



COAL CO

AGENDA

Background

Spend Profile

Strategy – Analysis/Risks

Procurement Team

Further
Recommendations



OVERVIEW



Best Premium Quality Metallurgical Coal Provider
Revenue breakdown
Market Share
Main Clients



THE ISSUE AT HAND

- Wasteful duplicate costs
 - Decreasing EBIT Despite Rising Revenues
- Technology Curve
 - Chinese and Indian companies rapidly advancing
 - May not be “the best” soon

Smaller issues:

- Inter-Branch Communication lacking
- Product-Customer distance

ON THE CEO'S GOALS

Short term:

1. Dropping costs 15% and 5% per year after
2. Improve customer service with current clients
3. Grow revenue with market expansion

Long term -> short term:

- R&D for tech advances
 - Differentiating factor to maintain the best quality
 - Stay ahead of the curve

INDUSTRY AND MARKET CONDITIONS



Manufacturing sector rapidly developing
Steel supply > demand



Steel prices drop → coal prices drop



Coal Co forced to aggressively cut costs



Political Pressure towards “clean energy”



Oil Prices declining:
-> good for production + transport costs

FINANCIAL OVERVIEW

- Revenue up 22% in 2016, but EBIT is down 7%
- But COGS and Operating Exp decreased
- Large unknown expense
- Coal Company Operating Ratios 10-40%

Income Statement (in Millions)	Year End December 31				% change
	FY 2015		FY 2016		
Revenue					
<i>Coal Production</i>	\$ 63.8	65%	\$ 71.5	65%	
<i>Value Add Services</i>	\$ 34.4	35%	\$ 38.5	35%	
Total	\$ 98.2		\$ 110.0		22%
Costs					
<i>COGS + Op Ex</i>	\$ 80.1		\$ 73.2		
<i>Other</i>	\$ 8.1		\$ 27.5		
Total	\$ 88.2		\$ 100.7		
EBIT	\$ 10.00		\$ 9.30		-7%

SPEND PROFILE ANALYSIS

- 62,640 total purchases over 2015-2017
- At least 10-12% of them are duplicates between offices
 - 49% duplicates,
 - 1361 purchases averaging \$100-300k per purchase
 - slight overestimate
- One certain company charging multiple branches separately

```
In [22]: df_out = df[df.duplicated(subset=['Company', 'Vendor'], keep=False)]  
          .groupby('Company')['Vendor', 'Ext Amt']  
          .agg({'Vendor': 'nunique', 'Ext Amt': 'sum'})  
          .rename(columns={'Vendor': 'Count_Dups'})  
  
          #Create Avg Duplicate Column  
          df_out['Avg. Duplicate Amount'] = df_out['Ext Amt'] / df_out['Count_Dups']  
  
          df_out.head()
```

Out[22]:

	Count_Dups	Ext Amt	Avg. Duplicate Amount
Company			
ABO	293	2.837827e+07	96854.154642
BLH	537	4.281682e+07	79733.370205
CFE	197	1.558241e+07	79098.550863
DME	334	1.081347e+08	323756.481587

SPEND PROFILE TRENDS

State	Quarter	2015	2016	2017	Totals
West Virginia	Q1	\$ 8,738,046.21	\$ 6,477,946.58	\$ 25,684,442.91	
	Q2	\$ 11,434,519.79	\$ 9,979,244.55	\$ -	
	Q3	\$ 10,897,230.51	\$ 10,043,007.34	\$ -	
	Q4	\$ 9,159,026.97	\$ 15,954,479.63	\$ -	\$ 109,192,587.50
Illinois	Q1	\$ 3,351,571.43	\$ 2,171,090.29	\$ 4,496,948.99	
	Q2	\$ 4,634,909.36	\$ 2,597,254.89	\$ -	
	Q3	\$ 1,942,600.31	\$ 3,341,774.54	\$ -	
	Q4	\$ 2,180,795.38	\$ 3,292,146.84	\$ -	\$ 28,750,814.18
Arizona	Q1	\$ 2,217,299.48	\$ 2,293,215.11	\$ 8,806,942.62	
	Q2	\$ 5,255,871.29	\$ 3,678,378.53	\$ -	
	Q3	\$ 7,436,218.55	\$ 3,214,225.04	\$ -	
	Q4	\$ 4,584,849.26	\$ 4,513,172.77	\$ -	\$ 43,169,789.84
Montana	Q1	\$ 2,301,888.13	\$ 1,088,710.83	\$ 1,460,677.58	
	Q2	\$ 5,186,365.02	\$ 1,512,022.08	\$ -	
	Q3	\$ (569,054.10)	\$ 1,800,814.62	\$ -	
	Q4	\$ 1,342,050.70	\$ 1,289,118.87	\$ -	\$ 15,693,837.54
BIQ - Other					\$ 419,728.20

Costs increasing

- DME's costs >/= sum of all others
- 2017 Q1 costs are on track to be highest of last 3 years

Oil costs?

