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NKT.CO - Q1 2017 NKT A/S Earnings Call

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PRESENTATION

Michael Lyng *- NKT A/S - Group Executive Director*

Good morning, and welcome to the NKT Webcast current results for the first quarter of '17 that we released this morning in the form of a Q1 report for NKT and a separate Q1 report for Nilfisk. My name is Michael Lyng, President and CEO in NKT and today's presenters are unchanged compared to last time. So, with me today, I have Karina Deacon, CFO of Nilfisk and also Basil Garabet, CEO of NKT Photonics.

I would start with a short presentation on where we are preparing the split of the company and we will continue with some overall performance comments for the total group before I make a deep dive into the cables business. After that, Karina and Basil will do the same for their businesses before we then will end with a joint Q&A session.

If we look at slide 5, the intention to split NKT into two separate listed entities remains unchanged, and that is also what is illustrated here in the way that we are reporting numbers for Q1 where Nilfisk in the NKT accounts are treated as discontinued operations and then supported by a separate Q1 report for Nilfisk.

That is unchanged, and we also received the mandate or DOD received the mandate to prepare and also to execute the split of NKT. What is also here worth to mention is that we have changed the name of NKT Holding into the future name just being NKT, and then you can also see that the logo of what used to be called NKT Cables are now just NKT and you can see the new logo here on the slides.

So, we are preparing everything and if we look at the next slide, you can see the expected timeline for the split. Today, we have the Q1 reports and then early August, we expect that the new CEO of Nilfisk, Hans Henrik Lund, will join us formally. It is also here worth mentioning that he already today is spending significant time with the company and with the group in order really get into the business so that he can hit the ground running in connection with the August and also release of the Q2 interim report August 17th.

After that, we then expect to do the split in the second half of the year, and hopefully be done with that before the release of third quarter announcement here said to be November 15.

Another thing that is worth mentioning here is that by somehow dissolving the NKT Holding as a group center or a conglomerate center, we have now included all the NKT Holding cost into the former NKT Cables business, now just called NKT.

With that technical explanation, we can move on to slide number 8 looking at some of the highlights for Q1 '17. So, let's start with NKT, the former Cables business. So, here we saw revenue of EUR180 million which is slightly off compared to last year EUR22 million off. Here it is also worth from a technical perspective to mention that we complete the acquisition of the ABB high voltage cables March 1st, '17 and thereby they are consolidated into our accounts from that day onwards.

If we look at the organic growth, we are reporting minus 8% and that is more or less purely related to the ABB business which is year-over-year down with 7% in March this year compared to last year. So, if we adjust for that element, then we see a more or less flat development in the former NKT Cables business. Looking at the operational EBITDA of EUR17.8 million and margin of 9.6%, we can conclude that we are up compared to last year where we reported EUR12.1 million and 7.4% adjusted and including for ABB.

So, again here, we can see that there is a limited correlation between the topline and the actual earnings, and that is of course purely related to the project business as we have discussed many times before.

Another highlight for the quarter is that we introduced the world's most powerful underground DC cable system, 640 kilowatt, and I will come back to that later on in the presentation. It's also worth mentioning here that we divested -- we finally divested our automotive business, not in fact in the first quarter because it was closed end of April this year, but from that day onwards, it will not any longer be consolidated into the numbers, but overall a good performance in the Cables business and underlined here by the margins that we have continued to do and drive the company transformation.

If you look at the NKT Photonics, we saw revenue of EUR7.5 million which is slightly up compared to last year, however we do see a negative growth of 18% in the quarter, but we should not really be so afraid of that. We are still guiding solid organic growth of 10% in the full year, so we expect to see some strong quarters ahead of us, also supported by a very strong sales pipeline. But Basil will give more flavor to that later on in the presentation.

For the Nilfisk business, we saw a solid performance in the business and we are reporting organic topline growth of 5% divided into 10% up in U.S., EMEA up 6% and then a flat development in APAC. However, it's still worth to mention that we saw positive growth in China.

