

# AFP® Annual Conference



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INFORMATION



## Risk and Effective Supply Chain Management

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KNORR-BREMSE

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## Introduction Deutsche Bank

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Founded	<b>1870</b>
Employees 2009	<b>81,929</b>
Branches Globally	<b>1,995</b>
Countries with DB Presence	<b>72</b>
Total Assets	<b>Eur 1,926 billion</b>
Shareholder Equity	<b>Eur 41.5 billion</b>
Net Revenues	<b>Eur 7.2 billion</b>
Net Income	<b>Eur 1.2 billion</b>
Rating	<b>S&amp;P: A+; Moody's: Aa3; Fitch IBCA, London: AA-</b>



## The Financial Environment....

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- The financial crisis has forced all involved in the physical supply chain to take a closer look at the risks associated with gaps in the financial supply chain
- Credit availability has shown some improvement, but credit availability remains uneven, and pricing has spiked for lower rated companies
- Corporate Treasurers' instinct to hoard/hold cash is gradually receding
- Underwriting capacity for trade credit and political risk remains constrained
- Increased perception of risk in cross border trade - demand for secure payment mechanisms
- Companies are increasingly sensitive to the risks associated with disruption of their supply chain and the potential impact on their strategic suppliers

## The Supply Chain Environment....

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- Focus on cost reduction forces globalization of the supply chain, creating greater complexity and vulnerability
- Focus on Economies of Scale drive lower costs, but also create less flexible structures
- “Lean” and “Just in Time” practices contribute to efficiency, not effectiveness
- Increased outsourcing of non-core business functions results in less control and greater dependency on 3rd party providers
- Consolidation of Suppliers creates concentration risk for supply failure

## Questions Leading Companies are Asking....

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- Are my working capital management initiatives putting pressure on my supply chain partners?
- Are my suppliers vulnerable to liquidity gaps and will they put my business at risk?
- Am I properly evaluating the “counterparty risk” when selecting a vendor or partner?
- How can I mitigate these risks?
- How can technology help me reduce risk and reduce my working capital?
- What is the basis of selecting my banking and technology partners?
- Is my banking partner still open for business?

## And their Challenges....

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- Resistance and fear of change among supply chain partners
- Corporate's ability to understand and influence financial cost across all tiers of the supply chain
- Adverse impact of the credit market vagaries
- Need to manage the uncertain political, environmental and legal risks
- Need for the right global financial partner

### Action Steps We See in the Market...

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- Early payment to stressed suppliers, at a discount
- Redeploying cash from low yielding investments, spreading that liquidity up and down their supply chain
- Selectively taking early delivery of goods from suppliers
- Diversifying the supplier pool and avoiding concentration for strategic supplies
- Leverage Accounts Payable and offer supply chain financing through a banking partner



## Introduction KNORR-BREMSE Group

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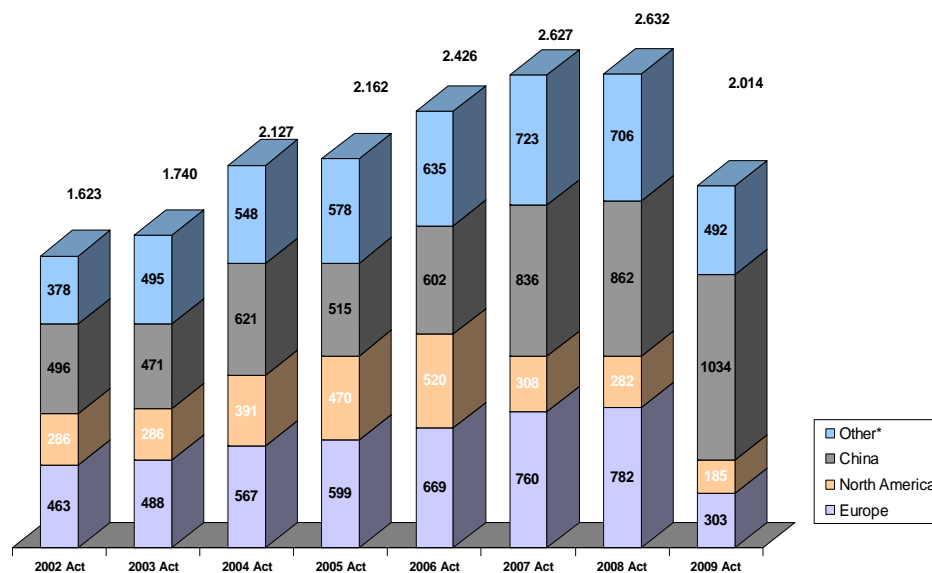
Founded	<b>1905</b>
Experience	<b>100 years of Innovation</b>
Independence	<b>Family owned</b>
Employees 2009	<b>14,432</b>
Sales 2009	<b>EUR 2.761 bn.</b>
R&D 2009	<b>5,5 % of sales</b>
Investments 2009	<b>EUR 101 mil.</b>
Rating	<b>S&amp;P: A-/stable; Moody's: Baa1/positive</b>
Locations	<b>More than 60 locations in 25 countries</b>
Two Main Divisions	<b>Systems for Rail and Commercial Vehicles</b>
	Number one worldwide
	– <b>Brake Systems for Rail Vehicles + On-Board Systems</b>
	– <b>Brake Systems for Commercial Vehicles + Visco Dampers</b>



