

ELECTRIFYING: THE FAST LANE TO FUTURE VEHICLES

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In 2020, a year overshadowed by the corona crisis, is when Valmet Automotive took the company decisively further – from being a traditional vehicle manufacturer to a leading system supplier for electric mobility. The highlight took place at the end of the year: namely, the announcement that the main factory in Uusikaupunki, Finland, will be expanded to include a battery assembly plant. And the development of the company will not end there ...

“The Fast Lane to Future Vehicles” is Valmet Automotive’s brand message – and the company’s strategic goal in the fast lane is clearly defined. Valmet Automotive is positioned as a leading supplier in the electric mobility sector. This goes for all three business lines: Manufacturing, Roof & Kinematic Systems, and EV Systems. It is in this third business line where the company is focusing on its greatest growth potential – and where Valmet Automotive is on the best path to becoming the Tier-1 system supplier in the battery business. The economic objectives of EV Systems have been firmly formulated: over the next five years, the sales of the Valmet Automotive Group will increase from 652 million euros to more than 1 billion euros. And the battery system business will make an essential contribution to this skyrocket in sales.



MORE THAN JUST A VISION With its ambitions in the strongly growing electric mobility business, Valmet Automotive is not alone in facing the disruptive change the automotive industry is going through – a transformation from traditional combustion engines to electric drivetrains. Behind these the expectations are not just bold visions or non-binding declarations of intent, but a real business that is already in full swing.

In fact, Valmet Automotive can look back on a comparatively long history in electric mobility, compared to the automotive industry. Back in 2008, the company entered the world of series manufacturing of electric vehicles (EVs) with Think City and Fisker Karma. What’s more, the Finnish company was actually involved in the development of electric vehicles with Fisker Karma. However, the fate of this former

client was one shared by many who were ahead of their time. Although Fisker Karma failed, the continued work with electric drivetrains and high-voltage systems remained at Valmet Automotive. In 2017, the year in which the Chinese battery cell giant CATL became a minority shareholder of Valmet Automotive, the switch was flipped in the direction of battery systems for electric vehicles.

TRANSFORMATION OF VALMET AUTOMOTIVE To be best prepared for the transformation, Valmet Automotive has significantly strengthened its management team over the past two years. The Group Management Team is now made up of managers who have all gained leadership experience at leading international automotive suppliers with proven track record in change management and electric mobility. This team is boosting the transformation

of the company with high energy. The list of tasks tackled and implemented over the past two years is impressive:

- Founding of the EV Systems business line at the end of 2018
- Construction of the battery assembly plant in Salo, Finland at the start of 2019 and production begin at the end of 2019
- Construction of the Battery Test Center in Bad Friedrichshall, Germany in July 2019, with start-up in February 2020 and subsequent capacity expansion
- Bundling of capacity and restructuring of the development organisation for battery systems in summer 2020
- Publication of the first Sustainability Report of the Valmet Automotive Group in 2020
- Start-up of work to expand the battery assembly plant in Salo, likewise in 2020, for the next client programme



- Decision to build a second battery assembly plant at the factory in Uusikaupunki, Finland, with production slated to start in the latter of 2021
- Decision to build a third battery assembly in Germany

An additional important decision affecting a consistent implementation of the strategy was the sell-off of the Engineering Services business line in autumn 2020. With this step, Valmet Automotive bid farewell to traditional vehicle development and development services centred round the combustion engine. Since then, the company has fully focused on the engineering and development of battery systems for electric cars, on roof and kinematic systems, and on manufacturing technology for its products.

A RANGE OF GOOD NEWS In light of the number of the company’s strategic decisions and measures implemented, the media headlines in Finland, where Valmet Automotive is one of the country’s major industrial players, never stopped in 2020. While other companies made one negative announcement after another, Finland’s only significant automobile company reported a range of good news. In a phase when other companies focused on the magnitude of redundancies, the vehicle manufacturing factory in Uusikaupunki welcomed the first of 400 new employees at the start of January 2021, who were brought on board at the end of 2020 as the result of a recruiting campaign.

