



NKT

13 May 2020

Interim Report Q1 2020

Webcast presentation

1 2018-03-19 20:47:43

URL: http://ok13.ru/1 2018-03-19 20:47:44

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

NKT A/S seeks to strengthen its capital base

-
- The Board of Directors of NKT A/S has resolved to seek to strengthen the Company's capital base based on the following:
 - Need to strengthen financial foundation to execute on high-voltage order backlog and positive market outlook with growing project complexity and magnitude
 - Coronavirus pandemic impact on NKT Photonics financial performance and thereby the strategic review of NKT Photonics is not expected to be concluded in the near future
 - Prudent to strengthen the capital base to be prepared for potential uncertainty due to the current pandemic situation by establishing a sustainable capital structure. The company has no imminent debt maturities and an overall stable liquidity situation
 - Accordingly, and as a first step, the Board launched an offering of new shares without pre-emptive rights for existing shareholders. The offering will be executed through an accelerated book-building process and will consist of a maximum number of 4,951,106 new shares, *representing 18.15% of the company's currently registered share capital*
 - Subsequently to the completion of such offering, *the Board will ask the General Meeting for renewed authorizations* to issue new shares. If granted by the General Meeting, the Board intends, subject to prevailing market conditions and other factors, to utilize the authorization to issue shares, 6.4m shares or *up to ~20% of the expected new registered share capital*, at market price without pre-emptive rights for the current shareholders before end-2020.

Agenda



05 NKT

13 NKT Photonics

16 Financial highlights

25 Questions & Answers

Key highlights Q1 2020

<p>EUR 240.3m Revenue (std. metal prices)</p>	<p>Increased from EUR 205.4m in Q1 2019. This was mainly driven by the improved level of activity in Solutions</p>
<p>19% Organic growth</p>	<p>This reflected organic growth of 37% in Solutions, 3% in Applications and 10% in Service & Accessories</p>
<p>EUR 10.2m Operational EBITDA</p>	<p>Up from EUR -2.4m in Q1 2019. All three business lines contributed with increased earnings</p>
<p>EUR 1.24bn High-voltage order backlog</p>	<p>Down from EUR 1.37bn at end-2019 as NKT's order intake was limited in Q1 2020 as expected</p>

- The main growth contributor was the expected improved level of activity in **Solutions**.
- In May 2020, NKT was awarded its largest high-voltage order ever, a major share of SuedOstLink, by the German transmission system operator 50Hertz. The turnkey contract has a value of approx. EUR 500m
- In **Applications**, the improved earnings exceeded expectations primarily driven by a better product mix.
- Growth continued in **Service & Accessories** with higher revenue in both business segments

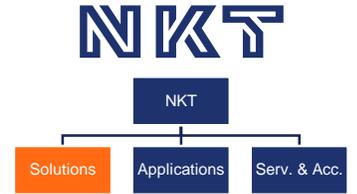
NKT awarded its largest order ever

Major share of SuedOstLink awarded to NKT

- NKT has been awarded a large turnkey contract of approx. EUR 500m (approx. EUR 400m in std. metal prices) by the German transmission system operator 50Hertz
- Supply and installation of 525 kV XLPE high-voltage DC onshore cable solution for a significant portion of the SuedOstLink in route lengths of approx. 275 km
- SuedOstLink is the first of three long-distance power transmission lines in Germany to transport renewable energy from the Northern parts of the country to the South
- Key to realize the 'Energiewende', Germany's long-term strategy for switching to renewable energies by 2050



Solutions – Q1 2020



Increased level of activity as expected

Customer offerings



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

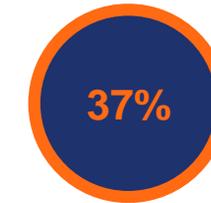
Development during Q1 2020

- NKT progressed on several high-voltage orders during Q1 2020 with Johan Sverdrup 2 and Hornsea 2 being among the most significant projects
- Project execution in Karlskrona was broadly satisfactory, while progress in Cologne was impacted by delays of one project
- Completion of the 220 kV AC cable system connecting Dutch offshore wind farms Borssele 1 and 2 to the power grid
- Utilization of NKT Victoria, was low in Q1 2020 and is set to increase in the coming quarters

