

CRAIN'S

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Sakthi sees the pros of hiring ex-cons

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'Golden corridor' — but slow as molasses



[LARRY PEPLIN]

Drivers inch their way along Hall Road. The amount of traffic is both a blessing and a curse for merchants along the corridor that some call Hell Road.

M-59 gridlock drives traffic talk in Macomb

Officials see no quick cure to the curse of the Hall crawl

By Doug Henze

Special to Crain's Detroit Business

Slogging through stop-and-go traffic on northern Macomb County's main east-west thoroughfare — four lanes deep in exhaust and exhaustion — it's easy to understand why some locals have dubbed it "Hell Road."

For the business district along the stretch of M-59 officially known as Hall Road, that gridlock has become both blessing and curse. The area has seen a major development push in recent decades, but the traffic backups can also be a deterrent to visitors.

"I refer to M-59 as Macomb County's Golden Corridor," said Joe Sowerby, president of com-

Special Report: Macomb

County's economy is revving up from the last recession, with tech jobs helping drive a resurgence in manufacturing. **Page 11**

mercial real estate brokerage **Anton, Sowerby & Associates** in Mount Clemens. "Everybody wants to be on M-59. That traffic is the lifeblood of businesses in the busy commercial district."

Borrowing a line made famous by Yogi Berra, parts of M-59 have become so crowded "nobody goes there anymore."

"There have been a number of restaurants that have come and

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DVP pushes aside rumors of trouble

Hermelin: 'Early-stage investing is messy. ... We're here for the long haul'

By Tom Henderson

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Rumors have been swirling in the local venture-capital community that **Detroit Venture Partners** is in trouble.

Five years after being founded by Dan Gilbert, Josh Linkner and Brian Hermelin as a way to invest in early-stage technology companies, DVP is yet to have any big wins. Meanwhile leadership has been in flux, there have been layoffs at several portfolio companies, and some founders abandoning Detroit for the fertile grounds of San Francisco.

"Confidence in DVP by the venture community has been lacking," said one area venture capitalist who asked not to be named. "Rumors have been swirling."

Hermelin, who is DVP's managing partner, has a message to those who doubt: Relax. DVP is doing fine.

"Early-stage investing is messy," he said. "It's hard. It's hand-to-hand combat. We're about where we should be four-and-a-half years in. We've got some really promising companies we like a lot. We've got some companies we hope can get some wind behind them. And we have some that are tough."

"We didn't get in this for a quick return. We're here for

the long haul," he added.

Trying to build something

When the trio founded DVP, there were no early stage investors in Detroit. It was a barren landscape for venture capital, and Gilbert was ready to try and build something.



Brian Hermelin: "Relax. DVP is doing fine."

"We'd been losing our best and brightest for years," Hermelin said. "They'd been starting companies, but they'd been starting them in San Francisco."

They raised their first fund, which has \$55 million under management and of which \$30 million has been committed to portfolio companies. And, critically, the only institutional money in the fund is \$2.25 million from the **Pure Michigan Venture Development Fund**. That means not

having to answer to foundations or pension funds that

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Living through giving

A. Alfred Taubman left a legacy in education, health care, galleries and research into diseases. His philanthropy is expected to live on through his children and the Taubman Foundation, **Page 7**



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NEWSPAPER

Sakthi builds up company, parolees

Supplier hires ex-offenders for major expansion project in Detroit

By Dustin Walsh
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Sakthi Automotive Group USA Inc. is in the nascent stages of a massive expansion project on the Southwest Detroit waterfront — one that could bring an investment of more than \$60 million.

But to steadily hire the workers it needs to ramp up castings production, it is betting big on a nontraditional sort of workforce: convicted

felons.

The subsidiary of India conglomerate **Sakthi Group** is hiring many of metro Detroit's recently paroled convicted felons. Sakthi's expansion plans include the hiring of nearly 400 workers over the next two years. Sakthi is projecting revenue of \$58 million in 2015, up to \$150 million in 2016 and \$450 million by 2020.

As part of that growth, Sakthi committed to hire two recently

paroled Michiganders per month over the next two years, said CEO Lalit Verma. That's at least 48 ex-offenders.

Sakthi hired four parolees earlier this month, and they were outperforming their peers, so it returned to hire four more last week, Verma said.

"We're seeing they (hired parolees) are more motivated and productive because they know this is their second chance," Verma said. "I've met



Lalit Verma: "They know this is their second chance."

with each of them personally and have told them they need to go the extra mile to show the community they are worth this chance."

The parolees are hired under the same conditions as regular employees, Verma said, including pay and benefits.

