



NKT

26 February

# Annual Report 2019

Webcast presentation



# Forward looking statements



This presentation and related comments contain forward-looking statements.

Such statements are subject to many uncertainties and risks, as various factors of which several are beyond NKT A/S' control, may cause that the actual development and results differ materially from the expectations.



# Today's presenters



**Alexander Kara**

**NKT A/S**

President & CEO



**Roland M. Andersen**

**NKT A/S**

CFO



**Basil Garabet**

**NKT Photonics**

President & CEO

# Agenda



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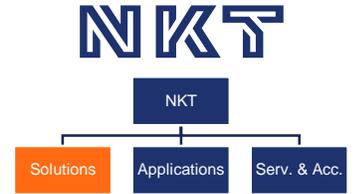
28 Questions & Answers

# Key highlights Q4 2019

<p><b>EUR 262.2m</b> Revenue (std. metal prices)</p>	<p>Up from EUR 232.3m in Q4 2018, driven by progress on various projects in Solutions</p>
<p><b>16%</b> Organic growth</p>	<p>Positive development in Solutions and Service &amp; Accessories more than outweighed Applications</p>
<p><b>EUR 1.2m</b> Operational EBITDA</p>	<p>Up from EUR -8.4m in Q4 2018. Comparison period impacted by delays of two specific projects</p>
<p><b>EUR 1.37bn</b> High-voltage order backlog</p>	<p>Increased from EUR 1.09bn at end-Q3 2019 to all-time high level</p>

- Improved revenue and earnings in **Solutions** as expected
- NKT announced a contract for Dogger Bank Creyke Beck A/B, with a value of approx. EUR 360m, which is the largest XLPE power cables order ever for NKT
- Profitability in **Applications** remained unsatisfactory
- **Service & Accessories** reported positive organic growth driven by continued growth in Accessories business
- Strengthened R&D competencies with acquisition of technology consulting unit from ABB

# Solutions – Q4 2019



## Returned to growth

### Customer offerings



- High-voltage AC/DC on-/off-shore cables

### Development during Q4 2019

- Execution on current projects was in line with expectations in Q4 2019
- Strong improvement compared to Q4 2018, which was impacted by delays in two projects
- Delivery of submarine export cable system for the UK offshore wind farm Hornsea 1, the world's largest wind farm when completed

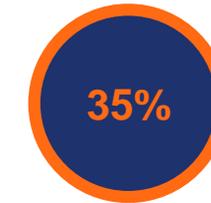
### Strengthened market position

- Qualification of 525 kV DC XLPE underground power cable matching the requirements for the coming high-voltage DC corridor projects in Germany
- Both high-voltage factories now powered by green electricity

## Q4 2019 financial highlights



Revenue\* EURm  
(Q4 2018: EUR 111m)



Organic growth  
(Q4 2018: -30%)



Oper. EBITDA EURm  
(Q4 2018: EUR -9.4m)



\* Std. metal prices

Note: AC = Alternating Current and DC = Direct current

# NKT awarded the largest XLPE power cables order ever

- Contract for Dogger Bank Creyke Beck A/B offshore wind farms that will provide green energy supply to an estimated 3 million UK households
- Project owners are Equinor and SSE Renewables
- Manufacture of approx. 4x175 km of 320 kV DC offshore export power cables and approx. 4x32 km of 320 kV DC onshore export power cables
- Installation by the cable-laying vessel NKT Victoria
- Contract value of approx. EUR 360m (approx. EUR 300m in std. metal prices)



# High-voltage market with attractive outlook

## NKT awarded projects of more than EUR 750m in 2019. Continued tender activity

2019

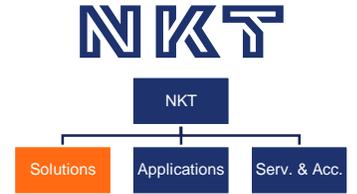
- NKT estimates that project awards in the relevant high-voltage market totalled around EUR 3bn in 2019, largely on par with 2018.
- Order backlog for market players improved during 2019
- NKT was awarded high-voltage projects with an aggregated value of more than EUR 750m in 2019