Q1 2020 financial highlights



Revenue* EURm
(Q1 2019: EUR 92m)



Organic growth
(Q1 2019: -29%)



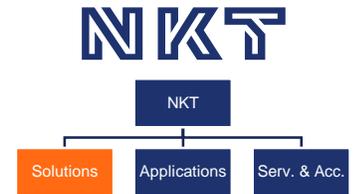
Oper. EBITDA EURm
(Q1 2019: EUR 0.4m)



* Std. metal prices

Note: AC = Alternating Current and DC = Direct current

High-voltage market update

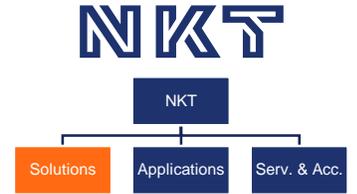


Limited high-voltage order intake as expected

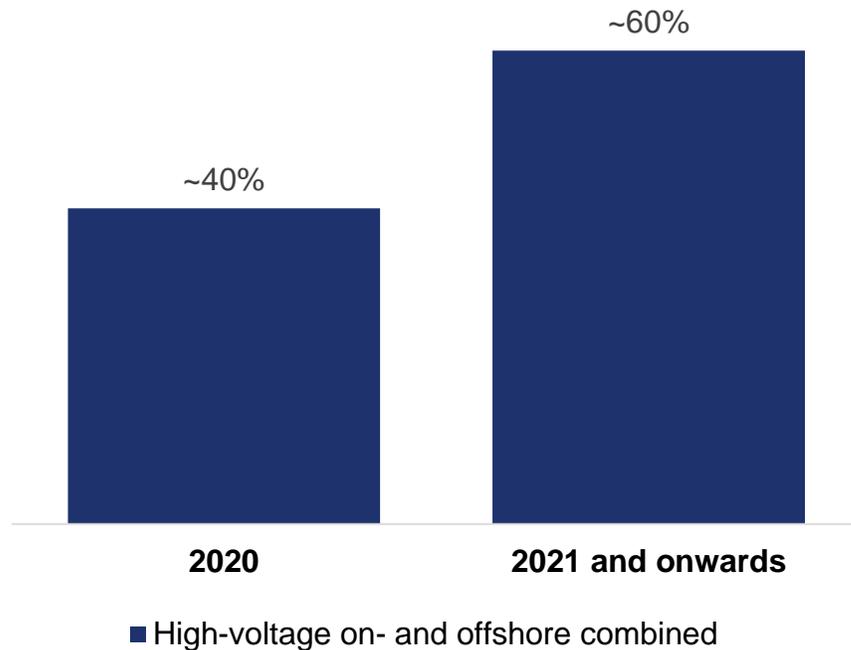
- In Q1 2020, the estimated awards of high-voltage projects in the market totaled around EUR 0.4bn
- During Q1 2020, NKT as expected had a limited high-voltage order intake, mainly relatively small offshore and onshore projects
- After the quarter-end NKT announced the award of a major share of SuedOstLink, one of the German high-voltage DC corridor projects
- Continued progress on several tenders across geographies and market segments. This was achieved despite the restrictions related to the coronavirus pandemic
- Market outlook still attractive in the medium to long-term



High-voltage order backlog



High-voltage order backlog of EUR 1.24bn* at end-Q1 2020, down from EUR 1.37bn at end-Q4 2019



Mix of high-voltage projects

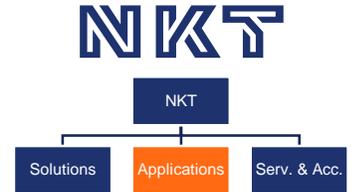
Offshore wind			Interconnectors		
Borssele Beta	2020		Nordlink	2020	
Triton Knoll	2020		Beckombergabredäng	2023	
Hornsea 2	2021		Viking Link	2023	
Moray East	2021				
Ostwind 2	2022		Oil & Gas		
Dogger Bank A & B	2023		Johan Sverdrup 2	2022	

Not part of order backlog at end-Q1 2020 (estimated contract value, EURm):

SuedOstLink (~500m)	2025		Announced in Q2 2020
---------------------	------	--	----------------------

