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February 14, 2023

Brenntag SE
Messeallee 11
45131 Essen, Germany
Attention: Doreen Nowotne, Chair of the Supervisory Board & Members of the Supervisory Board of Directors

Dear Ms. Nowotne and Members of the Supervisory Board of Directors:

Engine Capital LP (together with its affiliates, “Engine” or “we”) is a meaningful shareholder of Brenntag SE (XETRA: BNR) (“Brenntag” or the “Company”), with an ownership position of approximately 1% of the Company’s outstanding shares. Engine is a value-oriented investment fund whose principals have significant experience investing in chemical distributors that are currently or were previously considered direct peers to Brenntag, including Univar Solutions (“Univar”) and Nexeo Solutions. We have closely followed Brenntag for years and initially invested in the Company due to its favorable position as the largest chemical distribution company in the world, its strong supplier relationships, attractive and growing end markets, the latent and unrealized value of the specialties business and our belief that there are opportunities readily available within the control of the Supervisory Board of Directors (the “Supervisory Board”) to significantly increase value for all Company stakeholders.

Based on our due diligence and discussions with former employees, customers and competitors, it has become clear to Engine that Brenntag Specialties is not achieving its full potential and is operationally underperforming its direct competitors. To its credit, management acknowledges this underperformance and has taken initial steps to fix these issues, namely by beginning a separation of certain aspects of Brenntag Specialties from Brenntag Essentials, while acknowledging that the two divisions have different strategies, core capabilities and go-to-market strategies.

While this transformation is certainly a step in the right direction, we believe that as long as Brenntag Specialties is structurally part of Brenntag, the specialties division will continue to lag its peers and will be unable to optimize its operating performance for reasons detailed in this letter. Furthermore, Brenntag Specialties will not realize the same valuation multiple as other pure-play specialty peers due to the “conglomerate discount” investors will continue to assign to Brenntag.

This is precisely why we believe it is important for the Supervisory Board to publicly recognize the value creation opportunity of a Brenntag Specialties spin-off and to take the following actions in the near-term to enhance long-term shareholder value:

1. **Publicly commit to prioritizing a separation of Brenntag Specialties from Brenntag Essentials and to provide a timeline for a separation to help both businesses realize their respective operational and financial potential.**

2. **Establish a meaningful share repurchase program to take advantage of Brenntag’s undervalued shares.**

3. **Add a shareholder representative with relevant capital allocation, investing and valuation analysis experience to the Supervisory Board.**

We believe that management and the Supervisory Board have a responsibility to publicly clarify the strategic direction of the Company and explain their near-term priorities following the surprising and unfortunate Univar venture. While we understand these discussions were only at an early stage, the mere fact that these conversations took place indicates that leadership was ready to consider a transformational and risky transaction just weeks after specifically outlining plans to focus on small tuck-in acquisitions during its November 2022 Capital Markets Day.[1] The market was clearly puzzled, with the Company's stock declining 17.7% over the following three weeks – in part since it would have distracted management from internal initiatives, such as pursuing the operational and financial improvements stemming from a specialties spin-off. A Citi analyst encapsulated investors' mood perfectly when noting the following in his downgrade note, *"Splitting the group into a Specialty Chemicals unit and an Industrial Chemicals distribution business with separate listings could have unlocked important shareholder value, but this now seems less likely given Univar negotiations."*[2]

The following sections of this letter detail our views as to why Brenntag stakeholders would immediately benefit from the Supervisory Board announcing a clear timeline for a spin-off of the specialties business, a meaningful share repurchase program and adding a shareholder representative to the Company's boardroom.

1. **<u>Separating Brenntag Specialties will allow the business to achieve its full potential as a standalone entity and help unlock long-term value for Brenntag stakeholders.</u>**

Brenntag Specialties is the largest specialty chemical distributor in the world, with approximately €6 billion in 2021 sales.[3] Despite its significant size and resources, Brenntag Specialties' organic growth has significantly lagged the organic growth of pure-play specialty distributors. This is clear when comparing Brenntag Specialties' organic EBITDA compounded annual growth performance (+26.4%) against its pure-play specialty peers Azelis Group NV (+37.6%) ("Azelis") and IMCD N.V. (+39.9%) ("IMCD") over the past 21 months.[4] Brenntag's underperformance at the gross profit level is also stark – and directly connected to the disadvantages that arise from having Brenntag Specialties and Brenntag Essentials housed under the same corporate umbrella.

