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Nilfisk Q1 Interim Report 2020
Webcast held on May 15, 2020

Good morning. My name is Jens Bak-Holder. I am head of Investor Relations here at Nilfisk. To present Nilfisk results for the first quarter of 2020, we have CEO Hans Henrik Lund and we have CFO Prisca Havranek. Now let us go to slide 2. Before we kick off today's presentation, I want to remind you that this presentation may contain forward-looking statements that for a number of reasons should not be relied upon as predictions of actual results. I therefore encourage you to read the content of this slide in connection with the full presentation. Now if we look at slide 3, the agenda of today's presentation is as follows: Hans Henrik will start by going through the highlights of the quarter, which includes an update on how the COVID-19 outbreak has impacted our business. This will be followed by Prisca going through the financial performance of Nilfisk and a brief status on our outlook for the financial year. As always, you are invited to ask questions during the Q&A session at the end of the presentation. Now with this, Hans Henrik please go ahead.

0.01.03
Hans Henrik Lund
Thank you, Jens. Good morning everyone. First and foremost, I hope you are all well and safe during these troubled times and I thank you for joining us on the call, obviously. Let us go to slide 4, please for the highlights of Q1. It is safe to say that Q1 had a very challenging ending due to the COVID-19 spreading to Europe and Americas and since the pandemic started to escalate in China in the beginning of the year, our main focus has been on keeping our employees safe and servicing our customers. During the quarter we have implemented precautionary measures across the organisation and as a result we have been able to continue our production, our distribution, our service activities throughout the quarter with little to no interruptions, also during the peak of the crisis. So before we dive into the details of the quarter, I would want to send a warm thank you both to our employees and to our customers for their ability to handle the crisis and adapt to this new situation.

Looking at the numbers, the Q1 result was more or less in line with our expectations until mid-March, with the exception of China, which I will get back to later. We had expected to see a negative growth rate in the quarter due to the Q1 numbers we were up against from the year before and because we were looking into a back-end loaded year as we communicated at that time. But from mid-March things really started to escalate quite quickly with a steep decline in customer demand in most markets following all of the lockdowns. This led to organic growth of -10.3% and an EBITDA margin before special items of 11.4% for the quarter in total. A performance which is significantly lower than last year and Prisca will obviously walk you through the details later in the presentation. Almost from one day to the next we experienced a steep decline in customer demand as most markets were locked down. And in general we have seen a very strong correlation between COVID-19 restrictions and our performance in the business per country. We were only partly able to continue our sales efforts since many customers simply did not want to see us and closed down for sales visits and in some cases they also closed down for service visits. In our production and supply chain, we have experienced little impact by the crisis as I stated. We have remained operational across all of our production sites with only minor interruptions and we have not seen a material impact on the supply chains.

Now let us turn to slide 5, please. If we look at the situation as of today, 15 May, we continue being able to produce, supply service, products with very few interruptions and we continue to see a significant lower demand in most markets. As such, our numbers for April show a drop in the organic growth of slightly more than 30%. Short-term we continue our focus on adjusting our capacity and our cost to the lower activity level in the market. A sizable number of employees have been sent on leave or furlough and we have focused our strategic investments to fewer. In addition, we are preparing right now a restructuring plan to adjust and lower our cost base. This includes a reduction in the workforce by an estimated 250 people across functions and regions. And the first reductions will take place this quarter, Q2.

At the same time, we are preparing the business for the new normal that we expect to see on the other side of the crisis. We are very confident that the market for cleaning equipment will come out stronger post Corona. We stay fully committed to the Nilfisk Next Strategy as you know it and we see obviously continued potential in our three overall strategic objectives. To leverage our global setup, to be a solution provider for our customers, and to be a digital leader. What we have learned so far from this crisis makes us confident that this continues to be the right direction for Nilfisk and we will continue to take the necessary steps to adjust our business accordingly.

That said, it is very difficult for us to predict how the demand and the crisis in general will develop moving forward. Many markets are beginning to ease some of the restrictions with very different strategies and speed so there are definitely a number of local variations and scenarios for how the future might look and the visibility is still very low for us. As a result of this highly unpredictable future we maintain the suspension of the guidance that we told you about on 19 March.

Let us turn to slide 6, please, where I want to share some more insight into how the COVID-19 outbreak has impacted our business and what we have done to mitigate it within three areas. First of all, demand, secondly production and finally supply. Starting with the customer demand, we saw this impact in China early on in the year as most Chinese cities were closed down in response to the outbreak. And we even had to temporarily close down our Shanghai office and all travel activities were of course prohibited. And that made it very challenging for the sales force in China to conduct customer visits and drive sales. That was the first taste of the crisis that we got.

From mid-March, the crisis spread across Europe impacting us most in Southern Europe where we saw a very steep decline in customer demand in markets such as Italy, Spain and France. But also the rest of Europe with Northern Europe being impacted but less. Again, this reflects the correlation between the severity of the crisis locally, the restrictions imposed and the performance of our business.