* Market prices (EUR 1.11bn in std. metal prices)

Applications – Q1 2020



Satisfactory improvement in EBITDA in Q1 2020, exceeding expectations

Customer offerings



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

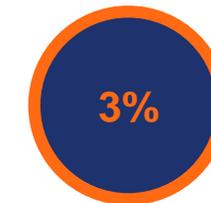
Development during Q1 2020

- Organic growth driven by Germany, Poland and smaller NKT markets
- Better product mix driven by higher sales of medium-voltage solutions
- Overall, customer demand was unaffected by the coronavirus pandemic in Q1 2020, but some negative impact on low-voltage power cables has gradually become apparent
- Focus on efficiency improvements across production sites started to deliver benefits

Q1 2020 financial highlights



Revenue* EURm
(Q1 2019: EUR 92m)



Organic growth
(Q1 2019: 3%)

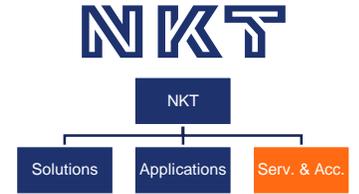


Oper. EBITDA EURm
(Q1 2019: EUR 0.1m)



* Std. metal prices

Service & Accessories – Q1 2020



Satisfactory financial performance

Customer offerings



- High- and medium-voltage accessories
- Services

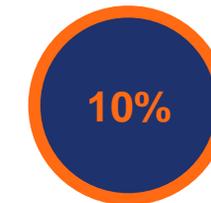
Development during Q1 2020

- Satisfactory financial performance with organic growth in both Service and Accessories
- The Service business reported growth in both revenue and earnings in Q1 2020. This improvement was attributable to higher activity in the onshore business. No offshore repair work was carried out
- Continued growth in Accessories, primarily based on increased output of medium-voltage products
- In Q1 2019, the divested railway activities contributed one month's revenue*, amounting to EUR 1.8m

Q1 2020 financial highlights



Revenue* EURm
(Q1 2019: EUR 25m)



Organic growth
(Q1 2019: -18%)



Oper. EBITDA EURm
(Q1 2019: EUR 2.3m)



* Std. metal prices

Agenda



- 05 NKT
- 13 NKT Photonics**
- 16 Financial highlights
- 25 Questions & Answers

Key highlights in Q1 2020

<p>EUR 12.7m Revenue</p>	<p>Down from EUR 14.5m in Q1 2019 as Industrial was impacted by postponement of orders due to the coronavirus outbreak</p>
<p>-13% Organic growth</p>	<p>Positive devolvement in Aerospace & Defence outweighed by Industrial, while Medical & Life Science was slightly down</p>
<p>EUR -1.8m EBITDA</p>	<p>Down from EUR -0.4m in Q1 2019. This development was driven by the lower revenue</p>
<p>-16% Order intake growth</p>	<p>The coronavirus pandemic was the main driver for negative development</p>

- Q1 is traditionally the quarter of the year with the lowest revenue, but Q1 2020 development was below expectations
- NKT Photonics was negatively impacted by the coronavirus pandemic especially in the Industrial segment, which is NKT Photonics' largest revenue contributor
- In the beginning of Q2 2020, Leica Microsystems launched its new range of STELLARIS confocal microscopes, which are all powered by NKT Photonics' SuperK supercontinuum white light lasers

Business development – Q1 2020

Medical & Life Science ~15% of revenue



Main applications:

Bio-imaging & Microscopy
 Medical devices
 Ophthalmology

- Revenues slightly down in Q1 2020 compared to Q1 2019
- Growth drivers continue to be within bio imaging, microscopy and ophthalmology

Industrial ~70% of revenue



Main applications:

Device characterization, sorting and control
 Materials & Nanostructures
 Micromachining & Display
 Remote sensing & Semiconductors

- Significant drop in revenue as the industry-wide headwinds in the industrial lasers markets seen already in 2019 were further strengthened by the coronavirus pandemic

