

zumtobel group

Excellerate – ZAG`s Restructuring Tool

CFO Summit

Vienna, Oct 8/9th, 2009

Agenda of todays Workshop

- **INTRODUCTION ZUMTOBEL GROUP**
- **The STORM is felt**
- **Excellerate - WEATHERING THE STORM**
 - WORKSTREAM to increase the performance
 - Measuring PERFORMANCE – CONTROLS AND TRACKING
 - Managing the UNCERTAINTY
- **SUMMARY**

INTRODUCTION ZUMTOBEL GROUP

The world authority on lighting

A brief portrait of the Zumtobel Group

The Zumtobel Group is one of the few global players in the lighting industry

- Lighting Segment : European market leader in professional lighting
- Components Segment: No. 2 in Europe and No. 4 worldwide in lighting components

Worldwide presence

- 22 production sites on four continents
- Sales companies and representatives in more than 70 countries
- 7.165 employees worldwide

3 strong, international brands

-  **ZUMTOBEL**
- **THORN**
- **TRIDONIC.ATCO**



The STORM is felt

The Storm is felt

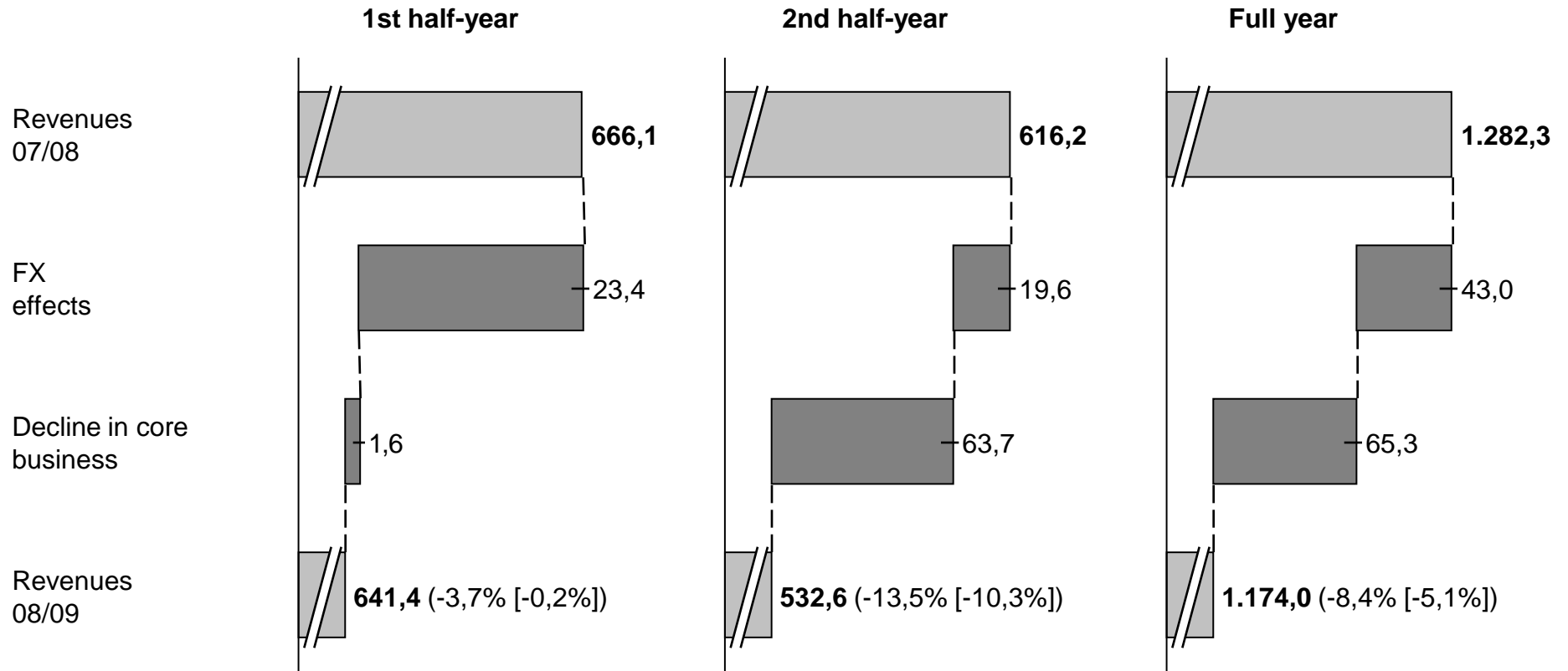
Economic crisis has started to impact Zumtobel Group

- **All markets and both segments negatively affected by recession**
- **Significant decline** of revenues starting with **October 2008**
- **Negative currency effects of EUR 43 million**, comparable revenues decline 5,1%
- Further decline in **commercial construction sector projected beyond 2010**
- **Efficiency improvement programme necessary** to implement to counter-balance the negative impacts of down cycle
- Significant special effects of minus EUR 21,9 million influence operating profit
- Adjusted EBIT margin equals 6,7%
- Strong balance sheet and free cash flow of EUR 57,8 million
- 37,0% increase in revenues on LED-based products to EUR 50,6 million



Revenue Development in FY 2008/09

A financial year of two different speeds



[] = FX – adjusted figures
 Figures in EUR million

Excellerate - WEATHERING THE STORM

“Excellerate” Efficiency Improvement Programme

Targeted cost savings increased to EUR 100 million

Project scope:

- December 2008: Sustainable cost reduction programme (“Excellerate”) of roughly EUR 50 million by 2010/11
- March 2009: Additional proportional adjustment of capacity and overheads to reflect accelerated downturn

Project targets:

- Total cost savings from “Excellerate” of up to EUR 100 million by 2010/11 vs 2008/09
- To maintain positive free cash flow even under adverse conditions

Project progress:

- SG&A decrease of EUR 16,3 million recorded predominately in Q4
- Decrease of roughly 750 FTEs worldwide vs. end FY 2008/09
- Shutdown of lighting plant in Curtici / RO (announced 30 April 2009)
- Strategic withdrawal of activities in the area of residential lighting
- Streamlining set-up of LED activities

EXCELLERATE is not a pure restructuring tool

EXCELLERATE was initially begun to bring ZAG to a new level of profitability – in good weather conditions

Now, **EXCELLERATE** serves as restructuring tool to weather the storm – but also with a clear focus to come out of the storm in better shape to tackle the market.

