

Nilfisk

Q1 2025 Results Conference Call

13th May, 2025 | 10:00 CET

Transcript

Speakers:

Jon Sintorn

Carl Bandhold

Cameron Hayes

Cameron Hayes

Good morning and welcome to Nilfisk's conference call for the first quarter of 2025. My name is Cameron Hayes, Head of Investor Relations, and with me today are Jon Sintorn, CEO, and Carl Bandhold, CFO. Before passing the word over to Jon, I would like to turn your attention to slide 2, regarding forward-looking statements. Please note that this presentation, including remarks from Management, may contain forward-looking statements that should not be relied upon as prediction of actual results. For more details, please read the content on this slide. And with that, I would like to pass the word over to Jon.

Jon Sintorn

Thank you, Cameron, and good morning to everyone joining us on the call. Today, I will present our highlights for the first quarter of 2025, and afterwards, I will provide an update on the tariff situation, market outlook by region, and speak to the execution of our strategic roadmap for 2025.

But before I do that, I would like to formally welcome the newest member of the Executive Management team called, Carl Bandhold. On March 24th, Carl Bandhold joined Nilfisk as Executive Vice President and Chief Financial Officer. Carl brings extensive experience to Nilfisk from previous senior roles, including CFO roles at publicly listed companies JM and Profoto, ten-plus years as CFO at private equity-owned Permobil and a strong track record at Boston Consulting Group.

Carl possesses a deep understanding of implementing performance management systems, optimising costs and a strong acumen for strategy and efficient capital allocation. I'm very pleased to welcome Carl to Nilfisk. Together with the organisation, I believe that we possess the capabilities to drive the significant changes required to improve results and drive profitable growth.

Turning now to the highlights for Q1. To start the year, Nilfisk reported negative organic growth of 1.2% compared to the first quarter of 2024. This was primarily driven by the Professional business, where growth in EMEA was offset by a weak quarter in the Americas. This was driven by a high backlog release in the first quarter of 2024, as well as lower production capacity in our US high-pressure washer business this quarter.

Service also saw a slight decline of 1.5% as challenges in the Americas, both within **pack and fill [02:55 ?]** service, affected results. On a positive note, Consumer and Specialty both delivered strong organic revenue growth of 12.9 and 11.7% respectively. Overall revenue of €256.5 million was converted into an EBITDA before special items

of 31.3 million, or a margin of 12.2%. This performance was in line with our expectations and reflects increased investments into the commercial organisation and product development.

While tariffs had a limited financial impact in the first quarter, they have complicated operations. That said, with our production facilities in North America, Europe and Asia Pacific, we have a flexible and robust supply chain. This means that we can reposition how we supply the US market in a relatively short period of time.

We are executing on a plan to change product flows, which, together with moderate price increases, enables us to offset last week's 145% tariffs on Chinese manufactured goods. In light of yesterday's announcement regarding a tariff pause, we will continue to execute on our plan to optimise our supply chain.

Turning now to a market outlook by region. At present, we believe that EMEA will continue its positive momentum in 2025, driven by effective commercial execution and expanded sales and service coverage. In the Americas, we had a weak first quarter, which was anticipated. Accounting for a high backlog release in the first quarter of 2024, as well as lower production capacity in our US high-pressure washer business this quarter, revenues saw a slight decline.

Looking ahead, our new Head of Americas, who joined us in March, is working hard together with the team to increase market activity. This, in combination with new products, should provide support for improved performance in the second half of the year. Lastly, in APAC, we returned to growth after a challenging 2024. This achievement was supported by good commercial execution and large contracts. Activity in the region has increased, and demand appears to have improved compared to last year.

Last quarter, we presented our strategic roadmap for 2025, where we highlighted three areas of focus for this year. One, improving our competitive position in North America, two, enhancing our operating model through decentralisation, and, three, executing on structural efficiency improvements. During the first quarter, we have made meaningful progress across all three strategic priorities.

For North America, with our new EVP in place, the transformation continues. We see significant opportunities in the US market beyond our current strongholds, one stronghold being education, given our comprehensive product portfolio. With more deliberate customer segmentation and channel management, we are confident

that we can deploy more sales resource to pursue these market opportunities effectively.

To build a stronger company, we are implementing a decentralised operating model, giving the regions full commercial responsibility. I am convinced that putting more of our decision-making and clear accountability for performance in the regions closer to our customers will lead to more effective resource allocation optimised on creating value for our customers.

