

6 November 2019

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DRIVING FINANCIAL PERFORMANCE



WE DISCOVER POTENTIAL

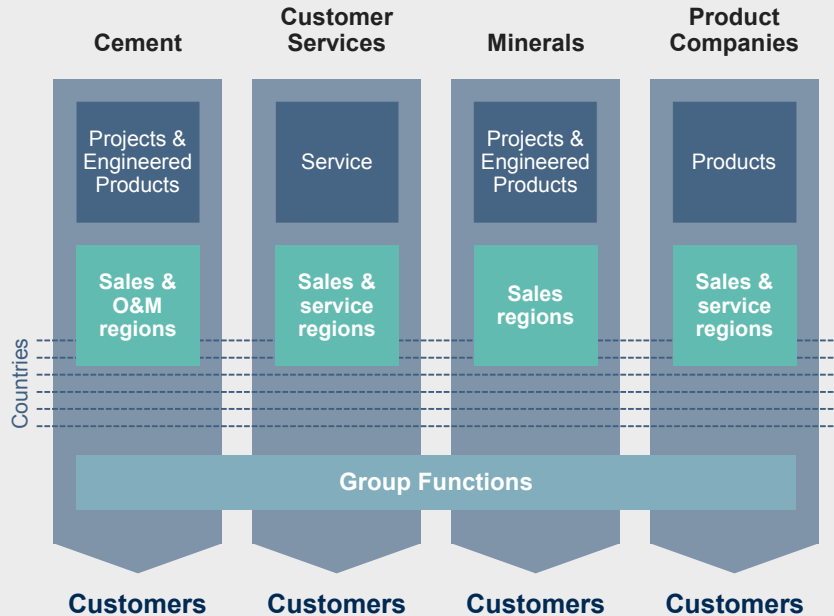
FL SMIDTH

Key messages

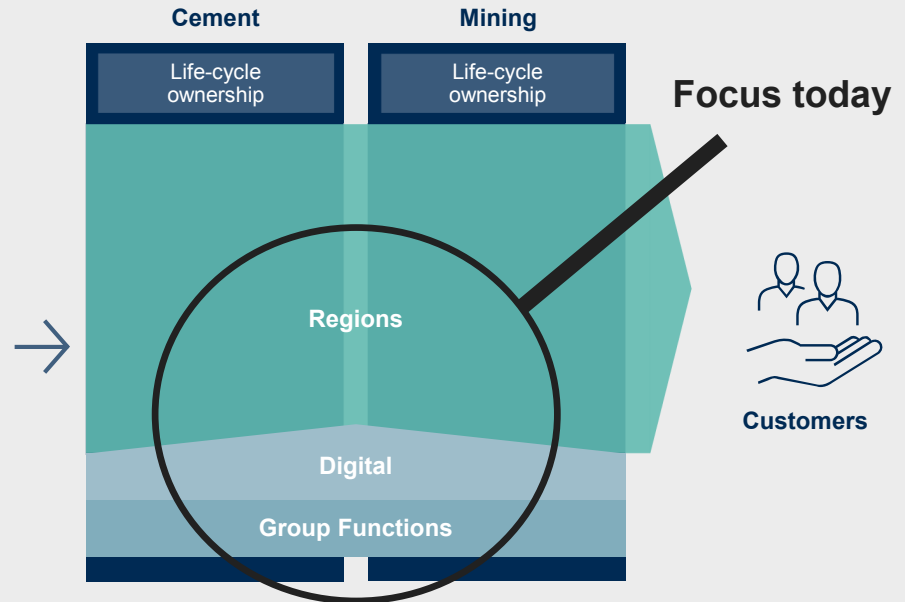
- Enhanced **data transparency** enabling a better assessment of performance in profit and cash
- Driving performance and service growth through **benchmarking across regions and industries**
- Maximising synergies from **simplified footprint**
- Driving **back office efficiency** through global functional cost owners and consolidation
- Strong focus on **cash conversion**

