Nilfisk Q2 2020 Interim Report

Webcast presentation

Nilfisk

On the call today

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Forward looking statements

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Key takeaways for Q2 2020

- COVID-19 continued to impact demand
  - Pick-up in demand month-over-month in most markets
    (April: -32%, May: -28%, June: -15%)
  - Significant variations between markets and segments
- Swift action on measures within our control
  - Adjusting production capacity
  - Strictly managing cost and CAPEX
  - Obtaining back-up credit facility
- Execution of restructuring according to plan
- Uncertainty remains high and outlook therefore still suspended

Organic growth

-24.9%

Gross margin

39.9%

EBITDA margin b.s.i

11.0%

Demand patterns across markets

Market variations largely follow scope and timing of lockdowns and reopenings

Americas

US
- Least impact on demand
- Pick-up in demand month-over-month

Canada
- Very slow pick-up in demand as lockdown remains in force

Latin America
- Mixed picture
- No consistent sign of pick-up

EMEA

North
- Pick-up in demand during Q2

Central
- Least negative impact in EMEA region
- Pick-up in demand during Q2

South
- Heavy impact on demand
- Steep pick-up during Q2

APAC

China
- Continued low demand and slow pick-up

SE Asia
- Variations on impact and pick-up across markets

Pacific
- Least impact and strongest pick-up during Q2

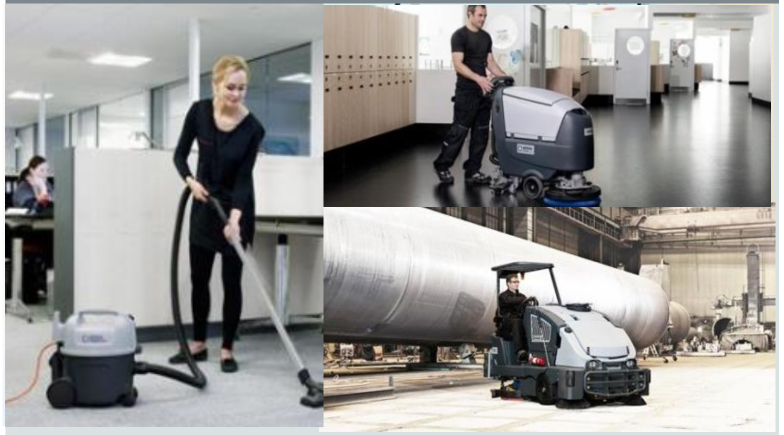
Demand patterns across customer segments

Variations between customer segments correlating to their exposure to the crisis

Low impact on demand

- Low impact on demand in critical infrastructural segments
  - Retail (food)
  - Healthcare
  - Food and Pharma
  - Logistics and warehouses

Some impact on demand



- Drop in demand from contract cleaners due to closed offices, schools etc.
- Drop in the industrial segment, with an increased hesitancy to invest

Severe impact on demand

- Steep decline in demand from hospitality and travel segment

Across segments, aftermarket business has been impacted less than overall equipment business

Business update

Execution of restructuring according to plan

- Restructuring to mitigate crisis impact executed according to plan
- Cost reductions in line with strategic objectives:
  - Marketing: Harvesting efficiencies and combining competences to improve portfolio management
  - Sales: Digital sales tools enabling efficiencies and performance improvement
  - IT: Streamlining set-up and a near-source center established
  - R&D: Further simplifications introduced to the category/competence center matrix organization.
  - Adjustments across other functions in Nilfisk

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Income statement

EUR million	Q2 2020	Q2 2019	Change	H1 2020	H1 2019	Change
Net sales	**191.1**	**258.6**	-67.5	**410.2**	**505.2**	-95.0
Reported growth	*-26.1%*	*-9.1%*	*-17.0%*	*-18.8%*	*-6.8%*	*-12.0%*
Organic growth	*-24.9%*	*-4.4%*	*-20.5%*	*-17.8%*	*-1.8%*	*-16.0%*
COGS	-114.8	-145.1	30.3	-240.1	-285.8	45.7
Gross profit	**76.3**	**113.5**	-37.2	**170.1**	**219.4**	-49.3
Gross margin	*39.9%*	*43.9%*	*-4.0%*	*41.5%*	*43.4%*	*-1.9%*
Overhead costs	**-71.7**	**-91.4**	19.7	**-157.3**	**-180.4**	23.1
Overhead cost ratio	*37.5%*	*35.3%*	*2.2%*	*38.3%*	*35.7%*	*2.6%*
EBITDA before special items	**21.0**	**39.4**	-18.4	**45.9**	**72.1**	-26.2
EBITDA margin bsi	*11.0%*	*15.2%*	*-4.2%*	*11.2%*	*14.3%*	*-3.1%*
Special items	-8.7	-7.8	-0.9	-9.3	-15.2	5.9
EBITDA	**12.9**	**32.8**	-19.9	**37.2**	**58.3**	-21.1
EBITDA margin	*6.8%*	*12.7%*	*-5.9%*	*9.1%*	*11.5%*	*-2.5%*
EBIT	**-4.1**	**14.3**	-18.4	**3.5**	**23.8**	-20.3
EBIT margin	*-2.1%*	*5.5%*	*-7.7%*	*0.9%*	*4.7%*	*-3.9%*

Comments

- Total reported revenue down by 67.5 mEUR corresponding to reported growth of -26.1%
  - Impact from consumer exit from Pacific in 2019 of -0.8%
  - Negative impact from FX of -0.4%
  - Organic growth of -24.9%
- Gross margin down by 4.0 p.p. due to lower capacity utilization and release of freight accruals in Q2 last year
- Strict cost control, government support programs and lower personnel costs reduced overhead costs by 19.7 mEUR
- EBITDA bsi negatively impacted by lower gross profit partly mitigated by reduced costs
- EBITDA margin bsi adjusted for government support would be 8.4%
- Special items of 8.7 mEUR largely relating to restructure carried out in the quarter

