Nilfisk Annual General Meeting 2021
March 26, 2021

Chairman's Report

Dear shareholders; once again, welcome to our Annual General Meeting!

We are gathered today to review the year 2020 – our results and key events at Nilfisk during the year. Before we go through the report, let me just reflect a bit on the year 2020.

It has truly been an extraordinary year for all of us!

When 2020 began, no one expected a worldwide pandemic on the scale we witnessed during the year. It became a challenging time for us as human beings, for our societies, and for the world economy, and in March – exactly one year ago – it was clear that the COVID-19 outbreak would have a significant impact, also on Nilfisk.

The rapid escalation of the pandemic created an unprecedented level of uncertainty and volatility that forced us to operate our business under challenging working conditions with a fair level of visibility.

To this end, I'd like to send a warm thank you – both to our employees for their ability to adapt to the challenging situation, and to the customers of Nilfisk for continuing to place trust in the company during the crisis.

The pandemic is still with us, and while we strive to find purpose and to define the future 'new normal' once COVID is defeated, it continues to affect both individuals, businesses and societies across the world. With vaccine programs being rolled out in many countries, we are starting to see a glimpse of light at the end of the tunnel, but the COVID-19 pandemic has not disappeared, and it will likely continue to affect our business in 2021.

Looking at the 2020 results, we are obviously not satisfied with the overall performance, and we are convinced that our results can and will improve. That said, we are satisfied, though, with how we have navigated through the pandemic during 2020, and how we have, with the actions taken, laid the groundwork for a stronger Nilfisk.

Let's look at the actions we took.

From the minute the pandemic started to evolve in the beginning of the year, our main focus at Nilfisk has been to keep our employees safe – while keeping the business fully operational and serving our customers throughout markets.

We have been able to continue production and distribution with little to no interruptions – also during the peaks of the crisis. We implemented precautionary measures to ensure that our sales force and service technicians could continue supporting customers. This has been particularly important for customers that are part of the 'critical infrastructure' such as healthcare, manufacturing and parts of retail. As a supplier to these segments Nilfisk was granted status as an essential business in countries like the US and UK. This allowed us to continue our operations also in markets, where all non-essential businesses had to shut down temporarily.

Through our offerings, we also responded rapidly to the pandemic and to the increased focus on cleaning. Over the course of the year, Nilfisk brought selected new solutions to market, tailored to the specific cleaning challenges our customers were facing during the pandemic:

1. We re-introduced a range of steam cleaners in selected markets
2. We launched a portable disinfectant sprayer solution in the US
3. And last but not least, we introduced an innovative UV-light solution that can disinfect and remove bacteria and virus. This solution can be applied to Nilfisk's autonomous scrubber, the Liberty SC50

And then, we had to completely rethink how we interact with customers; meeting with them online and performing virtual product demos. Our customers have responded positively to the virtual sales visits, and we are confident that these new ways of collaborating will continue even after the pandemic.

Internally, we reacted swiftly to the new situation and changes in demand. We focused on proactive cash management, as well as CAPEX reduction and prioritization. And – at the same time – we executed a restructuring plan with the aim of lowering our structural cost base.

So, all together, it has been crucial for us to react and to act in order to mitigate the heavy impact from COVID-19.

Looking at the 2020 results, there are in particular two numbers I would like to highlight.

Nilfisk delivered a stable EBITDA margin before special items of 12.1% in 2020. As I just said, it was a challenging environment in the marketplace, but with the actions taken, such as disciplined cost control measures, less travel costs, and a successful execution of the restructuring program, we delivered a margin in line with last year, despite the lower revenue.

Organic growth for the year was minus 11.5%. In the first half of the year, we experienced a steep decline in customer demand across markets. Restrictions and lockdowns in response to COVID-19 forced many of our customers to scale down, or even temporarily close their operations, and obviously, this impacted our revenue. We saw these patterns across the globe, starting in China and APAC, and then moving on to EMEA and then to the US. This enabled us to plan ahead.

And as the first wave of the pandemic started to ease, we saw a gradual and steady recovery in demand patterns quarter over quarter in the second half of the year. However, demand did not reach the level from before the pandemic despite the significant pick-up.

Total revenue amounted 832,9 million euro compared to 966.5 million euro in 2019. Excluding the impact from foreign exchange rates and our exit from the Consumer business in the Pacific region, this corresponds to an organic growth of minus 11.5%. This is a reduction of 133.6 million, corresponding to reported growth of minus 13.8%.

