

# NKT

## Interim Report Q3 2014

Webcast, 13 November 2014 at 10:00 CET

# Forward looking statements

This presentation and related comments contain forward-looking statements. Such statements are subject to many uncertainties and risks, as various factors of which several are beyond NKT Group's control, may cause that the actual development and results differ materially from the expectations.



# Change of management in NKT Cables

## Today, the Board of Directors has appointed Michael Hedegaard Lyng as CEO of NKT Cables

- As a consequence, Marc van't Noordende will resign with effect of today
- Michael Hedegaard Lyng has been with NKT for more than seven years. During the past year, he has spent significant time in the NKT Cables organisation as part of the DRIVE programme
- He will continue in his current role as Group Executive Director & CFO in NKT Holding

## The next stage of NKT Cables' transformational journey can better be accomplished under a different CEO

- The decision is not based on financial performance - expectations maintained and DRIVE 2014 target increased
- Next phase of DRIVE combined with the management agenda requires significant transformation
- Remaining NKT Cables Group Management members will continue to be part of the company leadership

## Introducing **today's presenters**



**Michael Hedegaard Lyng**

**NKT Holding / NKT Cables**

Group Executive      CEO  
Director & CFO



**Jonas Persson**

**Nilfisk-Advance**

President & CEO

# Agenda

## Highlights Q3 2014

### Business areas

- Nilfisk-Advance
- NKT Cables
- Photonics Group

### Expectations 2014

### Questions & Answers

# Highlights Q3 2014

## Overall, Q3 and YTD performance in line with expectations

- Q3 organic growth of 1% and YTD 2% (within range of 2-3% for full year)
- Operational EBITDA continued upward trend, increasing to DKK 270m in Q3 (Y/Y: +5% , YTD: +13%)
  - year-to date operational EBITDA margin up 0.7%-points to 8.7% (std metal prices)
- Working capital levels improved to four year low and continued reduction in financial leverage (1.8x Oper. EBITDA)

## Nilfisk-Advance continued to invest in sales and service and NKT Cables realised significant operational improvements through DRIVE

- Nilfisk-Advance: EMEA up 3% in Q3, but overall flat organic growth. Operational EBITDA down 1.0%-point due to investments in sales and service
- NKT Cables: Clear impact from DRIVE, operational EBITDA margin up 2.0%-points to 8.2% and expected full-year 2014 impact was raised to DKK 170m

## Maintaining expectations for full-year 2014

- Consolidated organic growth of 0-3%
- Operational EBITDA margin of 9-9.5% (std. metal prices)

## Group financial highlights Q3 2014

**Revenue** DKK **3,946m** (Q3 2013: DKK 4,077m)

**Organic growth** **1%** (YTD 2014: 2%)

	Q3 2014	YTD 2014
Nilfisk-Advance	0%	5%
NKT Cables	1%	-2%
Photonics Group	4%	11%

**Operational EBITDA** DKK **270m**, **8.2%** std. metal prices  
(Q3 2013: DKK 257m, 7.8% std. metal prices)

**One-off costs** DKK **-44m** (Q3 2013: DKK -16m)

**Financial items** DKK **-21m**  
(Q3 2013: DKK -36m)

**Profit after tax** amounts to DKK **60m**  
(Q3 2013: DKK 53m)

**Working capital** amounts to DKK **3.0bn** at **18.7%**, LTM  
(Q3 2013: DKK 3.3bn at 19.8%)

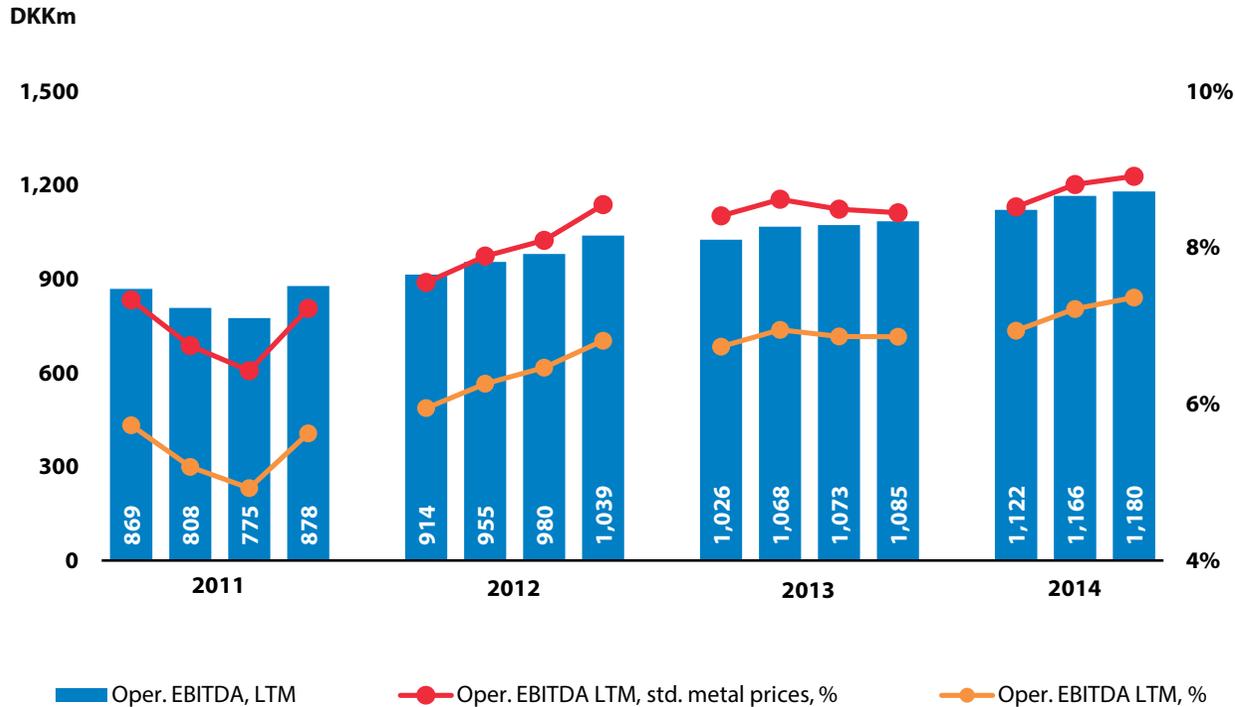
**Cash flow from operations** of DKK **129m**  
(Q3 2013: DKK 356m)