During the latter part of March, the crisis, as you know, also spread to North and South America as well as to the rest of APAC where many customers had to scale down and close their operations. In general, we have seen differences in drops but obviously the biggest drop in customer segments directly impacted by the restrictions such as hospitality and we have seen good continued activity in more vital institutions as hospitals, a very natural demand distribution.

During the quarter, we have taken steps to mitigate the impact on the customer demand. First and foremost, we have taken the necessary measures to ensure that our sales force and service technicians have been able to continue supporting the customers we could visit. This has been particularly important for customers that are part of the critical infrastructure and as a supplier to these customers, we have been granted a special status in the US and the UK as essential business. This has allowed us to continue our operations also in markets where all non-essential businesses were shut down.

In addition, we have made use of all of the digital tools doing digital customer meetings and demos with good feedback from the customers. That said, these actions have obviously not been able to compensate for the dramatic decline that we saw from mid-March.

Turning to production, the main headline is that we have been operational at all sites throughout the quarter, also during the peak of the crisis. Our employees have truly stepped up to the challenge and it is because of their hard work and ability to adapt that we have been able to deliver products to our customers with little to no interruptions. In China we had a temporary closedown of our Dongguan facility earlier in the year following the government restrictions. However, we were one of the first ones to be allowed to resume operations – we are obviously proud of that – due to our contingency plans and the safety measures we had in place. And we have been able to catch up really quickly on that close. Our remaining production and distribution sites have all been operational, of course at a lower than usual capacity due to the lower demand. That is our choice. This also goes even for our site in Italy where we have been allowed by local authorities to continue production to critical infrastructure customers.

To mitigate impact on the production sites we have had very strict guidelines in place for employee safety and hygiene. We have also seen how employees act extremely responsibly in terms of their own safety and we truly appreciate that effort.

Finally, if we look at the impact on our supply chain, we have seen shortage in a very few parts but not to an extent where it has had significant effect on our delivery performance. We did face shortage from third party supplier of consumer products based in China. They had to close down for a period following the restrictions and this slightly impacted consumer sales in February. That is all.

To mitigate the impact on our supply chain, we conducted an extensive mapping of our suppliers early in the year to make sure we had the necessary backups in place should one of these be impacted. Overall, as said, very minimal impact and good planning on our supply chain part of our business.

Trying to sum it all up, slide 8, please. We have managed this crisis by making sure that we kept all of our production sites operational so that we could continue servicing the customers despite the lower demand. We remain fully committed to the strategic direction in Nilfisk Next and we see unchanged potential in that strategy and finally we have of course responded to managing by managing our cost and preparing the restructuring plan that I mentioned earlier to mitigate the impact of the crisis. That is the summary of a difficult quarter. So with that I will hand over the presentation to you, Prisca, for an overview into the financial performance. Please go ahead.

0.12.07
Prisca Havranek-Kosicek
Thank you, Hans Henrik. Let me start off with the profit and loss statement on slide 9. In Q1, we reported a total revenue of EUR 219.1 million and reported growth of -11.2%. In nominal terms, our revenue was reduced by EUR 27.5 million. Out of this, EUR 3.2 million comes from our exit of the consumer business in the Pacific region in 2019. The FX impact is slightly positive, mainly due to a higher US dollar.

This gives us underlying organic growth of -10.3%. Now as we mentioned in our initial financial guidance for 2020, we did expect to realise negative organic growth in the first two quarters of the year. However, we did not expect the sharp decline in customer demand during late March or the very low demand we saw in China during most of the quarter. Because of this revenue decline, our gross profit dropped EUR 12.1 million in absolute terms. However, we have been able to keep our gross margin in line with last year and this despite lower capacity utilisation and also the impact of US tariffs. During Q1, we managed to reduce our overhead costs by EUR 3.4 million. We have been scrutinising our spending across all functions in the company and we have been very cautious in hiring throughout the quarter. Our EBITDA before special items is down EUR 7.8 million as a result of lower sales which we are only partially able to mitigate through our cost reductions. On the EBITDA margin before special items we are down 1.9 percentage points and we end out at 11.4. As expected, our special items were considerably lower than last year and amount to EUR -0.6 million so in summary despite of the positive impact of lower overhead costs and special items, our reported EBIT decreased with EUR 1.9 million as a result of the drop in revenue that we saw in the quarter.

Turning to slide 10 for a review of our segments starting with EMEA. Until mid-March, our performance in EMEA was in line with our expectations with EMEA North performing steadily with positive organic growth and with our two other regions, EMEA Central and EMEA South, reporting negative organic growth, but all as expected.

