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Nilfisk full-year results 2019
Webcast held on February 25 2020

Good morning. My name is Jens Bak-Holder. I am head of Investor Relations at Nilfisk. To present Nilfisk's results for the full year and the 4th quarter of 2019 together with me today are Hans Henrik Lund, CEO, and Prisca Havranek, CFO.

Turning to slide 2, before we kick off today's presentation, I want to remind you that this presentation may concern forward looking statements that for a number of reasons should not be relied upon as predictions of actual results.

Looking at slide 3, the agenda of today's presentation is as follows: Hans Henrik will start by going through the highlights of the year after which he will go through the performance of each of our reporting segments. This will be followed by Prisca going through the financial performance of Nilfisk, both for the full year and for Q4 in isolation. Finally, we conclude the presentation with our outlook for the financial year 2020. As always, you are invited to ask questions during the Q&A session at the end of the presentation. And with this I'll leave the voice for Hans Henrik. Please go ahead.

0.01.11
Hans Henrik Lund
Thank you, Jens. Good morning everyone and thank you for joining our call. As Jens mentioned, I will start by going through the highlights of 2019 so please turn to slide 4 and let us jump straight into it. Organic growth for the year was -4.1% for our total business and the EBITDA margin before special items was 9.9%. Both of these numbers are in line with what we told you in our latest guidance but obviously lower than we had planned for and expected in the beginning of the year and of course it is disappointing to us. No doubt about it. We did experience significant headwind the core markets of EMEA mostly coming out of Germany with the weakened economic conditions in Q2 and we saw it got worse in Q3. And obviously in the US we did not manage to grow the business as we had expected going into the year. Especially Q4 was a huge disappointment where we experienced a softening of the market across all channels and we will come back with more details on that. On the encouraging side, we made good progress in the continued transformation of Nilfisk, which basically leads me to the next slide.

So please take me to slide 5 where we have listed some of the highlights in terms of the transformation. If I take you back to 2018, you know we spent a lot of efforts on simplifying the business. In 2019, it was obviously the second year of the transformation for Nilfisk focusing on building the foundation for our future commercial execution. During 2019, we have established a global organisation structure and we have concluded the transition to the full new Nilfisk leadership team. As part of this transition, we have established a stronger focus on global marketing. We have established a global service function. We have removed a significant part of the original leadership in both Americas and EMEA, which enables us to have a more direct and faster collaboration with our main markets. We have ensured a sales setup that enables us to sell the entire portfolio giving the customers the benefit of that and using our competitive advantage of the broadest portfolio in the industry and this has meant that we have integrated Viper, IVS and our High Pressure Washer activities into our now global functional set up.

Speaking of integration, you know that we had a strategic review on our consumer business and it led us to keep the business. We are now focusing mainly on our core market in EMEA and therefore in Q4 we exited the Pacific region. We have also integrated the Consumer business into our functional organisation. However, given that there are different channels we have a dedicated sales force still for the Consumer brand. Finally, on the structural piece, in EMEA we have initiated implementation of our new distribution setup where we are planning over the coming years to have four regional distribution centres based on our centre of gravity analysis and these distribution centres will not be operated by us but by a third-party partner. So a significant structural amount of changes and we have come a long way in getting closer to our customers offering them the full benefit of our portfolio and of course ensuring the right focus and competences in general.

We do also upgrade on the system side as we have talked about. With the roll-out of Salesforce, ServiceMax across all markets. Additionally, we implemented a new web platform and we did start introduction of a better e-commerce platform so systems-wise we are in a better place as well.

We did continue the focus on autonomous of course in 2019. We commercialised Liberty SC50. We now have it in most markets of significance. Sales are in line with expectations. However, of course, still modest as we expected but we have definitely gained traction on the customer level proving that we have a very good solution for the market. Also in the beginning of the year, we added another platform by announcing a multi-partner strategy with Brain Corp and we expect to introduce that product to the market this year.

Finally and not least, we have continued our commitment to CSR efforts. We have gone through a fairly expensive mapping of our consumption baseline in 2019 which is of course the whole baseline for the future. We have established CSR targets and we have chosen to join the Scientific Based Target initiative to make sure that we follow a strong detailed method and then we are of course committing to reduce our

carbon footprint from direct emissions and purchased electricity by 35% minimum in 2030.

If I summarise the year, all in all 2019 was a year with many changes and clearly the second transition year for us. We now do expect to have the majority of these transformative changes behind us moving into 2020 with clearly fewer changes.

