

# CHEMICAL INSIGHTS



## Preparing for Growth While Navigating Uncertainty: Market Observations from Q1-2025

Looking back just a couple months to the start of the new year, positive vibes ruled the day, with numerous tailwinds seemingly setting the stage for broader economic growth and increasing M&A activity. Today, as we approach the end of the first quarter, we remain confident in growth in both the chemicals & materials science industry as well as overall M&A activity in the year ahead. However, we also need to acknowledge that the tone in the industry is now balancing positivity with a general sense of uncertainty.

Industry executives are seeking elusive answers to basic questions: What is actually happening with demand? How are demand trends varying across geographies? When will we finally know the scope and extent of potential tariffs? And how might all these impact the outlook for the rest of the year? One thing is clear: 2025 is the year managers get paid to manage!

***"...the tone in the industry is now balancing positivity with a general sense of uncertainty. Industry executives are seeking elusive answers to basic questions..."***

To better gauge industry sentiment, we reviewed 25 earnings call transcripts from the first quarter of 2025. The 25 companies are all tracked in our Grace Matthews Chemicals & Materials Index and were selected to provide views across a range of industry sectors. We sought to identify key themes highlighted by leadership teams as they commented on company performance and discussed broader industry trends. As we sorted through the transcripts, we noted four commonly discussed topics:

- **Start slow, finish strong:** Companies appear to be expecting a sluggish start to 2025 but remain confident in projecting overall volume growth for the calendar year (with the caveat that tariffs and a potential broader trade war remain a primary headwind to demand and growth)
- **Europe and the U.S. remain in very different places:** On the one hand, the worst seems to be behind us in terms of a trough in European demand; on the other hand, anticipated growth rates for the U.S. remain substantially higher than for Europe. To be blunt, the geopolitical and economic uncertainty felt in the U.S. is significantly worse in Europe
- **Impact from tariffs will vary, but companies are already attributing pockets of soft demand to tariff uncertainty:** We found mixed views on the potential impact from tariffs, though we did seem to find general consensus that tariffs are providing near-term headwinds to demand (and will likely continue until there is more clarity)
- **M&A remains a priority, particularly for high-quality targets:** Every transcript we reviewed highlighted a willingness to continue using M&A as a lever to complement organic growth, and executives continue to express a willingness to "lean in" to high-quality targets that come to market

Below, we discuss these themes in more detail and provide additional commentary from executives throughout the industry.

## ***Expectations for a Slow Start to 2025, Balanced by Overall Projected Growth for the Year***

While industry executives seem to be bracing for a slow start to the year, they continue to communicate to the market that they expect overall volume growth. This slow start is actually not surprising, as we saw signs of this beginning in Q4-2024. At the end of

last year, we heard and saw multiple companies in the public and private sector experience unexpected demand weakness in November and December, which was particularly surprising given 2024 had been the first year in the recent past in which demand patterns were stable and (somewhat) predictable. At the time, companies pointed to one-time events, such as severe weather/hurricanes causing disruptions in November, or the timing of key holidays effectively pushing orders and activity from the last two weeks of December into January. Yet, this softness in demand seems to have lingered into the first quarter. While tariffs are one factor, which we discuss in more detail later, companies are tempering this sluggish start with generally positive views on expectations for growth in the final three quarters.

***"...companies are tempering this sluggish start with generally positive views on expectations for growth in the final three quarters."***

- **Celeste Mastin (CEO, President, & Director of H.B Fuller):** "I'm disappointed that we were unable to finish the year as strong as we had expected. In the fourth quarter, we encountered an unexpected deceleration in volume across the majority of our end markets..." (Jan 16<sup>th</sup>, 2025)
- **Timothy Knavish (CEO & Chairman of PPG Industries):** "...The first quarter will be a challenge, as we've said multiple times...we're expecting negative volume, a similar trend to what we saw in Q4..." "All in, what we are expecting is positive volume on a full year basis at about low single digits." (Jan 31<sup>st</sup>, 2025)
- **Michael DeVeau (Executive VP & CFO of International Flavors & Fragrances):** "While the current operating environment remains dynamic, we are cautiously optimistic about the year ahead, as we look to build on our recent momentum." (Feb 19<sup>th</sup>, 2025)
- **Joseph Berquist (CEO, President & Director of Quaker Chemical):** "We do expect the markets that we're in to gradually improve. And I think one of the things when you look at '25 versus '24, this feeling that the second half of 2024 was a trough, that gives us a favorable comp heading into next year..." (Feb 25<sup>th</sup>, 2025)
- **Christian Kohlpaintner (CEO & Chairman of the Management Board of Brenntag):** "For 2025, we expect continued moderate improvements in volumes throughout the year and a slightly better sequential pricing environment in 2025...At the same time, the economic and political uncertainty remains very high. And global economic growth is expected to remain subdued." (Mar 12<sup>th</sup>, 2025)

