NKT Interim Report Q2 1012 – audio cast at 10:00 am on Friday 24 August 2012

Thomas Hofman-Bang President and CEO
Michael Hedegaard Lyng Group Executive Director CFO

Thomas Hofman-Bang
Welcome to the audio-cast presentation for NKT Holding following the release of our Q2 report this morning. On the call at our end is myself Thomas Hofman-Bang, I am President and CEO of NKT Holding, and as always next to me is Michael Lyng, our Group CFO, and jointly we will cover the presentation today. As I understand it, the presentation has been available on the web since this morning together with our report so that you had the chance to look into the slides that we will go through and analyse and comment on

The agenda is the same as always. I will cover the highlights as an introduction, then Michael will cover the financial results and then I will add more flavour to the divisions. We will cover expectations and then in the end we will have Q&A where those of you who have dialled in on the specific number for the teleconference will have the opportunity to ask questions, but we will get to that in the end.

If we look at the group structure, it is the structure that we have now had for a quarter with three divisions. We concluded the sale of NKT Flexibles in early April and the transaction was complete in early July meaning that the result of that divestment is included in today's quarterly report. And other than that there have been no changes to the structure in this quarter. We have not done any M&A in this quarter but are focused on moving forward and improving the business portfolio that we already have in our hands.

The highlights for the quarter are that we – as everybody else – feel the uncertainty related to the macro economy and it has definitely increased in particular in relation to Europe during the last three months. We have experienced that markets have reacted with hesitation and thereby slowing demand.

On a group level this has resulted in negative organic growth of 3 % in the quarter. However, we are very satisfied to report that EBITDA is up with 21 % despite the lack in effect from operational gearing and growth.

Q1 reported the same trend and therefore year-to-date EBITDA is up by 20 %. This is a result of strict cost control but also reflecting the improvement in performance of the Cologne factory. The profits from the Flexibles divestment amount to 1.4 billion. That is up about 100 million compared to what we saw when we announced the transaction because we have been able to eliminate some risks related to the transaction.

Working capital and cash flow are developing satisfactorily and that combined with the 2 billion cash influx from the Flexibles divestment has completely reset the balance sheet.

Outlook for the year reflects the increased macro uncertainty and growth expectations for the year therefore now are around zero % organic growth for the group. And as a consequence, we have lowered the EBITDA outlook to now around 1.050 billion which is the low part of the previously announced range. We will later in the presentation elaborate further on the guidance for the full year and the net result for the year we still expect to be around DKK 1.6 billion, which is unchanged from the previous guidance.

If we look at the evolution in EBITDA on a rolling 12-month basis you see graphically illustrated that it continues to move forward and the last 12-month performance now is 955 million and therefore to close the gap to full-year guidance we need to improve by another 100 million the next six months, which is in the plans.

Of course, we would have liked to see the improved trend even stronger, but due to the uncertainty in the macro environment and therefore the hesitations in the market, it is difficult to move it much faster than what we have been able to do here.

And that is reflected on the next page where you see the manufacturing PMI. The development in the manufacturing PMI shows that during Q2 we have seen a weakened sentiment in the US and China, however still indicating growth. For Europe, however, the situation is more alarming both in terms of the level and the trend and seems to support GDP outlook which is bouncing at the edge of recession. As already mentioned we see the effect in terms in hesitations in the marketplace and are of course taking relevant measures to reduce cost and protect the profitability, which is at the top of our management agenda.

With that I will hand over to Michael to cover the financial report in further detail. Michael.

5.03
Michael Lyng
Thank you, Thomas. And if, as usual, we start with looking at the P&L for the second quarter as already mentioned by Thomas we will see our revenue is down 3 %, both nominally and organically meaning that we realised revenue of 3 billion. On the other hand, the EBITDA is up by 21 %. We realised DKK 239 million in the quarter, up from DKK 197 million during the same period last year. Then we have added one-offs again, deducting from the result DKK 10 million this quarter compared to DKK 8 million last year. We will come back to that in detail later on in the presentation when we talk about Nilfisk-Advance.

So after these one-offs we have realised an EBITDA of DKK 229 million, up from DKK 189 million last year.

Depreciation is now reflecting a normal level for a quarter, which is now DKK 130 million, more or less similar to consensus in the market and that leaves us with an EBIT of DKK 99 million.

Financial items, here we start to see the impact from the lower interest-bearing debt and also the lower margins after the divestment of Flexibles. We had interest expenses of DKK 52 million down from DKK 61 million last year.

Taxes are calculated at the normal rate of 26 % so profit after tax from continuing operation is DKK 35 million, up from DKK 14 million last year and then finally, as Thomas mentioned before, profit from discontinued operation, which is divestment of NKT Flexibles ended at DKK 1.404 billion compared to previous guidance to the market, a level of DKK 1.3 billion.

On the right side of the slide, you see the consensus numbers and it is clear to see that we are slightly below on the revenue side, but also on EBITDA level we are below. More or less on the other lines we are on a par.

