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Transcript

NKT Holding A/S

Transcript: Interim Report Q1 2014

00.01 – Operator

Ladies and gentlemen, welcome to the NKT interim report Q1 2014. Today I am pleased to present Michael Lyng, Group Executive Director and CFO. For the first part of the call all participants will be on listen-only mode and afterwards there will be a question and answer session. Mr. Lyng, please begin.

00.20 – Michael Lyng

Thank you operator. Good morning, and welcome to our webcast in relation to NKTs Q1 result 2014. As already mentioned my name is Michael Lyng, Group Executive Director and CFO of NKT Holding. Today I am assisted by two of my colleagues, CEO Jonas Persson from Nilfisk-Advance and CEO from NKT Cables Marc van't Noordende. So, let's look at the agenda for today's presentation, and turn to page 4. The agenda is following the format we also used last time. First I will cover some highlights and some financials for the Group, and then I will hand over to first Jonas, who will give you an update on Nilfisk-Advance covering performance as well as some key operational highlights. He will then hand over to Marc who will do the same for NKT Cables and in the end I will cover Photonics Group. Then we will briefly touch on expectations for 2014, and finally do a Q&A session. But let's start with the highlights here on slide number 5. As mentioned here, we had a very solid Q1 performance, so we conclude that we had a good start on the year, in particular if you look at the top-line, we realized 8% organic growth, and that comes with organic growth in all of the different businesses, and it also means that we have been able to do better operational EBITDA, where the margin is up to 8%, up from 7.6% at end of Q1 2013. Behind that is an all-time high earnings in Nilfisk-Advance. There we have really seen high organic growth in all markets, and as a consequence also an increased EBITDA. It's fair to say that this is probably the best first quarter result ever for Nilfisk-Advance. We also had a good performance in NKT Cables. Here it is, as you know, a little bit more difficult to follow quarterly development, so here it's important to look at the over-all margin development. It's also fair to say, that we in the first quarter is a negatively impacted by a sort of one-off cost related to NKT Cables in China, where we have been forced to write down some debts according to DKK 30 million. If we had not done that, we would have seen an EBITDA margin that would be almost one percentage point higher, up to 8.9%. Another reason for concluding that we had this good start is looking at our strong cash flow, where we have been able to reduce working capital significantly. If you look at the year-over-year development, we see a reduction or a difference of more than DKK 700 million. So here it's also the first time in a long time that we see a positive cash flow for the entire Group for first quarter. The cost reduction programme in NKT Cables we have discussed earlier, the programme called DRIVE. Here we are doing good, we already start to see impact here in first quarter where we see a positive impact of DKK 20 million. But what is more important is that we, going out of first quarter, have a run-rate of approximately DKK 100 million, which should be seen against the full-year targets run-rate going out of 2014 of DKK 180 million. Unfortunately as a consequence we have been forced to lay off 85 people, which is also according to plan and there we are targeting to reduce 200 for the full year. But Marc will come back to that later on in the presentation. If you look a little bit more on the commercial performance, we see good growth in Cables, in particular in the product business where we are up 22%, compared to first quarter last year. Part of this is of course related to the relatively mild winter, that we have seen in Europe this year compared to last year. But it is probably also a result of a construction industry that started to perform slightly better this year compared to last year. In Nilfisk-Advance we have seen, as mentioned before growth, both in US and Europe with 8%, so we are fully satisfied with that. In particular in Europe, but we're also glad to see that it seems that APAC is back on track and we have realized good growth in China. Jonas will come back to that in his presentation. And last but not least, we are confirming our guidance for full-year 2014, so we maintain a target of organic growth between 0-3% and we also maintain our operational EBITDA margin target of being around 9-9.5%. With that we can turn to slide 6, and go a little bit more into details. I already covered a lot of the numbers mentioned on this slide, and you can see the organic growth split between the different business units. And here it's probably also worth mentioning that we continue to see relatively good growth in Photonics Group, being up 19% compared to last year. The operational EBITDA margin, here you can see 8%, which is similar to a nominal number of DKK 254 million realized earnings in first quarter, and as a consequence of that you also see EBIT and profit after tax, being up compared to last year. As mentioned before, we are satisfied with the development on working capital. Here we are indicating a level of around DKK 2.7 billion at end of first quarter this year, which is probably not a big decrease compared to where we were end of 2013 at only DKK 100 million, but if you take it in relation to performance end of first quarter last year, it's actually a reduction of more than DKK 400 million. And as a consequence of the higher earnings and decreased working capital we also have a strong cash flow from operations of close to DKK 200 million compared to a deduction of more than a half billion DKK first quarter last year. In the end it's the cash conversion rate that counts and it's good to see that we've realized more than 100%; 113% to be precise, which is also impacting the net interest bearing debt where we are just below DKK 2 billion, but I will come back to that later on in the presentation. Turning to slide 7, just reflecting a little bit on what has happened the last many quarters since mid 2011. We have actually been able to improve quarter by quarter, we are now ending at 8.4% this quarter, so it's clear to see that there is still a gap to close the target for full-year. As mentioned before we are maintaining the target of between 9-9.5%, so we will continue to follow this slide the next quarters, and hopefully be able to close the gap quarter by quarter. And here it is of course also important to at least bear in mind that we have this negative impact of DKK 30 million from China as mentioned before, so if we adjust for that the EBITDA margin end of first quarter would actually have been 8.8%, and thereby much closer to full-year target. Turning to page 8, now it gets a little bit technical so I will not cover every single line, but let's just start by looking at the composition of revenue increase, the 356 as illustrated here in the blue box, you can see that we are only to a small extend impacted by lower metal prices in cables, reducing out top-line with DKK 12 million, and also negatively impacted by FX changes with almost DKK 100 million, and then of course we have the positive impact from acquisitions of Ericsson Cables that we did midyear last year, so that will still be recorded as acquisition growth for Q1 and Q2 and going into Q3 it will be normal growth in NKT Cables. But if you adjust for these three factors, we are down to the

