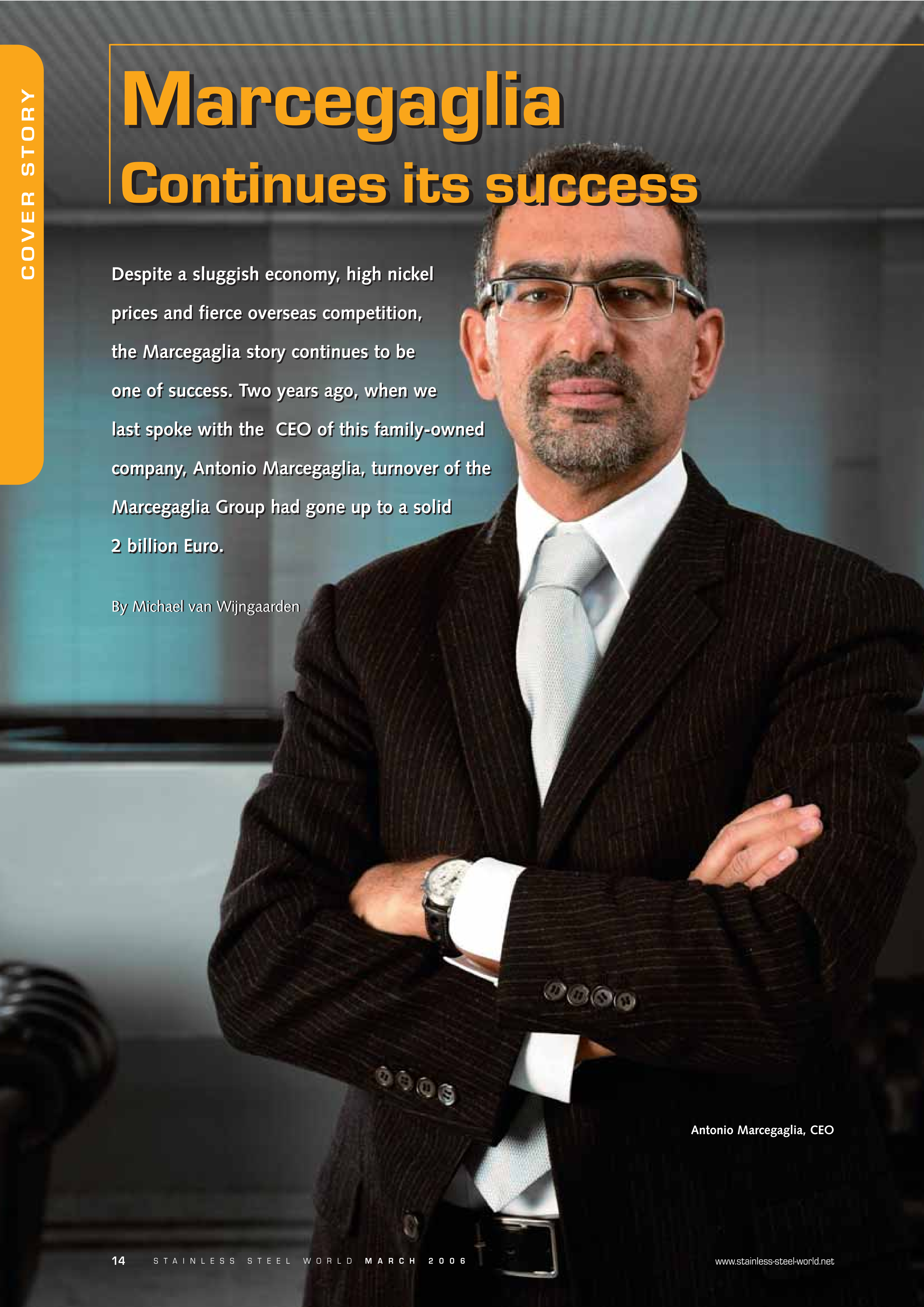
Marcegaglia
Continues its success

Despite a sluggish economy, high nickel prices and fierce overseas competition, the Marcegaglia story continues to be one of success. Two years ago, when we last spoke with the CEO of this family-owned company, Antonio Marcegaglia, turnover of the Marcegaglia Group had gone up to a solid 2 billion Euro.

By Michael van Wijngaarden



Antonio Marcegaglia, CEO

"For 2005, Mr Marcegaglia starts, "we expect to achieve a turnover of 2.7 billion Euro, another 6 per cent up against the 2.6 billion Euro turnover of 2004. We continue to maintain a compound growth rate of about 15 per cent every year." Other key figures have shown a healthy growth as well. The total number of employees has increased by 500 to 6000 and Marcegaglia now processes 4 million tons of steel every year, as opposed to 3.5 million tons in 2003. These figures apply to the Marcegaglia Group as a whole which represents a conglomerate of about 50 companies. They are active in a wide variety of industries world-wide from steel transformation, which is the core business, to engineering, and even tourism and real estate.

