

NILFISK

Second Quarter 2025 Conference Call

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Transcript

Speakers:

Jon Sintorn

Carl Bandhold

Nynne Jespersen Lee

Nynne Jespersen Lee

Good morning, and welcome to Nilfisk's conference call for the second quarter of 2025. My name is Nynne Jespersen Lee, Head of Group Communications, and with me today are Jon Sintorn, CEO, and Carl Banhold, CFO.

Before passing the word over to Jon, I would like to turn your attention to slide two 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 predictions of actual results. For more details, please read the content on the slide. And with that, I would like to pass the word over to Jon.

Jon Sintorn

Thank you, Nynne, and good morning to everyone joining us on the call. Before we dive into the second quarter results, let me take this opportunity to briefly reintroduce Nilfisk for you. Nilfisk was founded in 1906 and has grown into one of the world's leading providers of professional cleaning equipment and services. Today, our solutions are sold in over 100 countries through more than 40 sales companies. We have a broad range of industries, from manufacturing to health care to retail and hospitality, with a portfolio that spans from advanced industrial vacuum solutions to high-pressure washers and floor care equipment. We have a full range of floor care, vacuum cleaners and high-pressure washers contributing to our ability to meet evolving customer needs.

Looking at our regional footprint based on full year 24 figures, EMEA continues to be our largest market, accounting for 60% of revenue, followed by the Americas at 33%, and APAC at 7%. We operate across four business verticals, contract cleaners and institutions, including education, offices, retail, healthcare and hospitality, industry, such as manufacturing, warehousing, food and beverage, and pharma. And for these segments, cleaning, support, safety and compliance. Agriculture, construction, and automotive sectors that need robust equipment for demanding environments, and consumer households using our vacuum cleaners and pressure washers for everyday cleaning packs.

With that context, let's turn to our second quarter key highlights. A key milestone this quarter was the completion of our production consolidation in Hungary, which strengthened our supply chain resilience and supporting gross margin. As we said we would, we reallocated resources from back-office functions to frontline commercial positions. To protect margins and free up resources for future growth, we launched a cost reduction programme in the second quarter. The program is designed to align our

cost base more closely with our business volumes and address the rise in overhead costs we saw since Q3 24.

We had another new product introduced. We launched the SW3000, a mid-sized sweeper designed for contract cleaners, retail, education and light industry. The product improves maintenance and efficiency, and is made of 25% recycled plastic. This product addresses a more premium niche to complement existing products in this category.

Another important milestone we reach this quarter was that our net zero emissions targets were officially validated by the Science Based Targets Initiative, confirming the strength of our climate roadmap. We are now committed to achieving net zero across our entire value chain by 2040.

US tariffs have continued to influence how we operate. In the second quarter, we were also hit by a one-off incident where we had an extraordinary short-lived tariff level come into effect. Even with these temporary headwinds, we kept a healthy gross margin, which shows the strength and flexibility of our operations. On the back of recent US tariffs agreements, we expect a higher tariff level, which we will, with a little lag, mitigate with price increases and supply chain resourcing.

Now, let's move to some of the key numbers for the second quarter. We reported revenue of €269 million, corresponding to a negative organic growth of 1.1%, and we had an EBITDA before special items of €36.4 million, corresponding to an EBITDA margin BSI of 13.5%, down from 14.1% last year due to lower revenue combined with increased investments in sales organisation and product development.

The speciality business delivered very strong organic growth of 10.8%, supported by solid sales momentum in the US, and robust demand for new products. The consumer business saw a decline of 5.1% due to muted demand in predominantly the high-pressure washer category, as well as vacuum cleaners. The service business grew slightly by 0.3%, driven by strong field service growth in EMEA. The professional business saw a negative organic growth of 2.4%.

By region, we continue to grow in EMEA and APAC. Americas sequentially improved compared to the previous quarter, but is still showing negative organic growth year-on-year.

Turning now to an update per region. We continue to see growth in the EMEA region, which was driven by moderate

growth in the service business, strong growth in the speciality business, and slight growth within the professional business. The growth in EMEA was negatively impacted by a decline in the consumer business. Although the more fluctuating consumer market soft and due to weaker demand for high-pressure washers, we gained market share in Germany and France. Excluding consumer, growth in EMEA was 1.8%.

