnership
registered in England & Wales
(registered number OC306421)

Registered office: Bank House, 8
Cherry Street, Birmingham, B2 5AL

Catalyst Corporate Finance LLP
is authorised and regulated by
the Financial Conduct Authority
(number 478406)

© Catalyst Corporate Finance LLP 2017

Written by:

Jeremy Harrison,
Partner, Head of Industrials,
jeremyharrison@catalystcf.co.uk

Ali Robertson,
Chemicals & Coatings Specialist,
alirobertson@catalystcf.co.uk