As background to our Chemicals Mergers and Acquisitions (M&A) Annual Review, Natrium Capital expects slow economic growth globally and chemical industry expansion at levels below long term trends. We also expect continued uncertainty caused by geo-political shifts and an inconsistent approach to environment regulation to have a negative impact on the industry. On the other hand, we expect inflation to remain stable and short term interest rates to continue to fall.

Against this relatively lacklustre backdrop, we are cautiously optimistic that there will be an increase in chemical industry M&A in 2025. We expect a continued flow of smaller and mid-market deals to realign both corporate and private equity (PE) portfolios. On the corporate side, we believe that weak stock market performance and activist investor involvement will lead to change that will likely have M&A implications. On the PE side, investors have built up large 'dry powder' capital reserves and are under pressure to deploy this capital, potentially through larger or 'mega' deals. Furthermore, PE funds are also under pressure to monetise existing investments. Given all of these factors, Natrium Capital expects 2025 to be an interesting year in M&A.

I. THE BACKDROP

Growth expectations 'stable but underwhelming'

After a subdued 2023, there was a modest increase in global growth in 2024, but growth levels are still below long term trends.

Looking into 2025 and 2026, global growth is expected to **'remain stable but underwhelming.'** Growth estimates for the US have increased somewhat, offsetting downgrades in other leading economies. In 2025, India and China are the only major economies expected to grow at above 3%. Five years from now, global growth has been forecast to reach 3.1%, a mediocre performance compared to long term averages. (Source: IMF, World Economic Outlook, October 2024).

However, potential worsening financial markets, rising protectionism and geo-political tensions mean that there are significant downside risks to these forecasts.

In the chemical industry more specifically, moderate growth is expected in 2025. Even in the relatively faster growth region of the US, global chemical production is forecast to rise by 3.4% in 2024 and 3.5% in 2025, after increasing just 0.3% in 2023. (Source: The American Chemistry Council).

The chemical industry is going to find it difficult to demonstrate potential for profit growth from capital investment in this scenario. Cost-cutting programmes will continue, but M&A may prove to be one of the few ways that companies can add value.

Table 1. Real GDP growth and inflation rates, shown as annual percent change

	Real GDP Growth				Inflation rate			
YoY %	**23A**	**24E**	**25F**	**26F**	**23A**	**24E**	**25F**	**26F**
USA	2.9	2.8	2.2	2.0	4.1	3.0	1.9	2.1
Canada	1.2	1.3	2.4	2.0	3.9	2.4	1.9	2.0
Europe	1.2	1.6	1.6	1.7	6.3	3.5	3.0	2.5
France	1.1	1.1	1.1	1.3	5.7	2.3	1.6	1.8
Germany	-0.3	0	0.8	1.4	6.0	2.4	2.0	2.0
UK	0.3	1.1	1.5	1.5	7.3	2.6	2.1	2.0
Japan	1.7	0.3	1.1	0.8	3.3	2.2	2.0	2.0
China	5.2	4.8	4.5	4.1	0.2	0.4	1.7	2.0
India	8.2	7.0	6.5	6.5	5.4	4.4	4.1	4.1
ASEAN 5*	4.0	4.5	4.5	4.5	3.5	2.3	2.3	2.3
World	3.3	3.2	3.2	3.3	6.7	5.8	4.3	3.6

Source: IMF Datamapper. Note: ASEAN 5 is Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

Inflation under control

Global inflation remains on a decelerating trend. Although risks remain, it looks as though it is largely under control and returning to target levels in the major trading markets.

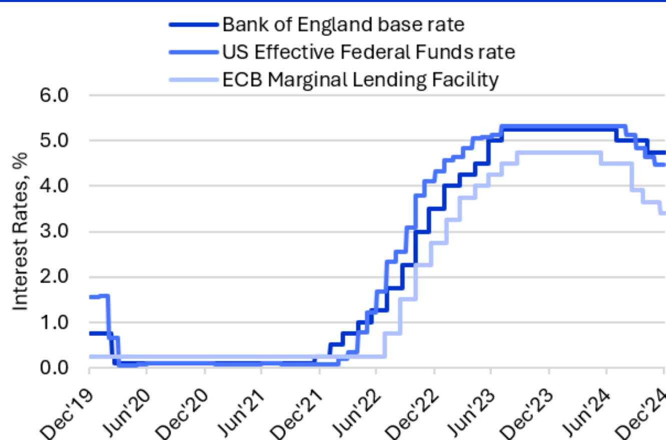
Short term interest rates declining

During the COVID-19 crisis, short term interest rates were cut to historically low levels and this fuelled excess demand. Central bankers reacted too late in curbing inflationary pressures and were forced to hike rates sharply throughout 2022 and 2023 to curb excess demand. In doing so, they failed to take into account the extent that household savings had risen during the pandemic, when spending was severely restricted by lockdowns. Central bankers also failed to predict that rate rises would only impact consumers erratically as much of consumer debt had been fixed at low rates for the medium term (See Year in Review 2023).

Thus, while short term interest rates are now declining, they have not come down far enough to stimulate growth. We expect further cuts in short term interest rates in 2025 to provide stimulus to the business environment. **However, we do not foresee a return to the very low short term interest rate levels seen earlier in this period.**

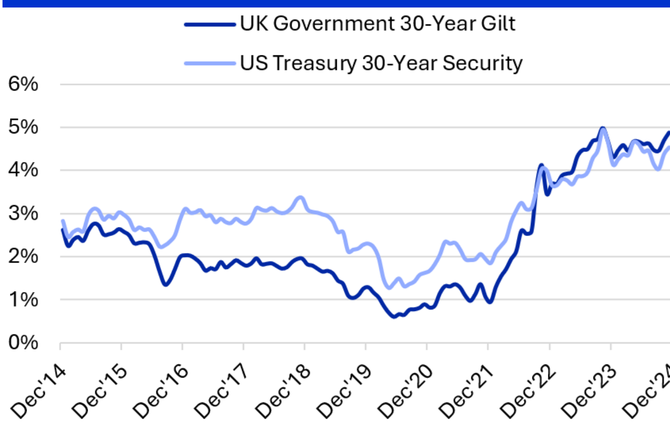
With strong balance sheets, as interest rates continue to fall, many companies will be looking for good growth opportunities.

