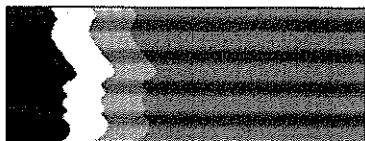


# What one man's favourite chemical can do for profits

The chief executive of BorsodChem has a passion for a colourless, poisonous liquid



## PROFILE

To most people, aniline is a colourless, aromatic and – ignoring its poisonous characteristics – rather boring liquid. Yet Laszlo Kovacs speaks about aniline and his other favourite chemicals with the kind of passion a Scottish clan chief might reserve for the best single malt whisky.

Mr Kovacs, 63, is chief executive of BorsodChem, a plastics producer whose sprawling plant in Kazincbarcika spoils what little charm the plains north of Miskolc, in north-east Hungary, might once have possessed. Aesthetics aside, however, in little over a decade Mr Kovacs and his passion have propelled BorsodChem from being a minor, run-of-the-mill commodity plastics maker to a European, if not world class, producer of value added chemicals. Revenues have risen from about \$140m in 1993 to more than \$1bn projected for next year.

"Within 12 years, we have taken BorsodChem from a bankrupt, weak, Hungarian chemicals company, put it on the stock exchange and raised its revenues eight times," says Mr Kovacs. Exports have risen from 30 per cent to 84 per cent of total sales. "We have totally outgrown the domestic market, and are now the eighth largest exporter in Hungary," he beams.

At the heart of the process has been BorsodChem's change of emphasis from commodity chemicals, such as PVC, to complex isocyanates. These include TDI, a soft foam used in car seats and in the furniture industry, and MDI, a hard plastic used in the building industry and for auto parts such as dashboards. This transformation has required \$350m in investments, quadrupling the isocyanate capacity from 60 kilotonnes to 240kt in the past three years.

"BorsodChem is a growth story," says Attila Vago, equity analyst with Concorde Securities in Budapest. "It is a member of a very limited group of companies worldwide that can produce MDI and TDI. It looks good, has

a good vision and management is smart."

The growth story includes a policy of ensuring about 50 per cent of raw material production remains in house, a philosophy that has underpinned the company's two cross-border acquisition moves and is the source of Mr Kovacs' love of aniline.

To guarantee its supply of aniline, BorsodChem in 2000 bought MCHZ, a Czech chemical plant, for \$25m, which BorsodChem sees as a bargain considering the latent value within the company. MCHZ, with the University of Prague, had patented its own process, which produces very pure aniline.

"MCHZ was very proud of this but nobody had thought of selling it," says Mr Kovacs.

BorsodChem has since done just that, licensing the process to a Japanese company for "a few million" dollars. "For central Europe to sell chemical technology to Japan I think is unique," he says.

The second cross-border deal, the takeover of Petrochemia Blachownia, in Poland, this year, also helps to diversify supply and spread risk, with benzene production based on coal,

rather than ever more expensive oil.

The growth story, however, has not been without "turbulence", as Concorde's Mr Vago puts it. In 2000-2001 BorsodChem was at the centre of a takeover battle, eventually won by VCP, a Vienna-based private equity company. At the time, in spite of repeated denials, VCP was widely suspected of being in an undisclosed alliance with Russian investors. Again, in spite of promises to the contrary, the final takeover was greeted as the virtual passing of the company, with the investment community bemoaning the loss of what had been a lively mid-cap on the bourse.

VCP, however, not only kept its word in helping BorsodChem expand, it brought the company back to the stock exchange in a share offering last year, with an additional listing on the Warsaw stock exchange for good measure. Heinz Pecina, VCP senior partner, points out that BorsodChem has doubled sales since 2000, and that VCP arranged the capital increase that financed the expansion programme.

"We brought corporate governance, financial skills, risk management and strategic planning to allow BorsodChem to grow faster," Mr Pecina says.

While Mr Vago notes that VCP, as a private equity fund, is primarily interested in profit, he admits that "the company has just laid the foundations for future growth," and predicts a 30 per cent rise in Ebitda profits next year.

Mr Kovacs, meanwhile, is hoping for more sales of the patented aniline process to Asia, and continues to eye Olchim, a long-coveted polyethylene plant in Romania that would dovetail with BorsodChem's production profile. At home, while looking forward to growth next year, he is wary of rising energy prices, especially gas, which will inevitably bite into profits.

Mr Vago, in spite of sharing concerns about energy prices and the probable need to cut costs in the longer term, has faith in the company and recognises the importance of the CEO.

"He is the inventor of growth. He is the man exploring the strategic options. He acts as if he is on some mission."



Laszlo Kovacs: loves aniline

Kester Eddy