



# CFCM: Copper Fabricators Competitive Monitor

## Year 2022 - n. 90/22 – Excerpt for Elcowire

**An interesting interview with Paul Gustavsson, CEO of ELCOWIRE GROUP, offers a good insight into the development path of one of Europe's largest suppliers of copper wire rods and wires. The interview with Bengt Liljedahl, CEO of the LILJEDAHL GROUP and Chairman of ELCOWIRE GROUP, complements the overview and offers interesting clues to frame the role and the empowering management style of the holding company. An inspiring combination of long-term vision, family business and managerial approach, with attention to innovation and sustainability.**

The recent acquisition of KME Mansfeld's copper wire rod and wire business has given additional visibility to Elcowire, the Swedish industrial group that until now was mainly present in the Northern European markets and has now become one of the largest European producers in the sector, with a doubling of capacity and two large production

plants, one in Sweden and, now, another in Germany, a first-rate market in the industrial heart of Europe.

Around four months after the acquisition was completed, we interviewed Paul Gustavsson, at the helm of Elcowire since January 2018, to put the deal into the context of the Group's current and future development. The interview also allowed us to develop broader topics related to the many uncertainties weighing on the future evolution of the market.

We also thank Bengt Liljedahl, CEO of Liljedahl Group and Chairman of Elcowire, for his availability and support in complementing the vision of the Swedish group. With him, we explored the management approach of the parent company towards its subsidiaries, including possible current and future links between Elcowire and Dahrén, the only two companies in the Liljedahl Group active in the copper fabricating industry.

Two interviews full of very interesting insights, which give us an image of a group in which family business

and managerial approach complement each other harmoniously and in which the entrepreneurial spirit and the long-term vision retain a prominent role in shaping the future.

**The first part of the interview was with Paul Gustavsson**, and could only begin with the recently completed acquisition.

**Elcowire has recently completed a significant acquisition by purchasing the wire rod and wire business of KME Mansfeld. Before talking about the increase in capacity and the expansion of the product offering, can you explain what this acquisition means in terms of strategic perspectives and future development for Elcowire?**

One of my key objectives, when I joined the company in 2018, was to focus Elcowire on

attractive areas with a strong foothold in Europe, which is our core market.

We therefore dissolved our JV in US, acquired the Rail business from NKT, relocated and consolidated the production from Mannheim, divested our business and operation in China, and eventually acquired the Rod and Wire business from KME in Hettstedt, which will add and increase our products, capabilities, capacities, and geographical coverage.

It means we can offer a wider product portfolio to a wider group of customers and to more sites, as well as access to an extended sourcing base. It has also strengthened our company by becoming a more significant player in our market.

**As you have pointed out, this acquisition also enables Elcowire to expand its wire product offering and its geographical reach, which has so far been mainly concentrated in Nordic Europe.**



Paul Gustavsson

*Elcowire Group's CEO*

*Photo by courtesy of Elcowire Group*



**It will therefore strengthen your positioning in large and growing markets. This all sounds like a challenge and a great opportunity at the same time. Can you briefly comment on this?**

The short comment is “yes”. It is both a challenge and an opportunity. We put sustainability as our overarching commitment in everything we do, and all opportunities are considered and evaluated if they support our long-term commitment. This means, we don’t rush into things, instead we want all our stakeholder relationships to be long term sustainable.

At the same time being larger and bigger comes with more responsibility and higher expectations. Greater responsibility is followed by greater accountability in everything we do.

**As we have mentioned several times on CFCM, this deal allows Elcowire to double its capacity**

**for wire rod to 300,000 tons. This positions you as one of the leading European suppliers of wire rod, the second or third-largest in terms of volumes. Do you think there is room for further consolidation in the European competitive scenario for copper wire rod?**

I believe our industry has limits to further consolidation, but that does not mean it is impossible, as long as it is logical, provides added value to all stakeholders, and is appreciated by customers.

