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NKT Holding A/S

**Transcript :: Interim Report Q3 2014 ::**

Good morning and welcome to NKT's third quarter webcast. My name is Michael Hedegaard Lyng, Group Executive Director and CFO of NKT Holding and as today also CEO of NKT Cables. For that reason I have with me today the chairman of NKT Holding, Jens Due Olsen who will give a short presentation covering the management change after that we will do a short Q&A session covering the topic before we move on to the usual presentation covering the financials and the development in the different businesses. For the last part, Jonas Persson will assist me as usual and cover the Nilfisk-Advance part. I have been informed that today we do have slightly technical issues with the connection going into our office in Brøndby but hopefully we do not have any major issues with that but let us jump it Jens, so please go ahead

00.58

Jens Due Olsen

Good morning everyone and thank you Michael. We have today made a change of management in NKT Cables and I just like to take you through that. We have appointed Michael Hedegaard Lyng as the new CEO of NKT Cables and as a consequence of that Marc van Noordende will resign with effect from today. As you know, Michael has been with NKT for more than 7 years and since we made our governance change during the past year he has spent significant time in the NKT Cables organisation, also as an integral part of the DRIVE programme. Michael will continue in his current role as Group Executive Director and CFO in NKT Holding. Over the past year we have learnt that NKT Cables has to engage in a transformational journey and we have concluded that this can better be accomplished under a different CEO. I want to emphasise that the decision is not based on financial performance as you can see in the most recently disclosed Q3 report our expectations are maintained and the DRIVE target for 2014 in fact has been increased. The next phase of DRIVE combined with the management agenda requires significant transformation and the remaining NKT group management members will continue to be part of the company leadership. I would like to thank Marc for his dedicated contribution in making NKT Cables a better company. Thank you. So following this as Michael mentioned before we will take questions and I would like to hand it over to the operator.

02.41.3

Operator

Ladies and gentlemen, if you have question for the speakers please press 01 on your telephone keypad, that is 01 to ask a question. And we have a first question coming from Mr Kristian Johansen from Danske Bank. Please go ahead.

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02.59.0

Kristian Johansen

Thank you, well actually my question was for the next part so I will ask a question for the next.

03.09.6

Operator

OK, as a reminder it is 01 to ask a question and we have the next question coming in from Mr Fasal Kalim Ahmad from Handelsbanken. Please go ahead

03.21.7

Fasal Kalim Ahmad

Yes Gentlemen, Fasal Kalim Ahmad from Handelsbanken Capital Markets with one short question here. I mean, Michael Hedegaard's appointment should this be considered as a permanent appointment or will you be looking for a new CEO for Cables during the coming quarters?

03.42.2

Jens Due Olsen

No I mean we have appointed Michael as CEO of NKT Cables because Michael fits the profile that is needed in NKT Cables. We are running a number of transformational programmes down there. DRIVE has just been one of them and I remind you DRIVE consists of up to a hundred different sub-programmes. We are also initiating further programmes of a commercial nature, pricing, governance, you know how do we better serve our customers, which products, tender management, and as you know we also have a strategic review ongoing in our Asia-Pacific entity so the sheer number of projects makes Michael an excellent profile and he has already spent a significant time in the company and that is why we have appointed him as CEO of NKT Cables.

04.29.3

Fasal Kalim Ahmad

Okay, thank you.

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4.35.5

Operator

Okay there are no further questions and I will now hand back to you sir, please go ahead with your presentation.

Michael Lyng

Thank you so let us turn to page 5 and now we are back to the usual agenda for today's call. First, I will cover something on highlights followed by a walk-through of the financial result for Q3. Then Jonas will bring an update on Nilfisk-Advance covering key financials as well as a presentation of highlights from Q3. This time we have actually expanded the presentation for Nilfisk-Advance a little bit with some extra slides and that is in order to give more flavour to what is going on in all the investments that we make in the front end. Following that I will cover the two other business units – NKT Cables and Photonics Group - and then last but not least an update on expectations for the full year 2014 and finally a Q&A session on the number part. But let us jump directly into it on slide no. 6. I think it is worth highlighting that overall we consider the result satisfactory and approved even though there are some signals in the underlying business segments that the climate that we operate under in particular in Europe, is pretty tough. Growth came in at 1% and year-to-date we are organically at 2% so the numbers of course illustrate that we are in all of our businesses operating under difficult conditions. There is high volatility in the markets and very little visibility. Having said that we continue to see a positive development in EBITDA both when we look at the nominal numbers but also looking at the margins and it is also important to highlight that we continue to see a strong cash flow with a cash conversion rate of 98%. Later in the presentation we will come back to the development in the businesses but it should already be noted that we are fully satisfied with the development in NKT Cables where we continue to see the positive impact from DRIVE resulting in increased EBITDA margins but also that the result in Nilfisk-Advance should be evaluated on the basis of a very strong third quarter top-line-wise last year impacting the growth rates and the margins negatively in this third quarter but what is natural is that we - and part of that is of course also that we continue to invest in the front end. We have described that early on and Jonas will also cover that in greater detail later on and it is natural that you need to invest in this case over the P&L before you can harvest so we are confident that this is the right thing to do. On that basis we are able to maintain guidance for the full year but let us come back to this at the end of the presentation. Looking at the financial highlights here as illustrated already before 1% organic growth year-to-date, up 2%, and here on the slide you also see the split between the different business. Nilfisk-Advance flat, but year-to-date 5%, which is by the way better reflecting the current run rate. In the NKT Cables business we came in at 1% so year-to-date we are minus 2%, which is fully as expected and then we continued to see positive growth in Photonics Group, now up 4% in the third quarter so accumulated 11% for the full. Operational EBITDA margin came in at 8.2% compared to 7.8% in the third quarter last year and equals a nominal earning of DKK 270m compared to DKK 257m in the third quarter last year. Of course, we continue to see some one-off costs related to DRIVE. I will come back to that later on. On the more positive side is that we continued to work actively on reducing our financial