If we go a little bit deeper into the development of the revenue decrease on page 9 you will see that we have had a negative impact coming from metal prices now reflecting that copper prices in particular are running at a slightly lower level this year compared to the same period last year so that part is diluting our revenue with DKK 77 million. Then on the other hand, FX changes are positive with more or less the same number – DKK 75 million + - reflecting that in particular the US dollar compared to Euro and Danish kroner is up compared to the same period last year. And after the impact of those two areas, we are down to the -3 % organic growth similar to a reduction in turnover by DKK 110 million

Similarly, if we go into the operational EBITDA increase, we see an increase of DKK 42 million. On the NKT Cables side we are up with DKK 36 million reflecting that margins are up from 0.7 % in the second quarter last year to 3.4 % this quarter.

Also, Nilfisk-Advance, despite the negative growth, is realising a better operational performance this quarter compared to last year we are up DKK 9 million reflecting an EBITDA margin for the quarter of 12.3 % up from 12.1 % last year and the Photonics group is more or less on a par with last year.

If we continue by looking at NKT Cables, looking at trend curves we already mentioned the -4 % organic growth for the quarter meaning that we are down 8 % organically for the first half after also having had a slow start in the first quarter. However, the electricity infrastructure segment is still up now at 7 % meaning that we have a first half organic growth for that segment of zero %. It has been an okay development in the quarter but impacted by a weak low-end high-voltage market that we have talked about before.

Construction realised negative growth of 1 % so after a relatively good start in the first quarter we saw a slow-down in the second quarter and we did not see the normal seasonal build-up that we see in a second quarter so that means that we are only up 3 % for the first half. Railway realised negative growth of 37 %. Not a big surprise because it ties in to the development in China. We do start to see improvements in China and we have seen a slightly higher activity level but it is starting up more slowly than expected and that will mainly impact the second half developments.

In Automotive we realised -16 % growth, so a weak quarter here as well tying in to a first quarter that was also weak so all in all for the first half we are realising -14 % for this particular area. However, that does not impact the overall group performance significantly.

Nominal earnings are up from DKK 9 million in the second quarter last year to DKK 45 million this year so, of course, we are negatively impacted by the low growth in many of the areas but having said that we have seen improvements in Cologne and, of course, we would like to see even better and higher improvements going into the second half.

If we compare our growth numbers with peers, it is fair to conclude that they see more or less the same development in the different areas. The EBITDA margin for the quarter ended at 4.2 %, up from 3.5 % at the end of the first quarter.

If we continue to Nilfisk-Advance and look at the trend curves, we already mentioned that we realised -1 % organic growth in the quarter after having had a relatively good start in the first quarter this year. So we saw a weak development in Europe where we are down 4 % organically, that was partly expected in the southern part of Europe, but markets in the Northern part that used to show relatively good performance at the end of last year and at the beginning of this year, also slowed down dramatically in the quarter and in particular at the end of the quarter and that means that for the first half this year we are realising a flat development.

In the Americas we saw positive growth of 1 % so also there we saw a slowdown compared to a strong first quarter where we realised 7 % organic growth. So after the first six months of the year we are up 4 % organically.

Asia-Pacific, we saw better numbers in the second quarter compared to the first quarter. We are up 7 % organically, in particular as a result of the better development in China after a weak start of the year impacting Q1 negatively. So underlying we have good growth in the BRIC + MT countries and we are very satisfied with that.

Nominal earnings up from DKK 200 million in the second quarter last year to now DKK 209 million, so again an all-time high level despite not having had any positive growth, and that just indicates a very solid and strong business model. Also here we can compare our numbers with peers and it is fair to conclude that they see more or less the same trend in Europe as we do. They have better numbers in the US and then we are beating them in the rest of the world markets.

EBITDA in the last twelve months ended at 11.7 % so an unchanged level compared to the end of last quarter as a result of margins in the quarter being up from 12.1 % last year to 12.3 % in the second quarter this year.

And one of the reasons for the good result relates to a satisfactory development in gross profit. We have realised an increase of 0.8 % in the second quarter compared with the second quarter last year meaning that we are at 41.9 % compared to 41.1 at the end of the second quarter last year. Also here, if we look at the first six months, we are positive with an increase of 0.6 %, realising 42.3 % compared to 41.7 % last year.

On the next page we go to working capital, - we see a positive development in working capital. All in all we tie up approximately DKK 3 billion in working capital, which is around DKK 500 million less than at the same time last year.

Looking at the graph, we can see that we ended at 20.6 % down from 21.6 % in the second quarter last year. The improvement is mainly coming from NKT Cables where working capital has declined from 22.6 % at the end of first quarter this year to 20.7 % at the end of the second quarter. In Nilfisk-Advance we see a more flat development up from 19.8 % to 20.2 % at the end of this quarter and here inventory management is still a key focus area that should result in lower working capital going into the second half.

Continuing with the CAPEX slide, as normally you can see CAPEX numbers for the property, plant and equipment in the upper part, and in the lower part you see investments in intangible assets which mainly relate to development work in Nilfisk-Advance.