Driving performance through two industries and seven regions

BEFORE – 4 main P/L



AFTER – 2 main P/L



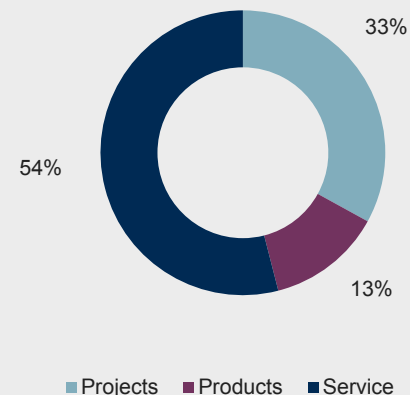
Enhanced data transparency

Better assessment of types of business and implications for profit and cash

Industry ownership of lifecycle offering

Type of business		Gross margin	Working capital
Capital	Projects	Low	Low to negative
	Products	Medium	Medium
Service	Spare parts	High	High
	Wear parts	Medium / High	High
	Services	Medium	Medium
	Upgrade & retrofit		Low

Revenue split YTD 2019

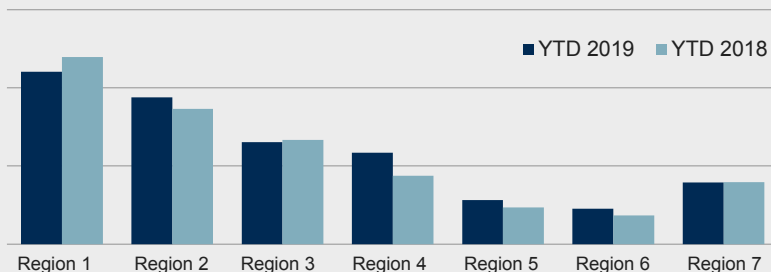


Indications are relative to FLSmidth

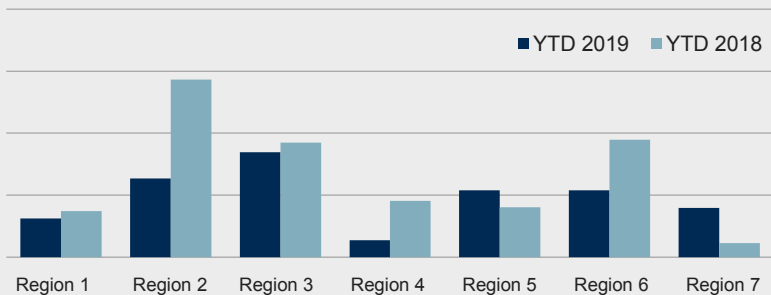
Regional benchmarking

Data to drive service growth in all regions

Service order intake



Capital order intake



Service

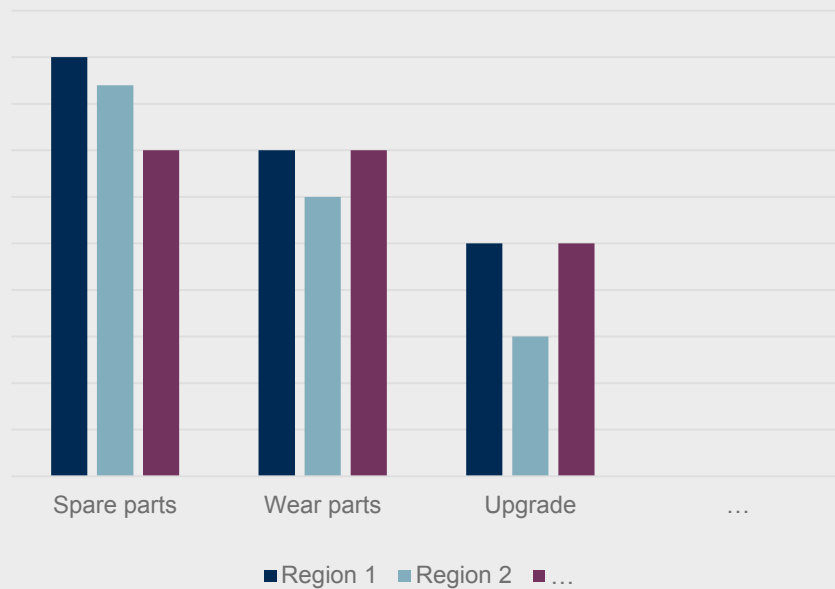
- Grow recurring business
- Targets based on market potential, not previous growth rates
- KPI: Growth in order intake

