



# Deep Dive into Digitalization

Focus Call

February 10, 2020

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# Disclaimer

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Rounding differences may occur with respect to percentages and figures.

The English translation of the Annual Report and the Interim Statement are also available, in case of deviations the German versions shall prevail.

Evaluating statements are unified and are presented as follows:

+/- 0-1%	stable
+/- >1-5%	slight
+/- >5%	considerable

# What are the shortcomings of the steel and metal distribution business?



## Supply chain

Current steel distribution **supply chain is linear**: suppliers produce steel and distributors process and deliver material to downstream manufacturers. Orders mostly made by phone, fax and email with many manual steps required to process an order

→ Long delivery times, incorrect deliveries and high inventory levels



## Transparency

**Flow of information is interrupted** several times. Thus there are no effective information and data on inventory and lead times available which makes the entire supply chain highly **intransparent**

→ Steel is unnecessarily shipped around and suppliers, distributors and manufacturers need to stock material to balance out the non-transparency of demand, supply and prices



## Steel prices

Steel industry suffers furthermore from **overcapacities** on the production but also on the distribution level. This leads in combination with changing trade-measures to **very volatile prices**

→ Most distributors making profits when prices moving up and making losses when prices heading down

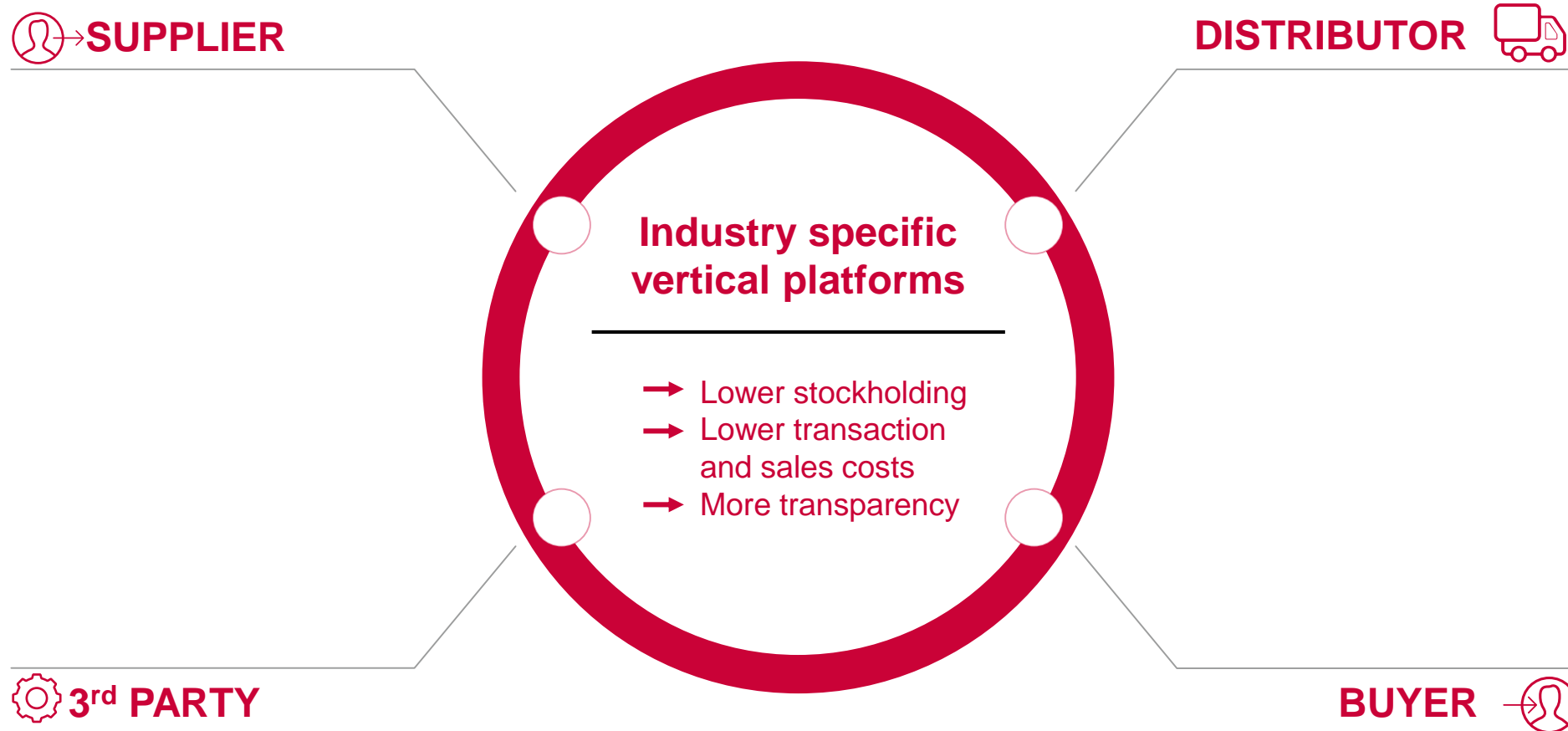


## Margins

Besides volatile prices, **margins** especially for commodity steel products are generally **low** due to high overcapacities at all levels. Hence, almost all competitors want to expand their higher value-added business

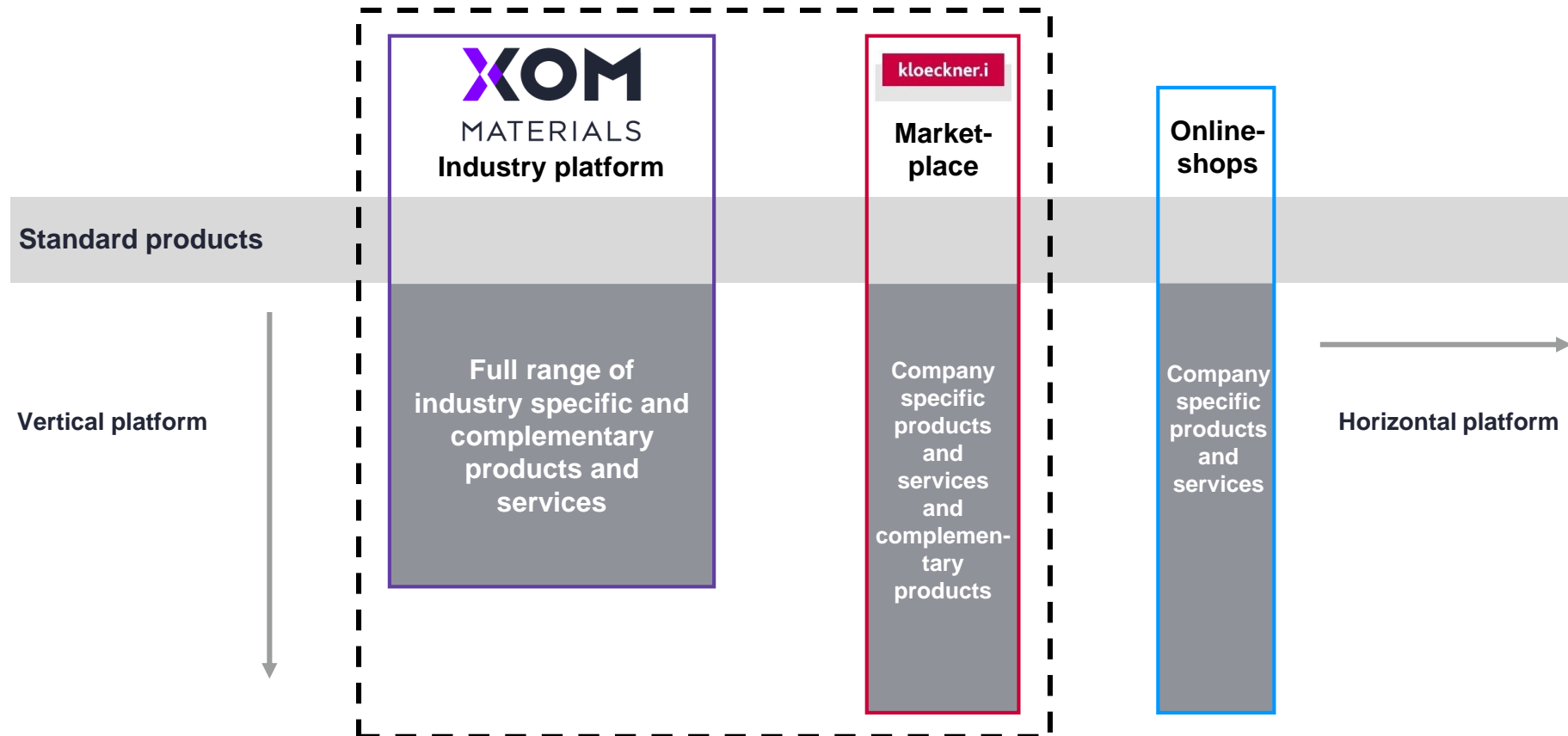
→ Prices for higher value-added business coming increasingly under pressure as well

