22. August 2014

Transcript

:: Attachments ::

✓. None

NKT Holding A/S

Transcript :: Interim Report Q2 2014 ::

00.01 – Michael Lyng

Good morning. My name is Michael Lyng, Group Executive Director and CFO in NKT. Together with me I have Jonas Persson, CEO in Nilfisk-Advance and Mark van't Noordende, CEO in NKT Cables. Welcome to all of you.

Looking at page 4 we will start out with Group highlights for 2nd quarter, and then I will hand over to the respective CEOs of the businesses to present what has been going on in 2nd quarter in Nilfisk-Advance and NKT Cables. After that I will return to cover Photonics Group and update on expectations for full year. In the end we will of course as normal have a Q&A session.

If we look at the highlights for Q2 2014, I think it's important to conclude that we are fully satisfied with the performance. We are looking at an EBITDA where we are increasing the margin or the level 16%, realising 324 mDKK in the quarter, and thereby we are lifting up the EBITDA margin with 1.2% up to 9.7%. Then perhaps on the more negative side we have been able to settle the Baltic 1 project. That was a project we started up in 2009, and produced over the years 2010-11. Marc will come back to that later on in the presentation, but in 2nd quarter it carries a cost of 75 mDKK. That number is based on a settlement that we have been able to reach with the customer, where we expect the cost to be in the area of 35-75 mDKK, and we have now therefore included the 75 mDKK as a provision end of 2nd quarter. It's also worth to remember and to conclude here, that if we look at the cash flow effect from that settlement, it will be less. If we are concluding on the cost of 75 mDKK, we will have a negative cash flow of only 25 mDKK related to that settlement.

We continue to see a strong cash flow in the quarter. We have a cash conversion rate of 119%, also following a strong cash flow in Q1. Of course, part of it comes from increased EBITDA, but we are continuing to do very good on working capital.

Looking at the DRIVE programme that we have worked hard on in NKT Cables the last couple of quarters, we start to see good progress and we are actually realising savings a little bit faster than we originally anticipated. We are having a positive impact of 40 mDKK in 2nd quarter, and 60 mDKK realised in first half. As a consequence of that we are also taken up the run-rate that we expect to be at the end of this year, from 100 mDKK to 130 mDKK. We are also expecting over-all better savings numbers for full year. But Marc will come back to that later in this presentation.

Looking at the commercial performance, we realised 4% organic growth in Nilfisk-Advance. Strong, good growth in EMEA and Americas and slightly lower level in APAC, but Jonas will cover that in his presentation.

We see a more or less flat operational EBITDA development in the quarter. As expected we realised negative growth in NKT Cables of 11% in Q2, but bear in mind here that we have significantly less installation work in 2nd quarter this year, compared to last year. So if we adjust for that, we are actually at a positive growth rate of 4% in Q2.

Looking at margins, we are fully satisfied with the lift of 2.9% points in the quarter, and we have realised 7.7% EBITDA margin for Q2. Finally, looking at expectations for full year, we will also come back to that, but we are maintaining our consolidated organic growth of flat-3%+, and we are also maintaining our operational EBITDA margin of 9-9.5%. So to conclude on our performance in Q2, I would say that we are fully satisfied and that the performance and results are fully in line with expectations.

Some highlights here on Q2 2014, I already mentioned the organic growth. Here you can see the split between the different entities, both on Q2 and first half-year. In first half-year Nilfisk-Advance realised 7%, whereas NKT Cables are fully in line with expectation at -3%. In Photonics Group we continued to see an OK growth rate in Q2 of 10%, a little bit down compared to what we realised in Q1, so we are now at 14%. On operational EBITDA margin we increased from 8.5% in Q2 last year, to now 9.2%. So up 1.2% points, which is good, and we are starting to close the gap up to full-year guidance. Then of course we have the one-off costs, and I have already mentioned that a big part of that relates to the settlement of the Baltic 1 case, but also partly to one off costs related to the DRIVE programme.

Looking at financial items we continue to do better as a result of significantly lower net interest bearing debt, so as you can see here we have financial costs of 26 mDKK, which is down from a level of around 40 mDKK in Q2 2013. Working capital, I will also come back to that, but a good and nice satisfactory swing-factor of more than 400 mDKK reduction, as illustrated here. And we will also cover cash flow later on in the presentation, but we continue to see strong cash flow, and thereby also a reduction in net interest bearing debt.

