

14th International Galvanising & Coil Coating Conference

**Metal Bulletin
Events**

Consolidation in the steel and galvanising industries

Prague, Czech Republic
September 2009



Mike Walsh, Director, London

Hatch Beddows

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- **Hatch and Hatch Beddows**
- Consolidation in the steel industry
- Consolidation in the galvanised steel industry
- Final Thoughts

CONSOLIDATION IN THE STEEL AND GALVANISING INDUSTRIES

Hatch supplies business, process and technology consulting, design and engineering and construction, operations and project management to the mining and metals, energy and infrastructure industries worldwide

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- Established 1955 and employee owned
- 9,000 highly skilled people serving clients worldwide
- US\$20BN of projects now under management in 80 countries

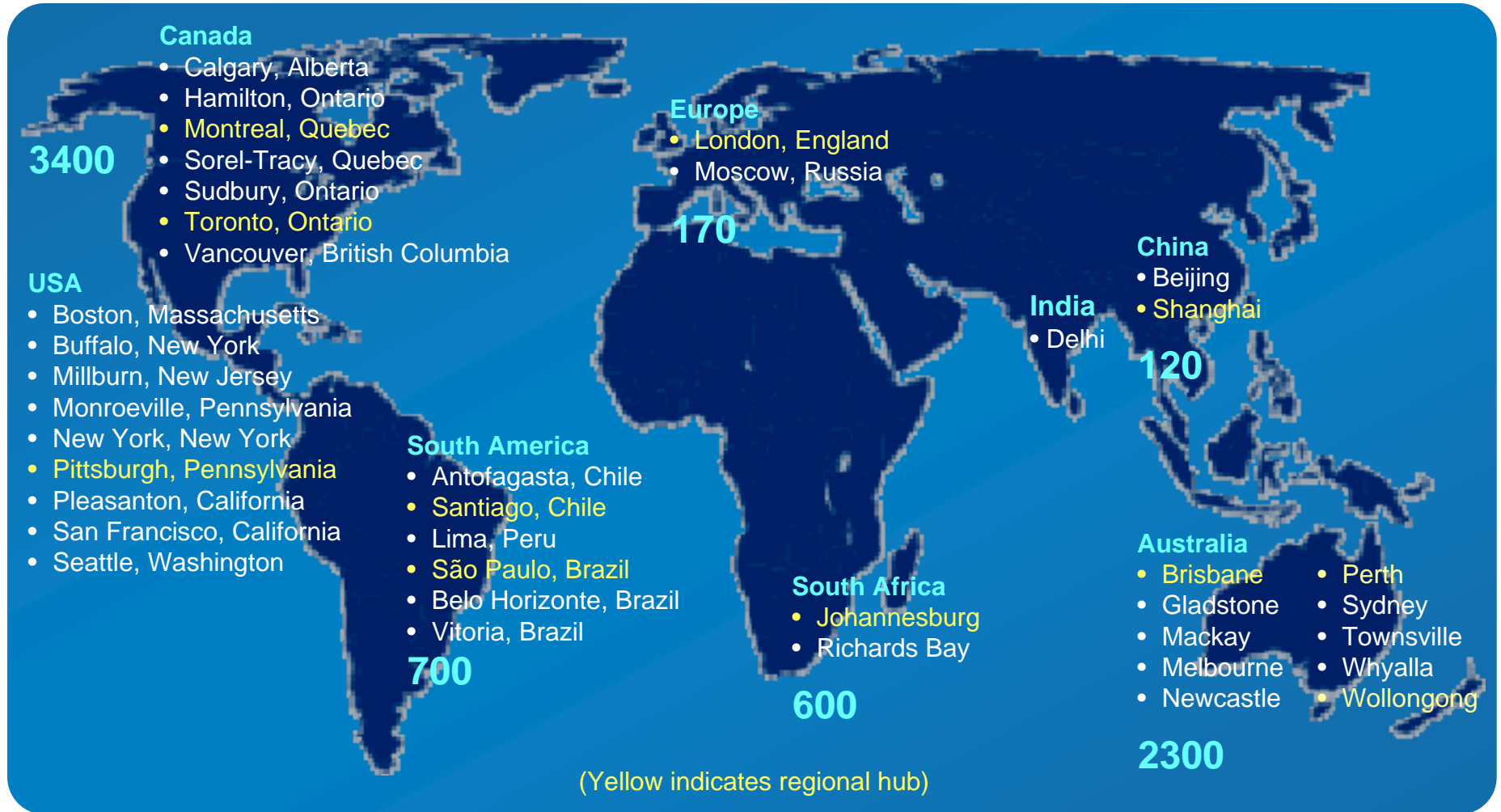
Our Values

- Safety
- Quality
- Innovation
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- Effective risk management

We deliver unprecedented and sustained results for our clients

CONSOLIDATION IN THE STEEL AND GALVANISING INDUSTRIES

Global reach and resources

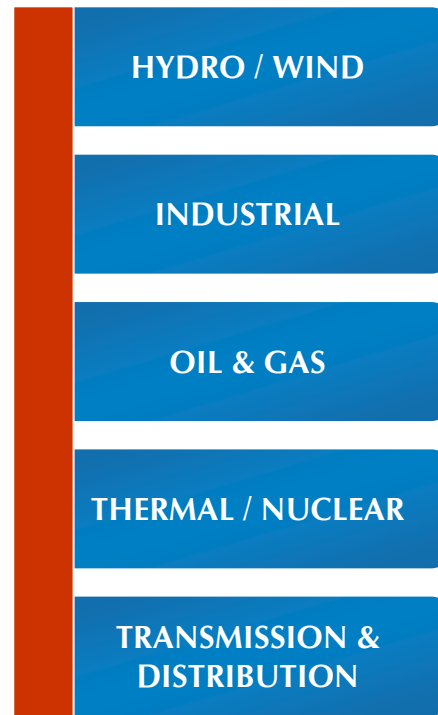


Hatch business units

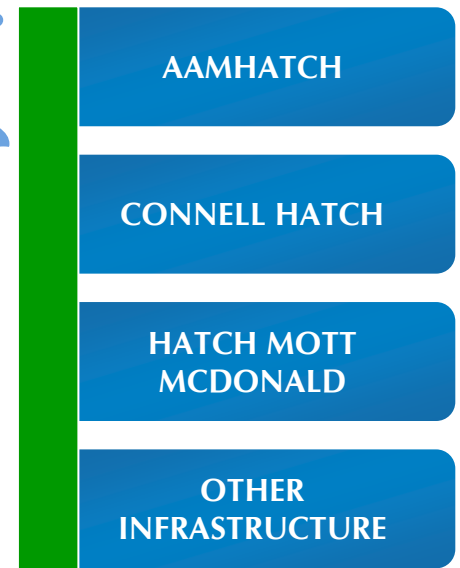
metals



energy



infrastructure



Hatch Consulting is the leading consultancy dedicated to the metals and mining industries

- **Hatch Consulting** is the world's leading consultancy specializing in the steel, metals and mining industries and provides high level support services, ranging from corporate and business strategy development through strategic market studies to implementation of new technologies, management and operating practices
- Hatch Consulting is organized into specialized practices by industry and service, combining to provide precise solutions, expertly delivered to the exact needs of each individual client
 - **Hatch Beddows** is the strategy and market development practice, specializing in steel and related industries, and providing strategy development and implementation services
 - **Investment and Business Planning** (IBP) provides economic, environmental and technical evaluations of minerals properties and processing facilities, due diligence, pre-feasibility and feasibility studies and related investment planning and appraisal services
 - **Performance and Risk Management** provides high performance management, asset performance enhancement and optimisation, process and facilities benchmarking, and risk management services
- **Hatch Corporate Finance** (HCF), a FSA-regulated joint venture company, provides corporate financial advisory and transaction execution services

