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Time is ripe for M&A

With valuations subdued and substantial portfolios of assets regularly coming on the sales block as a result of European portfolio reviews, the ground is particularly fertile

Tom Brown London

With the chemicals sector drawing closer to the end of the mammoth trough of the last few years, the timing is good for opportunistic mergers and acquisitions (M&A), but the question of what normalized future demand levels will look like remains.

Chemicals sector M&A remained weak last year on the back of continuing misalignment between buyer and seller pricing expectations exacerbated by still-high financing costs.

In economic terms, there is no big rebound on the cards expected this year, and chemicals firms have remained cautious so far, with US-based Dow cutting spending plans and intensifying focus on European portfolio reviews.

LyondellBasell, which joined Dow in posting a loss in Q4 2024, continued to stress the potential of a slow future recovery, underlining the fact that markets have yet to rebound despite lower interest rates.

"Entering 2025, LyondellBasell remains watchful and prepared for the macroeconomic catalysts that will eventually drive restocking of supply chains, improve demand for durable goods and support a more broad-based economic recovery," the company said.

Martin Bastian
Managing director, head of Europe chemicals, Houlihan Lokey

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Gradual recovery

Nevertheless, the expectation remains that, if not in the second half of 2025, markets will be further along towards some kind of recovery, although chemicals executives have been careful to manage expectations for a slow rebound when it arrives.

This point in the cycle, where conditions are still bearish and may remain so for some time, but where there may be light ahead eventually, is a good time for companies and investors to make opportunistic deals, according to Martin Bastian, managing director and head of Europe chemicals at investment bank Houlihan Lokey.

"I would say there are opportunistic investments to be

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made. Many of these businesses will come back," Bastian said. "It may take a year, maybe a year and a half, but it will come back. This is where you make outsized returns."

With valuations subdued and substantial portfolios of assets regularly coming on the sales block as a result of European portfolio reviews, the ground is particularly fertile for private equity buyers, he noted.

Private equity firms are understood to be sitting on large amounts of undeployed capital at a point where pressure is intensifying for them to put that cash to work.

"I think 2024 was a transition year, and 2025 could possibly be another transition year, but with some slight improvements on the volume side coming through," Bastian said.

"So let's say we're still in this valley, but maybe towards the end. This situation is typically the time when you may take a contrarian view. That's where you have the opportunity to have outsized returns on an investment from a private equity perspective," he added.

Structural shifts

M&A deal flow has been further complicated by the unevenness of performance data over the last five years, which encompasses the COVID-19 pandemic and its aftermath, as well as the energy price and inflation surges that followed.

With the industry enduring unusually protracted bottom cycle conditions, it remains unclear what the next economic cycle will bring, and whether there have been structural shifts in demand, as Dow CEO Jim Fitterling recently stated had taken place in Europe.

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"There will be a real challenge of what the next peak of the cycle will look like and what normalized levels will be going forward," Bastian said.

"It won't go back to the same levels as before, but we are currently below that "new" normalized benchmark, so there will be a recovery. Then the question is: How much is achievable and how much of that is, or will be priced in?" he added.

Sector matrix

The shift has made it more important than ever to fully understand company portfolios and how they fit into the market.

"Chemicals probably has 20+ sub-segments," Bastian said. "So the way I look at it is geographically, then you overlay that with commodities, petrochemicals, intermediates and specialties. And then you overlay that with end markets, and taken together you have these spaghetti matrixes of products moving from one place to another," he added.

"As a company you have to think of not only, what can I do to restructure my own portfolio of assets, my own asset base, [but] you have to also think about the value chain and potentially [what] you can achieve in a joint effort with other players consolidating/rationalizing selected parts within the value chain"

European companies are not presently performing well in that matrix, he noted, with further rationalizations along different value chains likely to continue, according to ICIS data.

"US [companies] are divesting much quicker than the Europeans," he said. "It's obviously much harder for them, given that's their home markets, so that will be a challenge on the commodity side, going forward."

Economics in China are also challenged compared to pre-2020 expectations, Bastian added, with the long-term returns on big bets in the country now often perceived as a few percentage points lower than might have been expected.

"The business plan calculations done five years ago with growth rates from the investment case, didn't assume the lower growth rate, which you currently see," Bastian said.

"That investment case is different than it was five years ago in terms of your business plan – inflated costs and deflated demand," he added.

Companies are increasingly moving to grasp the nettle, with more and more assets either mothballed, shut down or put in play.

But this process of lowering global capacities to the point where operating rates can normalize may also require cooperation along the value chain, Bastian said.

"As a company you have to think of not only, what can I do to restructure my own portfolio of assets, my own asset base, [but] you have to also think about the value chain and potentially [what] you can achieve in a joint effort with other players consolidating/rationalizing selected parts within the value chain," he added. ■

Think Tank

Will Beacham Barcelona

Manuchar to drive distribution M&A

Belgium-based distributor and trader Manuchar aims to expand its higher value and specialty chemical distribution and geographical spread through an active M&A strategy.

The group – with historical roots in Latin America and bulk commodities – now wants to expand its reach through smaller acquisitions as well as looking for larger deals which would give it better access to new regions, according to Andre Schommer, global director of business development.

With annual sales of around $2.5 billion and close to 2,800 employees globally, the company originally specialized in supplying soda ash and sodium sulphate to powder detergent manufacturers in Latin America, especially Brazil. But it is now focused on growing its distribution business into liquids and more specialized products.

"We are now in acquisition mode to help us strengthen our regions and geographies but we're also looking for the game-changer in other regions where we are not so strong," said Schommer.

A recent acquisition in Brazil included a tank farm, giving the group more than 2 million liters of tank capacity in the country.

"Our backbone is commodities but we want to enrich that with semi-commodities and specialties and we now have application labs which we did not have in the past," said Schommer.

The company is focusing on industry segments such as home and personal care, human nutrition, animal nutrition, crop nutrition plus mining and energy. "We want to complement solids with liquids to become a solution provider," he said.

Headquartered in Antwerp, Manuchar was a family-owned business before being sold to private equity group Lone Star in 2022.

The company owns its own infrastructure, with a lot of its own port operations which gives it agility, resilience and flexibility.

"We are now in acquisition mode to help us strengthen our regions and geographies but we're also looking for the game-changer"

"This allows us to respond quickly to unpredictable situations – geopolitical situations such as the Red Sea attacks, for example," he said.

In January 2025, Manuchar announced the appointment of Laurent Pasqualini as its new CEO, effective second half of February 2025. He replaces Philippe Huybrechs who will step down after a 40-year tenure.

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Manuchar is adding more liquids distribution capabilities