Americas improved sequentially, but is still showing negative organic growth. This was driven by a high backlog in the same quarter last year, a soft demand and lower production capacity in the hurricane affected US high-pressure washer business, which is held for sale. Excluding the high-pressure washer business, growth in America was showing sequential improvement.

In APAC, we continued to make good progress and delivered another quarter of growth, driven by a sharpened commercial focus and improved execution under since one and a half years new leadership. This quarter's performance was supported by major contract wins, particularly in India, South Korea and Australia.

Speaking of the wins of India, we would like to highlight an example. Nilfisk delivered 24 autonomous scrubbers to Ahmedabad Airport. That is our largest robotic deployment in APAC. In just 60 days, the fleet cleaned over a stunning five million square metres, boosting efficiency and sustainability in a high-traffic, water stressed environment. This has really sparked a significant regional interest, positioning us strongly for future smart cleaning initiatives in India. I will now then hand over to Carl, who will give you more of a financial update.

Carl Bandhold

Thank you, Jon. And good morning, everyone. I look forward to taking you through our financials for Q2, as well as our outlook for the rest of the year. Let's start with the P&L. As Jon just mentioned, we had an EBITDA BSI of 13.5%, in line with our targets for the year, and gross margin was a solid 42.2%, slightly down from Q1, driven primarily by tariffs, but I'll get back to that. Also, we can see OpEx starting to decrease slightly, which enabled us, as I mentioned, to reach our target level on EBITDA.

But let's go through the P&L a little bit more line by line. So, let's start with the first, revenue. Overall negative organic growth of 1.1%. Breaking things down a little bit, I guess, on the positive note, we are continuing to grow in EMEA, in APAC, as well as in Latin America. And if you look at our businesses, as Jon mentioned, the speciality business is

really doing well, while the consumer business is a little bit more challenged.

Looking at the details perhaps a bit more by region then. So, overall, organic growth of 0.7% in EMEA, including consumer. Taking consumer out, a positive growth of 1.8%. And year to date, so first six months, a very healthy organic growth of 40.2%.

Turning to APAC, as Jon mentioned, we have made the leadership changes there over the last 18 months. And in the last few quarters, we're really starting to see results. So, another quarter of organic growth, Q2 this year 2.7%, compared to negative organic growth of 8.7% last year. And for the first six months, very much in the same direction, 2.8% organic growth. So we are at a different momentum in APAC than we were a year ago, clearly.

Turning then to our more challenging parts, Americas. As I just mentioned, we have a very nice business in Latin America that continues to grow, while the US is challenging for us. As Jon mentioned, probably the biggest challenge there is the US high-pressure washer business, which is suffering from limited production capacity following the hurricane, as we have discussed before.

Looking at the rest of the business then, excluding the US high-pressure washer, growth in the second quarter was a negative 1.4%, which is significantly better than negative 7.7% in the first quarter. So, clear sequential improvement, which we are very happy about. Those growth in revenue, let's continue down in the P&L and go to gross margin.

So, as I just mentioned, solid gross margin of 42%, very much in line with where we were a year ago, slightly down from Q1, where we were about 43%. And the key drivers here, if we compare to last year, is we had materially higher tariffs in the quarter. A little over half of that though was one-time things that we don't expect to see going forward. Even so, we were able to offset both high tariffs and some under-absorption in our production facilities with the price increases we implemented at the beginning of the year more broadly, and more specifically for Chinese goods coming into the US in April.

Moving on to operating expenses. At the beginning of the year, we talked about reshaping our cost structure, reducing costs in back-office functions, and increasing sales and service density. We have done this also in the second quarter. But as we discussed after the first quarter, we also have an ambition now to reduce our cost base on a run rate basis, and we started a cost programme in the second

quarter to address this. We have made significant progress, and we implemented the reduction in force in May. We cannot really see a lot of the impact of that in Q2, but we expect to see that in the coming quarters, and we will continue to take cost reduction measures to achieve our targets here.

Moving on then to the balance sheet and cash flow. I guess here is an area where we can see some of the effects of the cost reduction program, as we had special items on close to €8 million in the quarter. And we had negative cash flow again. And when I look at it, I think in terms of cash conversion, so we were able to convert our EBITDA profit into cash flow. And the things that stand out here to me is an increase of €21.6 million in working capital in the quarter, as well as the special items, so just under €8 million in the quarter. We also had a capital expenditure of about €7.5 million, but that's more in line with plan and actually quite a significant reduction over last year.

