13. November 2015

Transcript

:: Supplements ::

✓. None

NKT Holding A/S

Transcript :: Interim report Q3 2015 ::

Welcome to the NKT webcast covering the Q3 results that were released this morning. My name is Michael Lyng, CEO of NKT Cables and Group Executive Director in KNT Holding. With me today I have as usual Jonas Persson, CEO of Nilfisk, and for the first time also Basil Garabet, CEO of Photonics Group. Together the three of us will cover the development for the Group during Q3, including an updated view on where we expect to end the year 2015 but let us look at the agenda on slide no. 4.

First I will cover some highlights for Q3, including the financial developments. Then Jonas will take over covering the development in Nilfisk during the quarter. I will then do the same for NKT Cables and Basil will do it for Photonics Group before we then go into the expected outlook for 2015 and jointly end with the Q&A session.

On slide no. 5 you see the highlights for Q3, 2015. At Group level, our third quarter performance was overall as expected so despite negative growth of 4% driven by Cables we marginally increased the operational EBITDA and the EBITDA margin by 0.2%. As we will see later in the presentation we also realised very strong free cash flow so we continue to reduce interest-bearing debt and working capital. In Nilfisk we saw okay growth in Europa and APAC but we also have to say that the EBITDA is below expectations although the margin in the quarter is 0.3% up from last year. The reason for this relates to continuing roll-out of the Accelerate initiatives and Jonas will come back to that later in the presentation. In the last quarter, we have seen some supply chain issues in the Nilfisk business and I am happy now to say that we are now fully on top of that. It is behind us but we still do see some cost impacting Q3 negatively from this. And Jonas will, of course, also elaborate on this further when he takes over. M&A continues to be a high focus area in Nilfisk and we have also concluded on Hydro Tek during the quarter.

In NKT Cables, as expected we saw negative growth from the Projects business. This is fully in line with the visibility we have had for this quarter for some time and was also clearly communicated back in Q2. It also covers the solid growth that we have seen in the Products business of 10% and I will come back to that later in the presentation. We continue to see good progress from the DRIVE programme and we are now close to reaching the full potential and we also continue to see a good and strong activity level in the offshore sector and have been able to secure the Galloper project order with a value of close to DKK 400 million and that gives very good visibility into 2016 and it perfectly matches the production slots that we have between Race Bank 1 and Race Bank 2. Last but not least we announced our new strategy plan EXCELLENCE 2020 during our recent Capital Markets Day that was held in late September and I will of course also come back to this later in the presentation.

In Photonics Group, we saw very strong organic growth of 31% in both the Imaging and in the Sensing segments and also we saw very, very strong EBITDA although it is smaller number in this part of the business but they realised DKK 14 million in the quarter. And finally, we have been able to divest the Fiber Processing business and Basil will touch on all this later in the presentation. Based on all this we have maintained our guidance for organic growth, but due to the performance in Nilfisk on EBITDA margin level in the quarter and also foreseen for the fourth quarter, we have taken down the guidance slightly, but I will also come back to this later in the presentation.

So to summarise, a quarter more or less as expected, albeit slightly lower in Nilfisk and with an underlying increase in return on capital employed of 3%-points. But let us take a look at the financial headlines on the next slide.

Revenue DKK 3.9 billion so more or less in line with the third quarter 2014 and if we then drag down to the organic growth it is -4% for the quarter, YTD 2% and it is clear to see here that the impact is coming from the NKT Cables business that I touched on just before but underlying that is very strong growth in Photonics Group of 31% and also okay growth in Nilfisk, 3% in the quarter. Operational EBITDA DKK 276 million equaling 8.4% so slightly up compared to the third quarter 2014. Looking at working capital and cash flow and the free cash flow, we will come back to it later in the presentation but we see a very positive development more or less in all the different lines mentioned here in the right side of this slide.

On slide no. 7, we look at trading LTM EBITDA operational curves and we are more or less flattish looking at where we ended in 2015, second quarter, slightly up from 10.2% there to now 10.3%. And then looking at – in detail looking into the P&L here on slide 8, let us look at the composition of the revenue decrease of DKK 46 million. We are still impacted positively by FX changes in particular from the strengthening of the USD so that had a positive impact of DKK 92 million. We also have the positive impact from the acquisitions that we have been doing in Nilfisk during the last year of DKK 42 million before we are then down to the DKK -134 million equaling the -4% growth with the composition -12% in NKT Cables and then positive percentages for Nilfisk and Photonics Group.

Then I think it is also worth looking at the composition of operational EBITDA. The increase of DKK 6 million so it is good to see here that the quarter is actually not that bad in Nilfisk. We see a positive impact of DKK 19 million here and we see underlying that the EBITDA margin increasing from 9% in the third quarter 2014 to now 9.3% and then in NKT Cables we have a negative impact of DKK 25 million as a result of lower margin in the quarter and that should not be a surprise for anybody because it is fully in line with our guidance for the second half numbers but you see a reduction from 8.2% down to 7.4% as a result of the composition of in particular the Projects business, but I will come back to that later in presentation, and then we see a positive number here from Photonics Groups of DKK 12 million. So that is more or less the lines that I will dig into here on the P&L slide but also again underline that CAPEX is lower than in the third quarter 2014, working capital significantly lower by DKK 400 million and also the net interest-bearing debt significantly lower.

