KMG Chemicals, Inc.

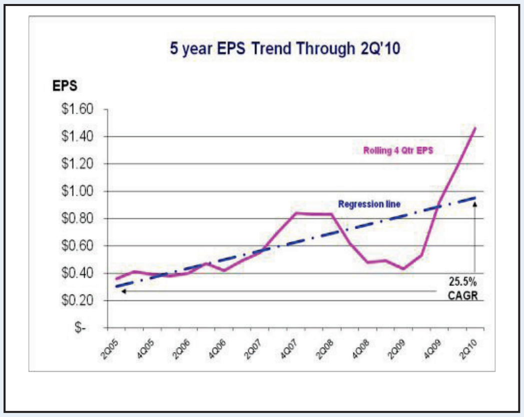
Business Profile

Headquartered in Houston, TX, KMG Chemicals (Nasdaq: KMGB) produces and distributes specialty chemicals in carefully focused markets in North America and globally. The Company is growing primarily by acquiring and optimizing stable chemical product lines and businesses with established production processes. KMG improves operating efficiencies, product quality, distribution and responsiveness to customers, thereby expanding profitability and extending the economic life of mature chemicals. On February 25, 2010, KMG signed a definitive agreement to acquire General Chemical's electronic chemicals business unit which is scheduled to close at the end of March. KMG's current operations are focused primarily on Wood Treatment, Electronic Chemicals, and Animal Health products.

INDUSTRY: SPECIALITY CHEMICALS
SHARES OUT: 11.2 MILLION
MARKET CAP: $171MILLION (3/11/10)
FY'09 SALES: $190.7 MILLION
LTM P/E: 10.6 (03/11/10)
INSTITUTIONAL OWNERSHIP: 29%
INSIDER OWNERSHIP: 45%
DIVIDEND & YIELD: $.08 / SHARE (.50%)
AVERAGE VOLUME: 114,000 SHARES
FYE: 7/31

Investment Considerations

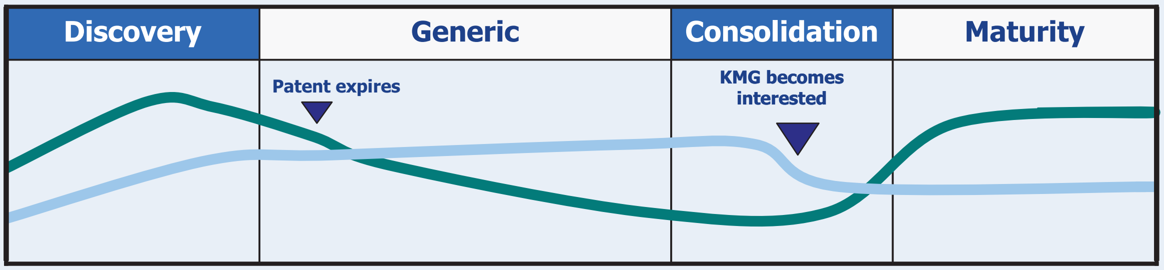
- **Proven business model consistently applied to enhance shareholder value.**
  - ✓ 20% compound annual growth rate in EPS since establishing the current acquisition program in FY'02
- **Low cap-ex requirements.**
- **History of successful acquisitions and integration.**
  - ✓ Seven successful acquisitions since FY'02: Acquired four new product lines, and three acquisitions strengthened existing positions.
  - ✓ Significant infrastructure upgrades with the Electronic Chemicals acquisition in December 2007 - Expansions in IT, processes, and management bench strength, all of which should translate into integration efficiencies for future acquisitions.
- **Pending Acquisition: General Chemical's Electronic Chemicals Business**
  - ✓ Definitive agreement signed on 2/25/10; purchase price of $25.5 million, including approximately $7.0 million in inventory, and $850,000 of additional liabilities.
  - ✓ Business generated revenues of approx. $42.7 million in YE'09.
  - ✓ Includes 48,000 sq. ft production facility in Hollister, CA.
  - ✓ Substantially increases market share in the U.S and expands presence into Asia.
- **Strong balance sheet and positive cash flow.**
  - ✓ Reduced debt in preparation for upcoming acquisition.
  - ✓ At 1/31/10, total debt cut to $43.3 million, compared to $46.3 million at the end of FY'09.
  - ✓ $35 million revolving credit facility fully available; expansion to $50.0 million in conjunction with pending acquisition.
  - ✓ Solid cash position of $8.8 million as of 1/31/10 vs. $7.2 million at fiscal year-end.
- **Leadership position in major product lines, with significant barriers to entry.**
  - ✓ KMG's Wood Treatment and Animal Health products must be registered with the Environmental Protection Agency (EPA) for sale in the U.S., and these registrations are supported by substantial scientific research and testing data. This, along with production patents and trade secrets, provide strong barriers to entry.
  - ✓ Electronic Chemicals products require extensive testing and certification by semiconductor manufacturers before being approved for use. This business is also capital intensive.
- **Solid financial performance in FY'09 despite the global recession.**
  - ✓ Sales, net income and diluted EPS increased 24%, 90%, and 90%, respectively, vs. FY'08.
  - ✓ Strong results due to cost reduction initiatives, inclusion of Electronic Chemicals business for full year, lower raw material costs, selective price increases and $1.1 million reduction in amortization expense in wood preservatives business.
- **Record F'Q2'10 net income and EPS.**
  - ✓ Net income and diluted EPS increased 338% vs. F'Q2'09.
  - ✓ Measures implemented in fiscal 2009 to improve supply chain and manufacturing efficiencies having desired effect on profitability thus far in FY'10.
- **Expect another year of record earnings in FY'10.**