### ***Europe Appears to be Past Its Demand Trough, but Divergent Growth Rates for the U.S. and Europe are Expected for the Near and Medium-Term***

The European chemicals & materials science industry has faced substantial headwinds for multiple years, and we expect it to continue. Europe has fundamental structural issues in the areas of energy, transportation, and governance that need to be addressed in order for Europe to return to prior performance. Commentary from the first quarter suggests that underlying demand patterns may have reached their trough in 2024. While we expect Europe to stabilize and gradually return to modest growth, we also see executives expecting North American growth rates to outpace those for Europe in (at least) the near-term. While not explicitly discussed in current transcripts, we will be watching to see if a prolonged divergence in growth rates, which has already been occurring for at least a couple of years, will result in multi-nationals realigning their organizations and resources to better serve what appears to be a structural rather than transitory shift in global demand patterns.

- **Joseph Berquist (CEO, President & Director of Quaker Chemical):** "I would say a couple of things in 2024, things definitely got worse last year. We didn't think they could get much worse in Europe, but they did. We feel that perhaps we're at a trough in that part of the world right now." (Feb 25<sup>th</sup>, 2025)
- **Michael Laroche (VP, Controller & Chief Accounting Officer of RPM International):** "North American sales were generally solid across all segments. In Europe, macroeconomic conditions remain challenging." (Jan 7<sup>th</sup>, 2025)
- **Timothy Knavish (CEO & Chairman of PPG Industries):** "As far as Europe more broadly, again, we are not expecting what I would call a recovery, but more of stabilization as inflation stabilizes as whenever central banks begin the journey in the other direction, some increases in consumer confidence..." "We just believe that there's enough factors out there...to stabilize but not hockey stick." (Jan 31<sup>st</sup>, 2025)
- **Thierry Le Hénaff (CEO & Chairman of Arkema):** "You see the evolution of the trend of sales of Arkema in percentage of the total sales..." "It reflects the fact that even if Europe remains quite interesting in the long run, we'll be lower in terms of share in Europe and will be bigger in U.S. and in Asia..." "It just means that if Europe is stable because we will increase on the rest, it will continue to get diluted." (Feb 27<sup>th</sup>, 2025)

### ***Potential Impact of Tariffs Vary, with General Consensus that Tariffs have Already Impacted Q1-2025 Demand***

Many hoped that the post-November 2024 U.S. presidential election era would usher in an environment of policy certainty that could serve as a catalyst for continued economic growth. However, this view has been upended in the past couple of months, in large part due to the threat and implementation of tariffs as well as fears of these escalating into a larger trade war. Today, it is too

soon to quantify the overall potential impact of tariffs, as their scope and timing remain uncertain, but companies have been forced to quickly assess how tariffs may impact costs and margins in the near-term and beyond.

Interestingly, companies fell into two camps: those that had local supply chains and production capabilities (and therefore are better positioned to avoid significant impacts from tariffs), and those operating across borders that may now face potentially meaningful changes in their cost structure. For many companies in the latter category, the only real option may be to pass higher costs onto customers, which could ultimately reshape the competitive landscape in some industry segments. One point of consensus on tariffs was clear: the biggest near-term risk is to consumer sentiment. The University of Michigan's Consumer Sentiment Index dropped 10% from January 2025 to February 2025, and the index declined even further in its mid-March 2025 reading by registering its lowest point since November 2022.<sup>1</sup> Executives note that reduced sentiment is already impacting demand and performance here in the first quarter of the calendar year. The longer that uncertainty with respect to tariff policy exists, the more that both consumers and producers may delay or minimize spending decisions, which could have ripple effects throughout the industry.

