

Platform strategy KCO

Capital Markets Day

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Frankfurt/ Main, Germany

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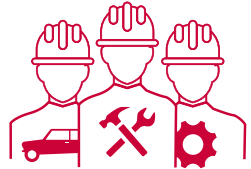
Valuation statements are unified and are presented as follows:

+/- 0-1%	+/- 1-5%	+/- 5-10%	+/- 10-15%	> +/- 15%
constant, stable	moderate, slightly	measureably, noticeable, substantial	considerably, dynamic, significant	sharp, strong

Agenda

- 1 Introduction
- 2 Digitalization of KCO
- 3 Platform strategy
- 4 Growth and value creation

01 The fundamentals of steel distribution remain challenging



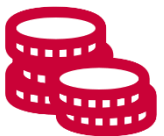
Customers

- Generally **not bound to any supplier** because of the generic nature especially of commodity steel (low switching costs)
- Often **under price pressure** especially where steel is making up a major part of their costs



Competition

- Steel distribution **markets remain fragmented**. Even larger acquisition activity in the US has primarily resulted in fewer owners; capacity has been – with the exception of Kloeckner Metals – consolidated to a lesser degree
- **Competition** especially for commodity steels **mainly on price**, availability and reliability are enablers
- **Mill-backed distributors** in Europe have a market share strategy in order to **utilize assets** instead of focusing on profitability

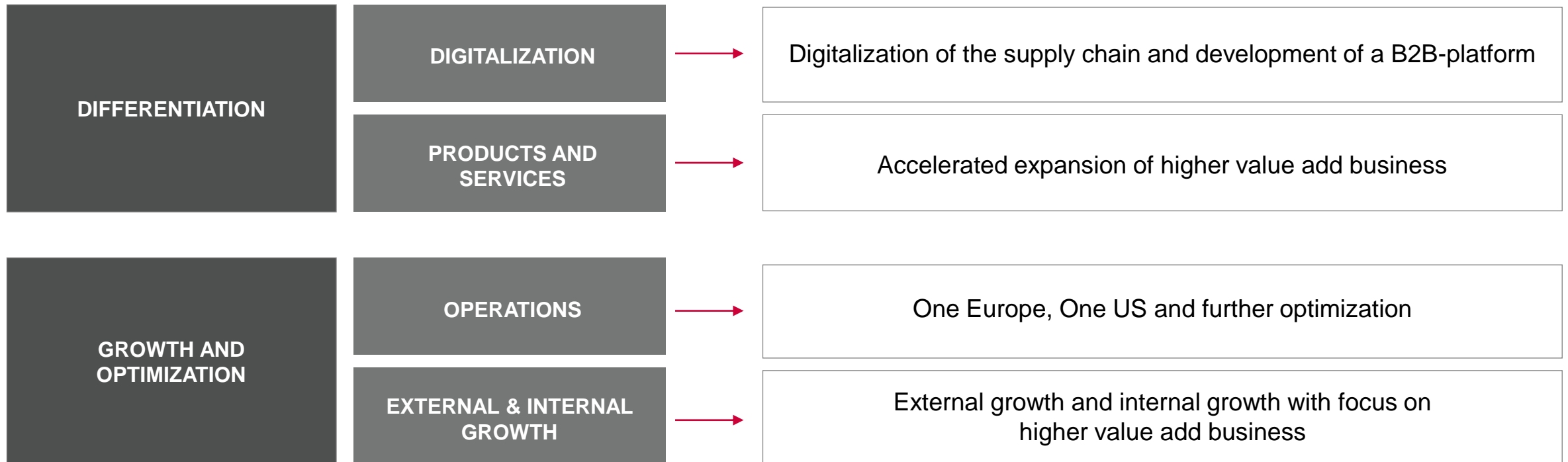


Global steel markets

- Global steel demand is expected to **grow only slowly** going forward
- **Overcapacity** in the steel industry spread across the world, but most pronounced in China is **likely to stay** for the foreseeable future

The implementation of “KLÖCKNER & CO 2020” strategy is progressing 01 but needs to be ...

KLÖCKNER & CO 2020



01 ... slightly modified and extended to 2022

KLÖCKNER & CO 2020



klöckner & co 2022 strategy



01 Guiding principles of the “klöckner & co 2022” strategy

1

We will reduce the volatility and increase our profitability mainly by transforming KCO organically towards **digitalization and higher value add businesses**

This is **more value creating, less risky and more forward thinking** by innovation

2

Acquisitions are only an option if they are related to our business and if we could add value

Acquiring a company in a less volatile, **not related business**, with modest synergies is **not a healthy option**

3

With our meanwhile **proven digitalization skills** we are able to **add value even to commodity business** without competing on price

Anybody could compete on price but **not just anybody could compete on value**

4

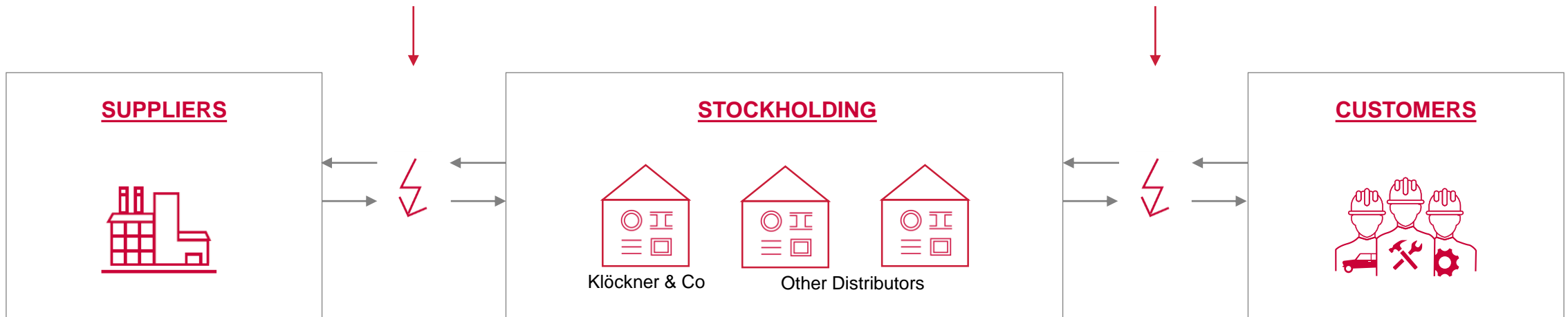
We have to strengthen our capabilities in higher value add business further and **focus on markets where we can fill a gap**

01 Digitalization and platforms



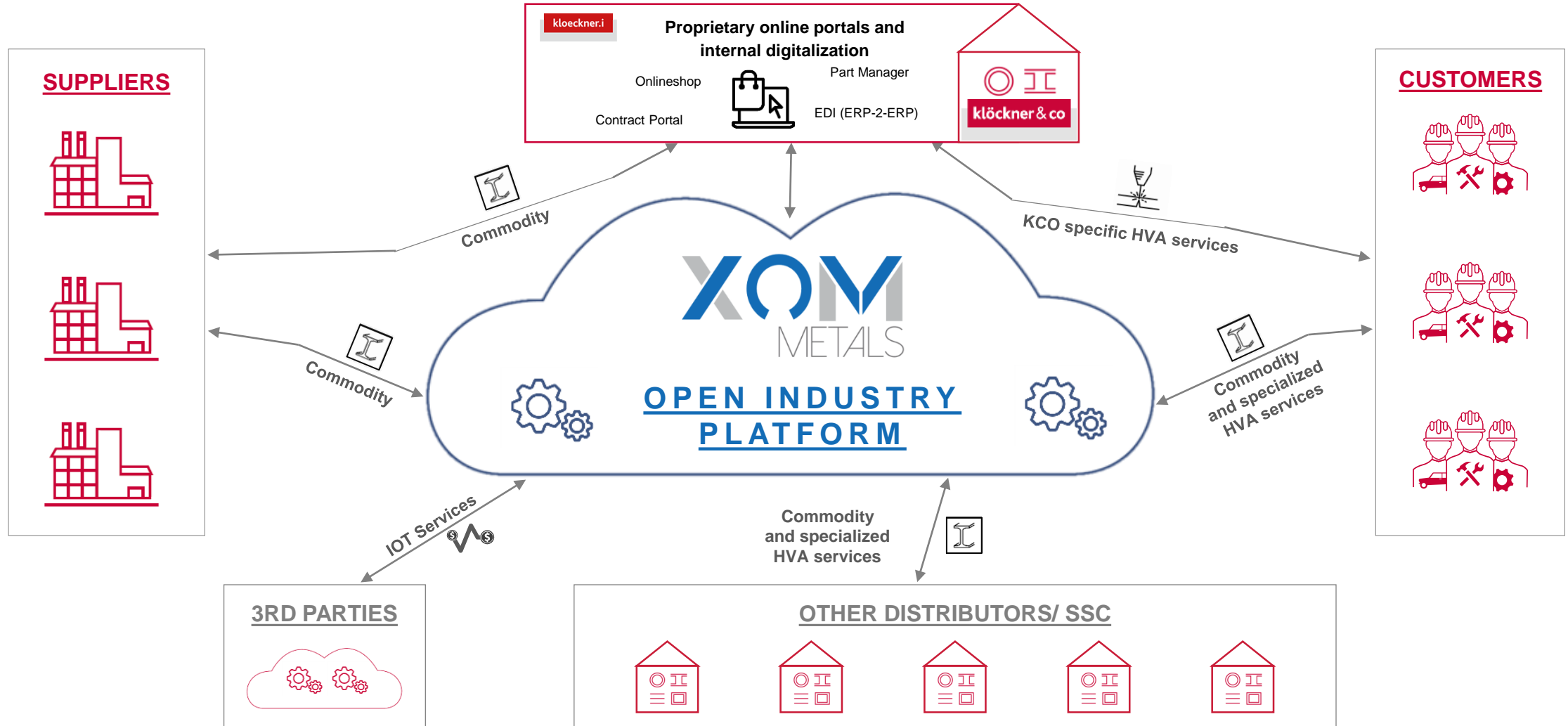
01 Current linear steel supply chain is highly inefficient and intransparent

No effective information and data exchange on available inventory, lead times etc.

