21. August 2015

Transcript

:: Attachments ::

✓. None

NKT Holding A/S

Transcript :: Interim Report Q2 2015 ::

Michael Hedegaard Lyng

Welcome to NKT webcast covering the Q2 result that was released this morning. My name is Michael Lyng, CEO in NKT Cables and Group Executive Director in NKT Holding. With me today as usual I have Jonas Persson, CEO of Nilfisk and together we will cover the development for the group during the second quarter including an updated view on where we expect to end the year 2015 for the Group and in the different businesses. Let us look at the agenda on slide 4. I will cover some highlights for Q2, including the financial development. Then Jonas will take over covering the development in Nilfisk during the quarter and then I will do the same for NKT Cables and Photonics Group before we then go into the expected outlook for 2015 and jointly end with the Q&A session where you can ask questions.

On slide 5 we have illustrated the highlights for 2015. At Group level, our second quarter performance was in line with expectations. Operational EBITDA improved 36% and organic growth of 6%. The results are driven by NKT Cables where we continued to show good progress in terms of both growth and earnings, clearly impacted by the DRIVE programme. Late last year we started up a strategic process for our cable operations in China. The aim was to analyse the possibilities for having a different set-up in China, including a divestment of China. Unfortunately we have now concluded that we are not able to change the set-up. We have not deemed the alternatives attractive and as a consequence we are now writing down a big part of the fixed assets in China and that has a negative impact of DKK 374 million, of course being non-cash.

As mentioned here on the slide, we will launch a new strategy plan for NKT Cables in connection with the Capital Markets Day coming up on 23 September and I will come back to this later in the presentation.

In Nilfisk, organic growth was flat and clearly lower than we have expected and at the same time earnings are negatively impacted by the continued investment in sales and service and by cost due to the temporary delivery issues that we saw in the first quarter and that are now being fully resolved during the second quarter and Jonas will, of course, come back to this in his presentation.

Then, in Photonics Group we have appointed a new CEO, Basil Garabet, and we will have divested and we also have divested the activities within the Fiber Processing equipment that was placed in the US and they were not really needed or strategically important relating to what we do in the Sensing business and in the Imaging business. Based on all this, we have – and based on the result in the first half we have specified our guidance for the year but I will come back to this later in the presentation.

So to summarise, overall a good performance with some ups and some downs but in particular driven by a strong performance in the NKT Cables business.

If we then turn to slide 6, looking at some financial numbers, the 6% organic growth is here broken up into the different units. We are flat in Nilfisk – 0% - and slightly down for the first half year 2015 whereas we continue to see the pattern that we also saw in the first quarter – strong growth in the Cables business, here reported at 13%, and 15% for the first half.

Photonics Group down 14% and down 9% for the first half. We are not that concerned about that because we had a very, very strong order intake that will be executed in the second half. Looking at the operational EBITDA, it is significantly up from the last year level of DKK 324 million to now DKK 441 million and that means that the margin that we are able to do in the quarter is up from 9.7% to 12%. A big part of that is of course supported by the DRIVE initiative in the Cables business and of course also related to that we are carrying some one-off costs, here reported with DKK 34 million that has been taken in the second quarter this year. As also illustrated, we start to come down in one-off costs as we are getting closer and closer to finalisation of the report. [ed: finalization of the programme].

The impairments of China are already mentioned. Working capital we will come back to on a later slide, but we continue to see good traction. We are down if you look at the last 12 months percentage to revenue so that is good progress. And then cash flow – it is minus with DKK 180 million and that is due to the acquisitions that we have been able to do in Nilfisk where we have paid DKK 117 million and then it is due to the normal seasonal build-up of working capital that we see in particular in the cable business but also Nilfisk that has increased working capital with DKK 281 million. This is very normal compared to a second quarter and then the outlook but let us come back to that later in the presentation.

So from the helicopter view, where are we then heading with the last 12 months' operational EBITDA performance? We came from just below 1.3 billion at the end of the first quarter and we have been able to increase that with more than DKK 100 million so we are now standing at DKK 1.415 billion and that is similar to 10.2% EBITDA margin and we are pretty satisfied with that journey.

If we then look further into the P&L, not taking all the numbers here, the revenue composition, the increase of DKK 443 million is clearly illustrated what is included in that before we come down to the organic growth that I mentioned before and more importantly on this slide is probably the development of the operational EBITDA, the increase of DKK 117 million and as illustrated here we have seen a significantly margin pick-up – a stellar performance in the Cables business, up from 7.7% in the second quarter 2014 to now 14.1%. And that has contributed with DKK 127 million.