## Economic Downturn 2009 and Upturn 2010 at Risk

### Downturn 2009 of the Truck Industry

#### Supplier Risks

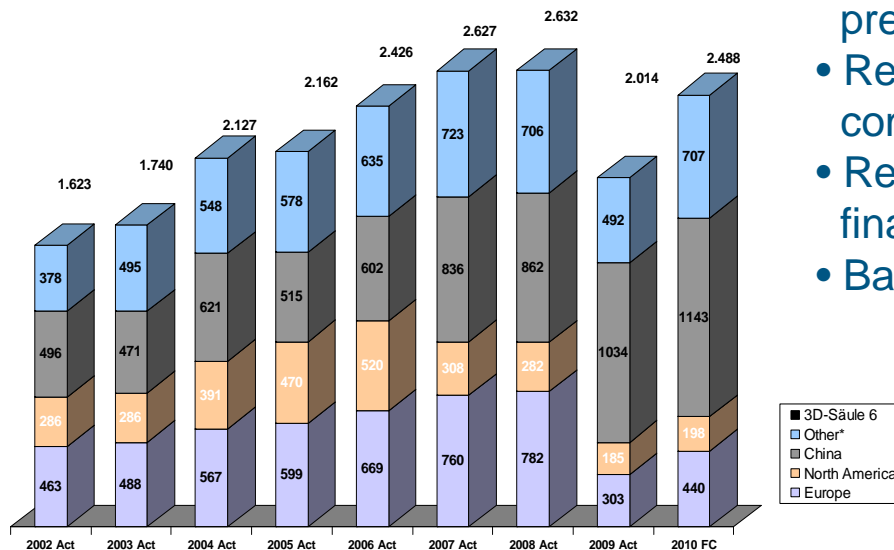


- Low capitalization - lack of equity
- Possible sudden losses due to sales downturn
- Worse bank ratings reduces borrowing capacity
- Delivery failures of smaller suppliers can have a huge impact also on bigger and stable companies