Growth

Clearly, growth is still the key driver for Marcegaglia. We asked Mr Marcegaglia how the company achieves constant growth and is able to increase its market share where others struggle to maintain their position? "Basically, the secret of our success is hard work geared to spreading our reach in terms of product mix and market mix. We continuously invest and try to grow in different directions instead of focussing on one target. Over the years this formula has proven to be very successful. As I already mentioned, we maintain a compound growth rate of 15 per cent."

Talking about investments, Mr Marcegaglia pointed out that in the recent past the company has been very active in this respect and will continue to invest heavily this year. "We have given the carbon steel flat product side a considerable boost by stepping up our cold-rolled, galvanised and pre-painted coil processing facilities. We will also expand our pickling facilities in order to achieve our goal of becoming one of the major players in the pickled materials market. Down stream of the coil production we have also expanded our couple ends and strip manufacturing facilities, and that expansion has been directed at the export market, mainly within Europe, in order to strengthen our position there. Historically we have always focused on the tube business so in that respect we have enlarged our focus."

The stainless steel flat product facility in Gazoldo has also been given a boost. Here, cold rolling, annealing and pickling of coils and the production of flat bars and open profiles takes place. "We will expand and improve the cold-rolling facility in Gazoldo through a 60 million Euro investment," says Mr Marcegaglia, "which involves the installation of a new annealing line. The extra capacity created by this expansion will mainly be allocated to our own tube production and allows us to convert a larger amount of black coil ourselves." Further stainless steel production sites are near Mantova and Milan for respectively round drawn bars and heat-resistant and small diameter tubes. The company also has a strong presence overseas, in Pittsburgh (USA), where 30,000 tons of stainless steel is produced every year to serve the North American market.

Brazil

However, the biggest investment bang comes over the next three years when Marcegaglia plans to invest between 500 and 700 million Euro in stepping up its flat product production range, developing its stainless steel tubing side and further strengthening its presence in Europe and Brazil.

Brazil is a country that keeps cropping up so we asked Mr Marcegaglia to tell us more about his plans for this country: "We have already had a presence in Brazil for quite some time now, mostly in the carbon steel business. However, we anticipate continuous economic growth in south and central America which is driven by the economic engine of that region, Brazil. We have therefore decided to increase our local presence to make full use of the economic uplift." We learned that Marcegaglia has already invested 50 million USD as part of a grand scheme to pump 150 million USD in expanding the carbon and stainless steel tube production as well as setting up a service centre for serving local customers. Mr Marcegaglia: "This investment programme will allow us to step-up our production of carbon steel tubing to 150,000 tons and raise the stainless steel tube production to 10,000 tons per year, all for the local markets in South, Central and even North America. In total this project, which is scheduled to be finished by the end of this year, will increase our annual turnover to 150 million USD, which is quite a step up from the 60 million USD we achieve now."

Over the next three years Marcegaglia plans to invest between 500 and 700 million Euro

Looking further at the geographical markets, Italy is still the biggest market for Marcegaglia, responsible for over a third of total sales. Europe accounts for about 60 per cent which leaves the rest of the world to sell the remaining 10 per cent to. One might expect that China and India are high on Marcegaglia's agenda but in fact, next to Brazil, Eastern Europe is where the company's interest goes to right now. "We plan to set up a carbon steel tube production unit as well as a service centre in Eastern Europe in order to profit from the favourable economic developments in that area as well as in further regions like Russia and the CIS states. Turkey in that respect has our special interest because of its strategic location and promising internal market.

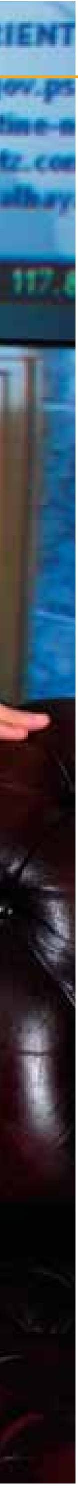
Besides looking at the geographical markets, Mr Marcegaglia also discussed which industrial areas he focuses on to sustain the company's growth. The traditional corrosion-resistant tubes market (oil & gas, chemical & pharmaceutical, pulp & papers, dairy & water,

heat exchangers) do still account for most of the total stainless steel business, about 40 per-cent, but other markets such as the automotive and architectural markets are becoming more important.

