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PRESENTATION

Hans Henrik Lund *- Nilfisk - CEO*

Welcome to our Q1 presentation. Thank you for joining us this morning, and as always, Karina and I will take you through the material. I have the pleasure of starting out with highlights, the business updates and then Karina will, with a steady hand, walk you through all of the financial details.

So slide three, we came out of the Q4 with a very positive momentum, 5.4 was our growth in Q4. We saw exactly the same momentum going into Q1, a very, very strong ore intake.

However, we were hit by delivery issues in Q1, and I'll explain in detail on the next slide. Which lead to an unusual quarter with a very high order backlog, EUR7 million above normal level. Again, I'll address it in a second in more details.

On the bottom line, we delivered 11.9, we need to take into account that that's held by our phantom shares, as we have explained last quarter as well. If we take that out of the equation, the operational performance was 10.3.

We keep seeing the gross profit improving. We had an average of 42.2 last year, and first quarter showed 42.4. So going up as we have predicted, good development. And then we are upgrading our savings target from 35 million as you know to 50 million.

The 35 was end of my team, that is now upgraded to 38 to 42, and the 50 million is by end of '20. So very positive about the additional protection we have identified. Full year we're comfortable with as it is, so no changes on that one.

Let's dive into what really happened, and I dare to say we were struck by a bit of bad luck, bad luck lead to bad luck. This -- what really happened was in our Hungarian factory. We received components from a sub supplier where the actual raw materials were plastic, didn't live up to the certificate.

I've worked with plastics for 25 years, I've just never saw it before that a raw material doesn't live true to. And you can imagine what happens when you get a load of components in and you can't really see it, you can't test for it, but suddenly you realize it's not really what it's supposed to do.

Then you have to stop the line, you have to take it all down, you have to find the fault and you have to reproduce it all again. That costs us a couple of weeks, and in a -- this part of a season where our wax was really growing fast, it was just very, very difficult to catch up on that one.

So that was one that was really bad luck. The other one that struck the same quarter was in the motors. We've had the same motor suppliers for a maximum of 20 years. They have the lowest failure perimeter that you can imagine.

Suddenly we've identified two engines that are not right. That means we take the line down, we test more than 1,500 engines to make sure that it is Okay, we are completely unable to reproduce the mistake we found on the two.

That cost us weeks as well. So those two were really, really one offs, and that's why I dare to say this was really bad luck. On top of that, we had a U.S. shortage on a key component, which can happen and it's more like a normal incident, but the first two ones, they were very unfortunate.

The good news is that through April, we've been able to catch up, which has taken a lot of effort by supply chain and I give them a lot of credit, as they do to say all for being able to handle the customers and explain this problem.

That led us to a really positive April. The drop was to 4.4 percent organic growth for the first four months of April -- of the year, which we are absolutely content with and happy with against the guidance of three to four percent for the full year.

So we had a couple of glitches, very hard to predict those too. I can guarantee you they are not going to happen every quarter, those were really, really one offs, but very happy to report that after April, we're back on track.

Then you know we keep simplifying the business, very happy to tell you that we've sold our chemical business in Sweden. It's approximately a EUR10 million business, and obviously we're not the world's best at selling chemicals, other people are much better at that.

So see it as our continued attempt to streamline the business. We got a good deal out of it, positive P&L impact, positive cash flow effects, and I'm just really happy with both of the deals and that we were able to simplify the business.

Strategic review on outdoor bond track is nearing a conclusion. We're not there yet, but we hope to get there soon and basically on track. Then we've spoken about previously and now it's in action, but we will reduce our product portfolio with more than 40 percent of the product platform we have.

That has started, it's been driven through the organization at the moment and we haven't concluded by year end. Also have very positive impact, and we're not even quite yet clear on the monetary impact of it, but we know this will help us moving forward.

Then finally on the simplification, we have simplified the deal obstruction in U.S., you know that we've had way too many dealers in U.S. We've taken the long trail of them and we have engaged with a external telemarketing company that can handle them on behalf of Nilfisk, and then we focus our sales force on the actual category one and two dealers.

