2. March 2015

Transcript

:: Exhibits ::

✓. None

NKT Holding A/S

Transcript :: 2014 Annual Report ::

Good morning and welcome to NKT's full-year 2014 webcast. My name is Michael Lyng, Group Executive Director of NKT Holding and CEO of NKT Cables. As usual, with me today I also have Jonas Persson, the CEO of Nilfisk.

Let us look here on slide 4 on today's agenda for the call. First we will look at highlights for 2014 before we talk about the outlook for 2015. Then we talk about some Group numbers and some Group strategies, our best owner philosophy before we then make a deep dive into the three business lines: Nilfisk which will be covered by Jonas and then I will cover NKT Cables and the Photonics Group. And of course, as usual we will end up this session with the normal Q&A part.

Highlights 2014. To summarise it very simply, 2014 was a very good year for NKT with performance exceeding the guidance. We delivered on all the guidance for the year and we realised a 17% lift of operational EBITDA and out of that 45% relates to – or a 45% increase relates to NKT Cables. We were also able to increase our return on capital employed, which is in the end the most important target to look at. That was increased with almost 3 %-points.

The third area is that we generated a lot of free cash flow. Free cash flow is up with more than DKK 1.2 billion and then the fourth area is, of course, DRIVE in the NKT Cables part of the business where we were able to do much better than we initiated in the beginning of the year. We realised DKK 169 million, compared to initial guidance of DKK 100 million and in the end we are able to take up the impact of the full programme when it is realised from previously announced DKK 300 million to now DKK 400 million.

If we look into the three business lines, it is fair to say that we are on right track in all of them. 2015 will continue the strong development. If we look at Nilfisk, it is really set for growth. That has been the main theme during 2014 where quarter by quarter we have increased more and more our investments in the front-end of the business. And later on in the presentation Jonas will of course present and dig more into our initiatives within sales and Commercial Excellence. We are also launching a new strategy plan very soon in Nilfisk and the reason why I am not saying Nilfisk-Advance is actually because of the new company name. Going forward we will only call it Nilfisk, but Jonas will also elaborate more on that later on in the presentation. For NKT Cables we continued the transformation. I took on as new CEO in November last year. I have implemented a leaner management structure to make sure that we are sitting very close to the different businesses that we have. Of course, the main theme during 2014 has been focus on DRIVE. As I mentioned before we have been doing very well on DRIVE and we are now able to take up full DRIVE targets from DKK 300 million to DKK 400 million. And I will come back to that later on in the presentation. Also here, we are looking into refining and redefining our strategy plan in the NKT Cables and the plan is here to come back to you when we are announcing the second quarter announcement in August this year with an updated strategy plan. Last but not least, Photonics Group we also saw, of course it is a different level, lower numbers, but we actually saw a nice profitability improvement. They are up from DKK 9 million last year to now DKK 21 million so this is a very nice improvement and of course we continue to have strategic focus on the two segments: Imaging and Sensing, and more on that later on.

So to sum up, 2014 was a very good year where we have delivered according to our promises.

And that is also illustrated here on slide no. 6 where as usual we are looking back to say: Okay, what did we actually expect for 2014 when we announced the targets back in February 2014? And at that time – you can see the numbers here in the blue column, in the first column here, in the end we expected an operational EBITDA margin between 9-9.5%. That has been kept or was kept during the year and we ended up realising 9.6% fully according to plan and slightly above and that is also the situation if you look down across the different targets for the different entities. Maybe just one remark there. We did significantly better in NKT Cables on EBITDA margin. We had promised you 7.1% and we ended up realising 8% despite actually having slightly more negative growth than anticipated at the beginning of the year. And then another highlight could be Nilfisk Advance where initially we expected an improvement in operational EBITDA to 12-12.5% and we ended up here doing 11.7%, but here it is fair to say that what was not included in the expected level in 2014 when we gave initial guidance was the significant investments that we have been making in the front end that was decided in Q2 and Q3 and we have communicated that that would dilute the margin short-term and that is also what we have seen. Having said that we actually ended up doing slightly better in the 4th quarter. We had a very good quarter in Nilfisk also with fairly good growth realising 9% and we ended up with 6% for the year, so all in all a good start or a result for 2014 and even slightly better than anticipated.

Some more highlights for 2014. Organic growth – we ended up with a strong 4th quarter as mentioned before in Nilfisk so we ended up realising 6%. In the Cables business we are not very much really focused on top line growth. We ended up at -5%, which is more or less as guided and here you should of course bear in mind that this year in 2014 we did not have a lot of installation work and that is the reason why we are seeing this 5%, but having said that the main focus in the Cables business is much more on margins and getting return up and less on organic growth for the time being.

And then Photonics Group realised 9%. Looking at the fourth quarter because we will not talk a lot isolated on the fourth quarter, you can see that we ended up with an operational EBITDA of DKK 421 million so a very strong 12.4% margin in the quarter, significantly up from the level of 9.7% for the same period last year. And in the end that ended up with the DKK 1.269 billion similar to the 9.6%.