If we look at operational EBITDA on slide 7 where we continue to see a positive momentum, then after having been more or less flattish in 2013, we now start to see the necessary increase in margins in order to in the end realise our full year targets and guidance for 2014 of the range of 9-9.5%. So realising the 8.8% and thereby increasing the margin of 0.3 is a nice improvement and is also an improvement necessary in order to realise full year guidance. Thereby we also expect, looking at this slide here, that we will continue to see a positive development in Q3 and Q4.

More numbers here on page number 8. Let’s just focus on the blue boxes here on the right side of the slide. In box 1 you can see the composition of the revenue decrease. As normal you can see metal prices, FX changes and acquisitions. Here it’s probably worth to mention that we have still in Q2 taken Ericsson as acquisition growth, that’s the 298 mDKK you can see on the line. But, continuing from hereof and into Q3 it will be seen as normal, organic growth since it is now one year ago we acquired the Ericsson business. Marc will also come back to that later in his presentation.

The composition of EBITDA, the increase of 45 mDKK, almost all of that relates to NKT Cables where the margins in the quarter increased from 4.8% Q2 last year to now 7.7%. If

22. August 2014

Transcript

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we look at the last 12 months trading curve we are increasing that from 5.4% end of Q1 to now 6.1%. So also here a nice improvement towards full year guidance or planning assumptions that is in the range of 7.1% for the Cables business.

On Nilfisk-Advance we are negatively impacted with 6 mDKK in the quarter compared to Q2 last year, and that is a result of slightly decrease in the margins down from 12.9% Q2 last year to now 12.4%. It's still worth to conclude that first half year is still up from 12.1% last year to now 12.3%, and that we are more or less flattish if we look at the last 12 months curve that Jonas will present later on in the presentation.

Working capital as mentioned earlier, a very strong performance. We almost see a 1% point decrease in the numbers, down from 19.8% to now 19%. It's also important here to see that the three months average curve, the blue curve, is trading downwards. So we also expect to see continuing improvements into Q3. If we should conclude on working capital we are seeing very strong and good performance, but it's also fair to say that we can still do better. That is illustrated here on slide number 10, where you can see a bridge between end of Q2 last year and end of Q2 this year. You can also see where we are in the different businesses. Nilfisk-Advance are at 19.1%, and that should be seen in relation to the more strategic target of being at below 18%. So we are still working actively and hardly on reducing working capital in Nilfisk-Advance further.

In the NKT Cables business we are at 18.7%. There we have seen a very nice improvement the last six months. A big part of that relates to significantly lower working capital tie-up in the Project business, but we still have more to do in the business. We have a strategic target of being below 17%, so we will continue to have focus on this area in the Cables business and hopefully also see further improvements.

Strong cash flow development maintained, as illustrated here. We are break-even looking at the free cash flow line for Q2, but we are positive with 190 mDKK if you look at the line accumulated for the first half 2014. Of course, part of that comes from the increased EBITDA. It also comes from the lower interest cost level that we have realised, where you can see we are down from 88 mDKK in first half 2013 to now 52 mDKK. And then of course, the biggest impact is coming from the change in working capital where there is a gap of more than 800 mDKK if you look at the line change in working capital first half 2014 of -91 mDKK compared to the -883 mDKK that we increased working capital with, in first half 2014. All in all, good performances on cash flow.

If we look at our leverage it has further improved, so we continue to improve the ratios here. End of Q2 2013 we were at 2.7x EBITDA and we carried a net interest bearing debt level of 2.8 bnDKK. Now end of Q2 2014 we are 1.7x EBITDA and we carry a net interest bearing debt of 2 bnDKK. So we continue to see improvements here, and that is of course important, because if we combine this picture with analysing our financial resources and our duration time for our committed loans then we can conclude that we have more than 4 bnDKK to invest in the business. We have more that 4 bnDKK in undrawn credit facilities and that should of course be invested in the businesses where we, particularly in Nilfisk-Advance, are looking further into acquisition candidates. With that, I would like to hand over to Jonas to take a deep dive into Nilfisk-Advance.

