



Klöckner & Co SE

A Leading Multi Metal Distributor



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**CEO/CFO**

## Strategy Update

Klöckner & Co 2020 – Globalizing and  
overcoming Fragmentation

Capital Market Days 2010

**klöckner & co**

multi metal distribution

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## Agenda

01 Introduction

02 Strategic and operational Review

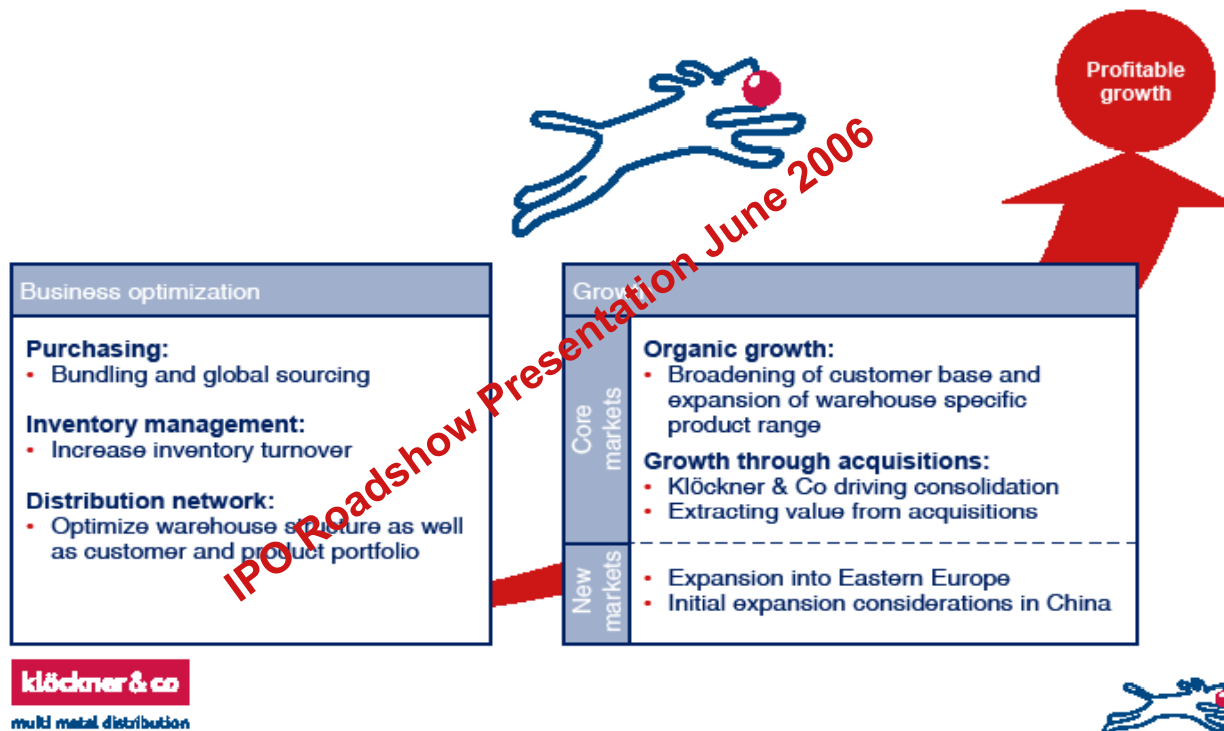
03 Conclusions and key lines of attack

04 Summary



- Our strategy as developed during our IPO remained broadly unchanged over the recent years
  - Organic growth and market consolidation through acquisitions
  - Internal improvement of purchasing, inventory management and distribution network

## Strategy



- Four years after the IPO a strategy realignment and a target setting for the coming 10 years until 2020 is necessary because
  - The world has changed
    - Long lasting recovery of steel consumption with significant overcapacity in industrial countries
    - Strong recovery and growth in emerging markets
  - Our mainly unspecified consolidation strategy needs more focus
  - Organic growth needs more momentum
  - Earnings volatility and exposure to steel price development have to be reduced



## Agenda

01 Introduction

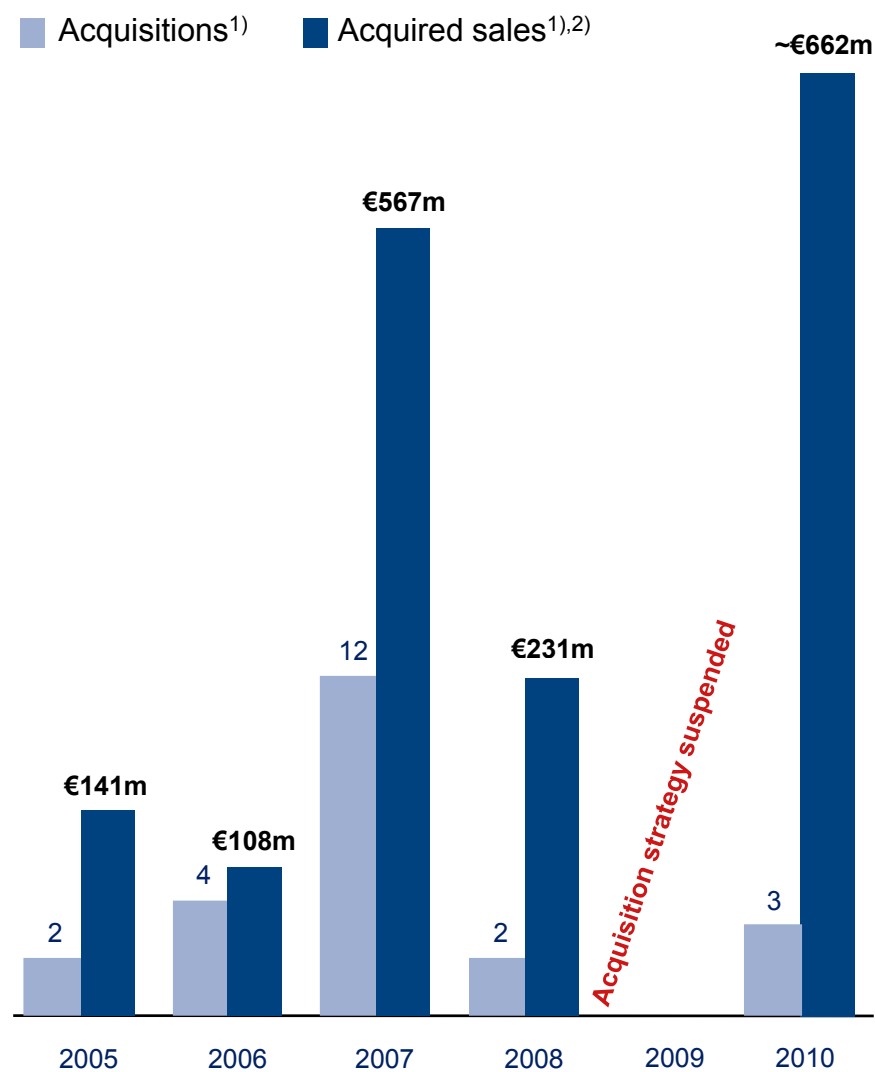
02 Strategic and operational Review

03 Conclusions and key lines of attack

04 Summary



	Country	Acquired <sup>1)</sup>	Company	Sales (FY) <sup>2)</sup>
Growth through acquisition	USA	Sep 2010	Angeles Welding & Mfg Inc	~€30m
	GER	Mar 2010	Becker Stahl-Service	~€600m
Organic growth	CH	Jan 2010	Bläsi AG	€32m
		<b>2010</b>	<b>3 acquisitions so far</b>	<b>~€662m</b>
Business optimization	US	Mar 2008	Temtco	€226m
	UK	Jan 2008	Multitubes	€5m
		<b>2008</b>	<b>2 acquisitions</b>	<b>€231m</b>
Personnel & Mgmt. developmt.	CH	Sep 2007	Lehner & Tonossi	€9m
	UK	Sep 2007	Interpipe	€14m
	US	Sep 2007	ScanSteel	€7m
Financing	BG	Aug 2007	Metalsnab	€36m
	UK	Jun 2007	Westok	€26m
	US	May 2007	Premier Steel	€23m
	GER	Apr 2007	Zweygart	€11m
	GER	Apr 2007	Max Carl	€15m
	GER	Apr 2007	Edelstahlservice	€17m
	US	Apr 2007	Primary Steel	€360m
	NL	Apr 2007	Teuling	€14m
	F	Jan 2007	Tournier	€35m
		<b>2007</b>	<b>12 acquisitions</b>	<b>€567m</b>
		<b>2006</b>	<b>4 acquisitions</b>	<b>€108m</b>

