

# OQEMA Ukraine LLC

Information about the current state  
and planned for 2021

(as preparing a business plan for 2021)



# OQEMA Ukraine LLC

## Company Information. Staff.

Staff: 10 people: administration + sales force – 7  
workers/drivers – 3 people.

Segment managers work by products.

By warehouses:

Lviv – 2 people (one person was fired in early December)

Dnipro – 1 people

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## Current personnel information.

|    | Name                 | Function   | Products  |
|----|----------------------|--|---|
| 1  | Danylyuk, Sergey     | Managing director                                      | Inorganic Pigments, Concrete additives - key clients  |
| 2  | Yeromenko, Zhanna    | Chief accountant                                       |   |
| 3  | Levytskyj, Volodymyr | Customs specialist                                     |   |
| 4  | Zailo, Tatiana       | Accountant   |   |
| 5  | Koziy, Oleksandr     | Lawyer   |   |
| 6  | Myhalichko Vita      | Segment Mahager  | Polivynylalcohol, Epoxy resins, Inorganic Pigments, Titanium Dioxide, Concrete additives, Solvents                        |
| 7  | Drach, Max           | Segment manager  | Specialities for cosmetics and pharma, White oils and Petroleum Jelleys, Aerosils, Inorganic Pigments, Concrete additives |
| 8  | Stasiv, Volodymyr    | Warehouse worker, Lviv                                 |   |
| 9  | Chabanenko, Vlad     | Storekeeper and sales representative<br>Dnepropetrovsk | Iron Oxide Pigments, Concrete additives   |
| 10 | Turko, Andriy        | Driver, Lviv   |   |

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## Company Information. Premises.

### Actual:

Location: office: Lviv 105 m<sup>2</sup> (reduced this year from 210 m<sup>2</sup>)

warehouses: Lviv 1000 m<sup>2</sup>  
Dnipro 180 m<sup>2</sup>

All premises are rented.

Office rental price decreased from 9 USD/m<sup>2</sup> to 8.5 USD/m<sup>2</sup> from October 2020.

### Planned for 2021:

Location: office – Lviv 105 m<sup>2</sup>

warehouses: Lviv 730 m<sup>2</sup>  
Dnipro 180 m<sup>2</sup>

All premises are rented.

At the moment, the warehouse in Dnipro is profitable, but if the situation worsens, the possibility of closing is being considered.

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## Company Information. Transport.

### Actual:

1 truck carrying capacity 6/7 Mt  
3 cars for shipment of small deliveries  
2 company cars for visiting customers  
Own forklifts in all warehouses

### Planned for 2021:

1 truck carrying capacity 6/7 Mt  
2 cars for shipment of small deliveries  
1 company cars for visiting customers  
Own forklifts in all warehouses

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## Products.

Since the management of the OQEMA GmbH decided to reduce the stock, we have already reduced our portfolio, namely, we fully stopped supplying goods with low profitability or long turnover.

List of products that are essential for the further effective work of the company:

- Inorganic pigments
- Concrete additives
- Epoxy resins technical + hardeners + thinners (+ new project - decorative resins)
- Aerosils (an increase in sales pharma grades)
- Titanium Dioxide
- Specialities for cosmetics and pharma, White oils and Petroleum Jelleys

Promising product groups:

- PVOH (but not from the Sekisui due to high prices)
- high demand for PU coatings
- Sodium Nitrate from Clariant UA (the issue of supplies to the OQEMA GmbH and/or OQ PL is not completely clear)

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Work results as of December 1, 2020.