We have invested DK 83 million in CAPEX in hard assets in the second quarter which is slightly lower than the level in the same period last year, where we invested DKK 118 million. And you can see the split between Cables with 70 %, Nilfisk-Advance with 28 % and Other, which is mainly Photonics Group, with 2 %. On the intangibles side we have invested DKK 52 million. Here we are slightly up from last year. 72 % relates to Nilfisk-Advance and 22 % relates to NKT Cables and 6 % relates to the Photonics Group. So, for the full year we still expect a level of around DKK 500 million in CAPEX in both property, plant and equipment and intangibles, which is around 3 % of the turnover

The next slide explains the development in interest-bearing debt for the entire group. We reduced – we managed to reduce interest-bearing debt with approximately DKK 2 billion in the quarter due to the divestment of NKT Flexibles. We ended the quarter at DKK 2.7 billion down from DKK 4.5 billion at the end of the first quarter and that means that we are back on track when we look at the numbers and compare them for the group's internal targets for what we define as an optimal capital structure. The debt/EBITDA ended at 2½ times EBITDA which is also our internal target and we are down from 4.3 times at the end of the first quarter. The gearing ended at 48 % down from 124 % at the end of the first quarter and here we have a target of having as a maximum a gearing of 100 %, and last but not least the solvency ratio ended at 41 % up from 29 % at the end of the first quarter and here the target is to constantly be above 30 %.

Looking at the gross debt and cash resources on the next slide, there are not a lot of changes since the slide we showed you at the end of the first quarter. We still have committed cash resources of slightly above DKK 5 billion so there is no impact on that line but it is fair to say that cash resources are up reflecting the lower debt and reflecting the divestment of NKT Flexibles so here we ended with having cash resources of DKK 4.1 billion at the end of the second quarter up from DKK 2.3 billion at the end of the first quarter.

The next slide illustrates the cash generation – also a slide that we looked at after the first quarter. We are still positively impacted from having a lower build-up of working capital in the first half compared to what we normally see. The green bar illustrates the operational cash flow for the last twelve months. The grey bar shows the cash flow from investments excluding acquisitions and then the brown curve is the net of those two illustrating a free cash flow of approximately DKK 500 million for the last twelve months.

And that brings us to cash flow. There is not a lot to add to this slide. Changes in working capital for the first half are DKK -200 million which means that we have built up working capital by DKK 200 million for the first half. However, that is significantly lower than we normally see for a first half – also illustrated here, looking at the first half 2011, where we built up almost DKK 600 million in working capital, and that means that cash flow from operating activities for the first half is positive with 93 million compared to the first half last year where we were down with DKK 381 million. Then we have cash flow from investment activities. Both for the second quarter and for the first half we have invested approximately half of what we have guided for the full year, DKK 253 million, but also here we are running at a significantly lower level than last year. So cash flow from operating and investment activities for the first half is negative with DKK 160 million compared to being negative almost DKK 800 million for the first half 2011, and last but not least you can also see the positive cash flow impact coming from the divestment of NKT Flexibles having a positive number of DKK 1.961 million in the second quarter.

And that ended the financial review so back to Thomas.

21.57
Thomas Hofman-Bang
Thank you very much Michael and if we flip the page, then the first one in line is NKT Cables, and if we flip one more page, we get the global footprint of our operations in Europe and China, and as already explained, we saw negative growth of 4 %. We did expect to have a negative impact in this quarter from the railway segment in China, so that is part of the reason for the negative number, but it is also fair to say that the market development in general, tying in to the overall macro development as already explained, has been weaker than anticipated six months ago. We continue to see growth in our infrastructure. It is up 7 %, continues to confirm the strategic direction of NKT Cables where all our investments in recent years have focused exactly on that segment, and in our guidance for the second half is also that we will continue to see growth and even at a higher level. The reason why we now have a 5 % growth outlook for the year in this segment as opposed to previously 15-17 % growth is – the vast majority of that gap is - that we have seen two big projects shift partly into 2013 by request of the customer, which has been completely out of our control. Had we not had those two delays, we would have seen significantly more growth in the second half and also been much closer to the mid-to-upper half range of our guidance for the group in total.

Construction is down 1 %. We saw a surprisingly strong development in the first quarter that we covered at the Q1, probably related to the green winter in parts of the European market.

Moving into the second quarter we are – as explained – 1 % down, which is – as we read it – due to market behaviour where the seasons were starting more slowly than we typically see. Here we talk about the construction industry, and we saw activity pick-up later in the quarter than we have seen in previous years, and our reading of that is that it is directly tied to the uncertainty in the European markets and therefore hesitation to invest, and therefore we expect that trend to continue in the remaining part of this year with a soft section in Construction.

Railway as expected was down 37 %. As you may remember, we had very strong activity in the first two quarters last year, so those are comparable numbers, and then mid-year last year we experienced a standstill in this business segment after decisions from the Chinese government, and we have now been in that standstill situation since last year, and the expectation was that business would resume mid this year, meaning starting in the third quarter. We are seeing a pick-up and therefore we will see significant growth compared to last year, which is also easy because the numbers were low last year in the second half. But start-up has been lower than what we initially anticipated and therefore, where we initially had an expectation for the full year to be flat year-on-year in Railway that is no longer the expectation, and now expect to be down full year.

