

Nilfisk (NLFSK)

Denmark | Professional Cleaning Equipment | MCAP EURm 522.8

18 June 2024

Buy

Target price: 25.8 EUR
 Current price: 19.3 EUR
 Upside: 33.6%

Nilfisk - Sweeping up Success

Nilfisk (or “the Company”) is a world-leading provider of professional cleaning equipment that offers a wide range of cleaning solutions, such as floor-care machines, vacuum cleaners, high-pressure washers, and specialty products for various industries, with sales derived 93% through B2B channels. In 2023, the company shifted focus, implementing lifecycle services, which increased top-line growth in the service segment by 5%. Specialty solutions, which currently have a 32% EBITDA margin, are expected to grow by 33% by 2026E. This growth, driven by a new customer market, will increase the overall EBITDA margin from 11.9% to 13.6% by 2026E. Despite a 3.5% revenue decrease in 2023, the company improved production efficiency, which increased gross profits by 0.5 EURm. With stable growth prospects and solid free cash flow, an equally weighted DCF and peer valuation foresee a target price of 25.8 EUR and a potential upside of 33.6%.

Key Takeaways

- **Transforming business model embraces a more service-oriented approach:** Nilfisk's previous product focus has shifted towards a more service-oriented focus, implementing services to the customer during the product's lifetime. The segment accounts for 29% of the revenue LTM; however, by increasing its contract attachment rate by 20% YoY, Nilfisk is set to capitalize on this shift, increasing revenue in the segment with a projected CAGR of 5% until 2026E, contributing to an increased top-line share of a higher profit segment.
- **New customer market will drive growth in the specialty segment:** The specialty segment generates 6% of revenue but 12% of EBITDA, indicating that growth will significantly increase profitability. Benefiting from its superior products and tapping into new customer markets, recently targeting gigafactories, Nilfisk is poised to drive growth within the specialty segment. With 240 operational gigafactories worldwide, projected to surpass 400 by 2030, Nilfisk's management sees great potential to capitalize on this expansion, further fueling its growth, where revenue is estimated to grow 33% by 2026E.
- **Enhanced efficiency in production drives margin expansion:** In 2023, the company expanded its product capacity in the USA, Mexico, and China, adopting modular production. This approach allows Nilfisk to efficiently redirect production to meet demand, as one part can be used in multiple cleaning machines. This shift resulted in a 5.5% decrease in OPEX as a percentage of sales and a 1.4 percentage point increase in the gross profit margin, despite a 3% revenue decline in 2023. Additionally, Nilfisk has reduced its net debt-to-EBITDA ratio by 17% annually since 2018, generating substantial free cash flow, which will further drive Nilfisk's cost-efficiency programs and the initiation of dividends, expected to be 1/3 of profit in 2026E.

Analysts

Emil Sköldberg Equity Analyst
 Fredrik Sölveldand Equity Analyst

Market Data, EURm

Exchange	Copenhagen Stock Exchange	
Shares (m)		27.1
MCAP (m)		522.8
EV (m)		792.2

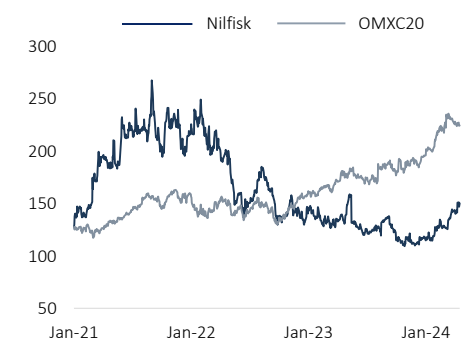
Metrics & Drivers	2023A	2024E	2025E
EV/EBIT	13.0x	10.4x	9.1x
EV/EBITDA	6.4x	5.7x	5.2x
EV/S	0.8x	0.7x	0.7x
P/E	12.9x	11.1x	9.3x
ND/EBITDA	2.0x	1.8x	1.7x