So, during the first quarter, we have shifted several previously centralised commercial functions to the respective regions, and we have increased the number of sales and service employees. Changes to several senior management positions across the organisation have been made as we are adding new competences to drive performance in the decentralised structure. This includes our new EVP of Americas, an EVP of Product Development, as well as our new CFO.

I have discussed what we're doing in the Americas within products, technology and innovation. Eerikki is creating a structure with clearer accountability and reviewing our product and project portfolios to ensure that we use the resources wisely and effectively. And, Carl, why don't you tell us a little more about structural efficiencies and what you are working on?

Carl Bandhold

Thank you, Jon, and good morning, everyone who is joining us today. Let me start by saying that I'm honoured to be part of Nilfisk, an industry leader with a proud heritage, strong brands and a really good product portfolio, and, as I have had opportunity to experience myself here the first two months, a lot of great people. I'm really looking forward to working with Jon and the rest of the team to drive improved performance in this great company.

So, specifically then, on structural efficiency, during the first quarter, we adjusted the capacity in our production facilities in North America to, basically, adapt to slightly lower demand. We are also continuing our consolidation of our factories in Hungary, which is progressing very well, and we expect to complete this in the third quarter. As we have mentioned previously, we are also conducting a strategic review of our US high-pressure washer business, and in this quarter, we are presenting it as an asset held for sale.

Lastly, we are starting an overhead cost reduction programme in the second quarter, with the goal of breaking the trend of continuously growing costs and, basically, structurally reducing our run rate for the rest of the year.

Turning to our financial performance in the first quarter before then moving on to outlook for 2025 and finally opening up for your questions, let us start on page 11, looking at revenue performance by region. As Jon mentioned, EMEA delivered another strong quarter with organic growth of 7.9%. This was primarily driven by a strong commercial execution by Christopher and his team, with our customers across industry verticals.

To continue, we increased our capacity to drive commercial activities further by adding a number of people, both in sales and service, across the geographies in the region. We also returned to growth in APAC with 2.9% organic growth in the first quarter, which was largely driven by solid commercial execution by Thomas and the team, as well as continued diligent price management.

The nice growth and performance in EMEA and APAC was offset by a 17.7% decline in Americas, and this was anticipated. We had a launch backlog release in Q1 2024. In addition, the production capacity in our US high-pressure washer business is down by about 50%, which impacted revenue by 4 million compared to Q1 last year. So, again, accounting for these matters, the Americas business was largely flat.

Moving on to margins, then, EBITDA before special items was €31.3 million for a margin of 12.2%, a decrease by one percentage point to Q1 of last year, where you can see that our healthy gross margin improvement of 1.4% was offset primarily by a 2.8% increase in our overhead cost ratio. Looking at gross margin, this was our fifth consecutive quarter with improving gross margin, and the drivers, compared to Q1 last year, were primarily diligent price and discount management, as well as a favourable mix when our most profitable businesses are growing faster, i.e., Speciality and EMEA.

In addition, the continued actions on optimising our supply chain are yielding results. This was partially offset though, by slightly higher freight costs and under-absorption in our factories due to the slightly lower volumes. Moving on to overhead cost, overhead cost in total increased by €6.4 million versus Q1 of last year. The primary drivers here were investments in the commercial organisation, which saw sales and distribution costs increase by €3.6 million.

We also continue to invest in new products, technology and innovation, with an increase of 2 million in R&D cost. All in all, this meant that we have an increase of the overhead cost ratio from 34.5 to 37.3% year over year. And again, as Jon

mentioned, we are introducing an overhead cost programme starting in Q2 to address this situation. We expect to reduce our expenses in general administrative activities and overall reduce the run rate, compared to Q1, for the second half of the year while we are still able to increase our resources used for sales and service activities.

Turning, then, to cash flow, cash flow from operating activities was negative by €12.5 million in Q1. The decrease was primarily driven by continued increase in working capital, the timing on the interest payments, on our financing, as well as lower operating profit. Particularly, inventory levels are high, and this is partially driven by product launches and factory consolidation.

But we are also having some issues following the SAP implementation in Americas at the end of last year, where some smaller issues in the sales and operations process were challenging. These issues are being resolved, but this was one of the drivers for the high inventory levels. Overall, free cash flow was negative, €19.8 million, and our net interest-bearing debt increased to €297.4 million, which means that our financial gearing is now 2.2 times.

At the end of Q1, our available liquidity remains solid at approximately €175 million, including both our cash and cash equivalents, as well as our undrawn revolving credit facility. While we are in a good position, I am not satisfied with the development on working capital and overall cash flow. So, this is something that I will look into and be working on to improve going forward.

