

Vertellus: Building on Strengths

Private Equity Ownership Funds New Growth Initiatives

It has been about six months since Reilly Industries and Rutherford Chemicals were combined to form Vertellus Specialties (Indianapolis), and in that time Vertellus has completed integration of the two businesses and expects annualized cost savings of about \$15 million, says Timothy Zappala, president and CEO of Vertellus, and former CEO of Rutherford.

Vertellus is owned by private equity firm Arsenal Capital Partners (New York), which acquired Reilly in 2005 and Rutherford in 2003 as part of a strategy to invest in “niche companies that benefit from demographic trends and do not face competition from low-quality suppliers,” says Barry Siadat, managing director of Arsenal.

The impetus for merging Reilly and Rutherford was their common customers, Zappala says. Reilly’s strength was its global infrastructure and leading technology, while Rutherford’s expertise was in high-value niche products and highly tailored customer service, he says. Vertellus has annual sales of about \$410 million, he adds. It does not disclose earnings, but reports annual profit growth in the double-digits, Zappala says. “Arsenal has been very supportive in terms of growth,” he says.

Vertellus is divided into three units. The agriculture and nutrition unit accounts for 56% of total sales and includes pyridine, picolines, and vitamin B3. The health and specialty business commands 29% of sales and includes specialty pyridine derivatives, DEET insecticide, sulfones, and reducing agents. The performance materials unit generates the remainder of sales and is made up of castor oil and citrate polymer additives.

Vertellus is “well-positioned to take advantage of strong trends driving the market toward environmentally and human-friendly chemistries,” Siadat says. “Growing protein consumption, the greater need for crop management to improve land productivity, as well as the increased importance of health, nutrition, and personal care

are creating significant growth opportunities in Vertellus’ key end markets,” he says.

Vertellus is the largest producer of pyridine and picolines, specialty pyridine derivatives, castor oil derivatives, DEET, and citrate-based polymer additives, the latter of which can be used in place of phthalate-based plastics in polyvinyl chloride. It is the second largest producer of Vitamin B3, behind Lonza.

“We supply the intermediate, ingredient, or additive, not the finished product, because it’s technology driven and stable, and allows us to participate in niches that tend to be more value driven,” Zappala says.

The company says it has undertaken several projects to capitalize on growth opportunities. It invested “several-million dollars” to expand its Greenboro, NC facility, including adding a new specialty castor derivatives manufacturing plant and formulation technology center. The plant will make specialty castor and shea butter derivatives, and polymer systems to

In July 2006, Vertellus’ Seals Sands Chemicals business, part of its health and specialty products unit, acquired rights to a choline-based biocompatible polymer technology by Biocompatibles International (Farnham, U.K.). The technology is based on phosphorylcholine derivatives, and will support Vertellus’s growth in health and personal care markets, the company says.

In October, Vertellus introduced a line of polyols derived solely from castor oil, making them the first completely renewable seed-based polyols for urethane applications including coatings, adhesives, sealants, and elastomers, the company says.

Asia is expected to be the largest growth region for Vertellus. Sales there grew 30% in 2006, driven primarily by the trend toward higher-protein food consumption, and that growth is expected to continue, particularly in China, the company says. Vertellus recently completed a process technology upgrade at its Nantong, China plant, and has a vitamin B3 plant under construction at Nantong scheduled to start up in 2008. Vertellus also opened a sales and marketing office in Shanghai that serves all three divisions, Zappala says.

In mature regions, including North America and Europe, Vertellus is focused on increasing productivity through automation and six sigma projects, Zappala says.

Arsenal says its current objective is to “add significant value” to Vertellus, through acquisitions and organic growth, before it seeks a buyer for the business. There are a lot of “attractive assets” in specialty chemicals, for both large purchases and bolt-on acquisitions, Siadat says. “It is a leverage-friendly market,” he says.

—Nancy Seewald



Zappala: China is big growth driver.

■ COMPANY SNAPSHOT

VERTELLUS SPECIALTIES (INDIANAPOLIS)

FINANCIALS:	2006 sales \$410 million. Earnings not disclosed.
KEY PRODUCTS:	Picolines, pyridine, DEET, castor oil, sulfones, and citrate polymer additives.
STRENGTHS:	Private equity ownership provides funding for investment initiatives and acquisitions. Favorable market trends; and diverse end-market customers.
WEAKNESSES:	Increasing raw material prices, especially in North America; customer consolidation.
OUTLOOK:	Expects funding from owner to significantly expand company operations, particularly in China.

meet growing demand for naturally derived sealants, coatings, ink, lubrication, and adhesives, Vertellus says. The company did not disclose the capacity of the facility, but says it “significantly increases” its production capacity for those specialty products.