But let us take a deeper look into slide 9 where we look at the working capital improvement that we see. We are down from 18.7% in the third quarter 2014 to now 16.4% so a significant improvement here in working capital and it is a decrease in the third quarter of DKK 147 million and, as you can see here in the blue box in the right side of the slide, a big part of that or entirely it can be related to NKT Cables where we have seen reduction DKK 153 million. And that means that we continue to see a very, very low level of working capital in NKT Cables, now at 13 % down from 14 % at the end of the second quarter and in Nilfisk we are more or less flattish with an unchanged level of around 20 %.

That also gives some relatively good numbers looking at slide no. 10 where we have a lot of numbers. I apologise for that, but it is the cash flow figures looking into the third quarter but also YTD and last year but free cash flow illustrated in the first column of DKK 185 million in the third quarter so a very nice development here and we can also see the positive impact from the change in working capital of DKK 61 million in the third quarter. If we then look at the free cash flow that we have been able to generate for the first nine months of 2015 we have DKK 7 million so that is probably not a lot and it is also down from DKK 195 million in the first nine months of 2014 but here it is important to look at the cash flow from investing activities, what is behind those numbers, because 2014 was positively impacted by divestment of the Sanders business in Nilfisk and we don't have that positive impact in 2015 and on top of that we also have the negative impact from cash flow financing the acquisitions that we have been doing by a negative amount of DKK 130 million in 2015 compared to minus DKK 22 million in the first nine months of 2014 so if you adjust for these two lines we actually have a free cash flow in 2015 of DKK 190 million and thereby it is very much in line with the cash flow that we saw in 2014 that was also at a very high and strong level.

We continue to see a solid capital structure as illustrated on slide 11. We are now below 1x EBITDA looking at our operational leverage or our financial gearing and that is the first time in many, many years that we are at that level and of course it also has a positive impact on the interest charges that we have on our debt towards the banks and it also underlies our flexibility in fuelling significant growth from acquisitions if we can find some ideal candidates and that is still a topic in Nilfisk where we continue to focus but it could also be a topic in the NKT Cables Business but definitely also in Photonics Group so it is good to see that we also have the ability to finance this appetite.

And then on slide no. 12 just a little bit of housekeeping here and just a warning to the market that we will change reporting or presentation currency from Danish kroner to Euro starting from the Annual Report for 2015 that will come out in the beginning of 2016 and the reason for this actually is that we do have underlying businesses that on a daily basis are fully operating in Euro and that goes for both Nilfisk and NKT Cables so all internal reports, etc. the way that we manage the business are focusing on Euro and that we would also like to reflect in our external communication. That will make it easier for all of us. So with that I have finalised the highlights for the third quarter, so I would like to hand over to Jonas to take a deep dive into the development of Nilfisk

0.13.04.2

Jonas Persson

Thank you very much, Michael, and then we jump directly to the next page going into the growth of the month so we ended up with 3% growth which is slightly lower than expected but still an okay quarter, a quarter of 3% with DKK 1,780 million and if we look into the Americas then we ended up with -3%, which is of course not to satisfaction, and

13. November 2015

Transcript

:: Supplements ::

✓. None

that is mainly due to still suffering from national account, we see absolutely a slower activity in the Commercial area and of course also continue to struggle with the competition in Americas so still Americas are still under observation. In EMEA, on the other hand, we did very well. 4% growth and we continue to do well and continue to outgrow competition in EMEA. APAC 12% growth, which I am quite happy with but then you should know also that there is an underlying big order in China during the quarter that absolutely brings up the result but we still see some improvement also in the underlying business in APAC in the quarter. Then going in and seeing how this is affecting the result on the next page. EBITDA margin as Michael also mentioned before we are improving in absolute number compared with last quarter 2014, same period, but we are still suffering and this is still a little bit disappointing. We are still suffering from a little bit negative product mix but we also have high distribution costs even if we have solved the delivery problems that we had in the first half of the year. We are still cruising with high distribution costs and high inventories in the quarter and this will most probably also continue into Q4. And then on top of that we don't see absolutely growth everywhere where we want and we have also made investment in the front-end and that is also why we do take down the full-year estimation for the result.

Then going into next page the [Accelerate] strategy. This is very much continued. We still make investments to take market share, in the front-end we continue to make investments even if we are slowing down investment of front end people but Commercial Excellence roll-out still continues and now we have passed all the big countries and we also continue then with small countries when it comes to the light roll-out. Competitive offerings, I will come back a little bit to that but we have a very strong pipeline here for 2016. And then when it comes to supply chain I will also come back but as I said in the previous slide we are already coming up to a level or actually exceeding a level where we have been before. So one thing is of course in this strategy also to accelerate the pipeline of M&A and push that so by that I would like to go to the next page.

The last 12 months we have been able to make five acquisitions and this continues. We still have a very strong pipeline – still a very strong focus for us and what we can announce here in this quarter is that we have bought a company called Hydro Tek in the US, in California, and just to get a little bit more details about that.