Figure 1. Trend in short term interest rates, 2019-2024



Source: Bank of England; Federal Reserve Bank of New York; European Central Bank.

Figure 2. Trend in average yield on long term government-held securities, 2014-2024



Source: United Kingdom Debt Management Office; U.S. Federal Reserve Bank.

Longer term interest rates still high

Longer term interest rates have been rising since December 2021. They have not yet started to fall, and indeed have continued to rise in the first days of 2025.

Risk premiums for corporate debt falling

Risk premiums for corporate debt over government debt have already fallen. This is reducing private equity funding costs and allowing issuance of corporate debt and leveraged loans to climb more than a third from 2023. Borrowers are taking advantage of borrowing costs falling to their lowest level in decades relative to government debt (source FT: 28/12/2024).

Demand – is this as good as it gets?

Over the last five years, all industries have been hit by some unprecedented shocks, including the COVID-19 pandemic, the war in Ukraine, ongoing conflict in the Middle East, volatile energy prices, supply chain disruption, and political and regulatory change. Each year, companies have reported that these shocks have had a negative impact on demand.

Alongside these massive global issues, individual chemical and material companies have been **weathering their own demand storms**. End-user demand for many products has been shaky, often lower than expected and exaggerated by inventory build-up throughout 2020-2022 and subsequent de-stocking in 2023.

> *"Overall, I think we have to acknowledge that destocking in our supply chains and also downstream at our customers has largely come to an end. However, we are still, of course, facing an overall weak demand picture in many industries... I would say, no more destocking across the board as far as we can see. And eventually, if demand comes back, there is still quite some refilling of value chains that we can expect. That's certainly an upside for 2025"* - **BASF, Q3 2024**

Each year, companies have identified these global shocks as the underlying rationale for why profitability could or should have been better. Optimistic forecasts have had to be scaled back.

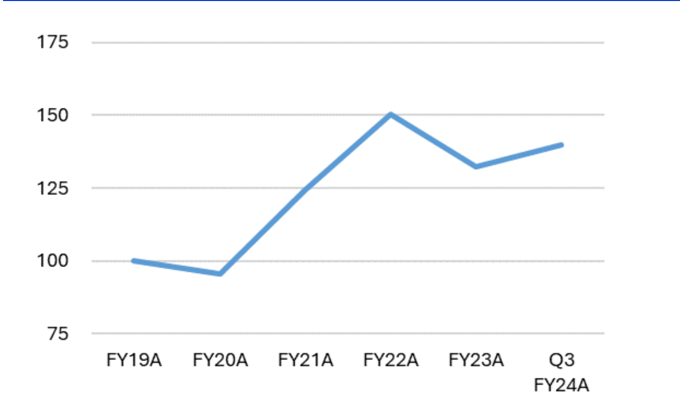
Looking into 2025 and beyond, macro-economic forecasts are for continuing slow growth and there are indicators that this lower growth environment for the chemical industry will persist. Management need to consider whether this is as good as it gets.

Table 2. PMI Manufacturing Index for G7 countries and the European Union

	Jan'25
USA	**49.4**
Canada	**52.2**
European Union	**48.9**
France	**41.9**
Germany	**42.5**
Italy	**46.2**
UK	**47.0**
Japan	**49.6**

Source: S&P Global. A number above 50 indicate accelerating demand while a number below 50 indicated stagnating demand.

Figure 3. Inventory Index (2019 = 100)



Source: Company's reports; Natrium Capital.

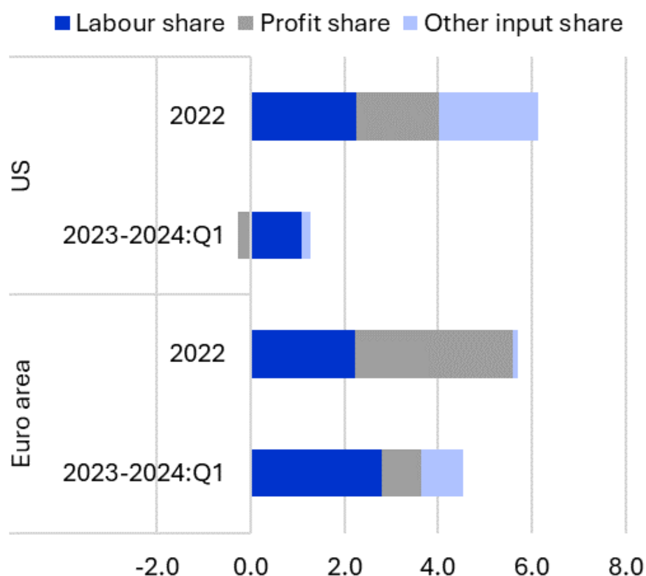
Inventories are creeping up

A further indication that demand is not meeting expectations is the fact that **inventories are creeping up.** Natrium Capital has analysed this and created an index of the major companies. By the end of the third quarter of 2024, **there are signs of inventory build, rising towards the levels seen in 2022.**

Pressure on profitability

Analysis from the IMF shows **why profitability in manufacturing is under pressure**. In the Eurozone, recent wage increases have exceeded productivity, raising unit labour costs. Recent wage demands are reflecting past inflation expectations and are looking to make up for cost-of-living increases. In the US, **wage growth has reflected productivity gains recently,** keeping unit labour costs contained, but price rises have been harder to obtain and **profitability is also under pressure.**

Figure 4. Inflation and profit shares annualised, percentage



Source: Eurostat; Haver Analytics; US Bureau of Economic Analysis; and IMF.

Energy prices: oil prices stable and low despite Middle East conflict but gas prices high

Geo-political tensions in oil-producing regions tend to lead to higher prices. **President-elect Trump** has declared that **ending the conflict in Ukraine** will be one of his first priorities, but it is **unclear what trade-offs will be required** to deliver this. This may allow Russian oil back into normal trading markets.

There are only limited signs that there is any **political will to end the conflict in the Middle East**, albeit there is hope that the conflict will not escalate further. While the **fall of the Assad regime in Syria** was, in the end, swift and relatively peaceful, the new rulers, **Hayat Tahrir al-Sham (HTS),** are still branded as terrorists by the US, the UK, the EU and other countries, and sanctions have not yet been lifted. Despite these continuing uncertainties, the **oil price has been stable** throughout 2024, and is currently trading at the lower end of its recent range of $90 per barrel to $70 per barrel.