But as the crisis escalated from mid-March, we experienced a sharp decline in demand following the lockdowns in most markets. EMEA South was most impacted, in particular France, Spain and also Italy. As workplaces such as offices, manufacturing sites and even retail in some places were closed, the demand for cleaning in those customer segments obviously went to a minimum and so did the need for buying new cleaning equipment. We have therefore seen the biggest negative impact on organic growth from these markets that are most affected by lockdowns. At the other end of the scale, we have seen the least impact in our EMEA North region that covers UK, Scandinavia, Finland and Russia. The drop in demand obviously impacted our revenue and we realised revenue of EUR 108.1 million and organic growth of 6.8. The gross margin declined with 150 bps and came in at 46.6. And our overhead cost ratio is in line with last year due to the active cost management that we have seen in Q1. All in all, this leads us to an EBITDA margin before special items of 25.9% which represents a drop of 180 bps.

Moving on to Americas on slide 11. Let us look first at the US as the country makes most of the Americas revenues. With our Q4 performance in the US in mind as we headed into Q1 2020, we did expect negative organic growth in the US in Q1. Until mid-March, performance in the US was slightly lower than we had expected in both the industrial segment and with some of our strategic accounts. As the pandemic spread also to the Americas, we experienced a sharp decline in demand across the US and this added to the negative organic growth. Finally, the loss of a large high-pressure washer dealer in Q2 last year also added to the picture of the total performance in the US in Q1.

In Canada, however, we performed very well and we delivered solid positive organic growth despite lower demand during late March.

In Latin America, this is our markets in Mexico, Brazil, Argentina and Chile, organic growth was negative but with positive variations between the markets. In general, though, we experienced the same drop in demand due to the pandemic that we saw in the rest of the Americas markets. For the Americas region as a whole we realised revenue of EUR 62.6 million and organic growth of -12.3%. Our gross margin declined by 130 bps and came in at 41.5% which is mostly impacted by lower capacity of utilisation but also by the US imposed tariffs.

As we did in EMEA, we also reduced costs in Americas but it was not enough to compensate for the sharp top line. As a result, our EBITDA margin was at 15.5%, a decline of 3.9 percentage points due to the lower gross margin and the cost ratio.

Moving on now to APAC on slide 12. And let me start with giving you a little bit of colour on China where we have seen the biggest adverse development in the quarter. China started off well in January with a performance in line with our expectations. As the outbreak became evident during late January, commercial activity almost came to a halt and we saw a sharp drop in demand that impacted the sales in February. In March as the situation escalated in other parts of the world, the Chinese society started to reopen. Offices slowly returned to more normal conditions and factories resumed operations and also Nilfisk China saw a substantial increase in business activity. However, at the same time, other APAC markets began to get impacted by the pandemic, by diminishing demand and lower business activity so in conclusion, the impact has been significant in APAC where we report a revenue of EUR 15.1 million and organic growth of -25%. Our gross margin improved slightly at 42.4% and that is mainly due to an improved product mix. We have kept our overhead costs in line with last year but of course we see a worse effect on the cost ratio from the reduction of top line. This gives us a decline in our EBITDA before special items of EUR 2.2 million and an EBITDA margin before special items of 3.3% which is a drop of nearly 10 percentage points.

Now for the other two businesses, Consumer and Private Label, please turn to slide 13. In the Consumer business our revenue declined by 14.9 percentage points but out of this, 13 percentage points come from our exit of the Consumer Business in the Pacific region. The FX effect was positive and so we managed actually flat underlying organic growth in the Consumer Business. The performance of the business has been better than we expected in Q1, mainly due to a strong high spring season of high-pressure washers. We saw a minor negative impact on sales in February as was mentioned before due to supplier constraints. But apart from this, we have seen a very strong pick-up of demand during the quarter. We believe this is linked to the pandemic. During lockdowns, consumers have spent a lot more time at home with more time for home improvements and this is reflected in particular in the sales of high-pressure washers. As you know, we concluded the strategic review of the Consumer Business in the second quarter last year and we decided to focus the business on the core EMEA markets and integrate back-end functions into the general Nilfisk business. In Q1, we have seen the positive effect of this restructuring which is also a contributing factor to the good performance in Q1. The gross margin in Consumer is up by 60 basis points to 36.5 mainly due to one-off effects in connection with the outsourcing of the production that we did last year.

In the Private Label Business, organic growth was negative by 21.8% but this is in line with our expectations. Despite lower revenue, gross profit of the segment increased by EUR 0.2 million and the gross profit margin improved by 7.8 percentage points which is mainly a result of product and customer mix.

Now turning on to the balance sheet and the cash flow for Q1 presented on slide 14. Working capital was reduced by EUR 33 million, which is mainly a result of lower trade receivables due to the lower top line. Inventories also decreased, partly because we exited the Consumer business in the Pacific region as I have mentioned but also because we have reduced inventories at a more general level. We have reduced our investments and CAPEX by EUR 7.6 million. About two thirds of this comes from lower capitalisation of R&D projects. The rest is related to tangible CAPEX. A small part of this comes from the change in the way we have handled the sale of rental machines in our accounting historically.