I would like to go to page 19. Hydro Tek is actually a very strong company in the hot water high-pressure washer segment in the US and it has a strong market share there and the reason why this is interesting is that they are doing the petrol high-pressure washers for the professional segment and this is a segment that we don't exist at all in today – the petrol segment in the US, but we don't exist either in the professional part in the US so this is a very strong way for us to come in and sell our corded product into the US but at the same time also leverage these petrol high-pressure washers into the rest of the world so this is a very, very interesting acquisition in my mind and opens up a completely new market.

Then jumping into the next page, page 20, just to elaborate a little bit on the supply chain and the supply performance. We have now come up to a level actually a high-time level how we are serving our customers I am very happy to say that. And we also now push this whole global supply chain transformation, which is giving us a possibility to serve our customers overnight or with very short delivery times when it comes to parts and really to boost the service in the world. At the same time, we are also dividing the whole DIY supply so we have a special DIY part selling into the consumer part and one with the professional side. And this is of course to further improve our service to the DIY customers where we had the issues here this spring and now we are soon coming into quarter one with a new high season and we have to be prepared for that. We have done what we need to do in order to really boost up how we serve our customers. But on the down side is of course that we still have distribution cost issues and that is due to the fact that we had to divide up the warehouses and we are also moving some warehouses here in order to serve the DIY and therefore we are cruising still with high distribution costs in quarter three and this will also continue into quarter four.

[slide 21]

Then coming back to the very strong offering we have. We have a very, very strong pipeline for 2016, which is very exciting. I think one of the strongest we have had when we go into a new year. So I am sure that we will see some very good upside from that.

Also coming then into one very interesting product and I would like to mention this Nilfisk SC100 which is actually a product going into a completely new segment. It is a professional scrubber, a small scrubber for typically small shops, cafeterias and so on, and this is Nilfisk's chance to come into a segment where we have not been before. We also showed this product here two weeks ago in a big fair in the US and we had a fantastic response from customers so I think this will be a big, big seller here going forward so it was very positive to show. Also just to mention we once again got an award for a commercial vacuum cleaner, Nilfisk VP 600, at a fair in Berlin, a trade show and that was once again to show that we are in top and continue to send very nice products onto the markets.

Then I would like to sum up with the last page, page 22. Sales growth 3% - it is not fantastic but I am still okay happy with this, especially with EMEA we have a positive situation in APAC even if we were helped by one customer – one order – and then of course US still is a challenge for us. Gross margin – we have a product mix and that is of course affecting our result but the most important item to mention is the overhead and that is why we also give a warning here for the full year when it comes to result very much impacted by distribution cost but also the investment we have made in the front end which does not really pay off yet. With that thank you very much. I would like to hand over to Michael.

0.21.00.5

Michael Lyng

Thank you, Jonas. So I will try to make the same kind of deep dive into the Cables performance in the third quarter but let us start with looking at slide 24 just to present my new group management team that I have strengthened the last couple of months with first a replacement of the CFO. Now the CFO position is headed by Roland Andersen who joined the team here just a month back and then it is also – we also have a new lady on board Lika Thiesen who is in charge of Human Resources and Communication and she also joined back in October this year. And both of them are of course representing significant

13. November 2015

Transcript

:: Supplements ::

✓. None

experience that is valuable when we look at the different challenges and different must-win battles that we have looking into the EXCELLENCE 2020 strategy that we also launched and communicated back at the Capital Markets Day so both of them are having many years of experience from A.P. Møller Mærsk and also from other large Nordic and global companies. So welcome to both of them.

Then if we turn to slide no. 25 and look at the overall market development and also our performance in the market as mentioned on the first slide we have realised -12% growth and that should not be a surprise to anybody – after the first six month of 2015 we had growth of 12% and in August we guided 5% for the full year and of course that means that we should have negative growth in the second half and that will also be the situation although smaller numbers in the fourth quarter and it entirely relates to the offshore market where last year in the same quarters we finalised some orders and we have not had that order mix in the third quarter this year. A big part of the finalisation of orders that we have been doing this year has been in the first half where we also have seen significant growth in the offshore and onshore markets so that is the reason so it does not concern me at all. And as mentioned also in the beginning we have secured the Galloper order and that just underlies the positive view we have of the offshore sector where we continue to see a lot of very interesting orders. We now have full visibility for 2016 when it comes to offshore and we also have pretty good visibility when it comes to traditional onshore markets. But bear in mind that you will see these kinds of swings from quarter to quarter in this business so it is more important when you look at growth in Projects to look Y/Y comparison YTD. Then it is very positive that we see strong growth in the Products business. We have realised 10% growth and in particular that growth is coming from the Central European market and from the Specialties whereas the market we see in the Nordic segment is more or less flattish. So YTD we are at 4% because we did not see a lot of growth in the first half so it is a kind of a new trend that we start to see in the Central European markets that we really are able to fuel growth and it is coming both from prices and volumes so we are satisfied with that. Then when it comes to APEC we continue to see negative growth and that is the picture that we will continue to see probably also for the fourth quarter and as I also mentioned last time it does not necessarily reflect the underlying business development or market development but it more reflects our appetite for orders in APEC that has been reduced significantly over the last quarters because we don't want to take orders where we do not have any kind of profitability or where we need to tie up a lot of working capital for a number of years and that is why we are much more selective when it comes to what kind of orders we take on in APEC.

