



2009 GLOBAL INDUSTRIAL CONFERENCE: ACHIEVING SUCCESS IN A CHANGING GLOBAL MARKET

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CONFERENCE REPORT

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Executive Summary

Despite little evidence of an economic upswing, industrial companies are ready to call the bottom of the recession, are capitalizing from a global focus on alternative energy and infrastructure spending and see plenty of acquisition opportunities for strategic and financial buyers. Those were the key messages delegates took away from this half-day conference in New York in October, co-hosted by Lincoln International and GE.

Opening the invitation-only event, Eric Malchow, Managing Director at Lincoln International, commented on the changed financial and economic landscape since Lincoln’s industrial conference in Chicago last year. “If you looked at the headlines then, negotiations continued on Capitol Hill about the Bush administration’s plan to bail out the financial industry and as concern grew over the bail out, Wall Street had one of its most volatile days ever as the Dow fell 400 points,” he said. “Little did we know that the Dow would eventually fall below 7,000.”

Thankfully, the stock market has rallied significantly since then and companies are thinking about expansion. Leading U.S private equity professionals and executives from domestic and multinational companies heard keynote speaker John Rice, Vice Chairman of GE and President and CEO of GE Technology Infrastructure, express his optimism about the company’s long-term growth prospects while acknowledging that the next 18 months would be choppy.

“One of the reasons why we’re so excited about our industrial and infrastructure activities is because we look at a world where there are 1.5 billion people that lack the basics,” he said. “They don’t have access to clean water, they don’t have good healthcare or any healthcare, they don’t have access to energy in an affordable way.” He said that governments around the world were beginning to address these basic needs, creating excellent opportunities for companies that were prepared to act as responsible partners.

In the first panel discussion of the day hosted by Sharon Epperson, Senior Energy Correspondent with CNBC, Peter Evans, Director of Global Strategy and Planning at GE Energy Infrastructure, outlined two alternative scenarios of what the world could look like over the next decade, a Fast Green world and a Slow Brown world, and explained why this type of long-term analysis was crucial for investing in the right businesses.

The next panel tackled the economic and lending environment, with Rob Podorefsky, Senior Vice President in the Interest Rate Management Group at GE Capital, stating that there are many hopeful signs that the bottom of the recession had already been reached. Panelists agreed that the leveraged lending market was opening up, albeit slowly. Michael Chirillo, Senior Managing Director at GE Antares Capital, pointed out that of the \$20 billion volume of leveraged financings this year to date, “Roughly \$6 billion of that \$20 billion have been completed in the last 30 days, which is very good news.”

Before the conference ended with a cocktail and networking session, a panel of senior executives from global industrial companies shared their strategies for surviving the recession, discussed acquisition opportunities and agreed that creating greener products and services was an important way of boosting top line growth, despite poor economic conditions. “When you have the opportunity to roll out new products that deliver a different level of performance, you can restructure the whole pricing formula,” said Bill Christopher, Executive Vice President of Alcoa. He also argued that there were many good acquisition opportunities in the current environment. “You are coming off multiples with record EBITDAs, so the timing is significantly better than before. As a strategic buyer, I think we’re definitely looking to step up the pace.”

Industrial companies may be cautious about the current economic outlook, but it is clear that is not stopping them deploying innovative strategies for growth.



John Rice, Vice Chairman, GE and President and CEO, GE Technology Infrastructure, gives the keynote address



Keynote Address

Achieving Success In a Changing Global Market

In his keynote address, Mr. Rice said there was every reason for optimism for the long-term growth opportunities of GE's industrial and infrastructure businesses, because countries where access to clean water, healthcare, energy and infrastructure was limited were beginning to address those needs. He outlined a future with more government activism and regulation worldwide and said that GE was focused on treating governments as customers, creating local joint ventures and developing local products to ensure success. He addressed the implications of federal stimulus spending and energy and healthcare reform in the U.S. and further reiterated GE's commitment to domestic manufacturing. He predicted that economic conditions would impede growth for the next 12 to 18 months and said GE was cutting costs while maintaining research spending. He predicted that valuations would become more realistic in the next six to 12 months, which could facilitate more acquisitions from GE's infrastructure businesses.

