Potential for growth in Customer Services

Kristian Gregersen
VP, Head of Global Customer Services, Cement
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- **VP, Head of Global Customer Services, Cement**

- Joined FLSmidth in 1976

- Positions in FLSmidth:
  - Design engineer, gears and mills
  - Field Engineer, new installations in Indonesia and Algeria
  - Production Management, Manufacturing Plant in Brazil
  - Plant Management, Manufacturing Mexico
  - Director Quality, FLSmidth USA
  - Director IT, FLSmidth USA
  - VP, Customer Services FLSmidth USA
  - VP, Global Customer Services Cement
FLSmidth Customer Services global

- A DKK 5-6bn business today
- Targeted growth: **10-15%** annually

**Customer Services**
Global revenue distribution

- Minerals: 44%
- Cement: 56%
Customer Services order intake and revenue (Cement)

- Revenue follows a much more stable pattern than order intake
- Q4 2007 order intake was positively impacted by a 5-year O&M contract
- Q4 2008 best quarterly revenue ever

**Revenue** (quarterly) *)

+31% vs. Q4 2007

**Order intake** (quarterly) *)

-58% vs. Q4 2007

*) including cement product companies
Customer Services order intake and revenue (Minerals)

- Revenue follows a much more stable pattern than order intake
- Q3 2008 order intake was positively impacted by multi-year maintenance contracts
- Q4 2008 best quarterly revenue ever

**Revenue** (quarterly) *)

+7% vs. Q4 2007

**Order intake** (quarterly) *)

-18% vs. Q4 2007

*) including minerals product companies
Target: Customer Services revenue to grow by 10-15% p.a.

- We prefer to look at 12m trailing patterns in stead of quarterly developments

**Cement revenue (12M trailing) *)**
+29% vs. Q4 2007

**Minerals revenue (12M trailing) *)**
+47% vs. Q4 2007

*) including cement product companies

*) including minerals product companies
Two industries – one service approach

Minerals projects
- Quarry
- Crushing
- Transport
- Grinding
- Pyro OR -
- Separation

Then -

Cement projects
- Quarry
- Crushing
- Transport
- Grinding
- Pyro
- Grinding

Customer Services
- Parts
- Field Personnel
- Services
- Back Office
- Manufacturing
- Inventories
- O&M

Then -

OPERATE - MAINTAIN - IMPROVE
Customer Services

CEMENT
Facts about FLSmidth Customer Services - Cement

- **Scope of business:**
  - **Service to existing plants:** parts, services, upgrade projects, pneumatic transport parts and solutions, Operation & Maintenance
  - **Service to new plants:** supervision for installation and commissioning, plant staff training and development, O&M

- **Customers served globally > 1,000 plants**

- **Orders received per year > 16,000**

- **Number of Employees; 1,100** - of which:
  
  250 have base in DK
  220 have base in US
  300 have base in IN
  
  Of these 260 are on site assignments

  120 are based in Manufacturing
  210 are based in O&M abroad
Customer Services activities in Cement

Expert services
- Mechanical inspection
- Process & operational services

Projects services
- Supervision for installation
- Commissioning

Spare parts
- Sale of replacement parts
- Manufacturing & inventories

Upgrade projects
- Upgrades and rehabilitations
- Output or efficiency focus

Training & seminars
- Public & customised courses
- Highest level & hands on

Operation & Maintenance
- Maintenance contracts
- Operation & maintenance contracts

Alternative Fuels
- Complete alternative fuels solutions

Pneumatic Transport
- Pneumatic bulk conveying
Customer Services activities in Cement

Expert Services

- Mechanical inspection
- Trouble shooting
- Operational services
- Process audits
- “Debottlenecking”
Customer Services activities in Cement

Projects services

- Supervision for installation
- Commissioning
- Customer training
- First time spares
Customer Services activities in Cement

Spare parts

- Sale of replacement parts
- Manufacturing of parts
- Inventories
- Service centres
Customer Services activities in Cement

**Upgrade projects**

- Upgrades and rehabilitations
- Production increase
- Stabile productivity
- Reduction of total cost of production
Customer Services activities in Cement

Training & seminars

- 12 public seminars per year
- Customised seminars
- Internal training
- E-learning
Customer Services activities in Cement

Operation & Maintenance contracts

- Furnishing all necessary personnel to place the cement production plant in operation, and for
- Managing, operating and maintaining the plant ongoing
Customer Services activities in Cement

Alternative Fuels

- Complete alternative fuels solutions
Customer Services activities in Cement

Pneumatic Transport

- Pneumatic bulk conveying of dry pulverised materials, including portland cement, limestone, ceramic clays, etc.

