Nilfisk Annual General Meeting 2019
March 26, 2019

Chairman's Report

Once again, a big and warm welcome to you all, to Nilfisk's Annual General Meeting.

We have been looking forward to welcoming you here to Nilfisk's headquarters at Brøndby.

Nilfisk moved to these premises almost three years ago - in April 2016 - and today around 225 employees work here in a wide variety of functions; from product development, purchasing and logistics, to marketing, sales and administrative functions such as finance, IT and HR. This location reflects our new operating model, in which sales organizations focus on selling, and by which we, through a few global centers, drive a number of functional areas for the aforementioned sales organizations – a subject covered later in this presentation.

This is the second Annual General Meeting for Nilfisk after our listing as an independent company in fall 2017. And we can now look back on the first full year as an independent company.

And what kind of year has 2018 been for Nilfisk?

One word occurs again and again when we attempt to describe 2018 from Nilfisk's perspective.

This word is transformation. That's not to say that Nilfisk has not experienced transformation before, but rather, that our rate of transformation has increased since we brought Hans Henrik Lund on as CEO, in 2017.

We have implemented a large number of changes to Nilfisk in the course of the year. These changes are all rooted in our strategy to create a more streamlined and stronger Nilfisk. Moreover, these changes have created an even stronger foundation for future growth and profitability.

More specifically, we have divested certain parts of the business, consolidated our production footprint and made it more streamlined, in addition to simplifying our portfolio of products. Overall, it has taken out a lot of complexity from the business operations. We have also sharpened how we work, both centrally and across Nilfisk, and locally in close proximity to our customers.

For the Board, there is no doubt that we have experienced solid progress in the execution of Nilfisk's business strategy throughout 2018.

We call the strategy "Nilfisk Next", and in a moment, I will come back to it and explain in more detail how we see this transformation and streamlining of Nilfisk as the key to gaining a leading position in the cleaning solutions market of the future.

In terms of results, our professional business has seen solid development in the EMEA segment, while development in the Americas, specifically the US, has been unsatisfactory. All told, the collective result for the year did not match our original expectations.

I will come back to the financial results. Let's take a closer look at the events that characterized the year.

One area where we have created a simpler structure is in relation to Nilfisk's product portfolio. Over the years, and based on both acquisitions and local history, the number of products had grown considerably, and we could see that many of these products did not really contribute to revenue. On the contrary, they were creating great complexity in all parts of the business operations, such as production, purchasing, logistics and finance.

Therefore, at the beginning of 2018, we initiated a project aimed at significantly reducing the number of products in Nilfisk.

Based on analyses of revenue and profitability, we decided to shut down a total of 144 product platforms over a number of years, corresponding to more than 40% of Nilfisk's total product platforms.

By the end of the year, 109 of these platforms were closed down - which has reduced complexity and streamlined our business further. We can confirm, at the same time, that the phasing-out of these platforms has not impacted sales.

Other clear evidence of the streamlining of Nilfisk that we are in the process of implementing is the divestments we made in 2018.

In total, we have sold five business units, which together account for an annual turnover of 75 mEUR.

The divestments have been based of course on thorough strategic analyses, in which we have evaluated the earnings and growth opportunities for the individual business units.

We have done this based on the premise that we want to be present in markets that are attractive and where we have or can obtain a strong position - and where the right conditions exist for devel-opment and growth on a commercial basis. Our analyses showed that this was not the case for the relevant business areas we see here.

This year's largest divestment took place in October. We signed an agreement for the sale of our Outdoor business, which, with an annual turnover of around EUR 35 million, produces outdoor machines for cleaning roads, sidewalks and other areas. We have made a focused effort in collaboration with the business unit, and have worked to develop it since its initial purchase in 2011. In 2018, we reached the conclusion that it required other competencies, and far greater volume, to continue developing such a business. As Nilfisk lacks the size needed for this business area, our assessment was that we were not the right owners for the business. We were pleased to sell part of the business back to Egholm, who were its former owners and founders.