Forecast, EURm	2023A	2024E	2025E
Total revenue	1,034	1,076	1,121
Rev. growth y/y	(3.4%)	4.1%	4.1%
Gross Profit	422	452	479
Gross Margin	40.9%	42.0%	42.7%
EBITDA	123	138	151
EBITDA Margin	11.9%	12.9%	13.5%
EBIT	61	76	87
EBIT Margin	5.9%	7.0%	7.8%

Major Shareholders

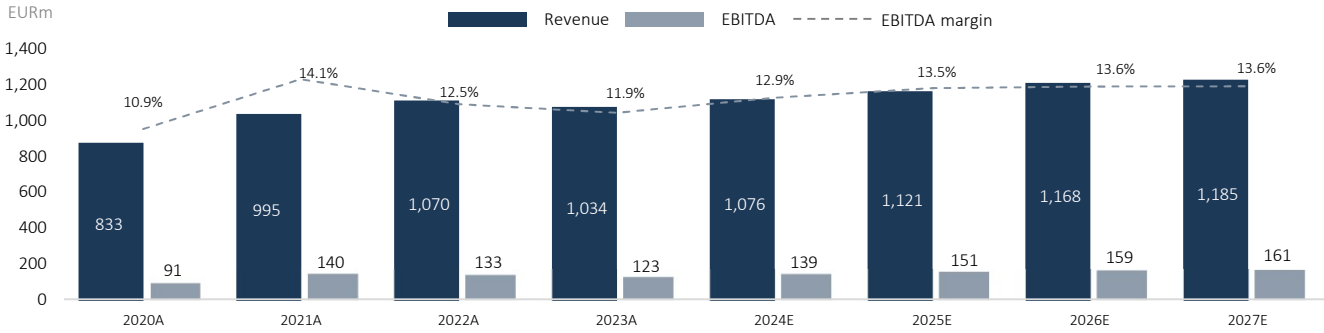
KIRKBI Invest A/S	20.3%
Ferd AS	19.9%
PrimeStone Capital	17.0%

Price Development, SEK



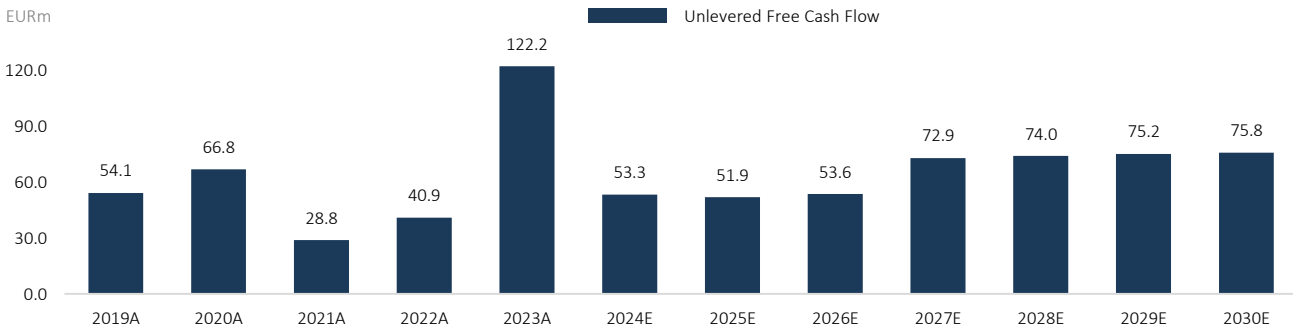
Investment Thesis in Charts

Nilfisk is set for stable growth in revenue and margins by transitioning to a more sticky business model