When it comes to the profitability on slide 26, we are looking at the last twelve months (LTM) trading curve we are more or less flattish when it comes to the 10.2% realised versus 10.3% at the end of the second quarter. We will see a negative trend into the fourth quarter on this line because we are, as you know or probably have seen, we are guiding a 9% EBITDA margin for the year, which is by the way unchanged compared to what we guided back in August in this business and that is fully related to the composition and the order mix related to the Projects business that I mentioned before. We have started up production of Race Bank and that is, as always, with lower profit generation in the beginning of the production process and on top of that it is also pricing-wise at a significantly lower level than the pricing mix or the pricing we had on the Gemini project

13. November 2015

Transcript

:: Supplements ::

✓. None

that we executed in the beginning of this year and the end of last year. And that is the reason for that.

If we then go into DRIVE, we continue to see a positive impact from DRIVE. We realised DKK 111 million in the third quarter so YTD we are just above DKK 300 million and project-to-date we are at a run rate of DKK 425 million. So we are moving closer and closer to full project potential of DKK 450 million and that is also why we will only continue to show this picture one more quarter when we look at it for the full year of 2015 and then we will stop and we will focus more on reporting performance related to our EXCELLENCE 2020 strategy. But let us take a look at that strategy. We announced that back at the Capital Markets Day in September so there are no kind of new slides here. It is more a repetition of key themes that we are working on in the EXCELLENCE 2020 Strategy and it will cover the next two phases of what we started up as being the DRIVE programme – the ‘get fit’ phase was very much linked to the slide I just showed you before with all the numbers and the cost reduction programmes that are now finally executed and now we start to focus much more on the phase 2, the EXCELLENCE phase looking into different elements of excellence and I will come back to that on the next slide before we really then start to look into how to accelerate the growth. But it is also important to look at what kind of strategic targets that we have set up for ourselves. We want to deliver a return on capital employed of above 15% and that actually means being one of the best companies in the cables industry. We are now at 7-8% so there is some way to go in order to reach that, but we feel confident that we can do it. Secondly we want to be the customer's preferred choice in the eyes of our customers and that is also illustrating that we are moving away from having a very internal focus in the business to also focus much more on the customers and also on the customers' needs and then last but definitely not least we need to get our people with us on this journey so we also want to have the employee trust index, which is just one way to measure employee engagement to reach a level above 80%. So the EXCELLENCE 2020 strategy works with four group-wide must-win battles and they are mentioned or illustrated here on slide 30. One must-win battle relates to Safety, people & organisation, the way that we manage the business, the way we perform leadership in the business. We touched on this on the Capital Markets Day and it is clear that we have a gap to close when it comes to various measurements within this umbrella and that is, of course, also directly linked into the fact that I employed a CHRO, Lika Thiesen, who will take full ownership of this must win battle and will also have the full group responsibility for this at group level. Then the second must win battle is tying into Operational & Commercial excellence and that is also fully reflected in the name of the strategy planned that we want to drive excellence in whatever we do – no matter whether we are talking about the front-end of the business where we are focusing a lot on driving commercial excellence but also when it comes to the back end, the way that we produce our products and all the different kind of supporting functions that we have in between. We strongly believe that we can drive much more excellence and that there will also be a high pay-off from driving such kind of excellence. The third must-win battle is around Material and product development. We have a gap to close to existing customer needs but also to future customer needs so we are step changing our activities within Material & product development and that will also be reflected in the way that we organise it and that will be a key theme also ahead of us also potentially looking into different kinds of other technologies, other cable products that we do not necessarily have today, for example DC cables. And then last but not least we want to digitalise the way that we work, not only

:: Supplements ::

✓. None

internally but also the way that we work with our customers. So those are the four must-win battles for the group.

When we then look into the different segments that we have, the different businesses because operating this cable business is actually operating a lot of smaller businesses that are each serving different kinds of market segments, then we have clustered them into three segments. One segment is the 'develop and grow' segment where we have positioned the high-voltage offshore business and the global Railway business. These are markets and areas where we strongly believe that there is a very positive outlook ahead of us and we want to take our fair share of that market and 'develop and grow' that means for example in the high-voltage offshore that we will speed up our investments in the DC technology and also in Railway we are working with new kinds of products, new ways of producing our products that we also will implement and present to the market. Then we have in the middle here a segment where we want to focus on profitability. It is actually businesses where we have seen a step change in the profitability level as a result of DRIVE so the focus also means that we want to maintain that but also improve it and in that segment we have positioned the building wire and low-voltage segment business but also the medium-voltage and automotive business. These businesses are defined as being kind of commoditised with high focus on prices and also quite a number of competitors around the market that we search so it is of course important that we continue to focus on cost coming from for example operational excellence but also that we improve the way that we service our customers in these segments. And then last but definitely not least we also have some businesses that we have clustered as being turnaround focus areas. The most important one out of the three mentioned here is the high-voltage onshore business that is extremely competitive in the market that we are serving today and we need to find our way around that so we think we have a lot of internal improvements to do tying into the excellence that I mentioned before that can definitely step change our profitability level in this business and we also need to change our position in the market linking into the Material & product development must-win battle that I just mentioned. We also have of course the business in APAC that you also are aware of that we have tried to structurally change our position in APAC. Unfortunately that has not yet been possible so now we really very much focus on internal turnarounds activities, we have two production sites in China today and we are closely looking into how to position those factories in China in the future. And then last but not least also the Accessories business, part of the Accessories business is doing fine but we also have a part that we definitely need to restructure and there are some segments that we want to close down and exit.

