

### Featuring

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## The New American Renaissance In Manufacturing

At The M&A Advisor's 12th annual Mergers and Acquisitions Summit in New York late last year, Selig Sacks, Partner & Co-Chair - International Practice at Foley & Lardner LLP led a panel on the renaissance in the U.S. manufacturing sector. The panel included Matthew McGuire, Director of the Office of Business Liaison, U.S. Department of Commerce and top executives from two successful cross-border investment partnerships – Nexteer Automotive and Essar Steel Minnesota.

The panel discussed investment trends and lessons learned in both building and repositioning companies in the manufacturing space as well as ways the federal government is working to facilitate investment in U.S. companies. The fast-paced session addressed:

- Why foreign investors so interested in the U.S. manufacturing space
- How an entrenched, old-industry automotive supplier remade itself into an important player in the worldwide automotive parts industry with strategic ingenuity and patient investors
- How an Indian company is bringing the latest steel manufacturing techniques to Minnesota in the largest foreign greenfield investment in the U.S.
- The unique hurdles facing greenfield project financing in the U.S.

There's a lot to be optimistic about in the outlook for U.S. manufacturing. Foreign investment into the U.S. continues to grow and this trend is expected to continue over the next few years as private equity and strategic buyers are flush with cash. In this exclusive report, industry veterans will discuss how successes like Nexteer Automotive and Essar Steel illustrate the upside potential for investments in U.S. manufacturing.

Presented by

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## EXECUTIVE SUMMARY

There is talk of a revival in U.S. manufacturing. The media is filled with stories of how manufacturing jobs are coming back to America lured by low interest rates, low energy costs, a skilled workforce and a bit of “Made in the U.S.A.” patriotism. At the same time, obstacles remain. Until recently, there was no coordinated effort at the federal level to attract FDI, leaving potential investors alone to navigate a tangle of federal, state and local regulations. Greenfield project financing is difficult, if not impossible, to obtain. Despite these difficulties, there have been tremendous successes. This panel examines the real potential for a manufacturing revival in the U.S. from the viewpoint of two industry veterans and a top federal official who is working to streamline FDI into the U.S.

## INTRODUCTION

Foreign investment into the U.S. continues to grow. In 2013, the level of committed capital increased nearly 40% to \$208 billion compared with 2012. This trend is expected to continue over the next few years as both private equity and strategic buyers are flush with cash. However, over the next few years, the extraordinary story may well be the growth in foreign direct investment coming out of China.

In 2012, China’s outbound direct investment (ODI) totaled \$77.2 billion, according to A Capital’s Dragon Index. According to some estimates, China’s outbound direct investment will rise to \$500 billion in the next few years – a level equal to its inbound FDI. Moreover, the portion of that investment expected to go to the U.S. is likely to increase as well. Only 3-4% of all China’s ODI goes to the U.S., while 70% goes to Asian nations and 19% to other developing nations outside Asia.

At the 2013 M&A Advisor Summit in New York, a panel of experts looked at cross-border investments that are revitalizing manufacturing in the U.S. and discussed the confluence of factors that make the U.S. a top candidate for FDI.

The symposium session participants included:

**Selig Sacks**, Partner and Co-Chair – International Practice,  
Foley and Lardner LLP (Moderator)

**Matthew McGuire**, Director of the Office of Business Liaison, U.S. Department of  
Commerce

**Madhu Vuppuluri**, Executive Vice Chairman and CEO, Essar Steel Minnesota and  
CEO, Essar Americas

**Michael Richardson**, PE-CQE, Executive Board Director, Senior Vice President,  
Chief Technology and Strategy Officer, Nexteer Automotive

Selig Sacks, Partner and Co-Chair of Foley & Lardner's International Practice kicked off the panel discussion asking, "Why the USA? What is the confluence of circumstances that make for an attractive investment environment on a global basis?"

The panel shared its insights into two success stories where cross-border investments are revitalizing manufacturing in the U.S. The panel also looked at ways the U.S. government is helping to foster these investments in the U.S. and the challenges that the U.S. faces compared with other nations.

The topics covered included:

- Why are foreign investors so interested in the U.S. manufacturing space?
- How an entrenched old-industry automotive supplier remade itself into an important player in the worldwide automotive parts market with strategic ingenuity and patient investors.
- How an Indian company is bringing the latest steel manufacturing techniques to Minnesota in the largest foreign greenfield investment in the U.S.
- How the U.S. government is introducing programs to attract and aid foreign investors into the U.S.
- The unique hurdles that remain in terms of financing greenfield projects in the U.S.