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*Impact of tariffs with respect to localized supply chains, production facilities, and customers compared to cross-border operations*

- **Jamie Beggs (Senior VP & CFO of Avient):** "As it relates to potential tariff impacts, our exposure is largely mitigated as the majority of our sales within a country is meant for local consumption."..."The real question is the broader impact on global demand, which is uncertain and unquantifiable today." (Feb 13<sup>th</sup>, 2025)
- **Christian Kullmann (CEO & Chairman of the Executive Board of Evonik):** "We produce local for local. For example, we produced 80% of our sales locally in the U.S. This means that we would rather benefit from any tariffs in the form of higher selling prices in the region." (Mar 5<sup>th</sup>, 2025)
- **Christophe Beck (CEO & Chairman of the Board of Ecolab):** "We don't see a big impact on our business for a very simple reason that 92% of what we sell is produced locally. And in places like China...99% of what we sell is produced locally." (Feb 11<sup>th</sup>, 2025)
- **Erik Aldag (CFO of Minerals Technologies):** "...We primarily source and sell locally in the regions where we operate, which does insulate us from the impact of tariffs."..."While the tariff outlook is still uncertain, including potential end market effects, I'll summarize by saying that MTI's direct exposure is limited and we are well positioned to navigate these dynamics." (Feb 7<sup>th</sup>, 2025)

*Tariffs already negatively impacting consumer and corporate sentiment*

- **Thierry Le Hénaff (CEO & Chairman of Arkema):** "...The demand at the beginning of 2025 is relatively soft overall... We see some softness where last year, it was really very resilient and...performing in a challenging environment. So our interpretation is that the current geopolitical context with all this discussion around the tariff is driving our customers to wait and see, which will not be long lasting, but this is what we see in this first quarter." (Feb 27<sup>th</sup>, 2025)
- **Markus Kamieth (CEO & Chairman of BASF):** "Challenges such as high geopolitical and trade policy uncertainty will weigh on the confidence of companies and consumers." (Feb 28<sup>th</sup>, 2025)
- **Tim Knavish (CEO & Chairman of PPG Industries):** "In the first quarter of 2025, we'll begin to see the impacts of already enacted tariffs, which is expected to result in low single-digit percentage inflation in raw material costs while raw material inflation was flat in the fourth quarter of 2024." (Jan 31<sup>st</sup>, 2025)

### **M&A Continues to be a Priority, as Strategics Seek High-Quality, Complementary Targets to Augment Organic Growth in Core Business Segments**

We came into 2025 with expectations for increasing M&A activity, and though the first quarter has started off slower than anticipated in terms of new deals coming to market, the outlook for chemicals & material science M&A in 2025 mirrors that of our first key theme discussed above: commentary suggests the market expects the slow start to evolve into a strong finish. Every transcript we reviewed, unsurprisingly, touched on M&A objectives and strategy. We noted a common theme of an emphasis on quality businesses, which is consistent with what we are seeing in our current projects—high-quality companies that are coming to market are receiving inordinate amounts of attention and are therefore able to support competitive processes that can drive valuation, terms, and overall deal certainty. Moreover, strategics, when the fit is there, are willing to pay a "strategic premium" for these quality businesses.

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<sup>1</sup> February 2025 University of Michigan's Consumer Sentiment Index <https://news.umich.edu/consumer-sentiment-drops-as-inflation-worries-escalate/>

- **Benoit Bazin (CEO Saint-Gobain):** "Acquisitions and divestitures are part of a continuous journey to optimize our profile for strong profitable growth"... "We'll continue to be active in acquisitions and divestitures as part of our value creation focus" (Feb 28<sup>th</sup>, 2025)
- **Petri Castren (CFO of Kemira):** "We continue to actively seek good, right M&A opportunities and organic investment opportunities" (Feb 11<sup>th</sup>, 2025)
- **Celeste Mastin (CEO, President, & Director of H.B Fuller):** "Our proactive portfolio management strategy is a key part of delivering long-term financial targets and tuck-in acquisitions are an important part of that. Our...success provides us with the confidence to continue pursuing strategic acquisitions to further expand our growth market segment mix and improve our overall business profile" (Jan 16<sup>th</sup>, 2025)

