

CEO
CFO



Northwest Pipe Company

Issue:
April 16, 2009

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Having Plants Throughout The United States, Gives Northwest Pipe Company The Best Opportunity To Capture Market Share In Their Water Transmission Pipelines And Tubular Products Businesses

Basic Material
Steel & Iron
(NWPX-NASDAQ)

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Brian W. Dunham
President and CEO

BIO:

Brian W. Dunham joined Northwest Pipe Company in 1990 after spending nine years with Coopers & Lybrand. Brian was the company's Chief Financial Officer from 1990 through 1996. In 1995, he was appointed to the company's Board of Directors. He became the President & CEO of Northwest Pipe in January, 1998.

A graduate of the University of Oregon, Brian has attained both CPA and CMA certifications.

Company Profile:

Northwest Pipe Company manufactures welded steel pipe and other products in two business groups. Its Water Transmission Group is the leading supplier of large diameter, high-pressure steel pipe products that are used primarily for water infrastructure in North America. Its Tubular Products Group manufactures smaller diameter steel pipe for a wide range of applications including construction, agricultural, energy, traffic and other commercial and industrial uses. The Company is headquartered in Vancouver, Washington and has ten manufacturing facilities across the United States and Mexico.

Interview conducted by:
Lynn Fosse, Senior Editor

CEOCFO: Mr. Dunham, what is the vision of Northwest Pipe and how is it changing to accommodate the times?

Mr. Dunham: "We have two different lines of business, Water Transmission and Tubular products. So there are multiple visions too. The largest part of our business is developing Water Transmission pipelines in the United States, primarily for drinking water, but also in other parts of the world and for other uses. We believe that the growth market opportunity continues to look better as we move forward and ultimately, we think that our strategy of having plants throughout the country gives us an opportunity to have a significant share of a growing market. The United States has clearly underfunded water infrastructure spending over the past several years and eventually, we are going to have to increase spending to deal with both new water construction as well as replacing aging water infrastructure that is begin-

ning to fail. The other line of our business is what we call Tubular Products, and in that group, we make smaller diameter pipes from about one half inch in diameter to 16 inches in diameter. These products get used for a variety of different purposes, the largest market is energy pipe. We currently make pipe for what is called gas gathering pipelines. These are relatively small diameter pipes used in the gas fields to bring gas together from various sources. In addition, we are in the process of building a new plant that will produce what is called OTCG or "down-hole"-type piping. We are going to make casings primarily for the gas exploration market. Energy pipe was probably 50% or so of our overall business in 2008 and we see opportunities for that going forward. Obviously, that business is not very strong right now, but we continue to believe that the United States is going to have a high reliance on natural gas and that will require additional natural gas drilling. Consequently, this business will recover. We also make pipe for agricultural uses and pipe that is used in non-residential construction. We make some highway signpost systems and a variety of other products as well. For the most part, we expect good market opportunities as the economy recovers. Certainly it is a challenging environment for these products right now."

CEOCFO: What is the water piping industry like in general?

Mr. Dunham: "The segment that we work in, which we call water transmission, uses large diameter, high pressure steel pipe. When we say large diameter, we mean up to 156 inches. We can make larger sizes on a more discreet basis as well. This is the upper end of the pipeline

system. If you think about pipes starting at a reservoir somewhere and then ending up at your house, we tend to be closer to the source than we are to your house. Pipes obviously become smaller and smaller the closer it gets to your faucet. We are really in the major infrastructure project end as opposed to the subdivision development end of the business.

We compete with others that make the same products that we do. We also compete with other product types; there are really two that matter. One is called concrete cylinder pipe and it can be made roughly the same size as steel pipe. There is another called ductile iron pipe that tops out at about 66 inches in diameter, so doesn't compete on the really large diameter jobs, but does on the intermediate sizes. This end of the business is typically driven by municipalities. In the United States, there are about 52 thousand water districts that are either components of other municipalities or independently organized on their own. Most of these are public. Their development of systems is generally based on long term demographic projections. They are looking at the build out potential of their cities, whether it is population growth or industrial growth, and determining how they are going to provide water for that build-out process."

CEOCFO: Do you currently work directly with the municipalities for water transmission work or is there a third party?

