

2003 Diecasting Society Conference

Globalization -
Harder than it looks

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How One Tier-One/Tier-Two US Die Caster is Facing up to (Or Struggling With) Globalization

Jimmy Carter's View Of Free Trade

Free trade is basically good, as it spreads wealth, through jobs, to people in poor nations, which seems to be more effective at helping people than foreign aid hand-outs.

It also helps people in rich nations, by making unbelievably low-priced products available to them, so everyone can enjoy having more things.

Lastly, free trade helps encourage world peace, so it is basically being strongly supported by the developed nations of the world.

It Is Here To Stay

Considering all of its advantages, free trade can be expected to evolve, indefinitely, embracing and helping more and more of the almost limitless number of poor people around the world.

The concept of free trade, meaning almost borderless trading, encourages what we refer to as **Globalization**

Globalization Has Hurt Manufacturers

Globalization of businesses had been evolving for centuries, but when free trade allowed Asian car companies to begin making so many US sales that jobs became an issue, Japan may have been pushed, politically, to build cars in the US, if they wanted to sell them there, to replace some of the jobs they had eliminated.

This was possibly the spark, or catalyst, that sent globalization of the world's auto industries into warp speed, and it is unlikely to abate soon.

Businesses Have Been Destroyed

A strong case can be made that free trade has helped drive a lot of manufacturers in developed countries out of business.

An example that comes to mind is the continuing deterioration of tooling manufacturing businesses in the US. In most cases, toolmakers in the US had been very highly paid. They just couldn't get their costs down enough, when foreign competition learned how to make US sales.

Capital Investments Have Increased

Return on capital for manufacturers has suffered from globalization.

Manufacturers in wealthy countries have obviously suffered, due to low-wage foreign competition forcing price reductions.

At the same time they have lost market share and profitability at home, some manufacturers, like Gibbs, have “gone global” with tremendous new investment, in search of new business - to recover lost sales and assure their market position.

Return on Capital Has Shrunk

Unfortunately, as we are learning, new investments in other countries can take a long time to become profitable.

In the meantime, lost market share at home makes one's old capital investments under-utilized.

At the same time, giving price reductions everywhere, is a triple hit on ROIC.

Nobody Has Escaped Suffering

Local automotive manufacturers, in low-wage countries where “global companies” are setting up new businesses, are being marginalized, since they often cannot compete technologically.

Meanwhile, global manufacturers are working harder and earning less, on more investment. These are just the facts of life today.

The result is that every manufacturer in the world is struggling to find ways of surviving.

Introduction To Gibbs Die Casting

Gibbs is headquartered in Henderson, Kentucky, and has been privately-held, for 34 years, by Koch Enterprises Incorporated (KEI) of Evansville, Indiana.

Our total sales are around \$300 million, globally, almost exclusively to the automotive industry in aluminum and magnesium castings, plus some machining and assembly.

The Globalization Of Gibbs

Gibbs is a medium-size automotive supplier of die castings to Tier Two companies and OEM's, who decided it would be a good idea to go global.