Capital

- Growth targets based on hotlist and potential
- Industries provide global pool of resources for project execution
- Product line management centralised in industries
- Profit above growth in Cement

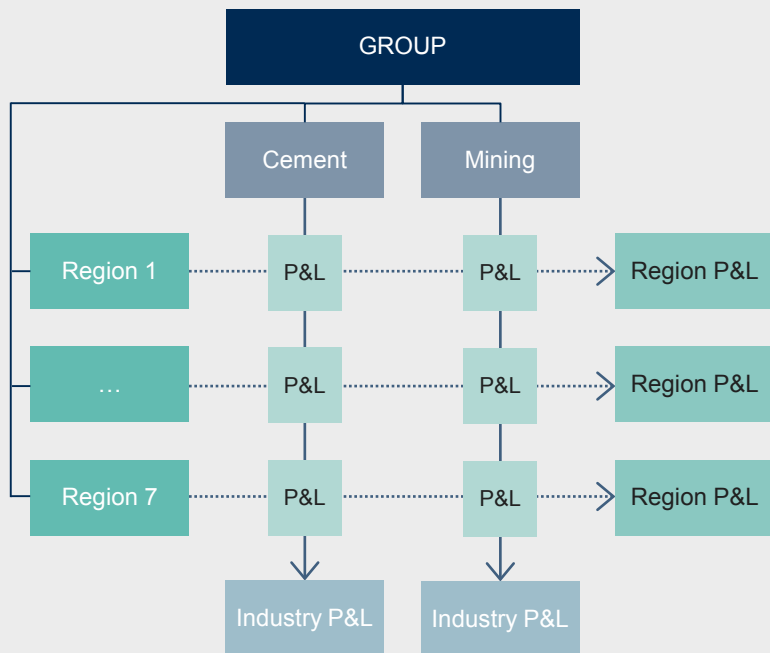
Benchmarking contribution margins across regions

Contribution margin (illustrative)



- Contribution margins are split into six order types on both revenue and order intake (Backlog)
- Ability to benchmark contribution margins across regions by order types
- Mix impacts can be eliminated in performance management discussions
- Regional difference can be used to improve and learn from each other

Benchmarking across regions and industries



Main KPI Group / Industries

- Order intake
- EBITA
- CFFO / NWC

KPIs sales regions

- Order intake by industry
 - Service
 - Capital
- Business result (excluding global costs)
- Regional SG&A cost
- CFFO / NWC

Procurement focus areas to support offering types

Leveraging category management and efficiency from global structure across both industries

Product line procurement

- Support PLM in standardisation and modularisation of products
- Shared components, uniform quality and shorter lead times
- Agile and flexible supply chain incl. manufacturing for fast response

Project management procurement

- Early involvement in sales phase
- Coordinated purchase, logistics, expediting and quality control
- Efficient use of local regional low cost sourcing for steel structures etc.
- Leveraging of Product line procurement for fast track of long lead items

Aftermarket procurement

- Speed
- Regional suppliers for engineered parts and global for repetitive parts
- Pricing models
- Distribution centers for standard spare- and wear parts

FLSmidth Qingdao assembly center

Strategic location to serve global customers with competitive quality products, spare- and wear parts and improve DIFOT

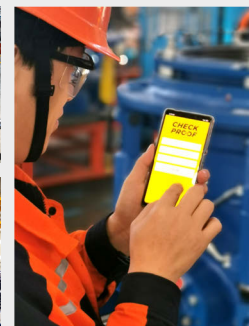
More than 30 strategic Mining and Cement products with associated spare- and wear parts have been moved to Qingdao with new developed supply chain and BOT automation

Synergies from simplified footprint

Consolidate assembly into centres in China and India

Enhance external supplier and distribution network

Consolidate regional footprint



Higher efficiency through Digital



Product knowledge

+



Connected products

+



Advanced analytics



Better, data-driven sales leads



Better forecasting & prediction of required parts



Higher share of wallet



Lower inventory



Higher efficiency through Digital



More automation
= higher efficiency
= improved quality
= better compliance

- Processed 10,000 purchase order lines per month (20% of total lines) in October 2019
- Average TAT (turnaround time) for converting requisition to purchase order is < 12hrs
- Average process time to create a PO is between 5-14 minutes

