

Magnetics Industry Overview by Walt Benecki

Is the Era of Industry Consolidation a Thing of the Past?

For the past 15-20 years, many industry pundits (including this author) have repeatedly predicted continued consolidation within the magnetic materials and components industry. There is little doubt that significant industry consolidation occurred during the decade of the 1990's and some of that activity has certainly carried over into the current decade. However, closer scrutiny of recent trends would suggest that we are no longer in an era where consolidation is the driving force in the magnetics industry.

A quick review of 2003 and 2004 highlights a few interesting consolidations within the soft magnetics slice of our industry. During 2003, Magnetic Metals acquired National Arnold Magnetics. This represented a significant consolidation within the niche wound core market segment. Later, Hitachi's acquisition of Metglass Solutions from Honeywell International was another logical consolidation. This move significantly strengthened Hitachi's participation in amorphous metals and provided Honeywell the opportunity to divest a business that appeared to lack fit with their overall business model.

Late in 2003, the merger of Hitachi Magnetics and Sumitomo Special Metals represented a blockbuster permanent magnet combination that resulted in NeoMax Ltd., now one of the largest, most powerful forces in the permanent magnet industry. The recently announced acquisition of Magnequench International's bonded magnet operations by Kane Magnetics International, represents a logical industry consolidation. This transaction was driven by a decision on the part of Magnequench to dispose of their bonded magnet operations so that they might concentrate on their real strength, rapidly solidified NdFeB powders. Kane achieved a significant step forward in expanding their bonded magnet capability to serve their customers. So far, these examples would seem to support the theory that the era of industry consolidation is yet alive and well.

On the other side of the coin, the June 2004 disposition of Morganite by Morgan Crucible actually expanded the industry as a new corporate entity named Energy Conversion Systems emerged. This acquisition by MidMark Capital actually represents an expansion of the industry, not a consolidation. In the prior year, MK Magnetics emerged as a new participant in the wound core arena, attempting to fill the void caused by the earlier acquisition of National-Arnold by Magnetic Metals. An additional example of industry expansion is the recent announcement by Magnet Applications Ltd. that Arelec SA had been sold off to Arelec's management team. All these announcements actually represent expansion within the industry, not consolidation. Looking at this recent history, one might argue that there has been somewhat of a balance between "consolidation" and "expansion".

A quick reflection of the worldwide landscape, however, confirms the fact that the era of consolidation is waning and we have now entered into an era of TRANSITION and EXPANSION, with the vast majority of this action taking place in China. Looking back at the last 18 months, there have been numerous announcements of industry transition to Mainland China.

Companies like Arnold (soft magnetic powder cores), Magnequench (NdFeB powder and sintered NdFeB), Steward (soft ferrites), and Kane Magnetics (hard ferrites) have all made announcements that represent a significant transition of western production to China. Vacuumschmelze's recent alliance with Beijing Zhoing Ke San Huan to form a 50-50 joint venture (named SANVAC) reflects the likely future transition of sintered NdFeB production from Germany to China. Since many of these strategic

initiatives have yet to be fully implemented, some of their impact has not been felt within the industry. Other similar plans are on the many company's drawing boards, but have not yet been announced.

The other dimension that has been evolving is significant expansion of manufacturing operations, again in Mainland China. It seems that dozens of new magnetic materials companies are starting up in China every quarter. This action is not confined to NdFeB and hard ferrites. Many new companies are popping up producing NdFeB powder, soft ferrites, wound cores, amorphous materials, bonded magnets and wound magnetics.

China expansion is also being accompanied by improved capability as more Chinese manufacturers are not only pursuing ISO 9000 certification, but are also becoming QS 9000 certified to permit them to pursue attractive high-volume automotive applications. Improved quality, advancing technology and improved sales and marketing capability will also fuel China's continued expansion.

Over the past 18-24 months, most of the traditional Chinese manufacturers like BGRIMM, DMEGC, San Huan, Thinova and Yunsheng have all announced facility expansions or new manufacturing plants. The reality is that, while western manufacturers suffered through significant production declines during 2001-2003, Chinese production of most magnetic materials actually increased during those years.

In conclusion, it is clear that we are seeing far less industry consolidation and much more transition and expansion, mainly to and within China. There is no doubt that we will witness some additional consolidation as we move forward. The pending sale of SPS Technologies' Magnetic Materials Group by Precision Cast Parts may prove to be a significant consolidation step. But if a financial buyer emerges for this business, the result will be neutral as it impacts the number of total participants within the industry. It is also likely that some future consolidation will be experienced within the distributor, fabricator and wound magnetics community.

In summary, in spite of the fact that we will occasionally see additional industry consolidation acquisitions in the future, the era of consolidation is now likely behind us. The era of growth and expansion within China is upon us, and it will continue on for many, many years. The next significant era of industry consolidation will probably occur as China's magnetics industry begins to mature and consolidation begins in earnest within China itself.

I must comment regarding one significant announcement made in late August of this year – the retirement of Mr. Port Wheeler. Port is an esteemed colleague and friend who made massive contributions to the permanent magnet industry over the years. As president of Wheeler & Associates, Port's guidance and advice to so many brought unparalleled value to the permanent magnet industry.

Walt Benecki is the former president of the Magnetic Products Group of SPS Technologies Inc. and a past president of the Magnetic Materials Producers Association (now IMA). Walt is president of Walter T. Benecki LLC, a consultancy serving the worldwide magnetics industry. For additional information, visit his website: www.waltbenecki.com