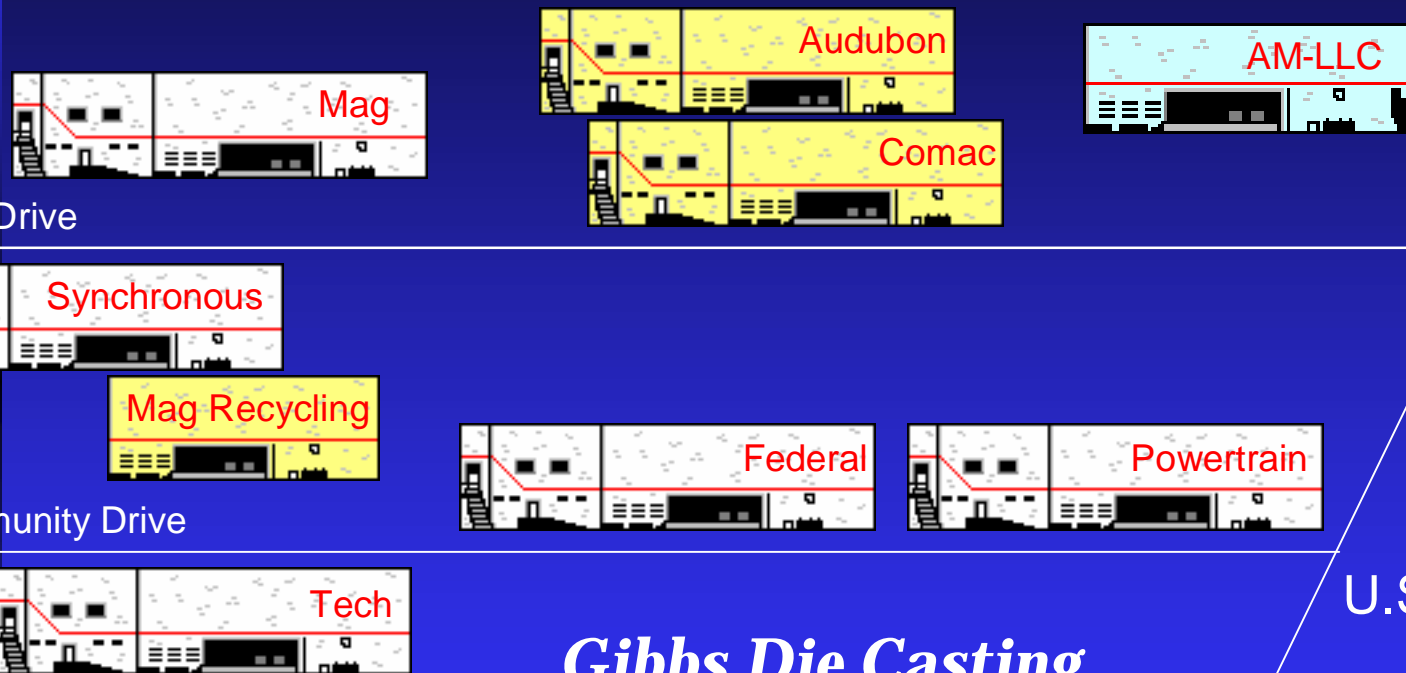
During the late 90's, we concluded – since our US customer base, US Automotive OEM's and Tier One's, are all in the process of becoming global manufacturers – we should be able to make profitable sales to these customers and new customers in foreign countries, just as we have been able to do in the US. An innocent idea.

Our History in a Nutshell

Over 35 years, our plants grew in number to include five casting divisions, a machining and assembly division, a tool building division, and an equipment manufacturing division in Henderson, Kentucky. Then, we decided to spread out.

First, we established a small Greenfield factory in Harlingen, Texas to serve a customer who had set up business on the Mexican border. A year and a half later, we purchased existing die casting companies in Korea and Brazil. Last week, we made samples at our latest expansion in Hungary.

Gibbs-Henderson Plants



*Gibbs Die Casting
Corporation
Henderson, Kentucky*

Expansion Operations



Brazil



Texas



South Korea



Hungary

Our Product Line...