Driving efficiency in back office

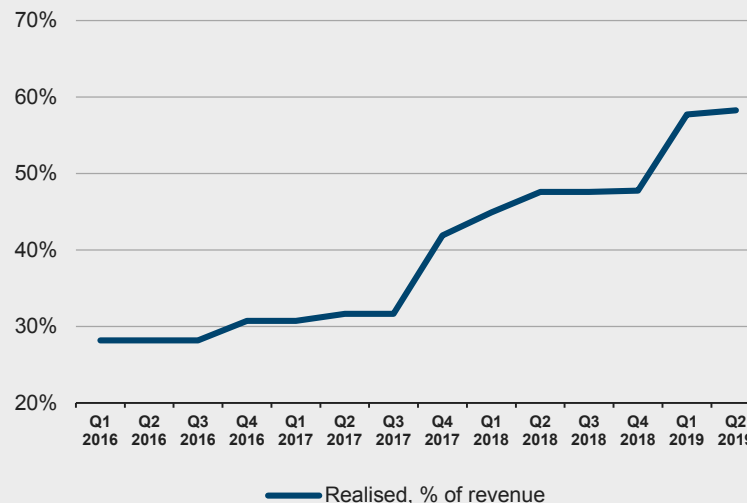
Global functional cost owners

- Optimise across region, industry and Group
- Drive structural improvements
 - Shared services
 - Centres of excellence
 - BOTs

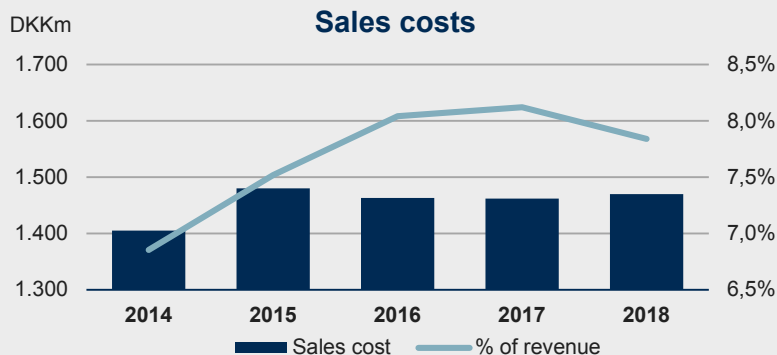
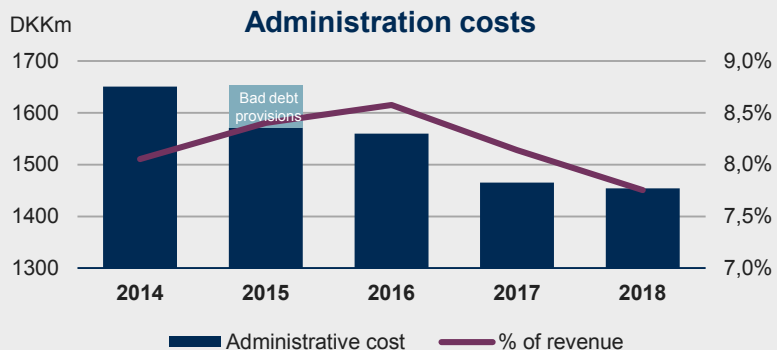
Regions

- Consolidate ERP in regions
 - E.g. North America: 6 into 1 (2 more in 2020)
- Consolidate skills into regional HUBs