The parolees have been hired as CNC operators, assembly machine operators and general laborers.

The workers make \$11 per hour to \$13.50 per hour to start, Verma said.

U.S. Labor Secretary Thomas Perez toured Sakthi's Detroit plant last month and met with Gov. Rick Snyder about the state's parolee jobs training programs, which were signed into law last December.

That law required the **Michigan**

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Kroger: Deal for Hiller's stores adds niche foods

By Sherri Welch
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The **Kroger Co. of Michigan's** acquisition of **Hiller's Markets** will not only bring Kroger more market share, it will provide entrée to the specialty and ethnic food products the smaller chain is known for, the company and industry watchers say.

Kroger said Friday that it had reached an agreement to acquire Hiller's Markets and its seven metro Detroit stores. Terms of the deal, set to close in July, were not disclosed.

Kroger has long admired Hiller's, President Jayne Homco said. The chain has a great reputation in the market and shares similar values around things such as supporting the community. Hiller's is also a great fit, given Kroger's goal to move into providing more ethnic foods, she said.

The regional chain is sharing its suppliers for all of its product lines, she said. "We'll be able to utilize that and learn from them and serve that diverse customer."

"We're fortunate to have been of-



Jim Hiller: Grocery biz future is for big companies.



[PHOTOS BY CARTER SHERLINE]

Nanovere Technologies founder Tom Choate (above) sprays a layer of Nano-Clear, which he says preserves surface gloss and resists scratches and oxidation. Compare the side on the left without coating to the side on the right with it (inset, above).

Chemist's coating defies the elements

Brighton firm doubles revenue as formula attracts cruise lines, other clients

By Bill Shea
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Thomas Choate loves research and development. He loves to experiment, tinker, invent. He's at home in the laboratory.

As founder and chief technology officer of a small Brighton-based protective industrial surface coating maker called **Nanovere Technologies**, he'd love to get back to

full-time R&D as a polymer chemist.

There's just one problem: He used nanotechnology to create a long-lasting anti-corrosion coating that protects new surfaces and restores those already damaged by exposure to sun and air — a development that has caught the interest of major global clients, and Choate must instead run a business that's annually doubling its revenue.

What customers are buying is Choate's

Nano-Clear coating, which comes with a 10-year warranty to preserve surface gloss while being heavily resistant to scratches and oxidation from ultraviolet light and chemicals.

Such a guarantee cuts down on the expensive lifecycle maintenance costs for companies that have products exposed to the elements — vehicles, ships, boats, bridges — almost anything.

Nanovere and its vendors now have orders to

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MUST READS of the week ...

Why they call it a 'liquid asset'

It's a \$10 billion-plus commercial waterway. Heck, it's why Detroit is where it is. And what the Detroit River is now is alive. Dustin Walsh dropped a line, and look what he came up with? Read his fish tale, with photos, crainsdetroit.com/walsh [DUSTIN WALSH/CDB]

LOOKING BACK: Bay Harbor's captain

Crain's weekly look back on 30 years of Detroit stories catches up with David Johnson, who developed Victor Center and Victor Corporate Park — then turned an old cement plant into the Village at Bay Harbor (right). Page 4



[BAY HARBOR]



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NANOVERE, from Page 3: Chemist's coating defies elements, doubles company revenue

apply Nano-Clear to passenger ship lifeboats from the world's major cruise lines, such as **Cunard**, **Royal Caribbean**, **P&O Cruises** and **Holland America**, Choate said. More cruise lines are interested.

Additionally, Southport, Conn.-based industrial shipper **Principal Maritime Management LLC** will use Nano-Clear on its fleet of **Princemar** crude oil tankers, he said.

On land, Chicago-based **GATX Corp.** is among the rail car companies using Nano-Clear to preserve thousands of tanker cars crossing the country.

"The environment on a train, with all the chemicals they're carrying, is pretty harsh," Choate, 49, said.

Japanese electronics giant **Toshiba Corp.** has used Nano-Clear for factory safety applications, according to Nanovere's client list.

Off the shelf: \$269 a gallon

Such clients are fueling the small company's growth: Nanovere's revenue in 2014 was \$1.3 million, Choate said, and he's estimating \$2 million for this year and \$4 million for 2016. He predicts it will keep doubling annually as the company expands its production space and adds more clients.

Some revenue is derived from the licensing of polymers for coatings produced by other companies such as **Nippon Paint**, Choate said, but most comes from the sale of Nano-Clear. It retails for \$269 a gallon but is sold to distributors in bulk at wholesale prices.