As the Company described at its Capital Markets Day, the core capabilities of a specialties distributor are fundamentally different than those of an essentials distributor. One such difference is the go-to-market approach. Specialty chemical distributors focus on value-add services, innovation and application development, which require different sales processes and thus different skillsets of the salesforce. Conversely, essentials salespeople are more traditional relationship managers who need to be opportunistic based on market conditions. The feedback we received from numerous industry sources is that specialties salespeople are more attracted to pure-play distributors like Azelis or IMCD, rather than Brenntag, which is perceived as having less of a specialties DNA. Our diligence indicates that having Brenntag Essentials and Brenntag Specialties under one roof makes it very difficult to instill the culture and attract the skillset necessary for the specialties business to flourish. To make matters even worse, former employees have mentioned that some customers penalize Brenntag Specialties if products from Brenntag Essentials have not been delivered on time. As a result, the best specialties salespeople want to work for specialties pure-play distributors, further compounding the advantages of that business model.

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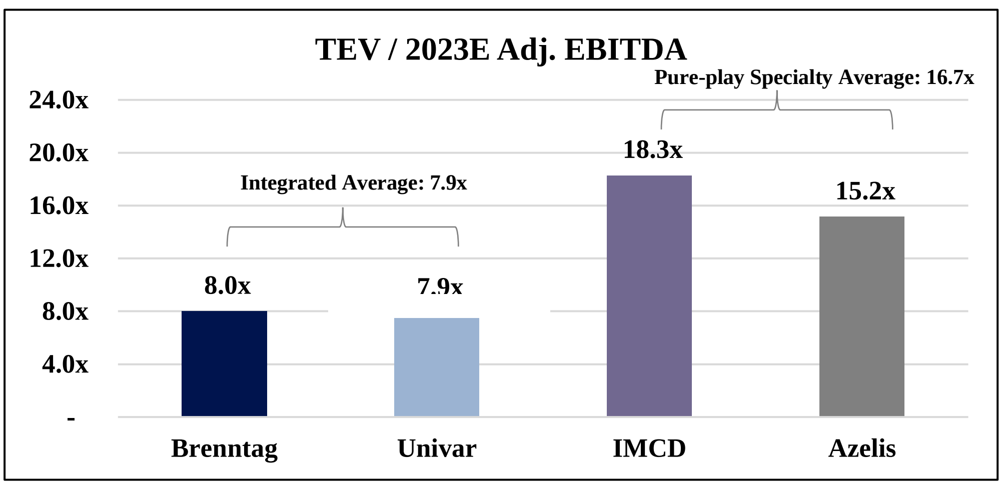
[1] *"During its Capital Markets Day, management announced it would step-up annual M&A spend to €400-500 million, with a strategic focus on Specialty Chemicals distribution and Asia-Pacific, which explains why the market was so surprised / disappointed by the Univar announcement."* Citi Research note on November 28, 2022.
[2] Downgrade to Neutral note on November 28, 2022 by Citi Research.
[3] Per Brenntag Capital Markets Day, November 2022.
[4] Data refers to specialties' organic EBITDA CAGR from 2021 to Q3 2022. Data for Brenntag excludes the benefits of project Brenntag (we assume 25% of benefits accrued to Brenntag Specialties) to make an apple-to-apple comparison with the pure-play peers. Brenntag also underperforms if we include the benefits of project Brenntag. CAGRs assume 4Q22 compounds at the same rate. Data per publicly available information (Brenntag segments available since 2020) and Engine's estimates.

Another value creation lever for Brenntag (and all at-scale chemical distributors) is to acquire smaller competitors for capabilities, geographic expansion and/or financial synergies. There again, Brenntag is at a significant disadvantage compared to specialties pure-play peers. We have heard of numerous recent instances where owners of specialty chemical distributors were simply not interested in selling to Brenntag because it is not a pure-play specialties distributor.[5] Even with the Company moving to have Brenntag Specialties operate more independently, it is still perceived as an essentials business by selling organizations which perpetuates the disadvantages it currently faces.

