

“Better to win on a few fronts than to lose on many”

The discrete Belgian mineral group Sibelco celebrates its 150th anniversary this year. After a failed American adventure, the world leader has taken a new start with a new CEO, a new strategy, and new spearheads, such as glass recycling. “Our new industrial platform enables further growth” says Hilmar Rode, CEO of Sibelco.

“At 150 years old, you would think Sibelco is a company that is rusted and set in its ways. Not at all. Sibelco continues to reinvent itself. I have transformed many companies in the past, but there really is a story of growth behind Sibelco”, says Hilmar Rode, CEO of Sibelco.

The families who control Sibelco hired the experienced manager in 2020 to give Sibelco a thorough makeover. The company had just suffered serious damage after a failed American adventure in sand extraction for the shale gas industry which resulted in a net loss of EUR 671 million in 2019. Also operationally, sand had crept into the machine. The structure was too cumbersome, the internal dynamics too weak and the profitability was too low. Operating cash flow from continuing operations decreased slowly but surely between 2016 and 2020.

TRENDS: What new strategy did you devise for Sibelco?

HILMAR RODE: “Sibelco had a very broad strategy, but if your strategy is too broad, you lose on several fronts. We returned to our core business in which we have or can achieve a clear competitive advantage. We want to win on a limited number of fronts, instead of losing on many fronts. The focus will be on, among other things, the extraction of very pure quartz sand for the solar panel and semiconductor industry and on glass recycling. In our activities, we want to be a leader, if not the best. Only then can we win and create value, not only for our shareholders, but for society as a whole.”

TRENDS: How did you approach the operational activities?

HILMAR RODE: “Our operational systems and structures were somewhat neglected. The CEO was the only person responsible for the income statement, while we mainly rely on local activities with local sales prices. The logistics cost is too high to transport our products long distance. We have therefore set up 43 clusters. Each cluster is an operational entity of very similar activities. The activities in Dessel, Lommel, Maasmechelen and Heerlen form such a cluster because they all mine and sell quartz sand. Each cluster is responsible for its own results. In fact, these are all mini enterprises. The managers of these clusters become entrepreneurs within the larger Sibelco organisation. They like that. They thrive. There is, of course, management oversight to monitor and direct these clusters based on a general strategy. It is very important that we become a well-oiled machine. We are a complex company, with a turnover of almost EUR 2bn. We have almost 150 factories and more than 16,000 corporate customers. We receive 400,000 orders per year. We have 100,000 products and goods in stock. If we don't manage that complexity, chaos will weigh on profitability. If we do master that complexity, we will grow almost automatically.”

TRENDS: Is Sibelco's transformation reaching completion?

HILMAR RODE: “We need to become even more profitable. We came from a return of 5.5% on capital invested and are now at just over 8%. The target is to go above 11% in 2023, to reach at least 10% thereafter. You need that return to be able to grow and create shareholder value.”

TRENDS: How is the company digesting the rising costs and the state of the global economy in the short term?

HILMAR RODE: “We achieved strong results in the first half of the year and 2022 is expected to be better than 2021, despite the difficult market conditions. Our broad geographical presence allows us to stay close to our customers. We have passed the higher costs on to our customers in our final prices. We are also able to raise our prices further because we sell enhanced products. You can sell sand for EUR 10 per tonne, but if you turn it into pure quartz sand, you can make over EUR 1000 per tonne. We are therefore increasing our focus on innovation, both in our production and in our processes. From now on, we want to invest 1% of our turnover in innovation.”

“We did see the volumes sold decrease as from the second quarter of this year. This trend has become even stronger in the second half of the year. That is certainly true in construction and other energy-intensive sectors. Car sales also remain well below pre-pandemic levels. In the last two years we have done better than our stock exchange listed competitors. It’s too early to conclude that our transformation plan is already bearing fruit. It plays a role, but several of our activities were less affected by the corona crisis. We obviously want to maintain this better performance.”

TRENDS: Do you expect further consolidation in the sector?

HILMAR RODE: “The industry is still very fragmented. Outside of China, which is a market in itself, we are the global number 3 or 4 in terms of turnover. We see benefits in consolidation which is why our platform is also designed to handle further growth. We have already made several smaller acquisitions for EUR 150 million. Once these are running smoothly, we can become more ambitious. Buying is usually not a problem. Paying a correct price is already becoming more difficult. And a good integration is even more challenging. A larger acquisition will soon be possible as well, but we don’t need to risk a large acquisition. Organic growth and smaller acquisitions are already offering us many opportunities with a high return for a limited risk. Large mergers or acquisitions are synonymous with major problems. They are often expensive, and the cost is high if things go wrong. We look at everything in our industry, but we will proceed thoughtfully and carefully.”

TRENDS: Is Sibelco’s balance sheet strong enough to finance those growth opportunities?

HILMAR RODE: “Yes. After financing the acquisitions and payment of the dividend, we will still have cash left this year. We also have credit lines available with our banks. In addition, we raised EUR 350 million in early April, through the placement of a 5-year bond. We are ready for opportunities.”

TRENDS: Are you a shareholder of Sibelco?