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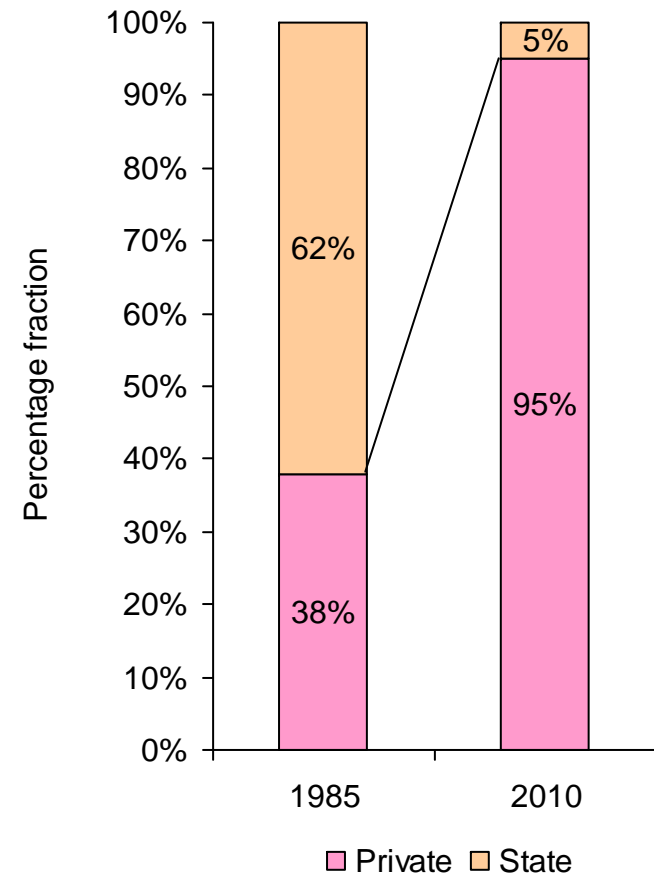
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CONSOLIDATION IN THE STEEL AND GALVANISING INDUSTRIES – THE STEEL INDUSTRY

The biggest strategic shift in the global steel industry over the last 50 years is not consolidation but the driver behind it - the major decline in state ownership of steel assets, at least outside China

- Outside of China state ownership has declined from about 50% of capacity to less than 10% over 20 years
- Whilst states were the dominant provider of capital, steel companies were forced to be largely national in character – the world is now their oyster for markets and M & A
- The creation of trans regional companies such as ArcelorMittal and TataSteel/Corus is a sea change event and forms an overarching connection regions that has created the first trans regional, if not truly global, steel companies
- However, there is always China!!
 - Politics over economics!!

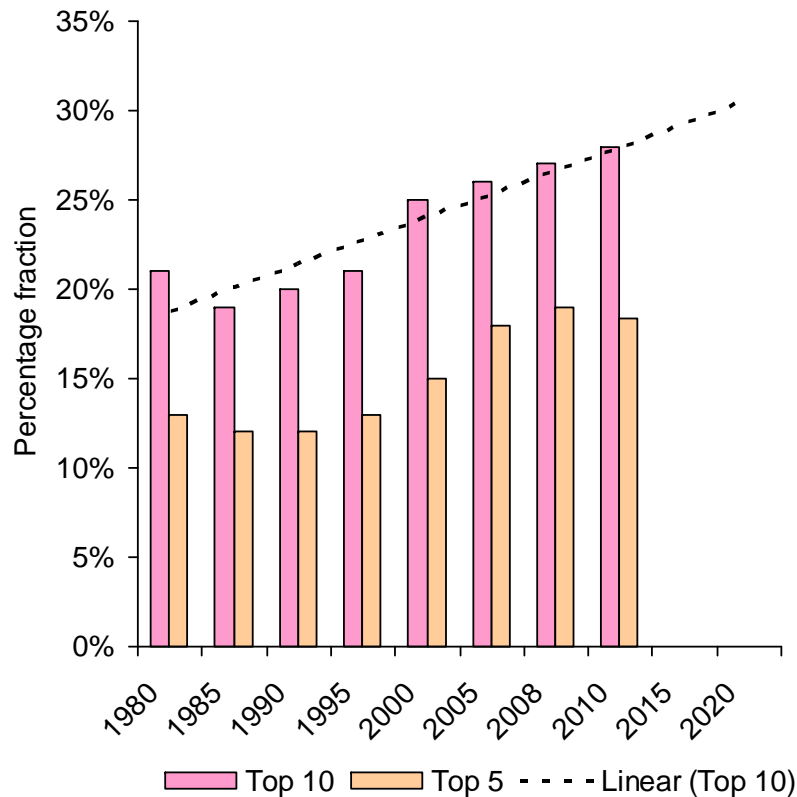
EU 25 steel industry ownership



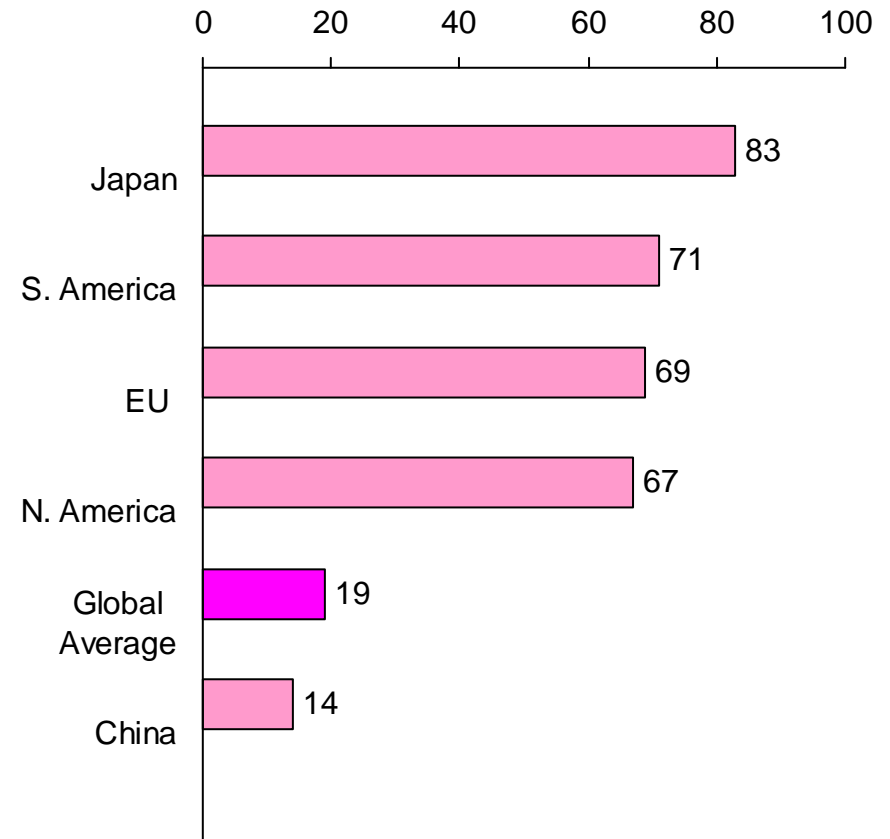
CONSOLIDATION IN THE STEEL AND GALVANISING INDUSTRIES – THE STEEL INDUSTRY

Consequently consolidation for crude steel production has risen, and at least in most mature regions is almost complete – only one or two major plays are legally possible