So good progress on simplifying the business. Then on autonomous cleaning, we are having the six machines out, doing well both in U.S. and from there. We get positive feedback on their performance, we have passed all of the third party testing that's required, and we now bring two updates of the software base on the first six machines and the feedback.

And it is still our aim to sell out 200 machines this year. On top of that, we are obviously deloading the portfolio, because this is not going to be one product play, this will take a full portfolio.

And then of course we note that there is continued interest from customers in this and competition is mobilizing. It's to make the market, I'm happy to see that both [Casha] and Tennant now is announcing that they want to play this game as well.

And I'm obviously not surprised by it, but it's good that we have more people that can make the market. Then if I take you through the traditional business units update, and we're quite happy with it, 6.2 percent growth after the first months.

That's a decent number. We are helped by [Frank's east on east] and then the private label business. We have less than desirable performance in Germany, however in Germany they were really hit hard by the delivery situation.

So I can rule out that they lost some business actually because of the delivery situation. So it's a little bit premature to say that they didn't perform fully as we expected. But they are on learning side, as is better locks in Sweden.

Sweden, we have helped now by selling off the chemical business, which enables Sweden and the sales force to focus only on the machines, which is going to be eventually moving forward.

We see gross margin going up compared to Q4 and that's fine. And we're still not fully leveraging our service business. We did build up capacity in Q4, it takes time to get the people trained and fully effective and we're still working on that, getting the efficiency up. All in all, happy with them.

In Americas we didn't expect a good quarter in the first place, and we knew that we grew 10% last year, so it was a tough comparison. However, we did not expect a minus 5.8 obviously. Two reasons for it. One, we had severe issues in delivering products, as we talked about. And then we had one dealer who changed their strategy and is now selling less branded, like Tennant and us but are selling instead their own brands, so they're growing a private label solution.

And we couldn't compensate that within the quarter. It's better after April. We had growth in April. It's still not good. However when I look at the demand and the pipeline, we're still optimistic on US. We had a tough start because of these things but we're coming back to growth, no doubt about it. Growth margins are fine.

We've merged two sales forces so we can go to market in a much more effective way, making sure that we're not going with floor care and [ILEX] as separate sales forces but as one. And then as we talked about already, we've done a redefined dealer structure, which is also making us much more competitive and much more clear in the market.

Challenging quarter, however, a fair and good outlook. APAC, really happy with APAC. We spoke about it last time that we have Serdar out there to run the show. I was impressed by 4% growth in already Q4. Now after four months, he's at 5.1. So I dare say that we've set a new level already now of growth in APAC, driven by China and driven by a number of the other countries.

However, good to see that we have identified a new level of growth on the plus 5%. Which is absolutely what we should expect from that region but haven't seen for years. And knowing Serdar, he's not going to be happy with five, he's shooting for something bigger. But right now, we're happy with the five.

Gross margins up. All in all, profitability up in the region. All good. Specialty professional, very strong growth. After four months growing that business by 20%, very positive surprise. And it's pretty much across the board. It's very much driven by ILEX of course. Which is a very profitable segment for us. It's certainly really also driven by outdoor, which is a less profitable area for us.

But all in all, very happy and it just shows the momentum there is in the market in industrial at the moment. There are investment and money around, that's clear. Again, gross profit increased development, up by 1.5 percentage points. Splendid business, but that's been a really strong start. Consumer, we said that we would stabilize the top line and we would improve margins.

We saw the first stabilization in Q4. And we're now seeing it again. Because after April, we had indexed 99 on the road signs, which is fine. And we are seeing margins go up. We are having our margin expansion plan, that's on track. So all in all, very, very good for consumer as well, according to the plan. And I had never thought I would use a cold string to explain results but in this case, it was actually true.

The revenue came late because of a very cold spring. But it's there now and we are indexed 99 year to date on revenue with the sign for that business. So that was a great run through the businesses. And with that, I hand it over to you, Karina.