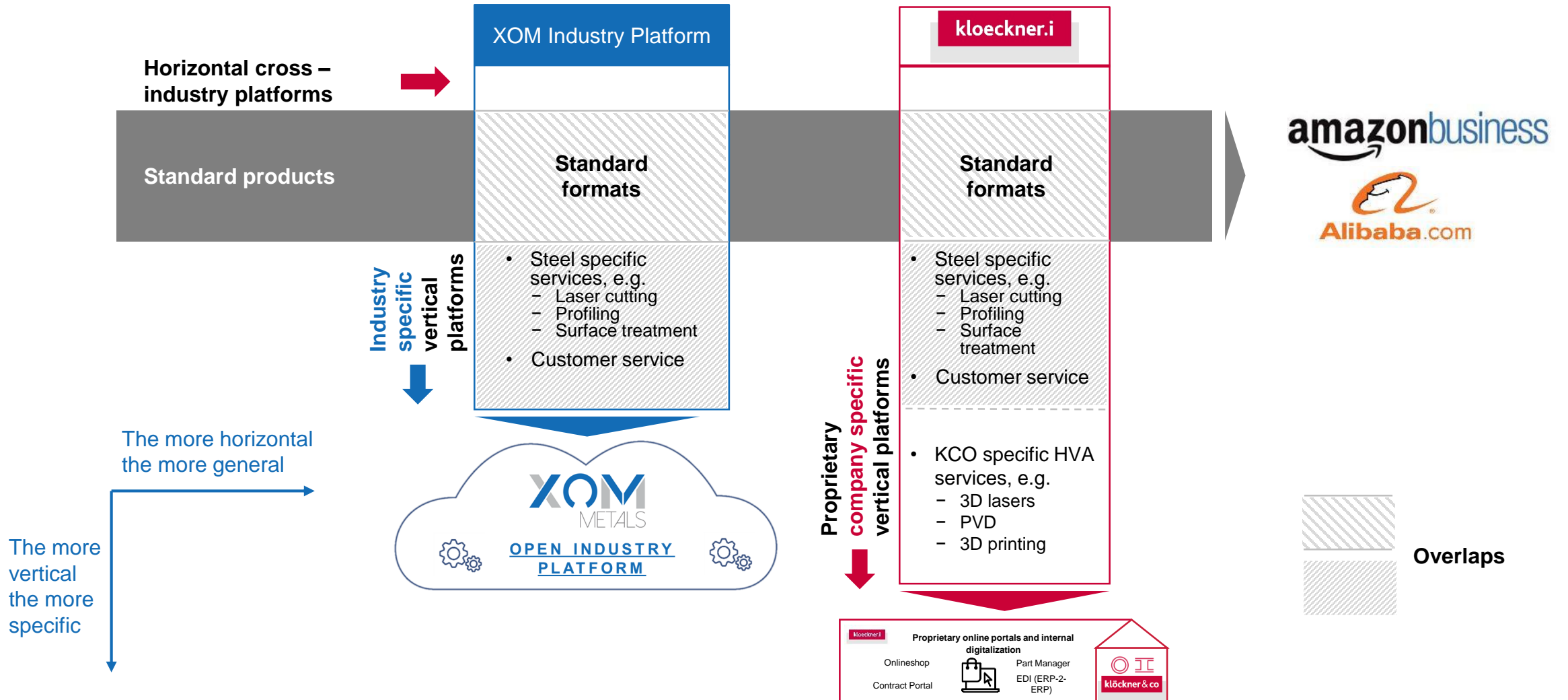


Long delivery times, incorrect deliveries and high inventory levels

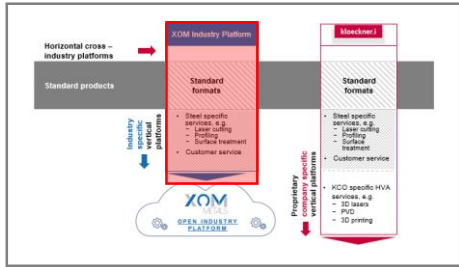
01 The future steel supply will be dominantly facilitated vertical platforms ...



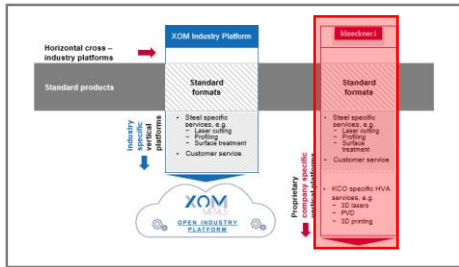
01 ... and complemented by more general horizontal platforms



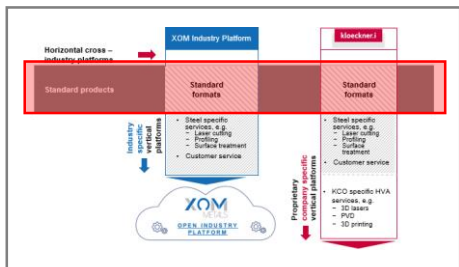
01 Each sales channel fulfills different customer requirements



- Access to the **full range of steel and metal products** and more general steel specific services
 - Full **transparency** and price comparison
- ⇒ Preferably for **price sensitive buyers**

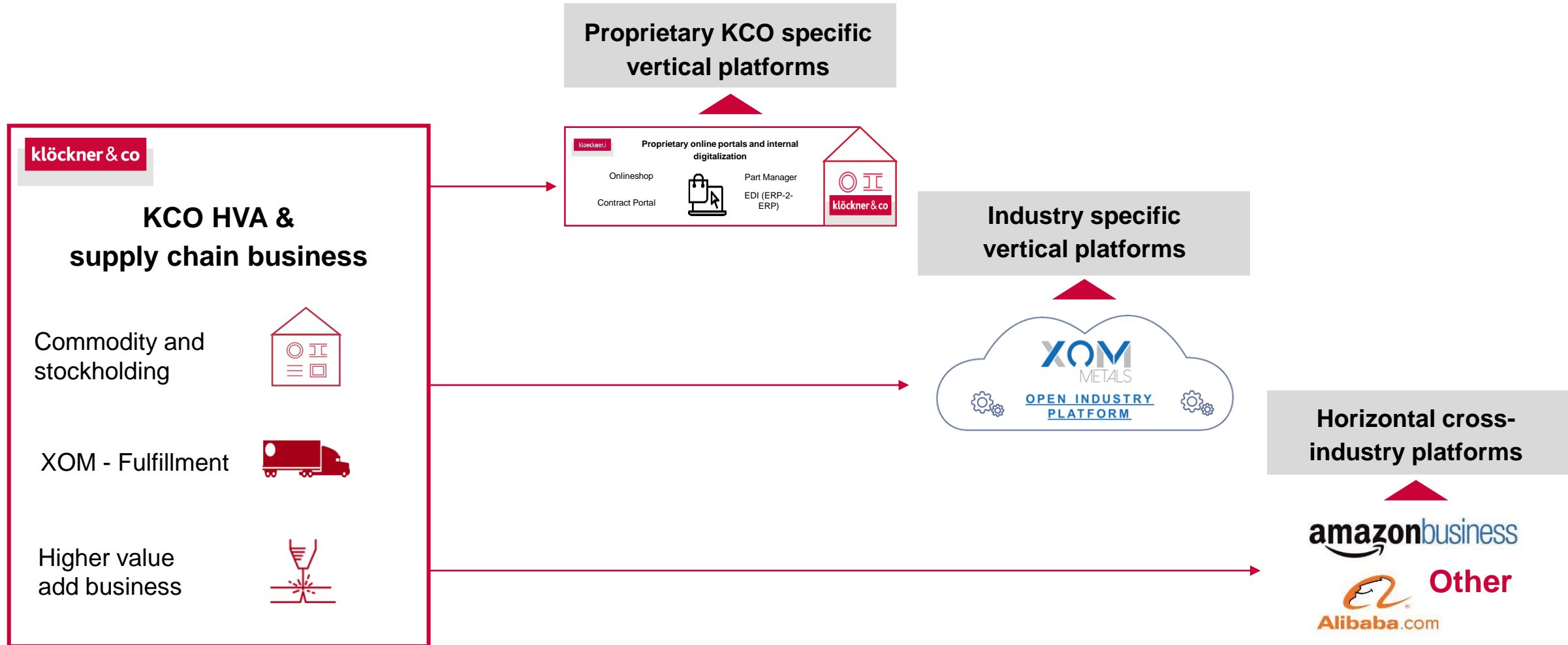


- Access only to **KCO-specific** assortments and services
- ⇒ Preferably for customers where KCO fulfills most of the **product and service requirements**