Growth of steel consolidation



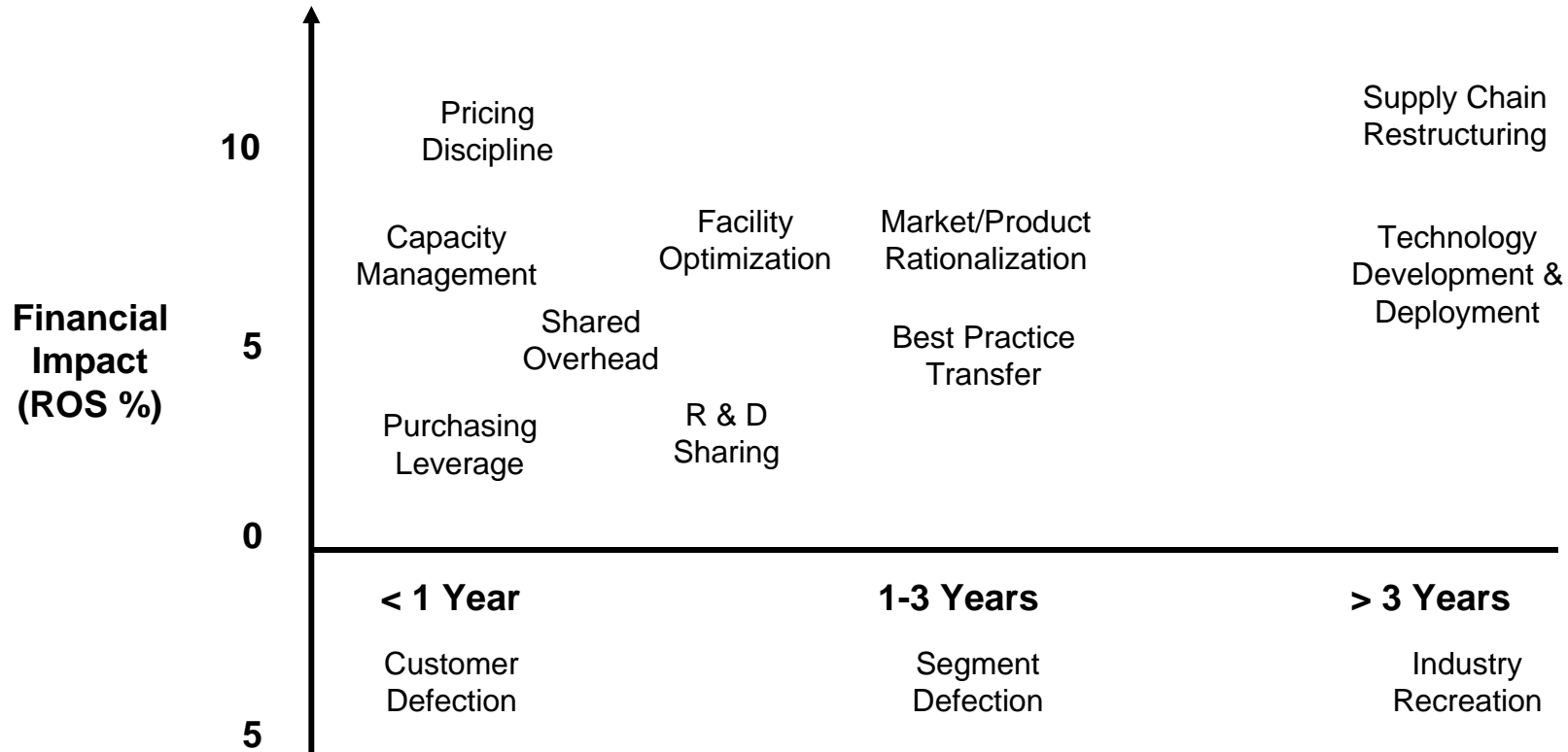
Top 5 steel producers share of regional production 2008



CONSOLIDATION IN THE STEEL AND GALVANISING INDUSTRIES – THE STEEL INDUSTRY

There are many theoretical benefits (and drawbacks) associated with consolidation which all require effective integration of management and culture – almost always the most difficult aspect of any merger or takeover

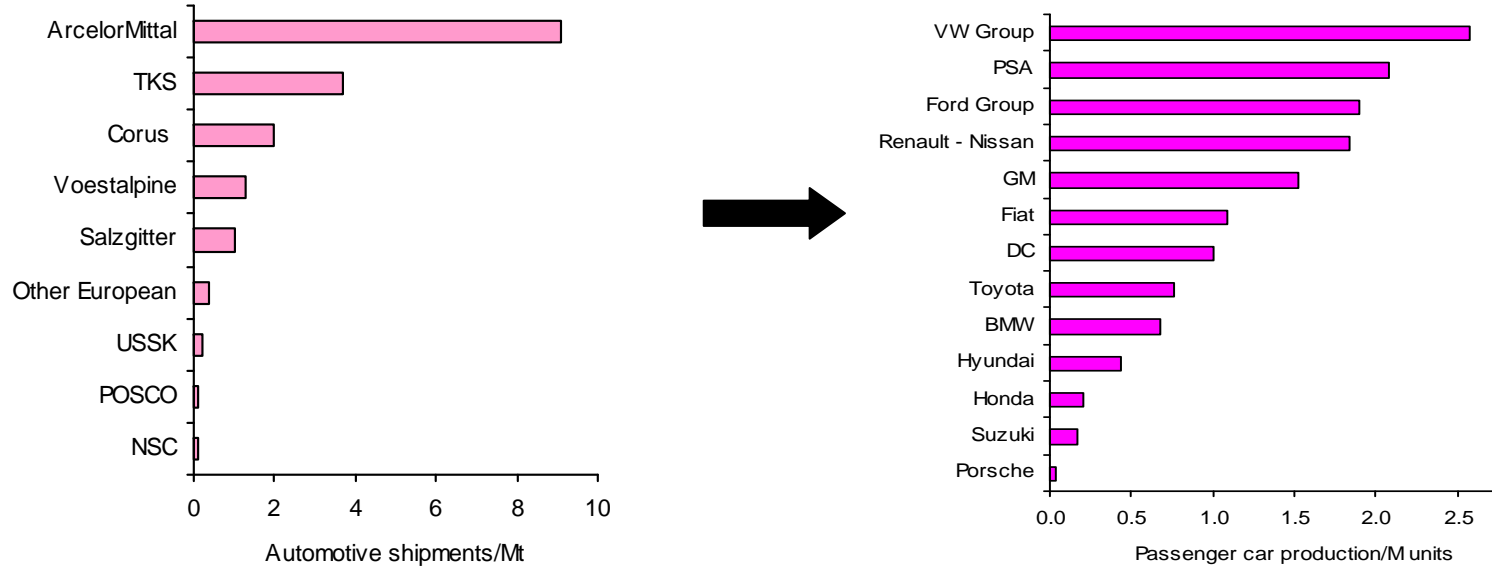
Theoretical benefits of steel industry consolidation



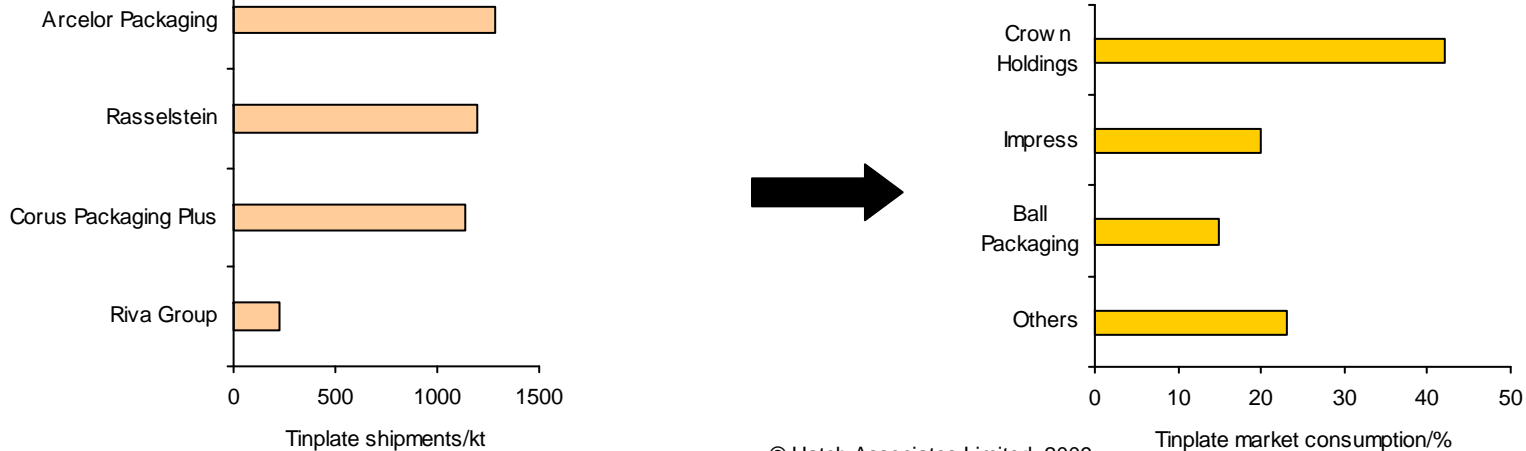
CONSOLIDATION IN THE STEEL AND GALVANISING INDUSTRIES – THE STEEL INDUSTRY

Big accounts demand superb service and support regardless of location - the steel industry in mature regional markets has responded by consolidating to the same, if not greater extent as their OEM customers

