Grayway

MANUFACTURING

4

volume 31, number 4, September 2010

MAKING IT HAPPEN:

Manufacturing is gearing up.

01
FITS AND STARTS
It could be a bumpy road but it's headed up

03
GRAY…WE'RE BUILDING
Mitsubishi Power Systems Americas, Inc.
Fort Smith, Arkansas

04
CLOSE TO THE CUSTOMER
U.S. a strong manufacturing market

05
GRAY MATTER
We've said it before, change is the only constant!

06
SHADES OF GRAY
California in the lead
A big step

Gray 50 fifty years

Manufacturing is an exciting, ever-changing business. Companies work hard to drive out inefficiencies so they can compete effectively and give their customers the best product and the best value. That makes building their facilities a complex, challenging business.

At Gray we love that business. We work hard to get to know our manufacturing customers so we can build plants that will meet their needs. That's why a team from Gray went to Denmark to look at a Siemens' plant there for building wind power turbines before designing and planning a similar facility for the company in Kansas.

We know manufacturers have suffered through a particularly tough time but we're confident they will adapt, change and build to be ready when their customers regain their economic footing. We at Gray are excited about the opportunities that lay ahead and eager to join our manufacturing customers – present and future – in building for them.

Phil Seale
Vice President
Manufacturing Market
pseale@gray.com

MANUFACTURING

Manufacturers looking at the long-term are building now to be prepared to meet demand in an improving economy.

BACK TO WORK
WITH A LITTLE OPTIMISM

Slowly, if not steadily, plants are gearing up and people are going back to work as production picks up.

During a dreadful 2008 and early 2009, when economies worldwide plummeted, credit evaporated, jobs disappeared and nervous consumers stayed home, manufacturers put on the brakes. Plants closed, shifts were eliminated, workers were furloughed and expansions mothballed.

Economists and market commentators talked about "working through inventory," another way of saying there's more in the warehouses than consumers want to buy.

James Williams

Now, after 16 months of growth in the U.S. economy and 13 in manufacturing, some people are cautiously looking forward.

"It's probably too early to say the recession is behind us. But I think it's OK to be a little optimistic," said James Williams, Vice President, Service Manufacturing Operations for Mitsubishi Power Systems Americas, Inc. Williams sees the foundations of a recovery in manufacturing numbers that show growth in the production of primary metals and increased demand for electric power.

Major manufacturers watch the numbers closely to decide when to build or expand. They try to walk what is sometimes a very narrow path between overbuilding on the one hand and lacking capacity to meet demand on the other.

Kevin Hazel

Kevin Hazel, vice president of supply chain management for Siemens Wind Power in America, said "it takes roughly two to three years from the decision point to have capacity become effective." Construction takes about 12 months but before that there is the siting decision and, after construction, getting the factory up to production. So, while many people are focusing on the weekly or quarterly numbers and daily stock market swings, manufacturers need to look much farther out.

In forecasting, "generally we look at one to three years, three to five years and then 10 year windows," Hazel said. In deciding on a very long-term investment such as when and where to site a factory, it's the forecast a decade out that weighs most heavily.

Tom Simpson, who works on development and project management for industrial and manufacturing prospects for the global commercial real estate firm Jones Lang LaSalle, has seen "an up-tick" in the last few quarters from his long-view customers. "A lot are still in the tire-kicking phase," of scouting locations, he said, but he thinks there's more to come.

"American manufacturing companies, and probably those overseas as well, in the last year alone have on average increased their cash reserves by 25 percent and in the last five-plus years over 60 percent," he said. "That money's sitting there begging to do something."

"I think what we're starting to see now is companies deciding that they can pay dividends with all that cash or reinvest it in the company to improve their long-term competitiveness." One approach is to take advantage of the lowest relative construction costs in history to build new capacity.

...after 16 months of growth in the U.S. economy and 13 in manufacturing, some people are cautiously looking forward.

DANAFILMS INC.