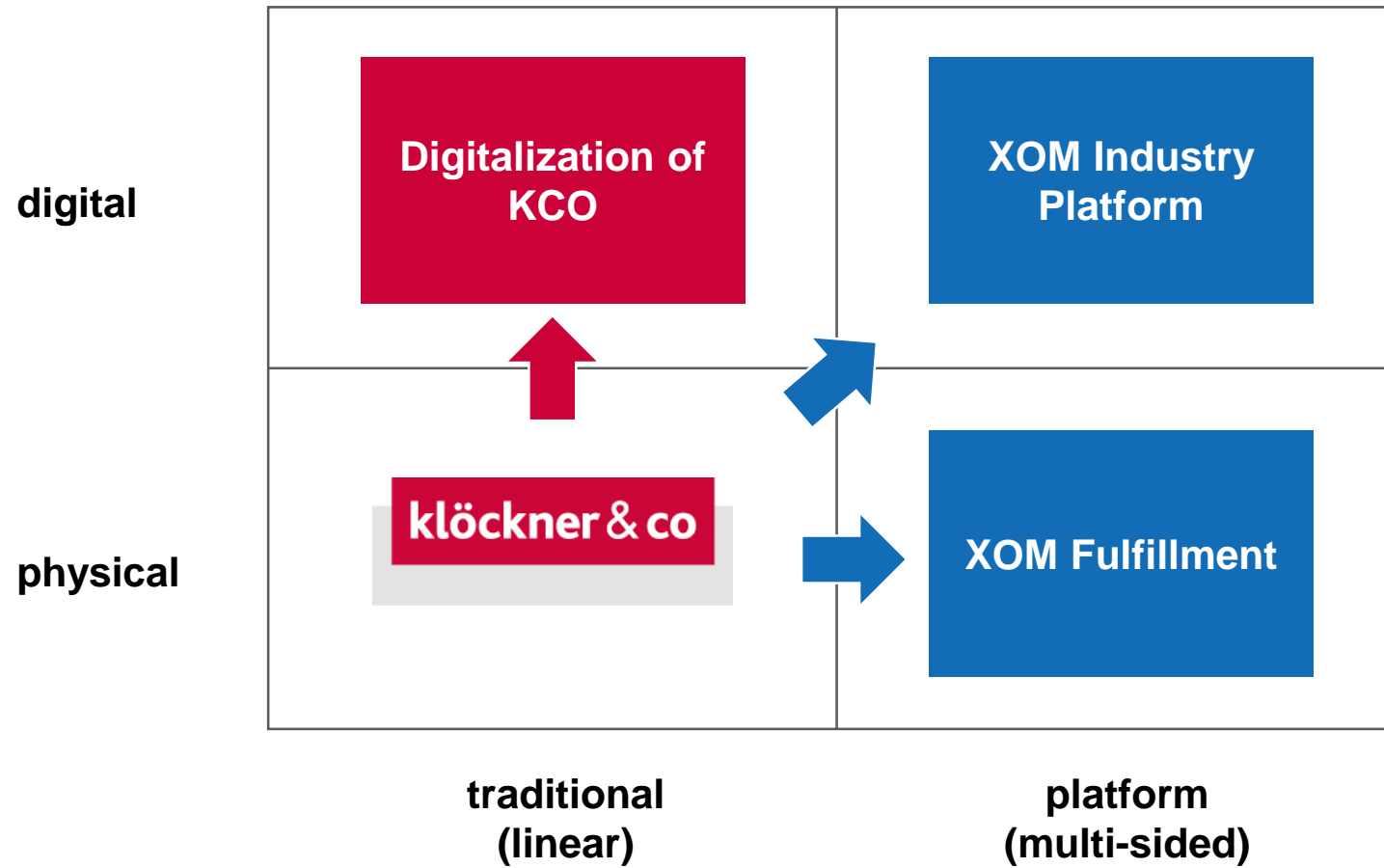


- Access **only to standard** steel and metal products without additional services
- ⇒ Preferably for less frequent and **low volume buyers (long tail)**

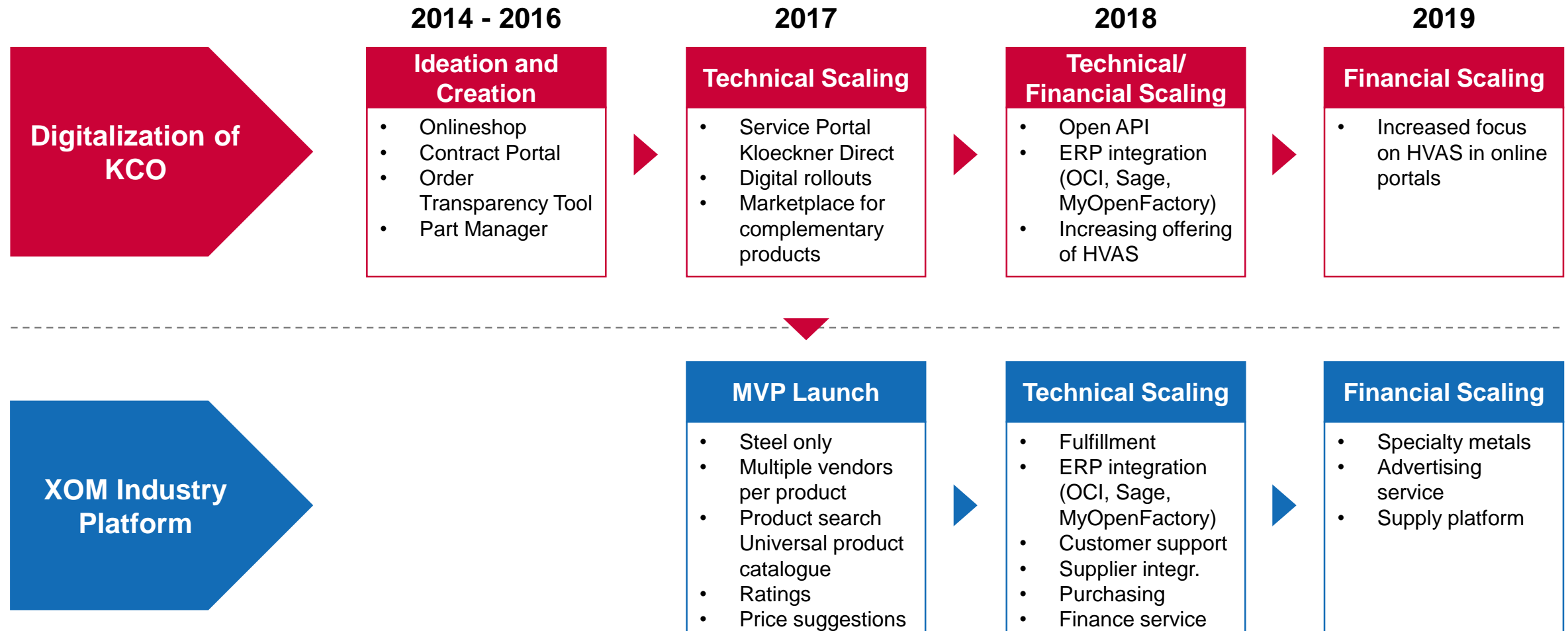
01 KCO itself will be enabled to sell through all kind of digital sales channels



01 All principle business models will be covered too



01 The transformation itself will be driven in two separate workstreams



Agenda

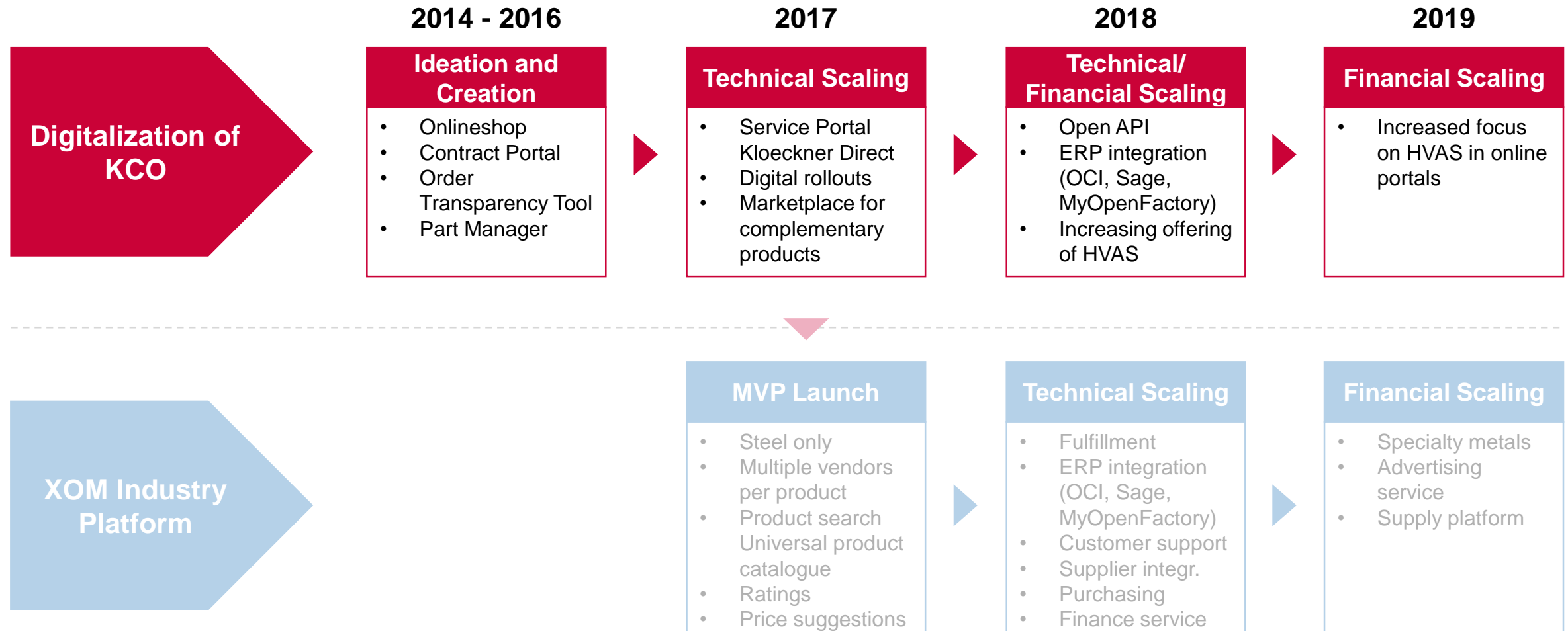
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02 Digitalization of KCO follows a structural work stream ...



