

# How to Manage the Developing Overcapacity in the Mediterranean Rim?





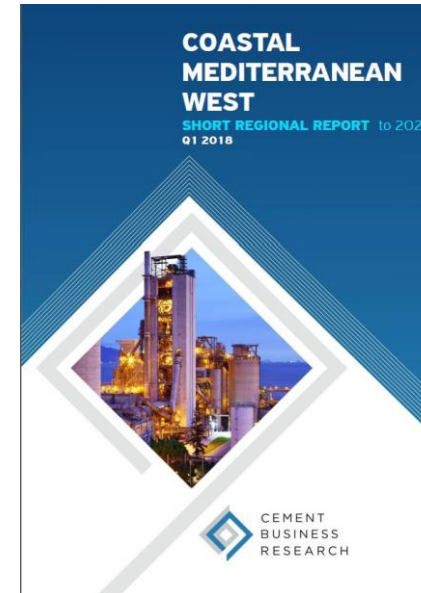
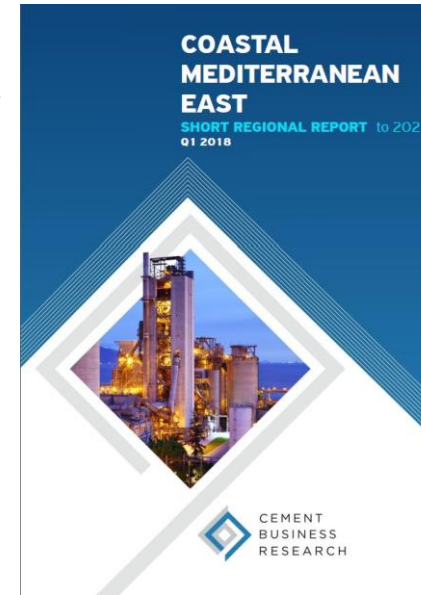
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**CBA**  
Cement Business Advisory Ltd.

