SMS group

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PRESS RELEASE

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SMS group: Order intake and sales in 2016 stabilized at previous year's level – Cost-cutting measures take effect – Return to moderate growth in medium term – Better result expected in 2017.

Customers see future role of SMS group as "Leading Partner in the World of Metals" – Further expansion of growth fields digitalization, modernization, service, electrical and automation systems, energy and green technology.

Order intake by SMS group in business year 2016 dropped slightly to EUR 2.680 billion (2015: EUR 2.758 billion). Sales reached EUR 3.052 billion (2015: EUR 3.310 billion).

The net operating result of SMS group increased marginally to EUR 14 million (2015: EUR 7 million). Parallel with the generally weak market, there were further expenses for restructuring that depressed the result for 2016.

The company generated orders for metallurgical plant and machinery construction totaling EUR 2.432 billion (2015: EUR 2.476 billion). While plant business decreased to EUR 1.815 billion (2015: EUR 1.882 billion), service business grew to EUR 617 million (2015: EUR 594 million).

As a result of project postponements, the elexis group experienced a downturn in order intake to EUR 184 million EUR (2015: EUR 214 million). At Elotherm, order intake contracted from EUR 81 million to EUR 66 million due to a decline in demand in the metallurgy industry.

Following a resolution of the general meeting on June 28, 2016, SMS GmbH acquired all the minority shareholders' shares in a squeeze-out to fully take over elexis AG.

This is how sales, totaling EUR 3.052 billion, broke down according to regions: Europe 30 percent (2015: 33 percent), Russia 6 percent (2015: 3 percent), Asia 34 percent (2015: 33 percent), America 28 percent (2016: 29 percent), Africa 2 percent (2015: 2 percent).

Given that the order intake was below sales, orders in hand, at EUR 3.566 billion, declined even more (2015: EUR 4.018 billion).

The number of employees in SMS group on the reporting date of December 31, 2016 decreased by 788 to 13,423 (2015: 14,211). Personnel adjustment will continue according to plan until the end of 2017. The scheduled expansion of the service business included an increase in staff from 2,601 to 2,657 employees who support customers on site, especially in the foreign service companies. There are plans to recruit another 1,000 employees in the foreign service companies over the current business year.

"Leading Partner in the World of Metals" – SMS group remains a supplier for the entire metallurgical process chain

To enhance its profile, SMS group conducted an in-depth survey of customers and staff in 2016.

Out of this came the insight that customers would like SMS group to continue to be their “Leading Partner in the World of Metals”. The company’s goal is to advise and support customers with a focus on their requirements in metallurgical plant construction plus electrical and automation systems as well as service. This will pay special attention to today’s rapid changes in working practices in connection with digitalization and Industry 4.0.

Entry into new business fields

The two subsidiaries operating in logistics, CTI Systems S.A., Luxembourg, and SMS Logistiksysteme GmbH, Germany, pooled their market presence in 2016. Now, under the umbrella name AMOVA, they are boosting their business in the growing market of logistics applications for the cargo industry, including air cargo.

Especially for business on the nonferrous metals market, SMS group teamed up with Austrian company Mettop to found the joint venture PolyMet Solutions. One core objective is systematic expansion of the product portfolio for copper production and processing.

Also new since 2016 is a cooperation with UrbanGold GmbH for electrical scrap recycling, which is set to attract a lot of customers.

Furthermore, SMS group branched out into the innovative technology of additive manufacturing and is actively involved in its further development.
This move was launched with a pilot plant currently under construction at the Mönchengladbach location. It will produce metal powder – the basic material for additive manufacturing.

Digital solutions – the “Learning Steel Mill”

Today’s hot topics in business are Industry 4.0, digitalization, the Internet of Things, and cloud computing. Various projects in this vein have been realized by the Service Department and the startup SMS digital GmbH, founded in 2016. The expertise gained here has enabled SMS group to draw up strategies for digitalization in the steel industry. Working on this basis, it is developing further, groundbreaking solutions. Additionally, SMS group can draw on experience and already implemented solutions such as its successes with virtual technologies (virtual reality and augmented reality) or “Plug & Work”.