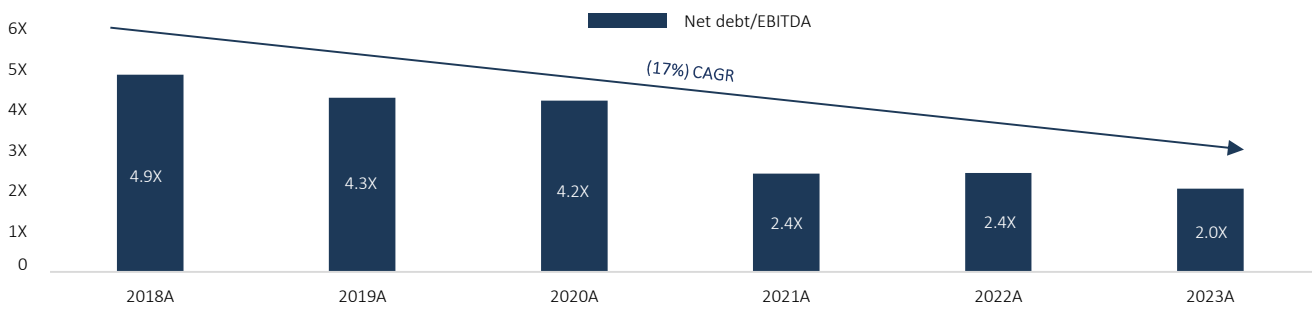
Source: The Company, Analyst Estimates

The estimated stability of unlevered free cash flow generation highlights the potential for future shareholder returns



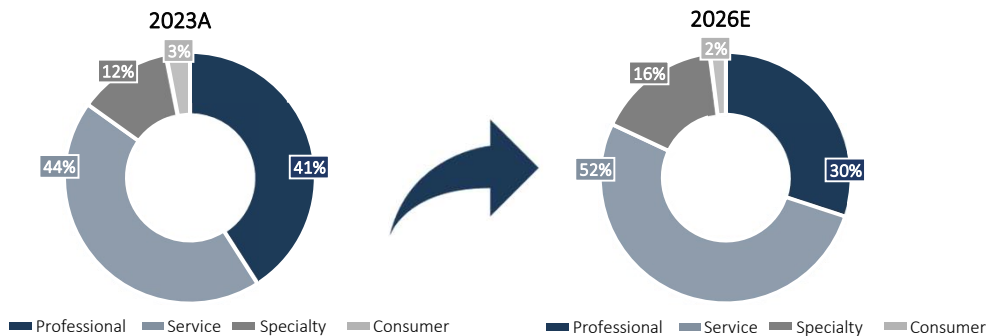
Source: The Company, Analyst Estimates

Decreasing Net Debt/EBITDA ratio increases the opportunities for shareholder returns through the initiation of dividend payments



Source: The Company, Analyst Estimates

Decreased dependency on the professional segment as the EBITDA contribution increases in the Service and Specialty segments



Source: The Company, Analyst Estimates

Investment Thesis

Adoption of service offerings during product lifetime to expand recurring revenue

Until 2023, Nilfisk primarily concentrated on selling professional cleaning equipment, which constrained its focus on implementing after-sales services. However, with the ongoing transformation of its business model to prioritize service provision throughout the product lifecycle, this shift aims to catalyze top-line and bottom-line growth. The company's emphasis on lifecycle management, through the deployment of an extensive network of over 800 technicians and the ongoing provision of consumables - extends the useful life of its products by up to four years, enhancing customer retention and service revenue. The shift is exemplified by a stable segment CAGR of 5% since 2020. Furthermore, in 2023, Nilfisk restructured its segments by establishing a dedicated service segment. This initiative involved creating and training a new salesforce team dedicated to increasing sales within this segment. As a result, the contract attachment rate increased by 20% year-over-year, leading to higher recurring revenue. This success improved the company's cash flow management, as evidenced by a 14% YoY decrease in days sales outstanding.

