SK Capital focuses on operations

A private equity firm with an emphasis on chemicals and strategy

Vincent Valk

With sharp focus on chemicals and pharmaceuticals, private equity firm SK Capital (New York) sees sector expertise and operational focus as driving forces behind their investments. The firm currently has eleven portfolio companies, including nylon-6,6 maker Ascend Performance Materials and additives maker SI Group. SK, formed in 2007, closed its fifth fund in February, raising $2.1 billion, the firm's largest to date.

SK's capital is not used just to acquire companies but also to improve existing operations. "We don't just flip businesses, we build them," says Barry Siadat, co-founder and managing director at SK Capital. "You'll see us operate as a long-term strategic investor in the chemical process industries." The firm has about $3.8 billion in assets under management, according to its website.

Holding strategy

One way in which SK Capital acts more like a long term, strategic investor than most private equity firms is the hold period. While this does vary, private equity firms generally hold businesses for about five years prior to selling them to a new owner. SK Capital has sold some businesses within that timeframe, but it has held others for longer. Ascend Performance Materials was acquired in 2009; butadiene maker TPC Group was acquired in 2012; additives maker Addivant was acquired in 2013 and merged with SI Group last year.

The firm is, in general, agnostic about the hold period. Some investments, such as contract manufacturer Halo Pharma, have been held for under four years. "When we see we're creating continued value, we'll continue to hold," says Jamshid Keynejad, co-founder and managing director at SK Capital. "If we feel we're not the rightful owners after three or four years, and the business is better capitalized and we've created the value we think we can create … maybe we'll sell."

Its investment thesis is focused on strategy and operations, and those theses can take some time to play out. "We take a long-term view to building these businesses versus looking for short, quick wins," Keynejad says.

While SK Capital is not the only private equity firm with a particular focus on chemicals, it is among the largest, and all of its investments have been in the chemical or pharmaceutical industries. "We believe conventional private equity … focuses on a wide swath of industries and narrows itself by geography and size," says Jack Norris, managing director at SK Capital. "We're size-and-geography agnostic, but very focused on chemicals and materials and pharmaceuticals." Siadat, the firm's co-founder, was an executive at W.R. Grace and AlliedSignal, and managing directors with a background in finance usually have a history of focusing on the chemicals sector. The entire firm is focused on chemicals deals, Keynejad notes. This contrasts with generalist private equity firms, which will usually have smaller teams focusing on particular sectors, sometimes including chemicals.

SIADAT: 'Still a big runway' at portfolio company Ascend Performance Materials.

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>
> **Jack Norris**
> Managing director, SK Capital

A background in the industry does make it easier to find potential acquisition targets, and can help make sellers more comfortable with what can often be a difficult decision. "You speak the same language," says Mario Toukan, managing director with SK Capital. "They feel a lot more comfortable with us as an industry peer, and also in terms of … being business builders over a longer time horizon."

Familiarity with the industry also helps build a network, which can aid in both prospecting transactions and in finding talent to staff portfolio companies. "We know who knows what, and when we need specific capabilities or specific expertise, we really know who to go and bring in," Siadat says. David Bradley, who was hired as CEO of SI Group in March of this year, says SK was looking for an executive with experience in cultural change after SI Group was merged with Addivant—experience Bradley had as CEO of Nexeo Solutions. "They realized it's not just about changing the people and the strategy," Bradley says. "When you have two successful companies coming together, you need the ability to see what is good in both, and lead in a way that transitions employees to the new environment." Bradley had led Nexeo through its carve-out from Ashland and then into a merger with Univar before departing for SI Group.

The merger with Addivant does create new opportunities for SI Group, according to Bradley. "It's a nice vertical integration, [and] there are cross-selling opportunities between product families," he says. "We have a good breadth of end markets that can position the company to grow."

The combination of Addivant and SI Group closed in October, and Bradley is now focused on managing that cultural change. SI Group was previously family-owned, while Addivant had been owned by SK Capital for several years. "Combining those two, you're at a much larger scale than Addivant was at, and you've got a family-owned business going to a private equity environment," Bradley says. "Both of those require cultural changes."

Do the return

SK Capital has often made use of dividend payouts to return capital to investors when holding a business for an extended period. "Some of our portfolio companies have issued dividends and free cash flow distributions over time," Norris says.

The decision to fully exit a business,

meanwhile, has a number of different aspects to it. Calabrian, a maker of sulfur dioxide and derivatives that was sold to Ineos in 2016, is an example. SK Capital had acquired a controlling stake in the business, but the founding family retained a significant stake and was highly interested in selling when a strong buyer emerged in Ineos. “We had big discussions on whether we would hold and take it to the next stage or whether it was better to sell,” Siadat says. The firm ultimately decided to exit, although the selling price was not disclosed.