2020

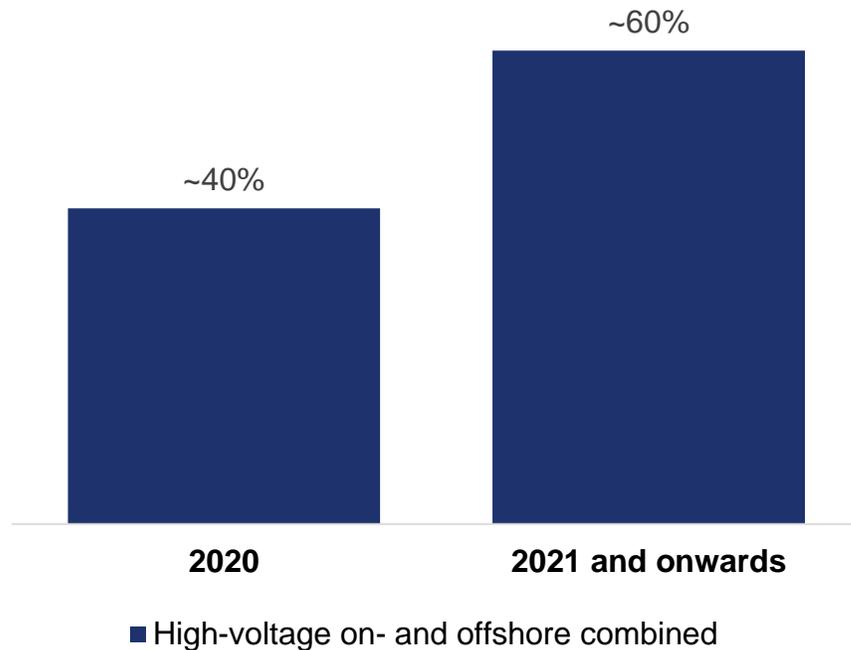
- Progress continues on several tenders across market segments and geographies
- In 2020, NKT expects the value of new relevant high-voltage project awards to be around EUR 3bn excluding the upcoming German DC corridor projects
- If the corridor projects materialize, the market is expected to be significantly higher than in the previous years



# High-voltage order backlog



High-voltage order backlog of EUR 1.37bn\* at end-2019 at all-time high, up from EUR 1.12bn at end-2018

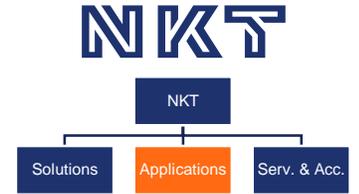


## Mix of high-voltage projects

Offshore wind			Interconnectors		
Borssele Alpha	2020		Nordlink	2020	
Borssele Beta	2020		Beckomberga-Bredäng	2022	
Triton Knoll	2020		Viking Link	2023	
Hornsea 2	2021				
Moray East	2021				
Ostwind 2	2022				
Dogger Bank CB A/B	2023				
Oil & Gas					
			Johan Sverdrup 2	2022	

\* Market prices (EUR 1.21bn in std. metal prices)

# Applications – Q4 2019



## Profitability still unsatisfactory

### Customer offerings



- Medium- and low-voltage cables & building wires
- Power cables for telecom market

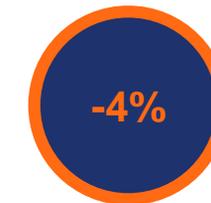
### Development during Q4 2019

- Q4 is traditionally a quarter with lower activity
- Germany was the main growth contributor in Q4 2019, while sales decreased in France and Scandinavia.
- Factory efficiency and output not satisfactory
- NKT continues to focus on improving efficiency across its production sites
- Markets expected to be stable in 2020, with growth continuing in eastern Europe

## Q4 2019 financial highlights



Revenue\* EURm  
(Q4 2018: EUR 97m)



Organic growth  
(Q4 2018: 8%)

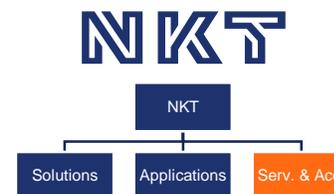


Oper. EBITDA EURm  
(Q4 2018: EUR 1.2m)



\* Std. metal prices

# Service & Accessories – Q4 2019



## Satisfactory financial performance

### Customer offerings



- High- and medium-voltage accessories
- Services

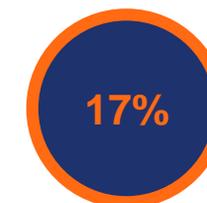
### Development during Q4 2019

- Organic growth in both Service and Accessories
- The divested railway activities contributed revenue\* of EUR 4.8m in Q4 2018
- No significant offshore cable repair work conducted Q4 2019 impacting performance in Service
- In January 2020, NKT signed first contract to include the recently launched 10-day vessel mobilization guarantee
- Accessories continued to grow in Q4 2019 as throughout the year driven by medium-voltage accessories and offshore wind segment

## Q4 2019 financial highlights



Revenue\* EURm  
(Q4 2018: EUR 32m)



Organic growth  
(Q4 2018: -9%)



Oper. EBITDA EURm  
(Q4 2018: EUR 4.0m)