Core ERP coverage of FLSmith entities



SG&A managed tightly throughout the organisation



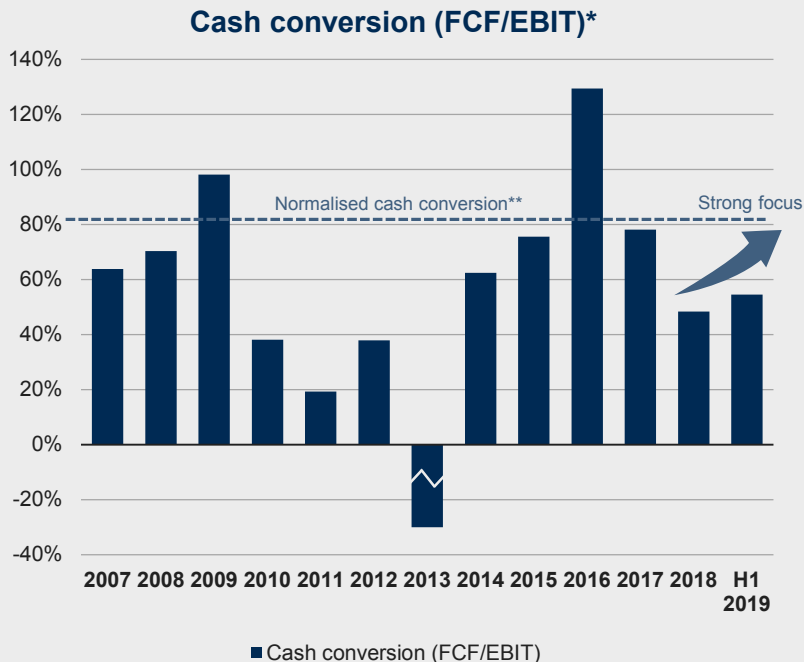
Administration costs

- ↑ Increased investments in digitalization
- ↑ ↓ Common ERP enables more shared services
- ↓ Ambition to manage independently of revenue in growth periods
- ↓ Site consolidation a substantial enabler

Sales

- ↑ Continued white spot investments
- ↓ Industries to provide technical sales support to regions to enable scale benefits
- ↓ Shared service centre drives efficiency in sales support

Strong focus on cash conversion



- We delivered strong cash generation during the mining downturn (2014-2017)
- 2018 was an exception, partly due to our sold-off bulk material handling business
- We are committed to continuing the strong track record of high cash conversion
- Our target is to keep CFFI at or below the level of depreciations and amortisations less IFRS 16 leases and purchase price allocations

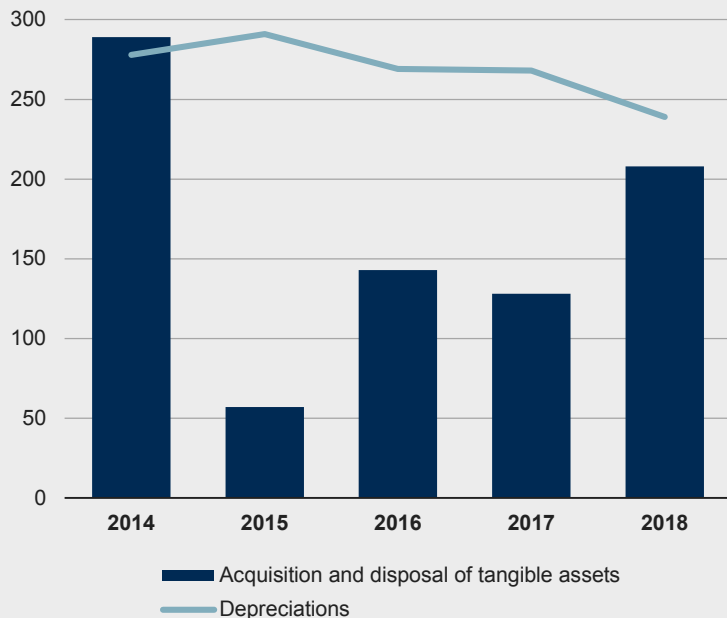
* Continued business only from 2015 and onwards