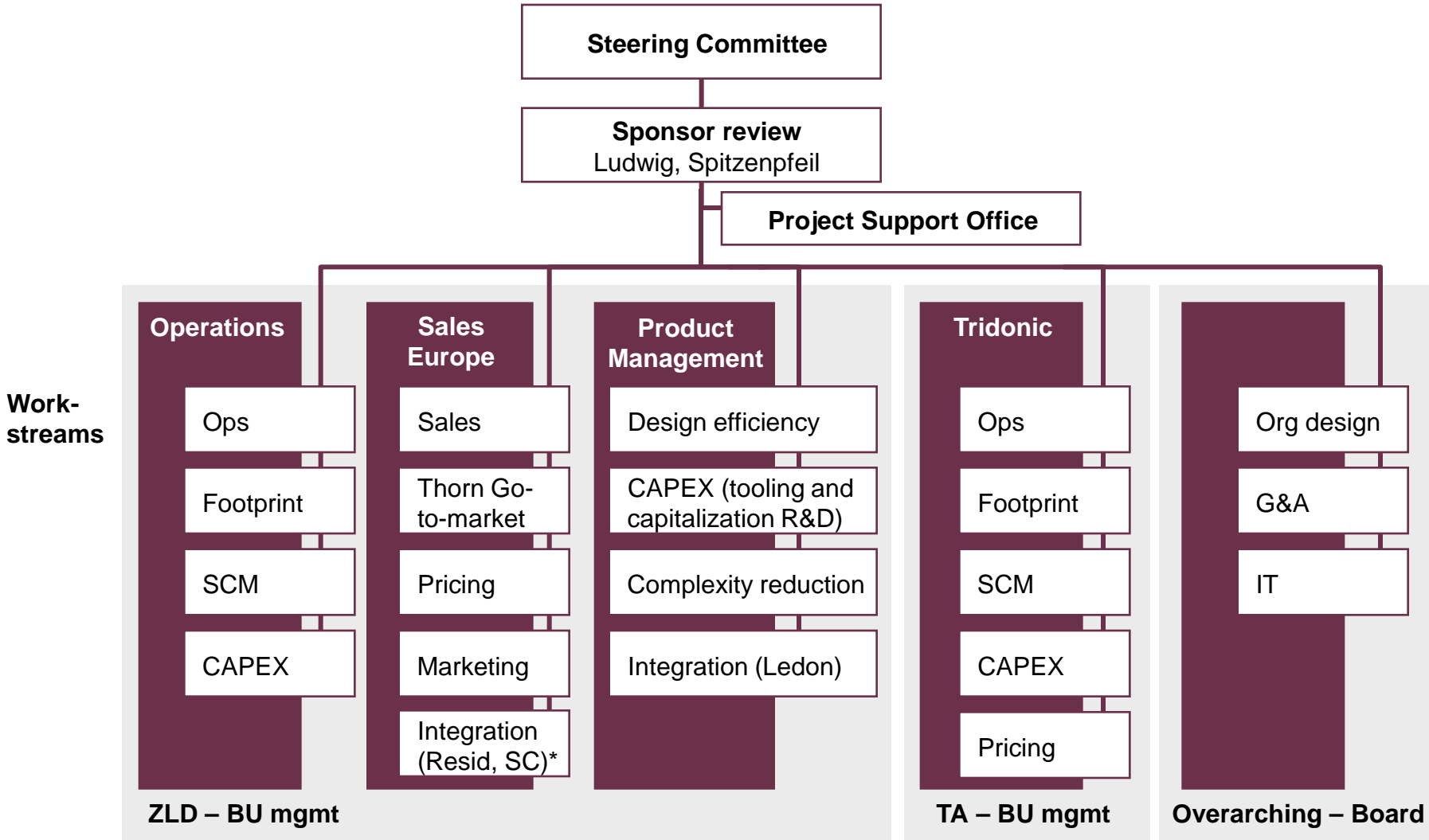
Workstreams: What and where to do?

Targets: What and how to measure and to track?

Flexibility: How to manage the uncertainty?