Then in Nilfisk we are down, which is not a big surprise and it should not be a big surprise because it is entirely related to investments that we are doing in the front-end and partly also to a slightly higher delivery cost, but here reported at 11.4%, down 1%-point, but nominal EBITDA impact is not really significant due to the higher turnover related to FX.

Then I think it is also worth mentioning that impairment is here mentioned at DKK 305 million where we are totally reporting a number of 373 and the difference to that is that DKK 88 million out of the total impairment is here on this slide included under tax and that relates to a tax asset in China that we have fully depreciated down to zero.

If we look at working capital development down to 16.9% y/y we see a decrease of approximately DKK 100 million. If we compare it to the end of the first quarter, we see an increase of DKK 135 million and as mentioned before that is not really a surprise, a big part of that relates to the Cables business and it is more or less entirely related to the seasonal impact that we have in both of our businesses.

Looking at the trend curve, it is a very nice development in the cable business. We have seen a further decline to 14%, all-time low by the way, compared to almost 15% at the end of March whereas in the Nilfisk business we are more or less flattish.

Cash flow we touched on the DKK -180 million and here it is clearly illustrated that we have invested in activities in the business totalling DKK 220 million so up from last year and the difference here is mainly related to the acquisitions that we have been doing in Nilfisk. On the cash flow from operating activities DKK 40 million down from DKK 109 million last year, a big part of that relates to the change in working capital and we also have a lot of FX noise in these numbers and that is why you see a bigger number here compared to the DKK 130 million I mentioned in nominal increase on the slide before. But that will be a wash over time.

Then we continue to see strong leverage and I think that is very, very important because we still have a lot of appetite for doing further acquisitions in Nilfisk and that is high on the management agenda there. So it is good to see that we have room and fire power to do also larger acquisitions.

We are more or less flat, looking at the nominal level here and we continue to be at 1x debt/EBITDA. Looking at the solvency ratio, we are at 43% and here we are of course impacted by the impairment that we have taken in China and that has taken off approximately 2-3%-points on the solvency ratio but there is still significantly room for our internal targets – by the way, these are internal targets – where we have the target of being constantly above 30%.

And with that we have finalised and if I should just summarise I think we can be satisfied with the business as such looking at the total consolidated numbers and then, as always, you have some ups and downs, but we are strongly believing that we are heading in the right direction in all the businesses.

With that, Jonas, please take it over.

0.11.07.6

Jonas Persson

Thank you, Michael. Then I move directly into page 14, which is the growth page. As you can see, we ended up the second quarter with zero growth and that gives us -1% y/d. This is caused by the deliveries issues we had here in Q1 but we also had a spill-over here into Q2 as I also mentioned when we discussed Q1 results.

If we jump then into the Americas -2%. It is mainly in North America that we have a decline in the quarter and that is of course low compared with the market of roughly 3%. Deliveries issues – we have the strike situation. I will come back to that later in the presentation and we also have some delay of the growth initiatives we have in – not only in Americas, but also in the rest of the world.

EMEA ended up with 2% in Q2 which is very much on a par with the market, of course not fully satisfactory since we expect more in EMEA where we have a very good foothold but as we also have said before we have had delivery issues in Q1. We have totally now recovered here in June but as I said we will come back to that.

APAC ended up -5% compared with the market of 5. In Pacific, we have a very slow consumer situation. That is not only us, that is generally, it is going down and therefore we are suffering there a little bit and then of course in Asia with the restructuring, it is taking time to do the restructuring we have talked about before. In China with the sales organisation but also in Korea and Japan it is impacting us in quarter 2. Then moving in and looking to result. Of course, this has also impacted the result so we ended up with 10.9% compared with 11.1% when we ended Q1, so down. We are continuing to invest in the front-end, which is very much aligned with the strategy we have and of course when we don't see the sales – that is of course also impacting the result. And then we have higher distribution costs also in Q2, especially in April and May, it goes down dramatically in June so we have started to come where we should be but even in June's result we still have some space to come until we are where we want to be when it comes to distribution cost. And then we have had also in the quarter extra costs for consultants for the acquisitions we have done, but I will come back to that later in the presentation.

Then coming back to delivery issues we had in Q1 that we saw an impact in Q2. It was mainly two things that have caused the delivery situation – the system implementation in Europe and the extra complexity we had in Europe. We have totally solved that now and we had an all-time high delivery service here in June so we are absolutely back when it comes to real numbers but of course it takes also time to rebuild the confidence in the market and with our customers.

The port strikes in America caused us also some problems in Q1 and also into Q2. That was totally resolved here already in May so we are all back as we should be.

