Nilfisk Annual General Meeting
June 17, 2020

Chairman’s Report

Dear shareholders; once again, welcome to our annual general meeting.

We are here to review 2019 and to go through the results and some of the main events at Nilfisk during the year.

I think it is safe to say that for most of us 2019 feels like a long time ago. Not only are we in mid-June now, many extraordinary things have also happened since we left 2019. With the global coronavirus outbreak, we have been faced with an unprecedented situation, which has impacted citizens, companies and nations across the world.

So, before we go through the report for 2019, I would like to share with you how the crisis has impacted Nilfisk over the past months, and what has been done to mitigate it.

Since the pandemic started to escalate in the beginning of the year in China, our main focus at Nilfisk has been to keep our employees safe, and to service our customers.

To this end, I would like to send a warm thank you – both to our employees for their ability to adapt to the challenging situation, and to the customers of Nilfisk for continuing to place trust in the company during the crisis.

Let us look a bit more in detail on how the pandemic has impacted the demand in the market, as well as our production and supply of machines.

Starting with customer demand, we began to see an impact and a slow-down in market activity in China early in the year. From mid-March, this spread to Europe and across to the rest of the world. As businesses had to scale down, or even close their operations, their demand for cleaning equipment dropped quite drastically, which of course impacted our sales.

That said, we have seen continued sales activity in some customer segments, especially the vital institutions in societies such as hospitals, food production and retail, which all have been in full operation during the pandemic. Our Sales and Service teams have done an outstanding job in continuing to support these customers despite challenging conditions. They have found new innovative ways to interact with customers, such as digital customer meetings and digital product demonstrations with positive feedback from the customers.

In terms of production and distribution of machines, the key message is that Nilfisk has actually managed to remain in operation at all sites with little to no interruptions, even during the peak of the crisis and even in countries hit hard by the crisis, such as Italy and China.

Safety measures have been put in place to protect employees at all sites, and there have been solid contingency plans for how to manage the crisis. This has allowed us to continue producing and shipping machines to customers, although at a lower than usual level due to the lower activity in the market.

So, the past months have undoubtedly been challenging for Nilfisk, as for the rest of the world. But the crisis has also demonstrated the resilience of the organization and the ability to find ways to continue servicing customers also when times are tough.

Now, turning to the review of 2019.

The corona crisis hit Nilfisk on top of a challenging year, when looking at our financial performance.

In short, we simply didn’t deliver the results, we had expected, when we entered 2019. Undoubtedly, that was and is a disappointment.

When we set out on the transformational journey in 2018 guided by the Nilfisk Next strategy, none of us foresaw that the fluctuations in the European economy would have impacted our industry to a larger degree than other industries. This also impacted our business in 2019. Further to this, our performance in the US market continued to be a challenge.

That said, when looking at the many transformational initiatives we successfully executed during 2019, the simplification and globalization of Nilfisk is well underway – and this will lead the way for the realization of our strategic objectives and vision. And before going in more detail with the financials, let me just dwell for a moment on the progress made on our strategic transformation in 2019.

In short, 2019 could be called “ the second year of transformation”. Over the course of the year we have made significant progress in the implementation of a global operating model for Nilfisk, which I will come back to in a moment.

Also, we committed to reduce our carbon footprint across the business, which I'll also come back to shortly, first, let us look into the globalization of Nilfisk on which we made solid progress in 2019.

Our organizational structures in Sales in EMEA and the Americas are now aligned; we have integrated our business division for industrial vacuum cleaners into the remaining business, and following a strategic review of the Consumer business – concluding that this part of the business should remain within Nilfisk – we concluded a similar integration within relevant areas.

Within distribution, we initiated the implementation of a new set-up for our distribution centers in Europe that will enable better fulfillment to our customers while at the same time provide operational efficiencies.

These are a few examples of the initiatives supporting one joint operating model and aligned processes and structures across the organization. And jointly, these measures were a natural continuation of the significant steps taken in 2018 to simplify the company. Progress has been made but we are not there yet.

There is still work to be done in terms of creating a truly global operating model, and further actions have already been taken in 2020. So, based on the operational progress made in 2019, and recently in 2020, we now have a better foundation for commercial execution, as we have strengthened our commercial capabilities and systems. These efforts included implementing of global tools and systems to support sales, for example in the form of a global CRM system, which by the end of 2019 was active in 36 markets.