Gas prices, by contrast, end the year at a high level. This continues to create challenges for **gas-based chemical production in Europe**. These challenges are particularly likely to be felt in Germany and for products such as ammonia, methanol and certain engineering plastics such as nylon and ABS.

Recent price moves reflect an **escalation in the conflict in Ukraine** and **colder weather** in Europe. After the volatility of the last few years, energy prices are expected to **remain stable** into 2025, broadly supportive of business growth. However, it will **remain a risk factor for many industries** if European gas prices continue to rise or even remain at this high level.

Elections, elections, elections

In 2024, around **half of the world's population was asked to vote** and this has resulted in significant change.

Incumbent leaders and political parties have generally fared poorly, as serving leaders were blamed for the economic gloom (source: Pew Research). Voter dissatisfaction focused on increases in prices of food, energy and other basics that have escalated the cost-of-living. Cultural issues also proved divisive in many elections.

In the **US,** markets seem relatively confident that actions to be taken by the **President-elect, Donald Trump**, and his new administration will be supportive of the business environment. When the new administration takes office, President-elect Trump is expected to **deliver on a strong economy** supported by an end to the war in the Ukraine, **sweeping deregulation** at home, **tax cuts** and, potentially, **tariff barriers**.

The **incumbent Conservative Government** suffered a heavy defeat in the **UK.** President Emmanuel Macron in **France**, Narendra Modi in **India**, Shigeru Ishiba in **Japan** and Cyril Ramaphosa in **South Africa** have all suffered heavily at the polls but are, so far, managing to limp on. With elections coming up in 2025 in **Germany**, **Canada** and **Australia** and continuing political instability in **France, Japan** and **India**, this will add an **extra level of complexity to economic forecasting into 2025**.

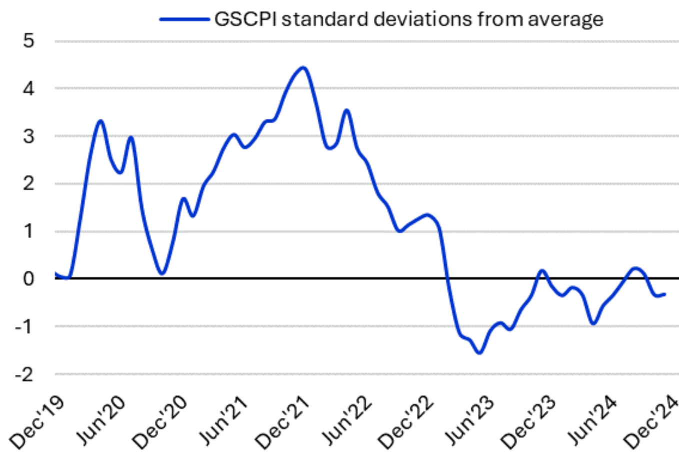
Figure 5. Crude oil – Brent spot settlement price

Source: S&P Global.

Figure 6. Natural gas – TTF spot settlement price

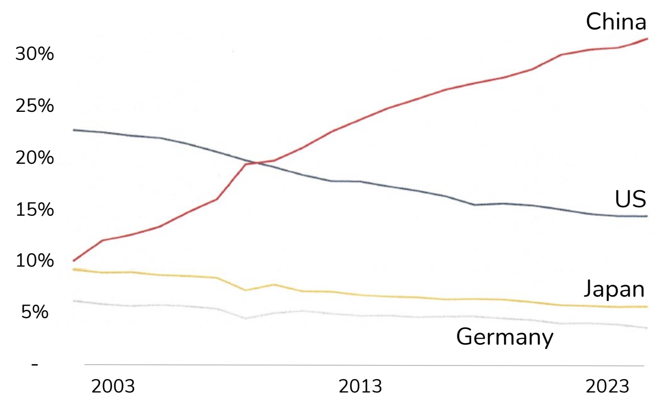
Source: S&P Global.

Figure 7. Trends in the Global Supply Chain Pressure Index (GSCPI), FY20-24



Source: Federal Reserve Bank of New York. A number above zero indicates that the supply chains are experiencing excess costs and delays, whereas a number below zero indicates the reverse.

Figure 8. Share by country of global manufacturing, 2003-2023



Source: Wall Street Journal.

Supply chains working well, but will this last?

Disruption to supply chains was highlighted in previous reviews (see Year in Review 2022) as a driver of M&A, as companies sought to secure resilience to geo-political issues. At the start of 2023, supply chain issues dominated management time. In Figure 7, the chart shows that supply chains are now believed to be working normally, or **even slightly better than normal**, with little change during 2024. This is one of the few positive indicators, but this may change in 2025 if tariff barriers and even trade wars become a reality.

Tariff barriers and even trade wars a real risk

President-elect Trump has vowed that he will impose **tariffs on international trade,** starting with 25% **across-the-board charges** on **Canadian and Mexican imports**. A tariff of 60% on all Chinese goods has also been rumoured, which could be very significant as China now accounts for 30% of global industrial production (see Figure 8).

Many companies in European chemicals could be particularly badly affected as **their end markets in the auto, construction and engineering sectors** are likely to be depressed.

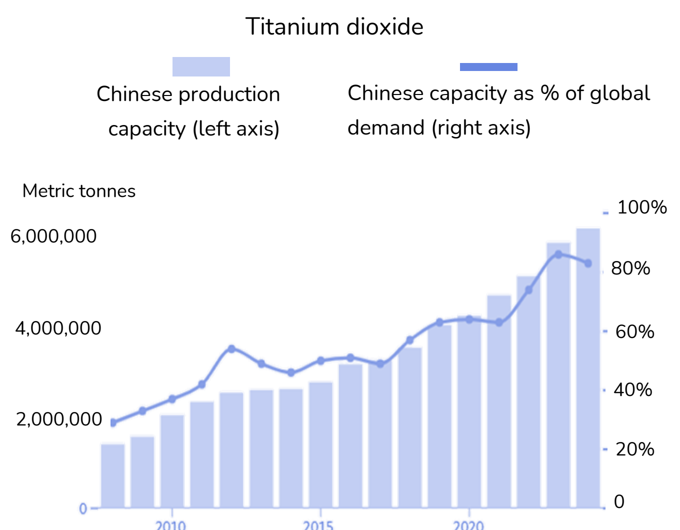
If large tariffs are imposed in the US, not only will exports from Europe to the US be affected, but Chinese goods will likely be diverted elsewhere, **potentially flooding European markets**. If the EU retaliates by raising its own trade walls, this will further raise the price of imports.

