

ICIS Chemical Business

LBB Specialties seeks to build on Charkit, AIC platforms

By **JOSEPH CHANG** 31 May 2018 12:57

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LeBaronBrown Specialties (LBB Specialties) aims to build a new chemical distribution entity by rolling up acquisitions to its two platform businesses Charkit Chemical and American International Chemical (AIC).

“Our growth strategy will be to acquire companies with a large brand identity and owners that are not quite ready to retire but want to take some chips off the table,” said Charlie Hinnant, CEO of LBB Specialties and president and CEO of Charkit Chemical, in an interview with ICIS.

“They would manage the growth of their individual brands but under the auspices of LBB,” he added.

Acquisitions would be “tuck-ins” in the range of \$10-50m that would go with Charkit or AIC, but LBB could also acquire a larger business in the range of \$100m in annual sales that could become another platform company.

“We’re looking at several companies in both categories,” said Hinnant.

LBB Specialties has annual sales of over \$200m with its acquisitions of Charkit and AIC, with each having over \$100m in annual sales. Both companies have had robust growth averaging 7-8%/year over the last decade, the CEO noted.

Hinnant, who founded specialty chemicals distributor Charkit in 1982, was looking for a buyer for the business and was approached by a number of players – from large strategic acquirers (major distribution companies), to distributors owned by private equity firms, to pure private equity firms.

“I was attracted to LeBaronBrown as they were a little different than the typical private equity firm. They were a large family office looking to build a platform company through strategic acquisitions of distributors in the specialty chemicals space,” recalled Hinnant.

“This makes it an attractive buyer to companies. They aren’t going to get gobbled up and lose their brand. It’s an opportunity for them to continue on for a number of years,” he added.

In addition, multiple employees have become shareholders under the new ownership structure.

“We didn’t build these companies ourselves. At Charkit we have over 60 employees and AIC has over 100. We, as owners, kind of shared the wealth and now there are a number of new shareholders that are employees,” said Hinnant.



“This is an exciting opportunity for both companies and motivates them a lot more.”

BUILDING PLATFORMS

LeBaronBrown acquired Charkit in July 2017, and insisted Hinnant stick around as CEO to see through the build-out strategy while retaining an equity stake, he said.

“Most people recognised that selling to another large distributor would disrupt the way we do business. With this deal, nothing’s really changed,” said Hinnant.

In December 2017, LeBaronBrown acquired AIC, adding the second platform company, or leg of the stool. Like Hinnant with Charkit, AIC founder and president Mike Schrage continues to manage the AIC business.

“Nothing’s changed there either – they maintain their brand and structure. The sales and marketing strategy is the same,” said Hinnant.

Charkit and AIC retained their management, employees, brands and strategies. The only change has been sharing services in IT, finance and human resources where beneficial, he said.

Both companies are strong in personal care ingredients, food ingredients, aroma chemicals and nutraceuticals, while also having industrial chemicals. These areas comprise almost 40% of Charkit’s sales, and nearly 50% of AIC’s revenues, with the rest in industrial chemicals.

Charkit’s other products include hydrazine derivatives, imaging components, metal treatment and electronic chemicals, pharmaceutical ingredients and water treatment chemicals. AIC also has a wide range of industrial chemicals.

Charkit and AIC mainly represent companies from outside the US on an exclusive basis to sell to the US market, essentially becoming their US marketing arm. However, they also represent larger companies in certain specialty areas.

Charkit has represented Arkema’s hydrazine and derivatives in the US on an exclusive basis for over 30 years. It also represents INEOS for its chlorinated toluene derivatives, the CEO noted.

“Our marketing coverage and product knowledge is extensive. Many supplier companies are rearranging their sales forces so quickly with people changing jobs frequently, so they see the value we bring to their sales organisations,” said Hinnant.

US-CHINA TARIFF THREAT

The escalating tariff dispute between the US and China is a major cause of concern for LBB Specialties, along with many others in the chemical industry.

“The US chemical industry is at the best point I’ve seen in many years. Having punitive duties on chemicals from China would make it cost prohibitive. US companies may move manufacturing operations elsewhere,” said Hinnant.