

Specialty Chemicals Provider for a Wide Spectrum of End Markets



Rich Preziotti - CEO

Vertellus is a progressive, modern company committed to providing value to our customers through leading technology and contemporary business systems and processes. The company was formed in July of 2006 via the merger of Reilly Industries and Rutherford Chemicals. Our rich history has been built upon the foundations that were established as early as 1857 when H.J. Baker began processing castor oil. Key milestones include predecessor Reilly Tar & Chemical Corp.'s breakthrough in the 1940s and '50s to produce synthetic pyridine and pyridine derivatives, which were crucial to the development and production of synthetic tires during World War II when natural rubber was in short supply. Today, Vertellus continues to be a leading provider of specialty chemicals for the agriculture, nutrition, pharmaceutical and medical, personal care, plastics, coatings and industrial markets. The Agriculture and Nutrition Specialties business is the global market leader in pyridine and picolines and the world's number two producer of Vitamin B3. The Specialty Materials business practices a broad basket of complex technologies manufacturing biomaterials, CPC bactericides, pyridine derivatives, DEET, Sulfones, EMA co-polymers, Alkenyl Succinic Anhydrides, reducing agents and a host of natural and renewable chemistries based on castor and citrates. The business specializes in developing and producing specialty & performance chemicals and intermediates for sophisticated applications as well as systems and additives that enhance the physical properties of customer end use formulations.

Interview conducted by: Lynn Fosse, Senior Editor, CEOCFO Magazine

CEOCFO: Mr. Preziotti, what is Vertellus Specialties?

Mr. Preziotti: Vertellus is a specialty chemicals company— we supply chemicals to a wide spectrum of end markets and uses including crop protection chemicals, nutrition products, intermediates for pharmaceuticals and additives for plastics, coatings, adhesives and sealants as well as a number of general personal care products and a wide range of products for general industrial applications.

CEOCFO: What is the common thread amongst the products or is there one?

Mr. Preziotti: There are a couple of common threads. We practice a class of chemistry called pyridine chemistry which makes up about sixty percent of our revenue. Then we have a number of other common chemistry platforms. We have a couple of green chemistries around castor oil that are used predominantly in coatings and adhesives applications. Then we have a green chemistry around citrate esters. These are esters made from citric acid that are commonly used as plasticizers for PVC and that can be used as replacements for phthalates. The history of the company is from two lineages. Arsenal Capital put Reilly Industries and Rutherford Chemicals together in 2006. Reilly Industries was a family owned business that was based in Indianapolis that had been on the forefront in the development of pyridine chemistry. Rutherford Chemicals was spun out of the Cambrex Corporation, a publicly traded pharmaceutical and fine chemicals company. Rutherford represented the fine chemicals piece, which manufactured intermediates for pharmaceuticals and other applications. Cambrex sold Rutherford in 2003. After Rutherford and Reilly were combined to form Vertellus – the business was purchased by Wind Point Partners -a middle market private entry firm based in Chicago - our current owners. I partnered with Wind Point to complete the transaction and took over as CEO when the purchase was completed. The common thread between Reilly and Rutherford was pyridine chemistry. Both businesses were also present in Chemical Specialties and they also both had product lines based on natural chemistries – Reilly was in citrate esters and Rutherford was in castor oil derivatives. They both made many intermediate, multi-step synthesis types of products that are typically called fine chemicals and are used as intermediates to manufacture pharmaceuticals and agricultural chemicals among other applications.

CEOCFO: Your company description on your website indicates Vertellus is a progressive, modern company. How so? Why that description?

Mr. Preziotti: I think we try to practice contemporary management. A number of the leadership team members come from larger companies. For example, I spent sixteen years at Allied Signal and Honeywell, which I think has a contemporary

management philosophy. We try to drive empowerment and employee development. We are a company that embraces the use of six sigma tools to drive continuous improvement, things like that. I would say that for a company of our size I think we are pretty progressive.

CEOCFO: *Would you tell us a little bit about your facilities?*

Mr. Preziotti: We are a pretty global company. Close to sixty percent of our revenue is outside of the United States. We have five facilities in the US. Our biggest, where our corporate headquarters is, is in Indianapolis. We have a facility in Zeeland, Michigan and one in Greensboro, North Carolina, as well as Delaware Water Gap, Pennsylvania and Bayonne, New Jersey. Those facilities all have different capabilities. We do not produce the same products at these facilities. They are all pretty unique. The facility in Indianapolis is a mix of high volume continuous process manufacturing as well as batch manufacturing. The other facilities all tend to practice batch manufacturing. There are two facilities in Europe. One is in Seal Sands in the North of England. That is a batch chemical manufacturing facility. We have a facility in Antwerp in Belgium that makes Vitamin B3 and intermediates used to make Vitamin B3. Then we have two facilities in China. We have been in China since the first one started up in 2001. Those facilities practice our pyridine chemistry and downstream technologies. China is a very big market for us as pyridines and picolines go into agricultural chemicals. Much of the generic manufacturing for crop protection chemicals is in India and China. Of Vertellus' approximate six hundred million dollars in revenue over thirty percent of it is in Asia and the preponderance of that is in China. We also have a facility in India that makes intermediates for complex engineering plastics.

CEOCFO: *Were some of these by acquisition? How did it all come together?*

Mr. Preziotti: Since Wind Point Partners has owned Vertellus, we have acquired the facility in India and the second facility in China as well as a number of product lines. If you go back in time, all of the specialty or fine chemicals assets that were part of then Rutherford Chemicals were acquisitions that had been done by the Cambrex Corporation. They were actually the beginning of the Cambrex Corporation, starting with the facility in Bayonne, New Jersey – they purchased all of the former Rutherford Chemicals sites. The Reilly Industries businesses grew more organically. Historically and currently the growth of Vertellus has been a mix of both organic and acquisition based growth.

