NKT Holding Interim Report Q1 2012

Welcome to the conference call for Q1 for NKT Holding. My name is Thomas Hofman-Bang, I am the CEO and today I am together with my two colleagues, Michael and Søren, and jointly we will present the numbers for Q1 as we published this morning. The presentation follows the typical format. I will cover the highlights as an introduction, Michael will cover the financials and then I will be back and try and give some more flavour on the divisions and then we have Q&A in the end.

When we get to the Q&A we will have questions from the audience here first and then we will ask the operator for questions from the participants watching on the web or dialling in on the telecon.

If we look at the group structure, we have the structure with three divisions and compared to last quarter we are one down because we have finalised the transaction on NKT Flexibles. On 4 April we concluded the transaction and therefore we will in the second quarter build in the result of the divestment of NKT Flexibles in the numbers, the Q1 numbers that you have seen this morning. NKT Flexibles has in Q1 been treated as discontinued operations. Michael will be back on that when we get into the details.

If we look at the highlights for the quarter, we delivered 3.5 bnDKK in sales, which is down 6% on last year and if we adjust for FX and metal price adjustments we are down 5%, which is the negative organic growth rate for the quarter. Looking at that number you need to bear in mind that the first quarter last year was unusual in the sense that we had installation work on submarine cables in the quarter, which is quite unusual to have in a first quarter. Due to weather you typically have it in the middle of the year but we had that last year due to extraordinary circumstances so we need to adjust for that looking at the growth number. And the second component you need to adjust for is the fact that our railway business, which was running at a very high activity level in the first quarter last year as expected has been at a standstill level in the first quarter this year and therefore adjusting for those two factors you are looking at basically a flat revenue development in the quarter and on the back of that we delivered an enhanced EBITDA which is up 19% so we start to see now the improving EBITDA trend as we also should because it is also embedded in our guidance for this year.

Working capital developed nicely in the quarter. Typically we have due to our seasonality a relatively strong build-up of working capital in the first quarter. We managed not to have that to the same extent as we usually have in the first quarter and therefore comparing the cash flow for the first quarter versus the first quarter last year you see a significant improvement on the cash flow from working capital, as we will also be back on a couple of slides from now.

And on our debt, it stands at 4.5 bnDKK at the end of the quarter but if we pro forma adjust for the transaction in NKT Flexibles that was concluded on 4 April, we are at about 2.5 bnDKK, which is equal to 2.4 times EBITDA so our capital structure is now back in line with our defined optimal capital structure and therefore we now have the balance sheet to continue to develop the group and follow the strategy that we have communicated.

The guidance for 2012 is unchanged after the first quarter. We have no reason to have a different perspective so we are still guiding an EBITDA for the year between 1.050 bnDKK and 1.250 bnDKK for the year and the make it or break it to get to that is the coming quarters due to our distinct seasonality pattern and we also, when we guided for this year, guided that the first quarter would be a low quarter and therefore not in any way an indication of where the year is moving. The truth is going to hit us in the next couple of quarters.

Looking at the EBITDA development you start to see the upwards trend now three consecutive quarters we have been increasing the annualised operational EBITDA and it stands at 914 mDKK after the first quarter, so we are well on our way to reaching the band we have guided for the year.

And if we look at the cash flow, we also have a significant improvement in the cash flow where the operational cash flow trend 12 months is very strong, around, slightly short of the 1.1 bnDKK impacted by a different seasonality in working capital last year versus this year but also improved earnings.

And then on the investment side we are now seeing the effect of the fact that we have the majority of all our capacity expansion investments behind us.

The trading 12-month investment level is around 580 mDKK after the first quarter. The guidance for this year is that it will continue to move towards 500 mDKK at the end of the year and then because we then have everything in place in terms of capacity expansions we should see that move towards 400 mDKK in the coming years. And then we should see the operational cash flow continue to grow as we harvest from all the investments and therefore our free cash flow, which is the line here, is expected to continue to grow in the coming years and if you look at that level of cash flow compared to our market cap you are looking at a cash flow yield north of 7.5% so quite attractive. And that is what we will continue to really drive hard to see that cash flow come true now after we had a couple of years with investments and we also believe we have further potential within working capital as we will also be back on a couple of slides from now and that combined with enhanced earnings and much lower financial items now that we have reduced our debt significantly should boost the operational cash flow in the coming years.