# The solution: vertical platforms which connect all market participants



# Klöckner & Co is very well positioned in digital platform landscape

With its open industry **platform** and the proprietary marketplace, Klöckner & Co is the only competitor in the industry to **meet all customer-needs**



# What is needed to scale a platform in our industry?

## Customer-needs

Typical “Amazon-type” onlineshops or marketplaces do not scale because only a small and mostly not so important part of the necessary processes would be covered. However, **customer-needs** in our industry are very **diverse** due to the wide range of customers served. Larger buyers require different processes than medium or smaller ones, contract customers have other needs than spot buyers, automotive customers have different requirements than construction companies etc. Some buyers need only one item which they buy on the spot, whereas others need more than hundreds of items for what they request quotes from different suppliers

→ There is no “one fits all solution” which makes B2B much more complex than B2C

## Change-resistance

Onlineshops, marketplaces or platforms have to **address a significant pain point** to convince customers to join the platform. Furthermore, requirements for changing established processes have to be low, because **resistance to change** is typically high in traditional industries

→ For customer satisfaction in B2B, services need to offer a **clear benefit** with **low change requirements**

## Hen-and-egg problem

Steel and metal distribution is typically a **multi-local business** which makes **scaling much more challenging**, because the network effect has to kick-in in every local market. Scaling is therefore not comparable to “Amazon-type” businesses that could send pack & ship products everywhere. Instead, it is more comparable to mobility platforms with the need to provide local offerings

→ Hen-and-egg problem challenging to solve, because sufficient local offerings are needed

The diagram illustrates the digital transformation of Klöckner & Co and the XOM Materials industry platform. It shows the flow from digital transformation and industry platform to various applications and platforms, categorized by scale.

**Digital transformation of Klöckner & Co**

**Industry platform**

**XOM MATERIALS**

**kloeckner.i**

**Applications & platforms**

**Europe & USA**  
Onlineshops  
Marketplaces  
Contract Platform  
Part Manager  
EDI / OCI

**Kloeckner Assistant**

**Game changing AI application**  
Launched to completely automate order processing regardless how an RFQ or order is received → Every customer becomes a digital customer

**eProcurement/ RFQ solution**

**Closed platform**  
Many sellers – One buyer (N-1)  
  
Strong push for digitalization of procurement on buyer side

**eShop**

**Closed platform**  
One seller – Many buyers (1-N)  
  
Entry barrier to digitizing sales processes much lower

**Marketplace**

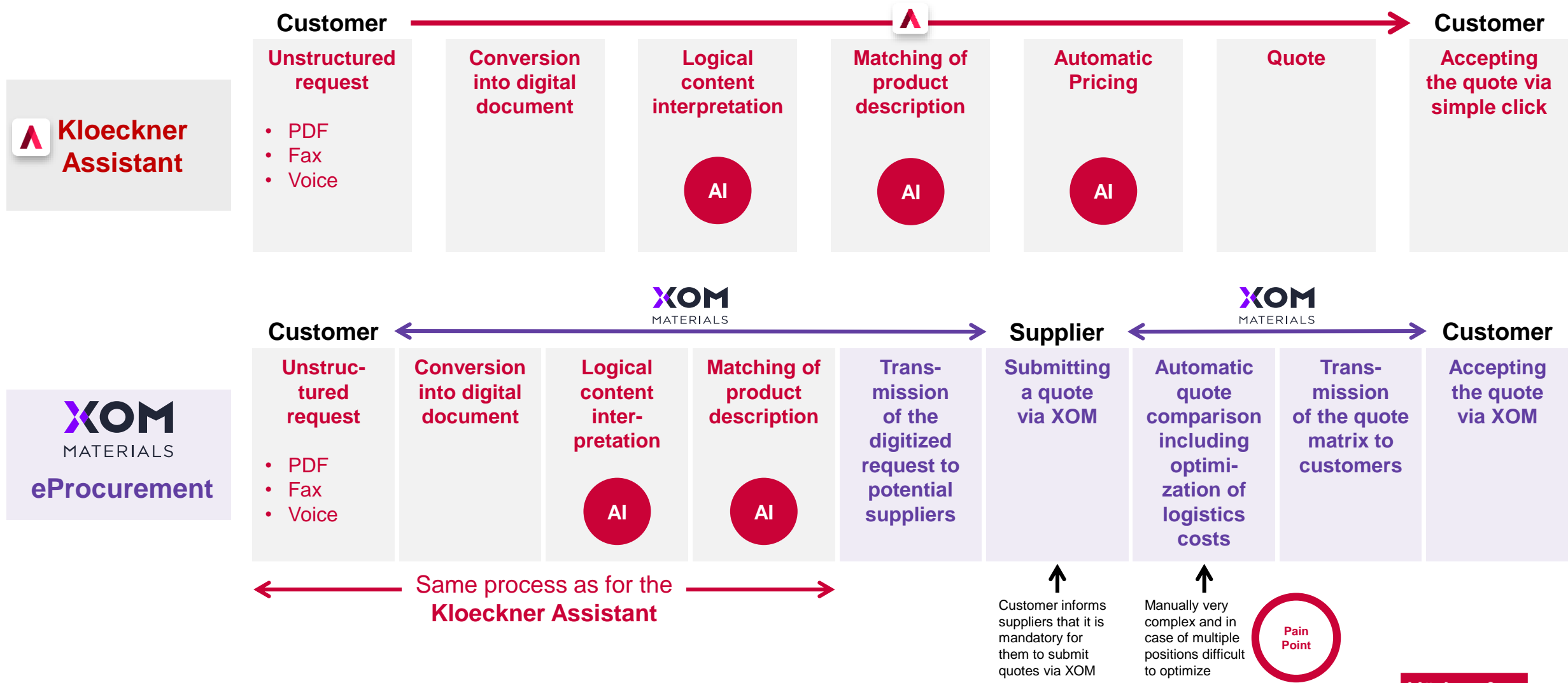
**Open platform**  
Many sellers – Many buyers (N-N)  
  
