



KMG Chemicals, Inc.

NASDAQ:	KMGB
INDUSTRY:	SPECIALTY CHEMICALS
SHARES OUT:	10.6 MILLION
MARKET CAP:	\$262 MILLION (6/15/07)
INSTITUTIONAL OWNERSHIP:	38%
INSIDE OWNERSHIP:	48%
DIVIDEND & YIELD:	\$.08 per share (0.4%)
FISCAL YEAR END:	July 31
WEB SITE:	www.kmgchemicals.com

Headquartered in Houston, TX, KMG Chemicals produces and distributes established specialty chemicals in niche 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. Current operations are focused primarily on wood treatment (79% of LTM sales), animal health products (17% of LTM sales) and agricultural chemicals (4% of LTM sales).

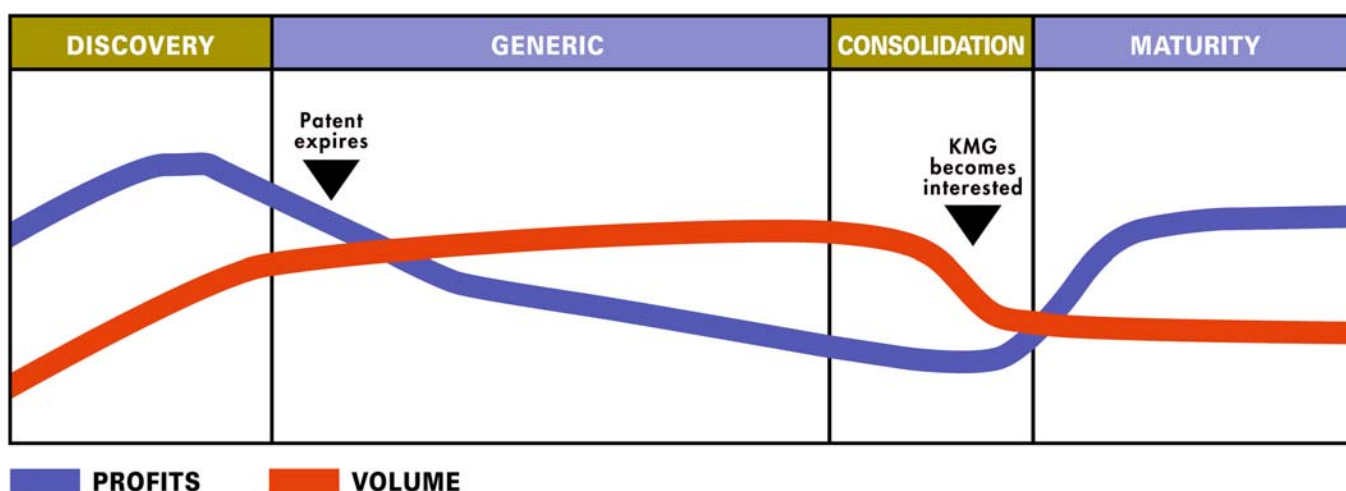
INVESTMENT CONSIDERATIONS

- **Proven business model being consistently applied for growth of shareholder value.**
 - 20% compound annual growth in book value per share since 1996.
 - **Strong record of profitability and growth in sales and earnings. For the nine months ended 4/30/07:**
 - Net sales increased 33% to \$28.0 million.
 - Net income increased 104% to \$3.8 million or \$0.34 per diluted share.
 - **History of successful acquisitions and integration.**
 - Six successful acquisitions since December 2002
 - Acquired three new product lines and strengthened position in two others.
 - **Substantial pipeline of product acquisition candidates and ample liquidity.**
 - Prospects include animal health products, industrial chemicals and agricultural chemicals.
 - **Leadership position in major product lines, with significant barriers to entry.**
 - Most of KMG's products must be registered with the EPA for sale in the U.S. These product registrations are supported by substantial scientific research and testing data, which serves as a significant barrier to the entry of new competitors in the U.S. Production patents and trade secrets for several key products provide additional barriers to entry.
 - **Management team and infrastructure to support significant additional growth.**
 - 2006 plant expansion added over 30% more capacity for key product (pentachlorophenol) to meet higher demand.
-

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 acquires product lines and improves cash flows. KMG prefers to acquire 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 acquiring products late in the consolidation phase, and has been able to realize the benefit of increasing margins.



Following an acquisition, KMG operates 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.

MILESTONES

- 1984 – 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 – 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 Ingelhiem.
- 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 – Completed 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 – Completed 3.2 million-share public offering, including 1.7 million newly issued shares.

OVERVIEW OF PRODUCTS & MARKETS

■ Industrial Wood Treating Chemicals – 79% of LTM sales – Dominant position

These products protect and prolong the useful life of wood, thus controlling operating costs in various industries while also conserving forest resources. KMG sells these products to wood treaters who supply the railroad, utility and construction industries with treated lumber.

