

ENGINEERING
TOMORROW

Danfoss

Why would a \$6b revenue company buy a small independent WOFIE in China?



Chris Goode

- One year ago at the APBO 2016 in my capacity as Chief Business Development Officer of Propulsys Inc., I gave a presentation with the title:

“What is happening in China – Is it all over?”

- At that time, I was mentally addressing both the country of China and the investment Propulsys Inc. had made as the owner of White (China) Drive Products Co. Ltd.
- Undisclosed was the fact that we were in a due diligence process as a result of an SPA agreement between Propulsys and our giant competitor Danfoss
- On September 8, 2016 100% of Propulsys Inc. was acquired by Danfoss Power Solutions, a hydraulics power house, accounting for 25% of the Danfoss revenues

Commonalities

- Both companies were family owned
- Both founders competed and had a love affair with hydraulics
- Both had hydraulic gerotor motor success in 2 of the 4 major markets of the world
- Both had 2 different major markets
- Both wanted to succeed globally
- Both saw the same future vision
- But before examining that vision, lets look at Danfoss

Danfoss at a glance

Key facts

Factories (in 20 countries)

61

Employees

23,400

Number of countries in which our products are sold

100

Patent families

1,381

Total net sales bn EUR

5.1

R&D spent of total sales

4.2%

Our global markets

North America

12 factories

Sales companies in 2 countries

3,400 employees



24%

Share of total net sales

Latin America

3 factories

Sales companies in 5 countries

1,200 employees



5%

Share of total net sales

Western Europe

20 factories

Sales companies in 17 countries

9,500 employees



39%

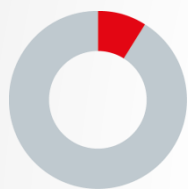
Share of total net sales

Eastern Europe

12 factories

Sales companies in 12 countries

3,900 employees



9%

Share of total net sales

Africa-Middle East

1 factory

Sales companies in 3 countries

200 employees



3%

Share of total net sales

Asia-Pacific

13 factories

Sales companies in 11 countries

5,200 employees

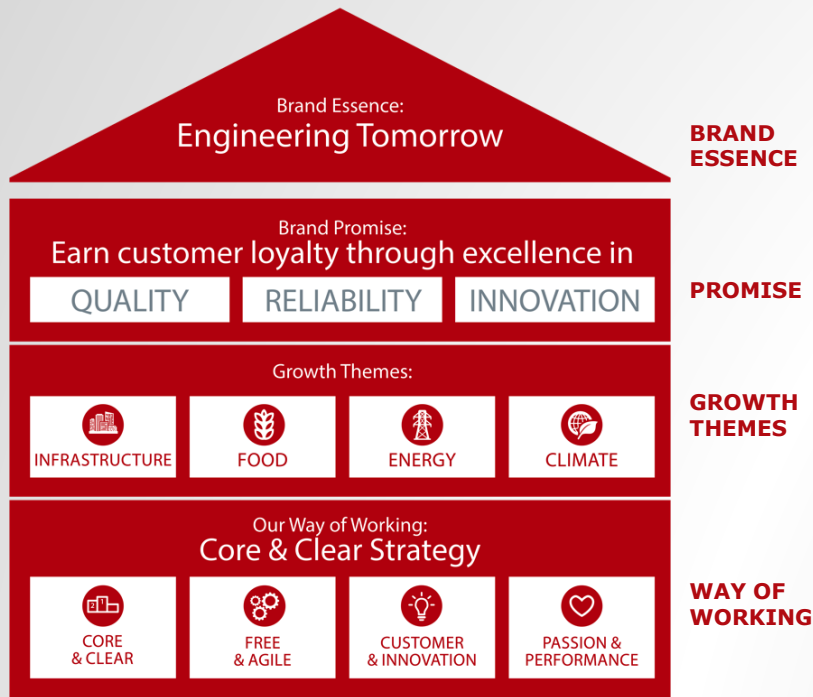


20%

Share of total net sales

Danfoss Core & Clear

Our Aspiration



Our Aspiration

We are **engineering**
tomorrow

We **passionately**
push boundaries on
results and reputation

Propulsys. Inc. Group

World Headquarters, Hopkinsville, Kentucky



Propulsys - A family-owned group of companies

September 7, 2016

China

White (China) Drive Products Co., Ltd

Zhenjiang, Jiangsu, China

- Manufacturer of Precision Hydraulic Products
- Global Engineering Center

K Products Zhenjiang Co., Ltd

Zhenjiang, Jiangsu, China

- A Trading Company

Europe

White Drive Products, GmbH

Opfenbach, Germany

- European Sales & Distribution Center

USA

White Drive Products, Inc.

