



MesoCoat's metal cladding plant in Euclid is first step in growth plan



Photo credit: McKinley Wiley

MesoCoat Inc. CEO Andrew Sherman stands in the 11,000-square-foot Euclid plant that is expected to be running by mid-February.

By **CHUCK SODER**
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Andrew Sherman's pipe dream is one step closer to becoming a reality. MesoCoat Inc. is almost finished setting up a \$6.3 million plant intended to show the oil and gas industry there's a faster, cheaper way to protect pipes from corrosion.

The 11,000-square-foot Euclid plant should be up and running by mid-February, which will allow MesoCoat to start testing its metal cladding process on 40-foot-long pieces of pipe, said Mr. Sherman, MesoCoat's CEO. So far, the company has

tested the process only on 6-foot pieces at its research center in Eastlake.

By midyear, MesoCoat plans to start selling that pipe. The company then wants to start building larger plants in other countries, Mr. Sherman said.

Mr. Sherman, who also is CEO of MesoCoat's sister company, specialty materials developer Powdermet Inc., admitted he isn't used to pursuing such aggressive growth plans. He typically follows the philosophy that a company shouldn't hire more people until it has more customers.

But the need for MesoCoat's technology is too big to take it slow, he said. The company says its CermaClad process, which uses a plasma arc lamp to bond protective metal coatings onto pipes, is 40 times faster and 20% cheaper than other methods of cladding metal.

The speed of the process could prove to be a big selling point: Today, oil and gas companies ordering cladded pipe often must do so six years in advance, Mr. Sherman said, adding MesoCoat aims to reduce that wait time to "a matter of months."

"The opportunity is just incredible right now," he said.

Global ambitions

One massive oil and gas company has shown interest in the project: Petroleo Brasileiro S.A. of Rio de Janeiro, which goes by Petrobras, in January 2011 struck a deal to help MesoCoat verify the effectiveness of the CermaClad process and finance the demonstration plant in Euclid.

The companies could work together to design and build a coating plant in Brazil, assuming MesoCoat can produce pipe meeting Petrobras' standards, according to a 10-Q document that MesoCoat's publicly traded parent company, Abakan Inc., filed with the Securities and Exchange Commission last Oct. 15. The Miami-based holding company owns 71% of MesoCoat and 41% of Powdermet, which also holds shares in MesoCoat.

A representative from Petrobras requested questions via email but did not respond to them by *Crain's* deadline last week.

The Euclid plant is built to produce \$60 million to \$80 million of cladded pipe per year, most of which will be used for quality testing and to fill small orders. The plant would be significantly smaller than the plants the company plans to build in other countries. Those plants each would have four production lines, whereas the Euclid plant will house only one.



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MesoCoat has begun advanced site work to establish plants in Brazil, Indonesia, western Canada and the Middle East.

MesoCoat has received assistance from three economic development programs financed by the state of Ohio and hasn't ruled out expanding here. Its headquarters will remain in Euclid, where it has the equivalent of 31 full-time employees. MesoCoat eventually could add another 10,000 square feet onto its new plant.

The company aims to build its biggest plants elsewhere to be closer to customers and in some cases to tap government incentives, Mr. Sherman said, noting that authorities from Alberta, Canada, have offered to cover half the cost of a \$20 million plant built in the province.

"Their packages are pretty attractive compared to Ohio," he said.

Ohio provides a boost

Mr. Sherman added, however, that he believes Ohio already is benefiting from the assistance it has provided to MesoCoat. Just after spinning off from Powdermet in 2008, MesoCoat received a \$220,000 investment from JumpStart Inc., a Cleveland nonprofit economic development group that receives a big chunk of its financing from the state. MesoCoat paid JumpStart \$400,000 after receiving additional financing.

The Ohio Third Frontier economic development program two years ago gave a \$2 million grant to MesoCoat and the University of Akron to help finance research related to claddings and powder coatings at the university as well as construction of the new plant. Then, last October, MesoCoat received a \$1 million loan from the Innovation Ohio Loan Fund, which the company used to finish equipping the plant.

The state money is helping MesoCoat get to the point where it will be able to start attracting more money from private investors, bringing in more revenue and creating more jobs, Mr. Sherman said. Without state support, it would have been "nearly impossible to get to where MesoCoat is today," Mr. Sherman said.

"This could not have happened without the state coming in," he said.

MesoCoat's technologies have potential, according to Ross Kozarsky, senior analyst at Lux Research Inc. of Boston.

In a December 2011 report that ranked several protective coatings companies, Mr. Kozarsky ranked MesoCoat as a "dominant" player in the industry, the highest of four rankings. He gave the company particularly high marks for its technologies — both CermaClad and its PcomP line of coatings, which are metallic substances that contain tiny ceramic particles designed to make the coatings stronger. Mr. Kozarsky also praised the company's ability to execute its business plan.

If the report was updated, Mr. Kozarsky said, he believes MesoCoat would receive a higher execution score because the company appears to be meeting milestones and building momentum.

"They know what they're doing, and they're making good on some of their claims," he said.

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