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items. They are now down from DKK 36m in the third quarter last year to now DKK 21m and accumulated for the first nine months you would see exactly the same development. Cash flow is still very important so we also continue to focus on working capital. We are just at DKK 3bn now so approximately DKK 300m down from the third quarter last year. And if you look at the percentage we are also declining from 19.8% to 18.7% but we will come back to this as well. And then cash flow from operating activities continues to be strong; as mentioned before a cash conversion rate of 98%. If we look at the next slide, slide 8, we continue to see a positive development on our trading 12-month EBITDA curve. We are now up 0.1% from the quarter before ending at 8.9% so we are moving closer to the full year guidance of being between 9 and 9.5%. If we look at the composition of our top line - almost DKK 4bn - we are nominally down DKK 131m but that is entirely due to the fact that metal prices are trading at a lower level this year compared to last year taking away DKK 110m from the top line and we also have a negative impact coming from FX changes of around DKK 40m. And if you deduct those two we are down to the 1% organic growth. On the operational EBITDA increase of DKK 13m, DKK 31m relate to NKT Cables where we see a 2% points increase on the margins up from 6.2 in the third quarter last year to the third quarter this year where we ended at 8.2% so a very nice development of course very much supported by all the initiatives that we have ongoing in the DRIVE programme. Then to partly offset that we are negatively impacted with DKK 15m from Nilfisk-Advance where margins are down 1% point in the quarter from 10% to 9% and Jonas will come back to that - that fully reflects the fact that we are investing, as mentioned before, in the top line over the P&L. And finally, as also illustrated here, we are making sure that we continue to have focus on our net interest-bearing debt and we ended DKK 600m lower than in the third quarter 2013. If you look at little bit further into our working capital development we see a 1.1% decrease down to 18.7 per cent from 19.8% in the third quarter last year and if - on the next page - we look at the composition of that development you can see that we are slightly up in Nilfisk-Advance, which is normal for the time where we are - for the third quarter development - but that is more than offset by a decline in working capital in NKT Cables by more DKK 300m. Overall, we see the challenging market conditions that we are operating under impacting our tie-up in accounts receivable and we do from time to time see that customers are delaying payments and we really need to make sure that we are on top of this issue to maintain the levels that we are at currently. And then, last but not least, we are also negatively impacted by significantly higher FX rates in the US and China and that of course also impacts our working capital tie-up negatively.

On slide no. 12 we look at the cash flow year-over-year. We see a cash flow from operating activities improvement of more than DKK 600m and a big, big part of that is of course coming from the change in working capital but also from higher earnings and lower interest costs net so we are fully satisfied with that and that means that we have for the third quarter a small free cash flow accumulated for the first three quarters - a free cash flow of DKK 195m compared to a negative free cash flow last year of DKK 726m. But it is also worth mentioning while we are on this slide that CAPEX is of course something that we are also looking very much into making sure that we make the right CAPEX capital investments and we are more or less at the same level we were at in the third quarter last year. Looking at slide 13 we see a net debt reduction of more than DKK 600m since last

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year and this is despite the fact that we are negatively impacted by currencies on this slide as well. Not mentioned on this slide is that we continue to see strong liquidity reserves. At the end of the quarter it was approximately DKK 4.3bn out of a total credit facility of around DKK 6.5bn of which still remains without financial covenants. It means that we have appetite and flexibility to do the right things investing in the businesses and I guess with that comment I should hand it over to Jonas to present the development in Nilfisk-Advance.

