

The Working Capital Forum

EUROPE 2022

Amsterdam, 1st December

How Danfoss Climate
Solutions balanced
supply chain, strategy
and finance

Niels Behrensen
CFO
Danfoss Climate Solutions

Gold sponsors



Silver sponsors

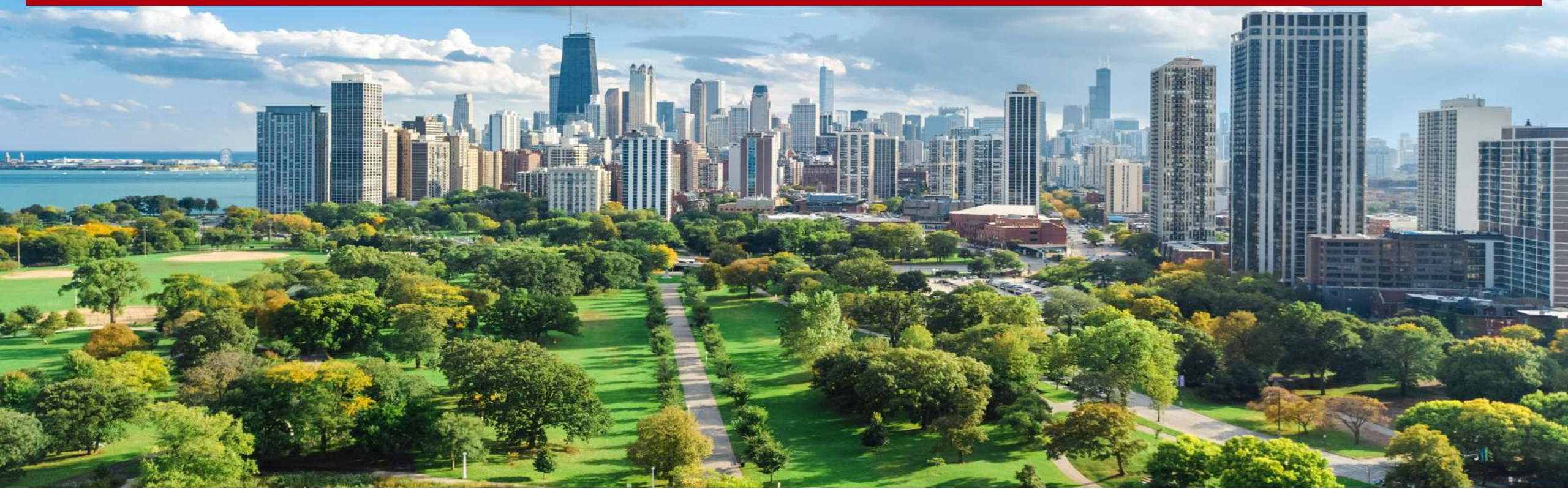


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How Danfoss Climate Solutions balanced supply chain, strategy and finance – inventory focus

Niels Behrensen – December 1st, 2022



Niels Behrensen

CFO Danfoss Climate Solutions



Graduate in
Business Informatics



Master of Science
Corporate Finance



2000-2001



CEO of family owned
logistics company

2001-2010



RDBM/OLAP/BI/SW Dev.,
Risk Manager,
Director Biz & Fin. Dev.
(FPA, M&A, Divst., Restr.)

2010-2011



Director FPA

2011-2018



Director Proc. CO & Biz Sup.,
Sr. Director Fact. & BU CO,
Division CFO

From 2018



CFO Cooling Segment
CFO Climate Solutions
Segment

Danfoss



Founded by Mads Clausen in 1933



Headquarter in Nordborg, Denmark



42,000 employees



Worldwide sales (in >100 countries)



95 factories



EUR 10bn revenue

"If others can do it, so can we – if others can't, we still have a chance."

Mads Clausen

"Danfoss has never been more relevant"

Kim Fausing
President & CEO



3 | Welcome to Danfoss

Classified as Business

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The starting point...

High growth outlook requires higher Capex needs

- No sufficient funding for Capex requirements in our businesses
 - *...high growth outlook „after“ Covid crisis*
 - *...green agenda*
 - *...subsidies*
 - *...energy transition*
 - *...heat pump market*
 - *...automation*
 - *...regionalization*
 - *...capacity extensions*
- **How to generate more cash to fund these investments?**

The solution...