On the back of that, we also saw increased gross margins and we also saw the fixed cost ratio declining, but Karina will put more flavor on that later on the in the presentation. But all in all, we are reporting solid 13% margins in the quarter significantly up with 2.3% points from first quarter last year.

So, let's move on to the outlook for '17 in the next slide and we can do that pretty fast because we are reconfirming our guidelines. We updated the outlook in the beginning of April where we included the impact from ABB into the numbers for NKT and here we are maintaining what we set back April 11th, a topline of EUR1.1 billion measured at the standard metal prices and then if you calculate that into market prices, it is approximately EUR1.4 billion, of course a little bit depending on the development in the metal prices. And then we are looking at an operation EBITDA of EUR140 million.

For Photonics are maintaining organic growth of around 10% and margins of 15%, and Nilfisk are also maintaining the organic growth guidance between 24% and margins between 11% to 11.5%. But also here we will do a little bit more -- put a little bit more flavor on the numbers when we are making deep dive into the different businesses.

On the next slide, we are looking on a lot of numbers, and here you can see first quarter this year versus last year for the continuing operations, but also numbers including the discontinued operations. And I will mainly comment on the columns with including discontinued operation.

So, overall, we saw revenue increase of EUR65 million, out of that EUR40 million relates to Nilfisk driving the growth mentioned before, we are then down to the EUR51 million that are relating to the continuing operations. Out of that EUR29 million related to metals prices, FX prices our change is being more or less flat, and then of course we have the impact from acquisitions, EUR48.6 million relating to the ABB business, and we are also seeing a negative impact of 8.2 from the divestments that we did. This is mainly related to China that we divested last year, but also to the cabinet business that we also divested last year before we are then down to the organic growth.

If we look a little bit on the composition of operational EBITDA margins where we have -- where we can see an increase of 12.5% then as mentioned before, approximately EUR8 million of that relates to Nilfisk where we have seen margins in the quarter increasing from 10.7% to now a solid 13%, and adjusted for that impact we are down to approximately EUR5 million related to the continuing business, EUR6 million of that relates to NKT where also we are seeing margin increases in NKT Cables from 7.4% to now 9.6%, and then we have a negative impact of approximately EUR2 million related to Photonics.

The quarter is of course impacted by some one-offs, EUR18.8 million where the biggest part of that relates to transaction cost and integration cost related to the ABB acquisitions as illustrated in the box number three. What is also worth mentioning is that you can see the impact cash flow wise from the acquisition of ABB of EUR633.4 million, and then it's also worth mentioning here that we see a significant decline in working capital supported by strong development in NKT but also in Nilfisk. So, overall, we are able to reduce working capital [tie up] from EUR308 million last year in the first quarter to now EUR156.7 million first quarter this year.

If you move on to the next slide, a lot of this is illustrated in the cash flow here, so I will not put a lot of flavor on this slide. But you can see the significant change in the debt levels from acquisition of businesses, although we also had some acquisitions impacting cash flow negatively last year where we did some acquisitions in Nilfisk.

If we move on and look at the development in the net interest bearing debt, we see a significant pickup because now we have paid the majority of the acquisition of the ABB high voltage business, so we are now reporting a net interest bearing debt of EUR617 million end of the quarter.

The number will still increase when we take into account that we have paid for the vessel in April. That will increase the debt level with a value of EUR126 million. So, based on all of this and based on adjusting the LTM curve where we now include the ABB into the numbers, we are reporting a ratio of 2.2 times debt to EBITDA and if we take into account that we will still need to pay for the vessel, the number will increase to 2.7. So, significantly lower than the 3.2 that we somehow hinted to when we announced the acquisition in the mid of last year.

And the reason for that is really, as mentioned before, strong cash flow, a lot of focus on working capital (inaudible). What will also happen here is that we will see the impact from divestment of the automotive business in the second quarter, where we will see a net cash inflow of approximately EUR30 million coming from that.

So, with that, I would like to conclude on the overall picture and move into the NKT, the former NKT Cables business. So, if we start by looking now at the composition of the revenue split, we are a 50-50 business between the project business and the product business, and that should not really come to a surprise.