The same rationale, concerning volume and development potential, was behind the sale of HydraMaster, our US carpet restoration business - this is equipment such as carpet cleaners. The sale took place in October, and here too, it was our opinion that the business differed too much from Nilfisk's core business in order for us to be able to continue to develop it positively.

Other divestments included the business unit Nordic Chemicals & Utensils based in Sweden, which sells cleaning products, as well as a local manufacturer of high-pressure washers with sales and production exclusively in Turkey.

In addition, we decided to sell our business operation in South Africa, which for the most part consists of the production and sale of detergents and cleaning products - again an area that is not part of our core business.

The divestments have created a significantly more streamlined Nilfisk. This was reflected, among other things, in our production, where we have been able to significantly reduce the number of production facilities.

With the sale of the Outdoor business unit, we transferred our production in Lemvig to the new owners, Egholm. At the same time, we closed our factory in Guardamiglio, Italy, and with the sale of HydraMaster, the production facility outside Seattle in the US was also exited.

In addition, in the second half of the year, we made the decision to close our factory in Suzhou, China. Suzhou has served Nilfisk well for many years, but Nilfisk already received, with the purchase of Viper several years ago, a large production facility in Dongguan, located in the southern region of the country. With the aim of consolidating production in China, and focusing it in one place, several production lines were moved to Dongguan, while others were outsourced to third parties, at which point the shutdown of Suzhou was initiated.

In total, seven production facilities have been exited or closed during 2018, which reduces the total number of locations where Nilfisk has production from 18 to 11.

This also reduces the complexity of the business, not only in terms of actual production, but also in related areas such as purchasing and logistics, and paves the way for more efficient use of the production equipment.

Some of these activities - including the divestments and exits from production units - have contributed to the fact that in 2018 we posted a result below our original expectations for the year.

Let's turn to this year's results.

Nilfisk delivered an organic growth of 2.0% in 2018. This is lower than our initial guidance made at the beginning of the year, but in line with the expectations we specified in October. The lower growth rate is driven by both divestments and the closing of production facilities in China, which meant that in the third and fourth quarters we were unable to deliver the products we had orders for. At the same time, this year's organic growth is also a reflection of the unsatisfactory development in our floorcare business in the US. I will come back to this.

The gross margin was 42.0% for the year, while the EBITDA margin before special items was 11.9%. The EBITDA margin was positively impacted by Nilfisk's phantom share program; excluding this impact, the operating margin was 11.5%.This is a small increase compared to the year before and within guidance. We guided 11.5% to 12% at the beginning of the year.

Return on capital employed also increased and amounted to 16.7% for the year, an increase of 0.7 percentage point compared to the previous year, driven by improved earnings before special items – with increased working capital pulling in the other direction.

As such, we did not reach the results projected to both shareholders, and ourselves, at the beginning of the year, which is never a satisfactory result. There is still good progress to report.

Let's go a little more in to the details of the financial results.

If we look at revenue, Nilfisk achieved a total turnover of 1,054 mEUR. This is a slight decrease compared to the previous year, and is primarily due to fluctuations in exchange rates, and the effect of the divestments we have made.

Adjusted for these fluctuations, as mentioned, this gives a total organic growth of 2.0%.

Growth was driven by a positive development in Nilfisk's "branded professional business" in the EMEA region with organic growth of 3.6%, and strong development in the Specialty Professional segment, which delivered organic growth of 11.4%. Across regions and segments, the professional business - that is the exclusive the consumer business and exclusive part of the business that produces and sells products in the customer's own name - what we call "private label", delivered an organic growth in 2018 of 2.8%.The branded professional business, as we call it, represents over 80% of our total revenue and more when looking at earnings.

We see solid growth and progress in the EMEA region in particular. The EMEA region covers Europe, the Middle East and Africa, and we saw continued positive developments in the large established markets such as Germany, France and Spain, but the newer markets in Eastern Europe also contributed to growth.