14.57.5

Jonas Persson

Thank you very much Michael and then I would like to move directly to page 16 looking into the organic growth for the quarter and also for the year-to-date. So we start with the quarter. We have a flat quarter, zero growth in the quarter, very much due to a strong quarter last year but also we have had, in the quarter, some postponed orders that are going into quarter four, but I will come back to that. But year-to-date gives us 5% growth, which we still think is quite okay, so then jumping into Americas, quarter 3 minus 1% and gives us a year-to-date of 3%. This is very much due to postponed orders so we will have a quite strong backload going into quarter four. In EMEA, on the other hand, quarter three was 3% and I think that is quite okayish thinking of the financial situation in EMEA and that gives us actually 6% growth year-to-date. APAC, on the other hand, -9% and that gives us year-to-date -1%. I have to say then that China is doing okay, but the big difference here is we still have a problem which we have also mentioned in the previous quarter in Pacific where we have lost dealers in the consumer part. Then we jump into page 17 looking into the earnings. We did 11.7% in the quarter of EBITDA and that is over 3% down compared with Q2 and it is also 0.1% down compared with the same period last year. This is very much due to the investments we are making in the front-end which is also communicated but it is also very much the thing that we want to continue to do. So we are investing in commercial excellence but we are also investing in direct sales people and direct service people. On top of that we also have divested some of that, we have also seen some effect in Q3 as well.

Jumping into page 18, which is very much an overlook of the 5 growth levers we have, and I just mention those. We are stepping up the sales force, we will come back to that. Commercial excellence is another one, also established a central service organisation here in Q3 and we continue to invest in innovation and operation but I will go into all these 5 levers on the coming page so let us move to lever no. 1, front-end investments. This is very much a strategic priority for us in Nilfisk to continue to grow and try to grow more than the market and you can see in the growth we have year-on-year increased by 97 people in the front end both via acquisition but also by hiring more people. This is very much to help us get closer contact to customer, have more contact points to the customer but also, of course, get more meetings with the customers. And top of that we also drive efficiency in our sales force. You can also see on the next page 20 a very clear picture under overheads of how it has developed since the end of 2011. As you can see, the

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selling rate has gone up, distribution cost is very much flat and administration cost is actually going down compared with sales. And this is very much confirming what we are saying that we are doing and that we continue to plan to do.

Page 21 is roll-out of commercial excellence programme - a global roll-out. This programme is very much to make sure that we prioritise the right customers, make sure that we do the sales in the right way but also try to leverage on the cross selling - be able to sell a bigger range of our products to the same customers and this year, 2014, we have rolled out this in 5 countries: Germany, US, France, Spain and Sweden and Spain is more or less just started up. Let us just give an example on Germany, we have over the period here trained more than 200 salespeople in Germany, we have totally changed the governance and how we follow up on sales people and on top of that we have also introduced a new incentive plan to make sure that we are driving the right behaviour in our sales companies. Lever 3, next page, 22, we still have a very strong focus on the service organisation and therefore we have put a central organisation on this to drive it globally, to change the behaviour in the service and also have one way to provide service throughout the world. So we have a central service organisation, we have also an increased number of technicians in the field and we have also rolled out a global service concept starting here with EMEA here in Q3 but we will also roll out a global tool for field service including software to make sure that we are doing the right thing and this is very much to ensure best customer satisfaction by having a first-time fix rate when we go out and try to fix the problem for the customer to make sure that the customer can utilise the machine in the best way and this is also to drive utilisation of our own service fleet to make sure that they are as efficient as they can be. But also we improve the response time to the customer and also our communication to the customer.

Page 23, we continue to drive our innovation on new products and we continuously invest 3% of our revenue into the R&D and we believe that we have absolutely the best and widest range of products in the market and we have this year also strengthened it even more with 15 new products in Q3 and totally 40 new products this year. And I just like to give you two examples here today. We have this Scrubber Nilfisk SC450 which is very much a scrubber product that is targeting the mid to high market maybe to have a basic reliable product that is going into mainly contract cleaners and we have already seen year-on-year growth of 46%. We also introduced a high-pressure washer Nilfisk Excellent into the DIY where we also see a very nice development - 13% growth year-on-year.

Next page is 24 the supply chain. We have introduced a global transformation programme. This is, of course, to improve cost but also not less important we also try to improve the customer satisfaction so this programme is to make sure can build trust with customers so that we a delivery confirmation and the customers are able to see if we are able to deliver on the promised time and we have introduced overnight delivery of parts to make sure that our customers can have the most uptime with our machines. So if we get orders before 3 o'clock on day 1 regarding parts we will be able to have parts in the vans for

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service already the day after before 9 o'clock. This is of course very much to maximise customer satisfaction, especially contract cleaners. But on top of that this programme will also reduce costs in the back-end and also improve working capital.

So if we go then to page 25, which is to sum up the situation, we have improved the gross margin with 0.6% compared with last year despite a negative product mix and also despite increased price pressure in the market. This has been done very much due to price management but also in efficiency improvements in the back-end. On the fixed costs, which I have already mentioned, we are continuing to invest in the front end and also introduce a core mix that is driving fixed costs but this will also drive growth going forward so we have increased by 200 people - half of them are very much in the front end - and that gives us a negative development when it comes to EBITDA where we have dropped, which Michael also mentioned before, by 1%. So the conclusion is: Okay growth year-to-date, 5%, and we continue to make investments in the front end. Thank you very much. Michael.

