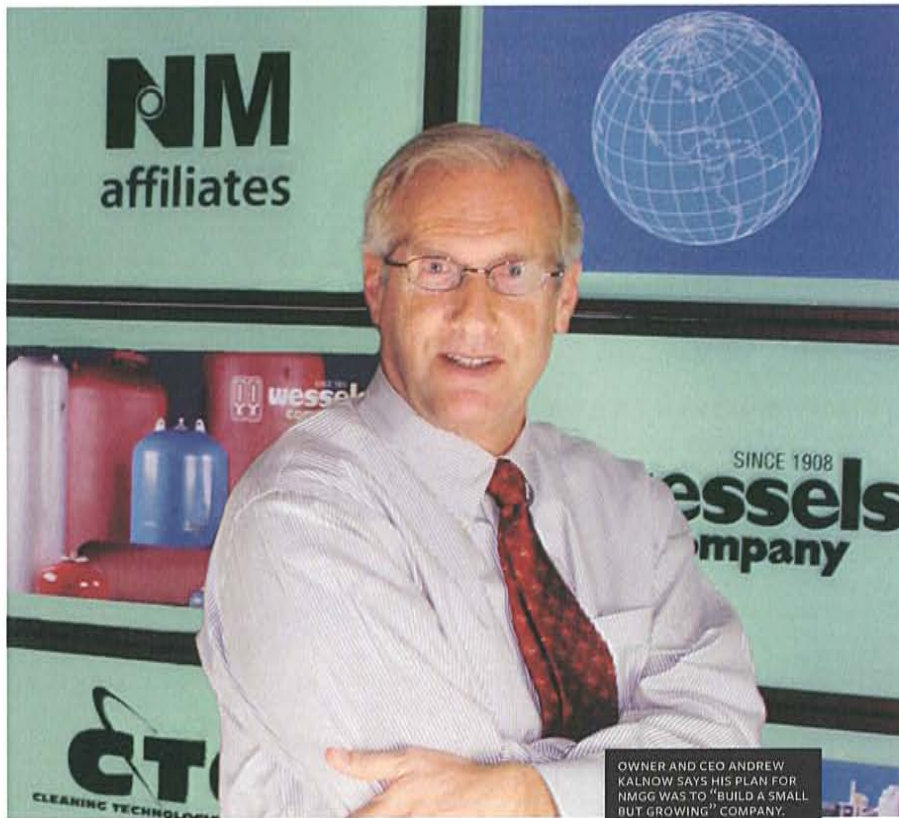


## NM GROUP GLOBAL LLC

[www.nmgrouppglobal.com](http://www.nmgrouppglobal.com) / 2008 sales: \$115 million / HQ: Chicago, IL / Employees: Approx. 500 / Service: Industrial holdings **Andrew Kalnow, CEO and major stakeowner:** "You can't run a company without having your financial house in order."



# MIGHTY MACHINES

THE FINANCIAL STRENGTH OF NMGG HELPS THE COMPANY  
BECOME MORE COMPETITIVE DURING POOR ECONOMIES.

BY STACI DAVIDSON

With a history dating back more than 135 years, National Machinery LLC has been through a number of economic conditions – strong and weak. During the Great Depression, employees stayed on – sometimes only working a few days a month – to build stock machines or create full-scale wooden models of new ideas. As a result, when business conditions improved, National Machinery was prepared to meet increased demands.

By the mid-1980s, National Machinery had become a leader in the production of cold-forming technology. However, at this time, the manu-

facturing sector was dismal worldwide and National Machinery had borrowed heavily during the 1970s and early '80s. To turn this situation around, the company implemented a new selling strategy overseas and created teams to develop leading-edge technology. The result was the introduction of its new cold-forming machinery in 1989 – FORMAX – which continues to be the core of its product line. It was widely embraced by customers, the company says, because it was easy to operate and increased productivity for its customers through higher machine

speeds and more rapid changeovers.

National Machinery's ownership has changed over the years, but an equity purchase of its assets in 2002 enabled it to return to private family ownership. Majority owner and CEO Andrew Kalnow – part of the family that owned and managed the company as far back as the early 1900s – made National Machinery the largest business in the NM Group Global (NMGG) holding company. NMGG also owns Cleaning Technologies Group LLC (CTG), a manufacturer of aqueous and ultrasonic industrial parts' cleaning machinery and related equipment; NM Group Technologies China; and Wessels Company, a manufacturer and marketer of pressure vessels for fluid control applications. Kalnow also heads Alpha Capital Partners, a private equity firm.

At the inception of NMGG, Kalnow says, his plan was to use market and technical leadership to provide a high level of customer service and to be financially strong. He explains the "fundamental premise" of NMGG was for its companies to withstand economic downturns while also taking advantage of them.