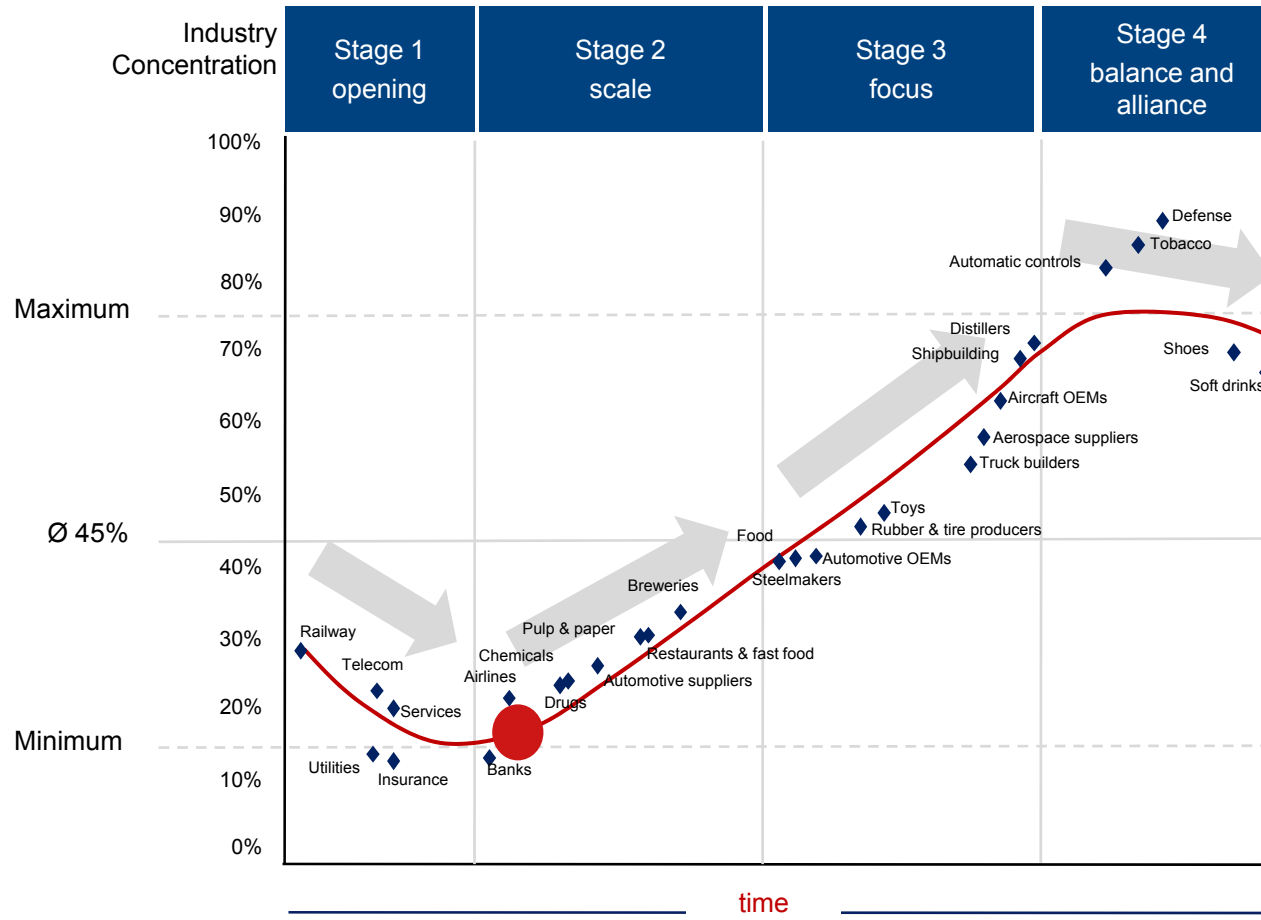


<sup>1)</sup> As of announcement <sup>2)</sup> Figures refer to the latest fiscal year, prior to the acquisitions of the companies



- Consolidation in steel distribution is at an early stage

- Growth through acquisition
- Organic growth
- Business optimization
- Personnel & Mgmt. developmt.
- Financing



Source: A.T. Kearney analysis



Growth through acquisition

- Reducing marginal contribution of acquisitions when market shares increase above a certain limit with possibly even negative synergies due to increasing overlaps or “super-critical” mass








Organic growth

- Limitations as some of our core markets are less attractive for acquisitions because of high exposure to construction (primarily commoditized business with limited potential to add value)

Business optimization

Personnel &amp; Mgmt. developmt.

Financing

Country	Market share	Share constr.	Potential for external growth
Germany		25%	<ul style="list-style-type: none"> <li>• Reasonable potential outside construction</li> </ul>
Switzerland		86%	<ul style="list-style-type: none"> <li>• Limited potential in niche markets</li> </ul>
Netherlands		52%	<ul style="list-style-type: none"> <li>• Already high market share outside construction achieved</li> </ul>
Great Britain		35%	<ul style="list-style-type: none"> <li>• Growth potential in certain niche markets</li> </ul>
France		47%	<ul style="list-style-type: none"> <li>• High overall market share in relatively concentrated market achieved</li> </ul>
Spain		48%	<ul style="list-style-type: none"> <li>• Distribution market predominantly focused on construction</li> <li>• Poor overall economic situation also limits attractiveness</li> </ul>
USA		38%	<ul style="list-style-type: none"> <li>• High potential to cover remaining white spots and to expand business towards processing</li> </ul>

○ < 5%   ◐ 5-10%   ◑ 10-15%   ◒ 15-20%   ◓ >20%



Growth through acquisition

Organic growth

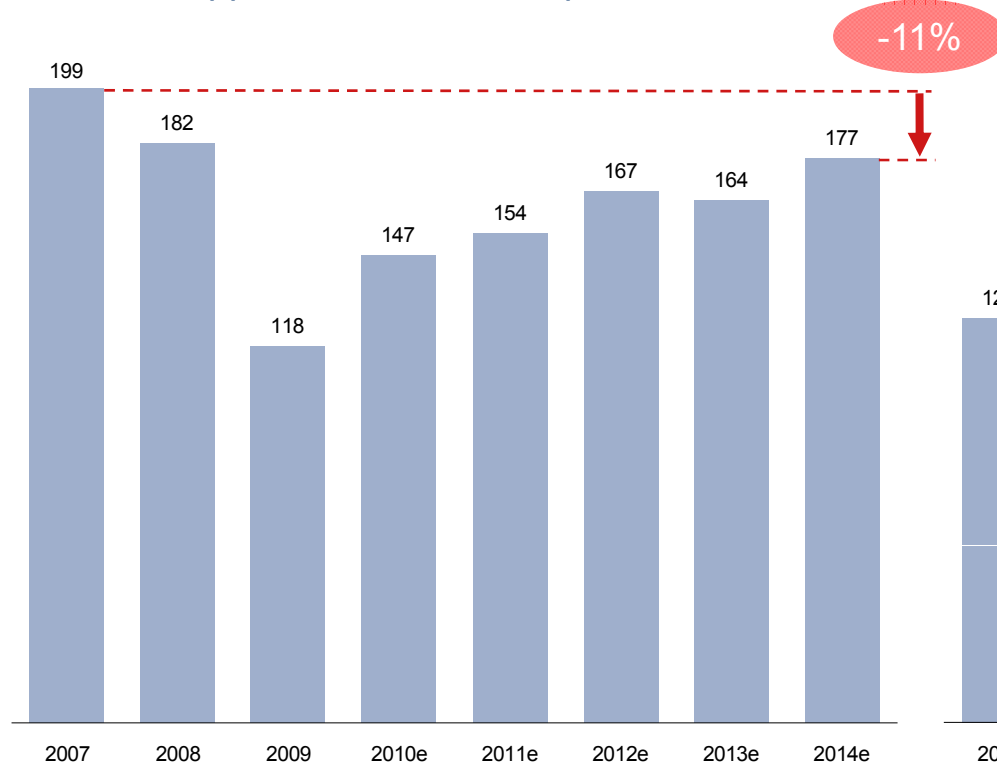
Business optimization

Personnel &amp; Mgmt. developmt.

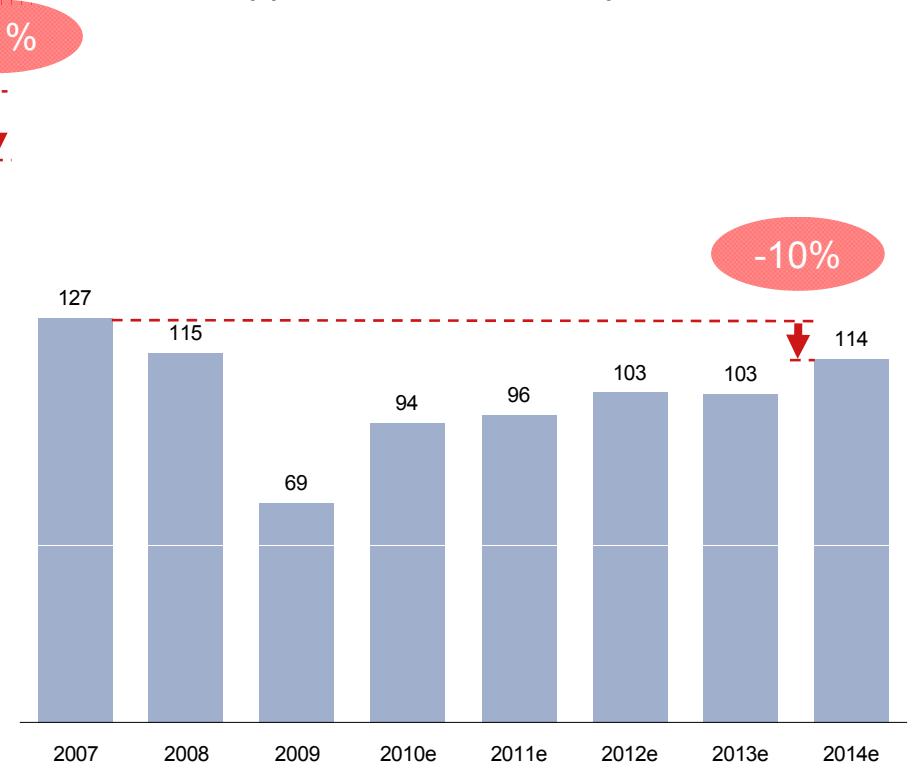
Financing

- Recovery to pre-crisis levels in our existing core markets will most likely take years
- Limited long-term growth prospectus of steel-consumption thereafter
- Risk of ongoing overcapacity also on distribution level