**How do you plan to integrate the newly acquired business into Elcowire’s operational and organisational structure? Will there be any streamlining and focusing of the two plants in Sweden and Germany?**

I am glad that our sites in Helsingborg and Hettstedt complement each other very well and have virtually



Wire rod - Photo by courtesy of Elcowire Group



Wire rod - Photo by courtesy of Elcowire Group

no overlaps.

This means we can focus and put all our efforts into development instead of moving around internally. We have some unique synergies between the two sites, which we will take advantage of.

Our focus is on customer service and employee development, and we are implementing one operational model with best practices from both sites.

**And what about the commercial side? Will the two plants serve different markets?**

By nature, they do serve different markets, both by geography and product characteristics. Both sites have their specific geographical reach as well as their different specialities that serve certain areas in the market.

**How do you think this acquisition will influence your competitiveness, and what are the main**

**differentiation factors of Elcowire compared to your major competitors?**

Firstly, our independence on the market stands out since we have no mines or cathode production to distract us from our core business, which is supplying wire rod-based copper solutions, essential for the electrical and infrastructure industries. This is our true focus.

Secondly, I would highlight our people's high level of metallurgic knowledge, combined with in-depth understanding of our customers' applications. This knowledge has been developed through our long and close relationships with demanding experts on the customer side.

Thirdly, we are well-positioned to offer sustainable copper products in terms of low carbon content as well as long-lasting solutions, especially in the rail market, which is becoming the new industry standard as sustainability will be a necessity in all tomorrow's businesses.



We position ourselves as an independent, flexible and committed partner with the most sustainable products. Our corporate culture is a good mix between German sense for details and quality and Swedish pragmatism and rationality.

**Let's move from wire rod to processed products. There are many promising market segments in the wire and cable business, with bright development perspectives, also supported by the current path toward sustainability, as you have recalled earlier. For most of them, copper substitution risks are low or moderated. Do you have specific targets in terms of market segments?**

We are active in five different business areas and each has its own strategic development plan, with the objective of organic sustainable profitable growth by innovating products and market development. Our ambition is to grow above the market in all areas.

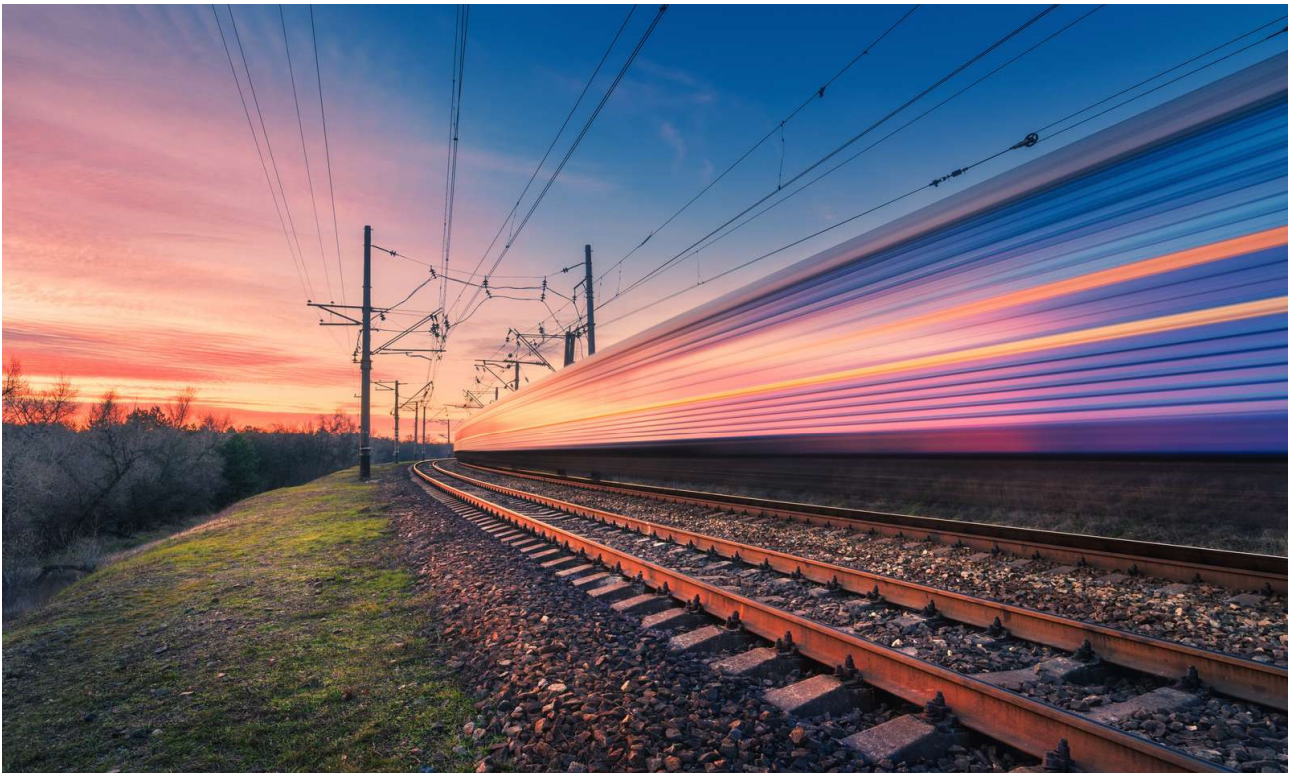
We will also consider acquisitions if they can support us in our overall strategic objectives.