Karina Deacon - *Nilfisk - EVP, CFO*

Yes, thank you. I think we've covered the top line and the explanation for why we ended where we did, so let me go to EBITDA on slide 14. And as we've alluded to, we were again impacted by a one off charge related to our Hungarian team. In Q4, as you know, we had an expense of 3 million ending Q1 that was reversed to an income of close to 4 million, 3.9 million.

That implies that when we see something like 20 points movement in the share price, it costs us about 1 million in charge with the current number of phantom shares we had, without the fee, that will go down over the next couple of years. Anyway, if we then take the impact of that out, we had a 30 basis points decline in the EBITDA compared to Q4.

And this is basically to be explained by a lower level of activity now in Q1, sorry, rather than Q4. And something I've said if we look at the cost margins, that continue to improve. We were 200 basis points above Q4 and I come back to that in a little while. But then if we look at overhead, if we strip out the impact of the phantom shares and we also compare like for like foreign exchange rate, then we have overhead cost, in nominal terms, below those of Q4.

But when we measure it as a ratio, as a census, we have more than -- about 230 basis points higher in ratio compared to Q4. And that is what impact the EBITDA on the bottom line. So then you could turn slide 15 and look further into our cross margin. When we released in February, we were a little bit brave and indicated with the red arrow that we foresaw a continued improvement in the gross margin.

And we saw that in Q1 with 42.4%, going from the full year of 42.2 and also, going from a gross margin in Q4 of 40.4, so quite a substantial improvement. There were significant ups and downs in our gross margin. And some of them we didn't expect and some of them we did expect. If we take on the positive side, we did get the price increase as we expected. We go out in the beginning of the year with around 3% price increase.

And the six factor came in somewhere between 1.2% and 1.5% in line with what we've seen previous years. So that was all fine. And of course, we also have the positive impact from our cost saving programs. As we stated, we saw around 2 million in delta compared to Q1 last year. But on the other hand, then we had some unexpected negative impact which offset the positives I just mentioned.

Clearly when we have the delivery issues we talked about, that means we have lower capacity utilization in the two production sites. So that means that we had a lower gross margin based on that also. And I'm sorry if I have to mention it again. I hope I didn't have to, but the private label also had an impact in Q1. For two reasons. One of them was -- and I also mentioned that already in February.

Some of the large order that we expected to close by the end of '17 was not possible to ship at the end of December so they rode into January. But also, from several other private label customers we've seen high demand in Q1 higher and we expect it.

So it does have an impact on the margin as we talked about several times. Finally, building up the service capacity had a negative impact that we had hoped that we wouldn't have seen in Q1. But it took a little bit longer than expect. Then the final issue I'll mention that was not unexpected but the raw materials prices. We knew that there would be erosions from the supplier that are now factoring in the increases that we saw in 2017.

So they are having an impact on the margin now. We do see the prices stabilizing, so it's not that we experience higher prices in Q1 than we did in Q4, it's simply the rollover, I think. But all in all, quite pleased with the margin and the arrow indicated we still believe it. Turning to slide 16, just a few comments on our working capital and return on capital employed.

Working capital actually bang on the target that expect during the last quarter. Seventeen percent is what I feel is the normalized level and that's where we are after Q1. Then it's really the impact of the very, very low inventory level we saw in the beginning of 2017, very low. So now we are back to the normal level in terms of inventory. If we look at return on capital employed, this is the approximate effect of we had low earnings in Q1 '18 rather than the relatively high earnings in Q1 '17.

Turning to slide 17, just a very few comments on the breadth of the P&L. Foreign exchange rates did have an unfavorable impact to our numbers in Q1. Specifically, on top line, it was 5.6% down, mainly due to the US dollar and of course currencies related to that. But as our credit exposure is very much linked to translation rather than transactions, we didn't see any significant impact on EBITDA. It was less than 10 basis points. So we can fortunately not see that on the bottom line.

Special items all related to our cost savings program, we'll come back to that, so not so much to say about that for now. And then a comment on our financial clearing of 3.3 has gone up compared to Q4. But it's well in line with our expectations. If the center reflects the normal seasonality that we have in our cash flows and we still maintain our expectation of it being closed out prior to the level of 2 times, 2 1/2 times earnings when we come to the end of 2018.