If we look at the macro outlook here displayed as the manufacturing PMI you see clearly that the US seems to be improving, which is also what we sense in the business, and you see that Europe is below the line and therefore in contraction mode, which is also in line with GDP guidance from IMF that a slight decline to a zero development in Europe broadly is in the expectations for this year. On the back of that we are very satisfied to see Nilfisk grow 4% in the EMEA region in the first quarter so we believe that we are actually doing fine here but we are also cautiously monitoring this development to see where it is moving and that is part of the reason why we have a range in our guidance this year because of course there is uncertainty as to the macro outlook in Europe in particular this year.

With that I will turn over to Michael who will cover all the financials in detail and then I will be back with more highlights on the companies.

8.21
Michael Lyng
Thank you, Thomas, as usual we start with looking at the P&L and as Thomas mentioned in the beginning the P&L has been adjusted to reflect the fact that NKT Flexibles has been divested as of the beginning of April, which means that all the numbers have been adjusted for the Flexibles impact in prior years and Flexibles is now included under the line profit from discontinued operations.

Starting with the top line, as Thomas mentioned before, negative growth of 5%, nominally 6%. It consists of NKT Cables -13, nice growth of 4% in Nilfisk-Advance and then also continuing strong growth in the Photonics Group of 31%. An EBITDA of 229 mDKK up from 193 mDKK last year and then a small negative impact from one-offs in Nilfisk.

So depreciation is more or less in line with last year – negative by 125 mDKK up from 119 mDKK last year and that brings us down to the EBIT of 103 mDKK compared to 69 mDKK last year.

The financial items are a cost 59 mDKK compared to 49 mDKK last year and as we will see on the next slide it mainly consists of interest expenses and then we have a tax impact, tax cost of 13 mDKK, which leaves us with profit before continuing operations of 31 mDKK compared to 30 mDKK last year.

Profits from NKT Flexibles are included with a zero for the first quarter, so profits after that are similar to the 31 mDKK mentioned before.

If we compare these numbers to consensus we are slightly below on EBITDA mainly as a result of consensus having higher expectations of the earnings in NKT Cables.

If we break down the development on the top line – the -243 mDKK – it is the first time for some time now that we see a negative impact from metal prices reflecting the fact that copper prices are at a slightly lower price in the first quarter compared to the first quarter last year. We have a positive impact from FX of 31 mDKK kroner and a zero impact from acquisitions and that leaves with the 5% negative organic growth.

Similarly, if we look at the composition of the EBITDA improvement of 36 mDKK you can see that 11 mDKK of that relates to NKT Cables where the EBITDA margin in the quarter is up from 2.3% last year to 3.6% this year.

Similarly, we have a positive improvement in Nilfisk-Advance where the EBITDA margins are up from 11.7% last year to 12%, all-time high, in the first quarter this year and that gives an improvement of 15 mDKK.

The Photonics Group also had a fairly good quarter. Improved 7 mDKK compared to last year and then we have other – mainly the Holding cost where we also have a slight improvement.

Also, looking further into the financial items, you will see that they mainly consist of real interest expense, so exchange FX losses are as a minimum at -2 mDKK so the increase up from last year's level of 43 mDKK is mainly relating to the fact that we still have the high net interest-bearing debt behind us in the first quarter.

If we continue with the trend curves starting here with NKT Cables, Thomas already mentioned before the composition and the -13% negative growth for the quarter and that consists of -7% in the high-voltage Electricity Infrastructure segment but if we adjust for the fact that Thomas mentioned before with installation impacting positively last year then we are actually slightly up with positive growth of 3%.

The Construction segment had positive growth of 5% so we started up slightly better than we expected in the year realising these 5% and then it is not a big surprise that we are significantly down in the railway sector with -59%.

Nominal earnings in the quarter – 40 mDKK – up from the 29 mDKK level last year.

The trend curves for Nilfisk-Advance where you can see the composition of the 4% organic growth. We are up 4% in the European region, which is more or less in line with the expected level, and then we are up 7% in the Americas, a very satisfactory number in the US market, and we are slightly down in the Asian-Pacific market with -2% reflecting the fact that we had very high turnover in the Australian market last year and then the start-up in China this year has been slightly more soft than expected.

Compared to peers, they realised 2% organic growth so we are better than they are in more or less all the markets.

And looking at the nominal earnings 196 mDKK in the quarter, looking back to 2008 you can see that it is at an all-time high level – the realised number.

Continuing with the gross profit for Nilfisk-Advance, where we had 42.7% realised in the first quarter, slightly up from the first quarter last year and following the trend that we also saw at the end of last year so it is fully in line with expectations and also reflecting the fact that we have relatively high operational leverage in the first quarter.