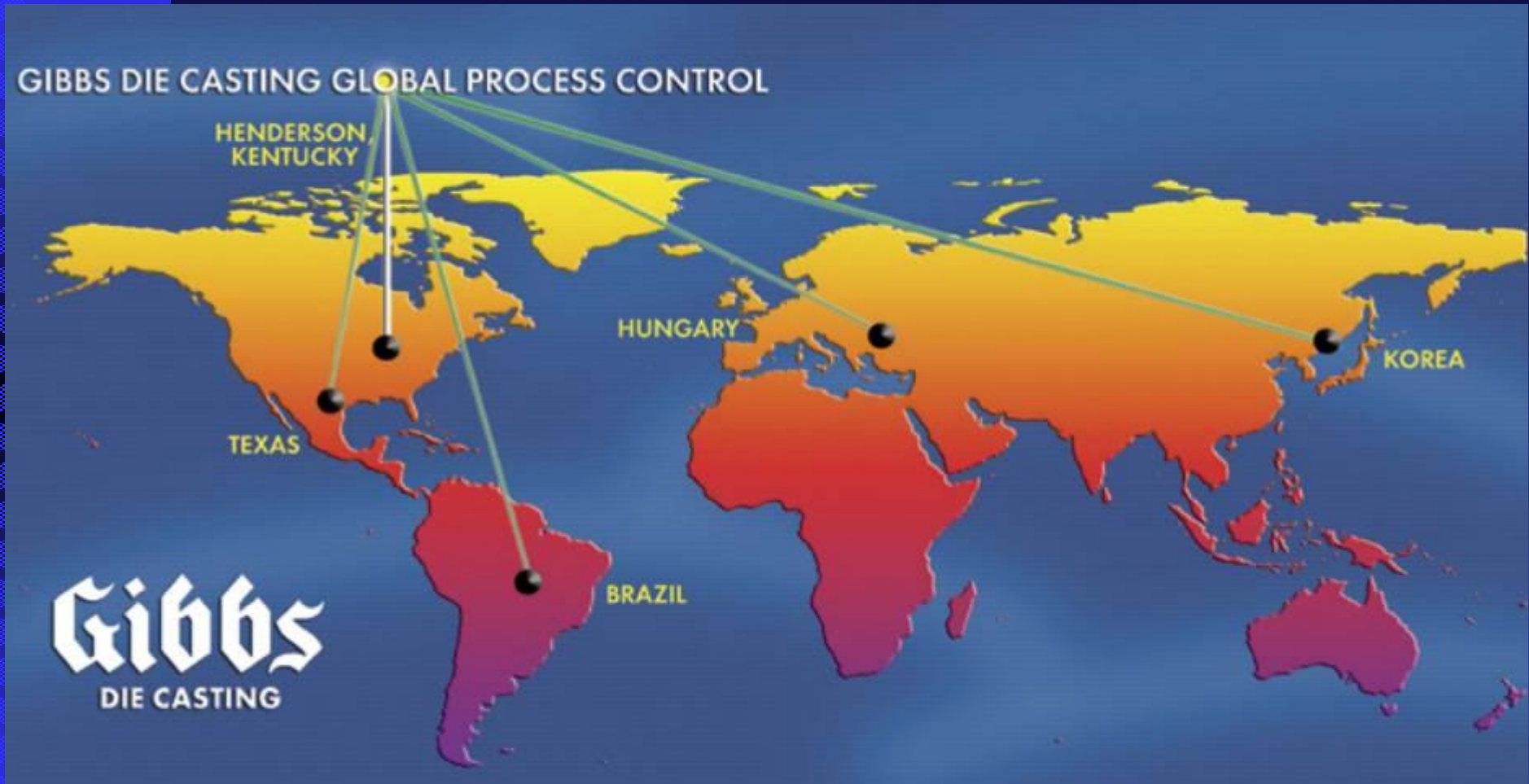
Our Strategy

We truly do believe we have a “special” process for manufacturing die castings, both aluminum and magnesium, that enables us to make certain castings with exceptional quality and productivity.

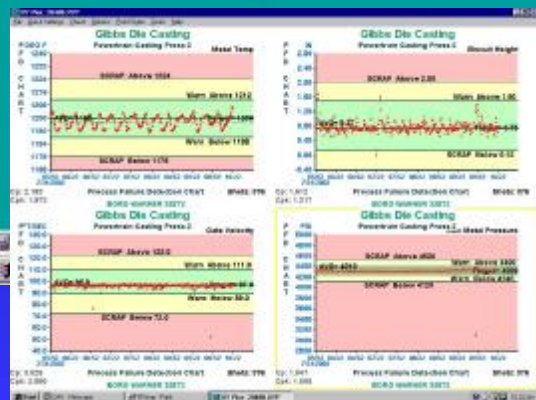
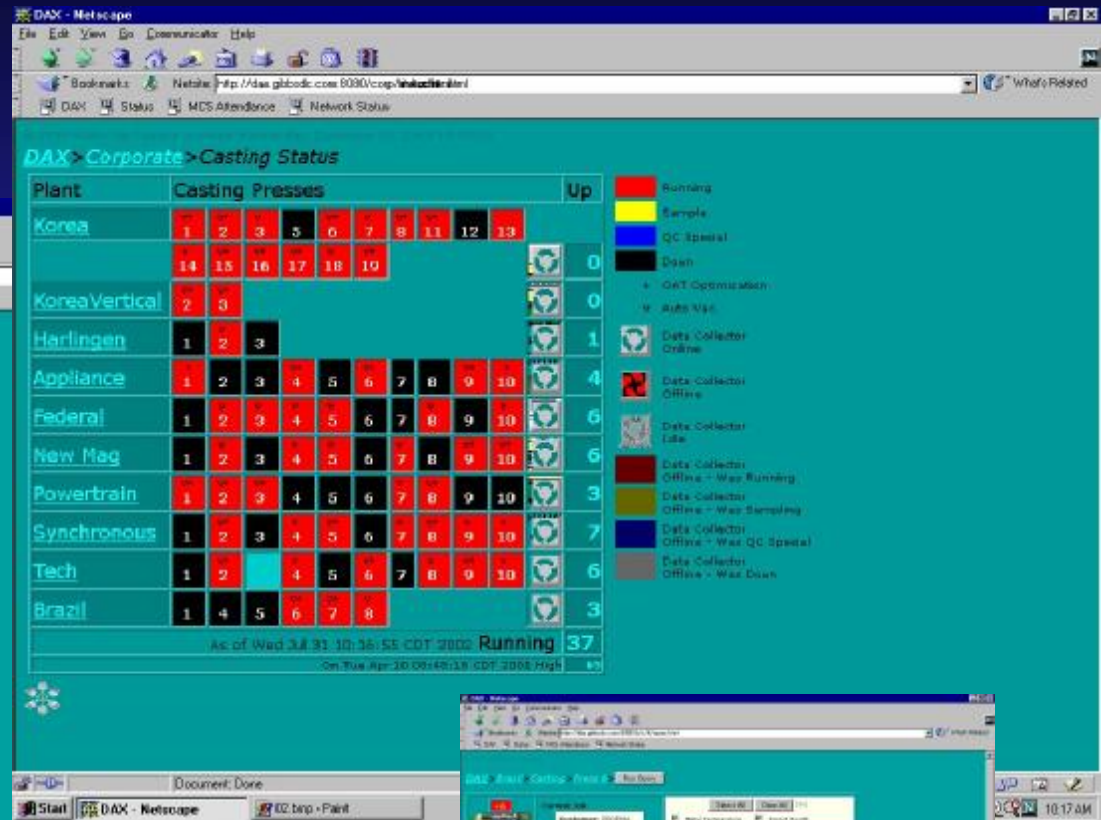
Armed with this competitive advantage, we decided we could become a global company.