“We have a unique blend of chemistries that we practice around the world. We serve many really interesting and attractive end industries. We are diverse on multiple facets from a chemistry standpoint and the types of chemistries we practice, the markets we serve and the geographies that we serve. Therefore, I think for a larger, middle market company, we are pretty unique in that respect. We have a fair amount of growth potential, both from a product and applications standpoint as well as a geographic standpoint.” - Rich Preziotti

CEOCFO: *What is the key to successfully managing a far flung group of companies?*

Mr. Preziotti: I would say in managing a global chemical manufacturing business - I think that, one, you have to have a good team of leaders and you have to have a well-functioning matrix organization. You have responsibilities that cut across functions as well as businesses and geographies. You also have to have good communication and people who are comfortable doing business in a global setting.

CEOCFO: *What surprised you as you have developed and grown the company?*

Mr. Preziotti: I have been in the chemical industry for twenty plus years. It is a very global industry to begin with. It changes rapidly, due to markets, regulation and competition from the developing parts of the world, like China and India. Therefore, I think that just the pace of growth in those parts of the world has, I would not say surprised me but it has been both a huge opportunity as well as a source of competitive threat.

CEOCFO: *How do you decide about new products and how each of your divisions should be focused since there are so many opportunities?*

Mr. Preziotti: With respect to new product development, we have a typical stage gate process that evaluates opportunities, both from a market and customer perspective as well as from a technical feasibility standpoint to achieve what is necessary for success. If you have limited resources, you want to make sure that you are spending your research and applications development dollars on the programs that, A. have the biggest market opportunity and B. have the highest degree of potential commercial and technical success. I have always said that new product development is the hardest thing to do in business. The companies that get it right do incredibly well. Therefore, we use that stage gate process and try to do as much as much work as possible up front, understanding the market and the specific opportunity. Ideally in any instance, you have a customer tied to each opportunity. Then, as you move the project through that stage gate process to get to the next gate to get further funding, you have to pass certain criteria, market criteria, technical criteria, do you have the right assets to make the product, plus the capital investment, plus the return on that capital

investment and so on. I would that we are moderately successful at the new product development process and we strive to continually improve the process.

CEOCFO: *You recently introduced your newest product, NiaPro™ Encapsulated Niacin for Cows. Why is there a need for encapsulated niacin? What did you develop this?*

Mr. Preziotti: There is an existing market for an encapsulated niacin product. Niacin is a vitamin B3 product. What encapsulation does is it makes sure that the vitamin B3 product makes it through the multiple stomachs within a cow. It is a very niche market. The encapsulation technology works similar to control release pharmaceutical technology. It is not a large product, but it is a nice unique niche for us, from a vitamin B3 standpoint. It is a higher value vitamin B3 application. Therefore, there is an existing market for this product. There is a different encapsulation technology that is used out there. We have commercialized our technology and feel that we can carve out a position in that small marketplace.

CEOCFO: *Would you tell us about giving back for Vertellus?*

Mr. Preziotti: It is something that we try to do as a company. We are not a huge company, but we try and promote those types of activities in the local markets where we have facilities. Indianapolis is by far our biggest area that we are an employer and we encourage a number of programs like that to get employees at all levels of the operation involved. I think it is a good stewardship thing to do as a company – to volunteer and give back to the communities that we do business in.

CEOCFO: *Many people say that you cannot manufacture in the United States. How are you able to be successful in the US arena?*

Mr. Preziotti: I wholeheartedly disagree with that sentiment. I do not think you can manufacture every product in the US, but where you have product that has a high technical component, those are clearly products that are appropriate to manufacture in the US, where there is definite global market content needed. However, most of our products ship around the world. We always look for the most cost effective way to manufacture them. We have an installed base of assets in the US. When you think about chemical manufacturing, your capital cost is a very high component of your overall cost structure. Therefore, to replicate the existing assets somewhere else in the world could be cost prohibitive. The way that we get around that, where we have products that are maybe in more of a competitive marketplace, we strive to have the lowest variable cost structure. When you think about chemicals, a big component of their cost structure is raw materials. You buy raw materials and you process them further. Therefore, to the extent you can improve your yield structure, the amount of product you get out of a process verses how much raw material that you put in, that enables you to have a competitive advantage verses other people in the marketplace. Therefore, we have spent a lot of money and many of our technical efforts around improving our variable cost structure refining and improving different types of technologies that you would employ in the manufacturing process – things that improve yield and lower energy usage.

CEOCFO: *Why does Vertellus Specialties stand out as an exceptional company?*

Mr. Preziotti: We have a unique blend of chemistries that we practice around the world. We serve many really interesting and attractive end industries. We are diverse on multiple facets from a chemistry standpoint and the types of chemistries we practice, the markets we serve and the geographies that we serve. Therefore, I think for a larger, middle market company, we are pretty unique in that respect. We have a fair amount of growth potential, both from a product and applications standpoint as well as a geographic standpoint.

BIO: Vertellus has assembled a highly seasoned management team throughout its organization. President and CEO Rich Preziotti has extensive industry experience. He spent sixteen years at Honeywell's Specialty Materials Division (formerly Allied Signal) in numerous functional and General Management roles. Most recently he was Vice President and General Manager of Honeywell's \$1.2B chemicals business. Additionally, Vertellus' management team has a record of improving productivity, reducing costs and enhancing customer relationships. Senior management averages over 20 years of industry experience.



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