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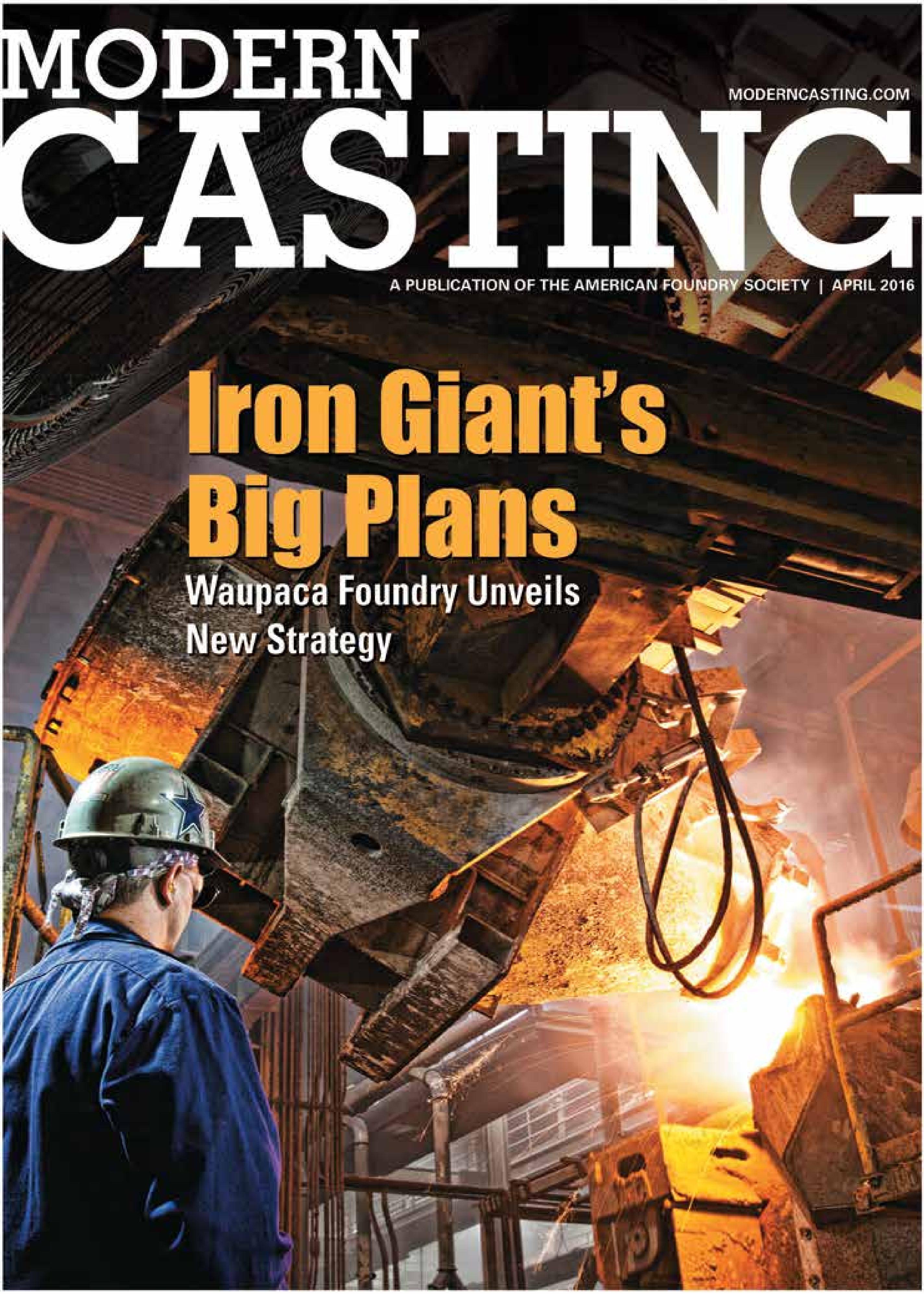

Iron Giant's Big Plans

Waupaca Foundry Unveils New Strategy

An Iron Giant's Big Plans

Waupaca Foundry, recently acquired by Japan's Hitachi Metals, announces a far-reaching package of capital investments and strategic initiatives for future expansion. **NICHOLAS LEIDER, ASSOCIATE EDITOR**

With annual sales approaching $2 billion, Waupaca Foundry is one of the largest metalcasting groups in the world. Focused on the automotive, commercial vehicle, off-highway and other industrial markets, the Wisconsin-based company produces millions of components that keep cars and trucks of all sizes on the road.