So to summarise, a third quarter very, very much in line with expectations for the full-year, supporting the full-year target of organic growth of 5% in this business and also supporting the target of achieving 9% operational EBITDA margin in this business in 2015. So it is just confirming that and DRIVE will continue to support it. We have good visibility in the Projects business and last but not least we have seen a step change in the return on capital employed in this business up to now 9% from 2.8% in the third quarter 2014. With that I think we should move on to the Photonics Group so please, Basil, take it from here.

0.36.32

Basil Garabet

Thank you Michael and good morning. I am Basil Garabet, the CEO of the Photonics Group. I joined NKT on July 1 and I am based here in Denmark. I have a background of over 30 years in the Photonics Industry where I have worked in functions from R&D to Sales & Marketing to Executive Management. My career has spanned large multinational conglomerates to tech start-ups to starting my own company.

And with that I want to move now to the quarter, we are on page 34. We had a very good third quarter, both Imaging and the Sensing business experienced significant growth. On the Imaging side our revenue was on target, slightly above target, and our larger OEMs, which are key for our future growth, are all on schedule and on target at a very good achievement that we continue pushing for. On the Sensing side we had significant and very good order intake despite the oil & gas market setback that we have so that is very good to see as well and the pipeline security market performance has been well above our expectations, again a significant point in our planning for our future.

Going to the next page, page 35, the highlights are that we experienced 31% organic growth Y/Y, that's a significant achievement, which has increased our EBITDA to DKK 14 million. Also in the quarter we divested the Fiber Processing operations, as mentioned by Michael, and that was completed in the quarter. With regard to our order intake it has been high for all groups and we are building a very healthy backlog, so the business is looking healthy going forward. And that concludes the Photonics Group portion. Thank you.

0.39.03

Michael Lyng

Thank you Basil. So with that we have finalised the review of the business units so let's now move to slide number 37 to look at the updated forecast for 2015, here illustrated with the wording in the blue box and the more detailed explanation in the planning assumptions that we have in the different businesses. But basically we are maintaining our organic growth of around 3% so that is unchanged compared to what we have said before and is also updated in Q2 and that is illustrated in the box as well and then on EBITDA we are taking it slightly down. We now report an operational EBITDA of around DKK 1.3 billion, we ended the first nine months at exactly DKK 1 billion so it is 300 million more to go in the fourth quarter and that is actually slightly up compared to the nominal operational EBITDA that we achieved in 2014. But looking at the margin it is lower, we now expect it to be around 9.2% at standard metal prices and if we look in the table or the illustration here on the right side of the slide it is an unchanged picture in Cables, it is unchanged in Photonics so the reduction of operational EBITDA is entirely related to Nilfisk where we are taking down the target to be now around 10%. And it is fairly reflecting the fact that we are continuing to invest in the business, I think it is very, very important to underline that we have appetite to invest in the brand, in the Nilfisk brand, in the business that we serve and we will continue to do that because we firmly believe it is right and then we need on the other hand to be patient, to see the performance kick in, starting with organic growth but of course also falling down to the margins and we expect that to be the case in 2016 and we look forward to guiding more precisely on 2016 when we come back to the 2016 guidance in the annual account or report for 2015 in February next year. So with that I think we can end the presentation and move into the Q&A session, so operator, anyone with a question please?

0.41.37

Q&A

Operator

Thank you. Ladies and gentlemen, if you have a question for the speakers please press 01 on your telephone keypad. And we have our first question coming from Kristian Johansen from Danske Bank. Please go ahead, your line is now open.

0.41.52

Q: Kristian Johansen, Danske Bank

Thank you. If we start with NKT Cables and the Projects division is it correctly understood that the Gemini project was fully completed in the third quarter meaning that the customer ran the final test of the cables and if so what earnings impact did you see from this?

0.42.10

A: Michael Lyng

No, that is not correctly understood. The Gemini project is not finalised yet so the final test has not been carried out yet, that is not under our responsibility. So seen from our production part of this project we are 100% done but we are still awaiting the final test which is not in our control because it depends on many other parts of the entire supply chain but the knowledge, the visibility we have today is that it will be carried out in the fourth quarter this year.

0.42.51

Q: Kristian Johansen, Danske Bank

And then looking at your guidance, you don't include any effects from reversal of provisions when the Gemini project is completed, is that correctly understood?

0.43.03

A: Michael Lyng

You know I cannot comment on a specific provision line for a specific project. We guide as we guide and then we take it from there.