** Average cash conversion 2014-2018 adjusted for change in net working capital and provisions

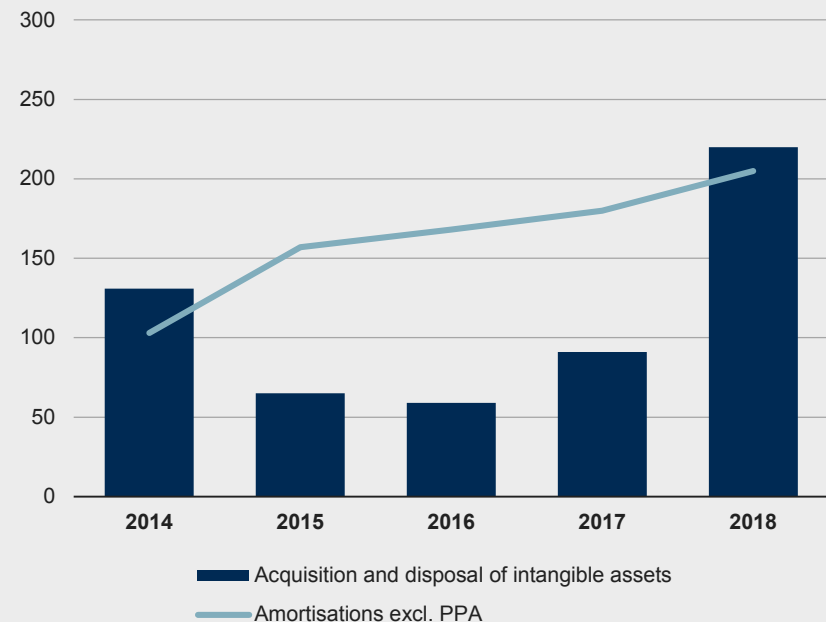
Depreciations and amortisations

Low share of in-house manufacturing – target to keep investments below D and A

DKKm **CFFI and Depreciations – Tangible assets**

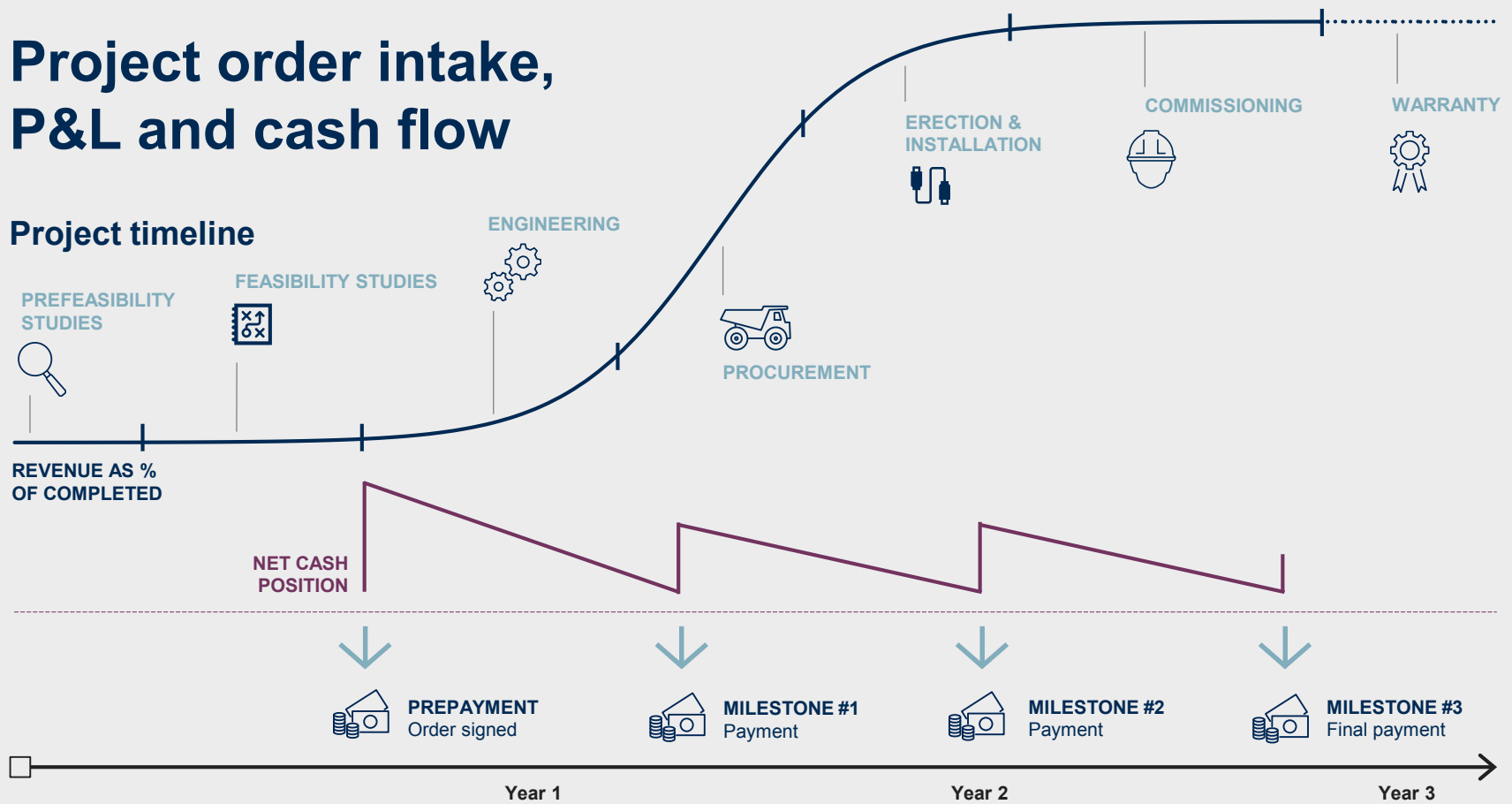


DKKm **CFFI and Amortisations - Intangible assets**

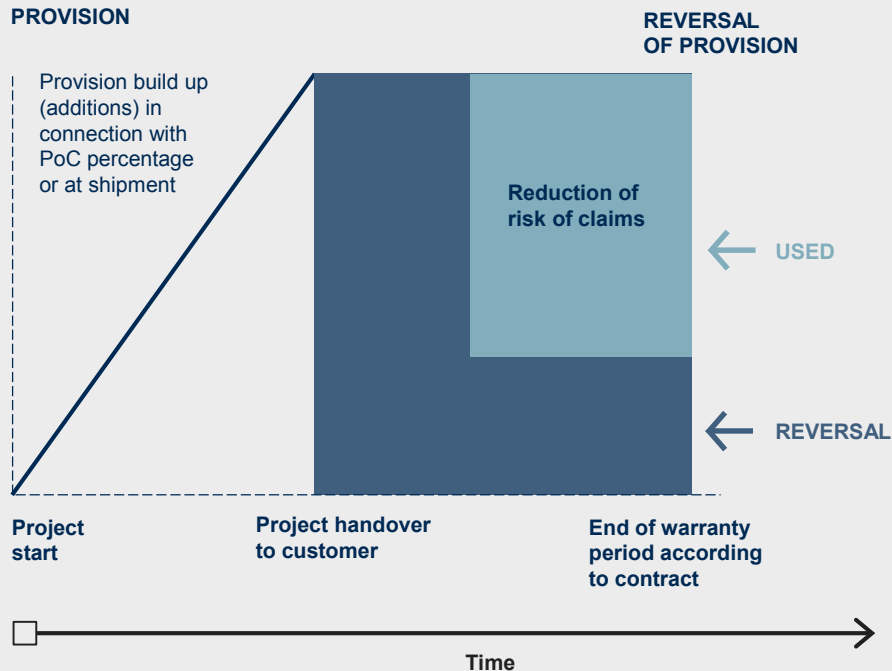


Project order intake, P&L and cash flow