\* Std. metal prices

# Strategic focus on near-term performance

Utilize attractive NKT position in the power cable market



**Solutions**

**Utilization and execution**



1. Optimize asset utilization
2. Maintain technology leadership
3. Improve production processes and project execution



**Applications**

**Profitability**



1. Optimize sales and operations planning
2. Streamline product portfolio
3. Increase factory efficiency



**Service & Accessories**

**Growth**



1. Strengthen go-to-market approach
2. Optimize product portfolio and offerings
3. Optimize cost base

**Focus on sustainable financial performance**

# Agenda



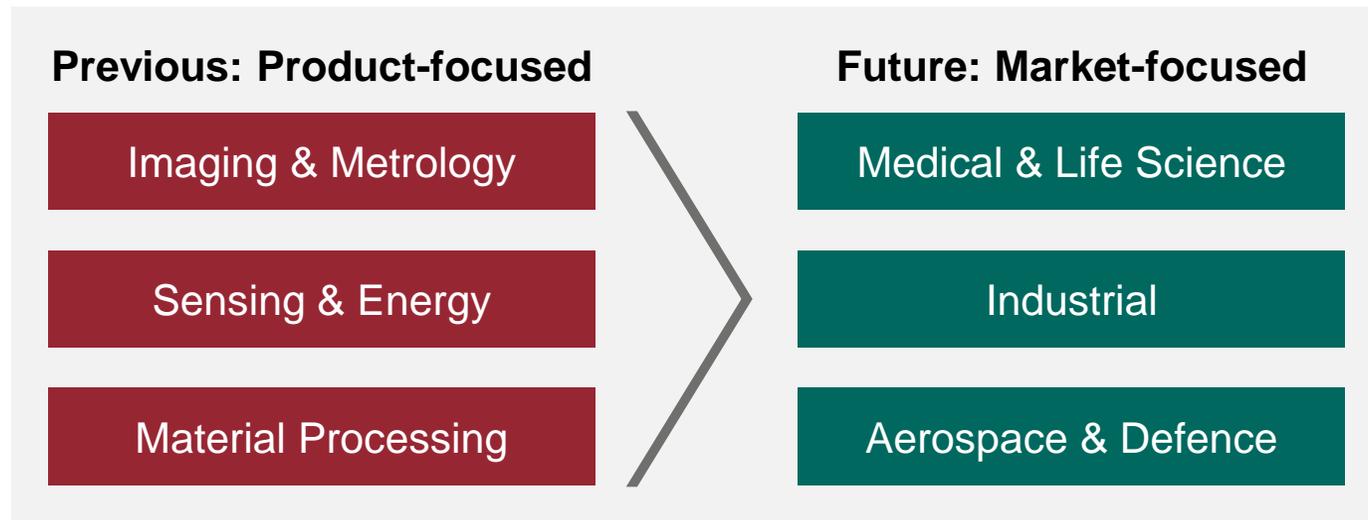
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# Key highlights in Q4 2019

<p><b>EUR 25.5m</b> Revenue</p>	<p>Up from EUR 22.5m in Q4 2018. The growth was driven by Aerospace &amp; Defence</p>
<p><b>15%</b> Organic growth</p>	<p>Growth rate improved compared to previous quarters, and was in line with the financial outlook</p>
<p><b>EUR 7.2m</b> EBITDA</p>	<p>Down from EUR 8.0m in Q4 2018 due to relatively higher cost base driven by investments in growth</p>
<p><b>50%</b> Order intake growth</p>	<p>Strong uptake in order intake primarily due to a number of large OEM orders</p>

- NKT Photonics' financial performance in Q4 2019 was in line with expectations
- As in previous years, Q4 was the largest period in terms of revenue and earnings
  
- In October 2019, NKT Photonics officially opened its facility in Boston, US. The site will be important for servicing this market
- In addition, a new industrial application centre was opened in the UK to deliver customer-focused service exploring laser micromachining applications
  
- NKT Photonics continued to prepare for future growth as more than 20 employees were hired in Q4 2019

# Updated market segmentation



- In recent years, NKT Photonics has grown into further product areas and market focus has developed. Therefore, the company has decided to change market segmentation
- The market-focused segmentation is better aligned with the general reporting in the global photonics industry
- Provides a good overview of NKT Photonics' commercial focus for the years ahead

# Growth supporting megatrends

## Growing and ageing population

- Increase in global population and life expectancy will lead to pressure for more effective use of resources and higher health costs. This development will increase:
  - 1) The demand for optical sensing and monitoring to optimize use of energy and infrastructure
  - 2) The need for faster and cheaper medical instrumentation for mass screening, diagnostics and treatment based on lasers

## Increased technological complexity

- Technology shrinks and more functions are packed into the devices, we use every day, the requirements for the technology used to manufacture the advanced products
- Mechanical manipulation of material that was feasible a few years back is increasingly being replaced by optical manipulation with ultrafast lasers
- This allows higher precision and faster throughput when processing the small structure in high-tech devices like smartphones and advanced medical equipment

## Focus on security

- As technology advances and cost decreases, access to autonomous drones, surveillance equipment, and other advanced technology is becoming easier
- This is accompanied by a security concern as small groups or individuals can harm civilian targets or disrupt infrastructure
- Growing need for fast and efficient defence systems that are safe to use in any environment
  - Directed energy systems using fiber lasers are uniquely suited to accomplish some of these tasks
  - In addition, optical remote sensing technology like Distributed Acoustic Sensing, DAS, is increasingly being used

