Molex Incorporated (MOLX, MOLXA)

MARTIN P. SLARK was appointed Vice Chairman and Chief Executive Officer of Molex Incorporated on July 1, 2005. He had served as President and Chief Operating Officer from July 1, 2001. Prior to this position, Mr. Slark was Executive Vice President of Molex Incorporated from 1999 to 2001; President of the Americas Region from 1994 to 1999; and President of the Far East South Region from 1988 to 1994. He became a Director of the company in 2000. He began his career with Molex in 1976 and has worked for the company in Europe, the US and Asia. He was responsible for starting the Molex entities in Hong Kong, China, India, South Africa, Malaysia and Thailand. Mr. Slark completed his undergraduate studies in Electronic Engineering at Bracknell College, England (1976). He also holds a Post Graduate Diploma in Management Studies (with distinction) from Portsmouth University (1981) and an MBA (with distinction) from the University of East London (1992). He is on the Board of the Hub Group, Inc., and is Vice Chairman and Treasurer of the Landmark School, which serves students with language-based learning disabilities. He is a Companion of the British Institute of Management, and a member of the University of Chicago Advisory Council on the Graduate School of Business. He is also a member of the World Presidents’ Organization, The Chicago Economic Club and the Management Development Institute of Singapore. In 2003, Mr. Slark was honored with a Public Service Medal by the government of Singapore. This national award recognizes distinguished international friends who have contributed to Singapore’s development in business, industry, technology and science. Mr. Slark was honored for having played an instrumental role in expanding Molex’s operations in Singapore as well as boosting Singapore’s efforts to develop its electronics and precision engineering industries. In 2004 Mr. Slark was awarded a Doctorate in Business Administration (Hon Causa) by the University of East London.

TWST: Please begin with a brief historical sketch of the company and a picture of the things you are doing now.

Mr. Slark: Molex was founded in 1938, so this year is our 70th anniversary. We are the world’s second largest manufacturer of electronic connectors. The company had revenues of $3.3 billion in our fiscal year ended June 30, 2007, and we have 59 facilities in 19 countries around the world. The average unit price for our products is obviously relatively low, given they are small electronic components. To generate that $3.3 billion in sales, we have to manufacture about 60 billion connectors. The global market for our product is about $40 billion and there are about 2,000 competitors that make products similar to the products that Molex makes. The interesting part is that the industry is starting to consolidate and the top 10 connector companies have about 55% of the market.

TWST: What have been the principal drivers of the company’s success?

Mr. Slark: In the early days in the 1930s, Molex wasn’t in the connector industry. The name Molex actually comes from the pro-
similar to ours, many of them are obviously very small competitors in the competitive landscape and your competitive advantages? Many of the components that make that possible. Information is available anywhere around the world. Molex provides.

Moving to mobile devices and moving to a situation where access to the Molex material was found to have insulating properties. Secondly, another challenge would be proprietary compound that we used to mold toys, salt shakers and various other products. I would say the key transition points would be, firstly, that Molex got involved in making connectors in the 1940s, because the Molex material was found to have insulating properties. Secondly, in the 1960s, we started selling the product overseas and began an international division. We were very early in expanding into Japan and Asia and were there ahead of many of our competitors. Then more recently, we’ve reorganized from a geographic structure to a global division structure. We have five global product divisions that make our products around the world that are supported by a Global Sales and Marketing Division. Today, more than 70% of our business involves two or more geographic regions. Our new structure, which we rolled out this fiscal year, makes it much easier for the major global companies that are our customers to do business with us. It also helps us be more efficient in the use of our assets. Less than a year into the reorganization we have already been able to reduce our capital expenditures since we no longer have to tool products in multiple locations. All of our global product divisions have low-cost manufacturing capabilities and we are finding the new structure is helping us make much better use of our existing capacity. And in addition to helping improve our return on net assets, it is also helping us drive down SG&A since we aren’t duplicating our management structure at the corporate, regional and country levels.

TWST: How well did you manage to do with the difficult years in the early part of this century?

Mr. Slark: When the tech bubble burst, our market shrank. It went down about 20% in 2001 and it fell around another 10% in 2002. Those were the worst two years ever in the history of our industry. Molex’s sales went from $2.4 billion at a peak down to $1.7 billion over that two-year period. But in the last five years, we basically doubled our sales. We lost about 30% of our revenue and we’ve now doubled it back over the last five years.

TWST: What were the initiatives you took to achieve this recent success?

Mr. Slark: Growth over the last five years, I think, has really been focused on getting involved in new technologies and expanding into the number of end markets that we are involved in. I think the macro trends in our industry are moving to digital products, moving to mobile devices and moving to a situation where access to information is available anywhere around the world. Molex provides many of the components that make that possible.

TWST: Would you go further in describing the competitive landscape and your competitive advantages?

Mr. Slark: Of those 2,000 companies that make products similar to ours, many of them are obviously very small competitors that make a narrow product range, often in a single geography. There are, in the top 10, obviously larger players. Molex’s competitive advantage, I think, is being able to offer a very broad product range on a global basis so that we can design products into our customers in any geography, manufacture them anywhere and sell them anywhere. We are the only connector company that has a single, global business and technical information system in place so that we can link together all of our activities on a global basis.

TWST: What is your feeling about acquisitions?

Mr. Slark: Historically, about 10% of our growth has come from acquisitions. Most of our growth has been organic. But if the industry continues to consolidate, we think probably close to 30% of our future growth will come from acquisitions. We still think that organic growth will be more important, but we think we can supplement our growth with smaller companies that offer technologies that we don’t have or that give us access to markets that we don’t have.

TWST: As you look out over the next three to four years, what are the main elements in your corporate growth strategy?

