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C&EN TALKS WITH

Barry Siadat

Arsenal Capital executive ponders private equity's role in specialty chemicals

By Alexander H. Tullo

Photo By Alex Tullo

Barry Siadat, managing director of Arsenal Capital Partners, wants to set straight those who think of private equity firms as birds of prey—or, even worse, scavengers. To him, private equity firms don't have to be companies that descend upon assets that no one wants and pick them apart to make a quick buck. They can add real value to an organization. And his company's philosophy is to create value by employing a strategy that, he says, many companies in the specialty chemical business have forgotten: staying special.

Arsenal thinks this strategy has been working for Rutherford Chemicals, which it acquired from Cambrex in late 2003. In October, Arsenal upped the ante through its purchases of the small, private specialty chemical firms Reilly Industries and Velsicol Chemical.

Seemingly overnight, Arsenal has become a significant owner of specialty chemical businesses. Together, Rutherford, Velsicol, and Reilly generate about $750 million in annual sales. Arsenal's portfolio also includes Scientific Protein Laboratories, which makes active pharmaceutical ingredients; Sermatech, which manufactures engineered coatings; and Interdynamics, a maker of automotive products including specialty chemicals and lubricants. Add in these companies, and Arsenal generates about $1.5 billion in annual chemical-related revenues.

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Siadat says the specialty chemical business appeals to Arsenal because it serves a wide variety of markets and customers and isn't as cyclical as commodity chemicals, leading to more predictable earnings.

He concedes that his background has also influenced Arsenal's direction. He earned a Ph.D. in chemical engineering from the University of Massachusetts. He has also been vice president of technology and engineering at AlliedSignal and vice president of corporate technology at W.R. Grace. “Our investment strategy is to invest in businesses that we understand,” Siadat says. “We have a view on what capabilities are required to win in this business.”

Though Siadat is a fan of specialty chemicals, he is critical of some in the specialty chemical business, particularly large commodity chemical companies that invested in specialties to diversify. He says their first instinct is to cut costs and trim down operations, moves that contradict the essence of specialty chemicals. “You have businesses that have been specialty because they were problem solvers,” he says. “Now they just become a niche commodity.”

Siadat says Cambrex trimmed Rutherford Chemicals' costs as it focused on pharmaceutical services, creating a business that was less competitive. “They had cut back on R&D, cut back on applications development, and they merged their sales forces into a bunch of generalists that would sell everything,” he says.

Arsenal reversed the trend for Rutherford, focusing the sales force on end markets while boosting R&D. “We added some costs, and the result of that is we have been getting double-digit sales growth in a business that was declining for three years prior to our acquisition,” he says.

Siadat says that, in an uncertain economic environment in which Arsenal doesn't necessarily have the luxury of selling businesses quickly, adding value to the companies it acquires is its best strategy. “We felt that to generate significant returns, we needed to actually have the capability to operationally improve the businesses that we buy,” he says. “If you can't flip businesses quickly, then you will have to run them.”

The businesses that Arsenal has in its portfolio tend to have many sectors in common-such as personal care, pharmaceuticals, polymer additives, and agricultural chemicals. The companies also have unique positions. Reilly is the largest manufacturer of pyridine and pyridine derivatives in the world as well as the world's leading supplier of *N,N*-diethyl-*m*-toluamide (DEET) insect repellent.

Already, Arsenal has folded Rutherford's Nepera division, which makes pyridine, picoline, and vitamin B-3, into Reilly, which has a larger business in the same products.

Although Siadat says there have been no other combinations of assets, opportunities exist for technical cooperation in various segments. For example, in polymer additives, both Reilly with its citrate esters and Velsicol with its benzoates offer alternatives to phthalate ester plasticizers.

Like every other private equity firm, Arsenal is thinking about an exit strategy. But Siadat says the company hasn't decided if it will combine the acquired firms into one large specialty chemical company and sell it off in an initial public offering (IPO). Arsenal could also keep the businesses separate and sell them off individually.

Continually improving the business strengthens Arsenal's hand, Siadat says. “If we do that, then the rest will take care of itself. It puts you in a position that if the IPO market is strong, we can take advantage of it; if the IPO market is weak, we have other options,” he says.

Siadat admires other private equity firms that have been active in chemicals. One is Apollo Management, which, like Arsenal, has a staff with a keen interest and prior experience in chemicals. Apollo formed Hexion Specialty Chemicals by combining Resolution Performance Products, Resolution Specialty Materials, and Borden Chemical.

But many chemical companies have been “stuck in their old thinking,” he says. “What happens is that you have a new, fresh set of eyes looking at something. Looking at all the different ways to create value, you are bound to get a different answer. If you are a public company and you have a business, and it is not going anywhere, and it has been there for a long, long time, you should look at whether someone else can run it better. If you are not adding value, why do you own it?”

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