From the Directors Desk

As expected there has been much discussion on forums and in the media about the closure of yet another Australian Manufacturer. In the years prior to 2009 the aviation market was experiencing a boom period. World-wide demand for products was high, especially in America and South Africa. It was a time of waiting lists and ramping up production to meet demand. Then in one fell swoop in 2008 the GFC occurred and markets were wiped out overnight. Our American market (the majority of our business) virtually disappeared within a week. No-one could have foreseen the GFC and we all had hope there would be some recovery in the months and years that followed however it was a long slow road to recovery.

The flow on effects of the GFC did more than simply wipe out demand. Australia's banking system was in very good shape which caused a massive in-flow of deposits in to Australian banks. This in turn pushed the Australian Dollar up to $1.10 US Dollars. This rapid rise in the AU Dollar from 0.75 cents to $1.10 completed the wipe out of our export market and also led to a flood of imports. The subsequent introduction of LSA meant manufacturers no longer had to face the costs of governmental compliance so a hundred or more new manufacturers emerged and increased competition on the domestic market dramatically. Jabiru's share of the world and domestic markets dropped dramatically. Fortunately we were structured to be able to operate at this diminished level and still remain profitable.

Prior to Jabiru, as many of you will know, I previously worked for many years in the sugar cane industry. I was an engineer and a senior manager of a local company manufacturing sugar cane harvesters for the world market. The success and fortunes of this industry rose and fell on the world prices for sugar. Anyone who has run a business locked in to world commodity prices for agricultural products will know it takes considerable management skills to sustain a business in a market with wild fluctuations in demand. The harvesting business survived until it was taken over by a multi-national company and shipped to Brazil. I learnt many valuable lessons in these years.

From this experience I learnt early on in the development of Jabiru to expect the unexpected and to structure a business to survive huge fluctuations in the market. My business principle has been to utilise contractors where ever possible to minimize the huge capital investment required for machinery and buildings. Our premises are humble, we keep it simple. Our profits are used to invest in research and development, design and marketing, certification and staff development.

When the world wide demand for product started to increase significantly back in 2006, I very strongly advised our major suppliers, including CAMit not to go in to massive amounts of debt to meet this demand but rather to look at the possibility of out-sourcing to contractors and other strategies. My advice to CAMit at this time in 2006, so they could stay viable in the long term was to start the process of converting the Jabiru engine to castings rather than machining from solid to reduce the capital input and massive debt that would be required for more machinery and new premises. This advice and direction was strongly rebuffed by CAMit. Jabiru at this time obtained prices from New Zealand suppliers for crankcase castings. Jabiru was fully prepared and offered to fund the entire pattern and associated costs for CAMit to implement this development. This however was also rebuffed. I could foresee the capital required for machinery was dangerously high and debt funded, and could place them in a precarious position. 2006 was the beginning of the research and development of the cast engine that would require very low capital input for machinery. Ideally, I had hoped CAMit would come on this journey and continue to produce and develop the next generation Jabiru engines however two different directions and thought processes were occurring.

When the GFC did strike in 2008 and the market disappeared I became very concerned that CAMit's business may not be sustainable on this dramatically reduced volume. From experience, I knew this was the time for aggressive management action and restructuring by CAMit in order for them to remain viable. To allow CAMit time for this re-structure, Jabiru continued to order and buy engines when there was simply no market in an attempt to assist and keep them viable. This in turn forced Jabiru in to a borrowing situation to continue purchasing engines to the point where we had over 360 engines in stock. Jabiru's own survivability as well as CAMit's had to be seriously considered at this point. Insufficient action seemed to be taken by CAMit to reduce debt and I became increasingly concerned.

What would happen to our valued customer base of 6,500 engines and 2,100 airframes worldwide if we were left without an engine manufacturer. Jabiru has been my life's work and I feel a deep responsibility for our customer base and my staff.

Jabiru had already experienced early on in our development the failure of one engine manufacturer, KFM. At the time, this pushed the company to the brink and very nearly spelt the end for Jabiru. Everything Yvonne and I owned was mortgaged to the hilt to keep the company alive. I had visions of the same thing possibly happening again.   It became increasingly evident that I needed to insulate the company as much as possible to ensure our longevity in the market should the unthinkable happen. I held grave concerns and sympathy for the situation CAMit was in.

Understandably, CAMit had to look to diversification and obtain other contracts. We were pleased and heartened when they obtained mining support work. Mining work is extremely competitive however and when the mining industry also experienced a contraction in demand it was another blow for CAMit. We were saddened, but not surprised when CAMit then entered the retail market with a look-alike Jabiru engine. Desperate needs leads to desperate deeds and I understood. I sincerely hoped that CAMit would survive. I am always saddened by the demise of any form of Australian Manufacturing be it competition or not.

CASA limitations further damaged our market world- wide and if it were not for our astute financial management and complete absence of debt we would have perished. We have been able to maintain our workforce and carry on.

As with the on-going research and development of any engine there are highs and lows, however at all times I have endeavoured to build an affordable, light weight, reliable engine and air frame that would enable the average man to enjoy the pleasures of flight. In this endeavour we have been successful and our brand is now known around the world. There has been much criticism of Jabiru but I remain fiercely driven and proud of the products we produce as a small concern with limited funds using many Australian suppliers.

As it stands today we have stock on the shelf and are arranging supply of the majority of components to support existing engines and spare parts. We are progressively placing the remainder of components with suitably qualified factories. We will put in our best effort to have a seamless transition for spare parts and engines.

Rodney Stiff
Managing Director