24.12.3

Michael Lyng

Yes, and you know just to follow up on that we have actually taken up guidance for the top line for Nilfisk-Advance but we will come back to that at the end of the presentation. So let us move on to the Cables business and let me try to give some more flavour on what is going on there in the different segments that we are in starting here on slide no. 27. In the Project business it seems that we are up 13% but we are still negative by 6% year-to-date, but bear in mind that the third quarter this year is positively impacted by more or less empty turnover related to the Baltic 1 settlement that we talked about after Q2. If we adjust for that we are at minus 6% growth, which is similar to the run rate for the full year and that is, by the way, fully as expected. And here we should also remember that last year we had a lot of installation work that we do not have this year and we already communicated that in the Annual Report for 2013 when we announced guidance for 2014. Visibility in that segment in the Project business is still pretty good in the offshore section. We do have coverage for the rest of 2014 and well into 2015 as well. On the market we have seen some tenders where we expected closing but that has been postponed but overall the tender activity remains at a satisfactory level and we are involved in a number of projects, potential projects. In the more traditional high-voltage cables, we still have good and I would say normal visibility but it is also fair here to mention that underlying that, competition remains intense and that we continue to see pressure on prices that we have communicated on earlier. If we continue to the Product side of the business we are down 5% organically after a very strong first half, but now we see the impact of the medium-voltage frame contracts that expired at the end of last year. The ones that we decided not to continue. So the underlying trend we see in the business is actually okayish. We continue to see small positive growth in the building-wire business and in the 1 kW cable business and of course this is a very price sensitive market but we have seen that we are able to continue the price increase, maintain the price increase that we saw in

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the first half so overall, despite these numbers, we are actually satisfied with regard to that. So the medium-voltage market as a whole exceeded our own expectations despite the negative growth but the outlook for this market is very diverse. Some markets in the Nordic and Central Europe continue to be impacted by willingness to invest in infrastructure projects whereas others are negatively impacted. If you look at the APAC - Asian Pacific market - it is still a very difficult market to be in. If we start by looking at the railway segment we continue to see the Minister of Telecommunication in China continues to welcome new commerce into this industry and that does impact the overall supply demand in this industry negatively and of course that is leading to price pressure and volatility in the market. On the more positive side, in China in railway we have also noticed that the Chinese government looks into exporting know-how of railway technology to outside China. For example, it has been announced that they are now tendering an 800 km high-speed connection in Russia but also markets in South America show potential. And we would of course like to follow, as a chief supplier to the Chinese rail contractors. The cable side in China continues to be tough simply because there is too much capacity installed in the market compared to supply so there is not a lot of movement there. Then in the announcement we also described that we also started up a DRIVE initiative in China. It is more or less a copy of the process that is ongoing in Europe, of course with a lower potential. We are aiming to implement a cost saving programme impacting the numbers positively into next year by around DKK 30m. We also earlier on had discussed and talked about a strategic review that has been ongoing in China that is still ongoing and there is no news on that particular project. So that was the market. If we then look at the earnings we are up DKK 134m nominal earnings and that means that the EBITDA margin climbs up from 6.1% to 6.6% so we are moving closer to full-year target that remains unchanged at 7.1%. So we are actually satisfied with the margin that we see in the quarter and here you should bear in mind that we do have the empty turnover of DKK 41m with no kind of profit attached to it and we have also increased our bad debt reserve in China by another DKK 10m in the third quarter so now we are close to DKK 40m in negative impact for 2014. This is of course an issue that we are on top of. We are pushing and we have strengthened our control and push to customers and even the chairman of NKT Holding has been in China to try to collect some money, actually with success.

If we look at the next slide, this is the usual structure. You are getting used to it now. It explains where we are under the DRIVE initiative. First here third quarter result year-to-date and full-year 2014 expectations. We realised DKK 50m in the third quarter in cost improvements so we are now at a year-to-date impact of slightly above DKK 100m and what is more important is that we are at a run rate of DKK 180m now compared to being at a run rate of DKK 130m at the end of the second quarter. Full-year expectations coming from DRIVE is that we take that up slightly. Originally it was DKK 100m when we came into the year, then we took it up to DKK 130m after the second quarter and we are now, as illustrated her, taking it further up by DKK 40m so now we expect to see an impact of DKK 170m and also the run rate is taken up from DKK 220m to DKK 250m. Of course, there will be a lot of questions about what then about the full impact going into 2016? What about the DKK 300m and there it is still a little bit early days to look into that but we are where we are today at least certain that we will make the DKK 300m. It also means,