Integrated network of sellers and buyers

**Scale**

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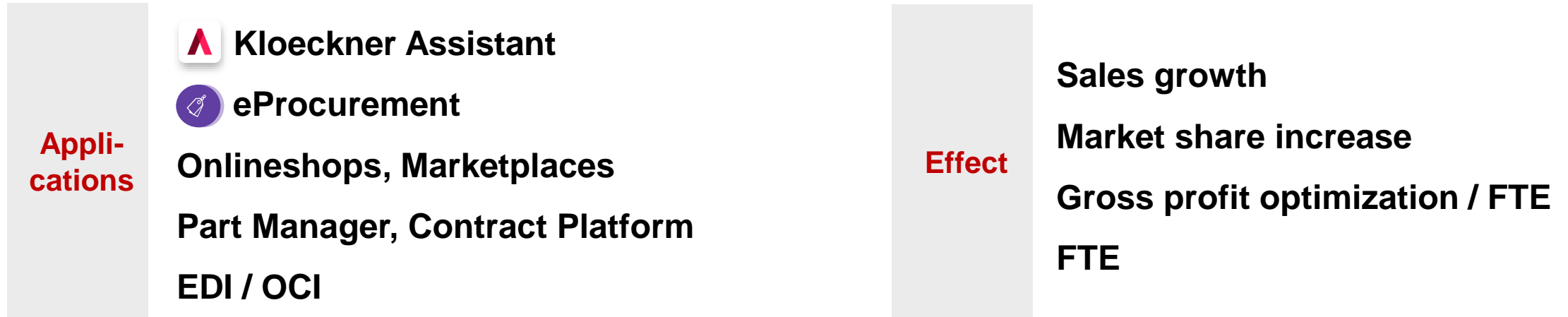
**klöckner & co**

# Kloeckner Assistant and XOM eProcurement as game changer

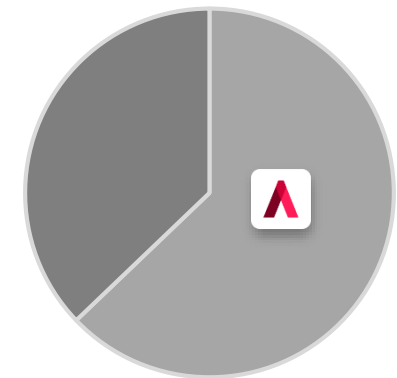
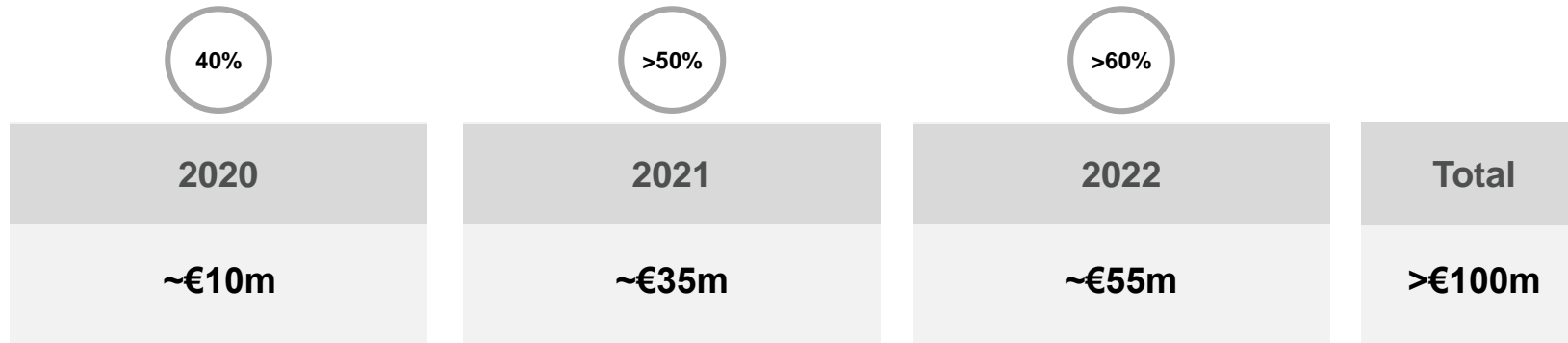




# Expected growth and efficiency gains through Kloeckner Assistant, XOM eProcurement and applications



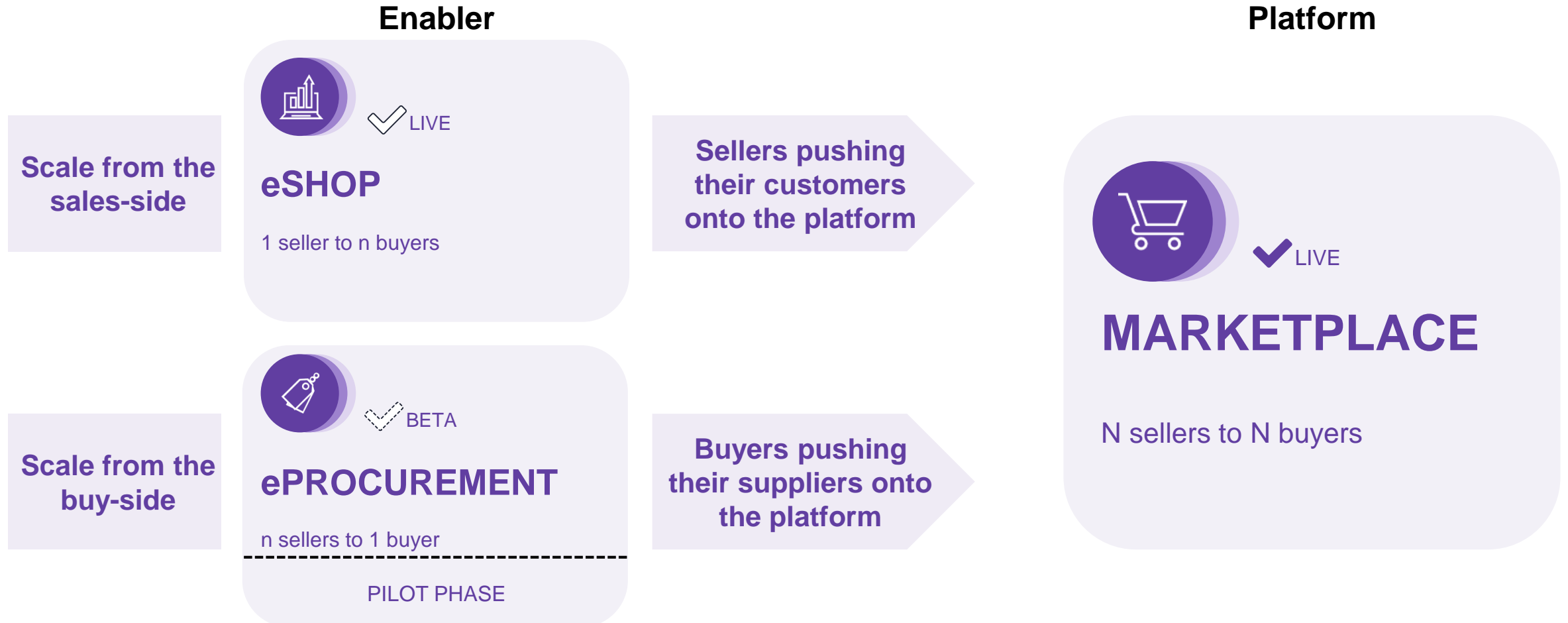
## Increasing share of digital sales



Additional efficiency gains due to increasing digitalization (EBITDA effects)

# Scale drives value creation through XOM Materials

Solving the **hen-and-egg problem** through specific offerings for the buy- and sales-side



# Driving the Digital Transformation of Klöckner & Co

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kloeckner.i | Kloeckner Assistant