8% organic growth as mentioned before. Operational EBITDA increase of DKK 37 million. It's clear to see from the other blue box, here mentioned box number 2 that's is in particularly in Nilfisk-Advance that we see much better performance compared to same period last year, and you can see here that we are doing a margin of 12.3% up from 11.4% Q1 2013. But also NKT Cables are contributing positively here with DKK 6 million from higher top-line and more or less a flat margin. And Photonics Group as well, positive with DKK 6 million. Then we have a little bit of a special item here that will continue to be there the remaining part of 2014, the one-off box, and it's important to understand that. As you can see here, we actually have a positive number of DKK 42 million, and that's because we have the gain from divestment of sanders in Nilfisk-Advance, that is contributing with almost DKK 100 million. Then we of course have the one-off costs related to implementation of the DRIVE initiative, that are carrying a cost of DKK 26 million and this quarter we also got more firm understanding on the European Commission, the cartel case that have been ongoing for quite some years now, where we received this fine of DKK 29 million. Maybe just another fact on this slide, because we'll not come back to that later in the presentation, the CAPEX where we spent DKK 95 million down from last year, and that is fully underlined by what we are doing in the different business where we are holding back on CAPEX to the extent possible. Another point missing here is that we are doing much better on financial items, where we only have interest costs of DKK 25 million, which is down from DKK 48 million in Q1 2013. And this is of course related to the significantly better cash flow that we have been able to achieve in Q1 2014. With that we can continue into slide 9, where we are looking a little bit more into the working capital development. If you reflect a little bit on the graphs here, in particular the blue one, you can see that we normally build up significant working capital in Q1, and that's clearly illustrated both in 2011, 2012 and 2013. Then you see in 2014 we have actually been able to minimize that impact, and actually reduced it a little bit as well. The normal build of we see is of course related to the fact that we are building up significant working capital in Nilfisk-Advance, because they're normally building up inventories in order to capture a very high Q2. To some extent it's the same pattern in NKT Cables where we're also building up inventories in order to supply the construction industry that would also normally kick up in Q2. In this year, 2014, we've been able to minimize the impact of that, and in the end improving our ratios down from 20.2% end of 2013 to now 19.8%. That is also what is illustrated on the next slide here, page 10, where you can see that of course we are building up working capital in Nilfisk-Advance with DKK 221 million, but we are maintaining a flat ration; 19.2%, so that is all fine, it's impossible not to build up working capital when you grow the business with 8%, and then you see in particularly in NKT Cables where we have the reduction of more than DKK 300 million, and we start to see a reduction of the ratio; 20%. So, big checks mark on that. We continue to page 11. Also unfortunately with a lot of numbers, but it's good to see cash flow from operating activities close to DKK 200 million, and here you clearly see the gap to Q1 last year, and you also clearly see that it is mainly coming from change in working capital, that is contributing positively with DKK 70 million Q1 this year, whereas last year it was a reduction of DKK 666 million. But also, you know reported EBITDA do better, and interest costs also do better. So all in all for the group, we have free cash flow of DKK 191 million compared to a negative cash flow same period last year of more than DKK 600 million. Part of the reason for having this strong free cash flow in Q1 this year is of course also the divestment of sanders business in Nilfisk-Advance, contributing positively with DKK 108 million as illustrated here on this slide. If we turn to page number 12, you can see how we are leveraged end of first quarter, we have an operational leverage of 1.8 times EBITDA which is good, because we have an internal target of being at maximum 2.5 times operational EBITDA, so a big checks mark to that item. But also, if you look at the numbers for gearing and solvency-ratio, we are doing significantly better than our internal target. As you probably all know, we don't have any financial covenants in our debt structure. We have plenty of resources and thereby we also have plenty of resources to grow our different businesses, either organically or via M&A activities, and I guess my two colleagues will come a little bit back to that when they do their presentation. So, that was it for the financial presentation here, so I will then hand over to Jonas to do a presentation of Nilfisk-Advance. Please, Jonas.

