

# Leveraging the Unique Perspective of the Finance Function & CFO to add Significant Value

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# Agenda

- Unique Perspective of the Finance Function
- The Finance Function and OneSteel
- Phases of OneSteel Strategy Development
- OneSteel – Examples of Reform
  - Strategic Capital Allocation Process
  - Strategy-based Performance Reporting
  - Budgetary Process
- OneSteel – Performance Since Listing
- Some Concluding Remarks

# The Unique Perspective of the CFO

The OneSteel CFO must view the world differently – a portfolio of businesses & customers

- Responsible for bringing financial discipline
- Must represent the expectations of investors
- Looks across businesses and functions
- Looks across governance and business performance
- Looks across internal business and external stakeholders – banks, investors, auditors, insurers, suppliers

# The Unique Perspective of the CFO as a Strategist

## Requirement to filter expansive data and information

- The CFO has to make sense of the infinite amount of data
  - internally-generated
  - externally-provided
- ...And pull out what is important
- The CFO has to develop Data collection and reporting processes that
  - Are efficient and effective
  - Support strategic focus
  - Align the organisation

## There are inherent trade-offs in fulfilling the role that need to be balanced

- Being conservative from a governance perspective



- Being aggressive to maximise business performance

- Yield



- Growth through M&A

- Risk



- Returns

- Profit



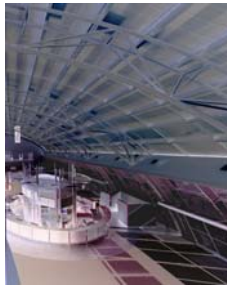
- Funds Employed

- Gaining cooperation of business



- Challenging business/ highlighting weaknesses





# OneSteel and the Role of the CFO and Finance Team

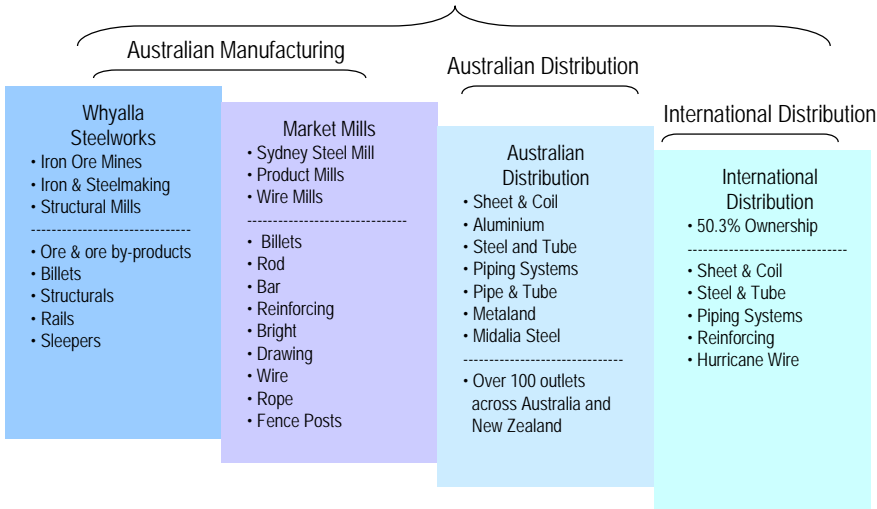
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# Who is OneSteel?

- Australia's largest steel long products producer
- Sales revenue \$4 billion pa
- EBITDA ~\$400 million
- Market cap ~\$2.4 billion
- Spun out of BHP October 2000

