

# Taylor-Wharton International

## CryoGas International Interviews Robert E. Gadomski, CEO

In late 2007, Wind Point Partners acquired the Harsco GasServ group of gas technology businesses from Harsco Corporation. At that time, Robert E. Gadomski was appointed to the position of Chief Executive Officer for Taylor-Wharton International (TWI), the new company name. Gadomski had served as Executive Vice President of the Air Products and Chemicals Gases and Equipment Group before retiring from that Company in 2004, with 34 years of service. Before joining TWI he was a consultant and was the Halsey Distinguished Visiting Professor of Engineering at the University of Virginia.

Taylor-Wharton International, as it is known today, is one of the oldest and best known equipment providers to the industrial gas industry. We asked Mr. Gadomski to brief us on his first year as CEO of the Company. The following are his remarks on the progress he has seen TWI make under its new management and ownership.



Taylor-Wharton International's CEO  
Bob Gadomski

**CryoGas International:** You have many years of experience in the Industrial Gas and Equipment Industry. What do you see as the vision, mission, and strategy of Taylor-Wharton International under the new private equity ownership?

**Gadomski:** Our business goals are aligned with our shareholders' goal of making a substantial return on equity. We intend to improve return on equity through a series of actions including continued customer growth and investment, especially outside the US, renewal of our brand names through plant modernization, new cryogenic product line development, and selective product line acquisitions. Additionally, we are focusing on driving costs lower using initiatives like lean manufacturing, which will also improve our responsiveness to our customers. Our shareholders are known for holding and investing in their business interests. Sixty percent of our products grow with the industrial gas sector and our fastest growing areas are outside the US. Our propane tank and cylinder refurbishing businesses are also key growth areas. These service businesses combined have the potential to be a \$30MM product line.

**CGI:** Describe for us your current product portfolio and how it has changed under the new management.

**Gadomski:** We have five major product lines: high pressure cylinders; cryogenic vessels; valves, fittings and regulators; propane tanks, and composite cylinders and we are organized by self-standing product Divisions.

We are asking each Division to be all that it can be. We have fairly strong US market positions and solid brand name recognition. We want to re-establish our product quality leadership position; this comes with an investment in engineering, tooling, training and the like. We look to dramatically increase our micro-bulk products overseas. We have introduced a new product at Sherwood Valve, our refrigeration ball valve series, which is compatible with virtually all of the new refrigerant gases and is also rated for use with the popular 700psig refrigerant gases. At Structural Composites Industries we have developed a composite-based replacement for steel tube trailers. We are putting substantial efforts behind our green initiatives for recycling and recertifying propane tanks. Our recent acquisition of Certified Cylinder adds refurbishing and recertifying of DOT propane cylinders to our established services for ASME propane tanks. We are extending our reach in the international cryogenics market by hiring sales representatives in the Middle East, Eastern Europe and Southern China.

**CGI:** Taylor-Wharton International has four brands that are highly recognized in both domestic and international markets. How would you describe TWI's market, product, and technology position in those gas containment businesses?

**Gadomski:** We are leaders in some important regions such as North America and South Asia. I think most companies look to individual product sourcing rather than a

**CEO Bob Gadomski defines the company's mission in 2009 to, "Improve return on equity through a series of actions including continued customer growth and investment, especially outside the US, renewal of TWI's brand names through plant modernization, new cryogenic product line development, and selective product line acquisitions."**

combined gas containment purchase. In either case, our four flagship brand names — Taylor-Wharton, American Welding & Tank, Sherwood Valve, and Structural Composites Industries — are well-positioned to respond to both purchasing scenarios.



TWI's EF2000 micro bulk unit is an example of a product line CEO Bob Gadomski plans to dramatically increase overseas.

In our cryogenic product line, we believe we are #2 worldwide. As the major gas producers look to leverage their purchases across 30, 70, 130 countries, they can turn increasingly to TWI for cryogenic tanks. We now see evidence that the major gas companies are leaning in that direction.

