CPC Meeting Notes

P. R. Morgan

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MEMORANDUM

TO: Corporate Planning Committee
FROM: PRMorgan
SUBJECT: CPC Meeting Notes - 26 September 1978

DATE: 28 September 1978

All present - with the exception of M. Gilvar

License Program

WHH, PaSM, and MG will be in Europe for the next two weeks. Part of their trip will be devoted to discussions with potential licensees. The advantage of license agreements is the ready fit with our shop and engineering skills. The obvious disadvantage is the necessity of sharing profits with another manufacturer.

A. Expansion of LRE Contract

LRE is overcommitted in the USA. This presents us with an opportunity to help them with all USA proposals, except those for large new mills. G. Heyl has begun to work with the Non-Ferrous Department in this effort. There are potential conflicts for Morgoil, since we will be competing against Morgoil customers, but we believe these can be overcome.

B. INNSE Seamless Pipe Machinery

INNSE has two major developments: the press piercing mill (PPM) and the retained mandrel mill (MPM). While there are competing processes for this equipment, we believe INNSE technology is at least as good, and probably better. In addition, INNSE has installations in place and running, and more coming on stream. Close study of the equipment has shown that we can manufacture more of it in our own shop than we originally believed. If INNSE accepts a slight redesign to their housing, we can manufacture nearly all of both the PPM and the MPM.

We understand that U.S. Steel may install new seamless pipe equipment at their Lorraine Works. This could include an MPM worth about $15 million. Aetna Standard is the industry leader and is very tough, but we believe INNSE technology is sufficiently good to win some orders, given a USA manufacturer.
The proposed agreement with INNSE presents no apparent major problems. We originally suggested a semi-active agreement with INNSE to hire Rolf Bungeroth. With U.S. Steel's interest there could be action in which case we would hire Bungeroth and put one of our own people with him to learn the industry.

The future market depends on U.S. Steel. There are other companies needing equipment but U.S. Steel is the leader, and they will not move until USS does. As foreign competition increases, U.S. Steel will have to move or lose market share.

C. Continuous Casting, Rolling and Coiling of Copper Strip

This is the proposed venture with Hazelett, LRE, Hoboken, and MCCo. to supply Copper Range with a mill to manufacture copper strip. Hazelett and Hoboken are key ingredients in this venture. The two work together on copper rod installations, along with Krupp. Hazelett has the only caster that can perform the necessary job, and Hoboken has the know-how. Hoboken has a new wide belt caster for anode, and their tests will be important for this project.

Our position here is to manufacture LRE's equipment, and to keep Hazelett and Hoboken in the fold.

D. Main Drive Universal Joint Spindles

We remain interested in this product from our research into the Koyo spindle.

In Europe, Voith and GWB both manufacture universal joints. Voith appears to be the leader. We will meet with them to find out what interest they have in main drive universals. If they show no interest, we will talk to GWB.

Two representatives from Koppers Power Transmission Div., paid us a visit to learn more about Koyo. We were complimentary of Koyo's expertise, but added that the expense to get into the business was too large for us.

According to Koppers' representatives, the market for main drive gear type spindles is $10 million per year.
Davy is still considering Koyo. They could buy kits from Koyo, assemble and sell. Voith has made a similar offer to them.

Our own gear-type spindle program will remain in limbo for the time being.

E. Aluminum Drum Type Strip Caster

We have learned that Pechiney, the leading European manufacturer of drum type strip casters, may be looking for a U.S.A. licensee, and that we are one of the prospects. They have recently sold Reynolds a caster and have used this to sponsor a show for American manufacturers.

This type of caster is a good companion for foil mills. In addition it compliments the flat bed type caster that Hazelett manufacturers. Bill Hazelett is all in favor of our pursuing this possibility. We have two names to contact, and we will do so. Perhaps we can get a jump on our competition.