European automotive steel industry structure – supply and demand



European tinplate industry structure – supply and demand



Source: Companies and Hatch Beddows

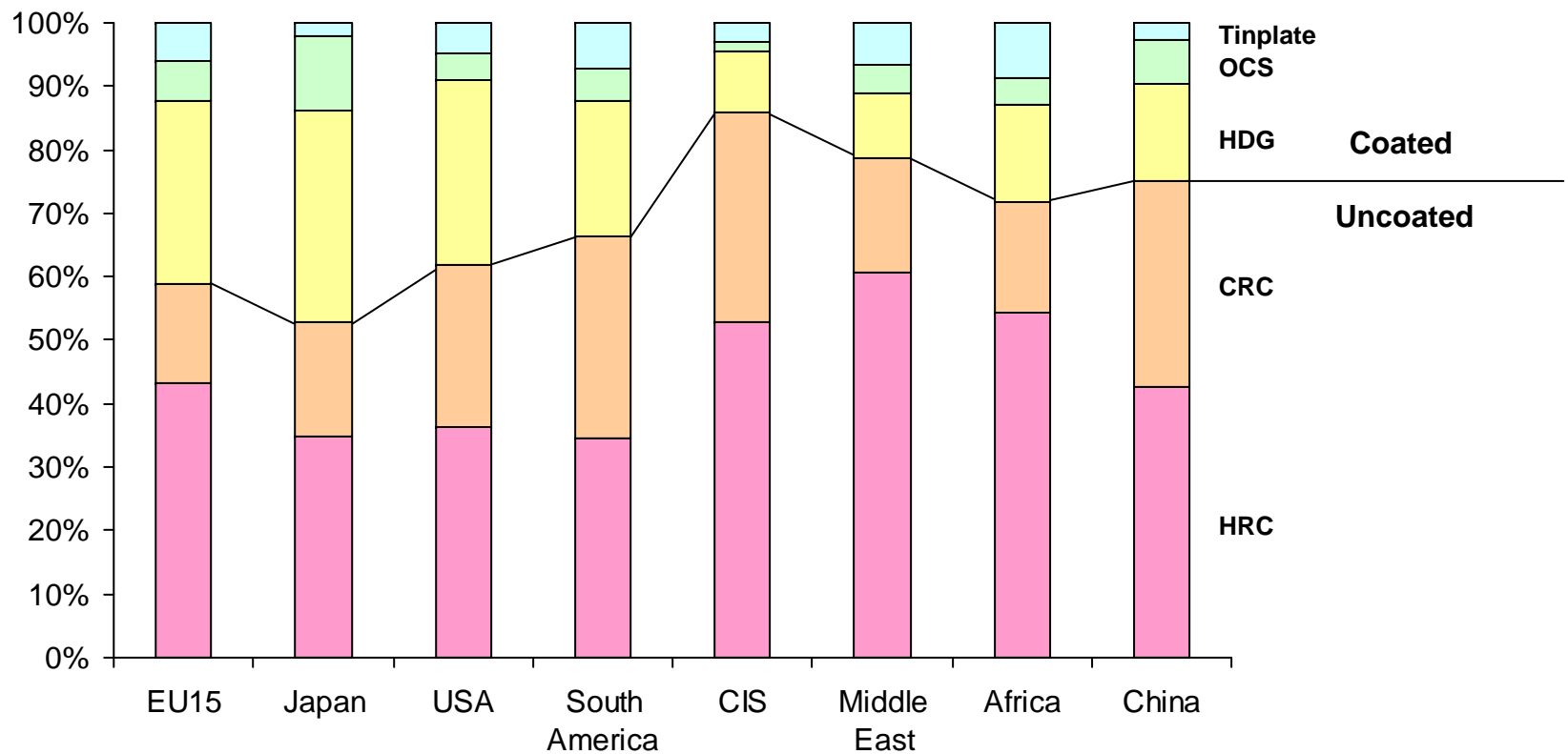
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Not surprisingly for a mature and sophisticated flat steel market, the EU is highly coated intensive

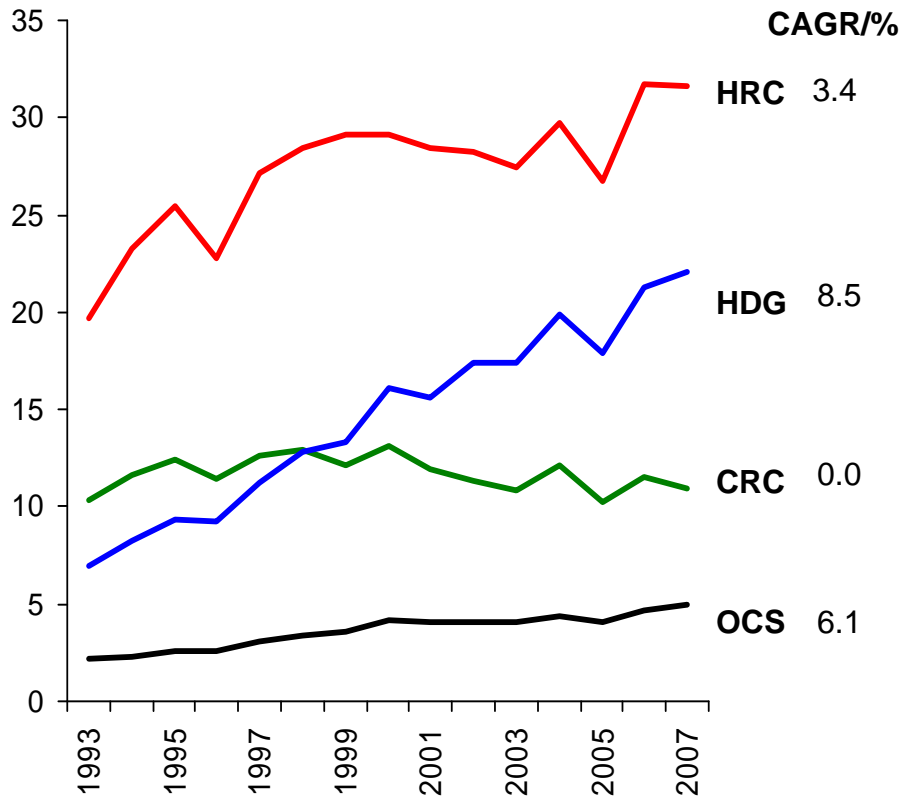
Global consumption of flat products by region



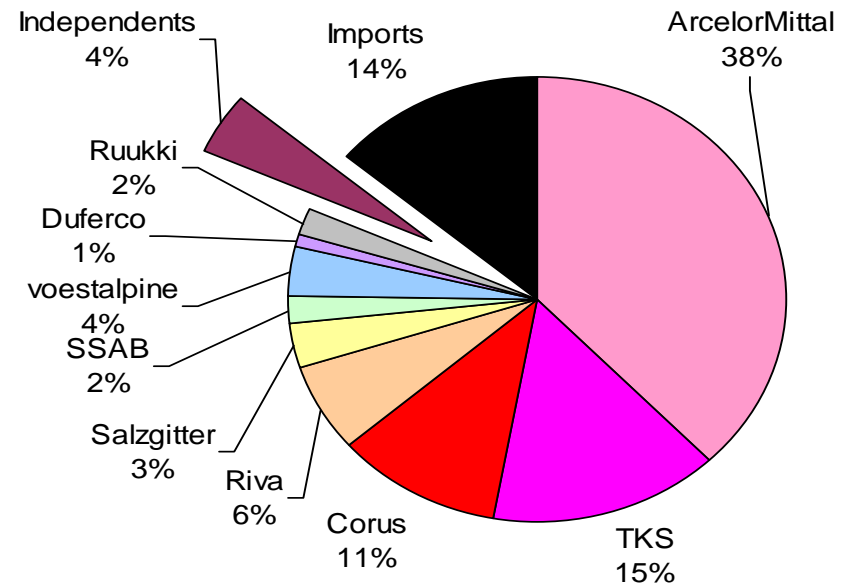
CONSOLIDATION IN THE STEEL AND GALVANISING INDUSTRIES – THE GALVANISED STEEL INDUSTRY

In fact the European coated steel industry is the *defacto* steel industry – it is a) highly integrated with the integrations and b) is a preferred route to market regardless of HDG prices and margins!!

