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Airgas' prospects are reviving as investors revalue its virtues

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Ed Hudak, an employee of Airgas since 1993, works with a tank of liquid nitrogen at its Allentown store.

Peter McCausland does not give up.

Even as Airgas Inc., the Radnor-based company he founded in 1982, struggled in recent years and its shares slid from $26 in 1996 to less than $5 in 2000, McCausland's confidence in the company remained unshaken.

"I think that over the last few years, when the stock price was very low and the dot-coms and the telecoms were getting all the attention and all the capital, people viewed me as sort of stubborn and single-minded," McCausland said.

But sometimes being stubborn is what it takes to keep a vision alive. It also helps to bring in strong lieutenants with the right skills. McCausland has done both.

Analysts say his original idea still has legs: Airgas is a distributor of industrial gases, such as oxygen, nitrogen and carbon dioxide, sold in steel cylinders to businesses including metal fabricators, food processors, and health-care providers.

By acquiring independent distributors and developing a national network of retail stores, Airgas gained 15 percent of the $8 billion market for cylinder gases and welding supplies.

And McCausland's insistence on adding gloves, goggles, and other safety equipment to Airgas' product mix, despite investors' skepticism, is getting results.

Airgas shares have rebounded this year, closing Friday at $14.25, up 35 cents, on the New York Stock Exchange. Industry analysts are once again touting the business' steadiness and the potential of Airgas' national distribution network.

"I think they are legitimately back," said Hugh Evans, an analyst with Baltimore mutual fund company T. Rowe Price Associates, which owned 2.2 million Airgas shares, or 3.2 percent, as of September.

As for McCausland, 51, the company's chairman and chief executive officer, "he is so driven," Evans said.

"I think he wants to prove to the world that he caught lightning in a bottle not once but twice."

During Airgas' first 10 years as a public company, it seemed McCausland could do no wrong. From 1986 through 1996, its annual sales soared from just $60 million to more than $1 billion. Investors loved it, and the stock's average annual return was nearly 40 percent.

But in the mid-1990s, McCausland, looking for new ways to keep Airgas growing, started investing overseas. And he seized on the idea that the company's delivery trucks could also carry safety supplies and tools.

Investors were wary, and the stock began its prolonged slide. Wall Street abandoned the stock after a late-1990s restructuring effort took longer than expected.

"You keep score in a public company by the stock price, so it was difficult to take," McCausland said.

A fiercely competitive man who races sailboats off Nantucket during the summer, his taste for daring surfaced early in his career.

After attending Lower Merion High School and the University of South Carolina, McCausland graduated from Boston University Law School and, in 1980, was general counsel for a Valley Forge industrial-gases company. He recommended that it buy a small gas distributor in Connecticut. His boss rejected the idea, so McCausland set out on his own. He opened up a law firm that specialized in leveraged buyouts and acquisitions. Then backed by venture capital, he bought the distributor in 1982.

McCausland's idea was to consolidate the thousands of mom-and-pop gas and welding-supplies distributors, many of which had been founded by returning G.I.'s after World War II.

By the 1980s, many of those founders were ready to sell. McCausland saw this as a once-in-a-generation chance. He would go into debt to buy these profitable businesses and use their strong cash flow to service the debt.

He has done 305 of those deals. With 600 Airgas branches in 44 states, the company has $1.6 billion in sales and 7,600 employees. Only 100 work at the Radnor headquarters, giving the company a low profile in the region although McCausland, who lives in Chestnut Hill, is a director of the Independence Seaport Museum and a former director of the Fox Chase Cancer Center.

McCausland, the company's largest shareholder with 13.5 percent of the shares, worth about $130 million, kept adding to his stake in recent years, even as its value fell from $225 million to less than $50 million.

In the late 1990s, Airgas struggled as it spent $25 million to consolidate from 33 operating units to 12, to set up five regional distribution centers, and to build a single product database for the 200,000 products it carries. "We underestimated the difficulty and the scope," McCausland said.

