



2Source Commits To \$17-Million Capital Spending Program – Ontario Government Provides Support Through AMIS Loan

Backgrounder August 2008

2Source is planning to invest \$17 million to enable further growth

- The company's business plan calls for capital expenditures of approximately \$17 million.
- 2Source is committed to invest this capital in enhanced manufacturing methodologies and processes, and in modern machinery and related infrastructure, which will retain and increase high-skill jobs in Ontario.
- As a result, 2Source intends to strengthen its competitive position, continue to decrease its average lead-time, maintain an extraordinary annual growth in sales, and train new employees – all during the next several years.

Ontario's Advanced Manufacturing Investment Strategy (AMIS)

- Premier Dalton McGuinty, Minister of Small Business and Entrepreneurship Harinder Takhar and Member of Provincial Parliament Amrit Mangat visited 2Source Manufacturing on August 18 to announce a \$5-million AMIS loan. AMIS loans are designed to encourage manufacturers to invest in leading-edge technologies and processes and help them become more innovative and competitive in today's global economy.
- 2Source's manufacturing facility is located at 5261 Bradco Blvd in Mississauga.

Manufacturing sector challenges faced and overcome by 2Source

- The Canadian dollar has appreciated about 25% over the past three years vis-à-vis the US dollar.
- Globalization has obliged Canadian manufacturers to compete with companies around the world.
- Cheap labour and less regulation in overseas markets has put downward pressure on product pricing.
- Costs of energy, industrial land and skilled labour have increased substantially in Ontario.
- Airlines are under increasing pressure to improve their on-time performance, and to maintain competitive passenger ticket prices.
- Commercial airplanes are being produced at the highest rate ever with substantial pressure to reduce costs.
- This long-established manufacturer – new to aircraft bushings in late 2005 – had to learn about the demanding needs of global aerospace giants and penetrate the market through differentiating new concepts as well as excellent marketing and execution.
- Over 80% of 2Source shipments are destined to customers in the US, Europe and Asia.

2Source is thriving in Ontario

- 2Source has transformed itself into a leading global supplier of high-value aircraft bushings by becoming a strategic sourcing partner in the aerospace industry (see below description of the transformation since new ownership in 2004).
- Since 2004, 2Source has increased its annual revenues by 500%.
- Approved by major aerospace companies, 2Source has been awarded important supply contracts.
- The bushings are installed in landing gear for aircraft by the world's largest aircraft manufacturers and overhaulers such as the Airbus and Boeing jumbo jets, Blackhawk and V22 helicopters, Boeing and Lockheed fighter jets, and Bombardier regional jets.
- Increased sales have been attributable to rapid global market penetration, innovation, extraordinary reduction of average delivery lead-time, and cost reductions.
- The resilience and entrepreneurial practices of 2Source management and employees have been crucial to its growth and success.
- On a quarterly basis, 2Source shares 20% of its pre-tax profits with all employees. The company also invests substantially in their training and development.



2Source has applied lean and green practices

- The company is fully dedicated to lean supply chain management, and has embraced the Toyota Production System in order to reduce lead times, maintain no interruptions, and continually drive down costs for its worldwide customers.
- 2Source is bringing significant improvements to its order processes in order to slash the total lead-time of delivery, which has declined from an average 1,700 hours in early 2006 to about 700 hours today.
- Lean Manufacturing has led to cost reductions that have offset the devaluation of the US dollar (the denomination of virtually all 2Source sales) vis-à-vis the Canadian dollar (the denomination of the majority of 2Source's expenses). Over the past 18 months, the company has reduced its total cost per bushing by 15 to 20%.
- 2Source cleans and recycles all of its waste metal chips for re-melting, and has reduced energy consumption through retrofitted lighting and automated temperature control.