Project timeline



Lifetime of a warranty provision



Warranty provisions

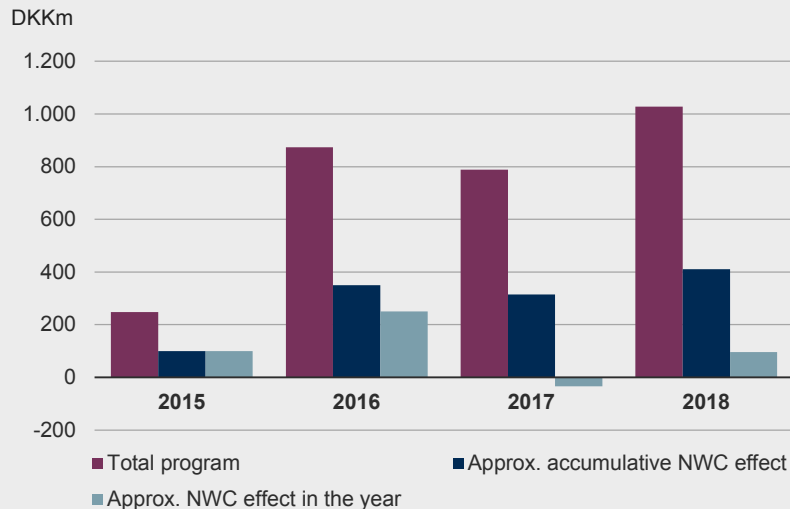
- Estimated based on historical realised costs
- **“Additions”** based on percentage of completion for projects and at shipment for invoicing principle (proportional to revenue)
- **“Used”** is independent of current revenue and based on claims for finalised projects
- **“Reversals”** are independent of current revenue and based on expiry of warranty period

