

# Washington Manufacturing Alert

The voice of Washington's most important industry

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## **Deals Are Still Getting Done; Who's Doing Them, and Why**

The economy is in the tank, the IPO market has all but evaporated and banks are shutting the doors on what's left in their vaults.

So the market for the sale and acquisition of Washington manufacturing companies must be just as moribund – right?

Actually, it's not.

Conversations with local investment banking, corporate finance and buyout advisory firms suggest that there's still activity in buying and selling companies, especially for small and medium-sized companies and in niches and markets that haven't been pummeled as badly by the recession.

"We thought it would be much, much slower than this," says Scott Hardman, managing director with Alexander Hutton Corporate Finance in Seattle.

"Despite the recent credit crunch, middle-market transactions are still being completed," says a report on manufacturing from Exvere Inc. of Seattle. The company counts more than half a dozen deals done in the region just since last October.

Private-equity firms, with a bit more patience to expend on their holdings, are looking to bolster their portfolios with attractively priced deals, the Exvere report says.

But it's not just private-equity firms that are on the prowl. So too are larger publicly traded industrial companies. Danaher Corp. recently bought Sea-Bird Electronics Inc., a Bellevue manufacturer of marine scientific-research instruments. Sea-Bird, its Web site reports, has about 100 employees and annual sales of \$27 million. (Danaher, based in Washington, D.C., is already known around these parts for the 1998 acquisition of Fluke Corp. in Everett, and the 2007 deal in which it bought Oregon's Tektronix Inc.)

Another publicly traded company, Curtiss-Wright Flow Control Corp., earlier this

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## **Who We Are and What We Are: An Introduction**

**BY BILL VIRGIN**  
Publisher and Editor

Welcome to the inaugural issue of a newsletter that hopes to tell the story, to you and the rest of the world, of your industry.

As the motto at the top of this page asserts, manufacturing – for employment, and for the economic activity it generates and supports – is this state's most important industry. It deserves to have its successes, challenges, issues and trends discussed, analyzed and told.

Who will do that?

Daily newspapers, of which the publisher and editor of this newsletter is a veteran, have decreasing space and resources to devote to covering manufacturing. Specialty

business publications offer a bit more coverage, but they, too, have other business sectors requiring their attention. Various organizations and groups do focus on parts of manufacturing, but Washington, unlike other states, has no association devoted specifically to manufacturing.

What Washington's manufacturers, and the people who work in them or are concerned with the industry's future, need is a publication devoted to pulling together and presenting in one place all that is happening in, with and to manufacturing.

That's the goal of this newsletter.

Every two weeks, 24 times a year, Washington Manufacturing Alert will report what's going on with big manu-

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## Deals Are Still Getting Done

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year bought Redmond-based Nu-Torque.

Make no mistake: Deal activity is, as Bill Hanneman, principal of Seattle investment banking firm Zachary Scott, puts it, “way off. This is primarily due to lack of credit as bankers have severely tightened underwriting standards but also due to uncertainties of future performance by prospective buyers which results in value uncertainties.”

Adds Michael Brustkern, managing director at Exvere, “A year ago, a private equity group would have 50 to 100 books or deals they were reviewing. Now they may be looking at 10 or 20.” Some sellers have taken themselves off the market. “It’s like selling your house. You remember what someone might have paid you a year ago. Well now it’s this year.”

So why would even those 10 or 20 be looking for a buyer?

“**The big picture is demographics,**” Brustkern says. Whether the motivation is age of the owner, or the weather, or the hassles of running the business, or concerns about whether the next generation wants the company, “We see a lot of interest in selling if it’s a reasonable deal.”

The deals are not being driven by desperation, he adds. “Most of these companies are in good shape, they’ve done well for a period of years. They have enough money to get through this, what they expect this downturn to be. They just don’t want to. It’s a matter of, ‘I can sell on the deal before me and take some risk on the paper I’m carrying, or I can take the risk of keeping the business and selling it on a better deal three to five years from now.’”

Hardman says sellers close to or at retirement age are also calculating the “money value of time” — what it’s worth to them to wait for conditions to improve. And even if they do, they may not see a return to multiples driven by cheap debt. They’re also wary that increased capital-gains taxes could erase whatever increased price they might get by waiting.