At the same time, Valmet Automotive, too, had many challenges to face during the first lockdown in spring of 2020. Borders were closed, supply chains collapsed. For the Finnish manufacturer this meant: several weeks of standstill in manufacturing at the site in Finland, as well as at the site in Zary, Poland where the company manufactures roof and kinematic systems, and in the battery plant in Salo. It was here in Salo where the pandemic played out in a particularly cynical way: on the very day that hundreds of guests from the economic

and political realms were planned to come together with employees to celebrate the official opening of the battery plant, production had to be halted due to the lockdown.

In the meantime, manufacturing was looking quite critical at the car factory in Uusikaupunki. Hundreds of employees were sent into so-called Lomautus, a kind of partial furlough scheme practiced in Finland whereby employees are temporarily made redundant.

STRATEGIC DIRECTION PAYS OFF DURING THE CORONA CRISIS But back during the first lockdown, when the company strove to acquire the necessary financial means to secure its survival, the strategic focus on electric mobility proved to pay off. And, of course, the fact that Valmet Automotive has a strong partner in Mercedes-Benz for vehicle manufacturing and is not just any supplier to the famous car company. The battery assembly plant in Salo experienced an extremely smooth start in autumn 2019, as well as the Battery Test Center in Bad Friedrichshall in southern Germany. And the entire package, consisting of battery development, battery testing and battery manufacturing, as well as the competence in manufacturing electric vehicles of all kind in Uusikaupunki, allowed for a huge trustful advancement among shareholders and banks so that the financial gap could be quickly bridged.

DOOR TO THE LEAGUE OF TIER-1 SYSTEM SUPPLIERS IS OPENED To realise the goals set, Valmet Automotive also acted against the grain within the industry during the crisis. At its locations in Germany, Valmet Automotive leveraged the opportunity of Kurzarbeit only to a very limited extent, although this would have contributed to an easing of the financial situation. On the Group level, with the exception of a few days only in April and May, all the employees remained on board who were essential for the realisation of the electric vehicle strategy as well as for the further development of internal structures. Instead of getting stuck in a crisis mode,

the internal organisation was optimised at full speed regarding the company's electric vehicle future. During this time, you often could hear the word SISU in the plants and offices, a Finnish term that stands for power, stamina and resilience, all of which are highly needed during times of corona.

And for good reason: after all, just as fast and smooth as the battery assembly plant was started up in Salo was the promising development of orders by premium European manufacturers. To date, these have been "just" orders for contract manufacturing of batteries. So, in order to open up the door to the premiere league, the company needed a deal as a system supplier for complete battery systems.

CONSTRUCTION OF THE BATTERY PLANT STARTED IN UUSIKAUPUNKI The time had come in mid-2020: Valmet Automotive was contracted by a renowned German car manufacturer to develop and produce a high-voltage battery system. This contract marked a milestone for the company on its way to becoming a Tier-1 system supplier for battery systems. After all, with this order, the company now had responsibility for the complete development and production of automotive battery systems for the first time. For instance, the order not only encompassed the assembly of battery packs, it also included the manufacturing of cell modules. This meant the company would for the very first time be covering an essential part of the value-added chain – from concept and series development to simulation and testing to supply chain management and, finally, production.

The knock-off effect of this major contract, for which the line will roll in 2024, is enormous today and will shape the company's activities in the coming year. For example in Uusikaupunki: for over a year now, considerations have been brewing under the project name Uki Vision 2025 as to how the factory can be developed further – it is the heart and soul of the company and, with more than 3,500 of the currently around 4,500 employees, the largest site by far. The goal is

to establish an additional product for large-scale series production in order to make the factory more independent from volatile business in vehicle contract manufacturing.

BECOMING A LEADING COMPANY IN BATTERY SYSTEMS

In January 2021, work began on the construction of a second high-volume battery assembly plant on the premises of the car factory in Uusikaupunki, and the start-up of production is slated for the latter half of 2021. With an installed production capacity of several hundred thousand battery packs per year, Valmet Automotive is thus moving up to become a leading company in the large-scale series manufacturing of battery systems.