Chemical manufacturers also view specialty distributors differently than essentials distributors. An essentials distributor is expected to own its infrastructure to compete on the basis of on-time delivery, cost-efficient last mile logistics and the ability to break bulk efficiently. On the other hand, specialties distributors are viewed by chemical manufacturers as a channel to increase their market share of their highest margin products (specialty products). Due to the dynamics discussed previously, they too prefer to deal with pure-play specialties distributors to achieve their objectives, further compounding the advantages of the pure-play specialties players.

As a testament to these very different market structures in specialties and essentials businesses, chemical manufacturers have been splitting these businesses to increase focus and specialization since they too understand that this is what customers want.[6] The market's preference for more focused specialties pure-play companies is also evident in the multiples these companies trade at relative to Brenntag. It is no surprise since the pure-play companies grow faster organically and have M&A advantages compared to the integrated players.[7]



A separation of Brenntag Specialties makes industrial sense because it would allow the business to be perceived by customers and suppliers as a pure-play specialties business, remove potential conflicts between the segments, attract the right people to the organization and as a result – accelerate its growth. From a valuation perspective, separating the businesses makes sense as the Brenntag Specialties' multiple would increase, lowering its cost of capital and would help the business compete on equal footing with its pure-play peers for M&A opportunities. Jefferies in its recent initiation report similarly concludes, *"These elements suggest the benefits of having both offerings under one business umbrella are limited. However, the urgency to split the businesses to realize SOTP [sum-of-the-parts]*

[5] A senior leader at a specialties organization stated: *"Many of the selling specialty distributors are businesses that don't have proper succession in place. Much of the decision comes down to whether the seller believes the acquiring organization will maintain the culture of the organization. Our pitch against Brenntag is bolstered because we don't have a commodities business. As a matter of fact, due to this dynamic, we don't even run into Brenntag in most of our acquisitions."*

[6] One example is Nouryon, a large chemical manufacturer owned by The Carlyle Group and GIC. As Charlie Shaver, the CEO and Chairman of Nouryon, stated when it announced the split of its essentials and specialties businesses: *"This enhanced focus allows Nouryon to benefit from an increasingly specialized and leading portfolio in Performance Formulations and Technology Solutions, driven by resilient and growing end-markets."* Source: Nouryon press release dated July 1, 2021.

[7] Multiples as of 2/6/23 per CapitalIQ. Univar share price adjusted to unaffected price before merger was publicized.

valuation also appears limited. Closing the gap to peers alone would provide an incremental ~€30/share upside to our SOTP (before any assumed margin/earnings related improvement).'[8] The report also details the operating underperformance of Brenntag versus its pure-play peers, a gap that we believe would close once Brenntag Specialties is a separate public company.

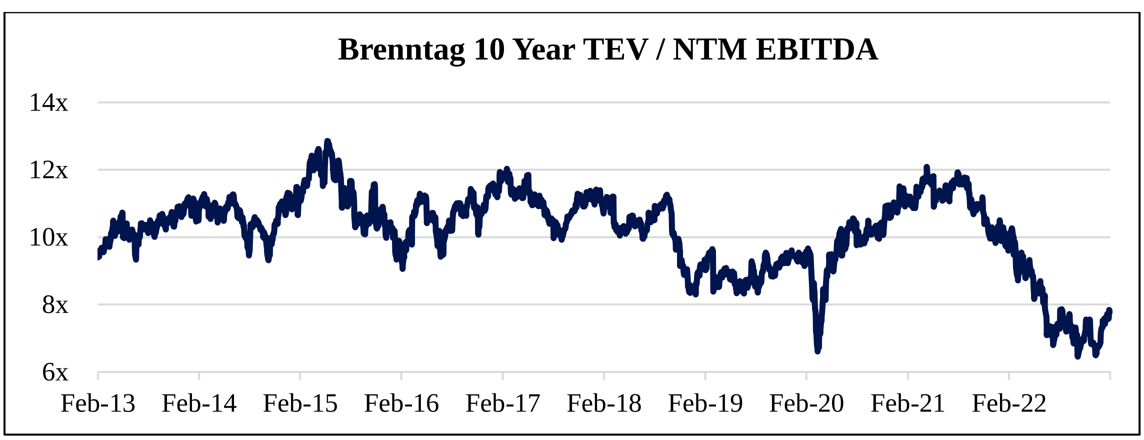
Assuming an approximately equal contribution to operating EBITDA from specialties and essentials, and assuming a trading multiple of 7.5x to Brenntag Essentials and 15.0x (a 10% discount to the average of the specialties pure-play peers for conservatism sake) to Brenntag Specialties, Brenntag would trade at approximately €140 per share by the end of 2024 – double its current share price.[9] Clearly there is material value creation potential directly under the control of the Supervisory Board. Our due diligence indicates that Brenntag Specialties can reach its full potential as a standalone entity and close the gap with its pure-play competitors. The longer the Supervisory Board waits, the more market share Brenntag Specialties cedes to specialties pure-play peers due to their more focused go-to-market approach and ability to outcompete in M&A – so time is of the essence.