Working capital ended at 2.9 bnDKK, which is more or less 600 mDKK better than the first, lower than the first quarter last year. Looking at the percentage here we realised 21.6%, which is the last full-month number, but as you can see on the green curve we are below the last 12-month level so we will see a decline going into the next quarters.

And the normal build-up that we see in the first quarter has, of course, also happened and you can see that if you compare it to the end of December where we had a working capital of 2.7 bnDKK but it has been less than expected.

And working capital for the Cables business ended at 22.6%, down from 23.2% at the end of 2011 and similarly 19.8% in Nilfisk-Advance, which is more or less in line with the end of the 2011.

Investments. We invested 89 mDKK in hard fixed assets defined here as gross CAPEX down from 99 mDKK last year and as you can see from the pie, the biggest part of that relates to the NKT Cables business where we have invested partly in an external turntable that we have also communicated on before. Investments in tangible assets came in at 36 mDKK, slightly up from 29 mDKK at the end of the first quarter last year and here the biggest part relates to Nilfisk-Advance, partly relates to EAP systems but also development projects.

So we are continuing to see the declining trend, as Thomas also mentioned in the beginning, and you can see here that we have a last 12 months number of around 400 mDKK.

The net interest-bearing debt for the group ended at 4.5 bnDKK, which is equal to 4.3 times operational EBITDA, but if we adjust for the divestment of NKT Flexibles that was realised at the end of March but did not impact the numbers until at the beginning of April, then we had an interest-bearing debt of 2.5 bnDKK.

So we are now fully in line with our internal targets for what we define as being optimal capital structure, and if we adjust for the 2 bnDKK from the divestment of NKT Flexibles, we are at 2.4 times the EBITDA to debt. We have a financial gearing of 46% and a solvency ratio of 41%.

And in the past years we have looked at this slide reflecting or representing our cash resources for the entire group. They are more or less in line with the level we had at the end of 2011, which means that we have cash resources of around 2.3 bnDKK but again here if we adjust for the divestment of NKT Flexibles, we can add another 2 bnDKK so we have adjusted cash resources of 4.3 bnDKK.

And then finally the cash flow where you can see we had a positive cash flow of 27 mDKK from operating activities. Significantly better than last year where we had a drain of 453 mDKK and as illustrated here the biggest impact, the biggest change is coming from a change in working capital where last year we built up working by 554 mDKK. Then this year we have only added 116 mDKK in working capital.

Cash flow from investment activities is negative by 134 mDKK reflecting the investments that I mentioned before. Also on this line we are better than last year but that mainly reflects the fact that we did not have any acquisition of businesses in the first quarter this and we had that last year. So cash flow all in all from operating and investment activities is negative by 107 mDKK up from a negative 684 mDKK in the first quarter last year. And that concluded my slides so back to Thomas.

19.56
Thomas Hofman-Bang
Thank you, Michael. And I will just add some additional flavour to our three divisions on top of what we already have said. And if we start with NKT Cables, then the overall situation in NKT Cables is, as mentioned already, following the internal plans we are on budget after March and on the operational side where the key focus area for the last couple of years has been the establishment of Cologne and the run-in of the Cologne factory, there we are also following the plans that we laid down where back in the fall of last year we initiated an operational excellence plan and we are following that plan meaning that we expect basically mid-year, as we have previously communicated, to be through the distinct initiatives to finalise the tuning of the Cologne factory on the machine side, so not a whole lot more to report on that front.

If we look to the market side, the various segments, we continue to see price pressure in parts of the high-voltage market as we have seen for several quarters. Reading competition financial reports, it looks like competition is seeing the same so everybody is on a par in that sense, and on the submarine side we continue to see a lot of activity. Customers are very active. We have a very strong backlog in that segment meaning that we are covered for this year and we have very good coverage for next year but we are discussing many interesting projects for the years 2013, 2014 and 2015. And that remains looking good so basically the same message as when we met three months ago. On the Railway situation, in our plans for this year we have embedded the expectation that the Chinese authorities will resume activities on the high-speed train activities in China in the second half. That is still the expectation. We have seen some start-up of tendering in the first quarter in the market as a first early sign that they are walking the talk. We have the backlog for what we should do this year in that segment so we are not dependent on winning a whole lot of new business, but more on the fact that activity is reactivated. And it is still from conversation with our customers the expectation that it should happen in the second half of the year.