**Cash conversion rate, LTM**, decreased to **98%**  
(Q2 2014 LTM: 119%)

**Net interest-bearing debt** amounts to DKK **2,119m**,  
**1.8x** operational EBITDA, LTM  
(Q2 2014: DKK 2,008m, 1.7x operational EBITDA, LTM)

# Positive operational EBITDA trend continued

## Operational EBITDA, LTM



**Q3 operational EBITDA of DKK 270m increased LTM to DKK 1,180m**

**0.1% point increase in oper. EBITDA margin, LTM, to 8.9% since Q2 2014**

## DRIVE showing clear impact in operational EBITDA

DKKm	Q3 2014	Q3 2013	Change
<b>Revenue</b>	<b>3,946</b>	<b>4,077</b>	<b>-131</b> *01
<i>Revenue, std. metal prices</i>	<i>3,281</i>	<i>3,282</i>	<i>-1</i>
<b>Operational EBITDA</b>	<b>270</b>	<b>257</b>	<b>13</b> *02
One-offs	-44	-16	-28
<b>EBITDA</b>	<b>226</b>	<b>241</b>	<b>-15</b>
Depreciation/amortisation	-129	-136	7
<b>EBIT</b>	<b>97</b>	<b>105</b>	<b>-8</b>
Financial items, net	-21	-36	15
<b>EBT from continuing operations</b>	<b>76</b>	<b>69</b>	<b>7</b>
Tax from continuing operations	-16	-16	-
<b>Profit</b>	<b>60</b>	<b>53</b>	<b>7</b>
<i>Oper. EBITDA margin (std. metal prices)</i>	<i>8.2%</i>	<i>7.8%</i>	
<i>Tax %</i>	<i>21%</i>	<i>23%</i>	
Capex	131	107	24
Working capital	3,049	3,272	-223
NIBD	2,119	2,753	-634

### \*01

	DKKm
<b>Revenue decreased by</b>	<b>-131</b>
Metal prices	-110
FX changes	-38
Acquisitions	0
1% organic growth	17
- Nilfisk-Advance	0%
- NKT Cables	1%
- Photonics Group	4%

### \*02

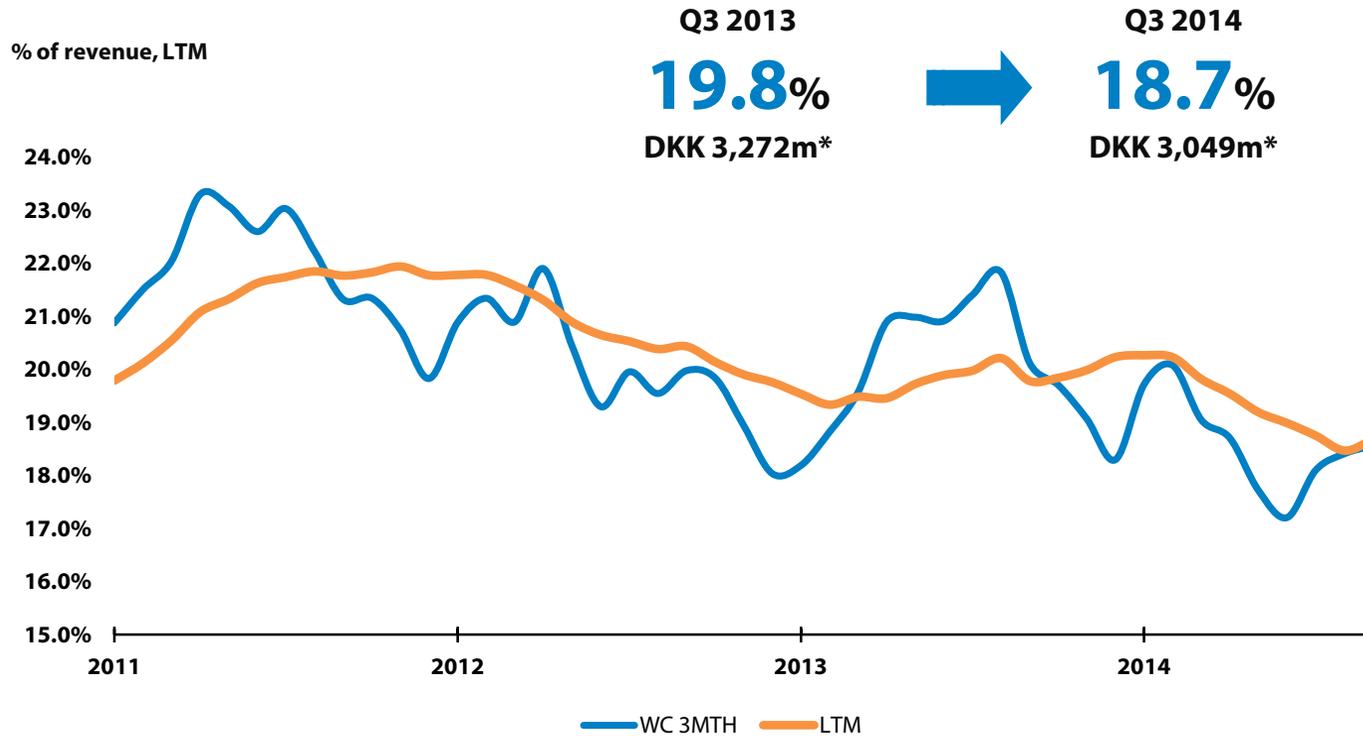
	DKKm
<b>Oper. EBITDA increased by</b>	<b>13</b>
NKT Cables	
Margin 8.2% (Q3 2013: 6.2%)	31
Nilfisk-Advance	
Margin 9.0% (Q3 2013: 10.0%)	-15
Photonics Group and other	-3