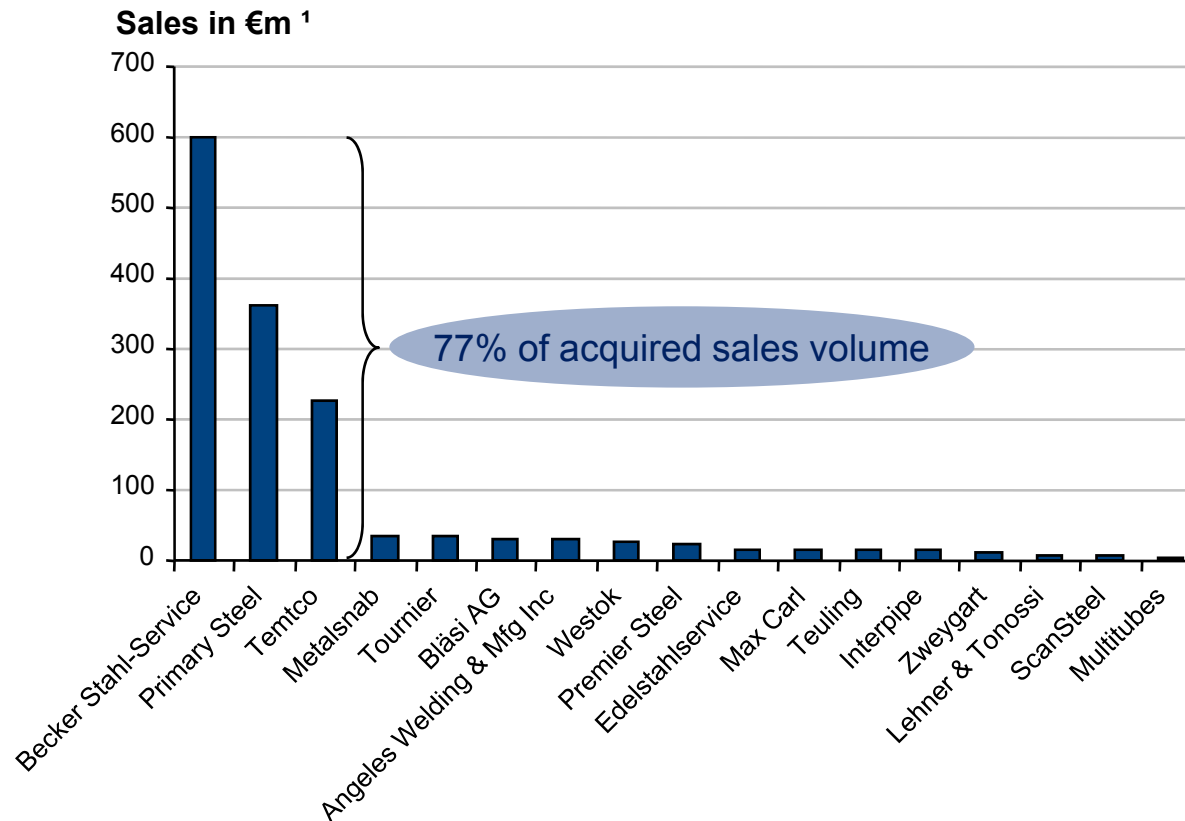
Apparent steel consumption EU 27



Apparent steel consumption NA



Growth through acquisition
Organic growth
Business optimization
Personnel & Mgmt. developmt.
Financing



### Larger acquisitions with positive impact

- The 3 largest acquisitions with a total sales volume of about €1.2bn account for 77% of the acquired sales volume

### Smaller acquisitions with limited effects

- The 10 smallest acquisitions with a total sales volume of about €100m account for only 7% of the acquired total sales volume

<sup>1</sup> Sales figures refer to the latest fiscal years, prior to the acquisitions of the companies




Growth through acquisition

Organic growth

Business optimization

Personnel & Mgmt. developmt.

Financing

- Following on to the IPO, our organic growth strategy was focussed mainly on
    - Product and service range expansions
    - Optimization of customer portfolio
- 
- With our recently started “Wave 3” initiative we have intensified the efforts and added new measures
    - Focused attention on selected customer segments and weak regions
    - Customer potential and quantity oriented pricing system
    - Taking advantages of competition fall backs



Growth through acquisition

- Strategy was disturbed by opportunistic behaviour of competition in a volatile and shrinking market environment

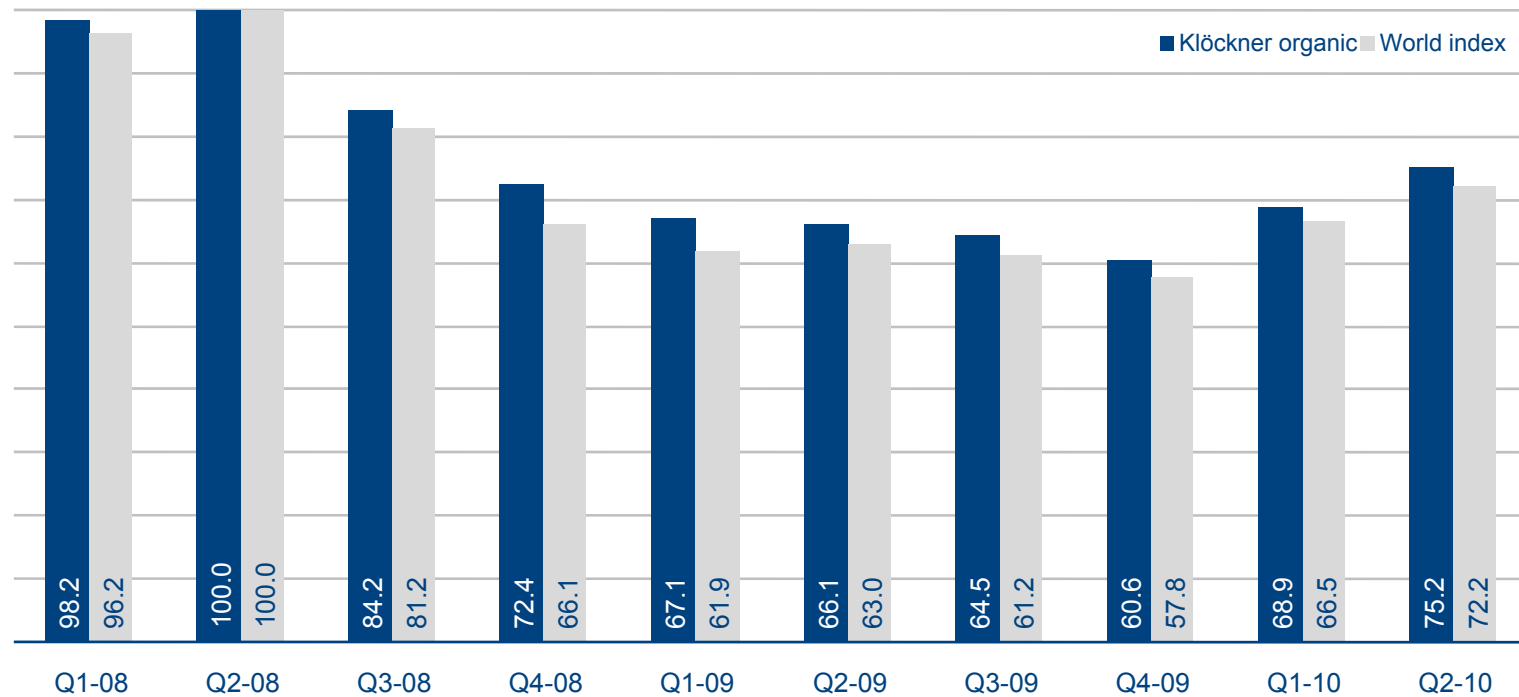
Organic growth

- Customer focus was not sufficient

Business optimization

Personnel &amp; Mgmt. developmt.