On the Construction segment we grew 5% in the first quarter and that is actually a little better than what we have in our full-year guidance where we had expected a flat development in that segment. We still have that expectation for the full year. The pick-up and the growth we have seen in the first quarter is probably more related to the fact that we have had a green winter in parts of Europe and therefore construction activity had been at a higher level than what we had anticipated, but we do not dare take it as a sign of recovery in construction. Therefore we have remained at our full-year outlook on construction.

On the Automotive segment, which is relatively small in our numbers, it accounts for about 3% of the Cables sale, we see some decline in the first quarter but we take it more as timing between quarters and therefore don't have a new perspective on that. And those are basically, you know, the signals that we are able to convey today on NKT Cables. The headline is business as usual following the plans. We have very good backlog coverage for this year and the next couple of quarters should really see activity come up as the season starts now.

On Nilfisk we saw, as Michael already reported, satisfactory growth in the first quarter. Overall 4% growth and in particular of course we enjoyed the growth in the US where for some quarters we had been lacking a little bit on the growth side on the US market. We seem to be back now reporting 7% growth after also a good fourth quarter so now we start to see a couple of consecutive quarters with good growth in the US and as we saw on the PMI number it looks like the market is also improving and then we are enjoying our fair share of that, if not more.

In Europe, which is more blurred in general terms, we grew 4%, which on the back of what the market is probably doing, is absolutely fine and then in Asia-Pacific we saw a slight decline, primarily due to a strong sell-in of high-pressure washers to the Australian market in the first quarter last year and now we don't have the same channel filling in this quarter in Australia and that is the prime reason for that.

In emerging markets we are still growing double digits even though it is slightly down compared to what we saw last year where we were growing very, very fast in emerging market. We have seen a market like China slow a little bit. Still growing nicely but slowing and we pick up signals from many other industries that that seems to be a general trend in China these days.

We have increased prices a couple of percentage points earlier this year as we always do to combat input cost pressure from raw materials prices. There seems to be discipline in the market so we believe that the majority of that should stick and we concluded a small front-end acquisition in the UK in the quarter. One of those that we have done many of in the past and will continue to do with our strong focus on the customer as part of our strategy building service forces where we have a very strong platform in Europe now and this was just yet another addition to that strong platform.

In the course of 2011, in particular in the first half of 2011, we had some issues with our supply chain after all our many relocations of factories and we rectified that in the second half and we are happy to report that that very strong trend on very high availability of products has continued into the first quarter and that of course is also one of the contributing factors to our growth numbers that we have the products, we have the ability, we have the smooth supply chain to meet customers' expectations, which is on top of our management agenda.

Talking about product launches, we launched 15 new products in the quarter following the trend we have seen in the past we continue to cruise at a spending of 3% of sales on product development and that is also the ambition going forward that we will maintain that relatively high level in order to meet our customer expectations.

If we move to the Photonics Group, Photonics saw a very good first quarter. Photonics grew 31%, which we are very satisfied about, and thereby continues the strong finish of last year. In particular, it is the oil and gas segment where within the sensing application area we are enjoying good activity, but within the other areas we are also seeing good traction. We saw some good new account wins in the quarter as also mentioned in the report and therefore we definitely have an unchanged outlook for Photonics for this year.

And on the technology front we more and more see some opportunity also to continue to develop the technology base within pulse lasers, which is a part of the high-power segment, and there we have some ideas as to how to really be able to differentiate ourselves also against a number of conventional laser applications out there and we will push that hard in the coming years.

With that we are almost at the end before Q&A. The expectations we already touched upon it, it is unchanged so this is the slide when we announced it. We have not changed it at all. That is still our outlook. We still believe that we will achieve good growth in the year as displayed and we believe we should reach the band 1.050 – 1.250 bnDKK on operational EBITDA. That still stands so with that and then I should mention that of course we will see then the profit from the Flexibles divestment at 1.3 bnDKK, that number also still stands after we have now concluded the transaction and we will include that in our numbers in the second quarter and with that we get to the Q&A and I will open up for the audience here first and ask if there are any questions?

30.18
Q:
Yes hello, Patrick Setterberg from Nordea Markets. A couple of questions. The first one is relating to the organic growth guidance you have for Nilfisk-Advance of 5 percentage points. Based on what we have seen in the first quarter and based on what you can see in the market currently I was just wondering if you are more or less confident with that guidance at the current stage. My second question is a sentence which you wrote in the report saying that there is some softness in the traditional market for high-voltage cables. Could you please elaborate a little bit on this statement or what is it covering?