### \*03

	DKKm
<b>One-offs</b>	<b>-44</b>
DRIVE	-44

# Working capital level **at four year low**

## Working capital



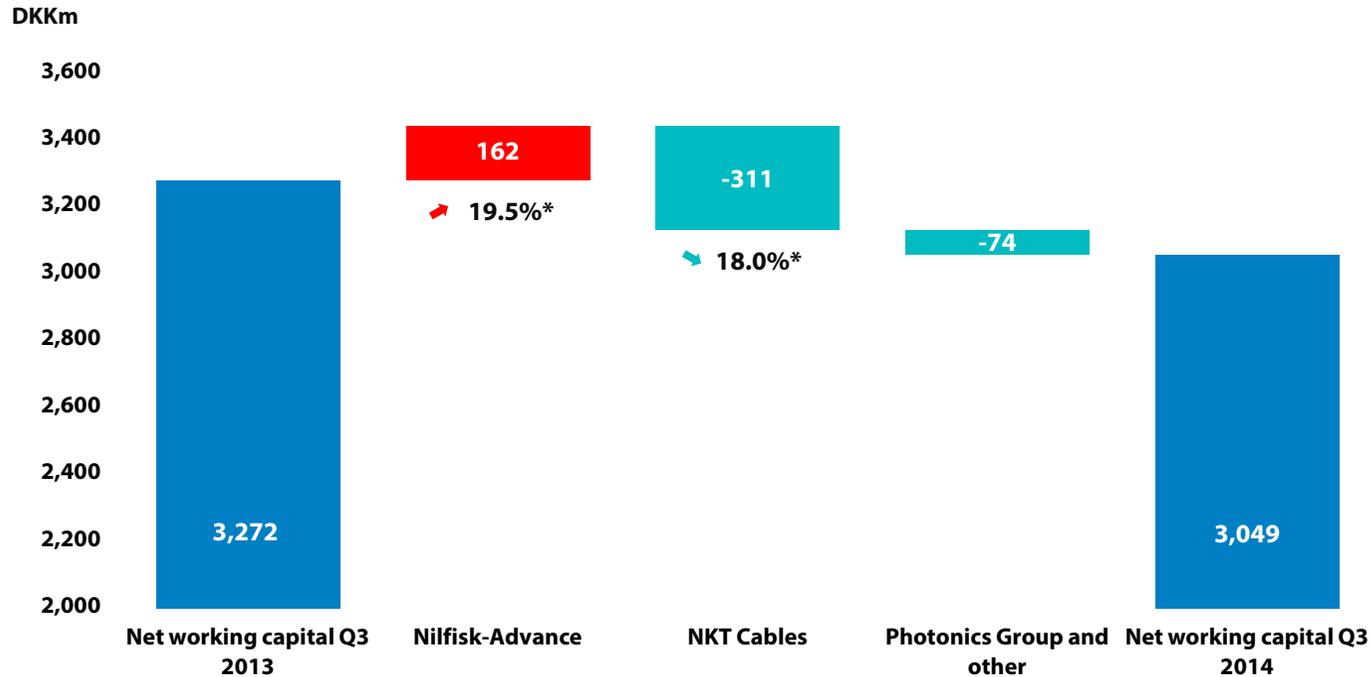
**1.1% point decrease in WC**  
vs. 19.8% Q3 2013, LTM

Significant exchange rate effects from USD and RMB in Q3 impacts working capital level