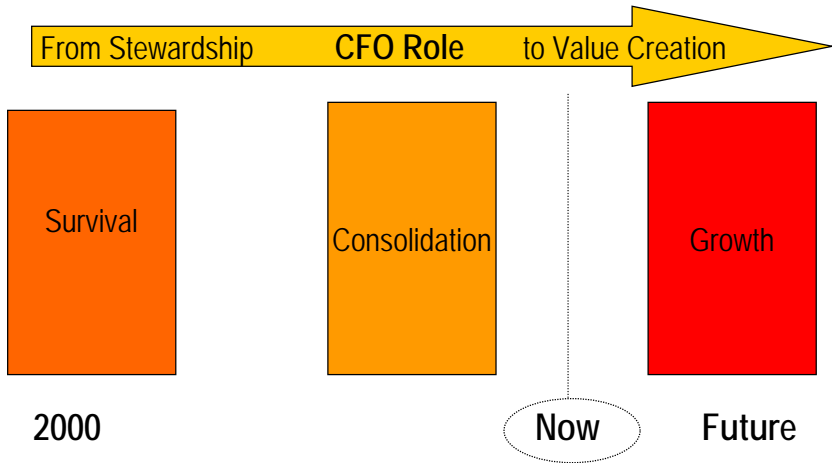
# OneSteel Business Divisions

## Typical Business Segment Reporting Approach





# OneSteel's Journey

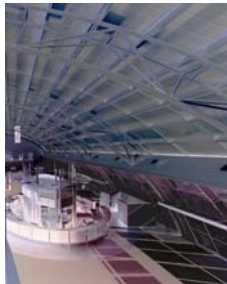


# OneSteel's Strategy Development Journey

- At spin out – survival mode
  - Finance team very much in stewardship role and cash generation
  - Focus on spin-out
- Consolidation period
  - Finance team transform into commercial team aligned with business objectives and repairing balance sheet
  - Focus on balance sheet
- Growth Period
  - Key players in developing and implementing strategy
  - Develop more appropriate measures around key drivers and KPIs
  - Commercial team focused on delivering commercial outcomes
  - “Activist and interventionist” operating style
  - Focus on growing shareholder returns

# The Unique Perspective of the CFO - OneSteel





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Some Examples of Reform

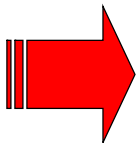
1) Capital Allocation Process

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# Capital Investment Allocation used to be based on Depreciation

## Resulting Behaviours

- Business units with high asset bases and depreciation believe they deserve more capital investment regardless of their ROFE
- Businesses focussed on spending the allocated capital whether or not it provided the best returns
- Businesses were not encouraged to invest in growth
- Business leaders defended their allocation of capital with little empathy for other businesses looking for additional capital investment for high returning projects



## Resulting Outcomes

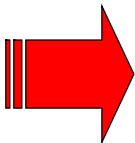
- The large asset based businesses spent more capital than the others
- Investments were biased towards business as usual and operational security
- Capital investments were not linked to or driven by strategy
- Capital investment budgets were generally underspent
- Capital investment provided little positive impact on the overall business ROFE

Access to capital was a 'right'

# Capital Investment is Now Allocated to Align with Strategy

## Process Adopted:

- Business units continue to be allocated a portion of investment for stay-in-business projects
- An investment pool is held at corporate to fund growth and profit improvement projects only
- Business units apply for allocation of funds from the pool
- Projects are prioritised according to set criteria based on link with strategy, PV/I, payback and NPV
- Growth Funds are allocated by the OneSteel Lead Team to the projects that meet the criteria and the highest ranking



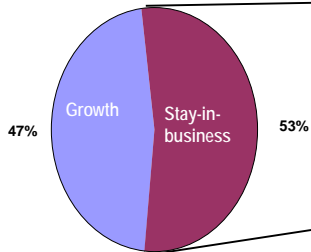
## Resulting Outcomes

- Business units continue to perform with reduced stay-in-business capital investment
- Business units are encouraged to seek growth projects to attract funding allocation
- Investment in profit growth excluding Project Magnet (\$355M) has moved from approximately 20% to almost 50%
- The growth pool fund has been approximately 90% utilised
- **Capital investment is now providing improved business ROFE**

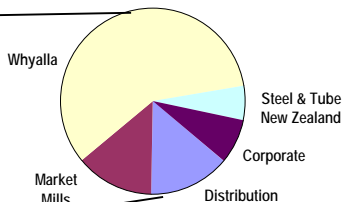
Access to capital is a 'privilege'