As I just said, we did see a gradual and steady recovery in the marketplace in the second half of 2020 with improvements quarter over quarter. Market activity came back in EMEA and Americas, and demand increased, and we ended the year with total organic growth of minus 2.1% in the fourth quarter.

Over the course of 2020, there were large variations in market demand, across customer segments and markets. Among the most impacted markets were China and the southern part of Europe.

Looking at our reporting segments and geographies, we see the organic growth rates for the full year, with EMEA coming in at minus 11.6% with countries like France, Spain and Italy being hit hard in the first months of the pandemic.

Americas ended at minus 12.4% organically, and here we have experienced a solid pick-up in market activity in the US in the second half of 2020. Americas reported a positive organic growth of 2.1% in the fourth quarter, driven by positive development in the US.

Across all geographies, we saw the hospitality sector – industries like hotels, restaurants and casinos – being much more affected than for example areas of retail and manufacturing. This has had an impact on our business in many Asian markets where the hospitality segment is a large contributor to our sales. APAC as a whole ended with organic growth of minus 28%.

Our consumer business showed solid performance during the entire year: We are very pleased with this performance because it's not only a result of a high market demand in home improvements as a side effect of the pandemic, but also due to a strong effort from our Consumer team. It is great to see that the team has picked up on opportunities in the market, not just with existing customers but also adding new customer wins during the year.

Now, moving on to earnings:

The drop in revenue led to a lower gross profit for the year as our gross margin suffered from low capacity utilization especially in the second and third quarter because of the lower demand. In the fourth quarter, though, the pick-up in demand led to higher activity. As a result, we have seen a gradual improvement in our capacity utilization, which is reflected in the gross margin coming in at 41.6% overall for the full year, and at 42.4% in the fourth quarter. For comparison our gross margin was 42.1% in 2019.

As I mentioned earlier, 2020 was characterized by a strong focus on cost management across Nilfisk, fueled by the new situation brought on by the pandemic. In general, we have realized savings across all functions and across all key markets at Nilfisk, and over the course of 2020, we managed to reduce our overhead costs by 43.7 million euro compared to 2019. We received grants from government support programs of around 7 million euro, which we are thankful for, so, the underlying reduction was around 37 million euro.

Roughly half of this reduction is driven by lower activity-related costs such as less travel, less marketing and less freight costs. The remaining part of the reduction is driven by lower personnel cost where our restructuring initiative – reducing the workforce by approximately 250 full-time positions – has been the key driver.

So, while the drop in revenue led to a lower gross profit for the year, this was partly off-set by lower costs, and our EBITDA before special items ended 17.2 million euro lower than last year. BUT at the same time, our EBITDA margin before special items was at the same level as last year at 12.1%. We have been operating in exceptional circumstances, and through prudent cost management we were able to maintain the margin, which came in slightly higher than we anticipated in our latest guidance in November 2020.

Net result for the year 2020 amounted to minus 2.6 million euro, which is lower than last year due to the lower EBITDA and certain impacts in tax assets.

The financial gearing – measured as EBITDA compared to net interest-bearing debt – amounted to 3.8 times, which is an increase compared to the level of 3.5 times in 2019.

Nilfisk's capital allocation principles target a balance between pay-out and financial gearing. Specifically, we have stated a financial gearing target measured as net interest bearing debt divided by EBITDA of around 2.5, which is currently not met.

In addition, the impact of the COVID-19 outbreak has had a negative impact on market demand and in turn, on the revenue generation for Nilfisk in 2020. More importantly, the outbreak has led to a high degree of uncertainty in respect of the future macroeconomic development. Consequently, we have focused on proactive cash management and worked actively to manage our inventory levels to match expected demand.

And we have further emphasized our focus on credit collection, which has helped to reduce the net interest-bearing debt at the end of 2020 to 383.2 million euro. This is 30.9 million lower than at the end of 2019.

As the capital targets are not met, the Board of Directors proposes that no dividends will be distributed for the financial year 2020.

Now, to conclude my review of the financial year 2020, let's take a look at the share price development during the year.

The share price declined by 11% during 2020, in the context of a severe economic disruption generated by the COVID-19 pandemic.

The price has recovered after the announcement of the preliminary results in January 2021 and the fully consolidated numbers beginning of March.