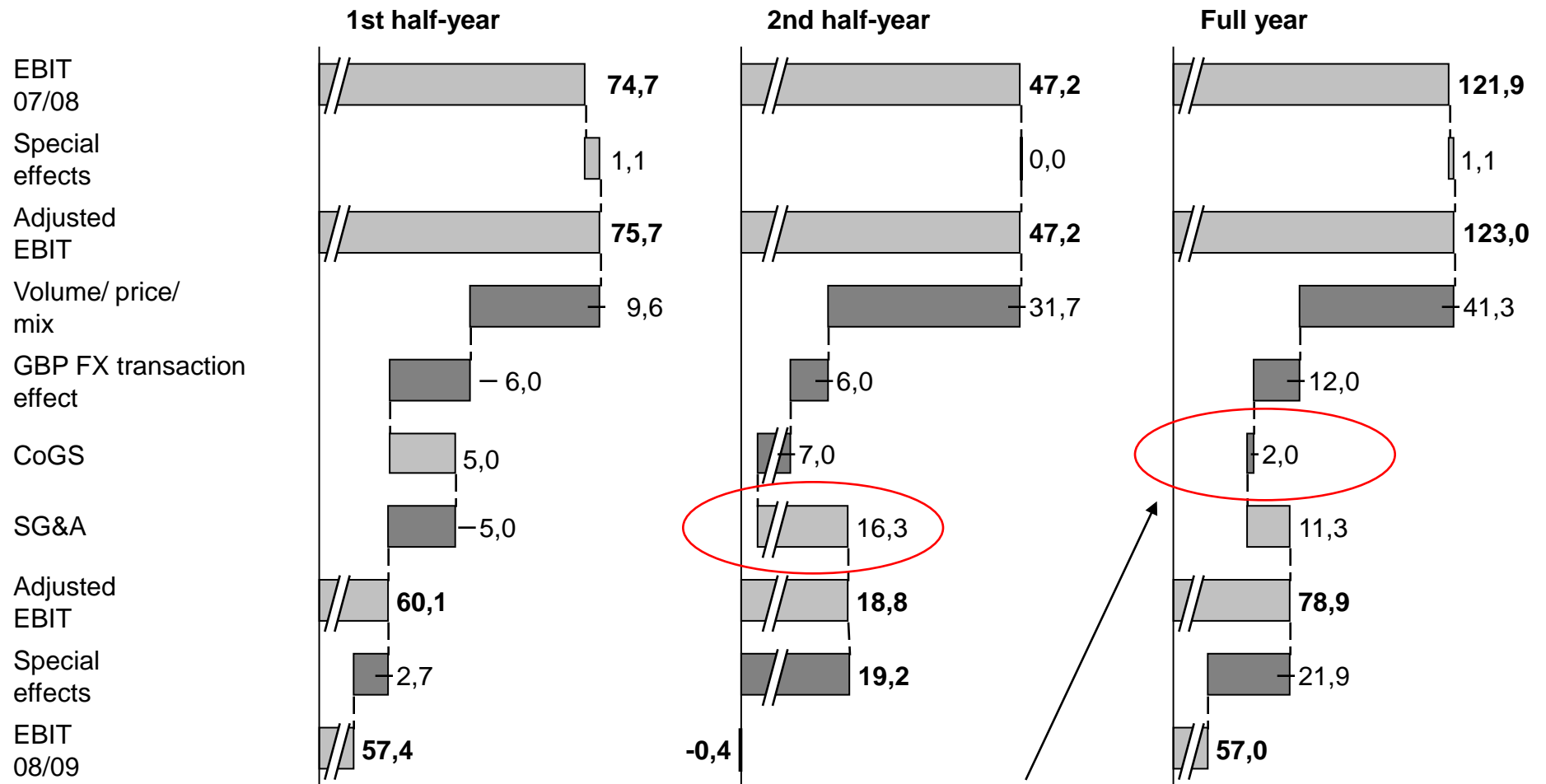
Excellerate Organisation

Each unit needs to contribute to EXCELLERATE



EBIT Development in FY 2008/09

“Excellerate” yields first positive results

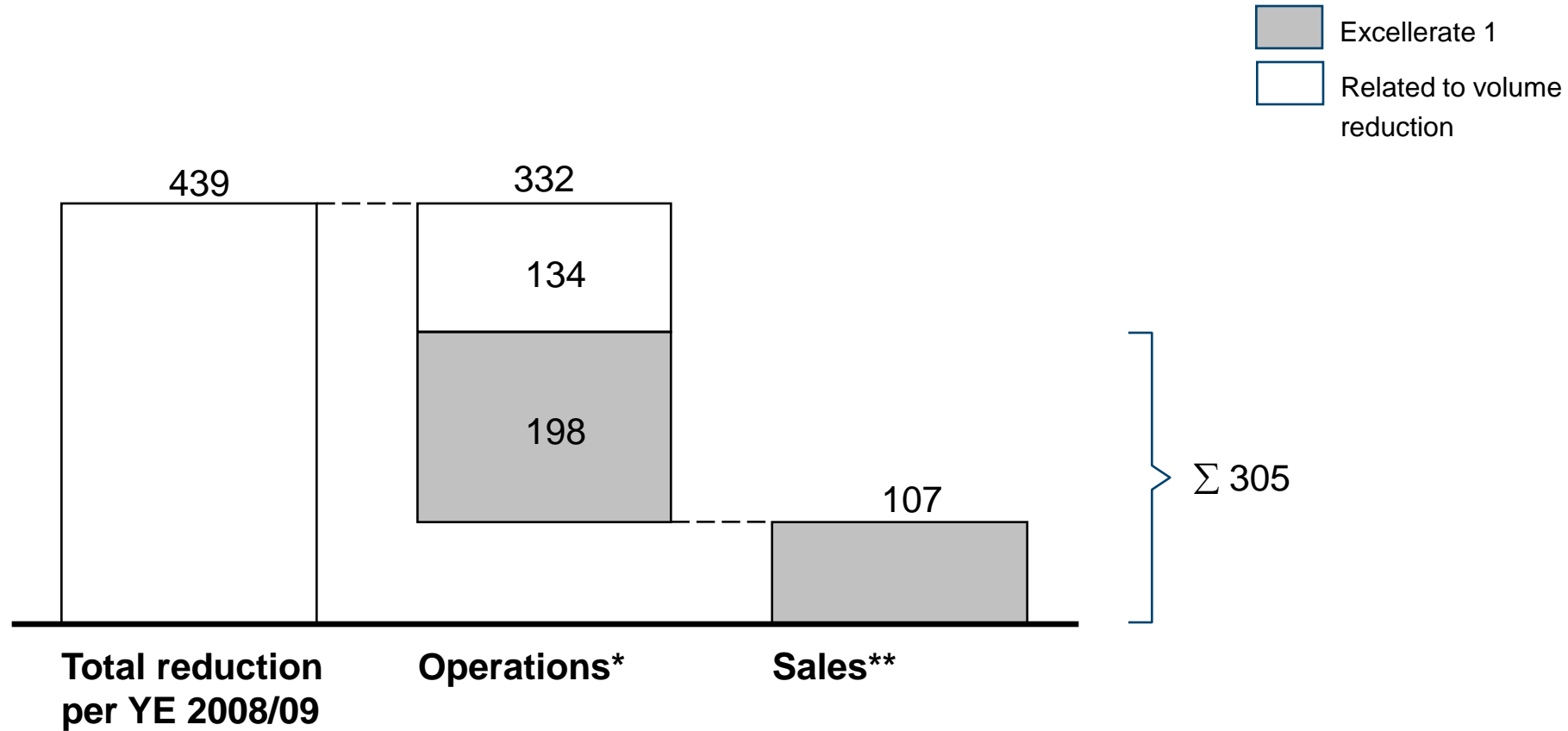


EUR 5,7 million increase in R&D costs

Figures in EUR million

Overview on FTE reduction FY2008/09

FTE



* According end April reporting

** According end May reporting

Source: Excellerate team

- WORKSTREAM to increase the performance

Definition of Work Streams

Overview on extended scope of Excellerate work streams

		Work stream leader & PSO support				Group	Sponsor	
		ZLD		TA			L	Sp
Operations	Ops (incl. Lean Six Sigma)	Gitter	Tracking	Kofahl	Selective		↕	
	Footprint	Gitter	Tracking					
	SCM (procurement & logistics)	Bruckner	Full	Sprenger	Tracking			
	Capex (manufacturing)	Tbd	Tracking	Blum	Tracking			
Sales	Sales (efficiency/ effectiveness)	Burkard	Tracking				↕	
	Thorn go-to-market	Daniels	Full					
	Margin Improvement*/ Pricing**	Pötz	Tracking	Novak	Selective			
	Integration (Residential, SpaceC.)	Warum	Tracking					
PM	DFSS*/ R&D efficiency**	Grote	Tracking	Wenger	Tracking		↕	
	Capex (tooling & capitalized R&D)	Tbd	Tracking					
	Complexity reduction	Weduwe	Tracking					
	Lean marketing	Hall	Full					
	Integration (ZLD: Ledon, TA: C&S)	Tbd	Tracking	Heim	Tracking			
Overarching	Organization design					Ludwig	Full	
	G&A, incl. IT					Spitzenpfeil	Full	