# Strategic Capital Allocation Result

Total Business Capital Spend FY07

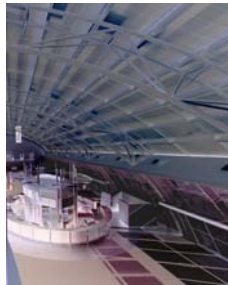


Stay-in-business Base Spend FY07



Total OneSteel capital excluding Project Magnet

Total OneSteel stay-in-business capital



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Some Examples of Reform

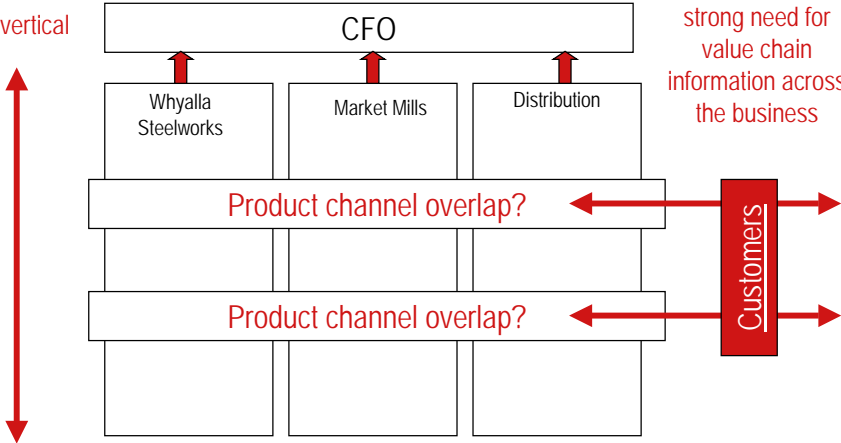
2) Commercial Rather than Financial Information

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# Information Flows

Information flow  
was vertical



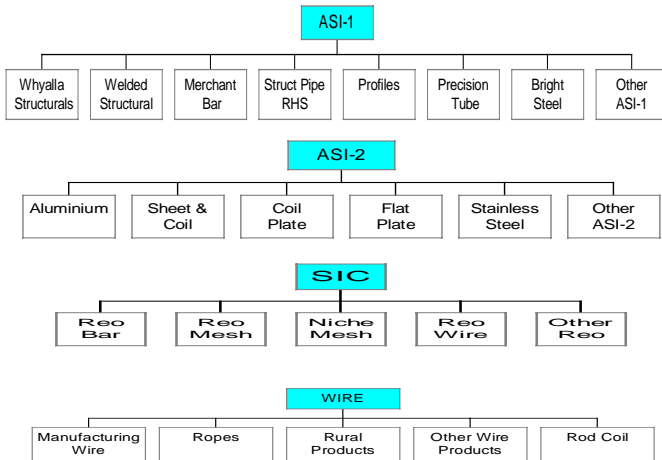
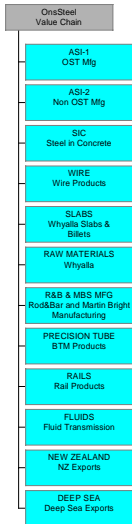
There was also a  
strong need for  
value chain  
information across  
the business

# Streamlined Information System

- New value chain information system delivers product, segment, state, location and customer profitability
  - Product and segment by EBIT and ROFE
  - 30,000 customers
  - 40,000 SKUs
- Covers over 200 locations from manufacturing to distribution
- Supports key strategies around customer and market insight and supply chain

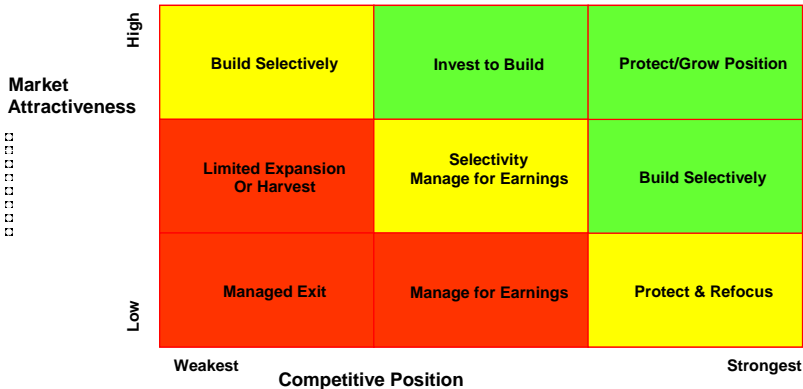
# Information Flows – Value Chains

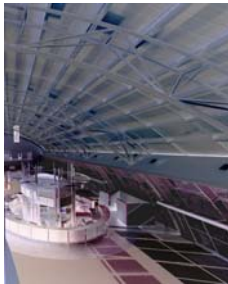
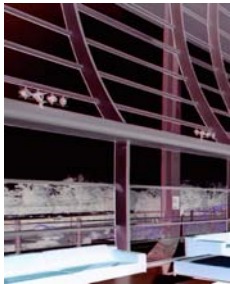
## PORTFOLIO VIEW



# Leveraging the benefits of the Vertical Value Chain

Having value chain data has allowed OneSteel to develop a portfolio positioning matrix for its businesses to extract more value from its operations and improve strategic focus and extent





# OneSteel

## Some Examples of Reform

### 3) Budget Focus

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## Budget Process- Protracted Time Absorbing and Detailed

OneSteel Budget process used to start in January and finish in May after numerous iterations.