Mr. Slark: Focusing on new growth markets such as medical electronics, alternative sources of energy and the ongoing trend towards mobility in electronic devices, continuing to expand our presence in Asia, where already 50% plus of our sales comes from, and making our organization globally more cost-competitive.

TWST: What will you be doing in regard to alternative sources of energy?

Mr. Slark: Providing the connector products that will be used in products like solar panels, as they are more widely distributed around the world and also providing the connectivity that’s used to harness wind power. I think with the cost of oil going up, there’s more and more focus on those alternative energy sources plus the connectivity to go from the source to where it can be used in an application is where we would provide the product.

TWST: How do you go about approaching R&D?

Mr. Slark: We invest about 5% of our sales in R&D so we have a very high reinvestment rate. Most of our R&D is actually more development rather than research because what we are doing is finding solutions to customers’ packaging or interconnect needs. We don’t do a lot of pure research. What we do is work with the world’s leading electronic companies to provide them with connector solutions for the products that they are developing.

TWST: What about possible challenges or problems?

Mr. Slark: The big challenges today, I would say, are, firstly, the rapidly rising cost of raw materials. Our key raw materials are copper, gold and plastics. Secondly, another challenge would be the ability to recruit, train and keep good people around the world,
particularly in Asia, where there is a very high turnover of skilled people. And thirdly would be to stay ahead of new technologies so that we are first to market with products that meet the new technology needs of our customers.

TWST: How can you deal with the problem of the cost of raw materials?

Mr. Slark: Two ways, I think. Firstly, where we can, we will pass on some of those costs to our customers. Secondly, we continue to look for ways to use those materials more cost-effectively in the design of our products, especially when we are designing new technologies.

TWST: How do you recruit, train, develop and retain your people?

Mr. Slark: We have about 35,000 people around the world. We have a great focus on partnering with universities in the cities in which we operate. We try and provide a favorable work environment for our employees and also we try and promote from within, so that we provide career paths for those employees.

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TWST: What would you reasonably expect the company to look like in about three years?

Mr. Slark: In the last 20 years, we’ve grown at a compound annual growth rate that has been twice the growth rate of the market. Our market grew at about a 6% to 7% rate on average. And we have grown at about twice that rate. Our goal would be to continue to grow at about twice the rate of the market.

TWST: Would you tell us about your own background and expertise and the same for a couple of your colleagues?

Mr. Slark: I was recruited by Molex in the UK in 1976, straight from undergraduate studies in engineering. The company then put me through a business school on a part-time basis to get an MBA. I’ve worked for the company in Europe. I’ve spent 10 years in Asia, four years in Hong Kong, six in Singapore and I’ve had three tours of duty here in the United States in various positions starting in sales. If you look at our global leadership team, which is the top 12 people in the company, the average tenure of those individuals is over 20 years with Molex, and virtually every one of them has lived and worked in multiple regions for the company. Most of them have technical backgrounds with subsequent business study

TWST: What occupies your own attention most on a day-by-day basis?

Mr. Slark: I would say looking at our organization, because I think if we can put the right people in the right places around the world, that’s a big determining factor on how well we do. Then secondly, looking at how we allocate our capital investments to try and make sure that we are investing in the best opportunities.

TWST: Would you tell us about the effects on your thinking and development of studying both engineering and business at the graduate level?

Mr. Slark: I think having undergraduate background in engineering enables you to understand the technology of the product areas that we work in. I think having a basic understanding of that in terms of how our products are used and how our customers use them is very important. I think the business studies background really helps more with analyzing business opportunities and determining how the company can best invest its resources to generate the best return. And I’d say I was very lucky because I actually did my MBA in Asia, and my class was primarily Asian students. I think studying with Asian students was very beneficial because I think living and working in another geography gives you a much better understanding of how business is done in those parts of the world.

TWST: Were the classes conducted in English?

Mr. Slark: Yes. In Singapore, yes. I think if you are a Western ex-pat living in Hong Kong or Singapore, probably they are two good choices from a language standpoint.
TWST: Do you see any need to improve the company’s capital structure?

Mr. Slark: Molex is very lucky because we have a very strong balance sheet with a very strong global cash balance, and actually it’s not a case of improving our balance sheet. I think it may be a case of using our balance sheet more aggressively in the future. As the industry consolidates, I think we have an opportunity to perhaps use more of that cash and potentially borrow money to be more aggressive with acquisitions or investment opportunities as they present themselves.

TWST: Would you describe your shareholder base?

Mr. Slark: We have a founding family, the Krehbiel family, which founded the company before it went public. They still own about 40% of the voting stock of the company. We have a voting stock and a non-voting stock. The Krehbiel family has about 40% of the voting stock and they have about 8% of the non-voting. Outside of that, the bulk of our shares are owned by either employees or major investment institutions.

TWST: What would be the two or three best reasons for the long-term investor to take a good look at Molex?

Mr. Slark: I think the fact that the electronics industry, if someone is interested in investing, is increasingly becoming more global. The fact that Molex has more than 50% of its sales in Asia gives an investor the opportunity to participate in the growth of the Asian electronics market through a US-based company. The electromechanical products that we make tend to be much less volatile than semiconductors or ceramic chip capacitors or many other electronic components.

TWST: Is there anything that you would like to add, especially regarding strategies, long-term objectives and reasons for an investor to look at the company?

Mr. Slark: I think when you are trying to summarize Molex’s position, I think that we’ve been a long-term player in the market. We have gone from being a small participant to being the number two player over the last 25 years. In the last 25 years, we’ve risen from number 10 to number two, and with our strategy of investing back into the business, and having a globally integrated organization to service our customers, we think we are well positioned to generate good returns for our investors.

TWST: Thank you.