**Your wire production focuses mostly on copper and low-alloyed copper. Have you ever considered expanding your wire offering to include alloys such as brass, bronze, CuCrZr, or other special alloys to strengthen your position in some of the market segments you already serve or to enter promising new markets?**

We have started this process and have good capabilities and capacities to supply micro or special alloys. This is a time-intensive process from the beginning of a development project to the stable delivery of products integrated into our customers' solution.

**Elcowire is also the European market leader for railway wires/profiles, thanks to the acquisition of the former railway business of NKT cables (now Elcowire Rail) three years ago. What is the outlook for this segment? Is substitution by aluminium a significant threat?**

We see a continued good demand for our Rail solutions and I think every material has its place and right in the market. Electrification of the railway is



Wire rod - Photo by courtesy of Elcowire Group

still below 50% in many countries, hence the potential for both new installations as well as replacement is very strong. It's a market which is regulated by local standards and specifications, which puts a lot of demand on us as a supplier and has contributed to making us a real expert in this area. Future growth is mainly limited to project lead times and installation capacity.

With regard to your question about possible substitution, we do not see any major risk for copper. Aluminium, copper and copper alloys have their own specificity and purpose and do not cannibalise each other.

**You also process some aluminum wires and profiles. Can you tell us a bit more about your aluminum business?**

We process Aluminum Rod to Wire and Profiles used in applications where the technical properties require it, for example in specific subsea cable applications.