Aerospace & Defence ~15% of revenue

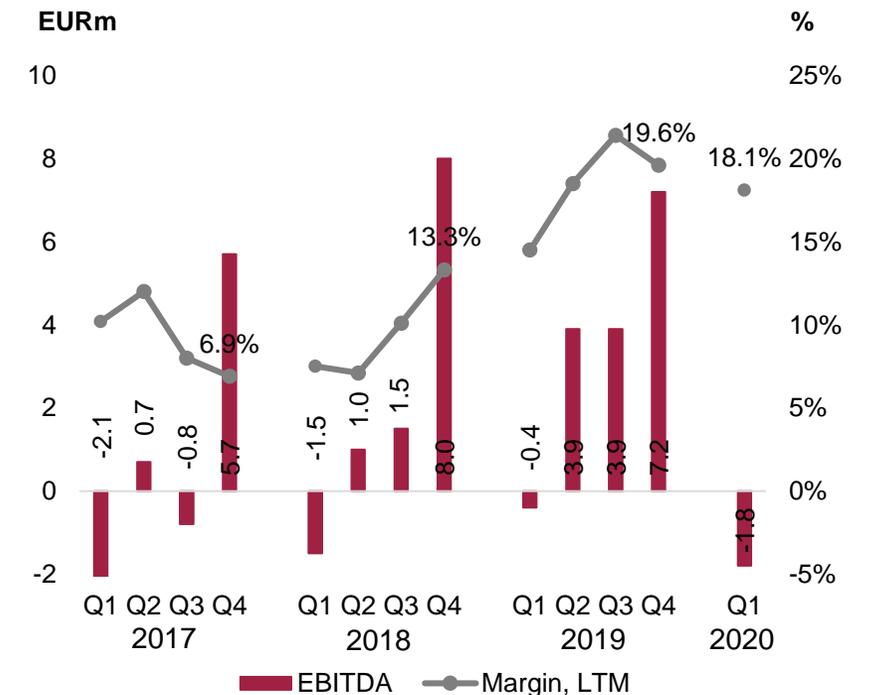


Main applications:

Aerospace
 DIRCM
 Directed Energy
 Remote sensing

- Solid revenue growth in Q1 2020 compared to Q1 2019. The projects within this segment are less affected by the coronavirus outbreak