PSO support

Excellerate work streams – Operations

Ops incl. Leans Six Sigma

Example

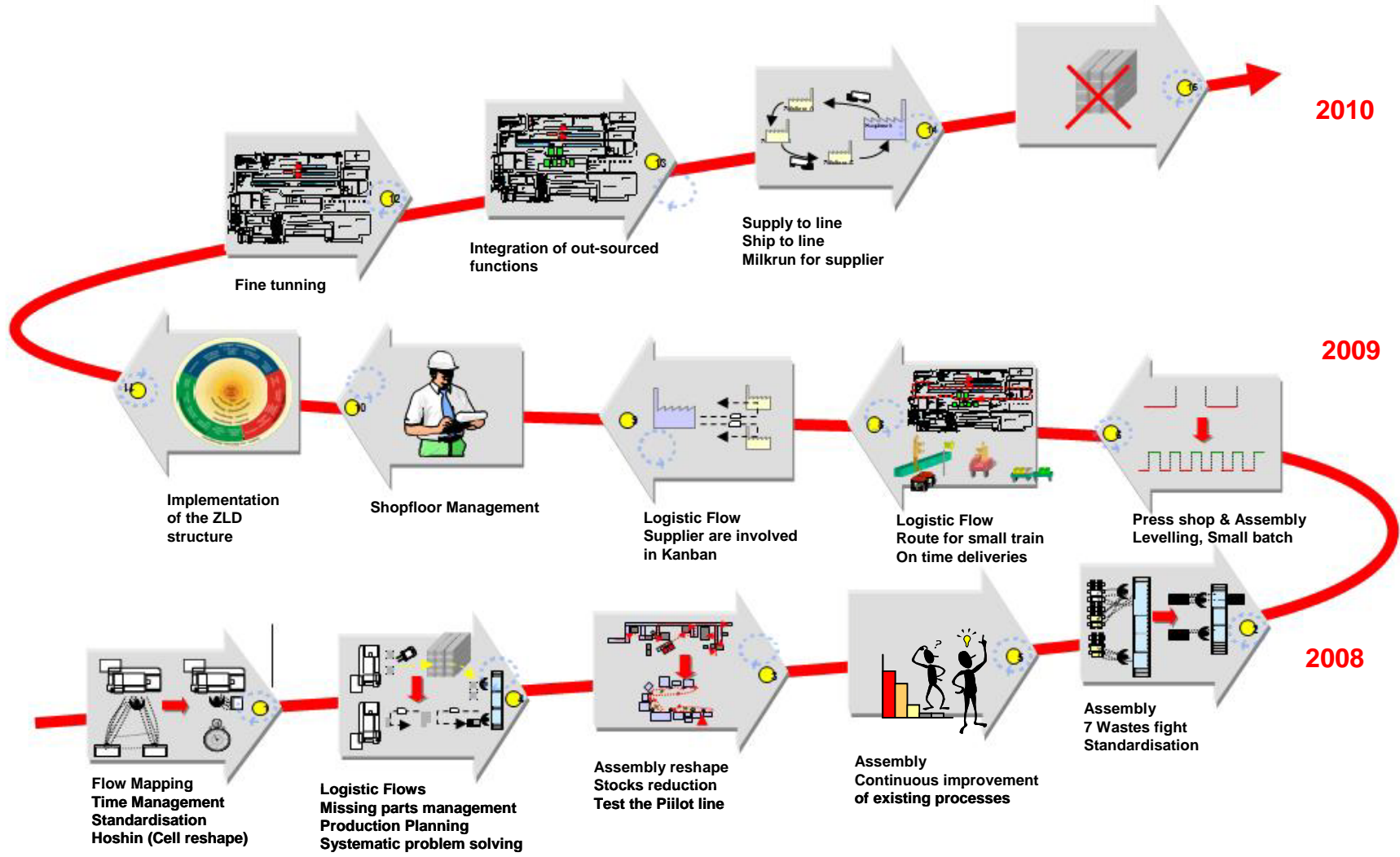
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	Complexity reduction
	Lean marketing
	Integration (ZLD: Ledon, TA: C&S)
Overarching	Organization design
	G&A, incl. IT

- Customer orientation via Lean Processes
- Continuous Improvement via Lean Six Sigma
- Shop floor Management to integrate Lean Six Sigma as a holistic improvement approach
- Management by objectives – quality of product or services measured from customers perspective

Excellerate work streams – Operations

Three Year Road to go

Example



Excellerate work streams – Operations

SCOPE – Management of Objectives

Example

S

Six
Sigma
Quality

<3,4 DPMO
complaint products

C

25%
Cycle
Efficiency

Value adding
standard time/
Total Lead Time

O

100%
On Time
Delivery

Delivered orders
on time (OPS)

Delivered
orderlines on time
(plant)

P

70%
Productivity

Direct labour
productivity:
Value adding
standard time /
direct labour
attendance

Total FTE
Productivity:
Value adding
standard time/
total FTE
attendance

E

Employees

Housekeeping &
work safety:

0 TRI/LTI
100% 5S

Excellerate work streams – Operations

Manufacturing Footprint

Example

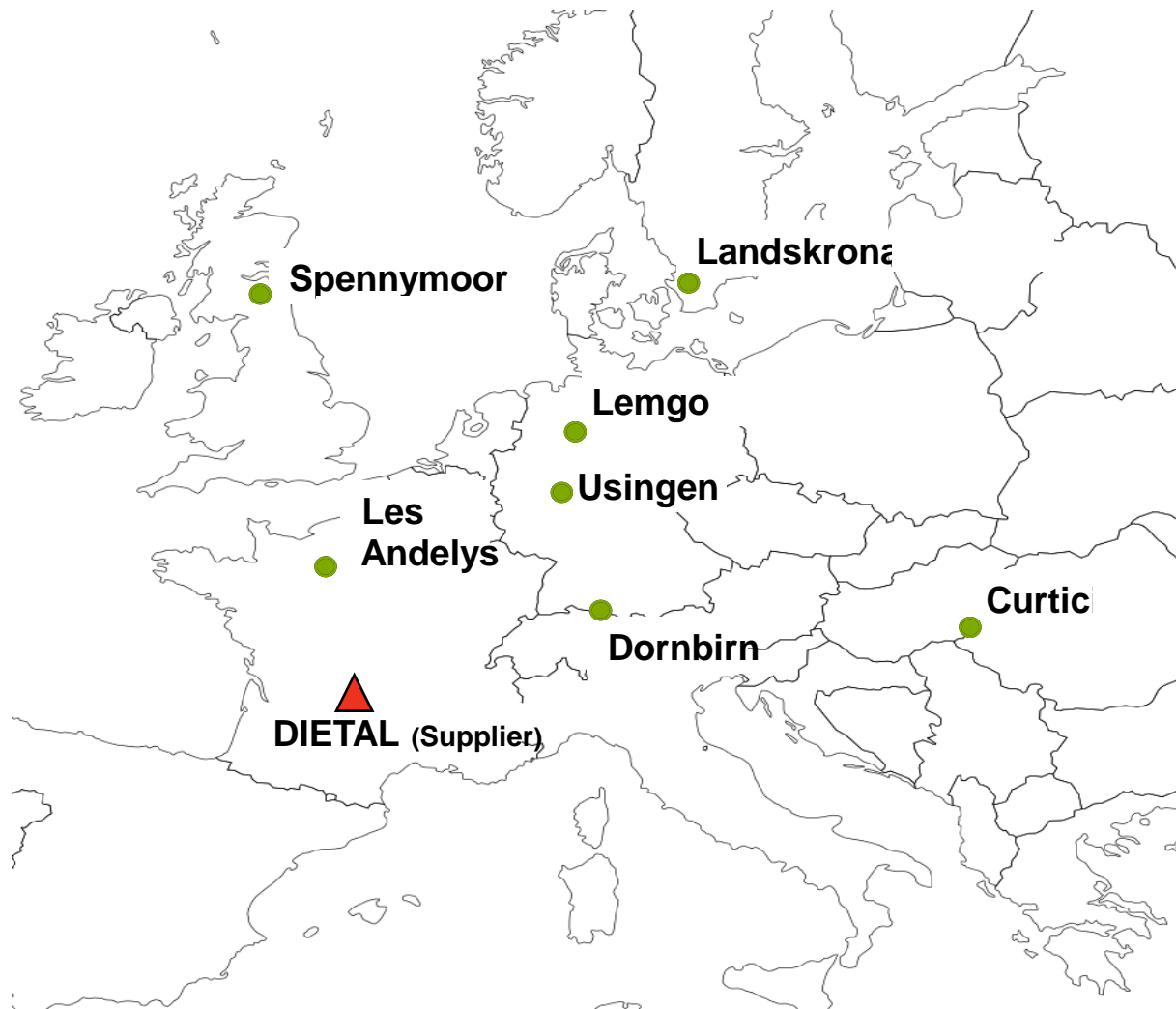
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- Realignment of european footprint by manufacturing close to the market
- Create a quality driven and fast supply chain process close to the customer
- Increasing of utilization of the local factories
- Insourcing instead of outsourcing
- Optimized production strategy to follow the LSS principles