Our strategy included leveraging an internet related capability of being able to assure global customers “Uniform Quality on Four Continents”

Global Process Control



Global Process Control



Gibbs Die Casting - Report

Press	Quantity	Run Time	Defect	Temp	Pressure	Weight	Length	Width	Height	Volume	Prod. Rate	Prod. Time
1	100	1:30	0	100	100	1.0	1.0	1.0	1.0	1.0	100	1:30
2	100	1:30	0	100	100	1.0	1.0	1.0	1.0	1.0	100	1:30
3	100	1:30	0	100	100	1.0	1.0	1.0	1.0	1.0	100	1:30
4	100	1:30	0	100	100	1.0	1.0	1.0	1.0	1.0	100	1:30
5	100	1:30	0	100	100	1.0	1.0	1.0	1.0	1.0	100	1:30
6	100	1:30	0	100	100	1.0	1.0	1.0	1.0	1.0	100	1:30
7	100	1:30	0	100	100	1.0	1.0	1.0	1.0	1.0	100	1:30
8	100	1:30	0	100	100	1.0	1.0	1.0	1.0	1.0	100	1:30
9	100	1:30	0	100	100	1.0	1.0	1.0	1.0	1.0	100	1:30
10	100	1:30	0	100	100	1.0	1.0	1.0	1.0	1.0	100	1:30



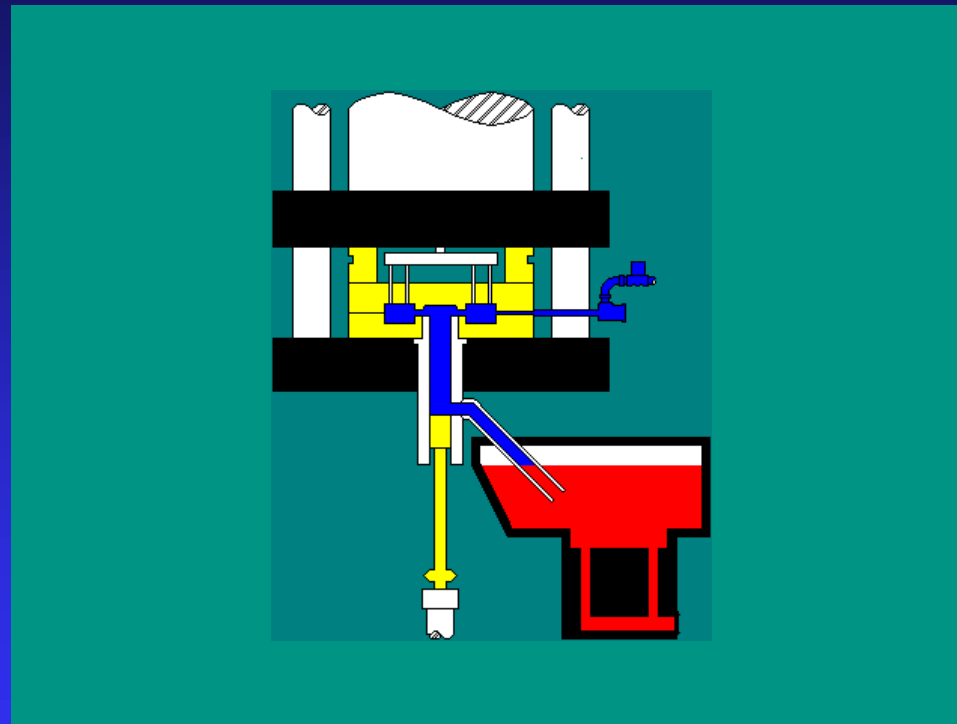
One Kind of Machine Used



We manufacture our own specialized casting equipment for all of our plants.

