

A sweet real estate deal right next door

Aal-Chem snags a bank-owned building in Kentwood.

Pete Daly
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Aal-Chem was in the right place at the right time, and in a sound financial position to enable it to snag a real estate deal that will provide room to grow as business picks up.

Aal-Chem, founded on a shoestring nine years ago in the basement of Kaz and Rochelle Darehshori's Ada home, closed in mid-October on a 53,000-square-foot industrial facility on Breton Industrial Drive in Kentwood.

The company imports and resells industrial chemicals throughout the eastern U.S. and Canada for use in paint and coatings, adhesives, sealants, graphic arts, plastics, electronics, construction materials and composites.

The property had last been used by Permalife Inc., which produced synthetic trim for houses. Permalife went under as home construction virtually dried up in the recession, and the Permalife Building had been owned by Chemical Bank for at least a year.

Kaz Darehshori, who owns and operates Aal-Chem with his wife, said he was first approached about a year ago by Chad Versluis of NAI West Michigan. Five years ago, Versluis helped the Darehshoris find the building that became Aal-Chem headquarters at 2240 29th St. SE. Since the vacant Permalife Building was only a short walk south of the Aal-Chem facility, Versluis called last year to see if Aal-Chem was interested.

Darehshori said the business didn't have a "huge need" for another facility at that time and they definitely planned to stay in the 29th Street building because they had invested about \$200,000 in it. The asking price for the Permalife Building was about a million dollars, said Kareshori, so they said 'no thanks.'

Recently, Versluis called again, informing Darehshori that the bank had lowered the price to about \$600,000. Darehshori said that, just before the call came, he had been out in the warehouse and noticed how crowded it was becoming. He looked at the Permalife Building, and the Darehshoris decided they had nothing to lose by making an offer.

"So we offered them three (\$300,000) and wound up buying the building at \$385,000," which Darehshori described as an "incredible" deal.

This year, Darehshori expects Aal-Chem sales will reach \$40 million. The company now employs 12 people at the office/warehouse and five oth-

ers in outside sales, based all over the Midwest and eastern U.S.

Aal-Chem's orders are increasing amid small signs of growth in the economy, said Darehshori. At the same time, prices for chemicals are going up because the larger chemical producers around the world reduced their production capacity as they saw the global recession setting in.

"Last year was a mess in our industry," he said. Now, he said, "we're seeing a lot of shortages in the chemical industry," but since the producers are commanding and getting higher prices, they are in no hurry to go back to the previous levels of higher production.

Darehshori started working in industrial chemical sales 19 years ago. About 10 years ago, he was working in the Grand Rapids area for a major distributor when he learned the company was being bought out by a French firm.

"I saw the writing on the wall, and I didn't want to go to work for another big company," he said. So he and Rochelle, who is an accountant, launched their business from their home.

"I don't have to worry about that other side of the business," said Darehshori, referring to Rochelle's role on the finance side, which leaves him free to concentrate on sales.

"You can have lots of sales and growth, but if you're not watching your finances, in some cases you can actually grow too fast," he said. "It's a process: You have to allow your resources and your systems, and even in some cases, your staff, to catch up with your growth."

Today, he said, "We have a very good line of credit from Fifth Third Bank, which has helped us quite a bit with our growth."

It didn't start out that way nine years ago.

Darehshori said that, in the chemical distribution business, large amounts of capital are required, especially starting out, because the chemical companies — many of which are overseas — "won't give you terms. You have to pay for these products up front."

A small series of orders could have the distributor putting up hundreds of thousands of dollars, with the probability that it would be a few months before any of the investment starts coming back.

Initially, Fifth Third offered "a very small credit line," which "really didn't do anything for us," he said.

After nearly a year or so of hard work, the couple put their improved business case together and received a better offer of a credit line from another bank. Then they went back to Fifth Third and showed what they now had and asked if Fifth Third couldn't do better.



KAZ DAREHSHORI OWNS and operates Aal-Chem with his wife, Rochelle. The company imports and resells industrial chemicals. Photo by Johnny Quirin

"I said, 'We want to stay with you but business is business. I have to really make sure that we have financing to grow,'" he said. Fifth Third gave them a million-dollar credit line.

"In today's economy, that would never happen," said Darehshori. "It's almost impossible to go out and open up a new business in today's economy, with the banking conditions. The opportunities are there; I see the growth."

Aal-Chem's line of bank credit today is "somewhere around \$6 million," said Darehshori, and the company now has worked out 75- to 90-day payment terms from its suppliers.

The Darehshoris financial philosophy may be part of the reason the company survived and is growing, despite the recession. Over the course of nine years, he said, they've left as much revenue in the company as possible.

"So we have a very, very healthy company with a lot of equity in it, and we're utilizing a lot of our own money. And my goal, someday, is to not even use the banks at all," he said. Then he laughs and admits, "But it's not possible. As you grow, you need more money. But one day, who knows?"

Another source of Aal-Chem's strength may be in its territory, which extends far beyond Michigan. There are only a few customers in West Michigan, with most Michigan customers in southeast Michigan, and not a lot of those in automotive-related businesses.

In general, according to Darehsho-

ri, his customers "don't seem to have been hurt really bad" by the recession. In fact, Aal-Chem has some auto industry customers in Indiana that "seem to be doing very well right now. They're very busy."

Most of what Aal-Chem sells are epoxy resins. He said about 80 percent of his chemicals come from overseas countries such as Korea, China and Turkey. Twenty years ago, American industry considered Chinese chemicals to be of an inferior quality, and in chemicals, the quality and consistency "is very, very critical," he said.

"Well, over time, the Chinese have really straightened out their act to where they're making a good, quality product," he said.

The Chinese had enjoyed a price advantage, but now that is changing, he said. Increasing Chinese government regulations on industry to reduce environmental pollution is one reason. Another is a gradual improvement in the exchange rate for Chinese currency.

Also, Chinese industry has grown, increasing demand within the country for its own chemical production.

As for a recovery of the U.S. economy, Darehshori's opinion is that "there are definitely a lot of positive signs. ... But I think people are still very unsure of what's going to happen. Our industry has had a good year; there's been growth, a lot of positive things. But everyone is very, very timid" when it comes to long-term investment decisions.