# kloeckner.i

## WHO WE ARE

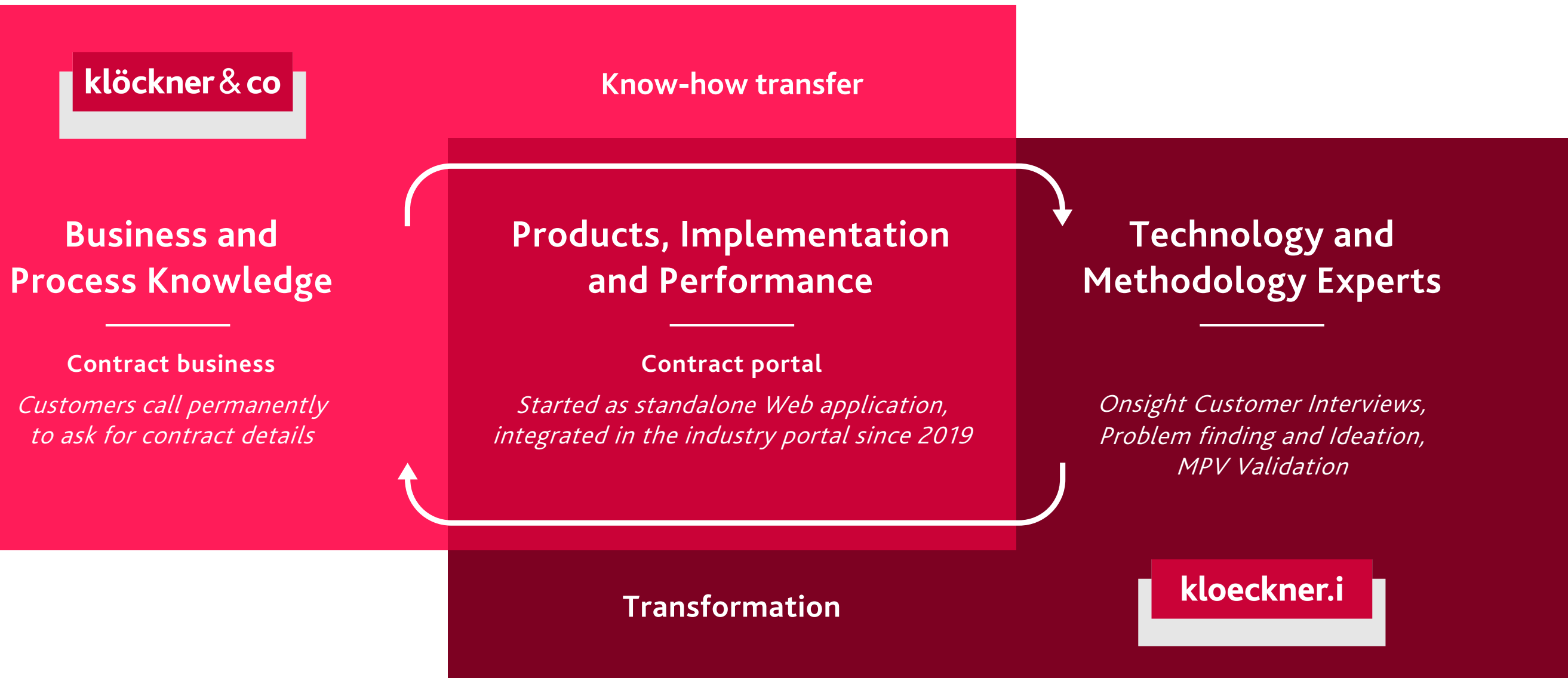
Internal innovation hub of Klöckner & Co  
separate unit  
provides digital products and services

2014 Founded  
50MM Investment volume

Product Management  
Software Development  
Data Science & AI  
Business Intelligence & Analytics  
Online Marketing  
User Experience & Design  
Customer Service

90 Employees  
1 Vision

# HOW WE DEVELOP UNIQUE INNOVATIONS FOR AND IN COOPERATION WITH KLÖCKNER & CO



# REVENUES AND CUSTOMERS SINCE 2015

3.1<sup>BN</sup>  
IN EURO

**DIGITAL  
REVENUE**

32%

**DIGITAL SALES  
SHARE**

23,102

**UNIQUE  
CUSTOMERS**  
Ordered digitally  
at least once

6,741

**ACQUIRED  
CUSTOMERS**  
via Onlineshops and  
Marketplace

## OUR DIGITAL APPLICATIONS

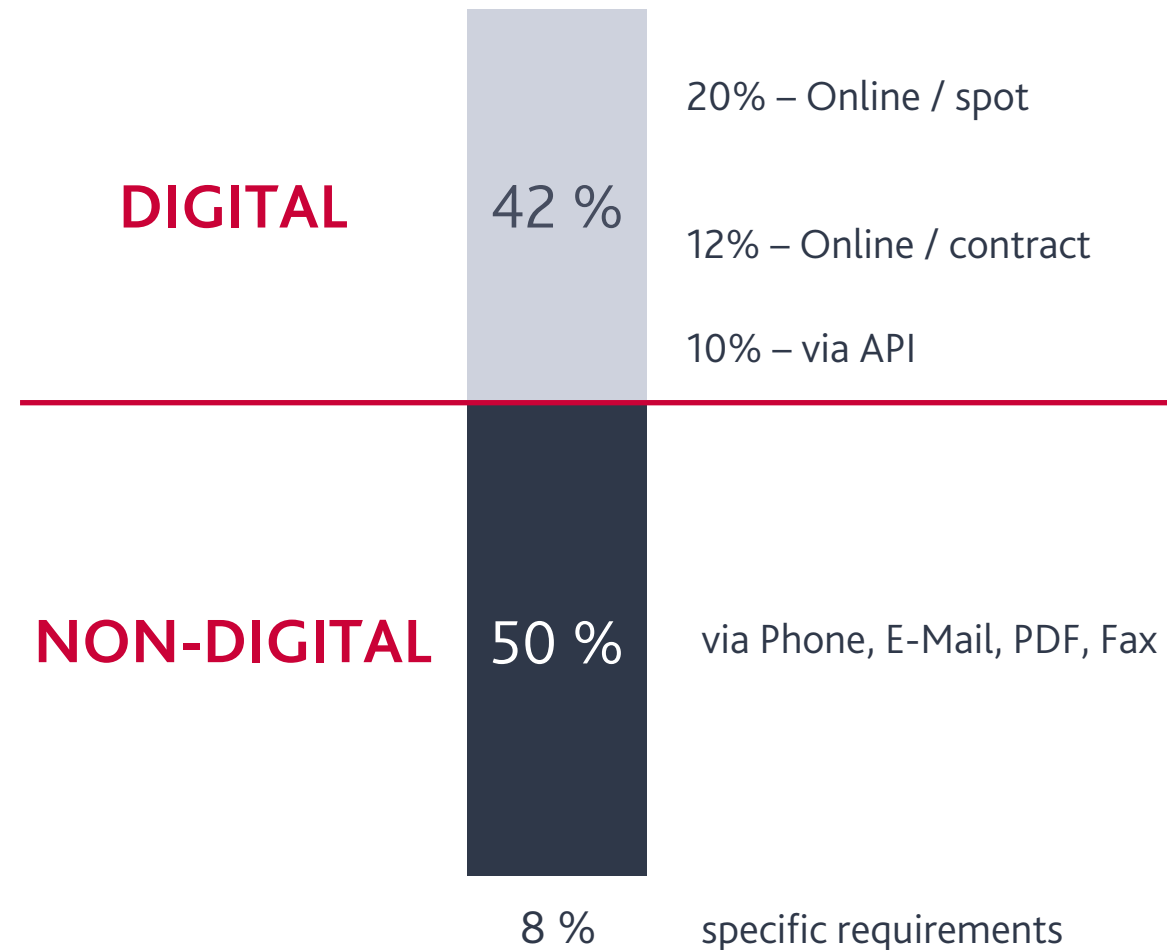
**Kloeckner Assistant  
Contract Platform**