:: Supplements ::

✓. None

0.43.15

Q: Kristian Johansen, Danske Bank

But theoretically there is an area where you can reverse provisions when the Gemini project is finally completed?

0.43.23

A: Michael Lyng

You know we guide based on reality and not theory.

0.43.27

Kristian Johansen, Danske Bank

Q: Fair enough. Then looking at the Products division. Are earnings up for that Y/Y?

0.43.36

A: Michael Lyng

Yes. Earnings are up Y/Y in that business.

0.43.41

Q: Kristian Johansen, Danske Bank

OK. Then jumping to Nilfisk. Can you quantify the impact of these additional distribution costs you will have in 2015?

0.43.55

A: Jonas Persson

Yes that's why we come down with this number we have for the full year as well, I mean so that is the direct result of that.

0.44.05

Q: Kristian Johansen, Danske Bank

But I mean as I read it, I suppose an effect from distribution costs and the Commercial Excellence programme or is it mainly the distribution cost that causes you to lower the margin?

0.44.17

A: Jonas Persson

There are two reasons as I said, is the distribution cost running higher for the full-year and also continue to do here in Q3 and also will continue to do in Q4 and then on top of that of course with the investments we have made in the front-end with hiring more sales

13. November 2015

Transcript

:: Supplements ::

✓. None

people and so on, if we don't really see the growth which we haven't done as much as we want, then of course that is also directly affecting the result so that is two parts. I will say they are equally impacting the result for the full year.

0.44.51

A: Michael Lyng

And I think, if I can just add, I think when we look at the higher distribution cost that we have had during the year in order to improve the delivery time towards the customers, we have fixed the issue with the customers so we are serving the customers as expected and probably also better than in the past but we still need to work to now bring down the extra cost that we have added in order to fix the issue that we saw in the first half. So there is still an impact from that in the third quarter and partly also going into the fourth quarter.

0.45.25

Q: Kristian Johansen, Danske Bank

But do you intend I mean when you enter 2016 that your distribution cost should be at a normalised level?

0.45.37

A: Jonas Persson

They will be slightly higher next year compared to what we have seen in 2014 but the main reason for that is that we are serving totally different segments on a much bigger scale than we have done before and that is the DIY. What we also mention in the presentation, we have to split those in order to, because that is a totally different customer segment and that is why also we need to serve them in a different way. So there are higher costs than in 2014 but we already now in Q3 see a decrease compared to what we have seen in Q1 and Q2 so we are improving but the cruising level in 2016 will be slightly higher than it was in 2014, yes, but that is also planned due to a different customer segment that we need to serve.

0.46.21

Q: Kristian Johansen, Danske Bank

But it will be lower compared to 2015?

0.46.23

A: Jonas Persson

It will be lower compared to 2015, yes.

0.46.25

Q: Kristian Johansen, Danske Bank

Good. Then lastly can you give an update on the staff turnover of sales people in Q3 and also the level of re-hiring of sales people?

0.46.35

A: Jonas Persson

When we look into, in the big countries we have stabilised now the sales staff in that sense, I mean we also mentioned in the presentations before that we have lost a significant number of direct sales people here when we rolled out Commercial Excellence but at the end of August we have stabilised it so now we have in what need to have in with the sales people and we don't lose more than normally now sales people, of course there are always people who resign but that is coming down to a level where we are more normal but of course we still have a sales force that in some, especially in some countries, is fairly new. And as we discussed also in a previous presentation, it takes up to close to a year until they are in full performance so to speak.

0.47.31

Q: Kristian Johansen, Danske Bank

OK, clear. That was all from me. Thank you.

0.47.35

Operator

Thank you. Our next question comes from Claus Almer from Carnegie. Please go ahead, your line is now open.

0.47.39

Q: Claus Almer, Carnegie

Thank you. I have three questions. The first is to the Cables business, Michael. The majority of the DRIVE programme will be behind us by the end of 2015 but there will probably be a run rate full-year effect going into 2016. Can you quantify that? That will be the first one.

0.48.00

A: Michael Lyng

You know, looking at the way we report DRIVE, it gets more and more difficult somehow to be very firm on the numbers because the cold and hot water is starting to mix up right and the way we originally wanted to guide on DRIVE was what would be the result if it took one day to implement? And then of course you have a lot of different other pluses and minuses in particular for example inflation that are of course impacting these numbers and you also work with your sales prices etc., so it is difficult to compare it back to what was the situation back in 2014 when we communicated around this for the first time but the run rate is, you know the DKK 450 million that are the full potential more or

:: Supplements ::

✓. None

less you know 400 or 450 going into 2016 but then you also have some other pluses and minuses.

0.49.04

Q: Claus Almer, Carnegie

But Michael could we say that it may be everything equal that there will be a DKK 50 million profit impact from DRIVE in 2016 over 2015 or…

0.49.16

A: Michael Lyng

Sorry, could you repeat that, Claus? I could not hear you.

0.49.17

Q: Claus Almer, Carnegie

If we are going to put one number to this DRIVE effect, everything equal, could we then say, let's say 50 million profit improvement in 2016 compared to 2015 due to the DRIVE programme? Would that be a fair assumption?

0.49.35

A: Michael Lyng

Yeah, that would be somehow a fair assumption.