02 ... and is driven by our digital hub kloeckner.i

kloeckner.i

▶ KCO started their **digitalization already four years ago** with KCI as digital hub in Berlin and invested until mid of 2017 about **€25m in KCI**



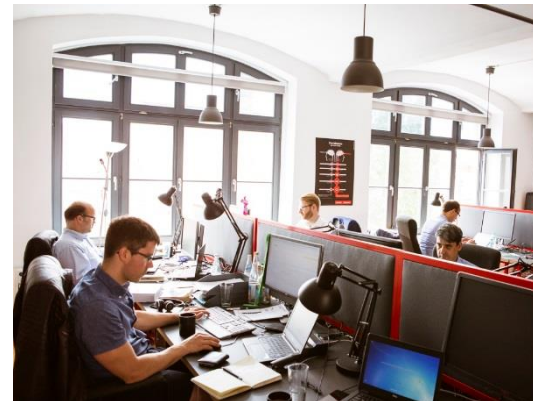
▶ **More than 60 digital experts** in innovation & product, software development, digital marketing & sales and business intelligence & analytics



▶ Application of **innovative startup methods** such as design thinking, lean startup and rapid prototyping enables accelerated implementation

klöckner & co

▶ Far enough from Klöckner to **act independently**, yet close enough to **leverage expertise** as well as access to customers and suppliers



02 We started small with focus on the build-measure-learn cycle

2014

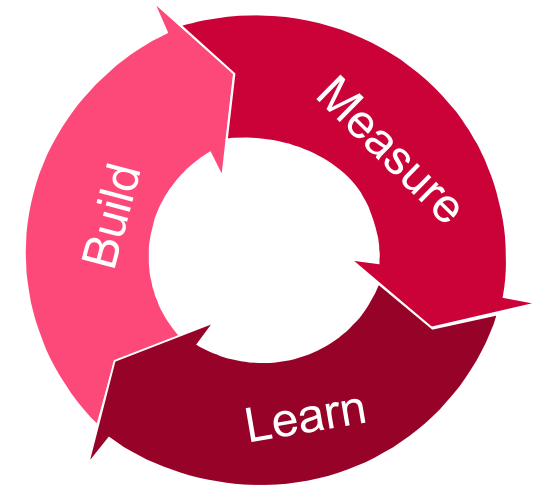
- ✓ Started with **2 employees in Betahaus** in Berlin
- ✓ First **Onlineshop MVP** launched
- ✓ Founding of **kloeckner.i (KCI)**
- ✓ First **office** rented for KCI

2015
-
2016

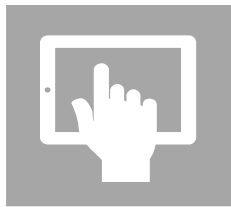
- ✓ Launch of **Onlineshop in EU**
- ✓ Launch of **Contract Portal/ Part Manager** in EU and US
- ✓ Launch of **Service Portal Kloeckner Connect**
- ✓ Launch of **additional customer-centric tools** like the Order Transparency Tool

2017

- ✓ **Expansion of KCI** to more than 60 people of different functions and move into bigger office
- ✓ Launch of **Klößner Direct** in the US
 - Launch **Klößner Marketplace** for complementary products as MVP
 - Launch **XOM as MVP**



02 Overview of the main digital portals and tools

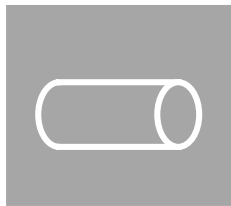


Kloeckner Connect

Kloeckner Connect is a portal combining all services we provide. Find all the digital solutions at first glance.

Benefits for the customer:

- ✓ Portal which connects all relevant information on our digital products and services
- ✓ It informs about online tools, interfaces and intl. networks



Contract Portal/ Part Manager

It supplies information on all current and historical contracts and allows materials to be called-off.

Benefits for the customer:

- ✓ All Klöckner contracts at a glance
- ✓ View individual material stock
- ✓ Look into future and historical material call-offs



Onlineshop/ Marketplace

Onlineshop makes ordering steel more comfortable than ever – no matter where or when.

Benefits for the customer:

- ✓ Abandon time and place bound ordering
- ✓ Instant quotes; easy order, reorder, bulk order
- ✓ Lower transaction costs/ lower stock



Kloeckner Direct

US customers are granted transparency in terms of stock availability at specific branches. Currently updated to a comprehensive onlineshop.

Benefits for the customer:

- ✓ Direct view into the branches stock and availability
- ✓ Quote generation easy and convenient – online, saves time
- ✓ Create and send a request for a quote



Order Transparency Tool

This tool grants access to all information concerning the current and historical orders.

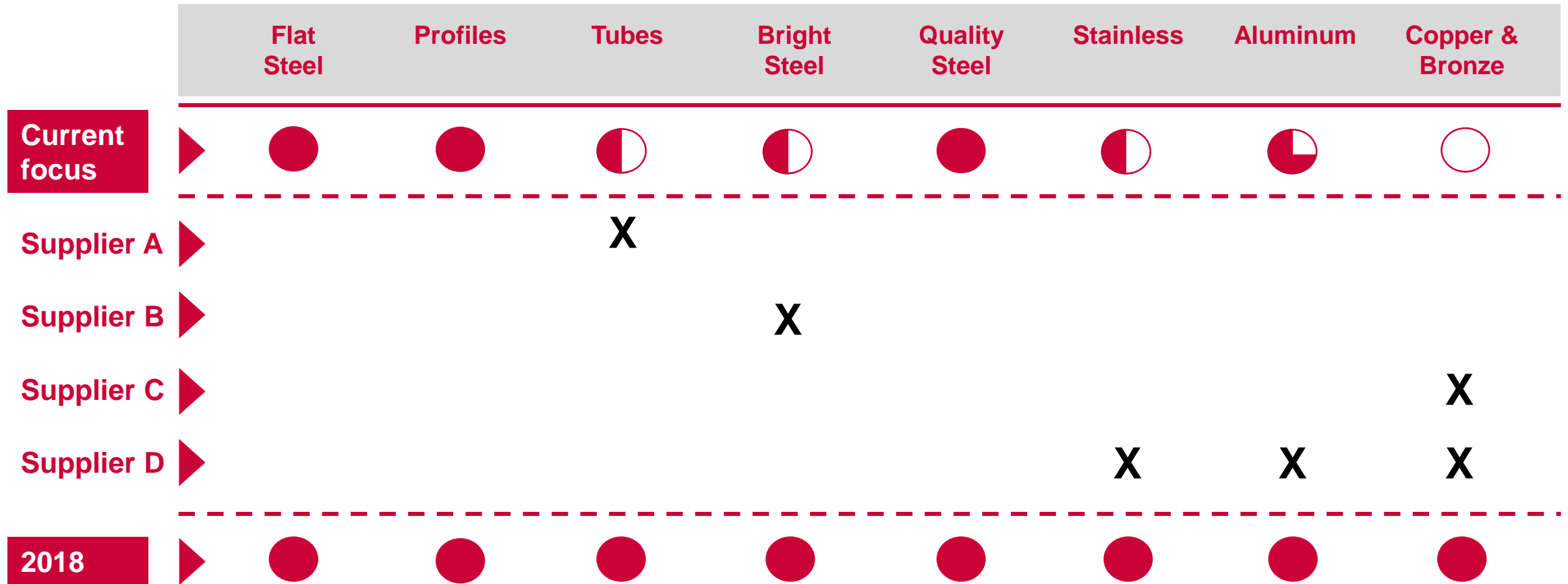
Benefits for the customer:

- ✓ Complete overview of all open and closed orders
- ✓ Check the status of future deliveries
- ✓ Intuitive and user friendly interface

Offering the full range of steel and metals through Onlineshop

02 marketplace feature without inventory build-up

KCO Germany



02 Comprehensive rollout of digital portals and tools

Service Portal/
Kloeckner Connect

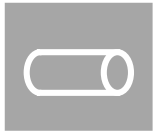


launched



Rollout in 2018

Contract Portal/
Part Manager



launched



Rollout in 2018

Onlineshop/
Kloeckner Direct



launched

Rollout 2017



Rollout 2018

Order Transparency
Tool



launched



Rollout 2018

02 Overview of further digital solutions



OCI/ EDI

This interface allows a direct connection between an ERP and the Klöckner Onlineshop.