**Online Shops  
Part Manager**

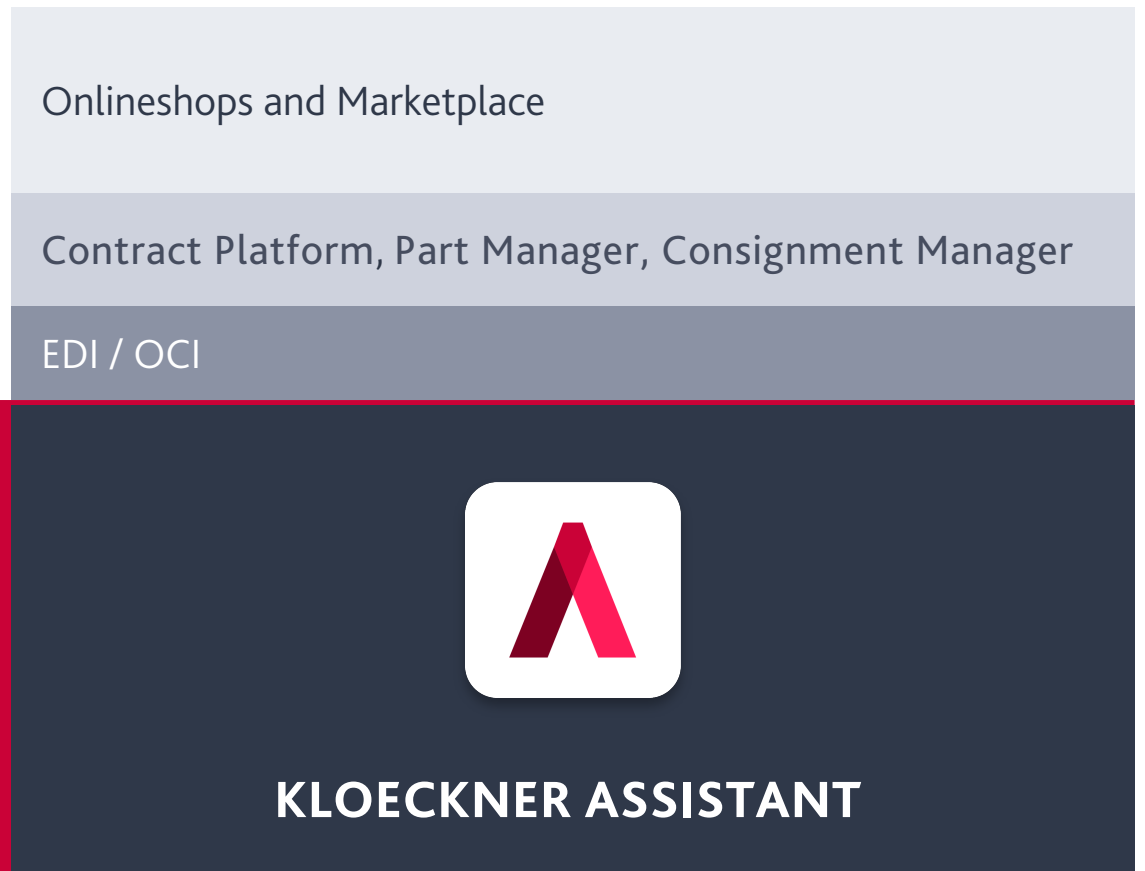
**Marketplace  
EDI / OCI**

# DO NOT CHANGE YOUR CUSTOMER CHANGE YOUR APPLICATION

## CURRENT CHANNEL PREFERENCE (OF ALL CUSTOMERS)

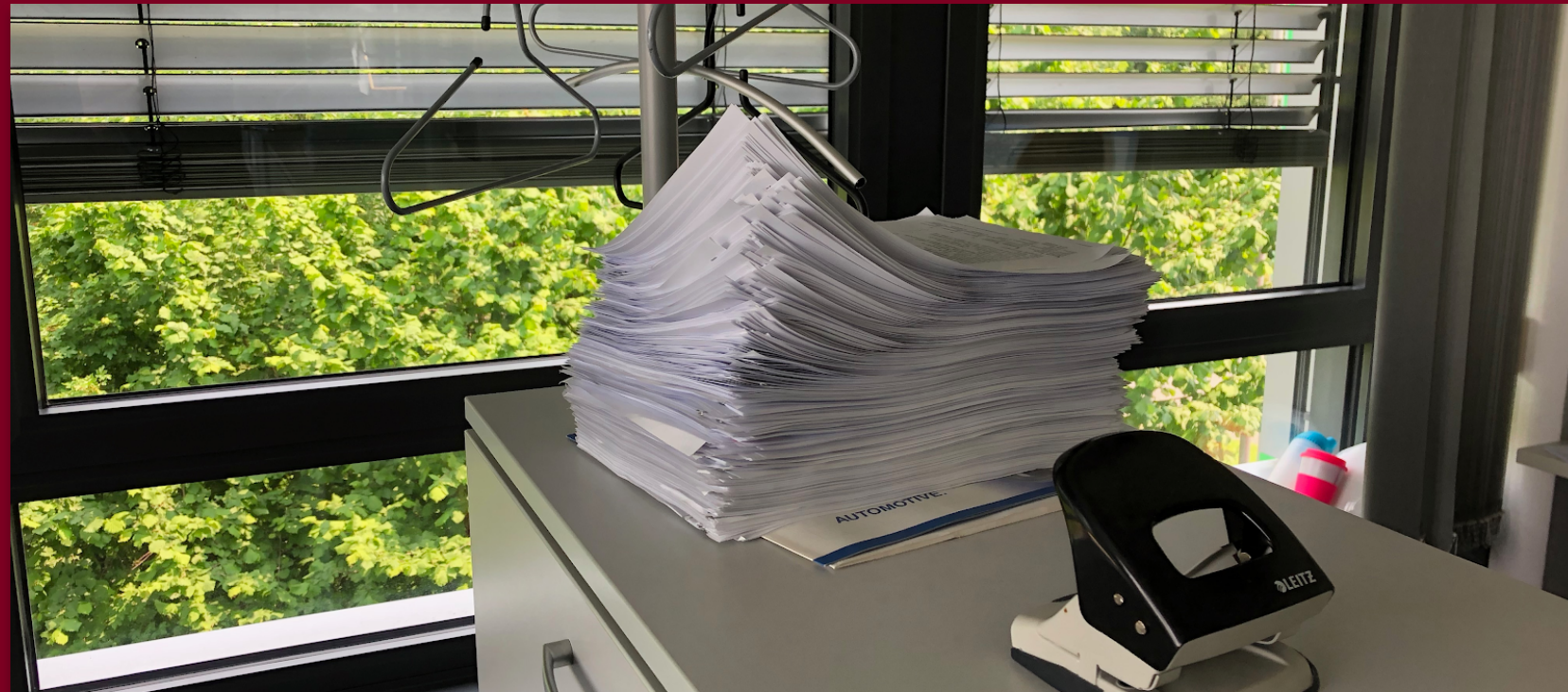


## PRODUCTS



# THE PROBLEM

## MANUAL QUOTE PROCESS

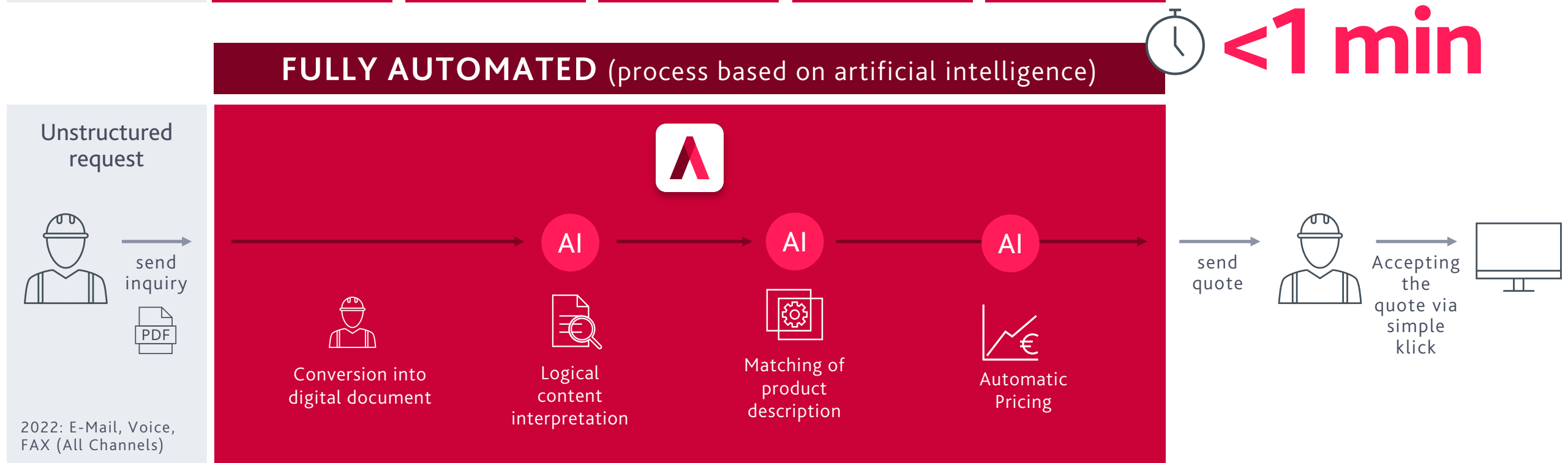
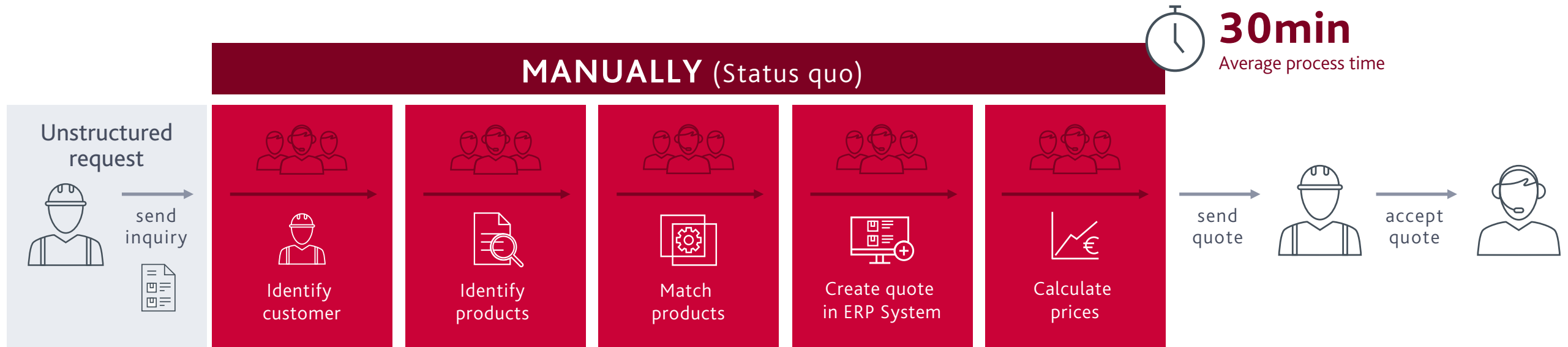


“I spend about 60% of my time entering customer quote information into the system.”

(Sales Representative)



# THE SOLUTION – DIGITIZED QUOTE PROCESS



# ASSISTANT ROLLOUT PLAN

2019 | Q4 in US<sup>✓</sup>  