If we look at the right side of this slide, you can see working capital, cash flow and debt and of course they are all related to each other and here it is clear to see that we really have focused on bringing down the working capital and creating some more free cash flow and we reduce here working capital with almost DKK 800 million compared to the level at the end of the thirds quarter and we are now tying up only 80.1%, which is pretty good for the businesses that we are in. That also means that we have a very strong cash flow from operations of almost DKK 1.6 billion and as a result of that a very low debt position at the end of the year meaning also a low financial leverage, only 0.9x operational EBITDA, significantly down from the 1.8x at the end of the third quarter.

2. March 2015

Transcript

:: Exhibits ::

✓. None

Last but not least we have an upcoming AGM in March this year where we are suggesting to pay out a dividend of DKK 4 kroner per share in full accordance with our dividend policy of paying out approximately one third of the net result.

Then let us go to slide no. 9 and look at our outlook for 2015. As usual we are having two sets, so to say, one is the outlook totality for the Group and then we have the planning assumptions. For the totality of the Group, we are expecting consolidated organic growth of up to 3% and we are expecting out of that an improved operational EBITDA margin of up to 1%-point from the 9.6% realised in 2014 so that is the guidance for the group.

If we then look at the outlook, the planning assumption for the different businesses, then in Nilfisk we are expecting organic growth around 5%. Bear in mind here that we have limited visibility in the market. We are exposed to Europe. There is not a lot of growth in Europe so it actually represents a pretty nice growth level and we are continuing to invest in front-end. Jonas will come back to that. So we are maintained an unchanged stabilised EBITDA margin of around 11.7%. In the Cables business, we are looking into somehow flattish growth but what is more important is that we want to take up the operational EBITDA margin further; mainly as a result of continued focus on drive. As mentioned earlier, we ended up at 8% operational EBITDA margin and here we are targeting a range between 8.5 and 9% and then last but not least, we still focus on growth in Photonics Group up to 20% with an operational EBITDA margin between 8 and 10%.

Then we have some slides just describing our active ownership model here on slide no. 11. As such this is not new. This is the way we have been governing the business, the Group since we changed the structure almost two years back so we have this triangle structure with a combination of, of course the Board of Directors, which is very classical, the board members and they are all well described in the Annual Report. Then we have the committee structure where two board members and myself including are taking an active role towards the different businesses in this committee structure, call it a chairmanship. And then they are of course being supported by the various Group functions that we have decided to have here. Either in Holding or as part of the structure in Nilfisk and NKT Cables and all in all we are then focusing on creating more value, creating value, living up to our best owner philosophy and being an owner who also wants and is committed to making the right investments in the various businesses.

If we look at this slide no. 12 the way that we are looking into how to unlock further value going ahead of us is basically driven under three different headlines. We want to be among the leaders in various industries that we are in. It is very clear that we are the leader, one of the leaders in Nilfisk. We are not there yet in NKT Cables and we will probably never be there if we look at the size of NKT Cables, top line-wise, but we can be there in many other aspects so that is one focus area. Then we want to be positioned in the businesses that we are in, in a way where we are achieving above market growth. That is also very important in particular in Nilfisk where that is the main strategic theme and also driving the investments that we are making. It is probably less important right now for the Cables business because there we focus on return on capital employed but going forward of course also profitable growth will be key and in the end we are maintaining the guidance or the target of having a return on capital employed above 15% in a combined structure of what we have here today. Nilfisk is doing better. We are at around 17.5% and we are not at all there in the Cables business or the Photonics business so of course that is a main strategic area. All that is supported by the four boxes here illustrated on slide no. 12. It is about competences and talents. The way that we work. The way that we are able to attract the right talents, the right people. It is about getting access to capital. Here we are doing very well, I must say and we will come back to that later on in the presentation. It is about realising and executing on the operational synergies that we have and here it is fair to say that we do not have a lot of operational – you know – hardcore synergies between the different businesses, we have. But we do have a lot of synergies that go across looking at various Group functions and one example here is that we have over the last year increased focus on indirect procurement and that is now one function that is being centralised in the Group. And of course last but not least the way that we manage, monitor and mitigate the various risks that we have is also something that goes across.

On slide no. 13 we are just highlighting what is it then that are the key themes on our value creation route going ahead of us. For Nilfisk it is growth and Jonas will come back to that later on. In Cables, it is very much profitability, we simply need to get our return on invested capital up so it is about EBIT, it is about capital employed where in Nilfisk it is very much more about deploying more capital because we are able to get 17-18-19% return on capital employed from those kinds of investment. And then of course last but not least commercial scale in Photonics. We strongly believe that we still have some very interesting technologies so it is very much a question about bringing them forward, focusing on growth and then I am sure that also margins will come up and that has been the case for 2014. Margins are coming up nicely – 1.2%-points increase as illustrated here on slide 14 and that means that we are moving in the direction that we also guided in the beginning of the year. Of course there is a long way to realising above 15% growth for the totality of the business but it is fair to say that we are based on a strong finishing in 2014 right on track with that and guiding a further 1%-oint increase for 2015 just illustrates that there is more to come after.