\*End of period

# NKT Cables driving the improvement in working capital

## Working capital by business area (Y/Y)



**Nilfisk-Advance** increased working capital due to accounts receivables and currency effects

**NKT Cables** continued to reduce due to execution of orders on hand in Projects

\* % of revenue, LTM

## YTD cash flow from operations **improved by DKK 612m** vs. last year

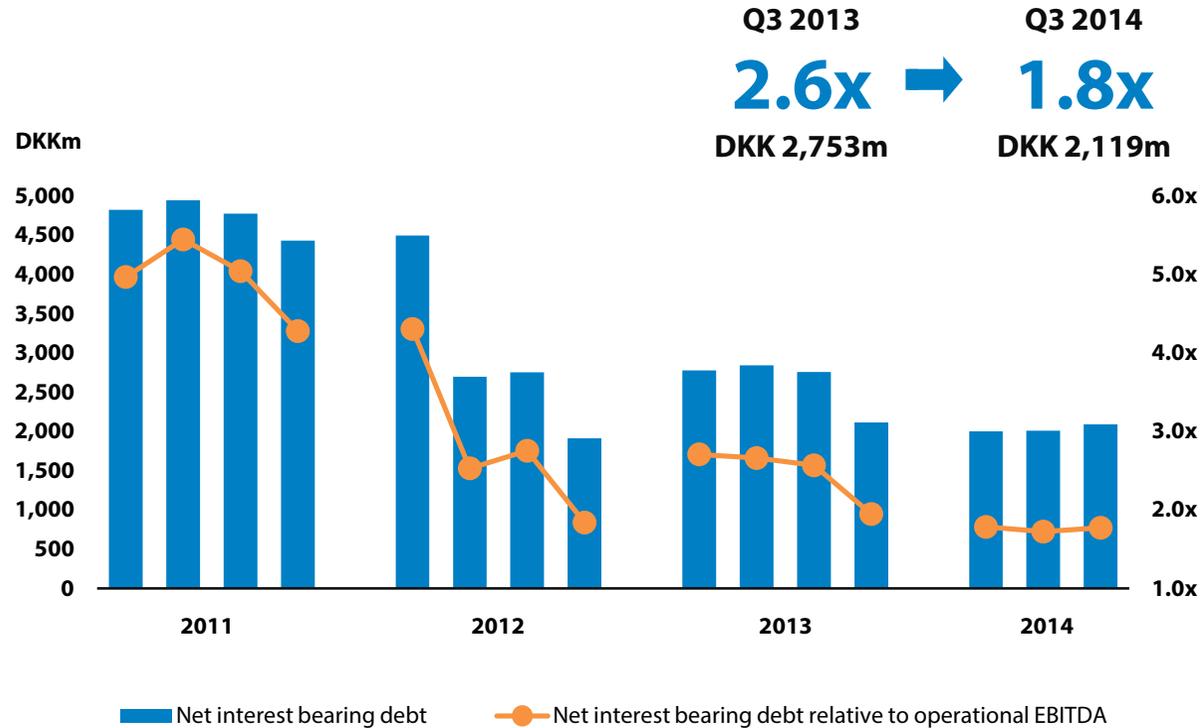
DKKm	Q3 2014	Q3 2013	Q1-Q3 2014	Q1-Q3 2013
EBITDA	226	241	744	737
Interest, net	-21	-36	-73	-124
Change in working capital	-16	193	-107	-690
Other	-60	-42	-127	-98
<b>Cash flows from operating activities</b>	<b>129</b>	<b>356</b>	<b>437</b>	<b>-175</b>
Acquisition of business activities	-	-230	-22	-235
Divestment of business activities	-	-	108	-
Acq. of property, plant and equipment, net	-70	-52	-169	-165
Other investments, net	-54	-44	-159	-151
<b>Cash flows from investing activities</b>	<b>-124</b>	<b>-326</b>	<b>-242</b>	<b>-551</b>
<b>Free cash flow</b>	<b>5</b>	<b>30</b>	<b>195</b>	<b>-726</b>
Change in long- and short term loans	-18	-52	-205	915
Dividend paid	-	-	-84	-191
Cash from exercise of share-based options etc	-	-	1	7
<b>Cash flows from financing activities</b>	<b>-18</b>	<b>-52</b>	<b>-288</b>	<b>731</b>
<b>Net cash flow</b>	<b>-13</b>	<b>-22</b>	<b>-93</b>	<b>5</b>

**DKK 612m improvement** in YTD cash flow from operations vs. last year

Q3 cash flow from operations on par with last year adjusted for working capital fluctuations

# Continued reduction in financial leverage

## Net interest-bearing debt (x oper. EBITDA)



**NIBD increased by DKK 111m** since Q2 '14 driven by currency translation

Continued solid finance structure with **1.8x operational EBITDA** vs. internal target of 2.5x operational EBITDA

**Gearing of 36%**  
 Target: Max. ratio of 100%

**Solvency ratio of 44%**  
 Target: Ratio >30%

# Agenda

Highlights Q3 2014

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- NKT Cables
- Photonics Group