# Growth in 2019 primarily driven by Aerospace & Defence

	Medical & Life Science	Industrial	Aerospace & Defence
<b>Characteristics</b>	The fastest growing of the three markets. Ultrafast fiber lasers especially are used in medical procedures such as ophthalmology, and supercontinuum lasers are used in advanced bio-imaging	The largest and most diversified of the three identified markets. Customers in this segment use the full breadth of NKT Photonics' product portfolio, including ultrafast lasers, supercontinuum lasers, and sensing systems.	NKT Photonics has increased focus on this segment in recent years. NKT Photonics utilizes its entire portfolio of products and capabilities to serve special project needs, focused mainly within the European and US markets.
<b>Main applications</b>	<ul style="list-style-type: none"> <li>Bio-imaging &amp; microscopy</li> <li>Medical devices</li> <li>Ophthalmology</li> </ul>	<ul style="list-style-type: none"> <li>Device characterization, sorting and quality control</li> <li>Materials and nanostructures</li> <li>Micromachining and display</li> <li>Remote sensing</li> <li>Semiconductors</li> </ul>	<ul style="list-style-type: none"> <li>Aerospace</li> <li>Directional Infrared Counter Measures (DIRCM)</li> <li>Directed energy</li> <li>Remote sensing</li> </ul>
<b>NKT Photonics performance in 2019</b>	<ul style="list-style-type: none"> <li>Dominated by large customers within bio-imaging, microscopy, and ophthalmology</li> <li>Supercontinuum and ultrafast lasers gained traction</li> </ul>	<ul style="list-style-type: none"> <li>Various sectors within the industrial segment experienced headwinds in 2019</li> <li>NKT Photonics has limited exposure to those sectors due to a relatively diverse industrial product portfolio</li> </ul>	<ul style="list-style-type: none"> <li>With a doubling of the revenue, the highest area of growth in 2019</li> <li>Driven by special focus and extra resources, several new projects were secured and existing delivered growth</li> </ul>
<b>Share of NKT Photonics revenue in 2019</b>	~15%	~70%	~15%

# Agenda

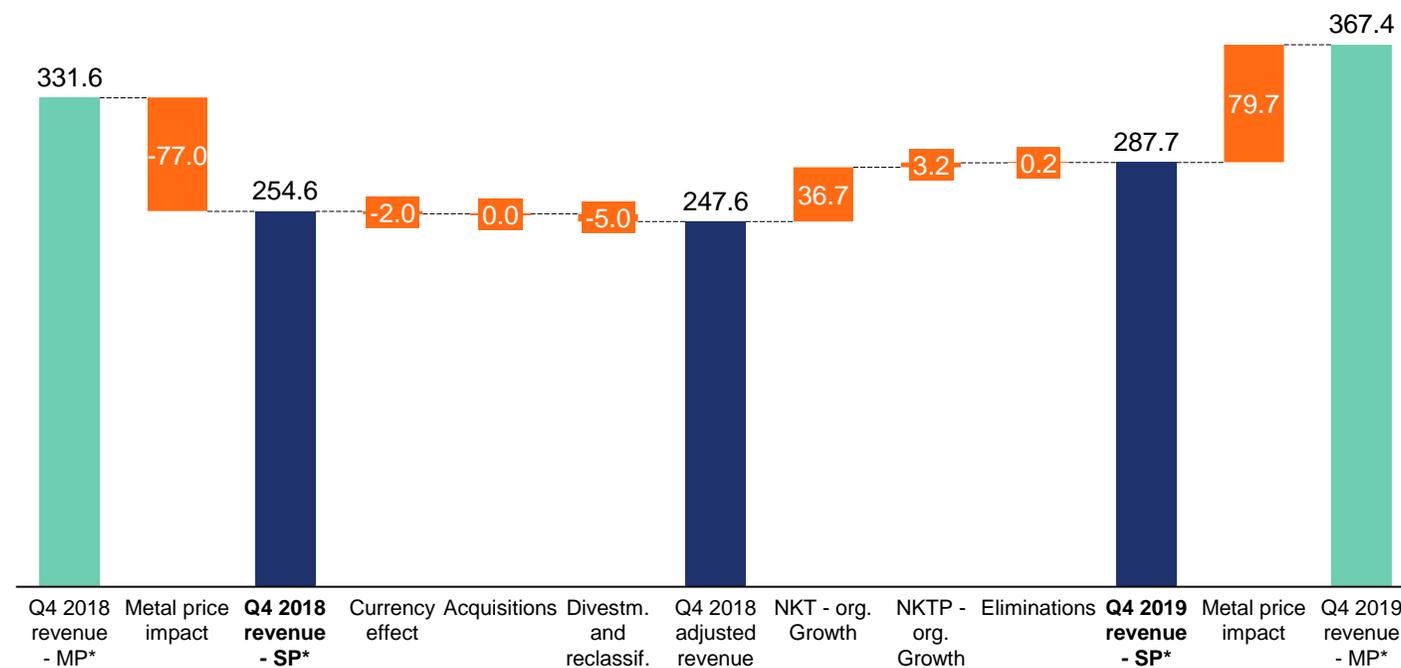


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# NKT A/S: Group revenue development in Q4 2019