HILMAR RODE: “No. Sibelco's management does not buy shares in the company. I did not ask about the philosophy behind this arrangement. However, the interests of management are well aligned with the interests of the shareholders via short- and long-term incentive plans. These incentives give the management the feeling that they are also owners of Sibelco. In the short term, our remuneration is determined by financial parameters such as operating cash flow and free operating cash flow, and by our safety performance. For the next 3 years, those parameters include free cash flow, the return on capital employed, as well as strategic measures such as the reduction of CO2 emissions and the diversity and gender balance of the company.”

TRENDS: What is your sustainability strategy?

HILMAR RODE: “Last year we have put in place an ambitious sustainability strategy. We want to reduce our CO2 intensity by 5% per year between 2021 and 2030. That is ambitious and demanding.”

This cannot be done without providing financial motivation to your management. We currently have an internal CO2 price of EUR 60 per tonne, and we calculate the CO2 emissions for each site. In the future, we will probably further increase this CO2 price. We emit a relatively low amount of CO2 through our production processes, but our customers, such as the ceramic and glass industry, do emit a lot. That's why we want to work with our customers to reduce their emissions. We see opportunities there. If you use resources and people, you can do more than you might expect. The glass industry specifically is a conservative sector that does not embrace change easily. We can help the sector to rethink their production processes. The entire value chain must become more climate friendly, or it is in danger of being compromised. That's a risk for us."

"In addition, we are also making great efforts to reconstruct our quarries at the end of their lifecycle and to reintegrate them into nature. We see that reconstruction as a competitive advantage. If you're big enough to do that well, you can set yourself apart from smaller or less scrupulous competitors. We invest in sustainability not only because it fits with our values and because it is required by law, but also because it is where we can really make a difference. Today in Western Europe, it takes 10 years to make a new mine operational. We also need to work hard to replenish the reserves of the minerals that we mine each year. That creates a threshold to market entry. So we want to build protective moats around our business. A thorough sustainability strategy can become a barrier to market entry, but we see it as an investment and not as a cost."

COMPANY PROFILE SIBELCO

- **Founded** in 1872 by Antoon Van Eetvelde When digging the Albert Canal, very pure quartz sand was discovered by chance. It led to an economic boom for Mol, Dessel and Lommel.
- **World leader** in minerals with approximately 5,000 employees and 120 production sites in 31 countries, accounting for a turnover of EUR 1.7 billion and a net profit of EUR 77 million in 2021.
- **5 core activities**
 - The extraction and processing of quartz sand as a raw material for the ceramic and glass industry.
 - World leader in the extraction of very pure quartz sand that is suitable as a raw material for the production of solar panels and semiconductors. This sand is only mined in the US. "We see strong growth in these high-quality applications" says Hilmar Rode.
 - The extraction of clay materials, also for the ceramic and glass industry. Here the growth is in line with the evolution of the economy.
 - The extraction of olivine sand. That sand is traditionally used in the steel industry, but this demand is falling. However, olivine sand can also be used to remove CO2 from the air. "We want to use olivine as a technology to reduce CO2 emissions" says Hilmar Rode.
 - Glass recycling, which leads to lower energy consumption in the glass sector. Hilmar Rode: "In recent years, recycling has seen steady growth. Our turnover has doubled, partly due to several targeted acquisitions. We are now the European market leader. We still see a lot of opportunities in Europe, because we have a competitive advantage. Glass recycling is also boosting our ambition to increase the circularity of our activities. Last year, 7% of our turnover came from circular activities. By 2030, this should be 20%. In this context, we are also working on solutions to recycle MDF boards in a factory in Genk."
- **The activities in Ukraine and Russia** accounted for 8% of turnover and 10% of the company's cash flow in 2011. Hilmar Rode: "We operate 3 clay pits and a joint venture in quartz sand in Ukraine, but these activities are currently located in the area controlled by Ukraine (editor's

note: situation early November). The most important thing is that our employees are safe. Our business in Russia is operational, but works as a stand-alone company, strictly following the sanctions against Russia. The organisation is financially self-sufficient, and we no longer invest in it. We may have to book depreciation on these activities at the end of this year.”

- **Shareholder structure**

The controlling families hold the majority of shares, with the founding family Emsens as the main shareholder. In addition, German competitor Quarzwerke also acquired 13% of Sibelco in a share exchange in 1976. Sibelco is listed on the Euronext Expert market. The market capitalisation amounts to EUR 2.4 billion, currently priced at EUR 5,100 per share.

SIBELCO RESULTS

IN MILLION EURO	H1 2022	2021	2020	2019
Turnover	972	1680	1975	3295
Operating result	113	115	92	-1269
Net result (*)	86	74	78	-671
Shareholder equity	1201	1122	1053	1114
Balance sheet total	2527	2048	1913	4160
Number of employees		4995	5186	8181
- In Belgium		348	344	344
- Dividends		55	50	7

(*) net result attributable to shareholders

BIOGRAPHY HILMAR RODE

- German nationality, born in South-Africa, 55 years old
- Chemical Engineer (PhD) with a master’s in environmental engineering and an Advanced Management degree from Harvard Business School.
- 2007-2011: CEO zinc department at commodity trader Glencore in Bolivia
- 2011-2014: Head of Restructuring of the zinc division at Glencore
- 2019-2020: Head of Operational Strategy at Glencore
- 2016-2019: CEO at metal processor Nyrstar
- September 2020-present: CEO Sibelco