Acquisition Program

1. MCCo. should maintain a quality approach. We do not want literature distributed at random to any finder on the block. We don't have the staff to sift through the responses we would receive, and our reputation could suffer. We should deal with people who have a quality reputation and who are willing to familiarize themselves with our needs.

2. We probably have better contacts than any finder or investment banker within the metals industry. This is not to say that a finder can't be of help to us in the metals area, but we should continue to use our friends and contacts within our industry for information.

3. We should use our bank contacts. Banks have reputations to uphold so any prospects they gave us would be good ones.
4. Beginning our search in New England is a good idea. We do not have extra management to spare, so an acquisition nearby would facilitate management and eventual assimilation into our own operation.

5. Stay away from New York investment bankers. They are extremely opportunist. They probably would not have our best interest in mind. The size deal we are looking for is not large enough to interest them.

6. Quality finders can be useful. They are known through their reputation. They have excellent contacts and broad exposure.

7. Consultants can be useful if given specific tasks, and if you know the people involved in your project. Generally, however, consultants do not have deal-making capability.

8. Investment bankers can be useful if put on retainer. Their primary interest is a long-term relationship with a client who could use all the services they have to offer.

9. Our fee policy should be clear and simple. We should be willing to pay well for services. Our criteria are relatively high and the size deal is relatively small. We, therefore, should be willing to pay a premium for results.

10. We must be prepared to act and react quickly should a possible acquisition come along. Finders and other contacts do not wish to be kept waiting for answers from us. We should have a clear idea of what is appropriate for us and what is not.

11. We should be aware that small acquisitions frequently demand as much management time as large ones.

12. Integration after an acquisition can be difficult. It is a problem to be aware of before the acquisition is made. It is not always appropriate to merge an operation into ours.

13. The need for diligence and stick-to-itiveness cannot be overemphasized when searching for acquisitions.
14. The odds of finding a suitable acquisition are long—perhaps 1000 - 1. This is particularly true given high criteria. There is a need to be flexible in looking at acquisitions, but the higher the criteria, the greater chance for a successful acquisition once it is found. The problem is that high criteria make acquisitions harder to find.

Acquisitions can help broaden our base while keeping higher profits more efficiently than licenses, but they are harder to find.

The committee agreed to hire a finder, Jack Fulham, for two months at $3,000 per month, and to retain Arthur D. Little to look into the mining equipment industry and oil equipment industry to identify possible products and companies of interest. We will continue to talk to other bankers, investment bankers and finders to insure a broad, quality exposure.

**Other Items**

**Micar Process - E.H. Cumpston.** - This is a mixing process that could change many products' technique for mixing from a batch-type to a continuous-type method. We will talk with people who have used this process to ascertain its pluses and minuses.

**Triplet Mill - Metalform.** - RDWykes viewed this mill in operation. It is highly automated, but the engineering leaves much to be desired. Davy and Mitsubishi currently hold licenses. Morgardshammer has an option for a license. We will hold-off on this until we have a better idea of just how good it is and what the prospects for RDW's design might be.

Incidentally, we understand Morgardshammer may be for sale. WHHoward will try to confirm this in England.
Continuous Casting and Rolling of Ferrous Rod & Bar

A layout of a proposed facility has been made and sent to Hazelett for their evaluation. Proposed bar tonnage is 260,000 tons per year. The economics remain to be studied.

Fordees Corporation - Lectonia, Ohio

They manufacture beds, saws, and B.O.F. equipment. Sales are $3 million, with an R.O.I. of 25% predicted. The general manager wishes to stay on. Asking price is $1.2 million.

Fordees doesn't do anything we can't do. We will look at it however to discuss what, if anything, is unique.

Process Engineering, Plaistow, N.H.

They manufacture LNG containers. We looked at them in 1971 and rejected it. It was agreed not to pursue this since the risks are currently quite high and costly.

Plastic Machinery - Ingersoll Rand

A visit was made by WHH, HEM, and PRM. They learned that this division would be too large for us to absorb at too small a return.

PRM:ch

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