16.12 – Jonas Persson

Thank you very much, Michael. So, it's very good to be here. I have spent my first quarter very much travelling around to the different sites, and I think business looks very good here in Q1. We had a very strong Q1, but still I see also great potential to continue to grow in the business. So let's jump down to the next page, 15. As I said, we had a great Q1, 9% growth in the quarter, and EMEA up with 8%. Very strong EMEA growth also compared with our peers. Americas up 8%, but I have to say I am most happy to see that APAC is coming back after some week quarters, up with 14% in the quarter. And we also have to say, we are quite proud of saying that we have the best EBITDA ever, 12.3% in the quarter and actually 12.1% rolling 12 months. And, we also see that the market is recovering, also when we look at our peers, growing very much in a similar pace. So, let's move to next page and see how this impacts our margins. EBITDA increased with DKK 25 million compared to last year, despite that we have a negative product mix we have improved the gross profit actually, mainly due to price management in the quarter, but also with some efficiency activities that we also see some benefits from. We also had a very positive development in cast overhead, decreasing overhead costs in percentage helped by complexity reduction and also some LEAN activities. On top of that, we have also launched ten new products in the quarter, very well received from the market. We also divested sanders as Michael mentioned, that also gives us a more focus on the core business, and we continue to invest in front selling, also with a commercial excellence rollout here in Germany very successfully and we will continue now in Q2 with rollout to more countries. By that, I would like to hand over to Marc from Cables.