Another area I would like to highlight is sustainability, a topic that got substantial and increased awareness throughout the year, also here at Nilfisk.

We acknowledge the importance of making a serious effort to reduce our climate footprint, and in 2019 we completed a comprehensive mapping of our total carbon footprint with data from all sites, with the goal of setting measurable and ambitious climate-impact goals. Based on these data, Nilfisk recently joined the Science Based Targets Initiative, with the goal of reducing its carbon footprint by 35% before 2030.

At the same time, we increased our commitment to the UN Sustainable Development Goals.

Earlier this year, we released a CSR Report covering these topics in depth with detailed information and data on the many initiatives Nilfisk has started within sustainability and corporate social responsibility. I encourage you to read this report, it is available from the Nilfisk homepage.

With this, let's turn to the financials and to the results of 2019.

As mentioned, overall, 2019 was a challenging and disappointing year for Nilfisk when looking at our financial performance.

Our overall results were lower than the initial expectations for 2019, and our earnings declined.

Organic growth for the year was minus 4.1% for the total business. We experienced significant headwind in core markets of EMEA, and in the US, we didn't manage to grow the business as we had expected going into the year. I will come back to this later.

We managed to improve gross margin slightly to 42.3% for the full year despite lower sales and despite headwind from US imposed tariffs.

On the cost-side, overhead costs increased slightly compared to 2018 as a net result of our investment in the future of Nilfisk and costs savings to fund these investments.

The adjusted EBITDA margin before special items, which also can be referred to as the operating margin, came in at 9.9%, a reduction in margin of 1.6 percentage points.

Let us look into revenue in more detail.

In 2019, total revenue for Nilfisk amounted to 966.5 million euro compared to 1,054.3 million euro in 2018, which corresponds to reported growth of minus 8.3%.

Divestments carried out in 2018 and exit of the Consumer business from the Pacific region in 2019 had a negative impact of 5.5%, whereas foreign exchange rates contributed positively by 1.3%.

In sum, underlying organic growth was minus 4.1%.

Organic growth in Nilfisk' s branded professional business was minus 2.6%.

And if I should just briefly mention some of the key reasons for this development in revenue, I need to highlight EMEA.

Here, the year started with good performance continuing the trend from 2018. During the second quarter, however, we started to see the first indications of a shift in economic conditions, that had its starting point in the Central region, with Germany in particular. The weakened economic conditions clearly got worse during the third quarter and affected performance in the central region throughout the rest of the year, mainly in the industrial customer segment, but demand in general was lower compared to what we had been used to.

In the US market, we are disappointed with not being able to grow as we had expected in the beginning of the year. We are particularly 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, we changed the organizational structure, taking out management layers and structuring the sales organization around regional opportunities rather than product groups and channels.

We believe in the value of a strong dealer network and have worked hard to develop the business in cooperation with our dealers, supporting them with end-user focus and demand generation. Admittedly, however, the execution of our plan is taking longer than we had anticipated.

In terms of earnings, these were to a large extent impacted by the lower-than-expected revenue in 2019.

As mentioned, the EBITDA margin before special items amounted to 9.9%, which is lower than we expected in the beginning of the year.

Nominal gross profit decreased as a result of the revenue decline, but if we look at the gross margin it increased by 0.3 percentage point compared to last year. The largest positive effect came from divestment of low margin businesses in 2018, but pricing and lower freight costs also had a positive impact. These positive effects were however diluted by negative effects from mainly US tariffs and increased costs of certain raw materials.

In 2019, we continued the investments in commercial capabilities and our newly established global functions, and we rolled out global customer systems such as Salesforce and ServiceMax.

At the same time, the cost savings programs initiated in previous years contributed to a reduction of our costs and hence have helped fund the investments I just mentioned.

In the beginning of 2019, we dimensioned both the impacts of investments on the one side and cost savings on the other side to reflect the anticipated growth for the period. As we began to see fluctuations in the economy in EMEA during the course of 2019, we have initiated additional cost savings programs, reduced some of the investments and tightly controlled variable spend such as travel, particularly in the 2nd half of the year. All-in-all, these efforts, though, were not able to compensate for the significant decline in revenue, which is reflected in both nominal earnings and the EBITDA margin.