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unfortunately, that we have had to lay off more people. We are now at 184 FTE reductions after the third quarter and we are continuing that into the fourth quarter so we expect to be 250 people less at the end of this year compared to the end of last year and that is by the way also a number that has been increased from 200 FTEs when we discussed these numbers last time. So overall, we are fully happy with the development and LEAN is of course a main driver for improvement. That is also something that we describe in the report. Here we have set up a new organisation, people have been trained at all locations so we now have a number of experts to roll out this faster. There is still some way to go but this is the main area to close the gap to the full-year target. On slide no. 29 just summarise we are satisfied with the Operational EBITDA, we are up 30% versus last year and we continue to see DRIVE deliver above expectations. Of course, there are also some one-off costs related to that or to this, but they will not continue forever. We have now one-off costs of DKK 97m impacting these numbers negatively and we expect DKK 160m for the full year 2014 whereas the DKK 240m that was originally mentioned to cover this programme is unchanged. And with that I think we should continue to Photonics Group and to be honest there is not a lot of news in this business. We saw the imaging business picking up in the third quarter and that is very important. It is supported by OEM business that shows continuous improvements and as mentioned earlier on we have closed the biggest frame contract ever to support this growth and also to support growth in the coming couple of years. So 9% for the third quarter and that means that we are year-to-date flattish. In the sensing market we have, as also earlier described, set up this new business FIOPS in the US and we do talk with a lot of potential customers in terms of specific projects so we are satisfied with that development. Of course, it is relatively small numbers but it does confirm the potential that we saw before we decided to go into the US on the sensing market.

And with that I think we should continue to expectations for 2014 on slide 33. And overall we are maintaining our guidance so we still expect consolidated organic growth of around flat to 3% and we maintain our expectations on operational EBITDA margin between 9 and 9.5%. Then in the right side of this slide you can see our planning assumptions and there is a lot of unchanged numbers here but it is positive to see that we have taken up the guidance Nilfisk-Advance. Earlier on, we planned to achieve growth of 2-3% and now we are looking a potential of realising between 4-5%. As Jonas also described earlier, we invest a lot in front end and that unfortunately also has a negative impact on margins and we now forecast the EBITDA margins to be in the area of around 11.5%. Then in the Cables business we are adjusting a little bit on the top line where we foresee that it will be challenging to achieve the numbers that we indicated earlier on but that is entirely due to customers being delayed in various projects and here we are talking about relatively big numbers so, you know, a few weeks' delay for one customer can easily impact these number so potentially we foresee negative growth of between 2-5% compared to 2-3% after the second quarter but the good thing is that we are maintaining our operational EBITDA margins so they are unchanged at 7.1%. And with that I think we can turn into the Q&A session so operator, anybody with a question?

6.47.7

Operator

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Ladies and gentlemen, as a reminder if you have a question for speakers please press 01 on your telephone keypad. That is 01 and we have a question - a first one from Mr Kristian Johansen from Danske Bank, please go ahead.

37.05.0

Kristian Johansen

Yes sir, thank you, a couple of questions from me. First regarding these US orders which you state have been postponed. Can you elaborate a bit on the reason for this postponement?

37.17.3

Jonas Persson

There have been bigger units here, bigger accounts, Kristian, that have been key accounts that have pushed orders into Q4 instead. So delays for various reasons with the customers.

37.35.6

Kristian Johansen

Okay, so there is no common denominator for these postponements?

37.40.1

Jonas Persson

No, there is not, no.

37.42.0

Kristian Johansen

Okay, then also for Nilfisk, I mean looking at the growth for the EMEA region we have seen a deceleration of growth and you are actually now in Q3 underperforming fairly substantially in terms of growth which has not happened in a long time, I mean should we be worried that you are losing market shares in Europe?

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38.06.0

Jonas Persson

No, this is one quarter so I don't think we can build anything on that. Absolutely not.

38.13.9

Kristian Johansen

Okay...

38.16.6

Michael Lyng

It is only one quarter out of - I don't know - 15 or 20 or whatever so that does not mean that we suddenly are changing our market position. Of course not.

38.24.2

Kristian Johansen

Okay, fair enough. Then a last question relating to DRIVE programme. You state that you have fully implemented 32 initiatives. How has the financial impact of these 32 initiatives specifically been compared to what you originally budgeted?

38.40.7

Michael Lyng

Slightly better and that is also one of the reasons why we are able to take up the impact already in 2014 and as also illustrated or as I mentioned before we will of course also address the DKK 300m but that will be later this year.

38.58.0

Kristian Johansen

Okay, thank you, that is all from me.

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38.59.9

Operator

Okay and we have an extra question coming from Mr Patrik Setterberg from Nordea Markets, please go ahead.

39.09.3

Patrik Setterberg

Hello gentlemen. A couple of questions from my side as well. Then first my questions as well to Nilfisk-Advance and regarding Americas. Could you - I think Kristian highlighted you have been losing some shares that you have been underperforming Tennant in this quarter in Europe. However, you have been underperforming Tennant in Americas for quite many quarters. Now it is in negative organic growth in the quarter even though the macro-environmental and the general economical environment over there is quite - fairly okay, but what should you do in order to turn around the trend in Americas?

39.50.0

Jonas Persson

I mean we are very much - we have a very different set-up when it comes to customers in Americas compared with our peers or our peer I would say and this is of course the situation where we try to be more into the industrial building up distributors but also go direct, so expanding the channels here into this market which is very important for us going forward. We are performing fairly well, I have to say in the industrial segment but of course it is still a very small part of our total sales into the US.