Financing

Quarterly organic turnover development in Tto <sup>(1)</sup> vs. Market index <sup>(2)</sup> [Q2 2008 = 100]

<sup>(1)</sup> Group excluding Multitubes, Metalsnab, Namasco Ltc. and BSSC

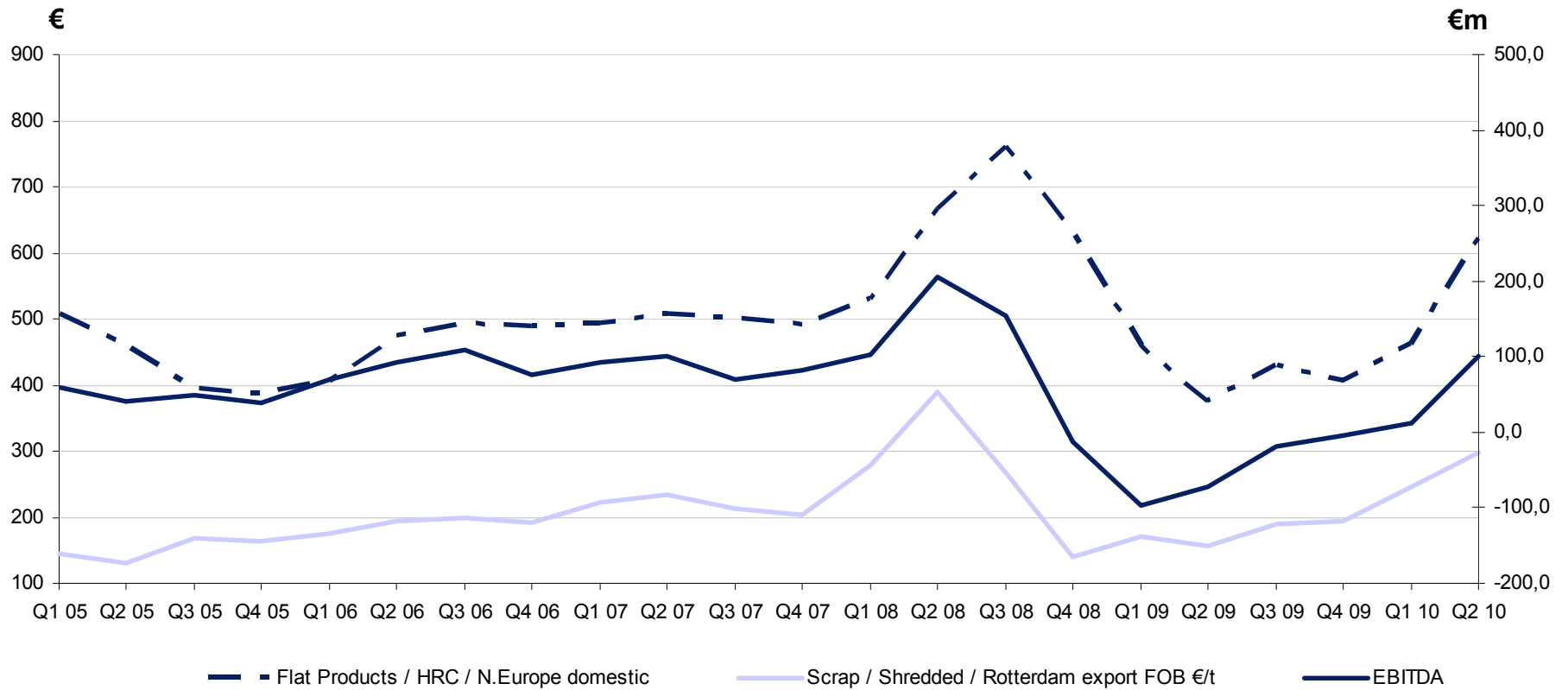
<sup>(2)</sup> MSCI for US and Dismet for EU, quarterly weighting by Klöckner share of turnover



Growth through acquisition	Purchasing	<ul style="list-style-type: none"> <li>✓ Central purchasing and product management department IPM established</li> <li>✓ Central supplier negotiations and bonus management</li> <li>✓ Significantly improved visibility of market price development</li> <li>✓ Enforcement of central coordination through tight monitoring of country purchasing</li> </ul>
Organic growth		
Business optimization	Inventory management	<ul style="list-style-type: none"> <li>✓ IPM tightly controls purchasing order volume, local inventory and turnover levels together with risk assessment and inventory level target setting</li> </ul>
Personnel & Mgmt. developmt.		
Financing	Distribution network	<ul style="list-style-type: none"> <li>✓ New department “Operations Europe” established to drive definition and role of best practice processes in material handling and logistics</li> <li>✓ Uniform SAP 6.0 roll-out with broadly standardized processes half way through</li> <li>✓ Elimination of low/non performing locations</li> </ul>
	General	<ul style="list-style-type: none"> <li>✓ Ongoing optimization in processes and efficiency through standards</li> </ul>

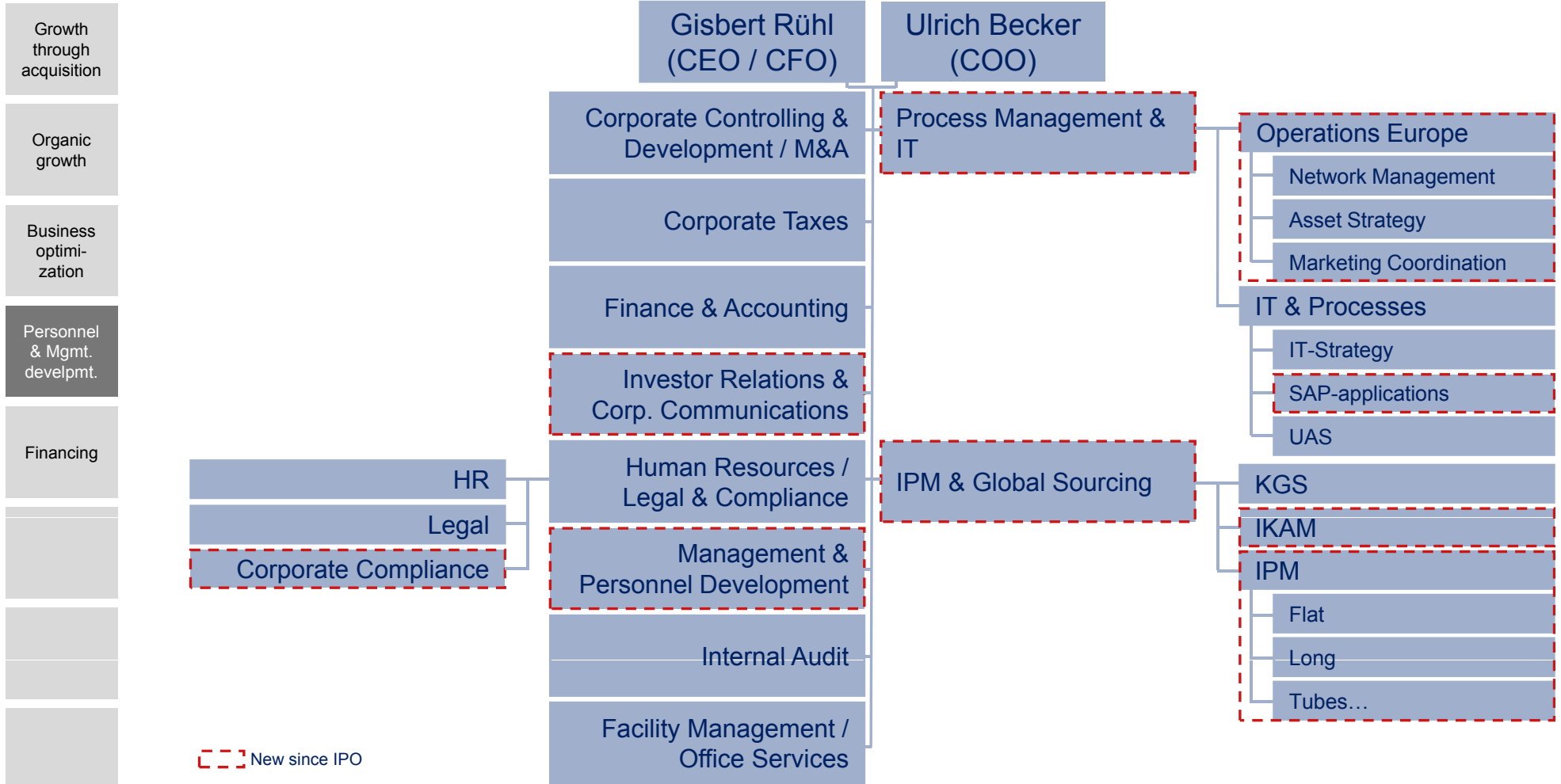


- Growth through acquisition
- Organic growth
- Business optimization
- Personnel & Mgmt. developmt.
- Financing
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Comment: EBITDA normalized for one-offs from assets disposals, VAOs, stock provisions and cartel fine France