EBITDA performance



Agenda

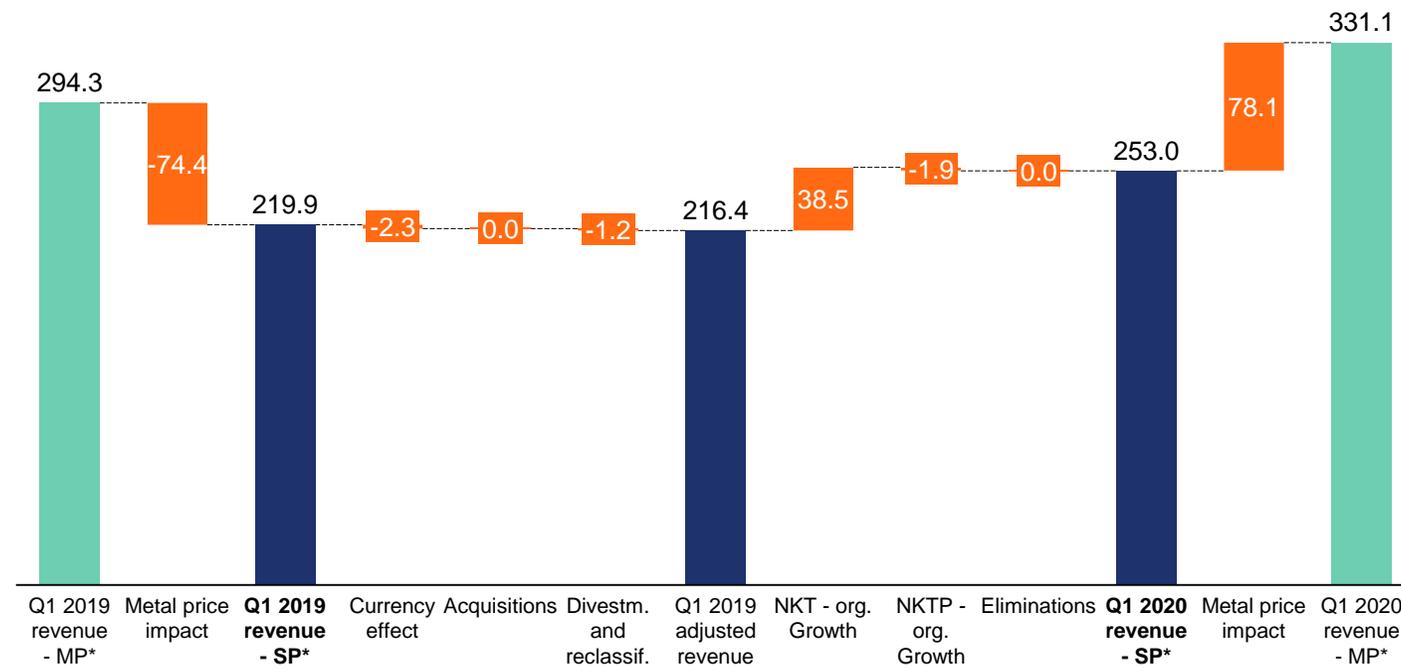


- 05 NKT
- 13 NKT Photonics
- 16 Financial highlights**
- 25 Questions & Answers

NKT A/S: Group revenue development in Q1 2020

Growth driven by NKT as expected

Revenue development (EURm)



Comments

- Higher revenue driven by development in NKT
 - Organic growth was 19% in NKT and -13% in NKT Photonics
 - 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

Higher profitability in NKT outweighs unfavourable development in NKT Photonics

Financial highlights

EURm	Q1 2020	Q1 2019	FY 2019
Revenue	331.1	294.3	1,342.4
Revenue (Std. metal prices)	253.0	219.9	1,019.3
Organic growth			
NKT	19%	-16%	-10%
NKT Photonics	-13%	17%	10%
Operational EBITDA	8.4	-2.8	29.7
NKT	10.2	-2.4	15.1
NKT Photonics	-1.8	-0.4	14.6
Operational EBITDA margin			
NKT	4.2%	-1.2%	1.6%
NKT Photonics	-13.9%	-2.7%	19.6%
One-off costs	-0.4	3.0	-12.0
EBITDA	8.0	0.2	17.7
Depreciation and impairment of PP&E	-17.8	-17.3	-75.1
Amortization and impairment of int. assets	-5.4	-5.5	-25.6
Financial items, net	-7.1	-2.1	-12.3
Tax	1.7	5.7	19.3
Net result	-20.6	-19.0	-76.0
Full-time employees, end of period			
NKT	3,351	3,342	3,303
NKT Photonics	411	356	403