for Contract Orders

7.4 MM  
in Euro

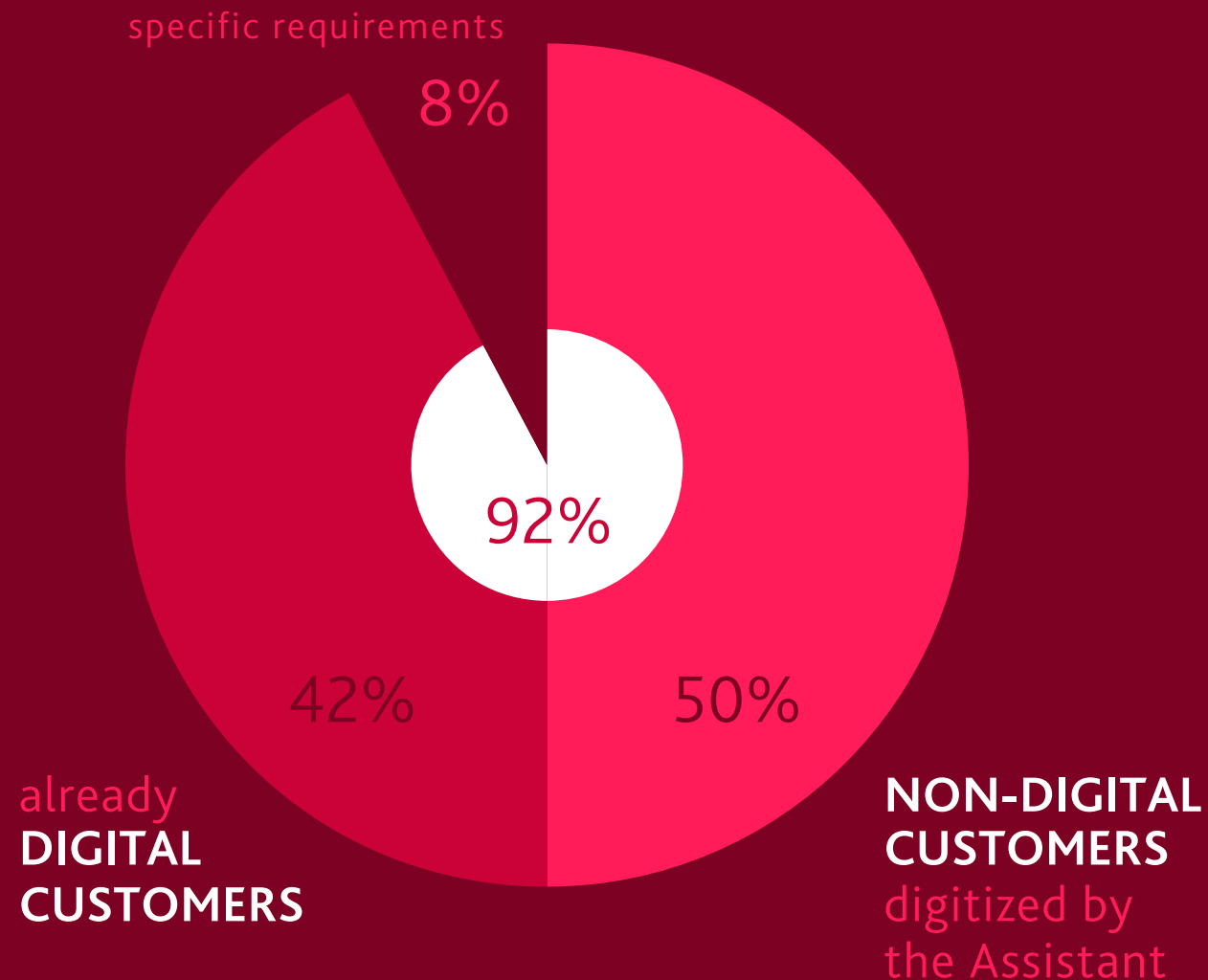
REVENUE 2019



**Planned in 2020**  
for Contract Orders

2020   Q1	Becker Stahl Klöckner & Co Deutschland Kloeckner metals ODS Netherlands Kloeckner metals UK
2020   Q2	Kloeckner metals Austria Kloeckner metals Belgium Kloeckner metals France
2020   Q3	DeBrunner König (Switzerland)

**WE CHANGE THE GAME  
AND WILL ACHIEVE OUR GOAL**



**ACHIEVE  
THE GOAL**

**60%**  
**REVENUE 2022**



# YOUR SMART SOLUTION FOR MATERIALS

The leading digital materials transaction ecosystem

BUY. SELL. SIMPLE.

