

# ROUND TWO BEGINS

One wave of private equity investment in **CUSTOM CHEMICALS** gives way to another as the business and the economy tick up

RICK MULLIN, C&EN NORTHEAST NEWS BUREAU

**WHEN PRIVATE EQUITY** firms began investing in the U.S. custom chemical sector toward the end of 2006, industry watchers wondered whether to take buyers at their word regarding a commitment to stick with and grow their acquired companies. Many figured that the new owners would do what private equity is often criticized for: slash costs for a short-term profit jump and then sell out at the earliest opportunity.

The flurry of deals at the end of 2012 indicates that the skeptics were correct about one thing: Private equity is working on something like a five-year ownership cycle. But their handling of the businesses might surprise some critics. In the case of three custom chemical firms—VanDeMark Chemical, ChemDesign, and Cambridge Major Laboratories—the temporary owners can point to lasting operational improvements.

Buckingham Capital Partners, which sold VanDeMark to Uni-World Capital and Brightwood Capital Advisors, takes credit for a significant turnaround at the Lockport, N.Y., company, which is the only producer of phosgene ( $\text{COCl}_2$ ) in North America. Phosgene is a major industrial chemical that is also a poisonous gas.

Prior to its sale to Buckingham, VanDeMark had been owned for five years by SNPE, a French conglomerate that was a major European producer of phosgene. State-owned SNPE established VanDeMark as its main U.S. operation and integrated it with Paris-based sales and marketing efforts. But shortly afterward, SNPE decided to exit the chemicals business. When Buckingham purchased VanDeMark, the firm no longer had a dedicated sales staff, according to Albert Naggar, managing partner at Buckingham.

“The French government had essentially made VanDeMark a production facility,” Naggar says. The company performed poorly for

the first year after Buckingham acquired it, nearly failing to make payroll at one point in 2009 as Naggar worked to restaff. “But by that summer we had the wind at our back,” he recalls. Under Buckingham, he says, the company eventually achieved profit margins approaching 30%.

Naggar describes selling the business as a natural and necessary course of action. “I have a private equity fund, so there is a time limit on how long I can hold my investments,” he says.

VanDeMark’s chief executive officer, Michael Kucharski, has been with the firm since it was family owned prior to its acquisition by SNPE. “Suffice it to say, we made some great progress after being carved out from SNPE and set up on our own again to make our own decisions,” Kucharski says.

**FILLING UP**  
Cambridge Major is putting new assets to work as the custom chemical market revives.



CAMBRIDGE MAJOR

“We grew the company and can better use our financing now to continue to grow.”

Christopher P. Fuller, managing partner at Uni-World, which purchased VanDeMark for an undisclosed amount with financial support from Brightwood, says his firm is primarily interested in investing in growing companies. VanDeMark is Uni-World’s first chemical asset, and Fuller says he likes its growth prospects.

“We look for companies with a good strategic position and management team. VanDeMark,” he says, “has both.” The company has done a good job leveraging its solo position in phosgene, he argues, and growth will likely accelerate as low energy costs in the U.S. bring custom manufacturing back from overseas. Uni-World is prepared to invest in VanDeMark, Fuller adds, and will be on the lookout for acquisitions.

**PRIVATE EQUITY** firm Resilience Capital Partners also handed its custom chemical asset over to another financial buyer, Lubar & Co., in better shape than when it was acquired. ChemDesign, a family-owned firm in Marinette, Wis., had gone into bankruptcy in 2006, according to Vice President of Sales & Marketing Rae Johnson, making it an attractive property for Resilience.

“Their niche in the private equity world is turning around companies in special situations,” Johnson says. Resilience made an additional investment in the company in 2007 to improve its capital structure, he explains.

The firm has reduced its reliance on manufacturing chemicals for thermal paper and now does 60% of its work in agricultural chemicals and only 10% in thermal paper. Lubar aims to double the company’s annual sales, which are between \$20 million and \$30 million, over the next five years.

“Their strategy is to be a long-term holder,” Johnson says, noting that Lubar is a family-run business that invests mostly in companies in the Midwest. “Growing the company is going to require expansion on the Marinette site as well as bolt-on acquisitions at some point.”

Although ChemDesign is Lubar’s first investment in custom chemicals, Vince Shiely, a partner at the firm, says it fits squarely with Lubar’s investment profile. “We aren’t looking for chemical com-

panies," he says. "We're always looking for growth opportunities." And Shiely sees custom manufacturing as a market primed for growth in the U.S.

"Some of our due diligence would suggest that large chemical companies want to put their development efforts into things like R&D and into their larger manufacturing operations," Shiely says. "Working on smaller volume, high-complexity molecules and chemical compounds is not where they want to invest their capital."

As for investment in expanded operations or acquisitions, "that's to be determined," Shiely says. "ChemDesign has a lot of opportunities with their existing customers, and those are obviously your first target. I always say, 'Find out who your friends are, and sell more to them.' We are not looking to be on a buying spree."

A custom manufacturer of active pharmaceutical ingredients (APIs), Cambridge Major was in no need of a turnaround when it was acquired by Arlington Capital Partners in early 2007. The firm, however, had some ambitious growth objectives, which were supported by its new owner. Arlington

**PRIVATE EQUITY TRANSACTIONS**

**Milestones For Three Custom Chemical Firms**

**Cambridge Major Laboratories**

- **Founded in 1998** by Michael Major
- **Purchased in 2007** by Arlington Capital Partners
- **Purchased in December 2012** by American Capital Partners

**ChemDesign**

- **Founded in 1982** by Richard E. T. Brooks
- **Purchased in 2006** by Resilience Capital Partners
- **Purchased in November 2012** by Lubar & Co.

**VanDeMark Chemical**

- **Founded in 1951** by Allan VanDeMark Sr.
- **Purchased in 2003** by SNPE
- **Purchased in 2007** by Buckingham Capital Partners
- **Purchased in December 2012** by Uni-World Capital and Brightwood Capital Advisors

invested \$40 million in a new, large-scale manufacturing facility at Cambridge Major's headquarters in Germantown, Wis., and funded the acquisition of ChemShop, an API maker in Weert, the Netherlands.

The investments seemed to pay off for Arlington. Last December, the private equity firm sold Cambridge Major to another private investor, American Capital Partners, which committed \$212 million.

Private equity is getting a lot more active in the pharmaceutical chemicals sector,

according to Brian Scanlan, Cambridge Major's CEO. "Many investors are bullish on the pharma services space, with the rationalization of big pharma assets and personnel," he says. "They see an opportunity longer term to leverage contract assets."

And Scanlan sees American Capital as a long-term investor. "They are quite a large firm with a lot of internal resources, including operating partners who are former chief operating officers from companies that have lean operations and operational excel-

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