On slide no. 15, the traditional P&L slide, I will not go into all of these numbers here but if we just look at the composition of operational EBITDA the increase of DKK 184 million - it is clear to see that a big contributor to that is NKT Cables where margins have come up from 5.6% at the end of 2013 to now 8%. But also in Nilfisk and Photonics Group we see positive developments when we look at these numbers nominally. Then, of course, the big driver behind the improvement of DKK 149 million is DRIVE and it does not come without costs so we do have one-off costs of DKK 305 million in 2014 related to DRIVE and that is then partly offset by the divestment of sanders that we undertook in Nilfisk in the beginning of 2014 having a positive impact of just below DKK 100 million.

Another important factor here is to look at our financial items net. We seldom talk about that but you actually see here that we are doing nicely here as a result of significantly lower debt during the year so we are ending up having a cost of just below DKK 100 million compared to DKK 160 million so a decrease of DKK 61 million floating all the way to the net result.

Working capital on slide 16. It is probably the lowest level ever, 18.1% in totality tying up DKK 2.2 billion and it is driven by lower working capital in NKT Cables. If we look at the composition of the working capital here on the next slide – 17 - you can see a traditional bridge. We are tying up a little bit more working capital in Nilfisk which is partly due to some FX calculations, higher US dollar for example, but it is also partly due to the organic growth of 6% so if you calculate tying up approximately just south of 20% working capital of the growth then you would conclude that that is half of the increase in Nilfisk and the other half is related to FX.

In Cables, we do see a big reduction of DKK 714 million, a big part of that relates to construction contracts and there are many different reasons for that. We have been able to close a lot of contracts during the year but we are increasingly also focused to make sure that we have a neutral or even negative working capital tie-up in projects along the line when we are doing the execution. So that has been some of the initiatives behind driving working capital down in the Cables business. And this of course also ends up in a very strong cash flow improvement. It has improved the free cash flow, which is for me the most important part to look at here which is the line in the middle of the slide here. You can see that we are having a free cash flow of DKK 1.2 billion for the year. A big part of that relates to strong cash flow in the fourth quarter and that is a delta to what we did in 2013 of DKK 1.3 billion. 1 billion relates to operating activities and DKK 300 million relates to investment activities on all the different ratios.

And that leads me to the next slide here – on slide 19, as a result of the strong cash flow we saw in the slide before we have been able to reduce debt further. In particular in the fourth quarter as illustrated here so we are now tying up 0.9x operational EBITDA and we are carrying a debt position of DKK 1.1 billion. The capital structure target is of course also important and here it is fair to conclude that we are well within the target on all the different ratios.

And also looking at cash resources, also because this is a year-end result but more importantly because it illustrates our fire power in the Group. We have a lot of committed alliances. DKK 4.8 billion, it is slightly down from the level at the end of 2013 and that is simply because we decided to reduce it in order to lower cost related to this, but we still have unchanged cash resources available of DKK 4.6 billion which is similar to the level at the end of 2013. Then what is also important to look at here is that we have worked a lot with the duration of our committed facilities here and you can see that we have increased that with approximately 1 year from around three years to now around four years. And all this is still in a structure where we do not have any financial covenants and it means of course that we have a lot of fire power to make the right investments either in the Cables business or in the Nilfisk business and particularly in Nilfisk we are, as you know, increasingly focused more and more on M&A activities.

Dividend policy here on slide no. 21 – one third of the annual result, net result. We are proposing a pay-out of DKK 4 per share equalling DKK 96 million and you can see that we have been on this up-going trend in the last five years as a result of increased net results and then of course we had this extraordinary contribution related to the NKT Flexibles divestment that we had back in 2012.

With that we can finalise the review of strategy and financial numbers. We can conclude that 2014 was a good, strong year and that we are looking into increasing it further in 2015 so with that Nilfisk, Jonas please.

2. March 2015

Transcript

:: Exhibits ::

✓. None

0.23.41.6

Jonas Persson

Thank you Michael, so jumping right into page 24, organic growth 2014 was above expectations. We ended up the year, Q4, with 9% and the full year with 6%. A very strong end of the year.

Americas – we had moderate growth, 3% for the full year and 2% for Q4. We actually expected more from Americas and we continue to work to expand the channels here and also to increase the sales activities. EMEA on the other hand, Q4 was very strong, 14% growth and that gives us a full year of 8% and this is despite the very weak markets we have and turbulence we had in EMEA financially. APAC, on the other hand, very disappointing very much due to the fact that we have lost Electro Retail in Pacific and we also are reorganising the sales force in China which has also put a little bit pause to the growth but we very much believe that we will increase this going forward.

Turning then to next page we have an all-time high EBITDA 227 million that gives us a full year EBITDA margin of 11.7% which is lower than 2013 – 0.2%. This is very much due to the continued investments we make in the front end and in sales people, direct sales people and direct service people.