40.29.5

Patrik Setterberg

Okay, my other question for Nilfisk-Advance is regarding your funds and investments. Could you explain for [...] instance take the main bulk of your investments or is there a lot of investment ahead of us still?

40.45.7

Jonas Persson

According to the core mix of course there will be continuous investment but that is more internal resources so that will slow down significantly I would say. When it comes to front end this is a little bit balanced. We will also touch - we will continue the investment but

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we will also of course have a close eye on that we make sure that we have the efficiency in the investments we are doing so this we have to take from quarter to quarter.

41.09.0

Patrik Setterberg

So investments in the same magnitude for the coming quarters as we saw in Q3?

41.14.7

Jonas Persson

I would say the coming quarters a little bit slow down, yes.

41.18.4

Michael Lyng

But I guess Patrik, what we are trying to illustrate here is that we do this while we are carefully also looking at the market development and we need to make sure that this goes hand in hand. And so it could be that we slow down a little bit or that we will speed up depending on how we see traction in the market.

41.38.2

Jonas Persson

Yes, so we don't do these investments blindly, of course. We also need to see that there is something that comes out of it.

41.41.8

Michael Lyng

Exactly

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41.42.5

Patrik Setterberg

Okay - so my last question regarding Nilfisk. Could you - you implied guidance for the four years or the guidance for the four years implies a return on organic growth in the fourth quarter. Is that the quarterly or the monthly trend you have seen in the third quarter?

42.02.4

Michael Lyng

Yes, of course it is, I mean we have October under the belt and we are well into November so we are of course basing our guidelines for the fourth quarter based on what we currently are looking at.

42.16.3

Patrik Setterberg

Okay and then maybe if your chairman is still available on the line I would like to ask a question for him as well and it is more related to DRIVE and Cables in general. What could you expect - what kind of return on capital employed should we expect for the business looking into 2015-2016 when you are fully implemented with the DRIVE programme given what you otherwise see in the underlying markets?

42.48.3

Jens Due Olsen

I am not sure that was a question for me - or whether it was a question for Michael? You were asking on the return on capital employed - once DRIVE has been implemented?

42.54.6

Patrik Setterberg

Yes in 2016

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42.57.0

Michael Lyng

But you know, Patrik, we do not communicate targets for 2015 now and you also know that we have strategic review ongoing in our businesses so you know you need to be a little bit more patient with the answer to that.

Jens Due Olsen

I don't think there is too much I can add to the objective of all this, of course, is to get an acceptable return on capital employed so there are both top line elements, there are cost elements and there are also capital employed elements in the DRIVE programme.

43.42.4

Operator

Okay, ladies and gentlemen, as a reminder it is 01 on your telephone keypad to ask a question. That is 01 and we have the next question coming in from a Mr Faisal Kalim Ahmad from Handelsbanken. Please go ahead.

43.54.3

Faisal Kalim Ahmad

Yes, this is Faisal Kalim Ahmad from Handelsbanken I have got questions on Nilfisk. Firstly, increasing accounts receivable which you mentioned during the presentation in Nilfisk, I mean, which geographies are you seeing this increase in? And is it related to some special or specific kind of customers?

44.20.4

Michael Lyng

I think I can answer that, you know, it is not particular or specific areas but it is a look out of the window, you know, we are in a tough environment in Europe so, you know, whatever customers can do to protect cash flow they will do and that means that you just constantly need to be on top of them to make sure that they pay you in time so it is not a big issue but we are just mentioning it because it does impact our tie-up of working capital.

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44.45.4

Fasial Kalim Ahmad

Have you increased your reservations on accounts receivable on this note.

44.57.5

Michael Lyng

Only with small numbers - it is not an explanation to the margin development.

45.03.8

Fasial Kalim Ahmad

Okay and then a question really to the ComEx programme, I mean you indicated how much headcount increased in Nilfisk, I mean, how much of that is really ComEx going from Q2 to Q3 and how much should we expect headcount increase from Q3 to Q4 in this count.

45.29.8

Jonas Persson

I have to say there are two different initiatives we have. We have one initiative when it comes to Commercial Excellence which is of course improving how we go to market, how we sell, make sure that we are selling to the right customers but on top of that we also invest in the front end so it is very much two different initiatives here.

45.49.3

Fasial Kalim Ahmad

Okay and headcount increase from Q3 to Q4 what should we expect there?

45.53.4

Jonas Persson



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I would like to not say that because it is very much how fast you can get in people but we just say that we continue to make investment if we find in relevant markets that there is a, sorry, that is the reason for doing it and we believe that we can get growth out of it.

46.18.3

Fasial Kalim Ahmad

So we should be expecting headcount increase from Q3 to Q4?

46.22.1

Jonas Persson

Yes I think we can expect that slightly.

Michael Lyng

But can I tie it in to my answer before because you know we are doing this while at the same time we are looking at the market development so if we see traction we speed up if we do not see traction we slow down a little bit. So you cannot expect us to come up with a firm number here.