In recent years, though, the metalcaster itself has had to change gears a number of times. In 2012, Waupaca Foundry was sold by longtime owner ThyssenKrupp to KPS Capital Partners, a private equity firm that prioritized investment to increase the company's value. Though business improved in the wake of the global recession, the relationship was short lived, and Waupaca Foundry was sold once again in 2014 to Hitachi Metals Ltd.

Not two years into its relationship

Waupaca Foundry is converting its Etowah, Tennessee, plant to 100% ductile iron.

with Hitachi Metals, a Japan-based company with machining and metalcasting operations in Asia and North America, Waupaca Foundry appears to be shifting into high gear. In early 2016, the company unveiled a four-part series of capital investments and strategic initiatives along with long-term expansion possibilities to improve its standing in the global market both today and tomorrow:

- Increasing ductile iron capacity.
- Installing horizontal molding capabilities.
- Expanding machining operations.
- Exploring expansion into Mexico.

"We are very happy to have Hitachi Metals as a long-term, strategic owner," said Gary Gigante, CEO, Waupaca Foundry. "Hitachi Metals started out as an iron foundry. They own iron foundries. It's a strategic purchase for them, so I feel good about the future and our potential growth."

"Having a global footprint has always been a part of our long-term strategy. We want to be in Mexico, Hitachi Metals wants us in Mexico and our customers want us to be there."—Gary Gigante, CEO, Waupaca Foundry

The Goldilocks Solution

Established in 1955, Waupaca Foundry was purchased by German conglomerate Thyssen in 1978. (See sidebar for more complete details about ownership.) The marriage proved beneficial to both sides for 30 years, a period when the metalcasting operation underwent significant expansion.

Two plants—one each in Indiana and Tennessee—were built. Existing plants in Marinette and Waupaca, Wisconsin, were expanded, with the three facilities nearly doubling in size. Total production increased exponentially from less than 100,000 tons in 1978 to a pre-recession high of more than 1.25 million.

But the economic downturn that began in 2007 exposed differences in direction for the metalcaster and its parent company. Beginning in the 1990s, ThyssenKrupp reduced the number of aluminum and casting facilities it owned, divesting in those operations while investing billions of dollars in steel processing plants in Alabama and Brazil.

"ThyssenKrupp was really, really good for a long time, but things can change," Gigante said. "After the recession, they were not interested in owning foundries or expanding foundries. We

Customers for automotive components, such as brake rotors, are encouraging Waupaca Foundry to expand into Mexico.

Increased reinvestment since the Hitachi Metals acquisition has meant revamped operations across Waupaca Foundry's U.S. facilities.

were not core to their business."

The Budd Company, a U.S.-based manufacturing conglomerate, had owned Waupaca Foundry since 1968 and acted as a middleman between the casting operations and the German parent company. But that company was dismantled in 2007, leaving Waupaca Foundry under direct oversight from ThyssenKrupp.

Expenditures that used to take days now required months for approval. Additionally, with massive amounts of capital directed to its steel operations, ThyssenKrupp reduced available resources for the metalcasting facilities. Not only that, return on investment for approved projects was expected to be relatively quick.

"A lot of strategic advancements stopped during the recession," Gigante said. "The focus was on the short-term."

By May 2011, ThyssenKrupp announced plans to divest its iron casting division to reduce debt and refocus on emerging markets. The next year, the German conglomerate sold Waupaca Foundry to KPS Capital Partners, a New York-based private equity firm.

The new ownership focused on a variety of manufacturing facilities, including one small metalcaster, but Waupaca Foundry was its largest metalcasting operation by far. Waupaca Foundry management's excitement about the transition was tempered by suspicions associated with private equity.

"We were extremely nervous," Gigante said. "We worried about assets going out of the company. I thought investment might be reduced even further."

Such hesitation, however, proved unfounded. KPS increased annual reinvestment—in excess of $40 million after falling to roughly $15 million under ThyssenKrupp. Additionally, KPS allowed Waupaca Foundry's management to operate more freely with minimal oversight.

"Things happen quickly in [the private equity] world," Gigante said. "On our very first day of [KPS] ownership, they approved a project for a new molding line. … Most of our proposals could be approved with a phone call."