So, if I should sum up 2020, I would like to do it with these three key messages:

1. We've navigated through challenging market conditions created by the pandemic, with a determined focus on serving our customers, and providing them with the solutions and services they needed – also new products catering for demands brought on by the pandemic

2. We've taken action on the new situation and mitigated the impact through strict cost management and a restructuring program that – all together – made us maintain margins despite the lower revenue

3. And we've stayed focused on strategy during a year that challenged us, for example keeping a steady focus on digital and autonomous solutions. I'll share more details on our strategic direction shortly.

All-in-all, this leaves us confident about the commercial execution for 2021, which will be a year where we will focus on regaining sales volumes as markets recover from the pandemic.

This focus is reflected in our financial outlook for 21, which was announced on the 3rd of March, and repeated today.

We come from a situation where we've seen demand improving quarter over quarter in the second half of 2020, however, moving into 2021, there has been an increase in lockdowns and restrictions across markets as a result of the continued outbreak of COVID-19. With the roll-out of vaccines across markets, we expect a more normalized environment during the second half of the year, but we see, however, continued uncertainty for market conditions in the year.

In 2021, we expect the total business to generate organic growth of 5% to 10% compared to 2020, based on the market demands trends we are experiencing, and on the overall expected economic recovery.

Structural costs in 2021 are expected at a lower level compared to the year before. On the other hand, we expect activity related costs such as marketing, freight and travel to increase compared to the relatively lower levels reported in the third and fourth quarter of 2020.

So, with our continued focus on cost discipline and revenue growth as described above, we expect EBITDA margin before special items to stay in the range of 12.5% to 14.5%.

So, the focus in 2021 will very much be on capturing the demand as markets are recovering.

Our actions will continue to be guided by the overall direction, set by our strategy named "Nilfisk Next". Building on our mission statement and vision, Nilfisk Next outlines three overall objectives, which are:

1. becoming truly global with harmonized processes and ways of working across the organization – to ensure consistent customer service and product quality

2. becoming a Solutions Partner, meaning that we add value beyond the machine and deliver complete solutions for our customers

3. And finally, our digital approach, which means that we promote a 'digital-first' mindset that helps us to improve the customer experience and build a coherent IT backbone

Our strategic direction set by "Nilfisk Next" has been confirmed during the pandemic, where focus areas like globalization, autonomous cleaning solutions, and digital, all have become more important than ever.

So, while navigating through the turbulent waters created by COVID, we stayed focused on our strategy and executed key initiatives.

This slide provides an overview of the key accomplishments from 2020, and let me just walk you through them here:

Within our autonomous solutions we have seen solid progress in the sales of the Liberty SC50 scrubber. Sales have been expanded to multiple customer segments and cleaning applications within industries like airports, retail, and healthcare. And across segments, we have seen a growing interest in autonomous solutions brought on by the pandemic.

Because of COVID-19, cleaning has become more essential for many businesses and institutions, and many of them have turned to autonomous cleaning technology to meet these new demands.

In parallel, we launched an additional autonomous scrubber, the Liberty SC60. It's a larger machine, and our first machine built on software developed by one of our technology partners, Brain Corp. Because it is larger and therefore relevant for bigger indoor spaces like warehousing and logistics centers, it complements our other autonomous scrubber quite well, the Liberty SC50.

We continued the execution of the growth plan for the US business focusing on leveraging the full portfolio, serving our distribution partners better, and strengthening our approach to strategic accounts. Despite the COVID-19 pandemic, we have seen progress in all three areas during 2020.

We are also happy to see development in terms of our digital efforts, very much accelerated by a growing digital approach brought on by the pandemic. We continued to expand our global e-commerce solution, which was implemented in 16 European markets by year-end, and together with other initiatives like virtual product launch events and trainings, as well as the migration to a scalable and more efficient web platform, we have further supported an improved digital customer experience.

Finally, I would like to mention the development of our supply chain. During 2020 we went live with two new European distribution centers operated by our supply chain partner, and leading to faster and more efficient deliveries to our customers.

The COVID-19 pandemic has left its mark not only on the way we work and do business, but also on cleaning in general. The value of clean has become more evident. We are more focused on cleanliness and hygiene, and both are now business-critical for all industries. At the same time, the pandemic has positioned public health and safety as critical parameters.

Obviously, the awareness of the need for sustainable cleaning solutions has been rising for the past many years, but we are now at a point where sustainability is becoming a basic requirement in the eyes of customers, employees, and investors.

Climate-related issues are placed high on the global agenda, and also on Nilfisk's. As a provider of cleaning equipment, we at Nilfisk are responsible for developing products that are even more sustainable than those available today, so our customers can clean to a higher standard without harming the environment.

