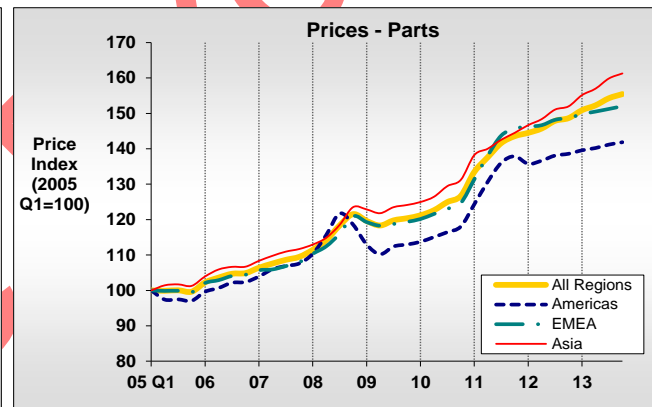
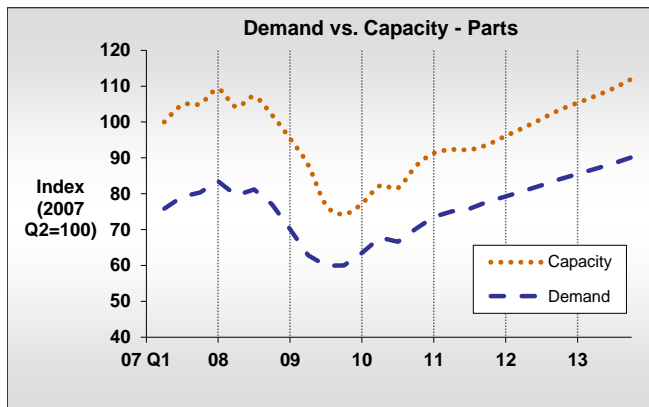


9 Parts

Sales rose 1% in Q3 and will rise 2.5% and 2%, respectively, in Q4 and 2012 Q1 on government orders, iron ore mining, and the automotive industry. Sales will increase 8% in 2012 and 7% in 2013 on Asian mining and automotive orders. Carlisle and ContiTech will add 2% to industry capacity in Q4, keeping utilization steady at 82% in 2011 Q4. Suppliers such as Gates, ContiTech, and Fenner will add capacity slightly faster than demand growth over the next two years, depressing utilization to 81% by 2013. Lead times rose half a week in 2011 H2 on rising backlogs and a 5% drop in capacity margin in 2011 H2, but they will fall back down to eight weeks in 2013 as utilization rates decline. Prices rose 3% in Q3 on an 11% rise in rubber costs, but will decelerate to 1% in Q4 on falling rubber and steel costs. Prices will only rise slightly faster than inflation at 3.5% in 2012 and 4.5% in 2013 due to a 3% annual rise in engineering salaries in the Americas, coupled with 1.5% annual increases in rubber costs through 2013.

Figure 14: Key Indicators for Parts

Key Indicators	Q4 2011 - Q1 2012	Q4 2011 - Q4 2013
Demand	▲ 1.9%	▲ 15.9%
Order Lead Time	▼ -1.1%	▼ -5.3%
Prices	▲ 0.7%	▲ 8.3%
Capacity Utilization	▼ -0.2%	▼ -1.5%
Supplier Concentration	LO 0.3%	LO 2.4%



Fenner strengthened its presence in the Americas by acquiring Allison Custom Fabrication in the US. Tsubaki formed a joint venture with Shanghai-based Xiaobo Mechanical & Electrical to use its local sales network to capture a greater share of the fast growing Chinese market. Fenner introduced the Ultra Plus 140 range of wedge belts, transmitting 40% more power than its original wedge belts, to lower costs for customers by reducing the required number of belt drives.

