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NKT
Interim Report Q1 2016
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Ladies and gentlemen, welcome to the NKT Q1 report 2016. Speakers please go ahead.

Michael Hedegaard Lyng
Thank you, operator, and good morning and also welcome from my side to the NKT webcast covering the first quarter 2016. We released the result this morning. My name is Michael Lyng, CEO in NKT Cables and Group Executive Director in NKT Holding. And today's presenters are unchanged compared to last time so with me today I have Jonas Persson, President and CEO in Nilfisk, and Basil Garabet, President and CEO in NKT Photonics. Together the three of us will cover the development for the Group during the first quarter, but let us look into the agenda on slide no. 4.

First I will cover some highlights for the first quarter 2016 and then we will go into the different business units where Jonas will cover Nilfisk, I will cover NKT Cables, and then last but not least Basil will cover NKT Photonics and then we jointly end with the Q&A session.
If we turn to slide no. 5 and look at the highlights for the first quarter, this is of course a first quarter being a relatively short quarter. It is only one month after.. it ended one month after releasing the annual report so many of the developments have already been taken into account when communicating in the annual report, including guidance for the year.
It is overall a quarter in line with our expectations. First, I am glad to report that we see a pick-up in margins from 8.1% for the first quarter last year to now 9% and that is despite the fact that we have realised some negative organic growth with 12%, mainly driven by NKT Cables and I am not at all concerned about that and I will later on in the presentation explain why. We also on the basis of this maintained our outlook for the year so we are still looking into consolidated flat organic growth for the full Group and we are maintaining the operational EBITDA margin of approximately 9.4% which is on par with 2015 for the overall Group and also the underlying planning assumptions are overall still valid but let us come back to that later on in the presentation or in the Q&A.
In Nilfisk we also are satisfied with margins. We saw a pick-up of 0.6%-point, up to now 10.7% in the quarter and that is despite the fact that organic growth is still relatively neutral, it is -1%, but it is fuelled well with impact from acquisitions so if we look at it from a nominal point of view we are reporting nominal growth of 6% and it is also supported by price increases that we normally effect in the first quarter, repeated this year, but Jonas will cover more on that when he presents the Nilfisk part.
In NKT Cables, we also saw some okay growth in Central Europe continuing some of the positive developments we saw in the fourth quarter last year but that is of course more than offset by negative growth of more than 50% in the Projects business and as said before it is not a concern. I will explain why later on in the presentation so it is fully under control. During the quarter, we announced the Hornsea offshore order with a value of EUR 139 million. A very important milestone for the management agenda for 2016 securing good visibility into 2017 and also in the product business we have secured a frame contract with one of the larger utility players in Sweden, Ellevio, that also gives good visibility in that part of the business.

Then we are in this quarter announcing a new organisational structure and it is what I call a divisional structure with a functional substructure and I will cover more on that when we go into the presentation about Cables.
For NKT Photonics, we again saw good organic growth of 11% driven by all the segments and also looking into the next coming quarters we have realised very strong order intake and thereby we have good visibility and a good backlog in that business as well and then also in this business we made an acquisition of Fianium. We communicated that to the market earlier on but that is of course strengthening the global market position and Basil will explain more about that when he makes the Photonics presentation.

But let us look at some of the numbers for Q1. I already touched on the revenue but the organic growth split of the -12 % is Nilfisk with -1%, NKT Cables with -24% and then positive growth of 11% in Photonics. As said before, operational EBITDA margin is slightly up from 8.1% to 9%, so a nice development despite the negative growth and we see increased margins in more or less all the segments. We also here mention the EBITDA after one-offs because we did have quite a lot of one-off costs in Cables last year and this year they will be significantly less so quarter after quarter we also will see some nice improvements in the EBITDA number.
Working capital, cash flow, free cash flow, net interest-bearing debt – you can see the numbers here. There is not a lot to report on that and I will come back to the development on the next slide. Then we started up the share buyback programme and that has amounted to EUR 4.7 million in Q1 and if we look at it at the end of April, the number is 9.5% [NKT correction: EUR 9.5 million] out of a total programme size of communicated EUR 74 million. And then, as said before, 2016 outlook maintained so we don't have a specific slide for that in this presentation. We are maintaining flat organic consolidated growth and operational EBITDA margin of approximately 9.4%.