So absolutely no change in that and fully expect that. The tax rate reflected here in Q1 is 25 percent and that's reflective of the new normalized levels after the US tax reforms and I think this is good guidance for where it should be going forward, 25% to 26%. So all in all, we saw bottom line that improved from Q4, so now have an EBIT margin before special items of 8.1%, which is more than 2 percentage points above Q4 of 2017.

Page 18, our cost saving program. We've talked a lot about it and we can now continue to talk about it for another year because we have expanded the program. We've been very encouraged about what we've seen and the progress in the plans we've made. So we have updated our guidance for '18 and also for '19 so we now expect between 38 and 42 by the end of '19, going up from the 35 we've talked about previously.

We also feel comfortable that by extending the timeline by another year, i.e. to move it out to 2020, we can find another EUR50 million. So we now target the EUR50 million to be realized by the end of 2020 and we expect about 50/50, the impact in overheads and gross profit that you will see. These additional EUR50 million is not because we are really finding a lot of completely new initiatives, it's very much doing all the same.

So we will continue, or we are continuing to optimize our overhead, take out people wherever we can. We are looking at further outsourcing the experience we've had with the outsourcing we've done. So far, under the program has been cost savings and we continue to that. We'll also continue to look to see if we can move from high-cost to low-cost countries from various functions.

And finally, looking again at pricing optimization, you've heard me talk a lot about the project that is currently running in the US. We've seen good results from that and we believe that we can grow that out further. These savings, they come with restructuring costs and we estimate that over the period, it will amount to another EUR15 million.

That means that if we turn to slide 20, based on what we see in Q1, and not least when we saw the April numbers; and also, of course, what we know by today, the 15th of May, we're comfortable to maintain our outlook for the year. So we still expect 3% to 4% organic growth and EBITDA in the range of 11.5% to 12%.

In terms of timing, I said earlier in the year that we expected that the first half organic growth would be higher and the second half, due to the volatile comparisons we have from '17. And I've been saying that, so we do expect that when we close at the end of June, we will be at a level in between 4% to 5% organic growth, whereas in the second half of the year we'll be closer to the rate of 2% to 3%.

And what we've seen in April where we end at 4.4% only gives us confidence that this guidance is fine. This concludes the presentation, so now we will go through Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Kristian Johansen in Danske Bank.

Kristian Johansen - *Danske Bank - Analyst*

Yes, thank you. I've got a couple of questions. First of all, back in February, you showed us this slide illustrating that you planned to invest EUR16 million in 2018 into three categories. I just wanted to get an update on whether this assumption is still relevant.

Hans Henrik Lund - *Nilfisk - CEO*

Fully relevant, fully the same plan, Kristian. And as we've talked about a number of times, we simplify the business and we invest and the future. And that's exactly how it goes. So we are still aiming to spend the EUR18 million on the investments we outlined in February.

Kristian Johansen - *Danske Bank - Analyst*

All right, very clear. Then in terms of your upgrade for the projected initiatives, if you look at the expected impact in 2018, at the midpoint, you upgrade that by EUR3 million, but obviously you do not change your guidance. So can you just elaborate how we should think about these dynamics?

Karina Deacon - *Nilfisk - EVP, CFO*

We think it's too early to predict that these extra savings will hit the bottom line. We're still relatively early in the year, so it's still too early. We feel confident that we'll get the savings. Whether there'll be bumps along the way in other areas of the business, we simply don't know yet. So for now, 11.5 to 12 is still the best guess. But you could say that we feel most certain to get there because we've now found the extra money.

Kristian Johansen - *Danske Bank - Analyst*

Okay, that's quite clear. And then just my last question, in terms of the US and this dealer who changed strategy and it's headed more towards private label, do you see any risk that other dealers might go the same way? I mean, is there any structural element in this?