Moving on, then, to our outlook for 2025, the financial outlook for 2025 is maintained. We continue to expect organic revenue growth in the range of 1 to 3% and an EBITDA margin before special items between 13 and 14%. This financial outlook is based on a number of assumptions. Stable market conditions in EMEA, a neutral development in the US and maintained moderate growth in the APAC region, as well, as, as Jon mentioned, an ability to offset tariffs through supply chain optimisations and price increases.

And, of course, an assumption that trade wars do not intensify, leading to a global recession. I think it's important for us to state that, we see an elevated risk from macroeconomic uncertainty, as any company would do in these times. However, given what we know now, and with the things we are doing on adapting for tariffs and structural cost reductions, we maintain our guidance. With that, I turn things back to Jon.

Jon Sintorn Thank you, Carl, and now it's time for Q&A.

Operator Ladies and Gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one or their telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press star and two. Anyone who has a question may press star and one at this time. Our first question comes from Casper Blom with Danske Bank. Please go ahead.

Casper Blom Thank you very much, and nice to almost meet you, Carl. I have a couple of questions. I'll just take them one by one, so you don't have to write down things. First of all, I note, on your comment regarding the Americas, that part of the reason for the quite negative organic revenue development is that last year, you had this backlog release. Could you comment a bit on how you see that for the coming quarters, or maybe for full year 2025, how much, I would say, headwind we should expect from those difficult comparisons? That's the first question, please.

Jon Sintorn The largest release was from the first quarter. Then gradually, quarter by quarter, it is decreasing until the end of the year.

Casper Blom Okay, and you don't want to put any numbers to it?

Jon Sintorn Not a specific number at this stage, no, but it's gradually decreasing over the year to be very limited by the end of the year.

Casper Blom Okay, thank you for that. Then a second question to the cost programme that you mentioned, Carl. And you say that it will reduce the run rate compared to here in Q1. I suppose, it's probably fair to assume, if you're starting it here in Q2, that we'll see most of the impact towards the end of the year. But I was hoping maybe we could have you put some numbers to that programme.

Carl Bandhold Sure. Thanks, Casper, and nice to meet you. So, we communicated, after the fourth quarter, that we were taking out 8 million and investing back to sales and commercial activities. We are doing this, but at this point, we still need to go a little bit further. And what we expect is, basically, to reduce the run rate for the second half of the year by 6 to 8% compared to current run rate.

Casper Blom Okay, and if you obtain 6 to 8% in the second half of the year, is that the full impact of the programme, or would one expect more in 26 when you have it fully implemented?

should be 6 to 8% lower. So, should I take the last 12-month SG&A of 268 and then say, you'll reduce that by 6 to 8%, so say, at 22 to 29 million savings? Is that the right way to think about it?

Jon Sintorn No, Kristian, the costs have increased sequentially over that period. So, we're basing it on the run rate we are at now in Q1, which is higher than the total for the last 12 months.

Kristian Tornadoe So, if you take the 96 you have in Q1 and say, I multiply that by 4 for the full-year...?

Jon Sintorn Annualise it. There is some seasonal variation, but broadly, yes.

Kristian Tornadoe Sure. So, if I annualise that, and then you aim to reduce that level by 6 to 8%?

Jon Sintorn Yes, for the second half of the year.

Kristian Tornadoe Yes. So, it makes sense. You'll get the full-year effect next year?

Jon Sintorn Correct.

Kristian Tornadoe Understood. And then, just on tariffs, to what extent have you actually been impacted so far? And how much inventory did you have ahead of the tariff? I'm just curious on what you have actually experienced so far, because what it seems to be now is 30% tariffs on imports from China for the next three months. So, how are you going to mitigate that?

Jon Sintorn So, the direct financial impact, as of yet, is very limited, in terms of tariff. We have, making sure in front of the school season, put stuff in our inventory, so we made sure that we had the opportunity to facilitate products without major tariff implications for the school season. That's one example, and we are rerouting our supply chain to mitigate the tariff situation. So, as of now, we have had, there is a little, but very limited tariff impact.

Kristian Tornadoe Okay, but can you continue to avoid imports from China, or will you eventually have to face a 30% tariff, as it looks right now?

Jon Sintorn As it looks like now, we are in a very good position because we have a flexible and robust supply chain, meaning that we have factories in APAC, in China, as well as North America and in Europe. And we are able to utilise that fact in a relatively short period of time to reroute on how we cater for products into North America. So, that, in combination with working with suppliers, but also some moderate price increases, we are confident that we are able to mitigate and offset this situation, the direct impact of tariffs, I should say.

Carl Bandhold

Thanks, everyone. Bye-bye.