As mentioned, 2018 has been a challenging year for our business in the US, specifically in relation to the sale of floor cleaning equipment. Our organic growth in the Americas region ended up negative, with 0.3% dragged down by development in the US. We recognize this is unsatisfactory. We have been affected by the fact that one of our major retailers chose to change supplier, and in addition, the delivery challenges we experienced at the beginning of the year affected our ability to deliver to the large industrial customers in the US, and this has had a negative impact on sales. These factors have affected our overall performance in the Americas segment and thus overshadow a positive development in countries such as Brazil, Argentina and Canada. We intend to change our approach to the American market, from the Board to the organization, and thus the Board of Directors recommends Richard Bisson as a new board member. This will be addressed later in greater detail.

In the APAC region, organic growth reached 1.7%. APAC covers the Asia and Pacific area, and we have seen particularly strong growth in the Chinese market, where China has delivered double-digit growth throughout the year.

As mentioned, the Specialty Professional segment delivered strong growth throughout the year with organic growth of 11.4% for the full year, driven in particular by our industrial vacuum cleaner and equipment business.

In Nilfisk's consumer business, 2018 saw success in stabilizing revenue while improving profitability. In the third quarter, we started work to assess and decide on the best possible strategic direction for the consumer business. This will be completed during the first half of this year.

On the earnings side, Nilfisk achieved a gross margin of 42.0% in 2018. It was just below our expectations and a slight decline compared to the previous year.

The gross margin was positively driven by price adjustments in our markets and by our cost saving program, but conversely, a shift in product mix, that is where we sold several products with lower contribution margins, and rising raw material prices and tariffs, drove gross margin in the opposite direction.

The EBITDA margin before special items was 11.9%, positively affected by an adjustment of Nilfisk's phantom share program. If we consider underlying operations – those excluding the phantom share impact – positive development is evident in the operating margin before special items of 11.5%. This is an increase in comparison to the previous year, and this positive development was driven in particular by a strong focus on more effective resource usage across the entire business and organization. Nilfisk's cost saving program continued, therefore, as planned, and during 2018, we raised our expectations for the overall improvement potential from a positive effect on earnings of 35 mEUR to 50 mEUR by the end of 2020. We have already executed initiatives equivalent to 33 mEUR in accumulated impact.

Return on capital employed also increased and amounted to 16.7% for the year, an increase of 0.7 percentage point compared to the previous year, driven by improved earnings before special items.

The transformation has entailed some costs, some of which we have termed special items, as they are not expected to reoccur. In 2018, special items were significant and accounted for EUR 68.5 million, and consisted primarily of costs related to divestments, as well as the shutdown of the Suzhou manufacturing facility and the optimization of our production structure..

Nilfisk's stock is still part of Nasdaq Copenhagen's Large Cap index.

Throughout 2018, our share has received a lot of attention on the stock market. The share-price trend has fluctuated, due in part to speculation surrounding a possible merger with Tennant, and expectation adjustments concerning the full-year result in October of 2018.

We have, throughout all of 2018 – and to date – experienced significant support from our largest shareholders, who have purchased more Nilfisk shares. We greatly appreciate this support, and we recognize its importance in the continuing strategic development of Nilfisk.

Result for the year was 10.0 mEUR compared with 40.3 mEUR in 2017. Earnings are thus lower than the year before, and this is because we have seen a marked increase in special items, driven by the many divestments we have made in 2018.

Nilfisk's dividend policy is to pay out a third of the year's net profit once capital targets are fulfilled. Since the financial gearing measured as the net interest-bearing debt, relative to EBITDA of 2.9%, is higher than the target of 2.5%, the Board of Directors suggests that no dividend be paid for the 2018 fiscal year.

As I have already mentioned, 2018 has been a year of change. And this does not only apply within Nilfisk as a business entity, but throughout the professional cleaning industry.

The industry is currently undergoing a number of significant changes driven by new technologies. This new technology is changing the dynamics between customers and suppliers. Cleaning is becoming 'intelligent'. "Smart" solutions and applications that collect and use data - and thus create new value from this data - are being launched across the entire industry.

At Nilfisk, we are already part of this development.

