

## DJ CANADA VENTURE: Business-Jet Slump Misses Intl Water-Guard

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TORONTO (Dow Jones)--These are difficult times for anyone involved in the business-jet market. Sales have fallen sharply in the past few months as the global economy imploded, and the outlook is grim.

Manufacturers like Bombardier Inc. (BBD.B.T), Textron Inc.'s (TXT) Cessna and General Dynamics Corp.'s (GD) Gulfstream have cut production rates and jobs as they deal with the slump in demand. The impact has seeped down to suppliers as well.

But David Fox, chief executive of International Water-Guard Industries Inc. (IWG.V), believes his firm fills a niche market that just might survive the onslaught unscathed.

"Most of what you're reading today are decreases in production rates in mid-size and smaller jets," he said in an interview. "That tends to be the segment of the market we don't deal with."

IWG, based in Burnaby, B.C., makes systems that provide potable water for the larger luxury planes used to ferry corporate executives or heads of state.

Demand for those planes - such as Bombardier's Global Express, or the Gulfstream G-IV - has held up far better than orders for smaller jets. Analysts believe that's because customers for the widebody aircraft are somewhat insulated from economic downturns due to the size of their corporations or personal fortunes, or because of the nature of their particular industry.

For example, Bombardier recently said it received a large number of deferrals or cancellations in the fourth quarter for its smaller Learjets, which retail for about US\$9-\$15 million. That was not the case for its Global Express, which sells for about US\$50 million.

IWG's potable water systems are used far more frequently on larger aircraft since those planes are far more likely to travel longer distances, including crossing borders. The widebody planes are also far more likely to be used for onboard business meetings and by higher-level executives.

Smaller Learjets and Cessnas are more frequently used for shorter hops in which it's less likely passengers will require food and drink. They also tend to be used domestically, so concerns about water quality at a destination are rare.

Once an add-on to IWG's main industrial and commercial-products division, the aircraft potable-water system has grown to be its principal business line.

Fox, who initially developed the company's aviation-product division in the late 1990s, rejoined IWG in 2004 and then sold all assets but the water-systems business to concentrate on that particular, underdeveloped niche.

At the time, sales of business jets were booming and their use among corporate executives and heads of state was growing. And that raised concerns about the "security and safety" of the water aboard the aircraft.

"This was a concern for the corporate/VIP marketplace," he says. "The passengers tend to be heads of state or corporate individuals. You don't want them to get sick. It is an issue and there is a real need."

#### Bottled Water A Less Desirable Option

Carrying bottled water is an option, but a less desirable one because of the high cost, the increased weight it adds to an aircraft, and environmental issues.

All of those factors also apply to commercial aircraft, whose water systems produce filtered, but not necessarily safe, drinking water. Bottled water is brought on board for drinking purposes.

The safety of water on a plane depends on the quality of the water that is boarded, its source, the care used to board the water, and the operation and maintenance of the onboard-water system and the water-transfer equipment, such as water cabinets, trucks, carts, and hoses.

Fox believes the commercial-aviation market could soon become a new frontier for IWG, particularly if more stringent regulations are implemented later this year.

In 2005, the U.S. Environmental Protection Agency issued orders to 24 domestic airlines to develop new aircraft water testing and disinfection protocols after discovering the presence of E-coli bacteria on a significant number of aircraft. The EPA is scheduled to release an Aircraft Drinking Water rule this year.

Canada has also become more proactive about the safety of water on aircraft, with Health Canada establishing a voluntary compliance-monitoring program. Transport Canada issued a circular in 2005 suggesting air-transport operators develop their own Water Quality Management Program.

"The issue for the regulators is making sure water quality is monitored," Fox says. "We feel that, from a passenger perspective and industry perspective, the best way to do it would be to have the technology on the plane."

IWG's system doesn't use revolutionary technology, Fox notes, as it uses proven ultraviolet light technology. What IWG has done, however, "is that we have taken it and adapted it to the aircraft environment. We have done everything necessary to bring it up to aviation standards."

That means its systems are designed to address potential freezing, are light weight, and take up less space than traditional treatment systems.

IWG units are now offered as standard options on aircraft built by Bombardier, Gulfstream and Dassault Aviation.

While Fox remains cautious about the future, as a prolonged global recession could eventually affect all business segments, so far, he says, his company hasn't been hurt by the downturn in the business-jet market.

In fact, IWG reported a sharp increase in revenue and profits in its first fiscal quarter, ended Dec. 31. The company earned C\$60,120, a turnaround from the C\$80,691 it lost in the year-ago quarter on high research and development costs. Sales rose 42% to C\$1.21 million from C\$854,384 a year earlier.

Company Web Site: <http://www.water.aero>