Jumping into page 26 we are rolling out a strategy here in March – a new or updated strategy which is very much bridging what we are doing right now, growth maintained, a very big focus for us. We continue to roll out the Commercial Excellence and service is maintained as a very important growth driver going forward. We also would like to leverage our strong brand out there and due to that we have also decided to change our corporate brand or company brand, which I will then touch on, on the next page, page 27.

So from 1 April we are jumping from Nilfisk-Advance into Nilfisk so we are calling ourselves only Nilfisk. This is very much to reduce the complexity but also aligning our company brand with our product brand. Advance maintains a very important brand in the US which is where we believe that Advance has a very strong foothold. This change of brand will not change any structure in the company.

Going into the next page, page 28, Nilfisk-Advance launched 46 new products here in 2014 and just in this page we have some examples of that. For example, we have launched a new City Ranger for the Outdoor segment. We also have a range of new products in Viper which is heading to the mid-market and already we have seen a big impact on sales on this product and this walk-behind scrubber is one product of this range. We also have a range of new products for the consumer high-pressure washer and here we see on the page some of these and this is also driving and already ready for the new season going into the spring in Europe. Products and product development. An increased product offer to our customers maintained a very big focus continuously going forward.

Next page, we have talked many times about Commercial Excellence and a roll-out of that. We have so far rolled out in 6 countries – Germany, the USA, France, Spain, Portugal and Sweden and this is very much to help support the sales in the front-end which the sales tools and the sales setup. Cross-selling is a big part of this as well and to drive service sales

2. March 2015

Transcript

:: Exhibits ::

✓. None

and to support this we also have decided to invest in a new CRM system and also a new service system.

We have already seen good effects when it comes to cross-selling her but also to drive service sales in the business. Our plan here for 2015 is to continue to roll out. We have already started up in the UK. Denmark and Benelux are on the agenda and then we have also light roll-outs in many countries as we can also see at the bottom of the page.

Moving then into page 30 to sum up. We had a very strong Q4, an OK 2014 when it comes to growth. Gross profit improves very much due to price management but also improved sourcing. EBITDA drops a bit when it comes to margin due to our investment in front end and continuous focus on M&A. We have done three M&As here in 2014, but we continue to work on our pipeline going forward. With that I would like to hand over to Michael.

28.58.9

Michael Lyng

Thank you, Jonas. So let us continue here with a deep dive into the Cables business starting on slide no 32 just highlighting how we are structured today. I took over as CEO of this business back in November last year and since then I have slightly changed the way we are structured. We used to be structured into a business unit structure with three business units. Projects, Products and APAC and I concluded that there was a need to change that in order to get management, Group management closer to the different businesses. Also to take our own medicine ready to drive to reduce complexity and to de-layer and also to make sure that we have a transparent, fast moving and fast decision impacted or defined culture and organisation.

So today we have these five business lines. We have one business line being high-voltage and projects which is very much similar to what we are doing in Cologne and also similar to the former business unit Projects. Then the Products business unit has been divided into three business lines. What we do in the Nordics; Denmark and Sweden in particular. Of course being a big part of what we do in the Nordics and also reflecting the production unit that we have both in Asnæs here in Denmark, but also in Falun in Sweden. Another business line called Central Europe focusing on whatever we do in the central part of Europe very much dominated by our market positioning in Eastern European countries like Poland, The Czech Republic, Hungary, but also Germany is a very important market as well as France. And then we have the last business line that used to be part of the business unit Products, i.e. Specialities, and that relates to smaller niche segments, but also important segments so it is whatever we do within Accessories and Cabinets and what we do within Railway in Europe. And then last but not least we have the APAC business which is similar to the business unit APAC we had last year focusing on all the production capacity we have in China within Railway and within high-voltage and medium-voltage cables.

Looking at 2014, if we start by taking a deep dive into the top line, we ended up with -5% organic growth and I already mentioned at the beginning the reason why and it is actually a level fully in line with expectations but what is more important is to look into the different areas of business. The Projects, the Products and the APAC. We will maintain this reporting structure when communicating to you because it makes it more simple, but internally we are divided up into the five business lines I mentioned before.

In Projects where we are dealing with offshore and onshore projects, so the stuff we do in Cologne, we are looking at an offshore market that is turning in a more positive direction. We had very good execution in this Projects area in 2014 and we are also looking into a okay backlog for 2015. You are all aware of the Race Bank project that we announced back in December or early this year – I cannot remember – that is of course an assumption that we will start up production of the Race Bank project at the beginning of the summer this year and that ties okay into the time where we plan to end the Gemini production. We will have a small – some months in between the two projects from ending Gemini to starting up Race Bank and that is slightly impacting our numbers for 2015 negatively, but it is not really a big issue.

Going forward in the offshore segment looking at activity levels, tender activities in the market, I am very positive about the outlook. We see a lot of tendering going on in the market now and we also see a lot of projects that were postponed earlier back in 2013 or 2014 that are now reactivated so I am confident that we will also get our fair market share of that in 2015 and going into the years ahead.

In the onshore segment, it remains pretty competitive. It is a flattish development. You can actually get the volume you want, but price is an issue and there we are of course cautiously making sure that in the end we are also having a positive contribution from whatever we do in this segment.