Pointing out that GE is active in over 100 countries, Mr. Rice began by saying that he was excited about the growth opportunities for many of GE's key businesses, despite the economic downturn. "One of the reasons why we're so excited about our industrial and infrastructure activities is because we look at

a world where there are 1.5 billion people that lack the basics," he said. "They don't have access to clean water, they don't have good healthcare or any healthcare, they don't have access to energy in an affordable way."

He said that over the last three to four years, countries that lacked those basics have begun to address more of their basic infrastructure needs, because with rising commodity prices, more wealth has flowed into those countries and improved communications have given their populations an insight into how the rest of the world is living. "There is more pressure for leaders to deal with infrastructure issues because people are more aware of what they don't have," he said.

He added that the long-term need to provide clean water, healthcare, power generation and transportation played to GE's strengths. He pointed out that there would also be a new round of infrastructure investment in developed countries, such as the Smart Grid in the U.S.

The economic outlook

However, he cautioned that short term, several markets could be challenging, adding that GE was expecting a downturn in aviation and that discretionary spending in healthcare had already stopped last year. "You can find green shoots if you look hard enough, but we think there will be 12 to 18 months of choppiness before we get back to unimpeded growth."

Addressing the federal stimulus of economies around the world during the recession, he said that given China's second quarter GDP this year was 7.8%, there was a strong argument that this was where it is really working and creating jobs. "In the U.S. there are a lot of opportunities, but six months into our government's stimulus plan, I don't think there's a lot to show for it," he said. He added that domestic stimulus spending was a double-edged sword because while it creates jobs and business opportunities, there is a danger that it can lead to protectionism. "It would be the worst thing, in my view, if the walls go up and protectionism is the result as that's just going to delay the recovery."

Still, he said that the company was committed to U.S. manufacturing and that cheaper labor rates were never the principal reason that GE invested in a country. "We export around the world our gas turbines from Greenville, South Carolina, our locomotives from Erie, Pennsylvania, and our jet engines from Evendale, Ohio," he said. "The question is finding the right competencies to put in high labor costs places, not whether you pay \$30 an hour or \$2 a day."



The implications of domestic legislation

Addressing other key domestic policy initiatives, he said that GE supported U.S. healthcare reform, given the company's own escalating costs. "We spend \$3 billion a year on our own healthcare costs, just in the U.S., which is going up 8% to 10% a year. If we do nothing about that, that's two to three cents per share of pre-tax additional costs every year that we have to offset. We know we have to change that game." The company does not believe in the single payer option, but rather the transformation of healthcare to create a nation of informed consumers. "As companies, we need to incentivize good behavior, which will create better consumers that understand what their choices are, make their own trade offs and live with the results."

Mr. Rice said that he believed there would be a federal energy bill at some point that would create a cost for carbon, although he doubted that would be introduced this year. He said that given the uncertainty, GE's smartest customers are building a portfolio of power generation options, not going long on coal, gas or even renewables. However, he said that investing in cleaning and scrubbing technologies is still a good bet as pressure to reduce emissions will continue as other energy sources are developing.

Mr. Rice predicted that increased government influence and regulation would continue all over the world. "You're in an environment where you have to treat the government as your customer. We think that's now part of the play everywhere." He pointed out that while direct government purchase orders only accounted for a small part of GE's \$180 billion revenue this year, increased government influence in many countries affected many more contracts. With this in mind, he said that companies needed to show that they were good corporate citizens, not just expanding their global footprint, but developing a reputation for giving back. "The day is over when a multinational can show up, take orders, extract profits and ship them back to shareholders in another land," he said, adding that in markets such as China, Russia and India, as well as many other smaller countries, that means developing local training facilities and service shops, forging joint ventures and investing in technology.

Mr. Rice said that the ultimate challenge for the company was that the global business landscape was changing every day, giving the example of how things had changed since the peak of the financial crisis last fall. "Think about where we were last year. We were peering over the edge, wondering how far down the abyss was. It was pretty deep."



