Global chemical M&A treads water

Our prediction for 2025 is a modest increase in both the dollar volume and the number of deals completed, driven by restructuring and other factors

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Weakness in global economies and geopolitical uncertainty continue to hold back chemical mergers and acquisitions (M&A) activity. Yet pressures are building that should drive a modest recovery in 2025.

The global economic picture is mixed. A limited number of countries and regions are experiencing positive growth – the US, China, India, Southeast Asia – but most are struggling, In particular, Europe has been weak.

We continue to face a high degree of uncertainty with regard to the global economy, global geopolitical tensions and conflicts, high interest rates, uncertain election outcomes in many countries, and the impact of a second Trump administration, all of which will have significant economic and geopolitical consequences.

Since chemical industry prosperity is heavily tied to global economic conditions, 2024 has been a difficult year for the chemical sector in terms of demand and profitability.

However, there were a number of chemical industry specific challenges that occurred in terms of market specific demand slowdowns, customer inventory drawdowns, fluctuating oil and gas prices, and the build-up of capacity, particularly in China – an important destination for Western produced chemicals.

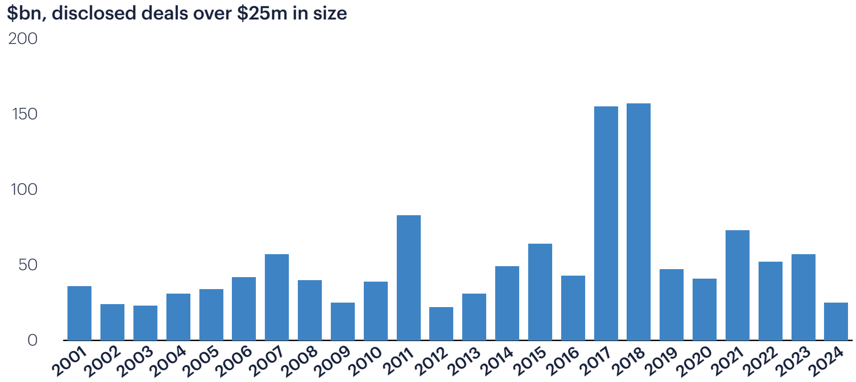
The future looks particularly difficult for commodity chemical companies due to the normal cyclical downturn combined with major increases in capacity in Asia and the Middle East that are driven by factors unrelated to normal cyclical increases in capacity.

The rationale for capacity increases in the Middle East is the desire to have more diversified economies that are less dependent on oil and gas. The rationale in China is hard to justify because China does not have low-cost oil and gas like the US or the Middle East.

China expansions, particularly by state-owned enterprises, is driven more by government goals to be less dependent on imports. The government is not willing to rely on foreign owned or jointly owned petrochemical plants to satisfy this goal.

There has also been a surge in ESG and sustainability pressures on chemical companies, and in particular around plastics and carbon neutrality. This is forcing changes in business models and spending that are creating a host of business and financial challenges.

Acquisitions of worldwide chemical companies – equity value



Source: Young & Partners

M&A market downturn

It is no surprise that chemical industry M&A market is being driven heavily by global and chemical industry economic and geopolitical factors. The result has been a continuation of the M&A market downturn. Except for the uptick in acquisitions of US companies, the ongoing consolidation activity in the Chinese chemical industry and an increase in private equity acquisitions of specialty chemical companies, the rest of the market is flat to declining.

Around $45.3 billion worth of deals over $25 million in size closed in 2024 compared to $57.1 billion in 2023. The dollar value in 2024 was below that in 2023, but one large deal (the merger of Novozymes and Chr. Hansen for $11.4 billion) that closed in January 2024 after a long delay was the reason the decline was not greater.

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The number of deals that closed tells a different story. In terms of number of transactions, only 50 deals closed in 2024, a major slowdown compared to the 75 deals in 2023 and the 86 deals in 2022.

Looking forward, the value of deals announced but not closed as of 31 December 2024 was $24.0 billion (29 deals), which suggests a continuation of the slower pace. The trends underneath the totals are quite interesting.

Commodity chemical deal activity continues to fall. The volume of commodity chemical transactions in 2024 accounted for only 36% of the total, a continuation of the decline in 2023. None of the commodity chemical deals were in Europe. Commodity chemical deals are normally around 50% of the total historically. Valuations have stayed flat at trough-like levels.

