



Arsenal takes aim at specialties

24 October 2005 00:01 [Source: ICB Americas]

PRIVATE-EQUITY firm Arsenal Capital Partners is taking aim at the specialty chemical industry, snapping up companies with high potential and refocusing efforts on marketing and innovation. The firm could eventually combine a number of its acquisitions into a company to take public.

"We have identified specialty chemicals as an area where there are opportunities yet to be realized," said Arsenal managing director and cofounder Barry Siadat in an interview with CMR. "This used to be a pretty attractive industry, but over the last few years, companies have taken resources away from what made specialties great. We think the fundamentals can be righted by focusing back into sales, marketing, applications development and technology."

Arsenal has been on an acquisition spree, recently picking up Reilly Industries (\$360 million in sales) for about \$250 million, and Velsicol Chemical (roughly \$220 million in sales). Both companies produce nonphthalate polymer additives and agricultural chemicals, as well as other products.

Also in Arsenal's portfolio is Sermatech International, a producer of engineered coatings with about \$100 million in sales, acquired last March, and diverse specialty company Rutherford Chemicals, acquired in 2003 from Cambrex for \$65 million.

Making specialties great

Unlike the typical financial buyer, Arsenal seeks to grow its businesses by bringing in resources rather than relying on cost-cutting to maximize cash flow.

"What's got many of these specialty companies in trouble in the first place was that they cut so much costs that they cut some muscle away with the fat," Siadat asserts.

Formed in December 2000, Arsenal sought to bring operating discipline and industry know-how into investments. Half the firm's staff is from industry and the other half from the financial community. The company focuses on specialty chemicals as well as pharmaceuticals and aerospace and defense.

Arsenal's first chemical deal came in 2002 with the acquisition of Interdynamics, a provider of under-the-hood specialty chemicals for the do-it-yourself automotive market. In 2003 came the Rutherford deal, putting the firm on the map.

The acquisition of Rutherford already appears to be a success. Since the 2003 deal, Rutherford has grown sales at a double-digit annual clip, and earnings have improved by 25 to 40 percent annually.

"We invested quite a bit in both marketing and R&D capabilities, brought in good operators and invested in new products, particularly in microbial control, specialty high-temperature plastics and ethylene maleic anhydride copolymers," says Siadat. "Recently, we've come up with products based on shea butter technology, as well as environmentally friendly polyurethanes based on castor oil."

Substitution strategy

Siadat is big on nonphthalate polymer additives as well as specialty agricultural chemicals. "We like segments where growth is either being driven by demographics or substitution as new technologies emerge," he says.

In polymer additives, there are many opportunities for the substitution of phthalate-based products with nonphthalate-based additives because of health concerns. Siadat also favors ag chemicals that are effective in wet and rainy areas such as Brazil, India and China.

In line with the substitution theme, Arsenal acquired Sermatech, which makes nonhexavalent chromium high-temperature engineered coatings for the aerospace and defense, gas turbine, and oil and gas industries.

"High-temperature corrosion resistance has historically been dependent on chromium-6, which is causing health concerns," says Siadat. "Sermatech has now developed the only non-chrome product and has been able to get it through a number of critical approvals. Substitution is really one of our themes for growth."

Potential IPO

Arsenal may look to consolidate some of its businesses, creating a specialty chemicals company with the financial critical mass to take public.

"As we approach our strategy of developing key market segments in polymer additives, personal care and ag and pharmaceutical chemicals, we're building critical mass in these areas, giving us an opportunity to create a specialty chemical business that we could IPO," notes Siadat.

Some consolidation of operations has already taken place, with the Nepera business of Rutherford ceasing all pyridine manufacturing after the acquisition of Reilly. Reilly Industries now supplies all the pyridine for Rutherford's customers.

In financing acquisitions, Arsenal typically injects 40 percent of equity into deals—high for private-equity buyers—borrowing 60 percent.

“We tend to put in more equity because we want to take advantage of all the strategic opportunities and provide sufficient room for management to take initiatives and not cut it too close to the wire,” Siadat notes.

More deals are in the works for Arsenal. “We’ve planted a lot of seeds, and they’re coming in,” says Siadat.

ICIS Copyright © Reed Business Information 2008



For the latest chemical news, data and analysis that directly impacts your business [sign up for a free trial to ICIS news](#) - the breaking online news service for the global chemical industry.

Get the facts and analysis behind the headlines from our market leading weekly magazine: sign up to a free trial to [ICIS Chemical Business](#).