Reduce Working Capital to fund Capex

- The goal: Free up 40m EUR (~10% working capital reduction)

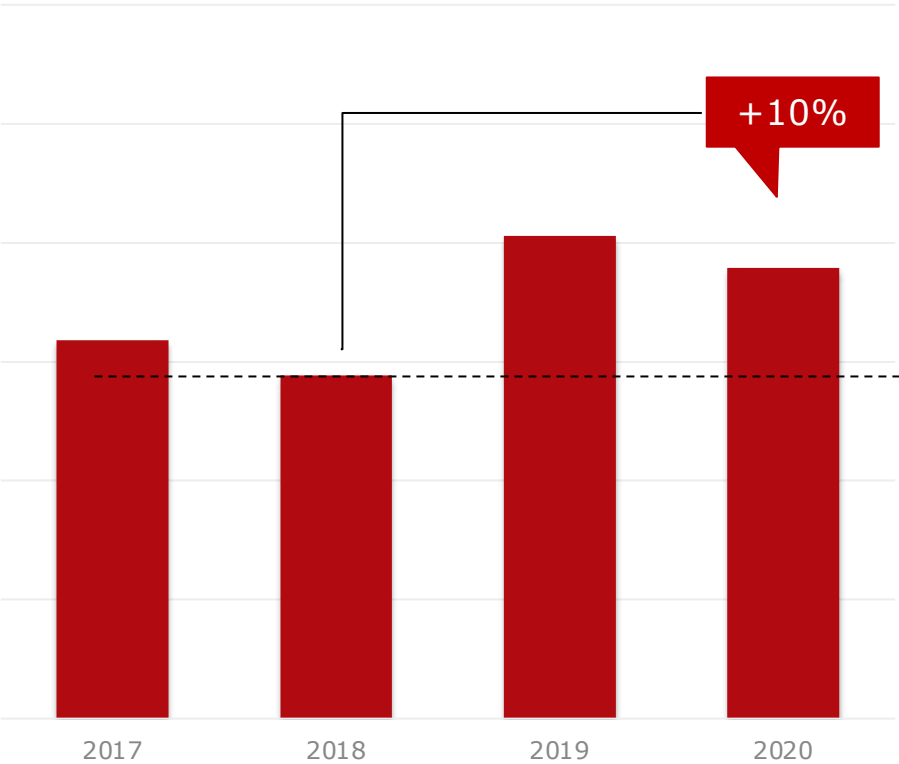
- ...receivable
- ...payable
- ...inventory

- **How difficult can it be...** 😊

The data...