22. August 2014

Transcript

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14.24 – Jonas Persson

Thank you very much Michael. Let's jump immediately into the figures then, on the next page. We had 4% growth in Q2, which is fairly OK I would say. That gives us a YTD of 7% growth in the first half year. EMEA started up very strong in Q1, but also continues to have a very strong drive, 6% in Q2. In the Americas 3% growth. We are actually growing very well all over the place, but specifically strong in US, but also growth in Latin America. APAC was a little bit of a disappointment in Q2. Despite the very strong growth in China above 25%, but we are lacking a little bit growth, especially in Australia where we have lost dealers in consumer segments. In South Asia, I should also say that we have lower sales than we expected. Earnings flat or flattish, very much due to that we have continued to do investments in the front end, which I will come back to. As I said, very strong growth in EMEA, 7% YTD, the Americas, 6%. And we are still on the positive side when it comes to APAC, 4% despite a very, very weak Q2.

Growth profit up 2%, and that is despite an unfavourable product mix in the quarter, but we have been able to balance that with the price management and efficiency improvement. Overhead costs up 8%, and that is very much due to front-end investments. We have continued to do investments when it comes to hire direct sales people in the quarter, but also investments in Commercial Excellence. We have been launching the Commercial Excellence in Germany in the quarter, almost complete, but we have also started up in US and France. When it comes to products and product launches we have launched 14 new products in the quarter, and I will come back with a little bit more about the innovation. M&A continue to be a focus. We have done a small acquisition in the quarter to add into that.

Then, coming back to the Commercial Excellence and the investments we are doing. This is a global programme that we have started to roll out in Germany. We have also started up in France and US, and we have intent to start here also to the products in Spain, Sweden and UK here in Q3. This is a product to put a better focus on which customers we should go to, how we should do the structure, how we sell, but also to make sure that we sell the whole range we have and also do the cross-sales and drive the service-sales together.

On the next page, coming back to R&D. We have launched 14 new products in Q2, 11 new products in Q1. That ends up with 25 products the first half-year, and we plan to have totally close to 40 new products for the full year. One of the very interesting products is the TrackClean that we launched here in Q2. This is very much a product directed to the concrete cleaners, to help them to control the fleet of machines when it comes to electricity, how much they are used and where they are. We have absolutely very positive response from the market when it comes to this. By that, I would like to hand over to Marc.

18.16 – Marc van't Noordende

Good morning ladies and gentlemen. If you could please turn to page 21, you will see that we have improved our operational EBITDA margin to above 6% on a LTM basis. And we have done so despite negative growth in the quarter. We have realised negative 11% growth in the quarter, making for a negative 3% YTD growth. If you want to understand our growth rate, you need to look into the different business units. In our business unit

Projects, Michael already mentioned that we have substantially less installation work in Q2 than we had a year ago, and we are having a portfolio more balanced towards in-house production of the cables. Therefore, the negative growth is in line with our expectations. If you look at business unit products we have had very strong growth in the 1st quarter, and we have continued good growth in the 2nd quarter. The strong growth in the 1st quarter I mentioned three months ago was also due to a number of one-off effects, such as customers continuing to buy from us under already expired contracts. The good growth in the 2nd quarter shows that in deed the market continues its pick-up, particularly the construction market and particularly more so in the Central European countries in which we have good positions. Finally, in Asia-Pacific we realised a very substantial negative growth, also in line with expectations as we in the first half of last year exported a very significant order out of Chinese production to an Australian customer, and this year we don’t have order in our books. So, concluding on this slide we have improved our EBITDA margin substantially, despite lower revenues. I cannot add enough, that with our Project business we still have somewhat of a lumpy quarterly development of our results, but we’re very satisfied with the progress that we’ve made in the 2nd quarter.

If you would please turn to page 22, you can see indeed that we have lifted our operational EBITDA from 70 mDKK a year ago to 116 mDKK in the 2nd quarter. Or, on the first half of the year basis from 113 mDKK to 165 mDKK. A very nice improvement. This is, as Michael already mentioned, clearly a consequence of the implementation of our cost reduction programme DRIVE, to which I will come back later but I can already now say that we are ahead of our schedule and we will be able to lift our full year expectations on the benefits out of this project.

In our Project business unit we talked three months ago about the potential order of the Gemini project, and one or two weeks after the Q1 review we were confirmed to the financial close of the project. Therefore, the order became full and binding. You remember that we already started the production of this order in February based on an interim agreement with our customer, and the production continues on schedule.