However, digitalization is not an end in itself. It’s basically about answering the question: Where can digitalization help us in concrete terms to:

- Ensure steel as a versatile material remains futureproof and competitive.
- Boost efficiency with even leaner processes and cost structures while saving resources.
- Maximize plant service life at reduced maintenance costs and even lower capital tie-up.
- Achieve more flexible production planning with fluctuating and partly small batch sizes while adhering to tight deadlines.

The focus for plant owners is on the “Learning Steel Mill” as a solution that enables intelligent and largely autonomous steel production. This involves the interconnection and collaboration of humans and machines in dynamic production processes that adjust to optimum parameters in real time. A smart steel plant auto-adaptively optimizes its production processes from the raw material right through to the final product. Crucial here is an integrated supply chain with physical and data-based models.

Teaming up with its U.S. customer Big River Steel, SMS group has launched a pilot project for a “Learning Steel Mill” at the complex in Arkansas, USA, which went on stream at the end of 2016.

Also in 2016, SMS group acquired the majority share in QuinLogic GmbH in Aachen, Germany. This young company creates software solutions for perfect quality management in the steel, aluminum, and paper industries. Counted among them are quality assurance systems for flat steel, stainless steel, special steel, and nonferrous metals.

SMS group already successfully uses QuinLogic products in customer projects such as Big River Steel, USA, or Shandong Iron & Steel, China. It’s a collaboration that makes perfect sense, because QuinLogic software solutions benefit from SMS group production know-how. That leads to high-value final products at consistent quality and process stability.

Consolidation and new orientation

Faced with a sustained global crisis in the steel, copper, and aluminum industry plus an associated decline in orders, the management of SMS group GmbH in 2014 announced plans for a two-stage capacity reduction in its core business of plant and machinery construction in Germany.

As a result, the company has reduced capacity in Germany from 5,250 employees at the beginning of 2014 to some 4,050 by the end of this year.

The planned, socially responsible adjustment of employee numbers to declining orders in metallurgical plant production took place mainly in Germany. Contrasting with this is expansion in the growth areas of service, digitalization, and modernization.

Despite its cost-cutting programs, SMS group will maintain its unusually high commitment to training young talents. This is how it is responding to demographic change and ensuring the group can draw on a pool of adequately qualified personnel in the future.

Prospects

Burkhard Dahmen, Chairman and CEO: “Our customers’ problems from global overcapacities have eased a little. Due to individual protectionist measures, both capacity utilization and price levels have increased over-proportionally in some countries. As a result, we are receiving new project inquiries from producers there, especially in the area of rolling special steels and high-strength grades. However, overall plant utilization globally has only increased moderately. That’s why sustained profits are not yet possible in all regions.

This also explains the continued reluctance to invest in new projects. What’s more, ongoing political uncertainty in our important sales markets Russia and Ukraine is also damaging business. On the other hand, things look brighter in Iran. After the recent presidential election and continued gradual opening of the country, we see opportunities in the foreseeable future for participation in the modernization and rebuilding of the country’s steel industry. Just recently, we signed preliminary contracts with Iranian customers for five plant projects. Their realization depends on long-term loans from banks to the Iranian metal producing industry.

We’re confident there’s unbroken potential in modernizations to make plants greener and more energy efficient. Other growth areas are digitalization and the whole spectrum of services.

We expect the slight upturn in demand to translate into higher order intake as from 2018. This positive outlook is based above all on the higher prices for steel products. Furthermore, our customers are increasingly reactivating shelved investments in revamps and upgrades of their existing plants.

So we’re looking forward to moderately higher order intake in 2017. Unfortunately, the decline in orders over recent years means that sales will be slightly lower than in 2016.

Considering the effectiveness of our restructuring measures, we expect our net result for 2017 to be better than the previous year.”

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