As a result, our CAPEX ratio was significantly lower than last year at 2.3%. Free cash flow was EUR 2.2 million. That is an improvement of EUR 25.6 million. Roughly half of this comes from lower working capital and the rest comes from lower CAPEX and special item costs. Our return on capital employed is lowered by 7.8 percentage points due to the lower EBIT before special items.

We have been able to reduce our net interest-bearing debt with EUR 40.5 million through our improved cash flow. The financial gearing stands at 3.7 times which compares to 3.4 at the end of 2019.

Before we continue to the Q&A session, please turn to slide 16 for the 2020 outlook. As we have announced on 19 March, we expected that the pandemic would have a negative impact both on market demand and on our operations. As we have described in this presentation, the escalation of the crisis has so far impacted demand across most of our markets. Productivity and our visibility remain very low across all markets and we are still unable to accurately assess the potential negative impact of the pandemic. Our financial guidance for 2020 is therefore still suspended.

To wrap up our presentation, let me reiterate that we are proactively managing the COVID-19 crisis. We have focused on adapting our business and commercial activities to the situation to service our customers in the segments and in the industries where we do see activity and we are preparing for the rebound in the other customer segments. In addition, we are actively managing our cost level and we believe it prudent to scale down our investments. We have taken a number of actions to reduce our variable costs across the company and in addition, we are preparing to implement the restructuring plan that Hans Henrik has mentioned earlier in the call. This concludes our presentation and we are now ready to take your questions. Operator, will you please proceed.

0.23.52
Operator
Thank you. If you do wish to ask a question, please press 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel. Our first question comes from the line of Claus Almer of Nordea. Please go ahead.

0.24.12
Claus Almer
Thank you. Yeah, a few questions from my side. I will take them one by one. The first question goes to your balance sheet or your net debt situation. There is no information in the report or in your presentation today how you are managing your current I would guess slightly high net debt situation. So maybe you could give an update on committed but unused credit facilities. That will be my first question.

0.24.42
Prisca Havranek-Kosicek
Thank you Claus, for your question and we are giving the net interest-bearing debt in our report as you know and as I have mentioned in my presentation, if you compare to Q1 last year so end of March 2019, we have actually reduced our net interest-bearing debt by EUR 40 million so that is from EUR 465 to 425 million and you know that we have facilities available, committed credit facilities of EUR 450 million and for the quarter end we have headroom that we can draw around 67 million.

0.25.25
Claus Almer
Would that be enough, you know, in not maybe all possible scenarios but do you think you have enough financial flexibility given high uncertainty in the given COVID-19 world?

0.25.37
Prisca Havranek-Kosicek
No, as you say yourself, it is a very uncertain world and all possible scenarios you know we cannot really think of but what I can definitely tell you is that the headroom is actually increased since the balance sheet date in Q1 and also if you look at the trajectory of Nilfisk over the past two years, we have actually roughly 30 million more headroom now than we had a year ago so in that way, we of course remain sort of cautious about the development of the company over the next months because of the pandemic, we actually feel comfortable with our headroom.

0.26.17
Claus Almer
Okay so just to be 100% sure so it is an active decision from your side that you are not addressing your capital structure at this point at least?

0.26.29
Prisca Havranek-Kosicek
I don't think I said that, Claus, now that is a different question. But your question was around headroom and I tried to give you that answer.

0.26.41
Claus Almer
Okay, so then it will be my second question, is an active decision not – we have just seen so many other companies reporting Q1 numbers that being out either raising their committed lines or issuing new shares to make sure that their financial situation is strong enough given all the uncertainties we have in these days and you don't that is why I am a bit curious how you are thinking about the balance sheet.

0.27.09
Hans Henrik Lund
So basically, Claus, let me answer that question. At least try to answer it for you. We are very, very focused on seeing what we can do with the business and we are taking swift actions on our cost structures. We are looking at working capital, we are looking at all of the internal measures and that is our prime target here so that is where our focus is.

0.27.33
Claus Almer
Okay, so my second question goes to your new restructuring programme although details are few but as I read, the report is that you will also do some structural lower cost initiatives. We have been through 4-5 years with a lot of cost savings that have been implemented. How is it possible that you can do additional lower cost savings? That will be my second question.

0.28.05
Hans Henrik Lund
So, Claus, honestly what is happening here is some of the stuff we have built over the last couple of years enables us to be more efficient and we are now leveraging that and we are accelerating some of it. You know that we have globalised the organisation which means that I will just give you examples – a few examples, take campaigns, marketing campaigns. We can do them more globally now than we

could before. There is definitely a benefit from that. There are other examples of the globalisation we have done that can help us moving forward. There are examples of us being more digital compared to what we used to be. That is helping us as well so there are a number of the things that we have done for the last two years where we look at each other and say: Hu, quite happy we have done those. And we can leverage it. The way we have looked at it Claus, I don't want to discuss functions or countries or anything because reality is that we are now going into negotiation processes with our partners in the impacted countries so I cannot share too much details but I can say that we have looked at every function and every geo and we have found these potentials.