Historic benchmarks indicate high cash potential on TWC

DCS historical TWC days

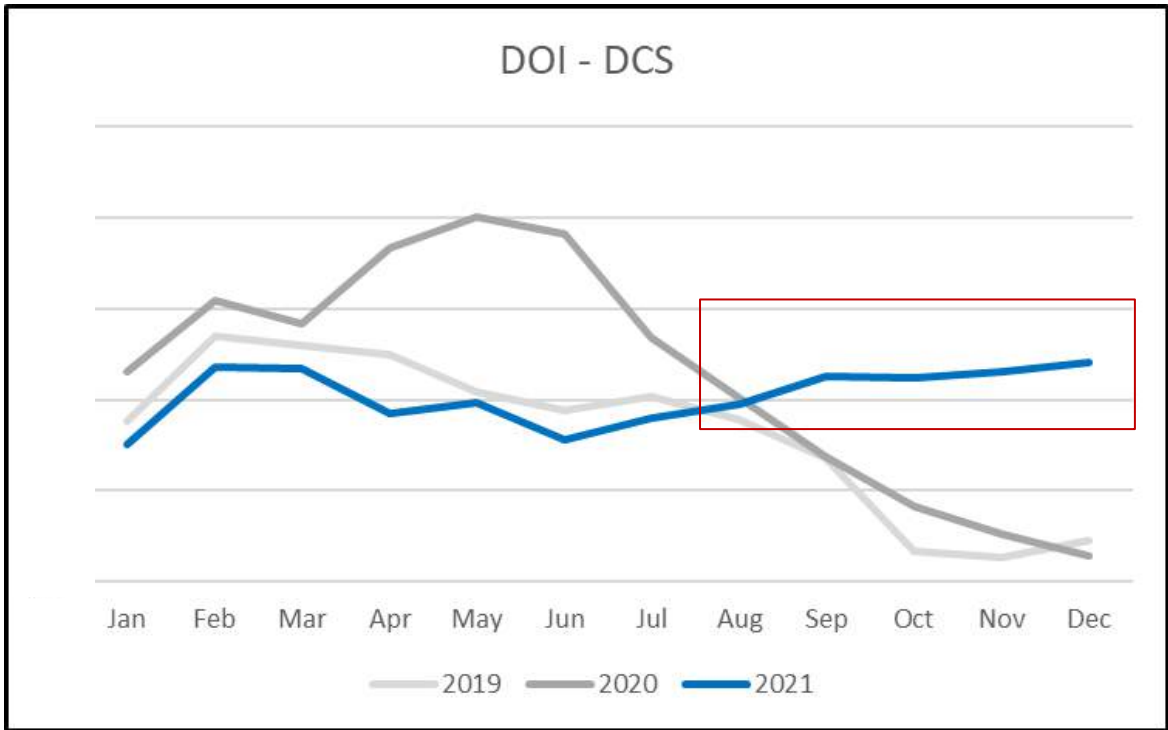
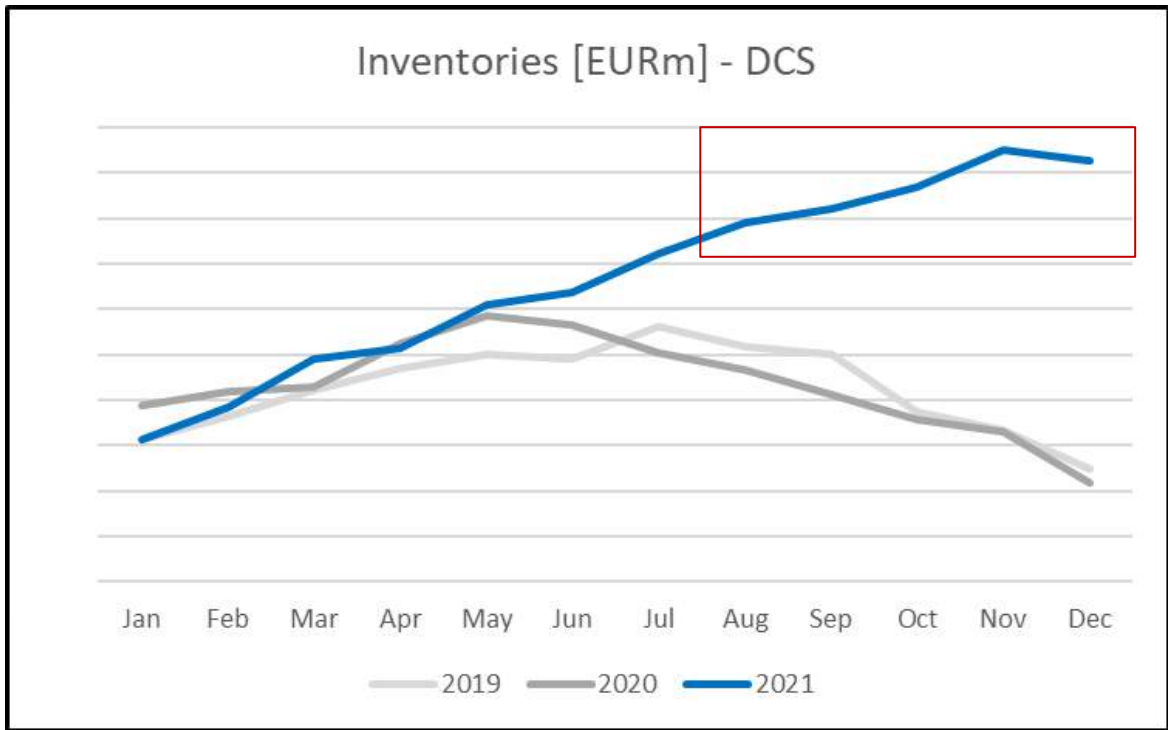


+10% vs historical performance (~EUR 40m).

The additional challenge...