As mentioned before, we closed the ABB deal March 1st and we are now really focusing on integrating the businesses, of course a lot of organizational work there is going on, and by doing that we also expect to realize the synergy potential of approximately EUR30 million, and I'm also happy to be able to confirm that that is still the number and we have communicated earlier on that we expect that to be a little bit back end loaded and that you should not expect see the number kicking in before end of '18 with 12 months running impact and that is also reconfirmed.

The synergy potential is as illustrated on the slide here, it's divided into three different buckets, one being commercial synergies, one being bottom line synergies for example from procurement, and one being in manufacturing synergies. And they are more or less split with one-third in each box. So, a lot of integration work is ongoing right now and we are on track with that.

If we look at the next slide, that being a very technical slide, we are looking at the first part on the allocation of the purchase price, the so-called [PBA] and that is illustrated in the right side of the slide and you can see that we are looking at a total amount of approximately EUR385 million and then we are looking at the tangible assets of EUR355 million and intangible assets of EUR115 million. Net working capital as reported here is expected to be negative in this business, but on this slide, there are still an element of moving parts, and we will see some small adjustments to this allocation during the next coming quarters, before we are hopefully end of this year able to lock it down finally.

Both the integration and the impact from this business impacted the outlook for '17 as mentioned before, now with the EUR1.1 billion topline standard metal price revenue and EUR140 million in operational EBITDA. That was it.

And then if we move on to the next slide, on the vessel, I already mentioned that you will see the negative cash flow impact of EUR126 million in the Q2, so please bear that in mind. The vessel was delivered in the beginning of April according to plan and we have talked a lot about the vessel, so this is more or less a repetition, that this is among the world's most advanced cabling vessels with a lot of different cutting-edge features, some of them being mentioned here.

We had a large customer event including christening of the vessel in the beginning of May, so just a couple of weeks back. So, many of the analysts and also some of the investors and a lot of customers had the opportunity to be guided around the vessel, also guided around the factory in Kariskrona, and we also had a lot of other customer events related to that seminar.

What was also good to see is that we actually we were able to operate the vessel while we were doing the christening because the vessel had to leave for its first installation job immediately after the christening, and now the vessel is operating a large installation job up in Scotland where it will deliver or install cables in two slots, a big part of that being loaded beginning of May and now it will installed and then it will return to Kariskrona for the second block later in the year.

So, everything here is according to plan and it's fair to say that the customers are extremely positive and surprised also with the features of the vessel itself and that it somehow segments NKT as being a turnkey solution provider in this business.

If we turn to the next slide and look at some of the market trends in both the project business but also the product business, then the offshore market continues to be good. We see a lot of traction when it comes to traditional offshore wind projects, but we also see a lot of projects within the more sophisticated interconnected DC segments. So, a lot of tendering is ongoing and we of course expect to get our fair share of that in order to fill up that block for the remaining part of '18, but of course also looking into '19 and '20.

We remain with a very good visibility for our '17 and a big part of '18, but we have room to do more and we are working hard to close that window. In the product business, we saw a negative growth of 4% and that is more or less related to pricing, very much related to the so-called (inaudible) year in Central Europe where we saw a very strong market last year and first quarter also impacting the prices, very good.

So, the 4% is very much price related, so if we adjust for that and look at the volumes, we are looking at flattish volume development. So, all the factories that we have supporting this segment are actually very busy, and that is also driven by a Nordic market that continues to be quite strong, in particular Sweden being able to offset a slightly weaker market in Central Europe, in particular in Poland.

Next slide is just highlighting our visibility into the market, good visibility in '17 and also a good visibility into '18, a little bit to '19 and you can see the composition of the backlog with the name of different projects here and some of them being EC offshore markets or projects, but also a lot of them being interconnected EC business.

On the (inaudible), it is still a potential order, it is still the situation that the customer is having a call option to call the project. And it's probably fair to say that we strongly expect that to turn into a real order within the next coming months.