0.29.23
Claus Almer
Okay then just a follow-up on all of this. If you look at your number of employees Y/Y it is down by 10% something like that and I know part of that is due to your divestments back in 2019 but if you just look at the number of reductions in employees multiplied by the average salary, it might not be the right way to do it but that is at least the best way I can do it, then you know your cost savings on overheads should be around EUR 7 million and still overhead is only down by 3-4 million Y/Y so can you try to explain in absolute terms why the cost base is not coming down more than it did in Q1? That will be my question and my last question.

0.30.15
Prisca Havranek-Kosicek
Thank you Claus for the question and you are right we have reduced our Full Time Equivalent FTEs if you look at last quarter 2019 to this quarter but of course you have to bear in mind that there is a lot of mixed effects you know depending on is it blue collar, is it white collar, in which region of the world it is and as you have mentioned yourself, we have of course had a lot of divestments during that period as well. So I don't think you can conclude with the math of 10% you know a reduction times average personnel cost. What I can tell you is that we have been actively managing our cost. You also saw that we have been able to reduce our overhead cost in the quarter. We are more than ever managing our cost. We have, I think I have mentioned that in the call, we have put measures in place to reduce our variable spend in particular ever since the crisis started and we actually see in the second quarter already quite some nice effects from that and on top of that, as Hans Henrik mentioned and also I mentioned before, we are structurally addressing the cost with the overheads basically with the restructuring programme that we have just announced.

0.31.36
Claus Almer
And sorry, why it is so difficult to understand in numbers. You are doing all these things and there is no travelling you know, there is no restaurant visits and all of that, hotels and we then in addition to that add fewer employees. Let us just say we are at half average salary at group level, we still don't see the effects. I really don't get to understand the math behind the numbers.

0.32.08
Prisca Havranek-Kosicek
So as I have explained also I believe in the Q4 call, if you are looking to last year versus this year and that is valid for last year but also for the first quarter, you know that apart from what I have already said around divestments and mix in the workforce, of course Nilfisk has just invested throughout the year 2019 into strategic initiatives and we have discussed that I believe at the year-end result conference call that some of those initiatives of course carry also costs and annualisations of cost in 2020. Now this has been compensated by the cost

savings that you all know about but the net effect as I have already explained you know before is that it is not fully compensated but we have been able to reduce our costs in Q1 and as I have already pointed out and I am actually very happy with the results that we have seen in Q2, we will continue to do that and of course now with the crisis we are in a somewhat different situation regarding the uncertainty of the future and we will even more be prudent both in our cost levels but also in our investments going forward.

0.33.20
Claus Almer
Okay thanks.

0.33.24
Operator
Thank you. Our next question comes from the line of Kristian Johansen of Danske Bank. Please go ahead.

Kristian Johansen
Yes, thank you. So first question is on the performance up until mid-March, you say it is in line with expectations but if we go back to your original guidance on organic growth, it was rather wide, ranging from -4 to +1. So is it fair to assume that the trend up until mid-March was still towards the lower end of your initial expectations?

0.33.54
Hans Henrik Lund
You are right about that and we communicated that upfront, Kristian, that we had a back-end loaded year as I also talked about in the presentation. So we didn't have high expectations for Q1/Q2, we had higher expectations for Q3 and Q4. So your assumption is right.

Kristian Johansen
Alright, good. Then getting back to the balance sheet, your financial leverage goes up from 3.4 times at the end of Q4 to 3.7 times in Q1. Can you just confirm whether or not you are in breach of covenants at the end of Q1?

0.34.27
Prisca Havranek-Kosicek
I can absolutely confirm that we are not in breach of any covenants or any financial obligations that we have.

Kristian Johansen
That is great. Would it be fair to assume though with what you are seeing going into Q2 that it is still likely that your leverage will continue up in Q2?

Prisca Havranek-Kosicek
No, it is hard to speculate on those things given the volatility we see in the markets right now. But if I were to do that, then I would say yes, I probably would anticipate an increase in leverage.

0.35.06
Kristian Johansen
Okay, great. Then in terms of this restructuring plan you are doing, as Claus also mention, you have done quite a lot of strategic actions over the past many years. How do you ensure that you are now forced to go out and restructure without sort of damaging any of the potential you have established and invested heavily in over the past years?