0.49.40

Q: Claus Almer, Carnegie

OK. Then a second question to the Cables business. The strong performance in the Products division, are you starting to see a positive pricing impact too or is it just a volume gain?

0.49.52

A: Michael Lyng

No, as I mentioned during the presentation, it is a mix. We both see it coming from volume but also from pricing. You probably recall that we also have had a pricing study or pricing work operating the last nine or ten months since the beginning of the year where we were also focusing on how we are pricing our things, you know being better in pricing management in the market, partly a little bit tying into what they work on in Nilfisk on the commercial side but more focusing on pricing and we also see a positive impact from that supporting the 10% growth in Q3 in the product segments.

0.50.43

Q: Claus Almer, Carnegie

Sure. Can you quantify the 10%, what is volume and what is pricing?

0.50.48

A: Michael Lyng

That is always difficult because it is always with a sense of judgment here but it is probably 60/40, 60% volume/40% pricing or something like that.

0.51.02

Q: Claus Almer, Carnegie

OK, thanks. And then just my final question which goes to Nilfisk. Jonas, did I hear right that you are slowing down investments in the front-end and if that is correct, is that what has been the plan all along or is that a new part of this strategy?

0.51.21

Jonas Persson

I don't think I mentioned in this presentation that I am slowing down but of course what we do now we have invested quite a lot in the front-end and we are not, absolutely not taking away the investments we have made, what we do, of course, is to make sure in specific countries where we haven't seen the growth yet that we do make sure that we get efficiency out of the sales people that we have already hired before we continue to hire new people. So I cannot say that overall that we do that but of course in certain countries where we haven't seen efficiency coming up, then of course we put a hold to continuing to hire people and in other countries where we see that we have good efficiency out of the sales people of course we continue to make investments.

0.52.05

Q: Claus Almer, Carnegie

So will you keep adding sales people in 2016 net, is that how I should…

0.52.11

A: Jonas Persson

If we don't get the growth, of course we will absolutely not do that but it's a mix of things here. In some countries we already see effects and there we will continue to invest but in other countries we will of course put a pause to it until we see the efficiency coming out, Claus, we are not running full speed into the wall.

0.52.32

Q: Claus Almer, Carnegie

OK. And then just my final question. The -3% in Americas that is a totally different picture than painted by Tennant. Can you put a little more flavour to the difference in performance between you and Tennant?

:: Supplements ::

✓. None

0.52.47

A: Jonas Persson

First of course I have to say, it is tough for me to say, but of course they are outperforming us without doubt. Having said that we also very much operate in different fields, we are very strong in the commercial field when they are very strong in the industrial field and we have also mentioned that before, Claus. And in commercial what we have seen very clearly in the big products, it is slowing down, school, hospital investments and so on that we see. Having said that of course we are not happy with this -3% and I also think we are losing market share in the US over the quarter.

0.53.25

Q: Claus Almer, Carnegie

OK, thank you.

0.53.27

Operator

Thank you. Our next question comes from Patrik Setterberg from Nordea. Please go ahead, your line is now open.

0.53.35

Q: Patrik Setterberg, Nordea

Yes good morning, Patrik Setterberg from Nordea. I have a couple of questions on your profitability guidance for the Nilfisk business. I just wanted to understand it. Regarding your SG&A costs, they usually tend to be at a similar level in Q4 as Q3 or slightly smaller. How do you see that your SG&A costs will develop in Q4 compared to Q3?

0.54.07

A: Jonas Persson

I see that as a fairly flat, slightly down but fairly flat I would say compared to Q3.

0.54.14

Q: Patrik Setterberg, Nordea

OK. If that is going to be the case you must implicitly guide for a sharp head win on the gross margin?

0.54.24

A: Jonas Persson

Yes, we are seeing a gross profit or because of the mix we see a mix difference here also, we already start seeing a little bit here in Q3 and we believe that it will continue into Q4 as well.

0.54.36

Q: Patrik Setterberg, Nordea

But is it correctly, if I do the math a little bit here, is it correctly understood that the gross margin in fourth quarter for the Nilfisk should go as slow as 38-39%-points?

0.54.50

A: Jonas Persson

No, that is not correct.

0.54.52

A: Michael Lyng

You know we don't guide fourth quarter numbers on P&L line by line, Patrik.

0.55.00

Q: Patrik Setterberg, Nordea

No, but given that your SG&A costs are going to be flat, as you say.. I just have difficulties seeing how you are going end around 10% if we are not going to see a major hit on the gross profit line or on the gross margin.

0.55.19

A: Michael Lyng

But you know in the end whether it is 10 or 10.2 or whatever we are starting to talk about small numbers that can be difficult to find back in your Excel sheet and that is just how it is.

0.55.34

Q: Patrik Setterberg, Nordea

OK. These extra distribution costs, are they all hitting the SG&A costs or is some of it hitting cost of goods sold

0.55.45

A: Jonas Persson

It is mainly hitting, I would say 90% hitting the SG&A costs and then the SG&A costs that is, I mean we have it very much under control. It is the front end investment and it is the SG&A costs that are driving up the total costs for overhead.