Actual status of european production landscape – 2008

Overview

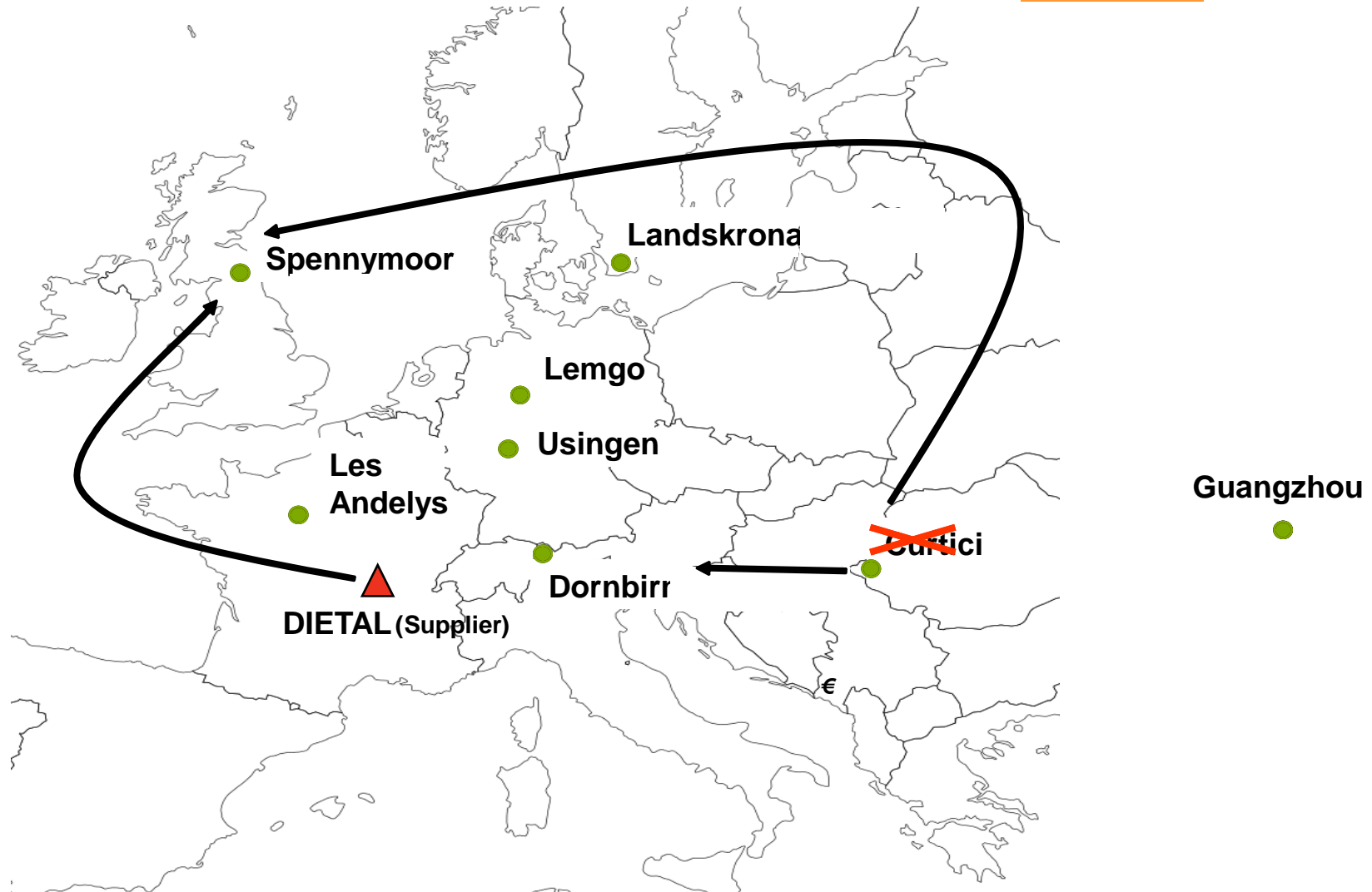
Example



Redesigned european production landscape to improve utilization - 2009

Overview

Example



Excellerate work streams – Operations

SCM

Example

Operations	Ops (incl. Lean Six Sigma)
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Overarching	Organization design
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- Introduction of an integrated Supply Chain Management
- Inventory Management
- Production Planning/Forecasting
- Improvement of Procurement performance