Hans Henrik Lund
That is a great question, Kristian, and reality, as I said before, is that we are building on some of the strategic initiatives that we have implemented. I have always said to you that having a global organisation will make us more effective in certain areas and we are now ready to harvest some of that, that is really what it is. So I can say to you very, very clear that the three strategic pillars that we have, being a global company, being a solution-provider for our customers and being digital, those cornerstones of our strategy will remain and everything that we do will align up against those three strategies. So I feel very comfortable that we are intact in terms of following our strategy and of course I also feel happy about the fact that cleaning is becoming more a discussion topic in our daily world hence of course the market eventually post-corona will also be there for high quality cleaning machines.

0.36.40
Kristian Johansen
Okay. And then just housekeeping, special item costs for 2020, what should we expect for that line?

Prisca Havranek-Kosicek
So, I am afraid we have withdrawn our guidance and therefore, I cannot really comment on that. What you see in Q1 is that we are fairly low on special items but that is mainly related to phasing of projects.

Kristian Johansen
But.. I guess I can ask in a different way, I mean in terms of your original guidance, is there anything you have taken out or postponed or anything like that?

0.37.17
Prisca Havranek-Kosicek
I cannot guide on the special items, as you can imagine, we are working on the restructuring plan and this will come with special items but I cannot quantify this at this point. And then at the same time, as I have mentioned before, we are of course readjusting the projects that we are executing while be assured that the cost saving programmes, you know, those projects will continue but it is hard to basically combine the two without being able to give a guidance.

0.37.50
Kristian Johansen
Okay. That was all from me. Thank you.

Operator
Our next question comes from the line of Casper Blom of ABG Sundal Collier. Please go ahead.

0.38.01
Casper Blom
Thank you very much. Hi Henrik and Prisca. A couple of questions from my side as well. First of all regarding the Americas and especially the US. I think it is pretty clear that you had some challenges in the US, also before COVID-19. I also think the general perception is that the US was rather late to get affected by COVID-19 during the first quarter. Still, you post 12% negative organic revenue decline in the Americas in Q1. What is sort of the underlying development of what is happening, especially in the US? I mean those challenges that you talked about in previous quarters, how are you turning around that business underlying, looking aside from COVID-19? That is the first question, please.

0.38.50

Hans Henrik Lund
Thank you Casper. If we go back to our Q4, we had a very challenging Q4 in US and Americas and we basically said look, we expect that to continue into Q1 and I am ready to give you at least some insight Casper and say hey, if I give you a number for end of February, the first two months, we were probably at about -6% over there. So that gives you a feel for what happened through the quarter. That -6% is of course not winning us any market share, on the contrary, however, if you compare it to what we did in Q4, it was an improvement, right? So that was pretty much in line with what we had expected for Q1.

0.39.40
Casper Blom
And what was the sort of tangible decisions that changed the -13 in Q4 to -6 in the first two months of the year?

Hans Henrik Lund
You cannot really see it as a tangible decision as such. It is time. I mean, we were too optimistic in 2019 to how fast we could make an impact in the market. We communicated that to you. What we are doing is still the same, Casper, we have gotten much better in the commercial channels, that we have been good with, and of course we need some improvement in the industrial channel and we need some more major account wins. And Jamie is working on that on a daily basis and we just, you know, we have to keep going at it. This is not something that will happen by a miracle after having been in a difficult position in the US for many years. This will take very consistent, very persistent work and that is what we do quarter over quarter.

0.40.40
Casper Blom
Okay. Turning to EMEA and Europe then. Last year, we heard you talk about how a lot of your customers, especially in Germany, were holding back on investments as they were a bit afraid about the business outlook. How did that trend develop in the first quarter, especially before COVID-19? I mean were these clients still reluctant to place orders and maybe if we could get that January/February development for EMEA as well, that would be very interesting.

0.41.09
Hans Henrik Lund
I am sorry, I don’t have that in my head, Casper, we might have to come back on that one. But I can talk to what we experienced. We know that the German economy was in real trouble in Q3 and Q4 and it kind of stabilised through that period so we went into it with conservative expectations for Q1 and we were actually ahead of our own plans in EMEA up until end of February. I cannot remember the specific number, Casper. But it went well in Central which I was very worried about last year, so good with that. And then of course you know when Italy closes down and France closes down and all of that, then it becomes difficult.

0.41.50
Casper Blom
Sure. That is understandable. And talking about that and talking about the difficulty in getting out to meet new clients and show them the product and convince them to make the sale, I understand that is really difficult when most of your markets are shutting down. But do you see any kind of pent-up demand, you know, customers that you have a dialogue with that want to do business once society opens up again, once they actually have an airport that needs cleaning and a gymnasium that needs cleaning and so on?

0.42.18

Hans Henrik Lund
Casper, it is back to the same basic as you have pointed out also earlier. You know, the machines can be used for a year, a year and a half longer than you normally would but then they need to change, right? So ultimately, the demand will be there. Now, let's see when and this is the lack of visibility, right? We don't know when. But of course, people need to buy new cleaning machines.