Hans Henrik Lund - *Nilfisk - CEO*

I don't think there is, Kristian. And I - without disclosing their success with the move, which I won't, but I don't think that there are any other ones at the moment that are going to follow that strategy really. It's a fairly unusual one.

And again, the - it happened with a certain speed that made it very difficult for us to compensate in short term. [Andy] is here in Copenhagen at the moment and he's very bullish on the outlook. And he knows how to compensate it. But it just hit him at a speed where he couldn't short-term compensate it. He's not worried about the outlook at all.

Kristian Johansen - *Danske Bank - Analyst*

Great. That was all for me.

Operator

Your next question is from Claus Almer, Nordea.

Claus Almer - *Nordea Markets - Analyst*

Yes, hi. Also a few questions on my side. The first one goes to Americas. Very useful giving this four month - up to four months, but Americas is still down after four months. How should we look at first half? Will you then keep banking in the black numbers or will it take a bit longer? That would be the first question.

Hans Henrik Lund - *Nilfisk - CEO*

Good one, Claus. And thank you for having noticed the four months. So Claus, I believe that by end of Q2, we're probably going to be around flat for first half in US.

Claus Almer - *Nordea Markets - Analyst*

So, sorry, so in the first half will be flat, or Q2 will be flat?

Hans Henrik Lund - *Nilfisk - CEO*

No, no, no, no. First half will be flat so we will have growth in Q2 that will compensate for what we lost--

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Claus Almer - *Nordea Markets - Analyst*

Okay.

Hans Henrik Lund - *Nilfisk - CEO*

--In (inaudible).

Claus Almer - *Nordea Markets - Analyst*

Just wanted to be sure. Then, my second question goes with the EMEA region, where EBITDA is down year-over-year despite the very solid top line growth. Can we compare those numbers? Or how should we look at the possibility in your core region EMEA?

Hans Henrik Lund - *Nilfisk - CEO*

I'm very cautious with comparing with anything related to Q1 last year. Because Q1 last year was such an anomaly, we were 44% whatever gross profit and we came out with a 12.9 earnings. Everything was positive in that quarter. It was so positive that you were all telling Karina why you're not upgrading expectations because this is nonsense.

And I was even going in that direction as well when I started because I thought it was so positive. So Q1, don't compare to that. I think the most important is you compare sequentially in this case. And so we're significantly up over Q4.

And then notice the common about that we're not still happy with the service performance in Europe, we've invested in extra service people, especially in Germany in Q4. And we're still not seeing a full efficiency running of those guys. So I think that gives you a feel for what we're looking at.

Claus Almer - *Nordea Markets - Analyst*

Okay. And then just my final question, with this upgrade, 2020 target, how much of these extra EUR15 million should we expect to go all the down to the EBITDA line or will it be reinvested in the business?

Karina Deacon - *Nilfisk - EVP, CFO*

Yes, we think it's too early to say. We've been saying 13 to 15% EBITDA margin for the midterm. Whether we will spend the savings on further investments, whether they will cover whatever bumps might come up, I don't know. But for the time being, we feel comfortable with the 13 to 15%.

Hans Henrik Lund - *Nilfisk - CEO*

Yes, and I think, Claus, the commitment we always make to you is, we will keep the cold water and the hot water separate. So we will always tell you what we think we can save, and we will always tell you what we think we need to invest.

And we will keep it going like that. What we need to invest in 2020, if you asked me to guess and that would be okay, then to me, the big swing, you know that we're overinvesting in IT in 2018. We've said that we most likely will do the same in 2019. I question whether we're fully done with that 2020.

We might actually need to keep overinvesting in IT 2020 as well, and I think that's the swing factor. How much of that is needed in 2020 or is it not needed? And quite frankly, at the moment, we don't know.

But I can see more and more plans building around making sure we have a very solid unanimous infrastructure in IT. And in my experience, it might take longer investment period than two years. So that's the best case I can show you.

Operator

(Operator Instructions)

[Casper Ploming ABT].