But we still believe that this has had a negative effect on us when it comes to growth and I would say minimum 1-2%. It is of course very, very hard to say that but we have seen cancellation of orders, we have seen customers that have chosen other solutions because we could not be able to deliver and of course it is very difficult to predict the customers we have not seen, but still I estimate minimum 1-2%.

In order to improve the situation, we have changed the organisation a little bit to meet the customer demand and how we organise ourselves, especially when it comes to the consumer side and here in August we have also changed the management in the supply chain.

And as I said, we are very confident now that we are back when it comes to the absolute performance in the delivery. We saw a very good result here in June but of course the big problem is now to rebuild the confidence in the channels and regain the trust with our customers.

Moving on to the next page, the strategy continues. You have seen this picture before. The front-end investments very much continue and we have continued to hire people in the front-end in the first half even if we have not done as much as we wanted because of the delivery situation but it will accelerate here in the second quarter. Good offering I will come back to.

I would also like to just mention the brands. We have changed the brand here – the company brand but also our major Nilfisk Alto brand to Nilfisk and that has had a very good response in the market so we have seen just positive feedback from market and customers about that and then the supply chain, of course, now we are back at the level where we want to be – now it is the next step to outperform and be the best in class.

Moving then to next page, in the front-end investments you asked to give you a short update, commercial excellence we have talked a lot about. We have rolled out now to all the big countries and this will continue and now we also start to go into the smaller countries and this programme we plan to end here mid-2017 but it is very much going according to plan.

I have also touched on how we have continued to hire in the front-end both when it comes to front-end salespeople but also when it comes to service people. And we have continued to do so. We have added roughly a little bit more than 100 people here in the first half and this will continue and accelerate a little bit here in the second half.

In order to support both the commercial excellence but also all the other front-end initiatives we are taking we have also started to roll out a new CRM system and a service system here starting with UK but this will roll out here and continue into 2018 and then of course also to support this and even accelerate the sales initiatives we also roll out here a global sales training which we had a pilot here in Q4.

Then talking a little bit about our offering. I think we have had many good products already in the first half. This is just some of them. We had the Viper AS710 which is very much a mid-market initiative as the first ride-on in the mid-market and this has very much exceeded expectations when it comes to sales – this here when we had launched it, so very good market response.

We also had an upright vacuum cleaner – Nilfisk VU500 which is of course just an ad for the range we had to strengthen the market in the US and the same goes for the Select in vacuum – consumer vac which we had – this is just one of the range we are rolling out in this segment as well and on top of that I also have to mention the high-pressure for the professional where we had a whole platform of new products coming out to the market – both cold and warm. Hot water, high-pressure, which is a very, very strong platform and we have had a very strong response also from our customers regarding this.

Acquisitions. We are talking very much about acquisitions, if you go to the next page, page 20, we have been able to do some very interesting acquisitions here in Q3 this year. [ed:

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✓. None

Q2]. Kerrick is a high-pressure company in the Pacific, a leading brand in that part, a very strong brand both in New Zealand and Australia and this we have consolidated here from 1 July. I think this is a very good fit to our family and also our market share in that part of the world. Contractor in the UK, also a very interesting company doing Rainbow service. Rainbow service is doing service not only for our own brands but also doing service for other brands and they are very good at that - we have Rainbow service also in the rest of the world but I think Contractor has taken this to another level so I think also the rest of the company has something to learn from this so I think this is a very interesting acquisition. And then we come to Smithson, which is a dealer so it is also strengthening our direct sales into Australia.

So to sum up, gross margin impacted by the sales mix. We have, of course, an overhead situation where we have a sales – continue to do the front-end investment but we also have high distribution costs and that is of course also impacting our result. If we look at just the outlook for the full year we will go from 5% down to flat and the reason for that is that we have had a weaker first half than we expected. We see already strong growth here in Q3, but in Q4 we had an extraordinary good Q4 last year and it is hard for us to redo that so that is why we are going down to flat and this will also, of course, impact the EBITDA. So with that I would like to hand over to Michael again.

0.20.55.8

Michael Lyng

Thank you, Jonas and let us move the glasses and turn them towards Cables and look at the different markets performances and market trends that we are looking at in the business starting with the consolidated growth. We reported 13% in the first half 15 and if we then look into the different segments it is clear to see that we are repeating what we saw in the first quarter that Projects are continuing to see very, very strong performance – up 72% and that is of course as also mentioned before - it is difficult really to compare the second quarter here with the second quarter last year because it very much relates to the composition of our order backlog but having said that we are satisfied with the quarter's performance and if we look at the markets under the umbrella Projects, the offshore and the onshore, we continue to see strong traction on the offshore market. We have also earlier reported that we finally received the Race Bank order. It was officially confirmed, which was very nice because that is providing us with good visibility into the remaining part of 2015 and also going into 2016 and we have also already now started up production of Race Bank. But the second quarter has very much been focused on the Gemini project that is close to being finalised, it is not finalised yet so it is not fully taken into the second quarter, it will be most likely taken into the third quarter but perhaps even into the fourth quarter, but we are internally following the plan so it is more a question about where the customers are in the process. So good traction there as well.