Growth in both NKT and NKT Photonics

## Revenue development (EURm)



## Comments

- Improved revenue as expected driven by both NKT and NKT Photonics
  - Organic growth was 16% in NKT and 15% in NKT Photonics
  - The currency effect mainly related to the weakening of SEK
  - The railway cable activities in NKT were divested on 1 February 2019

\* MP = Market prices and SP = Std. metal prices

# NKT A/S: Group income statement highlights

Increase in operational EBITDA in Q4 2019 driven by NKT

## Financial highlights

EURm	Q4 2019	Q4 2018	FY 2019	FY 2018
Revenue	367.4	331.6	1,342.4	1,501.6
<b>Revenue (Std. metal prices)</b>	<b>287.7</b>	<b>254.6</b>	<b>1,019.3</b>	<b>1,147.1</b>
<b>Organic growth</b>				
NKT	16%	-16%	-10%	0%
NKT Photonics	15%	7%	10%	16%
<b>Operational EBITDA</b>	<b>8.4</b>	<b>-0.3</b>	<b>29.7</b>	<b>79.3</b>
NKT	1.2	-8.4	15.1	70.2
NKT Photonics	7.2	8.0	14.6	9.0
<b>Operational EBITDA margin</b>				
NKT	0.5%	-3.6%	1.6%	6.5%
NKT Photonics	28.2%	35.6%	19.6%	13.3%
One-off costs	-6.2	-9.1	-12.0	-29.5
<b>EBITDA</b>	<b>2.2</b>	<b>-9.4</b>	<b>17.7</b>	<b>49.8</b>
Depreciation and impairment of PP&E	-21.5	-18.0	-69.8	-66.4
Amortization and impairment of int. assets	-9.6	-5.8	-25.6	-20.9
Depreciation of right-of-use assets	-1.2	0.0	-5.3	0.0
Financial items, net	-6.1	-1.8	-12.3	-8.0
Tax	13.5	-5.2	19.3	-0.8
<b>Net result</b>	<b>-22.7</b>	<b>-40.2</b>	<b>-76.0</b>	<b>-46.3</b>
<b>Full-time employees, end of period</b>				
NKT	3,303	3,419	3,303	3,419
NKT Photonics	403	349	403	349

## Comments

- Increased operational EBITDA in Q4 2019 as expected driven by NKT
  - NKT: The increased operational EBITDA was due to improved earnings in Solutions compared to an unsatisfactory Q4 2018
  - NKT Photonics: Continued to invest in initiatives to drive further growth
- Implementation of IFRS 16 increased operational EBITDA by EUR 1.7m
  - EUR 1.2m in NKT and EUR 0.5m in NKT Photonics
- One-off items of EUR -6.2m in Q4 2019 related to NKT
  - The costs related to strategic initiatives primarily aimed at reducing head count and improving production efficiency
- FTEs lower in NKT driven by cost programme and divestment of railway activities

# NKT A/S: Group operational EBITDA

Operational EBITDA in line with expectations in Q4 2019

## Quarterly development in operational EBITDA



## Comments

- As expected, the operational EBITDA margin, LTM, has declined during 2019, but improved in Q4.
- The operational EBITDA margin, LTM, was 0.8%-points higher in Q4 2019 compared to Q3 2019
- The profitability improvement from 2015 to 2017 was primarily driven by the acquisition of the ABB HV Cables activities and divestment of Chinese operations in NKT

\* Excluding figures from Nilfisk

\*\* Based on revenue in std. metal prices

# NKT A/S: Group balance sheet highlights

Working capital improved exceptionally in Q4 2019 driven by NKT

## Financial highlights

EURm	31 Dec 2019	30 Sep 2019	31 Dec 2018
<b>Working capital</b>	<b>-118.1</b>	<b>23.1</b>	<b>7.7</b>
NKT	-146.3	-4.7	-16.2
NKT Photonics	28.2	27.8	24.0
<b>Capital employed</b>	<b>1,046.0</b>	<b>1,156.2</b>	<b>1,143.9</b>
NKT	941.6	1,054.5	1,065.3
NKT Photonics	104.4	101.7	78.6
<b>RoCE</b>	<b>-6.2%</b>	<b>-6.0%</b>	<b>-0.7%</b>
NKT	-7.2%	-7.1%	-0.8%
NKT Photonics	4.9%	6.8%	1.6%
<b>Net interest-bearing debt (NIBD)</b>	<b>242.2</b>	<b>349.9</b>	<b>248.3</b>
Interest-bearing loans, borrowings and receivables - cash at bank and in hand	204.6	317.0	248.3
Lease liabilities	37.6	32.9	0.0
<b>Total assets</b>	<b>1,789.4</b>	<b>1,886.3</b>	<b>1,859.2</b>
<b>Total equity</b>	<b>803.8</b>	<b>806.3</b>	<b>895.6</b>