Selected European steel markets (Mt) and their import penetration (%)

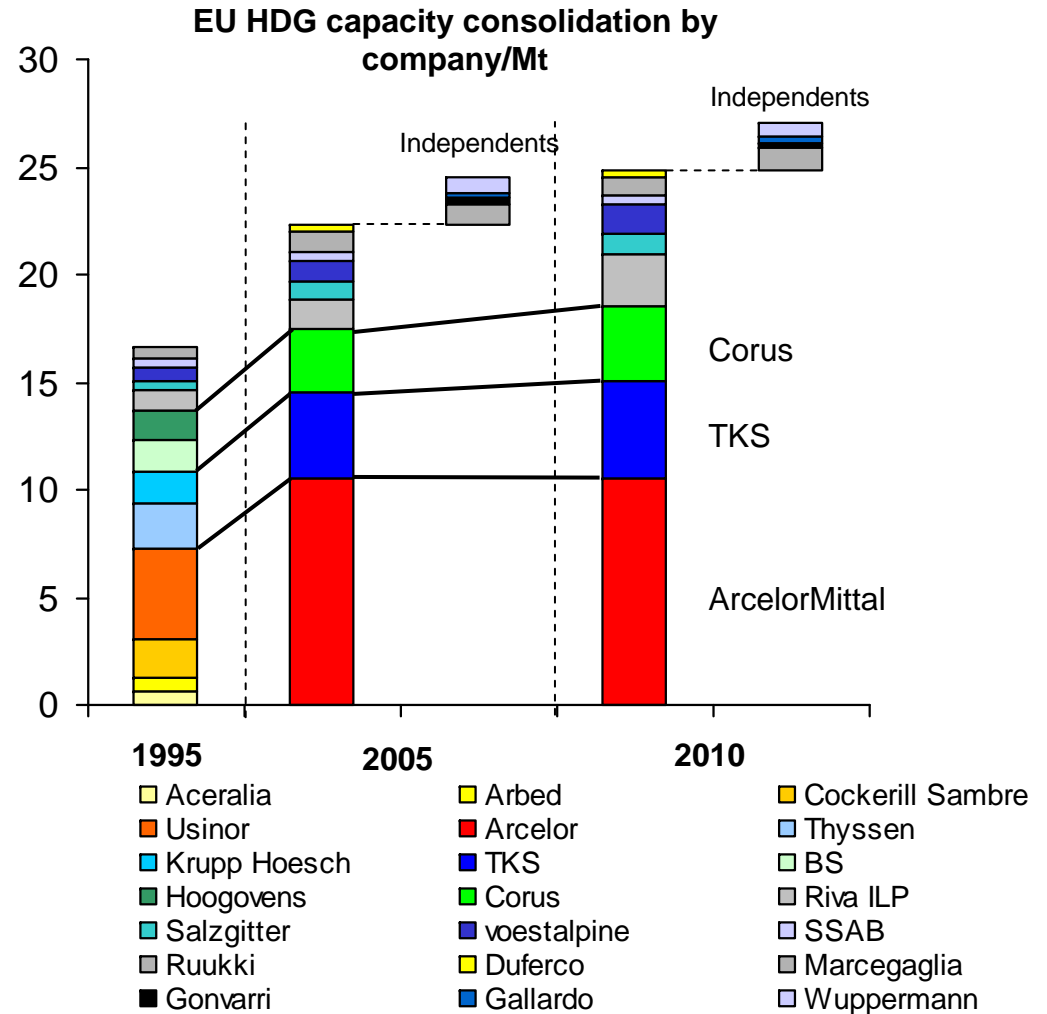
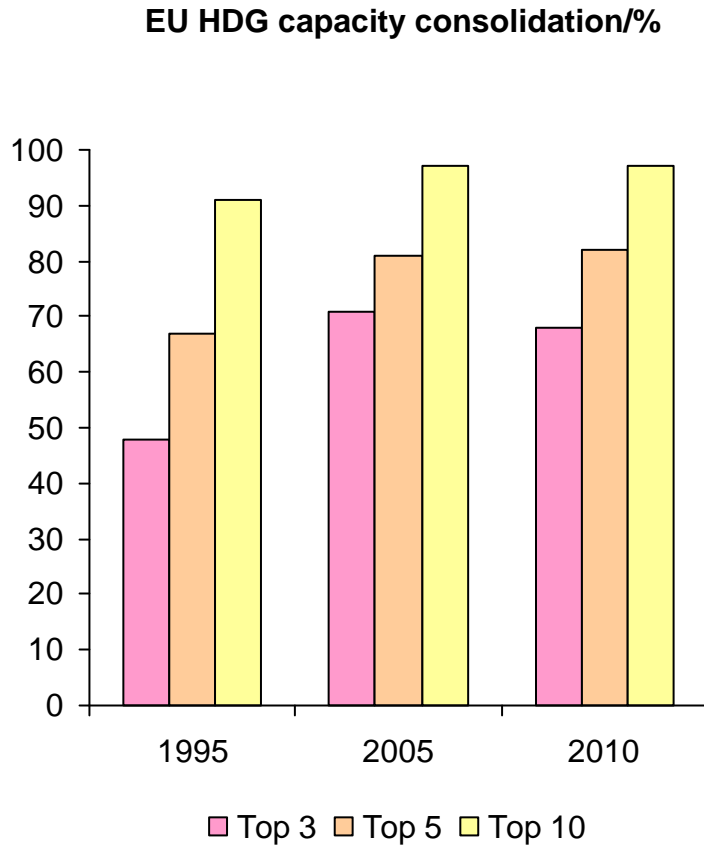


West European HDG market segmentation



CONSOLIDATION IN THE STEEL AND GALVANISING INDUSTRIES – THE GALVANISED STEEL INDUSTRY

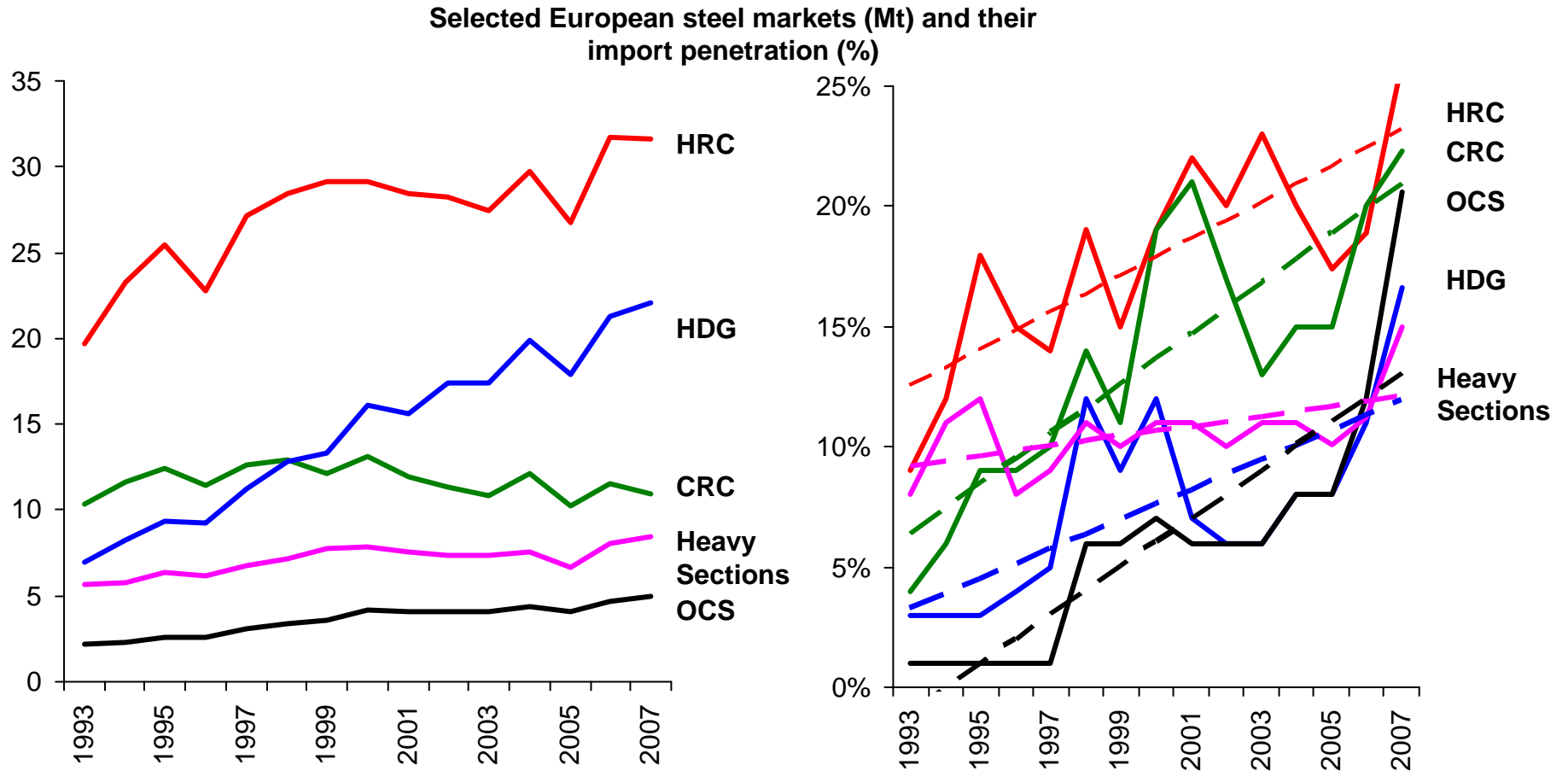
So it is not surprising that consolidation in HDG has followed steel industry consolidation in general but with some interesting exceptions