Strategy

KMG's growth strategy is to selectively acquire mature, specialty chemicals in narrowly defined markets. These product lines typically become available from larger companies that are focusing on new chemicals with greater sales volumes and higher returns to support their R&D and overhead. KMG's acquisition targets typically have significant market positions in stable markets with few competing manufacturers.

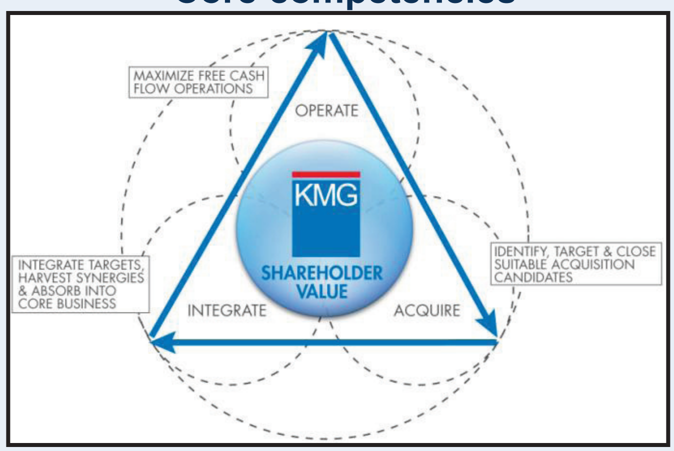
The Company's acquisition strategy is centered on the lifecycle of chemicals. In the discovery phase, newly patented chemicals generally enjoy high margins and rapid growth. In the generic stage, patents expire, competitors enter, and the market stabilizes. In the consolidation phase, the market begins to shrink, and competitors exit. In the maturity stage, smaller, stable and predictable niche markets exist, and margins often expand. KMG has been successful in acquiring products late in the consolidation phase, and has been able to realize the benefit of increasing margins and cash flows.



Following an acquisition, KMG operates the acquired business or assets with lower overhead costs thus creating operating efficiencies. The Company also improves product quality, stability of supply, distribution efficiencies and customer service. As a result, KMG expands profitability and extends the economic life of its products.