We have a vision to make our customers' business smarter and more productive through intelligent cleaning solutions and new business models. In this respect, I am thinking, among other things, of cleaning solutions that make use of robot technology or that integrate data from the location and surrounding environment in order to achieve an even better cleaning result. This could, for example, include data from lamps in the building which measure activity in meeting rooms or cafeterias throughout the day, and relay to the cleaning machine how extensive the clean should be.

We know that our customers increasingly want a partner who can create added value for them and their business - well beyond simply supplying a machine that can do the cleaning. At the same time, low-price competitors are providing simple machines to the market, further increasing competition.

Our strategy, Nilfisk Next, is our response to these trends and changes.

In the coming years, Nilfisk will work on a dual transformation: We will increase the profitability of our core business so that we can co-finance the necessary investments needed to develop tomorrow's cleaning solutions - while also positioning ourselves as a leader in intelligent cleaning.

Nilfisk Next is thus setting the overall strategic direction for the company. We have implemented - as I have already pointed out - a number of initiatives during 2018 that support this direction, and overall, these strategic milestones have enabled us to move the transformation to the next level.

The transformation of Nilfisk is based on a number of initiatives and programs that can be categorized into four drivers: We call them Simplify, Grow, Digitize and Lead.

There are detailed program descriptions within each main area, but overall I can say that "Simplify" is about reducing the complexity of the business and harmonizing ways of working throughout Nilfisk, including consolidating the product range and the number of brands, standardizing our production structure and harmonizing the IT landscape. It is also about the operating model we are implementing in Nilfisk, where sales organizations are organized after a standardized structure that focuses entirely on sales. In exchange, we have several global centers driving a variety of functional areas within, for example, service, finance, and marketing, that all support these sales organizations.

"Grow" is about further improving our commercial opportunities and developing new business. We are focused on driving organic growth in all markets and working in partnership with large global customers to drive growth and innovation, and we want to increase our provision of service solutions across markets - including introducing new services and new business models.

With "Digitize" we will continue to work on robot technology and self-propelled solutions, combined with the launch of new digital services.

And lastly, "Lead" is about continuously building the organization by adding knowledge and competencies and a behavior that supports the transformation.

Let me dwell on "Digitize" and the many opportunities the new technology gives us.

In recent years Nilfisk has developed solutions that incorporate robot technology into our well-known and tested cleaning machines and solutions. We are working in close coordination with a number of technology partners – just yesterday, we announced yet another new, exciting partnership - and by supplementing our own development with expertise from external partners, we will ensure that the right progress is made. We have the opportunity to further accelerate the development of autonomous solutions, while continuing development of the Liberty SC50, Nilfisk's first intelligent floorcare machine.

In 2018, Nilfisk continued refining this machine, the Liberty SC50, which can operate and clean independently, delivering increased value for customers. This solution has been delivered to a number of large, global customers, and the feedback is extremely positive.

What you have to image is, that this machine not only cleans by itself. It also collects data. An area we have high expectations to.

Naturally, the need for new technology and the intelligent cleaning solutions of the future is reflected in the fact that we have chosen to dedicate several investments to the solutions of tomorrow.

In 2018, we allocated 18 mEUR and expect to increase this amount in 2019 to 20 mEUR , of which 12 mEUR alone will go to autonomous solutions and digital services.

Here behind me, we can see an illustration of our expected focus on these new areas in 2019 and 2020. In addition to developing autonomous and digital solutions, which will of course continue in 2020, we expect to increase our investment in sales and service with new global customer systems, as well as a significant upgrade of the entire IT area.

In view of this, it is clear that the transformation of Nilfisk will continue in 2019. In this respect, we will focus on further implementation of the Nilfisk Next strategy and continue our efforts to boost profitability in the business, while also investing and building the Nilfisk of the future.

We will place particular emphasis on globalizing functions across the organization, implementing the previously mentioned operating model, and standardizing our processes to create additional efficiency.

This transformation is included in our expectations for 2019, which also takes into account expected development in the world economy.

