Textor Pty Ltd.

Submission to the
Productivity Commission Inquiry

The Post 2005 TCF
Assistance Arrangements

1.0 Recommendations

The current SIP scheme has been a major factor in the turnaround of the Textor business.

Textor recommends that:

- **The current SIP Scheme is extended for the following 5 years.**
- **There is a need for more time to restructure the industry, as a critical mass is essential for the industry to survive and grow.**
- **The allowance for capital expenditure be increased from 20% to 35%**
- **The transition from the current scheme to the new scheme be as seamless as possible so that new investments are not delayed.**
- **Any claims remaining at the end of the scheme are fully reimbursed.**
- **An early decision on the future of the scheme will permit investment decisions to be brought forward. Financial backing for the whole industry will depend on how future support from the Government is viewed by the banks**
- **The definition of value added should be reviewed to permit the costs of inputs currently excluded.**

2.0 Overview

Textor is a manufacturer of nonwoven fabrics for the medical, healthcare, automotive, filtration, food packaging, environment and general technical fabrics markets. It is a privately Australian owned company committed to a sustainable future in serving a more technical and demanding customer base. The company has restructured over the past four years, moving away from serving the clothing trade (interlinings) to focus purely on the demanding technical textile area. The current SIP scheme has assisted in this transition with the result being a profitable business that has an exciting future.

The issues facing the company are now growth orientated with opportunities to increase turnover by 300% between 2003 and 2010. There is a need to heavily invest to create a larger state of the art facility. All of the new business targeted by Textor is either import replacement or will be exported to the South East Asian markets. Specifically the new markets are associated with the hygiene and medical areas. The major opportunity for this company is the resolution of supply chain problems for the major converters of Textor’s products who require quick response and the ability to modify designs to suit changing market needs.

The nonwoven industry is a technology and capital intensive industry. It is changing rapidly. The labour cost issues associated with competition from Asia are not relevant. The products are sophisticated and demanding. The supply chain problems from Asia dominate the minor labour cost advantage. A private company can move quickly on investment decisions to support these growing opportunities. However, time is also needed as the equipment is complex to engineer and fully commission. The turnaround in Textor’s business has only just begun. More time is needed to consolidate the success.

3.0 Recent Performance and future prospects

Textor was purchased from Lantor International in December 2000. At this time the company had already started the restructuring process and had just withdrawn from both the clothing (interlining) and automotive boot trim markets. The problems facing the new ownership were overhead reduction, the need for investment and growth in its new strategic markets. 2001 was a year of consolidation and planning. 2002 saw a $3. 5 million investment in a new “impingement through air bonding” line aimed at the hygiene market. The company has achieved modest profits over the last two years.

Future prospects are positive. The company has demonstrated that its business operations are now world competitive. The overhead structure is flat and is kept to a minimum. Additional outside resources are contracted in on a needs basis as project work increases. This permits Textor to be competitive as its overhead costs are now at world best practice without risking the company being under resourced for growth. The company has an international reputation for innovation and has developed a world-wide network of supporters. These include the CSIRO, La Trobe University, European equipment suppliers, private family owned European nonwoven companies and Asian fiber suppliers. The company is viewed as independent, creative and loyal to its network.

The new equipment installed in 2002 is the latest state of the art production line with advanced controls and electronics. The machinery was expensive and equivalent to the best in the world. The line has been installed in a creative way to suit the size of the markets in this region. The material web can be diverted to several different bonding methods so that the line can be fully loaded. As volume grows, the machinery has been laid out so that the capacity can also be doubled at minimum cost and disruption. The current product is targeted to replace an established imported German material. As Textor's expertise grows, there are good opportunities for export to South East Asia.

This new line has unique technology that produces a precise high loft product suited to the management of fluid flow and control. The products are not restricted to the hygiene markets but also have direct applicability to advanced export packaging of meat and the environmental handling and distribution of water. The materials may also be post treated with activated charcoal for defence and odour absorbing markets.

The company has demonstrated that it is possible to achieve international competitiveness in both price and quality with the capture of a major supply contract with a most demanding customer. This success can now be extended to other large import replacement projects. The additional volumes will make the business even more competitive, as the increased volume will drive down the overhead cost structure per unit of output. An outline of the companies expansion plans are attached but have been marked "Commercial in Confidence" as the information is considered sensitive. The plans demonstrate the potential for the technical textile markets if ongoing investment and R & D support is available.