Sacks set the stage by letting the panelists share their stories of how foreign investment has revitalized manufacturing in the U.S. Mike Richardson, a 40-year automotive industry veteran, led off the discussion with his account of how forward-thinking management and funding from a stable, long-term investor transformed an old-style automotive supplier to General Motors into one of the largest automotive OEM suppliers in the world during a time of tremendous turmoil in the global automotive industry.

Richardson is Board Executive Director, Senior Vice President, Chief Technology and Strategy Officer for Nexteer Automotive. After 40 years with Nexteer, Mike noted that his experience was in "a former distressed property."

Nexteer is a top supplier of steering and drivetrains to the automotive industry. During the first part of its 100-year history, Nexteer was primarily an in-house supplier to General Motors. As Richardson noted, under the GM umbrella, "we had a seat at the table; we learned how the OEMs think, and we saw competitors come in and pitch their products."

**“Why the U.S.?  
What is the  
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environment?”  
- Selig Sacks**

In 1999, Nexteer was spun off from GM along with GM's other automotive suppliers into Delphi. Delphi diversified its business into a range of non-automotive businesses and in 2005 filed for Chapter 11 bankruptcy protection following the discovery of numerous accounting irregularities. During the nearly four year restructuring and workout, Nexteer's management decided it would do best as an independent automotive supplier serving a wide range of customers.

Nexteer met with myriad interested parties – competitors, private equity funds and others. Ultimately, Nexteer found its closest ties in China's AVIC Automotive Industry Holding Company. As a subsidiary of Aviation Industry Corporation, AVIC Automotive had a very good understanding of the key competencies in the automotive supplier space. AVIC understood the importance of technology, quality, safety and how to achieve those goals in a business characterized by high capital investments and long lead times.

Nexteer was sold to AVIC in 2011 and on day one Nexteer saw its research and development budget increased by 50%. In three years under stable ownership, Nexteer has executed a strategy of having the "best country cost footprint." Nexteer has transformed its overall cost structure, closed nine high-cost plants and grown its customer base exponentially.

Nexteer now supplies over 50 OEMs with steering and drivetrains. It recently launched a new steering system for BMW and will manufacture over half of BMW's steering components globally.

In October, Nexteer was listed on the Hong Kong Stock Exchange and this has created numerous new opportunities for Nexteer.

Culturally, Richardson notes, "We continue to learn a lot between east and west. In China you will never hear, 'I don't know' or 'I made a mistake' but if you care to listen and think about it, there is a lot to learn."

Richardson continued, "In addition, Nexteer is not only Chinese-owned, but it is also a state-owned enterprise and it is difficult to distinguish between the two." While this combination brings long-range planning and the ability to make large investments, it also means interacting with a well-defined hierarchy which may seem unusual at times but Richardson describes the process as, "always with logic and there are no random actions."

Sacks commented that there is tremendous interdependence and vibrancy coming from foreign investments in the U.S. manufacturing segment. He pointed to BMW's automobile production in South Carolina where 70% of the 300,000 vehicles

**“Under the GM umbrella, we had a seat at the table; we learned how the OEMs think; we saw competitors come in and pitch their products.”**  
*- Michael Richardson*

produced annually are for export and noted that 20% of all U.S. exports come from companies that are owned or controlled by foreign entities.

Foreign entities are also investing in early stage and greenfield projects. Sacks commented that Siemens spends about \$1 billion annually in research and development at its U.S. plants.

The “North Tundra of Minnesota” is the site of the largest foreign greenfield investment in U.S. Essar Steel is a part of Essar Global Limited, an India-based conglomerate in the manufacturing and service sector. Essar Global Limited has positions in steel, mining, energy, refining, and related services such as engineering. North America is Essar’s largest presence outside of India accounting for 10,000 of Essar’s 75,000 employees. Virtually all of Essar’s North American employees are from Canada or the U.S.

Madhu Vuppuluri is Executive Vice Chairman, Essar Steel Minnesota and CEO, Essar Americas. He has been instrumental in building Essar’s presence in North America from nothing in 1999 to nearly \$4.5 billion in capital investments today. He has led Essar’s greenfield steel pellet plant project in Minnesota project since its conception. The plant is a state-of-the-art open pit mining, concentrating and pelletizing plant and represents the largest foreign greenfield investment in the U.S. at an estimated cost of \$1.8 billion. The plant expects to start operations in the fourth quarter of 2014, ramping up to an annual production capacity of 7 million tons by third quarter of 2015.

When asked about his experience in Minnesota, Vuppuluri noted, “for any company of foreign origin, [investments] will come with a mixed bag of experiences.” On one hand, Essar has experienced very exciting growth in the past 14 years in the U.S., but that growth has come with challenges. For example, he commented that the company has looked at scores of potential acquisitions over the past decade but has only closed six transactions to date.