Expectations 2014

Questions & Answers



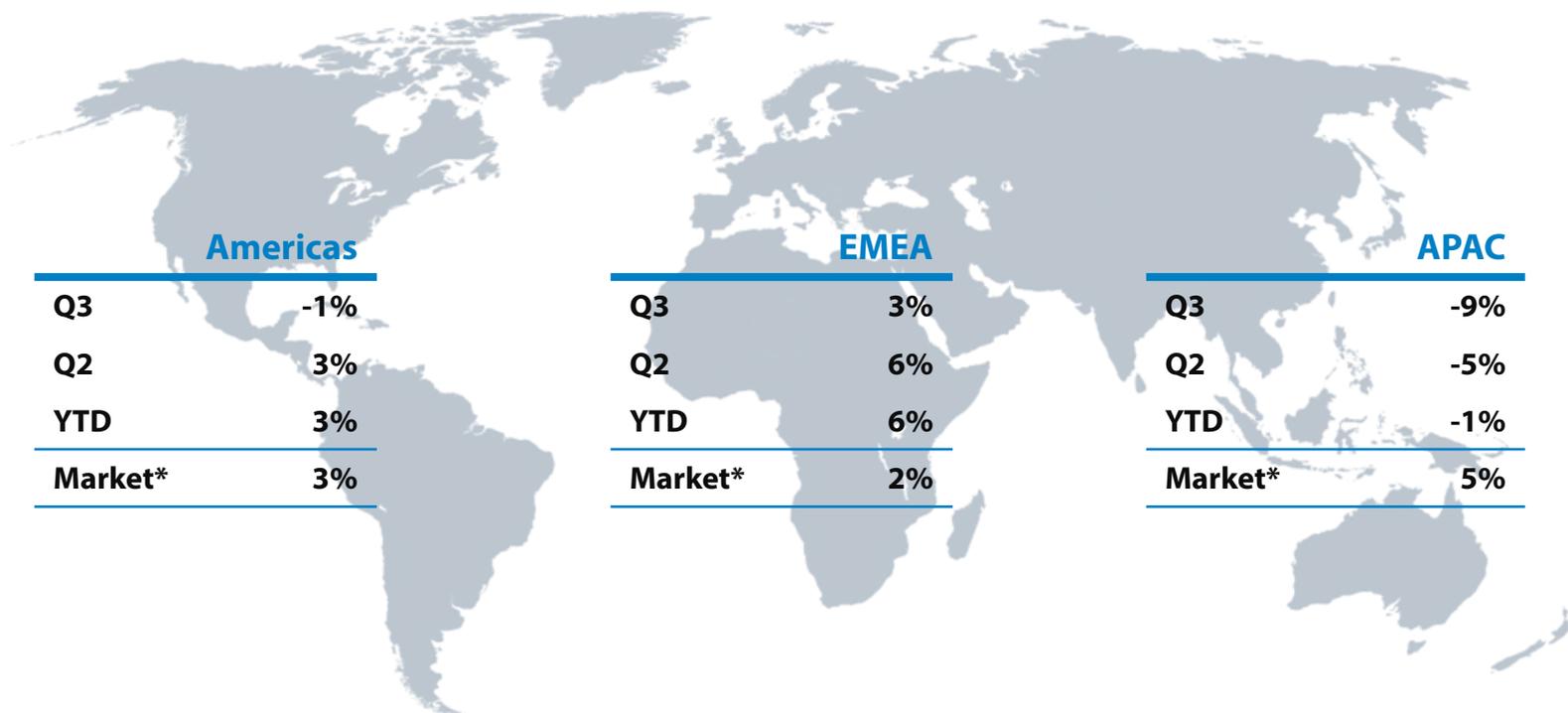
## Nilfisk-Advance

# Overall organic growth YTD has been satisfactory

## APAC had a challenging Q3 and YTD performance is weak

### Nilfisk-Advance Organic growth

	2011				2012				2013				2014		
- Quarterly (Y/Y)	5%	8%	9%	9%	4%	1%	-4%	1%	1%	4%	7%	1%	9%	4%	0%
- Annually	8%				0%				3%				5% (YTD)		

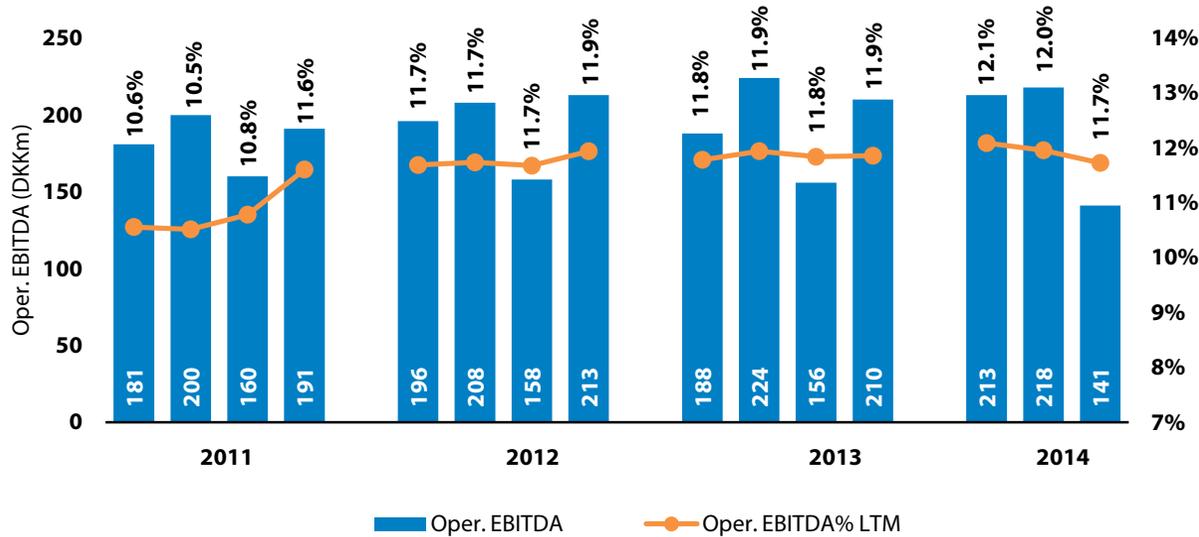


\* Market figures are internal estimates on annual market growth rates 2013-2016



# Investments in sales and service temporarily impact earnings

## Nilfisk-Advance - Operational EBITDA, LTM



**EBITDA margin fell to 11.7% (Q2: 12.0%)**

- Investments in enhanced sales and service set-up affected EBITDA negatively in the short term

## Five main **growth levers**

### Front-end investments

- 1 Step-up in sales force
- 2 Commercial Excellence programme roll-out continues
- 3 Establishing a central service organisation

### Innovation

- 4 Strong product pipeline, demand for basic easy-to-use products

### Operations

- 5 Supply Chain, global transformation programme progressing

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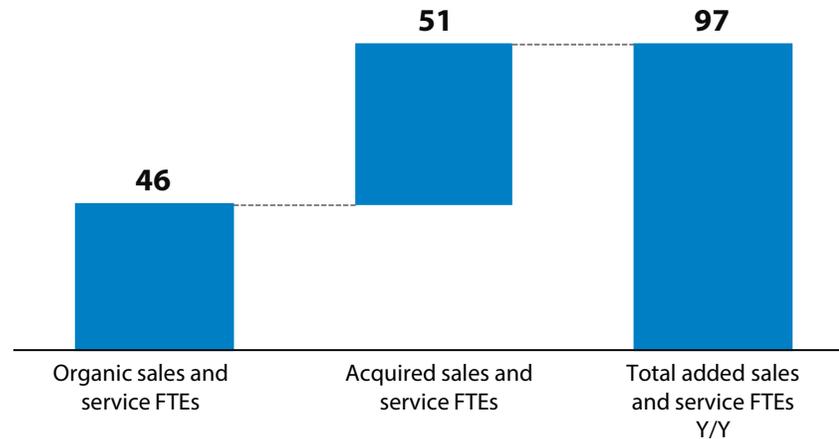
# Front-end investments, step-up in sales and service set-up