Reasonable deals are available. Says Hanneman, “A portion of the deals that are happening in the current market are where two businesses are coming together to take cost out in order to improve competitive position. Also, there are opportunities in a down economy to pick up assets, product lines, people, etc., much more inexpensively such that it can be a good time to bolster a company’s long-term strategic position when the markets return.” In fact, adds Brustkern, “It’s a good time to be on the market because you don’t have a lot of competition. There aren’t many good solid companies that are for sale.”

**The challenge, not surprisingly, is financing.** Private equity funds and corporations alike are being extra cautious in spending. “Even if you have cash or credit, when you don’t know if you can renew your credit facilities or if you can obtain new credit, boards of directors are reluctant to spend whatever resources they have available to them,” Hanneman says.

“That’s taking some creativity on the part of folks like ourselves as intermediaries and the financial institutions and the sellers themselves who are participating as well,” Brustkern says. “Almost universally they will be carrying some paper or keeping some equity or some sort of deferred finance piece in the transaction.”

The sectors in which buyers are shopping: Aerospace and defense, including specialty manufacturing of composite materials (Brustkern notes that European aerospace companies are interested in a dollar-denominated manufacturing base, which leads them to the Seattle area); medical devices; scientific instruments; food processing; infrastructure-construction businesses.

Among the factors that drive pricing: Revenue; concentration of business among customers; free cash flow, not just the amount and rate of growth but the risk of variability; and continuing management.

When the M&A market does recover, Brustkern says, “I don’t think there will be a rapid return to highly leveraged transactions. We may not get that again for 10 or 20 years, because people do have memories. But as history proves, our memories fade. At some point we’ll be back in that.”

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## Who We Are and What We Are: An Introduction

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facturers like Boeing, Paccar and Weyerhaeuser, which not only employ thousands but upon which many vendors, suppliers and subcontractors rely. We'll also report on medium-sized companies, such as Itron, Genie, Flow, Intermec and many others, that form such a vital economic base for the industry and the state. And we'll seek out the small manufacturers, the startups and entrepreneurial ventures, from garages to light-industrial parks, some of whom may some day grow into those medium or large companies.

We'll tell you about expansion and contraction, personnel appointments, earnings reports and forecasts from the publicly traded companies, research and development, product introduction and acquisitions and mergers.

We'll track what's going on at organizations and colleges working with manufacturing or studying its challenges and opportunities. And we'll report on what's going on with state, county and municipal government, since so much of what they do affects the operations and fortunes of manufacturing. In addition, we'll track developments in other industries that directly affect manufacturing, from real-estate prices to utility rates.

Why are we the ones to do this?

The publisher and editor of this newsletter spent 32 years at four newspapers (22 years of that career in Washington state). Almost all of those 32 years were spent covering business; all of that time devoted to business coverage included manufacturing. That career began in the late 1970s covering the steel industry in the Upper Ohio Valley, followed by covering such industries as chemicals, glass, aluminum and coal (an important adjunct to manufacturing). In the Northwest coverage included aerospace, forest products, electronics, food processing, trucks, industrial equipment and dozens of other niches.

In that time the publisher/editor has developed not just a strong fascination with manufacturing but a deep appreciation for its role as an economic foundation. No other sector has the same capacity, when it succeeds, for generating high-paying jobs, importing wealth into a region and providing fertile soil for the growth of job and wealth-generating companies, technologies and industries of tomorrow. For painful evidence of what happens when an economy loses those things, consult much of the Midwest.

As a startup itself, Washington Manufacturing Alert will change as it grows. We'll add features and change existing ones, all to stay on top of what's going on in manufacturing. Change will come in response to what our readers tell us they want and need to know. We hope you'll provide that sort of counsel and guidance as we build a newsletter, and news service, that gives this vital industry a voice that is heard.

Thanks for reading, and let's get started.



**BILL VIRGIN**

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## News Wire: The Latest In Washington Manufacturing

**VANCOUVER, Wash.:** Commercial Vehicle Group Inc. plans to close its Vancouver plant, which produces interior soft trim and molded dash assemblies for the heavy-truck industry, and molded products for the gaming and material-handling industries. The New Albany, Ohio-based company said the plant at one time had more than 200 employees; it now has 60 hourly and 11 salaried employees. The shutdown should be completed by the end of July. ...

**MOSES LAKE:** Renewable Energy Corp. said it has temporarily halted

ramp-up production at its polysilicon plant because of "instability in certain operating parameters." The Norwegian company expects to report an update in its quarterly earnings report at the end of this month. REC is expanding the plant which produces silicon for solar-energy applications.

