Crompton & Knowles' Calarco Cultivates Aggressive Growth

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Specialty chemical company head views logical selection of acquisitions coupled with conservative debt management as keys to expanding business

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When C&EN interviewed Crompton & Knowles chairman, president, and chief executive officer Vincent A. Calarco several weeks ago, the acquisition of APV Chemical's blow-molding and polymer machinery business was only a gleam in his eye.

The acquisition of APV's Edison, N.J., operation announced last month adds $20 million in sales to Crompton & Knowles' specialty process equipment and controls business and reinforces its position in plastic extrusion machinery manufacturing even as it allows the company to enter the plastic blow-molding equipment business. It follows the acquisition of Nutley, N.J.-based Atlantic Dyes in August, which added about $55 million in sales to Crompton & Knowles before the sale of certain dye import businesses to Hoechst Celanese. That purchase bolstered Crompton & Knowles' position as the preeminent U.S.-owned and -operated textile dyes producer.

It is not every company that will spend almost three times its previous year's net earnings from continuing operations ($24.5 million in 1989) to acquire new businesses while a recession looms ahead. Industry sources put the price tag on those two new businesses at $60 million. Is Crompton & Knowles a spendthrift?

Well, no, says Calarco, who believes the company is in fact quite conservative in its handling of debt. "We view a debt-to-capital range of 40 to 45% as manageable, while it provides us the flexibility to do the things that we need to do." Overextending the company's ability to support its acquisitions are out of the question, it would seem. "We have never been a proponent of high leverage even in the heyday of high leverage," says Calarco, referring to a large number of deals in the past decade that depended on corporations borrowing large amounts of money that they subsequently could not repay.

C&EN staff photo

Calarco: opportunities in spades

Between 1982 and 1990, Crompton's debt-to-equity ratio never moved higher than 43.7%, in 1990, and in fact has been as low as 20.1% in 1987, the year just before the $52 million acquisition of Ingredient Technology Corp., a specialty food and pharmaceutical ingredients business, and acquisition of Townley Dyestuffs in the U.K. By the end of 1989, Crompton & Knowles' debt-to-capital ratio declined to 34.4%, setting the stage for its most recent acquisitions.

There is, of course, more to an acquisition than a company not buying beyond its means. The idea, says Calarco, is "to extend the businesses in logical patterns and not make leaps into areas of technology that we don't really have any expertise in." Ingredients Technology, for instance, allowed Crompton & Knowles to expand its foothold in the food ingredients business with $20 million in sales to about $100 million in sales.

Even after the Ingredient Technology acquisition and the more recent Atlantic Dyes and APV purchases, Crompton & Knowles has set its sights on other business area ex-

Crompton & Knowles at a glance

Headquarters: Stamford, Conn.

Sales: $390 million for 1990, up 10% from 1989.

Earnings: $30 million in 1990, up 22% from 1989.

Business areas: The specialty chemicals segment produces dyes and auxiliary chemicals, flavors, sp cialty sweeteners, seasoning bl nds, food colors, fragrances, pharmaceutical coatings, and organic intermediates. The specialty process equipment and controls segment provides plastic extruders, plastic blow-molding machinery, electronic process controls, as well as process system design, engineering, installation, maintenance, and modernization.

pansions. Calarco says that if he could find the right deal, the company would like to purchase a business that would enhance the small color dispersions and additives business for pharmaceuticals it now has.

If such a deal is just around the corner, Calarco is not saying. He does acknowledge that the current business slowdown has brought Crompton & Knowles what Calarco terms opportunities "in spades." Right now "we've had more opportunities before us over the past six months than we have ever had, and they are continuing to come in." But although the opportunities may be there, they must be consistent with the company's strategy to grow in businesses it knows.

"We don't want to be a billion-dollar company that is everything to everybody. That is not us," says Calarco. "One of these days we may be a billion-dollar company, but it will be on our terms, not haphazard growth for growth's sake. . . . We want to be one of the best specialty chemical companies around," he explains, "and we want to be one of the most profitable. Not necessarily the biggest."

Calarco's prescription for a successful specialty chemical concern depends on "certain strengths" that the company can exploit. "One is that we feel we are particularly good at technical service and problem solving. We feel that is really the basis of any value added that one has and is probably more closely associated with the specialty chemical business and differentiates it from the commodity chemicals business."

Solving problems is important to the "niche orientation" that characterizes the businesses in which Crompton & Knowles is involved. It helps Crompton & Knowles "to be expert in a particular area and provides real focus in those business segments and helps to differentiate Crompton & Knowles from everyone else." The company's problem-solving capability and technical orientation are what Calarco sees as unifying themes running through the disparate businesses in which it operates: plastics forming machinery, food ingredients, and textile and printing dyes. "When you take those labels out and just describe the businesses and what it takes for success, I think there is a similarity and thread that goes through all of them," he says.

Running so many seemingly disparate businesses at Crompton & Knowles is really not much different than running Uniroyal Chemical, declares chemical engineer Calarco, who was that company's president for five years until 1984, shortly before he joined Crompton & Knowles. "When I was at Uniroyal, we had an agricultural chemical business, we had a polymer business, a rubber chemical business, and what have you—the same sort of thing."