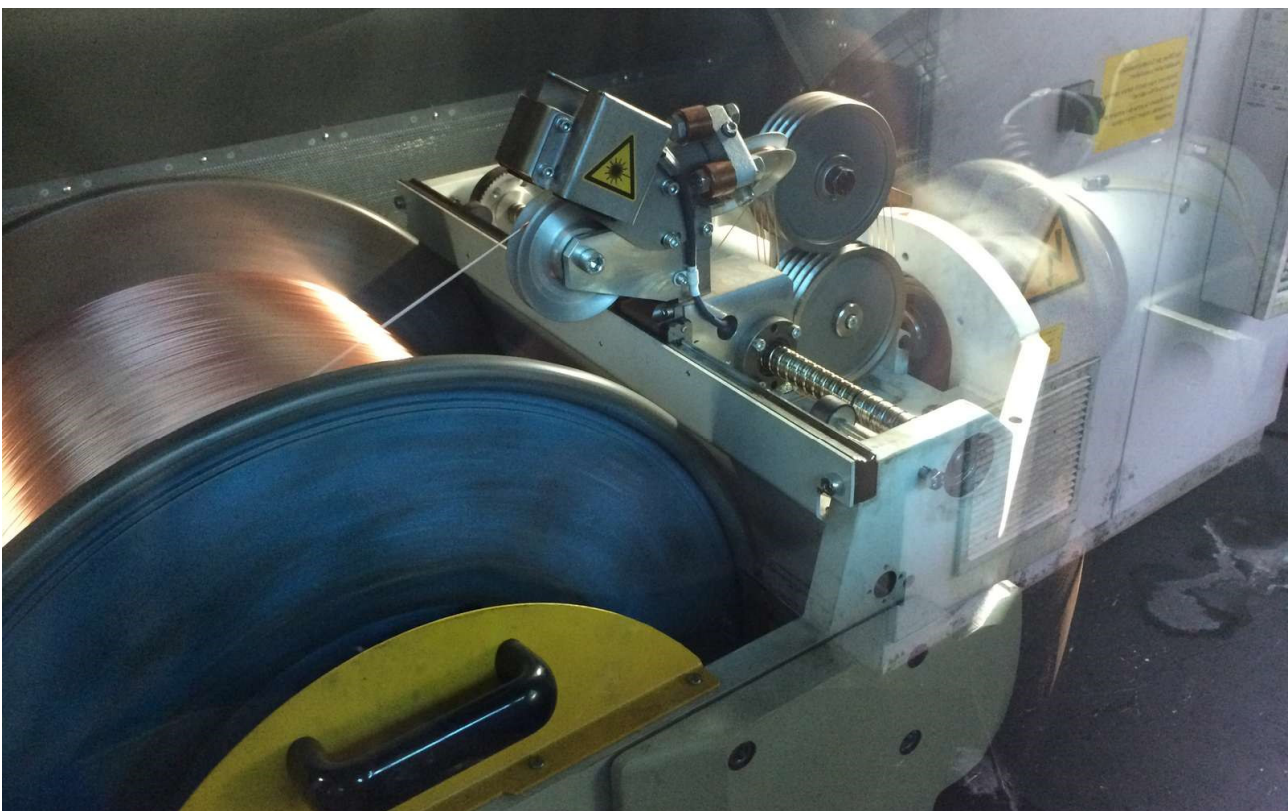
**Turning to market issues, to what extent is Elcowire affected by the war in Ukraine?**

Until now we do not notice any negative change in demand and I think we are all in the same boat and have similar consequences from this disastrous war.

The need for alternative supply chain and energy sources is probably positive for copper, while the uncertainties about the supply of natural gas, especially for the German industry, remain a threat.

High inflation is also making the short- to mid- term perspectives unpredictable. We are used to be in a "crisis mode" since the start of the pandemic when it comes to managing our daily business, but the human tragedy is a dimension that cannot be ignored and is a burden on everybody.

**The Ukrainian conflict could also impact demand, energy price and availability. These issues, combined with persistently high logistic costs, metal and energy prices, and the many**



Copper spool - Photo by courtesy of Elcowire Group

**bottlenecks that still disrupt supply chains, are creating difficulties for the industry. What is the impact of these issues on your business, and how are you addressing them?**

We have no direct exposure to Russia or the region, and did take an early decision not to use or allow the use of any raw material from Russia including tolling cathodes. Except for the general supply chain effects and cost increases, which we are managing in our daily business, we had no impact.

I believe the biggest challenges ahead are inflation and interest rates, which will affect the business model of the entire copper industry. Higher interest rates will increase financing costs and place a financial burden on companies. Furthermore, rising inflation and the likely rise in labour costs associated with it will further squeeze fabricators' already thin margins and force them to rethink their business model, perhaps by adopting a different approach to payment terms throughout the value chain. We might also be forced to introduce non-binding prices or greater flexibility to allow margins to be maintained despite high inflation.

**And regarding market trends and outlook, demand still seems high, but uncertainties are increasing. What are your expectations for demand for the rest of the year?**

We remain positive but are of course dependant on a functional market and supply chain. Our indications for demand have not changed, the only thing we know is that flexibility and agility are very important to us. We are prepared for most scenarios.