The decision to set up a battery plant at the car factory also enables Valmet Automotive to localise battery assembly and vehicle assembly – whether plug-in or all-electric – at a single site. The result is even greater flexibility at the factory in Uusikaupunki. It is here where the plug-in hybrids Mercedes-Benz GLC and the Mercedes-Benz A-Class are manufactured today. The manufacturing line is set up to be able to cover the complete spectrum of drive technologies today and for the future. Such a package of vehicle manufacturing and battery manufacturing is not offered by any competitors. This point is important also due to the company's sustainable approach. After all, the transport of heavy battery packs across several hundred kilometres is avoided and synergies are leveraged through "everything from a single source, at a single site".

The first order as a Tier-1 supplier of a battery system also made waves beyond the borders of Finland: additional to Salo and Uusikaupunki the decision was made to build another battery assembly in Germany.

All in all, the first order as a Tier-1 system supplier resulted in yet another enormous boost for the company. What's more, it is also a visible result of a second project which was



EV BATTERY SYSTEMS – COMPLETE VALUE CHAIN COVERAGE

ELECTRIC VEHICLES (EV) SYSTEMS



pushed forward by the management team at full power: the optimisation of Group-wide processes on the basis of a common company culture.

Indeed, the Valmet Automotive Group in 2018 existed on paper, but proved time and time again that the sum of all the parts did not necessarily create a whole in terms of daily business. In fact, three companies were acting mainly independently of one another under the umbrella of the Group: vehicle manufacturing in Finland; cabriolet/convertible roof systems at the development site in Osnabrück, with production in Poland's Zary; and engineering services with six sites in Germany.

CREATION OF THE COMPANY CULTURE It is clear: a mid-size supplier would hardly be able to survive in today's disruptive automobile business if it does not have a common understanding among the workforce. As a result, the management team pushed on with the creation and implementation of a common company culture, based on five commitments: Respect, Show Entrepreneurial Spirit, Deliver, Lead at all Levels, and Always Learn. These are an expression of more than just the zeitgeist of a collaborative spirit owed by the company's management. These five commitments inspired deeply by SISU also create a very concrete basis for a company-wide process structure, for instance in the operating system.

And this also goes for the company's sustainability goals. By the end of 2021, the factory in Uusikaupunki is to work carbon-neutral – and the entire company by 2024. For Valmet Automotive, sustainability is more than just lip service. At least a company can only stand for sustainable products with credibility when it also manufactures in a sustainable way.

With the electric mobility strategy started in 2017 and the measures realised since then, the company, which was established as the extended workbench for Saab in 1968, has laid the foundation for its future. Parallel to vehicle manufacturing as a key pillar, battery systems are to be developed to become the second strong pillar. To achieve this, the production network between vehicle manufacturing and battery production have been interlocked even closer.

Significant growth is forecast in the third pillar as well: the business line Roof & Kinematic Systems. Based on the strong position as a Tier-1 system supplier of cabriolet/convertible roofs, the topic of electric mobility was leveraged here, too, to charge up the growth outlook. Experts at the development centre in Osnabrück are currently working intensively on the expansion of the product palette. Especially when it comes to kinematic systems is the potential considerable in connection with electric mobility, for example with kinematic systems, in being able to optimise the reach of electric cars.

KEEPING THE BRAND PROMISE In light of all this, the ability to achieve sales of over one billion euros by 2025 is realistic. This growth will be carried by a strong cash flow with the existing programmes, plus additional investments in new programmes and extra production capacities. Here is where the owners of Valmet Automotive are quite open for further investors who want to participate in the profitable growth of an automotive supplier who has consistently switched the tracks in the direction of electric mobility. The chances for growth are plenty – as a reliable partner for car manufacturers and in volatile times yet to come. Valmet Automotive is true to its brand promise: The Fast Lane to Future Vehicles. \