January 2020

# XOM Materials is changing how people make transactions in the materials industry



“YOUR SMART SOLUTION FOR MATERIALS”



XOM MATERIALS

was founded in

**2017** in **Berlin**,

Germany



Current offices

in **Berlin**,

**Duisburg**,

**and Atlanta**



XOM

currently employs

around

**50 people**



Strategic

development is

directed towards the

**materials industry**



Services are specifically

designed for **materials**

**producers,**

**distributors & buyers**



Current product

portfolio consists of

**Marketplace, eShop**

**& eProcurement**

# Webshop and eprocurement as a leverage to scale the marketplace



✓ LIVE

## eSHOP

**MATERIALS-SPECIFIC  
SOFTWARE**

1 seller to n buyers



✓ BETA

## ePROCUREMENT

**MATERIALS-SPECIFIC  
SOFTWARE**

n sellers to 1 buyer

- **Niche proprietary** platform solutions
- **Lock-in effect** for buyers and sellers to platform
- **Established integrations** of buyers and sellers can be leveraged for other closed (or open) platform solutions
- **Strong buyers will force their sellers** to platform and vice versa
- Have an easier adoption as **clients have more control over the customer base**
- **Building a base for** a more extended **marketplace** in the future



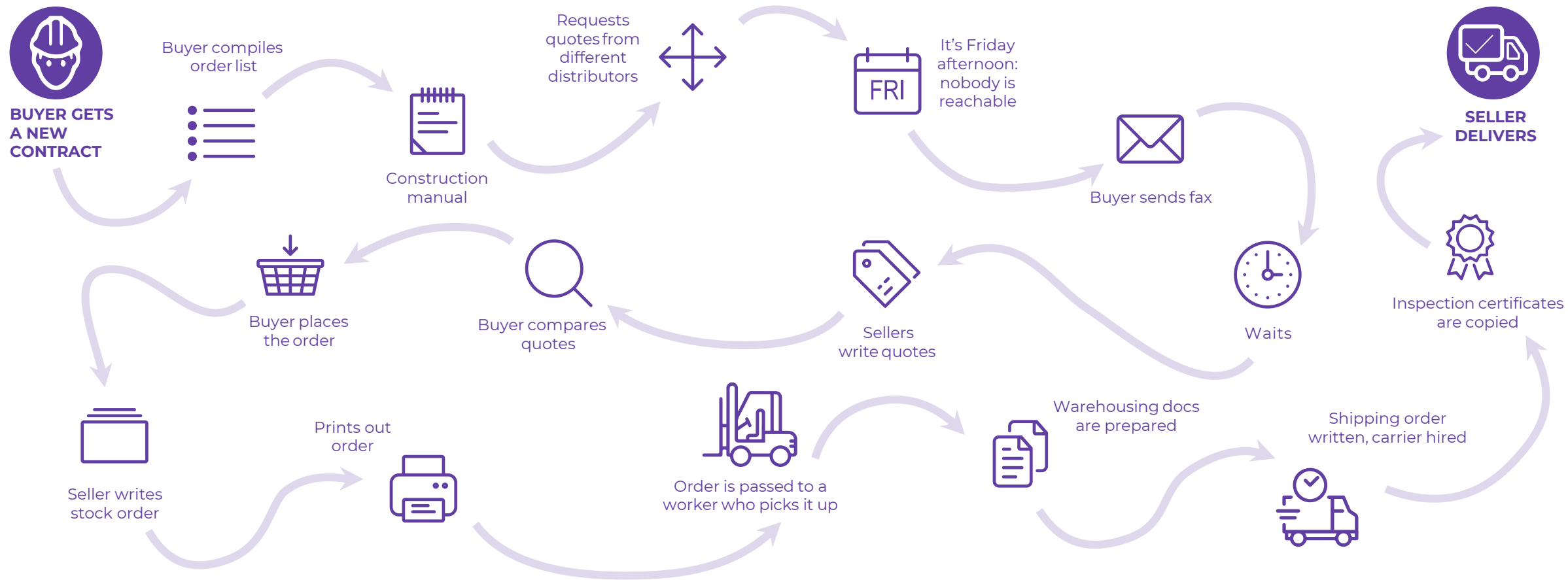
✓ LIVE

## MARKETPLACE

**PLATFORM**

N sellers to N buyers

# Current materials supply chain is inefficient, opaque and wasteful



**COMPLEX**  
analog work

**ERRORS**  
are frequent

**COSTS**  
are high

**RESOURCES**  
are wasted

# XOM eProcurement solution solves key pain points of buyers

## PAIN POINTS OF CURRENT PROCESS ...



Multiple sources of data input



Manually prepared RFQs



Inconsistent formats of offers

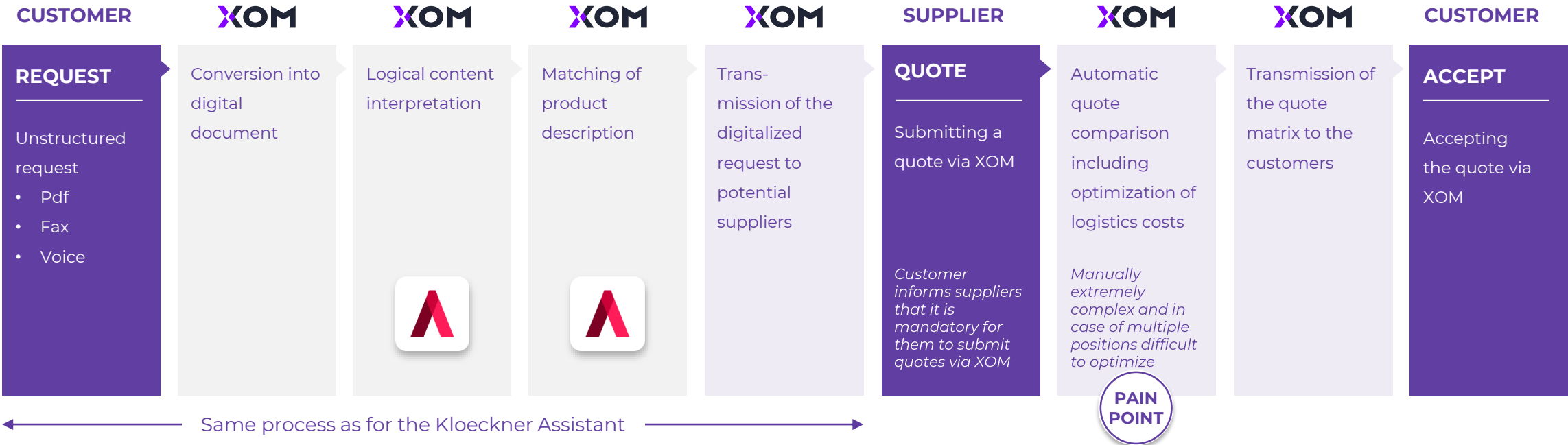


Complicated negotiating



Manually prepared agreement

## ... ARE GREATLY OFFSET BY BENEFITS OF XOM EPROCUREMENT:





# XOM eShops make purchases more efficient and less dependent on busy sales representatives

## PAIN POINTS OF CURRENT PROCESS ...



Multiple sources of data input



Manually prepared RFQs



Inconsistent formats of offers



Complicated negotiating

## ... ARE GREATLY OFFSET BY BENEFITS OF XOM ESHOP:

Real-time availabilities and (individual) prices



Direct interface between eShop to buyer ERP



No need to contact sales representatives



Immediate and automated response



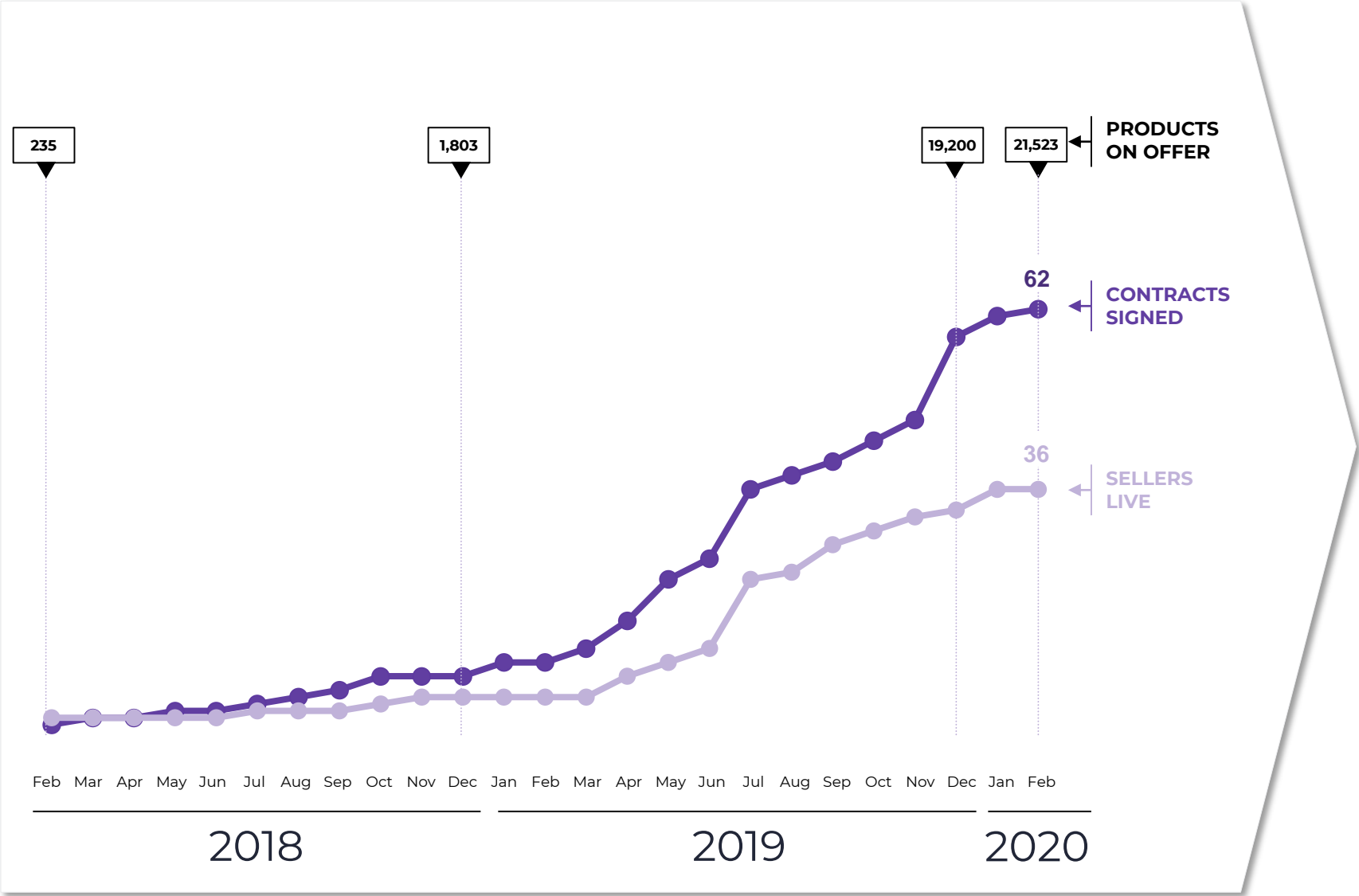
Significant savings potential by reducing sales reps



