

Business Booms for Kraton Performance Polymers

Kraton Performance Polymers, the originator of styrenic block copolymers (SBCs), continues to see growth across key product lines. Kraton was bought from Shell Chemical by private equity firm Ripplewood Holdings (New York) in 2001, and later sold to TPG Capital (Fort Worth, TX) and J.P. Morgan Partners (New York) in 2003. TPG and J.P. Morgan recently sold their remaining stake in Kraton in April 2011, about two years after the company completed an IPO and became publicly traded on the New York Stock Exchange.

Kraton's sales are roughly evenly split between three main applications: advanced materials and elastomers; adhesives and sealants; and paving and roofing. The company also has a growing business in supplying materials for surgical gloves, where polyisoprene latex is displacing conventional latex in medical applications. "We've seen an average compounded growth rate in the 7%-8% range over the last 10 years in our three large end-uses," says Kevin Fogarty, CEO of Kraton Polymers. "That is a fairly attractive, healthy growth rate in the business. As we look forward, we expect two times GDP growth for Kraton across those end-uses."

The majority of Kraton's worldwide SBC capacity is dedicated to the production of unsaturated SBCs (USBCs), which are primarily used in paving and roofing, adhesives and sealants, and coatings and footwear. hydrogenated SBCs (HSBCs), which are significantly more complex and capital intensive to manufacture than USBCs, are primarily used in higher value-added end-uses, including soft-touch and flexible materials, personal hygiene products, medical products, automotive components, and certain adhesive and sealant applications.

SBCs, which are highly engineered thermoplastic elastomers, are used to enhance the performance of numerous products by delivering greater flexibility, resilience, strength, durability, and processability. Kraton also produces high-end polyisoprene rubber, polyisoprene latex, and SBC-based compounded materials. The company's polymers are used in a wide range of applications including adhesives and sealants, coatings, consumer and personal care products, lubricants, medical equipment, packaging, automotive applica-

tions, paving, roofing, and footwear.

Kraton's focus is "finding new applications that don't exist today for using SBCs," Fogarty says. "Each of the end-uses have a target list of market development opportunities that are either in the pipeline or on their way in the commercialization phase." The company is focused on polyvinyl chloride (PVC) substitution for advanced material applications, particularly in the wire and cable industry. Substitution for products such as polycarbonate (PC) is growing due to OEMs and their customers seeking PC that is entirely recyclable. "That means no PVC is in the wire and cable associated with connective cords or power cords or even earphones," Fogarty says.



FOGARTY: Strong growth across all its businesses.

PVC and plasticizers, although they are cost effective and offer reliable performance, have given rise to health concerns for humans and they are not recyclable. "In Europe and Asia, there is a very rapid trend to eliminate altogether and avoid PVC-based IV bags and blood packaging," Fogarty says. "Modifying with Kraton gives the same performance properties and meets the most important criterion, which is the elimination of those plasticizers."

The most robust product area in the company's portfolio is isoprene rubber and isoprene rubber latex. "What makes this product unique is that it does not contain the natural rubber proteins that can cause an allergic reaction, while retaining performance equal to natural rubber," Fogarty says.

Growth in this product line has benefited from a risk-mitigation strategy by the hospitals, he adds. The latex business has grown "about 20%/year plus and has rapidly become 6%-7% of our sales in the last 12 months, and we fully expect it to become a larger portion of our sales portfolio,"



POSITIVE PRODUCTION: Kraton is expanding capacity at several sites.

Fogarty says. Kraton expanded latex capacity recently at its Paulinia, Brazil facility and signed a contract with its manufacturing partner in Japan to double output.

Raw material volatility has been a challenge, but Kraton says it has been able to pass on higher costs. Kraton consumes mostly benzene, butadiene, and isoprene, and the company secures adequate and reasonably priced raw materials through several channels, Fogarty says. "We have multiple feedstock supply sources and we are buying at a competitive market-based price," he says. "Butadiene has been volatile but we have several supply sources under contract so we can go from source to source and know that we are buying at a competitive rate."

Kraton originally sourced most of its raw materials from Shell, but Kraton has since lowered its feedstock reliance on its former parent. "We were highly dependent upon Shell for all of our building block monomers, but today we are significantly less than 50% dependent on Shell," Fogarty says. "We have diversified and brought in a number of different internationally recognized suppliers of these materials, and that helps us know we are buying raw materials competitively."

Kraton says its next big investments include an HSBC project in Asia, which is expected to be online in the second half of 2013. Kraton also does not rule out the possibility of a USBC expansion or an acquisition down the road. "We'd like to look at leveraging our existing facilities first before we would think about building a new site because our business for USBC is still quite dependent on North America, South America, and Europe and less dependent on Asia because there are more competitors and competition in Asia for USBC," he says. "Our interest is in one day finding the right types of acquisition that could enable Kraton to expand its product offering--more bolt-on type acquisitions to diversify our offering."

—LINDSEY BEWLEY