We certainly support global code harmonization efforts and have worked diligently to have our cold-stretch technology for cryogenic bulk tanks approved. Producing similar products throughout the world using standardized codes and regulations will have a positive impact in the gas industry on both production costs and the third-party costs to certify products. Sherwood's global valve is now accepted in every country and meets all current codes. This is a real plus for our customers who operate in multinational markets and transport gases across country lines. The ISO-9809 standards for high-pressure cylinders are another example of international cooperation for the good of the industry as a whole. As an increasing number of countries ratify the ISO-9809 standards, the task of getting high-pressure gas from the source to the end-user becomes more cost-effective. Harmonized standards for micro-bulk units has the potential to have a similar effect on the growing applications for cryogenic gases.

The weak dollar has provided us with attractive opportunities for all of the products that we manufacture in the US. Specifically, Sherwood valves, Taylor-Wharton cryogenic dewars and T-W high-pressure cylinders have been extremely appealing to our international customers and prospects.

**CGI:** Your recent news releases and your website profiles indicate an executive management team with extraordinary industry experience and knowledge. How has the new team driven the culture and direction of TWI?

**Gadomski:** We anticipate continued additions to our team to drive cultural changes in the areas of meeting customer needs, serving overseas customers, implementing best practices and deepening product knowledge. We are focusing on streamlining our internal communication and, at the same time, we are improving our outreach to customers through an enhanced website presence and expanded participation in industry associations.

Our transition from a division of a publicly traded company to a privately held LLC required a CFO with a unique blend of business and financial experience who is also ide-

ally suited for the growth initiatives planned for TWI's businesses. Joe Folger was named as our CFO and Senior Vice President — Administration. Joe and I worked together at Air Products from 1988 through 2003 and Joe's prior experience as VP and Controller for Air Products' worldwide industrial gases and equipment business will bring the appropriate balance of fiscal stewardship and forward growth assessment to our strategic initiatives. Stuart Jara, our recently appointed Vice President and General Manager for the Taylor-Wharton cryogenic businesses, also has extensive experience in the international sector of the industrial gas industry. His tenure includes service with one of the major gas producers in the global gas community. Roland Wright, our new Senior Vice President of Operations, contributes experience in manufacturing leadership, procurement, and supply chain management to the entire TWI organization. This addition of a senior operations expert allows us to identify and leverage manufacturing resources across our production processes.

Our entry into the large propane tank market is an example of effectively sharing resources to grow our businesses. We now offer the propane industry large ASME code vessels in the 10,000 to 100,000 gallon capacity range. Our American Welding & Tank (AWT) brand is well-positioned to handle the sales and marketing aspects of the new product line, and our Taylor-Wharton cryogenic factory in Theodore, Alabama has the proven capabilities and technology to produce large vessels to the ASME codes. This cross-pollination of brand resources has resulted in an ideal opportunity to enter a new marketplace and expand our presence in the propane tank market.

We have also added a Director of Procurement with responsibilities across all TWI product lines and locations. Jim Newcomer will focus on leveraging our sizable, global purchasing requirements to drive our procurement costs down and identify opportunities to consolidate parts inventories.

**CGI:** We understand TWI has a unique manufacturing approach and has factories in Europe and Asia, in addition to its US facilities. How do parochial regulations, standards, and markets affect your global growth strategy?

**Gadomski:** Actually, our goal is to standardize worldwide production. As I mentioned previously, ISO standards for high-pressure cylinders and cold stretch tech-



In April 2008, TWI conducted cold stretch trials at the Taylor-Wharton Cryogenics facility in Theodore, Alabama in preparation for the targeted Q2-2009 launch of the company's standard bulk tank product line manufactured with cold stretch technology inner vessels.

nology for cryogenic pressure vessels are great standardizing achievements for our industry. Sherwood's global valve is another example of a product line accepted by all countries, codes and customers.