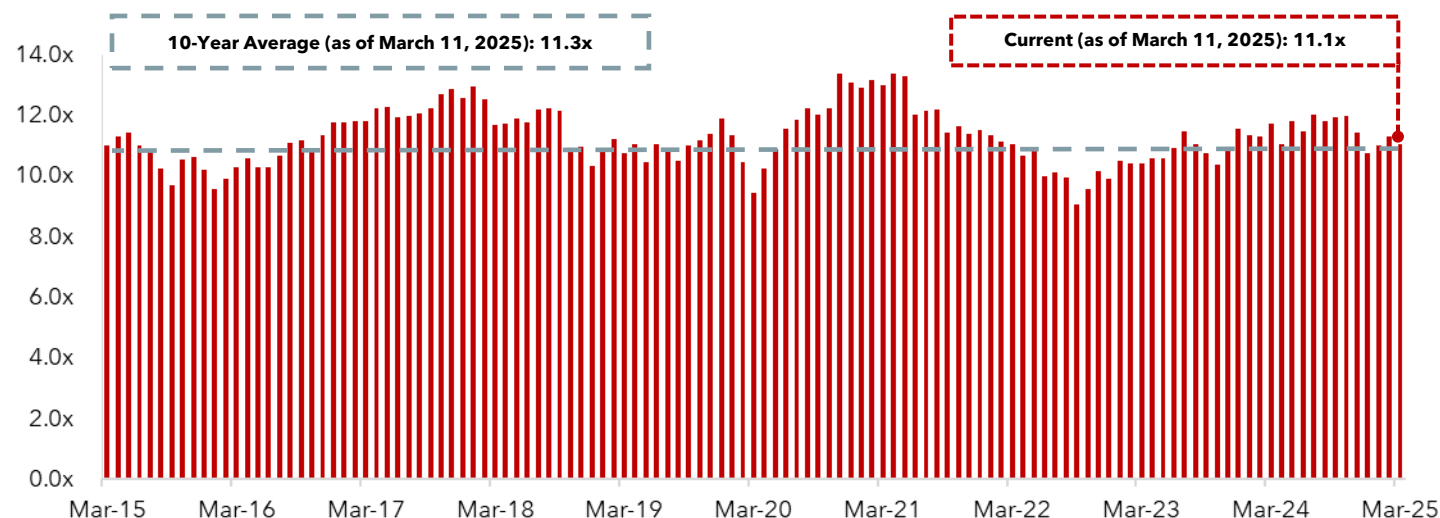
Despite some of the challenges we've already touched on in this newsletter, companies are generally projecting growth for 2025, which means that strategic balance sheets should remain strong. There is no doubt that the demand side of the M&A market is there—the question is if the supply side (sellers bringing their companies to market) will meet this demand, whether this is from privately held sellers taking quality businesses to market, private equity firms selling investments after long hold periods, and/or strategics continuing to evaluate divestitures for non-core assets.

***"There is no doubt that the demand side of the M&A market is there—the question is if the supply side (sellers bringing their companies to market) will meet this demand..."***

Strategic acquirers' continued emphasis on M&A as a growth strategy bodes well for sellers that are considering a potential sale process. While each year seems to present a "one-time event" that creates some volatility in terms of demand patterns, we know that quality companies coming to the market will command attention from strategic acquirers. If you are considering a transaction, pre-process preparation, in terms of both articulating financial trends while also explaining where a company is headed in the future, remains as important as ever.

### Grace Matthews Chemicals & Materials Index (EV / EBITDA Multiples)

The Grace Matthews Chemical & Materials Index tracks the Enterprise Value / EBITDA ratios ("EV / EBITDA multiples" or "EBITDA multiples") of ~100 publicly traded chemicals & materials companies that span multiple sub-sectors and geographies. The Index aggregates the latest reported financial data and stock prices, and tracks valuation trends and operating metrics across different industry sectors. Index averages are equally weighted, as opposed to weighting by market capitalization.



Source: Capital IQ & Grace Matthews analysis.