Hopkinsville, Kentucky USA

- Global Sales & Marketing
- Global Application Engineering

WH Manufacturing, Inc.

Hopkinsville, Kentucky USA

- Manufacturer of Precision Hydraulic Products

Tenacis, Inc.

Hopkinsville, Kentucky, USA

- Real estate

K Products, Inc.

Hopkinsville, Kentucky, USA

- A Trading Company

Propulsys - A family-owned group of companies

September 7, 2016

China

White (China) Drive Products Co., Ltd

Zhenjiang, Jiangsu, China

- Manufacturer of Precision Hydraulic Products
- Global Engineering Center

Danfoss PS, Jiangsu Ltd.

K Products Zhenjiang Co., Ltd

Zhenjiang, Jiangsu, China

- A Trading Company

Danfoss PS, K Products China Ltd.

Europe

White Drive Products, GmbH

Opfenbach, Germany

- European Sales & Distribution Center

Danfoss PS, Opfenbach GmbH

USA

White Drive Products, Inc.

Hopkinsville, Kentucky USA

- Global Sales & Marketing
- Global Application Engineering

Danfoss PS, Hopkinsville LLC.

White Manufacturing, Inc.

Hopkinsville, Kentucky USA

- Manufacturer of Precision Hydraulic Products

Danfoss PS, Manufacturing Hopkinsville LLC.

Tenacis, Inc.

Hopkinsville, Kentucky, USA

- Real estate

Danfoss PS, Real Estate Hopkinsville LLC.

K Products, Inc.