For KMG's latest acquisition (completed in December 2007), Electronic Chemicals, the Company made significant enhancements to its corporate infrastructure. These improvements will not only support KMG's larger size but should also produce integration efficiencies for its pending and future acquisitions.

Core competencies



Financial Data

In thousands, except per share data	6 months Ended 1/31/10	6 months Ended 1/31/09	Year Ended 7/31/09	Year Ended 7/31/08 (1)(2)
Net sales	$94,548	$96,440	$190,720	$154,394
Gross profit	35,103	29,266	64,167	46,831
Gross profit margin	***37%***	***30%***	***34%***	***30%***
SG&A expenses	20,229	23,234	43,318	35,358
Operating Income	14,874	6,032	20,849	11,493
Operating margin	***16%***	***6%***	***11%***	***7%***
Net income	$8,583	$2,519	$10,215	$ 5,375
Net margin	***9%***	***3%***	***5%***	***3%***
Earnings per diluted share	$ 0.75	$ 0.22	$ 0.91	$ 0.48
Weighted average diluted shares outstanding	11,397	11,222	11,230	11,232

(1) Fiscal 2008 include operations of Electronic Chemicals business for seven months.
(2) Results for the year ended 7/31/08 have been adjusted to reflect discontinued operations (MSMA agricultural product discontinued in the first quarter of 2008).

Balance Sheet Highlights

In thousands	As of 1/31/10	As of 07/31/09
Cash & cash equivalents	$8,754	$ 7,174
Net working capital	37,132	29,724
Total assets	143,994	143,508
Long-term debt, including current portion	43,333	46,292
Shareholders' Equity	79,201	70,977
Book value per diluted share	**$6.95**	**$6.32**

Pending Acquisition

In accordance with KMG's growth strategy, on February 25, 2010, the Company signed a definitive agreement to purchase General Chemicals's electronic chemicals business for $25.5 million in cash and $850,000 in assumed liabilities. The purchase price includes approximately $7.0 million in inventory. Included in the agreement is a 48,000 square foot production facility in Hollister, California. KMG will migrate the production of certain solvents to this facility when its tolling agreement with Air Products and Chemicals, Inc. ends in December 2010. Also in the agreement, KMG will acquire certain equipment related to the electronic chemicals business at General Chemical's Bay Point, CA facility, and has signed a long-term tolling agreement to manufacture certain acids at the facility.

The acquisition of this business will add significant operating synergies to KMG's existing Electronic Chemicals segment. These products fit well with KMG's existing line of high purity acids, bases, etchants, and other custom formulated cleaning chemistries for front and back end wafer processing, and include a series of etchants for various thin film applications in the semiconductor device, disk drive and silicon wafer industries. These chemicals are also finding application in the rapidly growing photovoltaic market.

In calendar year 2009, the soon to be acquired Electronic Chemicals business generated $42.7 million in revenue. The acquisition will be significantly and progressively accretive to earnings in fiscal years 2011 and 2012 but will be mildly dilutive to earnings in the second half of fiscal 2010, mainly due to closing and integration expenses. The acquisition will be financed with cash on hand and senior bank debt.

This acquisition substantially increases KMG's share of the U.S. wet process chemicals segment and expands its presence in the Asian markets. Currently, KMG has an estimated 40% market share and an estimated 20% market share in Europe.

Overview of Products & Markets

Electronic Chemicals – U.S. Market Leader - 45% FY'09 sales; 51% F'Q2'10 sales

- By the close of FY'08 and into early FY'09, KMG grew this business to an annualized run rate of $105 million. In the second half of FY'09, sales declined compared to the second half of FY'08, due to the recession and the corresponding declines in production levels by the semiconductor industry.
- Run rates are currently approaching pre-recessionary levels. In 1H'10, sales steadily improved, despite the slowdown typical of the holiday season. KMG expects a favorable outlook in the Electronic Chemicals business for the remainder of fiscal year 2010.
- KMG's new cost structure should yield a significant improvement in profitability as well. In FY'09, KMG implemented extensive cost savings measures during the transition from the seller to KMG's systems and operations. The efficiency improvements implemented and the elimination of integration and transition costs contributed to the $5 million in operating income from the U.S., partially offset by a $1.3 million operating loss from European operations in fiscal '09. For the 1H'10 operating income from the U.S. and European operations was $3.9 million and $0.6 million, respectively.