We were in the middle of an inventory crisis

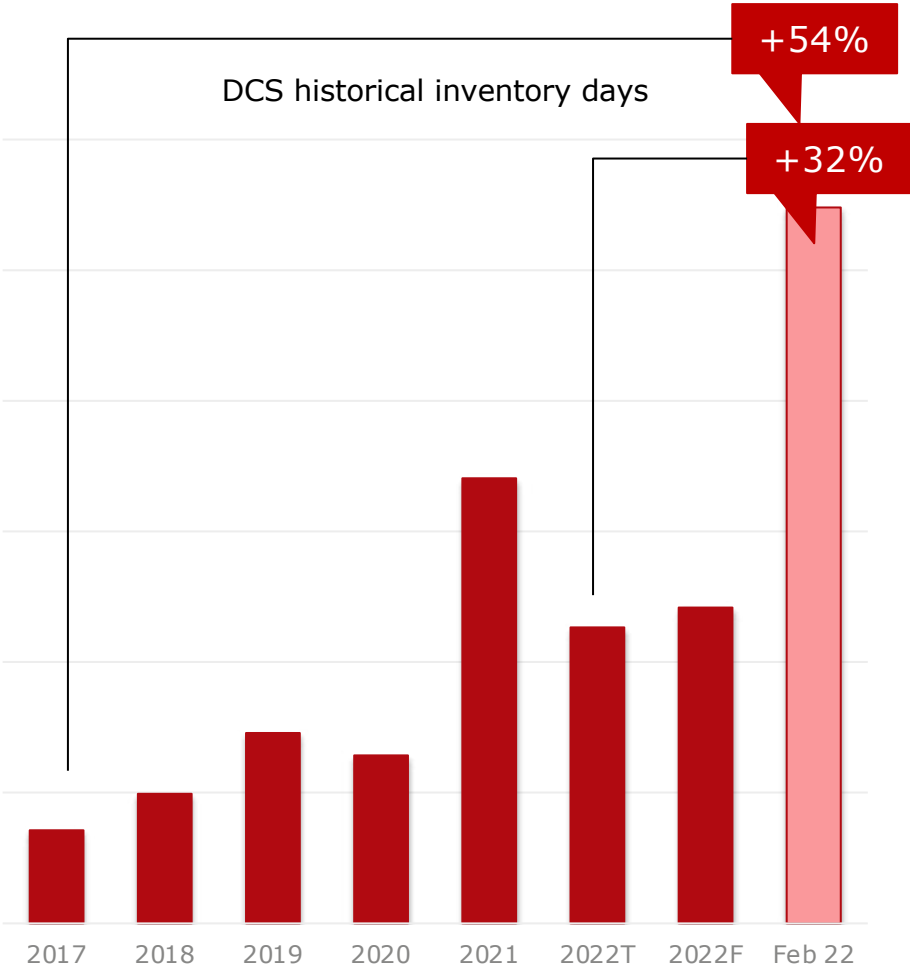
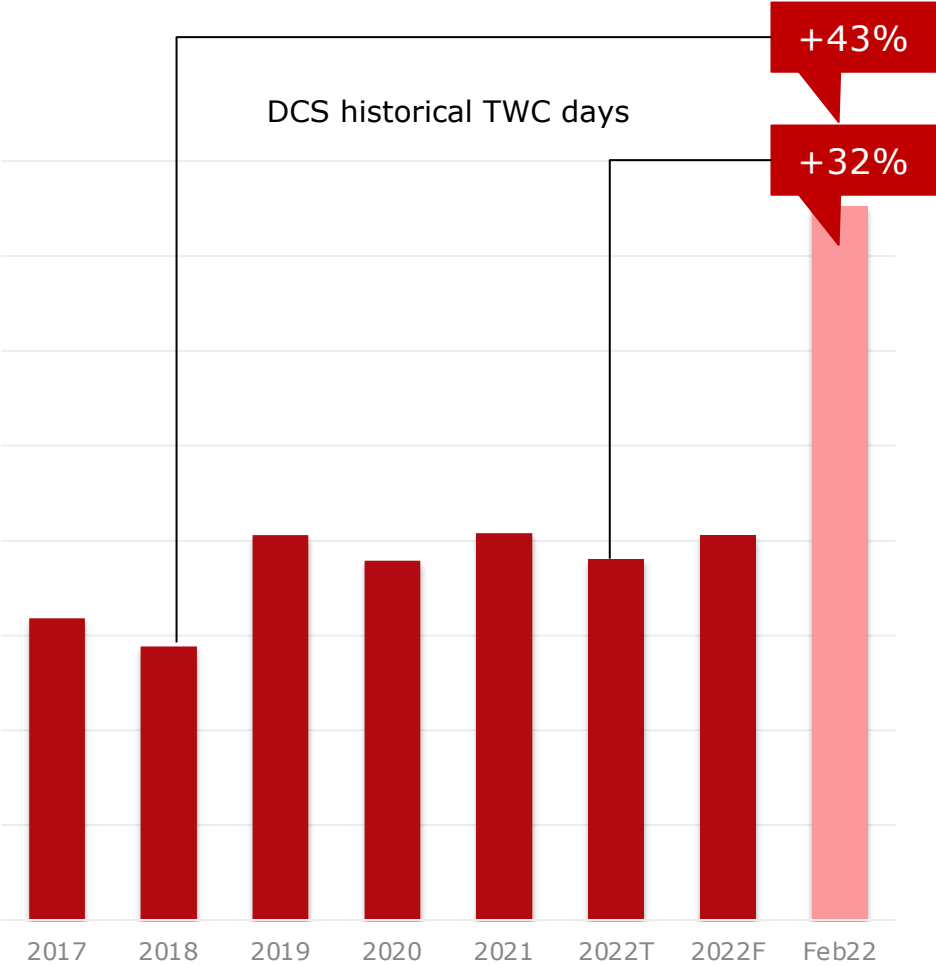
January 2022



March 2022

The focus...