The biggest challenge, and perhaps the most surprising, has been the inability to get greenfield project financing in the manufacturing sector from U.S. banks. “Even today,” Vuppuluri notes, “there is no project financing available from the local banks despite the strong banking system here, which is a shame. We all talk about a revival and bringing vigorous manufacturing growth here to the U.S. but the basic system for putting the proper financing of debt and equity does not exist for a project with no cash flows purely based on a greenfield configuration.” Vuppuluri characterized the task of financing the greenfield project as “Herculean” and that he ultimately raised \$1.1 billion of the cost primarily from India-based banks that were interested

**“Even today, there is no greenfield project financing available from the local banks despite the strong banking system here, which is a shame.”**  
- Madhu Vuppuluri

in investing in U.S. manufacturing. Even today, he comments that his list of financiers lacks any of the top-tier, mid-tier or smaller U.S. banks. Moreover, "...this needs to be evaluated and looked into, especially if we are going to revive manufacturing in the U.S."

Sacks then commented that the disconnect between the availability of financing for established projects and greenfield projects was quite notable as large acquisitions with well-defined cash flows, such as the Shuanghui acquisition of Smithfield Foods for \$4.7 billion or Dalian Wanda Group's \$2.6 billion acquisition of AMC Entertainment, did not appear to have any financing troubles.

The conversation then turned to the U.S. Government's role in promoting foreign investment into the U.S. Matthew McGuire, Director of the Office of Business Liaison for the U.S. Department of Commerce pointed out that there are many reasons that foreign companies seek to invest in the U.S. The U.S. economy is the world's largest and is also driven by consumers. The U.S. offers solid IP protection, a strong banking network, a productive workforce and relatively cheap energy – and not just natural gas. While criticisms of the U.S. tend to focus on relatively high labor costs and fairly strict regulation compared with other nations, those costs are often more than offset by access to inexpensive capital and, increasingly inexpensive energy. Sacks noted that Larry Fink, CEO of Blackrock USA, has a data center in Buffalo, New York that is hydroelectric powered. "Energy costs at the data center are \$0.035 per kWh. This compares with \$0.18/kWh for a similar center in Europe and \$0.80/kWh in Germany."

**“We have robust efforts (to attract foreign investment) at the state level, but we’ve never had that at the Federal level. As a result, foreign entities looking to invest in the U.S. often face myriad obstacles and delays.”**

**- Matthew McGuire**

McGuire went on to describe SelectUSA, the Commerce Department's program to help attract inbound investment to the U.S. "The U.S. has lagged countries such as Korea, Ireland, Germany and Singapore in its efforts to attract foreign capital, in part because there has been a lack of coordination between all players." McGuire continued, "We have robust efforts (to attract foreign investment) at the state level, but we've never had that at the Federal level." As a result, foreign entities looking to invest in the U.S. often face myriad obstacles and delays whether seeking environmental and regulatory approval to site a plant or simply trying to get visa applications handled in a timely manner.

SelectUSA aims to be a one-stop shop for foreign entities looking to invest in the U.S. McGuire suggested that the government can be very effective in ways such as "pure old promotion." At last year's SelectUSA summit, 600 foreign investors met with over 600 opportunities from the 48 contiguous states – and 1,300 additional investors and projects had to be turned away due to a lack of capacity.

In addition to SelectUSA, McGuire pointed to two initiatives that will help fund manufacturing innovation at the local level. The first, Investing in Manufacturing

Communities Partnership (IMCP) is a competitive program awarding grants in the range of \$20-25 million to help companies, universities and communities take current innovation to the next level. The other, The National Network of Manufacturing Innovation (NNMI) is a competitive grant program aimed at funding the development of specific technologies. The first grant was awarded to study three-dimensional printing in Ohio.

McGuire conceded that the Federal structure of the U.S. limits some of the government's ability to recruit foreign investment (most notably in terms of providing direct financing). "In other countries, the import-export bank will be right at the table during the investment process. We just can't do that." However, he said that perhaps the Federal government could consider programs such as loan guarantees to speed the financing process.

The session closed with a discussion about how foreign investors are bringing more than capital to invest in manufacturing innovation. Essar Steel is working with the education platform near its future plant to ensure that that workforce is trained to handle new steel manufacturing technology. Essar Steel's pelletizing plant is the first new plant since 1977 and while the local economy is blessed to have generations of mining engineers in its workforce there are still significant training hurdles to be met before the plant comes online in 2014. Essar is working with local community colleges to update the mining curriculum to include training specific to the new plant's pelletizing technology. In addition, Essar is financing several training simulators that will teach workers to use 240-ton trucks and other equipment used in modern mining and pelletization.