Our business unit Products already mentioned showed good growth. The growth came mainly in the building wire and in the 1 Kv product ranges, and particularly in Central European countries but also in Sweden. In Asia-Pacific we had very high deliveries in our railway segment. We see increased competition in that segment going forward, a number of new companies have entered in this market that gives some price pressure, but it cannot be seen yet this year as we are delivering against contracts of prior years. But that may depress margins somewhat in next year. However, the volumes were quite good but the growth was off-set by lower volumes to export as I already mentioned, but also due to lower volumes sold in China in the cable market as we are much, much more diligent with the credit ratings and the abilities of our customers to in deed pay their bills in line with the agreed payment terms, and if we have any doubt on that we tend today not to accept an order.

Finally, the quarter saw as Michael also already mentioned, the settlement of an old project, the Baltic 1 project that impacted the financial result in the Q2 with a 75 mDKK net charge. Summary; DRIVE is clearly showing the impact already in the 2nd quarter in a

22. August 2014

Transcript

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significant way, and as I mentioned I will give you some more details a few slides further down.

If you then please turn to page 23, you will see some more details around our Baltic 1 claim settlement. For those who have been following NKT for a couple of years you'll remember that the Baltic 1 project acquired in 2009 was the first major turnkey offshore project that NKT Cables acquired. It allowed us to step into the offshore market and into the turnkey market, and it allowed us in deed the investment in the new factory in Cologne. The project was executed in 2010 and 2011, and during the execution the project ran into a number of delays, and as a consequence of that in early 2011 we agreed with the customer to take the cable into operation to afford further delays, accepting from both sides that there was a punch list of activities that still needed to be completed whenever there was an occasion to do so, and one of the issues on that punch list was the verification, whether the cable was indeed buried at the required level. Now, we have since the beginning of this year planned and discussed and negotiated with our customer the finalisation of all of these works, and in August we reached an agreement for the finalisation of these works between now and the end of the year. The estimated costs related to the finalisation of these works are between 35-75 mDKK. As already mentioned by Michael the net cash impact of this settlement is significantly below the estimated cost effect. So, in summary we have agreed a clear way forward with our customer to finally close this old project within 2014.

If you can please turn to page 24, you can see a slide around the acquisition of Ericsson. You remember that we closed the transaction to buy the former Ericsson power cable business based in Falun, Sweden on the 1st of July of last year and we have been integrating the business with our Danish operations out of Brøndby here and Asnæs into one Nordics business unit, and I am extremely pleased to be able to tell you that the integration by and large is completed, and that we are ahead of our expected synergies that have already showed significant contribution to our bottom line, and I will come back to that in the next slide. You can see here that for a period of one year we were allowed to continue the Ericsson brand in Sweden. That period is now over, over the past 12 months we had a duel branding strategy, but now since the 1st of July we have moved to the NKT brand on a 100% basis, also in the Swedish market.

If you then please turn to page 25, you see some more details around the realised synergy. In the period that we were evaluating the acquisition, our analysis showed that we could realise 24 mDKK of synergies in 2014, and as you can see we have well advanced on that track having realised more than half already in the first six months, which allows us to up our estimate for the full year to over 30 mDKK. Some of those synergies obviously are coming in early, such as procurement benefits. NKT being a much larger unit and having much larger contracts was able to offer to Falun lower prices for important materials and those prices were applicable almost from the 1st of July of last year onwards. So those were early benefits, other benefits take a little bit longer implementation time. We're currently implementing a product swap between Falun and our site in Denmark, Asnæs with the objective to realise a certain degree of specialisation to increase the run length of the cable production, and so to decrease the average cost per meter of cable produced. That project requires some, not a lot, but some movement of equipment between the two sites and we are currently in the process of finalising that, which makes us optimistic that we will be able next year to further lift the synergies coming out of this acquisition to above the amount that we are now forecasting for this year. So, all in all we are extremely pleased with the performance of our new entity, and particularly with the benefits that the integration into one Nordics unit have already delivered to our bottom line.