Products:

- Creosote – industrial wood preservative used by wood treaters that mainly process crossties for railroads. KMG believes that 15-21 million crossties are purchased each year in the U.S., almost all of which are treated with creosote. KMG is the U.S. merchant market leader, and believes that it supplies the wood treating industry with almost all of its annual consumption of creosote (excluding any creosote produced for internal use by other companies). KMG is also the only company in North America currently capable of importing creosote. The Company imports more than half the creosote it sells.
- 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. The Company sells penta to wood treaters who sell treated poles to telephone and electric companies. KMG is the only producer of penta in North America.

■ Animal Health products – 17% of LTM sales – Building a position

The animal health sector of the agricultural chemicals market holds significant opportunity. It is a sector of the market that is largely ignored by the large chemical companies, yet offers attractive margins and growth potential. Further expansion in this area is a strategic initiative for KMG who sells its products primarily to large distributors. KMG is also interested in expanding its animal health sales globally.

Products:

- Animal Health Insecticides – these products 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 for sale in the U.S., Canada, Mexico, Latin America and Australia. KMG is the only North American producer of several key products for livestock and poultry applications and has an estimated 20% market share of the U.S. livestock and poultry insecticide business. During the second quarter of fiscal 2007, KMG launched a new insecticidal cattle ear tag that uses an innovative active ingredient and provides control of flies that are resistant to the other products in the largely under-penetrated market segment. The Company anticipates at least \$15.0 million in sales from its Animal Health segment in fiscal year 2007, up from \$8.7 million in fiscal year 2006.

■ Agrochemicals – 4% of LTM sales

The consolidation in the agricultural chemicals industry is driven considerably by research and advances in biotechnology. Additionally, the need to fund large research and development budgets compels companies to merge and become more efficient. Maturing chemicals consequently become available for divestiture as the larger companies focus on newer products.

Product:

- MSMA – an herbicide used to protect cotton crops and turf from weeds in the U.S. KMG is the only North American producer, and sells this product in the U.S. and Latin America. As a result of the product's poor recent financial performance, and a recent adverse indication from the EPA regarding MSMA's registration, KMG determined its assets associated with MSMA were impaired and recognized a non-cash impairment charge of \$2.4 million in the fourth quarter ended 7/31/06.

FINANCIAL HIGHLIGHTS

In thousands, except per share data

	Nine Months Ended 4/30/07	Nine Months Ended 4/30/06	Year Ended 7/31/06	Year Ended 7/31/05
Net sales	\$64,744	\$50,934	\$71,016	\$59,168
Gross profit	23,152	17,458	23,858	18,066
SG&A expenses	12,062	11,619	14,802	12,664
Operating Income	11,090	5,839	6,688	5,402
Income before income tax	10,752	5,259	5,890	4,820
Net income (1)	6,807	3,261	3,776	3,052
Earnings per diluted share (2)	\$0.62	\$0.35	\$0.40	\$0.37
Weighted average diluted shares outstanding	11,022	9,327	9,447	8,256

(1) Fiscal year 2006 net income includes a \$2.4 million non-cash impairment charge associated with KMG's MSMA agricultural product.

(2) Earnings per diluted share in the first nine months ended 4/30/07 and fiscal year ended 7/31/06 were calculated on 18% and 14% more shares outstanding, respectively, than the comparable periods. The Company completed a 1.2 million-share private equity placement in April 2005 and issued 1.7 million shares through a public offering in July 2006.

MANAGEMENT

David L. Hatcher, age 64, **Chairman**, served as Chairman & Chief Executive Officer of the Company since its inception in December 1985, and since June 2007, solely holds the Chairman position. He has worked in the industry since 1980 in various technical and managerial capacities. He is also a Director of Sterling Bancshares, Inc. (Nasdaq:SBIB).

J. Neal Butler, age 55, is the Company'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, 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.

John V. Sobchak, age 47, 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 publicly traded oil and gas company, most recently as its Treasurer.

Roger C. Jackson, age 55, was elected **Secretary** of the Company in 2001 and became **Vice President and General Counsel** of the Company in 2002. Mr. Jackson had been outside counsel of KMG since 1985. Prior to joining KMG, Mr. Jackson had been a partner since 1995 in Woods & Jackson, L.L.P. and had been a partner in the Houston law firm Brown, Parker & Leahy L.L.P. beginning in 1985. He had joined that firm as an associate in 1978.

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.

CONTACTS

KMG Chemicals, Inc.
John V. Sobchak
Chief Financial Officer
(713) 600-3814
JSobchak@kmgchemicals.com

Investor Relations Counsel:
The Equity Group Inc.
Loren G. Mortman
(212) 836-9604
LMortman@equityny.com
www.theequitygroup.com

JUNE 2007