Automotive was soft in the first quarter. That trend has continued into the second quarter as you can see where we are down 16 %. It is a relatively small part of our business with only about 5 %, but still disappointing and we have no reason to believe that that trend should be any different in the second half, so that is also embedded in our guidance that it will continue throughout the year.

If we look at dynamics in the transmission and distribution market, we see that the competitive pressure has increased, we see more players in the market, we see more fierce competition for the orders in the market, and that is also part of the reason for the development on growth and earnings in the quarter and it is also part of the reason for the downgrade on the full-year outlook. The Cologne factory - we are now basically done with what we call the commissioning, meaning all the physical part of the factory, the run-in and fine tuning and debug making of all the machines. We discussed that project back at our Capital Market Day last year and guided that it would take to the middle of this year to complete that part of the Cologne project, and that entailed about 116 different specific projects. Those are for 95 % complete and the remaining 5 % will be completed in the course of the coming months, so we are now putting a check mark to that part of the Cologne factory meaning that it is not a matter of moving the volumes in this factory. We have close to 100 % availability and functionality on all machines now, and therefore the focus will in the forward-looking perspective be more on classical disciplines like scheduling, production planning, quality and operational excellence. We have seen some negative impact from that in the second quarter, where the fact that we are, - for basically all the big projects, - running projects with specs that are either new or require a type test or at the edge of what has been tried before in terms of technology and capability, and that has continued to result in some cost overruns and we expect to narrow and limit that going forward with the continued focus on the disciplines just mentioned.

If you look at the EBITDA margin for the quarter, it is up 2 percentage points over last year after the first six months and that pattern is expected to continue throughout the second half and therefore drive the EBITDA margin up to about 5.5 % for the year. And you saw on the trend lines that Michael displayed that we are now above 4 % for twelve months and we expect to close the gap up to 5.5 in the next two quarters. That is in no way our ambition, so it does not stop there. We of course, as you know, have much higher ambitions for the coming years but that is how far we expect to be able to take it this year in the light of the weak demand in a number of our segments. And therefore in total, when the year ends, we hope to be able to report a nominal earnings enhancement over the previous year of about DKK 150 million.

If we then turn to Nilfisk-Advance on page 22 you see examples of our nice product offering, and if we flip one more page to page 23, here you see the global footprint of the Nilfisk-Advance operations. The quarter delivered 1 % negative organic growth as Michael has already reported and that was solely due to the weak European economy. We continued to see good growth in emerging markets which grew 21 % in the second quarter. Both Americas and Asia-Pacific delivered growth in the quarter, however we did see some resistance in the US market, where retail and industry segments were 'soft', – is probably the right wording.

Gross margin, despite this development, increased 0.8 percentage point over last year as a result of efficient procurement, stable raw material prices and very strict cost control. The EBITDA margin expanded 0.2 percentage point despite the negative organic growth, and despite the somewhat gloomy macro outlook we continue to invest in the future with focus on emerging markets, with focus on product development and also of course with focus on the initiatives to further enhance our ability to meet customers' delivery expectations and to develop best customer satisfaction in the industry. The development in the quarter has to our full satisfaction demonstrated the robustness of the business model which appears to be quite resilient to the adverse cyclical development.

The last business line of NKT Photonics. Page 24 shows you again examples of products, and page 25 our footprint. After exceptionally strong growth of 31 % in Q1 we saw somewhat moderate growth of 3 % in the second quarter. That means that we are at 16 % growth for the first half and we expect to be that in the second half, so therefore the outlook for the full year is still around 20 % growth.

Technology development, market penetration, order intake and tier 1 customer-sign-ups continue to confirm that we are onto something very interesting within the Photonics, and we have initiated a strategic review aiming at further accelerating this development in the coming years.

With that on page 26 we have a repetition of the agenda and we will move right into Expectations on page 27, and as promised in my introduction, I will now elaborate further on how we have put together that guidance. If you look at the bridge here, bridging back to last year where we realised an operational EBITDA of 878 million, the ambition for this year was to expand that with about 50 % meaning about 400 million up to DKK 1.25 billion. But we also highlighted a catalogue of risk items and therefore we ended up expressing our guidance as a range from 1.050 to 1.25 billion. And as you can see from today's report, exactly some of those risks highlighted have materialised, and the key risks being from the macro scene, and therefore if you take the impact of the lack of growth in Nilfisk and Cables and apply the approximate operational gearing that we see in those two businesses, - that more than explains the drop in our guidance from the upper end of 1.25 to the now around 1.050 billion. And you also see that the reason we are able to still guide the low end of the range is that we see the effect of the very strict cost control that we have implemented during the first half of this year, and will continue to monitor and execute firmly on, also going forward, and that is why we are now expecting the around 1.050 billion.