What is now required to secure a sustainable business is time to implement the current investments and then further incentives to create a significant business with a world competitive cost structure. Achieving a critical mass is a key strategy and this can only be achieved by further investment and more time. In each market replacement opportunity, it has been assumed that the tariff level with remain at 5% or below and that the business will be won by being internationally competitive on quality and price but also having a major supply chain advantage.

4.0 SWOT Analysis.

Strengths:

- Strong technical understanding of the industry.
- Highly trained flexible workforce.
- State of the art equipment.
- Benchmarked on all cost centres.
- Reputation for innovation.
- Excellent international networks and contacts.
- Low working capital.
- Just in time production system.

Weaknesses:

- Low fixed asset turn.
- Low volume of local markets.
- Limited converting capacity.
- Need to re-brand.

- Still dependent on some commodities.
- One primary customer for the new investment.

Opportunities:

- Good access to low cost Asian raw materials
- Increase higher value exports to offset raw material currency exposure.
- Vertical integration.
- International linkages.
- Co-operation with other synergistic industries/research bodies.
- Productivity gains via further investment.
- Available capacity on new equipment for both the local and export markets.

Threats:

- Loss of current volume in the short term
- Local customer base moves off shore.
- New technology evolves that replaces current plant and equipment
- Banks withdraw support for the technical textile industry.

5.0 Technology

Textor has been certified to ISO 9001 since 1995. The technology for the nonwoven industry is complex and changing rapidly. The business has operated independently from the old Lantor International Group for the last six years and has developed a high degree of independence. There are great traditions and experience in the business. However, the major technical advantage is the relationships and reputation built up over the years. The company has created a wide range of technical networks including the following

- Gates Formed Fiber Products (USA): 10-year relationship based on the use of fabrics in the automotive industry.
- Lantor Inc (USA): agent for a range of high temperature filtration materials.
- Lantor UK: specialising in medical and advanced defence materials.
- Chargeurs (France) Close personal relationship on technical co-operation
- Confidentiality and Technical Agreements with Kimberly-Clark USA
- Albany International: Co-operation on raw materials, equipment, training and specialised materials.
- CSIRO: Member of CSIRO Strategic Advisory Committee.
- WRONZ: Advise and testing on individual issues.
- The Universities of La Trobe, Deakin, and Monash

6.0 Impact of Current Assistance Arrangements

Under the old Lantor International ownership, global investment decisions were based on the strength and size of the growing economies. Through the 1990's Lantor Australia (now named Textor) was considered too small and isolated for investment. Hence it was starved for investment capital. SIP or no SIP there were no plans by the prior owners for expansion and the business was going to be milked for cash, sold off or liquidated.

The ownership change and the introduction of SIP were instrumental in achieving new and viable business directions. With a fresh vision, the objectives of SIP appeared to be identical with the new owner's vision of creating a sustainable business that all stakeholders could take pride in. The first year of the new ownership (2001) was difficult and needed a degree of faith. The purchase was fully funded by the banks but expansion was always going to be difficult from a funding point of view until the business demonstrated its ability to generate cash. The first SIP payment was a clear message to the banks that the government was also genuinely keen to see the business succeed. The fact that the plan had 4 more years to run and that the business had been successful with its first application gave the banks comfort to consider the expansion plans. These were approved in late 2001 and the current investments will see the business double in size from the time when the business was purchased. The effect of the SIP payment was far greater than the cash received as it helped to create the banks faith in this business and the technical textile industry.

There is a problem with the current scheme due to the limitation of the 5% cap on reimbursement. This limitation does not suit growing companies as they will continually "cap out" due to the lag between the investment and the sales growth. In the nonwoven industry, time can take up to three years for the machinery to be specified, commissioned and phased up to full production. The scheme has been modified to permit the claim to be rolled over until the sales growth is achieved. These changes do help the problem. However, if Textor continues to expand with new investments to suit the opportunities then there will be outstanding claims at the end of the current program. If the program is extended then the growth momentum will be maintained and the business will achieve critical mass necessary for long term operation.

In the past, the technical textiles industry has been known for its secrecy and lack of co-operation. However, the industry has changed over the last two years and has opened up to assistance from the research institutes and the universities. The SIP type 2 grants have been the prime reason for this change in the relationship between the two parties. This change process has a long way to go as both sides of the research fence get use to working together. CSIRO and WRONZ have had to make the transition from being wool focused to learning about the technical textile markets. Some skills are transferable and some skills have to be learnt. Government should be patient to allow these changes to take place. As an example of the transition process, Textor has worked closely with CSIRO on the application of their new patented Sirolok carding wire, which may revolutionise web-forming technology. CSIRO have been working within Textor for the last 12 months to understand the nonwoven process. The first commercial trial in the technical textile industry with the new concept card wire will be trailed at Textor. Textor will benefit by increased web forming efficiency and line speeds. However, the greatest benefit has been the introduction to the depth of research skills that exists within our own country. We will continue to be dependent on the European equipment suppliers for our machinery but the optimisation of that equipment for specific end uses is complex and has to be learnt locally.