Inventories continued to increase TWC

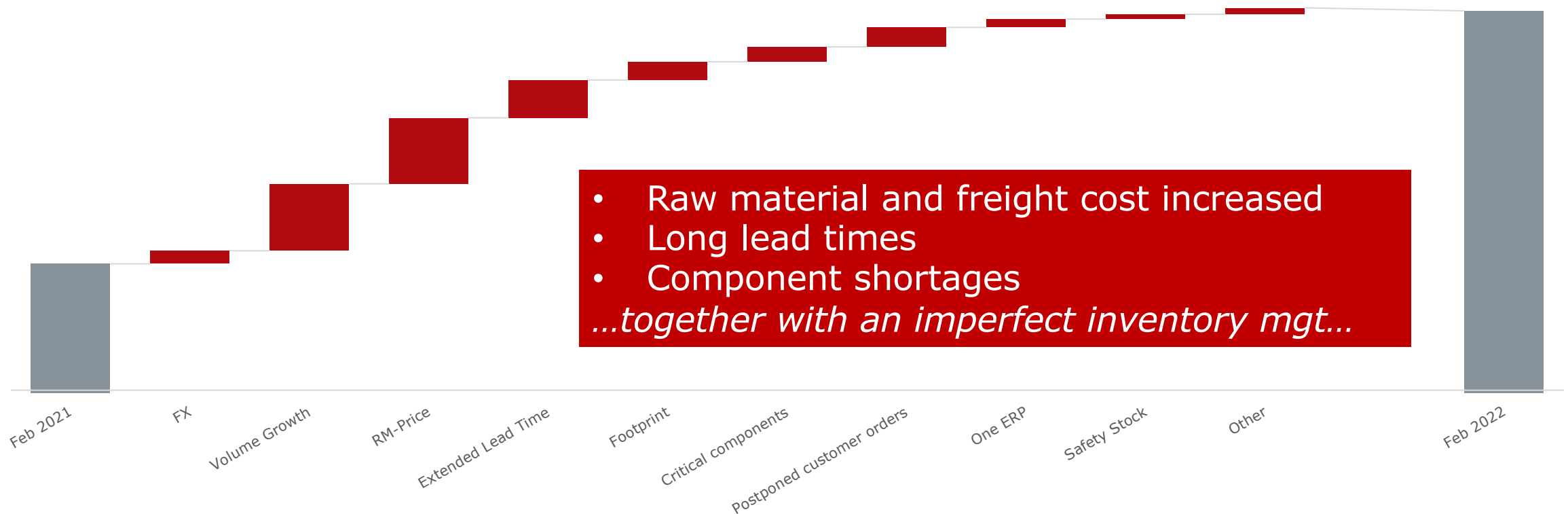


The reasons...

The supply chain disruption caused trouble

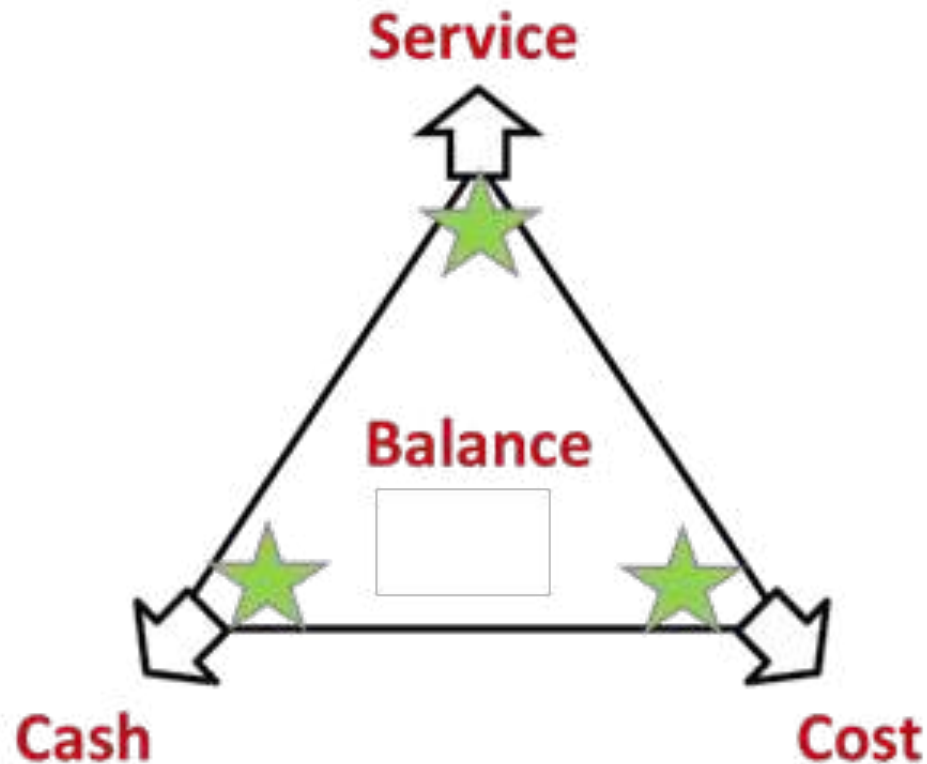
March 2022

DCS Inventory development from Feb 2021 to Feb 2022 in mEUR



The fact...

The triangle got out of balance



How to get back in balance?

- One strategy for all?
- One target for all?
- Differences in the supply chain (go to market, product/market strategy, lead times...)?
- Link between triangle position and business model?

