

Houghton International

Identifying the springboard for growth

Case Study Private Equity

The Faster an acquisition is completed, the faster the benefits are gained.

Company Name: Houghton International

Location: Americas, Europe, Asia

Sector: Chemicals

Function: M&A

Business Challenges: Achieve profitable growth through a strategy of acquisition

Consulting Services: Merger Integration, Operational Excellence

Client Quote: *"Celerant commanded the situation with a professionalism and interpersonal skills that kept us involved and satisfied, while making Houghton International feel comfortable their best interests were at heart."*

Gary Cappeline Operating Partner,
AEA Investors

Situation

When AEA Investors acquired Houghton International, they knew that the global supplier of metalworking fluids and chemical management services was an excellent platform for growth, in a notoriously fragmented industry.

Upon appointment, Houghton CEO Paul DeVivo stated that he planned to 'grow profitability by increasing volume and improving efficiency'. Celerant Consulting was selected to work with the management team to achieve this vision.

Celerant was initially engaged to complete a capability assessment of Houghton's global processes. As a result of their findings, Celerant continued the engagement to implement an Operational Excellence program focused on process improvement and achieving significant efficiencies. In tandem, Celerant was further engaged to complete a thorough Operational Due Diligence and Merger Integration program of Houghton's first major external growth initiative - the acquisition of D.A. Stuart, another mid-market, global maker of metalworking fluids.

Approach & Delivery

Celerant's analysis quickly uncovered two key areas for growth; first, familiarising Houghton's Management Team with the merger integration process so that they could efficiently integrate a company over half their size; second, utilizing the Operational Excellence program to increase Houghton's platform profitability. The Houghton program team identified

\$34 million in annual recurring EBITDA benefits that could be achieved independently of the acquisition, by re-engineering its sales and marketing, purchasing, supply chain, R&D, finance and HR functions.

They also identified an additional \$32 million in one-time working capital improvements that would provide a powerful springboard for growth.

The Celerant and Houghton team now began their biggest task - preparing the Houghton Leadership team for the acquisition of D.A. Stuart.

The Celerant team had already estimated that \$33 million in annual recurring EBITDA synergies could be realised from acquiring D.A. Stuart, in addition to \$3 million in one-time working capital improvements, and now geared up to support the transaction effort on several fronts:

- Providing operational due diligence support to aid development of the acquisition's commercial terms.
- Working with both Houghton and D.A. Stuart to plan all aspects of the integration, from creating a successful merger platform, to preparing a seamless Day 1, to all subsequent integration activities that would be needed once the companies were officially joined.
- Training the Houghton Leadership Team throughout the process.
- Documenting all work in a 'Houghton Playbook' that could be used to support future due diligence and merger integration projects.

Executing the deal smoothly and synergistically

The due diligence team was tasked with analysing Houghton's current state operations against those of D.A. Stuart. They developed an operational opportunity assessment for D.A. Stuart to support Houghton's transaction decision-making, valuation and financing modelling, which was later used as a component within the overall synergy analysis. Also included in the analysis was an operational opportunity assessment within each functional area across the businesses, as well as a review of the strategy and business plan viability, organizational capabilities and effectiveness, asset footprint, operational CAPEX and revenue, resource and supplier stability. This effort culminated in the assessment that \$33 million could be gained from synergy benefits.

Five Integrated Work stream Plans for a successful Day 1

The integration planning effort consisted of developing Day 1 and post-Day 1 integration plans to support the resource, organizational and functional requirements that would be necessary to operate as a single entity. The integration planning team formed 5 work streams:

- Finance - accounting, billing, accounts payable and insurance;
- Operations - manufacturing, purchasing, logistics and sales and operations planning;
- Technology - R&D, technical services and EH&S;
- Support Services - HR, corporate communications and legal;
- Customers & Products - sales, marketing and product management, customer service, marketing communications.

These were supported by an Integration Management Office and an overall steering committee to expedite decision-making and issue resolution.

Results

As Paul DeVivo explains 'The key outcome of our planning effort was to ensure that Day 1 was executed flawlessly, with little impact on customers, employees and suppliers, the merged business should not skip a beat on Day 1. The other target was to craft a robust synergy assessment and capture plan so that we could immediately begin executing redundancy elimination and consolidation efficiencies post-close. We are continuing to work with Celerant to implement their integration recommendations so that we can emerge from the merger as a stronger, more competitive business with a broader geographic footprint and base of products'.

Client Satisfaction

The biggest advantage to working with Celerant for Houghton was the speed in which they were able to execute the acquisition integration to begin realising benefits. Celerant's holistic planning approach and integration planning toolset ensured that progress moved swiftly and that all parties were united in a common goal.

Houghton today is a larger and more efficient organization eager to start work on the next growth initiative and strengthen its position in the metalworking fluids industry.

It is no easy task for a third party consultancy to be held accountable for the objectives of both the private equity firm and the management team of the portfolio company simultaneously. In this case, all parties agreed that the results were a testament to the success of the project, as is evidenced by Houghton's subsequent financial performance and the positive feedback received from AEA and Houghton at the completion of the project. Perhaps the most significant measure of success, Celerant has continued to work on a number of additional strategic initiatives for both Houghton and AEA.

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