## Economic Downturn 2009 and Upturn 2010 at Risk

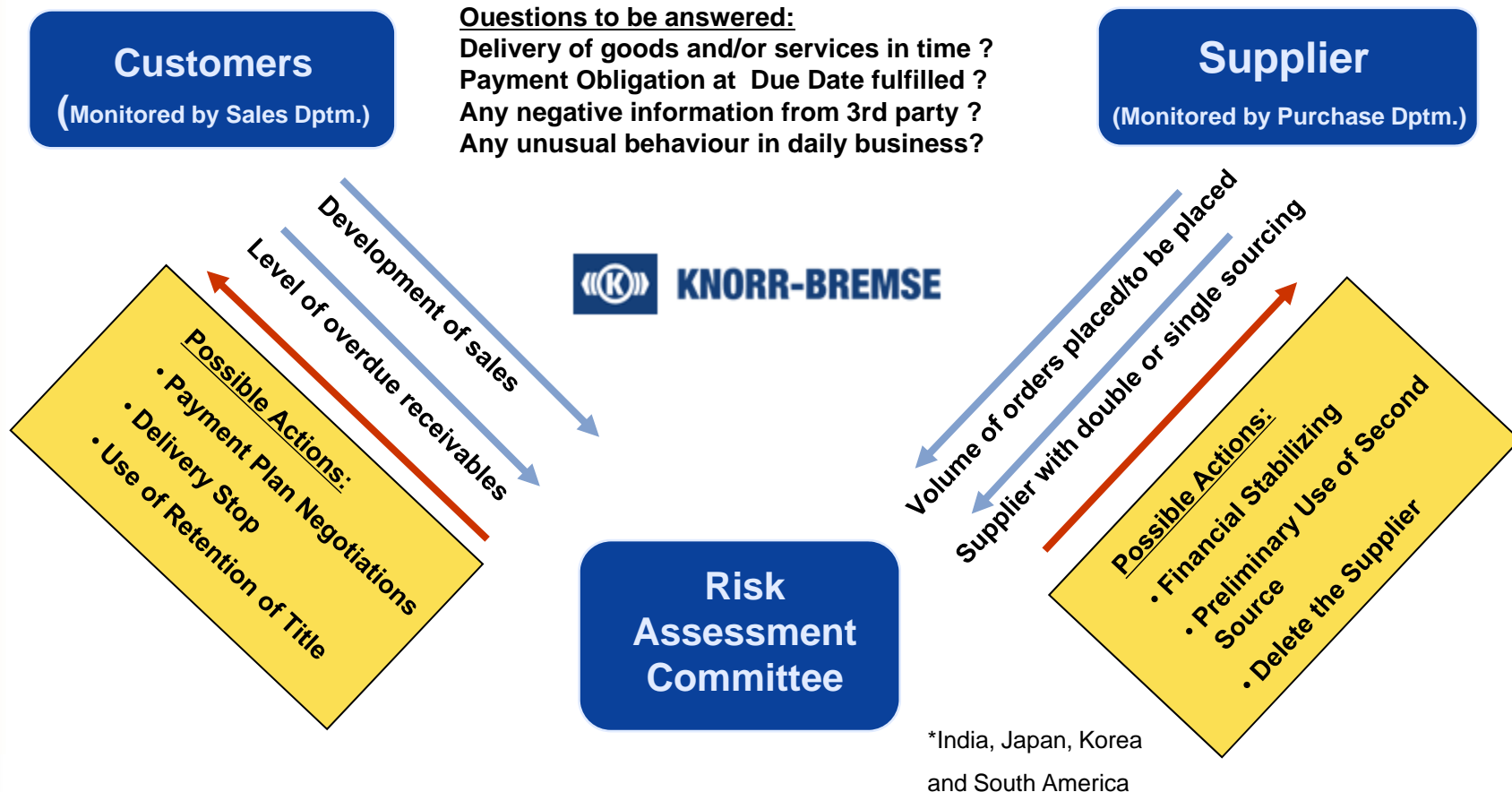
### Upturn of the Truck Industry 2010

#### Supplier Risks



- Growth comes too quickly, suppliers not well prepared
- Reduction in workforce during crisis not yet compensated
- Required additional WC cannot be properly financed
- Bankruptcy in upturn