The analysis and actions...

Let's understand what is broken and take action

What is broken?

(1) **Process audit**

S&OP, forecasting, demand plan, planning (raw material/ production/ capacity), KPI's

(2) **System / Toolset / Data audit**

System use, system set-up, capabilities, APO-Anaplan-HANA, transparency, std transactions used, master data accuracy, MRP, inventory parameters, lead time accuracy

(3) **E2E analysis**

Customer-product segmentation, Distribution and production network, complexity, MTS/MTO/..., bottlenecks, customer/product segmentation, SC flexible enough to handle the current environment, X-ray division priorities, portfolio

(4) **People / Organization**

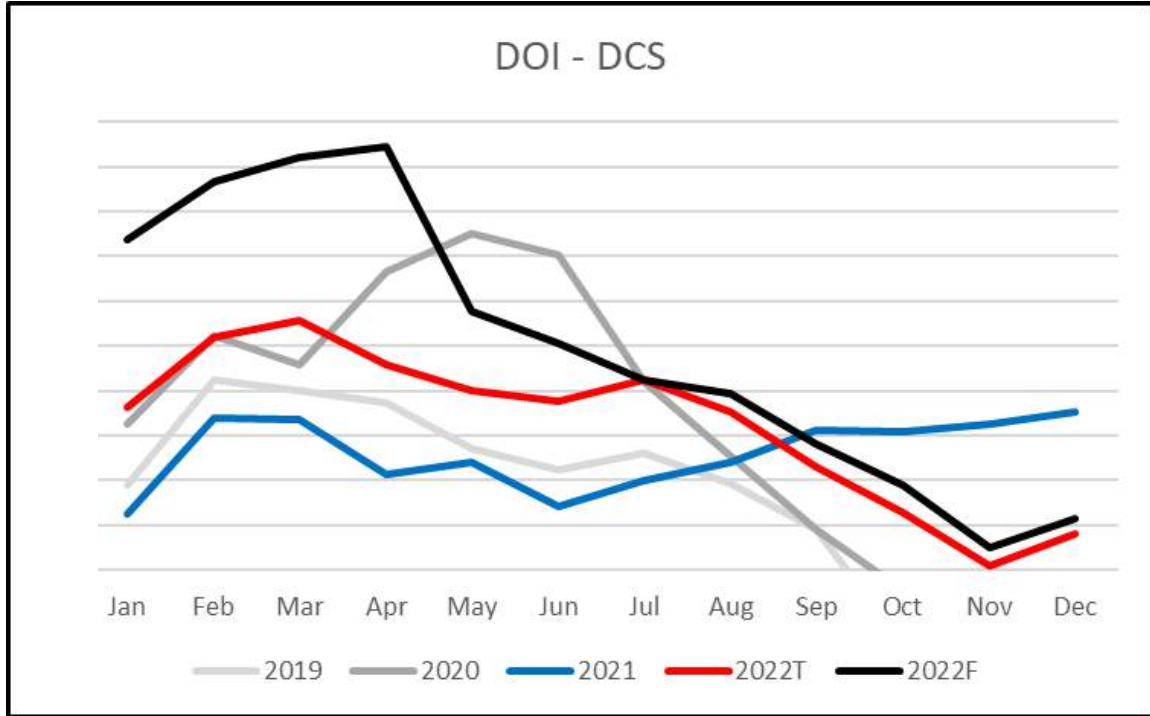
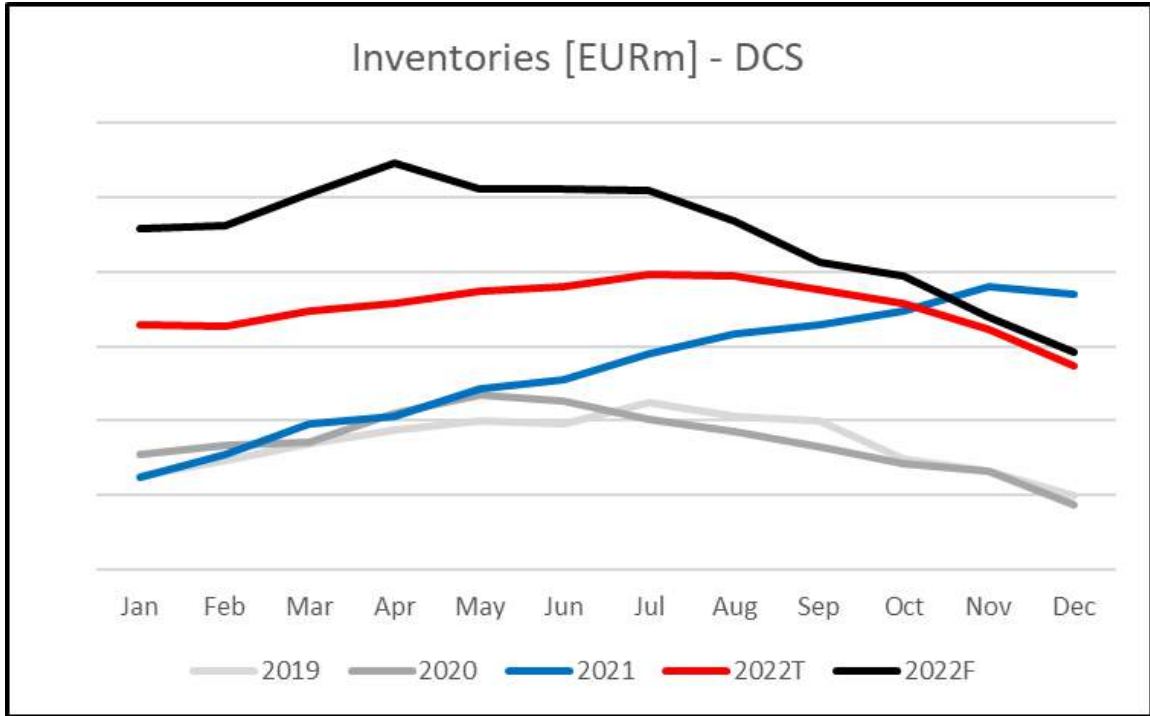
R&R planning, skillset/capabilities, audits in place, governance