Mr. Dunham: "In many cases, we're selling to an installation contractor who is generally bidding to the municipality. In some cases the municipality may bid the work directly, but most of the time they go through a third party."

CEOCFO: Do you see the stimulus package as helpful in water infrastructure build-out?

Mr. Dunham: "It is certainly an interesting new variable. To date, we've seen a few projects that have actually been postponed because agencies are wondering if the stimulus package will actually come

in and potentially benefit their projects. That is sort of the anti-stimulus if you will. Now that the stimulus package is passed, we've seen a couple of instances of projects that are being moved up, or at least the agencies are talking aggressively about moving these projects up in order to meet the requirements of the stimulus package and trying to access some of those funds. For the most part, however, our projects are not that simple and they are typically in the planning stages for many years. Therefore, it is not easy to change the schedule and move them around in order to access the short-term stimulus funds. It remains to be seen, but we do expect to see some number of projects that will accelerate."

"We have two different lines of business, Water Transmission and Tubular products. So there are multiple visions too. The largest part of our business is developing Water Transmission pipelines in the United States, primarily for drinking water, but also in other parts of the world and for other uses. We believe that the growth market opportunity continues to look better as we move forward and ultimately, we think that our strategy of having plants throughout the country gives us an opportunity to have a significant share of a growing market. The United States has clearly underfunded water infrastructure spending over the past several years and eventually, we are going to have to increase spending to deal with both new water construction as well as replacing aging water infrastructure that is beginning to fail." - Brian W. Dunham

CEOCFO: Are you involved with the planning and decisions about water project requirements?

Mr. Dunham: "That is a yes and no answer. At the end of the day, we are responding to a request or proposals that are put out by a municipal water district and they may be running through a contractor before it gets to us. However, it is a very detailed proposal that lays out a specific pipeline that they're after. The pipeline is designed by them or by an engineering firm that they engage. Long before that, we are often involved in the planning process on an informal basis. We do pipelines everyday, so engineering firms often talk to us about different con-

ditions, what kinds of things are being done currently, what coatings and linings are being used and so forth. We can be involved in an informal fashion in the planning phases."

CEOCFO: Why the geographic distribution of your facilities, in the Water Transmission Group, and how is that helpful for you?

Mr. Dunham: "The Water Transmission business is large diameter pipe and consequently, freight costs are very high. In many cases, you are shipping one piece of pipe per truck load, so if you think about shipping 40 foot sections of pipe for a 5 mile long project, that's an awful lot of truckloads. Therefore, being close to your customer is a key issue in terms of the overall cost effectiveness of your product. We have facilities located across the United States. One is here in Portland, Oregon, one is in Southern California northeast of Los Angeles, one is in Texas outside of Fort Worth, one is in Parkersburg, West Virginia, one is in Denver, Colorado and one is in Pleasant, Grove Utah. We also have a facility in Monterey, Mexico that makes certain fabricated pieces for the other plants. We are spread out around the country and typically this gives us the advantage of being closer than our competitors to a job site, and that lowers' our overall freight cost."

CEOCFO: Does being that geographically spread out presents challenges?

Mr. Dunham: "It certainly does. It is easier to run a centrally located operation, but it's just the way it is. I generally travel a fair amount, as do many other folks at the corporate office. I try to get out and see all of our divisions at least once a year and ideally twice a year, but many times I do not make it."

CEOCFO: Where do acquisitions fit into your strategy?

Mr. Dunham: "We built this company partly through acquisition. Of the various facilities around the country that I've mentioned, we started three of those and the others we acquired. So acquisitions

have been a part of our growth pattern in the past and continue to be a part of our strategy going forward. We generally like the concept of buying existing capacity as opposed to adding more capacity into the market. It is a key part of our methodology for growth.”

CEOCFO: Is there a consolidation in the water infrastructure industry?

Mr. Dunham: “The large diameter pipe part of the industry has been consolidated. We have roughly a 40% market share in the municipal business in the United States and our next biggest competitor is about 10% or 11%.”

CEOCFO: Why are your water infrastructure customers choosing Northwest Pipe?