TWI has a substantial presence internationally with operations in Germany, Slovakia, Malaysia, China, and Australia and the international demand for our products continues to increase in the Asian and European markets. Our strategy is to continue to expand our presence in those markets, which we believe will offer the greatest opportunities for growth. Our Asian facilities manufacture products to various codes including ADM, ASME, and the CB150 Steel Pressure Vessel Code in China. There is evidence that some lower quality products do not perform to the expectations of the major gas companies and are being replaced with higher quality products. The major players are evaluating the total cost of ownership when they purchase, rather than the initial cost of the purchase.

**CGI:** Have there been significant technology changes under the new management?

**Gadomski:** Our two most important technology advances in 2008 were the cold stretch

process applied to cryogenic pressure vessels and preservation of propane tank odorant.

Cold stretch bulk tanks feature a stainless steel inner vessel and will be cost competitive with current models using a 9 % nickel steel inner vessel. Our new stainless steel inner vessel designs are compliant with the International Building Code. The 9 % nickel plate traditionally used for bulk tank inner vessels is unique to this industry and deliveries of nickel can be unreliable at times. That requires a company to maintain a large plate inventory in order to meet customer delivery requests for standard tanks, and special tanks require extended delivery times primarily due to plate lead times.

The stainless steel plate used for cold stretch vessels, on the other hand, is a readily available material and can be purchased directly from service center stock in standard dimensions or direct from the mills with a reliable delivery schedule. This allows Taylor-Wharton Cryogenics to carry less stainless steel inventory and improves flexibility in production scheduling. Our delivery of special tanks has also improved. We expect to be offering cold stretch vessels as our standard technology during the second quarter of 2009.

Odor fade has been a persistent issue in the propane industry. Propane is an odorless gas and the familiar “smell” of the gas is artificially introduced for obvious safety precautions. Our patent-pending process introduces the propane odor into an empty propane tank and conditions the inner steel surface of the

### **TWI is well-positioned to meet the demands of the worldwide gases and US propane industry.**

tank to resist odor fade. The goal here is to preserve the “stented” propane gas condition after the product leaves the refinery or pipeline. Our process provides for odor retention when a less than 100% initial fill occurs and results in operational efficiencies for the propane marketer.

**CGI:** Are there any plans, at present, to expand or consolidate manufacturing operations?

**Gadomski:** We have announced our Sherwood Valve consolidation and modernization. The Sherwood consolidation has reduced costs, improved product quality, improved customer service and reduced our carbon footprint. In 2008, we also consolidated our American Welding & Tank propane tank manufacturing and refurbishing service operations at the Jesup, GA factory into AWT’s four remaining facilities. The Jesup production and services processes were relocated to the Fremont, OH, Crossville, TN, Bloomfield, IA and Salt Lake City, UT facilities. The cryogenic and propane head fabrication plants at the Jesup location are not affected by the consolidation of propane tank related processes and will continue to operate. The AWT consolidation is an example of right-sizing our manufacturing footprint to more

efficiently serve our customers from existing factories. The consolidation was transparent to our customers and suppliers and will also generate manufacturing efficiencies, streamline administrative duties and provide opportunities to leverage raw materials, inventories and labor skills. The relocation of certain machinery and equipment from Jesup will be completed during the first quarter of 2009.

We also expanded the recertification capabilities of American Welding & Tank in 2008 with the acquisition of Certified Cylinder located in Crossville, TN. The acquisition will significantly expand our current refurbishing services. Our entry into the recertification and refurbishing of DOT cylinders will provide our customers with a full menu of service options including pick-up, processing, recertification and delivery of completed DOT propane cylinders. The addition of the Certified Cylinder operations to our existing ASME refurbishing services makes us the largest and most comprehensive propane vessel requalification service in North America. The acquisition uniquely defines American Welding & Tank as the only ASME propane tank manufacturer and refurbisher of both ASME and DOT cylinders.