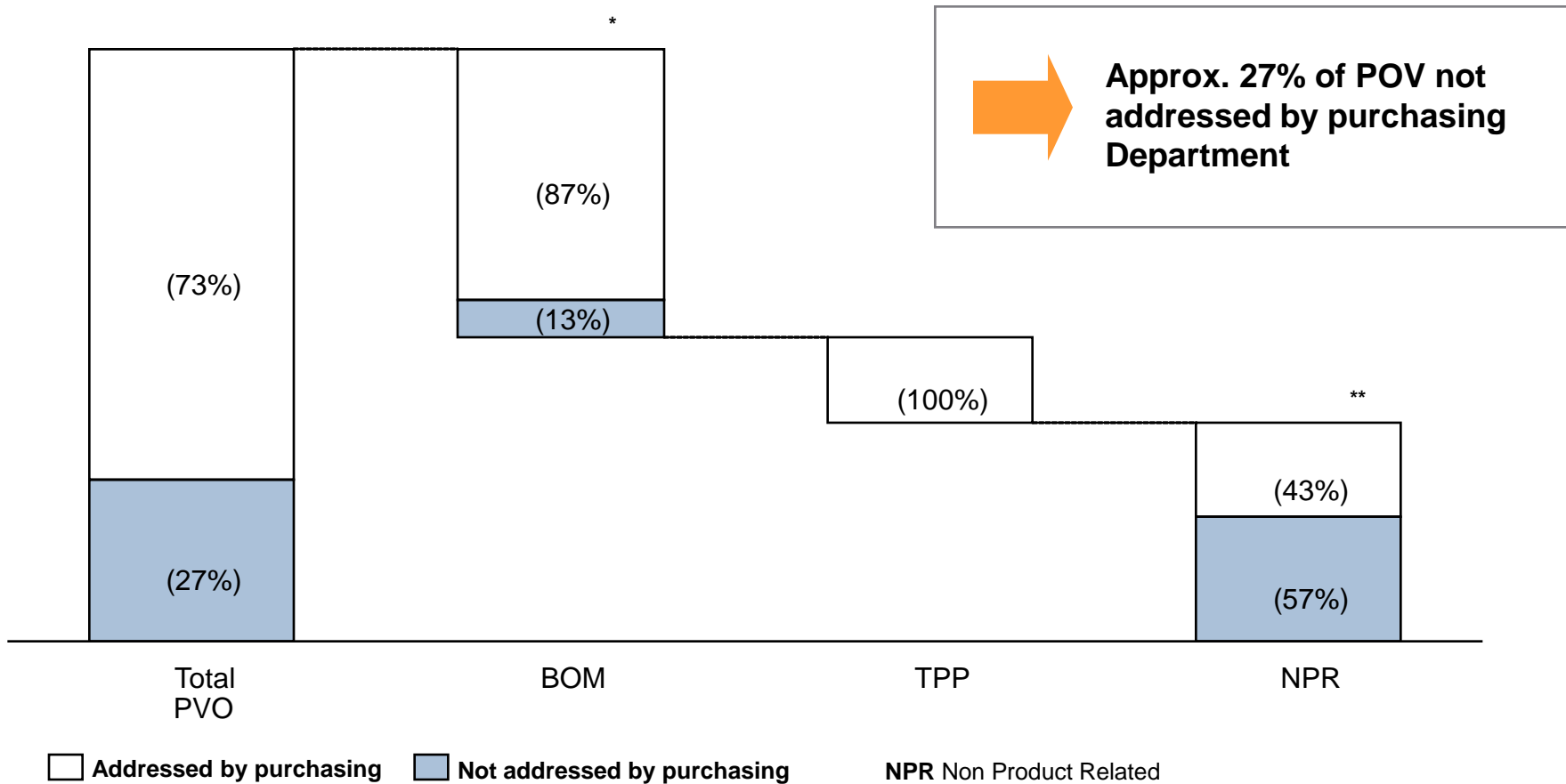
Efficient Supply Chain Management

Procurement

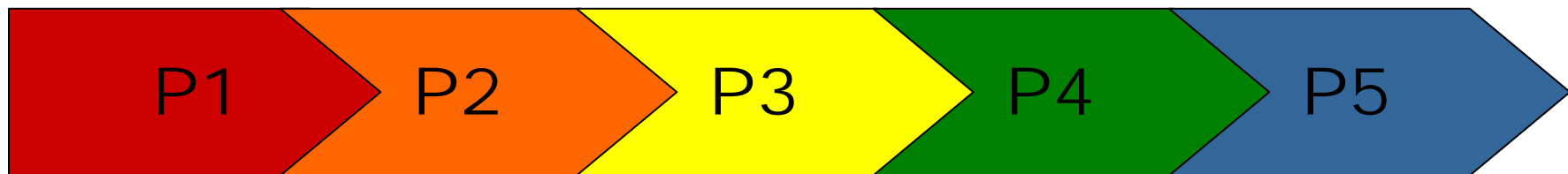
Example

Purchasing Maverick Buying

In Mio. €



Purchasing Excellence Roadmap



Basics

Contract Management
Data Management
Concern Management
Purchasing Know how
Basic Project Management
Basic Supplier Portal

Consolidation

Passive Commodity Management
Basics Supplier Development
Supplier Collaboration
Basics Supply Chain Management

Advanced Purchasing

Active Commodity Management
Advanced Supplier Development
Early Supplier Integration
Advanced Project Management
Target Costing

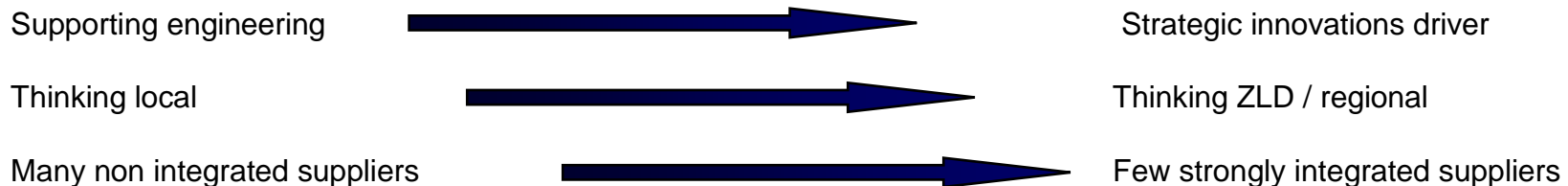
Integrated SCM

Vendor Managed Inventory
Optimised Added Value
Supplier Relationship Management
Strategic Supplier Integration
Advanced Supplier Portal

PURCHASING EXCELLENCE

Innovations Management
Integrated Supplier ERP Systems
Supplier Financial Monitoring
Performance-Indikators

Changes in the Purchasing Organisation by implementation of Purchasing Excellence:



Excellerate work streams – Sales

Sales (efficiency/effectiveness)

Example



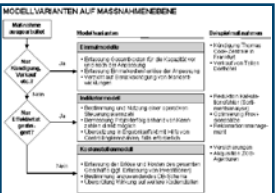
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Overarching	Organization design
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- Increase sales efficiency in 2010 and 2011
- Achieve savings of xM EUR in FY 10/11 and additional yM EUR in FY 11/12
- Implement optimum ratio internal to external sales until April 2011 – to create a structure that allows significant growth in the following years at relatively low cost increase
- Ensure customer satisfaction at least on today's level and sales people's performance

- Measuring PERFORMANCE – CONTROLS
AND TRACKING

Benefits of Excellerate tracking tool and controlling mechanisms

- Advantages of one central tracking tool
- Consistent tracking approach
 - Fair examination of saving targets across all initiatives
 - High transparency
 - Traceability of overall project progress

Controlling mechanism	Provided by tracking tool
 <p>Progress controlling, i.e. controlling the work stream's timeframe</p>	✓
 <p>Measure controlling, i.e. controlling successive increase of degrees of implementation of measures</p>	✓
 <p>Realization controlling, i.e. tracing real attainment of potentials</p>	✓*

* also covered by FTE tracking

Source: Excellerate team

Best practice approach to define a measure

Requirements to measure descriptions

- **Comprehensible** (to be understood also by "non-experts")
- **Specific** in wording
- **Actionable** (activities, milestones)
- Clear in **timing** (activities and P&L effect)
- **Measurable** (improvement potential vs. baseline)

Requirements to measure descriptions

- Describe all tasks, measures, and underlying activities with a **precise wording** and the **appropriate level of detail** (short but understandable also for non-experts)
- **Measure titles** need to indicate what the measure is about (how, where, etc.), use a **consistent wording structure**
- Be **specific** describing in actions, milestones, timing, etc.
- Indicate **profit improvement potential** against baseline as the effect should be **found in the P&L**
- **Provide Excel-based backup** including effect (impact and cost) of measure over time, potentially countereffects (e.g., volume transfer, market price change)