So moving on to the overview of the reporting segments on slide 6, starting with Americas we continued to see positive growth in Latin America and Canada, especially in Canada I have been pleased with what I see how we work with customers and the good grasp of the market. But obviously with the US business being the biggest we need to say that we are disappointed with not being able to grow in this market as we had expected in the beginning of the year. As mentioned, Q4 was in particular bad. And we are disappointed because we firmly believe in the changes we have implemented and the plan we have defined for the market. In the beginning of the year, as you know, we changed the organisational structure. We took out management layers and we structured the sales organisation around regional opportunities rather than product and channel and we firmly believe in those changes as well as we believe in the strong value of our dealer network. And we have really worked hard to develop that business together with them being more focused on end users and demand generation. Admittedly we did not succeed in 2019. And it has taken longer than anticipated and we were likely too optimistic in terms of how fast we could turn it around. We are, however, committed to the plan that we have made.

In EMEA, as you know, Q1 performance was good. We saw a continuing trend from 2018 and during Q2 we started to see the first indications of a shift in the economic conditions with the starting point in Central and in Germany in particular. The weakening economy got clearly worse during Q3 to our surprise and affected the performance of Germany coming from the best year in 2018 to the worst year in 2019. We were mainly hit in the Industrial segment but also in general. The rest of EMEA was not impacted to the same level. We were, however, impacted in the Industrial segments across Europe, but in general both North and South were in a better shape.

Moving on to APAC, we saw continued growth in China. However, lower growth than we were used to and we basically saw the impact of what we believe comes from the trade war.

Australia, as we have talked about, has been a tough nut for us through the year. We believe we are through most of the pain at the moment. However, I still need to see the final stabilisation of the market before I dare to conclude something.

Finally, sales out of Singapore. We saw a slow-down in the marine industry and as we have spoken about previously one of our dealers covering Indonesia had a lower demand in the first half but has come back. Consumer – a very eventful year for that business in so many ways. We concluded in the strategic review that we were the

right owners of the business and then we started focusing the business starting by exiting the Pacific region in Q4. That has had an impact on both sales and gross margin in Q4 and Prisca will come back to those aspects of it. The real thing for this year was a very strange market high season in the HPW business that we and the competitors experienced, mainly in Europe. That was the main impact on Consumer this year. Finally, Private Label, it was a bit up and down through the year. Early in the year our customers were clearly indicating that they wanted more products in Q3 and Q4 to be well prepared for 2020. However, as we went through the year those situations changed and they got more cautious and I can only guess but I would think it has to do with the macro-economic environment in Europe. In any case, they ended up being more cautious and therefore a lower revenue than expected. All in all in summary, a very difficult year for us across all segments. We did not foresee the macro-economic downtrend mainly in Germany and across the Industrial segment and in EMEA. That hit us and it hit our competitors as well. And we have through 2019 implemented significant changes to position Nilfisk for the future and obviously that required extra attention on top of the difficult market.

Now, let us move to slide 7 and let me just give you a few pointers for 2020. With the progress we have made over 2018 and 2019 in simplification and globalisation, we will see less transformation and more focus on Commercial execution in 2020. And on the back of the structural changes, the system implementation, the additional competences we brought in we believe that 2020 will evolve around optimising our Commercial activities and getting back to growth in our business, which is so much needed.

Improved customer experience definitely top of the agenda. We have now established systems inside competences across both sales, marketing and service and that enables us to engage much deeper with our partners and our customers across our key markets and we will do that in 2020. Every function across the value chain is now ready to really focusing on delivering a better customer experience, obviously to facilitate growth. We will have a particular focus on our main markets: Germany, France, UK and obviously on the continued implementation of the US plan. We will continue to fuel a number of growth areas that play to the strength of our complete product portfolio and you see some of them mentioned there at the slide. And finally, we will refocus our Consumer resources within EMEA to have the exact right sustainable footprint for that business. If I should summarise this for you I would say: Look, 2020 is the year with an even stronger focus on the customers and the commercial opportunities in the market to return to growth. This was all from me for now and I would like to hand over to Prisca for the financials. Please go ahead Prisca.

0.13.24
Prisca Havranek-Kosicek
Thank you, Hans Henrik. Please turn to page 9. Let me start with an overview of our financial performance for the full year and the last quarter. 2019 for Nilfisk was a year with both many internal changes including major organisational change as well as significant external headwinds in both of our key regions in Europe and Americas. This has led to a significant negative impact from top line which comes on top of the

loss of revenue from the businesses we have divested. But we have executed some very significant cost saving initiatives and we have delivered on those programmes. We have at the same time invested heavily to strengthen commercial capabilities and rolled out global systems. As the top line weakened significantly starting in Q2, we have added additional cost saving initiatives and we've managed variable spend very tightly onwards in 2019 but the net effect of these developments is a significant negative operational leverage from the loss of top line which we cannot compensate in our fixed costs for the business at the run rate of both the savings and the investments so let us look at the highlights.