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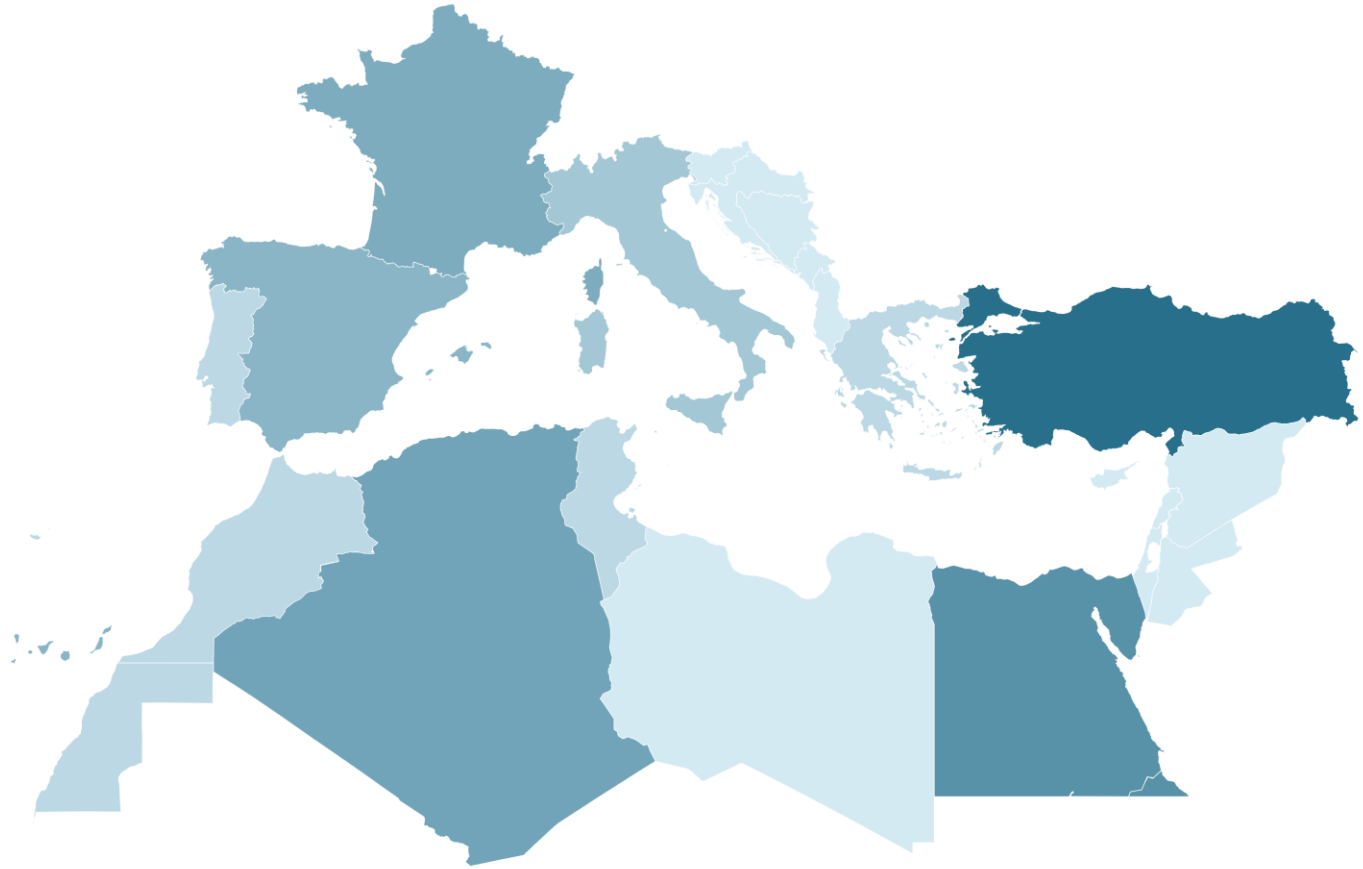
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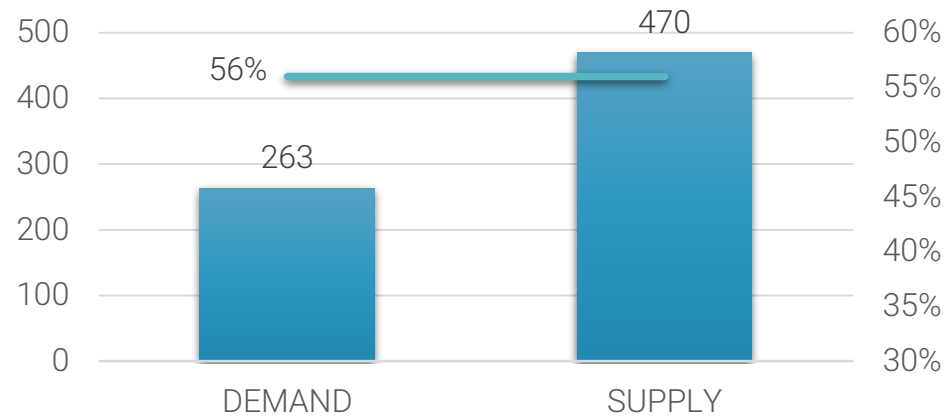


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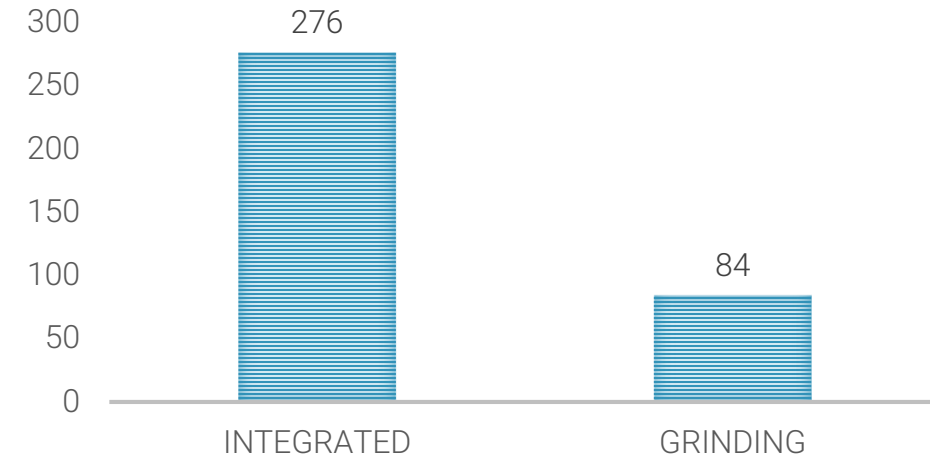
## The Mediterranean Rim