31.03
Thomas Hofman-Bang
A:
If we start with the first question it is correct as we just saw that the guidance for this year has been to achieve growth – organic growth – in Nilfisk of around 5% for the year. We are now reporting 4% for the quarter. Therefore it is slightly below. And that coupled with the PMI numbers and therefore the general outlook for the European manufacturing environment of course raises an eyebrow as to where will this year end. It is way too early to give up on the target after one quarter with good growth of 4% so that is why the target still stands, but of course we are on the low side of

it and therefore: Will we reach the 5 or will it be 4 or will it even be 3? We have no clue today due to the very low visibility in this industry. But you know a second half with Europe back on track and then we are also back on track so that is why we maintain the guidance and that is why we have that perspective today.

If we look at the high-voltage market, we have for several quarters reported about pressure in the low end of the high-voltage market and that is still the case and that is basically the message in that sentence. I don't know if it is phrased differently compared to how we usually phrase it, and that is why you are asking the question but the intention is not to really send any new signals here other than it is still competitive out there as competition is also reporting and then you can probably find examples of also an extra high-voltage project from time to time where there is really tense competition without that really being a trend. So that is what we can report on that.

32.51
Patrick Setterberg
Q:
OK, then my last question also related to the Cables – you say there are some projects maybe going into the second quarter. Is that correctly understood? And how big is the impact?

Thomas Hofman-Bang
A:
You mean in projects shifting between the quarters?

Patrick Setterberg
Q:
Yes

Thomas Hofman-Bang
A:
That has also been the case. We have had a couple of projects where due to customer requests it moved to later in the year. We have a particular project where that happened due to some circumstances on the customer side, which is normal for this business, that things shift and it is not always in our control and that has also been the case here.

33.32
Patrick Setterberg
Q:
Thank you very much

Klaus Madsen, Handelsbanken
Q:
Just a follow-up on the Cables side. Could you perhaps break your performance in the energy sector down into medium-voltage and high-voltage, at least in qualitative terms, and also perhaps shed some light on your execution on the submarine line during this quarter, if everything has been on track and the - I guess - shortfall relative to consensus primarily it reflects timing of revenue recognition.

34.09

Thomas Hofman-Bang
A:
If we start with the last part of the question. The fact that some areas can have different numbers for the first quarter I fully understand is very, very difficult for analysts, you know, with an outside perspective to really hit the number on activity due to the fact that projects can shift as one part of it, uncertainty as to exactly what will happen in the railway, etc. etc. And the quarter is a small quarter so you know relatively small numbers make numbers look relatively as a percentage quite different. So we are following the internal plans. We are on budget as reported where as reported we had 5 % growth in construction. We did not expect, on the other hand, we had some slippage in the infrastructure segment where we had expected more revenue in the first quarter. We slipped into later in the year as already explained. Medium-voltage is starting off on a good note. Good traction in that segment where our key markets, which are predominantly the Central European market, are behaving as expected so not anything new there. And that is basically what we can report on that. On the submarine line, productivity is as it should be. No hiccups, no obstacles on the machinery so we are following the plans where we see increased productivity and where, as we rectify the many small things, towards the middle of this year, you know, that is according to plan.

35.56
Klaus Madsen
Q:
Right. Then just a follow-up on Nilfisk-Advance. Would you expect the APAC region to return to trend levels into Q2 onwards as you hit an easier comparison base and China is addressed with additional resources?

36.12
A:
Thomas Hofman-Bang
With China contributing more... higher growth rates than we see of course that is going to be a key driver for that region and then we have that specific incident with channel filling last year in Australia which of course we then don't have to the same extent. I don't exactly remember to which extent we also had that in the second quarter last year but it was an early season phenomenon that we had there on high-pressure washers before the season, so yes, if China gets more up to speed then we should be more back in line with trend lines in Asia-Pacific.

36.50
Klaus Madsen
Q
Just finally have you seen any increase in your order book on the Cables business from Q4 onwards?

36.58
Thomas Hofman-Bang
A:
We have added orders in the backlog also in the first quarter as we continue to do the many - we have not announced any big orders in the quarter - but you know the many small things that you don't hear about that we just add which is supply only, traditional cable supplies, there of course we have added in the quarter as we also should because we had not a full order book on high-voltage when we started the year and therefore, of course, we have continued to add as we always do.

If that concludes the questions here from the audience, I will ask the operator if we have any questions on line.

37.41
Operator
Thank you. If you have a question, please press the star, then 1 on your touch tone phone. First on line with a question we have Daniel Patterson from SEB.