For the cruise line industry, it takes 1 to 2 gallons of Nano-Clear to coat a standard commercial lifeboat, Choate said. Lifeboats can be coated in 24 hours and air-dried, he said, meaning they can do a ship's inventory of boats in about a week. (Two lifeboats at a time is typical while a vessel is in dry dock.)

Today's typical cruise ship, with several thousand passengers and crew aboard, has anywhere from 18 to 26 lifeboats. They usually seat 150 people (and for anyone doing the math, the ships have dozens of large inflatable life rafts to complement the traditional lifeboats).

Marine paints and finishes were a \$430 million business domestically in 2010, according to the most recent data available from a **U.S. Census Bureau's** industrial report via the Washington, D.C.-based **American Coatings Association**.

The products are a niche in the \$5.3 billion coatings industry, the association said.

The vendors using Nano-Clear sing its praises.

"Look at any cruise ship lifeboat, and its orange is badly oxidized. It's the same problem for any gel coat surface," said Dave Ashley, director of **Nanotech Marine Services**, based in the English port of Southampton.

The British office of cruise giant

How Nano-Clear works

Nano-Clear is an anti-oxidant industrial top coat that fights the corrosive effects of long-term exposure to air, sunlight and chemicals. The application also is extremely hard, helping resist chipping and abrasion.

The material is very dense, has low viscosity, deeply penetrates the surface, and exceeds automotive OEM standards.

Without revealing his scientific trade secrets, founder Thomas Choate said the key to Nano-Clear's protective and restorative properties comes from his lab work reducing the size of the polymers within the coating's molecular makeup, along with its ability to react to the surface to which it adheres.

"We start with the architecture of the polymer," Choate said.

What sets the product apart from similar coatings is that it can be applied directly to already oxidized surfaces, not just new ones. Since most surfaces in need of protection already are out in the world, that's a huge potential market.

Carnival Corp. & plc hired Ashley's company last year to solve the lifeboat oxidation issue for the company's vessels based in the United Kingdom.

Nanotech Marine specializes in high-end finishes for yachts and boats, but a conversation between Ashley's son and a Carnival executive whose boat was being refinished eventually led to a successful test of the Nano-Clear coating on the liner **Queen Elizabeth** lifeboats during Mediterranean cruising.

Nanotech had previously searched for a product that would provide long-lasting oxidation resistance, and eventually settled on Nano-Clear after experimenting with it, Ashley said.

"We were quite skeptical at first. It's not an easy product to apply," Ashley said. "Many boat yards don't allow spray finishes."

Instead, they had to perfect a method of applying the coating with rollers.

Nanotech opted to use Nano-Clear for the test on the **Queen Elizabeth**, a Carnival vessel operated by its upscale **Cunard Line**.

"We applied a patch on one of the boats they suggested, and we left it with them. After four months, they observed the Nano-Clear coating working, while the surface around the test patch was already starting to fail and show oxidation," Ashley said.

Everyone involved was pleased, and the market opened for Nanotech and Nano-Clear.

"They've indicated they want all of the lifeboats done. They want **Queen Mary 2** done early next year," Ashley said. "Once we got those guys on board, we found it would be much easier to penetrate the market."

Dental roots

One of Nanovere's major selling



[NANOVERE TECHNOLOGIES]

Dave Ashley, director of Southampton, England-based Nanotech Marine Services, inspects a lifeboat from the cruise ship Queen Victoria after it was coated with Nano-Clear from Brighton-based Nanovere Technologies.

points for refinishing products like lifeboats is gloss protection. In the case of lifeboats, keeping the finish bright and shiny is a safety necessity.

The gloss loss for Nano-Clear-coated surfaces over 10 years is just 4 percent to 5 percent, Choate said, while other coatings result is a 30 percent to 40 percent loss of shine over that time.

"It's not magic pixie dust or snake oil. It is real science, real chemistry, validating by companies around the world," Choate said.

It's also science that Choate started learning about early in his career — very early. As a teenager, Choate got his start in R&D by creating dental materials such as crowns and dentures, and eventually created a dental supply and manufacturing firm.

"I saw gaps in the dental industry from a materials standpoint," he said, adding that as a teenager he was creating teeth for the **Detroit Pistons** and then for professors while a student at the **University of Michigan**.

He later sold his dental company to Pennsylvania-based **American Dental Supply** and used undisclosed the proceeds — along with his own assets, but no borrowing — to launch Nanovere in 2003.

"I took everything that I could and didn't borrow from anyone, and changed my lifestyle to reduce expenses, and I put everything into focusing full time on the research and development," he said.