And that is also, if we turn to slide 7, the level that we are at. We are reporting here 9.6% which is very much in line with full-year guidance. So we expect to be trending on that level, a little bit down in Q2 because of the very strong Q2 last year so please be aware of that but then we will catch up in the second half 2016 and end at the level of last year for the full year.

If we then turn to slide no. 8, a lot of numbers again. P&L structure for Q1 and you can also see full-year 2015. Here you can see the revenue decrease of EUR 73 million. There is some impact from metal prices because the metal market is pretty volatile these days so it has a negative impact of EUR 32 million. Small FX changes and then of course a positive impact from acquisitions in this quarter, mainly coming from Nilfisk before we then come down to the -12% organic growth. Operational EBITDA in box no. 2 – good to see that Nilfisk is improving margins from 10.1% to 10.7% in Q1 this year. And that is contributing with EUR 2.9 million and also in Cables we see improved margins but because of the negative growth it has a diluting impact on nominal earnings with EUR 2.3 million but I am still satisfied with the improvements we see in the underlying margins up from 6.7% last year to now 7.4%. On this slide you can also see that we don't talk a lot about CAPEX sometimes but here you can see the numbers both in property, plant and equipment and also intangible assets. We are investing more in the business, both in Cables and Nilfisk and that is why you see a pick-up in CAPEX from EUR 13 million last year to now EUR 17.6 million.

If we look at the working capital development, there is actually not a lot to report here. We are significantly down compared to the end of the first quarter 2015 where we ended at EUR 356 million. Now we are at EUR 308 million and that is of course bringing down the LTM growth, the LTM percentage development, down from 17.2% to 15.8% and out of that Nilfisk is pretty much flattish and then we have seen a very nice improvement in NKT Cables where we are now down to 11.6% and you can slightly also see on this slide here that now we start to be more flattish in NKT Cables. The composition of the build-up in working capital if we compare these numbers to the end of 2015 you can see in the blue box we have built up working capital, increased working capital with just below EUR 40 million, which is very normal. It is seasonal impact, both in Nilfisk with EUR 21 million and in NKT Cables with EUR 16 million and then NKT Photonics is more or less flat.

Looking at cash flow, slide 10, not a lot to report here. We are looking at free cash flow of course. Hugely negative but it is entirely impacted by the acquisition of businesses with EUR 53 million and you can see the composition of that. It relates to Fianium with EUR 25 million in NKT Photonics and then the acquisition of Pressure-Pro in Nilfisk with a value of EUR 28 million. And if you take that aside, then line by line it is pretty much in line with the first quarter last year although we are seeing a slightly higher build-up in working capital in the first quarter this year compared to the first quarter 2015.

As a result of that we see a pick-up in the debt level up from EUR 90 million at the end of 2015 to now EUR 159 million, still at a very low level compared to earnings so we are at 0.9 times operational EBITDA so still a lot of "fire power" to support and further strengthen the business making the right acquisitions both in Photonics and Nilfisk and if something interesting is popping up in Cables as well. We have financial resources of EUR 532 million, no covenants and unchanged capital structure targets. So with that I would actually like to hand over to Jonas to make a deep dive into the development in the Nilfisk business in the first quarter 2016.

So Jonas, please take it from here.

0.12.10
Jonas Persson
Thank you very much, Michael. Then I would like to jump directly to page 14 and look at the growth. We ended up at, or lack of growth I should say, -1% in the quarter, very much due to Easter or at least we have an Easter effect but we also had an effect of a very cold spring, especially then in Europe where we saw that DIY growth did not come as expected. We did not have a decline in the DIY or Do It Yourself channels but we absolutely did not see the growth that we expected for the first quarter. So EMEA ended up with -1%, affected by the Easter and affected by the very cold spring and therefore also delayed DIY season. We also had a slight effect of Easter in Middle East, a slowdown in the quarter, but having said that we had a very nice picking up in the mid-market and had very nice growth in the initiatives we have done in the mid-market. If we then go to Americas, it is -1% and once again we are suffering when it comes to US floor care also in quarter 1 but we had some nice pick-up in Latin America and we are growing there. APAC ended up with -3% affected by China. We still see a weak economy in China. That is absolutely affecting us but what is positive is to see that the consumer sales in Pacific are picking up. We have been struggling with that during 2015 but now we really see the pick-up and coming back in that field.