46.42.5

Fasial Kalim Ahmad

Okay and then one last question on Nilfisk and its relation to your implied organic growth guidance for Q4, I mean you are guiding for a significant rebound here from the level in Q3. Could you provide us with some reasonable details? How should we be looking at EMEA especially and also APAC? Yes that is my question.

47.10.2

Jonas Persson

Look at the figures we have to date Q3 we have growth of 5% so then of course we are one month into - so this is very much guidance based on what we know to date but also what we know, of course, believe we know also for the future.

47.27.5

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Fasial Kalim Ahmad

Okay. Could you give us some reasonable details, I mean, what should we be expecting on EMEA and APAC in Q4?

47.30.6

Jonas Persson

No, I don't think we can go into that. It can differ between the markets but of course we will continue to have fairly strong growth also in EMEA as we have had the rest of the year as well.

Michael Lyng

And then bear in mind that since under these market conditions where you do not see a lot of real GDP growth we are of course very much exposed to what was the numbers last year and the third quarter last year was extremely high and it will be a little bit easier [...] that we have in the fourth quarter.

48.06.7

Fasial Kalim Ahmad

Okay, perfect. Thank you.

48.10.4

Operator

And we have the next question on line coming from Mr Jesper Christensen, please go ahead

48.15.5

Jesper Christensen

Thank you, I have a question for Cables and your strategic view in China. There seems from your competitors General Cables that they want to exit their Asia Pacific exposure. Including your review, could you both considering - could you both be considered as a seller and a buyer in Asia, China?

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48.37.5

Michael Lyng

You know, we do not have exactly the same exposure as General Cables does in China because more than half of what we do in China is railway related and they don't have that exposure. We do - we will do whatever is necessary in order to create more value out of our Chinese business but it is probably less likely that it will be done on wire acquisitions.

49.07.7

Jesper Christensen

Okay and then a question on project DRIVE and the history behind it. Is it correctly understood that it was initiated by Marc van Noordende in Italy and that it was on his initiative that it was started or was it something that was pushed through from Holding?

49.26.5

Michael Lyng

No, it is not a one-man show here. It was a joint decision to start up this and as we have already communicated from Holding we have been an integrated part of that so we are more around that decision.

49.44.1

Jesper Christensen

Okay, then a question on Photonics - you are not changing your expectations for Photonics but it seems a bit stressed that you should be able to reach them. Could you perhaps comment on that?

49.58.0

Michael Lyng

That has something to do with our visibility in the order backup for the fourth quarter and then, as I also had said before, it is not really a guidance - it is a planning assumption but we are confident that we will be around that number but what is more important is not - it is not so much the EBITDA, it is more the top line but we do have a fairly good backlog into the fourth quarter and that is the reason.

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50.25.0

Jesper Christensen

Okay and then perhaps one last question also just on the guidance. Is it correctly understood that there is a [...]depending on how your products fall out in Cables in the project division that we could see a double digit sales decline for the fourth quarter?

50.48.2

Michael Lyng

I sincerely do not hope that because we are guiding negative growth of between 2-5% and that is where we are now and we are actually taking it up from before 2-3 to 2-5 now because of that risk that you are mentioning and that is part of being in project business that you are exposed to potential customer delays but what is important to mention here and to stress is that if you look at our production planning we are following up to the commitments that we have towards customers so we are only with respect to top line exposed to external factors but I don't expect double digits. No.

51.28.5

Jesper Christensen

Okay, thank you very much.

51.34.3

Operator

Okay, the next question comes from Mr Jacob Pedersen, please go ahead

51.39.7

Jacob Pedersen

Hi gentlemen, just one question from my side. Your DRIVE programme now is impacting 2014 figures by DKK 170million. Around the outset of the year you expected DKK 100m. I would expect this programme and this profitability improvement to be visible in your profitability assumptions for the year as well but you still have 7.1% EBITDA margin guidance for this company. Could you maybe shed some light on what happened in the market that makes you not being able to improve the profit guidance

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52.25.4

Michael Lyng

Yes, I can. It is very much related to what we just talked about before, you know, we are exposed to potential delays at the end of the year and they are extremely difficult to forecast and that is why we would like to have that room on our hands. And you know, one delay from a customer can easily impact the numbers you know by EUR 2-3-4m or something like that and if you add that to the numbers and to the guidelines then you will be able to bridge - or to do the bridge that you are looking for.

53.01.5

Jacob Pedersen

Okay but I would have thought that this consideration would also have entered your initial guidance for the year.

53.10.2

Michael Lyng

But of course we do have more clarity now on potential delays and then you should bear in mind also that we are guiding on a consolidated level here and we are maintaining our guidance of between 9 and 9.5% EBITDA margin despite the fact that we are taking guidance or planning assumptions on margins slightly down in the Nilfisk-Advance business.

53.32.9

Jacob Pedersen

Okay, thanks a lot.