## Effective Supply and Customer Chain Monitoring in this Period



## Supply Chain Finance – important tool to tackle the risk

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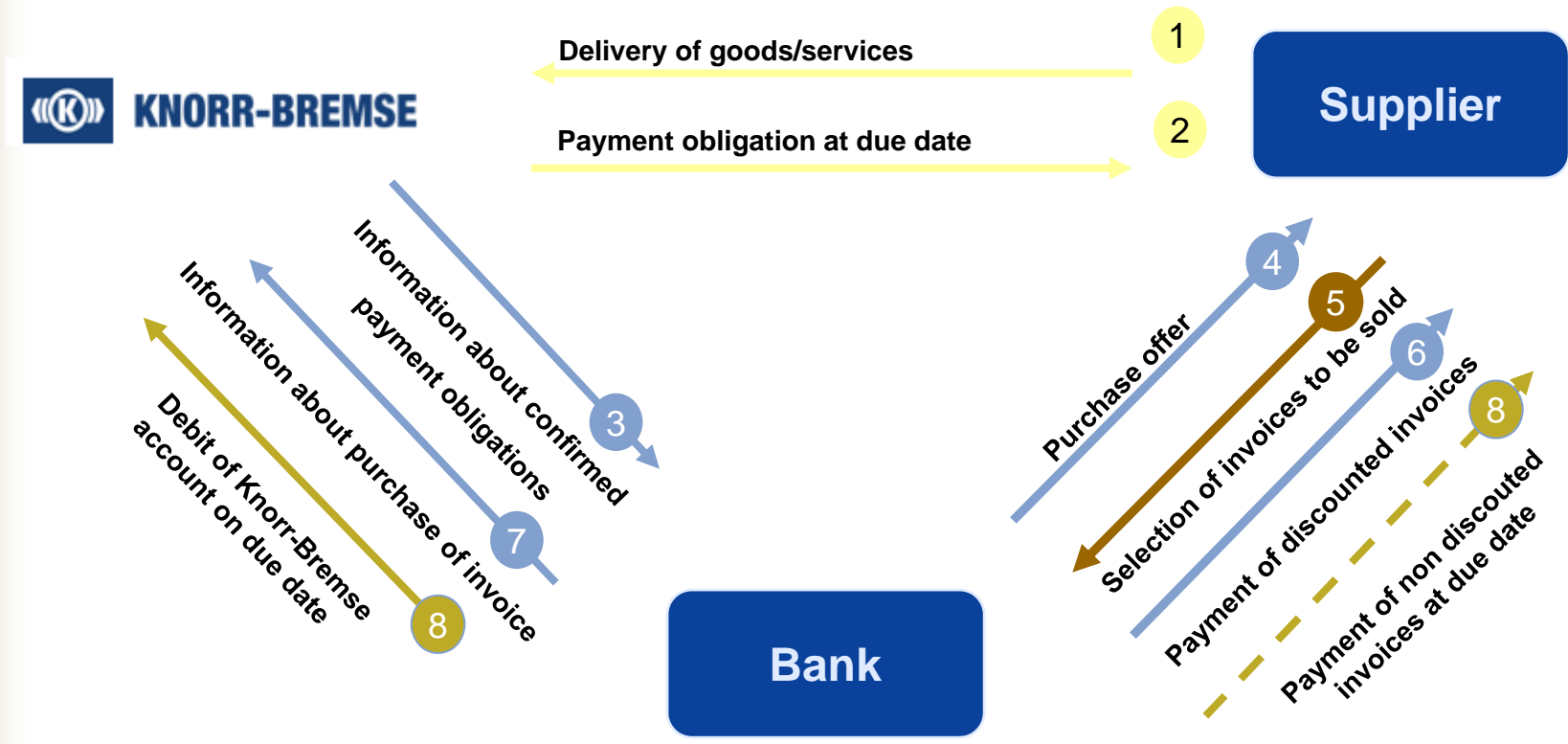
In the majority of cases, financing was the main problem especially with the smaller suppliers during the crisis.

Companies have either fully exhausted their credit facilities or they were reduced or withdrawn by the banks due to worsening of key figures.

**If the customer (buyer) has a much better credit rating than the supplier, then Supply Chain Finance can help because:**

- Bank takes the customer risk for financing only – credit based on customer rating
- Customer acknowledges irrevocable payment obligation towards supplier
- Bank discounts invoices at customer terms and conditions (true sale) and pays the 100% of proceeds to the supplier (no dilution, no retention)
- Whole process is internet based
- Supplier can choose via mouse click which invoices will be sold and when

## How Supply Chain Finance works



## Win – Win Situation

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### Benefits for all participating parties

#### Supplier

- Additional Liquid Funds
- Reduction of Interest Cost
- User-friendly Internet Platform
- Better Cash Disposition Possible
- Working Capital Management
- Financing without Credit Check by Banks

#### Knorr-Bremse

- Keep the Suppliers Financially Stable
- Support Extension of Payment Terms
- Deepen Partnership with Strategic Suppliers
- Getting Better Purchase Conditions

Questions?

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**QUESTIONS?**



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 **KNORR-BREMSE**

## Contact Information

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# Thank You!

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## Risk and Effective Supply Chain Management

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