On the next page, you see the breakdown, meaning the key assumptions behind that which we already have covered, if the flattish growth-outlook for our main divisions and since a number of the identified risks in our initial guidance have now materialised, we are basically now just flagging one risk, which is the one that will always be there, which is the ability to execute. As we now see a much smaller market risk in our guidance on high voltage and submarine, we have all the volume in backlog that is in the plan and in the guidance, so we don’t have that risk anymore and we have taken the guidance on the other business line down to what we believe is fair reflection of where the PMI and other indicators indicate the second half should be.

On the next page, on page 29, you then see the profit part of the guidance. I already have covered the bridge to the DKK 1.050 billion, we are as a result of the cost focus in Nilfisk Advance, taking a one-off about DKK 30 million this year related to implementing that. Michael has covered the one-off gain from the Flexibles divestment, and therefore our bottom line expectations for the year unchanged is around DKK 1.6 billion for the year. So you could say in a bird-eye perspective, we also had that perspective three months ago, but it has changed now with DKK 100 million more coming from the one-off side, and DKK 100 million less coming from the operational side, and we see a reduced risk profile now six months into the year, when we relate it to guidance.

That brings us to Q&A and I will ask the operator if we have anybody online with the desire to ask a question?

36.29
Operator
Thank you. If you have a question then please press star then 1 on your touch tone phone. Claus Almer from Carnegie is on line with a question.

Q: 36.40
Claus Almer, Carnegie

Yeah, hi. My first question goes to Cables and the things you are mentioning in the report about new or continued execution or production challenges in the high-voltage area. Could you please put some more flavour into these issues? And when should we expect, for instance, this new factory to be back at the same profit level as we saw the old factory as a run rate? That is my first question.

A: 37.10
Thomas Hofman-Bang
If we take that we do not want to be specific as to the technical issues that we are seeing, but just that the projects that we are executing are very demanding in terms of spec, and therefore from time to time you do see things go differently than expected, and therefore have to reproduce some cables. And we have had a couple of those instances in the quarter with a strong focus on the quality assurance part of the organisation and the production planning. We have a firm belief that you will see the appearance of such incidents being reduced over time going forward, it can never be ruled out, - and just to draw a parallel to the NKT Flexibles business, which in its nature is very similar to what we are talking about here in terms of complexity and types of products, where they were years into implementing an efficient factory in the Kalundborg factory, and they continue still to see some of those hiccups from time to time, and it will never disappear. And it will never disappear in the Cologne factory either, so don’t expect that it will disappear forever, there will always from time to time be such incidents, and they of course should be covered within the risk provisions setup, and therefore have been identified adequately as risks, when the projects start and therefore you will never hear about them, but they will continue to appear.

Q: 38.54
Claus Almer, Carnegie
So these risk reservations you have made and we have talked about in previous quarters, do you believe now that they are good enough to handle as a buffer for these risk issues?

A: 39.07
Thomas Hofman-Bang
That is our assessment on the portfolio we have going forward that we have adequate risk provisions, yes. But as you know, you have also studied statistics when you went to business school, sometimes you do have outlier observations and therefore also again, as we saw in Flexibles, on average they had adequate risk provisions but from time to time you have an outlier observation, and that can never be ruled out.

Q: 39.34
Claus Almer, Carnegie
Okay and then my second question, it goes to these two postponed projects. As I just can calculate the hit in 2012 will be around DKK 60-70 million, is that correct, and if that is correct should we expect that money or profit to come in 2013 instead?

A: 39.54
Thomas Hofman-Bang
We have not guided any number with regard to these projects, but if we should try and put a magnitude to it, those two projects have probably deferred something like DKK 250-300 million into next year on the revenue side.

Q: 40.10

Claus Almer, Carnegie
Right okay, thank you.

40.17
Operator
Daniel Patterson from SEB is online with a question

Q: 40.18
Daniel Patterson, SEB
Yes, good morning gentlemen, I have a few questions. Again on the Cables business you write that you have some running-in costs here in the second quarter and further factory start-up costs. I just want to be clear here, was that a surprise to you or was that basically part of the plan? Because of course it was the price of the market.

A: 40.40
Thomas Hofman-Bang
You never plan with production issues, and therefore the couple of issues we have had, no they were not planned. They were partly covered by risk provisions, but of course they were not planned, we would have been better off, had we not had them. And it is also fair to say that had we not had those, and therefore what you could say the cost of production by having to redo some cables basically not contributing anything to the P&L where we could have produced cables on other projects, that would have brought us much closer to consensus for the quarter, had we not had those issued on the Cables division.

Q: 41.30
Daniel Patterson, SEB
Okay and I just want to be clear, so when you say factory start-up costs it is not actual costs relating to new machinery and things, but it is the running-in of production?

A: 41.38
Thomas Hofman-Bang
It is specific related costs.

Q: 41.42
Daniel Patterson, SEB
Okay. In the second half you are implicitly guiding a major pickup in growth, I think around 7 % organically in Cables, as I understand this is to a large extent driven by an easier comparable in Chinese rail, but is there anywhere else that you might expect sort of a pickup in growth in Cables in the second half?