Consequently, nominal EBITDA was 26 million lower in 2019 than in 2018 and the margin, as already mentioned, came to 9.9%, which is 1.6 percentage points lower than in 2018.

Net result for the year 2019 amounted to 8.7 million euro, which is only slightly lower than last year, despite the significantly lower revenue.

The reason for this is that we spend less money on restructuring projects and therefore reported lower so-called "special items" costs.

The financial gearing, which measures EBITDA compared to net interest-bearing debt, amounted to 3.4, which is an increase compared to 2018.

Nilfisk's capital allocation principles target a balance between pay-out and financial gearing. Specifically, we have stated a financial gearing target measured as net interest bearing debt divided by EBITDA of 2.5, which is currently not met.

In addition, the impact of the COVID-19 outbreak has had a negative impact on market demand and in turn, on the revenue generation and earnings for Nilfisk in 2020. More importantly, the outbreak has led to a high degree of uncertainty in respect of the future macroeconomic development, both short-term and mid-term.

We are still not able to fully assess the potential effects of the current crisis, which led us to the decision to increase our financial headroom by obtaining an additional loan facility of 100 million euro, as announced on May 26, 2020.

Considering the current elevated financial leverage, in combination with the prevailing uncertainty around the impact of the ongoing COVID-19 outbreak, the Board of Directors proposes that no dividends will be distributed for the financial year 2019.

Now, to conclude my review of the financial year 2019, let's take a look at the share price development during the year.

The share price declined by 36.7 percent during 2019, which is a reflection of the disappointing financial results that we delivered during 2019.

We, in Board of Directors and in the Management Team, firmly believe in the potential of Nilfisk, but we must acknowledge that so far, this potential has not been reflected in the share price development.

As I already mentioned, the strategy is intact and we continue the execution in the face of the current crisis, and we are thankful for the support, patience and commitment from our shareholders.

If we turn our focus to 2020 – it has, as said in the introduction, been an unprecedented year marked by uncertainty.

Already in March, it was clear that the pandemic would have a negative impact on both market demand and our operations.

As the crisis began to escalate impacting most markets, we decided on March 19 to suspend our financial guidance for 2020.

Due to the low predictability and visibility in the market we were not able to accurately assess the impact of the corona crisis on the business.

This is still the case today, and our guidance for 2020 therefore remains suspended.

Given the current uncertainty, our focus short-term is to continue adjusting our capacity to reflect the current demand – and adjusting our cost to the lower activity level.

During the past months, a sizeable number of employees have been sent on leave or furlough, across markets, and we have focused our investments in strategic projects for 2020.

Nilfisk

Also, the Nilfisk Leadership Team has prepared a restructuring plan to adjust and lower the structural costs. This regrettably includes a reduction in the workforce by an estimated 250 full-time employees across functions and regions. The first reductions have been carried out in Denmark and in the US at the end of last month.

At the same time, we are preparing the business for the 'new normal' we expect to see at the other side of the coronavirus pandemic, and we are confident that the market for cleaning equipment will come out stronger post-COVID-19

We stay committed to our Nilfisk Next Strategy and see continued potential in our three overall strategic objectives, which I will walk you through.

What we have learned so far from the crisis makes us confident that the overall strategic objectives as set-out in the Nilfisk Next strategy continues to be the right direction for Nilfisk.

The management team and Board of directors will continue to take the necessary steps to adjust the business towards becoming:

One, a global company, which means having harmonized processes and ways of working, and reduced commercial complexity. We simply need to do things once – and do them right. This will all together enable us to deliver consistent high-quality solutions and services across all markets, in a cost-efficient way.

Second, a solution provider to customers – which means taking a consultative approach to support customers in optimizing their cleaning operations, and that also includes of course offering connected autonomous solutions and digital services.

And third, becoming a digital leader, which generally is about digitizing the customer experience, meaning having the right digital solutions available to support any touchpoint we have with customers, and to support that ensuring a coherent IT backbone and uniform data architecture.

These three objectives will continue to guide our actions and priorities in 2020. Let's have a look at some of the key priorities for the year.

With the progress made in terms of simplifying and globalizing the business during the past two years, the foundation for commercial execution is now more solid.

As such, we will work on getting value from the changes introduced over the past years and that will enable us to work more systematically on what matters the most, our customers, and on activating long-term growth:

In terms of customer engagement, we have initiated a cross-functional program focused on improving the customer experience. The program will expectedly run over several years to ensure that the customer journey is continuously optimized.