In summary, there's a lot to be optimistic about in the outlook for U.S. manufacturing. Foreign investment into the U.S. continues to grow. In 2013, the level of committed capital increased nearly 40% to \$208 billion compared with 2012. This trend is expected to continue over the next few years as both private equity and strategic buyers are flush with cash. Low energy costs, a skilled workforce and the opportunity to sell into an enormous market attract investors. The government is working to attract and expedite FDI at the federal level. While there will always be challenges, successes like Nexteer Automotive and Essar Steel illustrate the upside potential for manufacturing investments particularly for long-term investors.

**“In other countries, the import-export bank will be right at the table during the investment process. We just can't do that.”**

**- Matthew McGuire**

## The New American Renaissance In Manufacturing



To watch “The American Renaissance in Manufacturing” Symposium Session click on the photo below



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## FACULTY PROFILES



**Selig Sacks** is Partner and Co-Chair of the U.S./Greater China Corporate Practice at Foley & Lardner LLP. He is a member of the firm's Transactional & Securities, International, and Private Equity & Venture Capital Practices. Mr. Sacks focuses his practice on representing U.S. clients doing business in China and Chinese companies making foreign direct investment in the United States. His clients span a broad spectrum of industries, including energy, agriculture, pharmaceuticals, green technology, consumer products, new media, real estate and infrastructure. He also represents private equity sponsors and investors. Mr. Sacks regularly counsels public and private entities in general corporate and governance issues, SEC investigations and crisis management. The Co-Chair of the M&A Advisor's Annual International and Cross Border Summits, Mr. Sacks is a sought after expert on US/Sino relations.



**Matthew T. McGuire** is Assistant to the Secretary and Director of the Office of Business Liaison at the Department of Commerce. In this position, he leads the department's efforts to engage the business community on the Obama Administration's top policy priorities. Prior to joining the Commerce Department, McGuire worked as a senior executive in the asset management industry for over eight years. Earlier in his career he worked as an investment officer at New York State's Common Retirement Fund., where he was primarily responsible for investor affairs and corporate governance activities. McGuire has been active with nonprofit and civic organizations throughout his career. He has served as Chairman of the Board of Public/Private Ventures, and was a board member of Chicago Public Radio, the Golden Apple Foundation and PeacePlayers International. He earned a Ph.D. from Harvard University, a B.A. from Brown University and a Certificate of Religious Studies from the University of London. He is married and has two daughters.



**Madhu Vuppuluri** is Executive Vice-Chairman of Essar Steel Minnesota and CEO for Essar Americas. Mr. Madhu S. Vuppuluri has over 35 years of leadership experience in the global manufacturing and service industries. As Executive Vice-Chairman, President & CEO, of Essar Steel Minnesota LLC, he is leading the development, permitting, financing and project construction of one of the largest Iron Ore Mining and Manufacturing projects within North America at Nashwauk, Minnesota, entailing a capital investment of \$ 1.8 Billion. This project is due to get into operations by end of 2014. Over last 14 years, since he has arrived in United States, he has been instrumental in building the Essar's presence in North America with a total capital outlay of over \$ 4.5 Billion, employing over 10,000 North Americans in sectors such as Steel (Essar Steel Algoma, an acquisition valuing over \$ 2 Billion), Mining (Essar Steel Minnesota - an investment of \$ 1.8 Billion), Energy (Essar Energy Ltd a Cogeneration Power Plant with an investment of \$ 250 Million) and BPO sectors (acquisition and operation of e-Telequest and Aegis Inc - a Texas headquartered call center/BPO company with presence in 9 locations within USA employing over 6,000 Americans). Madhu holds an MBA degree from Columbia University, New York and Masters in Financial Management degree from Bajaj Institute of Management Studies, University of Mumbai, India.



**Mike Richardson** is Board Executive Director, Senior Vice President, Chief Technology and Strategy Officer of Nexteer Automotive. Mr. Richardson is responsible for Nexteer's product technology, information technology and strategic planning including mergers and acquisitions. He is a member of the Nexteer Strategy Council. Through 2013, Richardson led Nexteer's IPO roadshow team, working with the board of directors, sponsors and stakeholders to market Nexteer's listing in the Hong Kong Exchange. Mr. Richardson began his automotive career with General Motors in 1974 as a student and was named staff engineer in 1990. He opened the division's Tokyo office in 1991 and won the General Motors President's Council Award for aftermarket product alignment and de-proliferation. Mr. Richardson was inducted into the Delphi Inventors Hall of Fame in 2004. A native of Midland, Mich., he holds a bachelor's degree in engineering from Kettering University and a master's degree in business administration from Central Michigan University. Mr. Richardson is a professional engineer, certified quality engineer and stationary power engineer. He is a Boss Kettering Award recipient and author of numerous intellectual properties.