18.24 – Marc van't Noordende

Thank you Jonas. Good morning, everyone. Today I would like to talk to you about our Q1 results and of course about the progress that we've realized in DRIVE. If you move to page 19, please. We believe that we have made a good start of the year with a total organic growth of 6%, mainly driven by our products business as Michael Lyng already indicated with an organic growth of more than 20%. Of course, this was helped by the relatively mild winter, particularly in the central eastern part of Europe where we have significant operations and also sales. Indeed, we see some uplift in the construction markets and a lot of people say that this is the beginning of a full recovery. I'd like to remain cautious here, because a recovery in the construction industry remains dependent on the over-all macro-economic picture and indeed Europe seems to be trending upwards, but it is a very, very slow trend. The positive growth in BU products somewhat offset by a decline in BU projects. Now, you will appreciate that this business is rather chunky and therefore is very difficult to compare year-to-year figures, and indeed last year we were in final phases of a number of off-shore projects, generating a lot of turnover related to the installation part, whereas this year we are seeing the balance more towards production. In APAC we saw a stronger decline of almost 17%, however this is in line with our own expectations as this is completely due to the execution of a large export order last year in the first half of 2013, out of our Chinese facilities towards Australia, and we don't have that order in our books this year. Turning later a little bit more to China, it is important to add in deed that the overall micro-economic climate in China remains sluggish, it has been so for the last year and a half. A recovery is not really happening, and as a consequence there are a lot of financing problems for our customers, and those financing problems turn into lower investment levels, but they also turn into payment problems and as a consequence we indeed have seen a rise in the overdue percentage over the last 4-5 months, that has let us to be conservative and to in deed add DKK 30 million to our debt provision. With that, I'd like to turn to the next page and give you some more highlights business by business of the first quarter. Of course, DRIVE was one of the highlights, or maybe the most important highlight, and as I mentioned to you I will come back to this specifically in a couple of slides towards the end of the presentation. In business unit projects, we had the finalization of a large offshore project in the North sea and that project was scheduled to be finalized towards the end of 2013, but extremely bad weather in November and December cost slippage into this year, January and February. The project has been finalized and handed over to the customer, and the wind farm that is behind that project is in operation in the meantime. Now, I'm sure you are very interested in the status of our project Gemini. We continuously get updates from the project developer that continues to provide us with information and tell us that the progress towards financial close is on schedule. That's as far as we have, in terms of information. I can remind you of the fact that we have started the production of this project on the 1st of February, and we have been continuously producing this cable for the last couple of months, and of course we are getting paid as we go. So as far as we are concerned, this project is to date on schedule. We already talked about business unit Products and the strong organic growth in the first quarter. Yes, there was a lift-up in the construction industry. We also had higher sales that anticipated to the utility segment, but we don't recognize this as the beginning of a recovery. We really think that we have mainly been still supplying out of 2013 contracts, that have not been renewed either because we lost the tender or because of the fact that we refused to accept the terms associated with the future order. What is very positive, also for business unit products, is the integration between our Danish operations and our new Swedish operations. As you know, we were able to acquire the power cable business of Ericsson in Sweden, and that transaction was signed and sealed on the 1st of July last year, and ever since the two management teams have been integrated and have developed and are implementing an integration plan, and they are really very much on schedule. A very simple example of how the benefit has already translated to a bottom-line result is the fact that we as a group, of course, were dealing with much larger volumes and therefore had better terms for our material procurement, and we negotiated with our suppliers and of course the accepted that the Swedish business will be part of the NKT contract, and those lower prices have translated into better margins for our Nordics business and have developed bottom-line impact already in the first quarter. APAC, I already mentioned the absence of the large export order out of our order book this year. We did see good growth in railway and good margins also in our railway business, however we do see clouds on the horizon as a consequence of a larger number of entrance in this business over the last six months, particularly as a consequence of the abandoning of a supplier approval system by the former ministry of railway, so the prices of the current contracts and the margins are still interesting but we do see a lot of pricing pressure in the current tenders for future contracts, so we will follow this very closely. The cable market in China is really very much function of the over-all macro picture, and tremendous over capacity in the areas where we are active, such as high- and medium voltage and hence the pricing pressure is still extremely strong. Finally, Michael already mentioned that we were notified in April of this year about a fine out of the investigation from the European Commission into illegal cartel behaviour over the past decade. We were notified first about our inclusion in this process in the second quarter of 2011 when we received a statement of objections, and hence we immediately of course studied all the material that was handed to us, and in the subsequent period up to April of this year we've had numerous exchanges of arguments with the European Commission, and we already published our opinion on this, but I would like to reiterate that, that nothing in the material and the arguments that was handed to us makes us believe that the accusations of the European Commission are justified, and we are currently preparing our defence to take this to an appeal case in front of a court. So let's then turn to DRIVE, if you can please turn to page 21. The structure of this page you've seen before, because we have used it also at the occasion of the publication of the annual results. What is new here is the top-line. I'm extremely pleased to be able, and Michael already mentioned it, to be able to say that despite that fact that the implementation only started in February of this year, we've been able to generate around DKK 20 million of benefits to the bottom-line out of this program. That went along with a reduction of our workforce with 85, approximately due to DRIVE. Now, the second and third line you've seen before because they were published in deed at the occasion of our annual report, and the numbers haven't changed, so that indeed means that we today confirm our expectations both for 2014 as well as for the midterm 2016. But to make this programme a little bit more tangible for you, I've added two slides that give some more details, so if you care to move to page 22 please, then you will see that DRIVE is an all encompassing programme, that today has more than 85 different ideas, different actions, different subjects that we're working on. Those subjects are classified in five different categories. We have subjects in the area of operations, we have subjects in the area of the reduction of our external spend. We have organizational topics where we try to further optimize our organization structure and make it more effective, all within the business unit structure that we implemented last year. We have a number of portfolio related actions, a number of decision were taken to step out of certain product ranges because of lack of profitability. Finally, last but not least, we have a lot of actions to reduce our working capital. Of course, those benefits will not show up in the EBITDA, but will show up at the bottom-line and will also show up in an improved return on invested capital. Michael already mentioned a strong decrease of our working capital over the first quarter, not all was related to DRIVE but a number of actions have materialized in a reduced inventory position as a consequence of the implementation of DRIVE. Now, at the bottom of this page I have given you a qualitative assessment of where we are with the implementation of all of these ideas, and you can see that a fair amount of these initiatives has been taken into the implementation phase, and a number of the have even been fully implemented. To make it even more tangible for you, I want to add a couple of specific examples, so if you could please turn to page 23 then you'll see an example in the category of operations. At two of our productions sites, a big plant in Cologne and our site here in Denmark at Asnæs, we have started a lean program. Now, lean is a proven methodology developed first a long time ago in the automotive industry, but subsequently over the past decades also utilized in other industrial areas. Also, we have been working with lean for a couple years, but we have never taken it to the limit and that's what we are trying to do right now. At those to sites we started in Cologne in the middle of January, and we actually only started in Asnæs in the first week of April, but the objectives are very similar. It's all about improving the availability and the utilization of our machines. In line with that it is all about optimizing the manning of those machines in line with the improved availability, and finally to reduce our cost related for instance to maintenance or the generation of scrap and [...] product that comes out of our production. Now, the first benefits in Cologne are tangible and visible. Asnæs of course, as we started only in the first week of April, that is still to come. We have the intention to roll out this approach also to most of our other sites, and have a program for that for the coming 12-18 months. In the category of portfolio decisions we had a good look at the end of last year at our smaller product line railway signaling cables, where we had to come to the conclusion that is would take too long to bring this line to profitability, a matter of years, and since it was a rather small product line we decided to focus our activities on other product lines and hence took the decision to get out of this product range, and to close the facilities for this product range in Asnæs. As a consequence of this decision, some 20 employees have in the meantime left our company. Finally, an example in the category of external spent. Administration, now you will appreciate that with operations in more than ten countries, we are a very international country so travel is part of our everyday life. Travel cannot always be avoided. There are customers, we have offices, we have business contacts, so there are lots of reasons to travel, but we also have a quite hefty travel budget, and any effort to reduce that of course is welcome, we have developed and implemented a new travel policy that first and foremost is aiming at reducing the demand for travel, so we are for instance also investing in additional capacity for video conferencing that we have already at all of our offices. But secondly, the travel policy is also aiming at reducing the comfort levels and negotiating group contracts for hotels, car rentals, airfares etc. So with these examples, I hope you get a better feel for the different ideas that are all covered by our DRIVE program, and I think the last thing that I would like to add on that is that these are bottom-up ideas, and we are not here talking about a top-down program that is arbitrarily implemented in the various units. All of these ideas are concrete, they are all quantified and they all have a timeline and an implementation plan, and that's why we believe that we're on the right track with the execution of this important program to us. I think this is summing up my part of the presentation and I'm happy to answer any questions later on, but for now I will give the microphone back to my colleague Michael Lyng.