Danafilms is doing that right now, doubling the size of its facility in Franklin, Kentucky. The company, which makes plastic films for packaging, has some advantages in deciding when to ramp up, said Bob Simoncini, vice president of sales. As a smaller, privately owned business with only a few people in top management, "we can make decisions a lot faster than big corporations can," he observed. Plus, "we're conservative Yankees, we're not heavily burdened with debt," so when a decision is made Danafilms has the financial flexibility to put it into action with little delay.

Danafilms' packaging films are largely made to order for customers in the food and medical industries, so its business is relatively (although not entirely) recession proof. "We see some peaks and valleys but they are not as deep and they are not as high," as for many manufacturers.

The company isn't threatened by customers taking their business offshore because shipping costs, the demand for quick turn around and specialized products all make geographic proximity a serious advantage in the film packaging industry.

As for the broader manufacturing sector, "I sincerely believe it's going to be fits and starts….for the next year, year and a half."

But Danafilms, like more and more manufacturers, is building to prepare for the "starts."

"We see things coming along and we're going to be prepared when they do," Simoncini said.

DECADES OF STEADY GROWTH

Norbert Ore

Is manufacturing dying in the United States?

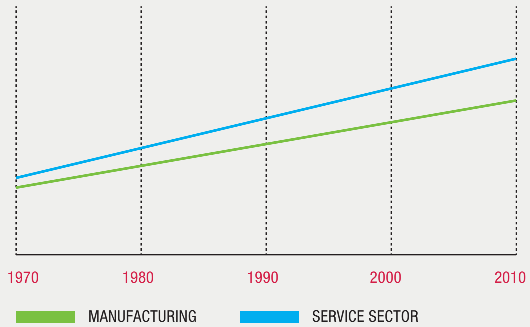
No, says Norbert Ore. And he should know.

Ore has produced the Institute for Supply Management quarterly report on the manufacturing business for 15 years. He's also worked in supply chain management for Fortune 500 companies for decades.

"I've lived this economy for 40 years," Ore says. "Manufacturing is not dying." The numbers can be deceiving. Some 40 years ago manufacturing accounted for 24 percent of U.S. GDP while now it's 12 percent.

Cut in half, right? No, during that four decades manufacturing has been chugging along with a healthy annual growth rate of 3.4 percent, at least until 2007. In the post-World War II economy, though, the service sector was booming 8 percent annually.

"Manufacturing has been growing at a very good rate but the service sector has been growing even faster," Ore says.



U.S. manufacturing has grown more than 3 percent annually since World War II.

Some jobs have disappeared, particularly in industries that are very labor intensive. "Those jobs have been exported," he says. The most prominent example is textile cut-and-sew operations. Generally, when labor reaches 25 to 30 percent of total cost it's worthwhile to move to a market with significantly lower labor costs, Ore notes.

Those who have remained in the U.S. have cut the labor force while doubling production, he says, accounting for a three-fold increase in output since the 1970s.

Mitsubishi Power Systems Americas, Inc.
Fort Smith, Arkansas

Mitsubishi Power Systems Americas, Inc. (MPSA) chose Gray Construction to design and build its first nacelle production plant located outside of Japan.

Nacelles, a core component of wind turbines, consist of the wind turbine rotor axis, generator, multiplying gearbox, control system and electrical equipment.

Construction on the 200,000 square foot plant, located in Fort Smith, Arkansas, begins this fall. It is expected to be completed in the fall of 2011 and employ some 330 people.

Sonia Williams

"One of the primary reasons we selected Ft. Smith is that it is centrally located in relation to where wind turbine projects are going to be located in the future," said Mitsubishi spokesperson Sonia Williams. On the western border of Arkansas, Fort Smith is a stepping off point for Texas and the Rockies, where wind is abundant.

Mitsubishi has engaged in the development, manufacture and marketing of wind turbines for three decades, and is one of the leading wind turbine manufacturers in the world.

