NILFISK

Nilfisk Annual General Meeting 2022

March 25, 2022

Chairman’s Report

Dear shareholders,

I would now like to take you through the development of Nilfisk during 2021 – both our results but also our key events at Nilfisk during the year. I will report on the work of the Board of Directors, and also talk about our plans for the future.

Before we go through the report, allow me to add a personal note.

This Annual General Meeting is very special to me, as it will be my last Annual General Meeting as Chair of the Board of Directors.

It was announced in the end of February that I have decided to step down as Chair of the Board and that I therefore do not seek re-election when my current election period expires today.

It has been a privilege for me to serve Nilfisk during my long tenure.

The year 2021 marked a fundamental recovery for Nilfisk. The company achieved solid organic growth and record-high earnings. We have a new management team in place and a new strategy, and we have set out on a solid path for long-term value creation. Therefore, this feels like the right time for me to step down and allow for new thinking to enter the board room.

So, moving on to 2021 and looking at the year in more detail:

During the year, we saw a significant recovery in our markets following the downturn in 2020.

Beyond this market recovery, our initiatives to gain market share in the US and to expand our partnerships with large strategic accounts yielded above market growth for Nilfisk, and we are pleased to see that the company achieved sales well above the 2019 level.

Driven by rising labor costs and increased labor shortage, the global market for professional cleaning equipment is a growth industry. The COVID pandemic has further enhanced the value of clean and accelerated the industry’s growth momentum, and it is clear that new technologies and service offerings allow for higher customer value creation. Nilfisk is well positioned to benefit from these macro trends, and across the Board, we see a fundamental opportunity for long-term sustainable growth and value creation.

To ensure that Nilfisk remains at the forefront of these macro trends, the Board of directors initiated a leadership change at Nilfisk in 2021. The board felt that the time had come to get fresh eyes and new skill sets into the executive management team.

In May, the Nilfisk Board of Directors announced the leadership change with the arrival of Torsten Türling as CEO and Reinhard Mayer as CFO. Both of them have substantial prior experience in successfully executing performance improvement programs, and they are both strong leaders.

This new Nilfisk leadership team is committed to improving the underlying performance and generating the organic growth needed, and during the second half of 2021, the team and the Board conducted a rigorous strategy review to decide on strategic priorities.

The process helped to identify untapped profitable growth opportunities, but also to reflect upon past execution shortcomings. And to Torsten and Reinhard, I will say that I am proud that we succeeded in getting you to lead this journey. I have truly enjoyed working with both of you. I regret that our collaboration will end now, however, I look forward to following your progress.

Now, let’s turn to the business developments and financials for 2021

During 2021, we increased order intake across regions and business segments, and we ended the year with a revenue for the total business of 995 mEUR.

Nilfisk’s organic revenue growth of 20.7% outpaced the growth in the general market. The growth represents an actual gain in market share, most significantly in the Americas region, where our revenue grew organically by 23.8%.

With revenue of 995m EUR, we also surpassed 2019 and the pre-COVID level of sales.

We achieved an EBITDA before special items of 144.3 mEUR. This represents an increase of 43.6% from 2020, and also a significant increase from previous years to a record-high level.

Finally, this led to an EBITDA margin before special items of 14.5% – this, too, an all-time high since the listing of Nilfisk in 2017. This solid result was achieved despite the significant challenges we and the rest of the world experienced in 2021 with substantial increases in both raw material cost and freight cost – caused by the global supply chain constraints. These headwinds were to some extend offset with the price increases we implemented during 2021. I will cover these dynamics in more detail a little later in the presentation.

Throughout 2021, we continued to see these positive developments in demand and revenue quarter over quarter.

As a consequence of the strong demand – in combination with solid execution in our key markets – we adjusted our guidance three times during the year. All revisions were for a higher revenue growth than first expected with our initial guidance in March, where COVID-19 restrictions and lockdown still were the norm. At that time we did not foresee the relatively quick normalization in market conditions, leading to strong demand in combination with our solid execution.

As already mentioned, the positive development for 2021 was seen across regions and geographies.

Starting off with Americas, we achieved a record-high organic revenue growth of almost 24% with all markets in this region delivering robust performance and results above 2019 levels.

We are pleased to see a continued positive and very strong development in the US, which is our biggest single market. 25% of our total revenue comes from the US, which remains a strategic growth market to us. Ongoing execution of sales initiatives and the continued focus on strategic accounts contributed to the strong performance in 2021.

Canada delivered a robust performance as we continued to develop our dealer business, and as restrictions from COVID-19 were lifted in Latin American, these markets also saw encouraging growth.

