

# SIMS METAL MANAGEMENT



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Sims Metal Management is the world's largest metals and electronics recycler with operations in Australasia, North America and Europe.

Over recent years, Sims has come under pressure from challenging market conditions, falling margins and poor capital management. Following the introduction of a new management team and corporate strategy, we believe the pieces are now in place to restore profitability back to the business.

Under direction of the CEO, Galdino Claro, management have formulated a simple five-year strategy to revitalise earnings. While management forecasts are optimistic, we believe they are achievable.

The simplicity of Sims' corporate strategy heightens our conviction. Success is not reliant on any major growth assumptions, M&A activity or economic recovery. Corporate strategy will focus on developing operations where the business' key competitive advantages of scale, export positioning and global trading network can best be leveraged. Internal initiatives outlined to improve the business include:

- Streamlining overhead and fixed costs,
- Exiting loss-making, non-strategic operations,
- Strengthening supplier relationships,
- Optimising operational efficiencies, and
- Rationalising capital management.

Sims' Australian operations are the backbone of the business, generating reliable cash flows to fund business expansion. However the key opportunity for Sims rests in North America. Pleasingly, management are focused on this geographic and are investing in this business to grow. At present the North American segment accounts for a large portion of group revenue yet is contributing little to bottom-line earnings; the potential to raise US margins is high.

A renewed strength in Sims' management team and balance sheet will help drive operational change. While market conditions are expected to remain subdued over the near term, we believe Sims will generate significant value and earnings improvements over the intermediate term.

Sims Metal Management is currently held in Perpetual's Industrial Share, Concentrated Equity, Ethical SRI, Share-Plus, Direct Equity Alpha and Pure Equity Alpha Funds.