If we then turn to Products, looking at the medium-voltage and low-voltage and specialities, then we realised positive growth, which is probably a surprise to some of you. A big part relates to a good market in Central Europe and a good market within Specialities. Particularly in Central Europe, we have been able to increase our low-voltage market in the Czech Republic and Poland, but also the medium-voltage market is doing okayish but under extremely tough price competition and then we have the Nordic market which is sliding a little bit to the side, also going into 2015, but also in 2014 compared to 2013. And that reflects the fact that we do not see a lot of construction activities ongoing, neither in Sweden nor in Denmark and particularly Denmark is a tough market where we are slightly more positive about what we see in Sweden also going into the Ericsson acquisition we did some years back where we continue to focus on how to optimise and how to increase that business further.

Then last but not least, APAC, really a tough, tough market, -24% growth but since prices are so low in China it actually does not mean a lot on the profitability level. Railway continues to be an extremely tough market with a lot of competition, also with a lot of competition against newcomers into the industry, newcomers that do not have proper quality but it seems that nobody cares in China so it is really a tough market whereas the medium- and high-voltage market is more sliding a little bit compared to where we saw the market last year but also into 2015. You are able to get prices okayish but it is still under tough competition.

But having said that, we are still able to increase the margins and operational EBITDA as illustrated here on slide 34. We are up 45% compared to 2013 and quarter by quarter we have been able to increase the margins both looking at the trend curves, but also looking at the nominal earnings in the quarter, in particular the fourth quarter this year was very strong and we ended the year at 8%, almost 1%-point up compared to guidance for the year.

And a big part of that of course relates to DRIVE, the 'get fit' part that we have described and explained before where we are focusing on reducing cost, reducing complexity, streamlining our product portfolio, etc. so the key focus is cost and profitability and here we are doing fine and the next slide will explain it a little bit more so what is more important on this slide is to elaborate a little bit around the fact that we will now start focusing more in the direction of being excellent so the Phase II of DRIVE. That means that we will focus more on front-end, we will focus more on having profitable growth, increased sales and increased margins. So a little bit similar to what Jonas has been driving in Nilfisk the last year under the Commercial Excellence programme we are doing a little bit the same here in the Cables part. It is a little bit more simple here because we are in less markets and we are mainly focused on Europe at least when we are talking about DRIVE so we tend to increase focus and speed in 2015 and going into 2016. It is still too early to indicate what the potential is in this but I strongly believe that this is the right thing to do in order to be excellent and drive excellence in whatever function we are talking about.

Then last but not least also looking into the third phase of DRIVE, we are working on a strategy plan as mentioned before and the target, the idea is to launch a new strategy plan in connection with the second quarter announcement in August this year so allow me to come back to that later on.

Looking at the DRIVE realisation, in 2014 we exceeded the target by 70%. We took up the guided level in connection with the second quarter announcement and the third quarter announcement so we ended up at DKK 169 million compared to the expected DKK 100 million when we entered and started up the DRIVE programme. So phase 1 has shown more potential than we anticipated in the beginning and probably also higher speed than we dared anticipate when we started this up and that is also the main reason why we are taking up the full-year impact, the full impact from this programme. Earlier on we communicated a level of around DKK 300 million and we now dare take it up to DKK 400 million so an increase of DKK 100 million, which is very nice.

We realised as mentioned DKK 169 million. What is more important is that we are at a run rate of around DKK 250 million going out of 2014 into 2015 and we are targeting achieving an impact of around DKK 300 million in 2015.

But I think it is also fair just to make sure that everybody understands that DRIVE is still a very, very important project and initiative in the Cables business and in the Cables organisation in the years ahead of us. There is still a big gap from the nice level of DKK 169 million realised now up to the DKK 400 million full-year target going into 2017. So it requires a lot of focus, a lot of dedication and I would also like to thank all the people and the entire organisation in the Cables business who have worked very hard on this. Otherwise it would not be possible to achieve it. So a big thanks to them.

Unfortunately, it also means that we need to say goodbye to 450 people. Until now we have, out of that, realised 271 so also here we need still to continue the hard work. Then, one-off costs. Of course there is a cost attached to realising the potential. We are taking that up slightly from 240 to 320 related to also the increase of 100 and the guidance for 2015 that I mentioned before excludes one-off costs of DKK 120 million that we expect to impact 2015 negatively.

So to sum up for Cables 2014, invested capital down DKK 900 million and in combination with higher operational EBITDA we have been able to take up the return on capital employed in this business from 0.7% [Correction: 0.8%] to 4.2%. It is very clear that that is still far away from where we should. It is still below cost of capital in this business so it requires a lot of hard work to take it up further and that will be the main focus in 2015. It is good to see that we are delivering according to plan. It is good to see some nice traction in the Projects business and an okay development within Products and then I look very much forward to sharing our revised strategy plan when we talk about this in August this year.