Mr. Dunham: “At the end of the day, this is a highly engineered project and you have to meet tight specifications. Quality is obviously a key issue and you have to meet the quality that it demanded by your customers. Price certainly matters. When you are bidding municipal work, they are picking the lowest priced, qualified supplier. Delivery is also a big issue; the ability to deliver product more timely than your competitors can be a key advantage. It is an advantage that we believe we have because of our multiple facilities with generally overlapping capabilities which allows us to produce products for a particular job, in many cases, in more than one plant. Accordingly, we can meet a tighter delivery schedule.”

CEOCFO: As far as your Tubular products business, where do you stack up in that area?

Mr. Dunham: “We are not the leader by any means. There are some very large companies in that industry that make roughly the same types of products we do. Not all of them have the same mix of products, so we are a little bit different in that respect, but we’re a relatively smaller player in that business.”

CEOCFO: Do you see that growing for you?

Mr. Dunham: “We do and we had significant growth in 2008, which was largely driven by energy pipe. Gas drilling activity got pretty high during the year and of course fell off very dramati-

cally during the latter part of the year. However, we believe Natural Gas exploration will return and we will be well positioned to capitalize on that again.”

CEOCFO: Are there new technologies or innovations that you are able to take advantage of?

Mr. Dunham: “There are always improvements in process certainly and we’re continually investing in our plants to try to improve those processes. There are not really any substitute or replacement type products for the things that we do. Plastic pipe or various other types of piping products out there are generally expensive or not applicable to our particular size range or markets.”

CEOCFO: What’s the financial picture like for Northwest Pipe today?

Mr. Dunham: “We are in good shape financially and we have a strong balance sheet. Our business has done well in the last several years. I think we are on four years in a row of record sales and profits - and that has helped improve the financial picture. We think we’re pretty well established to work through this economic downturn and see what is on the other side.”

CEOCFO: Why should investors be looking at Northwest Pipe?

Mr. Dunham: “I think the general interest level in Northwest Pipe has historically come from looking at the Water Transmission opportunity in the United States and that has largely been driven by the idea that the crumbling pipeline infrastructure underground needs to be replaced. While we believe, as an investment theme, this is a good idea and is absolutely true, it’s hard to see exactly when there is going to be significant growth in that area. Today, about 10% to 12% of our overall business is replacement. The vast majority of our opportunity is from new water infrastructure construction driven by population growth in the United States. We are expecting to hit about 400 million in about 2040, and we are just about 300 million today. So we still have strong population growth and population growth obviously requires additional water supply. The other thing that is added on to this that makes a compelling picture long-term is that current water supplies in many places, par-

ticularly throughout the west, are being exhausted. Therefore, municipalities as they look to future growth, have to start looking for future water supplies that are, almost by definition, further away. Further away obviously means longer pipelines delivering the same amount of water, and longer pipelines are obviously good for Northwest Pipe. So the combination of eventually seeing additional growth in the replacement side, plus a strong new construction market that is amplified by having to build longer distance pipelines, makes for an attractive future for the Water Transmission side of our business. The tubular product side of our business has generally not been as compelling an issue for the investment community, but I think what they saw in 2008 in terms of our ability to supply energy pipe has probably opened their eyes a little bit to that. Now when people think of Northwest Pipe they think first about water, but also about energy.”

CEOCFO: What should people reading this interview remember most about Northwest Pipe?

Mr. Dunham: “I think what they take away from the Northwest Pipe Company story is a better understanding of the water issue in the United States. To some degree, the water issue is “out of sight, out of mind.” When you get up in the morning and turned on the tap, water came out and you didn’t worry or think about it. We are used to that. It’s been 60 years or so that almost everyone in the United States has had clean drinking water available in abundant, cheap quantities. There’s a realization that people get as they start understanding our story of what is happening in this country and how big of an issue water really is. So that is probably the main thing that they take away. They also should understand that it’s not an issue that is going to be necessarily turned into massive revenue growth next week. It’s a long term issue that is going to take a while to develop and solve, but it’s a mega problem for the United States and it’s going to require a significant amount of capital to deal with it and create a system that can continue on; providing abundant water as we go forward.”

CEOCFO: And Northwest Pipe is ready?

Mr. Dunham: “We’re ready.”



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