Since 2001, MPSA has led the way in introducing earth-friendly, renewable energy options to help power economies throughout the Americas. The company's investment in a state-of-the-art Fort Smith wind turbine manufacturing facility underscores its continuing determination to design and build "green" alternatives for an energy dependent world.

Mitsubishi Power Systems Americas, Inc. / Fort Smith, Arkansas

THE U.S. – GOOD FOR THE LONG HAUL

“more and more realize that this is a good, long term potential market.”

Many countries offer cheaper land and labor than the United States but manufacturing here has maintained a steady growth of over 3 percent annually for decades.

Why?

Tom Simpson

One reason, according to Tom Simpson of Jones Lang LaSalle, is that manufacturing plants are costly, long-term investments.

“Anytime you start or reinvest in a large scale operation you want a stable economy, a stable government, stable credit.” Despite disagreements about government policies and the rigors of political debate, U.S. governance continues peacefully from administration to administration and fiscal policy remains stable, even if the economy isn’t always predictable in the short term.

Siemens Energy Inc.
Hutchinson, Kansas

Simpson, who works with customers from all over the world to develop industrial facilities, also noted that the U.S. offers a huge market, a qualified, reliable workforce, and “the ability to leverage high tech with universities and think tanks,” on a larger scale than elsewhere.

At Mitsubishi, Vice President James Williams says that if customers are in the U.S., “it’s more cost effective to produce in the U.S., with a U.S. supply chain.” Making it easier to produce in North America is the fact that the supply chain has become longer and stronger in the last decade. “Ten years ago we were almost forced entirely overseas,” but now Mitsubishi finds suppliers here for casting, forging and other specialties that “didn’t exist” before. Since many of these are either start-ups or significantly overhauled, they have modern equipment and are more flexible than their U.S. predecessors.

At Siemens Energy Inc. “the U.S. is very, very important,” attested Kevin Hazel, accounting for 25 percent of the company’s workforce and slightly more of its facilities and investment.

Hazel said that in his field, building equipment to produce energy from wind, major firms like Siemens Energy Inc. have been investing in capacity in the U.S. as “more and more realize that this is a good, long term potential market.” For a multinational company, manufacturing its product in the same country as it will be purchased reduces risk from currency valuation fluctuations. Of course, the same is true for suppliers. “We’re not the only ones that want to take the currency risk out and have more U.S. dollars.”

That’s one factor in what Simpson calls “a domino effect.” When a major manufacturer chooses a location, “you have the second and third tier plants that locate nearby to more efficiently supply that manufacturer.”

CONFIDENCE MATTERS

The devil is always in the details and that's certainly true for the Institute of Supply Management's manufacturing business report.

The August report notes that manufacturing has expanded in the U.S. in each of the last 13 months. But a closer look shows the gains are markedly stronger in some areas than others.

ISM looks at 18 manufacturing segments, 11 of which grew. Primary metals led the growth group, which also included apparel, leather products, transportation equipment, fabricated metal products, electrical equipment, appliances, miscellaneous manufacturing, computer and electronics, paper, chemical and food, beverage and tobacco products and printing. Contracting segments included furniture, petroleum and coal, nonmetallic mineral and plastics and rubber products, and machinery.

Norbert Ore, who compiles the reports, commented that so much of U.S. manufacturing health depends upon the transportation and housing sectors. He cited textiles as an example. The demand for fabric for automobile interiors, aircraft upholstery and carpets and drapes for homes is closely related to the health of transportation and housing. "If they aren't prospering, then the textile industry isn't going to do that well."

That inter-connectedness is what makes confidence such an important factor in an economic recovery, Ore observed. "The biggest issue right now is a lack of confidence: in financial institutions, in government, in the future. There's a high degree of uncertainty and that's kind of paralyzing the consumer from a spending standpoint."

GRAY MATTER

We've said it before, change is the only constant!

Friday, April 14, 1972, the plans were unveiled for the new Eaton Axle Plant in Glasgow, KY. Picture Left to Right – George Guttschalk ,Eaton Plant Manager, Glasgow; Nelson Henry, Eaton Group Vice President; James Norris Gray; Ed Dippo, Eaton Vice President Axle Division; Bob Gilleson, Eaton Assistant Vice President Axle Division.

