

# Kurita chemical deal solves sales dilemma

The Japanese company has drastically ramped up its presence abroad with its first foreign acquisition in 16 years. The European sales boost will see the overseas chemicals business streak ahead of the facilities division.

**K**urita Water Industries has made a crucial step away from a sluggish home market in Japan with its first overseas acquisition since buying Hansu Technical Service in 1998. It is spending €250 million to buy Israeli-owned chemicals business BK Giulini APW, part of the ICL Performance Products arm.

BK Giulini's extensive European sales network is a lifeline for Kurita, which has consistently struggled to reach its overseas growth targets in recent years. BK Giulini APW will be housed in a newly created division, Kurita Europe APW GmbH, which will constitute 10% of Kurita's overall revenue base, based on the ¥202 billion (\$1.74 billion) combined FY2013 revenue number (currently European sales account for just 1% of the total). After the purchase, 28% of the group's sales will come from overseas, up from the current figure of 19%.

The APW (Alumina-Paper-Water) business unit of Germany-based BK Giulini comprises ICL Water Solutions, BK Giulini Paper Solutions and Alumina Compounds. The Water Solutions sub-unit, which contributed 50% of the unit's €177 million full-year 2013 revenue, has steadily built up a portfolio of industrial water treatment chemicals over the past few years with a string of acquisitions of its own (see table, above right).

Its current formulation is a good fit for Kurita, which offers a similar range of chemicals for industrial and wastewater use through its Kurita Chemicals arm. It seems that the market agrees: Kurita's share price has risen by 12% since the announcement, further bolstered by positive half-year financial results on 30 October, which show tentative signs of a return to growth.

The acquisition will bring several new water products into the Kurita portfolio, and will simultaneously offer a point of entry into the municipal drinking water market – which Kurita quit nine years ago – and the swimming pool segment. The alumina compounds business, meanwhile, feeds into both the water treatment and paper solutions markets.

Kurita prides itself on its ability to provide facilities, chemicals and maintenance services for all its clients, although the chemicals business has consistently proved to be the most profitable segment (see chart

BK Giulini's water sector acquisitions

Company	Country	Year	Price
Henkel Water Treatment	Germany	2008	€60 million
Metakorin GmbH	Germany	2009	€66 million
Tiami Vattenkemi	Sweden	2012	Undisclosed

Source: GWI

below), and expanding this element will help to smooth out lumpy revenue figures. Growth in the global chemicals industry appears the easiest way for Kurita to reverse the downward spiral.

Although Kurita still professes its desire to grow both the chemicals and facilities businesses overseas, Kiyoshi Hoshino, communications manager at the company, confirmed to GWI that “through M&A, the first priority is chemicals.” Expanding the facilities business overseas organically is highly capex-intensive and, according to Hoshino, “the number of players [available for M&A] is quite limited, especially for the electronics industry.” Additionally, the company has struggled to hedge investment risks for long-term BOO contracts in mainland Asia, and its sales of ultrapure water systems to unreliable overseas clients have proved costly.

The more reliable revenues and higher operating income margin of the chemicals business will likely relieve investors. Additionally, the synergies between the two companies are projected to amount to €11 million per year over the next three years. APW had begun moving into the Chinese

market in the last few years and can now use Kurita's sales network, just as Kurita can exploit APW's existing sales channels to access the European market.

Hoshino stressed that cross-selling was a key attraction of the deal. “For example, we can sell their strong paper process chemicals through our sales network and we can also sell boiler water treatment chemicals, cooling water treatment chemicals, and RO membrane treatment chemicals through their sales network in Europe.”

Kurita also hopes to realise profitable synergies between its sensing technology and APW's water and wastewater treatment chemicals, and between the two companies' complementary polymer production technologies.

If the integration of the new Kurita Europe APW unit goes well, the market could see similar developments in North America. Currently accounting for just 1% of total sales, North America has long been targeted for acquisitions by the Kurita board. “We are still looking for potential partners in the US as well, with our priority on chemicals,” Hoshino confirmed.

Kurita operating margins by business segment



\* Half-year results for the period ending 31 October 2014

Source: Kurita