An example of the problems created by tariff barriers, is already evident in the **European paint industry**.

Europe's paint manufacturers are campaigning against increased tariffs on **imported Chinese titanium dioxide**, an important raw material. As a result of an anti-dumping investigation launched last year, the EU introduced provisional measures, including retroactive duties of up to 39.7%, that could be adjusted or confirmed in January 2025 (source: FT; 29/9/2024).

If these duties go through, several companies are suggesting that implementing the tariffs will lead to **factory closures**. This highlights the dilemma the EU faces in protecting its industries from **lower cost Chinese competition,** without harming local production, stoking inflation and generating higher costs for domestic producers.

Figure 9. China's importance to the global paint-making industry, 2008-2024



Source: Financial Times.

Inconsistent approaches to the environment

In 2024, there has been a staggering divergence in addressing climate change and sustainability across the US, Asia and Europe. These policy differences are influenced by political landscapes, economic considerations and public opinion.

The **EU** has implemented ambitious environmental regulations, including strict emission standards and a planned ban on new combustion engine vehicles by 2035. These measures are aimed at positioning **Europe as a leader in combating climate change**. However, industry experts have early on, and more vocally recently, expressed concerns about the rigidity of these regulations. They have cited challenges such as the impact of the COVID-19 pandemic, rising energy costs, job losses, and competition from more affordable Chinese electric vehicles.

Critics argue that the **complex regulatory framework in Europe may hinder innovation and economic growth**, prompting calls for policy simplification and reduced bureaucracy. The public mood in Europe, historically very much in favour of environmental regulation, appears to have turned to something bordering on **indifference** with many recent election campaigns only marginally covering topics of climate change and sustainability. This trend suggests **a potential decline in public engagement with environmental topics**, possibly due to competing immediate concerns such as economic challenges and geo-political tensions.

In the **US**, political debates often centre around the **economic implications of climate initiatives**, with some factions viewing environmental regulations as detrimental to economic growth. Notably, there has been a growing backlash against environmental, social, and governance investing. In a striking example of this, in November 2024, **Texas, along with ten other Republican-led states,** filed a lawsuit against **BlackRock, State Street**, and **Vanguard.** The suit alleges that asset managers at these companies conspired to limit coal production to advance environmental agendas, thereby violating antitrust laws and increasing energy costs for consumers.

Asian countries have adopted a mix of ambitious and pragmatic approaches to environmental policies, reflecting the region's diverse economies and developmental stages. **China** has emerged as a **global leader in renewable energy investments,** particularly in solar and wind power. China is building 339 GW of utility-scale wind and solar, or 64% the global total, which is more than eight times the project pipeline of the second place US, with 40 GW.

Japan has committed to achieving net zero emissions by 2050 and is **focusing on hydrogen technology** and **energy efficiency**. Meanwhile, **Southeast Asian nations**, such as Indonesia and Vietnam, are accelerating **renewable energy adoption** but face financial constraints and challenges due to reliance on coal. Public sentiment across Asia increasingly supports sustainability efforts, especially as urban populations directly experience the impact of pollution and climate change.

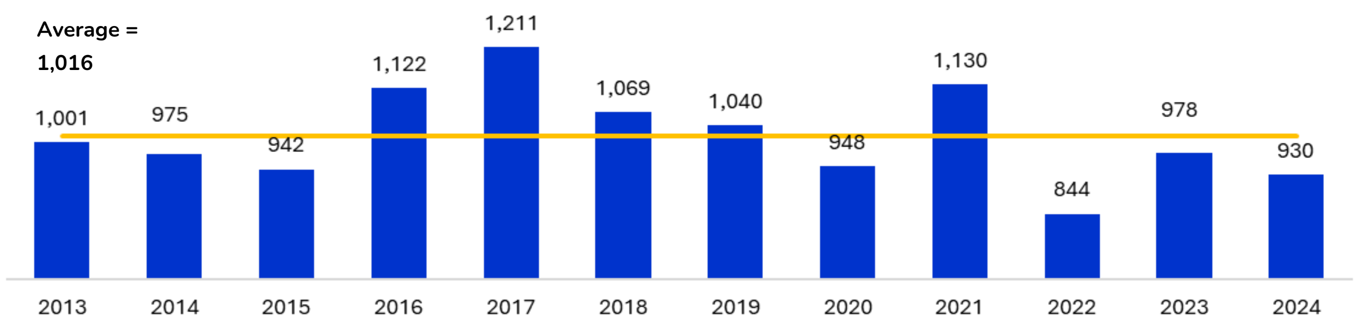
Chemical companies face a difficult navigational task in this situation. They have a choice of whether to **focus their activities on areas with looser regulation with potentially higher short term profits** or to prepare better for the unavoidable, **potentially accepting weaker earnings in the short term.** Given the significant time frames of major chemical investments, the answers appear simple, but continued external focus on quarterly earnings may have an unhealthy impact on these decisions.