We will continue to examine consolidation opportunities where we can save money. We are sold-out at our cryogenic vessel production facility in Malaysia and will consider factory expansion to meet the market demand. We also look to be more active in LNG tank production. We are currently evaluating cryogenic tank manufacturing opportunities in the Middle East, Brazil and India.

**CGI:** Throughout 2008, our journal reported on the rising price of raw materials and energy. How has the cost escalation of steel, raw materials, energy and fuel impacted your businesses this past year?

**Gadomski:** Early in 2008, material escalation costs reduced margins and caused numerous problems with our customers. We still do not have the flexibility we would like and the situation remains fluid. Prices fell during the latter part of 2008 and the current situation is very difficult to forecast. At one point in 2008, mid-year price increases for the various steel materials we use at TWI escalated in a range 155% to 223% above January 2004 levels. At the same midpoint in 2008, the free-cutting brass used in our valve manufacturing processes at Sherwood was up 224% over January 2004 levels. The radical fluctuations



With the recent acquisition of Certified Cylinder, TWI's American Welding & Tank division is only company in North America to offer refurbishing and recycling services for both ASME propane tanks and DOT propane cylinders.



TWI has the largest and most comprehensive propane vessel requalification service in North America

in oil prices over the past twelve months have also added complexity to defining our energy costs and the transportation costs to bring in our raw materials and component parts.

**CGI:** What programs has TWI initiated to counter balance cost increases?

**Gadomski:** In some cases we have changed to vendors offering better pricing or more attractive terms. We have also amended materials within existing specifications, implemented lean manufacturing in our factories and sourcing procedures, standardized a variety of our purchasing techniques, improved our distribution approaches, and reduced the number of facilities. We have a lot more to do.

**CGI:** Has the current tight credit market and economic downturn influenced your short- and intermediate-term strategies?

**Gadomski:** Yes. It makes acquisitions extremely difficult and we are postponing some capital investments. We are also aggressively modifying working capital and expect our customers to pay on time. The change in the value of the dollar impacts our sourcing strategies and our expansion plans.

**CGI:** How do you think the worldwide industrial gas industry will respond to the current economic conditions?

**Gadomski:** Merchant demands, which will affect us immediately, are the first downturn we will see in the US and the original EU countries. I had hoped that the recession would be similar to those in 1982 and 1991, which were relatively kind to the worldwide gas businesses. However, we may be faced with the 9/11 situation. The good news is that the tonnage gas investment is substantially baked-in for the next 18 months, and I still like the fundamentals for that product line. Gases

will be resilient in recession and the US producer stock prices look attractive. Some gas producers have broad cost reductions well underway that will add value independent of demand. You will see capital demand drop and hiring freezes, and perhaps a more thoughtful approach in reducing geographical spread in countries with low market shares — perhaps business swaps. You may see independents worldwide leave markets due to capital restraints and margin reduction. New uses will continue to develop. Some markets, like electronics and metals, will be greatly affected while others, like the healthcare and energy sectors, will see continued growth. There may also be a broad trend to increasing gases intensity in East Europe, the Middle East, India, China and South America. TWI is well-positioned to meet the demands of the worldwide gases and US propane industry. We have the technology to help reduce the major gas producers' costs, the global reach to leverage their purchasing requirements, and offer worldwide customer service.

**CGI:** We appreciate the business insight you have provided in this profile for our readers. One final question — with capital markets and energy prices in their present state of instability, do you see environmental initiatives in our industry being postponed or abandoned?

**Gadomski:** I do not believe these projects will be abandoned. However, I see cost-justified applications more likely to succeed than socially-driven decisions, which may be postponed. The new President and his administration appear to be sincerely committed to environmental advancement and the consequences of prompt congressional action to incentivize green projects may sustain the initiatives already in progress in our industry. ■