That was the results for the second quarter, so let's move on to the outlook for the rest of the year. At the beginning of the year, our expectation was to grow between 1% and 3% organically and have an EBITDA margin of 13.4%. We reiterate this guidance, and the key assumptions here is that we have stable market conditions in EMEA, so we can continue to perform well there. And we expect to have a neutral development in the US compared to last year. And we expect the APAC region to continue on its current pace.

Furthermore, those are the things supporting the growth outlook. Looking at profitability then, we expect to be able to offset the current level of tariffs with pricing and supply chain initiatives, as Jon mentioned. Furthermore, we have taken action to reduce our cost base, and we've already executed on a significant part of that in Q2, and we expect to see results of that in the second half of the year. So, based on that, as I mentioned, we reiterate our guidance.

Then looking at our priorities for the year and progress on that. So, also at the beginning of the year, we talked about three main focus areas, improvement in our competitive position in North America, enhancement of our operating model, as well as executing structural efficiency improvements. I will talk about structural efficiency improvements and then let Jon discuss the other two.

So, in the first half of the year, we were able to consolidate our production facilities in Hungary, reducing our operations overhead significantly. In addition, as I just mentioned, we have made workforce reduction to reduce our operating

expenses. And we are in the process of divesting our US high-pressure washer business, and during the second quarter we also closed a couple of sales entities in APAC to achieve higher profitability there.

Looking into the second half of the year, I look forward to realising our cost savings targets based on our cost savings initiatives that will continue throughout the year. We are also very much looking forward to finalising the divestment of the US high-pressure washer business. And with two consecutive quarters of negative cash flow, we are looking at addressing working capital to return to change the trend here. With that, I'll hand over to Jon. Thank you.

Jon Sintorn

Thank you, Carl. Then then moving on in the strategic roadmap for 2025, looking at enhancing the operating model. As has been mentioned already, we are reshaping our cost structure with ambition to relatively see more of our resource going into the commercial activities and products and services, and less into back-office administrative.

We have started really to implement a new decentralised operating model. And one key activity in this is obviously to reorganise to reflect this new operating model where they have the commercial regions being close to the customers and driving our P&L.

Going forward, we will continue to even more tailor our value proposition more effectively across customer verticals, that we really take the customer need approach or customer demand approach to our propositions. We will continue to reshape our cost structure and also adapt the financial performance management to align the reporting to the decentralised operating model for even better and even more effective decision-making.

Looking at improving the competitive position in North America, we have reduced backlog and improved delivery performance. We have delayed the commercial organisation, and we have continued to work on increasing sales activities and starting to address sales density in this region. And going forward, as a priority for the second half, is obviously to continue to increase sales density, to drive sales of the new products, and to continue to improve product and parts delivery performance, to enable us to be doing even better in this region.

And with that, thank you very much, everybody, for listening. And we move over to the Q&A.

Operator

We will now begin the question-and-answer session.

Anyone who wishes to ask a question may press star and one on their telephone. You'll hear a tone to confirm that you've entered the queue. If you wish to remove yourself from the question queue, you may press star and two. Anyone who has a question by press star and one at this time. The first question comes from the line of Kristian Tornøe, SEB.

Kristian Tornøe

Thank you, and good morning for my side. A couple of questions. So, the first one goes to your organic growth guidance of 1% to 3%, which obviously requires a substantially better second half than your first half. So, to the assumptions, you say neutral development in the US versus 2024. I'm just curious on the assumption and the technical treatment of the high-pressure washer business. So, assume you sell the high-pressure washer business during the second half of the year, do you then restate previous quarter? So, if I calculate right, the high-pressure washer business diluted organic growth for the Group in the first half by more than one percentage point. Would you then exclude that, or would you only exclude it on sort of a forward going basis?

Carl Bandhold

Morning, Kristian. Thanks for the question. Regarding the treatment of the US high pressure washer business, I expect that we would take it out from the comparison if we are able to divest it during the year, yes.

Kristian Tornøe

Okay. So, for the first half, if you exclude the high-pressure washer business, your organic growth, as I calculate it, would be 0%. So that's essentially what we should look at when benchmarking against your 1% to 3% guidance.