A: 42.02
Thomas Hofman-Bang
Yeah as I already covered, we will see growth pickup in two segments. In the infrastructure segment where, - based on the backlog we have on high-voltage and submarine for the second half - we will see higher growths in the second half, compared to what you have seen in the first half there. And on railway as you point out, we have easy comparables, and based on the activity level we see now with the call-off pattern, we will definitely see growth there, but unfortunately lower than necessary to bring us back to zero growth for the year.

Q: 42.35
Daniel Patterson, SEB
Okay. And then finally on Cables, - you are mentioning some increased price pressure. I just want to be clear, is this sort of worse than you saw a quarter ago, where you were also talking about price pressure and I think you are also mentioning China here. Can you give a little bit of flavour, is it incrementally worse or is it just the same price pressure?

A: 42.55
Thomas Hofman-Bang
Difficult to answer, but I would say the same to slightly worse. The European economy has definitely not improved the last three months, and we do have some cable competitors in the Southern part of Europe that we see increasingly more aggressive in the Central European markets.

Q: 43.18
Daniel Patterson, SEB
Okay. Then one question on Nilfisk. The restructuring that you say will cost around DKK 30 million, I just want to be sure here, do you expect any hardcore saving from that, or is that the 50 million that you mentioned earlier?

A: 43.33
Thomas Hofman-Bang
That is part of it. Nilfisk’s ability to deliver a flat EBITDA level around the 11.6 % for this year on the back of a flattish revenue development, of course calls for some positive cost effects, otherwise you could not do that with the input cost pressure you have, and there we will be able to offset that with the cost initiatives, and the 30 million is a round number for achieving that, and we will also see some full-year effect then of that in 2013.

Q: 44.12
Daniel Patterson, SEB
Okay, thank you very much.

44.19
Operator
Patrik Setterberg from Nordea is on line with a question

Q: 44.23
Patrik Setterberg, Nordea
Hello gentlemen, a couple of questions, the first one back again to the two projects which are postponed. Just for clarification, was it correctly understood that if these projects would not have been postponed, you would have realised an EBITDA in the mid or the upper end of your group guidance?

A: 44.47
Thomas Hofman-Bang
What I said was that if we had not had the project issues on some projects, where we had to redo cables, and of course if we had not had those delays and thereby lack of revenue, we had planned for more revenue in the second quarter and did not see that, due to some of those delays, then

definitely we would have been much closer to the consensus number for the quarter, and we would also have been in the mid to probably upper half range on full year EBITDA for the Group.

Q: 45.22
Patrik Setterbeg, Nordea
Okay, thank you. Then my second question also as we discussed previously the restructuring charges in Nilfisk-Advance, you have been carrying out the restructuring costs in Nilfisk since 2008. Is this something that we should expect going forward in 2013 as well?

A: 45.43
Thomas Hofman-Bang
It depends very much on where the world economy is moving. As you all know, we have developed what we call a def con plan in Nilfisk-Advance to closely monitor the macro development there and therefore expected demand. Right now we unchanged believe that with our global mix, we are on def con four level, meaning one step into the plan, and this is the necessary measures to protect our bottom line at that level. Should the world move into a def con 3 level, which in our world is negative growth down towards 5 %, we will need to take further measures, and then that most likely will then be a 2013 exercise. So depending on what your outlook is for 2013, if you believe we will kind of stay flattish at where the world is right now, there will not be one-offs, but if the world economy deteriorates further, we will need to take further measures.

Q: 46.49
Patrik Setterberg, Nordea
Okay. Could you give some examples what these restructuring initiatives are?

A: 46.55
Thomas Hofman-Bang
It is very basic. Alignment of capacity to demand, and that of course goes for the factories, but it also goes for the entire supply chain and front end. So it is calibration of capacity, and therefore people and other cost items, to the expected demand. Where our overall objective is to protect our bottom line, which you see we are able to do this year by guiding you the flattish EBITDA development, which is quite okay in this environment actually, and you also saw back in 2009 how Nilfisk was able to reduce the margin drop to 2 percentage points despite a 13 % drop in top line back then, so we have now great experience in how to handle this, but it doesn’t come without a price tag.

Q: 47.48
Patrik Setterberg, Nordea
Okay, thank you very much.

47.55
Operator
Klaus Madsen from Handelsbanken is online with a question.

Q: 47.57
Klaus Madsen, Handelsbanken
Yes hello it is Klaus Madsen here from Handelsbanken. I am just returning to guidance on Cables and a decomposition of both top line and earnings impact of the different factors. Would it be fair to

assume that the delay accounts for roughly half of the revenue downgrade and the rest stems from primarily macro? And then on the EBITDA level with a nominal cut of some DKK 125 million that half of that is directly related to postponed projects, and then the residual is macro execution related, and what would then be the split between those two factors?

A: 48.42
Thomas Hofman-Bang
You are pretty fair Klaus. On a large scale you could probably look at it like how you are expressing it here.

Q: 48.54
Klaus Madsen, Handelsbanken
All right, and then moving on to the backlog and order inflow you still, sort of, give positive comments on the outlook but could you be more specific on how well you are covered on submarine and on high-voltage underground cables at the moment?