Automotive

Mr Marcegaglia: “As a group we sell about 200,000 tons of stainless steel products of which 150,000 tons in tubing. The remainder is made up by small products like flat bars and cold drawn bars. It is our objective to grow both in Italy and Europe in two segments. Firstly, the automotive market is both in carbon and in stainless steel one of the most important growth markets for us and still has a long way to go in the full utilisation of stainless steel in the exhaust and catalytic system.” But growth is not only to be seen in the exhaust systems. Perhaps more important is the fact that car makers are becoming more aware of the advantages of stainless steel for all kinds of applications in their strive to produce safer and lighter vehicles in order to keep fuel consumption at an acceptable level. Volvo, for example has developed a light-weight stainless steel sandwich material for body panels and Saab is working on stainless steel bumpers. Stainless steel crumble zones are also in development because of the material’s excellent mechanical properties.

In 2005, Marcegaglia sold 12,000 tons of stainless steel products to the automotive industry. However, in order to get a firm foothold in this market and become one of the major players in the automotive industry Mr Marcegaglia disclosed ambitious plans to increase this amount by at least 50 per cent on an annual basis and step up sales to 30,000 – 35,000 tons per year,



which is about 20 per cent of the total stainless steel demand from the automotive sector. The Forlì plant accounts for the bulk of Marcegaglia's stainless steel output and was updated and expanded a few years earlier. That investment programme amounted to 25 million Euro, bringing the total area of the plant to 100,000 square metres. Forlì employs over 300 people and houses 32 production lines for welded tubes including 6 high frequency welding lines and 17 welding laser lines, enabling the company to produce around 20,000 tons of finished product every month. "To achieve our growth in the automotive sector," Mr Marcegaglia continues, "we are investing another 20 million Euro in the Forlì plant to construct a new 15,000 square metre building with two brand new high frequency welding lines, at least one laser welding line and of course a finishing line to complete our comprehensive service."

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Architecture

The second segment that Marcegaglia is keen to increase its presence in is the architectural market. The architectural and building market is one of the biggest growth markets for stainless steels, not in the least by Marcegaglia's own efforts. The company has especially developed its high-frequency welding lines to support this market and to be able to perform welding for products that have an ornamental or structural usage such as hollow sections. Another aspect of developing the architectural market, Mr Marcegaglia said, are the company's efforts to increase awareness of the material's advantages in terms of reliability and aesthetical values. "The life cycle cost element of stainless steel is another important factor that helps us convince architects to use stainless steel, " Mr Marcegaglia adds, "because the higher material price is practically always offset against the longer life and lower maintenance cost as opposed to carbon steel."

Mr Marcegaglia further highlighted an interesting aspect of using stainless steel, especially in the civil building sector, an aspect that makes stainless steel what it is in the first place. Corrosion resistance. "We see a growing interest from the civil building industry in the use of stainless steel conduit pipes for water applications, mostly as part of a replacement programme for copper and carbon steel pipes. The considerations that lie at the basis of using stainless in these cases have not so much to do with aesthetics but all the more with corrosion resistance." Besides corrosion resistance, the piping systems that deliver drinking water and fire-fighting capabilities in tall buildings must also have other unique requirements. They must be able to withstand not only high pressures but the movement of the building as well, caused by seismic activity and wind forces. Speed and ease of assembly are also important during the construction phase as builders are confronted with tighter deadlines and a less skilled workforce. The result is that today three of the newest and tallest buildings in the world, the Taipei Financial Centre in Taiwan, the Aurora tower in Brisbane, Australia and the Petronas Twin Towers in Kuala Lumpur, are all equipped with high-pressure stainless steel piping systems.

"In summary," Mr Marcegaglia finishes, "we will continue to follow the proven path of growth by investing heavily in our production facilities both in Brazil and in Europe. We expect our stainless steel business to keep pace with total sales figures and so to expand stainless steel sales in absolute numbers. It will remain a driver for our company." Marcegaglia specialises in bulk production of standard products and in order to best serve new and existing customers the company will maintain and, where needed, expand its well established distribution network of local distributors. "Of course our growth does not affect our strive to offer quality to the customers," Mr Marcegaglia ends, "we are a volume oriented company but always want to offer a high service level. This is why we consider our distributors as partners in our efforts to keep the company healthy and sustain a distribution network that can sustain our growing customer circle." ■

About Marcegaglia

Founded by Steno Marcegaglia in 1959, Marcegaglia today is an industrial and financial corporation, one of the leaders in the steel and metallurgical sector both in Europe and on a world scale. Besides the steel corporate branch Marcegaglia acts in several other industrial and civil sectors, such as:

- building
- home products
- engineering
- energy
- tourism
- services

Within the group, which is fully owned by the Marcegaglia family, 4 million tons of steel are processed every year and more than 6,000 workers are employed. The global turnover passed 2.7 billion euros in 2005