Other provisions

- For example disputes and tax risks
- Build up when risk occurs

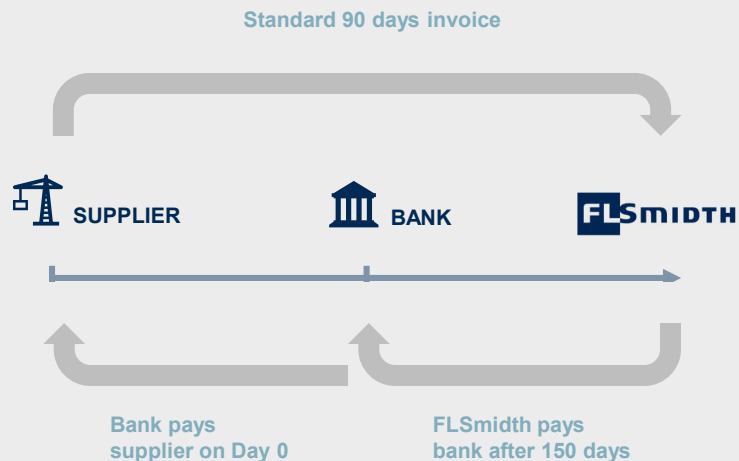
The benefits of supply chain financing

Supply chain financing



- The effect on trade payables (net working capital) from the SCF program is calculated daily and included in FLSmidth's liquidity buffer

Example:

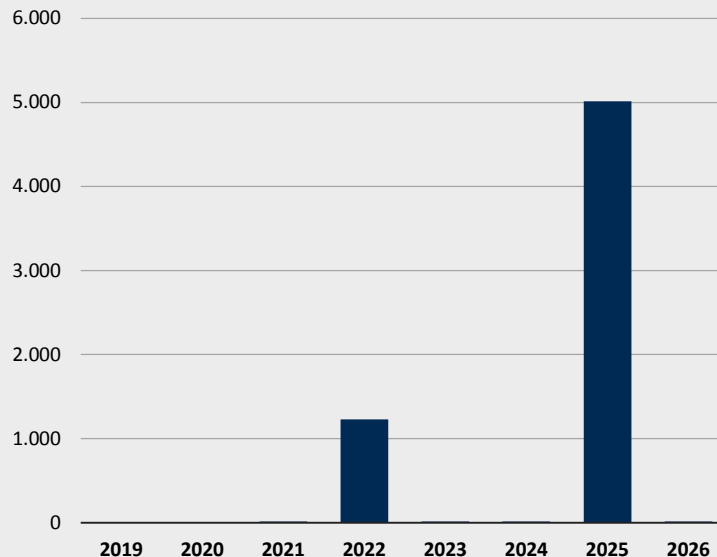


- Industry standard
- Loyalty programme with core suppliers
- Extended credit at no cost
- Utilising the difference in credit quality

Strong maturity profile on debt facilities

- Primary funding facility is a DKK 5bn RCF from Core banking group:
 - Danske Bank, Nordea, HSBC, Handelsbanken, Commerzbank and BNP
- Extension options (2 times 1 year)
- Strong support from core banking group and other banks
- Pari passu amongst banks

Maturity of funding facilities



The road to higher profitability

Q3

- Mining project cost overruns of DKK 70m
- Lower margin in mining backlog
 - DKK 120m in 2020 or 1% on mining EBITA
- Under absorption

Activities to bring EBITA back on track

- Consolidate project execution into HUBs
- Business improvement initiatives
- Service growth
 - Order intake is DKK 450 higher than revenue

How do we get to higher EBITA margins?

- Prioritise service growth
- Mining capital margin
- Grow topline

- Operating leverage (manage SG&A)
- Efficiencies (footprint and scale)

Key highlights



Enhanced data
transparency



Efficient
back office



Footprint
optimisation



Driving performance
through benchmarking



Focus on cash
conversion