A: 49.09
Thomas Hofman-Bang
On both segments we are 100 % covered for this year and we also have a big chunk of business for next year in both segments. As always you are not covered 100 % for next year by this time and therefore we continue to have order intake building up backlog for next year.

Q: 49.36
Klaus Madsen, Handelsbanken
And on submarine you are not completely covered for 2013?

A: 49.40
Thomas Hofman-Bang
No, we are not completely covered, so there we are exactly where we have been also last time we discussed it, where we still need more business to be complete for next year. But based on the tender activity out there, where we are in tender negotiations on several projects, there is still a high likelihood that we can fill next year based on what we are discussing with clients right now.

50.17
Klaus Madsen
Right, then on the 2013 margin uplift, which should hopefully continue in the Cables Division, the delays that we are seeing, will that actually drive up the expected uplift in 2013 because you will have shifts over year-end that will have sort of limited impact on your capacity utilisation in 2013, but have a significant profit impact, or should we rather expect the entire margin uplift scenario pushed out somewhat?

50.50
Thomas Hofman-Bang
It is really difficult to answer because we don't know where the other parts of the business are moving, and we have not guided for next year, so I would rather not answer that question today, you know, instead of hip shooting, I will rather wait till later in the year, where we have more perspective on 2013.

51.12
Klaus Madsen
And then finally on Cables do you plan any material cost initiatives on the cyclical part of your business to mitigate the current market environment?

51.21
Thomas Hofman-Bang
Yes that is already ongoing, and there is also some impact of that in the second quarter, and you will see more impact the next two quarters. Also there they are very strict on cost control, in all types of the business

51.36
Klaus Madsen
Does it also include one-offs in this quarter and will include one-offs for the coming …

51.42
Thomas Hofman-Bang
No we don't expect any one-offs in Cables

51.47
Klaus Madsen
All right, thank you

51.51
Operator
Klaus Kehl from Nykredit Markets is on line with a question

Klaus Kehl are you there?

Ja, kan du høre mig

Yeah I hear you now

52.11
Yes hello, this is Klaus Kehl from Nykredit Markets with a couple of questions. First of all could you elaborate on the growth rate that you have seen in Nilfisk here in or throughout the quarter. And what I am thinking about is whether it started off – yeah quite well and then dropped significantly throughout the quarter, or how you see it. And secondly, if I look at your guidance for Cables, it seems like you have to deliver quite solid margins in the second half of the year, so would it be fair to say that we are having some execution risk in the second half? And thirdly, when I look at the long-term financial targets for Cables, then we are still quite a long way from the target, so could you just try to elaborate whether you are starting to see any changes or whether it is too early to comment on?

53.11
Thomas Hofman-Bang
Those were four questions, as I noted them. If we start with the Nilfisk growth, we have seen growth deteriorate throughout the quarter, and it is also the current trend that we see here over the

summer that Nilfisk is cruising around the zero to slightly negative growth. On Cables margin, in the second half, you are correct that they should deliver a better margin in the second half, and if you look at what we have been able to do the first six months, we are about 2 percentage points up over last year, and that is exactly what we are supposed to do also in the second half, where we delivered 4.8 % margin and we are now guiding for about 2 percentage points up compared to that, and that will then deliver the 5.5 % EBITDA margin. And therefore the conclusion is that it is the same trend as you have seen so far with 2 percentage points above last year, linear, all through the year. On execution risk, that is exactly the one risk that we still highlight in the risk catalogue as part of our guidance, so that will always be there, and also in the second half of this year and in terms of longer-term targets, it is absolutely a fair remark that we are far from our targets and we are not in any way satisfied with the current level, we are at right now. And your question is whether it is time to revise the long-term targets, and there the answer is that we do not have a new perspective on that today. Let's conclude this year, and see where we stand, also at the beginning of next year and see what the outlook is, and how the world economy has developed, and then on that basis we will probably have a more firm perspective on the long-term targets.

55.17
Klaus Kehl
Okay, thank you very much.

Operator
Daniel Patterson from SEB is on line with a question.

55.28
Daniel Patterson
Hi there. Just two follow-up questions. One is on Cables. I think a lot of people are trying to figure out what can Cables earn next year, and I totally understand that you are not guiding for 2013 of course, but what can you do actively to get the margins up, let us say a couple of percentage points, to something meaningful next year, because we must assume that you also this year are trying to execute as well as you can, and of course you will try and do that next year, but what can you actually do, to get the margin up next year in Cables?

56.04
Thomas Hofman-Bang
I think the key to margin expansions next year is that we are another 6-9 months up the learning curve, and therefore 6-9 months better on operational excellence and quality assurance. The mix of projects for next year in the portfolio, with the specs we have, there we are more experienced with those specs. Whereas the mix of projects, we execute this year, more have been new territory basically for all projects, it is more 'not bread and butter' but more types and specs we have tried before in the mix for next year, which should reduce the execution risk also.

