

HEXCEL CORP /DE/
Form DFAN14A
April 18, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

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Check the appropriate box:

- Preliminary Proxy Statement
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- Definitive Proxy Statement
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HEXCEL CORPORATION

(Name of Registrant as Specified In Its Charter)

O.S.S. CAPITAL MANAGEMENT LP

OSCAR S. SCHAFER & PARTNERS I LP

OSCAR S. SCHAFER & PARTNERS II LP

O.S.S. OVERSEAS FUND LTD.

O.S.S. ADVISORS LLC

SCHAFFER BROTHERS LLC

OSCAR S. SCHAFFER

PETER J. GRONDIN

EDWARD A. BLECHSCHMIDT

TIMOTHY D. LEULIETTE

JOACHIM V. HIRSCH

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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**Presentation to Hexcel
Stockholders**

OSS Capital Management LP

April 2008

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About OSS Capital LP

Founded in Nov. 2001 by Oscar S. Schafer
and Andrew J. Goffe

\$ 2.2 billion under management

Long / Short investment partnership

Long-term investment approach

Hexcel stockholders since August 2005

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Why Hexcel?

Great secular story

Significant barriers to entry

Emerging market and international growth

Margin expansion story-economies of scale

Stock inexpensive based on peer
performance

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OSS Capital's Goals

To enhance the relevant expertise of the Hexcel Board in order to give Hexcel senior management more complete resources to:

Enhance margins

Increase Hexcel's competitive edge

Operate in a more efficient, global, and cost competitive manner

To have all stockholders benefit from Hexcel's increased success as the pre-eminent player in composite material manufacturing

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The Key Issue

Hexcel's margins are far below its competitors':

Trailing Twelve Months, millions \$

| | | | |
|--------------------------|--------------|--------------|--------------|
| Composite revenues | 693.0 | 669.7 | 975.8 |
| Composite operating inc. | 154.0 | 132.3 | 142.8 |
| <i>% revenues</i> | <i>22.2%</i> | <i>19.8%</i> | <i>14.6%</i> |

Hexcel has not provided a plausible explanation for their inferior margin performance

OSS Capital believes Hexcel does not fully understand its cost structure

Margins Consistently Fall Short

Operating Income As % Of Sales

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The Key Issue, Magnified

An “apples to apples” margin comparison amplifies the point:

Toray and Cytec allocate corporate overhead to their composite subsidiaries, while Hexcel does not

Hexcel had approximately \$50 million of unallocated expenses in the trailing twelve months

Adjusted Composite Margins

Trailing Twelve Months, millions \$

| | | | |
|---------------------------|-------|-------|-------|
| Composite revenues | 693.0 | 669.7 | 975.8 |
| Composite operating inc. | 154.0 | 132.3 | 142.8 |
| Less 80% of unall. exp. | | | |
| Adjusted operating income | | | 103.8 |
| <i>% revenues</i> | | 22.2% | 19.8% |
| | | | 10.6% |

*As Hexcel's composite business is approximately 80% of corporate revenues, assumes 80% pro-rata allocation of corporate expenses to composite subsidiary

**Adjusted Margin Shortfall Is Even
More Dramatic**

Operating Income As % Of Sales *

*As Hexcel's composite business is approximately 80% of corporate revenues, assumes 80% pro-rata allocation of corporate expenses to composite subsidiary

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Hexcel's margins are consistently and dramatically below their competitors' margins.

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Hexcel's Analysis Is Misleading

In its April 2008 investor presentation, Hexcel presents misleading statements about OSS Capital's nominees:

Hexcel claims Ed Blechschmidt was the CEO of Gentiva for 30 months

Ed was the CEO of Olsten/Gentiva for 4 years

Hexcel claims no aerospace experience evident in Jake Hirsch's background

At Textron, ~25% of the product overseen by Jake was for aerospace customers

Hexcel claims no public board experience evident in Tim Leuliette's background

Tim has served on multiple public boards:

Operating Board, Siemens AG

Board of Directors member, Libby Owens Ford

Co-Chairman of the Board, Asahi Tec Corporation

Member of the Board & Chair of Restructuring Committee, Collins & Aikman

Hexcel's Analysis Is Misleading

In its April 2008 investor presentation, Hexcel presents a misleading peer margin comparable analysis:

Hexcel includes multiple customers as its peer group

Most customers are not peers

Hexcel's direct peers are Cytec and Toray

Cytec is a customer and peer

However, a comparison of total corporate margins is misleading

Cytec is a conglomerate and the proper approach is to compare Cytec's composite subsidiary with Hexcel's composite subsidiary

Hexcel includes low margin composite "peers" Gurit and SGL carbon in its analysis

But Hexcel conveniently excludes Mitsubishi Rayon which has composite margins north of 25%!

