Avantor Advances in Specialties

Building Toward a $1.5-Billion Revenue Target

Avantor Performance Materials (Phillipsburg, NJ), formerly Covidien's Mallinckrodt Baker unit, has set a five-year target of $1.5 billion in revenues, a more than three-fold leap in revenues from 2010 levels. Avantor is a leading U.S. producer of high-purity materials used in laboratory chemicals, fine chemicals, and electronic chemicals, including products sold under the well-known J.T. Baker brand.

Private equity firm New Mountain Capital (New York) acquired the business from Covidien for $280 million last year and renamed it Avantor. The business is now led by executive chairman Raj Gupta, former chairman and CEO of Rohm and Haas, who joined New Mountain as senior advisor after retiring from Rohm and Haas in 2009. Avantor in March appointed Jean-Marc Gilson, former v.p./specialties at Dow Corning, as president and CEO.

Mallinckrodt Baker was attractive on several fronts, Gupta says. The business has strong attractive end markets growing at greater-than-GDP rates in lab chemicals, electronics, and pharmaceuticals. "It was an under-invested operation," Gupta says. "It was an orphan in many organizations." Mallinckrodt acquired J.T. Baker from Procter & Gamble in 1995. Mallinckrodt was acquired by Tyco in 2000 and later renamed Covidien, and specialty chemicals became a smaller part of Covidien as it focused on growing healthcare products.

Avantor will reach its revenue targets by doubling its addressable market, which Gupta currently estimates at about $5 billion, through acquisition and capital investments. The company is also seeking to double market share in targeted markets, Gupta says. The scope of operations will expand, but Avantor will stay focused on high-purity chemicals serving the lab, fine chemical, and electronics sectors, he adds. "We have ambitions to build this to a significantly sized specialty chemical company in a fairly short period of time," Gupta says.

Avantor is New Mountain's first investment in the chemical sector. New Mountain identified Avantor as part of a "deep dive" into specialty chemicals and materials it started a couple of years ago, with the help of Gupta, says New Mountain founder Steven Klinsky. The firm conducts extensive, targeted research where typically its analysts spend several months identifying possible platform companies for investment, says Matt Holt, managing director at New Mountain. The company targets businesses that are less prone to recession, have above-average growth rates, and are in markets with high barriers to entry, Holt says. New Mountain typically starts with initial equity investments in the range of $300 million-$500 million for new platforms. "We look for businesses that can be built into strong, leading franchises—platforms that can become new mountains," Klinksy says. New Mountain has already found a second platform in specialty chemicals, acquiring NuSil (Carpinteria, CA), a formulator of specialty silicones, a deal it closed in May.

GILSON: *Targeting formulated solutions.*

GUPTA: *Seeking a world-class franchise.*

One early priority at Avantor will be establishing a more global presence. Two-thirds of the company's revenues are from the U.S. Its first bolt-on acquisition was Ranbaxy Fine Chemicals, which gives it a stronger production base in Asia, particularly in fine chemicals and electronic chemicals. The company also recently acquired lab chemicals company Poch S.A. (Gliwice, Poland) to boost its lab chemicals presence in Eastern Europe.

Avantor's strengths lie around high-purity chemical expertise. "FDA approval and cGMP practices are two of the pillars of competitive advantage," Gilson says. The company plans to move toward more formulated products in electronics and fine chemicals. "These products typically carry higher margins than 'neat' products," Gilson says. "Customer intimacy and the ability to provide highly formulated products for very specific applications is important," Gilson says. "If you find the right products and customers, you can stay for a fairly long period. It is a small percentage of the overall cost of the product, so the incentive to switch is low."

Historical capital expenditures for Mallinckrodt Baker have been in the $10 milion-$12 million range. The company will spend close to $40 million in 2011, Gupta says. Major investments include enterprise resource planning (ERP) and IT systems, as well as an application development center in Taiwan. "There is a significant ramp-up in spending to put in place an infrastructure to support a much larger company," Gupta says.

Early effort has also focused on building a leadership team "that can take this company from $500 million to another level of size and ability," Gupta says. In addition to Gilson, the company has recruited some former executives at Rohm and Haas to lead finance and run key businesses. "We have recruited very experienced leaders who have worked around the world and have run much larger organizations," Gupta says.

Gupta wants Avantor to reach more than $1.5 billion in revenues by 2015 with Ebitda margins that exceed 20%. The company had revenues of $480 million in 2010 with low-teens Ebitda, Gupta says. "The goal is to build a world-class operation," Gupta says. "The only pressure we have from our investors is to build a great company."

—ROBERT WESTERVELT

COMPANY SNAPSHOT

AVANTOR PERFORMANCE MATERIALS (PHILLIPSBURG, NJ)

Financials:	2010 revenues: $480 million. Employees: 1,400·
Key Products:	High-purity solvents, reagents, salts, excipients, buffers and cleansers used in electronics, fine chemicals, and laboratory chemical applications.
Outlook:	Company targets $1.5 billion in revenues by 2015 through acquisition, expanded capital investment, and aggressive growth outside of U.S. New Mountain Capital acquired the former Mallinckrodt Baker last year, and has recruited former Dow Corning and Rohm and Haas executives to build a specialty chemical franchise.