33.17 – Michael Lyng

Thank you Marc, for a full-fletched covering of performance in NKT Cables. Let me just spend a few words on Photonics Group, turning here to page number 26. Unfortunately this is not the earnings yet, but this is the top-line where we realized 276 LTM end of first quarter, and that is actually reflected in the relatively good, organic growth of 19%. So, it's good to be back on track in more or less all of the business areas after in particular some tough years in the fiber-processing business area. But let's turn to page 27 in order to dig a little bit further into the numbers and comments here. As you can see also from the financials, we are first quarter break even with this business, which is of course not fantastic, but it's much better than we did last year, and in imbedded in our full-year guidance is that we should start to see much better performance on EBITDA in Photonics Group. So, it's a good start. Imaging is down 3%, which there's no particular reason for, we don't see it as any kind of concern, it is more a timing effect from a strong first quarter in this particular business segment last year. We have been very successful at a fair in the imaging business area called Photonics West, which is probably the most important fair or exhibition for fiber optic business related activities. We have also introduced some new product offerings, and we continue to develop products and have development activities together with large new, blue chip customers, and they are all progressing well. What is also important here is of course constantly to professionalize our manufacturing processes, and they have been pretty stabile within the quarter, and actually also last year, and we continue to see good, high throughput with good quality. Within the sensing business we saw very strong growth, 35%. We continue to see a high activity level for fire detecting systems, in particular for metro systems in major cities around the world, and here we are also trying to increase our markets within some energy process monitoring systems, and we have actually invested in some new activities and new people in US in order to capture more growth in the oil sector. And then of course, as part of this business, we continue to develop new products for our power cable monitoring systems, and we also still see good interest from the different players in that business, including NKT Cables. Last, but not least, the fiber processing. It has been a tough 2013, where we did not perform well, so it's good to see that we are back on track. As you know, we communicated that earlier, we changed our management at end of last year, in that business where the company called Vytran placed in US, and we already see a lot of good progress from that change, and it's good to see here that top-line is up with 25% compared to first quarter last year. With that, we can continue to page number 30, and before we comment further on our expectations for 2014, it's probably worth summing up a little bit at least, that the main conclusions from our presentations is that we had a very good start of the year; strong organic growth both in Nilfisk-Advance with 9%, but also in NKT Cables with 6% and the 19% realized in Photonics Group. It was also supported by a very strong cash flow, where we have a delta year-over-year of more than DKK 700 million positively, and it is the first time probably ever that we see a strong, positive cash flow in a first quarter result. We also see a lot of very good operational improvement in all of our businesses. As described by Marc and Jonas, we see a better EBITDA margin, and even not adjusting for the case in China we are improving, but in particular if you adjust for that impact of the DKK 30 million, we are getting close to full-year target. And then last but not least, DRIVE seems to be fully on track, and it's good to see the run-rate of DKK 100 million going out of first quarter. And that leads me to comment on guidance here, as illustrated here and also mentioned in the report, we are maintaining guidance despite the strong first quarter. We think it's too early to adjust it. As you all know, we do have relatively low visibility in Nilfisk-Advance where we basically don't know what to sell tomorrow. And also, in NKT Cables, despite the very strong start of the year in the product business, also there we have limited visibility and we need to see that development continue into second quarter before we want to change guidance. So we basically have the same picture as illustrated when we were together back in February, but it's probably worth mentioning that at that time, we didn't have firm information on the sanders divestment, and that is now solved with the plus DKK 97 million. On top of that, we didn't have any knowledge about the fine related to the cartel case, where we now have firm information that we've received the fine of DKK 29 million, and as Marc mentioned we have appealed that, so let's see what will come out of that within the next couple of years. So, all in all we do have these one-off costs that we can now more firmly describe as being negative with DKK 110 million. With that, we can now move forward to the Q&A session, so operator are there anybody with a question?

