STAFDA manufacturer's Liaison Committee Meeting – Las Vegas, NV 1/25/12

Greenlee Textron is a 150 year old tool and test equipment manufacturer based in Rockford, IL with manufacturing and engineering operations across North America, Europe and Asia. Greenlee tools serve the professional electrician, utility lineman, telephone/ CATV technician and the data-com installer. Greenlee is part is part of Textron a $10.5 billion, global multi-industry company (NYSE:TXT) known for its powerful brands such as Cessna, Bell Helicopter, and E-Z-GO in addition to Greenlee.

Last year at this time non-residential construction was forecasted to be up about 4% for 2011 and industrial construction up 26%. The most recent data for Q4 2011 and the full year shows that non-residential continued to decline for a third year in a row (-9% for the year). Industrial construction on the other hand, driven by the strength of the US manufacturing sector and supported by the weak US dollar, exceeded the forecast coming in at about 35% over 2010 levels. The lift in industrial construction offset the sharp decline (-15%) in Institutional construction spending as stimulus funds ran out in the 1st half '11

Sales performance for distributors serving the electrical contracting market showed strong double digit growth in 2011 in spite of the decline in overall non-residential construction starts. Although some benefited from the increase in new plant spending (about 10% of overall non-res activity) the strong broad based improvement in sales performance is primarily attributed to commercial building retro-fit/refurbishment projects and MRO activity. Neither of these categories of contractor activity are readily measured which explains why, as we recover from the recession, that the traditional correlation between non-residential construction activity and overall industry activity isn't being seen. Additionally, distributors that participate in the MRO space had a better year than those whose businesses do not.

Looking forward we see 2012 continuing the pace of improvement in overall activity we saw in 2011. With corporate profits strong, the continued relative weakness of the dollar and some hesitancy to commit to new construction, we expect the current trend of re-fitting existing structures to predominate the electrical contracting work while the new plant construction starts from 2011 will continue to produce work throughout 2012. With the ABI at 52 and up for the 4th month in a row we might actually be seeing the beginnings of an upturn in planned non-res building in the comings years.

The one area where we still see continued weak performance is, of course, with those distributors and contractors that are predominately focused on residential construction. Down another 6% for the year after having been forecast to increase 26% for 2011, clearly those whose business plans counted on a resurgence of residential construction had a disappointing year. Looking at 2012, even with the forecasted 9% lift, with construction activity at only 42% of 2007 levels, we will need to see some very large percentage increases before those who traditionally have served this market feel any relief.

As was the case in 2010, new, innovative tools moved well through distribution as contractors continue to look to maximize value in terms of productivity and safety. Demand for large capital tools improved over 2010 although overall demand is still below 2007 levels and will only increase substantially when large "new" construction projects start coming out of the ground in larger numbers.

Building Information Modeling (BIM) is receiving greater attention from leading electrical contractors and we can expect that this technology will become increasingly utilized in the coming years. Driven by BIM technology is greater interest in tools and technologies that allow the electrical contractor to pre-fab work traditionally done on the jobsite. The economics of the labor savings appears very compelling and should create new opportunities for dedicated pre-fab tools.

Wind energy has been a large driver of work for the electrical contractor during the recession. With the expiration of the American Recovery and Reinvestment Act (ARRA) at the end of 2011 the funding for many of these projects has gone away. With wind power projects now required to justify their expense in the competitive power generation market (individual state mandates will remain a small factor) it is expected that a sharp decline in wind construction will be seen in 2012 and beyond due to low overall electrical capacity utilization, grid improvement projects and modest growth in demand.

Many STAFDA houses participate in the international markets either through customer support contracts, dedicated in-house export sales efforts and/or long-standing relationships with independent export reps. As in 2010, the markets in Europe, Latin America and the Middle East generated strong demand for American tools especially in the utility and telecommunications sectors. Demand in these markets is driven by local economic factors but the surge we continue to see in buying from the US is directly attributable to the historically low value of the *greenback*.

Big box retail continues to capture share in the tool space focusing on the building maintenance technician and entry level contractors. Leveraging their hours of operation and ability to extend credit on proprietary credit cards, the big box stores continue to present a serious competitive threat beyond being a tool source for the contractor whose needs to replace a tool during the course of the work day.

Lastly, consolidation activities in the channel are once again being seen as some of the larger chains with strong balance sheets look to fill distribution gaps before values begin to increase post-recession. We look for this activity to accelerate over the next two years.