So what is the effect then when we go into the earnings? Earnings improved very much due to the gross margin. I will come back to that. And we also had some effect of the.. we still have of course, one is slightly high when it comes to overhead very much due to the front-end investment, but let us jump right into the next page going a little bit more into the details when it comes to the earnings. Gross margin came up to 40.6% from 40.4% at the end of 2015, very much helped by the price management, an initiative we are doing there, but also the price increases here from 1 January. We also had some savings within procurement in the quarter and also worked very hard with the controlling of the warranty costs and obsolescence and that we have also seen good effects of here in quarter one. What is going in the wrong direction is the inflation, the annual inflation but we also have FX effects that are going in the wrong direction in the quarter and that is also affecting us but all in all improved gross margin. Not as much as we wanted but still going very much in the right direction.

Next page then, looking into the overhead. Distribution costs start to flat out. We still aim to come down when it comes to distribution costs this year, significantly. And we start to see the trend. But it is still going up in the quarter. It is very much the selling cost and that is not because we are continuing to drive so much investment in the front-end. We only do more selective investments now when it comes to hiring more sales people and so on and we only invest in the countries where we see that we have an effect of the investments we have done in the previous year, but of course we also see an effect of the investment we did last year going into this year and that is also what we are seeing when we look at the cost – the selling cost. So the total overhead is going up but we have good control of administration costs – that is still tracking in the right direction and it is actually lowering also in the quarter. And then, of course, when I look at the percentage, the lack of sales is also affecting us when it comes to the overhead percentage.

Then on the positive note, we are now pushing a lot of products. I already said last quarter that we have a huge range of new products coming out and we also got a very nice award here. The Red Dot Award for the best product design by coming out with products with low energy consumption and a very silent product and the VP600 is this very, very nice product. That also is one part of the range of products we have for the Hero launch campaign and this Hero campaign is actually launched this week at the big European fair ISSA in Amsterdam and the response so far has been extremely positive so we look forward to seeing what that also can give us in the front end.

So to sum up, for the quarter we see growth that is flattish or slightly down, and operating margin is improving very much due to the gross margin. Commercial Excellence continues to roll out and we also have this roll out of the 2.0 which is an update of Commercial Excellence now in Q2 and we start to see good effects of the new products launched here in 2016.

Thank you very much and over to Michael.

0.17.36
Michael Lyng
Thank you, Jonas. So let's continue with a deep dive into the NKT Cables development on slide 21. This is the normal slide where you can see the composition of the organic growth, the -24% divided into the different segments and of the -24% Projects are down with 55%. I will explain the reason for that on the next slide but it should of course be seen on the back of +52 % in the first quarter 2015 where we were positively impacted one-off by a change in completion calculation for larger projects. I will come back to that. In the Product business, we have reported 1% growth so we are continuing the trend we saw last year, although a little bit lower than the fourth quarter last year. Underlying the 1% growth we continue to see good development in Central Europe, in all markets in Central Europe in all product segments in Central Europe. We also continue to see good growth in the Speciality segments which is.. underlying that is the railway business and the accessory business and then Nordic is here illustrated as being flattish and under that is actually good growth in the product business, medium-voltage, low-voltage building wires in all markets, in particular in Sweden growing very nicely, but that is offset by one speciality product we have for the telecom industry acquired from the Ericcson business that is not doing as it should and thereby diluting the underlying good development in the product business. So all in all satisfied with that development. Turning to APAC. It continues to be tough and I have said it many times before. This is not somehow illustrating the market development but more illustrating our appetite for taking orders. We don't want to have loss-making orders. We don't want to have orders where customers are not paying us and that is why we see this significant negative organic growth of 43%.