40.29 – Operator

Ladies and gentlemen, if you have a question for the speakers please press 01 on your telephone keypad. That's 01. We have the first question from Mr. Daniel Patterson from SEB. Please, go ahead sir.

40.43 - Daniel Patterson

Good morning, everybody. Obviously, very strong set of numbers, in particular from Nilfisk, and I have a couple of questions there for Jonas. First of all, the 9% organic growth is obviously very strong and there's some positive effects from weather in east there but, could you quantify how much you think that this sort of seasonal, positive effect… or is it a general sort of pick up in the market around the 9%? That's my first questions.

41.11 – Jonas Persson

I very much have to say that it's some pick up because of the season, but I think it's actually the market is coming back and we see investments all over, so… So, I would say it's a general trend, since we also have the growth in Americas and APAC where we have a less seasonal impact.

41.31 – Daniel Patterson

Okay, thank you. My second question, regarding also Nilfisk, you are managing to actually lower your fixed costs rate, despite having more employees, I think that's very impressive. Could you elaborate on what it is you're doing there on the fixed costs side in Nilfisk?

41.51 – Jonas Persson

It's very much so that we are taking out costs in high cost countries, but when we also have then an increased growth as you see with 9%, then of course we also have to take up people in low cost countries where we have production, so that's why we see this change.

42.11 – Michael Lyng

And maybe if I can then just add, then you know, this is of course a result of all the different initiatives that we have been executing on, in particular in 2012 and 2013, that will continue to have a positive impact some quarters going ahead.

42.30 – Daniel Patterson

Okay, that's very clear. Then I have two final questions, just housekeeping, maybe these are both for Michael. Just to be clear; the sanders, that is still fully included in Q1 but not from Q2, is that correct?

42.44 – Michael Lyng

What do you mean, the top-line?

42.46 – Daniel Patterson

Yes, the revenue and the EBIT associated with sanders.

42.49 – Michael Lyng

Yes, the revenue and the EBIT is included in the first quarter, and then it's excluding going into the second quarter.

42.58 – Daniel Patterson

Excellent, very clear. And then on similar lines, on the Gemini project. Any revenue from that booked in first quarter?

43.06 – Michael Lyng

Yes, we do have some revenue booked for Gemini since we are, as Marc already mentioned before, you know more or less in full operation with that project, but we cannot be firmer on any number. But of course, you should bear in mind that it's still early days with that project.

43.25 – Daniel Patterson

Yes, okay. Very clear, thank you very much.

43.29 – Michael Lyng

You're welcome.

43.30 – Operator

We have our next question from Mr. Patrik Setterberg from Nordea. Please, go ahead.

43.34 – Patrik Setterberg

Yes, a couple of questions from my side. I will start out with a question as we're talking Nilfisk-Advance, I will start out with a question to that division to begin with. It's regarding the gross margin. We have been seeing a downward pressure for some time, now you're reporting a 0.2% improvement in the gross margin. Is this a trend break? Should we continue to expect that the gross margin will improve from here?

Jonas Persson

I have to say, that I wish I could say yes, but the thing is that we still have a negative product mix, and even if it's flattening out we see this negative product mix going on continuously as well, so it's hard to say when this will flatten out. But we have been able to improve the gross profit in the first quarter, very much due to the efficiency gains which we have been able to do so I would say; hard to say, but I believe that we are flatting out in gross profit.

44.28 – Patrik Setterberg

But I suppose you mentioned some price increases as well has been carried through in the first quarter, they will have a positive impact going forward?

44.36 – Jonas Persson

Absolutely, absolutely it will. But we still have as I said Patrik, some negative impact when it comes to the product mix.

44.45 – Michael Lyng

And then, just you know bear in mind that it's not because we dislike the negative product mix impact. We like the product mix, you know we like whatever turnover we can get, but of course you know it does have a negative impact on margins. But, there's nothing wrong with that as long as we also make sure that we are adjusting our fixed costs base, because those markets resulting in this changed product mix also have or carry less costs to serve, which is also part of the reason why the overhead cost goes down in percentage to top-line.

45.15 – Patrik Setterberg

Okay, thank you. My second question is to, or I have two questions to the NKT Cables business. The first one is regarding these provisions you take to your Chinese operation. Is there a risk that we will see continuous provision going forward, or should this be seen as a one-off item?