Hopkinsville, Kentucky, USA

- A Trading Company

Greatly expanded product offering

DANFOSS HYDRAULIC MOTORS DELIVER PERFORMANCE AND VALUE FOR THE PERFECT FIT



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Heat Treatment



Typical CNC Cell



Final assembly & test



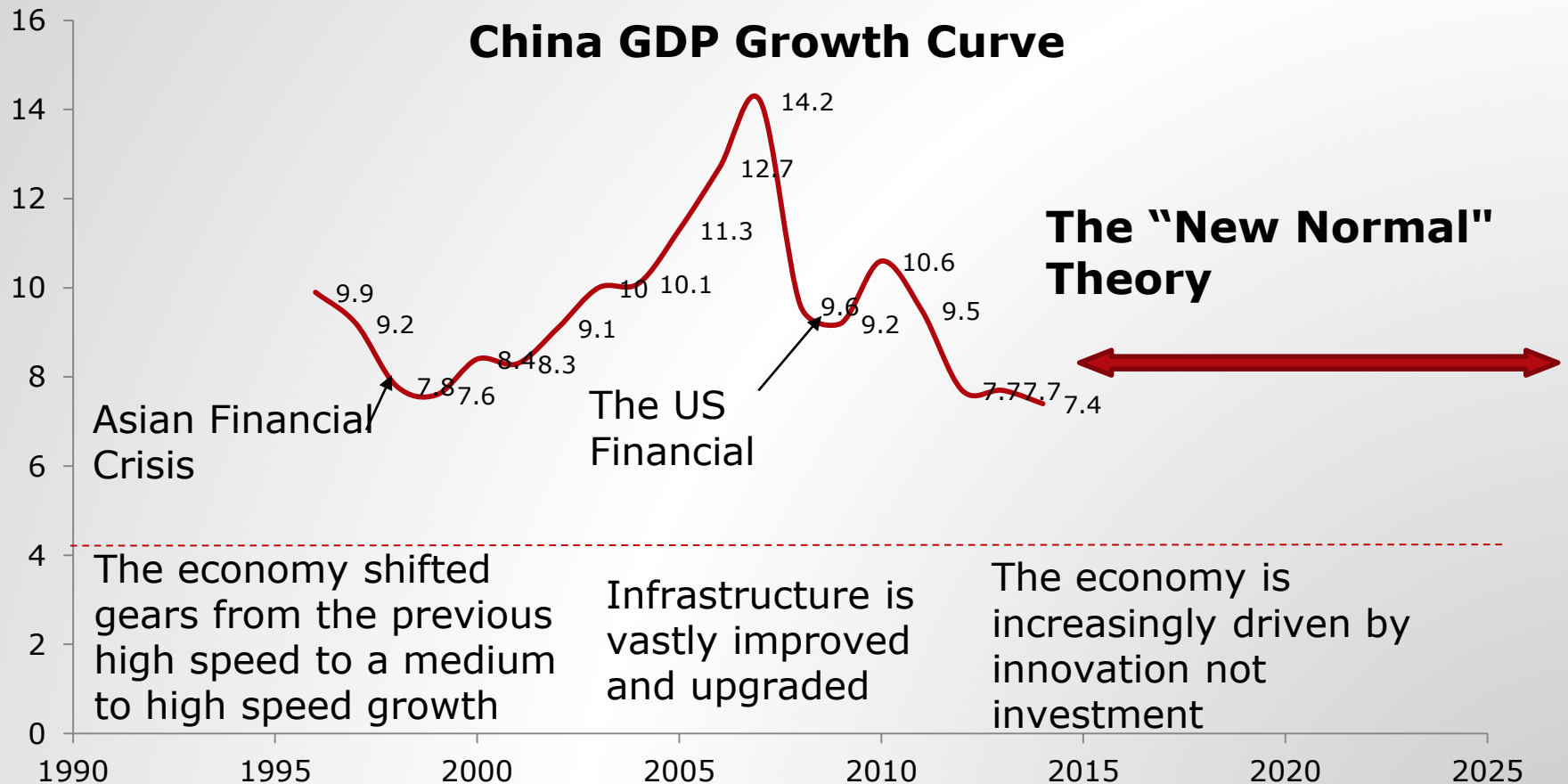
Wash, Paint & Dry

White (China) Drive Products Co., Ltd. – Manufacturing Base – Assets not the driver

The Drivers

- The biggest growth market now and for years to come!
- Gain further knowledge and understanding of the market

What is Xi Jinping's "norm"?



Co-ordinated growth and development

- Elimination of excess capacity in SOE's - Very painful process in many provinces
 - Cutting steel production
 - 90m tons cut already
 - 150m tons of annual reduction planned & more to come
 - Cutting coal production - Cuts already made:
 - 560m tons and closed
 - 7,250 coal mines Planned
 - 700m ton of annual production
 - Closing 4,300 coal mines
 - Relocating 1m employees
 - Status at December 31, 2015
 - Annual production 5.6b tons
 - 11,000 coal mines in operation
- Manufacturing capacity being cut by declining global demands

Co-ordinated growth and development

- Continued push urbanization
 - 2015 55% of the population lived in urban areas
 - 2020 60% of the population will live in urban areas
 - 70m people will move from the country side
 - 20% of the USA population relocated

Co-ordinated growth and development

Growth through:

- High tech industries
- Service industries
- Efficient industries

Development through:

- Innovation
- Consumption

Co-ordinated growth and development

- The Chinese economy is shifting gears. The vast manufacturing sector is upgrading and the economy is changing from relying heavily on investment to a coordinated growth from both investment and consumption
- Structural reform is not only about exploring new sources of growth but also making traditional industries more competitive
- White (China) Drive Products Co. Ltd sales to domestic China increased by 37% in 2015
- You have to know China to know where the growth is occurring and to know that really well you need to be a part of the economy not just an interested bystander

What opportunity did Danfoss see to expand **their investment in China?**

Growth through:

- High tech industries
- Service industries
- Efficient industries

Development through:

- Innovation
- Consumption
- The enormity of the opportunity

The enormity of the opportunity

- Recognize the economy of China – the fastest growing consumer driven market in the world with a population in excess of:

1,324,044,000 population

- USA, Russia, Japan, Mexico, Germany, Turkey, France, UK, Italy, Ukraine, Spain, Poland, Canada, Romania, Netherlands, Greece, Portugal, Belgium, Czech Rep. Hungary, Belarus, Sweden, Austria, Serbia, Bulgaria, Switzerland, Denmark, Slovakia, Finland, Norway, Croatia, Georgia, Ireland, Bosnia & Herzegovina, Lithuania, Albania, Latvia, Kosovo, Macedonia, Slovenia, Guernsey, Greenland, Lichtenstein, Monaco, Gibraltar, Iceland, Jersey, Andorra, Isle of Man, Estonia, Luxembourg

1,376,484,604 population

52 Countries

What opportunity did Danfoss see to expand **their investment in China?**

Growth through:

- Efficient industries
 - Shortage of manual labor
 - Increasing productivity
 - Improving quality
 - Lowering costs
 - OEM's exporting to the rest of the world

In addition development through:

- Innovation
 - Consumption
- Within Agricultural equipment; non-infrastructure construction equipment; road and facilities equipment; materials handling;

Seize the China opportunity like Danfoss

Realize the impact of the size of the population

- Imagine your business if the market was 4 times that of USA
- Imagine having skilled human resources
- Imagine learning the challenge of a new market and winning
- Imagine the diversity of a culture that is over 5,000 years young
- Imagine what has happened since 1992 and then imagine what China will be like in in another 25 years if you can!

Thank you for listening

Q&A