Benefits for the customer:

- ✓ Klöckner plugin for the SAGE 100 ERP System
- ✓ Enables ERP to ERP communication
- ✓ Lowers transaction costs significantly



Application programming interface (API)

Klöckner API is a REST interface which allows to easily connect with third party systems.

Benefits for the customer:

- ✓ Klöckner products can be delivered in third party systems
- ✓ Quotes and orders possible via REST API
- ✓ Developer community to build business models around the API



Sage 100

This solution allows a direct connection to Klöckner ordering system and coordinates business processes.

Benefits for the customer:

- ✓ More transparency and an automatic exchange of information
- ✓ Efficient processes which increase your competitive edge
- ✓ Transparent insights into current purchasing conditions

02 Overview of other measures to increase online sales

Online Marketing

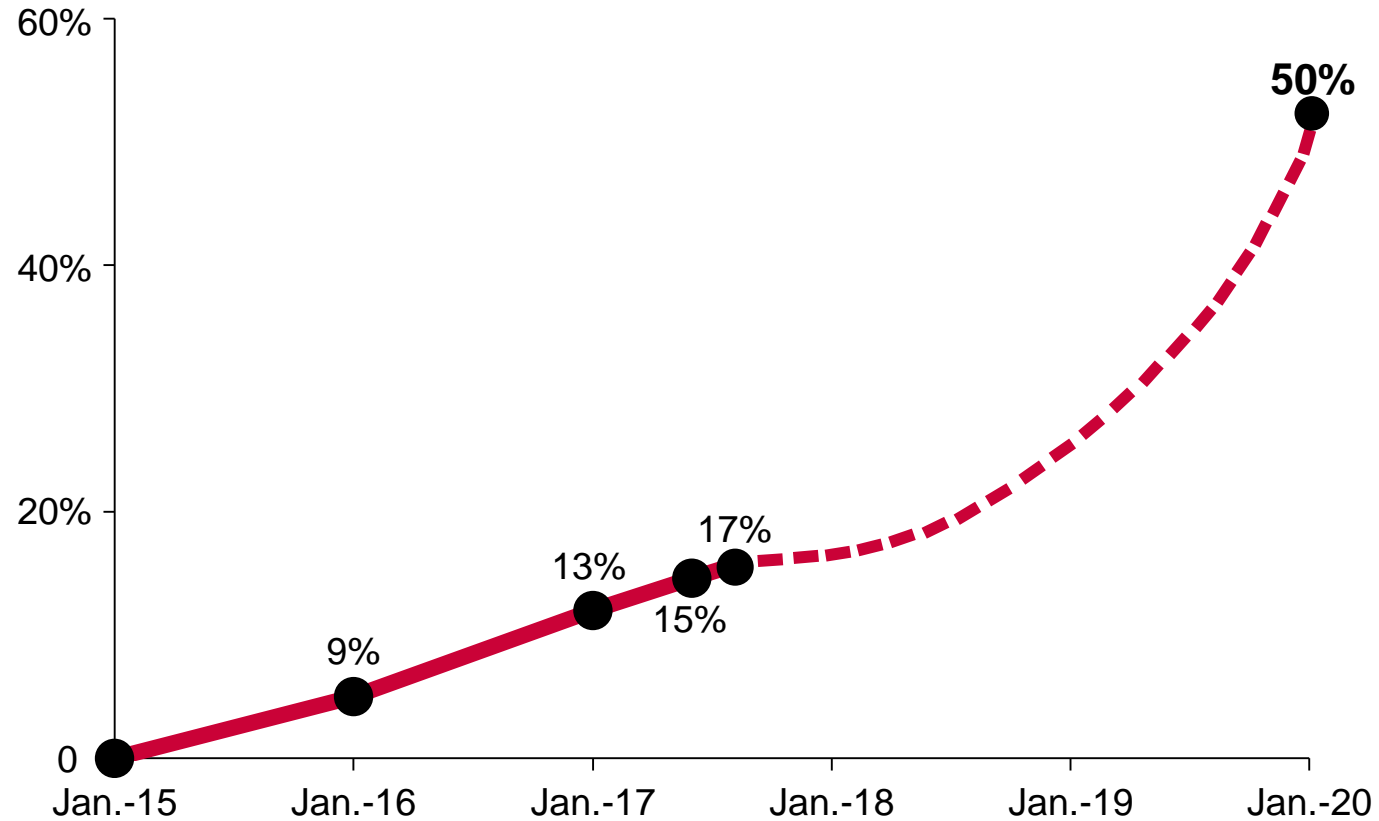
- Elaborated online marketing campaign which initially focuses on anorganic **cost per click campaigns**
- Within the last 18 months we shifted towards a more **healthy marketing mix**
- High focus on communication with the customer via **social media**
- Established **global digital brand** enables us to have access to greater talent pool

Business performance and analytics

- Collection of company wide data and analysis through **advanced analytics and business insights**
- Leading position through extensive build up of **inhouse capabilities**
- Online-offline tracking to enable data driven real time decisions
- Working on e.g. **pricing insights** and international **pricing algorithms**

02 Well on track to reach 50% online sales target until beginning of 2020

Sales in % per year



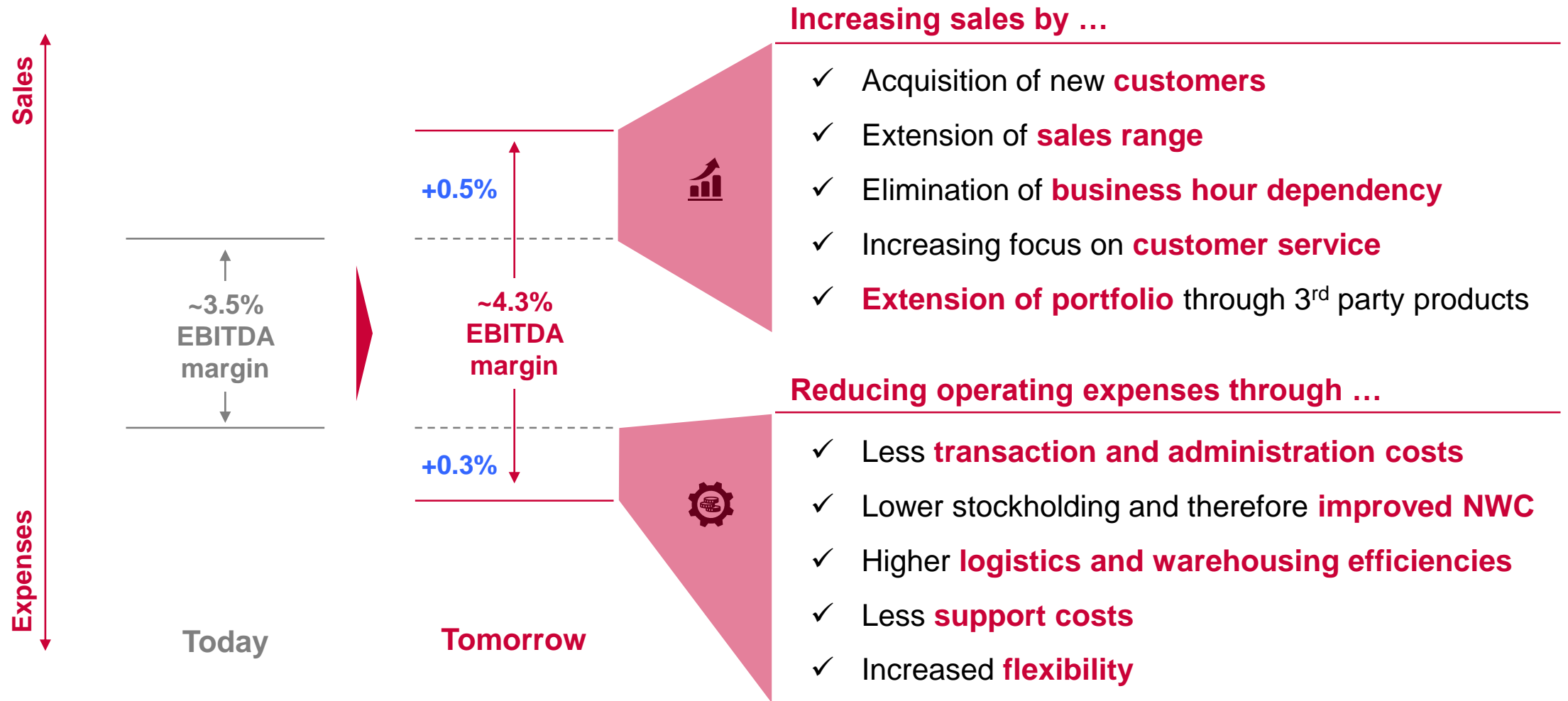
Key success factors

- ✓ Advanced **digital mindset** in sales organization
- ✓ More **data driven** sales
- ✓ Better **online marketing**
- ✓ Further improved online **customer service**
- ✓ New and extended **functionalities**