53.37.5

Operator

And the next question comes from Claus Almer from Carnegie. Please go ahead.

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53.44.1

Claus Almer

Yeah, hi, also a few questions from my side. The first question goes to the Nilfisk - these postponed orders you have touched upon several times now. Have these orders been received now in Q4 or are they still in the backlog?

54.01.6

Jonas Persson

I think some are coming in yes, Claus of course we are still expecting and hoping for more.

54.08.9

Claus Almer

And in general do you see more orders coming in the backlog, more larger orders. Are there any changes in that respect?

54.16.0

Jonas Persson

Oh, I think the product - themix of order sizes are very much the similar we have seen but we have some big accounts that have been pushed into quarter four but the general mix is very much the same, Claus.

54.24.24

Claus Almer

Okay. And then just trying to understand these organic growth numbers, in the divestment of sanders which is just a segment, do yo adjust for that in your organic growth rate? I.e. that growth is slightly better than the zero?

54.42.0

Jonas Persson

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I think we have had a very much discussion.. I mean sometimes we do a small acquisition and sometimes we divest so therefore we have decided not to do this with statements so it is in there as well.

54.54.9

Claus Almer

Okay so it is fair to assume that the underlying performance is slightly better than flattish, organically?

54.59.6

Jonas Persson

In Americas yes - in Americas it is, yes.

55.04.7

Claus Almer

Okay, then jumping to the Cables business, also it is a little bit strange this positive effect from - maybe strange is not the word - but the positive effect from the DRIVE has been absorbed by other things. You were mentioning, Michael, that this is mostly due to possible postponements of projects. Should we - anything equal - add the difference to the 2015 performance? Or is anything else dragging on the profitability?

55.39.1

Michael Lyng

That is a difficult question to answer, Claus, but you know there is a lot of moving parts when you are operating a business and since we came into the year and came out with guidance we have also had some negative surprises. We did not plan to build up a provision of bad debts in China equaling DKK 40m but we have been able to absorb that in our full-year guidance and have kept them unchanged during the year. And that is partly due to the fact that DRIVE is performing better so you know there are some pluses and minuses here and in the end we have decided to maintain the 7.1 % guidance.

56.23.2

Claus Almer

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Yeah, so you are not assuming you will get these provisions back, they are still included in the guidance, right?

56.29.5

Michael Lyng

I did not say that, you know, now they are provisions and as I mentioned before, you know, even my chairman standing here next to me is going to China to try to collect money and that works.

56.46.1

Jens Due Olsen

I collected 8 million on my last trip.

56.48.1

Claus Almer

Then you made profit I guess on that trip.

56.50.0

Jens Due Olsen

Yes

56.51.8

Claus Almer

You should travel a little more frequently to China. Maybe you could then just do an update on the China situation. Do you see more bad debts or longer credit times or are they starting to pay?

57.08.6

Jens Due Olsen

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We actually are moving closer and closer to a situation where we start to see that our overall debt will decline in China so the increased focus and awareness of this issue does help us so I don't expect any further significant increase.

57.34.1

Claus Almer

Okay, thank you so much.

57.39.4

Operator

The next question comes from Mr Patrik Setterberg from Nordea Markets. Please go ahead.

57.42.0

Patrik Setterberg

Hi again gentlemen, just two follow-up questions. The first one, Michael, your salary will that be paid by NKT Cables going forward?

57.51.4

Michael Lyng

You know, that is a very detailed question, you know, that has not been considered yet.

58.01.8

Patrik Setterberg

Okay and then could you also you have quite a significant [...] net financials. Just give some details about why this is coming down significantly in the quarter.

58.12.5

Michael Lyng

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That is coming down because of the bank that you are working for that - no, of course we have a significantly lower interest-bearing debt that is one factor. And then we are constantly trying to optimise our overall cash flow in the Group to make sure that we do not have a lot of idle cash lying around in various countries and then of course we are you know on a daily basis trying to negotiate better terms with the banks.

58.42.6

Patrik Setterberg

Okay, very good thank you.

Operator

Okay and there is a last question coming from a Mr Jesper Christensen. Please go ahead

Jesper Christensen

Yes hello again, just back to my question from before on the guidance in Cables. For the first three quarters you have a negative growth rate of -2 in Cables but you guided it can go to -5 for the full year. That implies a quite significant drop in growth for the fourth quarter and where should we expect to see that drop - or where should we expect to see that negative growth. Is it in products, APAC or projects?

0.59.23

Michael Lyng

It could easily be across the line that we are seeing small negative growth numbers but then the uncertainty that results in this range is very much related to the project business.

59.41.4

Jesper Christensen

Okay, thank you

0.59.47

Operator

There are no further questions in the queue, please go ahead speakers

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Michael Lyng

Okay. With no further questions I would like to thank all the participants on the call including my chairman here and looking at, we also announced today our financial calendar for 2015 with all the dates for the various reports in 2015 and from there you can conclude that we will be back on February 27 with the full year 2014 result and guidance for 2015. So thank you and goodbye.