Carl Bandhold

Yes.

Kristian Tornøe

Yes. Okay. So, you do expect to close the sale of the high-pressure washer? Can you maybe elaborate on that process? Do you have concrete dialogues with buyers at this point?

Carl Bandhold

Yes, we have concrete dialogue with buyers. These processes are always uncertain, but we have significant interest. So we hope and expect to close this. But obviously, we don't know now, but we hope to close this before year end. Yes.

Kristian Tornøe

Okay, that makes sense. And then just staying on the US, because regardless of that transaction, it still requires an improvement in the US. You have had some tailwind from backlog conversion acceleration, which I guess you would not necessarily have to the same extent in the second half of the year. What makes you confident in the underlying

improvement, and what have you seen in the third quarter so far?

Jon Sintorn

Thank you for the question. No, as you mentioned then, the backlog effect obviously decreases significantly the second half compared to the first half. So, due to some reasons, we have improved comps, easier comps, so to speak, for the second half than the first half, backlog being one driver. We also have introduced some new products, which we expect will have a better effect, as we communicated before, more effect in the second half than it had in the first half. And then we're working on commercial activities, and we will increase density and those other things and improve our overall delivery and performance as we have worked on. That will have an effect.

Kristian Tornøe

But can you see this improvement in your July figures?

Jon Sintorn

Well, this is a call about the second quarter. But as we said, we are seeing, not a gigantic by any means, but we are seeing a sequential improvement.

Kristian Tornøe

Okay, fair enough. Then my other question goes to the net working capital, because, as you point out, it's a pretty steep increase and a significant drag on cash flow. So, what can you do to actually reduce this? And where do you expect working capital to be at year end?

Carl Bandhold

Yes. As I mentioned, we were also disappointed with the cash flow development and net working capital increase in the quarter. What can we do? I think some of the things that increased in the quarter were more natural course of business. So we invoiced quite a lot towards the end of the quarter in Americas, for instance, which meant that receivables went up, will naturally come down. That's kind of a more temporary effect. In addition, we are starting initiatives to reduce working capital more structurally.

Kristian Tornøe

Okay. And where do you expect it to be at year end?

Carl Bandhold

I think the first focus is to get back to more of a normal level. I think we were at kind of a normal level ending last year, so I think we should be able to get back to that within the next few quarters.

Kristian Tornøe

Okay. So, Q4 this year should end roughly where you ended Q4 last year? That's the ambition.

Carl Bandhold

Within a few quarters, I said. A few, it can be. Two, three, four. But, yes, that's kind of what we're shooting for.

Kristian Tornøe

Okay, great. Thank you. That's all from me.

Carl Bandhold

Thank you.

Operator The next question comes from the line of Casper Blom, Danske Bank. Please go ahead.

Casper Blom Thanks a lot. Our first question goes to tariffs and basically to your slide number 13. And thanks for splitting out the impact from tariffs, the 1.9 percentage points. As I understood you, you said that the temporarily high tariffs had an impact of a little more than half. So should we, from the back of that, expect that tariffs have a little less than 1% impact in Q3, and then in Q4 that you can make it go away due to your mitigating initiatives? Is that the way to think about tariffs for the next couple of quarters?

Jon Sintorn Morning, Casper. Yes. So let me be distinct. So, what we have on the slide is the incremental cost of tariffs, so tariffs paid, not the net effect. So, that reflects the cost paid. And as I mentioned, yes, a little bit more than half of that were one-time things. So in terms of cost, I think you're right in the assumption. We are also offsetting this with prices. We had a net impact in the quarter specifically to that, because we made a price increase in April, and that does not completely offset because it takes some time to roll into effect when you make a price increase. So, yes, I think we will expect to see about 1%, slightly lower than 1% impact on the cost side, but that we will be able to offset that with pricing and with supply chain.

Casper Blom So already in Q3, the net impact would be neutral, basically?

Jon Sintorn No. It will probably take a little bit longer to get to neutral, so more towards the end of the year.

Casper Blom Okay. That is it. That's fair enough. You've previously also talked about moving production to Mexico in an effort to also protect yourself against other initiatives in the future. Could you give an update on that move?