Total revenue for the full year amounted to EUR 967 million and Q4 revenue amounted to EUR 234 million. This represents a loss of revenue of EUR 88 million or EUR 25 million, respectively, for Q4. Organic growth was negative at -4.1% for the full year and after a very soft Q3 we have also seen a very soft Q4 at -6.3% organic growth. Q4 is much impacted by a poor performance in the US to which I will get back in a second. We have managed to improve gross margin slightly to 42.3 % for the full year in spite of headwinds from the US import tariff. Looking into Q4, gross margin is negatively impacted by one-offs in our Consumer business and I will get back to that. Adjusted EBITDA margin before special items or operating margin came in at 9.9% which is a reduction in margin of 160 bps. Operating margin in Q4 was at 8.8% - a minus of 360 bps. Full-year free cash flow improved mainly driven by lower special items.

Before we go to segment performance, let us double click/flip 0.15.43 into our top line development so please turn to the bridge on slide no. 10. Overall, reported revenue declined 8.3% compared to 2018. 5.5% of this decline or 59.6 million in nominal terms is a result of our divestment in 2018 and the business exit in 2019. FX effects which were mainly driven by a stronger dollar in that positively was around 1.3% or 13.6 million so in total for the group this leads to organic growth of -4.1% or a corresponding loss in top line of approximately EUR 42 million.

As you can see in the bridge below, all reporting segments contributed to this decline in organic growth. For the branded professional business, the growth overall was at -2.6%.

Now zooming into revenue development in Q4, please turn to slide 11. Reported revenue was down 9.6% to EUR 233.8 million, which is EUR 11 million or 4%. It stems from the divestment in 2018 and the exit of the consumer business in the Pacific region in 2019. FX had a small positive effect leaving EUR 15.7 million in negative organic revenue development which corresponds to organic growth of -6.3% for the quarter. Our Americas segment was the largest contributor to this decline due to the significant negative organic growth in the US business in the quarter.

On top of this, the EMEA region and to a lesser extent also APAC contributed to the decline. Overall, the branded professional business came in at -7%.

Now let us take a closer look into the financial performance of each segment. I will start with EMEA as it is our largest region. Please turn to slide 12. Q4 revenue came in at EUR 121.3 million and we saw organic growth in Q4 of -3.7%. So that is an improvement from the 7% organic growth we saw in Q3. We are still facing significantly adverse marketing conditions in Q4 in the central region which includes Germany. The North and the South regions were not as affected but they were also slightly down in Q4 with some positive variations in certain countries up and down. Gross margin in Q4 was 1 percentage point lower than last year at 45.1 which is mainly due to mix effects. For the full year 2019, revenue in EMEA amounted to EUR 461.3 million corresponding to organic growth of -2.2. So the year has been significantly affected by the weakening economic conditions in Europe which started in Q2. The manufacturing sector in Germany contracted in 2019 and this has driven down demand significantly, mainly in our Industrial business.

On a positive note, I think it is worth mentioning that despite a lot of Brexit related uncertainty throughout the year, the UK posted positive organic growth for the full year and we are particularly proud of the strong growth of our local service business there. Coming to earnings, EBITDA margin before special items and excluding the IFRS 16 uplift came to 25.4% which is an improvement of 17 bps compared to the adjusted margin in 2018. The improvement was mainly driven by the reversal of the provision but also by lower salary expenses and lower overhead costs in general so despite the market downturn that we have seen in EMEA we have been able to defend our strong market position in Europe while continuously driving efficiency improvements in this region and while we have seen some improvement in Q4 versus Q3, we still believe that current economic conditions in Europe will persist in 2020.

Moving on to our second largest region which is Americas, please turn to slide 13. Our performance in Q4 in Americas as Hans Henrik has said was disappointing. Overall for the region, organic growth in Q4 was
-13.3% but I would like to point out that this is a quarter where we are really facing very high comps because growth in Q4 2018 was at 4.5%. However, we have to acknowledge that in particular our US business performed very poorly in this quarter. Outside of the US, we saw strong growth in Latin America. In the US, we saw a significantly softer Industrial segment compared to the past several quarters and the business overall did not manage to land as many large orders and strategic accounts as expected. In addition to that, the high pressure washer business, the agricultural segment that it caters to is still suffering from weak market conditions as well as the effect of the discontinuation of a dealer that also impacts particularly Q4. Overall for the high pressure washers we saw a further decline in this market compared to previous quarters. So all in all, the US business delivered a very poor Q4 result year-over-year which impacted not only the Americas segment but the Nilfisk group in general in Q4. Some of the market conditions that we have experienced we believe will continue into 2020 and I will get back to this under our Outlook section later in the presentation.

Moving on to earnings for the segment. Cost of goods sold was impacted by US tariffs and as a consequence gross margin in Q4 was 30.3 percentage points lower than it was in the last year.