Then I would like to spend a little bit of time on explaining why we were down with the -55% growth in the Project business and here you can see a bridge and last year we decided to change our accounting policies in the way that we calculate completion ratio on the larger contracts. All in all it had no impact in 2015 but it had a positive impact in the first quarter 2015 and we also communicated that in the first quarter announcement 2015 last year. And that is somehow impacting this year or taking away EUR 16 million if we compare Q1 2015 with Q1 2016. Then last year we also finalised a lot of offshore projects during the first quarter and thereby we had a lot of civil work in our backlog. This year we don't have any civil work but as you also know civil work is somehow a little bit empty turnover that is passing through our P&L. That diluted the top line with EUR 15 million Y/Y. And then we have a negative impact of EUR 8 million which is actually underlying organic growth reflecting the capacity in the market, reflecting that we are executing a project at lower prices this year compared to last year. A negative impact with EUR 8 million. Then we communicated and also talked a lot about the supplier quality issues that we saw at the end of last year and the beginning of this year. When we communicated around that in the annual report of 2015 back at the end of February it was still a topic that we did not fully have under control and potentially it could turn out to be a huge issue for us. I am now happy to announce and communicate that we fully have our arms around the problem and it has turned out to be less of an issue for us although it will impact our top line negatively in the first quarter, here illustrated with the 6 million and a similar amount will impact Q2 negatively on top line. From a P&L point of view we still expect to be fully compensated from the sub-supplier so we don't expect any significant negative impact on EBITDA for the year and that is also why we are maintaining the 2016 outlook, so this slide is just somehow – hopefully, it gives you some transparency into the underlying development so you do not get concerned about the huge negative number. And of course moving forward we will see significantly higher growth rates.

If then I comment a little bit on the development in each of the segments we have already touched on the Hornsea project, the project we won back in April and that is of course a very, very important milestone for us because it gives full visibility until the end of 2017 and the underlying profitability level from that order is also supporting our longer-term vision of increasing return on capital employed significantly. The trends in the market continue to be promising. We see a lot of tenders in the offshore market but now we are of course focusing on the orders that will be executed in 2018 and onwards in the offshore markets and then we are of course also focusing a lot on the promising DC market where day by day or day after day we are getting more and more confident that the DC onshore market in Germany will develop positively impacting the market maybe from 2019 and onwards but that also means that already now we need somehow to make sure that we will have the right product for the customers a couple of years down the road. On the onshore market, it continues somehow to be under pressure and that is the challenging part of the Project business. Margins are flattish but still at a relatively low level compared to the past.

In the Product business, I already mentioned the three-year frame contract with Ellevio being a Swedish – not largest but second-largest – utility player and that is giving good visibility. It is a frame contract that we got 100%, which is very nice because it is a huge market, the Swedish market, and it has a value of more than EUR 50 million. And we also saw good growth in Central Europe and partly also in some of the segments in Nordic. The trends in the market are somehow moderate to positive. We continue to see good development in Central Europe where we also have pretty good pricing power. And then we see somehow still good, okay development in Nordic but at a slightly lower pace. The railway market continues to be good with a lot of opportunities in Europe, also within that segment we won a large frame contract with Banedanmark in Denmark where we are participating in the electrification of the railway system in Denmark. APAC I already touched on so not a lot more to add there.

And if we then turn to margins, we saw margin pick-up from 9% to 9.3% if we look at it LTM, nominally EUR 12 million. The first quarter is always one of the weaker quarters in the business so it should be seen in the light of that and then it is of course a little bit down compared to the first quarter last year.

And if we look into slide no. 25, this is a slide I also showed you last time and it is just illustrating what is happening in the Project business versus the Product business. Until now we are fully in line with forecast and budget and we actually do slightly better in the Project business as also illustrated here. We expect to continue to see positive development in Products quarter after quarter to improve profitability coming from pricing, coming from full-year impact of DRIVE etc. and then we have the development in Projects where we need to execute on the Race Bank and that is diluting our margins until the middle of this year, the third quarter this year before we then start to see better margins and going into 2017 Hornsea should then fuel a positive development in the project business as well.