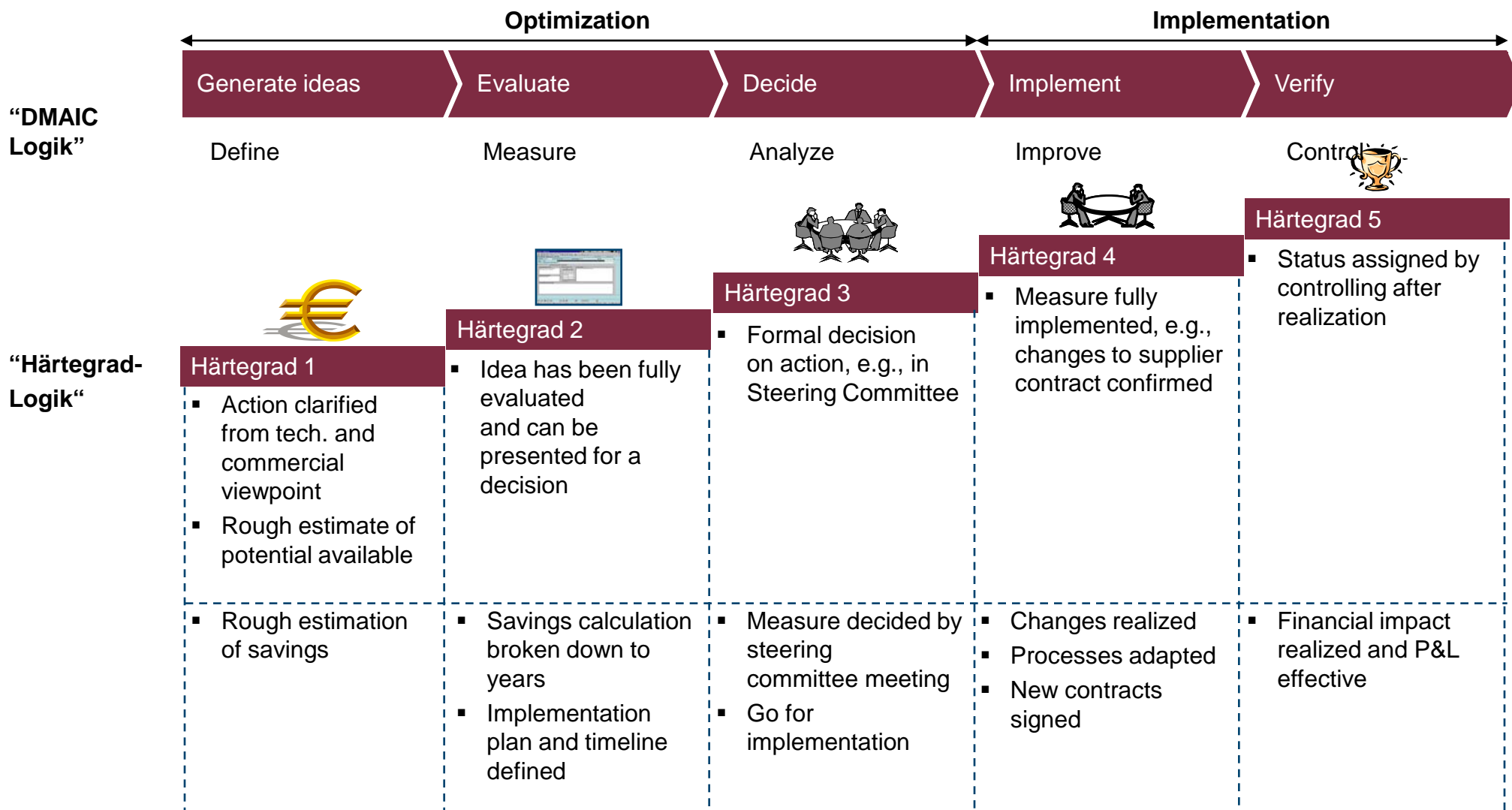
Counting of measures against baseline

- The **baseline** for all measure quantification is **2008/09 actual** from the annual financial statement (costs, volumes, prices, etc.). **Changes** in volumes, exchange rates, and prices need to be **noted separately**, but not included in the quantification of the measure itself. This helps the controlling department to bridge measures to actual, etc.
- The impact of a measure can be **either a cost saving** (e.g. reduction in IT cost), an **improvement of EBIT margin** (e.g., by selling a product mix that is more profitable), or a **cash effect** (e.g., reduction of inventory)
- The impact can be **reported** in the tool as
 - **"Personal"** = reduction of personal expenses
 - **"Material"** = reduction of material and purchased services
 - **"Other"** = reduction of other operating expenses, e.g., transportation cost or marketing expenses
 - **"Margin improvement"** = increase in profit margin, e.g., by pricing on product mix initiatives
 - **"Cash"** = non-cost effects like reduction of CAPEX or working capital (inventories, accounts receivables)
- Related **one-time costs and cash effect** are shown separately (as "implementation cost")
- Impact over time should be entered on a **quarterly** basis for each measure (non-cumulative). The reports will also show the calculated ramp-up (cumulative).