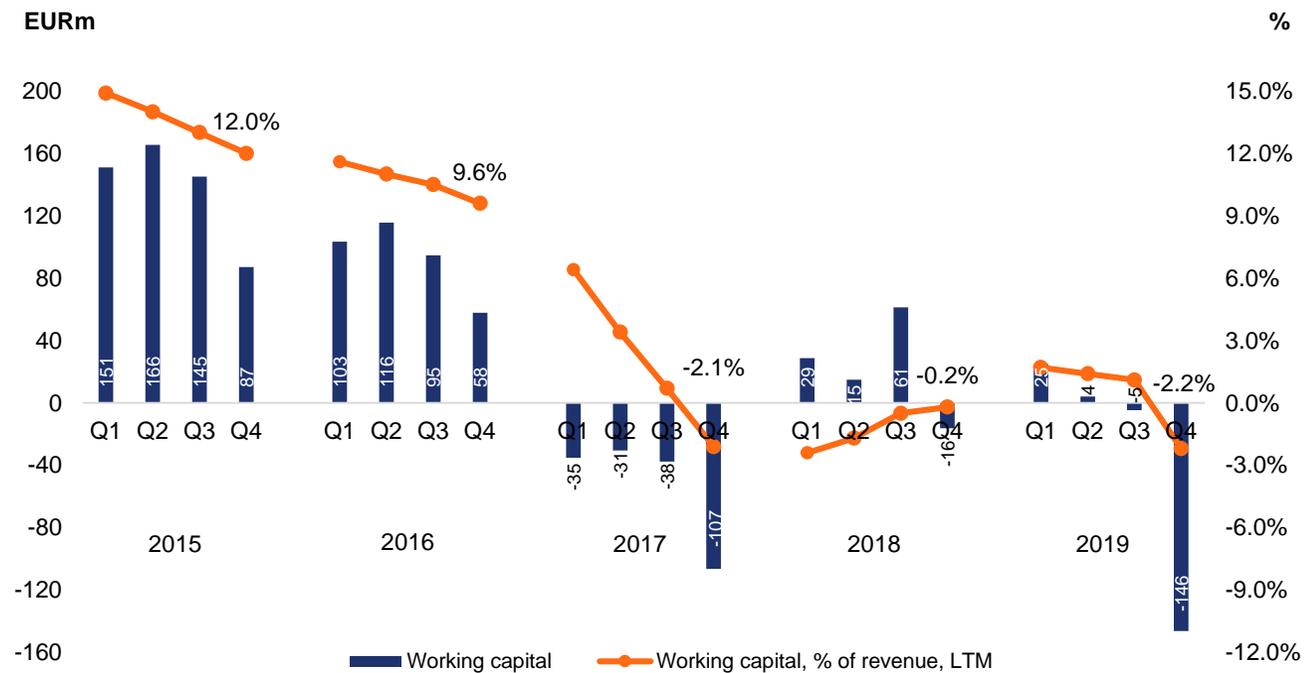
## Comments

- Working capital improved in Q4 2019
  - NKT: This was primarily driven by a positive development in Solutions (see next slide)
  - NKT Photonics: At end-Q4 2019, working capital was largely on par compared to the end of the previous quarter
- The improvement in working capital led to lower capital employed
- RoCE negative due to the lower profitability in NKT in 2019
- Implementation of IFRS 16 added lease liabilities of EUR 38m to net interest-bearing debt
  - NKT: EUR 28m
  - NKT Photonics: EUR 10m

# NKT: Working capital

## Improved working capital driven by Solutions

### Quarterly development in working capital



- Working capital decreased to an exceptionally low level in Q4 2019
  - The positive development was mainly driven by Solutions with favourable phasing of milestone payments on projects in progress towards year end
  - Applications decreased working capital partly due to an improved steering of receivables and inventory
  - Service & Accessories was stable compared to end-Q3 2019
- Working capital is expected to normalize at a higher level during 2020
- Working capital will primarily depend on timing of payments in Solutions, which will cause quarterly fluctuations

