Pall Corporation (PLL)

ERIC KRASNOFF is Chairman of the Board and Chief Executive Officer of Pall Corporation. Since joining the company in 1975, he has been a key figure in Pall Corporation's development into one of the largest industrial companies in the United States. He has served in a variety of management positions including heading the company's medical products and diagnostic business. From 1987 until being elected Pall's President and Chief Operating Officer in 1993, these products grew from a $40 million business to $200 million a year. Mr. Krasnoff served as Group Vice President from 1987 to 1991 and Executive Vice President responsible for worldwide sales and marketing for all Pall Business lines from 1991 to 1993. He was elected Chairman and Chief Executive Officer in 1994. A graduate of Columbia University, he is an active community leader. He is Chairman of the National Blood Foundation. He is a Trustee of Long Island University serving on its Planning and Executive Committees, and is on the President's Advisory Board of the National Center for Disability Services.

(TAJ202) TWST: We’d like to begin with a brief historical sketch of the company and a picture of the things you are doing at the present time.

Mr. Krasnoff: Pall Corporation was founded in 1946 by Dr. David B. Pall based upon inventions that came out of the Manhattan Project. His initial invention was a porous material made of metal that was far superior to the paper filters of the day. And from that very modest beginning, Pall Corporation grew into the largest and broadest-based filtration, separation and purification company in the world. Every product that is manufactured requires pure fluids throughout the manufacturing process, as does mechanical equipment, whether it flies, floats or mines underground to protect the hydraulic, lubricating and fuel systems. In the healthcare setting, the control of fluids for particulates, bacteria and viruses in a multitude of environments as well as in the drugs that are provided during a hospital stay are all highly filtration intensive. So literally, when Pall says that 60 million times every day a fluid passes through a Pall product some where around the world, that’s an understatement. Filtration is literally all around us.

TWST: Pall has achieved a preeminent place among companies of this type. What were the drivers of this success?

Mr. Krasnoff: Pall is different in a couple of ways. First, it is the only filtration company – actually, we prefer to think of ourselves as fluid management specialists — that applies its technologies across industries rather than to discrete markets. For example, we face off against one major competitor in the semiconductor industry. The competitors we face in the pharmaceutical and biotech markets are completely different. So are the ones we compete against in our blood, aerospace and food and beverage businesses. The only constant in the filtration industry is Pall. No other company has our breadth of products or experience to remove contaminants and purify products.

What does that allow Pall to do? First, it allows us to be an engineered materials and surface chemistry company that is constantly advancing the state of the art of what filtration materials can do. It allows us to leverage our own technology, readily moving it from one industry to the next. For example, the same expertise to remove bacteria and viruses from aircraft cabin air is used to protect...
hospital patients and caregivers from airborne infectious diseases. Our blood filtration experience and technologies are transferable to biotech applications where millions of cells are used to produce novel and promising medical therapies. We’re seeing more and more opportunities to transfer our technologies across industry lines. That is a key to Pall’s success — we aim high, target all fluid applications as the proper focus for the business and then apply our exquisite technology to help customers solve real problems.

**TWST: What new things might emerge on the horizon?**

**Mr. Krasnoff:** The demand for filtration is greater today than ever before. Much of this comes from increasingly stringent environmental requirements. Regulations govern drug and food production, drinking water quality, plant emissions and discharge — all of this drives new investment. Escalating needs for pure and safe products also drive business. Food production, blood processing, biotech drugs — all require increasingly sophisticated filtration in order to achieve required quality levels. Using blood banking as an example, Pall recently launched the only product in the world that can protect the blood supply from the human form of Mad Cow disease. The Leukotrap® Affinity Prion Reduction Filter removes prions and other TSEs (Transmissible Spongiform Encephalopathies) from donor blood.

Another major area, also related to blood banking, is the ability to pool platelets and store them. Platelets are in short supply and very expensive to produce. Last month Pall Corporation was granted FDA clearance to market the Pall Acrodose™ PL System, which provides a therapeutic dose of leukoreduced platelets that are tested for bacterial contamination. The new system enables blood centers to pool whole blood derived platelets and conduct a single state-of-the-art Pall bacterial contamination test to enhance platelet safety and availability. The transfusion-ready platelets reduce the cost burden to hospitals by eliminating the need for further processing and testing. It’s a common misconception that the greatest cause of illness and death from a blood transfusion is virus. It’s actually from bacterial contamination. So we are going right to the heart of a major problem.