Looking into the full year, revenue in Americas amounted to EUR 291.3 million corresponding to organic growth of -2.8%. So while we saw good growth in Q1 2019 with 3.1% the weakness particularly of the high pressure washers due to the soft agricultural end markets and in the Industrial business drag down growth to flattish in Q2 and Q3, before deteriorating in Q4 as I have just explained. Throughout the year, we have had to compensate for the loss of a large floor care dealer. So while we are clearly not happy with our performance in US floor care we did see good traction in certain other customer segments such as our CCI customers. In relative terms, the HPW development accounts for the large part of the negative US performance. EBITDA margin before special items and excluding the IFRS 16 uplift came to 16.9% which is 3.2 percentage points lower than last year. This stems from the lower gross margin, bad debt provisions and higher underlying overhead cost ratio as a result of lower revenue.

Now turning to slide 14. In APAC, organic growth was -4.3% in Q4, which was mainly due to the performance in Australia and to some extent also in Singapore. Gross margin was at 37.3% which was negatively impacted by inventory write-downs related to Australia in Q4 which explains most of the negative deviation of 3.4% compared to the previous year. For the full year, organic growth in APAC was -4.3% due to both the performance in Australia and Singapore compared to 2018. Adjusted EBITDA margin before special items declined by 5.1% Y/Y.

So now let us look at the last two reporting segment in slide 15. In the Consumer business, reported growth was impacted by the discontinuation of our business in the Pacific region which, as you know, we exited within Q4. In Q4, underlying growth in the total remaining business was flat so the positive organic growth in Q4 was driven by large one-time sales in the Pacific region before we exited the region. These one-time sales had very low margins and that was a significant contributor to the reduction in gross margin in Q4 which came in at 5.6%. For the full year, organic growth in the Consumer business was -11.8%. As you know, Consumers are highly seasonal business and the main driver for the organic revenue development was the poor high season in pressure washers, particularly in Europe, which you have seen in the first half of 2019. Full-year gross margin was at 29.8%.

Moving on to the Private Label business, organic growth was at -10.4% in Q4 and -14.4% for the full year. Both impacted by the cautious behaviour of our customers resulting in lower sales. The gross margin improved compared to last year both in the quarter and the full year.

So if we take a closer look into our earnings let us look at the full income statement which is on page 16. We already reviewed the revenue development quite extensively so let me focus on the main components of our earnings at this point. We have achieved a gross margin of 42.3 which is 30 bps better than last year . The

largest positive effect from this came from the divestment of low-margin businesses in 2018 but the margin was also positively affected by pricing and lower freight costs. However, these effects were diluted by negative effects from the US tariffs which is a negative impact of around EUR 5 million. Increases in the costs of certain raw materials and the low margin which I have just explained in the Consumer business. Reported overhead cost increased by EUR 1.6 million in total. There are however several major positive and negative impacts for the total cost base. In 2019, we continued investments into commercial capabilities and our newly established global functions and we also rolled out global IT systems such as Salesforce and ServiceMax so this has increased our cost base. At the same time, the cost saving programmes that we initiated in previous years have continue to deliver and contributed to a reduction of the cost base.

As we started out in 2019 we dimensioned both the impact for the investments on the one side and the savings on the other side to reflect the anticipated growth for the period. However, during the course of 2019, we initiated additional cost saving programmes where we reduced some of the investments, we tightly controlled the variables spend such as travelling in particular in the second half but overall these efforts have not been able to compensate the significant loss of top line and therefore we have seen a significant negative operating leverage. As a result, both our absolute EBITDA as well as our EBITDA margin has been reduced. EBITDA margin before special items amounted to EUR 121.4 million, down EUR 4.1 million from last year. This number, however, includes an uplift to IFRS 16 of EUR 26 million so the operational EBITDA was EUR 95.4 million which is comparable to a last-year number of EUR 121.2 million. That is adjusted for the phantom share impact that we saw in 2018. EBITDA margin before special items and IFRS 16 was 9.9% which is in line with our latest guidance but as I already mentioned earlier it is 160 basis points lower than last year. Finally, despite an improvement in EBIT to lower special items net result has decreased slightly to 8.9 at EUR 8.7 million compared to EUR 10 million in 2018.

Please note, however, that in 2018, we had a tax income of EUR 5 million that positively impacted the tax result.

So I will walk you through the EBITDA impact in 2019. Please turn to slide 17. As I mentioned before, adjusted EBITDA before special items is down by EUR 25.8 million. If we exclude the divestments, approx. 2/3 of this impact is driven by revenue loss. About 1/3 of the decline is a net result of investments which are not fully compensated by stepped up cost savings and of course on top of tight expense management in the second half of the year and the tariffs had an additional negative impact of approx. EUR 5 million.