Looking to the future: R&D and acquisitions

Mr. Rice said that while expanding its global footprint was an important priority for the company, conserving cash had become a key focus in the last two years. "The businesses that I'm responsible for have \$10 billion in working capital and a half-turn improvement in working capital increases our cash by \$1 billion, so that's a number that counts." However, he said that the company will not reduce spending on new product development, even as it cut base costs by 10%. "That's what you do in a long-cycle technology business. You cannot turn that spigot off."

He concluded by talking about GE's acquisition plans, pointing out that while the company tends to do \$2 billion to \$10 billion of industrial acquisitions over any 12 month period, it has done less in the last 12 months. He explained that was partly because the company had been waiting for transaction values to become more realistic. "I think that will happen over the next six to 12 months." He said that each of GE's infrastructure businesses had a list of potential acquisition targets that it looks at every month. "Our board has said, we want you to bring us every deal that you want to do. If we're going to have pay for it, we'll figure out a way to pay for it. That is as much of a leash as we are ever going to need."



Panel 1 (l-r): Sharon Epperson, CNBC, Peter Evans, Director, GE Energy Infrastructure

Panel 1

Global Impact of Alternative Energy/Global Infrastructure Advancements

Peter Evans of GE Energy Infrastructure outlined two alternative scenarios for what the world could look like over the next decade, a *Fast Green* world and a *Slow Brown* world, and talked about their strategic implications. He said that this type of long-term analysis and monitoring is crucial and was one of the reasons why GE Energy Infrastructure has a broad portfolio of investments to ensure success given a range of eventual outcomes. When asked about some of the promising investment opportunities that GE Energy Infrastructure was pursuing, he highlighted thin film technology, Smart Grid technology and services for its energy equipment.



Peter Evans, GE Energy Infrastructure



Sharon Epperson, CNBC

Peter Evans, who leads GE's Global Strategy and Planning team, analyzing political, economic and regulatory trends around the world and their implications for the company's long-term energy infrastructure investment, began the session with a presentation. He outlined two alternative scenarios for what the world could look like over the next decade, a *Fast Green* world and a *Slow Brown* world, and talked about their strategic implications.

Under the *Slow Brown* scenario, he said that growth would not rebound to that of the last decade, commodity and fuel prices would drop and jobs would become the primary driver of the economy. Concerns about protectionism would rear up and potentially become a dominant force.

In terms of global governance, there would be little coordination between the G20 and areas of tension would continue with regard to security policy, trade policy, climate policy, energy resource access and migration. "Today we have unilateral national policies," he said. "The opposite extreme would be to have unified policies and harmonized rules when it came to climate change. By 2020, in the *Slow Brown* world, there wouldn't be much progress with that."

Although there would still be the need for additional energy capacity in this environment and \$250 billion

in new energy investment in the U.S., there would be more nuclear fuel, few coal plants would be retired and there would be limited carbon capture. There would be excess capacity of natural gas in the U.S. market and wasteful energy practices would continue. The Smart Grid would continue to be rolled out, but slowly.

The Fast Green alternative

He then outlined the alternative scenario of a *Fast Green* world with very rapid economic recovery in the U.S. and around the world, higher fuel prices and the passing of historic carbon legislation, which by 2012, would send a strong price signal into the marketplace. The G20 would successfully manage the financial system, implementing the required regulatory changes, free trade would be encouraged in the green energy sector and controlling climate change would become a high priority for governments around the world. That would drive clean energy investment and technology transfer, creating a global clean tech energy industry. "We would move to unilateral policies implemented by a few countries to a global marketplace," he said.



The U.S. power sector would need double the amount of additional capacity, adding 365GW. More than half would come from renewables, with wind and solar power expanding rapidly, and more old coal plants would be retired. High-tech gas would become a big and inexpensive global play, with business and technology innovations being developed in the US today being used across the world. Energy efficiency would increase and the Smart Grid would really take off, with sensors and communications devices installed to allow utilities to interact, not just with business customers, but with residential end users, better managing their load.