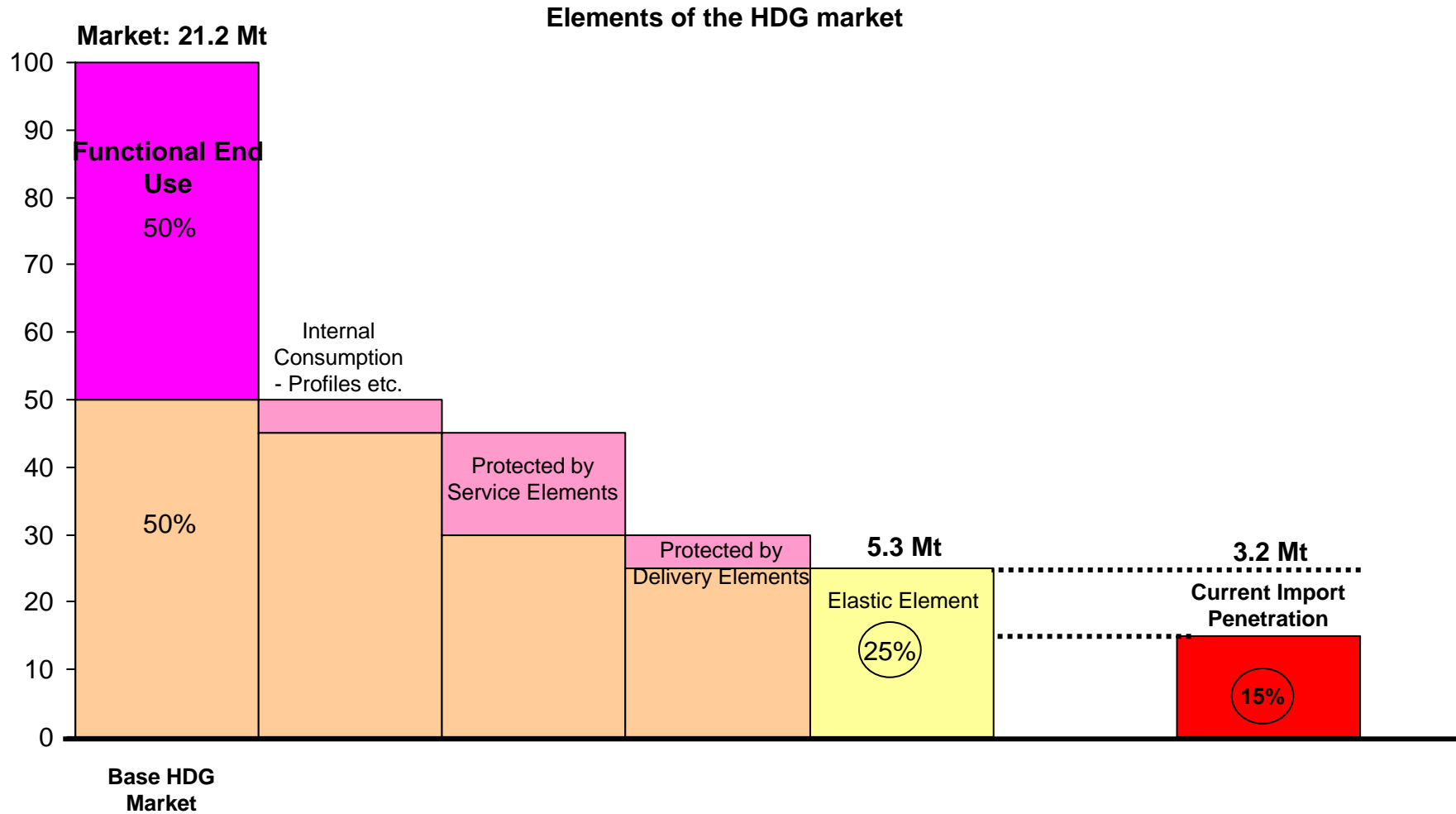
Source: James King, VDEh and Hatch Beddows

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The entire European flat products market is under threat from imports – how can consolidation help?

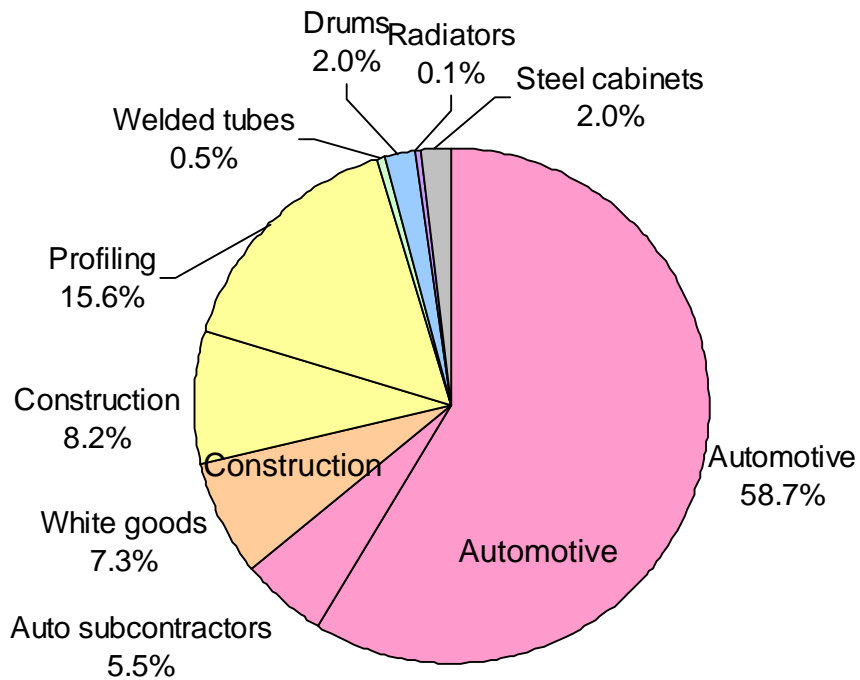


The European HDG market can be protected and vertical and horizontal consolidation can help in every way