Digital sales per month more than duplicated since January 2016

02 Internal and external digitalization drives efficiency and sales



Agenda

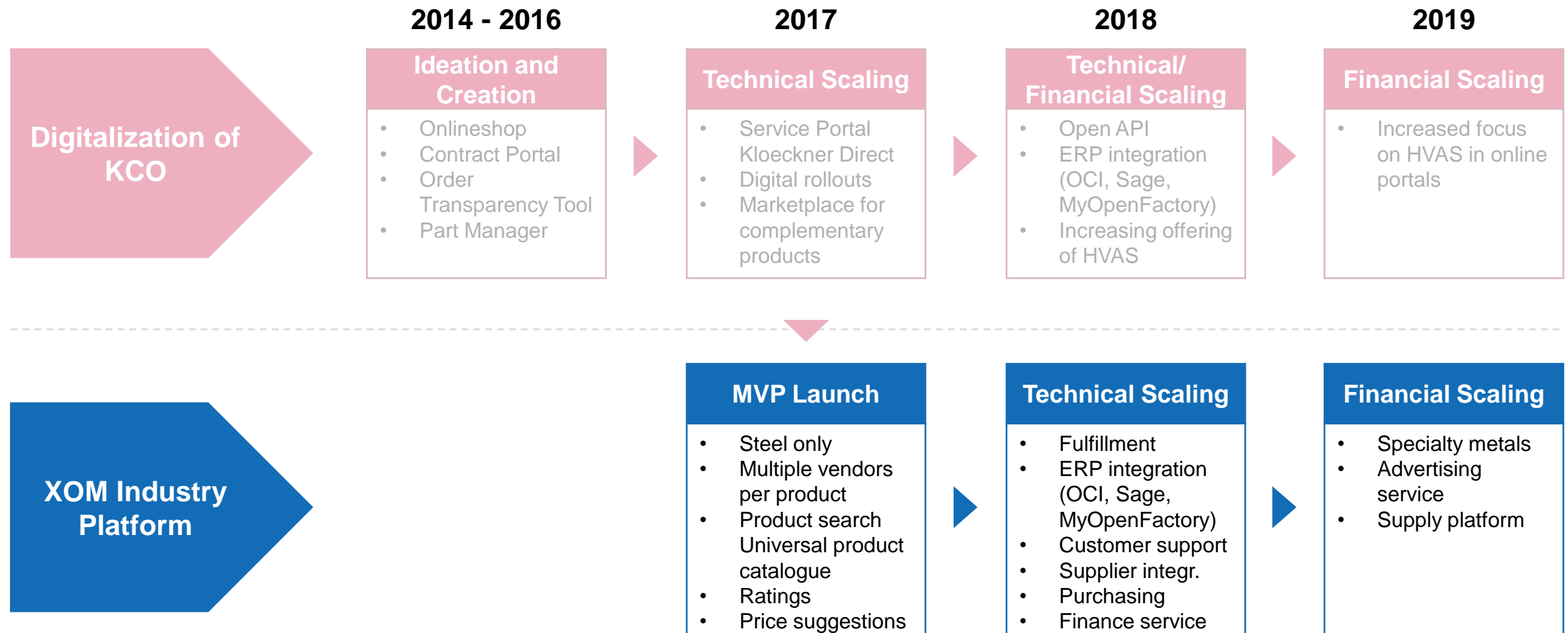
1 Introduction

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03 The multi sided industry platform is a new central and finally completely separate work stream



03 Digital platforms will quickly spread throughout many B2B-industries ...

P2P “Peer-to-Peer”

The **first generation** of large and often disruptive internet platforms covered mainly **information industries** and entirely **digitalizable services** like music and banking

B2C “Business-to- Customer”

The **next generation** of now “Online-to-Offline” (O2O) platforms covered a **wide range of consumer driven industries** like urban transportation (Uber and Lyft), lodging (Airbnb), food delivery (Grubhub, Just Eat, Delivery Hero) and many others

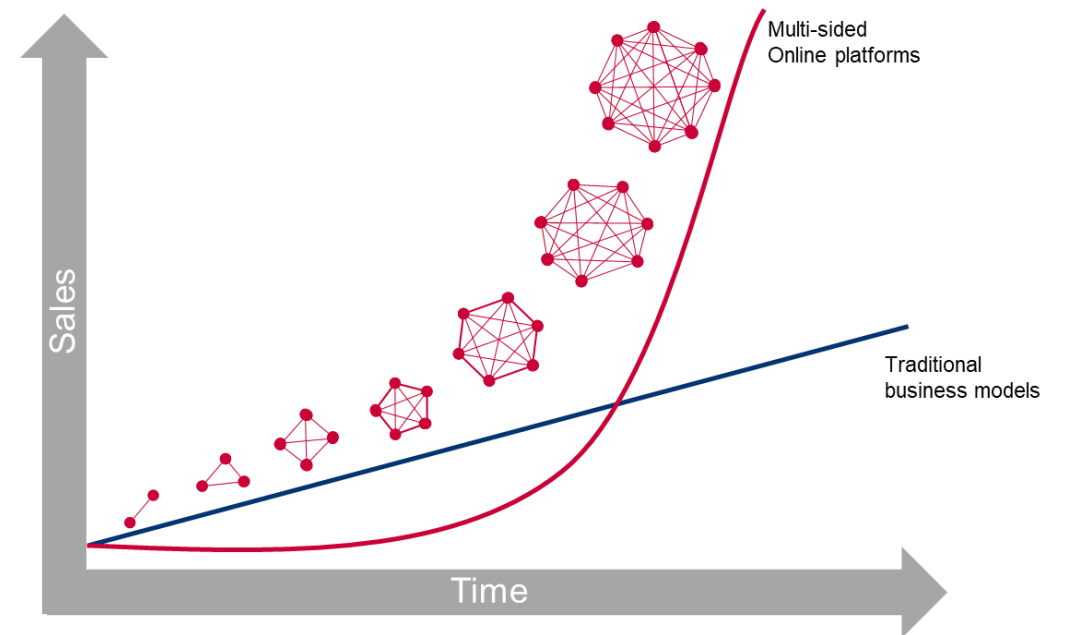
B2B “Business-to- Business”

The **same economic fundamentals** which drive consumer O2O-platforms apply also for **goods and services that companies exchange with each other**

03 ... and become the dominating business model of the 21st century

Platforms ...

- ▶ **succeed** by introducing better and much broader offerings to customers through marketplaces
- ▶ **scale** through network effects caused by the ability to leverage and orchestrate global connected ecosystems
- ▶ **create** value by enabling communication and commerce that might not otherwise occur and by reducing waste and inefficiencies as well as a faster supply and demand matching
- ▶ **move** themselves between the producer and the customer and thereby take over the customer and a significant part of the value creation
- ▶ **extend** in a way traditional supply chains cannot once they have established a strong network around its original core transaction
- ▶ **link** existing customers stronger to the business due to their inherent superior advantages for the customer



KCO as an incumbent has several advantages in building a successful industry platform

03

Access to customers and suppliers



No hen-and-egg problem by having a huge customer and supplier base in the European and US market

Deep industry know-how



KCO **knows how** to handle the **supply chain, has comprehensive product and processing know how** and understands the expectations of **customers and suppliers**

Reliability and trust



KCO is since decades **trusted** by the industry and a **reliable partner** of its customers and suppliers

Extensive steel e-commerce experience



KCO has **operated e-commerce and digital portals** in the steel industry since a couple of years and hence has a **deep understanding** of the inherent challenges and new business models

Building up on existing technology enables a quick launch of the

03 XOM Industry Platform MVP

KCO Onlineshop

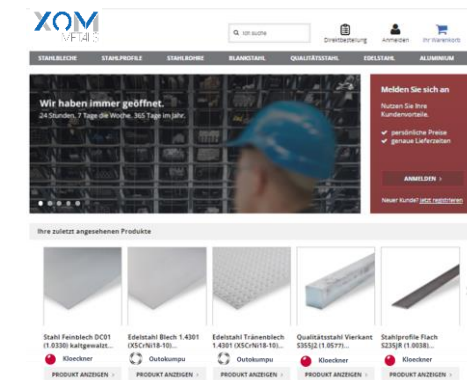
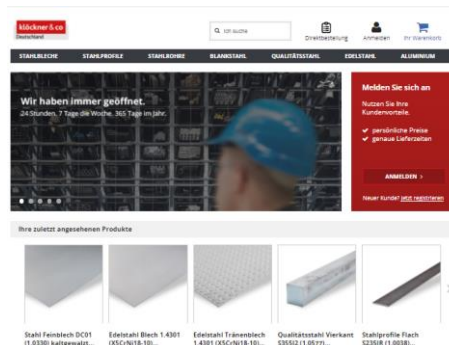


XOM Industry Platform (MVP)



Additional functionalities for XOM Industry Platform (MVP) include:

- Multiple vendors per product
- Product search functionality
- Universal product catalog
- Ratings
- Price suggestions