Specialty chemical M&A volume has fallen, but not as severely as in commodity chemicals. Valuations have fallen moderately.

Geographically, the chemical M&A market continues to be dominated by deals in Asia/ROW (Rest of the World). The global share of deals completed in Asia and ROW in 2024 was

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48.0% of the total, slightly lower than the 55.4% share in 2023. Almost all of the buyers of the Asian businesses were also Asian.

Outside of Asia, the US continues to be seen as a favorable place to produce chemicals. As a result, the US accounted for 40.0% of all deals in 2024, up from 25.7% for all of 2023.

Europe ended up with only 12.0% of the deals completed worldwide in 2024, down from 18.9% in 2023, as buyer interest in European chemical assets continues to be weak.

Private equity buyers completed 9 deals in 2024 versus 10 in 2023, an increase in share from 13.5% in 2023 to 18.0% in 2024.

Predictions for 2025

Our prediction for chemical M&A in 2025 is a modest increase in both the dollar volume and the number of deals completed.

The drivers supporting continued activity will be strategically imperative divestitures and acquisitions, divestitures by private equity owners, consolidation activity in China, and the restructuring activities of commodity chemical companies forced by the industry downturn and structural issues.

In essence, the factors suppressing M&A activity are unlikely to go away and the drivers of M&A activity are not going to escalate.

Implications for management

One key question is: Is this a good time to sell a chemical business? If you are a chemical company thinking of selling a non-core business, or a private equity firm with a chemical business you have owned for a number of years, a key question these days is whether this is a good time to sell and, if so, what the right approach is to achieve success in the current environment.

The current chemical M&A market overall is relatively weak, but certain parts of the market are healthy. Other parts are depressed. There is no sign that the overall market will return to peak levels in the near to medium term.

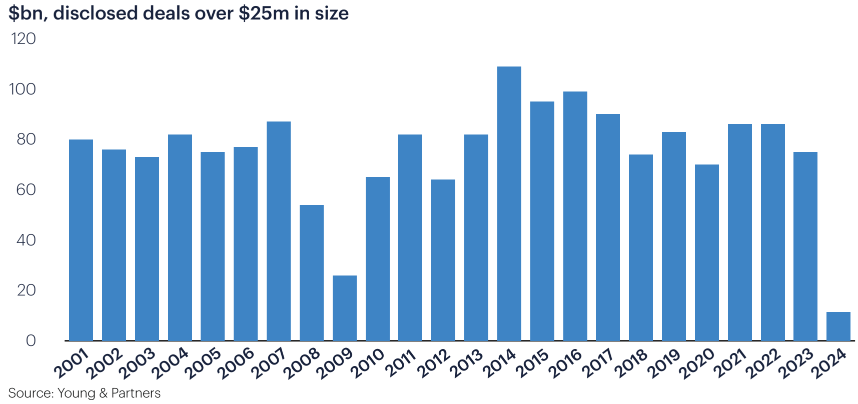
Whether this is a good time to sell depends on the answers to a few key questions about your situation:

- Is your business a commodity or specialty chemical business?
- Where is it located? US, Europe, Asia, Middle East, etc.
- What is the quality and strategic profile of your business and how attractive will it be to strategic buyers?
- Are the potential buyers for your business in good shape, in healthy industry sectors and geographies, and looking to expand?

Depending on the answers to these four factors, the answer could be yes or no. Just as important, of course, is how effectively you devise and execute a sale. For buyers, this is a reasonable time to be acquiring specialty chemical businesses with less competition from other strategic players. Commodity chemicals will be much easier to acquire at lower multiples, but there must be a strategic rationale, even at the current lower valuations.

Acquisitions of worldwide chemical companies – number of deals

$bn, disclosed deals over $25m in size



Source: Young & Partners

Peter Young is CEO of Young & Partners, an international strategy and investment banking firm that focuses on the chemical and life science industries. The firm provides corporate strategy and financial advisory, M&A, debt and equity placement, and financial restructuring services for clients globally. Young & Partners has served a global client base of companies in Europe, North America, Latin America and Asia for the last 29 years.
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