Though investment increased, ROI was expected in less than five years, extending the timeline compared to previous ownership's while still limiting projects to the short- and mid-term. Waupaca Foundry continued to grow coming out of the recession, but KPS began exploring an exit from the metalcasting industry while forecasts called for moderate growth. After exploring a select group of potential buyers for the casting business, KPS reached a deal with Hitachi Metals Ltd. in August 2014.

"We needed to add capacity to produce iron castings," said Eiji Nakano, managing officer, Hitachi Metals. "The American market is much stronger than in Japan, so we wanted to acquire iron foundries in the U.S."

The acquisition, with the new parent company well established in metalcasting, signaled greater stability for the customers of Waupaca Foundry as compared to its relationship with KPS because of the new ownership's strategic location within the casting industry. The metalcaster could benefit from joining a parent company with similar operations and capabilities.

"The amount of synergy between Waupaca Foundry and Hitachi Metals has been incredible," Gigante said. "The new ownership allows us to plan for the long-term. It allows us to invest in the business, so you can look

WAUPACA FOUNDRY'S TIMELINE

1955: Waupaca Foundry Opens
1969: Budd Company Purchases Waupaca Foundry
1978: Thyssen Purchases Budd Company
1999: Thyssen merges with German steelmaker Krupp, forming ThyssenKrupp
2007: Waupaca Foundry Directly Reports to ThyssenKrupp After Sale of Budd Co.
2011: ThyssenKrupp Announces Plans to Sell Waupaca Foundry
2012: KPS Capital Partners Purchases Waupaca Foundry
2014: Hitachi Metals Ltd. Purchases Waupaca Foundry
2016: Hitachi Metals Automotive Components USA merges with Waupaca Foundry MC

back 20 years from now and say that was the right thing to do."

Building the Future

Early this year, Waupaca Foundry finalized its 2018 mid-term plan in close cooperation with its new parent company. This four-pronged plan represents the first formal strategy announcement with Hitachi Metals and its U.S.-based subsidiary, Hitachi Metals Automotive Components USA LLC (HMAC).

Initiatives include converting one plant to 100% ductile iron production from a current even mix of gray and ductile iron, installing a horizontal molding line at another facility, increasing machining capabilities through acquisition or partnership and, finally, exploring a Mexico-based casting facility.

At the time of the 2014 acquisition, Waupaca Foundry management understood the potential synergies and inherent advantages related to an ownership group with a heavy interest in metalcasting.

"The question I get most often is, 'Why did Hitachi Metals buy us?'" Gigante said. "Now that they've owned the company for a year, it's obvious they intend to grow it. That's why they are investing in us. … The other thing is our customers see [these investments] as steps in the right direction."

Increasing Capacity for Ductile Iron

The first initiative of Waupaca Foundry's latest plan is rather straightforward. Plant 6, a 387,000 sq.-ft. facility in Etowah, Tennessee, splits its annual production evenly between ductile and gray iron. Plans are approved to convert the 200,000 tons of annual capacity to entirely ductile iron, with the goal of completion by April 2017.

The project will help improve efficiencies by reducing the inherent obstacles of transitioning between pouring both gray and ductile iron. Additionally, the HMAC facility in Lawrenceville, Pennsylvania, which pours only ductile iron, has been near capacity for a number of years. The project to increase ductile iron capacity at Waupaca Foundry's Plant 6 will relieve pressure and increase output.

"One goal is to grow the Hitachi Metals brand products, which is primarily ductile iron suspension castings," said Mike Nikolai, president and COO, Waupaca Foundry. "At capacity, they've had little room to grow the business. Essentially, this opens capacity to grow that business while we move gray iron production to other facilities."

Boosting Machining Capabilities

A recent trend in the global

One vertical molding line in Tell City, Indiana, will be removed to add horizontal capabilities.

metalcasting industry has seen Asian, European and North American facilities add machining capabilities, either through in-house operations or partnerships. Customers increasingly expect suppliers to offer machining. In response, Waupaca Foundry is actively exploring options to add machining capabilities near Plants 1, 2 and 3 in the Waupaca, Wisconsin, area. The initial goal is to have an existing partner open a facility, focused primarily on machining strategic products.

"In the past, our capital was primarily directed at the foundry capabilities," Gigante said. "To invest in machining would have limited the casting side of the business. Now, we have the ability to fund both and offering machining is required to get new business."