Thomas Hofman-Bang
Hello Daniel? We can't hear you.

38.10
Operator
And next on line with a question we have Jacob Pedersen from Sydbank

38.15
Jacob Pedersen
Q:
Hi gentlemen, I have first of all a question concerning your Cables business and you have an increase in EBITDA of around 11 mDKK from the first quarter of 2011 and I heard you say that you had 3% organic growth in Cables if we adjust for the subsea business, actually the subsea business in the first quarter of 2011 and the railway business but if I also adjust your earnings for the subsea cost related to the first quarter of 2011 and the positive impact from the higher activity in China, it seems like your EBITDA has actually decreased by 13 mDKK underlying in the first quarter. Now, I would clearly have expected a positive development here. Am I wrong in my calculations or why are the underlying earnings in reverse? And what change should we expect in the coming quarters?

39.12
Thomas Hofman-Bang
A:
You are not wrong on the numbers. We are in the report explaining the impact of a specific submarine cable project in the first quarter last year. We are also explaining the effects of the standstill situation on railway and you are correct that adjusting for those numbers, then you are looking at a slight decline on EBITDA in the quarter which is a quarter comparing to a very strong first quarter last year in general and of course you should expect, as also embedded in the guidance, a significant improvement in the coming quarters.

39.47
Jacob Pedersen
Q:
Could you comment a bit closer on what is going to change, is it the fact that Cologne is not progressing as fast as you expected or are there simply more positive effects coming in the coming quarters or what is the information for the earnings in reverse?

40.05
Thomas Hofman-Bang
A:

It is simply operational gearing and activity. The first quarter is a low quarter and the first quarter is not in any way representing the trend and therefore the trick is really to get up in activity level which comes with the season in the second and third quarters as it has done in many previous years and that will bring the strong trend towards the guidance for this year.

40.34
Jacob Pedersen
Q:
Okay. My second question relates to mergers and acquisitions. What should we expect on the M&A front from you now? You have your debt now clearly under control and if you could just talk a little bit about prospects for M&A in the short, medium and long term.

40.54
Thomas Hofman-Bang
A:
Short term you should not expect a whole lot. We have just now brought our gearing back in line with our defined targets and of course we are discussing with our board how to utilise the strengthened balance sheet and we will do that in the course of this year and therefore there might be some small M&As, but you should not expect a whole lot of M&A this year, focus is much more on the organic side, now we really start to see the improvement come, the cash flow come and then we, starting next year, maybe will be back, assuming that that is what we end up concluding with our board, and the second element of that is that because we have not had focus on M&A for quite a while, we do not have a strong pipeline on M&A opportunities and it also takes a while to build up a pipeline for opportunities so that will most likely be reactivated this year and then let's see what that brings to the table some quarters from now.

42.02
Jacob Pedersen
Q:
Okay. A final question from my side. In your full-year report, annual report, you mentioned four risk points related to your guidance. You have said something about the railway situation, could you say if any of these risk points have moved further away or increased or decreased in the first quarter?

42.31
Thomas Hofman-Bang
A:
I think they are pretty much unchanged. Bear in mind that we gave our guidance in early March so it is not many months ago and the world has not changed that much in two months' time. We have touched upon the railway as one element of uncertainty. The other one is the macro outlook where in particular Nilfisk is sensitive to that. We covered that by discussing the PMI numbers and I guess the broad conclusion of that is that the verdict is still out where Europe is heading in terms of macro and how strong the rebound in the US economy is, so that, I would say, that risk factor is intact and unchanged compared to our perspective two months ago. And then we flagged in the risk catalogue execution on projects and there again no new perspective on that, the operational side in the first quarter has followed our plans and therefore it is as expected and therefore no new perspective.

43.38

Jacob Pedersen
OK, thanks a lot.

43.43
Operator
Next on line with a question we have Massimo Bonisoli from Equita

43.47
Massimo Bonisoli
Q:
Hello everybody. Thanks for taking my questions. I have three questions. One is on NKT Cables. You mentioned that you expect the railway sector to recover in the second half. How much time do you expect it takes from the tender activity to the first revenue of the orders to appear and if you can just elaborate more on the visibility you have right now on the recovery in China in railway. The second question is on Nilfisk if you can give us some more flavour on the specific countries or areas for growth within the European region and the third question is on the trading activity and the business development for April both for NKT Cables and Nilfisk.