And that is also illustrated here on slide 26. What are we currently executing in the offshore segment? Now Race Bank and Galloper are filling up. Full capacity utilisation in 2016 before we then start to move into the Hornsea in 2017 filling up the entire capacity in 2017 and here you can just see in the boxes some kilometres on each project. 150 kilometres, 3 core cables 220 kV in Race Bank, 94 kilometres of 132 kV in Galloper. That is what is to be executed this year and then we move into the 170 kilometres of 220 kV – by the way the world's first gigawatt-scale offshore wind farm providing electricity to more than 1 million homes in the UK (Hornsea). So good visibility and very good project wins here.

Then I would like to turn slide 27 looking at the newly launched organisational structure. This is a structure that is defined by a divisional structure with a functional sub-structure and I think it is.. probably we should just step back a little bit. Last year we announced the EXCELLENCE 2020 strategy and first strategy, then organisation. One of the four Must-Win Battles in the strategy plan is about more lean and efficient organisation. Number two was Excellence in whatever we do, for example production excellence or commercial excellence. The third one was Product and material development and the last one Digitalisation. And instead of just starting executing on these four Must-Win Battles we turn into the organisation, look at the organisation, analyse how do we best organise ourselves in order to optimise the likelihood of winning these four must-win battles. And this one is actually tying directly into getting a more lean, agile, efficient organisation. We will be organised in the future in Operations being one box where we consolidate all European plants. We focus on lean, we focus on supply chain and of course health, quality, safety and environment. So that is a kind of a COO position. By the way, a position that is not filled up by a person yet. We are searching to find the right person to take full responsibility as COO and then we have three divisions being front-end focused. One is Solutions which is very much what is today called Projects – that is sales and development of high-voltage, on- and off-shore projects, cables and it is project management, it is engineering and it is also Group R&D. Then we have the Applications product line which is very much what we do in the Product business today, but here we consolidate everything of what we do in the front-end in order also to drive commercial excellence to optimise product development etc. and last but not least we maintain the Speciality area where already today we have accessories and railway but also are integrating the APAC business. And to support all this, the back-end and the three front-end lines, we have of course Finance and HR and all these blue boxes will in the future form the Group Management.
So it will be a journey to reach this. We will execute this in waves during this year in three different waves and finally it will be fully implemented by the beginning of 2017 where we will then of course also start to communicate and report to you in this new structure. It is of course also a structure that should drive efficiency so it will over time impact quite a lot of people in the Cables organisation. Everything from the result of being more efficient, more lean, but also focusing on moving from high-cost countries to low-cost countries – these are initiatives under this umbrella.

Good, if we then turn to slide 28 to sum up. I already mentioned part of the numbers here but good visibility, both in the Project business and in the Product business as a result of good order wins. We talked about the negative impact on the top line in the first quarter, an isolated impact in the first quarter that will be less significant in the coming quarters. Supplier quality issue fully under control although impacting the revenue in Q1 and Q2 slightly negatively and then I touched on the new organisation.

So with that I would like to hand over to Basil to do the same deep dive for the Photonics

0.32.43
Basil Garabet
Good morning, I am Basil Garabet.

On page 30 and we will start off with the acquisition of Fianium which we completed at the end of the quarter. Fianium is a UK-based global supplier of ultra-fast lasers with a very good and great reputation in the industry. We were very glad to close the acquisition which went very smoothly. Both NKT Photonics and Fianium have similar cultures and the integration is moving very well on that.

Fianium have a very complementary geographical coverage of the world and what we also get out of the Fianium acquisition is a manufacturing facility in Southampton which is a very important location for ultra-fast fiber lasers. The product portfolios both are scientific and OEM customers are very similar so we again expect that the acquisition and the integration move well. And what it does, it strengthens our global market position in the two segments of Imaging & Metrology and in Material Processing

If we move to the next page, in the quarter we realised growth of 11% based on all three segments that we are in which is the Imaging & Metrology, Sensing & Energy and Material Processing. The Imaging & Metrology area is one of our focus growth areas and that is where Fianium will play a lot of roles going forward.