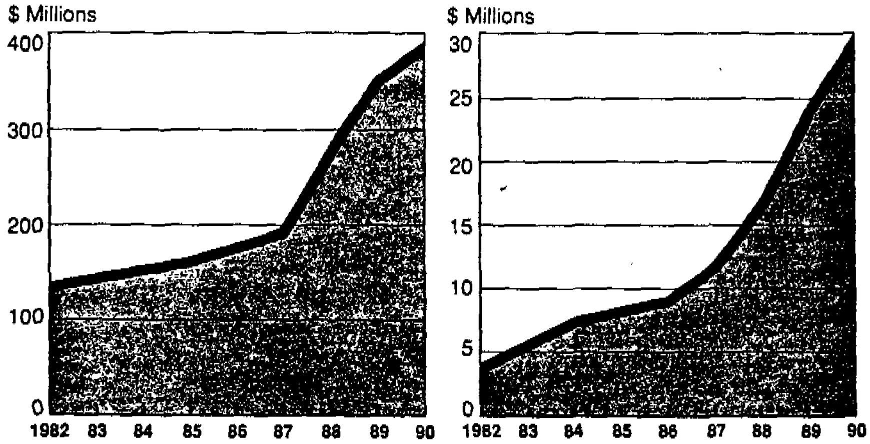
It is the ability to focus on businesses that it knows well and "in a sense to fragment them a bit" that allows Crompton & Knowles to operate as a specialty provider of products and services, says Calarco. For instance, five years ago the Davis-Standard extrusion machinery operation devoted half of its output to the cyclical wire and cable covering business. "What we've tried to do is to develop our presence in other markets like the sheet business, which ultimately goes into packaging and blown film, so that we have a broader spread of market participation. Today the wire and cable business is 20% of our total equipment business. It has dampened our cyclicality and broadened our base of business, which has been very positive for us." Also over the past five years, Crompton & Knowles has grown a small extrusion equipment controls business to represent 15% of Davis-Standard and started an aftermarket extrusion equipment service business that represents another 15% of Davis-Standard.

Calarco is keenly aware of Crompton & Knowles' not being a vertically integrated company that can produce finished products from raw materials it produces itself. He believes it is the value-added, service-related component that will allow his company to excel. About 20% of the company's current sales in dyes come from new products introduced over the past five years, he says. Success in dyes is not a situation, he says, "where being in ethylene dichloride is necessary to be successful in polyvinyl chloride. It's not that at all."

In fact, says Calarco, "I think the only company that has any integration whatsoever in terms of dye raw materials and intermediates is Bayer. And I would suspect that given the way it has succeeded over the past several years, the intermediates business is as much a profit center as the dyes business is. I'm not so sure Bayer gets any real benefit from having that integration other than that it obviously has access to raw materials. But that has not been an issue with the advent of Far East producers who clearly are providing quality, timely products at reasonable prices."

Calarco says Crompton & Knowles' niche orientation in dyes goes back to Althouse Chemicals, which it pur-

Crompton & Knowles' sales have nearly tripled . . . **. . . and earnings have risen sevenfold since 1982**



Note: Net earnings from continuing operations. Source: Crompton & Knowles chased in 1954. "Scott Althouse developed acid dyes for nylon working closely with Du Pont. Again, it was ... a specialized approach. And it is still with us today. It is a heritage of the corporation having survived 150 years at this point, albeit not in the same business," he says, referring to the textile loom business machinery manufacture in which the company had been engaged continuously until it sold the last of its textile machinery business to Leesona Corp. in 1981.

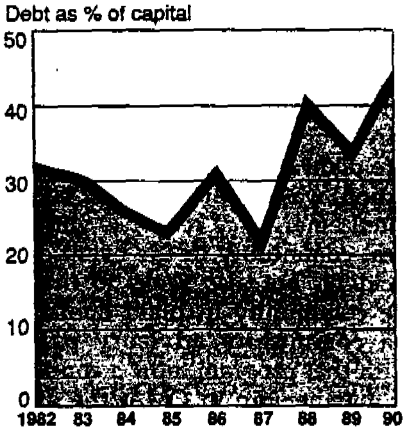
That Crompton & Knowles operates in many different businesses does not mean management keeps at arm's length, involving itself only on a financial level with operating subsidiaries. "We don't run the company from a holding company point of view at all. We are in the plants, the businesses. We follow it in significant detail, so that if we feel help is needed we are willing to provide it even though the [business managers] may not want it. It is very much a hands-on approach. ... It's just sticking with the basics day in and day out and not taking anything for granted. It's a lot of blocking and tackling," says Calarco.

Crompton & Knowles corporate managers took a hand, too, in a recent agreement with Japan Steel Works giving Davis-Standard the expertise to enter the twin screw plastics extrusion business. "This gets us into the whole concept of engineered resins and grafted polymers, which we see as a growing area requiring a different type of technology—an extension of where we are today."