On the next slide, 19, we look at the margin development up from 9.7% to last 12 months to now 10.1% and we are reporting nominal EUR18 million compared to EUR12 million first quarter last year. Here we of course should bear in mind that we do have some significant impact from seasonality into the numbers where we in the product business see very strong second quarter and third quarter and weak first quarter and fourth quarter. That is of course impacting the numbers. But also in the project business we of course normally see strong second and third quarter, because that's where we normally see an installation window in the market that we typically are serving being Europe.

So, bear that in mind, and we also commented on earlier that we expected to see a significantly lower operational EBITDA in the first quarter compared to the remaining three quarters.

Next slide, illustrating the working capital development, down from 9.6% to now 6.4% and of course that is a little bit impacted by ABB, but despite ABB also, before taking ABB into account, we actually saw very nice working capital development in the cable business over the last coming years.

So, we are moving closer to our target of being around zero percent in tie-up. They are of course, you know, significantly higher in the product business, but then being offset by flat or even negative working capital tie-up in the project business.

Specific priorities in the next slide of '17 is very clear and they remain unchanged. It is really about developing and grow part of the business in particular the AC DC offshore segment but also the DC interconnect onshore segment and the accessory business supporting that. There are some of the businesses where we actually are satisfied with the performance that we see where it is more about maintaining margins where they are and being able to offset the price pressure that we do see in the more commoditized business.

And then we have some turnaround focus on AC high voltage onshore, in particular in the lower end of the segment that continues to be very, very tough market throughout Europe, and maybe less important but it's also consolidated numbers, but also the (inaudible) business is having a tough time with not a lot of orders in that segment.

So, to summarize on the next slide before I now hand it over to Karina, we saw a good quarter. We are satisfied with the earnings. We are satisfied with the impact that we see coming from the acquisition of ABB high voltage cables. It's good that we finally were able to divest and close the deal around the automotive business. It took a little bit longer than expected and we are also happy to be able to confirm the outlook for '17 as illustrated here on this slide.

So, with that, we are able to finalize the Cable part and I will hand it over to Karina to do the Nilfisk, please.

Karina Deacon - *Nilfisk - EVP and CFO*

Thank you, Michael. Let's turn to slide 24 and look at Nilfisk and the overall organic growth numbers which are shown here. As Michael said initially, Q1 2017 was a solid quarter for Nilfisk. We've seen from the numbers already and we have solid topline growth and at the same time we increased our earnings. That's very satisfactory, however it's important to know that we did get a little bit of help from the fact that in 2017, Easter was in April compared to March in 2016 and that means that we did have more working days compared to the previous quarter. And the flip side of that we will of course see in the second quarter to come.

Looking at where the growth came from on slide 24, we show a different segmental split and that is to be in line with our organizational structure, where we have carved out our specialty business from the geographically organized sales organizations. And that meant or this means that we will no longer discuss the pure geographical space, but we will show the three geographical regions as well as the carved out segment we call Specialty.

Looking at this dimension, we were pleased to see that the organic growth came from both EMEA, but not the least the U.S. In EMEA where we showed 6% organic growth, we saw solid growth from both our mature markets in Western Europe such as France, Germany and Spain, but also from the smaller countries in the eastern part of Europe.

In the U.S., the strong growth in our, what we call U.S. [floor care] business which we saw took off in the third quarter and the fourth quarter of 2016 continued and that was the particular, the case for our national accounts division. Also our commercial business grew well while we continued to see softness in the industrial segment which we have talked about also in 2016.

Looking at the other regions in Americas, it was also encouraging to see that the growth outside the U.S. was very strong. Both Canada and the countries in Latin America, they grew more than 20%. In APAC, we saw flat growth. As Michael also mentioned, it was very pleasing for us to see that China is back on double digit growth after a period of time where they had negative growth. However, some of our smaller countries, for various reasons, had negative growth in the first quarter and that meant that in total APAC they reported a flat year-on-year development.

In our new carved-out business, we saw a negative growth overall. Our industrial vacuum cleaners and the floor business, they did very well, but there were two other areas that made the consolidated growth negative. That was particularly the case for our outdoor business where we simply didn't see much project work in the first quarter.