EMEA

	Q2 2020	Q2 2019
Revenue (mEUR)	**83.8**	119.6
Organic growth	**-29.1%**	-1.5%
Gross margin	**45.1%**	49.2%
EBITDA margin bsi	**21.7%**	30.4%

Comments

- Large variations in demand between EMEA regions
  - Least impact but less steep pick-up in North and Central regions
  - South heavily impacted but with steep pick-up in demand during Q2
- Gross margin negatively impacted by lower capacity utilization
- Strict cost control, lower personnel costs and government support programs led to cost reduction of 3.0 mEUR (excl. D&A) partly mitigating revenue decline
- EBITDA margin bsi down by 8.7pp due to negative impact from lower revenue on both gross margin and cost ratio.

Americas

	Q2 2020	Q2 2019
Revenue (mEUR)	**58.3**	80.7
Organic growth	**-28.1%**	0.4%
Gross margin	**38.9%**	42.9%
EBITDA margin bsi	**17.0%**	21.6%

Comments

- Impact on demand correlated to degree and length of lockdown
  - US least impacted and most notable pick-up
  - Canada significantly impacted by low demand with modest pick-up
  - Mixed picture in LatAm with slower pick-up than US
- Gross margin negatively impacted by lower capacity utilization
- Strict cost control and lower personnel costs led to a cost reduction of 4.4 mEUR (excl. D&A)
- EBITDA margin bsi down by 4.6pp due to lower gross margin

APAC

	Q2 2020	Q2 2019
Revenue (mEUR)	**13.7**	21.7
Organic growth	**-36.0%**	-4.4%
Gross margin	**38.0%**	41.5%
EBITDA margin bsi	**5.8%**	15.7%

Comments

Significant demand variation between APAC markets and regions:

- Continued low demand in China despite eased lockdown restrictions
- Least impact and strongest pick-up in Pacific region

- Gross margin negatively impacted by lower capacity utilization and inventory revaluation
- Costs down by 1.2 mEUR (excl. D&A) due to lower activity related costs
- Drop in EBITDA margin bsi of 9.9pp impacted by the significant drop in revenue

Other business units

Consumer

- Very strong performance in Q2 as a result of high demand and new customer wins
- Exit from Pacific region in Q4 2019 negatively impacting reported growth in Q2 2020 by -11.8%
- Gross margin negatively affected by inventory clean-up following exit from Pacific region

	Q2 2020	Q2 2019
Revenue (mEUR)	**24.5**	23.3
Organic growth	**21.1%**	-25.8%
Gross margin	**33.5%**	33.9%

Private label and other

- Revenue down by 2.5 mEUR in line with expectations
- Gross margin negatively affected by product and customer mix

	Q2 2020	Q2 2019
Revenue (mEUR)	**10.8**	13.3
Organic growth	**-18.5%**	-9.5%
Gross margin	**22.2%**	24.1%

Balance sheet and cash flow

EUR million	Q2 2020	Q2 2019	Change
Inventories	153.0	184.1	-31.1
Trade receivables	155.9	211.4	-55.5
Trade payables	81.9	127.6	-45.7
Reported WC	145.1	198.5	-53.4
12m WC ratio	*21.0%*	*19.7%*	*1.3%*
CAPEX	-3.8	-12.4	8.6
Tangibles	-1.0	-2.8	1.8
Intangibles	-2.8	-9.6	6.8
CAPEX ratio %	*2.0%*	*4.8%*	*-2.8%*
Free cash flow	30.3	16.3	14.0
RoCE	4.7%	14.2%	-9.5%
NIBD	406.4	453.5	-47.1
Financial gearing	4.3 x	3.4 x	0.9

Note: Financial gearing for Q2 2019 not comparable due to IFRS 16 impact

Comments

- WC reduced by 53.4 mEUR due to lower inventory and trade receivables
- LTM WC ratio up by 1.3 pp compared to last year
- Prioritization and postponement of projects led to reduced CAPEX by 8.6 mEUR
- Free cash flow up by 14.0 mEUR due to favorable WC development and lower CAPEX
- RoCE down 9.5 pp due to lower EBIT bsi
- NIBD down 47.1 mEUR due to improved cash flow
- Back-up facility of 100 mEUR obtained
  – Total headroom of 210 m EUR as of Q2

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Outlook for 2020 remains suspended

- On March 19, our financial outlook for 2020 was suspended due to the global uncertainty caused by the COVID-19 pandemic, and the rapid development in the pandemic had a significant impact on demand in Q2. We have seen significant variations in demand patterns across different markets and customer segments
- Throughout Q2 we have seen sequential improvements in revenue growth with April organic growth at -32%, May at -28% and June at -15%. Trading in July is in line with June. The development in the coming months is highly dependent on the COVID-19 development impacting our markets and customer segments. In addition, our industry is very dependent on the macroeconomic conditions which are currently facing unprecedented volatility
- In Q2 2020 strict cost control and government grants resulted in a significant reduction of overhead costs compared to Q2 2019. We do not expect government grants to continue beyond Q2. The low cost base of Q2 reflected a significant reduction of our activity level. As we adjust our business activities to the levels of future customer demand, cost run rates will be above the levels seen in Q2. Going forward our restructuring program launched at the end of Q2 will contribute to reduce cost run rates
- Accordingly, we are currently not able to give a meaningful assessment of revenues and profitability for the rest of the year. For this reason, the financial guidance for 2020 remains suspended

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Forward-looking statements

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