Growth in specialty segment rooted in new customer market targeting gigafactories

The specialty segment contributes 6% of total revenue but accounts for 12% of EBITDA, suggesting that growth in this segment will affect profitability, expected to reach 16% of EBITDA in 2026E. The segment is divided into two branches: industrial vacuum solutions, which comprise 80% of operations, and cleaning solutions for food processing plants, the remaining 20%. The specialty segment is expected to grow top-line by 33% by 2026E, where the expansion is derived from the large growing market around industrial vacuum solutions targeting gigafactories. There are 240 operational gigafactories worldwide, projected to surpass 400 by 2030E. Nilfisk, the market leader in this niche, is poised to capitalize on this expansion opportunity, having already made breakthroughs with customers like Northvolt. Since Nilfisk owns the supply chain and only utilizes modular production, this suggests a high potential for scaling up production to meet the increased demand.

Efficiency in production drives margin expansion and optimization of inventory management

Nilfisk has enhanced production capacity by adopting a modular approach that uses interchangeable parts across different cleaning machine models. This shift has increased gross profit by 1.4 percentage points, despite a 3% revenue decline. Nilfisk's cost efficiency is highlighted by a 20% year-over-year reduction in its cash conversion cycle in 2023, enabled by more predictable revenue, faster modular production, and a dual supply chain. This operational efficiency leads to substantial free cash flow, with an unlevered FCF yield projected at 5.6% by 2025E, enabling effective capital allocation and debt reduction. Since 2018, Nilfisk has reduced debt by 17% annually, showing financial improvement. Improved efficiency and strategic capital allocation strengthen Nilfisk's financial position, with unlevered FCF estimated at 51.9 EURm by 2025E, allowing further cost-efficiency and anticipated dividends, expected to be 1/3 of profit by 2026E.

Risk of downside in a recession due to cyclical segment

One risk factor lies in the competitive landscape within the professional segment, where customer preferences trend toward favoring less expensive alternatives in downturns. However, Nilfisk goes beyond merely offering a product; it expands its service segment and provides after-sales maintenance, which accounted for 32% of revenue in 2023. This serves as a hedge against significant downside risks, as the service segment demonstrates an anti-cyclical nature where companies tend to maintain rather than invest in new machines during downturns, illustrated by its 5% top-line CAGR since 2020. With the expansion of the service segment, there is additional mitigation against the risk of compromising top-line growth as the segment becomes a larger part of the revenue and dependency from the professional segment decreases.

Company Overview

Global leader of professional cleaning equipment and services

Nilfisk was founded in 1906 in Denmark and has since dedicated itself to providing innovative cleaning solutions. The company operates globally, with its largest markets in the USA, Germany, France, Denmark, and the UK, collectively accounting for 64% of its revenue. The company primarily engages in B2B sales, comprising over 90% of its revenue, and organizes its operations into four segments: professional, service, specialty, and consumer.

Business Model

Provider of high-quality cleaning equipment

Nilfisk manufactures a range of professional cleaning equipment at its nine facilities worldwide. These products are distributed directly from the manufacturing sites and through seven additional distribution centers in Europe, America, and Asia. Customers can purchase equipment through Nilfisk's website, sales representatives, or from local distributors and retailers. This distribution network helps Nilfisk reach customers in over 100 countries, catering to large businesses needing multiple machines and smaller businesses purchasing individual items. The company's focus areas for the next few years include education, retail, manufacturing, warehousing, and contract cleaning services, making up about two-thirds of its market. Prices for their products vary widely; for instance, a commercial vacuum cleaner may cost around 100 EUR, while industrial floor cleaning machines can range from several thousand to 10,000 EUR.

Implementation of services throughout the product's lifetime

The company has a global network of 800 technicians who provide service solutions across all markets, including scheduled maintenance and on-demand repairs. These technicians, equipped with specialized expertise, help create a resilient business model for Nilfisk by maintaining and enhancing customer equipment and supplying essential consumables like cleaning agents. Additionally, the company offers the Nilfisk Connective Portal, a digital platform that helps customers optimize equipment use and streamline operations with data analytics tools. As of 2023, the service segment contributes 29% to Nilfisk's total revenue and 43.7% to EBITDA, making it the company's most profitable segment.