Manufacturing, the topic of this GrayWay, has been in a constant state of change since the industrial revolution. Child labor laws, modern power production, transportation advances, globalization: They've all changed how and where things are made.

But the demand for a vibrant manufacturing sector hasn't changed: People need and want things to eat, to wear, to entertain, to help them get around. The list is, literally, endless and manufacturers work every day to supply it.

In the 50 years since our dad, James Norris Gray, began Gray Construction, commentators have often worried that manufacturing has no future in the United States. As Mark Twain – who lived and wrote as the industrial revolution transformed America - famously commented about his own death, we believe reports of the demise of U.S. manufacturing are exaggerated.

In fact, we know they simply aren't true.

Whirlpool has just chosen Gray to build a facility in Tennessee, where it will invest $120 million to make premium built-in cooking products. This LEED-certified plant will mean 130 new jobs and provide high quality appliances for Whirlpool customers for decades.

Our experience tells us that manufacturers like Whirlpool build in the U.S. for many reasons: to be close to their customers; to leverage the intellectual capital that drives innovation and hire workers who get things done. Our stable government and transparent economic system reassure manufacturers making long-term investments.

That won't change and we at Gray are eager to keep building with our manufacturing customers.

Jim Gray and
Stephen Gray

Jim
Jim Gray
Chairman and
Chief Executive Officer

Stephen
Stephen Gray
President and
Chief Operating Officer

A BIG STEP

Steve Renshaw
President
WS Construction

In late 2008 and early 2009 work essentially stopped as manufacturers began to see demand for their products dry up.

Today things have stabilized. In the last three to six months we've begun to have talks with manufacturers in the planning stages of new projects. That hasn't yet translated into new construction but it is a step in a positive direction, a big step. We're also seeing some activity as companies realign their operations. Some are realizing efficiencies by combining operations in one plant, which often involves a small expansion of an existing facility or buying a new one.

Another trend in this new market is that customers are investing in existing facilities, not to expand but to improve appearances and efficiency. They are taking care of their facilities and taking care of their employees.

> "**Customers are investing in existing facilities…**they are taking care of their facilities and taking care of their employees."

CALIFORNIA IN THE LEAD

Bob Moore
President
Gray-I.C.E. Builders

Taxes and regulation have earned California a reputation as an expensive place for manufacturers, causing many to move out of state. Still, we lead the nation in manufacturing jobs, with over 1.2 million.

As the eighth largest economy in the world we have a tremendous consumer base. Many food and beverage producers, large and small, are here to be close to their customers. Suppliers for the Hispanic market, where customers looking for fresh products shop almost daily, have grown.

Our infrastructure and location are also an attraction. We're building a facility for Kobelco EDTI Compressors. Their compressors for oil and natural gas production can weigh up to 30 tons, but California has freeways and bridges designed to carry those loads, as well as the engineers and skilled welders Kobelco needs.

There's also a lot of investment capital waiting until the economy stabilizes. When that breaks loose things will improve but in the meantime we're in for a long, slow recovery.

MAINTENANCE TIPS

The goal of the Gray team is for you to enjoy your building long after we've left the job site. Steve Higgins, Gray's Service Team Manager, offers maintenance tips in each issue of the GrayWay to help you plan preventive maintenance now to avoid expense and headaches later.

Steve Higgins
Service Team Manager
Gray Construction

- **Check outside lighting lamps and ballasts for performance.**
- **The switch between Standard and Daylight Savings time will require changing the settings on time clocks as well as the controls for outside lighting.**
- **Inspect your fire alarm system, checking smoke and duct detectors to ensure proper operation.**

10 Quality Street
Lexington, KY 40507-1450, USA
T 859.281.5000

Alabama, California, Kentucky, and Tokyo, Japan

www.gray.com

Gray

fifty years