Then on traditional onshore, we continue to see a flattish market. It is not very fantastic what is going on, but we probably have a more positive view on the outlook for the development of this market compared to what we had some quarters back. But also for this segment we continue to have good visibility so 2015 is sold out and we are starting to book orders for the second quarter of 2016 and onwards.

Then looking at the Product business we are reporting a flat development. Of course this is not the segment where we are expecting a lot of growth because it is construction-related stuff – the majority of that and this 0% actually ties very well into our guidance for the totality of this business we had when we came into 2015 so it is not a negative or positive surprise and based on what we did in the first quarter, we are reporting positive 1% growth. It is a little bit mixed picture when we look at the different markets where on the maybe slightly negative side we continue to see Nordic being flattish. Not a lot of activities, in particular in Denmark, whereas we are much more optimistic on Central Europe where we see good traction from the market development in former Eastern European countries and we also here are succeeding very well on the pricing project that I have mentioned before where we are optimising and trying to optimise our mix between the markets and between the customer segments and that is also driving a positive trend and last but not least the Specialty segment which is the accessories business and the railway business is also performing as we expect.

Then looking at APAC, of course these are extremely negative numbers, -40% - and I just want to indicate that this is not necessarily representative for the market development. It is actually more as a result of our behaviour in the market. We are extremely restrictive on which orders we want to take in APAC. We don't want to have any kind of empty turnover without profit where on the other hand we need to build up a lot of working capital. That is over so we are more cherry picking the orders where we think we can have some profit and where we also are looking at a satisfactory cash tie-up situation or working capital tie-up situation so that is more what is reflected in this number so that was the market, so overall, pretty good traction both in Projects and Products and then APAC being on a different journey.

If we then look at the EBITDA margin and the EBITDA nominal development on slide 24 it is really a stellar performance in the quarter – DKK 243 million is what we are reporting and that is the 14.1% margin significantly up compared to where we have been the last many years and based on that the LTM curve is jumping up from 8.6% to 10.3%.

I also here would like to warn you that we can talk guidance in a couple of slides, but we are still reporting an EBITDA margin of around 9% - we have taken them up so now we are around 9% and that also means that you should expect this red curve to decline over the second half, in particular. I am very confident that we will not be able to beat the strong 4th quarter we had in 2014 so just be aware of that when you do your modelling.

Then, other than that I don't think I have much to add, so let us continue to the next slide and that is of course looking at the DRIVE in the way that we normally look at it and we continue to be very satisfied with the development and that is also one reason why we have been able to fuel the margin and y/y we have realised DKK 197 million and in the second quarter DKK 125 million so we are satisfied with that. We are actually executing slightly faster on the projects compared to what we previously have expected and that is why we already now are reporting a run rate of the earlier reported full potential of DKK 400 million and that is also the reason why we take up the full potential kicking in from 2017 to DKK 450 million. As you can see here we still need to lay off some people and that is the main reason why we also have some one-off costs still to be carried through the P&L. We are now at DKK 272 million and are reporting a level of DKK 360 million and that ratio to the full potential is unchanged since we started to report on this project.

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✓. None

The project in itself is getting close to – I would not say finalisation – but close to the time where we are transferring it into normal operation. We will continue to report this slide for the coming two quarters, including the Annual Report, but then it will be very difficult really to get a clear view on this going forward and then we will stop using this slide and we will convert it or transfer it into the strategic initiative that we can look at here on slide 26. This slide you have seen before and it is all under the umbrella DRIVE. We have very much focused on the 'get fit' phase which is the DRIVE reduce cost-related initiative that I just was reporting on and now we are moving more and more into the 'Excellence' phase and also looking into: How can we also after that grow the business profitably and those two – the Excellence – those two phases – the Excellence Phase and the Accelerate Growth Phase are now taken into our new 2020 strategy framework that we will discuss in further details with you at our Capital Markets Day in the middle of September.