If you can please turn to page 26, a very busy slide but you have seen this slide before and therefore I hope you recognise it. Let me highlight a few points, it's of course about our cost reduction programme DRIVE. If you remember, we started to develop the programme late 2013 and early 2014 we started with the implementation in February of this year. We had around 88 individual projects under the umbrella of DRIVE. The projects were in different categories such as a reduction of the operational cost in our plants, reduction of procurement costs, some portfolio decisions, some organisational adjustments and also activities to reduce our working capital that have already generated interesting benefits. If you look on the left-hand side you see the column cost improvements. You can see that we have realised 40 mDKK of benefits cost reductions in Q2 against 20 mDKK in Q1, so a total of 60 mDKK over the first six months of the year. That allows us to lift our full year expectations from 100 mDKK as we published three months ago, to 130 mDKK. This has not yet led us to increase our expectations for the full impact of the program going into 2016, you remember that we implement all of these projects in 2014 and 2015, and we feel it's too early at this stage to increase our full expectations for the program by 2016. If you look on the right-hand side you see two columns called one-off costs and CAPEX, also there you see that we are now more optimistic in the sense that we were able to reduce our expectations for one-off costs this year from earlier 180 mDKK to 160 mDKK now. And we have also reduced our estimates under required capital under required modifications in our plans, to realise these benefits from originally 50 mDKK this year to around 20 mDKK this year. So concluding, DRIVE is really very well on schedule delivering benefits ahead of our plans, and we're very satisfied with the results so far. That concludes my contribution to this presentation, and I'll hand it over back to Michael for the end of the presentation. Thank you.

30.58 – Michael Lyng

Thank you, Marc. So let's continue here on slide number 29 looking at just a few figures here on our Photonics business. We saw a growth rate of 10% coming from the Sensing business and the Fiber Processing business in Q2, and thereby we are now after having realised 19% in Q1 at 14% YTD. The 10% realised in Q2 is somewhat a little bit short of our expectations overall, but if we look at the performance going into Q3 and also continue to page number 30 and look at what is mentioned here below the business unit called Imaging we have actually been able to close a significant frame contract with a major OEM customer after Q2 that will secure more growth in the Imaging business into second half. Thereby, as you can also see in the organic growth box, we should be able to do much better in that business from the -4% realised in Q2 and also in first half. In the Sensing business we continue to see strong growth. 24% up and 30% for first half year, and we are also having more appetite in the US market where we have set up a new business entity with the aim of supplying different measurement systems into the onshore oil- and gas pipe business. On top of that we continue to see a pretty high activity level within traditional fire detecting systems. Last but not least here, the Fiber processing business is

22. August 2014

Transcript

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✓. None

performing much better than we saw in the past. Here we've been through a turn-around process, as you remember we changed management end of last year, and we now start to see more growth coming into the business and we have also worked hardly on introducing new products in this segment. Overall we are satisfied with the performance in the Photonics Group.

With that we can continue to page number 33, looking at the expectations. There's not a lot to say on this slide, because we are maintaining what we said earlier on, what we also said in the Annual Report for 2013 where we described the guidance for 2014. We are maintaining a consolidated organic growth of around flattish to +3%, and we are maintaining operational EBITDA margin to be in the range of 9-9.5%. Looking at the growth rates that we have been able to achieve for first half and also particularly at the growth rate that we did in Nilfisk-Advance, we are expecting to be able to be in the upper end of the range. In the right side of this slide here, we have our original planning assumptions for 2014. We illustrate here that we expected organic growth of 2-3% in Nilfisk-Advance, and being at a slightly higher level end of first half. Looking into second half we also hope that we will be able to do better in Nilfisk Advance. On the other hand, looking at NKT Cables where we are expecting to be negative of around 2-3% we can also conclude that we are still relatively exposed to some large projects that we expect to finalise in the end of the year, but where we are not fully in control of how far we are and how advanced we will be in the projects. So there can be some orders that will slip into 2015 as a consequence of our customers being delayed. It's based on that, that we are maintaining our full year guidance.

Then we have the one-off costs that are excluding from the operational EBITDA, and you are aware of that. But the new thing here is of course the Baltic 1 settlement of 75 mDKK that we have described earlier on in the presentation. So all in all we ended first half looking at last 12 months EBITDA at 8.8%. We are guiding 9-9.5% and thereby we can also conclude, that we will continue to see a better performance going into second half. And that is imbedded in our guidance. With that we can finalise the presentation here, and continue with the Q&A session. So, operator any questions?

36.04 – Operator

I remind you that if you'd like to ask a question please press 01 on your telephone keypad. That's 01. We have a question from Mr. Patrik Setterberg from Nordea Markets. Please go ahead.