Unidentified Participant

Couple of questions from my side also. First on these delivery issues that you had in Q1. Henrik, you mentioned that there might have some been some impact in for example, Germany, but has there been any sort of long term impact? Are there any customers that sort of got irritated with you and where you sort of feel that they are also taking their future business elsewhere. That's my first question.

Hans Henrik Lund - *Nilfisk - CEO*

No, there hasn't been. And that's where I give credit to sales for actually having those relationships that can handle and building those. So it's been a good job done by these guys. There has been no long term damage done at all. But it's been frustrating of course.

Unidentified Participant

Then, just Karina, on your admin cost, it seems to taking a step down here in Q1, in the P&L. Is there anything unusual here in Q1 or is this sort of new level to start factoring in going forward?

Karina Deacon - *Nilfisk - EVP, CFO*

There are two things that impact really. And that's phantom shares of cost has a huge impact. So you've got to take the 3.9 into account where most of them falls on the admin line. So that's one thing. But also, of course, the cost saving program, they [much] impact the admin line in general. So yes, you should see in relation to revenue, it should be a lower level. So those two would be in the factors to highlight.

Unidentified Participant

So broadly, there are 20 million per quarter level going forward?

Karina Deacon - *Nilfisk - EVP, CFO*

Yes, that's about the right level.

Unidentified Participant

Can you give any kind of guidance for the price tag on your Swedish chemical business?

Karina Deacon - *Nilfisk - EVP, CFO*

No, we don't disclose the price. And when we say positive P&L impacts, it is positive, yes, but you will not notice it really, but it's important for us that it was not a loan that we had to take. So smaller positive P&L impacts. We will, of course, disclose that in Q2 numbers because it's affected by the end of April.

Unidentified Participant

So really all we have to do is to just lower reported revenue by 1% for the next four quarters?

Karina Deacon - *Nilfisk - EVP, CFO*

Yes. Take the 10 million and spread that out.

Operator

Next question from Kristian Johansen in Danske Bank.

Kristian Johansen - *Danske Bank - Analyst*

Just a follow up on moderate shares, if we look what you report on growth in Americas and compare that to what we saw in Tennant report, one might conclude that you might be losing moderate share.

And similar for Germany, what you indicate here, one might feel that [Kesher] is winning moderate share. Is that a picture you can recognize or does all that elements playing in?

Hans Henrik Lund - *Nilfisk - CEO*

I think the number, you're absolutely spot on, Christian, as always. And the numbers speaks for them self. We lost market share to Tennant in Q1. No discussion. I claim that we lost a bit of what we won last year.

But anyway, so yes, we lost in Q1, it's clear. It's also clear that Kesher is extremely strong in Germany. There's no doubt about it. And I don't think we're growing enough compared to the fact that it is so called, high season, good economy and all that. It is because Kesher is really, really strong in Germany.

Kristian Johansen - *Danske Bank - Analyst*

The follow up is how should we look at this going forward? How confident are you that you can change these trends?

Hans Henrik Lund - *Nilfisk - CEO*

I find it harsh to say it's a trend in US based on one quarter. After we were doing really, really well last year. After we had a Q4 where we grew 7 point something in US and German was growing 1.8.

So not let's talk about tendency or a trend after one quarter because then we should have a very positive conversation after Q4. So US, I'm not too worried about as such. Germany, we need to look at it because I actually think there, it would be fair over a number quarters to talk about we haven't grown enough. And we are looking seriously at that, how we do a better job.

Kristian Johansen - *Danske Bank - Analyst*

Are there any markets where you see the opposite? Where you see clear market share gains?

Hans Henrik Lund - *Nilfisk - CEO*

We believe that, go to APAC. We are winning in Europe, we're winning in APAC. So I feel good about it, there's no drama as such. There's so drama that you sometimes in the key competitors home markets can't win. You can't win every quarter for sure. It's just, keep doing what you do and do it better every day.

Operator

There are no other questions at this time.

Hans Henrik Lund - *Nilfisk - CEO*

Okay. Then, once again, thank you for asking excellent questions as always and joining our conference. And we look forward to the next one. Have a good day. Thank you. Bye.