We can see our expectations for 2019 here, as presented in our annual report. We expect organic growth in the branded professional business to be above 3.0% in 2019. Our expectation is that this growth will be driven by continued solid growth in the EMEA region and increased growth in the Americas and APAC segments compared to 2018.

We realize that macroeconomic developments may affect earnings positively or negatively, and that increased uncertainty arising from our transformation initiatives could have a negative impact on organic growth.

In our consumer business, we expect to see continued stabilization of revenue with organic growth of approximately 0%, while the private label business in 2019 is expected to decline by approximately 10% because as a large customer has opted for a different strategy and will not be continuing with Nilfisk. This was known and notified at the end of the fourth quarter of 2017.

Overall, it is our expectation that organic growth for the total business in 2019 will be approximately 2.0%.

On the earnings side, we expect an EBITDA margin before special items exceeding 14.4% in 2019, including the effect of the new IFRS 16 accounting standard. Excluding this conversion, this corresponds to an EBITDA margin before special items of 12.0% - for comparison, we achieved 11.5% in 2018, representing a significant improvement in 2019, which is also planned and absolutely necessary to reach our target of an EBITDA margin of 13-15% in 2020-2022 (or 15.4-17.4%, adjusted for the new accounting standard).

The expected increase in EBITDA margin should be seen as a result of an expected improvement in the gross margin, but also as a positive effect from our cost savings program, the effect of divestments made in 2018 and as a positive net effect of exchange rates, and also the effect from organic growth.

Of course, the transformations and changes we have initiated have provided a fertile basis for good discussions at Board and management level throughout 2018.

We have a fixed plan for meetings throughout the year for the Board and in the individual committees. Here, behind me, you can see an overview of the meetings that have been held by the Board in 2018. In addition to that Chairman meetings are held, and there have also 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.

We have just completed our annual Board self-assessment, and have concluded, that the Board comprises a good team, where there is space for the right discussions, along with a high degree of trust between members. As such, we judge our Board's composition to be the right one.

At the same time, we wish to increase shareholder representation from Kirkbi, which now owns more than 20% of Nilfisk's stock. We also, as previously mentioned, wish to add an American with a strong background in leadership, sales and marketing.
If the board members are elected, we propose that Thomas Schleicher joins the Audit Committee, and that Richard Bisson joins an ad-hoc committee to increase the Board's focus on the US market.

In addition, we wish to increase the target for Board representation of the under-represented gender, so that it may accurately reflect gender-representation within our business organization. This target figure will be updated during the year.

We also wish to sharpen our focus on the monitoring of our many strategic and transformation-centric initiatives.

As I have described in this report, 2018 was a year marked by solid progress in implementing our strategy in Nilfisk. If I had to summarize it all, I would say that:

- We have worked intensively to streamline and simplify our business, production and portfolio
- We have divested a number of business units that were not part of the core business
- We have consolidated and simplified our production structure
- And we have taken significant steps to create a much simpler product range that reduces complexity throughout the business

With these many milestones, the Board of Directors has no doubt that Nilfisk today is in a much stronger position than a year ago, but it is also clear that the transformation will continue.

Nilfisk will continue to be a leading player in the global market and will be ready to lead the development of intelligent cleaning, while continuously optimizing its core business and increasing profitability. With this as the starting point, we have commenced the next phase in our multi-year strategy, Nilfisk Next.

Nilfisk is going through a fantastically exciting period, and we have the foundation in place to continue the transformation - to the benefit of both shareholders, customers and employees.

In this connection - and in conclusion - we would like to thank our shareholders for the continued support and commitment to Nilfisk during the year.

We would also like to thank Nilfisk's management team with CEO Hans Henrik Lund at the forefront for their dedication to streamline the company and pave the way for future growth - and not least a big thank you to the over 5,500 employees for contributing to Nilfisk's success.

Also a big thank-you to our loyal customers all over the world, who also play a significant role as good partners, and provide the incentive to carry on developing our business.

Thank you very much, and thank you for the opportunity to speak to you all.