This is just one slide here in slide 27 where we are looking very top-down at what has our ambition been when working with this strategy and we have looked into three different areas. Of course it is all about creating shareholder value in the end and we have not been doing that the past couple of years. We are currently running at a return on capital employed between 6-7% when we look at full year annual numbers which is of course far away from where we need to be in this business. The ambition is to move up above 15% and that has been the starting point for developing this strategy plan and we have developed a strategy plan where we will also be able to execute on this number but I would like to come back to that when we meet in September. Then of course we have had a very much internally driven focus and also too much an internally driven focus in the business the last years. First, we had to focus a lot on ramping up the Cologne site and fix the issues we had there and the last year or so we have focused a lot on adjusting the cost base related to the DRIVE initiative that I mentioned before. Now it is really time to look at the most important stakeholders we have, the customers, and being the customers' preferred choice, what we are aiming at, we are not there today. In some areas we are close, in some areas we are far away but it will be a cluster that will be an umbrella for coring a lot of strategic initiatives that we would also like to come back to.

And then in the end it is all about people and people management and I strongly believe that there is a relation between the management skills, the employee satisfaction in our business and in the end the return that we can deliver to shareholders and we are not where we need to be, partly also related to the fact that I just mentioned before and that will definitely also be a focus area we need to have, the right managers, the right leaders to drive the development from being at a return on capital employed of around 6-7% to above 15%.

We have defined these four Group-wide must-win battles and this is just kind of an appetizer to what we will discuss in further details in September. Safety, people and organisation it leads directly into what I just mentioned. We need to invest in more talent, we need to make sure that we have an agile and engaged organisation and we also need to make sure that we have a lean organisation. Then one very, very important topic in the next many years in the cable business will be talking about excellence and that goes from excellence in the back-end of the business, the way that we are producing, the way that we are set up there but it also includes the front-end of the business the commercial excellence part that Nilfisk is heavily working on these days.

We are in a business where the majority of what we are serving is defined as a kind of commodity and that also means that we can only survive in that if we do have excellence in all the different processes of our business and let's talk much more about that when we meet in September.

Of course DRIVE has been the first wave of securing operational excellence or start the journey to drive towards excellence but we are not there yet. Then product development and also material development is having a higher and higher impact on our ability to serve the customers with the needs that the customers have and we do have some areas where we see some possibilities for stepping up into new product segments that we think will be a very attractive, maybe not tomorrow but a little bit down the road, and it is also fair to say that we also in some areas have a catch-up that we need to do in order to close the gap to what the customers already are expecting today. So that will definitely also be a must-win battle. And then last but not least this digitalisation and it is not because nowadays it is really becoming a buzzword but for us it means a lot, we have as part of this strategy process deeply analysed what digitalisation can do for us and we do think that there are a lot of areas where we can differentiate ourselves from our competitors if we are better in this compared to them so that is what we are aiming for and I will also elaborate further on that when we meet in September.

Coming to this kind of highlight summary slide return on capital employed increased to 9.3% but as mentioned before we will come down in the second half but it is still nice to see and to get reconfirmed that we can actually earn good money in a good quarter in the business. DRIVE is working as it should, we are taking up targets another time here, we already talked about the APAC impairment issue which is of course not nice but it is worth remembering that it is a non-cash issue, then in the report we are also following up on our communication on the Anholt wind farm incident that we saw in the beginning of the year. We are currently reproducing a cable link to be delivered to the customer to be replaced and we have already in the first quarter incorporated our view of the cost. And then the strategy plan that I just mentioned we will come back to that.

Just on the outlook for this business we have taken up the organic growth, we started with a view of being flat, now we are more positive looking into where we are after first six months and looking into the second half so we up it to around 5% and that is also partly driven by the good visibility that we have in the business and on the margin side we are also taking that up from previously being between 8.5-9% to now being around 9%. And you all know that it is a little bit difficult to really be firm on this because in the end it relates a lot to our ability to finalise the offshore projects as expected, not only as to quality but also time wise and it is not always us being in control of that.

That was the cable business so let's go to slide 31, look at Photonics and here we have already back in July reported that Basil now takes over as Group CEO so it is partly a new position that we have created, partly replacing the CEO in Birkerød where we do a lot of Imaging but it is also partly replacing Søren Isaksen who went on pension early this year. Going forward, Basil will also support Jonas and myself in explaining the status in the business so he will join the quarterly announcement presenting this slide. For now there is not a lot to say, it is not really a great performance we have seen in the first half but we are not really that concerned. We will see a significant pickup both on the top-line and on the EBITDA in the second half and that is also why we are more or less maintaining our full-year guidance in this business. And then we already touched upon the Fiber Processing business that we have divested to Thorlabs, a great home for this business that it is a buyer that wants to continue where we ended so that is good for the company and for the people in the company and we assume that divestment to be effective during September this year.

