

Perspective

An interview with John J. Paro

HallStar expanding expertise in ester chemistry

John J. Paro is president and CEO of The HallStar Company.

RW: Can you tell us the decision-making that transpired when HallStar decided it wanted to be more than just a distributor?

Paro: The HallStar Company has been both a distributor and manufacturer for many years. The decision to focus more on our manufacturing expertise was based on two factors. First, big box distributors were consolidating and pressuring supply chains, which had an impact on our profitability. Second, we needed to differentiate ourselves in the marketplace. Distribution is still a key and strategic portion of our business, but we wanted to showcase how and why we are different from the rest. Innovations in technology and in applications gave us that opportunity. In the last few years, we have developed some unique, patented solutions for our customers in both the rubber and plastics and the personal care industries.

RW: How did you decide to concentrate on polymer additives and personal care products?

Paro: We recognize that at our size we need to pick our spots to focus carefully, so we chose to work within our strongest area of expertise. Much of our proprietary technology has its roots in ester chemistry. Our ability to invent and formulate with unique esters is based on over 50 years of esterification experience. Esters are vital to both the polymer additive and personal care ingredient sectors, and we can solve customers' problems in each of these areas.

RW: What percentage of your business does each represent?

Paro: Our polymer additives business is a bit larger than our personal care ingredient business. It is about 55% polymer/45% personal care today. We anticipate growth to come from both sectors over the coming years.

RW: Explain where ester chemistry was when you started, where it is today and where it is headed.

Paro: Ester chemistry used to be largely petrochemical and commodity oleochemical based. In the early days, we differentiated ourselves by making polymeric esters (plasticizers), which provided good permanence and low migration characteristics for formulators. We still produce the largest variety of polymeric plasticizers in the industry, but our ester capability has grown significantly. Today, we use proprietary computer design to titrate the best performance for our customers. We call it the Paraplex Approach, and it has helped a great many customers solve formulation issues. But ester chemistry is constantly evolving. Today, we use esters as vehicles to craft functionality. For example, we developed ester-based products that cause rubber to adhere to nylon cord, that modify nylon, that improve emolliency, and that provide long-term photostability of sun and skin care products. We're also discovering that esters are great ways to provide sustainable chemistry solutions to our customers.

RW: Explain what you feel is the misperception between natural and sustainable.

Paro: Consumers are bombarded with words like "green" and "all natural" to drive our buying behaviors. But what do these words really mean? Crude oil is a naturally occurring substance, but it takes millions of years to produce. By definition, crude oil is "natural," but the use of crude oil is not sustainable. Similarly, extracting ingredients from plants may provide "natural" raw materials, but if rain forests need to be cleared to grow the new plants, the process is not sustainable. Sustainability is the important concept for the truly eco-minded. It is complicated, but important, and we need to educate consumers if real environmental improvements are to be



John J. Paro

made. The term sustainability addresses the entire process of bringing products to market. Are the raw materials derived from sustainable plant sources? Are the raw materials renewable? How much energy is required to extract and purify a plant-sourced raw material? If consumers knew that some "all natural" products consume more total energy to produce than their petroleum-based counterparts, would they make the same purchasing decisions? Sustainability also recognizes that biodegradable and recyclable are both good, but they are different. Biodegradable plastics are not necessarily recyclable, and recyclable plastics are not necessarily biodegradable. Both concepts are sustainable, however, and each has an important part to play in industries' efforts to decrease our carbon footprints and effect lasting sustainable change. In the end, I believe nomenclature that defines sustainability in a clear, concise way will help us improve product differentiation, enhance brands and images, and reorient our corporate and global cultures. Sustainability is the right way to think about environmentalism, and it is good for business.

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RW: *What are the synergies between polymer additives and personal care products?*

Paro: The key synergies are in building the ester linkages and finding the raw materials that help us build those linkages for our customers. Our ester competency, coupled with our applications prowess in rubber and personal care, makes for a powerful combination to solve customer problems.