**Under your leadership, Elcowire has continued to grow steadily. In a challenging year like 2020, Elcowire achieved positive results despite the pandemic and reduced revenue. Volumes expanded, and operating profits, when adjusted to exclude one-off expenses related to the shutdown of Isodraht in Germany, recorded double-digit increases, following on from the positive performance in 2019. Has this positive trend also continued into 2021 and the first quarter of 2022?**

We had a stable development in 2021. The year

2022 is of course a completely new chapter for us and our growth path continues.

**Over the past two to three years, Elcowire has also strengthened its organisation by creating focused business areas. Are there any other measures planned to further optimise your organisation, also in the context of your recent acquisition?**

We have gone from four to five Business Areas and are currently adapting our team accordingly. I would say that our team is world class with a fantastic attitude to customer orientation.

**You have also focused on innovation by establishing an R&D organisation centered on product development. What are the main directions of your product development?**

I believe in a purpose in all we do, and I think innovation need to be market driven. Our development agenda covers everything from product innovation with new alloys to process improvements with increased digitalization and optimized packaging to improve the supply chain. All our projects must give a clear value add for the customer as well as lower the CO2 footprint.

**What actions has Elcowire put in place for decarbonisation, what results have you achieved, and how much are you investing in sustainability?**

Elcowire has worked actively with Sustainability and published a Sustainability report since 2014. We have reduced our CO2 footprint by electrifying transport, increasing rail transport, optimising processes, increasing production, and returning excess energy to the grid. But the list is long and endless.

Every site and team have clearly defined targets and project plans and activities to reduce our CO2 footprint, as well as investment budgets to be able to realize and execute them.

**What is your current recycling rate today, and do you plan to improve it?**

Currently we recycle mostly our own process scrap





Photo by courtesy of Elcowire Group

and we are considering to expand in this area. I think this is the future for our whole industry.

**What are the key sustainability drivers for Elcowire?**

It is a two-fold driver.

Our products and solutions are necessary for achieving the climate targets, and this drives much of our motivation and justification.

At the same time, we want to be able to offer the market lowest carbon copper footprint and carefully partner up with customer and suppliers, who have a clear decarbonization agenda.

**Turning to internationalisation, have you ever thought of expanding your footprint outside Europe?**

For time being Europe is our focus and priority, and it has enough potential for a foreseeable future.

**Looking ahead, how do you see Elcowire in five years and what are your goals for the long-term development of your Group?**

In all our areas we have ambitious objectives and have clear plans for them. My personal goal is to be the most sustainable company in our industry and the most attractive employer at the sites we operate. I want us to be the partner contributing to our customers climate targets.

**Turning now to the corporate side, Liljedahl Group** is a diversified family-owned business group founded in 1982, which today has 8 holdings in its portfolio and employs around 3,000 people. In 2021, the Group recorded revenue of around € 1.5 billion.

**The copper products businesses (formerly Elektrokoppar AB) joined Liljedahl Group in 2007**, following its acquisition from the Nordic private equity fund Industri Kapital, which, in turn, had purchased the business from ABB in 1997.





Bengt Liljedahl

*Liljedahl Group's CEO and Elcowire Group's Chairman*

*Photo by courtesy of Elcowire Group*

**Mr Liljedahl, your Group owns companies operating in a variety of sectors, from automotive services to trucks dealership, from technology trading to C-parts retailing, from property management to steel wire supply and copper wire rod and wires production. What "fil rouge" links your holdings and guides your investment decisions?**

The investments we have made over the years are not made from synergies between the different holdings. Indeed, we have little or no synergies between our holdings. These are investments in various business areas and companies that we believe have a good market position and can be further developed.

Our holdings have completely separate individual governance with independent boards and management.

We don't have a common finance department for Liljedahl Group.

As owners, we have put up directives with financial goals to help the boards and management govern and achieve their individual targets.