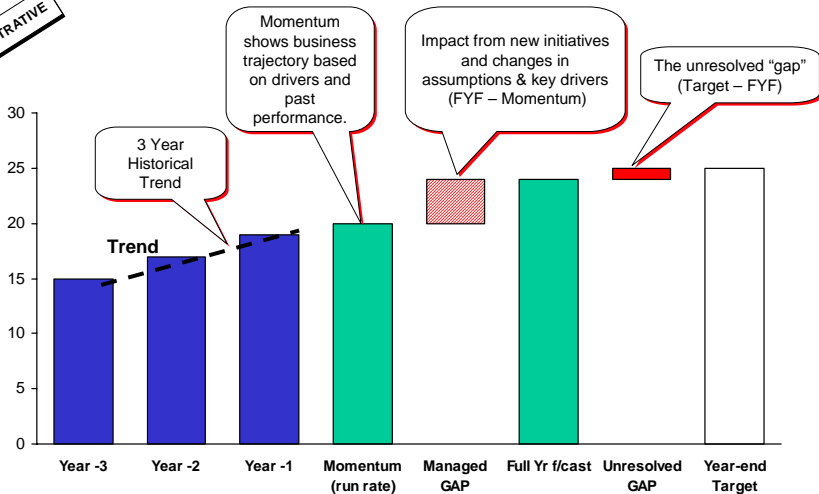
- The 5 yr plan was rolled out from the 1 yr budget – Rather than a plan it was a 5yr budget.
- The 5yr plan bore little relationship to the strategic plan.
- Tactically focussed with :-
  - Name and shame reporting
  - Budget forming the strategy
  - Inflexible to environmental changes
  - Time spent on solving today's problems
  - Mostly only high level financial measures in place

# Move to Strategy Linked, Target and Driver based Forecasting

- Strategic plan and 5 year forecast used to set the target for the annual forecast.
- Driver based rolling 18 month forecasting models updated quarterly.
- Forecast models are:
  - Driver based
  - Allow scenarios
  - Apply consistent company wide assumptions eg market plans, forex, awote.
  - Allow building and tracking the impact of initiatives.
  - Built on a single system platform (Hyperion Strategic Finance)
  - Same models used for 5 yr plan and rolling forecast.
- The "Budget" for the next financial year is the April quarterly forecast.
- Business units focus on generating initiatives required to achieve the target and build these into the forecast.
- Initiatives are linked to strategic themes running across the company.
- For operational management purposes the "Budget Systems" where required are populated once only after the driver based forecast has been signed off.
- The top down approach effectively sets targets for the budget systems and saves hundreds of employee hours previously caused by bottom up iterations.

# The Rolling Annual Forecast Focuses on "The Gap" in Forecast Performance

ILLUSTRATIVE





# The Focus on the “Forecast Gap” provides a Forward Focus.

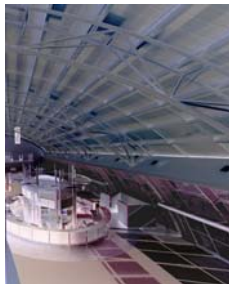
## FROM Looking in the rear view mirror

- Post mortem behaviour with energy applied to explaining and justifying performance against budget.
- Lack of recovery focus.
- Forecasts viewed as administration rather than management tools.
- Forecasts often left as budget ignoring actual performance, changing environment and actions required.
- Belief that detail means better and more accurate.
- Achieving budget does not always achieve the possible performance as the assumptions in the budget are fixed – “could be money left on the table”



## TO Looking forward taking note of what was behind.

- Target and “Gap” focused
- The underlying momentum forecast (based on actual performance trends) helps to expose and analyse the gap in future performance.
- Quarterly reviews with CEO and CFO focus on the initiatives to improve rather than defending performance to date.
- Forecasting tool is a valuable management tool to assess initiatives and scenarios.
- Belief that focus on key business drivers provides improved guidance for prioritisation vs being lost in the detail.
- Focus on targets for key drivers can highlight when performance should exceed budget/target when the external environment is favourable.