## Sales people in action



## Front-end investments rationale

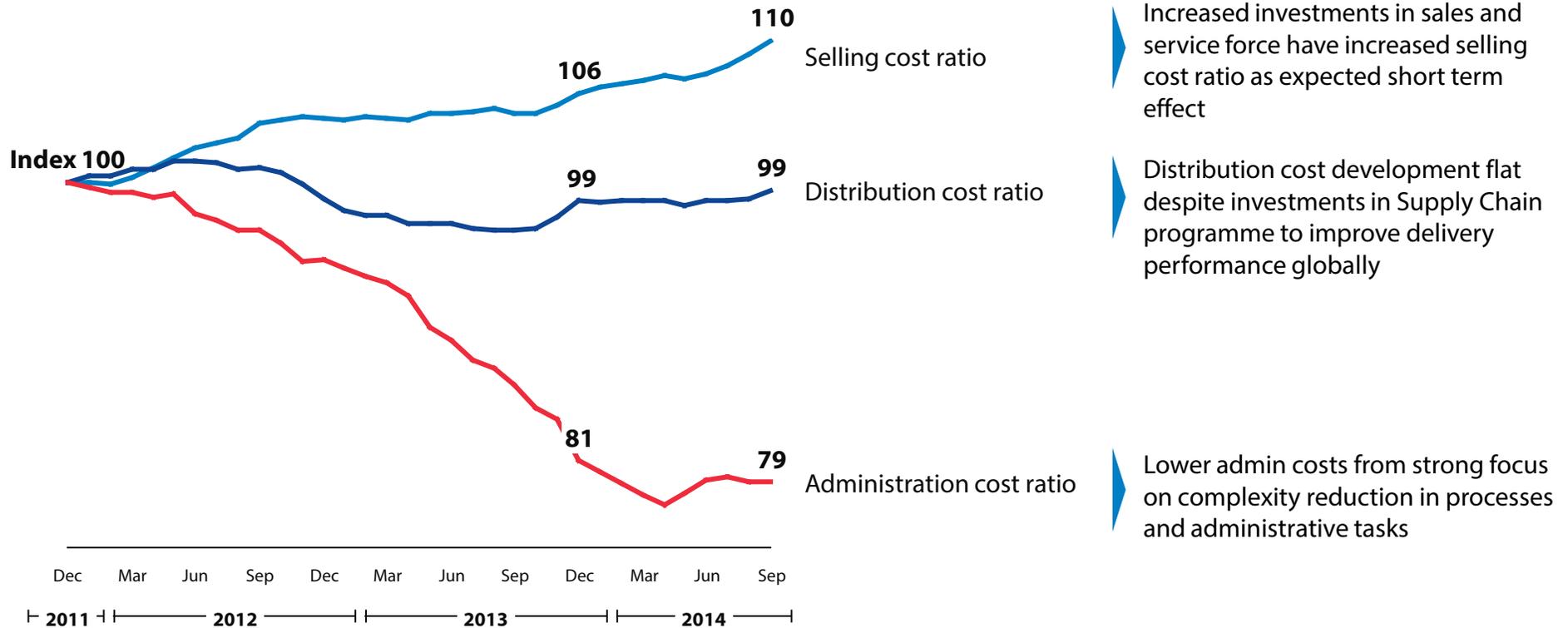
- A strategic priority for Nilfisk-Advance is to get closer to the customers and strengthen the market access
- Therefore, Nilfisk-Advance is investing significantly in an enhanced sales and service set-up



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# Increased investments in selling costs and lowered administration costs

## Nilfisk-Advance - Development of overhead cost elements (excl. product development)\*



\* 12 mths. rolling costs in % of total net sales. Indexed to Dec 2011=100



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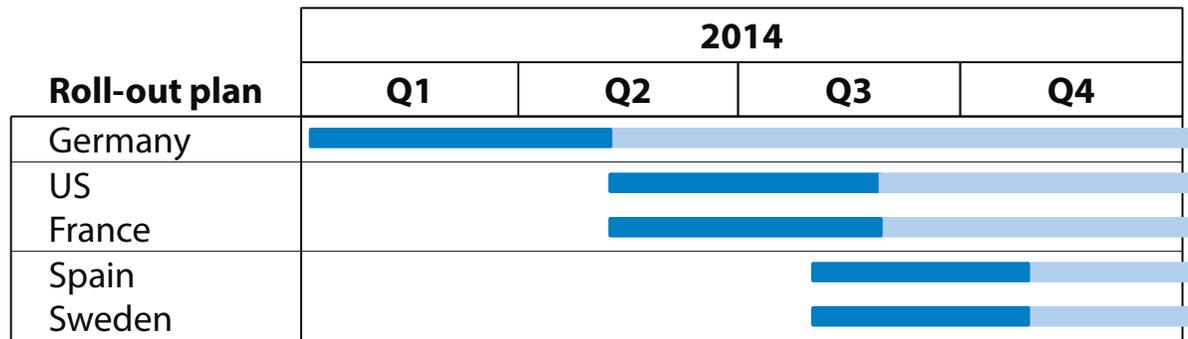
# Commercial Excellence programme, global roll-out continues