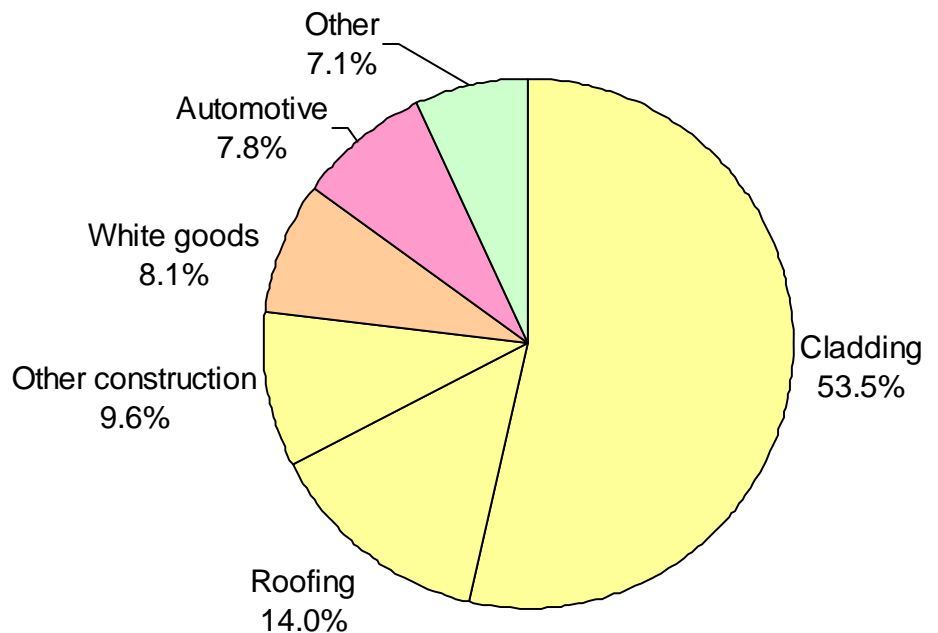


The key lies in the supply chains for automotive and construction

Sector consumption of EU15 HDG



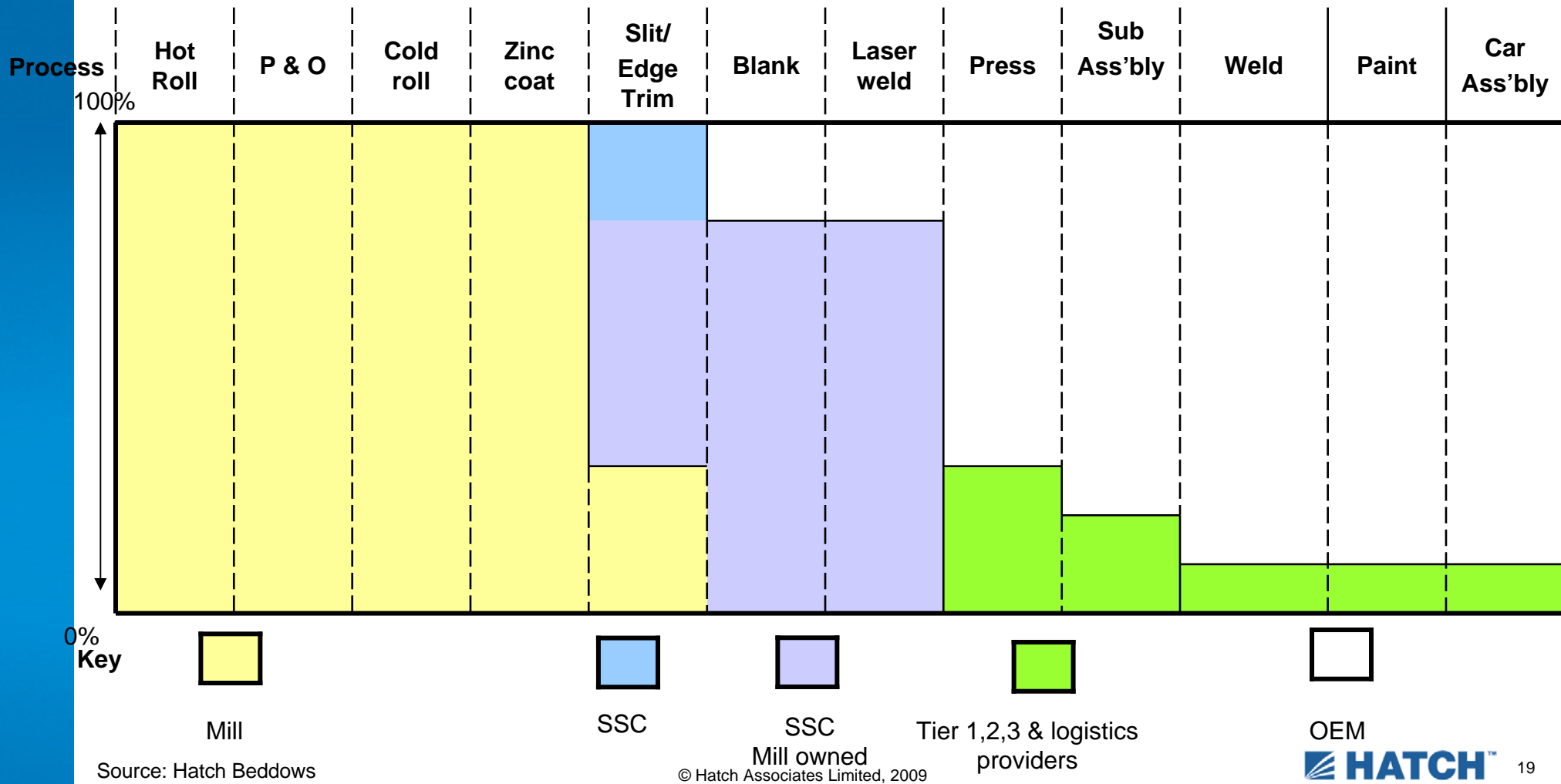
Sector consumption of EU15 OCS



CONSOLIDATION IN THE STEEL AND GALVANISING INDUSTRIES – THE GALVANISED STEEL INDUSTRY

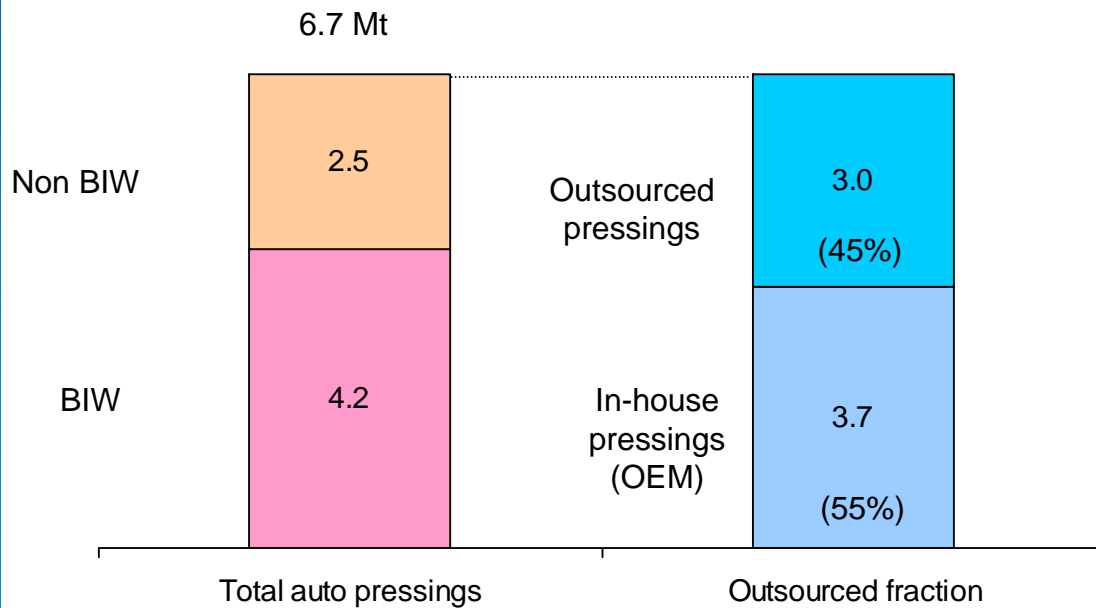
The European automotive supply chain is well developed and the steel mill and their SSCs know their place - a wise decision!!

Supply chain schematic for W. European BIW non exposed

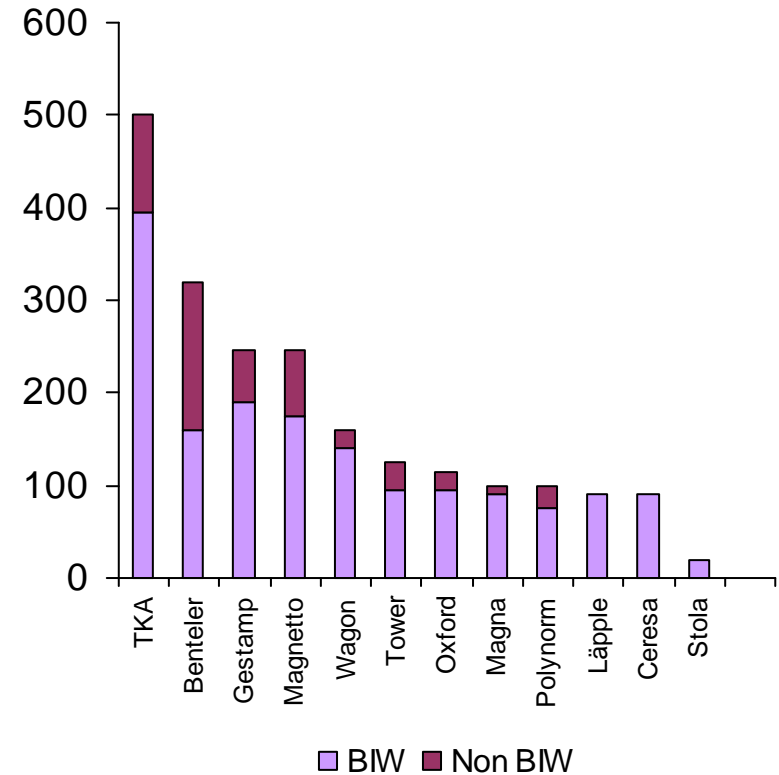


“Downstream processing” is for the automotive sector be it in-sourced or out-sourced