II. CHEMICALS M&A OVERVIEW

Overall chemical sector deal activity lacklustre

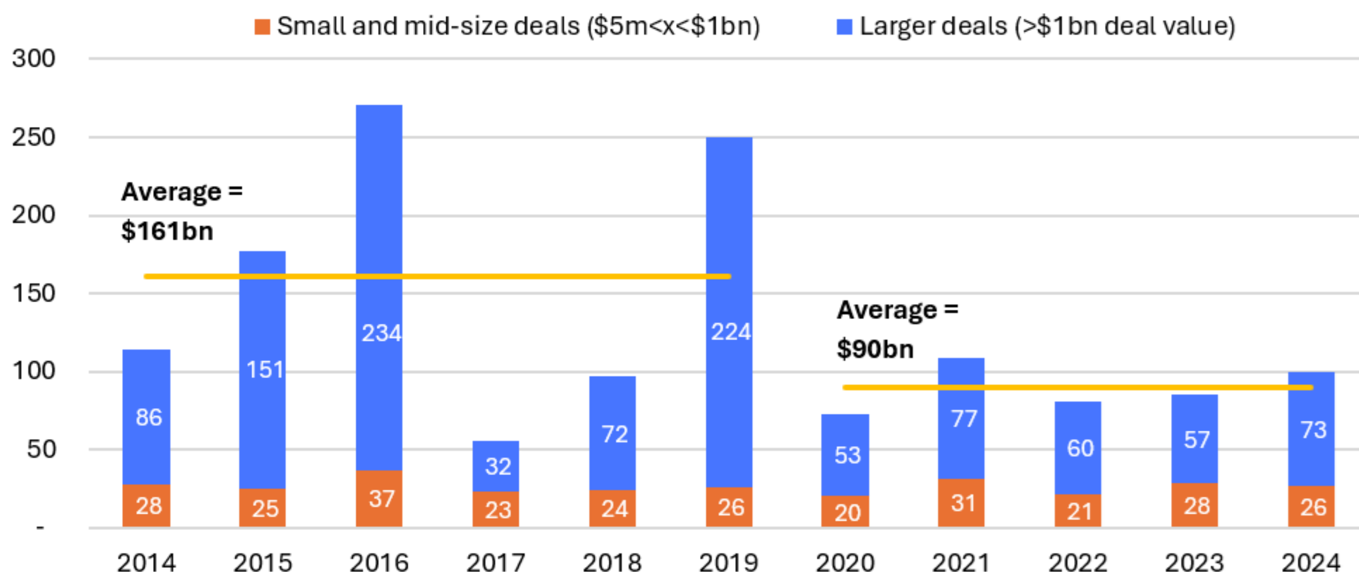
The **number of deals** announced in the sector was below average and **slightly lower** in 2024 than in the previous year. The overall level of activity was **substantially below pre-2020**, as Figure 10 below shows. This is arguably due to continuing higher interest rates and poor visibility of earnings amid geo-political uncertainties.

Figure 10. Chemicals industry M&A activity: Number of deals globally



Source: Mergermarket; Natrium Capital. Note: Number excludes lapsed deals.

Figure 11. Chemicals industry M&A activity: Total deal value of deals globally ($bn)



Source: Mergermarket; Natrium Capital. Note: Excludes lapsed deals and deals in China.

The total **value of the deals** in chemicals was slightly **higher** than in 2023 but still well below the average during the period 2014-2019 as shown in Figure 11.

Lack of larger deals

Over the last couple of decades, globalisation of end-user markets, cost pressures, volatile commodity prices and a need for capital investment encouraged consolidation. Significant large deals restructured chemicals and materials 'national champions' (which made a wide range of products) into global players that have significant market positions in their segment.

Not all deals have been successful, but McKinsey's analysis of 'mega' (over $10 billion) deals over the last fifteen years shows that **the chemical industry has had greater success of adding value by large transactions than other industries** and has created substantial value for shareholders in the process (Source: McKinsey – Top M&A Trends in 2024). **Examples of this value creation include the transactions in agrochemicals, plastics and engineering plastics, pharmaceuticals, food ingredients and personal care.**

However, over the past five years there have been fewer larger (over $1 billion) deals. Some investment banks that specialise in this type of deal are reporting that their trading volumes are down as much as 50%.

In 2024, there were only two significant 'mega' (over $10 billion) deals: the takeover of **Covestro** (Germany) by **Abu Dhabi National Oil Corporation (ADNOC)** (announced but not yet concluded) and the merger of **Berry Global Group** (US) and **Amcor** (Switzerland). Examples of larger deals have included the acquisition of **Arcadium Lithium** (Ireland) by **Rio Tinto** (UK); the takeover of **CP Kelco** (US) by **Tate and Lyle** (UK); the sale of **AOC** (US) to **Nippon Paint** (Japan); the purchase by **Henkel** (Germany) of **Seal for Life** (US) from **Arsenal Capital**; the sale of **SK Specialty** (South Korea) to **Hahn & Co** (South Korea); and the sale of **Ineos Composites** (UK) to **KPS** (US).

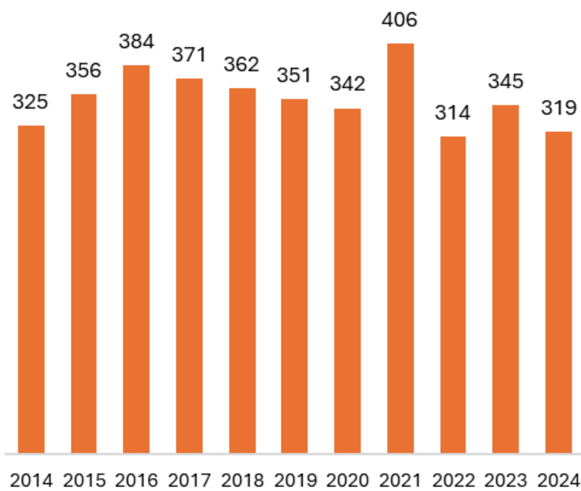
The reasons for this shift in activity away from larger deals are not entirely clear, but supply chain issues, stronger competition, regulation and increased nationalism are all potential contributors. With companies holding off from some of the larger, transformative transactions where the risks may outweigh the potential rewards, smaller regional companies will continue to survive and even thrive.

Steady flow of smaller and mid-market deals

Although there have been fewer, larger transactions recently, we continue to see **a steady flow of smaller and mid-market deals that add incrementally to company portfolios**. The **value of these small and mid-market transactions** ($5 million-$1 billion, shown in the orange bars of Figure 11 above) **has been stable** over the last decade, even holding up well in 2020. The number of these deals, as shown in Figure 12 overleaf, has also stayed stable.