With that, just one slide here on the Photonics Group. Of course, different business, different number, but still nice to see the improvement. We actually achieved DKK 21 million if we look at nominal earnings for 2014, which is significantly up from DKK 6 million in 2013 and it represents a margin of 7.2% and if you look at what we achieved in the fourth quarter we had a very strong fourth quarter both looking at top line growth and top line nominal but also looking at the margins that we achieved in the fourth quarter. In the various segments, we were able to increase the Imaging part by 5%, the Sensing part by 11% and the Fiber Processing by 10%.

Within Imaging, we continued to focus on Life Science, we continued to strengthen our relationship with the blue-chip customers that we have in this segment and that is progressing well, I would say, and we also start seeing that the science market in the US is loosening up. In the sensing market we have just launched a new software package for power cables so hopefully we will be able to sell some of this to the cables business but also to other cables producers. At least we have several projects in the pipeline and the sale of the Koheras™ laser continues to do well and last but not least the Fiber Processing business is showing more traction in 2014 compared to what we saw in 2013.

So with that we have actually concluded and finalised our presentation and we can continue with the Q&A part of this call so operator, any questions?

0.45.02.7

Operator

Ladies and gentlemen, if you have question for the speakers, please press 01 on your telephone keypad and you enter a queue. And we have a question from Mr Patrik Setterberg from Nordea, please go ahead sir.

0.45.15.6

Patrik Setterberg

Yes, hello gentlemen. A couple of questions from my side, the first being on your progress on the working capital in the NKT Cables division. How should we think about this? Is this a sustainable level or should we expect the working capital to be built up again during 2015?

0.45.36.7

Michael Lyng

That is a good question. I think that we are now if I remember correctly we are just below 17%, which is actually the strategic target that we have had for that business in working capital tie-up for some years so in one way I would say that we are where we should be but having said that we could also foresee that it will swing back, in particular over the year where we normally tie up working capital in the first half in Cables but actually also in Nilfisk by the way, but for your modelling you should probably have in mind a swing factor of around up to DKK 500 million relating to the composition and timing of working capital tie-up in projects but also reflecting the fact that copper prices are at a lower level now than they used to be at least.

0.46.33.1

Patrik Setterberg

Okay. Right on the slide you were having on – do you expect a positive downward trend and is it expected to continue. I suppose that is from a 12-month rolling perspective view?

0.46.48.3

Michael Lyng

It is from a 12-month rolling perspective view where we continue to expect that we will see a negative trend. I think this is – first of all, you know, that is the totality for the Group. We are continuing to focus a lot on working capital in Nilfisk, in particular to bring down our inventory levels in Nilfisk and in the Cables business we also continue to focus. We have a lot of potential and improvement ideas that we want to execute on. And a part of them also relates to the initiatives that we have under DRIVE. And then you know the question markers, you know. What can we do in Projects, but in Projects when we plan for it, when we price projects, when we discuss it with customers, we actually do plan to have initial cash flow impact from Projects so in itself it should not tie up projects, but it is more if something goes wrong or if something is not according to plan or if we produce faster than forecast, etc. then we are in situations where we are tying up capital.

0.47.51.8

Patrik Setterberg

Okay. Thank you. My second question is relating to 2015 guidance for the Nilfisk division. I am just wondering in terms of profitability what are your acumen for the gross market development in 2015?

0.48.07.4

Jonas Persson

When it comes to gross margin for Nilfisk, I think it is with slight improvement or flattish, I would say. No big improvement when it comes to 2015.

0.48.16.6

Patrik Setterberg

Okay, Thank you and then my last question is also related to your overall Group guidance for 2015. Do you say that the guidance is dependent on the go-ahead for the Race Bank project? Could you quantify this on the guidance – if this project is not going to be approved as a go-ahead project?

48.45.4

Michael Lyng

Unfortunately not. I cannot quantify it, but it is based on the assumption that the project will be executed and the reason why we do that is because this is an unconditional order. As we have discussed earlier there are some mechanisms in this structure where the customer can decide either to delay start-up a little bit or not to start up and then that will have a financial consequence that will impact us, partly positively from the cancellation, but it will not be able to offset the profit that we plan to take in in 2015, but I am not able to comment more on what amount we are talking about.

0.49.28.9

Patrik Setterberg

Okay, thank you that is all from my side.

0.49.34.9

Operator

And just a short reminder, if you have a question, please press 0 and 1 on your telephone keypad. And we have a question from Mr Claus Almer. Please go ahead sir.

0.49.42.7

Claus Almer

Yes, it is two questions from my side too. The first goes to the Nilfisk, the overhead cost ratio in Q4 is back to the level we saw in Q4 2013 despite these many new hirings you have made. Is that pure growth related? And secondly, what should we expect going into 2015? That will be the first question.

2. March 2015

Transcript

:: Exhibits ::

✓. None

0.50.09.9

Jonas Persson

Yes, the extra cost in overhead is very much related to the front-end investment we are making and this will continue into 2015, yes Claus.

Michael

But you are right, Claus, that it is diluted by the fact that we have been able to increase the business in the fourth quarter by 9%.