Going into the second quarter, we see a slight pickup, but we are still looking for real growth in that area. We also saw negative growth in our consumer business. We knew upfront that we had lost a relatively large account, so we did expect negative growth, but on top of that, we also saw lower sales due to the cold spring. So, with Easter in April and a very cold March, we simply didn't see the expected level of activity for our high-pressure washers.

If we turn to slide 25 and look at our earnings, it was encouraging to see that at the same time as realizing solid growth, we saw a nice increase in our earnings, proving the leverage that we talked so much about. Our EBITDA after special items increased by 2.4% to reach 13% for the quarter and as it is stated on the graph here, that means an 11.6% on an LTM basis.

We saw strong development in gross profit margin in the first quarter and reported a year-on-year increase of 1.9 percentage points. This came from a deliberate focus on product mix and also with the help of pruning of some of our products with low profitability. We also continued our efficiency measures in production where particularly our consumer division was able to increase profitability.

On the overhead side, we did increase overhead in nominal terms in line with our expectations. We did see the positive effect of our Accelerate Plus initiatives, but as we said before we also continued to invest in our business so the net effects of these two things meant that we saw an absolute increase in overhead. However, looking at the ratio here we saw an improvement over last year, agains with improving the leverage of our business.

Looking at slide 26, this table should be familiar to you because this is where we follow and track our Accelerate Plus savings and we continued our work with the cost saving program into the first quarter. And we did execute further [levers] amounting to around EUR2 million in the first quarter. And we've now executed EUR30 million of the expected EUR35 million overall target.

In our P&L for the first quarter the overheads were reduced by around EUR3 million relating into savings from this program. And the majority of that was from the initiatives executed in the fourth quarter of 2016 which had full effect in the first quarter.

We talked about at the year-end that the execution of the next [levers] would take a little bit more time. They are of a more structural nature and require more planning before they can be put into place.

We do have solid plans for the realization and I'm confident that we will see the savings come true, although the exact timing is still being considered. But we intend to continue to report on our progress every quarter in the same format as you see here on slide 26.

Turning to working capital on slide 27, we have worked intensively to reduce working capital in 2016 and we continue to do that in 2017. You'll see that in the working capital percentage measured here over LTM basis.

We've improved from 20.1% in Q1 which was also quite high to now 16.9% at the end of Q1 2017. I look at this as being on the low side because we are still running a little bit low on certain parts of our inventories in certain areas, which was also reflected after year-end. But also in nominal terms we reduced working capital significantly over last year.

If you compare with year-end in line with normal seasonality, our working capital at the end of the first quarter is higher. But as you might recall our working capital at the end of the year was unusually low, particularly in our inventory. So, therefore you also see a relatively large negative development since year-end.

And when you turn to the cash flow statement, you will see a relatively negative cash flow impact simply because we had a very, very low starting point in the beginning of the year.

Slide 28 summarizes basically what I've said on the previous pages. It's just worth noticing that based on the improvement in our earnings and also the improvement in working capital, we saw an increase in our return on capital employed by 3.4 percentage points.

Finally, just to mention the outlook, we reconfirm our outlook for 2017. We don't see any changes compared to when we made the outlook previously so that's why we maintain revenue growth of 2% to 4% in the EBITDA before special items of between 11% and 11.5%.

So, with these words, I will hand it over to Basil.

Basil Garabet - *NKT Photonics - CEO*

Thank you, Karina.

In NKT Photonics Q1 came in as expected, and that's slightly ahead of our forecast. In the market area of imaging and metrology which accounts for 30% of our revenue and is our focus growth area, we had positive organic growth adjusted for the impact of the acquisition of Fianium which completed at the end of the first quarter in 2016.

In that market segment, we had good progress in our key OEMs in several industrial areas, mainly the semiconductor industry, in microelectronics, manufacturing industry and in bio-engineering.