Please note that the bridge below shows the relative development in the margin and explains the impact of the revenue decline on the overall overhead cost ratio. In addition, if you look at the table on the right hand of the slide, we have bridged the adjusted EBITDA margin before special items for the reported EBITDA.

Finally, let us have a look at the main balance sheet items and the cash flow for 2019. So please turn to slide 18.

Net working capital was reduced by EUR 12.5 million compared to end 2018. So we saw lower receivables as a result of the lower revenue compared to last year. However, the lower than anticipated sales have also negatively impacted our inventories and we were not able to adjust them downwards to the same extent that our revenue declined. Therefore year-end inventories were at the same level as last year. In terms of payables, trade payables were roughly in line with last year so the EUR 14.6 million drop in payables is mainly due to changes in Other current liabilities and these changes primarily come from lower employee related payables as a result of the closing down of the production factories in the divested auto business as well as the payout of the phantom shares. Overall, the result of the net working capital movements is an adverse impact on our net working capital ratio which increased by 2.1 percentage points to 20.6. CAPEX was EUR 5.4 million lower than last year. About half of this is due to a change in the way we have handled the sale of rental machines into our accounts in 2018. The rest of the delta is due to the lower CAPEX in tools and equipment whereas CAPEX in intangible assets was in line with last year. If you adjust for the way IFRS 16 impacts the cash flow statement in 2019 compared to 2018, the free cash flow improved by EUR 17.9 million mainly due to lower special items. Return on capital employed was 7.5 percentage points lower as a result of the lower EBIT before special items.

Finally, net interest bearing debt increased by EUR 44.5 million but if you adjust for IFRS 16 it was reduced by EUR 11.7 million mainly due to the lower working capital. Financial gearing was at 3.8 times if you exclude the IFRS 16 uplift.

Now coming to our outlook, please turn to page 20. Our outlook for 2020 is based on a continuation of the economic conditions that have impacted us in EMEA during 2019. Based on the historic experience where we have typically experienced an organic revenue down-turn lasting approx. 4 to 6 quarters before we are through the cycle, we expect demand to pick up in the second half of 2020. In Americas, we expect the softness of the US manufacturing sector to continue. Based on the current visibility, only a minor negative impact from the corona virus is expected. Underlying conditions in APAC are considered to be stable with demand in China being suppressed by an ongoing trade war. Another condition factor for our outlook is the low visibility which impacts the range on which we guide.

Based on this, on revenue we therefore guide for organic growth in the range of -4 to 1% growth to a large extent due to Consumer and Private Label. We expect the phasing of the organic growth to differ across the year and we specifically expect negative growth rates in the first half of the year whereas we expect positive growth rates in the second half. In terms of EBITDA, given the uncertainty regarding the organic growth, we expect an EBITDA margin in the range of approx. 12 to 13%.

This concludes our presentation and we are now ready to take your questions. Operator, will you please proceed?

0.32.20
Operator
Thank you. If you would like to ask a question, please press 01 on your telephone keypad. If you wish to withdraw a question you may do so by pressing 02 to cancel. That is 01 if you would like to ask a question. Our first question is from Kristian Johansen from Danske Bank.

0.32.40
Kristian Johansen
Yes thank you. A few questions from me. First of all, you do not address your mid-term targets at all. Should we view this as you have abandoned them or no longer consider realistic or can you please elaborate on your thoughts around these?

Hans Henrik Lund
Hi Kristian. No, we are not abandoning them. I think we will repeat what we said last that with the visibility we have at the moment we don't feel comfortable giving you a deadline. We need more visibility on the macro-economic situation before we are ready to give you a firm indication so that is statement number one and it is consistent with what I said before. The second part of this is we believe in the potential and we have also said that before and obviously the important part for us now is to see growth coming back into the business in the second half 2020.

0.33.41
Kristian Johansen
All right. Then the same question around these comments you give on the US market weakness. I was also a little bit surprised because I mean by looking at your largest competitor it was difficult to spot any weakness in their US numbers so maybe if you can elaborate a bit on that. And then secondly on the US you mentioned that you did not win the strategic account deals that you hoped for. Can you elaborate on why it is that you did not win these?

0.34.14
Hans Henrik Lund
Sure, Kristian. So I normally don't comment on competitors but I will do an exception here. We have also heard one of our competitors in October say that they saw softness in the US market, especially in the industrial side. We have also ISM data confirming that so that is a pretty solid data background. Now you are right that one of our competitors grew nicely in Q4. However, they were also very clear why. They did it because of autonomy which in this particular case is a special deal that we all know that was made earlier in the year. And not reporting growth in sort of the normal business so you are not getting me to say, Kristian, that all of this is caused by the market conditions but it is, there was a big change in Q4. We felt across all our generals that there was a hesitation and a more cautious approach than we normally experience or ever have experienced in a Q4 before. We have also done changes as you know and of course I am suspicious how much of it is caused by that but the

external factors are playing a quite big role in that as well. We saw a very different market from Q3 to Q4.