Market Overview

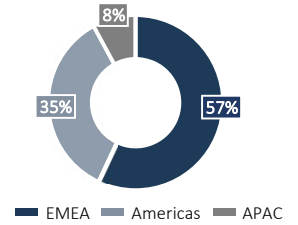
Few major players in a consolidated market

The industrial cleaning equipment market is expected to grow at a CAGR of 4.7% from 2023 to 2030. Four major players, Nilfisk, Tennant, Kärcher, and Diversey, collectively hold over 50% of the global market share. As a result, there is limited competition regarding supplying entire markets and utilizing scale advantages. However, the market is fragmented locally due to smaller competitors with less advanced technology. During periods of slow economic growth, professional and consumer competition often centers on price. However, factors such as quality and service availability also play a significant role in influencing customer decisions.

Demand driven by general economic growth

Demand for professional cleaning equipment is primarily tied to overall economic growth, exposing it to cyclical downturns during recessions. However, services related to professional cleaning equipment are anti-cyclical, as they increase in economic downturns. This is exemplified by companies tending to care for their existing products rather than buying new ones. This behavior is further supported by the 5% CAGR of the service segment from 2020, although the recession tendencies observed during the COVID-19 pandemic.

Geographical Split



Manufacturing sites



Valuation

Peer valuation implies a share price of 43.0%

Aside from Tennant Co., the companies in the analysis are not direct industry peers. They were selected for their production of capital-intensive industrial products focused on B2B and their provision of equipment services, like Nilfisk. Additionally, they operate in similar geographical markets, primarily in America and Europe. Based on the peer valuation, Nilfisk trades well below similar companies. Applying the forecasted 2025E EBIT of 87.3 EURm to the target multiple of EV/EBIT 11.2x gives a target price of 27.6, foreseeing an upside of 43.0%.

Company name	MCAP (EURm)	EV (EURm)	CAGR 23A-25E (%)	2023 EBIT margin (%)	2023 ROIC (%)	2023 EV/EBIT X
TENNANT CO	1,786.2	1,929.2	3.7%	11.4%	14.8%	12.1X
Electrolux Professional AB	1,706.7	1,953.2	5.4%	9.7%	12.5%	14.8X
Alamo Group INC	2,107.4	2,309.5	4.9%	11.7%	13.3%	11.0X
Columbus McKinnon	1,050.3	1,425.1	5.4%	11.1%	4.6%	11.9X
Douglas Dynamics	521.1	761.2	8.5%	8.0%	7.4%	11.2X
Average	1,333.7	1,675.6	5.3%	9.6%	12.2%	11.7X
Median	1,706.7	1,929.2	4.9%	9.7%	13.3%	11.2X
NILFISK	522.8	792.2	4.1%	5.9%	14.2%	9.4X

DCF and peer valuation implies an upside of 33.6%

The DCF forecasts free cash flow on a 7-year basis. Nilfisk is expected to grow at a CAGR of 2.6% in the forecasted period. A terminal growth rate of 1.5% is estimated into perpetuity, with a WACC of 9.0%. This gives us an implied share price of 24.0 EUR and an upside of 24.3%. Equally weighting peer valuation and DCF implies a target share price of 25.8, consequently an upside of 33.6%.