7.0 Work Place Issues.

The business promotes an "open book" management style for all employees so that they can fully understand the issues facing the strategic development of the business. There is a profit share scheme in place that is based on the company's profit performance and the individual's contribution. The employees are encouraged to develop their skills through funded formal training and increase their opportunities for advancement. There are currently no workplace constraints to the development and growth of the company. The quality of the employees and the teamwork approach ensures that issues are resolved the moment they are raised.

The company actively trains its own (and other competitors engineers) on the nonwoven operation. The company plays an active role in the Technical Textiles and Nonwoven Association (TTNA) and assisted with the TTNA's introduction of the internationally recognised EDANA Nonwoven Training course last year. Textor sent two engineers to participate. The company also funds a La Trobe University engineering student sponsorship program to help train students in advanced control procedures

The industry is moving towards more advanced electronics and machinery controls. The current workforce will need to make adjustments, over time, to the new advanced machinery, however the new lines are all being engineered to make them more "operator friendly". In the future, the work will involve more "machine management", calibration and observation rather than the current practices, which involve a degree of physical labour. These new lines generate huge volumes of material and the elimination of all manual handling is a primary goal for the company. The current workforce is definitely capable of making the transition to the new processes through extensive in-house training and consultation.

Productivity improvements are being engineered into the business through the new equipment purchases so that the turnover per employee will increase from $210,000 in 2001 to $375,000 in 2004. These improvements will be achieved through investments in electronic controls, machine computerisation, materials handling and extensive training.

With sophisticated equipment comes the need for precision and cleanliness. The manufacturing plant building is currently being sealed, pressurised and air-conditioned to ensure comfortable and clean working conditions for the employees and to take a leading

edge position with WorkCover compliance (as well as the added bonus of making the new machinery more reliable).
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8.0 Market Access Issues.

There are no significant market access issues facing the company. The business currently exports to China, Hong Kong, Indonesia, Thailand, Sri Lanka and the USA. Exports account for 15% of sales and are a useful method to act as a natural currency hedge for the imported fibres as all export sales are in US dollars. Future export plans are relatively modest but the percentage of sales will continue to remain static at around 15%. This will in itself constitute a significant export growth however the level will be restricted to around the same percentage. The company believes that its key strategic advantage is its closeness and responsiveness to the local market. There are many local opportunities to be exploited. There are also similar competitive plants around the world that are also much closer than we are to these export areas and hence any idea of challenging this competition is a little naive. There will be opportunities for niche products. There will be the opportunity to extend the commercial relationship that exists with our international customers, however it is more likely that plants will have to be constructed in countries where the markets exists. In its history, this company has built nonwoven manufacturing plants in Hong Kong, Sri Lanka and China and a joint venture in South Korea. The expertise exists within the business and it's networks and the opportunity will be exploited if it appears. However this will not be a strategic goal as it would not be possible unless there was an invitation from a global customer requiring a solution to a major supply chain issue.

9.0 Post 2005 Assistance Arrangements.

- The company has demonstrated the successful application of the current SIP to the turnaround of a business. The opportunity exists to significantly grow the business further and create a state of the art facility to service the needs of the Australian hygiene, export food packaging and healthcare industries.

- The industry is still in transition. Further time is needed to create critical mass for a sustainable future for the whole industry.

- Time is needed to improve co-operation and implement outcomes between the industry and the research institutes.

- An extension to SIP will see considerable investment, import replacement, the generation of export sales and the development of a fully skilled work force.

- The capital investment incentive should be increased from 20% to 35%. The current scheme is not being fully accessed by industry and the incentive for Type 1 grants needs to more in line with the Type 2 incentives. Type 2 incentives will only flow once there is efficient and modern equipment installed.

- The transition from the current SIP to the new program must be seamless as the time to engineer and commission new production lines is extensive.

- The whole future of the textile industry depends on the support and confidence of the financial and banking institutions. The extension of SIP for the following 5 years will be a clear message from Government that the industry does have a viable future.

10.0 Attachments

COMMERCIAL IN CONFIDENCE

1. Attachment A New Strategic Investments
2. Attachment B Current SIP Position
3. Attachment C SIP Extended and New Capital Investments.

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