Following his presentation, Sharon Epperson of CNBC sat down with Mr. Evans to discuss these different scenarios, firstly asking which one was more likely to occur and when that would happen. He said that GE would like to see the *Fast Green* world realized, but pointed out that everyone needed to realize that there are a lot of impediments.

He said that some countries will likely go down a *Fast Brown* route, with rapid growth but less strict rules and regulations governing energy use, while other countries will go down the *Fast Green* route. He said that this type of long-term analysis and monitoring is crucial and was one of the reasons why GE Energy Infrastructure had a broad portfolio

of investments to ensure success given a range of eventual outcomes. "By doing this type of analysis, you can look at things which people don't think are plausible. Even if it's hard to convince them, at least it is on their radar."

Promising investment opportunities

When asked where GE Energy Infrastructure was investing, he said that solar energy and in particular thin film technology could grow dramatically over time as its cost structure could be brought down to that of fossil fuels. However, Mr. Evans warned that governments around the world would have to subsidize these fast-growing green industries until they reached a scale to be self-supporting if they were going to become market leaders. "For example, China has used its fiscal stimulus to launch the largest solar and wind farms in the world. Is the U.S. going to step up to the plate? You need strong domestic markets to be able to get to the scale to become a leading global player."

Mr. Evans also pointed out that if pilot projects succeed, Smart Grid could take off in the U.S. and around the world in the next few years, pointing out that GE is already looking at how this could be deployed in Asian cities. He said that GE is also

thinking about how its existing businesses could exploit the opportunity presented by Smart Grid. "We have an appliance business and a meters business, so now we're thinking about how we can integrate that into a single solution that we can sell."

Mr. Evans went on to explain that the energy infrastructure business is not just about the equipment sold, but also involves servicing that equipment, which he said is another bright spot. "In terms of returns, those service businesses are tremendously attractive, so we're looking to expand."

When asked about acquisitions made by GE Energy Infrastructure, he said that in some cases, the division decides that it can be faster to market if it acquires a company than if it does the in-house research itself. GE had just bought a Norwegian wind company for this reason. "We just made an acquisition in the off-shore wind space where we determined it would take too long to develop this capability ourselves," he explained.

In response to an audience question about the commodity price outlook, Mr. Evans said that much of the developed world, including the US and Japan, has already seen its oil demand peak. "Long-term, I think the price of oil is going to be dampened. Some people project that it will reach \$150 or \$200 a

barrel. I have a hard time seeing that." He added that although fossil fuels would be a dominant energy source through the year 2030 and beyond, even niche alternative energy sources such as algae and sugar cane have huge potential, which was why GE built its new technology with the ability to harness a range of fuels.



Panel 2 (l-r): Robert Podorefsky, GE Capital, Eric Malcbow, Lincoln International, David Brackett, GE Antares Capital, Michael Chirillo, GE Antares Capital, Ron Kahn, Lincoln International

Panel 2

What's Next for the Macro Economic and Lending Environment?

In giving his view of the macroeconomic outlook, Mr. Podorefsky said there were reasons for optimism and signs of renewed investment, which could create a positive feedback loop critical for sustained recovery. He said that the consensus GDP growth rate of 2.5% for the next four quarters is something that can be achieved. In the following discussion about the lending environment, panelists agreed that the leveraged lending market was opening up, albeit slowly, and that businesses that have performed well through the recession are in the strongest position to raise capital.



Robert Podorefsky, GE Capital



David Brackett, GE Antares Capital

Mr. Podorefsky of GE Capital opened the discussion by giving his view of the macroeconomic outlook. He said that less than nine years ago, he was talking with a client about creating a synthetic instrument to deal with a scenario where the U.S. would not be issuing treasuries. "All the projections then were for a federal surplus over the next 10 to 20 years and there were less than \$3 trillion of marketable treasuries outstanding." He pointed out that now there is \$7 trillion outstanding, with a \$2.1 trillion increase year-on-year, and the federal deficit is higher than at any point since World War II. He said that in order to get the economy moving again and for people to focus once again on investment and growth, a positive feedback loop needed to be sustained.