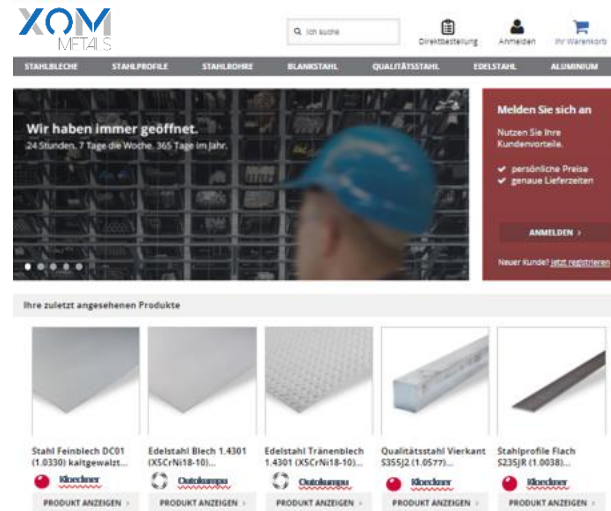


03 Marketplace and storefront designs already created

Marketplace

Default channel

- Global marketing campaigns

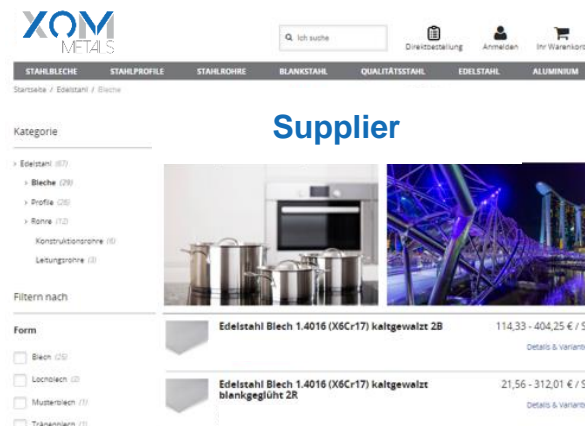


- **Default** content with entire marketplace offering (“Ebay” view)
- All **products listed** (promotion slots available)
- Customers can **search for specific suppliers**

Storefront

Additional paid sales channel

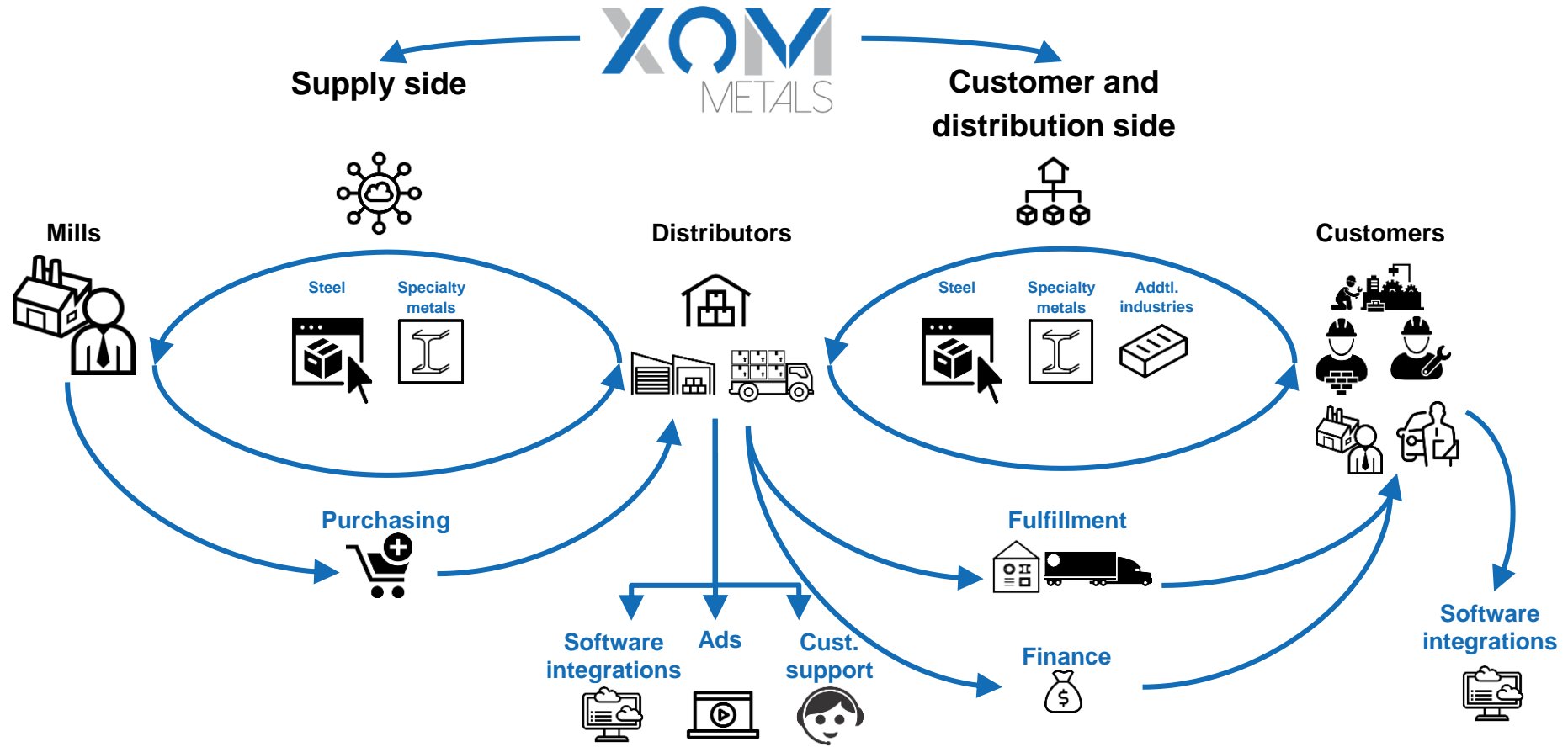
- Can receive own traffic
- Own marketing



- **Supplier specific storefront** on marketplace (shop-in-shop)
- Shows only **specific supplier products and offerings**
- Customers can **search for only supplier offerings**

03 XOM Industry Platform will be a multi-sided platform which facilitates transactions between all market participants

Business model expansion timeline



03 Value will be created for all participants by significantly improving supply and demand matching



Customers

- **Efficiency gains** in purchasing organization due to higher automation in data handling
- Better pricing conditions due to **higher transparency**
- **Faster delivery** times due to network-enforced demand matching
- Faster purchase realization cycles



Distributors

- **Lower transaction costs** with positive impact on COGS
- **Access to larger global customer base** with positive impact on total revenues
- **Ability to outsource**/ reduce higher costs positions such as warehousing
- **Better demand forecasting** allows for less stockholding and therefore lower NWC
- **Better footprint expansion** - especially smaller and medium sized distributors will gain the ability to compete nationwide due to platform services such as fulfillment and finance