With that we have finalised the deep-dive into the different segments and we can now turn into slide 33, looking at the outlook for 2015 where we have now specified them in the range that we started with. If we start with the top-line consolidated we are now reporting that we expect around 3% growth before we set up to 3% so it is a more positive view on the top-line and as illustrated in the segments it is driven by the NKT Cables business where we had flat expectations in the beginning of the year and now we are having 5%. So we are changing numbers a little bit with Nilfisk because they see the opposite trend unfortunately based on the result of the first half it will not be realistic to achieve 5% growth and that is why we have now taken it down to be flat. Having said that we do see a very good traction in the business here in July-August and we also expect September to be strong so it is actually more on the basis of a very, very strong Q4 last year that we are being cautious on how to guide growth on Nilfisk.

On margins we had initially a guidance of an increase of up to 1% from the 9.6% and we are now saying an increase of around 0.5% from the 9.6% so hopefully when we end the year we will start this with 10.something but in the lower end. And looking into the segments here it is of course clear that we cannot maintain the level that we expected in Nilfisk due to the missing growth and you all know the effect from operational leverage in this business, it is high, so if you don't grow you can see it immediately on the margins and on the nominal earnings and then it also relates to the cost that Jonas was mentioning before. So here we are taking them down with 1%[ed: 1%-point]. And I just want to emphasise that of course looking at the growth in Nilfisk we are not happy with where we are but it does not change the fact at all that we think that the strategy plan is fully correct. And just because we have had a slow start of that we will not change a single penny in the strategy plan, we strongly believe that it is the right strategy plan for Nilfisk and it is important that we are being patient, even when looking at numbers like this and that we do not start to change what we want to do. In the cable business we are moving up to the 9% EBITDA margin as mentioned before and then Photonics Group is more or less in line with what we saw when we initially guided for the year. And with that we have finalised our part of the presentation so let's move into the Q&A session. So operator, please take it from here.

0.41.59

Operator

Thank you. We will now begin the Q&A session. If you would like to ask a question, please dial 01 on your telephone keypad now to enter the queue. Once your name has been announced you can ask your question. If you find your question is answered before it is your turn to speak you can dial 02 to cancel. So once again, that is 01 to ask a question or 02 if you need to cancel. There will be a brief pause now whilst we register your questions. Okay, so far we have two questions in the queue. The first is from Kristian Johansen of Danske Bank, go ahead sir, your line is open.

0.42.39

Kristian Johansen, Danske Bank

Yes, thank you. Just in order to understand the guidance for Cables and the strong development in Q2, I understand that a lot of the high earnings are driven by the Gemini project. How large a portion of that project have you delivered in Q2?

0.43.00

Michael Lyng

But that is a really difficult question to answer because we have actually delivered a lot and we are very close to having delivered fully, at least where we are today, but in the end a big part of the profit recognition and also related to the top-line relates to all the different test phases that you are starting up when you have finally connected the cable, partly all the cable pieces but also to the offshore wind farm. And that work is a very important part of not only the top-line but also the profit and we have not carried out that yet and that is expected to happen in either September or going into October, that is really not in our control. So difficult to give you a number that you really can use for something.

0.43.56

Kristian Johansen, Danske Bank

Fair enough. It also sounded like, I mean you mentioned this timing issue for that test phase. Is there any risk that this will go into 2016 and should we think that your guidance will reflect that risk as well?

0.44.12

Michael Lyng

With the knowledge I have today I don't expect that to move into 2016 but just bear in mind that this is not really anything that we can control but of course you know we are in close cooperation with the customers in this business and according to what is current planning it is something that will happen in either end of Q3 or beginning of Q4. So that is the knowledge I have today. But the guidance that we have is not very much exposed to that, it is partly exposed but Gemini is just one out of many projects that we are executing, we normally just only talk about the larger ones but there are also other projects, for example the Baltic 2 Project that we earlier have talked about that we are also very close to finalising. And then it is correct that Gemini is of course having a very positive impact in the second quarter performance but it is also very much driven by DRIVE as illustrated by the numbers.

0.45.18

Kristian Johansen, Danske Bank

OK. Then looking ahead for next year on the Race Bank project can you just remind us I mean how much will you have a final delivery of in 2016 and how much will be in 2017?

0.45.30

Michael Lyng

It will be difficult to remind you on that because we have not disclosed it before and it is not something that I can go into detail about now. So let's take that when we talk guidance for 2016. But the majority of the project will be delivered before the end of 2016.

0.45.53

Kristian Johansen, Danske Bank

OK. And then just my last question regarding your APEC business for Cables, you are taking the write-down now but I would still like to have some details on how you plan to make this a profitable business going forward.