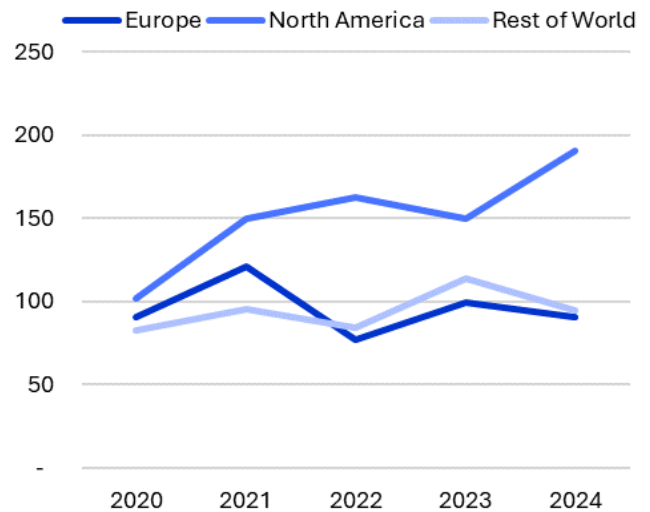
This reflects Natrium Capital's experience that the industry has a steady need for transactions that add to growth. These may take the form of **bolt-on acquisitions** to add geographic diversity, or growth from new products, or the sale of non-core assets or carve-outs as part of **portfolio pruning**. This constant demand for smaller and mid-market M&A deals shows **that the right deal can get done throughout the cycle.**

Figure 12. Chemicals industry M&A activity: Number of small to mid-size deals ($5m < x < $1bn), 2014-2024



Source: Mergermarket; Natrium Capital. Note: Number excludes lapsed deals and deals in China.

Figure 13. Chemistry industry M&A activity: Average deal value ($bn) by region, 2020-2024



Source: Mergermarket; Natrium Capital. Note: Number excludes lapsed deals and deals in China.

The **average size of smaller to mid-market deals continues to diverge between North America and the rest of the world.** North American deal size is increasing to unprecedented levels while the deal sizes in Europe, Asia and the rest of the world remain at previous levels, as show in Figure 13.

Valuations under pressure

Overall, the **EBITDA multiples of announced deals declined** very slightly in 2024, but valuations were still ahead of those achieved in 2022, 2020 and 2019 (see Figure 14). (As an aside, 2021 was a stronger year, both for activity and valuations, as deals held up by the restrictions in activity in 2020 came to market in 2021.)

There is some limited evidence that **valuations were higher in the US** in 2024 than in 2023, whereas in Europe EBITDA multiples fell slightly. It is important to recognise, however, that only few companies announce full valuation metrics for deals so the evidence is limited.

Some deals stalled

During the last two years, we have seen continuing dramatic **differences between buyers' and sellers' valuation expectations**, sometimes leading to impasse and failed deals. This is partly due to volatile profitability with several downwards earnings revisions.

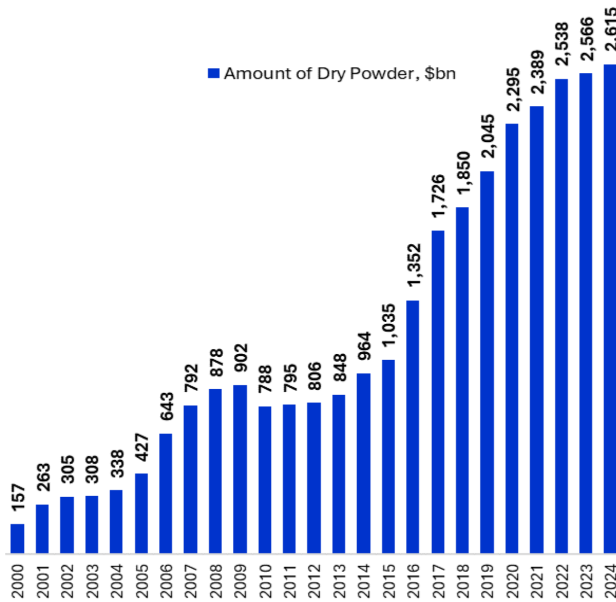
In such circumstances, buyers find it less easy to finance the acquisition and are more concerned about the risk that earnings may not recover. Sellers, on the other hand, tend to put higher value to the potential for recovery in the future and the strategic importance of the asset.

The valuations of **chemical distributors** have settled below 2022 highs, and this has discouraged **EQT** and **CINVEN** from exiting **Azelis** and **Barentz** respectively. Other deals that have stalled include the sale by **Evonik** of its C4 business and the sale of **Arkema**'s Fluorogases business.

Figure 14. Chemicals industry M&A activity: EV/EBITDA multiples, 2014-2024

Source: Mergermarket; Natrium Capital. Note: Deals with EV/EBITDA multiple of ≥ 30.0x have been excluded. Deals within China are included.

Figure 15. Private equity dry powder trend, 2000-2024



Source: S&P Global. Note: 2024 is YTD, as of 10 Jul'24. Analysis includes aggregate dry powder of global private equity funds with vintage year between 2000 and 2024. Dry powder data is supplemented by Preqin.

PRIVATE EQUITY BUYERS AND SELLERS

A very noticeable change in the M&A environment is the near **absence of private equity** buyers and sellers. A tough deal-making environment has been blamed for limiting entries into new private equity deals, yet many funds report that it is hard to find quality assets to buy at the right price.

Unutilised private capital levels remain (very) high

The level of global private equity and venture capital funds uncommitted capital and available to be invested in all sectors, known colloquially as **'dry powder,' has continued to climb in 2024**, as shown in Figure 15. Inflows of investment monies into private equity funds remain strong and investors will be demanding that this capital is drawn down and spent. This should support continuing M&A activity.

