Galata Chemicals: Post-Chemtura Ownership Unlocks Potential

Wisnefsky: Double-digit sales growth is forecast for emerging regions.

Galata Chemicals (Southbury, CT), the former polyvinyl chloride (PVC) additives business of Chemtura, got a new lease on life when it was acquired last year by private equity firm Aterian Investment Partners (New York) and specialty chemicals maker Artek Surfín Chemicals (Mumbai), each of which hold a 50% stake. Galata is a privately owned company and does not disclose financials. Chemtura reported that the PVC additives sold to Arterian and Artek had net sales of $236 million in 2009, down from $374 million in 2008.

Galata says the business is now poised for long-term double-digit sales growth, and is eyeing global expansion. “Our goal is to consistently add material value to the business by supporting our customers’ growth and expanding into new markets,” says Galata president and CEO Eric Wisnefsky.

PVC additives was not a core part of Chemtura’s portfolio before the sale and the business was not given the resources necessary to grow and compete, Wisnefsky says. It had been losing market share for years as “many longtime customer relationships were strained with inflexible pricing decisions, cutting of resources, and inconsistency of leadership,” Wisnefsky says. When Chemtura declared bankruptcy in 2009, Wisnefsky, then head of the PVC additives business unit, was given the task of creating a long-term plan for the division. “We had three choices—either shut it down, invest in it, or sell it,” he says.

Wisnefsky and his team spent the next year cutting losses and stabilizing operations. The company shut production of sodium thiocyanates, an unprofitable product line. They also increased spending on R&D, which had been almost nonexistent. They were able to return PVC additives to profitability in the second half of 2009 and it was put on the block later that year. In late 2009, SK Capital Partners (New York) offered to buy it for $2.1 million plus the assumption of some liabilities. However, during a bankruptcy auction held soon after, Aterian and Artek teamed up and outbid SK with an offer of $16.2 million plus liabilities. The deal closed last April with Chemtura receiving net proceeds of $37 million. The business was renamed Galata Chemicals. Artek, one of the biggest specialty chemicals producers in India, makes surfactants, alkyl alkanol amines, textile chemicals, metal finishing and other specialty chemicals.

Galata’s main product lines are heat stabilizers, including organotin and mixed metal stabilizers, and phosphite co-stabilizers; plasticizers, including those made from epoxidized soybean oil; and impact modifiers. Its primary customers are the automotive, building and construction, medical, pharmaceutical, and textile coatings industries. Galata has manufacturing plants at Taft, LA and Lampertheim, Germany. Although it has many competitors in its various product lines, it is one of the only companies that is backward integrated in the full suite of butyl, methyl, and octyl tin stabilizers. The backward integration enables security of supply, Wisnefsky says. Among its competitors, only Arkema and Songwon are backward integrated in those intermediates. Galata also has a long-term contract with Chemtura for the supply of phosphites. “Currently Galata can source phosphites from North America, Europe, or Asia. We have the most flexibility in this respect of anyone in the industry,” Wisnefsky says.

Since the buyout, Galata has added about 30 employees, bringing its total workforce to 260. It has increased its focus on “customer-facing” positions, and most of the new employees are in sales, technical service, and customer service.

Galata has “tremendous support” to grow under the new ownership, Wisnefsky says. The company’s sights are set on emerging regions, where its products’ annual sales growth rates are in the “double digits.” In North America and Europe, rates are in the low single digits. India is a particularly attractive country, and Galata is evaluating either a partnership or building its own production site there.

New product launches are another way that Galata expects to increase its market share and make use of excess capacity at its manufacturing plants. Most new product development is aimed at creating bio-based or “green” alternatives to serve...
as alternatives to existing, more regulated products. Since being acquired by Artek and Aterian, Galata has launched
more than 14 products, including Soypex, a soy-based alternative to paraffin wax for use in candles. Other new products
include octyl tin stabilizers to replace the use of butyl-based tin, which is being phased out in Europe.

Galata is also expanding into new markets, such as glass coatings. "Glass coatings was a market that Witco, a Galata
predecessor company, was in, and now we brought it back," Wisnefsky says. Candles also became a new end market
with the launch of Soypex.

Acquisitions may also be a source of future growth. Heat stabilizers is a particularly attractive market, as well as the tin
intermediates sector, neither of which have experienced much consolidation in recent years, Galata says.

In addition to growth, reining in operating costs is a major focus for Galata, particularly due to volatility in pricing for its
primary raw material tin. The company recently announced a 20% price increase for its tin-based PVC heat stabilizers,
and says price hikes for other products are likely to follow. Galata says it also could wring savings from certain areas in
its supply chain. For example, it had been purchasing an intermediate for the production of tin stabilizers from a supplier
in Europe, but it is now producing that intermediate in the U.S. and shipping it to its plant in Lampertheim.

Looking ahead, Galata says it has a pipeline of potential projects that require “reasonable” investments and have a
strong payback. “The current team has been together for nearly two-and-a-half years and our stability allows us to build
relationships with ontime delivery, quality products, joint development, and support of customer growth.”