Industrial Wood Treating Chemicals - 49% of FY'09 sales; 44% of F'Q2'10 sales

- These products protect and prolong the useful life of wood used for railroad ties, utility poles, bridge timbers and marine pilings. KMG sells these products to wood treaters who supply the railroad, utility and construction industries with treated lumber. KMG's Penta and Creosote products are registered with EPA, an expensive and time consuming process.
- Products:
  - ✓ **Creosote –** industrial wood preservative used by wood treaters that mainly process crossties for railroads. Virtually all railroad crossties are treated with Creosote. KMG is the U.S. merchant market leader, and believes that it supplies the wood treating industry with the majority of its annual consumption of Creosote (excluding Creosote produced for internal use by another company. Despite a 4% reduction in volumes, 2009 Creosote sales were nearly 23% ahead of 2008 levels due to price increases implemented earlier in fiscal 2009. In F'Q2'10, sales were relatively in line with F'Q1'09 reflecting improved pricing from a shift in product mix although volumes declined by approx. 18% as rail tie replacement rates have been returning to more normal levels from the high end of the historical range during recent years, and as a result, Creosote demand is expected to remain close to current levels for the remainder of fiscal 2010.
  - ✓ **Pentachlorophenol ("Penta") –** industrial wood preservative used to treat utility poles. KMG estimates that approximately half of the utility poles purchased in the U.S. are treated with Penta. KMG, the only producer of Penta in North America, sells it to wood treaters who sell treated poles to utilities. In fiscal year 2009, Penta sales were $26.2 million which was relatively flat compared to fiscal 2008's $26.4 million. In the first half of fiscal 2010, Penta sales volumes declined modestly from the 2009 average as utilities trimmed their maintenance spending. A further decrease in demand in sales volumes is possible in the latter half of the year. Chlorine (an important raw material for Penta production) prices also began to rise in the second fiscal quarter and prices are expected to continue at these levels.
- The Company expects to see a partial retraction in profitability due to increasing average costs and an easing in demand for treated wood by utilities and railroads, which will cause Wood Treating revenues to be marginally less to flat in fiscal 2010 vs. fiscal 2009.

Animal Health Products – Maintaining Market Share - 6% of FY'09 sales; 5% of F'Q2'10 sales

- The Animal Health sector of the agricultural chemicals market is largely ignored by the multinational companies, yet offers attractive margins with latent growth potential.
- KMG's Animal Health insecticides protect livestock and poultry from parasites and other pests. Products include an oral larvicide, wettable powders, dusts, liquid insecticides, and insecticidal ear tags for cattle. The products are registered in the U.S., Canada, Mexico, South America and Australia.
- KMG has maintained a 20% share in the U.S. market, while expanding sales into Latin America which represents an even larger cattle market than the U.S.
- The cattle and poultry businesses in the U.S. have been depressed for two years, but KMG has been able to maintain market share, and the business continues to be profitable. The Company expects a recovery in cattle and poultry markets in FY'10 relative to the depressed levels in 2009.
- Expanded sales and marketing distribution platform by recently forming a strategic partnership with AgriLabs, Inc., the largest distribution network for animal health products in the U.S. This alliance with AgriLabs will enhance service to KMG's customers as well as generate greater exposure for the Company's products in the cattle, swine, dairy and equine markets.