All of our presses should ultimately be managed by computers, linked-up globally through the internet, such that we can place identical machines in factories anywhere on earth, and assure that “like parts” are run under identical conditions in all locations.

The Gibbs Vertical Vacuum Process



Our Focus Industry Segments

We believe that by using a unique vacuum ladling casting process, we were able to capture a large percentage of four large business segments in the United States:

A. torque converter stators



B. viscous fan clutches



C. air conditioner compressor castings



D. ductile steering wheels armatures



Uniform Quality On Four Continents

We have bet heavily that global manufacturers will ultimately decide they need “globally uniform parts for globally uniform quality” – requiring a global purchasing strategy. Then, our strategy may begin to pay off.

We feel this is a sound strategy, but we are just having to wait until it is finally appreciated.

Right now, to be honest, purchasing seems to be decentralized, and the incentives are all going to the successful local price-cutting buyers.

Specifics On Our Expansions

Our expansions have all been at the request of our customers. The first was Mexico.

Six years ago, Delphi asked us to put a plant in Mexico to supply their Mexican steering wheel plant with magnesium armatures. We were afraid to go outside the US, but put a small factory in Harlingen, Texas, near the border.

We began with, and still have, only three machines there. A year after we built the factory, Delphi decided to cast their own armatures in Mexico.

The Korea Expansion

Shortly after the Texas plant was under construction, Visteon asked us to buy a bankrupt die casting plant in Korea, that was supplying compressor castings to their company in Korea. This plant had 19 casting presses and in our first year, 2000, had \$30MM USD in sales.

We had never worked with a union, but this die caster is in Korea's most radical union, and pay levels are almost as high as in the US. While profitable now, we expect to wind up having to move to China to compete for Korean business.

The Brazil Expansion

Two months after we purchased the plant in Korea, we bought a 10-machine casting plant in Brazil at Delphi's request, to provide compressor castings.

We paid heavily for the company, since Delphi gave us only six months to get on stream with world class castings. We met their timeline.

After receiving our samples, there were three years of production delays at Delphi, while we lost millions of dollars. Delphi's production is getting started this year, and we hope our losses will end.

The Hungary Expansion

We've just finished building a small Greenfield plant in Retsag, Hungary, to begin production in April, 2003. We are starting with two presses and will add another in July. No more acquisitions!

Visteon asked us to build this plant, then we received orders from Delphi. Both will make a lot of compressors there. We also received an order from Breed for magnesium air bag canisters.

Gibbs-Hungary shot their first samples last Wednesday. I will visit the plant later this week.

How Hard Is A Foreign Expansion?

Frankly, we had no idea what we were getting into! One cannot appreciate the difficulties, until one personally has the experience.

The complexity of transferring a specialized technology, specific work practices, and our company culture to a company in a foreign land is closely akin to mixing oil with water.

You may stir really hard, but when you stop - the oil and water just naturally separate again.

Some Things We Have Learned

Our latest conclusions on the best approach to setting up a shop in a foreign land are:

- Try to start out with a Greenfield operation.
- Hire the highest quality local managers possible and begin their training in your own home facilities.
- When they return to their home to start production, send the best people you have available to work beside them and keep them focused on doing things your way.
- Ultimately, place a superb local manager in charge, but maintain your own support person on-site and keep final decision authority, for most issues, in your home office.

An Ownership Approach

Make your new business a corporation of the country in which you will be manufacturing.

Consider holding the stock in, possibly, a Dutch holding company, owned by you. The holding company can take money out of the foreign manufacturing entity without bringing it home and subjecting it to multiple taxations.

Locally leverage your new manufacturing entity, if rates permit, and make it independent enough, such that your liability will be limited, if it fails.

Some Caveats

When you buy overseas, you will probably pay too much for what you get for a variety of reasons, included concealed problems. It will more than likely cost you more to develop your new company than you can have imagined.

It will probably take you a lot longer to learn and break into the new market than you expected – like five years or so.

All of this points to --- lower ROIC.

More Caveats

When a customer asks you to buy overseas to support their expansion, you cannot depend on their future support. Instead, they will likely ignore your sacrifice, due to their own serious problems, and ask you to bail “them” out.

Does Gibbs recommend expanding overseas? – The answer is “No”.

Does Gibbs recommend against it? Also, “No”.

Will it be expensive and painful? Yes, but we all get to pick our own poison.

The End