Immediate actions:

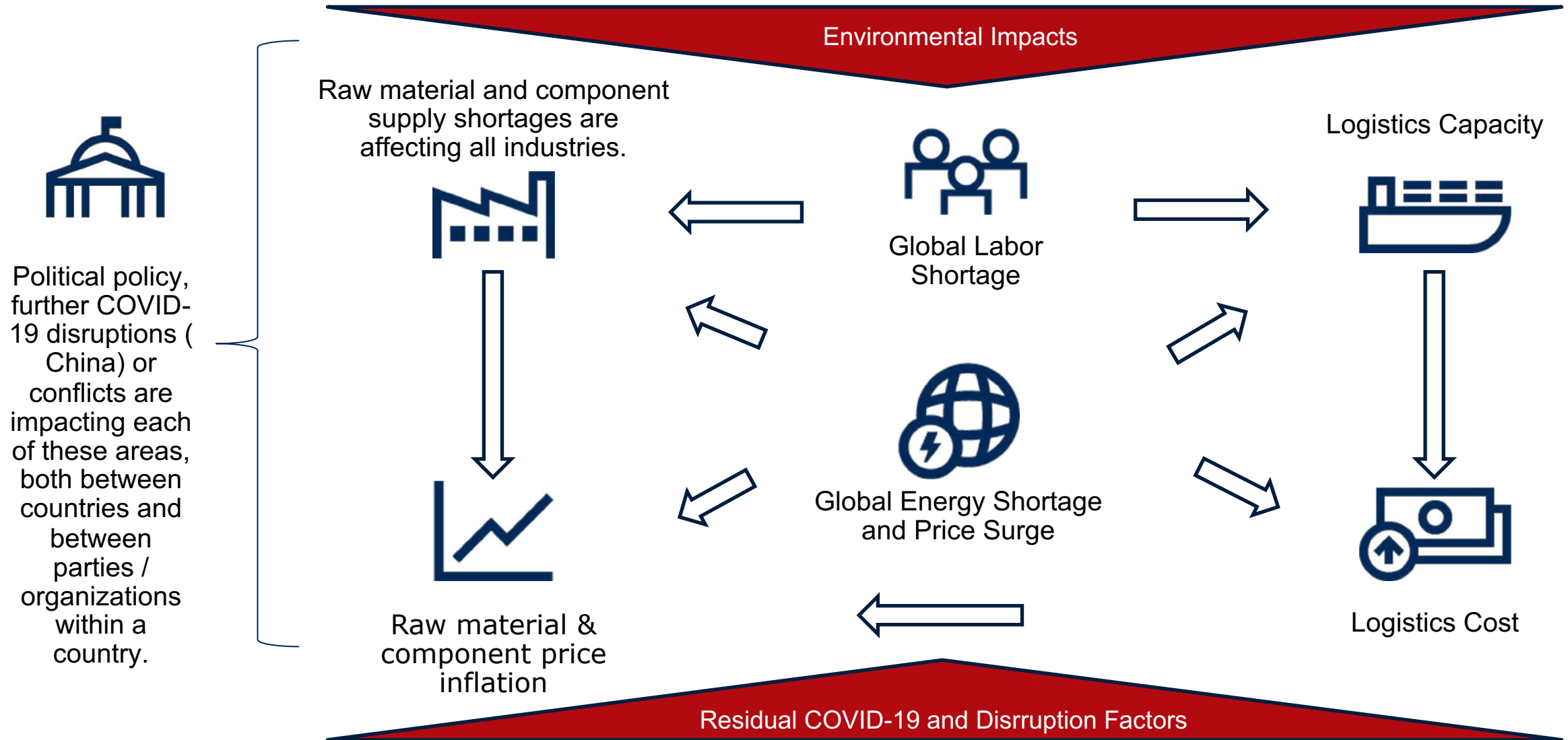
- Get sales and production planning in control and update the system parameters
- Reduce raw material and finished goods stock through synchronized planning and lead-time reduction
- Optimize order book towards supplier
- Establish more frequent reviews
- Increase accountability and ownership as well as better E2E understanding
- *...more to come..*