Single source for all order-related information for buyer and seller



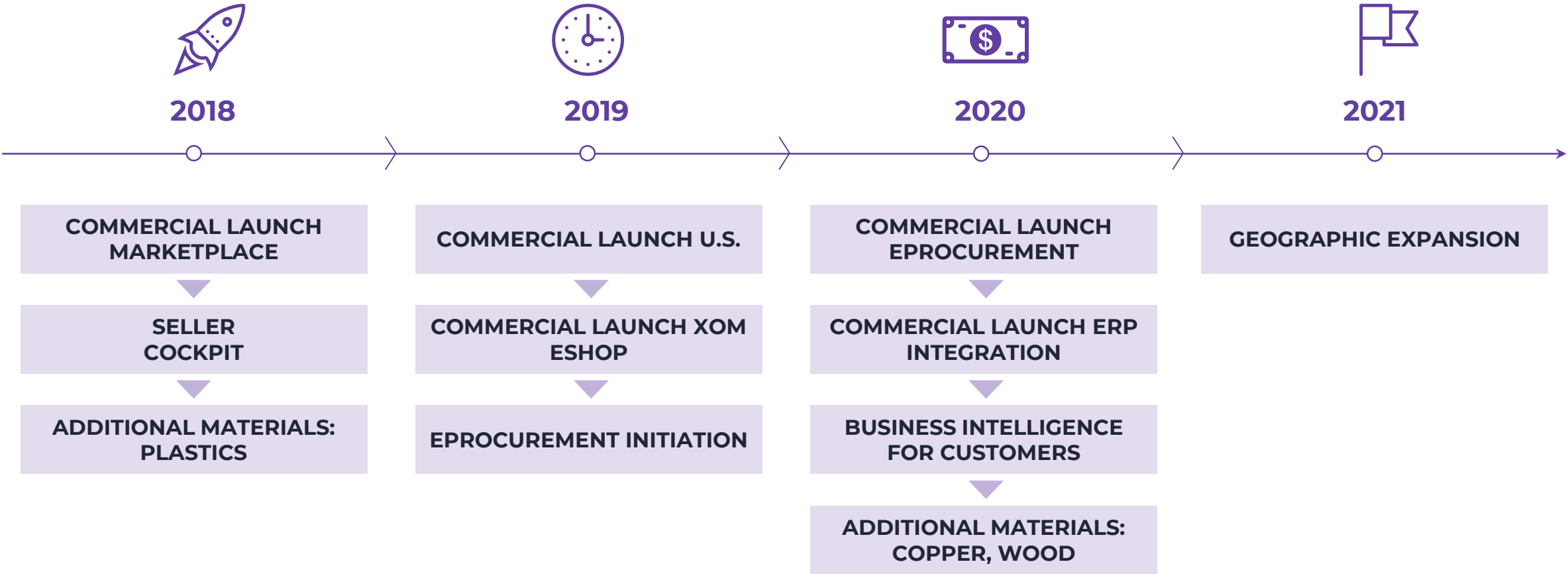
# XOM with increasing velocity since launch



## TOTAL ANNUAL GMV (YoY, EUR million)



# In 2020, XOM will focus on boosting traction of its proprietary solutions



# The benefits extend to ecosystem values of all related parties

## SUPPLIER

- **Lower stockholding** and **increased revenue** generation due to improved demand matching and production efficiency
- **Lower transaction and sales costs** generates positive impact on COGS<sup>1</sup>

- **Lower cost of acquisition** for new customers due to marketplace service discovery
- **Constant revenue stream** due to high frequency of transactions

## 3<sup>rd</sup> PARTY

## DISTRIBUTOR

- **Lower transaction and sales costs** generate positive impact on COGS<sup>1</sup>
- Increased **market reach**
- **No development costs** for proprietary online platforms required

- **Efficiency gains** in purchasing due to higher automation in data handling & one-stop shop solution
- **Easy price comparison & better pricing** due to higher transparency

## BUYER



<sup>1</sup> Cost of Goods Sold  
<sup>2</sup> Net Working Capital

# Summary

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Steel sector still **lags efficiency** with regards to **supply chains, transparency and delivery times** leading to **overcapacities** and **price volatility**

Klöckner & Co **creates value** by offering all demanded digital services and platform solutions to meet the customer needs through leveraging our incumbent know-how and combining it with the opportunities of digital innovations

With the **Kloeckner Assistant** the sales process becomes **fully automated** without the customer having to change a thing and serving him within seconds

**XOM Materials** will act as value driver for the entire industry and as such **creating value** for the customers and **Klöckner & Co's shareholders**

With our **digital capabilities** we are able to make the commodity business attractive again due to **huge efficiency gains** on the sales and procurement side

## Contact details

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## Financial calendar

March 10, 2020 Annual financial statements 2019

May 4, 2020 Q1 quarterly statement 2020

May 20, 2020 Annual General Meeting 2020

August 14, 2020 Half-yearly financial report 2020

November 3, 2020 Q3 quarterly statement 2020