During 2020, we continued the efforts to fulfil our ambitious targets on the climate agenda. Based on a solid data foundation, Nilfisk has signed up to the "Science Based Targets"-initiative and committed to reducing our carbon emissions from our operations – both direct and indirect – by at least 35% no later than 2030. In parallel, we are working on assessing and reducing the carbon footprint related to our products.

The sustainability focus will be increasingly important moving into 2021 and beyond.

This is backed, of course, by innovation as a continued key driver. Including bringing digital solutions to market and working with sustainability across our business and our offerings.

So, if I should look ahead, 2021 will – as I said earlier – be characterized by dedication to regaining sales volume as markets are recovering from the impact of COVID-19.

The pandemic is still with us, but we also believe that more normalized market conditions will return in 2021, and we are determined to meet and address any pick-up in demand, and any need that may arise in this comeback.

The value of clean has been reinforced, and Nilfisk is in a solid position to benefit from this development and emerge as a stronger company on the other side of the pandemic.

We will improve our commercial execution to offer our customers a great experience in both sales and service to drive growth. And with the progress made in terms of simplifying structures and processes over the past years – including the actions we've taken over the course of 2020 – the foundation for commercial execution is better.

Now, moving on to the work of the Board of Directors.

The challenging market conditions caused by the pandemic provide a fertile basis for continued good discussions at Board and management level throughout 2020.

We have a fixed plan for meetings throughout the year for the Board and in the individual committees. Here, you can see an overview of the meetings that have been held by the Board in 2020, and because of the extraordinary situation caused by COVID-19 there have been more meetings in the Board of Directors than usual. On top of this, there have been many telephone calls and teleconferences, and a large number of informal meetings. At the same time, we have close and active cooperation with the management team in Nilfisk.

Following the Annual General Meeting in June 2020, and a wish from the Board to engage even deeper in market and competitor insights and progress of strategic initiatives in the company, we formed two additional committees, namely a Project Management Office Committee and a US Committee, the latter to increase the Board's focus on the US market.

Remuneration of the Board of Directors is addressed at agenda item 7, at this Annual General Meeting. I would like to add a few comments to this topic already now.

The Board of Directors proposes to maintain the same level of remuneration for the Board of Directors in 2021 as in 2020. It means that each ordinary member of the Board of Directors shall receive a base fee of 300,000 Danish kroner. Additionally, the Board proposes that the work in the Board committees shall be remunerated as described in the Notice with Agenda. There is no base fee for the work performed in the two ad hoc committees, the Project Management Office Committee and the US Committee. Additionally, one member of the Board, Are Dragesund, refrains from receiving the base fee as well as additional fees for the committee work.

The proposal includes that the Chairman shall receive 3 times the base fee, and shall not receive additional fees for the committee work.

The Deputy Chairman shall receive 2 times the base fee.

The proposal on remuneration is handled at agenda item 7, a little later at this Annual General Meeting.

While we are at the topic of remuneration, I would like to address this topic.

Nilfisk's remuneration policy was adopted at the June 2020 General Meeting. It sets out the general framework for remuneration and contains specific rules on incentive pay for the Board of Directors and the Executive Management of Nilfisk.

During the year, the Remuneration Committee of the Board of Directors reviewed the company's current remuneration policy to ensure that it complies with the revised Recommendations for Good Corporate Governance and reflects market standards.

On this background the Board of Directors proposes certain changes to the Remuneration Policy. It appears on the agenda of this Annual General Meeting, item 10a:

- The main change is an increase of the maximum annual bonus award from 70% to 100% of the base salary to follow market practice. In some cases, our current bonus potential was not high enough to attract relevant candidates and the proposed change addresses this

- It is specified that if the target performance under the long-term incentive scheme is reached, 50% of the award will normally be payable, which reflects current practice

- The regular notice period is adjusted from normally 6 months by the executive and 12 months by the Company to 6-9 months by the executive and 12-18 months by the Company

- Finally, there is an opportunity to agree on an extended notice period for the management in case of a change of control, still subject to the maximum total notice period of 24 months,

The remuneration of the Board of Directors and the Executive Board is described in further detail in Nilfisk's remuneration report, which will be presented for an indicative vote for the first time at this general meeting. This will happen at agenda item 6.

In the Remuneration Report, it also appears that COVID-19 has also played a role here. The bonus plan for managers and key employees was adjusted to reflect the quarterly fluctuations. For the Executive Management Board and Nilfisk Leadership Team, the bonus targets were not adjusted, which is why the bonus payout was lower. At the same time there was no annual salary adjustment across all levels of the organization.