0.46.07

Michael Lyng

Yes. It is correct that we have taken down the fixed assets and tax assets close to zero, it is now written down to 15% of previous booked value. And what we intend to do is really to focus on whatever we can focus on internally looking at our performance in China, the reason for not performing where we should be is to a very, very large extent market related. On the market we could argue that we start to see slight, small improvements but having said that we also have some internal issues that we should have executed better on in the past and those are the ones that we are focusing on now and that also started with laying off the CEO of China recently, he left, and we are currently replacing him with another candidate and then we will focus a lot on what can we do internally in the business. It is not that this business is losing a lot of money, we are not talking about a big change before we are actually having black numbers so it is not a big drain today so that is where we are and I would of course have preferred to have found a different solution and we also had some opportunities for different solutions but we didn't deem them attractive enough compared to what we think we can do internally.

0.47.44

Kristian Johansen, Danske Bank

OK. That's clear, that is all from me, thank you.

0.47.48

Operator

Thank you. Our next question comes from Patrik Setterberg of Nordea, go ahead sir, your line is open.

0.47.52

Patrik Setterberg, Nordea

:: Attachments ::

✓. None

Yes hello a couple of questions from my side. In the report you are mentioning that you are having good tendering activity within your offshore cable business, I am just wondering if you are going to be able to win one of these contracts will that be for production in 2016 or is that with a time horizon where production will happen after 2016? That is my first question.

0.48.19

Michael Lyng

I don't want to disclose too much on this because it is very sensitive compared to our bidding strategies but we still have some room for optimising our capacity utilisation and flow in 2016 so it could be that there are orders that could impact 2016 positively but you know the larger ones that we are tendering right now and where we also are having good traction is of course on the backside of 2016 going into 2017.

0.48.52

Patrik Setterberg, Nordea

OK thank you. And then a question to your Nilfisk business. I can understand you will continue with your strategy and you will continue to do your investments in the front-end. I am just wondering looking a little bit further ahead given that you are going to make these investments in the front-end should we expect that the margins will take another decline in 2016 compared to the level to expect to report in 2015?

0.49.19

Jonas Persson

No, absolutely not because part of this is also distribution cost at we will be back on track on that so absolutely not it should on the other hand improve compared with 2015.

0.49.31

Patrik Setterberg, Nordea

OK thank you. And then my last question is relating to the working capital performance both in Nilfisk and Cables. In Nilfisk I am just wondering why we see a build-up of the working capital given that we have acquired slow growth and what should we expect that you will take of measures regarding the working capital in the second half? And then on the Cables side I am just wondering given the outlook you have been providing for the second half for the Cables business should we expect that we will see a relative large release of working capital in the second half of the year?

0.50.12

Michael Lyng

First let's touch upon the Nilfisk question. It is correct that we are building up working capital, there is a lot of FX in this because we do have inventories in both the US and in China so calculating them into DKK means a significantly higher amount. Looking at the

:: Attachments ::

✓. None

trend curve we are more or less flat and that is of course because of the turnover also being impacted by FX. Having said that, in particular on the inventory level or maybe only on inventory level in Nilfisk we are not satisfied with where we are and that is of course fully related to the missing top line. So we had planned for more and we have produced in the first six months of the year to deliver more to the market and that is why inventories are higher than they should be. Then on the outlook for Cables on working capital we are at a very, very low level at 14% at least compared to top line looking at the nominal number I expect to see a rebound and cash inflow in the second half as we normally see in this business but not to the degree that we have seen the last couple of years and that is also related to the composition of projects and to a weaker second half this year compared to the second half last year.

0.51.43

Patrik Setterberg, Nordea

OK. Thank you.

0.51.49

Operator

OK. Our next question comes from Jon Hyltner of Handelsbanken, go ahead sir, your line is open.

0.51.55

Jon Hyltner, Handelsbanken

Thank you, can you hear me? Great. My question is on acquisition just if you could provide some help on the type of contribution on the top line from these three last acquisitions in Nilfisk and perhaps the profitability levels on those.

0.52.18

Jonas Persson

Top line is, of course these are not very big acquisitions, we are talking about roughly €12 million for Kerrick and the other two are smaller so this is a very small impact both on the top line but also on the EBIT level, they are all making profit, different levels of course but that is also a very small impact on the total result.

0.52.41

Jon Hyltner, Handelsbanken

That is helpful. And then on further acquisitions is it mainly Nilfisk or do you want to go through M&A? Or are you looking throughout the Group?