2Source has innovated for its customers

- The company has learned about the aircraft bushing handling and installation methodologies of its customers, and encouraged them to apply lean manufacturing principles to their processes. This has led to substantial cost savings and reduced lead times for customers, and increased orders for 2Source.
- 2Source has been innovative by developing and supplying kits of aircraft bushings that facilitate assembly for its customers. For example, instead of shipping many boxes of parts in bulk (with each box containing large quantities of the same aircraft bushing), 2Source delivers kits of aircraft bushings (with each kit containing exactly the right combination of aircraft bushings required for each sub-assembly). This has significantly reduced the customers' costs of assembly and, most significantly, their manufacturing lead times.

Government of Ontario programs available to help manufacturers such as 2Source

- Through the Ministry of Training, Colleges and Universities "Job Connect" program, 2Source hired 17 new employees from 2003 to 2007, and 12 have stayed, been trained, and registered as apprentice specialized machinists.
- In February 2008, 2Source responded to a Call for Proposals from the Ministry of Economic Development and Trade for AMIS loans, and received in August 2008 approximately \$5 million. The loan will help finance 2Source's investments in leading-edge technologies and processes, making the company more innovative and competitive, and supporting approximately 138 full-time jobs (including approximately 70 new positions).

2Source Manufacturing Transformation

This private, Ontario-based company has been in business for 20 years and was acquired in 2004 by Robert Glegg – an accomplished and respected entrepreneur. Prior to that time, a company called Trilete Inc. was involved in general precision machining. It had a very capable management and staff, state-of-the-art machining and measuring equipment, and was making high precision parts at a 35,000 square foot manufacturing facility for the aerospace, fibre optic and electronics industries. In the early years of the decade, however, Trilete revenues plunged due to a variety of difficult market conditions. Robert learned about Trilete's track record of delivering quality parts, on time, and maintaining a high level of customer satisfaction. He was determined to leverage its experienced leadership team and established factory to transform and expand the business.

Robert bought the company and changed its name to 2Source Manufacturing. He decided to streamline its product mix and focus it primarily on value-added products. He rationalized his new business and put it on a solid financial footing in the first year. At the same time, 2Source executives searched for new market opportunities and honed in on aircraft bushings after speaking with customers who were experiencing long delivery times, and who encouraged them to supply to this niche market.



Since 2Source had the specialized machinery and the material supply arrangements in place to make aircraft bushings, Robert set in mid-2005 a **goal to become the leading supplier of aircraft bushings in the world**. The company assembled a Board of Directors with extensive backgrounds in the aerospace industry, and hired additional management experienced in high-tech business.

The next achievements were obtaining the industry recognized AS9100 certification, and winning key orders for aircraft bushings, which put 2Source parts on major platforms of some of the largest aircraft production lines in the world. Determined to become the best, 2Source streamlined its processes and developed automated systems to improve order processing efficiency, the preparation of documentation and programming. The company wrote its own manual on how to produce aircraft bushings, and set up a training centre dedicated to teaching its methodologies.

Now 2Source is selling aircraft bushings in Europe, the US, Asia and Canada. Identifying platforms wherever aircraft bushings are required, the company is negotiating long-term sales agreements, while continuing to maximize efficiencies, and enhance systems and procedures – 2Source scours the globe for more customers. 2Source's progress has been about focus and implementing a business plan. The company is geared to scale up its operation domestically and overseas.

2Source is also a member of the Supplier Excellence Alliance ("SEA"). SEA is an association of aerospace primes, major subcontractors and their vendors who are working together to develop an increasingly efficient supply chain through standardized Lean processes with a unified vision.

2Source focuses on:

1. **World-class quality** – with exceptional Lean Manufacturing practices and systems in place, continually refining its processes and procedures to ensure the highest quality;
2. **Guaranteed delivery** – prepared to guarantee agreed-upon delivery schedule, and committed to offering the shortest lead times in the industry;
3. **Competitive pricing** – maintaining an advantage through lean innovation and the efficiencies gained by manufacturing aircraft bushings exclusively; and
4. **Customization** – providing its customers with aircraft bushings in kits organized specifically for their by sub-assemblies, saving time and money on their shop floors.