However, Mr. Podorefsky said there were reasons for optimism. He said that although the 263,000 U.S. jobs lost in September was a huge disappointment for the market, with the unemployment rate climbing to 9.8% for the first time since 1983, the year-on-year change in the unemployment rate peaked in June this year. "We're on schedule with the unemployment data series to coincide with an end to this recession in mid-2009."

Mr. Podorefsky noted that over the last 10 months, the Fed's balance sheet has been increasingly made up of MBS and ABS securities, dampening near-term inflationary risk, the futures market is pointing to sustained economic improvement, the interbank

market has recovered since its seizure last October, and that there has been some easing in lending standards over the last couple of quarters. He pointed out that business inventory is coming down and that prices have also stabilized in the housing market, which nationwide are now 14% below the five-year average.

Consensus growth predictions

He said that the consensus GDP growth rate of 2.5% for the next four quarters is something that can be achieved. His main concerns are that continued home foreclosures could extend beyond the sub prime market and that U.S. inflation pressure from China, which currently holds \$800 billion in U.S. treasuries, could rise. "If the Chinese Yuan starts going up again, inflation from China is going to come back and it's something that we're going to have to deal with," he argued.

He also cautioned that there was a strong chance that the Fed will raise interest rates in 2010. "Many don't see a Fed rate increase until 2012, but since 1967, Fed funds rates have exceeded year-over-year GDP about 90% of the time. If we get to mid 2010 with 2.5% growth rates, you'll see two quarters of year-over-year growth exceeding the Fed funds rate by mid-year," he said. "I think there's a huge risk that in 2010 you'll get a rate increase."



Moderator Eric Malchow of Lincoln International asked Mr. Podorefsky whether he thought there could still be a double-dip in the recession, to which he responded that there was still a 25% probability of a double dip, despite the hopeful signs.

The leveraged markets, today and yesterday

Mr. Malchow then asked David Brackett of GE Antares Capital about conditions in the leveraged markets today compared to six months ago. He responded that six months ago, the only financing available was asset-backed loans and distressed debt, whereas now more financing was going on and better companies are coming to market. "Our feeling is that EBITDA levels have pretty much bottomed out and that provides us with a lot better credit fundamentals," he said.

Michael Chirillo of GE Antares Capital agreed that there had been a technical recovery in the capital markets. While he said that the \$20 billion volume of leveraged financings for the first three quarters of this year was pretty dismal compared to almost \$70 billion for the same period last year, there are signs of life. "Roughly \$6 billion of that \$20 billion have been done in last 30 days, which is very good news." Mr. Brackett added that new underwritings are happening throughout the market, but very

selectively. "GE Antares Capital is in the market with a couple of transactions right now. We hope that those go well. We hope that will inspire folks internally to make more underwriting commitments." Ron Kahn of Lincoln International pointed out that another encouraging sign is that CLOs and hedge funds could no longer get better pricing in secondary market. "We have hedge funds and CLO funds calling up, they are back," he said. "They are more junior and second lien lenders, but I think it's a really good thing."

Mr. Kahn agreed that the leveraged market had been opening up recently, but mostly for companies with \$15 million in EBITDA or above. "Below \$10 million in EBITDA, there is not much cash flow lending," he said. "The good news is that there is a decent asset-based lending market there for smaller businesses." He said that the shining light for smaller companies is the mezzanine market, which continues to be quite active, given that mezzanine funds have the same amount of capital today as they did a year ago.

Mr. Chirillo added that because cash flow lenders underwrite based on the enterprise value of each entity, the underwriting argument is obviously harder to make with smaller EBITDA businesses. He said that while the incidence of default for smaller businesses is no higher than with bigger businesses, there were concerns that the recovery rate in smaller



Michael Chirillo, GE Antares Capital



Eric Malchow, Lincoln International



Ron Kahn, Lincoln International

businesses was lower. The panel agreed that bigger businesses with \$25 million in EBITDA could now borrow around 2.5 times EBITDA, with 3.0 – 4.0 times total debt to EBITDA.