Gradual evolution of HQ from mere financial holding towards management holding



Growth  
through  
acquisition

Organic  
growth

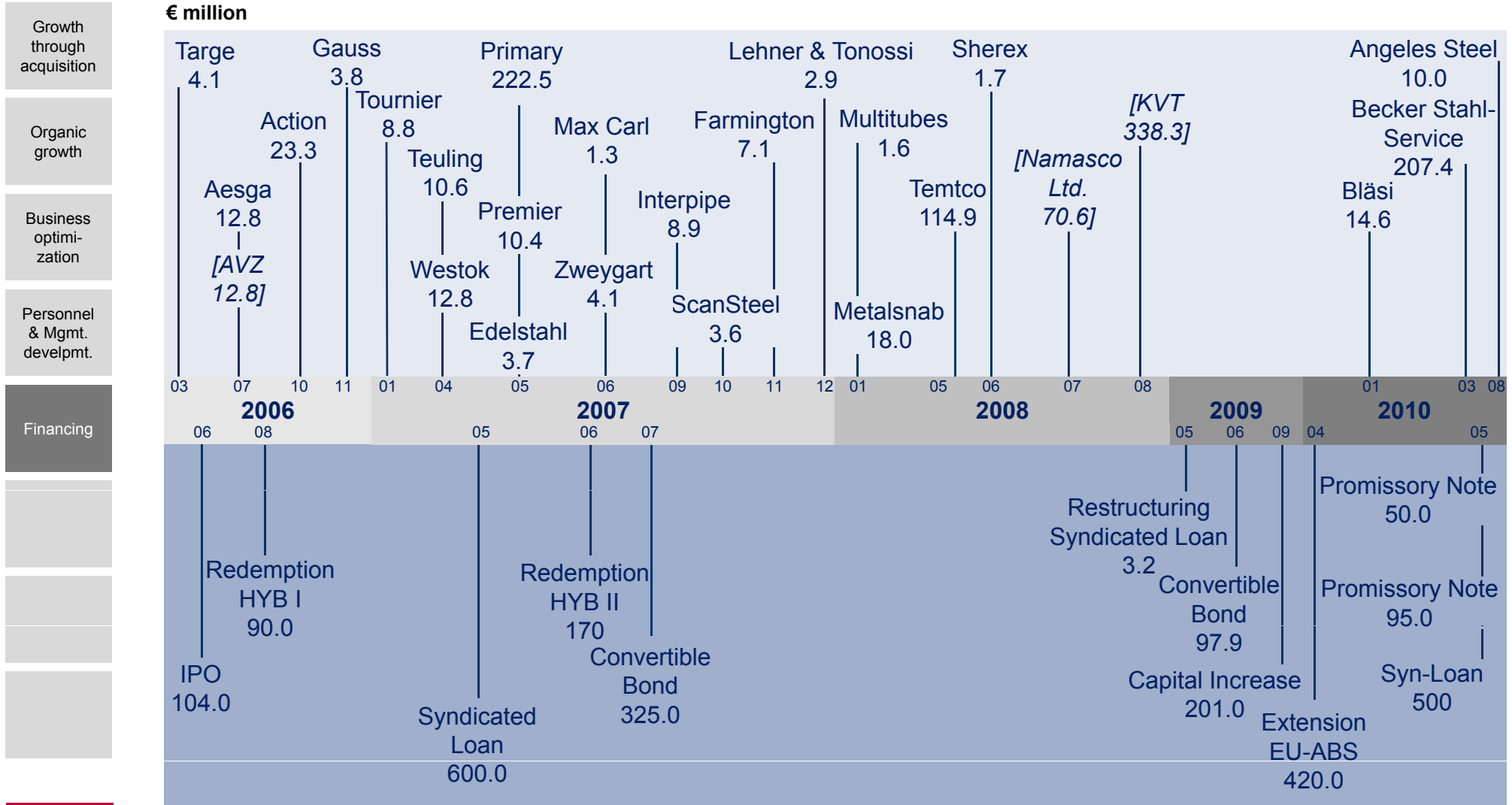
Business  
optimi-  
zation

Personnel  
& Mgmt.  
developmt.

Financing

- Holding management with good mix of
  - Young and more experienced management
    - 2 less than 40 years
    - 3 between 40 and 50 years
    - 3 between 50 and 60 years
    - 1 above 60 years
  - New hires and Klöckner experience
    - 4 less than 5 years Klöckner experience
    - 1 between 5 and 10 years Klöckner experience
    - 4 more than 10 years Klöckner experience
  
- Country management mainly replaced
  - 4 new CEOs hired in Europe
  - 2 new CEOs in Europe promoted internally
  - 3 new CFOs in Europe promoted internally
  - Search for 2 new CFOs in progress
  
- ▶ However, personnel and management development too weak so far

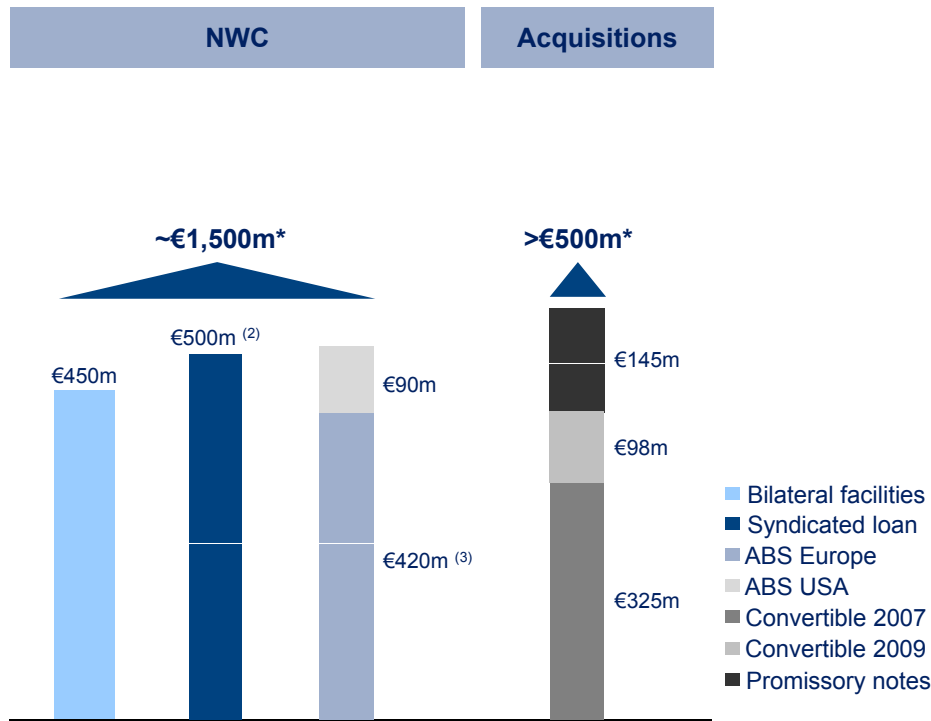




- Growth through acquisition
- Organic growth
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- Personnel & Mgmt. developmt.
- Financing

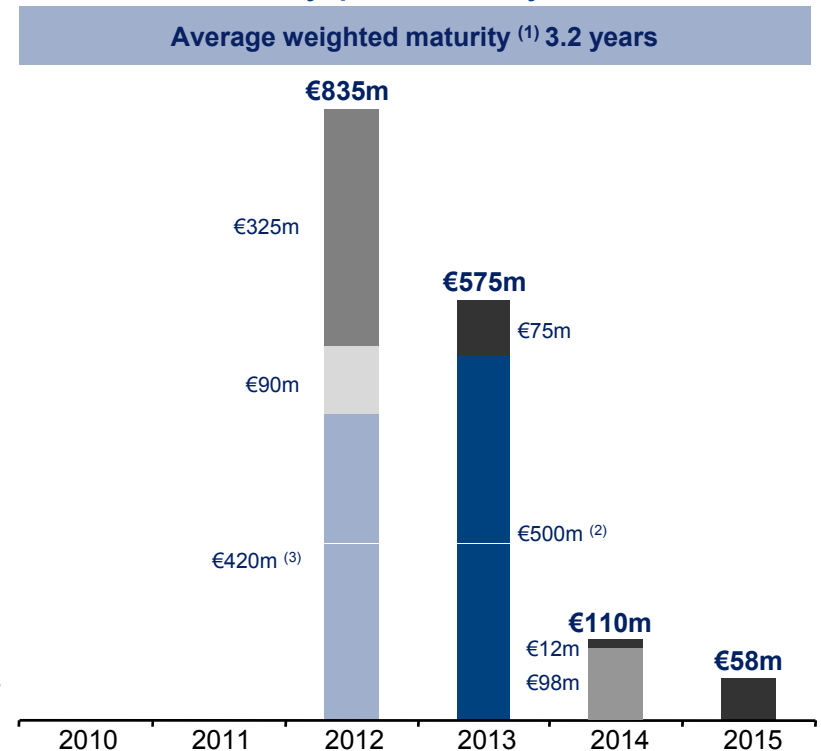
- €2.0bn available facilities, maturity profile of centralized facilities extended from 1.7 to 3.2 years
  - Renewal of €420m European ABS program for another 2 years
  - Placement of €145m Promissory notes
  - Prolongation and extension of syndicated loan by €200m to €500m
- Harmonization of financing facilities' contractual framework

Credit facilities



\* Including proceeds of rights issue in September 2009

Maturity profile May 2010



(1) Calculation: Average maturity of all facilities, weighted by individual facility amount

(2) Extension option for one year

(3) Renewal mechanism on an annual basis



Growth  
through  
acquisitions



Larger acquisitions have been successful but more focus necessary going forward

Organic  
growth



Activities initiated but more momentum needed

Business  
optimization



Well on track but earnings and cash flow volatility still too high

Personnel &  
Management  
development



Promising management changes on the top level in country organizations and strong holding management but personnel and management development barely exists

Financing



Successful growth financing established allowing for significant internal and external growth securing a solid balance sheet



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External  
growth  
strategy

▶ Challenge is acquiring right objects and subsequent integration

Organic  
growth  
strategy

▶ Challenge is timeline and success monitoring

Business  
optimization

▶ Challenge is decentralized structure

Personnel &  
Management  
development

▶ Challenge is to ramp up activities quickly from a non-existing base



External  
growth  
strategy

Organic  
growth  
strategy

Business  
optimi-  
zation

Personnel  
& Mgmt.  
developmt.

## General

- Continued growth outside the construction industry to better balance customer portfolio
- EBITDA-margin should be above current average at attractive multiples with transactions that are accretive from day one
- Targets should be more sizeable than in the past especially in the US

## EU external growth strategy

- Acquisition of higher margin businesses with more specialized products and services like recently acquired BSS and Bläsi
  - Both acquisitions expanding our business outside construction as well as improving our profitability with constantly higher margins even in critical 2009

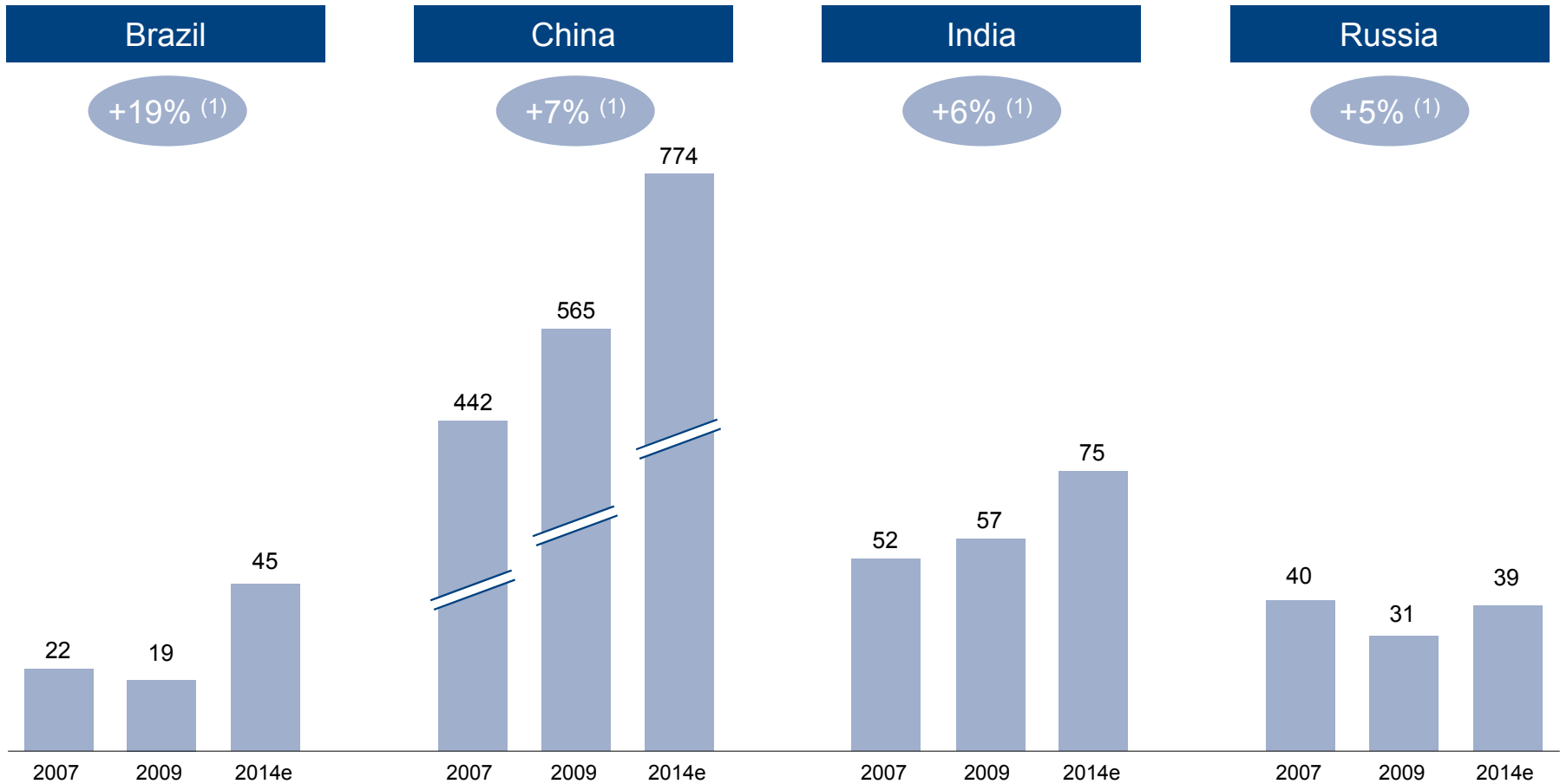
## NA external growth strategy

- Expanding position in heavy carbon steel distribution mainly through improving geographical coverage
- Expansion of flat rolled SSC business
- Larger companies preferred to achieve a leading market position
- Valuations will most probably be in or even slightly above our target range



- External growth strategy
- Organic growth strategy
- Business optimization
- Personnel & Mgmt. developmt.
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Apparent steel consumption in million to



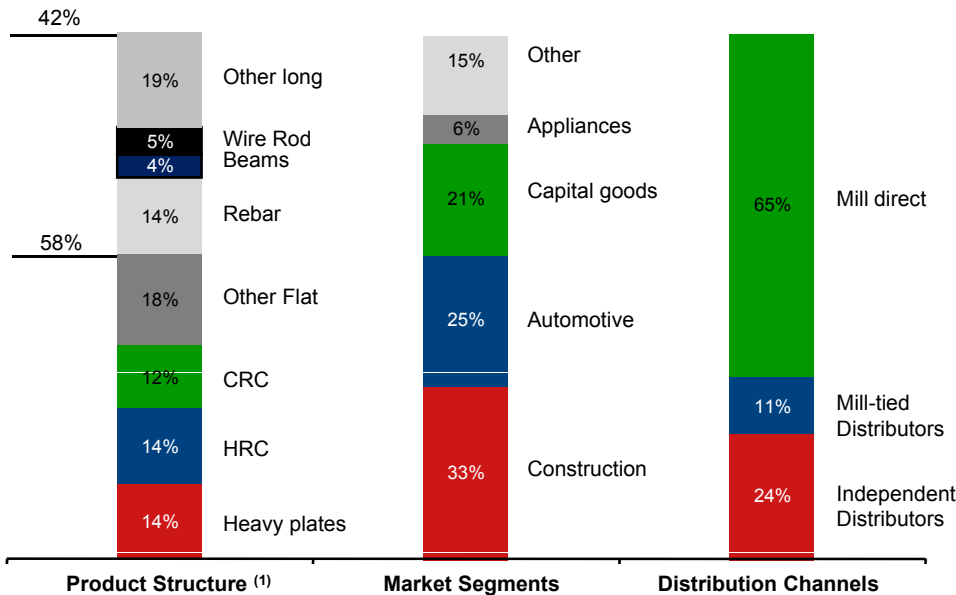
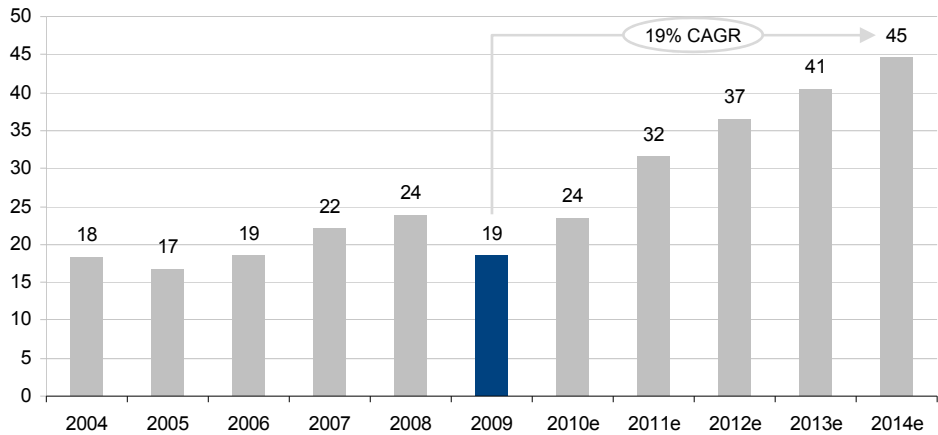
(1) CAGR 2009 - 2014e

Source: China: RB/CISA, Brazil: BMI, India and Russia: Meps



- External growth strategy
- Organic growth strategy
- Business optimization
- Personnel & Mgmt. developmt.
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Steel consumption [million to]



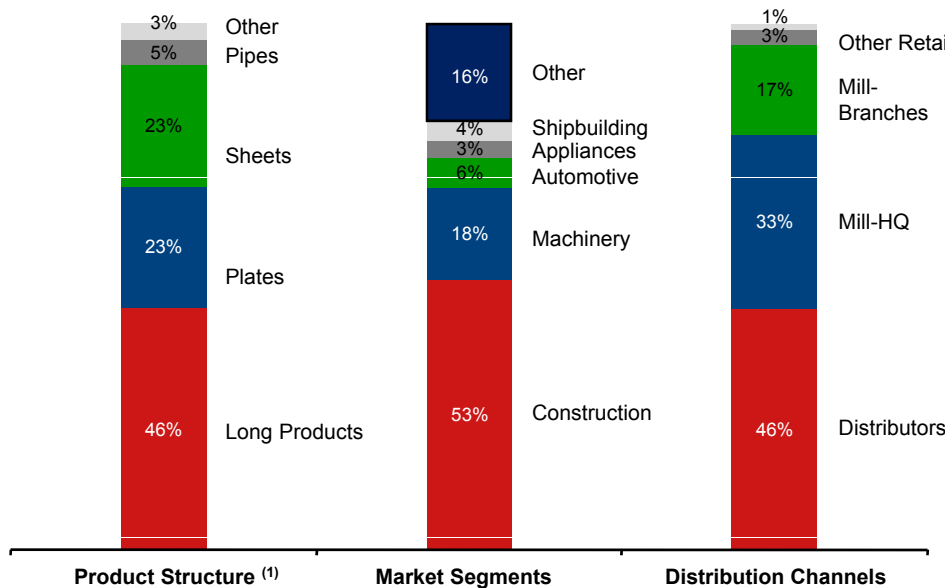
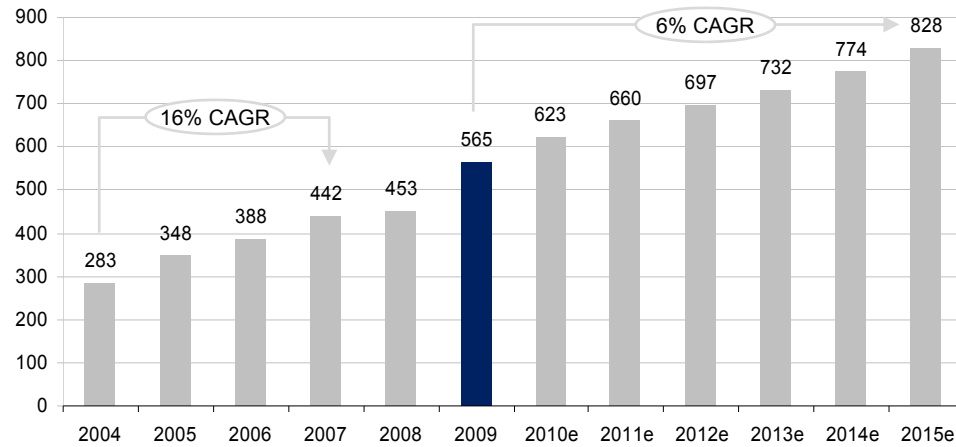
Source: DB, BSI, INDA, WSA, BMI (1) Product Split 2008

- Brazil is the 10<sup>th</sup> largest economy with a GDP of \$1,600bn and 190 million inhabitants
  - The economy is expected to grow by about 9% p.a. until 2014 and steel consumption even by 19%
  - The country has an abundance of raw materials, a large industrial and a large consumer segment
  - Local steel producers enjoy significant competitive advantages due to their high degree of iron ore self sufficiency
  - Imports are typically low also due to an import duty of 14% leading to very high local price levels
  - The distribution segment is just 35% of the market with the TOP 7 players all mill-tied
- 
- Attractive strong growing and less volatile market
  - Small distribution segment with strong dependency on local mills



- External growth strategy
- Organic growth strategy
- Business optimization
- Personnel & Mgmt. developmt.

Steel consumption [million to]



- China is the largest steel producing and consuming country
  - Steel consumption is expected to grow by 6% p.a. for the next years
  - Distribution segment accounts for app. 50% of the market
  - Mill serve large accounts directly (33% of market) or via local branches (17%)
  - More than 200,000 independent distributors making up for 46% of the market
    - Very low GM of only 4% - 7%
    - Largest players are government (TOP 5 players all > 10 million to)
  - Distributors offer very low value added services (except for SSCs)
  - International players are either Japanese traders or Western mills (mainly via SSCs)
- 
- Very large and fast growing market
  - Challenging distribution market structure



External  
growth  
strategyOrganic  
growth  
strategyBusiness  
optimi-  
zationPersonnel  
& Mgmt.  
developmt.

## Brazil

- Need of private independent distributors to fund the enormous growth provides attractive acquisition possibilities
- ▶ Market entry through acquisitions
  - Promising contacts to independent distributors established

## China

- China has an extremely fragmented and less developed distribution segment with currently low margins
- ▶ Market entry greenfield as an intermediate step also to better understand the local market and its dynamics
  - Basic concept is to service local subsidiaries of international companies in Eastern China who have difficulties to source in China
  - Target is to be online with a first medium sized warehouse in Q3 2011 requiring a limited investment
  - Key differentiation factors vs. local distributors will be quality, just-in-time delivery, value added services, reliability, credit terms



External  
growth  
strategy

- From “distribute into growing market” to “push to gain customers and market share”

Organic  
growth  
strategy

- From allocation of growing volumes to competing for lower volumes
- From mainly rising prices to a more unsecure price environment
- From demand greater than supply to oversupply

Business  
optimi-  
zation

### Approach to strengthen customer focus

Personnel  
& Mgmt.  
developmt.Market  
segmentation

Market segmentation according to market share by region and products

Market  
intelligence

High quality market intelligence

Incentives



Measurement and incentive system for sales organization

Pricing



Pricing system according to process costs/customer potential and loyalty

KPIs



Regular performance dialogues on all levels about core KPIs



External  
growth  
strategy

Organic  
growth  
strategy

Business  
optimi-  
zation

Personnel  
& Mgmt.  
developmt.

Product  
range

▶ Expanding the share mainly in the area of higher margin products focusing on Sheets, Plates, Hollow Sections, Tubes, Alu and Stainless

Value added  
services

▶ Stronger focus on value added services for industrial customer segments

White spots

▶ Filling white spots in existing countries



External  
growth  
strategy

Organic  
growth  
strategy

Business  
optimi-  
zation

Personnel  
& Mgmt.  
developmt.

## Purchasing

- Development of corporate product strategies linked to country strategies
- Further optimization of leverage possibilities
- Improvement of qualification of purchasing managers

## Inventory management

- Integrated stock-/sales-forecast system
- Extended access of warehouses to European inventory

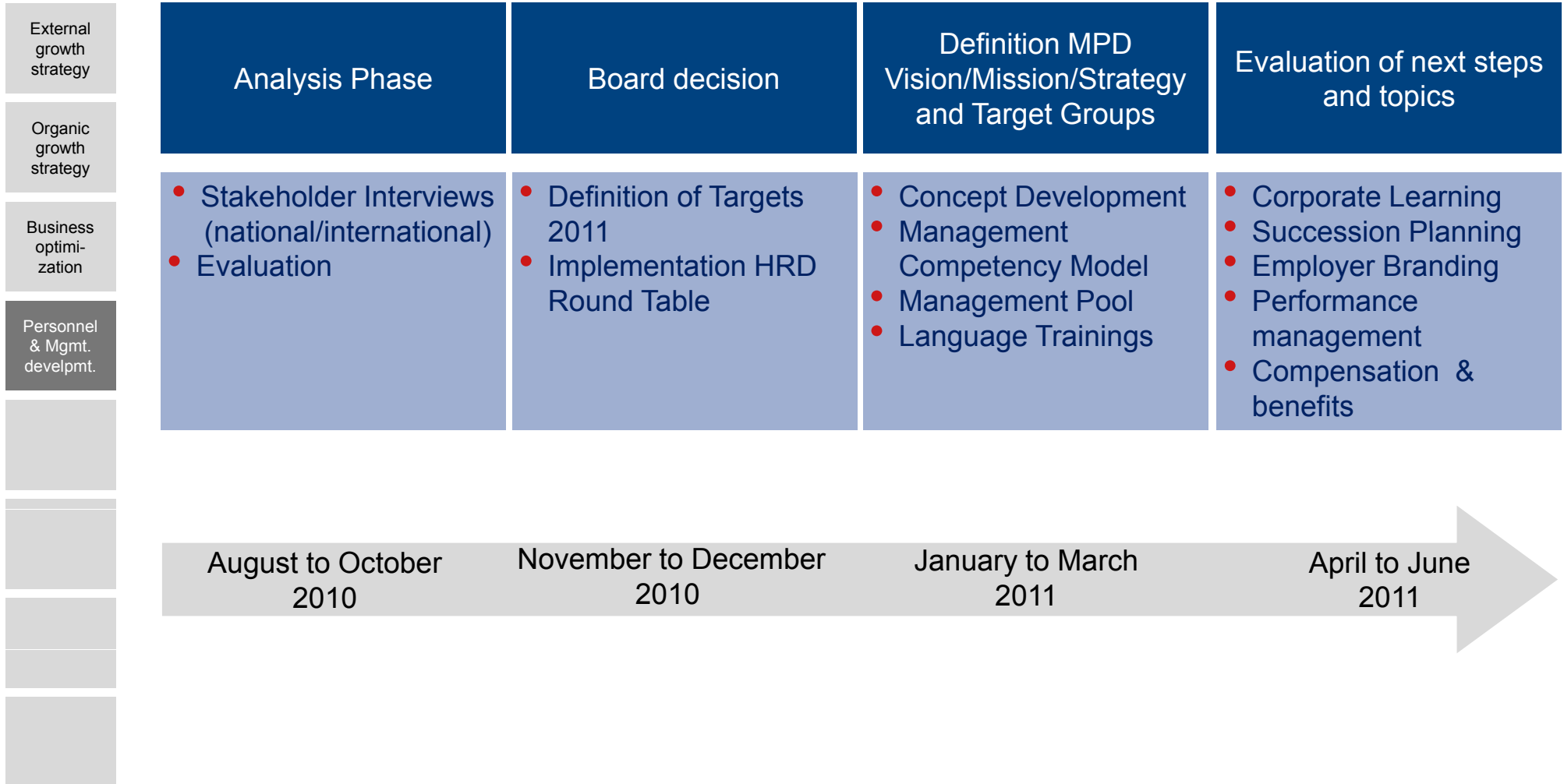
## Distribution network

- Development of central stocks for special products on cross country level
- Definition and roll out of best practice operating processes and systems
- Management by uniform operational key performance indicators
- Improved and more standardized management of operational fixed assets

## General

- Further optimization in processes and efficiency through standards





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External  
growth  
strategy

- Continued growth outside the construction industry to better balance customer portfolio
- EBITDA-margin should be above current average at attractive multiples with transactions that are accretive from day one
- Targets should be more sizeable than in the past especially in the US
- Re-focussed growth strategy for Europe towards higher margin businesses with more specialized products and services outside construction
- Expansion of SSC business
- Entry in emerging markets

Organic  
growth  
strategy

- From “distribute into growing market” to “push to gain customers and market share”
- Improve sales performance through sales excellence program
- Expanding the share mainly in the area of higher margin products
- Stronger focus on value added services for industrial customer segments
- Filling white spots in existing countries

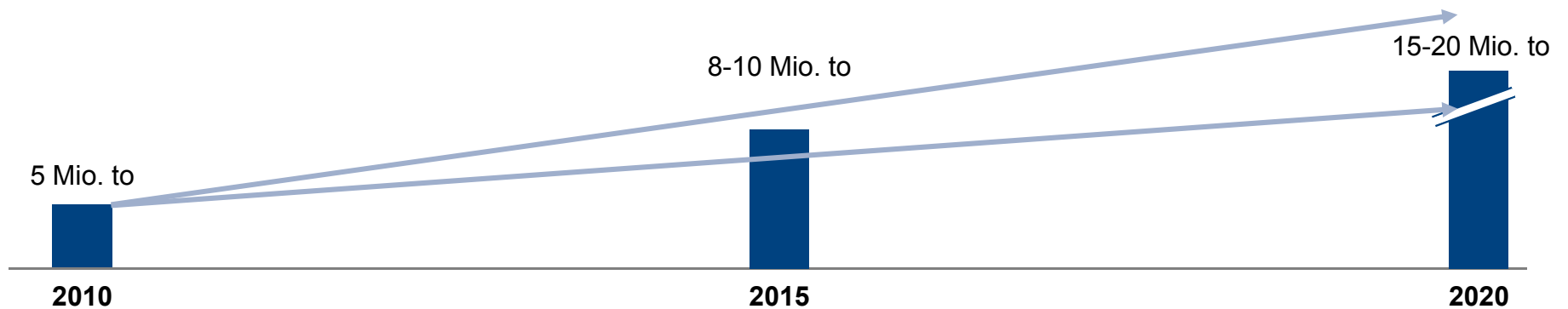
Business  
optimization

- Realizing further scale benefits in purchasing and product management
- Further optimization of inventory management
- Closer integration of country operations
- Implementation of industry leading systems and processes

Personnel &  
Management  
development

- Establish management competency model and management pool
- Develop a training and performance management
- Implement structured compensation and benefits system
- Improve employer branding





- Preparing organization for high growth
- Internationalize management
- Expanding footprint to emerging markets
- Implement industry leading processes

- Gaining growth momentum
- Expand business around new anchor points especially in emerging markets

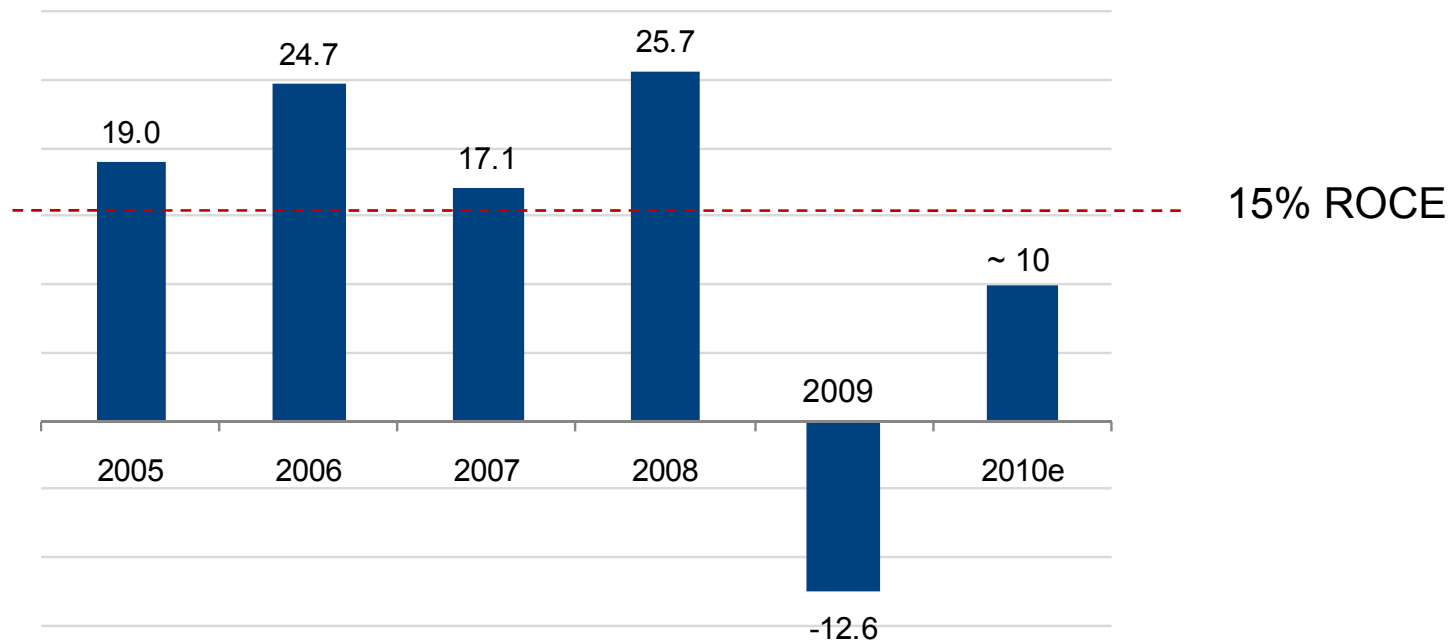
- Sustain growth momentum
- Manage size and global footprint

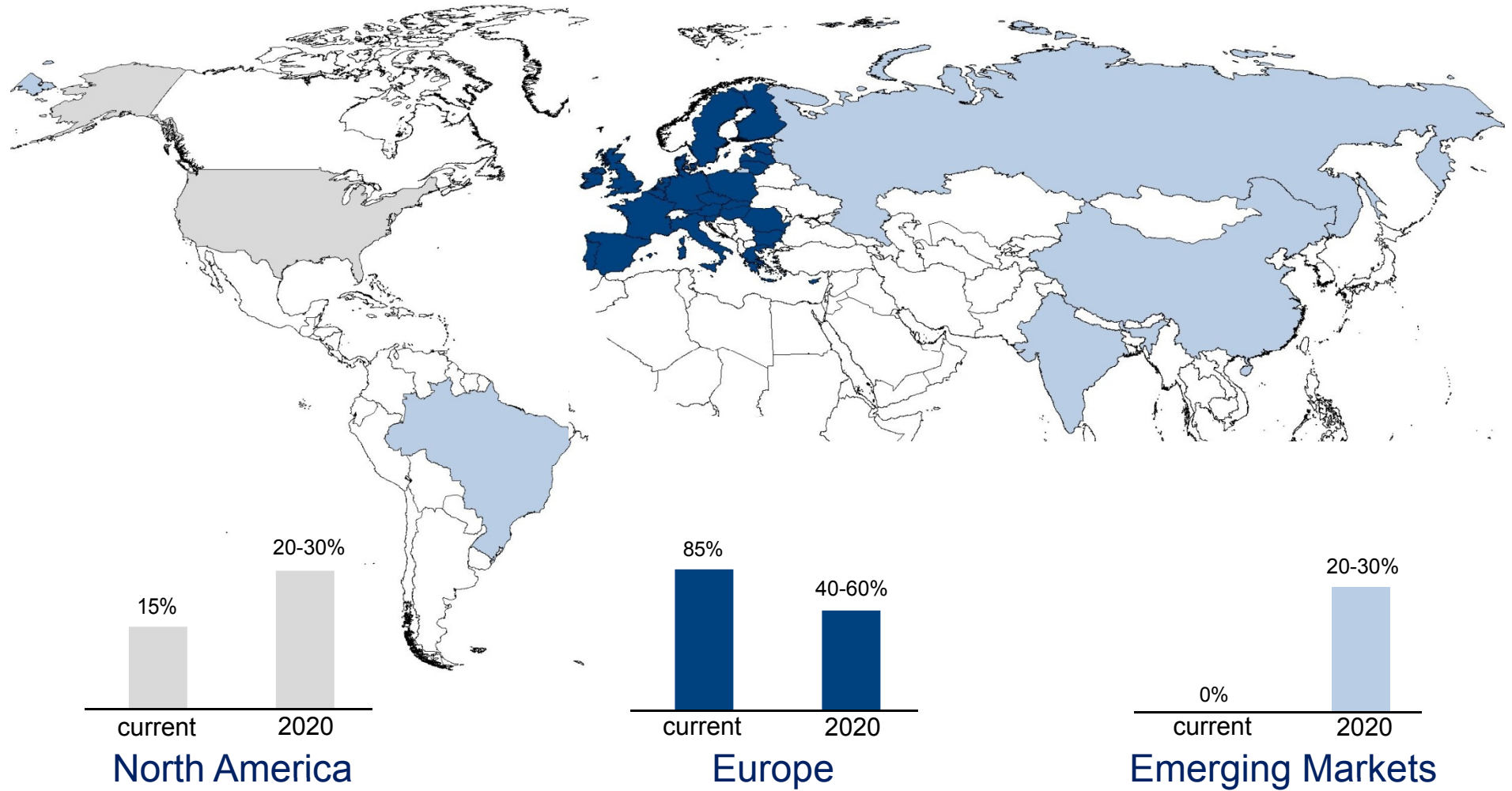


- At least 6% EBITDA margin-potential in metal distribution
- Strict capital return requirements of at least 15% ROCE

Gearing target < 75%

Equity ratio > 30%





Globalization

▶ Being the first truly global multi metal distributor

Growth

▶ Being the fastest growing multi metal distributor

Business  
optimization

▶ Having leading edge processes and systems

Management  
& employees

▶ Having best in class management and employees