44.36
Thomas Hofman-Bang
A:
I am not sure that I fully caught your questions but let me try and start and maybe you can recap. Nilfisk growth, you asked about, if I understood you correctly, and there we are starting out with the 4% achieved in the first quarter and we maintain our guidance for this year as also discussed on the previous questions and that is the best we can do for now early in the year and of course the trick is to see the continued support from the markets in the US and then let's see where Europe moves.

45.16
Massimo Bonisoli
Q:
So my question is: I don't know if you have seen or experienced like Southern Europe to be weaker than Northern Europe or core Europe or if all the countries are developing around that 4% you reported?

45.32
Thomas Hofman-Bang
A:
Yes, I was just seconded here by Michael, so your question is more about the split in the Northern part versus Southern part of Europe, is that correct?

Massimo Bonisoli
Q:
Yes, correct

Thomas Hofman-Bang
A:
Okay. Sorry, I did not catch that. We see as everybody else very soft Southern part of Europe and we see good growth in the Northern part of Europe and that is how the pattern has been in the first

quarter. Then you had a question about railway recovery, right? And I am not able to add more flavour to what I have already said that it is our expectation that it will recover in the second half, we have seen some tender activity from the customer side in the first quarter and therefore it is still our expectation that it will resume in the second quarter, we have the orders in hand, it is relatively easy to reactivate and thereby achieve the revenue and that is our outlook as per today. And then you had a question about order intake and time from order intake to execution. Is that correct? For what part of the business, for high voltage submarine?

46.47
Q:
Massimo Bonisoli
For NKT Cables in railway in China..

46.52
A.
Railway in China. There the orders, it varies a lot but it comes to execution relatively fast after addition in the backlog, it is not like we see in the high-voltage submarine where it can be one to two years from order win to execution. Here it can be from a couple of months to a year.

47.15
Q;
Massimo Bonisoli
Okay. So the third question is the inactivity on business development in April for both divisions, the main divisions.

47.25
Q:
Yes

47.28
A:
Thomas Hofman-Bang
April is following what we have already discussed. Not a very different perspective. Europe seems to be soft. The US seems to be doing OK. That is also what we see in April.

47.46
Massimo Bonisoli
OK, thank you very much

47.53
Operator
Next on line with a question we have Claus Almer from Carnegie.

47.56
Claus Almer
Q:

Yes hello. Turning to the subsea cables segment. You told us that you had had an OK order intake and you see a lot of tendering activity but you did not talk about pricing and terms in general. Have you seen any change in that respect?

48.15
Thomas Hofman-Bang
A:
On the submarine we have not seen any change. No. It is the same pattern as we have seen in the past. So we discussed pricing on high-voltage projects earlier on in the conference call and there we continue to see what we have seen for a while that it is tense. We have not seen that in the submarine. There it seems to be a different market.

48.39
Claus Almer
Q:
OK, then turning to your execution profile or the risk provisions you are making in subsea in Cable projects. Can you quantify how much of dilution effect you have had in the EBIT margin in Q1 if you smoothly execute on the current projects?

48.59
Thomas Hofman-Bang
A:
I am not sure that I understand the question.

Claus Almer
Well I am trying to say is that…

Michael Lyng
A:
I think the fact that we have slower intake of profitability and turnover on projects where the risk profile is relatively late related to the installation part of the business and there it is not possible for us, Claus, to give a number on that.

Thomas Hofman-Bang
A:
And bear in mind that we are more and more on project business and of course we are cautious when we do the revenue recognition realising that you have risk until the end of a project and in particular the installation part is very tricky as Michael said and therefore we need to be far into a project before we really dare recognise what should be recognised after the completion.

50.02
Claus Almer
Q:
Okay. Will there be any major projects delivered in Q2 or first in Q3?

50.09
Thomas Hofman-Bang
A:

It is Q2-Q3 where you, as always, will see a lot of activity.

50.15
Claus Almer
Q:
OK, and then my final question, that is Nilfisk. Let us just assume that you will repeat the 4% growth you had in Q1 in rest of the year. Will you then still be able to maintain the 12% EBITDA margin guidance?

50.31
Thomas Hofman-Bang
A:
We might be slightly short of that. One percentage point growth in Nilfisk equals earnings of around 15-20 mDKK.

50.47
Claus Almer
Okay, so not that much. That was all, thanks.

50.49
Thomas Hofman-Bang
You are welcome.

50.54
Operator
And last on line with a question we have Daniel Patterson from SEB.

50.59
Daniel Patterson
Yes, hi there, sorry for the hiccup earlier and I apologize if I ask a question that has already been asked. But on your guidance, you are sticking to your guidance for this year and I just want to check is it still that the 1250 mDKK is sort of your base case guidance for this year and only if things go wrong it will be lower?