Hexcel's Analysis Is Misleading

In its April 2008 investor presentation, Hexcel presents weak explanations for sub-peer performance:

US health care costs

Foreign exchange

Investment for growth

Wage inflation

Raw material costs

Cost pressures are not unique; competitors face these same challenges and they do not have the same scale as Hexcel!

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No matter how the company is analyzed and no matter what qualitative adjustments or explanations are made, Hexcel's margins in the composite business are just too low. Hexcel is underperforming and needs help.

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The Value Gap

If Hexcel realized composite operating margins similar to its peers, its composite operating income could be \$60+ million higher

Trailing Twelve Months, millions \$

| | | | | |
|--------------------------|-------|-------|-------|-------|
| Composite revenues | 693.0 | 669.7 | 975.8 | 975.8 |
| Composite operating inc. | 154.0 | 132.3 | 142.8 | 204.9 |
| <i>% revenues</i> | | 22.2% | 19.8% | 14.6% |
| 21.0% | | | | |

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Bridging The Value Gap

At \$60 million in additional EBIT:

Current EV/EBIT multiple = 17.6x TTM EBIT

Additional equity value = \$1.1 billion

Shares outstanding = 95.8 million

This represents a value gap of \$11.50 per share.

The Aerospace Opportunity

In our view:

The secular aerospace boom presents a huge opportunity

Hexcel's depressed profitability may hinder the company's ability to generate enough cash to fully support the development of next generation composite aircraft

Hexcel should not be a second tier player on next generation aircraft...they should be the dominant player!

Hexcel must focus intensely on developing an effective global footprint with industry leading profitability and execution

Why These Nominees?

The three business executives that OSS Capital has nominated are committed to these priorities and have the expertise to help

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Meet The Nominees

All three nominees possess successful manufacturing backgrounds that are international in scope

Each has demonstrated success in operating in cost competitive environments

Each enhances the Hexcel Board's ability to move the company to greater operating efficiency and profitability

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Ed Blechschmidt

Proven CEO experience in expanding shareholder value

Novelis (\$10 billion worldwide aluminum company), 2006-2007

Gentiva (\$1.5 billion healthcare company), 2000-2002

Olsten Corp. (\$5 billion worldwide conglomerate), 1998-2000

Diverse public board experience

Manufacturing, Technology, Healthcare

Committee Chair experience (Sarbox, CD&A, Special)

Certified Financial Expert

21 years at Unisys, including CFO

Led financial restatement at Healthsouth Corp.

Proven audit committee experience with the Big 4

Offered seat on Hexcel Board

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Joachim “Jake” Hirsch

More than 30 years of international manufacturing experience in Europe, Asia, and North America

Broad industry experience in automotive, industrial, aerospace, and private equity industries

Significant turn-around experience as a CEO

Deep knowledge of plant level operations and manufacturing best practices from tenure at Textron and Teksid Aluminum

Successful negotiations with unions both in Europe and North America, resulted in wage concessions and peaceful plant closings

Thorough understanding of corporate governance including SOX requirements

Experience on numerous non-public boards in both Europe and North America

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Timothy Leuliette

Experienced CEO of multi-billion enterprises with broad based, global business and corporate governance expertise:

Turn-around experience: ITT Industries, Penske Corp.

Corporate build-up: Siemens A.G.

Private equity build-up and exit: Metaldyne/Asahi Tec

First non-German to become a corporate officer and sit on an operating board at Siemens A.G.

First American to be CEO of a large, independent, publicly listed Japanese company

Chairman of Detroit Branch of Federal Reserve Bank of Chicago

Board assignments in troubled and/or challenged situations: Libby-Owens-Ford, Collins & Aikman

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Conclusion

OSS Capital's objective is to elect these three highly qualified nominees in order to facilitate Hexcel's ability to:

Increase margins

Enhance profitability

Maximize stockholder value

Vote the white proxy card for a more qualified Board at

Hexcel

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Conclusion

Thank you, we appreciate your support

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