45.34 – Marc van't Noordende

We have a policy for that, that has of course been agreed with by our external auditor, and the policy just foresees that with the amounts getting overdue more and more, you have to take a certain percentage of your sales as a provision. Now, we have implemented always this policy on a worldwide basis, and therefore also in China a lot of people argue that the main customer in China is our government, but despite that argument which I am not a firm believer of, we follow the same process and the same procedure everywhere in the world. So in other words, it is very much depending on first of all the payment behaviour of our customers improving over time, and secondly a consequence of all of our actions up to an including taking customers to court, which is not a usual action in the Asian culture. So, for now there is a lot of pressure on the market in terms of the financing for our customers, and therefore I fear that we haven't seen the end of this. But as I said, it is a function of two things; our actions on the one hand and the ability of our customers to solve their financing problem as we speak.

46.47 – Patrik Setterberg

Okay, my second question is regarding the operation within the Cables business in construction. You are writing in your report that you're targeting price increases or you have initiated price increases within the construction segment. Could you give some more wording to this? Are you successful of getting though these price increases within the construction segment?

47.12 – Marc van't Noordende

The answer is yes, but we are also at the same time very selective about what products and what customers and what countries etc. As I mentioned to you, the recovery has been fragile and it is yet to be seen whether it's going to become a full recovery, but the strong up lift in demand in the first quarter allowed us in deed at various targeted areas to increase our prices, and after a couple of weeks we in deed could assess that those have stuck. So, for now there is relatively good news on this side, or be it as I said very punctual for specific situations where we feel the market can bear it.

47.53 – Patrik Setterberg

Okay, thank you. That was all from my side.

47.59 – Operator

I remind you, that if you want to ask a question you have to press 0 then 1 on your telephone keypad. We have the next question from Mr. Fasial Ahmed from Handelsbanken Capital Markets. Please, go ahead.

48.12 – Fasial Ahmed

Yes, thank you gentlemen, three questions from my side on the Cables business. Firstly, on the price increases which Patrick was talking about. Can you give us some flavour on what kind of magnitude we are talking about? And when were these price increases actually implemented and flagged? That's the first question. The second questions relates to the discontinued contract, which you are talking about in the medium voltage segment. Was that expected, and how large a negative impact will that be having? And the last thing, if you could comment a bit on the low voltage business in April and May. How has that performed? That's my first three questions, thank you.

49.02 – Michael Lyng

And just to be clear before we start, the price increase you mean is that in the Cable business or in Nilfisk?

49.07 – Fasial Ahmed

The Cables business.

49.08 – Michael Lyng

Cables? Okay please, Marc.

49.11 – Marc van't Noordende

Yes, so coming back to the subject of price increases. As I mentioned, they have been punctual, so not overall price increases or costs in all countries. The amount of which has been limited because, well first of all we wanted to really see whether the market can accept them and will bear them, and secondly in most of the markets we're not the market leader, and we feel that others also have a duty to [...] respect. So, we have order of magnitude several percentage points, but as I said it differs from product to product and from situation to situation. Now, on the medium voltage business, yes I mentioned that we have seen higher sales in the first quarter than we had expected, and I mentioned to you that that was as a consequence of the fact that we continued to supply on contracts that should have ended by the end of last year, and that we have in some cases not expected the new terms for that contract that was demanded by our customer, and in other cases we have indeed lost those contracts. So, we do not see that the level of sales that we've had in the medium voltage range will stay at the level of the first quarter.

50.27 – Michal Lyng

Just to add, because you also had a question whether that was assumed when we entered the year, and that was fully assumed when we entered 2014.

50.37 – Marc van't Noordende

Good, and then your final question was on low voltage for April and May. I'd rather stay very cautious also on this subject, but we have seen similar levels as we've seen in the months February and March.

50.53 – Fasial Ahmed

Okay, and then just one final question on low voltage in the Cables business. Has the price increases somehow had an impact on demand? I mean, has there been some hoarding by distributers in this business?

51.09 – Marc van't Noordende

That's always very difficult to say because it is also reasoned, you know of course after every price increase we tend to see in any case, a couple of weeks of customers wanting to test us and look for alternatives, and therefore you know, the period about which we talk is really too early to give any final comment on. But, in most cases indeed those, as I mentioned, price increases have stuck and that's, I think, the good news that we have realized in the first quarter.

51.42 – Fasial Ahmed

Okay, and then just one final question on Nilfisk. I mean, what was your argument for not changing your revenue guidance framework for the full year? Could you just repeat that?

51.57 – Jonas Persson

I can say, I think it's very early to say and as we said, it's very hard to predict sales going forward. So we have chosen to not change it until next quarter.

52.12 – Michael Lyng

It's also to make it a little bit more difficult for you guys, so you can make your own assumptions.

52.19 – Fasial Ahmed

Okay, so just a question here. I mean, have the revenue trend in April and May changed compared to Q1?

52.28 – Michael Lyng

That we will take when we announce Q2 numbers.

52.31 – Fasial Ahmed

Okay, thank you very much.

52.36 – Operator

Our last question comes from Mr. Jesper Christensen. Please, go ahead sir.