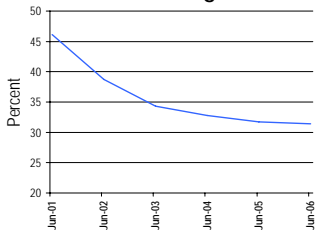


OneSteel – Performance Since Listing

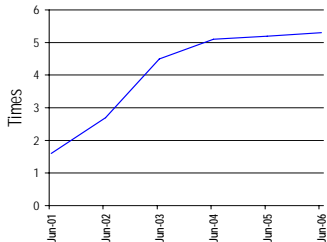
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# Trends in Key Financial Ratios

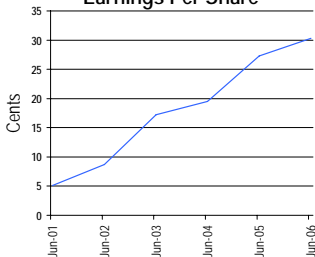
## Gearing



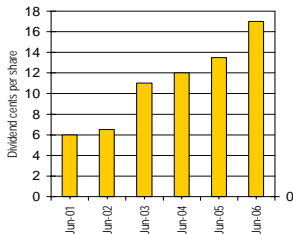
## Interest Cover



## Earnings Per Share



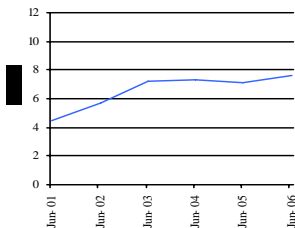
## Dividends



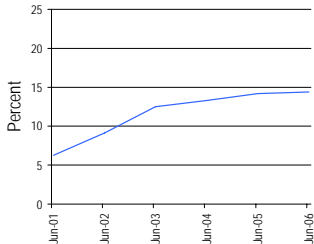
\* Calculated under AIFRS for June 2005 and June 2006, and under AGAAP for earlier financial years

# Trends in Key Operating Ratios

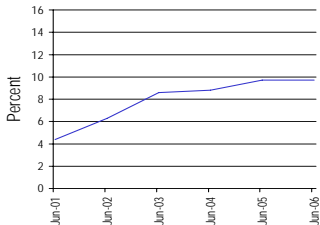
## Sales Margin (EBIT)\*



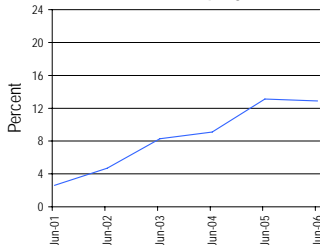
## ROFE (EBIT)\*



## Return on Assets (EBIT)\*



## Return on Equity\*



\* Calculated against EBIT and under AIFRS for FY05 and FY06, and against EBITA under AGAAP for earlier periods

# 10<sup>th</sup> Highest TSR over 5 years

Best Total Shareholder Returns on the Australian Stock Exchange over 5 years					
Rank	Company	Industry	5yr TSR (% pa)	1yr TSR (%)	Market cap (A\$ bln)*
1	Oxiana	Resources	90.3	75.8	2.386
2	Macquarie Goodman	Real estate infrastructure	86.0	20.5	6.955
3	Metcash	Retail	71.5	50.2	3.353
4	Caltex Australia	Telco/utilities	60.3	84.4	5.233
5	Unitab	Media/entertainment	48.3	24.1	1.812
6	Newcrest Mining	Resources	41.9	39.7	8.061
7	Toll Holdings	Transport	41.2	10.5	4.944
8	Boral	Industrial/materials	35.9	23.7	4.747
9	Alinta	Telco/utilities	35.7	42.3	2.899
<b>10</b>	<b>OneSteel</b>	<b>Industrial/materials</b>	<b>35.5</b>	<b>36.4</b>	<b>1.900</b>
11	Orica	Industrial/materials	34.8	7.1	6.341
12	Origin Energy	Telco/utilities	33.9	14.5	5.945
13	Sims Group	Industrial/materials	33.2	5.0	1.606
14	DCA Group	Health care	33.1	124	1.884
15	Downer EDI	Industrial/materials	32.3	25.2	2.118

Source: Boston Consulting Group April 2006

\* Market capitalisation as at December 2005

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## Some Concluding Comments

- CFO/Finance function role has grown beyond stewardship and reporting
- Today's CFO must be an integral part in driving corporate strategy and putting in place processes to support execution
- This requires taking on greater responsibility
- It also requires managing between conflicting objectives to find the right balance at the right time
- The OneSteel finance team is transforming into a commercial team focussed on delivering commercial outcomes
- How is success measured?