Leading the digital transformation of metal distribution

Spring 2019
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Rounding differences may occur with respect to percentages and figures.

The English translation of the Annual Report is also available, in case of deviations the German version shall prevail.
Agenda

1. Overview
2. Digitalization of KCO
3. Platform strategy
4. Focus of kloecckner.v
5. Further initiatives to support the digital transformation of Klöckner & Co
01 The fundamentals of steel distribution remain challenging

- 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

- 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 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
01 Current linear steel supply chain is highly inefficient and intransparent

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

SUPPLIERS

STOCKHOLDING

Klöckner & Co
Other Distributors

CUSTOMERS

Long delivery times, incorrect deliveries and high inventory levels
The future steel supply will be dominantly facilitated by platforms.
KCO itself will be enabled to sell through all kinds of digital sales channels

Proprietary KCO specific vertical platforms

Industry specific vertical platforms

Horizontal cross-industry platforms

Commodity and stockholding

XOM - Fulfillment

Higher value add business

Proprietary online portals and internal digitalization

Onlineshop

Contract Portal

Part Manager

EDI (ERP-2-ERP)

Higher value add business

KCO HVA & supply chain business

Other
01 All principle business models will be covered too

<table>
<thead>
<tr>
<th>Digital</th>
<th>Physical</th>
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<tbody>
<tr>
<td><strong>Digitalization of KCO</strong></td>
<td><strong>klöckner &amp; co</strong></td>
</tr>
<tr>
<td><strong>XOM Industry Platform</strong></td>
<td><strong>XOM Fulfillment</strong></td>
</tr>
</tbody>
</table>

- **traditional (linear)**
- **platform (multi-sided)**
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Digitalization of KCO is driven by our digital hub kloeckner.i

KCO started their **digitalization already four years ago** with KCI as digital hub in Berlin

Around 90 **digital experts** in innovation & product, software development, digital marketing & sales and business intelligence & analytics, User Experience & Design

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

Far enough from Klöckner to **act independently**, yet close enough to **leverage expertise** as well as access to customers and suppliers
kloeckner.i as separate business unit to maximize speed but integrated approach to leverage existing assets and capabilities

**Know-how transfer**

- **Resources**
  - Assets
  - Intellectual property

- **Processes**
  - Reliable processes, perfection
  - Lean start-up, agile, failure culture

- **Focus**
  - Margin
  - Scale

- **KPIs**
  - EBITDA
  - Conversion rates etc.

**Playing field of incumbents**

**Playing field of fast moving start-ups**
02 Lean, agil and customer centric innovation process
02 kloeckner.i not only works but is also organized like a startup

Digital innovation & disruption
- Design Thinking
- User Testing
- Co-operation with branches

Digital products & software development
- Operate products and tools
- Lean and agile Software Development
- Usability and optimization
- Quality Assurance
- Coordination with Group IT

Digital Sales, marketing & support
- Online Marketing & Sales
- Customer Satisfaction
- Roll-Out support for digital solutions
- Tracking and Monitoring
- Customer Service

Business Intelligence & Analytics
- Data Science Lab
- Provide data based decision support
- Manage and operate online analytics
- Campaign Monitoring and measurement of results

Digital strategy | Klöckner & Co SE | Spring 2019

Partners:
- Arago
- diva-e
- Google Cloud Platform
- KREATIZE
- Lobster
- OpenZ
- Sage
- SAP Hybris
- TLGG
- Trumpf/AXOOM
- Google AdWords Jump Start Program
- DFKI (German Research Center for Artificial Intelligence)
- Fraunhofer Institut
- e:venture
- klöckner & co
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 DE
  - Launch of Contract Portal/ Part Manager in EU and US
  - Launch of Service Portal Klöckner Connect
  - Launch of additional customer-centric tools like the Order Transparency Tool

- **2017**
  - Launch of Onlineshops in AT, FR, NL, UK
  - Launch of Direct in the US
  - Launch Klöckner Marketplace for complementary products

- **2018**
  - Expansion of KCI to around 90 people of different functions
  - Launch of independent industry platform XOM Materials
  - Launch of Onlineshop in BE

- **2019**
  - Start of Consultancy Business
02 Overview of the main digital portals and tools

**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 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
02 Overview of the main digital portals and tools

**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

**Consignment Manager**
Supplies customer with information about Kloeckner material in his location and the possibility to report usage.