Jon Sintorn Yes, absolutely. So, briefly, we have done a lot of preparations and gone through how would this work, and we've done pilots and all of that. So, we are prepared to go ahead, if necessary. But at current tariff rates, the business case doesn't suggest that we move on it. But we are ready to do it, if necessary.

Casper Blom Okay. So you just have the plan in the in that role, if need be, so to say.

Jon Sintorn Yes, net the one-off incident that we had, if you take that out of the equation. As of now, it's still better to go with current flows as we have. But we are very ready to move if things would change.

Casper Blom Okay. That is very clear. And then a final question, maybe

most of all to Carl. Now you've had a few months more within the office, and I suppose you've had a better chance to go through numbers and books and so forth, are you comfortable with your balance sheet as it is today in terms of what items you have? Is there anything on the balance sheet where you see a need for adjustments or impairments or things in the future? Or are you comfortable with what you have inherited now that you have had a chance to go through it in more detail?

Carl Bandhold

Thank you. Very interesting question. So, there are some things on the balance sheet that you are well aware of. So, we have the Springdale case, where we expect a decision by the courts next year that could have a potentially negative effect. We also, of course, have the divestment of the US high-pressure washer business. We don't know where that will end up, but there is a risk there, of course.

I guess the other thing is, we are working on an updated strategy and business plan for the company, and one of the parts there is reviewing our product and project portfolio within R&D. So, that is an area where we made a lot of CapEx in the past. We have a lot of intangibles and inventory. So, if that results in changes in our product portfolio, that could trigger some additional write-down needs, I guess. I guess those are the kind of big things that I see, but that's not anything we have concluded on.

Casper Blom

Fair enough. Do you know sort of when you expect to have your new business plan and product planning ready so that you can decide and say, okay, this is the Nilfisk office that we want to continue working with?

Carl Bandhold

So we expect to finalise that during this year.

Casper Blom

Okay, so that sounds like something we would hear more about in connection with full year.

Carl Bandhold

I think that could be appropriate.

Casper Blom

All right. Thanks a lot, guys.

Operator

As a reminder, for questions, please press star and one. The next question comes from the line of Claus Almer, Nordea. Please go ahead.

Claus Almer

Thank you. Yes, also a few questions from my side. So, the first goes to the US market and the tariffs, not the impact on the P&L but more on the competitive landscape. So, normally in the US, you have been facing some Chinese brands. How are they acting, given the tariffs that has now been imposed through to their prices? That would be the first one.

Jon Sintorn

So the question was, how are the Chinese brands acting? Well, that's a broad question. All in all, globally, it's fair enough to say that we are seeing more Chinese brands pop up in the various markets, I think also on the back of it's been more uncertain and more costly to drive it into the United States. We did see price increases from several, I can't say everyone, but a lot of participants in the market in the US did impose price increases during the second quarter. It has been a wait and see mode with regards to that since then. But I guess it's not unrealistic to believe that people, including the Chinese brands, will move on price and sourcing and what have you in order to mitigate and manage the situation, which is at least a bit clearer now with the recent agreements.

Claus Almer

Okay, Thanks. And then the second question, this is probably to you, Carl, but actually maybe to both of you. But one or two quarters into the cost saving programme, have you made any new observations or got new ideas to further optimise the cost structure?

Carl Bandhold

Good morning, Claus. Very good question. So, I think the themes remain very much the same. We see opportunities to run our supporting functions more effectively. And part of that is just maybe stopping doing some activities that we don't really have to do. We're also looking at the location of our people and our costs to see if we can have a higher share of those functions in low-cost locations.

I think an area that we have started work on in APAC specifically is what does the cost setup look like for being present in a market. Of course, we want to be present in as many markets as possible to serve our customers globally. And there are different ways, everything from having an agent to a distributor to a sales company or local warehousing and local production. And I think we have sales companies in a lot of countries with quite a high cost structure. So we can review, how can we be in many places and serve our customers more cost effectively?

Claus Almer

Okay. And then just a final question regarding this production consolidation in Hungary. Should we expect this to unlock some cost savings? Is it more about improving the delivery times and security and so on? And if there is some cost savings, when will we see that in the numbers?

Jon Sintorn

There is gross margin improvement to be had through the consolidation, clearly. And what was the next question you said?

Claus Almer

Do you also see an improved delivery certainty, or it's mostly about cost?