## Select Chemicals and Materials Science Transactions

Transaction values in \$US millions					
Closed Date	Acquirer / Target	Target Description	Enterprise Value (EV)	EV / Sales	EV / EBITDA
Pending	Pritzker Private Capital / Buckman	Specialty solutions provider for water treatment and industrial processes			
Pending	Pritzker Private Capital / Americhem	Manufacturer and supplier of custom color concentrates, additives, and compounding technologies			
Pending	KPS Capital / Ineos Enterprises (Ineos Composites)	Manufacturer of fiber-reinforced composite materials for industrial and commercial applications	\$1,794	2.0x	9.3x
Mar-25	Nippon Paint / AOC Resins (Lone Star Funds)	Manufacturer of unsaturated polyester and vinyl ester formulations for CASE, colorants and composites	\$4,350	2.9x	8.2x
Feb-25	Saint-Gobain / FOSROC	Global construction chemicals manufacturer with strong footprint in India, Middle East, Asia-Pacific	\$1,025	2.1x	11.3x
Feb-25	Hawkins / Amerochem	Distributor of water treatment chemical systems and equipment			
Jan-25	TIB Chemicals / Reaxis	Manufacturer of tin catalysts and specialty metal-based chemical additives			
Jan-25	KPS Capital / Crane Composites	Manufacturer of fiber-reinforced composite materials for industrial and commercial applications	\$227		
Dec-24	L Squared / Kano Laboratories (Gryphon Investors)	Manufacturer and supplier of penetrating oils and lubricants for industrial maintenance, repair, and operations			
Dec-24	CECO Environmental / Verantis (Tanglewood Investments)	Global leader in engineering services and environmental systems			
Dec-24	Pacific Avenue Capital Partners / H.B. Fuller (Flooring Business)	Leading manufacturer of flooring repair and installation products	\$80	0.5x	5.3x
Dec-24	AIP / PPG Industries (Architectural Coatings Business)	Manufacturer and distributor of paints, coatings, and specialty materials.	\$550	0.3x	
Nov-24	Qemetica / PPG Industries (Silicas Products Business)	Manufacturer of precipitated silica products	\$310		
Nov-24	Shrieve Chemical (Gemspring Capital) / Connection Chemical	Distributor of industrial chemicals and fine ingredients			
Nov-24	Apogee Enterprises / UW Solutions (Heartwood Partners)	Manufacturer of high-performance coated substrates	\$242		
Nov-24	Solenis / BASF (Flocculants Business)	Flocculants business for mining applications			
Nov-24	The INX Group / Coatings & Adhesives Corporation	Manufacturer of coatings, adhesives and polymers for the printing and packaging market			
Oct-24	The Riverside Company / Seatex (Cotton Creek Capital)	Provider of chemical manufacturing and technology solutions			
Sep-24	TJC / USALCO (H.I.G. Capital)	Provider of water treatment solutions for municipal and commercial customers in North America			
Sep-24	RelaDyne (AIP) / Oil Flush	Provider of specialized lubrication services and products			
Aug-24	AIP / Veolia North America (Sulfuric Acid Regeneration Business)	Provider of mission-critical environmental services and specialty sulfur-based products for diversified industries	\$620	1.8x	
Jul-24	Apollo Global Management / U.S. Silica Holdings	Producer of commercial silica	\$1,918	1.3x	4.7x
Jul-24	Sheboygan Paint Company / Bradley Coatings Group (United Paint)	Manufacturer of high-performance coatings used in the transportation and industrial end markets			
Jul-24	MPE Partners / LA-CO Industries	Manufacturer of industrial hand-held markers, plumbing chemicals, temperature indication tools, livestock markers, and sterilization inks			
Jul-24	Brenntag / Industrial Chemicals Corporation	Colorado-based industrial commodity chemical distributor			