We try to have a deep understanding of the market and future possibilities of the various holding.

We always sit on the Boards of Directors of holding companies, but we never interfere in the daily operations, which are run by the management.

**How was the business performance of your Group in 2021 and what about the first months of 2022?**

2021 was the best year ever in our 40-year history, and the first quarter of 2022 has started off very well, even above last year's figures.

**Given the difficult geopolitical situation, how do you see your business developing in 2022? Is your Group affected by the war in Ukraine? And what are the main challenges you see?**

Yes, we are affected in many ways by the war in Ukraine, especially in our steel business holding Hörle Wire Group. Steel mills in Ukraine, Russia and Belarus were important players in the steel market and rod production. With the decrease in supply the price has gone up multiple times.

We are also affected in other companies due to problems in the logistic chain when sourcing in the different holdings.

However, despite all the problems, the various holdings have managed very well, and so far we are above last year.

The main challenge in the short-term perspective is the increasing cost of capital together with the increased price of metals, which of course affects the capital employed. It is a challenge to find solutions together with customers on how to finance metal when it comes to accounts receivables.

**What is your vision of sustainability and the main reasons for going green? And what are your main goals?**

We encourage our holdings to set up policies for sustainability. In our stock listed company we are committed to the initiative "Scienced Based Target" for CO2 footprint, while other holdings are on their way to go green by, for example, trying to convince customers to use copper with less carbon footprint.

**Moving on to the copper business, you have two copper wire companies in your portfolio, Elcowire Group and Dahren Group, with the latter focusing on winding wires and being supplied by the former with wire rod. In your last Annual Report, you emphasized that all your holdings "are entirely independent of each other". Don't you rather think that a unification of the two copper wire companies could create a stronger player capable to supply the copper wire rod and wire market at 360°, also taking into account that some application markets**

**require both products?**

There can be Pros and Cons in merging the two holdings but so far we think the Cons are more than the Pros.

The way we are structured in the copper business makes it possible to be more focused in the individual markets for the products, different customer segments and product development.

**In 2020, you decided to close Isodraht in Germany, which had been piling losses for many years. Although the economic and financial rationale of your decision are quite understandable, don't you think that a manufacturing presence in Germany, Europe's largest automotive producing country, could strengthen your position in one of the largest and most promising markets for winding wires, such as eMobility? Or do you rather intend serving the German market from Poland?**

As owners, we think that Dahrén Group, by closing down winding wire production in Germany, now has a much better cost structure for the future and can meet customers request for quality and price. With the previous cost structure and production in three countries we were not able to meet market price and at the same time meet the target for return on capital employed. In a production of a commodity like winding wire you must be very competitive.

The German site (Isodraht) had the highest cost structure when considering all cost elements, and that's the reason behind the decision to halt production while keeping the sales organization. Germany is the most important market in Europe for Dahrén Group and so far they have not lost any customers in Germany.

Dahrén Group's experience so far is that it is more important for customers that we can deliver winding wire of a high technical level and meet market requirements concerning price and other conditions. We also think it was a wise decision to keep the sales organization of former Isodraht, whose new name is Dahrén Germany.

**In a context of oversupply for winding wires and, at the same time, strong need for a global supply**



**of magnet wires of consistent quality especially to the automotive industry for electric drive motors, have you ever considered establishing an international alliance such as that between Furukawa Electric and Superior Essex?**

The answer is "no" because the management of Dahrén Group sees no advantage or small advantage in getting into such alliances.

They believe they have all the knowledge necessary to supply the European market in technical terms and production skills. Today, they have a highly motivated and competent sales organization. They don't see customer requests for global sourcing from a single supplier for a special project.

Customers require the supplier to live up to technical and logistic performance and also to be competitive.

**Demand for copper products will benefit greatly from the current electrification trend. Do you plan to invest more in the copper sector?**

If the management in Elcowire or Dahrén Group wants to expand their business scope we will look forward to such a request as long as we see a good market possibility.

*Elcowire\Development*

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# elcowire



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