51.22
Thomas Hofman-Bang
A:
The perspective is absolutely as we discussed when we gave the guidance that internally we are targeting the upper end of the range, that still remains the case and then we have flagged risks so that is still our perspective, yes.

51.41
Daniel Patterson
Q:
OK, then on Nilfisk. You came up with pretty solid growth in the quarter but you are also saying in Asia Pacific it was a little bit soft and you explained this about the high pressure cleaners in Australia last year, sort of a tough comp. Is there anything in this quarter that you haven't

mentioned that has been unusually good that we should sort of be careful about when we reach one year ahead?

52.10
Thomas Hofman-Bang
A:
Not that I am aware of, no. Please make a note, I am not going to change that explanation when we are here a year from now.

52.18
Daniel Patterson
Q:
OK. Finally, on Cologne. What is there left to do at Cologne in the sense that all the physical things I assume are now in place, the machines are in place and the right location and so on and it is now mainly a process ramp-up, is that correct?

52.38
Thomas Hofman-Bang
A:
On the hardware side, all the hardware is there, we are still doing some change of technology in a small couple of areas, we are tuning the machines, etc., but all hardware is there, we are not moving any machines or making any big things there or had to add machines there we don't have to day, and that has been in place for a while and in a couple of months from now we are basically done with all that, and therefore you are absolutely right that it is process optimisation, it is a learning curve for the people that is the key focus right now.

53.22
Daniel Patterson
Q:
OK, and then finally on Nilfisk again, very strong growth margin in the quarter, you are getting price hikes through, but as you are also mentioning, the input price pressure is also touch, especially on plastics I guess. The price hikes you are getting through, are they enough to be able to compensate for the input rise when we are looking into say Q2 and Q3?

53.45
Thomas Hofman-Bang
A:
I am not able to predict where raw material prices are moving in the future. If we take a hindsight perspective on it and look over the last 12-15 months with how the input price pressure has been compared to our price hikes over that period then I would say we are probably now pretty much neutral in a backward-looking perspective.

54.11
Daniel Patterson
Q:
Okay. And just to be absolutely clear, there is not any sort of lack here, I am not asking you to forecast input cost but what I am thinking is when you have right input costs today I guess it hits you in one or two quarters normally, right?

54.24
Thomas Hofman-Bang
A:
Yeah. And we continue to monitor and you have seen in previous years where we have in some years actually increased prices twice and if raw material prices continue to move upwards then we might need to take that action later in the year. It remains to be seen.

54.44
Daniel Patterson
OK. Excellent, thank you.

54.47
Operator
Our final question comes from Klaus Kehl from Nykredit Markets

54.55
Klaus Kehl
Q:
Yes hello, Klaus Kehl from Nykredit Markets. I have two questions. First of all you mentioned that we will see a lot of activity in Cables in the second quarter and third quarter of this year. So that must mean that we will see a massive improvement in earnings in Q2, is that a correct assumption? And secondly, I understand that you have some or there is some uncertainty about the top-line growth in Nilfisk due to the macro situation. But the margin development, it seems fairly good here in the quarter, so would it then be fair to say that all else equal you are more certain about the margin development than you are about the top-line growth unless of course we will see a larger deterioration in the growth rate in the second half of the year?

55.50
Thomas Hofman-Bang
A:
They go hand in hand, Klaus. If we don’t get the growth, we don’t get the margin expansion. That is how the operational gearing model works. Of course, you always have some slack and you have some ability to also work on your cost side, but in broad terms we need the growth to get the margin expansion and therefore if suddenly the growth is not the 45 % level but it is zero, then we definitely don’t achieve the margin expansion. If we are cruising around where we are now, yeah, then we will probably be close or at our target. On the last question and the first question was what is ahead of us in Cables, and there with increased activity we should also see increased earnings. They say math works in Cables as well and as we expect over the summer with the season to see more activity with the only caveat that of course customers might again move projects out of our control but assuming that they stick to the schedule we have right now, yeah, then we will see a pick-up in activity during the second quarter and really into the third quarter, that is what is in the production plan right now.

57.10
Klaus Kehl
OK, thank you very much.

Operator
57.14
We have no further questions at this time.

57.20
Thomas Hofman-Bang
Then I thank everybody for participating. Thank you to the audience here, thank you to those of you watching on the web and dialling in. We will be back with our second quarter and more update in August, thank you very much.

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