Since the acquisition of Ingredient Technology changed Crompton & Knowles' involvement in the food flavorings market from the eastern and midwestern U.S. to an involvement throughout the country, the company has attempted to enhance its position with biotechnology research. Calarco says a research project is under way with a small biotechnology company, which has a good track record, to develop a biotechnology route to natural flavors. He says that right now he prefers not to name the company doing that research for Crompton & Knowles.

The company is also considering "rationalizing" some of its seasonings business. "The seasonings business has a spectrum of value added from the low-end raw spice to high-end flavorings. We're really not interested in the low-end spice business. That is not our cup of tea," he says. The low-end part of the business may be too small for Crompton & Knowles to sell, but Calarco says, "We are still in the evaluative stages on that. We are looking at all our options."

Crompton's debt ratio up, but remains conservative



Source: Crompton & Knowles

Because management is involved in the intimate daily details of the company's various businesses, Calarco thinks the company can avoid a takeover. The rationale, ultimately, behind the close attention to details is the effort "to provide value to the shareholders. A lot of people talk about that, but we have tried consistently to deliver." He points out that five years ago the company had about 3 million shares outstanding with a market value of about $60 million. By contrast, today there are about 25 million shares outstanding with a market capitalization of about $500 million. "Within that period, we split the stock three times. In the past three years we've increased the dividend 35% a year. As for me, I'd say that the shareholder has been very well served."

Given that history of the company's financial growth, Calarco points out that "To me, the best defense that any company could have is to have a high stock price." Recently the company's stock price has been about $19 per share on the New York Stock Exchange, with a stock price earnings ratio of 16. That is better than specialty chemical maker W. R. Grace & Co., whose recent price earnings ratio was 10, and almost as good as Great Lakes Chemical, whose recent ratio was 17. Larger and more traditional chemical producers such as Dow Chemical and Du Pont sported recent price earnings ratios of 9 and 10, respectively.

However, Crompton & Knowles does not rely on its relatively high market value alone to protect it from a takeover attempt. The company passed two antitakeover measures in 1986 that would limit sudden changes in the control of the company's board of directors and would require 80% share approval of certain business combinations. They exist, says Calarco, "for shareholder protection more than anything else. I think the board of directors would be lacking in its own fiduciary responsibilities to not have these things. What it does is to provide time for the board of directors to deal with the issues. That is not to say that if the shareholders are best served, a deal wouldn't be done."

But Calarco believes the company's independence is currently in the best interest of shareholders. Although he acknowledges that 1990 was a difficult year and 1991 promises to be even more so, "I have long contended that we are no flash in the pan success. We have far exceeded in terms of performance what the economic indices would indicate was possible in the past." Calarco thinks the company can continue to outperform the market.

Specifically, he believes the company's sales will be around $500 million in the next several years, up from the $390 million it reported in 1990. "We do have an earnings goal each year of 10% a year above inflation. We like to keep our return on equity at least above 18%. We are running at something like 27% right now."

The Crompton & Knowles executive acknowledges that the future of the company depends, in part, on its ability to recruit well-trained, capable technical people. "We are seeing an increasing level of difficulty filling the needs we see for the technical side of our business. Each of our salesmen are technically trained in the textile business and we haven't seen that much difficulty in that end of the business. But when we look for technical service people and lab research personnel, we have seen more difficulty over the past couple of years. I think that is symptomatic of the whole issue of science education in the U.S. It is something we are concerned about."

Crompton & Knowles does support some scholarships at leading universities such as the Ben Franklin Institute at Lehigh University, Polytechnic University (formerly Brooklyn Polytech), and Wooster Polytechnic. A director of the Chemical Manufacturers Association (CMA), Calarco believes that "economic illiteracy in this country is only second to scientific illiteracy. It's incredible to see. People do not know basic issues. People view the chemical industry as the bogeyman. They believe it's got to be bad because it is chemical. They do not understand the benefits." Calarco believes what has happened is that "the lack of understanding and fear give you public policy that follows public perception resulting in increased cost and increased regulation of industry that probably is not necessary."

He endorses CMA's Responsible Care program, which not only seeks safe plant operation, chemical distribution, waste reduction, and coordinated emergency response with the local community in the event of an accident, but also seeks to involve the community in plant operations via community advisory panels. With that program, now a condition of membership in CMA, the group has "taken the bull by the horns to give a more positive view."

"Effectiveness of CMA's program is probably not the right measure now," says Calarco. "We are in the implementation and execution phase of it now even as we are also developing other codes of conduct and practice that we need to have in order to put the meat around the bones of responsible care." Even as the program comes into place, the communities in which plants are located will continue to be suspicious of the industry. "The public honestly and truly understands the industry is providing products they want and need to have. But the public ought to be able to know that the industry is operating safely and that the emissions coming from the plants in their communities are not hazardous to their health. The only way the public is going to see that is if they see the results."

By dealing with issues such as waste minimization and community awareness through CMA's program, the industry hopes to let people know that a chemical plant is not "this black box plant in a community that no one understands and knows what to do with," says Calarco. CMA's program hopes in part to start a dialogue between chemical company management and local communities, he adds. □