Average holding period for private equity assets risen by one year

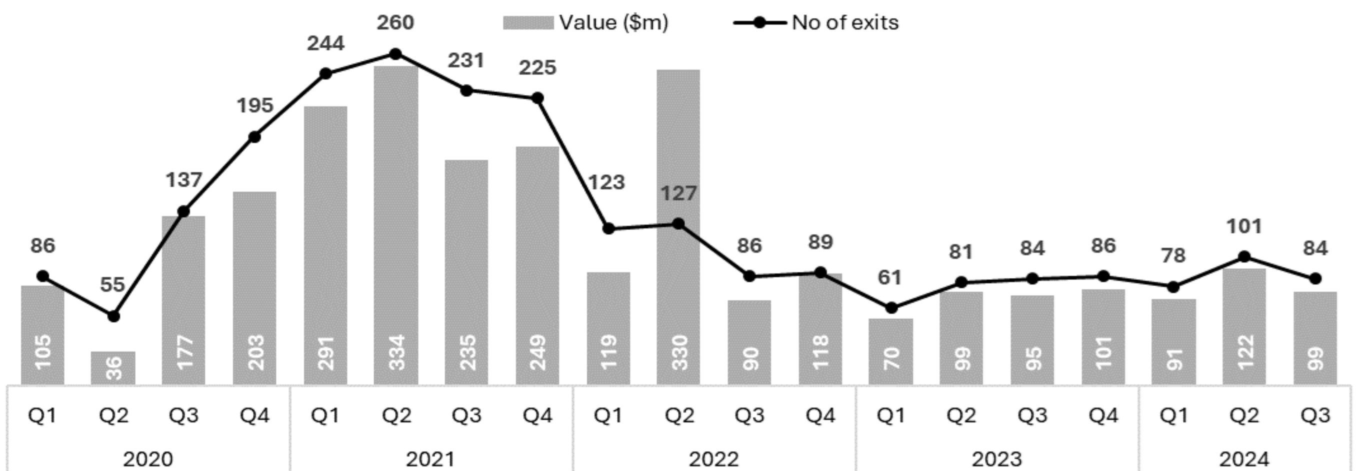
A traditional successful private equity investment is expected to find an exit within three to five years. For that period, the sponsor and the management team focus on value creation through operational improvements, rationalisation and strategic growth, sometimes supported by further acquisitions. The gain in value is then realised through a sale to a strategic buyer or another private equity investor or, occasionally, through an initial public offering (IPO). Realised proceeds are then distributed to investors. On average, funds sell around 20% of their portfolios in any given year.

In 2024, only about half the expected number of PE sales was achieved (see Figure 16). Bain estimates that this means there is currently $3 trillion of asset sales globally, in all sectors, 'waiting in the wings' to be sold. With lower than expected realisations from PE portfolios, the average holding period for all private equity investments has crept up and is now about one year longer (Source: Private Equity Info). Intralinks, a provider of virtual datarooms, said that they have data on more than 27,000 private companies held in private equity portfolios. Over half of these private companies have now been held for over four years, a relatively long holding period. **This longer holding period is putting pressure on PE houses to monetise their assets** through sales, spins, transfers to new funds, partial sales and any other creative means the PE companies can devise.

Concentration in fewer portfolio groups

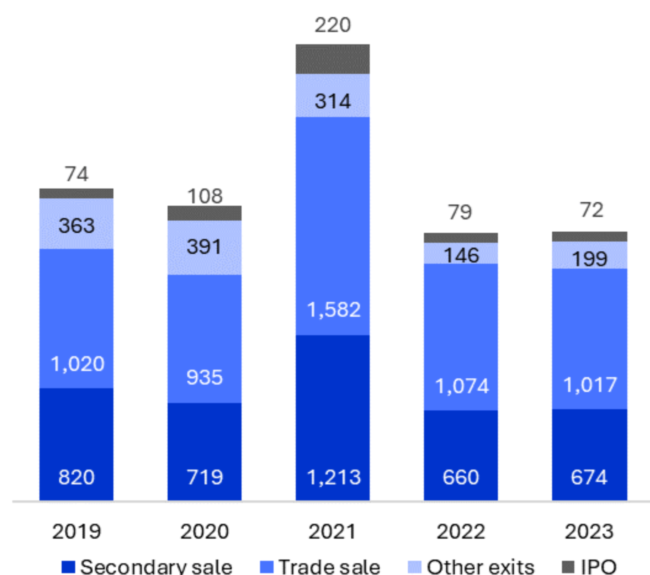
According to S&P Global, **the largest 25 PE funds now own more than 20% of all private equity 'dry powder' globally, an unprecedented concentration level**. Given the size of the 'dry powder' backlog, these funds are more likely to focus on larger or 'mega' deals.

Figure 16. Private equity-backed exits, by quarter, 2020-2024



Source: EY Private Equity Pulse, Key Takeaways form Q3 2024.

Figure 17. Number of private equity-backed exits by type, 2019-2023



Source: Preqin Pro; S&P Global 2024. Note, 'other exits' includes bankruptcy / write-offs, private placements / follow-on, sale to management and unspecified exits.

Initial public offerings (IPOs) limited – but is this an issue?

It has been widely reported in the financial press that the **IPO market has been very weak**. Some have cited this as a reason for the low number of PE exits.

The chart in Figure 17 shows that IPOs actually account for the minority of private equity exits. In the last five years, only 5% of exits were achieved through IPO and this percentage has declined over the last two years. While the IPO market undoubtedly remains difficult, **a recovery in private equity transactions does not rely on a recovery in IPOs.**

CORPORATE BUYERS

Strategic buyers are not faring much better than private equity investors in terms of deal activity. It is our experience that quoted companies are prepared to pay a modest premium to make the right acquisition, but they balk at paying a huge premium to their own valuation.

Thus, more buoyant stock markets are generally supportive of M&A activity, even if the acquisition is bought for cash.

Chemical companies performing poorly in the stock market

The chart in Figure 18 shows the price of chemical company shares in the US against the overall stock market performance. The **recent poor performance of chemical company shares has dampened the appetite for acquisitions**.

On the other hand, the poor performance of chemical stocks means that some **quoted companies now offer better value** and could become **targets for aggressive bidders or activist investors**.

The rise of the activist investor

A **growing number of activist investors** are trying to unlock value in the chemical industry by reducing, or removing, the conglomerate discount inherent in companies serving multiple end markets and industries. Activists have tried, often unsuccessfully, to put companies 'in play,' agreeing to an outright sale or running a public auction.

Activists have been **more successful in bringing about change by being appointed to the board**, perhaps replacing senior management and encouraging the separation and sale of underperforming businesses. Although **Elementis** has fended off offers for the whole company, the activists are bringing about change and encouraging asset sales and have appointed a representative to the board. Equally, **Johnson Matthey**'s largest investor has called for a strategic review of the company.