In Europe, we delivered organic revenue growth of 18%.

We have seen a continued strong order intake throughout Europe with Europe South presenting the largest growth – backed by a large order from a leading retailer. This order included our first large-scale roll-out of a fleet of autonomous cleaning machines to the retail segment, as we went beyond proof of concept and demonstrated that Nilfisk mastered the technology and its software-related services. A strong achievement!

In general, the floorcare product group saw the strongest organic growth performance in Europe in 2021.

Across the Asia-Pacific region there has been a strong organic growth in revenue of 20%, although we have seen a somewhat slower recovery from the COVID-19 pandemic in countries such as in India, Vietnam, and China, where lockdowns were more prevalent.

China and the southeast Asian markets delivered strong organic growth, but remained below pre-pandemic activity levels, mainly due to their exposure to the hospitality segment and the longer lockdowns.

The Pacific region saw a strong recovery coming out of the strict lockdowns with increased demand in the industry sector and new customers.

Finally, I would also like to mention our Consumer business, which continued to execute well in 2021, benefitting from our renewed focus on this business and the successful launch of a new innovative high-pressure washer range. Organic growth in this business area was 13%.

The year 2021 brought significant and unprecedented challenges to sourcing, distribution and deliveries, and the challenges were impacting most industries across the world.

Also, at Nilfisk, sales were constrained by the shortages in supply and constraints in transportation that became predominant during the year. Our order intake in the year far surpassed sales growth, so we ended 2021 with a record order backlog.

Limitations in material and component supply, as well as in transportation capacity, created an unprecedented situation, followed by substantial freight increases especially on freight.

We took decisive action to mitigate the constraints and keep our manufacturing and distribution sites operational to ensure our ability to deliver. As a result, we were able to significantly increase output from our manufacturing sites, although not enough to fully satisfy the high order intake. We managed to keep manufacturing and distribution sites open and operational due to strict COVID-19 guidelines and measures, and several of our manufacturing sites are now working on full capacity.

In addition, we implemented an extraordinary mid-year price increase to mitigate the margin impact.

Our actions allowed us to continue serving our customers. At the same time they made it possible to lower the impact on our earnings, driven by the historic high freight costs and raw material cost increases.

During these events we also gained valuable insights into ensuring supply chain robustness to cater for the growth built into in our business plan. I will come back to this plan shortly.

This situation obviously impacted the financials.

Free cash flow decreased by 15.0 mEUR compared to 2020 and totaled 58.5 mEUR. The free cash flow was negatively affected by an increase in working capital to increase of inventory levels. This was done as part of the efforts to mitigate supply chain challenges by securing supply capability now and ahead.

This negative effect on cash flow from higher working capital was more than offset by the positive effects from lower financial expenses and increased cash flow from higher operating profit.

At the end of 2021, total net interest-bearing debt was 338.5 mEUR, down by 43.5 mEUR compared to year-end 2020. The reduction was a result of the positive operating profit, which was only partly offset by the increase in working capital.

The financial gearing – measured as EBITDA compared to net interest-bearing debt – was reduced significantly driven by higher EBITDA and lower net interest-bearing debt. The gearing fell from a 3.8 at the end of 2020 to 2.3 at the end of 2021.

Going forward, Nilfisk will target a gearing between 1.5 and 2.0.

Today, the Board of Directors therefore proposes not to distribute dividends for the financial year of 2021 as the gearing-target in our capital allocation principles has not been met.

When the gearing is sustainably within the target range, distributions by way of dividends are expected at around one third of adjusted profit after tax. Additional capital will be distributed via share buy backs.

To conclude my review of the financial year 2021, let’s take a look at the share price development during the year.

This figure here shows the development in our share price in 2021.

The share price increased by more than 63% in 2021. In comparison the share price of OMX Copenhagen Mid Cap index rose 28% in 2021.

We will now leave 2021 behind for a moment and look ahead at our financial guidance and strategy review.

And before looking at our financial outlook for 2022, let me just add a couple of words to the current political situation in Europe.

At Nilfisk, we are deeply concerned about the continued Russian invasion of Ukraine.

Nilfisk expresses deep concern for - and sympathy with - the Ukrainian people and those fleeing from their home country, and we are hoping for a peaceful resolution soon.

As a consequence of the situation, we have decided to suspend all our business in Russia.

Nilfisk has a wholly-owned Russian subsidiary providing sales and service in Russia, with over 60 employees. Effective March 4, we have suspended all business activities with and in Russia, including stopping the import of products and parts into the country. Our colleagues have been sent home with pay and benefits – although payment restrictions make this increasingly challenging.