# NKT A/S: Group cash flow statement highlights

Positive earnings and working capital led to positive free cash flow in Q4 2019

## Financial highlights\*

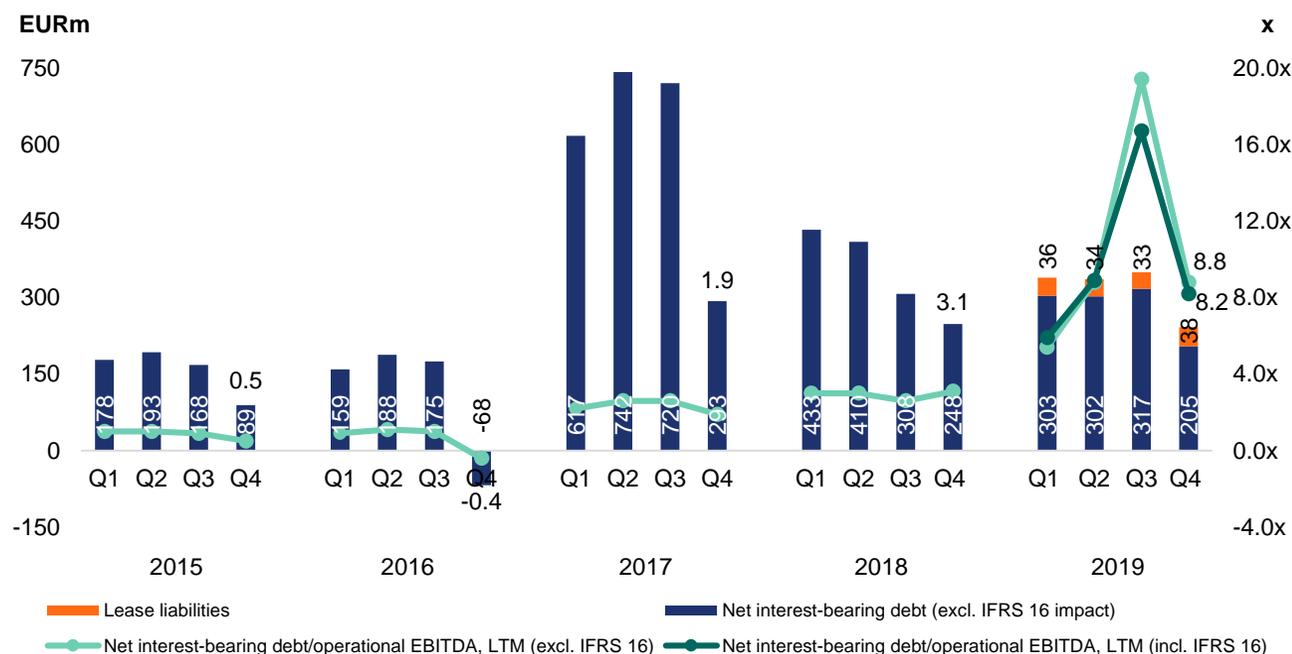
EURm	Q4 2019	Q4 2018	FY 2019	FY 2018
<b>Cash flow from operating activities</b>	<b>145.5</b>	<b>88.0</b>	<b>125.0</b>	<b>-42.2</b>
EBITDA	2.2	-9.4	17.7	49.8
Financial items, net	-6.0	-1.9	-12.2	-8.3
Changes in working capital	150.6	88.4	130.3	-76.0
Others	-1.3	10.9	-10.8	-7.7
<b>Cash flow from investing activities</b>	<b>-26.7</b>	<b>-26.9</b>	<b>-66.8</b>	<b>-60.9</b>
Capex	-21.2	-26.9	-69.0	-60.9
Acquisition and divestment of businesses	-5.5	0.0	2.2	0.0
<b>Free cash flow</b>	<b>118.8</b>	<b>61.1</b>	<b>58.2</b>	<b>-103.1</b>
<b>Cash flow from financing activities</b>	<b>-117.9</b>	<b>-41.3</b>	<b>-79.5</b>	<b>87.4</b>
<b>Net cash flow</b>	<b>0.9</b>	<b>19.8</b>	<b>-21.3</b>	<b>-15.7</b>

## Comments

- Cash flow from operating activities positive
  - Positive EBITDA contribution due to NKT Photonics
  - Development in working capital was positive driven by NKT
- Cash flow from investing activities on par with Q4 2018
  - Capex was mainly driven by NKT investing in upgrade of equipment in Solutions but also increased investments in NKT Photonics
  - NKT strengthened R&D with acquisition of technology consulting unit from ABB
- Cash flow from financing activities negative due to repayment of loans