The expanded capabilities will better position Waupaca Foundry to gain business, but any potential partnership will introduce a new set of variables. Along with machining operations, company officials expect to do some assembly work as well.

"It will change the supply chain and how we manage it," Nikolai said. "We have to expand our materials management and quality assurance."

Waupaca Foundry is currently exploring possible partnerships, though no official agreements have been made. The company aims to have a manufacturing solution in place by 2017.

Introducing Horizontal Molding

In its seven casting facilities, Waupaca Foundry has a total of 35 vertical molding lines with an annual capacity of 1.8 million tons. The casting giant expects to add horizontal molding capabilities in its operation in Tell City, Indiana, by 2018. Engineering plans have begun to replace one of the facility's four vertical lines with a horizontal one.

"The commercial truck market—differential carriers, cases and axles—will be the primary focus," Gigante said. "But we also will be able to produce construction and agricultural castings that aren't possible to produce in ductile iron on vertical molding lines."

Waupaca Foundry expects to be supported by Hitachi Metals engineering and product development departments, which have worked with horizontal operations in Japan and South Korea, in learning the different design and process demands.

The addition of horizontal molding will allow Waupaca Foundry to produce different castings, while also opening the door to new customers. Still, such an investment will require time to sell the open capacity. Waupaca Foundry would prefer to receive commitments from customers before installing the new line, but such a situation may not be realistic.

"In today's market, you have to build it and they will come," Gigante said. "Even if you have an anchor customer who can bring in 30% of capacity, that leaves a substantial amount of business you need to go out and get."

Company officials are projecting the line to begin operation in 2018, though filling capacity may take two or three years.

Crossing the Border?

Waupaca Foundry's fourth initiative in its 2018 mid-term plan might

Waupaca Foundry is exploring machining options near its Wisconsin operations.

Waupaca Foundry plans to increase annual capacity from its current level of 1.8 million tons.

still be further on the horizon, but it has the potential to be a major step forward for the metalcaster.

"Hitachi Metals has a strong footprint in Mexico with other product in other divisions," Gigante said. "We are strongly encouraged to come up with a [casting-specific] solution because they don't currently have that in Mexico."

Such an expansion was in the works a decade ago, when Waupaca Foundry presented a fully designed greenfield project to the ThyssenKrupp board of directors. But, because the metalcasting business was not prioritized at that time, the project was not approved. The recession the next year ensured any plan to enter the Mexican market would be shelved.

Now, considering Hitachi Metals' willingness to extend ROI, such a project could be in the foreseeable future. Waupaca Foundry has received encouragement mainly from its automotive customers because it would be able to supply large volumes in relative proximity to many major assembly plants.

"Having a global footprint has always been a part of our long-term strategy," Gigante said. "We want to be in Mexico, Hitachi Metals wants us in Mexico and our customers want us to be there."

Building on Common Ground

With such comprehensive plans for the future, the excitement extends from the executive levels of Hitachi Metals all the way down to Waupaca Foundry's shop floors. Much of the uncertainty that accompanied previous ownership appears to be transformed into optimism for what's to come.

A number of "quick wins," as they're calling them internally, come along with combining the capabilities of Waupaca Foundry and HMAC, which formally merged April 1, 2016. For example, the two companies can share accounts payable and receivable services. Best practices are shared. Both Hitachi Metals and Waupaca brands can be cross-sold to open up both sides to new customers.

Additionally, benchmarking exercises after the acquisition allowed both Hitachi Metals and Waupaca Foundry to identify best practices that could be standardized across all facilities. For example, a method of problem resolution that Waupaca Foundry began under KPS ownership has been implemented across its North American casting, machining and assembly operations. The workforce is divvied into four levels: Level 4 being on the shop floor, 3 being foremen, 2 the superintendent and 1 operations management.

"Level 4 can try to solve the problem before it goes to Level 3," said Joey Leonard, executive VP, human resources. "Employees are able to make changes themselves, instead of a top-down process. We went from management ownership to operator ownership. Since then, we've seen improvements in productivity and quality."

The Hitachi Metals acquisition has impacted Waupaca Foundry from day-to-day operations to long-term planning. But a sense of stability accompanies these changes, allowing the metalcaster to best position itself for the future.

"It feels really good to be back in this position again, to be investing in our future," Gigante said. "This is a chance to move forward, being a part of a larger company with a metalcasting backbone." MC