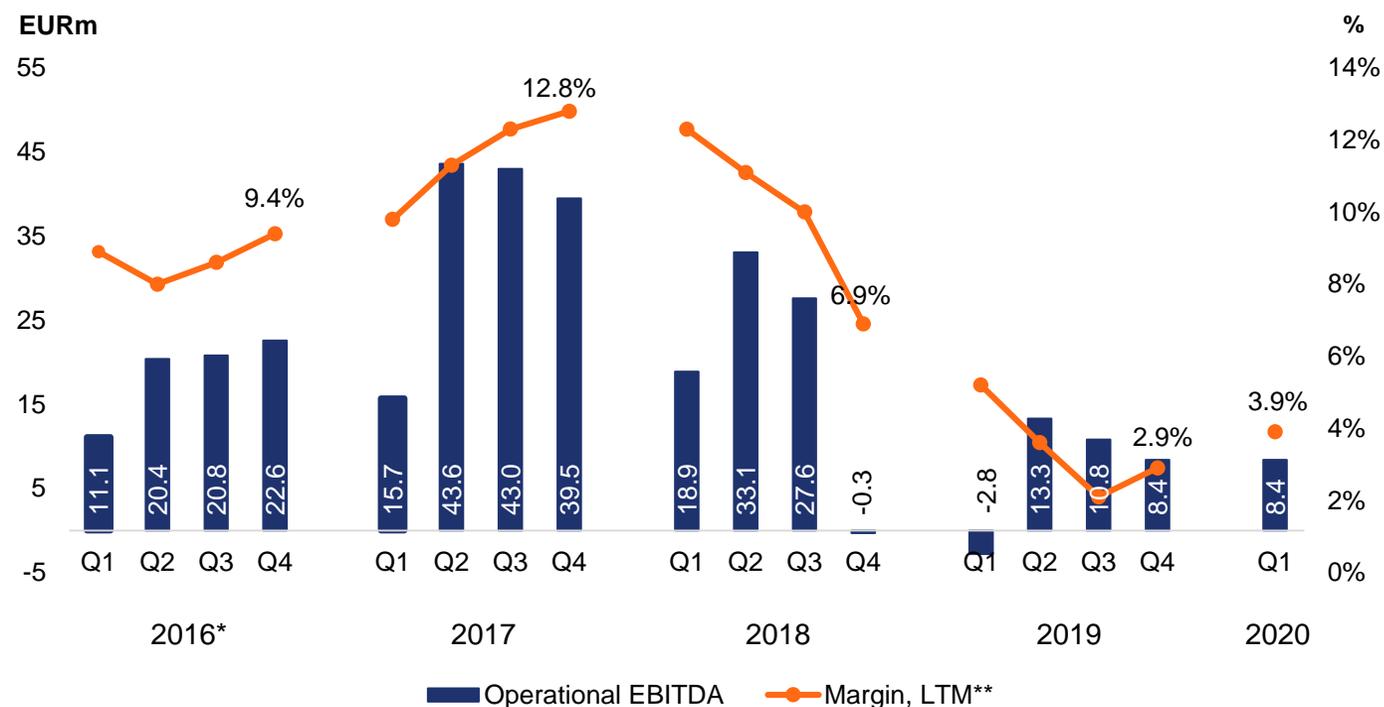
Comments

- Operational EBITDA in Q1 2020 impacted by the higher revenue
 - NKT: Profitability in Solutions was higher driven by increased activity level, primarily related to projects executed at the high-voltage factory in Karlskrona. Earnings increased in both Applications and Service & Accessories driven by increase in revenue
 - NKT Photonics: Unfavourable development driven by lower revenue, as Industrial was negatively impacted by postponement of orders from customers following the coronavirus outbreak
- One-off items of EUR -0.4m in Q1 2020 related to NKT
 - The costs related to strategic initiatives primarily aimed at improving production efficiency
- Net profit down compared to Q1 2019 with higher EBITDA being offset mainly by Financial items

NKT A/S: Group operational EBITDA

Operational EBITDA above Q1 2019

Quarterly development in operational EBITDA



Comments

- The operational EBITDA margin** increased to 4.2% in Q1 2020, against -1.2% in Q1 2019 driven by increased profitability in NKT
- The profitability improvement from 2016 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 increased as expected from an exceptionally low level at end-2019

Financial highlights

EURm	Q1 2020	Q1 2019	FY 2019
Working capital	-30.0	51.4	-118.1
NKT	-59.3	24.8	-146.3
NKT Photonics	29.3	26.6	28.2
Capital employed	1,102.0	1,207.2	1,046.0
NKT	993.7	1,113.5	941.6
NKT Photonics	108.3	93.7	104.4
RoCE	-5.3%	-2.6%	-6.2%
NKT	-6.1%	-2.9%	-7.2%
NKT Photonics	3.0%	2.2%	4.9%
Net interest-bearing debt (NIBD)	378.1	339.0	242.2
Interest-bearing loans, borrowings and receivables - cash at bank and in hand	337.9	303.4	204.6
Lease liabilities	40.2	35.6	37.6
Total assets	1,795.8	1,867.8	1,789.4
Total equity	723.9	868.2	803.8