0.35.40
Kristian Johansen
And then on the strategic accounts deal which you did not win.

Hans Henrik Lund
That well, yeah there are some details on that I don't want to share with you, but, you know, there are changes in a company that we normally deliver to and internal changes that just made it go.. fall through the cracks in Q4. We did not lose it to a competitor but it just did not materialise because of internal changes.

0.36.07
Kristian Johansen
Oh yes and so is it primarily one customer we are talking about here?

Hans Henrik Lund
Yeah. That is one big one that I would have loved to have in Q4.

Kristian Johansen
All right, that is clear. And then thirdly, this reversal of a provision you are doing in the year in Q4 can you just quantify how much is that exactly?

Prisca Havranek-Kosicek
Yes, I will take that question, Kristian, so it is around EUR 2.5 to 3 million. That is back in Q4.

Kristian Johansen
Very clear. And the very last question from me. Just to repeat you are guiding for a special item cost of EUR 10-15 million in 2020. Is it still the case that we should not expect any special items once we get to 2021?

0.36.58
Prisca Havranek-Kosicek
Based on our current knowledge that is correct.

Kristian Johansen
Excellent, thank you very much. That was all from me.

0.37.09
Operator
And our next question is from Claus Almer from Nordea.

0.37.13
Claus Almer

Thank you. Yeah also a few questions from my side. The first question is about your cost base. If I look at your staff costs per employee it is up by something like 7% if I exclude the phantom program last year, so in 2018. Also looking at the overhead cost, it is also up despite your divestment. Can you put some more colour to why you are not able to bring down the cost? That will be the first question.

Prisca Havranek-Kosicek
So let me take that. Thank you very much for your question. On the cost, staff cost per employee what you see in the number is that there is an effect of the divestment. We have divested around FTE between 2018 and 2019 and around 400 of those are in manufacturing and the majority of which are in China so that is why on an average you see a big increase. If you look at the overhead cost just adjust for the phantom share impact on that and then as I already mentioned and so did Hans Henrik that there is of course an impact from the investment we have done into systems but also into global functions and competences that you will see in the total OPEX but of course also in the overhead and hedging cost.

0.38.32
Claus Almer
But overhead cost is up despite your divestment, I guess that is slightly surprising.

Prisca Havranek-Kosicek
You know, we have divested costs but we have also divested margin and that is what we have tried to show in the bridge of the EBITDA. So you are right you see an impact of the divestment and then what you see in the remainder is an impact which is a net/net of the savings that have contributed and the investment we have taken and then of course there is one-offs and then there's things like inflation that is also in there so overall it is, yeah, it is an increase but bear in mind if you look at overhead costs of course there is also a non-cash component in there that has increased and that is the amortisation.

0.39.19
Claus Almer
That I don't understand. First of all, special items is not included in your overhead cost. Is that right? And if you look at your IT cost yes amortisation is up but you are having less what you call normal IT costs in the P&L so that is IT in total expensed in the P&L is actually down so I really do not understand why overhead cost absolutely is not down.

Prisca Havranek-Kosicek
But bear in mind that it is not only amortisation of software, it is also amortisation of R&D in projects so you have that included in the R&D expense.

Claus Almer
Yes, okay, but looking then coming back to your overhead cost if we look at since 2016 so that is before we start to have the effect from the cost savings programmes which along have contributed with 15 million lower costs. It is flattish. Why is it that

you are not able to bring that down in a situation where revenue is actually coming down due to divestments?

0.40.23
Prisca Havranek-Kosicek
Yes, you are right, revenue is coming down due to divestments and so is actually overhead cost. Now what we have tried to show you on page 17 of the presentation is the effect of the operating leverage that we see and that is the main driver next to the tariff if you then take it including gross margin but if you just stay at overhead cost of course it is the net of the investments and the savings so you – we are not able to compensate in the overhead cost, the operating leverage, negative impact from the revenue decline that we saw in the organic growth revenue decline.

0.41.04
Claus Almer
I can understand from a percentage point of view but in absolute terms it is also not coming down. And you have a cost of impact from the programme and you have a cost of impact from your divestments as mentioned before so are you spending money in other areas that is you know stealing these positive impacts?

0.41.26
Prisca Havranek-Kosicek
No they are not stealing that you know we have the savings on the one hand but we have also investment, as Hans Henrik has mentioned and I have mentioned and as global functions that is competences like marketing that is systems and running costs for systems and there is of course inflation and what you see of course is the net/net impact of all of this and then if you have on top of that a year where we lose revenue in such a significant way as we did mainly in the second half we are not able to compensate that, ultimately, the absolute number.