We had good growth in the quarter. It was driven by a number of long-term contracts in industrial metrology applications. That segment in 2015 was about 45% of our revenue. In the Sensing & Energy segment we have done very well in the quarter as well. We got good growth and many areas, many geographical areas. We are very pleased with the way that segment is going. It is an established segment for us so we are keeping an eye on how to grow that and it has been very stable for us in the last three quarters. The last segment, which is Material Processing, is probably the most interesting. It is a new growth area for us and it is going relatively fast. We have significant new orders in the quarter and we expect that area to start growing fast also throughout the year and the coming years.

If you move to the next page, just getting through numbers here. The revenue was EUR 7.2 million which is 11% as we mentioned over the same quarter the year before. The operational EBITDA is slightly negative and actually it would have been slightly positive but for the one-offs with the acquisition. And full-time employees actually reflects, which is 239, reflects the number of employees we gained from the Fianium acquisition.

So just to wrap up, a good quarter for us. 11% growth, good orders in all the segments that we have been in. The acquisition is going well. We are very pleased with that. We are also in the process, as I mentioned before in the last quarter, of integrating our division in Germany, Lios. That is going really well as well and the continued synergies are actually more than we expected so we are using that as the template with the acquisition of Fianium as well. And with that I will pass on to Michael.

0.36.52
Michael Lyng
Thank you, Basil. And with that we have finalised our business unit review and we are ready to take any questions that you might have so operator, please take over from here.

0.37.12
Operator

Thank you. Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad. The first question comes from the line of Claus Almer from Carnegie. Please go ahead. Your line is open.

0.37.27
Claus Almer
Thank you. Yes I would like to start out with a few questions about Nilfisk and its margin trends. The overhead cost ratio increased by 1.3%-points. As you described it is partly driven by higher marketing spend but also M&A. What should we expect going forward as a level? That will be the first question.

0.37.54
Jonas Persson
I think we will see a slight down when it comes to overhead absolute number and of course it is also affected.. the margin as such is also affected by the growth but the cost, the absolute cost will go down going forward.

0.38.10
Claus Almer
Is that EUR 2 million, this EUR 5 million the more adjusted ballpark what to expect?

0.38.17
Jonas Persson
I would very much like to say that it will go down but exact numbers I don't want to go into right now, actually, Claus.

0.38.25
Claus Almer
Okay that is fair enough. Then what about your margin in Q1 what was a positive trend. When you look at your strategy, have you adjusted the strategy to be more focused on the cost as revenue growth seems to be, you know, not picking up as one could have hoped at least?

0.38.50
Jonas Persson
Absolutely. What we do is, as I also described before Claus, is that we are more restrictive when it comes to investments. We like to see first of all the payback of the investments that we already have made. But of course we also see, I mean, we are operating in a lot of countries, 60-70 counties, and then of course we seek countries where we have good response of the investments we have done and there we will like to continue to invest. And overall, we are more restrictive when it comes to front-end investments based on that we don't really see the growth globally as we wanted.

0.39.27
Michael Lyng
I can just add then we also decided because of the development on the top line to adjust the cost base a little bit in the back-end at the end of last year and that is also impacting it.

0.39.46
Claus Almer
Sure, then keeping it at Nilfisk and moving up to the revenue. If you were going to adjust your organic growth rates with the early Easter holiday what would that have been then?

0.40.02
Jonas Persson
We are talking about for the whole quarter we are talking about two less working days and that is one part and that is roughly on a quarter base an effect of 2%, Claus. But then of course you also have an effect of the cold weather. It is hard to believe now when you look out the window but that is the case and of course that has also delayed the DIY season slightly but I would say 2-2.5% effect, roughly.

0.40.33
Claus Almer
So just as a concept will you move into Q2 and you are not going to guide of course on that quarter yet but would it be fair to say, okay you made -1% in Q1, then we should add a couple of percentage points from the Easter, then some port strike on top of that, that will be the run rate?

0.40.53
Jonas Persson
I will say when it comes to the Easter effect of course we should see some effect of that but the cold weather we will get that because the season will come back but we will not completely regain if the season because the season is also shortening because of the cold weather so we will absolutely see some positive effect from it but not maybe fully the 2%.