It is important to note that we are skeptical of the argument that announcing this transformation publicly would be too disruptive to the organization since management and the Supervisory Board were willing to consider an acquisition of Univar, which would have been dramatically more disruptive than a separation. The Univar acquisition would have caused serious concerns to Brenntag's employees, customers and distributors, while the announcement of an ultimate spin-off of Brenntag Specialties would be viewed positively by these different constituencies.

While we are not suggesting that the separation occurs immediately, we believe that publicly announcing a demanding, yet achievable timeline for the separation will be critical to establishing the appropriate sense of urgency within the organization. Since Brenntag began to operationally separate the businesses over two years ago when Project Brenntag began, the Company should therefore be in a good position to effectuate the separation in a reasonable timeframe.

2. **<u>Establishing a meaningful share repurchase program can help the Company take advantage of Brenntag's undervalued shares.</u>**

Brenntag's stock is currently trading at one of its lowest forward multiples since 2013. Clearly, the market is not recognizing the latent value of Brenntag's specialties business under the Brenntag corporate umbrella.



[8] "Initiation of coverage – Gap to peers increasingly hard to close" published by Jeffries on February 7, 2023.
[9] Assumes repurchases of approximately 15% of shares outstanding.

Engine believes that the Supervisory Board should take advantage of this pricing disconnect by implementing a meaningful share repurchase plan in the near-term. The Supervisory Board is in the enviable position of being able to execute on this opportunity given that Brenntag is particularly under-levered with a net debt to EBITDA of 1.3x.[10]

If management prudently leveraged the Company to 2.0x and used its free cash flow, it could repurchase around 15% of the shares outstanding over the course of 2023.[11] We also note that this leverage would be substantially lower than the leverage Brenntag would have had to incur if it had proceeded with an acquisition of Univar. If the Company was willing to take significant leverage to buy Univar at close to 10x EBITDA, it should be willing to aggressively repurchase its own shares at the much lower multiple it currently trades.

We also would highlight to the Supervisory Board that Univar – which is going through similar dynamics as Brenntag – is taking advantage of its share mispricing to aggressively repurchase shares. In November 2022, Univar announced a $200 million accelerated share repurchase and an additional $1 billion share repurchase authorization. These buybacks represented around 25% of Univar's market capitalization.

3. **<u>Brenntag can improve its corporate governance by adding a shareholder representative to the Supervisory Board.</u>**

Engine believes Brenntag would benefit from adding a shareholder representative with capital allocation experience to the Supervisory Board as the Company prepares to address several important decisions that will have critical implications for long-term shareholder value. We believe that an individual with "skin in the game" would help instill an ownership mentality, which would prioritize resources towards initiatives with the best risk-adjusted return initiatives. As discussed above, the value creation opportunity from splitting the businesses, pursuing best-in-class operations at Brenntag Specialties and establishing a share repurchase program are immense and should be prioritized by the Supervisory Board over transformational and risky M&A.

In conclusion, we believe that the value creation opportunity at Brenntag is significant and that there are meaningful levers for the Supervisory Board to significantly enhance shareholder value. Therefore, we request a meeting with members of the Supervisory Board as soon as possible to discuss the matters and initiatives set forth in this letter. On behalf of Engine, we look forward to working cooperatively with you to increase long-term shareholder value.

Sincerely,

Arnaud Ajdler	Brad Favreau
Managing Partner	Partner

[10] Per company 3Q22 presentation.
[11] Includes estimated 2023 free cash flow.