In the Remuneration Report, it also appears that Nilfisk reduced the number of employees, including a reduction in the Leadership Team and other senior positions, which led to a leaner and more cost-effective organization.

Our goal and intention is to pay managers and employees of Nilfisk appropriately and fairly according to market standards. We strive to have a Remuneration Policy and practices that reflect the nature, complexity and size of the company and its current situation. In addition, we seek to ensure that the remuneration policy continues to support the Company's strategy as it attracts, motivates and retains key employees, and at the same time reflects the interests of shareholders.

Returning to the work of the Board of Directors:

The Board self-assessment was conducted in the first quarter of 2021 as an online survey managed by the Nomination Committee.

At a Board meeting today, prior to this Annual General Meeting, the Board has reviewed and discussed the self-assessment. The survey concluded that the Board has the necessary and relevant competences and experience represented but could benefit from more diversity. The Board has an open dialogue where everyone contributes, and opinions are shared freely. Meeting frequency, the agenda, and the material shared, are appropriate and relevant.

A year with significant business issues has also had an impact on our overall level of satisfaction. We are in general less satisfied with the quality of our discussions and also on the balance between strategic oversight and detailed discussions.

While the average score continues to be between good and very good, there are more variances in individual replies both on the team and on individuals.

We have decided today on a number of actions that intend to improve board performance further.

Election of board members is addressed at agenda item number 8, at this Annual General Meeting. As it appears in the agenda and related documents published prior to the meeting, our Deputy Chairman Anders Runevad has decided not to seek re-election.

I have worked closely with Anders for many years and I regret to see him leave. Over the years, he and I have had numerous good conversations and talks, and I – together with the entire Board – have valued Anders's input. Over the past year I have especially enjoyed working with Anders in his role as Deputy Chairman. I speak on behalf of the entire Board when I say that we are sorry about Anders's decision not to seek re-election, but we fully understand and respect that he has other commitments.

It is the Board's recommendation not to seek replacement for Anders for the time being, as we have a fairly large board already, as we believe we have the competencies needed, and we have a majority of independent members.

At Nilfisk, we have just under 60% of our shareholders represented on the Board. This implies that we have a number of non-independent directors on the Board. In this sense, you can almost label us as a private-public company.

This has implications for governance: On one hand, we have the benefit of having a very direct link between shareholders' interests and company management and on the other hand, we need to maintain the independence of our Board, both to safeguard the interests of shareholders that do not have direct board representation but also to maintain the integrity of our two-tiered governance system.

At Nilfisk, we have institutionalized this as follows

1. We want to maintain that a majority of our board members are independent of institutional shareholders. Although Anders Runevad resigns from the board, this continues to be the case

2. Non-independent shareholders do not chair any board committees

3. Committees always consist of less than 50% of total board members and only have preparatory tasks. This ensures that decisions are always made by the full board in which independent members constitute a majority

Having said this, we value direct shareholder board participation and the insights this gives and the short distance between shareholders and company governance.

We will get back to the election of board members at little later in this meeting, under item 8.

The Board of Directors will constitute itself after this Annual General Meeting. If the board members are elected as proposed, it is the intention for the board to constitute itself as follows:

Undersigned is elected Chairman, and René Svendsen-Tune as Deputy Chairman. In the Audit Committee, Jutta af Rosenborg is proposed elected as Chair and Are Dragesund elected as ordinary member. In the Nomination Committee, René Svendsen-Tune is proposed to be elected as Chair and Franck Falézan as ordinary member. In the Remuneration Committee, Jutta af Rosenborg is proposed elected as Chair and Thomas Lau Schleicher as ordinary members.

The two ad hoc committees will continue for the time being: For the Project Management Office Committee, the undersigned is proposed to be elected as Chair and Are Dragesund and Franck Falézan as ordinary members. And in the US Committee, the undersigned is proposed elected as Chair and René Svendsen-Tune and Richard Bisson as ordinary members.

This brings me to the final comments on this Chairman's Report.

On behalf of the entire Board, I would like to thank our shareholders for your continued support and engagement in Nilfisk, especially during another challenging year marked by extraordinary circumstances.

I would also like to thank our more than 4,000 employees for their continued engagement and contribution to Nilfisk.

Finally, I would like to thank the Nilfisk Leadership Team for their dedication to the continued execution of the strategy and for their determination to persist with the execution despite tough market conditions.

Thank you.