## Select Recent Grace Matthews Chemicals and Materials Science Transactions

 <p>has been acquired by</p>  <p>TIBCHEMICALS</p> <p>Grace Matthews advised Reaxis, Inc.</p>	 <p>has been acquired by</p>  <p>Grace Matthews advised Verantis Holdings, Inc.</p>	 <p>a portfolio company of Cotton Creek Capital, has been recapitalized by</p>  <p>Grace Matthews advised Seatex LLC and Cotton Creek Capital</p>	 <p>has sold its Bradley Coatings Group to</p>  <p>Grace Matthews advised United Paint and Chemical Company</p>
 <p>has been recapitalized by</p>  <p>Grace Matthews advised LA-CO Industries, Inc.</p>	 <p>has been acquired by Platte River Equity's portfolio company</p>  <p>Grace Matthews advised H.P. Polymers Ltd.</p>	 <p>has been acquired by</p>  <p>a member of</p>  <p>Grace Matthews advised Silberline Group</p>	 <p>has sold its Technologies &amp; Catalyst business to</p>  <p>Grace Matthews advised Merichem Company</p>
 <p>has been recapitalized by</p>  <p>Grace Matthews advised Teckrez, LLC</p>	 <p>has sold its Glycolic Acid business to PureTech Scientific, a portfolio company of</p>  <p>Grace Matthews, Inc. advised The Chemours Company (Chemours)</p>	 <p>has been acquired by</p>  <p>Grace Matthews, Inc. advised DX Group</p>	 <p>has been acquired by</p>  <p>Grace Matthews advised Rudd Company</p>
 <p>has been acquired by</p>  <p>Grace Matthews advised Benz Oil Inc.</p>	 <p>has been recapitalized by</p>  <p>Grace Matthews, Inc. advised Americo Chemical Products, Inc.</p>	 <p>has sold its Menomonee Falls, WI-based aerosol manufacturing facility and related business to</p>  <p>Grace Matthews, Inc. advised The Sherwin-Williams Company</p>	 <p>has acquired</p>  <p>Grace Matthews, Inc. advised Stahl Holdings B.V.</p>
 <p>has been acquired by</p>  <p>Grace Matthews, Inc. advised PurEpoxy</p>	 <p>a portfolio company of Merit Capital Partners, has been acquired by</p>  <p>Grace Matthews, Inc. advised Crown Carbon Reduction Technologies and Merit Capital</p>	 <p>a portfolio company of IMin Partners, has acquired the kaolin minerals business of</p>  <p>Grace Matthews, Inc. advised KaMin and IMin Partners</p>	 <p>through its subsidiary, GEO Specialty Chemicals, has sold its DMPA® business to</p>  <p>Grace Matthews advised CPS Performance Materials and Arsenal Capital</p>

## Grace Matthews Overview

Grace Matthews is recognized globally as a leader in transaction advisory services for manufacturers and distributors throughout the chemical and materials science value chain. Grace Matthews' clients include privately held businesses, private equity funds, and large, multinational corporations.

Grace Matthews' practice is global in scope, and focuses on several areas: sell-side transactions and divestitures for private companies, private equity holdings, and multinational corporations; buy-side work for large public companies, major multinationals, and sponsor-backed platforms; leveraged transactions and recapitalizations, strategic advisory analysis, and transaction fairness opinions. Areas of expertise include:

- Adhesives, Sealants, Tapes
- Agricultural Chemicals
- Construction Chemicals & Building Products
- Contract Manufacturing & Custom Synthesis
- Distribution
- Environmental Services
- Electronic Chemicals
- Food & Beverage Ingredients, Flavors & Fragrances
- Industrial Minerals
- Inorganics, Ceramics, Catalysts
- Intermediates, Additives, Colorants
- Life Sciences
- Lubricants, Greases, Metalworking Fluids
- Nutraceuticals & Supplements
- Paints, Coatings, Inks
- Paper, Films, Packaging Materials
- Personal Care, Soaps, Cleaners
- Petrochemicals & Derivatives
- Plastics, Composites, Molded Materials
- Polymers & Resins
- Process Technology & Licensing
- Water Treatment & Oilfield Chemicals

Over the past 25 years, Grace Matthews has successfully completed more than 150 transactions. Our deep industry knowledge, M&A execution skills, and global network of industry contacts are key differentiators that drive success on engagements across the entire chemical and materials science industry.

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Grace Matthews, Inc. ([www.gracematthews.com](http://www.gracematthews.com)) is an investment banking group providing merger, acquisition, and corporate finance advisory services for chemical and material science companies both in the U.S. and internationally.

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