More leveraged deals on the horizon

Mr. Malchow asked the panel what types of deals would be done in the next six months. Mr. Chirillo responded that refinancings were a possibility, but these were more likely towards the end of 2010. "I would start with high quality borrowers," he said. "I don't think we're in a position to be telling many credit stories. As long as there's a functioning syndication and capital market, we and others will also be supportive of bringing add-ons to the market."

Mr. Malchow said he felt that more deals would likely get done because the discussions between buyers and sellers were becoming more realistic, but that many good businesses are still sitting on the sidelines. He went on to ask what lessons lenders had learned from the market slump. Mr. Brackett said that the three times total debt to EBITDA level that lenders had formerly been prepared to stomach for a cyclical business was way too much. "There's a reason why cyclicals were financed on an asset-based basis, not a cash flow basis, and that is that

projections are very difficult." He added that lenders were regretting ever embracing covenant-lite deals, because "by the time you get to deal with that company, there's not much of it left."

Mr. Chirillo predicted that the market had seen the end of LIBOR floors and added that lenders are also reassessing how much dry powder to give to borrowers through revolving credits. "In the darkest hours of this downturn, some borrowers pulled out all the money and were hoarding cash, effectively, for fear they would not be able to access it any more." A member of the audience asked him whether there was a limit to the number of deals that could close in a tight time period. Mr. Chirillo answered that while he was comfortable underwriting a \$250 million deal, he was not sure whether he would be comfortable underwriting ten \$250 million deals next week. "I'd have to think about that. I think we're in the early stages of the recovery."



Panel 3 (l-r): Sharon Epperson, CNBC, William Christopher, Alcoa, Raymond Hoglund, Dover Corporation, Stuart Aronson, GE

Panel 3

President's Roundtable: Important Issues Facing Global Industrial Companies

Two presidents of global industrial companies, and Stuart Aronson, president of GE's Sponsor Finance Group, gave their take on current economic conditions, talked about the strategies industrial companies are using to weather the current downturn and discussed their investment plans for the coming year. They agreed that there were good acquisition opportunities today for strategic buyers, but that creating top-line organic growth through innovation was also critical given the current economic environment. Those companies offering commoditized products would likely lose market share over the next few years.



Sharon Epperson, CNBC



Stuart Aronson, Sponsor Finance Group for GE

Sharon Epperson of CNBC opened the discussion by asking the panel their views on the economic outlook. Bill Christopher of Alcoa, a diversified industrial company with a strong presence in aerospace, power generation and commercial transportation, said that economic recovery will be relatively slow. "We're coming out of hell and going into purgatory," he said, adding that recovery would be led by consumers, who are still not willing to spend, despite the fact that their ability to spend and access to credit has improved dramatically.

Ray Hoglund of Dover Corporation said that revenue from the company's Engineered Systems division was also reliant on consumer spending, being tied to fast moving consumer goods. "We're bumping along the bottom," he explained. "We get a good month and then a not so good month. We're cautious going into 2010 and we're not projecting any V-shaped recoveries here. We're just glad it doesn't get any worse every month. It feels good not to have that toothache any more."

However, he added that as the company sells to retailers and manufacturers of food and beverage products, the company should be on the leading edge of any recovery. "We're blessed because just about the last thing you do is give up food." He said that Dover was well positioned to profit from an upswing as it has a strong balance sheet, has been investing and restructuring throughout the recession

and is now planning to expand. "We just have to be in the right place at the right time at the right price."

Mr. Aronson agreed that, judging from the 500 companies in the portfolio that he manages at GE, there is very little reason to believe the U.S. economy is improving, although it does seem to have hit the bottom. "The reality is that many companies that are doing better because the cost of raw materials has come down," he said. On the upside, he noted that there was more consumer demand overseas, so the more diversified the company, the better.