He used more than cash from the dental business to create Nanovere; he said his experience in creating distribution channels and creating relationships gave him a road map for the new company. He also used his knowledge of surface protections from dentistry and applied them to industrial surfaces.

"I took from the concepts of the dental industry, including high abrasion resistance, and developed the materials (for the coatings company)," he said.

After launching Nanovere and spending years experimenting with polymers, he eventually developed a series of industrial coatings in conjunction with **BSF**, **Bayer Materials Sciences** and **Alcoa**.

Choate said he spent Nanovere's first decade mostly concentrating

on research and design before moving into selling the products.

"In the last three years, we focused on taking our own intellectual property and presenting it to the marketplace," he said.

Choate said he's the primary chemist, and the manufacturing processes are kept secret.

Nanovere has a handful of investors who own 20 percent of the company after buying in for about \$2 million, Choate said. He owns the remaining 80 percent, and said he's tried to buy out his investors, but they refuse because of the rapidly improving financial success of the company.

Some of Nanovere's other industrial coatings are manufactured under license in China for the Asian market, but Nano-Clear is solely produced in Brighton at the firm's 3,000-square-foot facility. It can make about 1,000 gallons a day.

The plan is to find a 6,000- to 10,000-square-foot building in 2016 because of increased production needs, Choate said.

Because the company is small, and demand is growing, the business plan is to eventually find a global company that needs to fill a gap in its product line, he said.

"As we scale, we'll partner with leading paint formulators," Choate said.

As revenue increases, he intends to add a CEO to handle the business aspect of Nanovere, he said, because he knows running the company isn't what he does.

"For now, I'm focusing on being the CEO, running the company, building out the revenue," he said. "But at the end of the day, my core competency is in the laboratory. I know I'm not the guy long term. I have a family. I want work-life balance. I'm not the guy to bring this to a billion dollars."

Choate said he's open to a sale, but it's premature now. He would sell once revenue has increased significantly.

"It'll take far more revenue," he said. "The value of this tech in the global marketplace is in the billions

of dollars. There are far more oxidized surfaces than new products."

From lifeboats to oil rigs

What broke the market open for Nanovere was getting into that cruise ship market.

Lifeboats on cruise ships typically are re-polished or repainted every four months, Choate said, but the vessel owners are paying to shine a material that's not designed to last in the sun — increasing maintenance lifecycle costs.

"The problem was that the polish only lasts a few months. The material is not designed to have long-term UV resistance," Choate said.

Oxidation is the enemy.

In simple terms, oxidation is the when a surface is exposed to oxygen and over time the interaction causes a loss of electrons — causing rust, spoiled fruit, or the dulled surface of a lifeboat hull. Sunlight hastens the reaction.

Ship and boat hulls are exposed not only to salty sea air, but relentless sunshine, especially cruise ships in the bright Caribbean.

Hence, the glossy orange (or yellow) and white hulls of lifeboats — intended to be sharp colors that contrast against the darker sea water to visually aid rescue — soon fade.

And that's a costly problem for ship owners, especially those hauling hundreds of thousands of passengers for whom safety is a priority.

"It affects appearance and safety. A lightly oxidized boat is not as bright," Choate said. "Everything needs to be immaculate on that ship."

The coating eventually could be used to seal the entire hull of ships, Choate said.

The 26 lifeboats of the Carnival-owned **Azura**, sailing under the P&O Cruises brand, are getting Nano-Clear treatments this year.

It's not an overnight revenue windfall, however. Cruise ships typically do a full re-fit, including freshening the lifeboats, every three to four years, Ashley said.

Nanotech Marine has an upcoming contract to coat the 18 lifeboats from the **Queen Victoria**, the sister ship of the **Queen Elizabeth** and **Queen Mary 2**.

Germany's **Fassmer GmbH & Co. KG**, whose maritime services include manufacturing commercial lifeboats, intends to use Nano-Clear (via Nanotech Marine's services) on an order of 64 lifeboats for a cruise line in 2017-18, Ashley said. Other shipping lines and even oil rig firms have been calling his office to ask about Nano-Clear, he added.

"Really, Tom's product is the only coating quite like it," he said.

Dennis Haag, owner of **Lennox Twp.-based Strategic Visionary Solutions LLC**, called Nano-Clear a "paradigm shift" in lifecycle maintenance budgeting. His firm is using Nano-Clear to refinish the epoxy coating in some of **Michigan State University's** pools.

"Everyone has a corrosion problem. It's a fact of life," Haag said. ■

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