RW: *How much a part of the business is in distribution?*

Paro: About a quarter of our business today is pure, classical distribution.

RW: *Is there any connection between the products you distribute and the products you manufacture?*

Paro: There is real synergy at work here. The products that we distribute and the products that we manufacture are critical polymer additives and personal care ingredients that our customers require. And we have the ability to deliver. We can get large or smaller quantities to our customers, depending on their requirements. The synergy extends to our customers too. Key distribution items allow customers to order more efficiently by building mixed loads and maximizing their purchase economics.

RW: *What has been your background and experience that brought you to this position?*

Paro: I have been in the specialty chemical business for nearly 30 years. After nine years with FMC Corporation, I joined the C.P. Hall Company, which was purchased by The HallStar Company in 1986. My early experiences were in sales and marketing, so I was able to observe firsthand what customers want. During the 1990s, my responsibilities at the company increased to include operations and commercial development. I also handled mergers and acquisitions, which helped drive us to the mix of products and industries served that we enjoy today. Most importantly, however, it has been the people I've been fortunate enough to work with that make everything I do possible. Our previous CEO, George Vincent, has been a key mentor for nearly my entire career at FMC and HallStar. His vision and foresight were unwavering. Also, the key

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members of our team, many of whom have been with the company for over 20 years, are dedicated not only to HallStar, but to the customers we serve. They know that if the company succeeds, everyone succeeds. It is a great formula, and the team at HallStar is doing some incredible work.

RW: *What are your goals and business objectives, and how will you go about reaching them?*

Paro: We are going to grow our business by continuing our stream of innovations that solve customer challenges. During the past ten years, the company has transformed itself. We obtained more than 50 new patents. We have a very healthy body of technology to help customers in the rubber industry who need something new, better or improved. Our entire company is focused on solving customer problems by listening, defining, creating and delivering cost-effective innovations. We are truly excited about HallStar's prospects.

RW: *How do you see the present-day business climate both domestically and internationally, and what do you see as the biggest challenges facing HallStar?*

Paro: You have probably heard concern and enthusiasm about the current business climate at the same time. That is because there are two situations at work. There are domestic and international opportunities for companies with innovations to offer. But the environment for those offering the same set of "stuff" is increasingly competitive. For years, companies could be swept along with the overall industry. That is no longer the case. If you're not innovating, you're probably seeing your customer base struggling, going offshore or experiencing declining volumes. HallStar is finding the domestic and international business climates to be quite robust. Our biggest challenge now and in the future will be to listen to the customer for the right problems to solve, and not to get complacent.

RW: *What effect does the weak dollar and the foreign currency exchange rate have on your business, both as a buyer of supplies and on final product sales?*

Paro: We currently export our products into over 50 countries around the world. We sell primarily through a broad and well-positioned international network of distributors (detailed at www.HallStar.com). The weakening dollar is helping our export efforts, but at the same time, it is increasing some of our supply costs for globally sourced materials. Generally, however, we are careful not to single source, and maintain domestic sourcing relationships wherever practicable.

RW: *Do you anticipate any upcoming acquisitions to stimulate growth, or how do you intend to grow profits?*

Paro: HallStar intends to seek accretive acquisitions that help the company grow profitably. We will focus on targets that will complement or extend our technology, our served-markets sectors and/or our geography. The company purchased the Stepan line of personal care esters early in 2007.

RW: *How does HallStar view the enormous potential of China and India, and what are your plans to capture a position in that growing market?*

Paro: Both China and India represent tremendous opportunities for The HallStar Company. At the same time, given our size, we need to be pragmatic about the level in which we participate. I have traveled to both countries recently, speaking with customers, suppliers, trade-journal editors and distributors to get a lay of the land and assess our opportunities. We recently placed our first full-time employee in Shanghai, and have full distribution set up in both China and India. We are quite fortunate to have many of the polymer additive answers for the fast-growing rubber and auto industries in both countries. We intend to help rubber formulators meet the more demanding requirements and specifications as needed.

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