

Markus Seitenberg, Executive Vice President/General Manager

Lutz-JESCO America Corp.



Business in 2008 and 2009

We participate both in the municipal and the industrial market. On the municipal side, the North American real-estate market's slowdown influenced the market in 2008, reduced consumer spending—amounting for the majority of the United States' GDP—and consequently reduced the tax base, especially during the last quarter of 2008.

On the industrial side, the year showed a typical presidential pre-election slowdown in domestic business activity. The continued deterioration of the U.S. currency and its volatility additionally posed difficulties for European-based companies. However, we believe that—after a slowdown during 2009 in both municipal and industrial business activity due to the current recession in the United States, as well as the economic situation in Europe and emerging markets like India or China—the demand for water-industry related products and services will continue to rise due to increasing global growth and demand.

Critical Issues and Solutions

The American Water Works Association's (AWWA) 2008 State of the Industry report reflects on today's most critical issues in the industry. Overall, respondents for the first time rated the industry's expected future soundness lower than its current soundness, echoing that the water industry situation is likely to worsen during the next five years; the report also shows a continuing decline in absolute industry soundness-rating levels since 2004.

Source water supply and protection has become an increasing concern—amplified by the near depletion of the Atlanta, Ga. metro area's primary drinking water reservoir in 2007. Supply in growth areas like the Southwest and Southeast has to compensate for the regions' sometimes unfavorable climates.

Another critical issue, particularly from a long-term perspective, is the water industry's "aging" infrastructure including issues like deferred maintenance and aging water mains and storages. This problem is likely to increase due to the eroding public tax base and cuts in municipal spending.

A different concern is the shrinking skilled workforce within the industry. Globalization contributes to the perpetuation of the already existing "battle for brainpower," the increasing demand for highly skilled talent. Finding, recruiting and retaining talent will therefore become increasingly difficult, with global competition for talent on the rise and the retiring "baby boomer" generation leaving with a vast pool of industry knowledge. New talent meanwhile is tempted to enter into more prestigious and often higher paid industries.

Trends

While many deem the accelerated pace of privatization of municipal water and wastewater operations to be the most pressing trend, we deem the growth potential—especially on the municipal side—in international markets to be one of the most promising, especially in light of the weakening U.S. currency.

In addition, "Green" is still a growing market segment trend. Renewable energy sources like ethanol or biodiesel will continue to become more important and innovation within these segments will become a strategic key component for successful companies. The ability to serve these relatively new markets with customized, innovative and efficient solutions—often by means of complete systems solutions—is important.

Moreover, fluctuating domestic municipal revenues and budgets will increase the demand for maximizing capital spending efficiency. As a result, the trend for minimizing pump life cycle costs with lower energy costs will continue to rise and innovation will become even more important as a driver of the development of efficient products.

Globalization will continue to play an important role in the industry as well. Rising raw material costs have increased the demand for global sourcing. On the other end of the value chain, companies also need to capitalize on currency fluctuations by expanding into emerging international markets like the BRIC countries (Brazil, Russia, India and China). Moreover, global alliances will become increasingly important in order to maximize revenues, profitability and expand global presence in a weakening domestic U.S. economy. Infrastructural expansions in BRIC countries and other Latin and South American markets will drive the industry's demand, after they overcome the current economic slowdown.

Additional Thoughts

We believe that the current economic pressure will result in companies putting an even higher focus on bottom-line financial performance with increased "lean" mentality and kaizen efforts, resulting in potential negative effects on customer service levels, lead times, innovation and research and development efforts and expenditures.

We continue to go against these trends by expanding our knowledge base and experience in system optimization and high customer focus while exploring new markets with efficient, reliable, cost-of-ownership-oriented, high performance products that can help save energy, are environmentally sound and minimize costs resulting from downtimes and maintenance.