The current state... **We are recovering**

November 2022

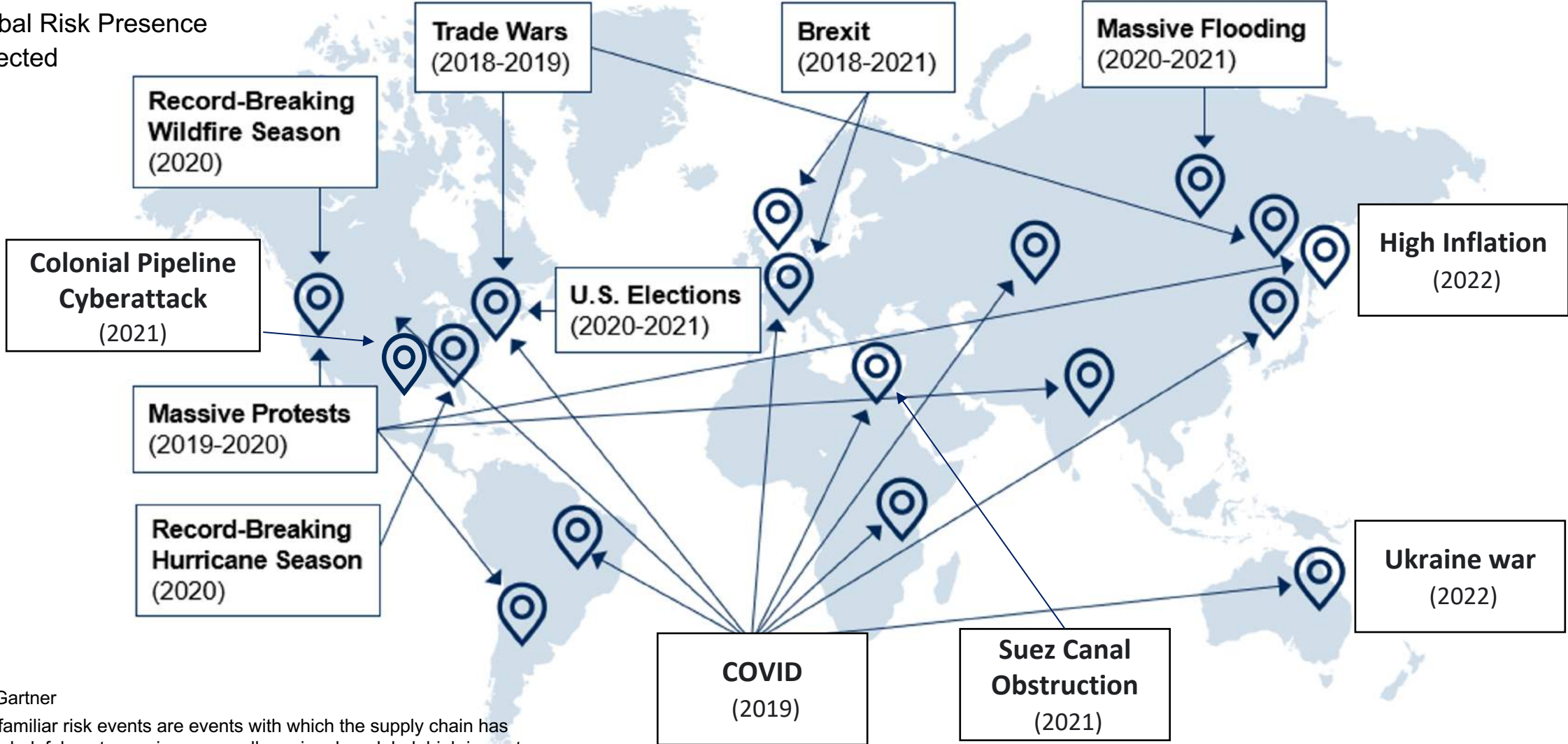


Our current Global Supply Chain Gridlock



The Frequency & Magnitude of Disruption is Increasing

Global Risk Presence
Selected



Source: Gartner

Note: Unfamiliar risk events are events with which the supply chain has little or no helpful past experience, usually regional or global, high impact events.



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