0.56.01

Q: Patrik Setterberg, Nordea

OK, thank you. Then my next question is regarding the working capital movements. You tend to have a seasonality where you see a lower level of working capital during the end of the year. Given what you can see you are going to do on the Cables business will we see the same seasonality in the working capital as we have seen previous years?

0.56.30

A: Michael Lyng

We definitely expect to see a positive impact in fourth quarter as we normally see but you also need to adjust for the fact that the last couple of years have been extremely strong when it has come to project execution, the timing of project execution where that was more in first half this year. So you should not count in the same kind of improvement that you have seen the last couple of years in the fourth quarter but more see it as a trend curve development where we already have improved and have not increased as much as we normally would do in the first six-nine months of the year. But yes, we do see improvement in the fourth quarter, both in Nilfisk but also in particular in Cables.

0.57.14

Q: Patrik Setterberg, Nordea

OK. Sorry for jumping back to the Nilfisk business again. I am just wondering, the profitability of this acquisition you are making in the US, what kind of profitability margins are we looking at?

0.57.30

A: Jonas Persson

We are talking about very much a similar level as we do in the rest of Nilfisk.

0.57.36

Q: Patrik Setterberg, Nordea

OK. And then a final question to Basil. You obviously have a strong third quarter. Were you successful securing any specific contract in the quarter or is it a run rate we could expect a little bit more going forward?

0.57.55

A: Basil Garabet

There was no significant signing in the quarter, there was just a general improvement in all our businesses and all the product lines.

0.58.07

Q: Patrik Setterberg, Nordea

OK. Very clear. Thank you.

0.58.11

Operator

Thank you. And just as a reminder, if you have any questions, please press 01 on your telephone keypad. Our next question comes from Jacob Pedersen from Sydbank. Please go ahead, your line is now open.

0.58.21

Q: Jacob Pedersen, Sydbank

Yeah hi guys, I have a couple of questions. First of all, there are still some fresh reports here in Danish press around the Anholt offshore cable incident. Could you just update us on whether you have made any other assumptions as to what this might cost you in the future?

0.58.42

A: Michael Lyng

No, I think it is very clearly described on slide 13 in the Q3 report and that is a copy/paste of the wording that we used in Q1 and Q2, so we don't have further updates on that. We have taken the cost that we assumed relevant for this already back in Q1.

0.59.04

Q: Jacob Pedersen, Sydbank

OK. Next question regarding Nilfisk. If we look back two years, in 2013 you had a profitability, an EBIT margin of around 8.6 I think in this business. We are now approaching I think 6.6 or so if we look at the EBIT margin in 2015, on a revenue base that is around 10% higher. What would it take for you to get your profitability back to that very fine level of 2013?

0.59.44

A: Jonas Persson

We are in a business that is extremely related to growth, I have to say, or to the volume and of course we see a totally different volume today but we also have made investments as we also have described and of course if we start seeing growth we immediately see also a big improvement when it comes to EBIT.

1.00.09

A: Michael Lyng

13. November 2015

Transcript

:: Supplements ::

✓. None

You should also bear in mind when you do that kind of playing with the numbers that you are right that top line is significantly up but it is very much coming from currency, very much from the US dollar and that is also having some kind of a negative impact looking at the margins that we have for the totality of the Nilfisk business because margins, EBITDA margins or EBIT margins, in the business in the US are slightly lower than they are in Europe and thereby it has had a positive impact on top line because of the strengthening of the dollar but it actually has some kind of a diluting impact on the EBIT level.

1.00.50

Q: Jacob Pedersen, Sydbank

OK, I am aware of that. OK. Coming back to the Cables business, you imply that margins on the Race Bank project will be quite a lot lower than on the Gemini project. What should we think of looking at margins into 2016 in this business? Will the DRIVE programme be able to compensate for lower profitability in the Projects business or do you even expect lower profitability in the Projects business in 2016 compared to 2015?

1.01.30

A: Michael Lyng

That is a good question but I cannot answer it right now because I would like to wait with that until we come with guidance for 2016 and be more firm there. But you are very correct that we have a significant negative impact from the decision that we took some years back where we wanted to have more visibility in our order backlog at a time when there was not a lot of activity in the offshore wind and that is why we are slightly more aggressive on prices and that will have a negative impact and then it will be offset to some degree by better performance from DRIVE and hopefully also markets in the Products segments but the final outcome of that I would like to wait with explaining more about until we come to the annual report for 2015 where we guide more specifically on 2016. But of course, you know, so far now we can just be happy about the margin increase that we have seen also supporting the fact that we can actually improve the business long-term.

1.02.39

Q: Jacob Pedersen, Sydbank

OK, great. Thanks a lot.

1.02.45

Operator

Thank you. And that was our last question so I am handing back to you now, speakers, for your closing remarks.

1.02.50

Michael Lyng

13. November 2015

Transcript

:: Supplements ::

✓. None

Thank you for that. I don't have much more to add other than looking at slide 39 where we have the financial calendar for 2016 and also going into 2017 so it is including new dates for reporting in 2016 and thereby we can also see that we will come back on February 26, reporting the result of the annual report 2015 including the guidance for 2016. So thank you all for listening in and asking good questions.