Milestones

- 1985 – Original penta distribution business acquired.
- 1986 – Built penta manufacturing plant in Matamoros, Mexico.
- 1991 – Acquired creosote distribution business from Bernuth-Lembke
- 1993 – Acquired sodium penta business from Rhone-Poulenc.
- 1996 – IPO; KMG begins trading on Nasdaq.
- 1998 – Acquired significant creosote assets from Allied Signal.
- 2000 – Acquired MSMA herbicide products from Zeneca Ag Products.
- 2002 – Entered animal health business with acquisition of Rabon from Boehringer Ingelheim.
- 2003 – Acquired the assets of Wood Protection Products, a key penta distributor.
- 2004 – Acquired the creosote distribution business and assets of Trenton Sales.
- 2004 – Expanded animal health business by acquiring Ravap from Boehringer Ingelheim.
- 2005 – 1.2 million-share private equity placement.
- 2005 – Acquired penta manufacturing assets from Occidental Chemical.
- 2006 – Acquired U.S.-based animal insecticide business of Boehringer Ingelheim.
- 2006 – 3.2 million-share public offering, including 1.7 million newly issued shares.
- 2008 – Acquired High-Purity Process Chemicals business from Air Products and Chemicals, Inc.
- 2010 – Signs definitive agreement to acquire General Chemical's Electronic Chemicals business.

Management

J. Neal Butler, age 57, is KMG's CEO and President, and is a member of the Board of Directors. He joined the Company as COO in 2004, having previously worked in various capacities for agricultural chemical companies since 1976. Mr. Butler was promoted to President in 2005, and CEO in 2007. From 1976 to 1998 he was with ISK Biosciences, Inc. in different sales and operations capacities, becoming Vice President and General Manager/Americas in the specialty chemical division. From 1998 to 2001, he led the US and Canadian horticultural business for Zeneca Agrichemicals, Inc., a leading agricultural products chemical company. In 2001, Mr. Butler became President and Chief Executive Officer of Naturize Biosciences, Inc., a company providing biological products for agriculture. Since joining KMG, Mr. Butler has overseen the six most recent acquistions completed by the company.

John V. Sobchak, age 50, joined KMG in 2001 as the CFO of the Company. Prior to KMG, Mr. Sobchak was the CFO of Novistar, Inc., a joint venture between Torch Energy Advisors, Inc. and Oracle Corporation, and prior to that, was Treasurer of Torch Energy Advisors. From 1988 to 1997 he was employed by Mesa, Inc., a NYSE-traded oil and gas company, most recently as its Treasurer. Mr. Sobchak has led the M&A effort involving the seven acquisitions completed since FY'02.

Ernest C. Kremling, age 46, joined KMG in February 2008 as Vice President of Operations having worked in various capacities for The Dow Chemical Company for over twenty years, including project management, plant and site leadership and other executive manufacturing roles. Mr. Kremling has substantial international experience including plant design, construction and start ups.

Roger C. Jackson, age 58, was elected Secretary of the Company in 2001 and became Vice President and General Counsel in 2002. Mr. Jackson had been outside counsel of KMG since 1985. Prior to joining KMG, he had been a partner since 1995 in Woods & Jackson, L.L.P. and a partner in the Houston law firm Brown, Parker & Leahy L.L.P. beginning in 1985. Mr. Jackson was involved in virtually all of the company's acquisitions, initially as outside counsel and as general counsel since 2002.

Forward-Looking Statement

The information in this Profile includes certain forward-looking statements that are based upon assumptions that in the future may prove not to have been accurate and are subject to significant risks and uncertainties, including statements as to the future performance of the Company. Although the Company believes that the expectations reflected in its forward-looking statements are reasonable, it can give no assurance that such expectations or any of its forward-looking statements will prove to be correct. Factors that could cause results to differ include, but are not limited to, successful performance of internal plans, product development acceptance, the impact of competitive services and pricing and general economic risks and uncertainties. The information contained herein is being provided for information purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any securities. The Equity Group Inc. is retained by the Company to provide investor relations services. The Equity Group, its officers or employees may have a position in the securities of the Company.

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