Nilfisk Russia provides sales and service to Belarus. These activities are also suspended.

The financial impact of this is immaterial to Nilfisk, as Russia is around 1 % of our total revenue.

Nilfisk complies with applicable official sanctions and export restrictions in our global business. This includes sanctions and restrictions already in place before this crisis, and our key actions in complying with the most recent sanctions have – until the full stop of business in Russia – included screening customer orders against updated sanctions lists, and ensuring that we do not export any of the ordinary commercial items that the EU and the US have restricted to limit exports.

We continue to monitor sanctions to ensure full compliance.

As a global company with almost 5,000 employees of various nationalities, we would like to express our sympathy to everyone, who is impacted by this conflict one way or another. We are contemplating to see how we can help to alleviate the big impact in neighboring countries through our subsidiaries in Poland and Hungary.

This week we have initiated an internal donation campaign across our global organization to raise money for the victims of this war. Nilfisk will double up the amount donated. This campaign is handled in collaboration with the Red Cross and UNICEF.

With those words, let’s move to our financial outlook for 2022.

For 2022, we expect organic revenue growth to be in the range between 4 and 7 %.

We expect that the continued market demand, a strong order book, and Nilfisk's pricing actions will drive organic revenue growth.

We assume a continuation of the global economic recovery and that the supply chain challenges does not worsen.

In addition to ensuring growth, profitability is also key. In 2022, we plan to invest in our growth initiatives in line with revenue growth, while maintaining a prudent cost management principle. The gross margin is expected to be influenced by remaining high freight and raw material cost and the overall supply chain uncertainty. We expect an EBITDA margin before special items in the range of 13.5 to 15.5%.

As mentioned earlier, Nilfisk conducted a thorough strategy review during the second half of 2021 to decide on future strategic priorities.

The process helped identify untapped profitable growth opportunities, but also to reflect upon past execution shortcomings.

The conclusions of the strategy review have been captured in a solid five-year business plan focused on enabling long-term sustainable growth – as well as detailing the roadmap for successful implementation.

At the same time, we believe it's Nilfisk's fundamental responsibility to lead the way on environmental, social, and governance related matters, also referred to as ESG, and we have enhanced our ambitions and commitment within sustainability.

Our consolidated ambitions are described and formulated in a five-year business plan - named Business Plan 2026 - focused on enabling long-term sustainable growth.

The Board of Directors has great confidence in management's ability to execute and deliver on this plan. We introduced it in our Annual Report and investor presentation on February 25, and the plans will be further elaborated on a Capital Market Day for institutional investors and analysts, which will take place on the 5th of April here at Nilfisk Headquarters in Broendby.

Business Plan 2026 is built around a strong value proposition – how Nilfisk can create value for its customers. Customer centricity is key, and will be incorporated into all processes to ensure that innovation and new technologies are brought into play to improve both efficiency and usability for our customers.

At the same time the Business Plan 2026 has a strong sustainability commitment to meet the increasing demands from both society and our customers.

The strategy review process has clearly identified five growth platforms and optimization opportunities that all together offer significant potential for value-creation.

These initiatives include developing service-as-a-business, migrating from a more reactive repair model to proactively focusing on providing a comprehensive solution. It's about complementing the product offer with a range of services throughout the utilization lifecycle and thereby delivering a customer-needs oriented outcome.

Another priority involves plans to ensure *growth in large-scale markets*. Here, the US market is of particular importance and our first priority but also the implementation of a more segmented go-to-market approach to further strengthen the position in European markets.

The shortages in supply and constraints in transportation in 2021, which I covered earlier, were a true stress test to us, and these constraints made us painfully aware that we need to strengthen the robustness of our supply chain.

We need to add growth capacity to be able to cater for the growth that we have baked into the business plan, and to help us to drive efficiency gains and savings. This will be a fundamental optimization opportunity for us.

The Business Plan 2026 not only makes clear choices about strategic priorities but is also backed up by detailed implementation plans. Reliable execution is key to success, and the plan is explicit about building a powerful execution engine with proven methods to translate strategic priorities into impactful implementation, and with clear metrics to track. Over time, this will build a strong execution culture and craft new ways of working. This is of one of the major differences from previous strategies and a very strong asset in the Business Plan 2026.

We have developed a business plan that steers Nilfisk towards long-term sustainable growth.

Nilfisk's 2026 target is to reach a level between 1.2 and 1.3 billion euro in revenue.

Acquisitions may become relevant medium-term, but they are not included in this revenue target.