In our market sector of sensing and energy which is an established area for us we had revenues which account for revenues with about 38% of the total -- there was an impact by customers' delays on a number of contracts but we will catch up with those in the next couple of quarters. So, we are not worried about that.

And we've also managed to sign several contracts and supply agreements especially on the service side which is a growing area for us in the U.S.

In the final market segment of material processing which is a new and exciting area for us, it's a new growth area that we are concentrating on, also the fastest growing business area we have, we continued getting a number of orders and we actually got our largest ever fiber order for the enabling the manufacturing of [ultra fast] lasers, so it's an exciting area of growth for us.

We move to the next slide on page 31 which is a summary. Our revenue of EUR7.5 million was up 4% versus the first quarter of 2016. We did have a negative organic growth. But that is really expected to change to positive again in Q2 and in the second half of the year. And it's due to the timing of the acquisition of Fianium.

Our EBITDA is lower due to investments in growth opportunities, especially with hiring a number of employees to enable the growth that we are seeing. This growth is reflected in a sales pipeline that is at the highest level that we've ever had, at record levels, which also reflects the increased level of activities that we are seeing in all the industry, all the exhibitions and conventions that we are going to, it's showing positive growth areas. That's also reflected in the industry and in general.

And finally, the outlook for 2017 remains unchanged. Our organic growth, we are forecasting at 10% and our operational EBITDA at 15%. And this concludes the summary for NKT Photonics. Thank you.

Michael Lyng - *NKT A/S - Group Executive Director*

Good. So, operator, we are now ready to move on with the Q and A session. So, is there anybody with a question?

QUESTIONS AND ANSWERS

Operator

[Operator Instructions]

We have our first question today from [Claus Almer] from [Nordea]. Please go ahead.

Claus Almer - *Nordea - Analyst*

Thank you. I have a few questions, one for cables and one for Nilfisk.

The first question, Michael, is about the ABB cables in March. The EBITDA margin was around 17%. Is this level equal to what you see in the backlog? That will be the first question.

Michael Lyng - *NKT A/S - Group Executive Director*

Now, that would be nice.

Claus Almer - *Nordea - Analyst*

Yes.

Michael Lyng - *NKT A/S - Group Executive Director*

Of course the EBITDA margin is in the project business as you know volatile from quarter to quarter. But of course it shows the potential, what we are comfortable with reporting now is what you have seen in the full-year guidance. And then we need to take it from there.

One month is not really representative for a quarter or a full year. Or of course you know the 17% margin, we know the business can deliver that, so it is within reach, but so far you need to look at the guidance for the full year.

Claus Almer - *Nordea - Analyst*

Actually I lost you, Michael, for the last sentence or two.

Michael Lyng - *NKT A/S - Group Executive Director*

OK. So, what I said was that I don't know where you lost me or I lost you. But you can of course not look at just one month's performance for a project business, you need to look at it over at least a quarter or two.

The 17% I can confirm and we could also have seen other months where it is above 20. And you can see where it is below 17. So, let's look at the guidance for the full-year and use that as somehow guiding you where we think we can bring the business.

Claus Almer - *Nordea - Analyst*

OK, thanks. And then a question to you, Karina, about the strong performance in the Americas. You mentioned a floor care and also that it was driven by your national accounts. So, is this a result of a few large deals or do you also see a stronger performance in the more bread-and-butter business?

Karina Deacon - *Nilfisk - EVP and CFO*

We do have individual large deals coming in, but it's not one specific big-time deal. So, I would say it's a mix to be honest.

Claus Almer - *Nordea - Analyst*

OK. Then just this strong EBITDA margin in the quarter compared to the full-year guidance, it seems very conservative with even half of the full-year. Anything that we should take into account for the remaining three quarters of '17 that would dilute the EBITDA margin?

Karina Deacon - *Nilfisk - EVP and CFO*

Yes. I can at least share with you what I am looking into and there are at least three things that should be taken into account when you view the full-year.