**TWST: Is there anything that could emerge as a real problem or a challenge for you?**

**Mr. Krasnoff:** We always face challenges. We’re in every market and our business is global. We do worry about the macroeconomic climate. New plant construction is important to us because it drives the next generation of technical processes of our customers, and this naturally upgrades the level of filtration that they require. More than 60% of our sales are from outside of the United States. So anything that would disrupt global trade would be of concern to Pall. One thing that does not worry us is government regulation. The reality is that regulations tend to increase the demand and requirements for filtration.

**TWST: Over the last 30 years or so, the public has become much more sensitive to questions of safety and purity. Has that been very much in your favor?**

**Mr. Krasnoff:** Yes, particularly when there is a crisis. As an example, when Three Mile Island many years ago was contaminated with radioactive waste, Pall was called in to help contain the radiation within the first hours of the accident. Then later, we developed a new filter specifically for the clean up. Many of our products are protective in nature — protecting the blood supply from known and emerging threats, protecting employees and the environment from the toxic gases that are used in a variety of manufacturing processes or protecting people from bacterial contamination or parasites such as those found in municipal drinking water supplies. We tend to be a quiet part of the safety net that surrounds manufacturing and health care.

**TWST: What are the key elements in your strategy as you look out over the next two or three years?**

**Mr. Krasnoff:** Having focused for many years on so many different markets, we have now come of age. Pall has grown to a reasonable size in each of them, which has allowed us now to organize the businesses together into two integrated companies. One is Life Sciences and the other is Industrial. These two are still the largest in their class for filtration companies in the world. Each has its own manufacturing, research and development, and technical support labs throughout the world. These integrated businesses provide the right structure to carry us forward into the future as we capitalize on the tremendously broad demand for our products and services.

**TWST: Are there any large public policy issues that may emerge that will affect you very strongly?**

**Mr. Krasnoff:** We have been benefiting from a tailwind in areas such as low sulfur fuel production, just one of many alternate energy sources which are becomingly critically important as the cost of oil gets higher. Pall is very much a part of everything from nuclear power generation to coal gasification, to windmills, which require sophisticated lubricating filtration. As more exotic bugs appear and the specter of pandemics grows more real, our extensive product line for environmental control and patient and caregiver protection moves to the forefront.

**TWST: Pall has referred to a domino effect, one thing going wrong and messing up an entire chain. Would you elaborate on that theme?**

**Mr. Krasnoff:** There could be 100 critical points for filtration, separation and purification in the production of a biotech drug. Our position is that filtration products that are selected without a holistic view of the process are vulnerable to the domino effect. One slip and everything in its path can topple.

One lost lot of drugs at the end of the manufacturing process because of a small amount of contamination from virus or bacteria.
can cost millions of dollars and lost production time. The same is true in semiconductor chip production. Here, contamination in the parts-per-billion range can cause a very expensive production campaign to go awry. So when Pall integrates these steps into the manufacturing process by providing a system-wide solution, customers are better off.

TWST: Would you tell us about the culture at Pall or the means by which you have organized the company?

Mr. Krasnoff: I’ve spoken about the move to two very strong, integrated businesses to carry our culture forward. Pall’s culture has always been very customer focused. Our obligation is to develop and bring advanced technologies to the customer in readily usable formats. We are looking not so much for blue-sky research, but for commercial developments that can be incorporated into the customer’s leading-edge processes. Now, the other thing that has been a very important strategic move for Pall over the last few years is to provide customers integrated systems solutions to their contamination problems. We call this ‘Total Fluid Management™’. Our ability to design integrated systems that link all of the incoming, process and waste streams in a plant, then manufacture, install and service them, is unique in our industry. We can do this for any customer, anywhere in the world. These system sales are now the fastest growing part of Pall Corporation. System sales grew 27% in fiscal 2005 and now represent 10% of our business, up from just 6.5% of our sales in 2002.

TWST: How long have you been CEO of the company?

Mr. Krasnoff: This is my 11th year.

