Horses for courses

Models for industrial gases business ownership

By Stephen B. Harrison

To win the Kentucky Derby or the Grand National, you would want to be riding a thoroughbred racehorse. On the other hand, to cross the Sahara, enduring days without water, you might prefer to ride a camel. Speaking of business ownership models in the industrial gases sector, picking the right business vehicle is also a key to success. There are many different models, and each might have its merits for a specific set of circumstances at a certain moment in time.

For many steel producers and refineries there is an alternative to engaging with an industrial gases company – the option to own and operate a 'captive' air separation unit (ASU) or steam methane reformer (SMR). In the US and Western Europe, industrial gas companies have successfully made the case that their operations expertise and the benefits of pipeline gas supply, with multiple feed plants and multiple customer offtakes, ensure for economic efficiency.

In other locations, such as Egypt, Russia and China, there are still many 'captive' industrial gases production plants integrated into the chemicals, refining and steel sectors. In these geographies, the industrial gases production capacity in captive plants is as high as 50% in some sectors. 'Outsourcing' the operation of these captive ASUs and SMRs represents a large and attractive growth opportunity for industrial gases companies around the world.

From PE to JV

A few industrial gases companies are embedded into private equity (PE) portfolios. A-Gas, the international refrigerants distributor is owned by KKR and AirFirst, which was previously the Linde Korea business, in turn owned by IMM Private Equity. In 2017, Hong Kong-based PE firm PAG Asia Capital acquired the majority of the Chinese industrial gases giant Yindge's shares for a reported $1.4bn prior to a full delisting of the company in 2019.

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In comparison to the publicly-owned corporate structure, where the board are accountable to shareholders in a very transparent way and information must be shared with the capital markets, under PE ownership there is the scope for fast-paced decision-making within a smaller stake-holder group. And there is often access to investment capital to stimulate growth through some riskier ventures. Similarly, under PE ownership, the tough decisions required to execute a turn-around can be made speedily and without the need to justify every detailed step to an audience of onlookers. The rewards for the PE owners can be high, but since there is 100% ownership of the company, so are the risks. It can be said that family-owned businesses have a similar type of structure, allowing flexibility and the ability to execute quickly but having nobody to share the risk with.

The joint venture (JV) model was the favoured route that the private equity company CVC and Messer used to acquire divested assets during the merger of Linde and Praxair. In a joint venture, both parties can stand to gain from the other's strengths and share the risk. Perhaps one party brings local market knowledge and the other brings investment capital or international best practices – important ingredients to build a thriving business.

Switching between the models as circumstances change is also possible. When Linde acquired the BOC Group in 2007 there were changes to the ownership of several JVs in Asia. SOXAL in Singapore moved from being a JV between Air Liquide and BOC to full Air Liquide ownership. In the opposite direction, HKO in Hong Kong moved from being a BOC and Air Liquide JV to full ownership within the Linde Group. At the time of setting up the JVs, the uncertainties associated with entering the Asian markets were perceived to be high and sharing the risk was attractive for both

parties. Decades later, the decision was taken to simplify the ownership structures and accept the risks and rewards of full ownership.

Operating at the same eye-level

In a successful personal or business relationship, mutual respect is essential. The same holds true for JV operations. And it can be easier to achieve if the JV partners share common values or are perceived as equitable peers: seeing eye-to-eye.

This is one of the lessons that Stefan Widmann, owner and CEO of Widmann Gase GmbH, can share from his lifetime of experience in the industrial gases sector in Germany. He says that "Several years ago, as a result of various international M&A deals, we were in the unfortunate situation of being thrown into in a 'David and Goliath' type relationship with a major international gas company. Neither party had chosen the marriage, and neither was really enjoying it. However, it took us four years to find a divorce settlement in the courts".

Speaking of better experiences, he adds that "my wife and I run our business with a clear set of values which put people at the centre of our operation. It's our company and we have the freedom and desire to propagate this kind of spirit – we want everybody to come to work in a place where they feel comfortable. And, our culture has resulted in satisfied customers and financial success."

"Alongside my wholly-owned family business, for more than 20 years I have been a shareholder in a very successful JV called MTI IndustrieGase AG, where Westfalen AG have the controlling stake. I think that because Widmann Gase and Westfalen both have their roots in the German 'Mittlestand' of small and mid-sized companies we can easily collaborate and operate at the same eye-level."

Stories like this lend strength to the idea that 'culture eats strategy' as the key determinant of business success.

Off-roading

The still relatively recent acquisition of Airgas by Air Liquide and the merger between Linde and Praxair has seen the big get bigger. Many highly qualified individuals have used these transactions as opportunities to leave corporate life and establish themselves as consultants, offering their expertise back into the industry and to other sectors that may benefit from their knowledge.

One such example is Paul Martin, Principal at WBG Consultants in Canada. He started his career working at a small independent gas company in Toronto called Gas Dynamics, which specialised in medical gases. The company was subsequently purchased by Liquid Carbonic. From there, Martin was headhunted by then president of MATHESON's

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Canadian specialty gases business and quickly rose to the position of vice-president of Sales and Marketing. Three further acquisitions by Taiyo Nippon Sanso (TNSC), BOC and then Linde saw him relocate to Munich, in the heart of the Linde Gases organisation.

Martin reflects on how the culture in MATHESON shifted after the company switched from private ownership to become part of the Japanese giant. "When Matheson was purchased there were very few changes in the early days. Our Canadian president ran it with autonomy like a family business. However, after he retired, we became truly 'corporate' with budgets and direction coming from further up the hierarchy in the US and Japan."

There were, however, advantages to being part of a bigger family. "As a specialty gases-focused player, Matheson was limited because we could neither offer industrial products, nor bulk gases. As part of a large industrial gases company our niche products could travel further through a vast logistics network."

With 40 years of exposure to industrial, medical and specialty gases, Martin is well qualified to comment on the changes that have taken place over those decades. He says that, "In the 80's business and operations decisions were more regional. Sales were based on catalogues, product spec sheets and local representation. Area sales planning was based on the market specifics. That proximity is now lost, and today's market appears to be one that is internet-driven."

"Product information is found on websites; ordering can take place online. Larger customers have access to secure portals with stock information and pricing for contracted purchases. Gas control hardware, such as regulators and valves, are delivered from centralised warehouses via courier. This has created efficiencies in supply chain management, but the knowledge base in the people involved in the business is eroding. But as an independent consultant that leaves an opportunity for me to apply my expertise and help to fill in the gaps."

Finally, he adds, "In comparison to the corporate business model, the agility that existed in the early days with Matheson Canada is like the flexibility that one has as a one-man-band industrial gases consultant. It's a bit like the difference between driving steadily with the flow of traffic in a six-lane motorway and off-roading in a turbo-charged jeep: it can be more fun, but the risks are also much higher." gw