...**BELLEVEUE:** The regional Purchasing Managers Index dropped from February to March, the Western Washington chapter of the National Association of Purchasing Managers reported. Showing declines were current and forecasted production,

new orders and employment. Inventories were higher and purchasing managers forecast higher levels. Reported prices were unchanged, but expected to rise in 90 days. Deliveries were slightly slower, while international purchases were unchanged from February. The regional index was at 40.3 in March, indicating an economy still in recession; the forecast was more optimistic, at 44.2. ... **PORTLAND:** Hampton Affiliates issued layoff WARN notices for two mills, at Darrington (118 workers) and Morton (124 workers).

## The Future of Manufacturing

*This is the first of a regular series of interviews with company and government officials, economic development experts and others about trends, developments and issues in the industry.*

**Ted Sprague**, president, Cowlitz County Economic Development Council, explains why his economic-development agency is targeting a supposedly out-of-favor sector.

### Why is Cowlitz County looking to manufacturing for its economic growth strategy?

The reason Cowlitz County is specifically interested in manufacturing is the "cluster" concept of building on one's strengths. One of the main things our prospects and clients ask us about is our workforce. Our workforce has a strong history of shift work, being skilled and generally not afraid to get their hands dirty. Another vital area is infrastructure, i.e. roads, water, sewer, rail and land. We are set up as a community to accommodate additional manufacturing because our infrastructure was built and planned for it. It is our belief that economies are built off of the benefits manufacturing brings. Typical manufacturing jobs are higher pay, include benefits, use large capital investment which increases the tax base. In addition, large capital investments typically make the jobs more permanent.



**SPRAGUE**

### Are there opportunities to recruit more manufacturing firms? What sectors look most promising?

There are daily opportunities to recruit more manufacturing firms. For some firms, the cost of input materials or the cost of output products are prohibitive to moving to locations overseas or out of the United States. The most promising right now are smaller firms that are being squeezed out of metropolitan areas that are agile and preparing for the economic turnaround. Specifically we are talking with companies that are looking to enter the "green economy" in a more substantial way. Companies that support the solar, wind, plastics and transportation industries are looking in our area currently.

### What are the biggest challenges for manufacturing?

The major challenges for the U.S. when competing for manufacturing are the high cost of labor and land, stringent and uncertain environmental policy and the will to invite manufacturing into certain communities. I am not a major proponent for incentives, but when countries are willing to give up tax base or land for the trade-off of job creation, it makes it very difficult to compete.

## Cloudy skies: Boeing cuts production, state worries about long term

Boeing announced last week that it is cutting production rates beginning in June 2010 for the 777 (dropping from seven to five planes a month) and postponing planned increases for the 747-8 and 767. No cuts are planned at the moment for the 737. Boeing said the 777 production cuts are likely to result in layoffs beyond those already announced.

Meanwhile, a new report, prepared by Deloitte Consulting, warned that "Washington has not been a player in recent site selection decisions by aerospace companies. While Washington offers many advantages to aerospace companies, its disadvantages outweigh the advantages." Those disadvantages include wage rates, labor relations, training, cost of living and real estate and utility costs. Deloitte suggested the state should in the short term address unemployment insurance taxes, training and research and development funding, and create a government agency devoted to aerospace.

## Stock Scoreboard

Scoreboard tracks the stock performance for publicly traded manufacturing companies with their headquarters in Washington state (plus Boeing). Did we miss anyone? Let the editor know if we did.

Name	Ticker	52-week	4/09/09
Boeing	BA	88.29-29.05	39.15
Clearwater Paper	CLW	23.00-5.93	8.46
Cray	CRAY	6.99-1.15	4.52
Data I/O	DAIO	6.90-1.87	2.97
Esterline	ESL	62.90-18.91	24.27
Flow International	FLOW	11.40-1.05	1.90
Intermec	IN	24.96-8.68	12.03
Itron	ITRI	106.25-34.25	47.29
Key Technologies	KTEC	39.47-7.10	10.22
Key Tronic	KTCC	4.18-0.76	1.00
Microvision	MVIS	4.05-0.77	1.59
Nautilus	NLS	6.85-0.45	1.24
Northwest Pipe	NWPX	65.19-18.75	31.50
Paccar	PCAR	53.81-20.38	31.93
SonoSite	SONO	38.74-15.27	18.28
Todd	TOD	17.00-9.47	13.68
Weyerhaeuser	WY	68.65-18.67	31.51