Execution is a key word for 2020. Following a challenging 2019 for Nilfisk in the US, and a coronavirus outbreak, a key priority for 2020 is continued execution of the growth plan targeting this important market. The plan was introduced in 2019 and included a restructure of the sales organization around key customer segments and around end-user orientation to fuel demand and bring added value to our dealers, ultimately benefitting our business. With the commercial foundation in place, the focus in 2020 is commercial execution – this includes levering the full portfolio, growing the industrial customer segment as well as strengthening the approach to strategic accounts.

During 2019, the Nilfisk Liberty SC50, the first autonomous solution from Nilfisk, became available to customers in all key markets in Europe and North America as well as selected markets in Asia, and the 2020 focus is now to continue to increase sales volumes. This will be supported by an integrated sales and marketing approach and during the recent months, we have seen an increased interest from customers looking to use autonomous cleaning solutions to free up their cleaning staff for disinfection of high-touch areas such as door handles, elevator buttons etc. During 2020, Nilfisk will also focus on bringing the next autonomous solution to market together with Brain Corp as a response to the increasing customer demands for autonomous solutions. The solution will be differentiated from the Nilfisk Liberty SC50 and tailored to new applications.

In sum, our 2020 focus is very much on managing the crisis, prepare for the period post COVID-19 and continue to maintain and increase customer engagement, and executing on our plans to generate growth.

The transformations and changes implemented during 2019, and the challenging market conditions, obviously continued to provide a fertile basis for good discussions at Board and management level throughout 2019.

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 2019. Additionally, 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.

The Board self-assessment was conducted in the first quarter of 2020 as an online survey managed by our Deputy Chairman of the Board and Head of the Nomination Committee.

The survey concluded that the Board has the necessary and relevant competences and experience represented but could benefit from more diversity. The Board has an open dialogue where everyone contributes, and opinions are shared freely. Meeting frequency, the agenda, and the material shared, are appropriate and relevant, and the relationship to the Nilfisk Executive Management is good.

The Board wishes to engage even deeper into market and competitor insights and progress of strategic initiatives in the company.

For this year's Annual General Meeting, and the election of Board members, the Board recommends that Are Dragesund and Franck Falezan are elected by the General Meeting as new members of the Board of Directors based on proposals from large shareholders in the companies, Ferd AS and PrimeStone Capital LLP, respectively. Are Dragesund and Franck Falezan are both considered non-independent due to their affiliation with Ferd AS and PrimeStone Capital LLP, respectively.

We will get back to this election later during the meeting, agenda item number 7.

It is the intension of the board to constitute itself in the following way after this Annual General Meeting.

The board proposes that the undersigned is elected Chairman. Existing member of the Board of Directors and Deputy Chairman, Lars Sandahl Sørensen, has decided not to run for re-election due to his new role as CEO of the Confederation of Danish Industries. We would like to thank Lars for his significant contribution to Nilfisk in general, and to the Board among others as Chair of the Nomination Committee. The Board proposes that Anders Runevad is elected Deputy Chairman.

In the Audit Committee, Jutta af Rosenborg is proposed elected as Chair and Are Dragesund elected as ordinary member. René Svendsen-Thune is proposed to be elected as Chair of the Nomination Committee and Franck Falezan as ordinary member. In the Remuneration Committee, Jutta af Rosenborg is proposed elected as Chair and Thomas Lau Schleicher as ordinary member.

If the new board members are elected, we propose that Franck Falezan and Are Dragesund both join a new Project Management Office Committee with Anders Runevad as Chair. The Board also proposes to establish a US Committee to increase the Board's focus on the US market. For this committee we propose to elect Rene Svendsen-Tune and Richard Bisson as members, and the undersigned as chair. These elections will take place at a constituting meeting of the Board of Directors held after the Annual General Meeting.

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

On a finishing note, we, across the Board, would like to thank our shareholders for your continued support and engagement in Nilfisk, especially during a challenging year.

We would also like to thank the Nilfisk Leadership Team

for their dedication to the strategic transformation of Nilfisk and their determination to persist with the execution despite tough market conditions. Not least, we would like to thank our 4,900 employees for their continued engagement and contribution to Nilfisk.

Thank you.