**Benefits for the customer:**
- All Kloeckner materials at a glance
- View individual material stock
- Report material usage and automated billing
Service portal Kloeckner Connect as central access point for customers to Onlineshop, Contract Portal and various digital tools

Key facts

- Responsive design for mobile and smartphone access
- Starting point for the digital journey of KCO’s customers
- Quick overview over KCO’s eProcurement solutions
- Important source for KCO’s SEO*-ranking
  - SEO is a specific discipline focused on the optimizations needed on content that is relevant to users and ultimately attracts the right customers to the business
  - Rankings in SEO refers to a website’s position in the search engine results page influenced by various ranking factors
  - Important role for overall digital marketing

* Search engine optimization
European Contract Portal for customers with time, volume and product contracts

Key facts
- Clearly structured overview of prices, volumes and maturity dates
- Order-Release 24/7 by mouse click via PC or tablet
- Option to contact KCO sales agent for new contract negotiations
- Fully integrated into service portal Kloeckner Connect
- OCI interface to ERP systems of customers
- Integrated into third party platform Axoom (Trumpf)
Part Manager has become an important sales channel for flat rolled products in the US

Key facts

- Clearly structured Parts overview including stock availability and pending orders
- Forecast and predicted consumption based on order history
- Easy online orders from any device
- Successful migration of customers to a Part Manager 2.0
- New functionalities available (e.g. file upload and order history)
- Currently redesign for better customer experience

Whirlpool customer quote:

"Parts Manager has been a great tool for us here at the Whirlpool Tulsa plant. It has allowed my team to place daily steel orders more accurately and efficiently, which has opened up more time for us to move our business forward and make improvements that are critical to our success."
Consignment Manager for customers to see inventory made specifically for them on Klockner’s floor and unused material on their own floor

Key facts
- Clearly structured overview of consignment stocks
- Customers can report consumed material and request replenishment of consigned stock to the requisite levels
- Quantity consumed invoiced at regular intervals
- Increased delivery flexibility
- Reduced processing time and warehousing costs
- Available in the US
02 Onlineshop further advanced to Marketplace

Key facts
- Live in Germany, Austria, the Netherlands, United Kingdom, France and Belgium
- Offers full price and delivery time transparency
- Integration into ERP systems of customers via OCI interface
- Open for 3rd party sellers / distributors with complementary products
- Payment via credit card
- Third party interface via webservice API
- Marketplace successfully launched
- Broad range of processing & service (e.g. sawing, mill certificates)
- Transparency Tool integrated
- Steadily growing assortment / product range
- Onlineshop as a procurement solution (e.g. multiple carts; rights & roles)
02  Direct will be expanded to a comprehensive Onlineshop for the US

Key facts

- Online product catalog of KCO in the US
- Focus on spot market
- Better overview of stock availabilities within a region
- Automating quote and order process
- Continuous development to a comprehensive Onlineshop fully inhouse
- Quote acceptance functionality within Direct
Order Transparency Tool helps KCO’s customers to manage their orders and track deliveries from one single interface.

Key facts:
- Easy overview of orders for all customers
- Tracking of order status and deliveries
- Easy access to invoices and mill certificates
- Integrated into Onlineshop
## 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 two years 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 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 Digital channels already contribute about a quarter of KCO’s total sales

Diverse digital portfolio can serve all customer types from small to large enterprises

Comprehensive online services for all kind of customers
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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
XOM Materials – Company Summary

- XOM Materials is fast becoming the international go-to online marketplace and procurement platform for all products and services related to the manufacturing industry, including steel, other metals, and plastics.

- Founded in 2017 in Berlin, XOM Materials is an independent online marketplace on which buyers and vendors can trade directly with each other. Offering a vast range of products from trustworthy vendors, our intuitive platform enables faster, easier sales and ordering. XOM Materials also provides flexible financing services and streamlined logistics, enabling our customers to innovate their processes and save time they can devote to strategic aspects of their business.

- Our customer service includes access to advisors with industry expertise on both the buyer and vendor sides. We protect vendor and buyer data and product prices through our commitment to following best practices for confidentiality, data privacy, and security.

- XOM Materials is based in Berlin, with offices in Duisburg (Germany) and Atlanta (USA). Currently our main markets are Europe and North America, but we accept vendors from anywhere in the world. We plan to quickly expand internationally so that we may offer our customers a truly global platform.