0.42.03
Claus Almer
But okay, just a final question about this topic just to be sure that you know the decreasing revenue does not have an impact on your overhead, it does not increase your overhead cost in absolute terms, is that.. I guess that is correct, right?

0.42.17
Prisca Havranek-Kosicek
What I am trying to say is when you start a year like 2019 with a positive growth ambition which the company clearly had, you know, then you take what you anticipate to save in the programmes which are fully delivered and by the way on purpose there is a lot of additional efforts that have been initiated and the company has decided, which is a continuation of 2018, to reinvest both this amount of money into competences, into the organisation and into systems in order to reap the benefit from those upgraded capabilities and then if you in the half year realise that, you know, growth is not coming in as anticipated and that was clearly seen in 2019 what you then have is although we were able to increase the savings and reduce the

investments net/net you of course have an impact of investments some of which are also long-term investments but you still haven't the run rates of the costs even though revenue decreases so you are right of course in the relative term it matters in the absolute term it does not matter but it was time to explain to you the strategic rationale behind it.

0.43.29
Claus Almer
Okay, good. Then just my final question. That is about the organic growth. You are guiding that we will see a decline in the first half of 2020. If you just look at the run rate going into 2020, should we expect Q1 which is also up against a slightly toucher comparison is on the same pattern as we saw in Q4 or do we already in Q1 start to see some improvement?

0.43.57
Prisca Havranek-Kosicek
Yeah, thanks for the question. I am afraid we will have to leave it at the negative first half and the positive second half. We are not able to give you specifics for the quarters at this time.

0.44.10
Claus Almer
Okay so no comments about how the year has started out so far?

Prisca Havranek-Kosicek
It is early in the year.

Claus Almer
Okay, thanks.

0.44.22
Operator
And just as a reminder. If you do wish to ask a question, please press 01 on your telephone keypad. Our next question is from Casper Blom from ABG Sundal Collier.

0.44.32
Casper Blom
Thank you very much. First sort of a question regarding what is happening in EMEA. The way I understood your explanations as 2019 developed was that the purchasing managers around Europe, especially in Germany, were looking out the window seeing dark skies, decided to postpone investments into cleaning equipment and that eventually those investments cannot be postponed anymore and you would expect growth and orders to return. Is that sort of still the general thesis that you are working under or has there been sort of any different dynamics popping up in terms of for example down-trading or other things? That is my first question please.

0.45.17

Hans Henrik Lund
Thank you, Casper. No change to our view on that, you know we have historical evidence that our machines can be used for up to 6 quarters longer with extra service and then people will come back and there will be a demand and there is no change to that at all, Casper and we are not seeing any down-trading or anything like that so it is the same mechanism that we are seeing.

0.45.44
Casper Blom
Great. Secondly, regarding the guidance last year as you show on the slide you had a negative impact of EUR 18 million from operational leverage and you had organic revenue decline of around 4%. Midpoint of your guidance for 2020 is negative organic growth of 1.5%. Can we use sort of the same relationship to sort of get to an estimate on the implied negative operational leverage in the guidance for 2020?

0.46.21
Prisca Havranek-Kosicek
I will take that question but let me think, I would say directionally yes and we have of course to the best of our knowledge done the sensitivities on the upper ranges both of the top line guidance also of the margin guidance but of course we have to keep in mind that there is different developments and gross margin in particular that can be.. happen in 2020 also depending on mix so I would say as a direction yes you can take that.

0.46.55
Casper Blom
Okay, a bit the same topic. Is there any impact from sort of additional incremental impact from US tariffs in the guidance for 2020? Because I suppose that the average tariff is higher in 2020 than it was in 2019.

0.47.13
Prisca Havranek-Kosicek
Yes you are right there is an annualisation impact of course for the full year but at this time it is not a major impact.

0.47.22
Casper Blom
Okay, finally you obviously presented a fairly wide organic growth guidance of 5 percentage points. I understand that the world is difficult to navigate in right now but has there been any changes in the way you provide guidance? Basically, have you been a bit more cautious after having been surprised a few times last year?

0.47.47
Hans Henrik Lund
I cannot comment on that Casper, we are doing the best we can in a – as you call it – a difficult world and this is how we see it at the moment. We of course wish we could guide you more precisely but given where we are we just cannot.

Prisca Havranek-Kosicek
Yeah and from my side I would not read too much into that from a right guidance range. The right guidance range is very strongly related to the saving of the growth that we expect in the year and you know as I think is normal if you have a positive growth trajectory that is further out than the negative that by definition gives less visibility and therefore we have decided on a wider guidance range.

0.48.34
Casper Blom
Fair enough. Last question regarding the US. Hans Henrik you said that you sort of were committed to the strategy you have and want to sort of follow through on it. Has there been a consideration of doing sort of a more radical move in the US? And secondly, I mean how long are you willing to wait? I know that there has been success stories from time to time but in general your US business has been struggling a bit for some years now and has been losing market share for some years now.