To ensure that growth is profitable, we target an EBITDA margin before special items above 16% in 2026.

We back our ambitions for growth and sustainability with investments. This means, we expect CAPEX in the range of 3 to 4% of sales per year towards 2026. After an initial investment phase, CAPEX is expected to trend down towards the long-term sustainable level of 3% of sales.

Finally, we have set a new target for our gearing in the range of 1.5 to 2 towards 2026.

In addition to these targets, we also have set targets for sustainability towards 2030.

Let's move to the next page for a closer look.

At Nilfisk, we acknowledge the importance of making a serious effort to reduce our climate footprint. Our strengthened focus on reducing the company's carbon footprint includes commitments to define our efforts on climate action and reach very ambitious sustainability targets, lowering Nilfisk's total carbon emissions.

During 2021, we further detailed our efforts on climate action. Nilfisk has committed to the Science Based Targets initiative, the only global initiative that directly links a company's carbon emission targets to the Paris Agreement and associated global efforts.

Our commitment was reinforced during 2021 with a third-party validation of our Scope 1 and Scope 2 targets - related to direct and indirect emissions from operations - and the assessment and identification of targets on Scope 3 - related to emissions from the use of sold products.

All targets have been approved by Science Based Target initiative, marking a significant milestone in our climate action efforts.

Nilfisk has committed to reducing absolute Scope 1 and 2 GHG emissions by 35% by 2030 from a 2019 base year, and to reducing Scope 3 GHG emissions from use of sold products by 48%, measured per unit of gross profit, also by 2030.

Also, we have committed to wider sustainability targets on important social parameters, including gender diversity in our leadership layers, introducing a 25% target for women in senior leadership positions by 2026. This figure is 14% today.

Our ESG work, and aspirations, are detailed in our CSR Report, which I will encourage all of you to read. The report is available from Nilfisk's homepage.

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

We have a fixed plan for meetings throughout the year for the Board and in the individual committees.

Here, you can see an overview of the meetings that have been held by the Board in 2021.

Because of the continued lockdown and restrictions related to COVID many of these meetings were held as online meetings in the first half of the year. Thankfully, we were able to meet in person in the second half as restrictions lifted.

On top of the meetings listed here, there have been many telephone calls and teleconferences, and a large number of informal meetings.

At the same time, we have close and active cooperation with the management team in Nilfisk.

Election of board members is addressed at agenda item number 8 at this Annual General Meeting.

I already covered that I will not be running for election and will step down from the Board as of today.

This overview here shows the current members and future candidates for the Board of Directors. Chair of this Annual General Meeting, Marlene Winther Plas, will go through the details regarding the election of Board members later in the agenda.

Before handing over to Marlene, let me just add a couple of comments.

As we communicated in a company announcement on the 17th of March, the current board member, Jutta af Rosenborg, has agreed to make herself available for re-election. Consequently, the Board of Directors proposes re-election for a one-year term of Jutta under item 8 of the agenda.

I am very happy with Jutta's decision and that she can stay with the Board. Jutta is a strong resource in the work of the Board of Directors, and that she can stay in the coming year will also support the new Chair in the transition and overlap from independent members.

So, thank you for that, Jutta!

Also, let me briefly comment on the four employee-elected Board members here. The election term of the previous employee-elected board members expires today, so the employees of Nilfisk A/S have recently elected four new members to the Board of Directors: Gerner Raj Andersen, who was re-elected from the last election period, and Claus Dalmose, Nadia Roya Damiri, and Marcus Faber Kappendrup.

Even though I, myself, am leaving, I would like to welcome all four of you to the Board!

The employee representatives have a seat at the table as any of the other board members. And they have unique perspectives to bring to the table because of their – often – long engagement with the company. Bringing that unique internal insight into play along with other qualifications – and a genuine urge to contribute to developing Nilfisk – is key, and I wish you all the best of luck with this new opportunity.

As Chair of the Nomination committee, René Svendsen-Tune will cover the proposed Board compensation, and our Remuneration Report, later in the agenda.

This brings me to the final comments in this Chairman’s Report.

On behalf of the entire Board, I would like to thank our shareholders for your continued support and engagement in Nilfisk.

I would also like to thank our almost 5,000 employees for their continued engagement and contribution to Nilfisk. You have done a remarkable job during 2021, ensuring that Nilfisk has returned to growth and laid the path for the future.

That goes also for the Nilfisk Leadership Team! Once again, welcome to Torsten Türling and to Reinhard Mayer, and to the entire leadership team I would like to thank you for your dedication and will to succeed. It has been an absolute pleasure to work with all of you during the years!

Thank you.