We have over the last couple of months seen an increase in raw material prices. I think we also briefly touched upon it at the end of the year. But we have seen them increase and of course we can't know exactly what's going to happen, but we do assume that that will take some of our GP away for the rest of the year. We saw already a little bit in Q1, not much, but increasingly in April and we expect that to continue. That's one thing.

The other thing is that on our overhead side when we made the plan for 2017, we did decide to continue to make investments also in our front-end, for instance by hiring more sales people, more service technicians. And they have not been employed to the extent that we have in our budget, so they will come over the remaining part of the year.

The last thing I will mention is that our product mix will have an impact on our GP. Also closing 2016 we talked a little bit about the impact of private label. And the private label business if you recall was very strong in the fourth quarter of 2016, which meant that they were equally weak in the first quarter, and that's the normal seasonality. But the GP on that sort of business is of course lower. So, that will increase particularly in Q3 but not at least in Q4.

So, those three reasons are the majority of the reason why I don't perceive it as conservative. I think it's the right guidance maintained from our last guidance.

Claus Almer - *Nordea - Analyst*

The price increases we saw from [tenants] and I guess you also mentioned that with the full-year report. Is that not enough to compensate for the raw material?

Karina Deacon - *Nilfisk - EVP and CFO*

No. So, this raw material increase that we've seen is at first what we had factored in when we went out with price increases.

Claus Almer - *Nordea - Analyst*

OK, thanks.

Operator

Thank you. We'll now go to our next question from Casper Blom from ABG. Please go ahead.

Casper Blom - *ABG Sundal Collier - Analyst*

Thank you. First of all congrats with the good start to the year to all of you, guys.

My first questions are to Michael. You've mentioned a lot about the lumpiness of the natural business in a project business where you deliver big things. Can you shed any kind of light to what type of lumpiness we should expect here in the remaining three quarters, other than the fact that Q2 and Q3 are typically large quarters for the project business?

And then secondly, Michael, on the synergies, the EUR30 million, you mentioned three drivers behind it, commercial, bottom-line and manufacturing. What have you learned about the split between those three after sort being handed over the keys to ABB? Any learning from that to share with us? That's my first questions for Michael.

Michael Lyng - *NKT A/S - Group Executive Director*

Yes. I don't know if lumpiness is the right word, but of course it's a more volatile business because you are depending on when you close the large projects, and very often also depending on customers' final installation job, et cetera.

So, if I look into my [budget] and my forecast for the remaining part of the year I actually look at three quarters being pretty much at the same level, closing the number to our full year guidance. So, that is what I look at. But we can easily be in a situation where Q2 could turn out to be stronger or weaker, offsetting the impact in the third quarter.

If we see a faster installation on the projects and thereby risk releases materializing earlier or a percentage being impacted [possibly earlier] than we expect. But that's what I am looking into right now.

On the synergy potential with the EUR30 million and approximate 133 (inaudible) that was also the view we had before we got the keys to the business. So, another way to ask the question is if you have seen any negative or positive surprises. And we have really not seen any surprises. And we look at, into a business that is very much in line with what we have looked into when we did the adjusted business case as the base for the valuation of the business.

Of course now that we started to execute we can turn out to be wrong in some areas, being hopefully offset in others. So, I can confirm that the potential of EUR30 million definitely are there.

Casper Blom - *ABG Sundal Collier - Analyst*

Got you. And yes, that was another way of asking the question. And then one question for Karina.

I have recalled that after your Q4 results you talked about and a growth pattern in Nilfisk in 2017 where Q1, 2 and 3 would be roughly in line and then there would probably be an acceleration of growth in the fourth quarter. Is that still the roadmap that you see for Nilfisk?

Karina Deacon - *Nilfisk - EVP and CFO*

To be honest, growth in Q1 was a little bit stronger than I anticipated. I thought it would even more out, but what I can see from now going into the Q2, I'd say overall it holds up, so when we sort of even out the Easter effect between March and April then we will see, as I see it now, a first half and a second half being more or less the same.

Casper Blom - *ABG Sundal Collier - Analyst*

OK. That's clear. Thanks a lot.

Operator

Thank you. [Operator Instructions]

We have a question now from [Kristian Johansen] from Danske Bank. Please go ahead.