Manufacturing

- Machine Shop, Manheim Pennsylvania
- Foundry, Chennai India
- Machine Shop, Qingdao China
Competitors
Market description – Parts

- Parts of mainly FLSmidth designed machines
- Most parts are fabricated, forged or cast parts, which can be copied with relative ease
- New plants are usually supplied with two years supply of parts
- Improved value-creating parts are needed to differentiate from competing products

Competitors

- **OEM suppliers**
  (auxiliary equipment): GE, ABB, SKF, FAG, Siemens, etc.

- **Specialised global foundries:** Magotteaux, AIA, Columbia Castings, Estanda etc.

- **Global competitors:**
  Polysius, KHD, FCB, L&T, CEMAG, Sinoma

- **Local foundries and workshops**

- **Customers themselves**
Market description – Services

- External inspection of all machines
- Examination of operational data and samples
- Calculation of heat and raw material balances
- If the kiln is stopped, internal inspection of kiln, cooler, preheater, calciner and other machines operating closely together with the kiln

Competitors

- **Global competitors:** Polysius, KHD, FCB, CEMAG, etc.
- **Independent consultants, specialists and service providers**
  Phillips Kiln Services, ASEC, LVT, former employees of FLSmidth and competitors
- **Customers themselves...**
Market description – Operation and Maintenance

- Operate & maintain part of or the entire plant
- Manage and train all personnel
- Performance payment

Competitors

- No global competitors
- Regional competitor: ASEC
Markets & Customers
Cement and mineral Plants are, in nature, self destructive

Crushing, grinding, dragging rock through large and violent machinery is bound to wear down everything in contact

An enormous amount of wear parts, bricking, heat resistant components are replaced constantly

Meticulous corrective and preventive maintenance cycles requires the best resources in the industry

As a result, run factors of up 95%, have been achieved within a single year

Modern plant utilizes the latest monitoring technologies which helps predicting failures so that new parts can be ordered and repairs can be done in time

FLSmidth designs, installs and operates cement plants and will become the leader providing operation and maintenance of plants
Maintenance spend on a typical cement plant

**Maintenance Budget OPEX**
- General spare parts, wear parts and consumables 2 US$/ton
- SG&A for maintenance departments 8 US$/ton

Of the 10+ US$/ton, FLSmidth typically competes for 1 US$/ton of OEM parts for main equipment

**CAPEX Budget**
- For larger break downs and smaller upgrades, a maintenance department typically spend another 1 US$/ton

Of the 1+US$/ton, FLSmidth typically competes for 0.5 US$/ton which is for parts and components

Traditionally, FLSmidth Customer Services wallet size was 1.5 US$/ton
In future, FLSmidth Customer Services wallet size is 11 US$/ton
What changed in the market?

- Traditional large customers will and can handle all operation and maintenance in-house

BUT

- Many new customers have entered the market:
  - Large entrepreneurs, venture capitalists, etc.
  - with no "attachment" to the plant and operation, and
  - with an interest in integrated services or full O&M

- Also, the big 5 have expanded both up- and down-stream
- Past perception of "CORE" business is changing
- Beginning interest in closer partnering with the OEM is emerging
Changing market needs

- Change in **buying behavior**
  (Internet, technical centers, business systems)

- Need for **resources and knowledge**
  due to business expansions

- In addition to parts and services
  customers demand **total solutions**

- Increased focus on **total cost of ownership**, with concerns in fuel
  consumption, emission regulation & cost, reliability and wear rate.
Going forward - balancing our red & blue oceans

- **Client business integration**

- **FlSmidth Services Transformation Path**
  - **Ad hoc consultancy**
    - Yearly audits
    - Stocking programs
  - **Contract services**
    - Process optimization with upside sharing
    - Management contracts
  - **Management solutions**
    - O&M
    - Performance based pricing

- **Transactional business**
  - Spares
  - Equipment
  - Services

- **Operational scope**
And FLSmidth is prepared to act
New business opportunities
REDEFINING
Customer Services

Support from A to Z
New initiatives

- **Operation and maintenance** services leader
- **Partnership** opportunity project. Targeting closer working relationship with customers it includes executing joint workshops uncovering needs and new ways to optimize operation and business execution
- **Inventories of critical and general spares** for certain main machines
- Leader in cement plant **staff training and development**
- **Alternative Fuels** leader
- **Kiln services** leader
- **Innovation**
We're redefining Customer Services

Everyday FLSmidth customer service provides the entire alphabet of support to more than 100 cement plants around the world. From daily operational challenges to strategic planning, our knowledge and experience can free you to focus on what you do best - selling and distributing cement. To find out more about FLSmidth’s support and the notion of Customer Services, please visit our website at www.flsmidth.com
Direct customer contact EVERY DAY!

“Your most unhappy customers are your greatest source of learning”

*Bill Gates*

AND

“Your best salesman is a happy customer”
Questions