Source: Excellerate team

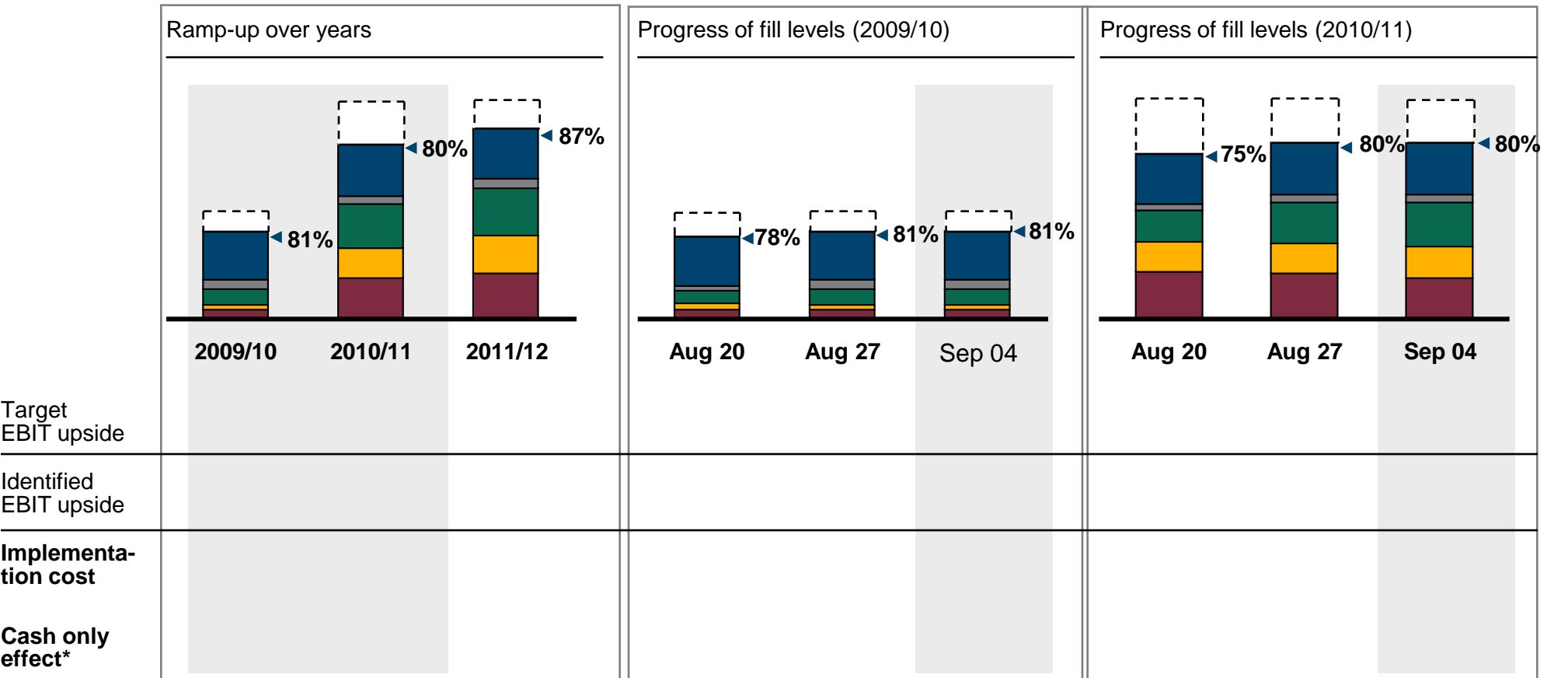
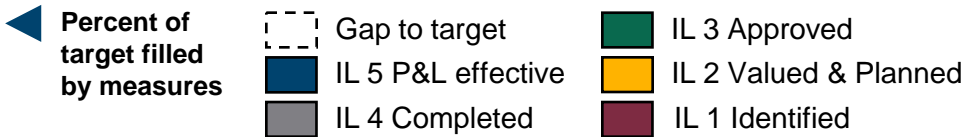
Five-Step degree of Implementation Logic

Enabling systematic processing of identified savings



Overall status Excellerate – Impact ramp-up by "Härtegrad"

Impact vs. baseline, EUR millions



* Cash only effect (Capex and change in working capital): "+" = positive cash effect, "-" cash-out

- Managing the UNCERTAINTY

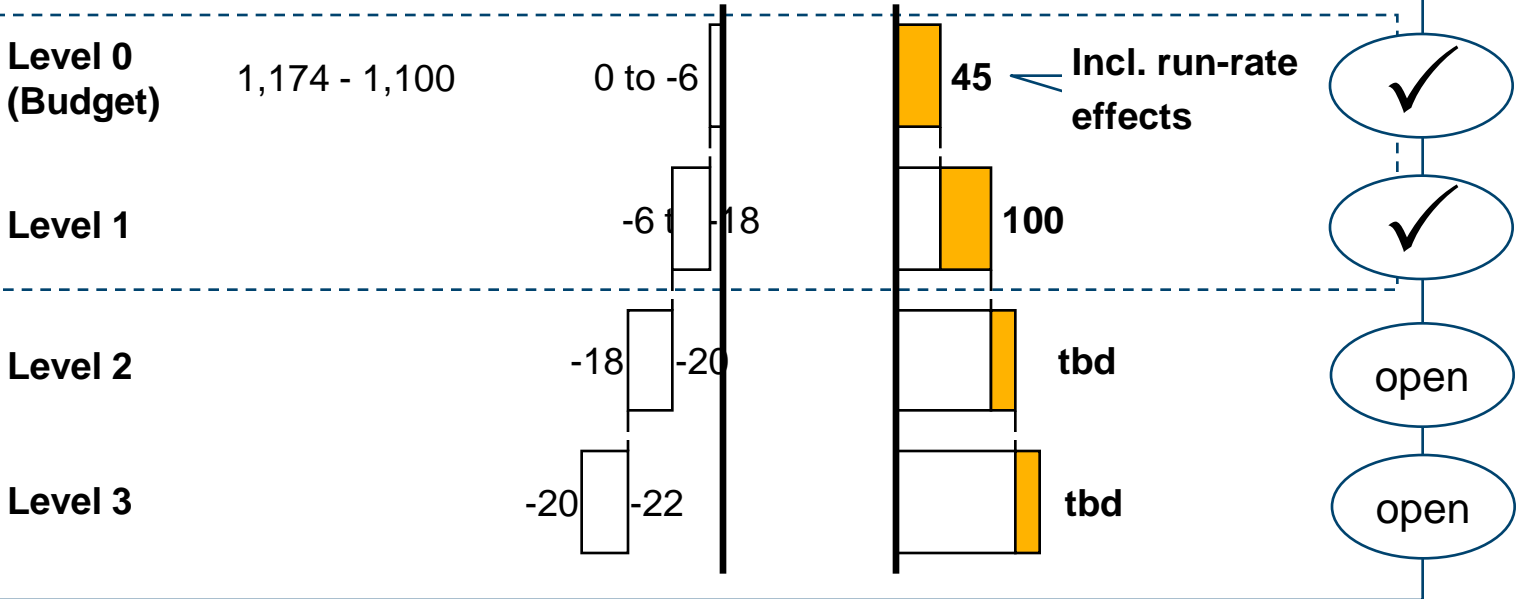
Trigger points approach to keep flexibility in reaction to market development

✓ Trigger pulled

Approach

- Identify/ detail improvement measures* to achieve EUR 100 million target, and to secure covenant Net Debt/EBITDA ≤ 3.5
- Prioritize implementation sequence (need to secure post recession growth)
- Vorstand pulls trigger to activate implementation of measures

Trigger levels	Revenue corridor EUR millions	Delta to FY2008/09 Percent	Required improvements 2010/11 EBIT impact vs. baseline** EUR millions
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* Bring measures to "Härtegrad 3", i.e. ready for implementation
 ** Baseline is actuals FY2008/09, scope Europe; calculation of required improvements accounting for implementation costs

Source: Excellerate team

SUMMARY

Outlook and Goals

Preparing for an even more demanding environment

- Stringent execution of increased “Excellerate” targets
- Maintain financial stability / Protect liquidity / Proposal to suspend dividend for FY 2008/09
- Focus on growth opportunities
 - LEDs as the technology of the future
 - Fully exploit energy efficiency opportunities
 - Stronger focus on selected global markets
 - Take advantage of global economic stimulus packages
- No detailed outlook for 2009/10 possible
 - Target:
 - ➡ To maintain positive free cash flow
 - Long-term goal:
 - ➡ To gain market share
 - ➡ To generate double-digit EBIT margins after the crisis

- Bound and determined
- Involvement of all units and hierarchies
- Proper definition of measures corresponding to the DAMIC Logic (Define, Measure, Analyse, Improve, Control)
- Continuous monitoring by the Steering Boards/Project Sponsor(s)
- Flexibility to react quickly to the unpredictable