"Our overall plan is to build a small but growing industrial holding company," he says. "We want to add diversification, but also create synergies where possible without squashing the productive independence of each company. However, the bottom line is that you can't run a company without having your financial house in order."

Recently, *Manufacturing Today* spoke with Kalnow about NMGG and how it has been structured to maintain market dominance regardless of the economic conditions

**Manufacturing Today:** How has NMGG prepared for weathering economic downturns?

**Andrew Kalnow:** When we talk about surviving and taking advantage of economic downturns, I tend to



believe that the first order of business of "preparedness" is financial condition and strength – a sound financial position is fundamental. At National Machinery, we learned the hard way in the past that financial condition is pivotal to business outcomes in major economic downturns. Unfortunately, recessionary cycles are often accompanied by adverse credit conditions. Consequently, companies that run with high debt levels are bound to live with double jeopardy in difficult times like today. Today, with a strong balance sheet at NMGG, financial issues do not distract management. Instead, we are free to run the business and talk about new opportunities.

**MT:** How do you maintain a low level of debt?

**AK:** When we purchased National Machinery and founded NMGG in the ashes of the last economic recession in 2002 – which was also accompanied by a credit crisis – I set a goal of operating the company with a minimum of bank debt, and to plow our profits back into the company to stay financially sound. We purchased the company with equity. In good times, we've been careful to not expand too fast by using a lot of debt. I'm from a private equity background, but I'm not enamored with that industry's use of high levels of debt to grow businesses.

**MT:** What are some of NMGG's strategies to take advantage of the downturn?

**AK:** Strategically in this downturn, we look to accomplish three major objectives: a) gain market share on our competitors; b) broaden our base of business in terms products and services offered to position for future growth; and c) make an acquisition or two that extends the holding company's size and scope of operations.

We are positioning to gain on the competition by various tactics, a number of which can only be done with a strong balance sheet. One has to also take a view beyond the current downturn. That is when initiatives, like continued investment in product development, will pay off. The second objective mentioned may

seem counterintuitive, or at least contrary to the norm in tougher times when companies typically pare down product lines or non-core businesses. In our case, we are looking to add product lines to our global sales and distribution network.

Lastly, we are keen to make invest-

ments and/or acquisitions at attractive values. We have a chart that shows a dozen initiatives of which perhaps a half are add-on or tuck-in opportunities that can be very synergistic and accretive to future earnings. In addition, assuming we successfully put together a co-invest- >>

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» ment entity with new money from outside investors, we look to acquire a totally new "platform" company to the NMGG group of companies.

**MT:** How is the company positioned operationally?

**AK:** Operationally, there is much that still can be done in slower periods of business and production volumes. These range from training programs – including cross training of personnel – to spending engineering time on new products and products updates, to plant and equipment maintenance. In all of our three companies we have a significant engineering component to the base business and product. Of course, this is the greatest with National Machinery and CTG, which both are in the business of designing and building machines.

When times are good, our engineering staff gets very consumed in handling with the book of business on hand. This includes not just work on engineering specials to sold machines, but also a plethora of technical questions that come with customer inquires and quoting.

At National Machinery, in particular, where our complex equipment contains literally a few thousand mechanical parts and various components, it is a major task each year to conduct what we call "product maintenance." This includes various small but important incorporations of design and cost improvements. So, this downturn provides an opportunity for our company to use its engineering resources in different ways, and to catch up in a sense.

It may be strange to think of this as

an opportunity, but it is. We all need to work on product development and improvement. Time spent today will pay dividends tomorrow. It is really a question of cost; that is, the expense or affordability of operational, engineering and P&E maintenance during tougher times when the top line and bottom line are under pressure. We are committed to innovation and new products as a leader in our fields. Therefore, I believe it is important to keep engineering projects going forward. That is how you gain on the competition. Continuing with these projects also helps keep your talent pool. Companies that invest in bad times and not just the good have the advantage of better retaining personnel.

**MT:** How do you work with employees during a time like this?

**AK:** We at NMGG believe that employees take note of an employer that is financially strong. This doesn't necessarily mean that employees are untouched in such economic downturns like today. In fact, our companies are forecasting and preparing for a meaningful drop in the top line in 2009 after having a strong year in 2008.

Employees understand the need to trim fat from the organization. And, we have already gone to a shorter work schedule. But we are mindful of not cutting muscle from our employee talent pool. We believe in sharing the burden of sacrifice in the organization and, therefore, management is also prepared to take reduced compensation for the good of the company.

During more robust times we found that people were attracted to National Machinery because of its commitment both to financial strength and longer-term growth. Altogether, I think employees and management are not only more secure and but also more motivated when working at companies with more financial stability and a plan to weather the storm and come out ahead in the end. **mt**