A major part of the reason was that SK’s strategy for Calabrian had largely been executed. “They were selling to a lot of commodity end users [prior to SK’s acquisition of Calabrian],” Siadat says. “We saw opportunities in areas like industrial wastewater treatment, refineries, oilfield. So we added new capacity, we added the technology and marketing capabilities. But it was a short-term transformation.”

Nylon ascendant

Ascend Performance Materials, meanwhile, was not a short-term transformation. When SK acquired Ascend from Solutia in 2009, “they were primarily serving the carpet industry with nylon-6,6,” Siadat says. The carpet industry could use cheaper materials —including nylon-6 and polypropylene—for similar applications, and the business was losing money. “They were making money on trading the raw materials, but by the time you converted it, you were better off selling the intermediates than selling the carpet fiber,” Siadat says.

The timing of SK’s acquisition of Ascend was fortuitous, as well, as the deal came together during the Great Recession, when asset prices were low. SK paid Solutia $50 million for Ascend, which reported $1.8 billion in sales in 2008, the year before the transaction closed.

SK’s strategy for Ascend involved moving into higher-value, more specialized applications for nylon-6,6 and making use of the company’s back integration. “It’s capability is very unique in this industry, because it starts with the propylene … and ends up with all these specialized products,” Siadat says. “And it can sell intermediates and chemicals and compounds every step of the way.” Today, the company is a major player in engineering plastics, high-strength fibers, and composites, and has a substantial and growing specialty chemicals business.

Under SK’s ownership, Ascend has exited much of the commodity carpet business, and invested in reliability—the latter being a key prerequisite for pushing into higher-end applications. “When we bought it … the plants were down a lot,” Siadat says. “They weren’t operating anywhere near nameplate capacity. We invested in reliability because you cannot be in these high-end applications without reliable supply.” Customer product formulations are built around specific products, and “you can’t shut down an ongoing production line,” Siadat notes. Ascend has even supplied some competitors in light of the recent spate of force majeures in the nylon-6,6 industry.

KEYNEJAD: Taking a ‘long-term view to building these businesses.’

TOUKAN: Partners at the firm ‘speak the same language’ as chemical industry executives.

A greater emphasis on the polymers business was “the first transition,” says Ascend president and CEO Phil McDivitt. “That opened up new segments like cable ties and [expansion in] engineering plastics. At the same time, there was growth in the industrial fibers business.” The company developed fibers for airbags in cars, which was a key growth driver, he adds. “We grew, from a very small share of the business, to become the major supplier for many of the largest non-integrated industrial fiber producers,” McDivitt says.

Over the past few years, Ascend has focused on expanding the engineering plastics business and developing other specialty chemicals businesses. “We’ve been developing some more niche, differentiated, applications, and have focused on making significant improvements on the process technology side,” McDivitt says. “We’ve turned from a commodity business into a business that is more differentiated and has a broad portfolio of polymers.”

SK’s understanding of the market was an important component in developing and driving forward this strategy, according to McDivitt. “You have to understand where the opportunities are,” he says. “I’d say prior to SK ownership, the knowledge [within what is now Ascend] about opportunities beyond fiber and consumer-based fiber products was very limited.” Building that knowledge, and developing and executing a strategy around it, took time. “You need a little patience to set up the business the right way,” McDivitt adds. “I think there was a thoughtful approach from SK in trying to understand what the company can do that is going to be different from our competition.” Full integration, referenced by Siadat, was a critical part of that, as it has allowed Ascend to sell products in different parts of the nylon-6,6 value chain and take advantage of opportunities in niche applications and growing markets such as engineering plastics and high-strength fibers.

SK does not appear to be in any hurry to sell Ascend. McDivitt joined the company in 2015, just as the focus was turning to building out the specialty chemicals business. Ascend “still has a big runway ahead of it,” Siadat says. “We still have a lot of value to add. Now, if someone wants to come and pay us for that value, we’ll discuss it. But it’s still got a long way.”

McDivitt, who calls Siadat “kind of my thought partner,” agrees that there is plenty of room for growth and expansion at Ascend. “We’re spending substantially more than what we spent four years ago on technology,” he says. SK has supported this ramp up. “Part of the support we get from SK is deep knowledge about what it takes to run a successful specialty chemicals and plastics business,” McDivitt says. “SK has a portfolio of these companies and lots of experience operating these types of companies.” ■