Global programme to further improve mid- to long-term sales and service effectiveness

- New tools and initiatives to enhance sales setup, particularly cross-sales
- New collaboration models with dealer to increase cross- and service sales
- Structured, systematic sales approach

Already initial positive effects:

- Increased cross-selling of products
- New sales activities initiated



## 3

## Strong focus on service through a central service organisation

### Strong service focus

- Central service organisation with global responsibility
- 21 technicians have been added Y/Y to the global service force
- New global service concepts launched - EMEA Q3
- Global tool for field service will be rolled out in 2015



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## Strong product pipeline, demand for basic easy-to-use products

- 3% of annual revenue invested in product development
- 15 new products and product versions launched in Q3, YTD 40 products

### Highlights

#### Scrubber Nilfisk SC450

- Basic, mid-market, easy-to-use scrubber
- 46% growth in sales Y/Y
- Global appeal and demand



#### High-pressure washer Nilfisk Excellent

- Consumer product
- 13% growth in sales Y/Y



## 5

## Supply Chain, global transformation programme progressing

The programme has already made concrete improvements

- Improving customer delivery experience
  - **Delivery confirmation** improved by implementing a “Global Available To Promise” system
  - **Overnight delivery** of critical parts (pilot). Customers who place orders before 15:00 will receive them next day at 09:00
- Reducing cost-to-serve and working capital
  - **Increased packaging efficiency** to better utilise truck and container load



# Investments in sales and service set-up led to decreased margin

## Financials

DKKm	Q3		YTD	
	2014	2013	2014	2013
<b>Revenue</b>	<b>1,559</b>	<b>1,556</b>	<b>5,059</b>	<b>4,952</b>
- Org. growth (Y/Y)	0%	7%	5%	4%
Gross margin	40.9%	40.3%	41.2%	40.9%
Overhead cost ratio	34.6%	33.2%	32.7%	32.1%
<b>Oper. EBITDA</b>	<b>141</b>	<b>156</b>	<b>572</b>	<b>568</b>
Oper. EBITDA margin	9.0%	10.0%	11.3%	11.5%
Return on capital emp.	17.4%	17.4%	17.4%	17.4%
Invested capital, ultimo	3,439	3,222	3,439	3,222
No. of FTEs, ultimo	5,404	5,161	5,404	5,161

## Highlights

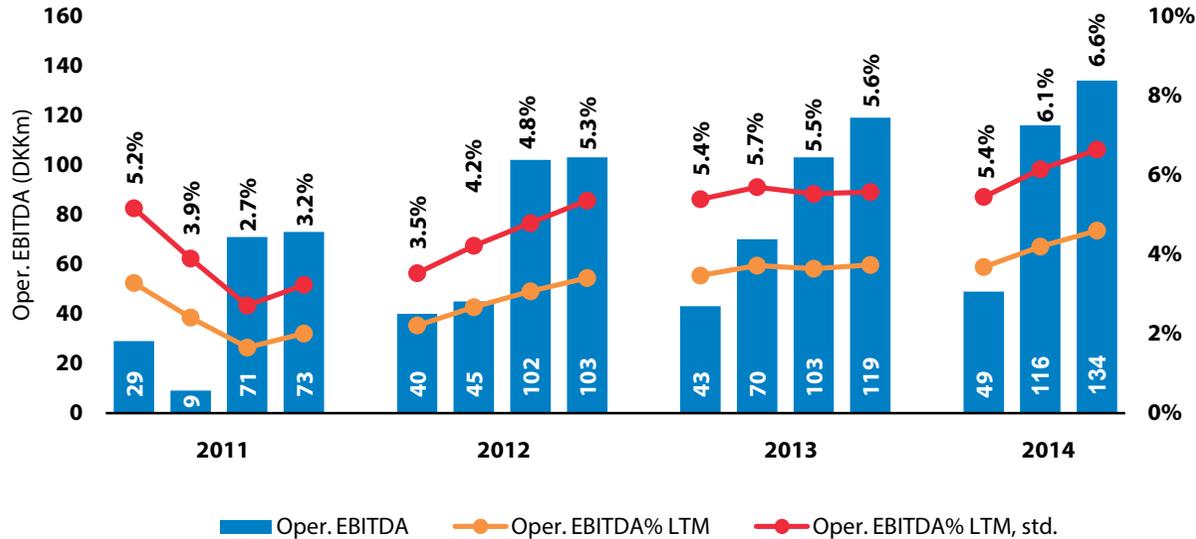
- **Gross margin:** Up 0.6% on same quarter last year despite negative product mix effect and increased price competition from key competitors
- **Fixed cost:** Overhead ratio temporarily up 1.4% point due to investments in front-end sales people (46 organically, 51 through acquisitions Y/Y). Total number of added FTEs was ~200 FTEs
- **Operational EBITDA:** The operational EBITDA margin dropped as the negative fixed cost development offset the slightly improved gross margin
- **M&A:** Acquired Gesco, one of the largest dealers within professional cleaning equipment in Belgium



# NKT Cables

# Operational EBITDA improved by DRIVE impact

## NKT Cables - Operational EBITDA, LTM



Realised 1% organic growth (YTD: -2%)

- Projects 13% (YTD: -6%)
- Products -5% (YTD : 7%)
- APAC -10% (YTD : -24%)

Organic growth in peer -2% (Q1-Q3: 1%)

- Construction -4% (YTD : 2%)
- Infrastructure 1% (YTD : 1%)
- Industry 0% (YTD : 1%)