0.50.31.4

Claus Almer

Okay and then maybe a little bit colour on the many new hirings you have made. The EMEA growth was pretty amazing in Q4. Is that driven by this? And should we expect the same effect in the US, just with a delay or how do you see the initial experiences from these more sales people?

0.50.55.7

Jonas Persson

I think, of course we have seen some impact in EMEA already but we also have been driving growth in Q4 for some big projects so it is a combination of things, Claus.

0.51.07.4

Claus Almer

Okay then, just a final question for Nilfisk. Will this strategy update you are going to announce - will that become the attached or will that be attached with some extra cost or how should we look at it from that perspective?

0.51.21.6

Jonas Persson

Not extra costs than we have already seen, I mean, it is very much in line that we will continue to invest in the front-end, continue to drive more sales people and also service people so there will be no changed cost model than you have already seen.

0.51.38.9

Claus Almer

Okay and then just one question about the Cables business. The margin you describe, Michael, in Q4 was very good. Can you put a little bit more colour on what drove this better performance in Q4?

0.51.52.4

Michael Lyng

Yes I can. As we have discussed also before you know, it gets more and more difficult just to look at margins in one quarter because it is very much exposed to whether we are closing big projects, releasing risk provisions, doing fuck-ups in production, etc. etc. So – but in the fourth quarter this year we saw of course... continued to see impact from DRIVE – run rate DRIVE and then we had also good execution on our project pipeline in Cologne.

0.52.33.1

Claus Almer

Okay thank you.

Michael Lyng

You are welcome. Any further questions?

0.52.50.2

Operator

We have one question, just again. Just a moment please. Get it from here.

All right so we have a question from Mr. Fasial Ahmad, please go ahead sir

0.53.03.5

Yes, gentlemen, this is Fasial Ahmad here. Just a question on the DRIVE cost savings for 2015. I mean, your run rate was already at DKK 250 million last year and you are only guiding for an increment of 50 million in 2015. What is the thinking about this cost saving target for 2015?

0.53.32.3

Michael Lyng

... by only?

0.53.34.9

2. March 2015

Transcript

:: Exhibits ::

✓. None

Fasial Ahmad

Yes, compared to the run rate. Why is the run rate not increasing more than 50 million?

0.53.40.3

Michael Lyng

Because now it starts getting more and more difficult to make these savings. Of course, you start with all the low hanging fruits that you are able to execute on with more speed and that is why you always when you are executing a programme like this will see it to be, you know, front-end loaded. Now it is about people and processes that need to change and negotiations with unions, etc. etc. etc. and that takes more time so that is the main reason.

0.54.15.4

Fasial Ahmad

Okay and can you also provide us with some extra colour on additional costs savings which you are targeting in DRIVE. What is actually driving this? Because I can see that your headcount reductions target has not really been lifted compared to previously.

0.54.37.1

Michael Lyng

Well, indirectly it has been lifted with up to 50 because we do not have the range from 400 to 450 we had before so indirectly it is increased but this is to some extent some new levers, new projects that we have discovered and developed over the last year so that is approximately one third of it or something like that and then two thirds of it are realising faster and better on already defined endeavours that were part of the original plan.

0.55.18.4

Fasial Ahmad

Okay, all right and I know I can - that is what I had on the DRIVE part and on the strategy for Cables, what should we, I mean, what will you be focusing on? Can you guide some more comments on that also?

0.55.34.7

Michael Lyng

Yes, of course, you know that is – it is early days to – at least to conclude but the focus area will of course be how to drive return on capital employed up because we are far away from where we should be in this business as I mentioned before, far away. We just, you know, maybe this year we will reach cost of capital level but then we still need to continue the journey so the strategy planning will of course focus on how to do that and that is also partly embedded in the second and third phases of DRIVE where we start to focus more on excellence and focus more on in particular the front end. So those and

2. March 2015

Transcript

:: Exhibits ::

✓. None

EBITDA margins will be key focus areas and not so such on growth. Of course growth is also important and we will also focus on growth pockets but they need to be able to be profitable growth. If it is not, you know, I would rather have negative organic growth so return on capital employed is key focus. Then of course, I think we also, you know, as the kind of mega trends will need to address, for example what does smart grid that will be rolled out over Europe the next coming 5-10 year what does that mean for us? What does digitalisation mean for us. What does 3D printing mean for us and how should we position ourselves in that industry and addressing all these different kinds of opportunities and challenges that we see so that is some of the themes that we are working on now.

0.57.23.5

Fasial Ahmad

And then just one final question on Cables – any update on the structural tasks about the Asian business?

0.57.34.6

Michael Lyng

It is still cooking but sometimes it cooks even though the Chinese are fast moving people then it cooks slowly sometimes… so we are still working on it and we are not able to conclude yet, but it is clear that we are not satisfied with the situation as it is today so it is a combination of looking into what kind of structural opportunities exist in the business and what kind of internal improvements ideas can we look at and as earlier mentioned we are also implementing DRIVE in China.

0.58.13.4

Fasial Ahmad

Okay, and are those drives, cost savings included in your total target of 400?