Quarterly costs start low
reach peak at Q2-3,
before tapering off Q4, except for West Virginia

COAL CO'S SPEND PROFILE KEY POINTS



LONG TERM AND
SHORT TERM COST
SAVINGS



NEGOTIATE BETTER
CONTRACTS



REDUCE STRINGENT
REGULATIONS



REDUCE TRANSPORT
COSTS

Short Term

- Salaries and vendor review

Long Term

- Bulk purchasing materials and supplies
 - Only purchase manager approval
- Integrated SAP system
- Oil Price Tracking

**KEY COST
SAVING
AREAS**

RESELLING PROCESSED PRODUCT



Re/negotiate contracts



William Boone's relationships ->
contracts



Market turbulence in
future

Fair market value clause



Vendors

CW Coal's fees

Valley Coal tiered payment
plan

Till Inc. cheaper equipment

REDUCE STRINGENT REGULATIO NS

With onset of Foreign technology catching up

Leveraging cheaper labor and resource costs

Coal as good as ours in 2-3 years



Negotiate optimal coal quality

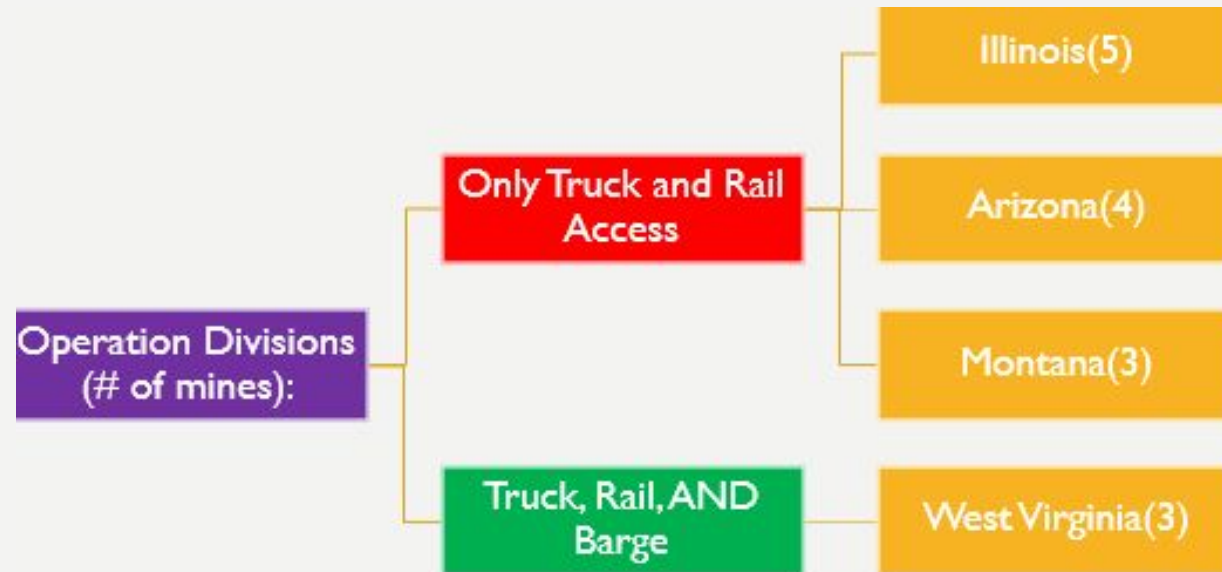
Between
92-97%

Steel
Manufacturers
don't need
97%

Best vs
Acceptable
Quality

Still maintain
"best" coal

Less
expensive coal
processing



REDUCE TRANSPORT COSTS

Open a West Coast Port

- 20% of customers located closer to the West Coast
 - China and Australia
- 12/15 mines with no direct access to international clients
- West Coast lacks East Coast's barge access
 - Arizona fulfilling client orders late
 - Montana feels cut off due to lack of communication

Purchasing Director Percy Rock

- Promotes direct relationships
 - Lacks communications with own Purchasing Managers
 - Old fashioned + uncompetitive

Lucy Lawless (MBA)

- Better vision with the right resources
 - Fully implement her purchasing and communication improvement
 - Will utilize “statistics, bar charts, and reports”

PROCUREMENT TEAM

RISKS

- Removing Purchasing Director Percy Rock
 - Lose William Boone and him to competition
 - Solution: set contracts, remove their potential sway
- Implementing Lucy Lawless
 - 4 years vs 25 years experience
 - MBA theory vs actual practice
- High cost/new relationship of West Coast barge setup
- Possible cyclical conflicts with clients

COST SAVINGS

- Given 10-12 % savings
- - West Coast Barge initial cost + potential savings

FURTHER RECOMMENDATIONS

- Ask for further in-depth financials
 - Pinpoint exact waste expense areas
 - Comparable company ratios
 - Optimize % coal quality decrease for cost drop
- Further research coal industry to maximize efficient R&D spending
- See if long term initial Electric Truck(Tesla) costs < gas transportation prices

Q&A