36.23 – Patrik Setterberg

Yes, good morning. I have a couple of questions. My first question is related to the guidance you were talking about, and I would like to ask in relation to your guidance for the Nilfisk-Advance division, you're keeping you're guidance of 2-3% organic growth, and you have been clearly outgrown that in the first half of 2014. Are you seeing something in the 3rd quarter that is concerning you? Or is there anything that we should take into account? Is the growth slowing down as you see it now?

36.55 – Michael Lyng

When we look at the guidance we are guiding on consolidated numbers here, and that's why we are only guiding the 0-3% organic growth. Then we have some planning assumptions, and that is what is illustrated in the box on slide number 33, where we had a planning assumption of being of around 2-3% in Nilfisk-Advance. Then you're right, we did significantly better, in particular in first half and then we have seen a somehow slowdown in second half. But having said that, we should be able to do better than the 2-3%. But as you also know Patrik, this is the business where we don't have any kind of visibility. So we basically don't know what to sell tomorrow. And that's why we would like to maintain a little bit conservative here, and then conclude where we are when we meet again in November.

37.48 – Patrik Setterberg

Okay, I just wonder if there was something in July and beginning of August which has made you more cautious about the near term outlook?

37.55 – Michael Lyng

No, there are no changes in our performance.

38.03 – Patrik Setterberg

Okay. My second question is maybe more to Jonas, this is regarding these investments you're taking in order to strengthen… it seems you're going to strengthen your sales organisation, and hopefully you're going to have some more growth in your Nilfisk-Advance business on the long term. I'm just wondering, how should we judge you on these initiatives? Should we expect that you're going to outgrow your competitors going forward or do you believe it's going to be sustainable growth to have a 5% organic growth in the Nilfisk business?

38.36 – Jonas Persson

Of course our plan is always to try to outgrow our competitors, but we're not talking about them. We do this of course to boost the growth. There is of course a time where we slack before we see the consequences of these investments, but absolutely we'd like to try to focus more on front end and dry growth more in the company, yes. Also, explained.

39.02 – Patrik Setterberg

Okay… My next question relates to the NKT Cables division. The Projects business is very volatile, and you're seeing a short decline in organic growth in the 2nd quarter. Could you, in order to help us out for the coming quarters, should we expect a more stabile development or will we see a 3rd quarter as well which is going to be a significant down or is it going to be more stabile? I know the 4th quarter is very difficult as you don't know how many projects you will be installing in that quarter, but at least for the 3rd quarter it should be possible to give us some kind of guidance?

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✓. None

39.40 – Michael Lyng

But Patrik, here you should again bear in mind that we have significantly less installation work. When we communicated this back in March, we indicated a range of around 300 mDKK we had in installation work in 2013 that we do not carry over into 2014. And that is the main reason for this. And YTD we are now at -3% which is more or less in line with our guidance. The development into second half will be relatively flattish, and then it is very difficult to indicate what will be the growth rate in 3rd quarter versus 4th quarter, because it relates a lot to the projects.

40.25 – Patrik Setterberg

Okay, at least some more details, thank you for that. And then my last question, I'm just wondering do you have any other unsettled contracts within your NKT Cables division on the Projects side where you have already installed the cables?

40.40 – Marc van't Noordende

This is Marc van't Noordende; no we don't have any unsettled claims of this kind of nature. You know, the project business is a business where there's always outstanding issues towards the end of a project, but none of the ones that we have are out of the ordinary.

40.58 – Patrik Setterberg

Okay, thank you very much.

41.03 – Operator

I remind you that if you'd like to ask a question please press 01 on your telephone keypad. That's 01 to ask a question. We have a question from Mr. Claus Almer. Please go ahead.

41.19 – Claus Almer

Yes, hi I have also a few questions. The first goes to the Nilfisk Business. These investments in the front end, when do you expect to pay off? That was the first one.

41.31 – Jonas Persson

Yes, Claus it's always hard to say but I think that we will have a payoff of this in 4-8 months.

41.40 – Claus Almer

4-8 months? Okay, and the impact in Q2 on margin is that visible or are you still in the early phase of adding people?

41.50 – Jonas Persson

We are in the early phase of adding people but I should also say that it will not have more effect than we have had here in Q2.

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✓. None

41.59 – Claus Almer

Okay.

42.00 – Michael Lyng

And then if I can just add, you know we are not only talking about adding people. It's also what we're doing in the area of Commercial Eexcellence that Jonas also has described, and there we already have costs sitting in the P&L. So it's not only adding people, just to be specific.