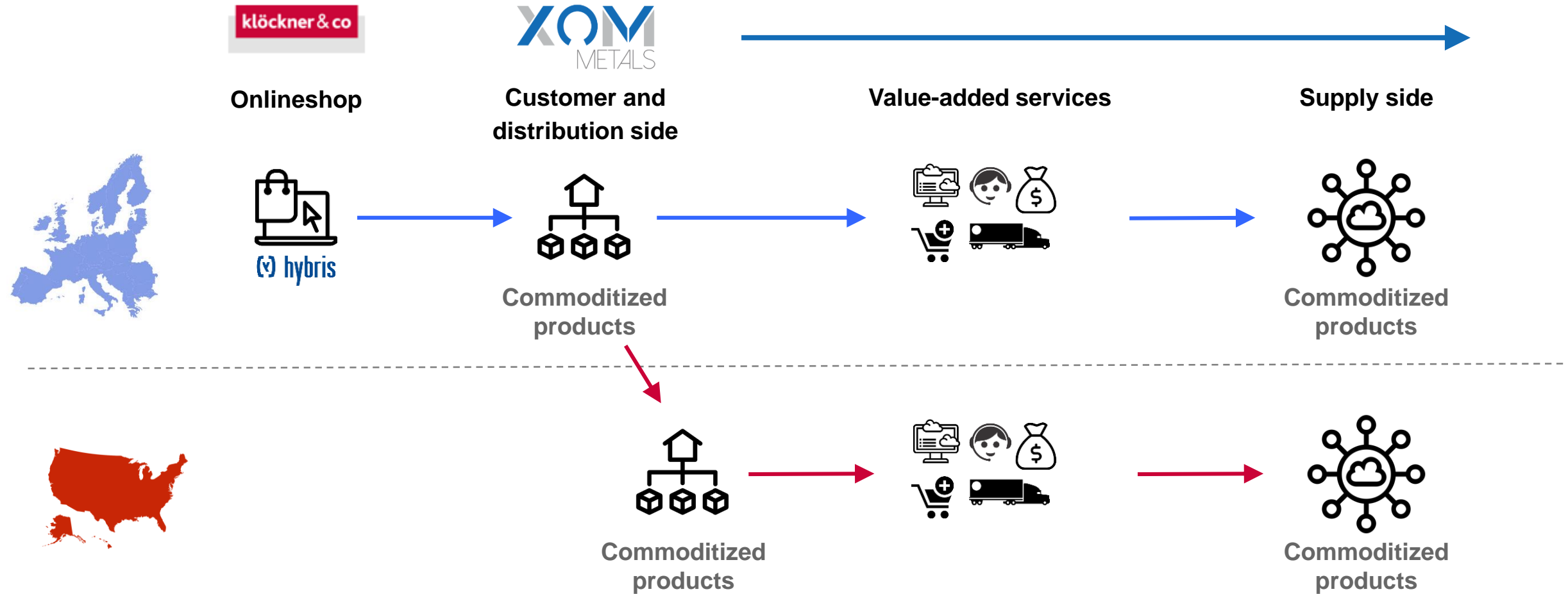


Suppliers/
Producers

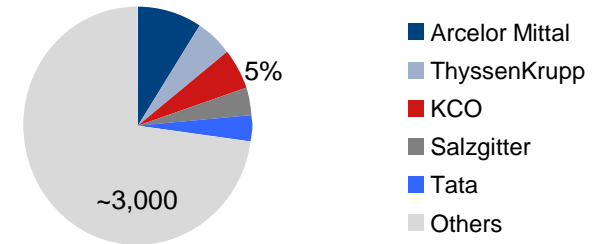
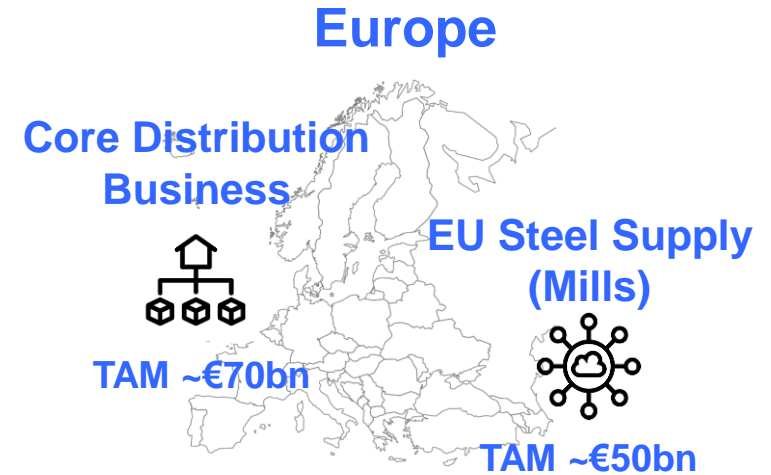
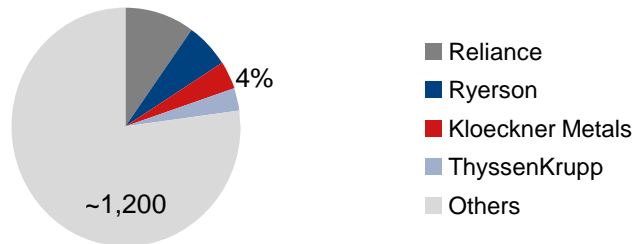
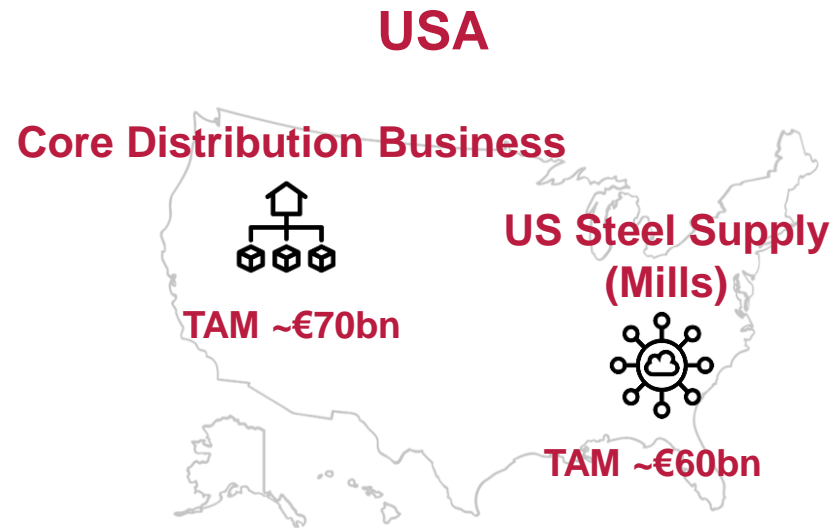
- **Higher direct sales** opportunity due to better understanding of customer demand
- Better demand and production **planning accuracy**
- **Less dependency** on distributor network and relationships
- Better demand forecasting allows for better production control and consequently **less stockholding and therefore lower NWC**

Step by step launch targeting first small and medium sized distributors, then expansion to larger distributors and eventually the supply side

----- Today ----- Launch: Q4 2017/ Q2 2018 ----- Launch: 2018 - 2019 ----- Launch: 2020 -----



03 The total addressable market in the US and Europe amounts to €250bn



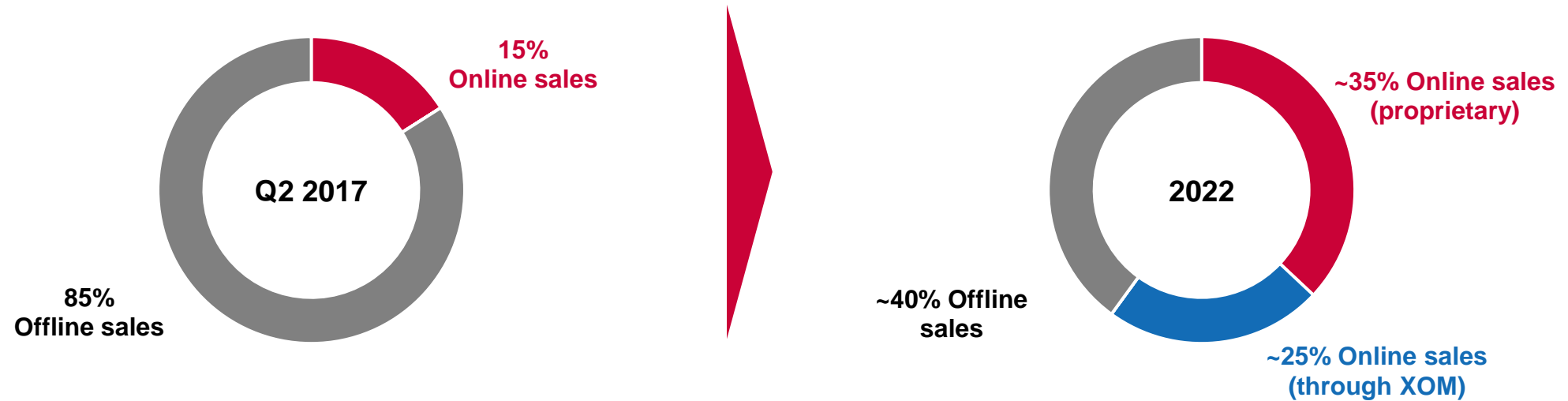
Both markets are highly fragmented with no dominant players which favors open industry wide platforms

Agenda

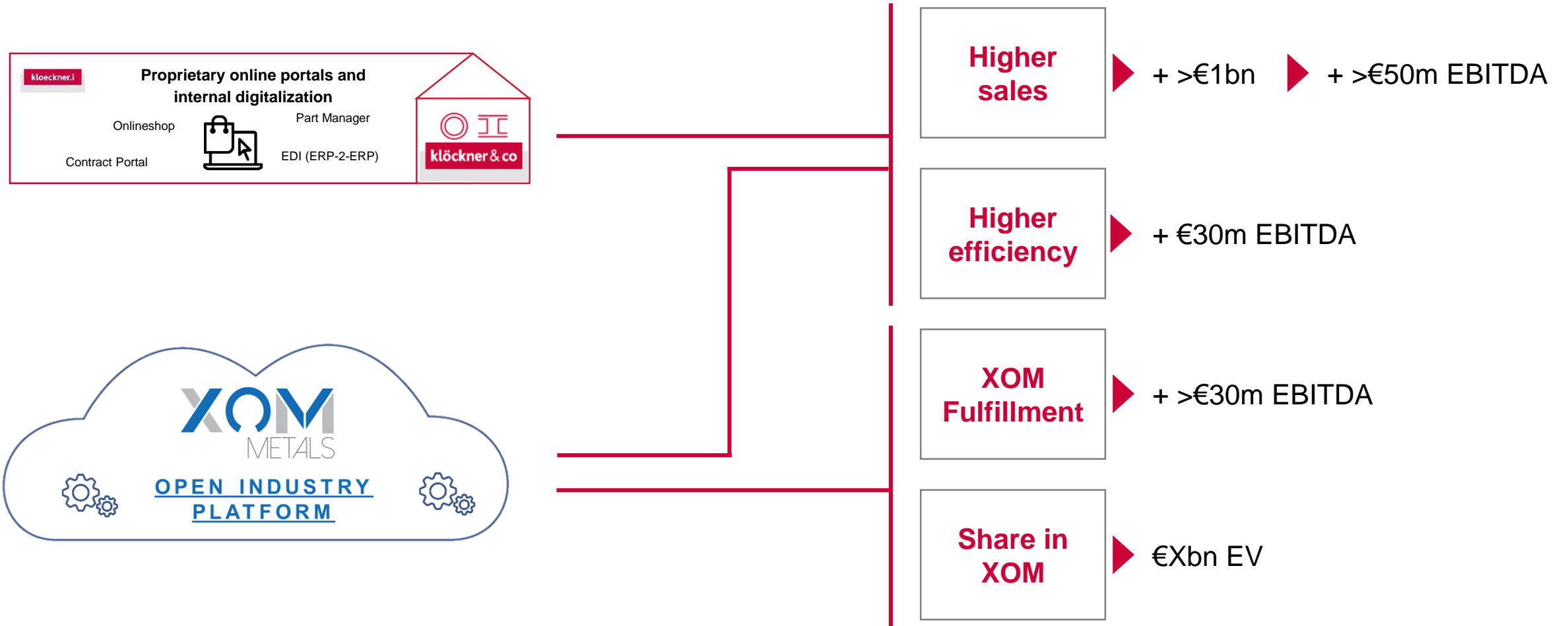
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04 2022 we want to generate 25% sales via XOM and 60% online sales in total

Sales breakdown of channels



Value will be created by higher sales, improved margins, fulfillment and 04 by the share of the XOM Industry Platform



04 Target is to increase the EBITDA margin to >5% until 2022 – facilitated through digitalization and XOM