Thirdly we will see a full-year impact from Railway, as opposed to this year, and fourthly, we will start to see an impact from the high-voltage factory in China on the 220 KW segment, so those are some of the drivers behind margin expansion next year.

57.17
Daniel Patterson

Thank you that was very clear. The final question on CAPEX. You are right now running at I think a very, very controlled CAPEX level, below 400 I think on trailing 12 months. That is well below depreciation level. I just want to check: Is that sort of sustainable that you have CAPEX below depreciation?

57.36
Thomas Hofman-Bang
Yes, definitely. Please remember that in recent years, we have not only built the Cologne factory, which was of course, looking at numbers the way you do, an exceptionally high CAPEX item that does not repeat itself. And we have a new factory, meaning that the maintenance CAPEX level in that factory is low for the first many years. Secondly, we have been in a swap project, where we have swapped production and centralised production at our other European plants, so we have moved a lot of machines and upgraded a lot of machines over the last 2-3 years, and we are of the end of that now, so therefore on top of low maintenance CAPEX in the factories that are all modernised or brand new, we will then only see whatever growth CAPEX we decide to take, which right now is a couple of turntables in the submarine cable business and that is basically it. And therefore when they are out of the numbers, you are down to a low CAPEX level and that is to continue.

58.46
Daniel Patterson
Very clear. Thank you very much.

Operator
And once again if you have a question please press star, then 1.

Jesper Christensen from Alm. Brand Bank is on line with a question

59.06
Jesper Christensen
Yes, hello, could you please elaborate a bit on your new margin, the guidance for margins if you look at Nilfisk first, the guidance that you imply to me given that you have a very good 12.3 margin in the first half of the year implies to me that you expect to see a margin close to 11 % in the second half of 2012. Could you please elaborate on what you will see as the driver of such a low margin in the second half? And I have another question to Cables. The guidance that you expect for Cables for the year implies that the margin should be around +7 % for the second half of the year and you already mentioned that that corresponds pretty well with 2 percentage points higher than what it was in the same period last year. Could you please elaborate on what specifically will drive this margin increase? Especially if you look at in Cables that you actually delivered two sea cables this quarter that I would expect to be a positive contribution and yet you are only at 3.4 % margin.

60.16
Thomas Hofman-Bang
If we look at the Nilfisk margin, the implied margin for the second half for Nilfisk is the same pattern as you see right now. It is going to be 0.2 points above last year and therefore the same trend as we have just seen in the second quarter. The reason why you have lower margins in absolute terms in the second half versus the first half, has something to do with the seasonality of Nilfisk,

and therefore the cost coverage in your factories, but I see exactly the same trend where we continue to be on line with last year.

And on Cables, I am not sure I caught your question there on margins. Could you repeat that?

61.08
Jesper Christensen
It is basically the same calculation if you imply.. if you want 5.5 % for the full year and you are at say 3.5 for the first half, that implies a big margin pick-up and you are only at 3.5 % in this quarter. So what will move the margin from 3.4 to 7+ something?

61.37
Thomas Hofman-Bang
It is going to be product mix and then, also please remember, that there will be an effect of operational gearing in the second half, where in the first half we now have a total cable business which stands at the -4 %, and therefore to reach the zero, you will basically see 4 % growth in the second half, so you will also have effect from growth and operational gearing. And then looking at the product mix, that also supports that we should see a better margin development going forward.

62.11
Jesper Christensen
Okay, thank you

Operator
Poul Jessen from Danske Markets is on line with a question

61.21
Poul Jessen
Yes, a question on the delays in the high-voltage into 2013. The question is: Do you know when this project then will be completed in 2013 and do you have an update on the liability issues in Germany? If it is going to solved or when you expect it to be solved and then finally do you expect it to impact the general tender activity of the industry, moving focus on tenders in other markets to get their capacity filled and thereby impacting the prices in other markets?

62.57
Thomas Hofman-Bang
To the postponements – no we do not have a clear perspective as to the timing, whether it is going to be Q1, Q2 or how that is going to unfold next year. The customers are still unclear exactly on when they have resolved their issues on those two specific projects. On the liability side in the German market, I guess you are referring to the ongoing discussion between the grid operators and the German government as to who should take the liability for uptime on the grid, and it is correct that there is ongoing discussions there, and there has been some noise where in particular one customer has been expressing some concerns in the public domain, I guess with the aim to influence politicians. We do not have a clear picture of that today. We have not seen any delays on the projects, we are looking at. I know that also a Danish utility has been out threatening to delay a project due to this, but on the projects we are targeting, we have not seen a rescheduling linked to this argument.

64.18
Poul Jessen
Okay

Operator
Once again if you have a question then press star and then 1

We have no further questions at this time

Thomas Hofman-Bang
But then I will conclude the call. Thank you everybody for participating. Please be aware if you have not already signed up that we will have our Capital Market Day on 19 September in Cologne. We have passed the deadline for signing up, but I am sure that we also accept some late contacts on that. And on our Q3, we will be back on 8 November with a similar setup.

Thank you for now. Goodbye.

Made by:
NASDAQ OMX | Interactive Media

24.08.12