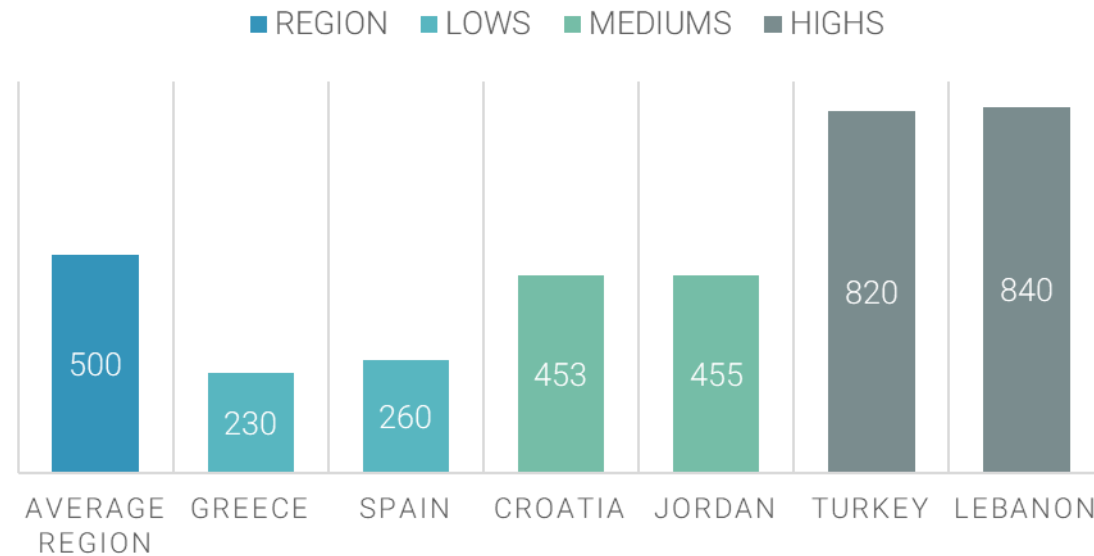
## SUPPLY - DEMAND in m tonnes AND DCUF™ - 2018