# NKT A/S: Group financial leverage ratio

## Quarterly development in net interest-bearing debt (NIBD)



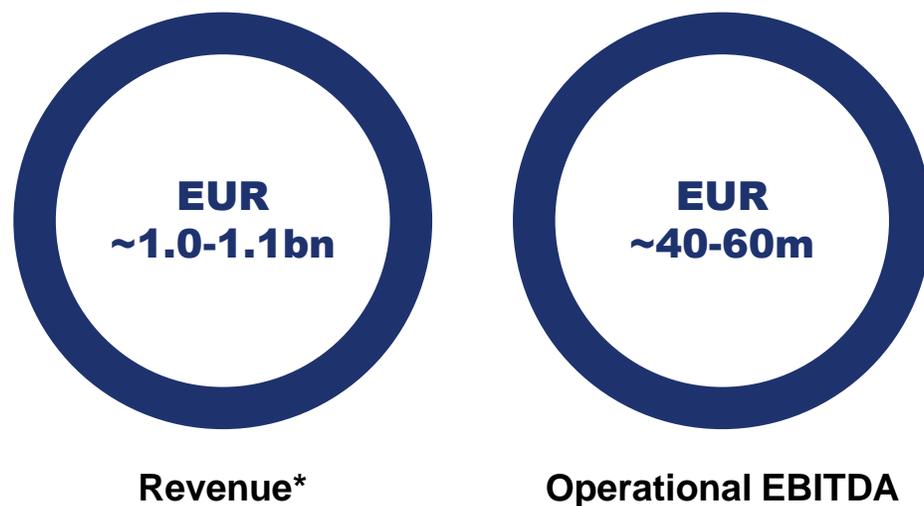
## Comments

- NIBD (excl. IFRS 16) decreased from end-Q3 2019 to EUR 205m, driven by the positive development in working capital
- Accounting wise, the implementation of IFRS 16 increased the debt level by EUR 38m in 2019
- The net interest-bearing debt consists of:
  - EUR 166m of mortgage debt
  - EUR 46m drawn on RCF (availability EUR 300m) and cash at bank and in hand was EUR 7m
- Only the RCF is subject to financial covenants. These include agreed remedies in the form of security over NKT Photonics and the vessel NKT Victoria
- NKT A/S has sufficient financial headroom to manage the level of activity expected in 2020

\* For the 2017 leverage ratios, pro forma EBITDA for the acquired ABB HV Cables activities has been added to LTM EBITDA in the period when NKT was not the owner of ABB HV Cables. The pro forma EBITDA is based on ABB HV Cables' estimated average annual pro forma EBITDA of EUR 79m for 2014-2016

# Financial outlook - NKT

2020



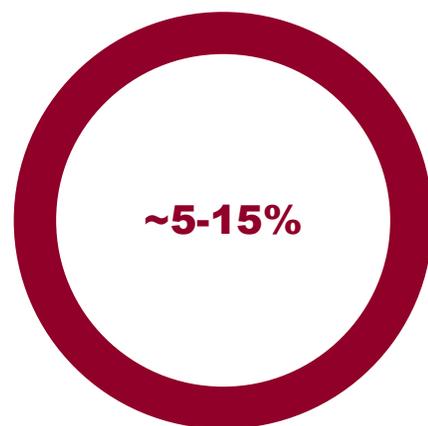
## Medium-term targets

- NKT anticipates an increasing demand for power cable solutions and services in the years ahead and as a technology leading provider NKT expects to be a significant beneficiary of this development.
- The growth of the high-voltage markets is, however, subject to various factors, including the timing of political decision-making, which makes the roll-out of specific projects challenging to predict.
- In 2017, NKT provided medium-term financial targets, which targeted operational EBITDA of approx. EUR 200–225m and RoCE to be more than 13%. However, due to the aforementioned timing uncertainty for particularly future awards of high-voltage projects, NKT has decided to only provide financial outlook within the current financial year.

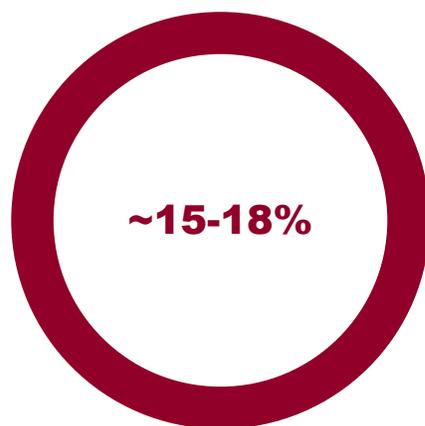
# Financial outlook - NKT Photonics

2020

Medium-term targets



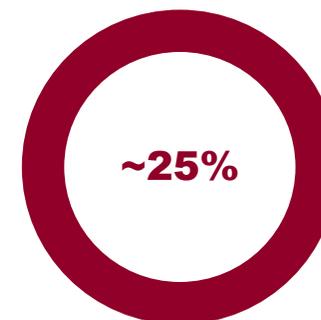
Organic growth



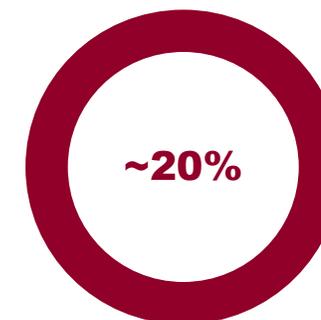
EBITDA margin



Annual organic growth



EBITDA margin



RoCE

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# Financial calendar



2020	Event
26 March	➤ Annual General Meeting
13 May	➤ Interim Report Q1 2020
19 August	➤ Interim Report Q2 2020
18 November	➤ Interim Report Q3 2020

For full list of Investor Relations events, please visit [investors.nkt.com](https://investors.nkt.com)