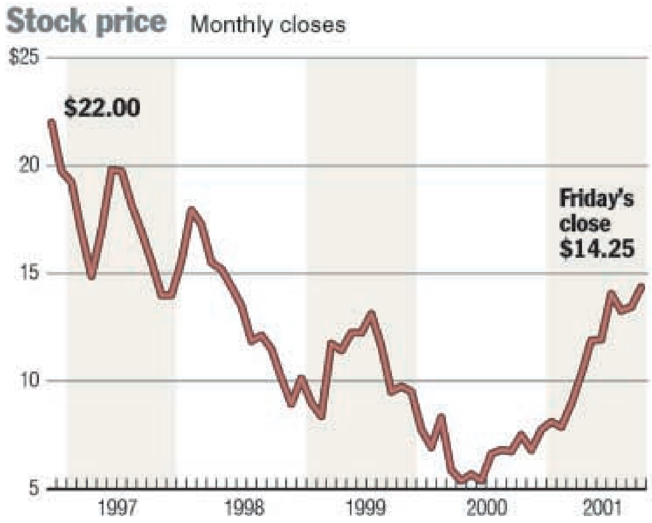
Some investors had a harsher view.

"In 1998, they made a lot more promises than they were able to keep," said Nelson Obus, general partner of Wynnefield Capital Management in New York, which holds a small stake in Airgas.

McCausland boosted investor confidence over the last two years by hiring Glenn Fischer as chief operating officer and Roger Millay as chief financial officer. Fischer spent 19 years with BOC Group P.L.C., the world's second-largest producer of industrial gases. Millay spent 12 years with General Electric Capital Corp.

Long Deflated, Expectations Rise

Airgas Inc.'s shares have been on an upswing since mid-2000 as investors bet that the company's net income will rebound.



SOURCE: Bloomberg News

"The willingness of the chairman to allow strong operators like Glenn and Roger into the company is a good sign," Obus said. "Sometimes strong chairmen don't want strong operating guys. But Peter probably understood that the stakes were so high he had to bring in someone."

Christopher M. Crooks, an analyst with Commerce Capital Markets in Center City, said that the company's previous restructuring efforts floundered, but that Fischer and Millay came in with a clear focus.

Crooks praised Fischer's effort to develop companywide standards for things such as customer contracts, pricing, and back-office functions.

Until recently, for example, Airgas had no standard procedure to pass on to customers fees required to haul certain gases. "They have $1.6 billion in sales, but it's a nickel-and-dime business," making it crucial to collect those fees, Crooks said.

McCausland admits that Airgas failed to deliver on part of what it had promised shareholders. The tools business, part of the mid-1990s diversification effort, has not gone well.

"We made a mistake in due diligence in tools," McCausland said. "We thought there was more overlap in customers."

In mid-October, Airgas announced a $59 million write-off of goodwill associated with the tool business, which accounts for 5 percent of its sales.

Airgas' biggest competitor is Praxair Inc., a large industrial-gases producer based in Danbury, Conn., but it also competes with 900 independent distributors, which still have slightly more than half the market.

To sustain its renewed credibility with investors, Airgas must get systems in place nationwide so its local managers can benefit from the resources of a national company while acting as entrepreneurs.

"It's a very local, service-oriented business," said John R. "Buzz" Campbell, an industry consultant and publisher of a trade journal. "The ground rules are set by the local [independent] distributors."

McCausland said a key to success was keeping the workforce of acquired companies in place and giving them a lot of freedom.

Mike Jones, a sales manager, has been at the Allentown store, which Airgas bought in 1997, for 20 years and knows the market well.

Allentown customers include clowns who buy helium to blow up balloons, meat packers who use a blend of carbon dioxide and oxygen to keep packaged meat fresher-looking, recyclers who use liquid nitrogen to freeze plastic before chopping it up, and manufacturers who use ultra-high-purity nitrogen to laser-cut stainless steel.

Jones said he had very little contact with corporate headquarters. "When a customer needs a quick decision, we can give them an answer. We don't have a bureaucracy to go through."

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