		Terminal Growth Rate						DCF Breakdown 2030E	
		24.0	0.5%	1.0%	1.5%	2.0%	2.5%		
WACC	8.0%	23.8	25.4	27.2	29.3	31.8		PV of forecasted FCFF (EURm)	319.8
	8.5%	22.5	23.9	25.5	27.3	29.4		PV of terminal Value (EURm)	560.0
	9.0%	21.4	22.6	24.0	25.6	27.4		Enterprise Value (EURm)	879.8
	9.5%	20.4	21.5	22.7	24.1	25.7		Net debt (EURm)	252.2
	10.0%	19.5	20.5	21.6	22.8	24.2		Market cap (EURm)	650.9
								No. Of shares (m)	27.1

Source: The Company, Analyst Estimates, Bloomberg

Appendix: Income Statement

EURm	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Total revenue	966.5	832.9	994.9	1,069.5	1,033.6	1,076.1	1,120.7	1,167.5	1,185.1	1,202.8	1,220.9	1,239.2
y-o-y chg	-8.3%	-13.8%	19.5%	7.5%	-3.4%	4.1%	4.1%	4.2%	1.5%	1.5%	1.5%	1.5%
COGS	(557.6)	(486.2)	(592.2)	(647.5)	(611.1)	(624.1)	(641.8)	(668.2)	(678.3)	(688.4)	(698.8)	(709.3)
Gross profit	408.9	346.7	402.7	422.0	422.5	452.0	478.9	499.3	506.8	514.4	522.1	529.9
Gross margin	42.3%	41.6%	40.5%	39.5%	40.9%	42.0%	42.7%	42.8%	42.8%	42.8%	42.8%	42.8%
R&D	(30.9)	(31.7)	(29.1)	(31.2)	(27.5)	(32.7)	(34.0)	(35.4)	(36.0)	(36.5)	(37.1)	(37.6)
Sales and distribution costs	(244.8)	(220.8)	(227.6)	(243.5)	(251.7)	(258.3)	(269.0)	(277.9)	(282.0)	(286.3)	(290.6)	(294.9)
Administrative costs	(82.1)	(64.6)	(63.8)	(70.1)	(74.6)	(75.3)	(78.4)	(81.7)	(83.0)	(84.2)	(85.5)	(86.7)
Other operating income	4.1	5.5	3.4	4.5	4.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other operating expenses	(3.8)	(2.2)	(1.5)	(2.2)	(2.3)	(2.0)	(2.1)	(2.2)	(2.3)	(2.3)	(2.3)	(2.4)
Special items	(23.9)	(10.8)	(4.4)	(9.9)	(9.9)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)
EBITDA	96.6	90.6	139.9	133.3	123.1	138.5	151.1	158.8	161.3	163.8	166.4	167.9
EBITDA-margin	10.0%	10.9%	14.1%	12.5%	11.9%	12.9%	13.5%	13.6%	13.6%	13.6%	13.6%	13.5%
D&A	(69.1)	(68.5)	(60.2)	(63.7)	(61.9)	(62.8)	(63.8)	(64.7)	(65.7)	(66.7)	(67.7)	(67.6)
EBIT	25.9	22.1	79.7	69.6	61.2	75.7	87.4	94.0	95.6	97.1	98.7	100.3
EBIT-margin	2.7%	2.7%	8.0%	6.5%	5.9%	7.0%	7.8%	8.1%	8.1%	8.1%	8.1%	8.1%
Share of profit from associates	0.0	0.1	0.6	2.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial income	1.2	0.6	1.6	0.5	10.4	6.9	6.9	6.9	6.9	6.9	6.9	6.9
Financial expenses	(15.2)	(15.3)	(13.2)	(17.5)	(25.1)	(19.8)	(19.3)	(19.0)	(19.0)	(19.0)	(19.0)	(19.0)
EBT	15.6	7.5	68.7	54.6	47.3	62.8	75.0	81.9	83.5	85.0	86.6	88.2
EBT-margin	1.6%	0.9%	6.9%	5.1%	4.6%	5.8%	6.7%	7.0%	7.0%	7.1%	7.1%	7.1%
Tax expense	(6.9)	(10.1)	(17.7)	(14.0)	(12.0)	(15.7)	(18.7)	(20.5)	(20.9)	(21.3)	(21.6)	(22.0)
Net income	8.7	-2.6	51.0	40.6	35.3	47.1	56.2	61.4	62.6	63.8	64.9	66.1
Net margin	0.9%	-0.3%	5.1%	3.8%	3.4%	4.4%	5.0%	5.3%	5.3%	5.3%	5.3%	5.3%

