SK CAPITAL

Five Questions with: Barry Siadat, Co-Founder and Managing Director, SK Capital

Buyouts Magazine, September 19, 2011 – SK Capital just closed its third fund, raising $500 million, much more than your firm's initial $400 million target. Considering SK Capital was founded just four years ago, can you shed some light on how you were able to reach your fundraising goals in such a difficult environment?

We were fortunate that our message resonated with a group of blue-chip investors. There are three elements of our message that worked . One was our team, which has worked well together and has made a number of successful investments together. The second element was our investment model, which is operationally intensive. We are focused on integrating investment and operational initiatives to create significant value after we make an acquisition. The third component is our track record, both at SK and prior to SK [at Arsenal Capital], where the team also worked together.

Tell us more about the industries you invest in

We focus on areas in which we have significant experience, such as specialty chemicals and materials. We also invest in health care, but mainly in areas related to chemicals, like pharmaceuticals. Most of us have technology backgrounds that relate to chemical processes and materials, such as plastics and metals. I, for one, have a Ph.D. in chemical engineering and worked in the chemicals industry for 28 years before moving to private equity in 2000. Because of our prior experience in these areas, we can identify businesses that have inherent competitive advantages that can be taken further to improve growth and profitability while reducing risks. That's really where we create value.

Do you invest in the chemicals industry mostly because you know it well, or do you think, objectively speaking, that that the industry is among the best areas to invest in, irrespective of the expertise you happen to have?

We are not thematic investors, so we don't say "this is the best industry, so let's go ahead and invest in it," because, invariably, every industry has good opportunities, but also land mines and problems. The chemicals industry is no exception. We're here because we understand these opportunities and perils, and we can navigate them better. In the end, we know and understand this industry, and we can find good deals within it.

SK Capital was famous for attempting a $1 billion dividend recapitalization last year with Ascend Performance Materials, a St. Louis company that makes nylon for carpets. But SK pulled the recap from the marketplace. What did you learn from that experience?

We got a lot of publicity for that. It has been an incredibly successful investment for us. We executed on our strategy, our value creation plan, and our organizational development plan in a very expeditious manner. In a short time, we created a world class operating team, and were able to generate huge cash flows relative to where the company was.

At the time, we were approached by a lot of people who suggested that we could recapitalize Ascend. We took a look at that opportunity, and in August 2010, we weren't sure whether the Bush-era capital gains taxes would be extended. We considered going to the capital markets to recapitalize the business and take a dividend while tax rates were favorable.

Unfortunately, we did this even though we didn't have a history of performance at this level. When we went to the markets (to raise money), a couple of things happened: first, our performance and EBITDA was discounted by some 25 to 30 percent. We planned to raise a $1 billion dividend, but since we only got to a number north of $700 million, we decided not to go through with it. It wasn't quite the level we wanted. But since we were generating enough cash for a $600 million to $700 million dividend within a two-year timeframe anyway, we decided it really made sense to postpone our recapitalization. From a dividend viewpoint, we've already paid significant dividends to our investors.

You were a cofounder of Arsenal Capital Partners. Since you had already founded a private equity firm, what led you to start a new one?

We started SK Capital to focus on our core strategy of investing in the specialty chemical and materials niche I talked about. Arsenal, which had a broader mandate, had a more general approach to investing. Starting a new firm, focused on these areas, really represented a natural progression for us.

Edited for clarity By Gregory Roth

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