

Breed Reborn, Profitable as Key Safety Systems

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WardsAuto.com,

Feb 22, 2007

STERLING HEIGHTS, MI – Breed Technologies had one foot in the grave in 1999 when it landed in bankruptcy well before it became a widespread trend among automotive suppliers.

Company founder Allen Breed pioneered the mechanical crash sensor that gave rise to airbags, but the Lakeland, FL, supplier could not invent its way out of trouble.

Breed stumbled badly under a heavy debt load after its 1997 acquisition of AlliedSignal's safety restraints business, for \$710 million. Creditors and customers called for change. At one point, Breed tried to reform itself as a minority enterprise to take advantage of new funding sources.



Key Safety produces knee airbag for Audi TT, with three more platforms launching this year.

A group of creditors eventually rescued Breed from Chapter 11 in 2000 by exchanging debt they held in Breed for equity ownership until Carlyle Management Group, led by businessman B. Edward Ewing, acquired the Breed operations in 2003, restructured and renamed the company Key Safety Systems Inc.

Today, Key has a new lease on life, a new headquarters location here, a sharp focus on engineering innovation and a global strategy bolstered by new manufacturing operations in low-wage regions of the world.

“The company has changed quite a bit,” says Ronald Feldeisen Jr., Key Safety’s senior vice president of global sales and marketing. Feldeisen speaks from experience, having spent 20 years with the operations, dating back to AlliedSignal ownership.

“We have a cost-management focus today,” Feldeisen says, “and we have filled out our product portfolio, invested significantly in new operations and improved dramatically on customer satisfaction.”

Key Safety remains privately held, and Carlyle has since changed its name to Ewing Management Group. Without disclosing details, Feldeisen says Key Safety has been profitable each year since the 2003 acquisition, and he is upbeat about the future.

The former Breed relied heavily on Detroit auto makers for airbag and seatbelt sales, but today Key Safety has 150 customers and 10 that Feldeisen describes as “significant.” No single customer represented more than 20% of Key’s \$1.1 billion in 2006 sales.

Since the 2003 acquisition, Ewing Management has invested about \$250 million in new facilities and product development for Key Safety, Feldeisen says. In 2006, the company invested 5% of revenue in product engineering and research and development.

Before the deal, Breed had 32 facilities globally. Today, Key Safety has 36, including new low-cost manufacturing plants in China, Mexico and Romania, and 9,000 employees.

Feldeisen estimates 50% of the company's products come from low-cost manufacturing facilities. The manufactured cost at each of the three new facilities is virtually identical.

"If the labor cost is about the same, then it comes down to, where is the end customer for a new product program and where is our available capacity?" he says.

In 2004, Key Safety formed a manufacturing joint venture with Yanfeng Visteon Automotive Trim Systems Co. Ltd., based in Shanghai and one of China's largest producers of steering wheels and interior trim.

Last year, the relationship was expanded to include Key Safety's new manufacturing and technical center near Shanghai in the Pudong region. Plant managers plan to produce 5 million airbag modules, 2 million seatbelt assemblies and 2 million steering wheels per year.

About 90% of output is for the Chinese market, with the remainder exported to other Asian markets, Feldeisen says. The supplier is in talks with potential U.S. customers interested in sourcing components from Key Safety's Chinese operations.

The technical center at the Pudong campus employs 200 people, many of them dedicated to helping Asian auto makers comply with crash standards in European and North American markets.

Last year, Key Safety formed a strategic partnership with Chery Automobile Co. Ltd. to design and develop safety systems for Chery vehicles so they can be exported to North America and Europe.

Like its technical centers here and in Frankfurt, the Pudong facility has a "HYGE" (hydraulic-controlled gas-energized) dynamic sled for crash testing.

Key Safety intends to produce its most advanced products in China, including the company's latest-generation knee airbag, which began production at the Pudong plant last May for the Audi TT, with three more platforms launching this year, says Robert Block, vice president-engineering and program management.

Some first-generation knee airbags, which have been on the market for about two years, have integrated hard plastic trim that separates from the lower section of the instrument panel at the time of deployment.

Although designed to keep the driver from slipping under the steering wheel, Block says the hard plastic trim can cause leg and knee injuries, rather than prevent them. Key Safety's new knee airbag has soft surfaces all around.

Knee airbags are important because they help keep the driver in an upright position, making for better contact with the deploying front airbag, which comes from the steering wheel.

Potential customers are clamoring for the devices in their next-generation vehicles, and Block expects volumes to be significant by about 2009. "We're getting a lot of RFQs (requests for quotation) from OEMs right now," he says.

As a bonus, the new knee airbag is less expensive for auto makers than the first-generation devices, Block says.

Additional investment now allows for Key Safety to produce internally all the inflators necessary for every airbag the company sells. In the past, the supplier had to purchase many inflators.

A pyrotechnic inflator is a small device that fills an airbag with hot gas in a split second, providing a soft cushion for an occupant subjected to extreme crash forces. Block estimates the inflator makes up about 50% of the value of an airbag module.

Despite the upbeat countenance of its management, Key Safety remains the No.4 player in the global safety systems market, behind Autoliv Inc. (which holds about 35% of the market), TRW Inc. and Takata Corp. (each holding about 25%), Feldeisen says.

He estimates Key Safety has between 8% and 10% of the sector.

Despite winning new business, Key Safety also has failed to retain contracts for new vehicles, soon to launch, including the Chevy Malibu and Chrysler Group minivans.

“Incumbency is not high in safety restraint systems,” Feldeisen says.
“There’s a lot of moving around in terms of business. Technology changes from generation to generation,” leading auto makers to shop regularly for something better, or less expensive.

“We’re all quoting new business,” Feldeisen says of safety suppliers.

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