## NO OF PLANTS - 2018



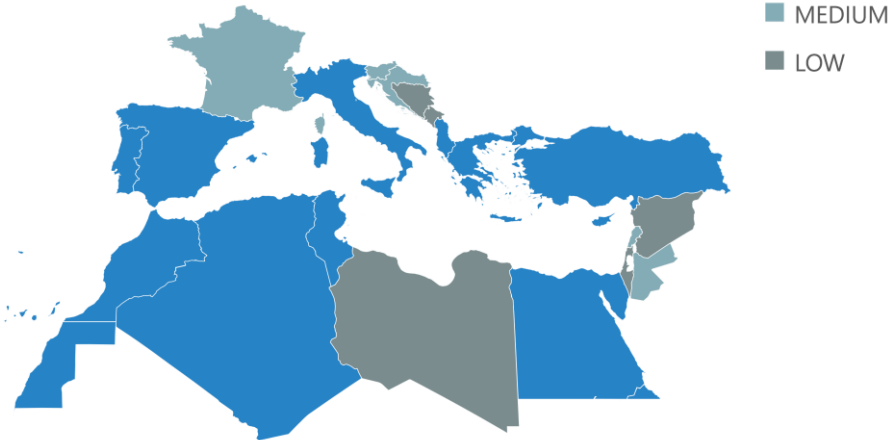
## PER CAPITA - KG



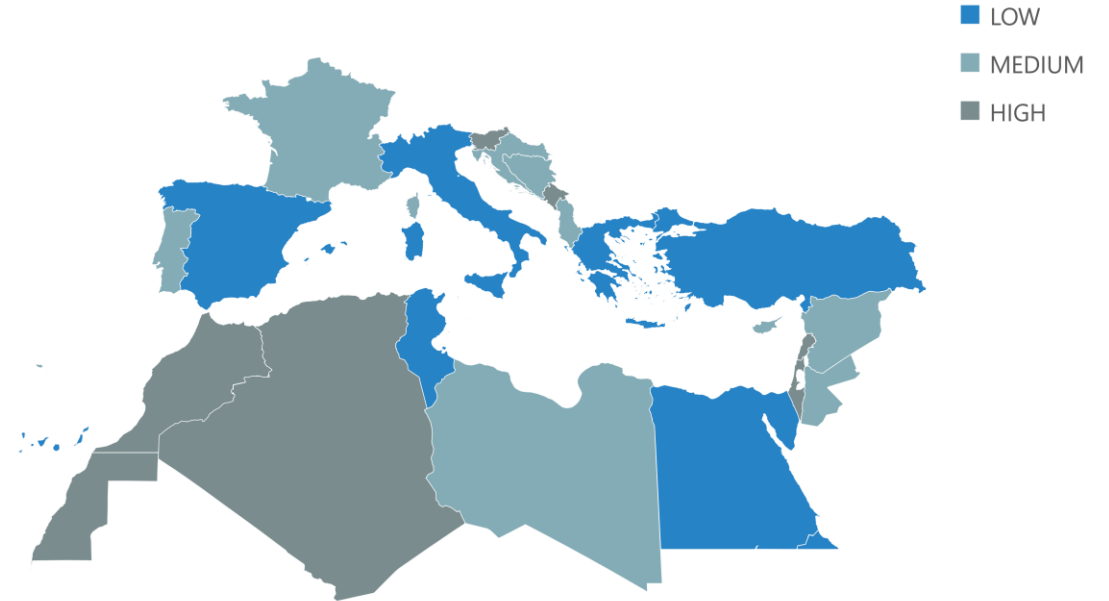
Source:  CemBR

# What is the impact of overcapacity and why?

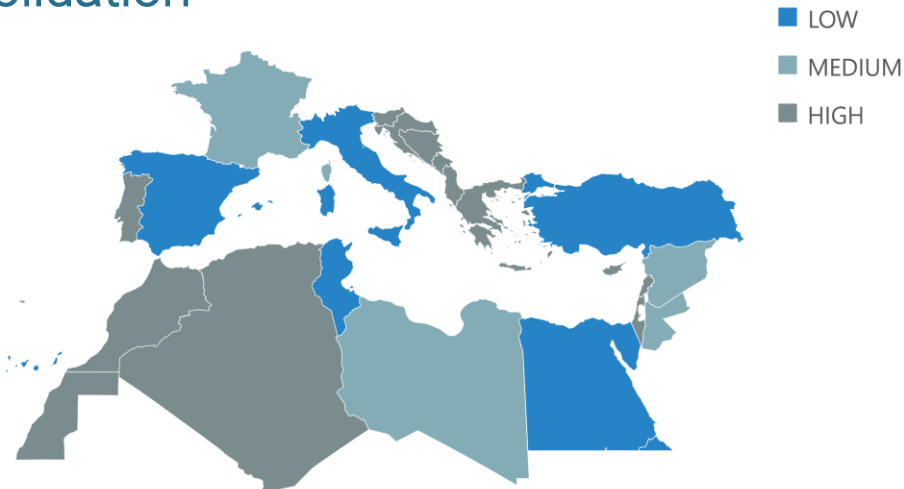
## Excess Capacity



## Profitability



## Consolidation



*Inverse correlation between:*  
Excess capacity and profitability – medium/high

*Correlation between:*  
Consolidation and profitability – very high

# STRATEGIC ASPECTS TO CONSIDER

## REDUCE EXCESS CAPACITY

Direct effect on capacity utilisation

How to reduce Excess Capacity?

- Increase domestic demand
- Plant closures
- Exports

## IMPROVE CONSOLIDATION

Direct effect on industry behaviour

How to improve Consolidation?