- Ultimately, our vision is to advance the digital transformation of the materials industry and to help businesses navigate this change so they can extend their competitive edge.
03 The total addressable market is more than EUR 350 billion…

Source: Dispatch Grand View Research, Market Estimates and Trend Analysis, 13.08.2018
03 XOM facilitates transactions between all participants

Suppliers

Commodity

Financing, Logistics, Insurance, Material modifications etc.

Third Parties

Distributors & Service Centres

Services & Commodity

Specific HVA\(^1\) Services & Commodity

Customers

\(^1\) Higher value added
03 We have developed a digital marketplace/procurement platform

<table>
<thead>
<tr>
<th>Marketplace</th>
<th>XOM Quote</th>
<th>Vendor Cockpit</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Online marketplace for buyers of materials</td>
<td>• Simple demand placement for buyers</td>
<td>• Administration interface to XOM platform for vendors</td>
</tr>
<tr>
<td>• Shop-in-shop for premium vendors</td>
<td>• Overview of quoting process</td>
<td>• Direct order handling via XOM platform</td>
</tr>
<tr>
<td>• Fast product search and product comparison</td>
<td>• Easy quote comparison for buyers</td>
<td>• Management of customers request</td>
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</table>
03 The benefits go beyond efficiency for all related parties

Customers
- Efficiency gains in purchasing due to higher automation in data handling and one-stop shop solution
- Easy price comparison and better pricing due to higher transparency
- Transparency of delivery times due to network-enforced demand matching
- Less dependency on business hours and personal contacts
- Faster purchase realization cycles supports lower NWC\(^1\) for customers

Distributors
- Lower transaction and sales costs generate positive impact on COGS\(^2\)
- Opportunity for less stockholding and incentives for orders helps lower NWC\(^1\) and increase cash flow
- Focus on value-added services and products due to streamlined sales for commodities
- Increased market reach
- No development costs for proprietary online platforms required

Suppliers & Producers
- Lower stockholding and increased revenue generation due to improved demand matching and production efficiency
- Improved capacity utilization through better forecasting and demand bundling
- Higher sales opportunities by direct access to customers
- Lower transaction and sales costs generates positive impact on COGS\(^2\)
- Customer satisfaction increases due to standardized processes and transparent evaluation

3rd Party Services
- Lower cost of acquisition for new customers due to marketplace service discovery
- Constant revenue stream due to high frequency of transactions
- Potential for building long-term customer relationships beyond current customer networks
- Higher convenience for their clients as they can purchase materials and its transportation/insurance/modifications simultaneously

\(^1\) Net Working Capital
\(^2\) Cost Of Goods Sold
03 The platform has three independent revenue streams

<table>
<thead>
<tr>
<th>Core Services</th>
<th>Additional Services</th>
<th>Value Added Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Vendor cockpit for product and catalogue management</td>
<td>- Individual subdomain</td>
<td>- Order Transparency Tool</td>
</tr>
<tr>
<td>- Import customer specific prices, conditions and delivery times</td>
<td>- Individual homepage design</td>
<td>- Contract Management</td>
</tr>
<tr>
<td>- Orders tracking and document management</td>
<td>- Individual branding</td>
<td>- Ads &amp; Marketing</td>
</tr>
<tr>
<td>- Technical and customer support</td>
<td>- Individual marketing and brand promotion</td>
<td>- 3&lt;sup&gt;rd&lt;/sup&gt; Party Logistics/Fulfilment</td>
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<td></td>
<td>- Feature requests</td>
<td>- Group Purchasing (Bundling)</td>
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<td>- Consumer line of credit</td>
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<td>- Delivery Insurance</td>
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<td>- Data Analytics</td>
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</table>
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04 Strengthening our industrial platform via startup investments

kloeckner.v invests in best-in-class startup teams with innovative, disruptive, and scalable business models that complement or extend our digital strategy as well as in venture capital funds to gain insights into new business models.

kloeckner.v portfolio companies benefit from access to Klöckner & Co’s industry knowledge and the kloeckner.i digital expertise.