52.40 – Jesper Christensen

Yes hallo, just two questions from my side. At the annual report you wrote that you are doing a strategic review of your facilities in China on the Cables business. How are those progressing? And the second question is; you're starting to provide gross margin on NKT Cables. Is this just something you do for this quarter or is that something that you will continue doing going forward?

53.09 – Marc van't Noordende

I'm not sure I understood the second question, could you elaborate a little bit?

53.14 – Jesper Christensen

Yes, in your quarterly report we can now see the gross margin in the standard metal prices. And your overhead cost margin. I don't think that those have been available before. Is that something that you will continue to publish?

53.28 – Michael Lyng

Yes, we will continue to do that if it makes sense.

53.31 – Jesper Christensen

Okay. And the question…

53.34 – Marc van't Noordende

Yes, and coming back now to your first question about our strategy review in China. So let me say first of all, we're still in the middle of that. And secondly, of course China is an enormous market with still market growth that we don't know. So, from that point of view it's a very attractive market, in particular also the railway segment shows continuous growth, and we expect that growth to stay strong for a number of years, and in continuously underlined by the Chinese authorities that see this also as, on the one hand a spear-point for their economic recovery but also as an important generator of exports out of China. So, the market has certainly a number of positive and interesting attributes, but at the same time doing business in China is hard and if you look at the payment behavior there was already strong difference between the culture in China and the culture that we're used to here in Europe, but adding to that the financing issues that I earlier mentioned will make this a subject also of our review. So, we're in the middle of that review and we will update you whenever we have finalized this.

54.52 – Jesper Christensen

Okay, thank you.

54.54 – Operator

We've received a follow-up question Mr. Patrik Setterberg from Nordea. Please, go ahead sir.

55.00 – Patrick Setterberg

Yes, a follow-up question. I think there was a good progress in the working cash flow in the first quarter, I just wanted to know; there are obviously some structural effects from the DRIVE programme, in terms of working capital, how much effect from the DRIVE program have we seen on working capital? Are there more structure initiatives to kick in on the working capital for the coming three quarters?

55.24 – Marc van't Noordende

To answer the last part first, yes. We started to implement DRIVE in February, and we haven't yet implemented all of the initiatives so, we have focused particularly on our inventory and we have seen good results on that and we have still more actions to go on the other elements of our working capital in the remainder of the year.

55.49 – Michael Lyng

But to add to that, the main reason for the reduced working capital and thereby the strong cash flow is actually only to a small extend due to DRIVE. It's much more due to the fact that we have finalized some large projects, where you typically build up a lot of working capital in the end. So that is the biggest impact that we see in first quarter.

56.12 – Patrik Setterberg

Okay, then could you elaborate or indicate how much from the DRIVE program has impacted the working capital in the first quarter?

56.19 – Michael Lyng

Now you know, I don't want to give you any specific number of that, but take it for granted that to a very, very large extend it's due to changed build-up in large projects.

56.33 – Patrik Setterberg

Okay, very clear. Thank you.

56.36 – Operator

We have another follow-up question from Mr. Daniel Patterson from SEB. Please, go ahead sir.

56.42 – Daniel Patterson

Yes thank you, just a final question here for Jonas. Now that you've been there for sort of a hundred days roughly or a bit more, what has been your sort of main surprise, or you're main takeaway now that you've gotten to know the Nilfisk organization a bit better?

56.58 – Jonas Persson

I have to say, my main findings. I think it's a very well run company, and most processes are very good in place. Where I think we are in a progress and what we need to do is to go more for a front selling and go more for the growth, and I think the company is very much ready for that. And that is, I would say, the one big finding.

57.23 – Daniel Patterson

And you could then perhaps add a little bit, you know how would you do that?

57.28 – Jonas Persson

I think, that we've already started a commercial excellence project that we actually roll out now, in the world. Germany was the first one as we have already mentioned, and I think that's a very good project that's already on the way to be rolled out. But of course, we will also loosen up on investments, especially in emerging markets with the front selling capacities.

57.53 – Daniel Patterson

Okay, thank you very much.

57.47 – Michael Lyng

And maybe just to add you know, we also have more appetite of doing M&A you know, not that we didn't have it in the past, but it's definitely back on the agenda. But of course, it needs to be clever and it needs to be the right businesses that you are acquiring, but that should also be part of capture more growth in the future.

58.14 – Jonas Persson

Yes, and the company as I said is ready for it as well, so it's in a good condition.

58.19 – Daniel Patterson

Excellent, thank you.

58.23 – Operator

There are no further questions at this time, please go ahead speaker.

58.28 – Michael Lyng

Okay, then thank you very much for attending our presentation of the Q1 report. Prior to signing off I would like to refer to our financial calendar, where you can see that we will be back on August 20th with our announcement of Q2 report. So, see you then and thank you and goodbye.