Other companies that have activist investors include: **Brenntag**, supporting the proposed split of the company between commodity and specialty operations and **Air Products**, forcing management change. One result of such activist pressures is the **encouragement of more smaller and mid-market divestments to streamline portfolios**.

Figure 18. S&P 500 index, rebased to 100, 2018-2024

Source: S&P Global.

Table 3. Selection of announced strategic reviews

BASF Sep 2024	Environmental catalyst and metal solutions, sales of €10 billion; Coatings, sales of €4 billion; Agricultural solutions, sales of €10 billion
dsm-firmenich Feb 2024	Animal health and nutrition, sales of €3 billion; Non-differentiated vitamins, sales of €100m; Aroma ingredients, sales of €170 m
Elementis Aug 2024	Talc, sales of $130 m
Evonik Oct 2024	Performance materials, polyolefins, polyesters, amino acids

Source: Publicly available company statements. Date refers to date of announcement

Portfolio reviews may lead to both 'bolt-offs' and 'bolt-ons'

The trend reported last year of transactions that could be described as **portfolio realignment** has continued. Natrium Capital has seen a number of strategic reviews, both announced and rumoured, leading to **divestment of non-core businesses or 'bolt-on' acquisitions**.

Table 3 above shows a selection of the publicly announced strategic reviews currently in the pipeline. There are also presumably many more strategic reviews that are not in the public domain. We expect these reviews to lead to deals that come to the market in 2025 and beyond.

III. OUTLOOK FOR CHEMICALS M&A TRANSACTIONS

Lacklustre economic and industry backdrop with continued cost pressure

For 2025, Natrium Capital is cautiously optimistic that the environment for **deal making will recover** from the low levels seen in 2022-2024, despite a relatively **lacklustre economic and industry backdrop**.

We expect slow growth globally in chemicals at levels **below long term trends**. Global manufacturing output is expected to be steady but relatively low. Inflation seems to be under control. With slow economic activity, good opportunities for **growth from capital investment are elusive**.

Europe is particularly negatively affected by global trends. If significant tariffs are imposed by the US, this will clearly have a significant negative impact on European exports to the US.

Furthermore, an imposition of US tariff barriers is likely to result in Chinese goods being diverted elsewhere, potentially flooding the domestic market in Europe. If the EU retaliates by raising its own trade walls, this may protect European production somewhat but will also raise the price of imports, putting profitability under pressure. This is clearly not a welcome development, as profitability is already under pressure in Europe.

We expect **cost pressures to continue**. In particular, gas prices in Europe are still at higher levels and wage growth is sticking at higher levels as well. There is continuing pressure to improve the industry's environmental footprint, despite recent pushback in the US and elsewhere. Productivity gains are proving hard to find. **Adding value by strategic M&A may be the best option available.**

Natrium Capital expects increased deal activity in 2025

Given this economic background, companies will need to find new opportunities to supplement profitability. Management will need **to think strategically** and evaluate existing portfolios. This is expected to lead to **portfolio pruning** and smaller **bolt-on acquisitions** to expand product portfolios and geographic reach. Opportunities to invest in those assets being shed should also increase the volume of M&A.

Several **quoted chemical companies have been out of favour on the stock market** and are vulnerable. Involvement of **activist investors** in the sector is already forcing change and encouraging strategic reviews of management as well as asset sales. Several of these are expected to come to the market in 2025. Again, the expectation is that this will lead to increased M&A volume.

The biggest impact on deal volumes could be from **increasing activity by private equity (PE) firms**. Private equity investors have built up large capital ('dry powder') reserves and are **under pressure to deploy this capital in acquisitions**. They are also under pressure to divest as only about half the expected number of private equity exits were achieved in 2024, extending the average holding period for all private equity investments to yet higher levels. With **over half of all assets held in private equity portfolios already held for over four years**, there is increased pressure on funds to up their game in terms of their sales programmes and hand back money to investors.

We could see a return to larger or 'mega' deals as funding costs decline. A steady flow of smaller and mid-market deals is also expected to continue, as part of portfolio realignment and strategic reviews of corporates and private equity alike.

In summary, Natrium Capital expects an **interesting year in chemicals M&A in 2025**.

ABOUT NATRIUM CAPITAL

Natrium Capital Limited is the specialist Chemicals M&A boutique which sets a new standard in M&A advice. Led by Alasdair Nisbet and staffed by bankers, all of whom are also scientists, Natrium Capital provides strategic and M&A transaction services focused on the chemical industry, covering, amongst others: plastics, fine and specialty chemicals, personal care ingredients, food ingredients, chemical distribution, engineering materials, paints and coatings, inks, adhesives, biotechnology and clean technologies. Headquartered in London (UK), Natrium Capital advises on both sell-side and buy-side transactions, including carve-outs and complex global cross-border deals. The team has advised on transactions with a combined value of over $100bn.

Natrium Capital is authorised and regulated by the Financial Conduct Authority.

SELECT RECENT DEALS OF NATRIUM CAPITAL

UNDISCLOSED	UNDISCLOSED	UNDISCLOSED	UNDISCLOSED	UNDISCLOSED
ADVISOR TO adenia on the sale of Cresta Paints to UHURU INVESTMENT PARTNERS	ADVISOR TO nanocyl on the sale of the Carbon Nanotube business to BIRLA CARBON	ADVISOR TO WILBUR-ELLIS on the merger of Connell, its Asian Speciality Chemical Distribution business with CALDIC	ADVISOR TO SOLVAY in the sale of its Amphoteric Surfactant Business in N. America & Europe to OPENGATE CAPITAL	ADVISOR TO Gil Investments in the sale of ICoNiChem to ETI BAKIR

€300m	UNDISCLOSED	€39m	$360m	~ $1bn
ADVISOR TO DOMO in the acquisition of Performance Polyamide Business in Europe from SOLVAY	ADVISOR TO H.I.G. CAPITAL in the acquisition of Covestro's Polyurethane Systems Business (now PLIXXENT) PLIXXENT.	ADVISOR TO ELEMENTIS in the sale of its Surfactants business to KOLB	ADVISOR TO ELEMENTIS in the acquisition of SUMMITREHEIS	ADVISOR TO Blackstone in the acquisition of the cellulose acetate tow business (now Cerdia) from SOLVAY

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