42.19 – Claus Almer

Okay, then a general question about your gearing and your net debt to EBITDA of 1.7 times. If that's the level leaving 2014, are you going to pay out more to the shareholders or what is the plan here?

42.36 – Michael Lyng

You know, the plan is to be in what we define as an optimal capital structure, and there we're looking at solvency ratio, on gearing and of course also on the leverage, where we would like to be at maximum 2.5x. So, we are creating more and more room here to invest, either in the business or to pay back more dividend. Until now our dividend policy is relatively firm, that we pay our one third of the annual result in dividend, but of course you know if we are in a situation where we cannot see any attractive possibilities for investing more in the businesses, we will of course address it.

43.19 – Claus Almer

But, do you see any large acquisitions in this year, for instance?

43.23 – Michael Lyng

No, but you know we have said this quarter and we also said it last quarter, that we have more appetite for acquisitions, so that also of course means that we are putting more resources into that area internally.

43.37 – Claus Almer

Okay, and then my final question goes to Marc and the Cable business. In the product area, where you continue to grow nicely, how is the pricing environment in this segment?

43.50 – Marc van't Noordende

That depends very much country by country, but the countries where we see the growth, and that is of course logic, we have as we also mentioned three months ago started to try some price increases that already in March seemed to be sticking and we continue very punctually to indeed try to increase prices further, and so far we have indeed in Central Europe realised a number of smaller price increases. So, they seem to stick which confirms as I said that the market is showing some traction and some signs of further picking up.

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✓. None

44.25 – Claus Almer

Okay, and then just my final question. I missed your explanation, why the better execution of the DRIVE programme did not impact your full year expectations?

44.38 – Marc van't Noordende

It did. We have lifted our full year expectations from 100 mDKK to 130 mDKK.

44.44 – Claus Almer

Yes, but I mean for the Cables business. Profitability wise it should also have a positive impact?

44.49 – Michael Lyng

But Claus, we would like to be on the safe side, so it is included in the range of 9-9.5%.

44.56 – Claus Almer

Okay, thanks. That's all.

45.01 - Operator

Our next question comes from Mr. Fasial Ahmad from Handelsbanken. Please go ahead.

45.05 - Fasial Kalim Ahmad

Yes, gentlemen. This is Fasial Ahmad from Handelsbanken. I have a couple of questions. Firstly on Cables, can you comment a bit more about the trading environment on the Product business? I'm especially thinking how has trading developed into Q3, and if there are any marked regional differences between performance there?

45.29 – Marc van't Noordende

Again, that depends very much on a country-by-country basis. I have commented already on a number of Central European countries where we in deed in the 1 Kv and the building wire sector see market pickup, and that continues into Q3. At the same time, as already mentioned also three months ago, we still see a very sluggish market for medium voltage, where the utilities are still not really picking up their investment pace. So, it depends very much on a market-to-market basis also depending on the local competition. In the Nordics market in general we see relatively good development, with a good development in Sweden and a less good development in Denmark. So you really have to in deed go into the individual markets to understand the full picture.

46.21 – Fasial Kalim Ahmad

Okay, perfect, and then finally on Nilfisk. You mentioned earlier that your appetite for acquisitions has grown. What kind of size are you really looking at? Is it bold-on still that you are looking on? Is it the service business or what kind of attributes are you looking for here in acquisitions, and what kind of size should we be expecting?

46.48 – Jonas Persson

We are of course looking at both the smaller size when it comes to dealers in specific markets where it's interesting to buy, and that is generally quite small acquisitions. But we of course also have appetite for bigger acquisitions, but as you know it always requires two to tango, so… it's very hard to predict when this will come in.

47.07 – Fasial Kalim Ahmad

Okay, and should we be expecting a pickup in the pace of the smaller acquisitions already this year, or is that something more which will come next year?

47.17 – Jonas Persson

I think we have put more focus in it, and it's always hard to say exactly when they will come in, but we have more resources looking into this going forward.

47.26 – Fasial Kalim Ahmad

Okay, thank you.

47.30 - Operator

There are no further questions on the telephone. Please go ahead, speakers.

47.35 – Michael Lyng

Okay, but then we can conclude here on our financial results for Q2. We don't have anything further to add from our side, so thank you to all participants. Thank you to Jonas and Marc and the operator, and we will be back on November 13th with our release of Q3. Thank you, and goodbye.