0.58.21.7

Michael Lyng

DRIVE China is not at all included in the slides we have here on DRIVE, neither the one-off costs nor the improvements but it is fair to say that you should not expect significant one-offs so it is not something that we will talk about. The reason why we have a lot of one-off costs in the European programme is because it relates to a lot of people and if people reductions in countries where it is difficult to do like Sweden and Germany whereas in China you can do it pretty simply without a lot of cost.

0.58.52.8

Fasial Ahmad

Okay, perfect, thanks and that is all from my side. Thank you

2. March 2015

Transcript

:: Exhibits ::

✓. None

0.58.58.6

Operator

We have a follow-up question from Mr Patrik Setterberg from Nordea, please go ahead, sir.

0.59.03.8

Patrik Setterberg

Yes, hello again. Jonas, I was just wondering – now you have three quarters in a row with negative organic growth in the APAC region. How long should this continue for? And when do you expect growth will return back again?

0.59.20.1

Jonas Persson

Tell me that, that would be fantastic. Now, seriously, we have the negative growth from APAC is very much due to the electro retail loss in Pacific. On top of that, the restructuring of the sales in China but that is very much due to the Pacific Region and of course we are coming in now in Q2 into comparing bad figures with the next year so I don't think it will last longer than the first quarter here then we will see improvement.

0.59.55.3

Patrik Setterberg

Okay, thanks a lot for a clear answer. Thank you.

1.00.00.4

Operator

We have the next question from Mr. Jacob Pedersen from Sydbank – please go ahead sir.

1.00.05.2

Jacob Pedersen

Hi, I have a couple of questions first of all what kind of currency impact should we expect and what kind of impact have you embedded in your EBITDA guidance for 2015?

1.00.19.0

Michael Lyng

That is a good question. We are of course exposed to FX, but it is mainly related to the fact that we need to convert foreign currency into Danish kroner and it is mainly an issue that we have in Nilfisk and in Nilfisk we have approximately 25% of the business in the US and that kind of turnover and EBITDA need to be converted into Danish kroner and due to the fact that we have below-average margins in the US compared to Europe in Nilfisk it will have a small diluting impact but we are talking about 0.1%-point or something like that.

1.01.09.4

Jacob Petersen

Okay, okay – if we look at Nilfisk, I think the operating leverage has not really shown itself in the past year because of you ramping up and is this something that we should be concerned about? Or will you just tell me now to wait for the growth strategy to come?

1.01.30.8

Michael Lyng

No I think it is not something that we are concerned about, but I think that we should force ourselves to look at what is important for Nilfisk. It is really top line growth and then it is what is on the bottom line. Whether we do constantly 11.7% EBITDA margin but are able to invest much more where we can get a 17-18% return, then we are fine with that so the game that we were probably more playing in the past where we constantly wanted to move it up, you know, 0.1-2-3%-points, we are moving away from that in order to focus much more on growth. And then it is of course important - over time, quarter by quarter – to illustrate that we are able to grow faster than the market and at least on a par with our main competitors and I think that is also what we were able to do with 6% growth in 2014 with a lot of exposure to Europe where you have definitely not seen any growth. Growing 9% in the fourth quarter in Nilfisk is also illustrating that we have taken market share and been able to grow much faster than at least the market.

1.02.50.1

Jacob Petersen

Okay, then to NKT Cables and I have some worrying in the Danish press around problems with the cable on the Anholt offshore park. Do you have any comments related to this?

1.03.07.9

Michael Lyng

No, it is still very early days to conclude what is the issue with the Anholt cable. You are fully right that there is a failure on the cable system. That has happened before. Before it was on the land part where we have not delivered the cable. Now it is on the sea part of the cable so it is of course something that we are assisting the customer with to analyse what exactly is wrong, but it is definitely too early to conclude on the root cause.

1.03.44.6

Jacob Pedersen

Okay, how is your normal position relating to insurance in these instances?

2. March 2015

Transcript

:: Exhibits ::

✓. None

1.03.53.5

Michael Lyng

That depends on the situation but of course we are having a proper insurance when possible so in this particular situation it depends on whether – you know - what is the root cause. Is it something that we should take on our shoulders or is it more an installation mistake? We did not do installation. Or is it a more operational issue? It is too early to conclude.

1.04.25.1

Jacob Pedersen

Okay, the last question from my side. What should we expect from the CAPEX level in 2015? And maybe some ideas also moving forward.

1.04.37.2

Michael Lyng

Yes, it is as you can also see from the numbers in 2014 we are trying really to hold back and to minimise investments, also to make sure that we are focusing on reducing capital employed so the best guidance I can give you is something around DKK 400-450 million with a split 60/40 between tangible and intangible assets.

1.05.03.4

Jacob Pedersen

Okay, thanks very much.

1.05.08.5

Operator

And no further questions at this time. Back to the speakers.

1.05.11.8

Michael Lyng

Okay but then we are able to conclude this call covering the Annual Report of 2014 for NKT Cables so thank you to everybody. We will be back with the first quarter announcement on 13 May and before that we will also have our Annual General Meeting on 25 March. So thank you and goodbye.