We leverage Klöckner & Co’s cross-industry network to provide exceptional growth opportunities and eliminate key business risks in a conservative market environment.
## 04 kloeckner.v fund investments

### Overview of our VC-investments

<table>
<thead>
<tr>
<th>VC-Fund</th>
<th>Country</th>
<th>Early stage investments in e.g.</th>
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</thead>
<tbody>
<tr>
<td>Paua Ventures, Berlin, Germany</td>
<td>Germany</td>
<td>Debitos, Flip4New, Pipedrive, Homeday, Lesara</td>
</tr>
<tr>
<td>Clear, Palo Alto, USA</td>
<td>USA</td>
<td>Espresa, Robin Systems, Vera, Reflektion, Virtual Power Systems</td>
</tr>
<tr>
<td>EarlyBird, Munich, Germany</td>
<td>Germany</td>
<td>Movinga, Service Partner One, Tradico, Fraugster, Crossengage</td>
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### Our aims

- We don’t want to have an own VC-funds, but portfolio diversification
- Insights in US and DACH deals
- Ability to approach individual companies
- Discuss ideas with VCs & Startups
- Startups access to corporate point of view
Overview of our direct investments

- Trading platform for tools, located in Berlin, Germany
- Combination of both, marketplace and e-commerce
- KCO invested a single-digit million amount (stake of 8%) in Contorion in Q2 2016
-Exited in Q2 2017 and doubled our invested fund within a year, receiving a cash-in of ~€8m (= 115%)
- Sold stake to Hoffmann SE

- Technology startup, located in Berlin, Germany
- Produces 3D printing technologies and additive manufacturing
- On track to become the leading provider of additive manufacturing systems within the next five years
04 3D printer specialist BigRep

• Founded in 2014 BigRep develops and manufactures large-scale, industrial 3D printers
• The company uses the extrusion of thermoplastic material as printing technique
• Key distribution markets are prototyping, design, education, architecture, furniture, etc.
• Headquartered in Berlin with offices in Singapore and New York, BigRep has over 80 employees
• Scalable & asset light business model as manufacturing is outsourced
• Investment allows first hand insight into the market, technology and design
• Alongside the financial investment, Klöckner plans to use BigRep’s industrial 3D printers in its extensive European and US site network going forward
• Klöckner & Co along with BASF, Köhler Paper Group and Körber AG major strategic investors
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A variety of initiatives support the cultural transformation of KCO further.

- **Learn and failure culture**
  - Digital enabling of employees through online courses during working hours and initiatives like “Failure Sessions”

- **Connected enterprise**
  - Hierarchy-free communication to enable horizontal and vertical communication

- **Engaged employees**
  - Many additional initiatives and events throughout the company to engage employees
The Digital Academy supports the cultural change towards a higher digital learning curve within the workforce

- More than 1,200 participants signed up on this Yammer group (Digital Academy is largest group)
- In collaboration with various providers (University Duisburg Essen, Berlin School of Digital Business, Haufe)
- Accessible to all employees
- Employees are encouraged to train themselves during regular working hours
- Enabling employees to become digital experts based on a wide curriculum, e.g. “E-Business license course” from University Duisburg-Essen
05 Yammer as major internal hierarchy-free communication channel

- Hierarchy-free internal social network to share information and ideas as well as discuss about various topics
- Agile introduction without extensive preparation
- Viral distribution of tool via employees inviting other employees
- Very responsible interaction of employees with only small set of rules
- Elimination of hierarchical communication formats like CEO email
- Former problem of information filtration by middle management solved
- Tool enables CEO to communicate with employees of all hierarchical levels directly
- Supports KCO cross-border interaction via integrated translation tool
- Major tool to communicate digitalization strategy
- Very high group wide member engagement since launch in October 2014
  - 451 discussion groups
  - 60,627 postings
  - 5,624 members
The Digital Experience Program enables information exchange between KCI and sales employees from different branches of KCO

- Short-term assignment program of 1 - 2 months
- Employees of KCO to become familiar with the digitalization process and lean processes of KCI
- Increases transparency about the activities of KCI
- Increases awareness of platforms, portals and other tools offered by KCI to support KCO
- Transfer metal knowledge and customer experience
- Participants express very positive feedback and recommend the further development of the program
KCO is also supporting the integration of refugees as main sponsor of ReDI School of Digital Integration

- **Free of charge** programming training and networking opportunities for refugees
- Provision of laptops and workstations in co-working spaces across Berlin
- Volunteer teachers and mentors are all employed in renowned IT companies
- KCO as main sponsor and provider of free office space for ReDI
- First graduates of ReDI School hired for KCI
- Gained significant attention through prominent visitors