Figure 15: Top Part Suppliers

	Name	Home Country	3-Year Annual Growth Rate	Power Transmission as a % of Sales	2010 Parts Revenue (\$M US)	R&D % of Sales 2010	Stock Price Change Last 90 Days	Q4 News
1	Veyance	USA	N/A	8%	\$1,253	2.1%	0%	Received US govt. aid to support headcount increase
2	Tomkins*	UK	30.6%	13%	\$934	1.9%	40%	Introduced G8K spiral hoses with 50% improved bending
3	Fenner	UK	3.1%	90%	\$730	0.3%	-9%	Bought Allison Custom Fabrication to expand in the US
4	Tsubaki	Japan	-15.2%	64%	\$703	3.0%	-1%	Formed joint venture with Xiaobo in China
5	Carlisle	USA	-7.8%	19%	\$474	0.9%	-21%	Bought Tri-Star to merge complementing portfolios
6	Parker	USA	-9.3%	5%	\$320	3.2%	-31%	Entered long term supply agreement with the US Navy
7	Rexnord	USA	-5.2%	72%	\$306	N/A	N/A	Sales increased 12% YOY on global market share gains
8	SKF	Sweden	6.4%	49%	\$222	1.9%	-24%	N/A
9	Altra	USA	-9.5%	100%	\$216	1.3%	-42%	Sales up by 38% YOY in Q3 on Bauer acquisition
10	ContiTech	Germany	N/A	6%	\$198	N/A	N/A	Will invest \$8m to double capacity in Brazil by 2014

*Tomkins revenue split for Parts has been updated since the last report to reflect the acquisition of Pinafore Holdings B.V.



9.1 Sourcing Recommendations – Parts

1. Use Fenner's Ultra 140 wedge belts to save 40% energy, thanks to its higher power rating and greater longevity. Its inner load bearing chords are made from aramid fiber (strong synthetic fiber), surrounded with chloroprene rubber which provides greater resistance to heat, oils, and chemical exposure, thereby elongating wear life. Their higher power rating allows the use of fewer belts.
2. Use client position as a major customer with Hose Master to negotiate volume discounts for standard corrugated and stripwound metal hoses 2012 Q4 and 2013. Hose Master is currently constructing a new plant in Houston, Texas, that will become operational at the end of the year and lower overall company utilization rates from 80-85% to 75-80%.
3. Order G8K MegaSpiral[®] hydraulic hoses from Tomkins (Gates) for tight spaces with high temperatures, which leads to 47% cost reductions on increased wear life due to greater flexibility in bending applications. These have shorter overall hose assembly lengths of 18 inches, which is 18% shorter compared to the standard industry average and bends to one half of SAE (Society of Automotive Engineers) specifications. They can work at constant high pressure of 8k psi at high temperatures of 250°F due to its abrasion resistant MegaTuff[®] covers, which increase hose life and prevent leakage of hydraulic fluids.
4. Place orders for 2012 in 2012 Q1 to American suppliers as they will cut prices by 1.5% in 2012 Q1 on slow sales growth in 2011 due to slackening industrial activity, which will prompt American Parts suppliers to lower prices to sell inventory accumulated in the previous year. Regional prices will increase 2% in the nine month period April-December.

9.2 Sales fell in Q3 on weak construction markets, but government, automotive, and iron ore mining orders will drive demand up 2.5% in Q4. Sales will grow 7-8% annually for the next two years led by Asian mining and automotive industry growth.

Sales growth for power transmission parts slowed to 1% in Q3 on a 7% decline in purchases of construction machinery, which accounts for more than half of sales for hoses, belts, and chains.

- Asian sales growth decelerated by 1% to 2.3% in Q3 on zero growth in China's manufacturing sector. This is a delayed effect of the 2008-09 recession in North America and Europe derived from weak domestic and overseas demand.
- Sales growth in EMEA slowed to 0.4% due to the weak economic outlook for Western Europe, where the manufacturing sector contracted (the PMI² fell to 48.5 in Q3).
- In the Americas, sales declined 1.7% on slow growth in real GDP in the US, which grew by only 0.5% in Q3 from Q2, reflecting the downward trend in its manufacturing sector. Activity in the manufacturing sector fell nearly 10% in Q3, and intermediate purchases by construction

² Purchasing Managers Index compiles new orders, inventory levels, production, speed of supplier deliveries, and employment level in the manufacturing sector, which reflects purchasing managers' acquisition of goods and services. The index shows contraction if it falls below the 50 level mark and shows expansion if it is greater than 50.