0.52.54

Michael Lyng

It is mainly a topic that we are following in Nilfisk because due to current strategy in Cables and also new strategy acquisition is not really what is driving the agenda, it is more as I mentioned before the excellence in the different parts of the business. Having said that, we do also allow ourselves to look into unique opportunities like we did when we acquired the Ericsson business some years back, that acquisition has turned out to be extremely successful and an acquisition like that is not something that we are taking off the agenda but it is not top priority.

0.53.39

Jon Hyltner, Handelsbanken

And if I could get your, you have a target list in Nilfisk for four companies that you would like to acquire, how does that pipeline look?

0.53.53

Jonas Persson

We have started strongly last autumn to build the pipeline and then the pipeline is still very strong so this initiative and the drive for this continues.

0.54.03

Jon Hyltner, Handelsbanken

OK thank you, that is very helpful.

0.54.08

Operator

OK. Once again if there are any further questions on the line please dial 01 now. And we have one further question coming through that is from Claus Almer of Carnegie, go ahead sir, your line is open.

0.54.23

Claus Almer, Carnegie

Thanks. I have a few questions too. The first question goes to Nilfisk, the gross profit is actually up Y/Y and if you look at the EBIT it is also up Y/Y if you adjust for the distribution extra cost of delivery, extra cost despite the zero growth. Is that FX driven or what is behind that trend? That is purely FX?

0.54.56

Michael Lyng

No, we didn't answer, I was just explaining to Jonas your question, I was translating it.

0.55.06

Claus Almer, Carnegie

OK. But can you hear me clearly?

0.55.10

Michael Lyng

But it is partly, of course there are some currency impacts in the numbers but since US is trading below average gross margin it is not entirely due to that, it is also a mix issue and then we have worked on gross margin as you know we have also increased prices by the way so it is a mix of issues.

0.55.35

Jonas Persson

So we had a gross profit a negative effect here in a mix in the second quarter but Y/D it is a positive effect, yes.

0.55.42

Claus Almer, Carnegie

OK. And then going to the Cable business within the Products area as you said you are guiding for this flattish.. can you split up between volume and prices? Because previously you have mentioned that few sub-segments have seen a positive shared price trend.

0.56.04

Michael Lyng

Yes. I cannot give you a firm number on it but you are fully correct that we have been positive on price increases and we are still and we are also increasing prices. So there are negative volume effects in some of the areas and that should not be of any concern to you because as I also have explained earlier on we started up this pricing initiative at the beginning of the year and that also means that from time to time we are saying no to customers if we don't think that the profitability level is where it should be so we are not, of course you know in the end we need to grow the business but currently we are more focusing on profitability than growing the top line.

0.56.52

Claus Almer, Carnegie

Sure OK thanks and then just a final question back to Jonas. On slide 16 you mention this delivery, that delivery performance is back at an all-time high level. How do you measure that?

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:: Attachments ::

✓. None

0.57.05

Jonas Persson

Delivery, actually delivery service to our customers so when it comes to how many deliveries we are doing in right time compared with expected from the customers so that is up on a very high level and it was a long, long time since we had a level like that so in that part we are back. And then of course as I also mentioned in the presentation, we still have work to do to regain the confidence and trust that we will be able to keep that on this level.

0.57.36

Claus Almer, Carnegie

OK thank you. Do you see some more important clients have put you on hold, waiting to see how your delivery performance is performing?

0.57.48

Jonas Persson

No, that I cannot say, actually to be very honest first to second quarter I was a little bit afraid that some of our big customers would turn their back on us but that only shows that to the market they have more competitors that have a similar problem because I think on the other hand we have been able to keep all the customers but of course we have lost single orders because some customers had to take it from other sources when we couldn't deliver. But we haven't lost any big customers, no.

0.58.22

Claus Almer, Carnegie

OK thank you.

0.58.25

Operator

OK and as there are no further questions on the line I will hand back to our speaker for the closing comments.

0.58.32

Michael Lyng

Thank you operator. So let's just turn to slide 35 with the official invitation to investors, analysts and media to the Capital Markets Day in Copenhagen on 23 September. We will have three main focus areas during the day. One will of course be launch of the new NKT Cables strategy and I will head that. Then we will have together with my management team or part of my management team then we will have a strategic update on where we are in Nilfisk that Jonas will take care of and last but not least we will also be able to

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:: Attachments ::

✓. None

present Basil to you and he will of course also give his early days view on the strategy plan for the Photonics Group. So I look forward to seeing hopefully many of you there. And if not there, then we are coming back to you with third quarter announcements on 12 November and so we look forward to talking to you there if not earlier. So with that we can then end the call so thank you all, participants, for listening in. Goodbye.