Casper Blom
Do you see any kind of change in the type of machines that customers might ask for after COVID-19? I mean, everything is being disinfected at the moment, so is there any change in the demand for what kind of products and do you have the right products for a potential change in the demand?

0.43.02
Hans Henrik Lund
So there are actually two things you can debate and I am speculating a little bit with you. I can say, first of all, which is not speculation: We are not seeing a trade-down. So it is not like the Viper range is booming and Premium is not. So the trading down is not happening, Casper. When I speculate with you, I honestly believe that the cleaning market moving forward will be much more concerned about making sure that it's cleaned really, really well so I foresee that the Premium products will be the ones that people want to buy. So I am not seeing the trade-down trend in any way, shape or form.

0.43.41
Casper Blom
Okay. And then my last question. Looking a little bit into the second quarter with the more than 30% decline you talk about in April in organic growth, it is probably fair to assume that organic growth for the whole quarter will be hit even harder than Q1 was. How should we think about your gross margin in that perspective? How much of the cost of goods sold are truly flexible and linked to revenue and to what degree will there be some stickiness? So a little bit the, how can you say it, operational leverage on the gross profit, Prisca.

0.44.17
Prisca Havranek-Kosicek
Yes, that is a very good question. And you are right, we cannot speculate over Q1 and obviously, we cannot guide about Q2 but I think it is a fair assumption that the revenue decline will be worse than what we saw in Q1, I think I can say that safely. Now, for gross margin impact, roughly 15-ish% of our cost of goods sold are fixed so of course, that is something that we cannot address short term because it is basically facilities overhead and energies. So that is something that will definitely hit us in the form of underutilisation in the gross profit.

0.44.59
Casper Blom
Okay and the other 50%-ish are then flexible?

Prisca Havranek-Kosicek
15, sorry, 1 5.

Casper Blom
15? Okay, that is different. So 15% fixed and 85% not fixed. But the part that is not fixed, does that move totally in tandem with revenue?

Prisca Havranek-Kosicek

No, because of course, it depends on mix, it depends on the way we phase our manufacturing, so you cannot assume that it is a 1:1 relationship and mix, as you have seen also in Q1, has quite an impact on the total gross margin.

0.45.35
Casper Blom
Yes. Okay. Thanks anyhow, thanks a lot.

Operator
Our next question comes from the line of Mikael Petersen of SEB. Please go ahead.

0.45.46
Mikael Petersen
Hi, thanks for taking my question. I was a little bit surprised about the gross margin due to decline in revenue but you mention that the mix is positive but you also mention that the raw material was positive. Can you try to quantify how much the positive effect from the raw material was?

Prisca Havranek-Kosicek
So overall, we have seen, of course, the tariffs and the raw materials cancel each other out to a certain extent. I would estimate that at around 0.3% of the total margin.

0.46.33
Mikael Petersen
Alright, thank you. And then maybe, if I may, a little bit in relation to what Kristian was asking about. Due to the restructuring programme that you mentioned earlier, you were expecting like a run-rate of positive 50 million impact by the end of 2020. Now that you are doing the restructuring, I assume the positive effect will be above 50 million in the end of 2020?

Prisca Havranek-Kosicek
Can you repeat your question? We have some acoustics problems here in the room.

0.47.10
Mikael Petersen
Yes. Your previous guidance on the restructuring cost and the benefits of the cost saving programme, previously you have guided that the cost saving programme has a target of realising € 50 million in annual savings. Now that you are doing additional restructuring, I assume the number will be higher than the 50 million in the end of 2020, is that correct?

0.47.33
Prisca Havranek-Kosicek
Absolutely. Yes, absolutely.

Mikael Petersen
Okay. Then maybe a final question if I may. You were talking about the implementation of the new structure in the US and you also have implemented ServiceMax etc. Have you seen any positive effect of this yet? You can maybe answer it differently or separately on both in the US, the new organisational sales structure, how much that has benefited and then secondarily how the ServiceMax implementation has benefited your organisation and sales.

Hans Henrik Lund

Mikael it is very, very difficult to put a number to your question so that I cannot do but I can talk about it. It is clear on ServiceMax that it helps us to be more efficient. I cannot put a percentage to it yet, it is early days, because quite frankly, when you implement a new system, you initially have to do more training, more learning and that is sort of masking some of the later efficiencies you gain. So it is a little early but I am absolutely convinced we will get those clear after everybody is used to using the system which is the phase we are approaching now. On the sales structure in the US, again, you are not seeing that month for month. I am very confident with what Jamie is building and all of the channel conflicts and all of the stuff we had in the past has been dealt with. He has gathered a strong leadership team around him, there is much more clarity in the market amongst our customers, how we do things, we are much more consistent to what we used to be, we are touching on the right customers much more than we used to. All of that, Mikael, eventually will turn right.

