



MICHIGAN ECONOMIC DEVELOPMENT CORPORATION

MEMORANDUM

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DATE: November 24, 2008
TO: Michigan Economic Growth Authority
FROM: Amy Deprez, Packaging Team Manager
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Greg West, Project Specialist
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SUBJECT: Briefing Memo – ESI North America, Inc.
High-Technology MEGA Credit

COMPANY NAME:

ESI North America, Inc.
36800 Woodward Avenue, Suite 200
Bloomfield Hills, Michigan 48304

HISTORY OF COMPANY:

ESI Group is a world leading software editor for the numerical simulation of prototype and manufacturing process engineering in applied mechanics. ESI North America, Inc. has been located in Michigan since 1998. The key to ESI's success is the use of realistic material physics, providing "as good as real" virtual solutions, in order to replace the lengthy trial and error processes on real prototypes.

ESI is committed to expanding in the United States. Over the last six years ESI has acquired four US based companies to complement their strategic direction. Three of those companies had been very successful in developing products through funding from the Federal Government's SBIR programs. The acquisition of these companies by ESI fulfills the Government's initiative by enabling their products to be exported to global markets and bringing more jobs to the US.

ESI North America, Inc. currently has 32 employees in Michigan.

PROJECT DESCRIPTION:

The proposed project includes the expansion of their operations at ESI North America, Inc.'s current site in Bloomfield Hills, Oakland County, and the eventual relocation to a larger facility within Oakland County.

Their growth plan is based on expanding outside of automotive into the Aerospace, Solar Energy, Fuel Cell, and Nuclear markets. These new markets are large consumers of software solutions, as there is limited ability to produce prototypes for evaluation. The enabler to this strategy is leveraging their internal expertise in these fields to cross train the laid off engineers from the automotive sector and build a multi application engineering team. With this team, ESI will be able to bring high-tech projects to the Michigan economy providing diversification and a stronger local economy.

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The company's existing location in Bloomfield Hills, Oakland County, is of sufficient size to allow for their initial expansion through summer of 2009. After which they will relocate to a larger facility within Oakland County. While the actual site is not yet identified, it will be along the I-696 corridor. The new facility will be sized to accommodate their growth plan of 110 new employees, 90 new engineers plus support staff.

Total investment over five years will be approximately \$4.43 million. This project will create 110 new jobs with an average weekly wage of \$1,442. The company will also offer health care benefits and pay a portion of the benefit costs.

BENEFITS TO STATE:

According to the economic analysis done by the Michigan Economic Development Corporation utilizing Regional Economic Models, Inc. software, it is estimated that this facility will create a total of 226 jobs in the state by the year 2019. We also estimate that the project would create total state government revenues through the year 2019, net of MEGA cost and adjusted for inflation, of \$6 million (2008 dollars) due to the creation of these new jobs.

BUSINESS CASE:

The competitive disadvantage of locating this expansion in Michigan is centered around the cost disparity between the higher wages paid in Michigan as opposed to the wages in Huntsville, Alabama. Huntsville has a lower cost of office space, as well as more favorable pricing for comparable employees. In addition to cheaper labor and lease rates, Huntsville is a growing engineering hub in the US due to its heavy concentration of engineering talent from NASA and the Military.

OTHER STATE AND LOCAL ASSISTANCE:

The project has not received a local commitment at this time. Oakland County has indicated interest in providing support via employee training funds through its local Michigan Works program.

The MEDC has also approved training funds for the project through its Economic Development Job Training program. The MEDC will provide an employee training grant of \$1,000 per job for up to 50 new jobs expected to be hired in the first two years of the project. This training grant could be worth up to \$50,000.

QUALIFYING HIGH-TECHNOLOGY ACTIVITY:

ESI North America, Inc. is a qualified high-technology business, whose primary business activity is Product Research and Development, as defined in the Act.

RECOMMENDATION:

Based on the factors described above, the Michigan Economic Development Corporation recommends a 100 percent employment tax credit for 10 years, for up to 110 net new employees subject to the following:

- Provided that the company create a minimum of 110 jobs, over the employment base of 32, by the end of the seventh year of operations and continues to maintain that number in future years. Failure to do so will result in the remaining years to be forfeited.