Kristian Johansen - *Danske Bank - Analyst*

Yes. Thank you. So, the first question is on the NKT business. I guess it's a bit untraditional to include the acquired business in your organic growth rate but I guess it does give some visibility on performance here.

First of all, can you just confirm that organic for the ABB business was around minus 25%? And elaborate on why the figure is so significant?

Michael Lyng - *NKT A/S - Group Executive Director*

I don't know where you have that number from, but let me answer the first part of the question. When we do an organic growth calculation and we also do that in Nilfisk is that we also adjust in the comparison number for the impacts, and then we do the calculation of organic growth.

And we are looking at minus 8%, and if I'm not wrong the minus 7% relates to ABB and minus 1% to the remaining NKT business. So, that is the number that you should take into account.

And then you should remember that is one month looking at March with a very volatile top-line in the projects.

Kristian Johansen - *Danske Bank - Analyst*

But maybe I'm not getting the math here, but, I mean, can it -- right, the total business minus 8 but is minus 1 excluding ABB given that the revenue of ABB compared to the remaining part is much less than the organic decline for ABB, must be much more than 7%.

Michael Lyng - *NKT A/S - Group Executive Director*

I suggest you take (inaudible) in order not to be too technical into the numbers here.

Kristian Johansen - *Danske Bank - Analyst*

Then, on the products business you state that the minus 4% organic growth primarily relates to price, in connection with Q4 you stated that you renegotiated one of the larger contracts at a lower price level, can you just elaborate on how much of these declines are related to that contract and how much relates to more general decline in prices?

Michael Lyng - *NKT A/S - Group Executive Director*

In the product business, you are looking at a large number of projects, so I think maybe I'll just use one of them as an example. What we see is that in the northern part of Europe, Scandinavia, we see a fine market, so we don't see any negative price impact in that market. But it is relating to the so-called [photo] year, and I think we have touched on that and explained it before, so I won't repeat that. But the [photo] year is somehow bringing up demand significantly within a year, in medium voltage segment driven by high demand from utility players, and then in the years after, in between [photo] years you see a flattening out and significant decline. What we are looking at in, for example, in Germany, is the medium voltage market that are 10% to 15% lower pricing-wise this year compared to last year. And that is of course a big impact, a big part of the negative growth that we see here.

Kristian Johansen - *Danske Bank - Analyst*

OK. And then my last question, so on the NKT business. The (inaudible) projects, were they completed in Q1, or is final completion taking place in Q2?

Michael Lyng - *NKT A/S - Group Executive Director*

That's a tricky question, huh? But we have not seen any finalization of last projects in first quarter.

Kristian Johansen - *Danske Bank - Analyst*

Then just one question for the Nilfisk business, you highlight this mix impact to benefit your gross margin. Can you just elaborate on this sale to national accounts in the U.S., how that, is that beneficial to gross margins? I mean selling directly both through distributors I guess would have a higher gross margin. But is that part of the mix impact, or, how should we think about that?

Karina Deacon - *Nilfisk - EVP and CFO*

No, when I refer to mix impact, it's not really from the national accounts, it's think about product level and down to each individual product, whether you buy product A or product B, we have been analyzing in detail what products to push, and also as I said, prune some projects with lower margin. When you look at whether it's direct or indirect sales, it is a fact that direct sales normally have higher GP's because we have a higher supporting structure in terms of overhead. But then when you come talk to big national accounts, of course there's also some leverage in the CSIs of the business. But the national accounts in itself don't have any impact on the GP.

Kristian Johansen - *Danske Bank - Analyst*

OK, very clear, that's all for me. Thank you.

Operator

[Operator Instructions] We have no further questions at this time.

Michael Lyng - *NKT A/S - Group Executive Director*

OK, so then, thank you for listening in and asking good questions, and we can now finalize what hopefully will turn out to be the second last meeting in this structure, and looking forward to August 17, where we will be back with hopefully being the last meeting in this structure. So, until then, have a nice summer break.

END