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## External factors that affect business development (p1):

### Economic situation in Ukraine

According to the updated IMF forecasts, due to the outbreak of the COVID-19, GDP growth is expected to fall to -8.2% in 2020 and pick up to 3.6% in 2021, subject to the post-pandemic global economic.

| Main Indicators                                    | 2018   | 2019 (e) | 2020 (e) | 2021 (e) | 2022 (e) |
|--|--------|----------|----------|----------|----------|
| <b>GDP (billions USD)</b>                          | 130.93 | 154.69   | 142.25   | 149.54   | 163.48   |
| <b>GDP (Constant Prices, Annual % Change)</b>      | 3.4    | 3.2      | -8.2     | 3.0      | 3.2      |
| <b>GDP per Capita (USD)</b>                        | 3      | 3        | 3        | 3        | 3        |
| <b>General Government Balance (in % of GDP)</b>    | -2.4   | -1.8     | -4.5     | -3.8     | -3.0     |
| <b>General Government Gross Debt (in % of GDP)</b> | 60.6   | 50.1     | 65.7     | 64.3     | 61.8     |
| <b>Inflation Rate (%)</b>                          | 10.9   | 7.9      | 3.2      | 6.0      | 5.7      |
| <b>Unemployment Rate (% of the Labour Force)</b>   | 9.0    | 8.5      | 11.0     | 9.6      | 9.0      |
| <b>Current Account (billions USD)</b>              | -4.28  | -4.21    | 6.15     | -4.51    | -6.32    |
| <b>Current Account (in % of GDP)</b>               | -3.3   | -2.7     | 4.3      | -3.0     | -3.9     |



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## External factors that affect business development (p2):

### Negative factors:

- significant drop in retail trade, which led to a decrease in production volumes and, accordingly, to a decrease in the purchase of raw materials
- significant deterioration in payment behavior
- many manufacturers / clients refuse to use (or cut) expensive European raw materials in the production in favor of cheaper Chinese / Russian
- stable depreciation of the UAH against world currencies (from 25,80 UAH/EUR on 23.12.19 up to 34,60 UAH/EUR on 06.12.20)

### Positive factors:

- many competitors left the market
- a significant rise in the cost (in the last few months) of container shipments from China, which will lead to an increase in the cost of Chinese raw materials / goods

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## Internal factors that affect business development:

### Negative factors:

- unfortunately the main product group is construction oriented so seasonal
- quantity of cost-effective products is not enough
- the level of working capital is not sufficient

### Positive factors:

- due to a reduction in the supply of quality products on the market (due to leaving the market of competitors or reorientation or other factors), an increase in the number of orders is observed and orders for new products appear

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## Possible ways of business development:

To increase the company's profitability, it is necessary to expand the product line. We consider the following products as promising:

- expansion of the range of additives for concrete (it is planned to develop the direction of ready-mixed concrete)
- still open question about feed additives (but requires a more careful approach)
- an interesting topic of metalworking products
- large number of requests in the supply of the regenerated solvent, such as ETAC
- it is planned to expand the line of waxes
- large enough market of surfactants (but requires a more careful approach to suppliers, because there were problems with ENASPOL)
- periodic requests for the supply of a specific raw material by prepayment, e.g. BUTAC, Hydroquinone etc.
- ongoing requests for the supply of MERCUR VOP 240 from SASOLWAX, but, for example, our Polish company can only offer a product OVP 600, but customers refuse to buy this product instead VOP 240.

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## Possible ways of business development:

Also, the question of re-exporting products that we cannot sell for various reasons is still open. We have not received any offers of assistance in this matter.

Unfortunately, we will be forced to sell many products (especially if the shelf life has expired) at great losses. Disposal of products that cannot be sold will lead to additional costs, so we will try to sell it for a symbolic value.

Further deliveries from China are not considered due to a significant (up to 100%) rise in freight costs. Also, the supply of goods from China leads to too long a turnover of funds, which thus “freezes” working capital.

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Possible options for business development in Ukraine if OQEMA GmbH leaves the founders of OQEMA Ukraine:

I consider it reasonable to continue effective work of the OQEMA Ukraine, with the parallel launch of a new company, which will allow in the future (apparently from the beginning of the next season) to smoothly / organically transfer turnovers (orders and sales) to the new company and at the same time reduce our debt to the OQEMA GmbH.

Obviously, it is very difficult to count on the immediate effective work of a new company, since it takes a long time to resolve organizational issues.

We also need to take into account the complexities associated with quarantine restrictions, since many state and non-state institutions do not work / partially work. And there is no understanding when quarantine restrictions will be lifted or eased.

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Possible options for business development in Ukraine if OQEMA GmbH leaves the founders of OQEMA Ukraine: