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Restructuring in Metal Industry

Corporate Performance – Engineered Products
Abstract

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Metal industry faces several challenges which quickly have to be addressed in order to endure and overcome the current crisis

Current challenges for the metal industry

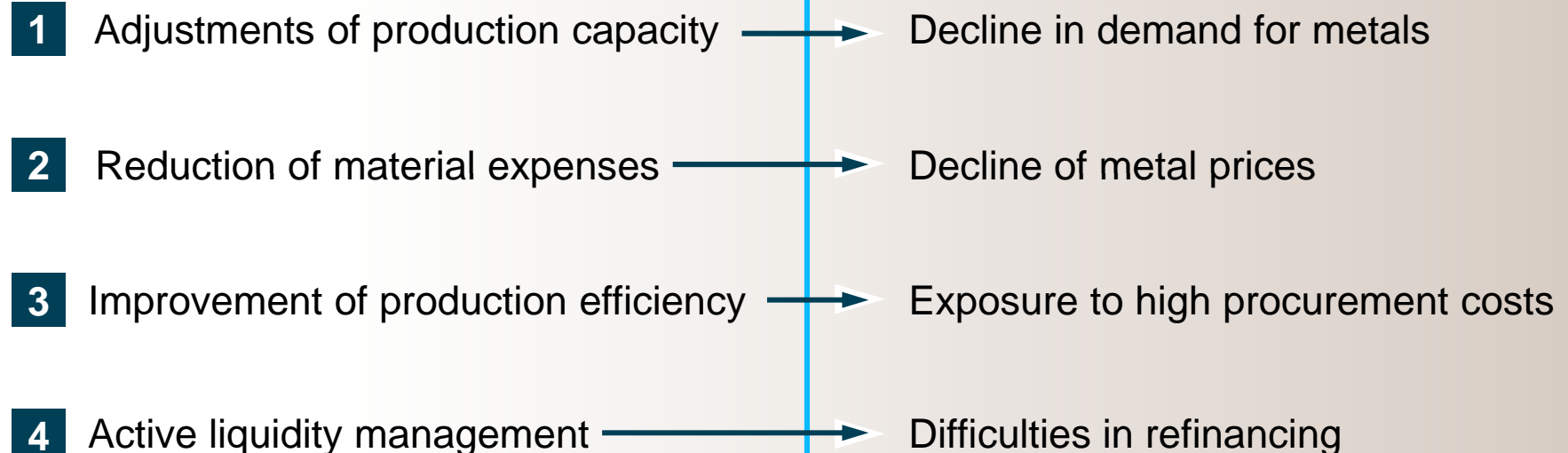
- 1 Decline in demand for metals**
- 2 Decline of metal prices**
- 3 Exposure to high procurement costs**
- 4 Difficulties in refinancing**

**RISING
NEED FOR
RESTRUC-
TURING**

Main levers of restructuring in the metal industry are adjustments of production capacity, cost reduction and efficiency improvement

Main levers of restructuring in the metal industry

MAIN LEVERS



Shutdown of inefficient production facilities and downstream capacities are necessary measures against declining demand

Adjustments of production capacity

CHALLENGES

- Furnaces need minimal utilization to run
- Although demand for metals declines, production can not be adjusted totally flexible due to necessary minimal utilization
- Ramp up of production (furnaces) after complete shutdown requires very high cost of repairs
- Reduction of production capacity requires adjustments at downstream capacities (e.g. rolling, forging)

RESTRUCTURING MEASURES

- Total cost analysis of whole network of production facilities – reorganization of production and shutdown of inefficient production units
- Adjustments and consolidation of downstream capacities
- Use of new technologies for shutdown of furnaces which allows subsequent ramp up of production
- Focusing on core competencies – covering of main steps of value chain through strategic cooperation with specialized offerers

Renegotiations with suppliers are best measures to reduce material expenses in short-term – Long-term hedging necessary

Reduction of material expenses

CHALLENGES

- Long-term contracts with suppliers of raw materials fix high prices – at the same time sales prices of metal decline sharply
- High share of material and energy cost in production process
- Rising prices for raw materials in the long run due to declining replacement investments of raw material suppliers

RESTRUCTURING MEASURES

- Renegotiation with suppliers on short-term, especially
 - quantity-based volume rebates
 - terms of payment
 - transportation costs
- Enlargement of supplier base
- Conversion to energy-efficient production technologies
- Use of alternative materials
- Hedging of lower purchase prices
 - Options, futures, and swaps
 - Long-term contracts with suppliers

Reduction of personnel expenses and optimization of production processes are main levers to increase production efficiency

Improvement in production efficiency

CHALLENGES

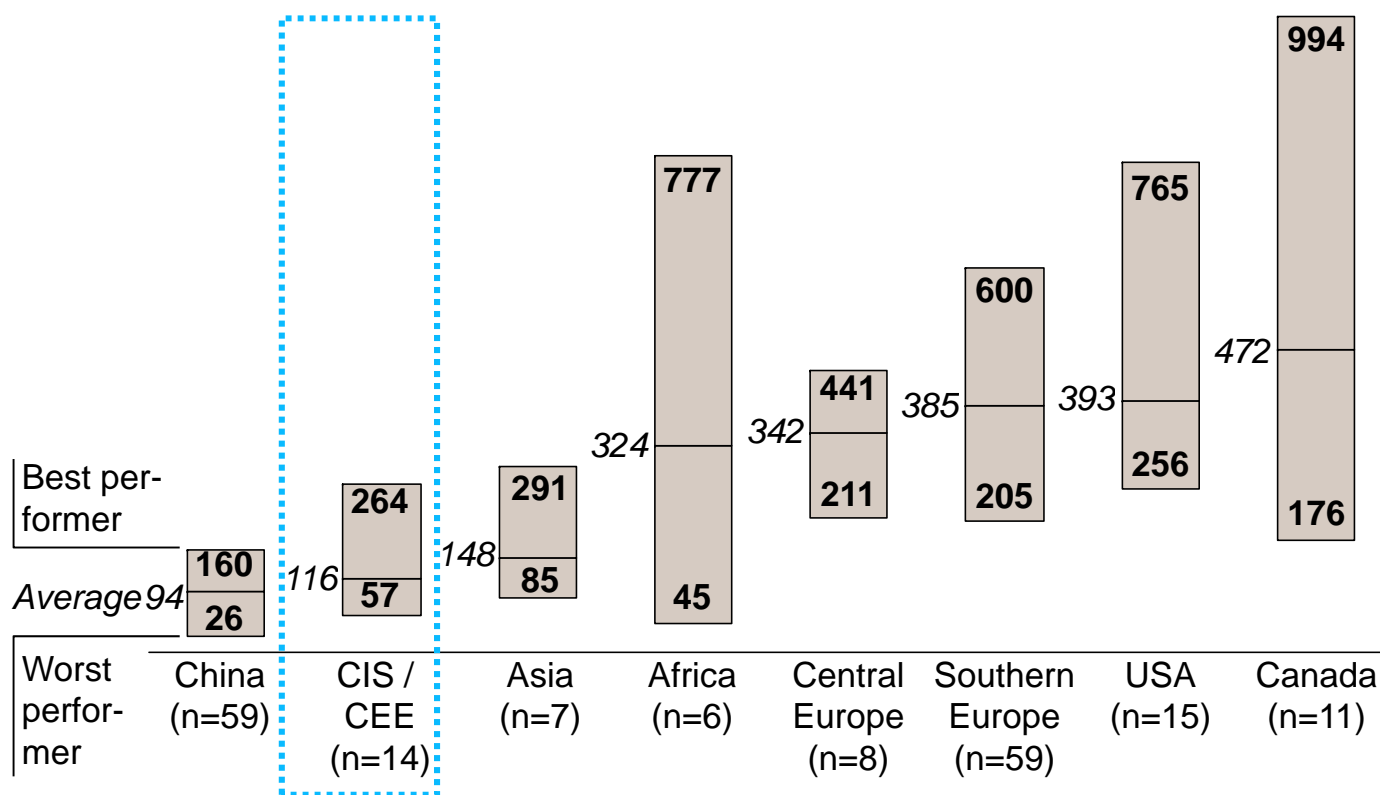
- Out-dated production facilities have high maintenance costs and low energy-efficiency
- Reduction of production capacity leads to backlog of employees
- Historically grown production processes are not efficient in current environment (e.g. long transportation distances, high cost of storage)
- Newly acquired production units are often not completely integrated (duplication of work, missing coordination in procurement, low cost-transparency)

RESTRUCTURING MEASURES

- Higher utilization of efficient production units and shutdown of inefficient ones
- Reduction of personnel expenses
 - Benefit cuts, flexible working hours
 - Reduction of personnel in production and management (incl. outsourcing)
- Optimization of production processes
 - Linking of production lines
 - Rearrangement of required space
- Stronger integration of production units through centralisation of functions, standardization of processes and IT

Operational productivity of Primary Aluminum plants in CIS / CEE region is far behind competitors

Productivity benchmark Primary Aluminum by region [t/FTE]¹⁾



COMMENTS

- Low productivity in Asian and Eastern European companies due to outdated production technologies
- Low degree of automation
- Competitive advantage of lower labor cost invalid
- High need for investment to boost efficiency
- Difficulties to fund money for investments due to financial crisis

1) Total employees of Potroom, Anode plant and Maintenance

Liquidity-related measures help to overcome difficulties in refinancing

Liquidity-related measures

	OPERATIVE MEASURES (Selection)
OPTIMIZATION OF INVENTORY	<ul style="list-style-type: none"> • Just-in-time-delivery • Improvement of planning framework and accuracy • Reduction of complexity (spare parts, products, special orders)
ACCOUNTS RECEIVABLE MANAGEMENT	<ul style="list-style-type: none"> • Proactive accounts receivable management • Revision and optimization of payment terms • Direct follow-up of top-management at main debtors
OPTIMIZATION OF PAYMENT PERIOD	<ul style="list-style-type: none"> • Agreement of longer time for payment with suppliers • Conversion of short-term liabilities into long-term liabilities • Paying of due payables by instalments
REFINANCING	<ul style="list-style-type: none"> • Optimization of portfolio – divestment of inefficient or non-core business • Optimization and focussing of investments • Sale- & Lease-Back of production equipment • Disposal of non-operation assets (e.g. real estate)