W. European outsourced automotive pressings/Mt

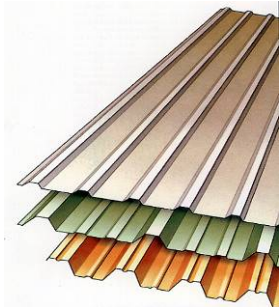


Estimated outsourced European automotive steel pressed parts (kt)

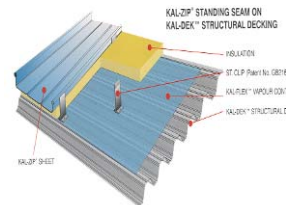
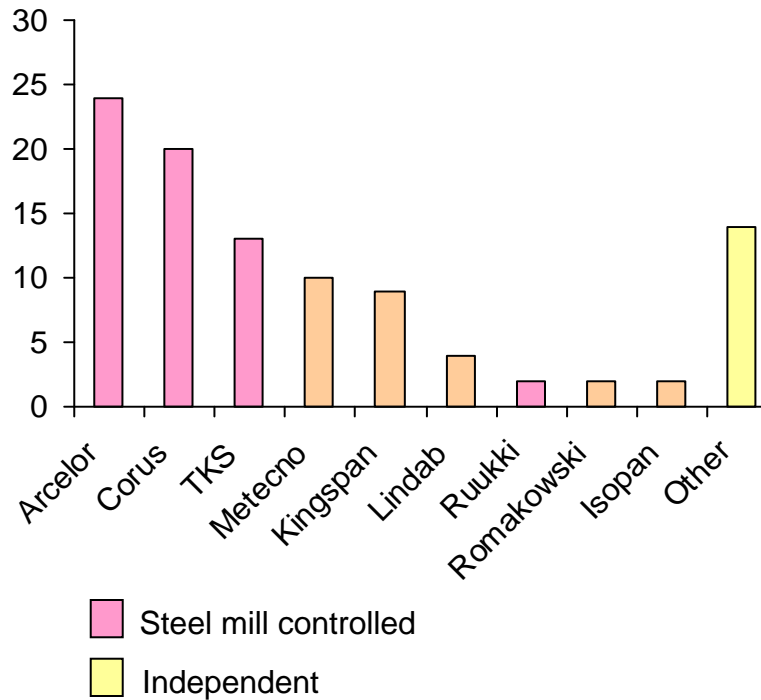


CONSOLIDATION IN THE STEEL AND GALVANISING INDUSTRIES – THE GALVANISED STEEL INDUSTRY

As an example in the construction sector - profiles and panels has long been established as a route to market for the European coated steel industry, but should it go further and deeper as a consolidated industry

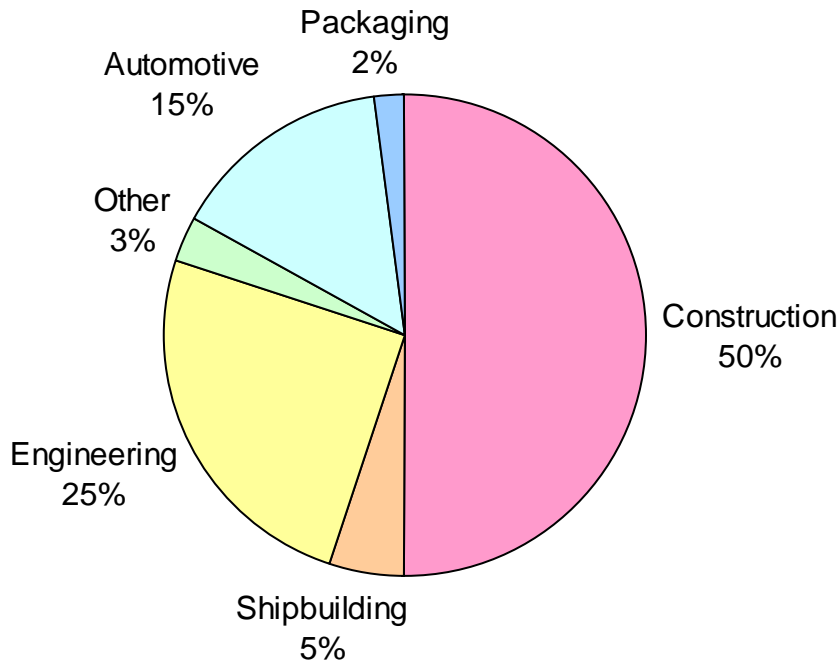


European profile and panel industry/kt

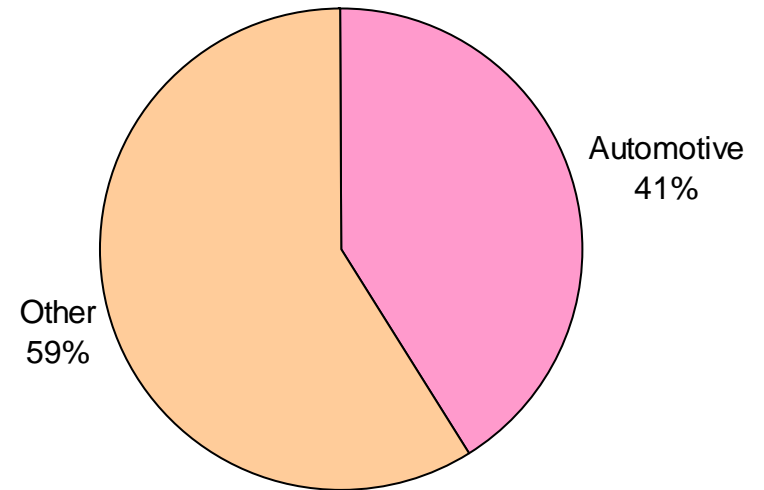


The steel sector “can be” the construction sector which remains the golden opportunity for steel and value for the mills

Consumption of steel worldwide



Steel development costs (RD&T, marketing etc.)



How big would construction consumption be with a similar development effort as automotive?

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Final thoughts

- The biggest strategic shift in the global steel industry over the last 50 years is not consolidation but the driver behind it - the major decline in state ownership of steel assets, at least outside China
- Consequently consolidation for crude steel production has risen, and at least in most mature regions is almost complete – only one or two major plays are legally possible
- Consolidation in HDG has followed steel industry consolidation in general but with some interesting exceptions
- The European HDG market is under threat but can be protected and vertical and horizontal consolidation can help in every way
- The European automotive supply chain is well developed and the steel mill and their SSCs know their place
- Construction profiles and panels has long been established as a route to market for the European coated steel industry, but should it go further and deeper as a consolidated industry
- The construction sector can be the steel sector and remains the golden opportunity for steel and value for the mills

QUESTIONS

Thank you for your attention

Hatch Beddows Strategy Consulting

Mike Walsh

Hatch Beddows
9th Floor, Portland House
Bressenden Place
London, SW1E 5BH

Tel.: +44 20 7906 5122

Fax: +44 20 7233 1908

Mobile: +44 7747 010524

Email: mwalsh@hatch-europe.com

Website: www.hatch.ca/hatchbeddows

Hatch Consulting
Rua Gomes de Carvalho, 1195 - 3^o andar
Vila Olímpia - São Paulo - SP
Brasil

Hatch Consulting
310 East Ocean Center
A-24 JianGuo Men Wai Road
Chaoyang District, Beijing
P.R.China 100004

Hatch Consulting
2800 Speakman Drive
Mississauga, ON L5K 2R7
Canada

Hatch Beddows
9th Floor, Portland House
Bressenden Place
London, SW1E 5BH
UK

Hatch Consulting
1600 West Carson Street
Gateway View Plaza
Pittsburgh, PA 15219
USA

Hatch Consulting
33-1 Prospect Mira
Olympic Plaza
129110, Moscow