Mr. Christopher added that in some of Alcoa's markets, there was a lot of uncertainty in the short to medium term. He explained that aerospace is a cyclical industry that would normally go into a downturn at this time, but Boeing still has a six year backlog of orders. "The strength of that backlog will determine whether Alcoa will get a typical downswing or a very moderate downswing." Asked how the company plans for this, he said that it looked at a number of different scenarios in order to decide whether risk mitigation was necessary.

Surviving the downturn

Ms. Epperson asked the panel about their strategies for coping with the current economic climate. Mr. Hoglund said that Dover Corporation was very



quick to balance expenses with revenue, but did not cut any of the product innovation budget. "Our customers are challenged with energy costs, so we are putting a lot of work into helping them manage that, which has allowed us to gain market share."

Mr. Christopher said that Alcoa had also increased investment in product development in the last 18 months. He agreed that the drive for energy efficiency was also giving his company the opportunity to create new products and reinvent old ones. "When you have the opportunity to rollout new products that deliver a different level of performance, you can restructure the whole pricing formula." He said that that was how companies were going to create top line growth, even if economic conditions remained poor. "Organic growth is likely to be more valuable to us over the next two to three years than it was over the previous four to five years."

He added that those companies with a commoditized offering were likely to run into trouble over the next few years, given current economic conditions. "There's going to be plenty of capacity to produce just about anything anyone wants. If you don't have a differentiated offering, people are going to come after your market share. For those competing on a commodity basis, I think 2010 and 2011 will be as brutal a two years as you will see."

The opportunity for strategic buyers

Mr. Hoglund said that right now there was a great buying opportunity for industrials, whether they are sourcing products or acquiring businesses. He added that the company had also combined businesses to capture synergies through strategic sourcing, has benefited from the change to the market caused by the drive for greener products, and is pursuing tuck-in acquisitions or acquiring new platforms altogether. Mr. Christopher said that Alcoa had also done some tuck-in acquisitions recently to fill out its product portfolio and that the company liked these because the integration risk is substantially lower. He said that acquisitions in general made a lot more sense today. "You are coming off multiples with record EBITDAs, so the timing is significantly better, and as a strategic buyer, I think we're definitely looking to step up the pace."

Mr. Aronson said that virtually every tuck-in acquisition that GE has financed in the last 18 months to two years are doing well and that he was seeing companies make some incredibly good acquisitions at the moment. "Folks who've come forward with cash have made some incredible deals." He said that on the private equity side, there had been a number of all-equity acquisitions in order to complete the deal, with the debt put on afterwards. "Some of the multiples that have been done, especially when you take out the redundant costs, are phenomenally



Raymond Hoglund, Dover Corporation

low. We think we're going to see more of that this year." He said that acquisition multiples were likely to continue to come down because sellers that were holding out for more value were becoming more realistic. "The bid/ask gap is shrinking. We've seen auction after auction where no deal was consummated, but some of the more recent deals are getting done."

Mr. Hoglund said that he felt that while some sellers were becoming more realistic about acquisition multiples, some were not. He said that the acquisition opportunities out there are either the result of a generational shift in a privately-owned business or because a corporate owner has decided that a certain area does not make strategic sense to them anymore.

Ms. Epperson asked the panel the lessons learned through this crisis that they would like to share with the audience. Mr. Aronson commented that memories are very short. "People were proclaiming in January through May that they'd never again do a deal that was covenant lite. It's not even the end of the year and that stuff is out there again," he said.

Mr. Hoglund said that it was important not to delay cutting costs in the hope that things were going to improve in the short-term. "Get your costs right as



William Christopher, Alcoa

quickly as you can. All our best predictions didn't foresee the depth or sharpness of the current recession. We just try to be as pragmatic and realistic as possible and get on with it and we've made it through real well."

Mr. Christopher said that the speed at which businesses took down costs and inventory during the recession was probably faster than anyone anticipated which bodes well for how they'll perform in the recovery. He added that it was important to have faith in your convictions. "In our analysis, there were a lot of indications in our markets that we were looking at unsustainable demand. We went back to those and said we need to have more faith in our convictions and be prepared to act on those."

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