- M&A activity
- Ceasing of operations

Pre – crisis v 2018 capacity activity



Pre - crisis v 2018 Consolidation Index

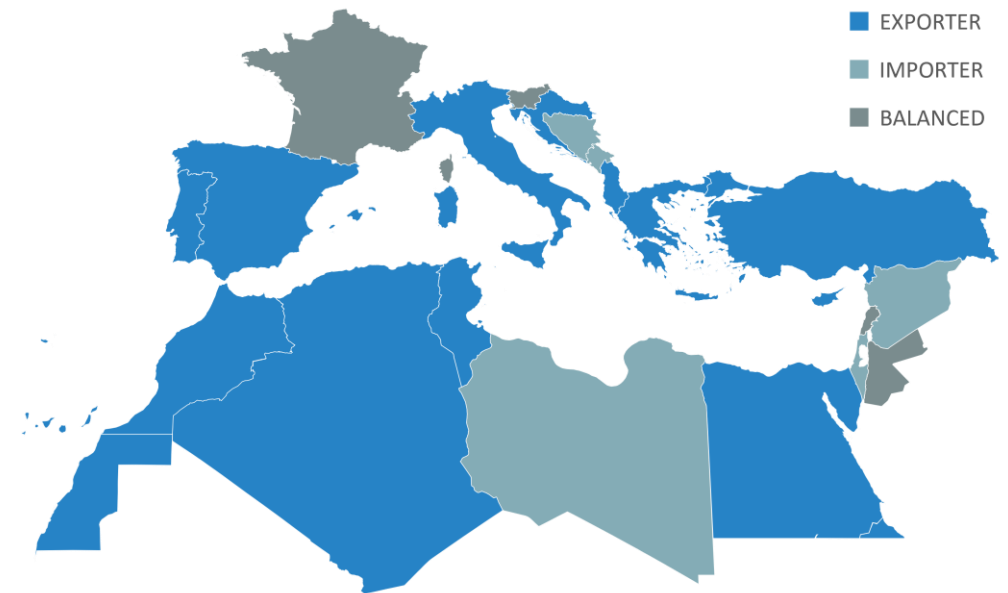


# EXPORTS

10 years ago: Net trading position



Currently: Net trading position



Many more industries moved into an exporting position in the last 10 years

Source:  CemBR



# EXPORTS

## Ten years ago: Exports

Exports boosted the already high capacity utilisation rates.

High growth markets lacked indigenous supply.

Cement was scarce and cement buyers abundant. Developed markets booming.

“Arms-length” trading was the norm.



“Nice To Have”

## Currently: Exports

The main option to improve significantly low capacity utilisation rates.

Many high-growth deficit destinations have installed indigenous capacity.

Demand reversals in developed markets did not help!

Many exporters “fight” for fewer importing destinations.



“A more complex situation”



# EXPORTS STRATEGY



Pillar I – Identify and recognise changes in the global cement trade



Pillar II – Internal diagnostics (what is the competitive position of your business vis-à-vis exporting activities)



Pillar III – Identify and prioritise potential destinations markets



Pillar IV – Assess potential destinations (what are the opportunities? Set targets)



Pillar V – Define ways for delivering sustainable export strategy (how to capture opportunities?)

## Pillar V

Consider investments in destinations markets – “skin in the game”

- Investing on your own
- Investing with locals
- Investing in minority positions
- Long term relationships with cement consumers in destination markets

## Pillar V - Examples

**MedCem:** investments outside Turkey

**Titan:** terminals in Europe and the USA

**Çimsa:** white cement terminals in Europe

# M&A ACTIVITY

## WHY SHOULD WE CONSIDER M&A?

Improves industry consolidation

In many cases leads to capacity closures and restructuring

In certain cases, it offers real synergies

Allows “non-committed” owners to invest in alternative opportunities

## WHY HAS M&A ACTIVITY BEEN SUBDUED?

### Value expectations out of sync!

**Sellers** often misjudge the “value of their business”:  
“Are we committed to this industry?”  
The business may be viewed in a “narrow” way  
Valuations may be based on “emotional” arguments  
“Paralysed” by book values and/or initial costs

### BUYERS

May have an opportunistic approach to acquisitions  
May assess targets on short-term criteria  
“We only buy when markets are booming!!!”

A more strategic approach to owning cement asset is required – committed v non committed  
Cement asset owners must recognise that the value proposition must be realistic  
Cement asset buyers must be thinking more strategically

# How to manage the developing overcapacity in the Mediterranean rim?



The region has developed significant overcapacity in the last 10 years



Committed cement players must address several aspects to manage the situation



Exports the main option to improve capacity utilisation rates, currently



Exporting must be considered as a long-term strategy with potential investments abroad



Every effort must be made to increase the Consolidation Index in several industries of the region



A balance between sellers' and buyers' expectations must be found – “non-committed” players must consider exiting their cement investments



There are other aspects that can be considered by committed cement players:

- Geographic diversification - cross border M&A
- Achieve sustainably low cost position
- Optimisation of sales into micro-markets



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CemBR was set up to provide “value for money” data and insights to companies and institutions seeking to assess investments in the global cement sector.

### Services:

Multi – client reports  
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