

Refractory Products and Services: A Hot Spot for M&A Activity

The refractory industry, encompassing service providers for installation and maintenance as well as product manufacturers, is experiencing significant growth and transformation fueled by several tailwinds. This environment has created an attractive opportunity for investors, as evidenced by robust M&A activity in the sector.

This document outlines the key drivers of this growth, highlighting attractive characteristics of refractory businesses while also addressing potential risks. Our team's deep experience in the sector positions us uniquely to advise on acquisitions and divestitures within this dynamic market.

KPMG Corporate Finance LLC Relevant Transaction Experience

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TRB

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Our Services

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M&A Advisory	Capital Advisory	Special Situations	Other Transaction Services
<ul style="list-style-type: none"> Private company sales and majority recapitalizations Corporate divestitures / spin-offs Private equity sell-side and buy-side advisory 	<ul style="list-style-type: none"> Debt private placements Capital structure analysis and debt issuance advice Equity private placements 	<ul style="list-style-type: none"> Distressed M&A Debt modifications and amendments Debt capacity analysis 	<ul style="list-style-type: none"> Financial due diligence Strategic advisory services Economic and valuation services M&A tax services



Tailwinds in the Refractory Industry

01 | End Market Growth

Refractory materials are essential for industries operating under high temperatures, such as steel, cement, aluminum, foundries, and power generation. These industries are experiencing robust growth driven by global infrastructure development, urbanization, and increasing energy demands. Notable tailwinds include:

Steel

As the backbone of infrastructure and construction, the steel industry continues to expand, driven by rising demand for structural steel and manufacturing components. Innovations in steel production and increasing project complexity are further boosting the need for high-performance refractory materials.

Cement

The global construction boom, coupled with the demand for sustainable building materials, is driving growth in cement production. Refractories play a crucial role in ensuring the efficient operation and prolonged lifespan of cement kilns.

Other High-Heat Industries

Industries such as petroleum refining and petrochemicals, glassmaking, power generation, and ceramics require superior refractory materials to maintain operational efficiency and safety under extreme heat conditions.

02 | Technological Advancements

Innovations in refractory technology, including improved materials such as high-performance ceramics, better installation techniques, and enhanced maintenance services, are driving cost efficiencies and operational improvements for end-users. These advancements are opening new opportunities for refractory companies to cater to more sophisticated industrial needs.

03 | Sustainability and Environmental Regulations

Stricter regulations on emissions and waste management are compelling industries to adopt higher-quality and more durable refractory materials that reduce energy consumption and enhance production efficiency. Sustainable refractories are becoming essential in ensuring compliance with environmental standards, providing a competitive edge to companies that offer eco-friendly solutions.



Attractiveness of Refractory Companies

Stable Revenue Streams:

1
Refractory companies benefit from long-term contracts with major industrial clients, ensuring stable and recurring revenue. Maintenance and installation services are frequently required, leading to consistent demand irrespective of market cycles.

Strong Margins:

2
The specialized nature of refractory materials and services allows companies to maintain strong profit margins. The complexity and high stakes of operating in high-temperature environments ensure premium pricing for high-quality refractory products and services.

Diversified Customer Base:

3
Companies operating in the refractory sector often serve multiple industries, reducing exposure to cyclicalities in any single market. This diversified customer base mitigates risk and ensures stable financial performance.

Technological Expertise:

4
Refractory companies with advanced technological capabilities and innovation pipelines are highly attractive to buyers. This expertise allows them to deliver superior products that meet evolving industry standards, fostering customer loyalty and repeat business.

High Barriers to Entry:

5
The industry requires specialized knowledge, complex manufacturing processes, and strong relationships with end-users. This creates a relatively stable competitive landscape and protects incumbents from intense price competition.

Consolidation Opportunities:

6
The industry is fragmented, presenting opportunities for strategic acquisitions and consolidation to achieve economies of scale and expand market share.

! | Potential Concerns or Red Flags

01

Dependence on Key Markets:

While diversification is a strength, some refractory companies may exhibit excessive dependence on specific industries, such as steel or cement, creating vulnerabilities to industry downturns or regulatory changes.

02

Capital Intensity:

Investment in refractory manufacturing and service infrastructure can be capital-intensive. Prospective buyers should evaluate the long-term return on investment and the company's ability to manage capital expenditures efficiently.

03

Cyclical Nature of End Markets:

Demand for refractories is somewhat cyclical, tied to the performance of industries like steel and cement. Recessionary periods can lead to reduced capital expenditures and lower demand.

04

Environmental Regulations:

Increasing environmental regulations may lead to higher production costs and necessitate investment in cleaner technologies. Companies with a proactive approach to environmental compliance will be better positioned.

05

Safety Risks:

Refractory manufacturing and installation involve inherent safety risks. A strong safety record is critical for minimizing operational disruptions and liability.

06

Geographic Concentration:

Many refractory businesses have geographically concentrated customer bases, making them vulnerable to regional economic downturns or specific project delays.

Conclusion

The refractory industry presents compelling opportunities driven by strong tailwinds across end markets such as steel, cement, aluminum, and other high-heat industries. This robust end-market demand, coupled with the inherent characteristics of the industry, creates a favorable environment for growth.

However, prospective buyers should carefully assess dependency risks, capital intensity, technological advancements, environmental compliance, and operational safety. By understanding these characteristics, investors can make informed decisions and capitalize on the growth and resilience of the refractory industry.

Our Expertise

Our team's broad experience within the refractory industry enables us to provide valuable guidance in the planning and execution of M&A processes, as well as structuring optimal transaction terms. We have a proven track record of success in this niche market and are confident in our ability to help you capitalize on the opportunities presented by this dynamic sector. Please contact us to discuss your specific objectives and explore potential M&A opportunities.

Our Differentiators

Leading Industrials Sector Presence	Dedicated global industrial advisory team bringing deep relationships with companies in all key international markets and highly relevant industrial services sector knowledge
Leading Global M&A Advisory Network	Closed 4,000+ transactions since 2010 ⁽¹⁾ – more than any other network Consistently ranked among the most active M&A advisors in the world
Objective	We provide objective, unbiased advice to deliver the absolute best outcome for our clients
Full-Service Deal Advisory Offering	KPMG Deal Advisory is able to offer a full suite of services in order to undertake a seamless transaction process
Senior Level Transaction Team	We bring a senior level transaction team to each client engagement that drives strategy, communication, negotiation, and execution throughout the entire process
Understand Cross Border Transaction Dynamics	We have direct experience advising companies in cross-border transactions and will leverage that knowledge throughout the deal process

Notes: (1) Represents the global Corporate Finance practices of KPMG International's network of independent member firms

Our U.S. Industrials Investment Banking Team



Ford Phillips
Managing Director
T: +1 312-665-1537
frphillips@kpmg.com



David Lake
Vice President
T: +1 312-665-2715
davidlake@kpmg.com



Lauren Holly
Senior Associate
T: +1 312-665-4636
lholly@kpmg.com



Sabin Bhattarai
Associate
T: +1 312-665-3700
sbhattarai@kpmg.com

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