0.49.09
Hans Henrik Lund
The first question: No, there has been no dramatic considerations. Secondly, I think the learning here Casper, we probably need to go a bit back in time because we all know that we have had the US problem for many, many years and I think what I have learned from our partners in the US we have done too many changes too quickly so typically we gave people a chance to get it right within 18-24 months and then we gave up and we did a new change and it became all quite confusing so I am very, very committed to the plan and the people we have because it is a matter of executing deeper, executing more, executing faster but the plan is the right one and I have seen the first signals of it in the CC&I business as Prisca mentioned. We need to do better in Industrial. The market did not help in Q4 for sure. And then we need to be better in national accounts so the plan is there, Casper, and I am not really up to major changes of that plan.

0.50.14
Casper Blom
Okay, then let us hope it works. Thank you.

Operator
And our next question is from Mikael Petersen from SEB

Mikael Korntved Petersen
Hi, thank you for taking my questions. I wonder if you could quantify the revenue that you gain from the inventory sale to consumers in APAC. I am not sure if I heard it right but it seems that it was flat growth if you excluded the one-time sale, is that correct?

Prisca Havranek-Kosicek

So the revenue and that one-time sale is around EUR 2 million.

0.50.45
Mikael Korntved Petersen
Okay thank you. And then maybe I could touch a little bit on what Kristian talked about in relation to Tennant. They are guiding for around 2% organic growth for 2020 and you guys are guiding for a negative around 1.5%. Do you have any idea why that is so different? Because you are representing the same markets and so on and they see the same decline in EMEA and APAC as you did but in the US they performed very strongly especially in Q4 in the comparison to you guys.

0.51.21
Hans Henrik Lund
I cannot comment on the other guys, how they guide and what they see so I will refrain from that Mikael.

Mikael Korntved Petersen
Okay. Then if we can talk about Nilfisk Liberty SC 50, can you try to explain how 2020 will be in terms of units sold compared to 2019 now that it seems your dominion in all the key markets should we expect like a higher traction and thereby higher units sold or how does that look in EMEA?

Hans Henrik Lund
Yes you should and I am not going to give you any number of that but you should expect an acceleration of autonomy. When I look at it in the big perspective at CMD back in 2017 we put some numbers out as the first one in the industry and I think we have been confirmed that the potential is there definitely. On the activity level what I see from the sales guide now and the customer reactions to our SC 50 products I am positive. Don't expect a big deal like the one we all know about because that is not what it will be but I am very happy with how the product is perceived and rated by customers so it will definitely grow.

0.52.35
Mikael Korntved Petersen
Okay thank you

Operator
And our next question is from Kristian Johansen from Danske Bank.

Kristian Johansen
Yes, thank you. Just a follow-up on the guidance wording. You say this range of -4 to 1 and then the sentence: to a large extent due to Consumer and Private Label. Maybe I was not listening before but can you just elaborate? What is it you mean by that? Is it that these two units should have a lower growth rate than the brand Professional or why did you add that statement?

0.53.09

Prisca Havranek-Kosicek
I will give you some context. As you have seen, we are guiding on the total business now, which is a difference from what we have guided on in 2019. And the main reason for that is that both the Consumer and the Private Label have in relative terms decreased importance so we believe the real number for you to look at is the total business. Now what we are trying to do with the wording: "to a large extent due to consumers in Private Label" is to give you a little bit of a flavour but the organic.. the negative -4 to 1 is I would say I would relate that remark to the negative end of the range is exacerbated by what we expect in the Consumer and the Private Label business individually. I hope I have been able to get that message across to you.

Hans Henrik Lund
Maybe I can add just a little more flavour on the Consumer side, Kristian. You have gotten the point that we are really refocusing the business and of course when you refocus a business on a certain market there is a bigger uncertainty about how that is going to look like and that is what we are trying to say.

0.54.26
Kristian Johansen
Okay so just to see if I understand what you are saying the reason for you to have a range going all the way down to -4 is due to the Consumer and Private Label outlook?

0.54.38
Prisca Havranek-Kosicek
No that is not what we have said. What we have said is that it is to a large extent due to Consumer and Private Label but keep in mind it is a total range as you have already stated. It is a fairly wide range and relatively speaking Consumer and Private Label are 15% of our business so of course the rest of the business, there is also various outcomes of that which of course also contributes to the total range.

0.55.05
Kristian Johansen
Okay, thank you

Operator
And as there are no further questions I will hand the word back to you speakers for any final comments.

Hans Henrik Lund
All right then with no further questions we thank you for being with us for almost an hour and asking questions to us. Great. Thank you for joining. Have a good day.