Aftermarket Report

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Aftermarket Business in 2007 and 2008

In general, Hydro enjoyed a strong year, and we are projecting continued growth in 2008. We believe that our mission to provide equipment quality and reliability is resonating with our clients and potential clients more so today than ever before.

Critical Issues

A critical issue facing end users is the tremendous worldwide demand for new pumps. This exceptional demand has shifted the industry focus to a new unit supply with the result that aftermarket support may have declined in some areas. On the other hand, this creates an opportunity for our company since our focus is the aftermarket.

Key issues for the pump industry are the continued shortage of skilled labor as well as long lead times for cast parts. These are likely to remain concerns for the foreseeable future and will need to be addressed in innovative ways by each company.

Current Trends

As the industries served continue to consolidate, management is increasingly giving more attention to “best in class” equipment performance as a way to realize reliability and profit improvements.

For example, the nuclear industry has experienced significant consolidation over the last decade with only ten operators now producing 61 percent of the nuclear power. During this same period, the industry has increased their operating performance over 20 percent by focusing on plant and process improvements.

A key to improving plant operations is improving equipment reliability. I see a major emphasis on performance models that emphasize longer term equipment reliability rather than lowest first cost when making pump repair or refurbishment decisions. We see this approach in particular in alliance relationships with suppliers that focus on team building and performance-based improvements. As a result of our nationwide network of service centers and our track record for quality, engineering and reliability, we have been awarded several alliances with major companies, and we see this as an evolving trend.

Another important trend is the increase in the demand for turn-key project support. On many projects we find that customers want diagnostics, engineering, removal, repair, installation and testing accomplished *seamlessly* by the same company. They do not want that company to pass the ball to different "divisions or groups," the result being that the customer has to talk to a myriad of people who each take responsibility for only a part of the overall project. Companies that can provide seamless customer support for th entire project will have a competitive edge.

Additional Insights

Energy usage is an important concern for all of us. According to the Hydraulic Institute, pumps consume over 20 percent of the world's energy!

That being the case, there is a tremendous opportunity for the major industries that we serve to conserve energy and to reduce energy costs through improving pump efficiency. Through these conservation efforts we can - together with our customers – exert a very positive impact on the environment as well. Improving pump efficiency is a triple win situation for pump users, aftermarket providers and for the country as a whole.

The traditional approach of low cost repairs and parts replacement is being questioned at many companies. These companies are paying more attention to upgrading and improving their legacy equipment – equipment that was engineered, built, and installed 20 to 30 years ago. Over time, the application or service requirements may have changed and the equipment is no longer operating at its best efficiency point. In addition, engineering improvements developed during this 30 year period can be applied to the installed legacy pumps, which will both improve efficiency and extend their useful life without having to perform major installation modifications.

Investing in improved pump efficiency and reliability can pay handsome dividends. One of our engineers coined the phrase "applying today's technology to yesterday's pumps." This is our niche, and we believe that we are ideally positioned to provide support to this segment of the aftermarket.

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http://www.hydroinc.com/sites/default/files/P-S-Feb08.pdf