0.41.14
Claus Almer
Okay. And then just the final question and this is, you know, with your strategy and the US market. Maybe you could give some flavour on where are you with Excellence in the US and the growth prospects in this important market?

0.41.30
Jonas Persson
It is an extremely important market and that is absolutely driving us as well and the commercial excellence is rolled out now in the US but we also have, we are also struggling with how we go to market there where we have very much an indirect model where we are very dependent on dealers in the US which of course is a totally different situation in Europe for example and that is something that takes a little bit longer time to change and when it is the whole commercial excellence programme of course it has effect and we see actually quite good effects here in Q1 when it comes to the direct sales but our direct sales are fairly small compared with the total so therefore we are also taking a new or changing slightly the commercial excellence also to drive the dealer part of it which is harder to influence, the behaviour of the dealers and the share of the dealers.

0.42.27
Claus Almer
Okay Jonas, thank you

0.42.32
Operator
And as a reminder, ladies and gentlemen, please press 01 on your telephone keypad if you wish to ask a question. And we have a question from the line of Fasial Ahmad from SEB. Please go ahead, your line is open.

0.42.54

Fasial Kalim Ahmad
Hi gentlemen. Fasial Ahmad from SEB. A couple of questions from my side. Firstly, on Nilfisk and this follow-up on the gross margins. Does your mix by any ways help your gross margins in Q1 and.. My question is really: Is the Q1 margin trend really sustainable and can we read that across to the coming quarters also? That is the first question, please.

0.43.24
Jonas Persson
Yes, I will try to answer that. The mix effect, DIY of course if you had big DIY growth we would have a dilution of the gross margin but the DIY is fairly flat compared with last year. We expected that we should grow in the DIY segment but we did not so of course we don't have really a mix effect here. How going forward when it comes to mix effect, if I knew that I would be very, very happy but it is very, very hard to predict the mix effect going forward, actually

0.43.54
Fasial Kalim Ahmad
Okay so the only mix effect you had in Q1 that was DIY and nothing else than that.

0.44.00
Jonas Persson
I would say that the mix effect in Q1 was very limited because the DIY was fairly flat compared with last year the same quarter. We expected higher growth but it was fairly flat.

0.44.15
Fasial Kalim Ahmad
Okay and regarding your price increases. Competitors have made similar kind of price increases in Q1?

0.44.25
Jonas Persson
Of course we have multiple of competitors. We have seen both. In some countries they have absolutely followed us. In some countries they have done less, in some countries they have done more. It is very hard to give a full picture of what exactly the net effect of their price increases has done, what they have done.

0.44.44
Fasial Kalim Ahmad
Okay. And then just a couple of questions on Cables. The organisation changes you are doing in Cables, I mean, you have indicated during the call that it is.. it could have an efficiency effect. Can you try and just quantify the effects from that?

0.45.08
Michael Lyng
You know, the main purpose of this organisational change is really to support the execution of the EXCELLENCE 2020 plan and part of that is, as you know, it is to increase the return on capital employed from the current level of 9 or 8-9% to 15% and this will also assist that journey. I don't want to put a number on it yet. We will probably do that a little bit further down the road. There is quite a lot of prerequisites that we need to deal with before we can speed up the implementation of this work here. For example, we need to have a different IT-system really to support this structure, to facilitate that we can move into low-cost countries having shared service centres etc. But there is a nice profitability pick-up from this journey that is of course also linked into other elements of the strategy plan that we are working on. But right now I cannot and will not give you a number, Fasial.

0.46.15
Fasial Kalim Ahmad
Okay. But this is a significant part of the journey to reach your ROCE target?

0.46.24
Michael Lyng
No it is not a significant part. It is one major element out of the plan.

Fasial Kalim Ahmad
Okay, perfect that is all from my side.

0.46.38
Operator
And as there are no further questions registered at this moment in time I hand the call back to you, speakers.

0.46.41
Michael Lyng
Thank you, but that was a short Q&A session but that is fine so we actually finish for today and can close up the call. And if we look at the financial calendar then we will be back on 18 August with the second quarter announcement so until then enjoy the nice weather. Thank you and goodbye.