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Big in Europe, Fuel Systems Eyes U.S. Buyers

MANUFACTURING: Natural gas converters face high regulatory fees

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Fuel Systems Solutions Inc. is hoping it didn't miss a window to expand in the U.S. market.

The Santa Ana-based company makes kits that convert autos to run on natural gas and propane. They have been a big hit in Europe, thanks to high, tax-heavy gas prices and lower government barriers.

When gas prices skyrocketed here last year and demand for more efficient autos reached a fevered pitch, Fuel Systems decided it was time to make a bigger U.S. push.

But sales largely have been flat for the company's U.S. business, Impco Technologies Inc., which was started by four hotrod enthusiasts in 1957.

Impco did about \$100 million in revenue for 2008, selling mostly to operators of industrial vehicles such as forklifts and buses.

Compare that to Fuel Systems' growing Italian BRC Gas Equipment SRL, which helped push the company's revenue to more than \$375 million for the past 12 months, up 60% from a year earlier.

Fuel Systems' stock is up about 130% from a year ago—it was the best local stock of 2008—on a recent market value of about \$430 million. But as the price of conventional gas has fallen since the summer and some state governments look to tax anything auto related, the stock has lost about half its value since August.

Wall Street has expressed concerns about Fuel Systems' ability to make the kits profitably as the company has to contend with higher regulation costs here than in Europe.

"It has to make commercial sense," Chief Financial Officer Bill Larkin said.

The company is hoping to ride the coattails of public campaigns promoting cleaner energy to consumers, such as Texas oil billionaire T. Boone Pickens' push for profitable renewable re- sources.

Pickens invested in Seal Beach-based Clean Energy Fuels Corp., which says it is the largest provider of natural gas for vehicles in North America.

Autos running on natural gas have been found to produce at least 20% less harmful greenhouse gases than those running on traditional gas, according to environmental studies.



Rafael Lopez working on engines in Santa Ana: U.S. business does about \$100 million in yearly sales

“Everyone and their dog want it,” said Timothy Standke, director of automotive operations at Fuel Systems.

Impco has a five-year plan to grow its business here, starting with the 20 distributors it already works with in the U.S. and Canada.

The kits it makes locally from its 210,000-square-foot plant, which employs 200 workers, are similar to the ones sold in Europe and Australia.

Selling them profitably depends largely on how much it costs to certify them with the Environmental Protection Agency.

Each kit needs to be approved for a specific engine model, which can end up taking a lot of time and money, according to Standke.

It could take six certifications to make kits for the various Ford F-150 truck models. In other countries, the kit needs just one certification to cover all the models.

Impco doesn't make the kits for California autos because it has to abide by the regulations of the California Air Resources Board as well as the EPA, which is cost prohibitive.

Where it could cost \$50,000 to get a kit approved in another state, it may cost \$500,000 in California to repeat the process multiple times at both agencies, Standke said.

Standke said he isn't interested in any government subsidies to make the kits.

“We're a company that has always looked to make money with this,” he said.

Impco sells only about 1,000 of the kits a year to everyday drivers, according to Standke.

Kits cost \$6,000 to \$8,000. Most of the cost goes to the tanks, which can run \$4,000 to \$5,000 and are fitted into the trunk of sedans or the cargo bed of trucks.

Drivers who do convert their autos are limited in the distance they can travel as well as the places they can refuel.

Standke believes that once the ball starts rolling with the technology, companies will build more refueling stations.

“Commerce will build it for you,” he said.

The kits have been more popular in places like Utah where natural gas prices are some of the cheapest in the country and conventional gas runs higher.