### Organic growth

	2011				2012				2013				2014		
- Quarterly (Y/Y)	20%	0%	-4%	-6%	-13%	-4%	0%	0%	4%	10%	-2%	4%	6%	-11%	1%
- Annually	1%				-4%				4%				-2% (YTD)		

# DRIVE expectations increased by DKK 40m to DKK 170m for 2014

	Cost improvements	FTE reduction	One-off costs	Capex
<b>Q3 2014 Realised</b>	~ DKK 50m	66 FTE	DKK 44m	DKK 2m
<b>YTD 2014 Realised</b>	~ DKK 110m (~ DKK 180m run-rate)*	184 FTE	DKK 97m	DKK 6m
<b>FY 2014 Expectation</b>	 ~ DKK 170m (~ DKK 250m run-rate)*	 ~ 250 FTE	~ DKK 160m	 ~ DKK 10m
<b>Full impact going into 2016</b>	~ DKK 300m p.a.	~400-450 FTE	~ DKK 240m **	~ DKK 50m **

\* Run rate effect: Estimate for full year effect if fully implemented \*\* Total accumulated effect when fully implemented

Note: All cash effects

# Operational EBITDA up 30% vs. last year

## DRIVE continues to deliver above expectations

### Financials

DKKm	Q3		YTD	
	2014	2013	2014	2013
<b>Revenue</b>	<b>2,322</b>	<b>2,456</b>	<b>6,583</b>	<b>6,492</b>
Revenue, std. prices	1,657	1,661	4,541	4,273
- Org. growth	1%	-2%	-2%	4%
<b>Oper. EBITDA</b>	<b>134</b>	<b>103</b>	<b>299</b>	<b>216</b>
Oper. EBITDA margin, std. prices	8.2%	6.2%	5.7%	4.3%
Invested capital	4,447	4,901	4,447	4,901
# FTEs, ultimo	3,334	3,569	3,334	3,569

### Organic growth

	Q3 2014	YTD 2014
Projects	13%	-6%
Products	-5%	7%
APAC	-10%	-24%

### Highlights

- **Oper. EBITDA** increased by 30% compared to Q3 2013 delivering a satisfactory result of DKK 134m with oper. EBITDA margin of 8.2%. Increased result mainly due to DRIVE
- **DRIVE** implementation continues ahead of plan with Q3 savings of DKK 50m. Outlook for full-year increased by DKK 40m to DKK 170m
- **Projects:** Organic growth was 13% due to remedial work on the Baltic 1 project - activity level lower than prior year due to lack of civil works
- **Products:** Expected expiry of MV frame-work agreements impacted organic growth, being at -5%
- **APAC:** Still satisfactory activity level in Railway, although much lower compared with last year, ending at a negative organic growth of 10%. DRIVE expanded to APAC with a view to reach annual savings of around DKK 30m



# Photonics Group

# Growth expectations sustained, new US business established

## Financials

DKKm	Q3		YTD	
	2014	2013	2014	2013
<b>Revenue</b>	<b>65</b>	<b>62</b>	<b>197</b>	<b>179</b>
- Org. growth	4%	25%	11%	11%
<b>EBITDA</b>	<b>1</b>	<b>2</b>	<b>-1</b>	<b>-4</b>
Invested capital	208	211	208	211
# FTEs, ultimo	205	212	205	212

## Organic growth

	Q3 2014	YTD 2014
Imaging	9%	0%
Sensing	-4%	17%
Fiber Processing	-1%	15%

## Highlights

- **Q3** org. growth of 4% and **YTD** 11%
- **Imaging:** The base for expansion of blue-chip OEM customers in Life Sciences is progressing well
  - Frame contract renewed with major OEM customer
  - Development activities with other players moving ahead
  - Science market in US continues to be impacted by budget constraints
- **Sensing:** New pipeline monitoring business, FiOPS, up and running in US
  - FiOPS is talking to a number of potential customers in terms of specific projects
  - Sales of Koheras lasers for Oil & Gas sensing applications was encouraging
- **Fiber Processing:** Improved performance continues as a result of lower cost base
  - Most product groups areas did well, Splicers under pressure
  - Good response to new product offering introduced last quarter. More product releases to come later in the year

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**Expectations 2014**

Questions & Answers

# Maintain expectations for full year 2014

## NKT expectations

- Consolidated organic growth of around 0-3%
- Operational EBITDA margin of 9-9.5% (std. metal prices)

### One-offs excluded

- Divestment of floor sanding activities (DKK +97m)
- Fine imposed by European commission (DKK -29m)
- 2014 DRIVE related costs (DKK -160m)
- Provision Baltic 1 settlement (DKK -75m)
- Total EBITDA effect of ~ DKK -167m

## Planning assumptions

2014	Original	Revised Q3
<b>NKT</b>		
- Organic growth	0-3%	Unchanged
- Operational EBITDA, % std. metal prices	9-9.5%	Unchanged
<b>Nilfisk-Advance</b>		
- Organic growth	2-3%	4-5%
- Operational EBITDA, %	12-12.5%	~11.5%
<b>NKT Cables</b>		
- Organic growth	Neg. 2-3%	Neg. 2-5%
- Operational EBITDA, % std. metal prices	~ 7.1%	Unchanged
<b>Photonics Group</b>		
- Organic growth	10-20%	Unchanged
- Operational EBITDA, %	5-10%	Unchanged

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Expectations 2014

**Questions & Answers**

# Financial calendar

## 2015

<b>27 February</b>	2014 Annual Report
<b>25 March</b>	Annual General Meeting
<b>13 May</b>	Interim Report, Q1
<b>20 August</b>	Interim Report, Q2
<b>12 November</b>	Interim Report, Q3