

A powerful takeover

Consolidation has strengthened Hobart's position

By John Barker

AFTER YEARS OF MAINTAINING A LOW profile and quietly getting on with the business of making Ground Power Units (GPUs), Hobart surprised the GSE industry with two rapid acquisitions which, at a stroke, makes the company a world leader in GPUs and Pre-Conditioned Air (PCA). The owner, Illinois Tool Works (ITW), of this low profile company clearly decided that ground support equipment has a bright future.

The first acquisition was made in June this year when ITW, through its subsidiary Hobart Ground Power, purchased AXA Power of Denmark. This was followed in September by the acquisition of Trilectron Industries of Palmetto, Florida from Heico Corporation. Trilectron itself only a few months previously had acquired the key assets of the Air-A-Plane Corporation.

Hobart was for many years a family business based on the manufacture of welding sets. The first GPU was built in the mid-1940s as a direct development from the welding set product. It was mainly due to the welding set business that ITW acquired the US\$250 million business, known as Hobart Brothers, in 1996.

Acquisition is an important aspect of ITW's growth strategy - the company has averaged two new companies a year over



Daniel Downey
general manager of
Hobart Ground
Power

'Hobart Ground Power is now a US\$150m market leader — one of the top-five companies in the business'

do was to concentrate on the development of our core products and customers. We could see that the market would be expanding rapidly over the next few years and we resisted the temptation to diversify. Instead we made a conscious effort to look for acquisitions in our own growing market sector and to continue to focus on things we understood."

Hay identified solid-state frequency conversion as a key development area and succeeded in achieving annual sales in the ground power market of US\$12 million per year. In 1998 John moved back to the UK to become international vice president, and ITW manager Daniel Downey became general manager in the US, and is in charge of the latest acquisitions.

Hobart Ground Power's first acquisition seems a natural fit of two regional market leaders, both with a family business tradition going back half a century or more. Hobart and AXA first made contact at the Inter Airport exhibition in Munich, 1999, so it was appropriate for confirmation of the deal to be announced at the Inter Airport Atlanta show in September this year.

AXA Power was a subsidiary of Axel Akerman and introduced the company's first (28V DC) GPU in 1950. The product range covers 28V DC and 400Hz solid-state GPUs or frequency converters. The latest AXA 2200 range of frequency converters

provides outputs from 7.5 to 180kVA to a high specification. They can be fixed or mobile and are suitable for point of use bridge mounting. AXA Power employs about 100 people at Odense, Denmark, producing and selling about 500 units each year.

AXA Power managing director and a previous owner Kjell Akerman says: "We have always had a deep admiration and respect for each other's products and capabilities and we share a common history as successful family businesses who have helped create this industry. It made sense for us to join forces."

Despite the fact that AXA and Hobart make solid-state frequency converters and both sell into Europe, Dan Downey denies much overlap. Part of the argument is based on ITW's de-centralisation philosophy and healthy competition between sister companies. Downey says, "Let the customer choose". Plus there are some useful synergies. AXA is strong in Europe, where it sells 300 units per year. Conversely, Hobart is strong in North America, a market that a European player like AXA would find difficult to enter. So there are some territorial benefits.

There are also technical benefits as AXA manufactures its own electro-magnetic components (transformers) and uses proprietary software. Hobart expects to gain from AXA's 400Hz expertise. And while AXA only makes solid-state converters, Hobart is well known for diesel powered rotary mobile units.

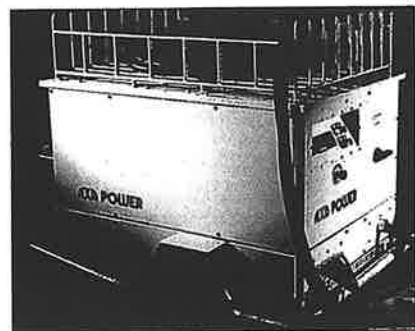
Finally, the different customer base is seen to compliment rather than conflict. Hobart's background is mobile GPUs, typically sold to airlines and handling agents, whilst AXA inclines more towards airports



Trilectron's new low noise range of GPU is expected to benefit Hobart

the last 10 years. Operating revenue has grown steadily over the same period reaching US\$9.3 billion in 1999, with growing operating profit and percentage margin. ITW employs 53,000 in 500 decentralised business units in 40 countries.

ITW separated the GPU and welding activities of Hobart and brought in John Hay as general manager from UK GPU manufacturer Houchin to complete the process and review the product range. Hay explains: "To scramble after everything from toilet trucks to aircraft starters would dilute our efforts when what we needed to



AXA Power manufactures fixed and mobile power units to high specification, including this 90 kVA mobile unit, type 3GRT-200/260-L



Hobart's diesel engine driven Detroit Series GPU

and mechanical and electrical consultants and construction companies. Solid-state converters are supplied as point of use power sources attached to boarding bridges or similar fixed installations. Hay says, "We are making a point of not disturbing the distribution organisation of the companies".

The acquisition of Trilectron Industries was a surprise as its owner - Heico Corporation - was building its own multiproduct ground support equipment business. Heico bought Trilectron in 1996, along with a 40% stake in Phillips GSE in the UK, which manufactures towbars, air start units and passenger stairs. In 2000 Heico added selected assets of Air-A-Plane including a US manufacturing facility and the intellectual property rights to the company's aircraft air conditioning system. Trilectron sales have risen over 30% per year to reach £42 million (US\$63m) per year.

However, Heico's main business is in the aircraft after market which commands a higher margin than ground support equipment, and the company expects to show a net profit of US\$9 million to US\$11 million on the transaction. The cash released will be used for new acquisitions within the renamed Electronic Technologies Group. Chairman Laurans Mendelson says: "We believe Trilectron's sale will sharpen Heico's aircraft aftermarket focus and will allow us to emphasise our traditional higher profit margin activities and to allocate our financial resources to these areas".

Air-A-Plane is recognised as a world leader in aircraft ground support mobile and fixed air conditioning with an impressive customer base. This alone must be a key benefit to Hobart. In addition, Trilectron produces 600 GPU's annually, and competes directly with Hobart.

But Trilectron's new low noise range of GPU will benefit Hobart, and the new acquisition adds PCA air start units which Hobart does not produce. Hobart becomes the largest producer of PCA units (counting those produced by Air-A-Plane) and a major player in air starters. Trilectron's 160,000ft² plant in Florida is being extended and Air-A-Plane's production has been transferred from Virginia. In summary, Hobart gains:

- Air Start business
- New customer base
- PCA business with market leadership
- New manufacturing facility in Florida
- New low noise technology
- A larger direct sales organisation
- Military sales

These acquisitions have turned Hobart Ground Power from a relatively small player to a substantial £100 million (US\$150m) market leader - one of the top-five companies in the business. Dan Downey plans to operate a decentralised business with manufacturing facilities in Denmark and Florida. "We still want decisions to be made at the lowest possible level that makes sense. Our staff still

have the same jobs they had before, but with some new resources available." Hay adds, "There is a small amount of overlap, which we will have to manage. But we believe that most of the new business is incremental. The distribution channels of each company will be available to the others so that specialised products from one company will quickly become available to new customers". For example, Hobart is strong in the commuter market, while Trilectron and AXA are successful in the bridge market. Combined project submissions may be a way forward. "The distribution model will change, but only after a lot of thought and on a case by case basis," says Hay. ■

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