0.49.20
Mikael Petersen
Okay, thank you.

Operator
The next question comes from the line of Claus Almer of Nordea. Please go ahead.

Claus Almer
Yes, I just have few follow-up questions. The first is coming back to your new restructuring initiatives. When are you ready to make a communication about the structure, the impact, both for one-off cost but also the positive impact? That would be the first question.

Hans Henrik Lund
Thank you Claus. Right now, we are very, very focused on discussing this with the right representatives in the different countries. It will take us a little bit more time. We have communicated that we expect to see the first impacts in Q2. At this point, I am not really firm on a date where we can tell you about the financial impact. We will come back on the question when we are solid. We are in the middle of the planning.

0.50.26
Claus Almer
Sorry, the other thing is will it be Q2 in August or will it be a whenever you are ready to quantify the effects?

Hans Henrik Lund
What I said, Claus, was not communication. I said we will start seeing the first impacts of the programme in Q2, meaning the first things will roll out and be implemented in Q2, so that gives you a feel for where we are in our planning and then we will come back to you after that.

Prisca Havranek-Kosicek
And then maybe while I realise that it is not all the information that you might completely require but I think the 250 FTE gives you some indication of the magnitude of the programme.

Claus Almer
Right, okay. Then just my next question or final question which goes back to Casper’s question regarding machines or equipment to disinfection which I guess is enjoying high demand in these days. Can you give an update on where you are in that space?

0.51.31
Hans Henrik Lund
I can. And we have seen customers come to us and say we really like that you are a total supplier for us. What can you do to help us with steamers for disinfection? And we have immediately included them in the programme so customers can buy them from us. We have had requirements in terms of products that can spread – I lost the word – can disinfect. We have included those in the programmes as well so we have done some pretty good stuff. You might even have seen one of the more interesting things that has happened. We are doing tests with ultraviolet SC50 Products in Pittsburgh Airport. That is another outcome of this. So we are doing, we are adding things to the programme, we are doing a few changes to some of our existing products and then, as said, SC50 With UV lighting is an interesting one as well. So the opportunities are there, Claus, and we need to pick the right ones.

0.51.40
Claus Almer
So these new products, you said you are adding these products to the portfolio so it is newly developed products or how should we understand? And what is the potential by the way?

Hans Henrik Lund
This is partnership products, Claus, where we partner up with other companies who have developed the products and we sell them for them. And it is obviously.. Do you want to go ahead Claus?

Claus Almer
No, no, just continue

Hans Henrik Lund
Thank you. So we have basically introduced them to our channels and there is not of course the same margin as we see with our own products but there is a decent margin on it. And we are helping customers through this period. Then you asked me about the long-term potential of what is in this. And that is of course too early, Claus, to answer. There is a huge need right now for these products and we are addressing that. Is it a sustainable need a year from now? That is the bigger question.

0.53.41
Claus Almer
Sure. So just to be sure, so let’s call it reversed OEM partnership, so you are in-sourcing products from a third party and selling it via your distribution network. Is that how we should understand it?

Hans Henrik Lund
That is exactly how it is.

Claus Almer
Thanks. Good.

0.54.04
Operator
Thank you. Our next question comes from the line of Kristian Johansen of Danske Bank. Please go ahead.

Kristian Johansen
Thank you. Just a follow-up question on this slightly more than 30% drop in April which you highlight and whether you can elaborate on any geographical

differences, especially whether you have seen sort of a recovery in APAC which I guess was impacted already earlier in Q1.

0.54.32
Hans Henrik Lund
Honestly, it is pretty much across the board, Kristian, there is not much difference and if I speak to APAC, we should remember that it was a China problem earlier in the year in Q1, starting there, but then it got back into the other countries in APAC so if you look at the lockdown schedules, we have a lockdown schedule in Singapore that goes until early June, we have a lockdown schedule in Australia, New Zealand, that was about mid this month, we have had a lockdown in Japan which is also about mid this month, and Singapore I talked about already so that was again, then Malaysia, Thailand, same lockdown schedules opening up now potentially mid-month, potentially start of June. So APAC is in the same situation as the rest of the world.

0.55.31
Kristian Johansen
Okay, but for China specifically then, have you seen a recovery here?

Hans Henrik Lund
Yes we have. Not a full recovery, obviously, but we see improvements month over month, starting from a very low level that we had in February. So we are getting there.

Kristian Johansen
Okay, great. Thank you.

Operator
Just to remind everyone, if you would like to ask a question, please press 01 on your telephone keypads. If you wish to withdraw your question, you may do so by pressing 02 to cancel. There will now be a brief pause while any further questions are being registered. And there are no further questions. Please go ahead, speakers.

Hans Henrik Lund
Thank you so much for joining us today and asking lots of questions. We like that. So have a good day and stay safe out there. Thank you. Bye.