Source: The Company, Analyst Estimates

Appendix: Balance Sheet

Balance Sheet, EURm	2019A	2020A	2021A	2022A	2023A
Assets					
Intangible assets					
Goodwill	168.5	166.0	169.1	170.4	168.7
Trademarks	9.6	7.8	7.3	6.1	4.7
Customer related assets	8.5	6.1	5.2	3.8	2.5
Development projects completed	39.1	24.8	25.8	24.9	32.1
Patents, know hows, and software	27.4	30.6	23.5	18.6	15.5
Development projects and software in progress	34.0	21.4	18.6	20.5	19.9
Total intangible assets	287.1	256.7	249.5	244.3	243.4
Non-current assets					
Land and buildings	8.5	7.9	8.3	6.9	6.3
Plant and machinery	4.0	3.4	4.0	4.9	4.6
Tools and equipment	35.0	29.4	28.5	29.3	29.9
Assets under construction	3.7	3.1	3.1	4.3	5.4
Right of use assets	54.5	65.2	56.2	57.4	66.6
Investments in associates	21.5	29.3	29.0	33.2	34.9
Interest bearing receivables	0	1.2	2.0	2.0	1.3
Other investments and receivables	2.8	3.1	3.3	12.0	2.8
Deffered Tax	25.1	20.5	15.7	20.6	23.4
Total non-current assets	442.2	419.8	399.6	414.9	418.6
Current Assets					
Inventories	172.7	149.3	220.1	220.2	200.5
Receivables	196.1	154.2	173.9	166.7	138.7
Interest bearing receivables	4.7	3.0	0.6	0.4	0.5
Income tax receivable	5.1	5.0	4.6	3.8	3.5
Other receivables	0	19.1	27.4	34.7	28.9
Cash at bank	19.3	13.1	15.0	22.7	23.3
Total current assets	397.9	343.7	441.6	448.5	395.4
Total assets	840.1	763.5	841.2	863.4	814.0

Source: The Company

Appendix: Balance Sheet

Balance Sheet, EURm	2019A	2020A	2021A	2022A	2023A
Equity and liabilities					
Equity					
Share Capital	72.9	72.9	72.9	72.9	72.9
Reserves	3.9	(15.8)	3.3	14.8	(5.0)
Retained comprehensive income	81.2	77.7	131.5	173.0	207.1
Total equity	158.0	134.8	207.7	260.7	275.0
Liabilities					
Non current liabilities					
Deffered tax	7.0	6.9	5.9	7.3	6.9
Pension liabilities	5.9	7.1	5.1	4.4	3.8
Provisions	1.3	2.0	2.3	5.8	4.9
Interest bearing loans and borrowings	376.9	227.3	292.7	288.2	205.9
Lease liabilities	32.2	44.3	35.3	36.9	44.7
Other liabilities	2.6	1.3	5.4	3.1	3.5
Total non current liabilities	425.9	288.9	346.7	345.7	269.7
Current liabilities					
Interest bearing loans and borrowings	5.0	105.2	5.8	1.7	2.1
Lease liabilities	24.0	22.5	22.3	23.0	24.6
Trade payables	0	99.9	135.9	113.2	123.5
Trade payables and other liabilities	208.4	0	0	0	0
Income tax payable	5.0	1.2	7.5	10.8	7.8
Other liabilities	0	93.6	101.5	96.2	97.2
Provisions	13.8	17.4	13.8	12.1	14.1
Total current liabilities	256.2	339.8	286.8	257.0	269.3
Total Equity and liabilities	840.1	763.5	841.2	863.4	814.0

Source: The Company

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Disclaimer

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