TWST: Would you tell us about the intellectual and career path that you followed that led you to become CEO?

Mr. Krasnoff: I am a graduate of Columbia University in New York where I majored in Anthropology. In addition to the ability to read, write and think, which are still good skills, it really gave a broad perspective into science and culture in a way that organizations structure themselves. I think for me, it was a very good grounding. I moved into Pall Corporation from college and started in the administrative areas, including human resources. From there, I expanded into marketing and other administrative areas, including legal affairs and out of that moved into managing our Specialty Materials and Medical businesses. So from that grounding, and in some ways, coming backward into the business of sales, marketing and manufacturing from a strong administrative background, it was a natural step into the executive suite.

TWST: Would you tell us about the backgrounds of a couple of your key colleagues?

Mr. Krasnoff: Each of our very senior managers comes to the business with technical and very strong business grounding. The leader of our Life Sciences business, Roberto Perez, was for many years a senior executive with Baxter. He has a broad manufacturing, sales and marketing background in blood banking and diagnostics, which gives him excellent perspective on the variety of activities that Pall Life Sciences has in its businesses. Don Stevens, an engineer by training, leads our Industrial business. He has over 30 years of experience with Pall, in a variety of different areas including in the systems area. So he’s very strong for the position. Marcus Wilson, Pall’s President, has been with Pall for most of his career. His background is financial and he has extensive international managerial experience.

TWST: In a broad general way, what would you reasonably expect Pall to look like in about three years?

Mr. Krasnoff: Three years forward, I see the movement toward integrated systems continuing to differentiate us and drive growth. These systems increase our ability to sell replacement products and services. Right now 75% of our sales are annuity or razor blade sales. Systems also increase the opportunity for service related income as those systems age and need care and tending. Systems sales and our Total Fluid Management approach are moving up the level of contact we have with customers. When you are designing a key part of a customer’s manufacturing process, you work with the top decision makers. In addition, I think the trends in health care, energy and water filtration, just to name three key drivers, are going to escalate, and Pall’s participation in these markets will grow at a more rapid rate.

TWST: What are your feelings about acquisitions?

Mr. Krasnoff: We are very open to including under the Pall umbrella complementary technologies that fit into the overall fluid management needs of our customers.

TWST: Are you well understood by the investment community?

Mr. Krasnoff: I don’t think that we are as well understood as we could be because Pall operates in so many different markets. It may be hard for the casual observer to notice which lever is out there controlling the growth and profitability of the company. I think that a canny investor will take a step back and look at the broader aspects of the company — terrific cash generation, strong market share in intrinsically high-growth markets, sophisticated technology, pervasive demand, unrivaled IP. Put it all together into a mix that really speaks to a much higher rate of top-line growth and bottom-line performance over the next few years.

TWST: Would you give us the two or three best reasons for the long-term investor to take a very good look at Pall?

Mr. Krasnoff: First and foremost, we have a young product line that’s focused through an organization that has good current customer presence and market share, and it addresses needs that are growing for the future. Second, we have the infrastructure already in place to support and sustain that growth without a great deal of additional cap ex, over the next couple of years. And because the landscape has changed, what the customer wants is not just a filter salesperson but rather a fluid management expert who can put together integrated systems that enable them to efficiently and economically produce high-quality products. Our capabilities are unique in our industry. They’ve created tremendous opportunities for us.
TWST: Is there anything that you would like add, particularly with regard to the company’s strategies and long-term objectives?

Mr. Krasnoff: Now that we have our structure in place as far as the Industrial and Life Sciences businesses, it opens up additional opportunities for us to reduce costs. At the same time that we are highly focused on the top line, we are increasingly working to reduce cost from our manufacturing and other structures throughout the world. That is an imperative of global business today. Everyone needs to become more efficient just to keep on a level playing field. However, I know that Pall Corporation has some particular opportunities that our new organizational structure will enable us to seize.

We’re quite optimistic about the business. We see Pall as the technology and market leader across our broad array of markets. The trends are positive and we continue to do the heavy lifting that is necessary to position us to achieve both top- and bottom-line growth. We’re in a great business. Wherever you happen to be, just look around. The products that you see were much more likely than not made better or even possible by Pall Corporation.

TWST: Thank you.