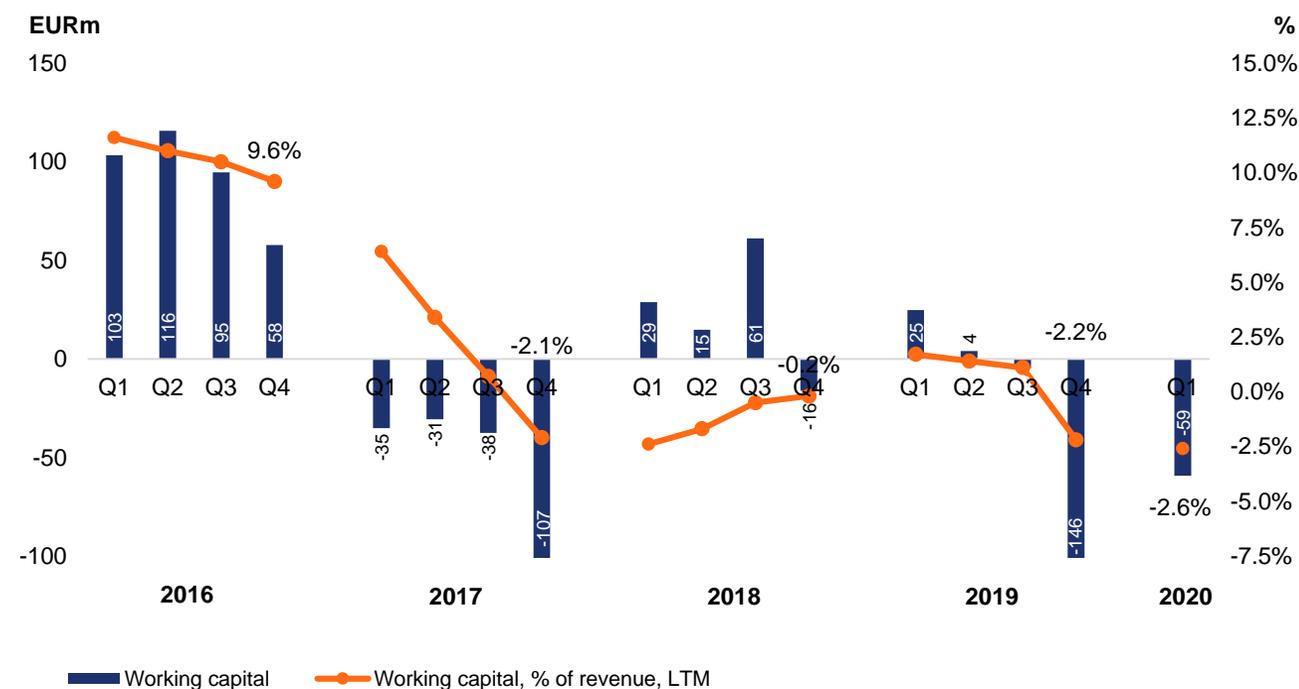
Comments

- Working capital increased as expected from an exceptionally low level at end-2019:
 - NKT: This was driven by phasing of milestone payments combined with absence of significant new high-voltage project awards in Solutions and unfavorable development in Applications
 - NKT Photonics: Slight increase from end-2019. As a result of lower than anticipated sales, inventories increased while trade receivables declined
 - The working capital development included an impact of EUR 28.4m due to unrealized hedges reported on Equity (non-cash)
- Lower RoCE compared to Q1 2019 due to the lower LTM EBIT in NKT. Increase compared to end-2019 driven by higher profitability in Q1 2020 compared to Q1 2019

NKT: Working capital

Working capital increased from an exceptionally low level at end-2019

Quarterly development in working capital



- Working capital increased as expected from an exceptionally low level at end-2019:
 - In Solutions, this was driven by phasing of milestone payments combined with absence of significant new HV project awards
 - In Applications working capital increased due to unfavorable development in trade receivables and trade payables
 - In Service & Accessories, working capital was slightly reduced compared to end-2019
 - The working capital position is expected to improve 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

Negative cash flow driven by working capital

Financial highlights

EURm	Q1 2020	Q1 2019	FY 2019
Cash flow from operating activities	-121.5	-54.6	125.0
EBITDA	8.0	0.2	17.7
Financial items, net	-7.1	-2.0	-12.2
Changes in working capital	-115.5	-47.9	130.3
Others	-6.9	-4.9	-10.8
Cash flow from investing activities	-14.4	-0.1	-66.8
Capex	-14.4	-9.6	-69.0
Acquisition and divestment of businesses	0.0	9.5	2.2
Free cash flow	-135.9	-54.7	58.2
Cash flow from financing activities	132.6	34.1	-79.5
Net cash flow	-3.3	-20.6	-21.3

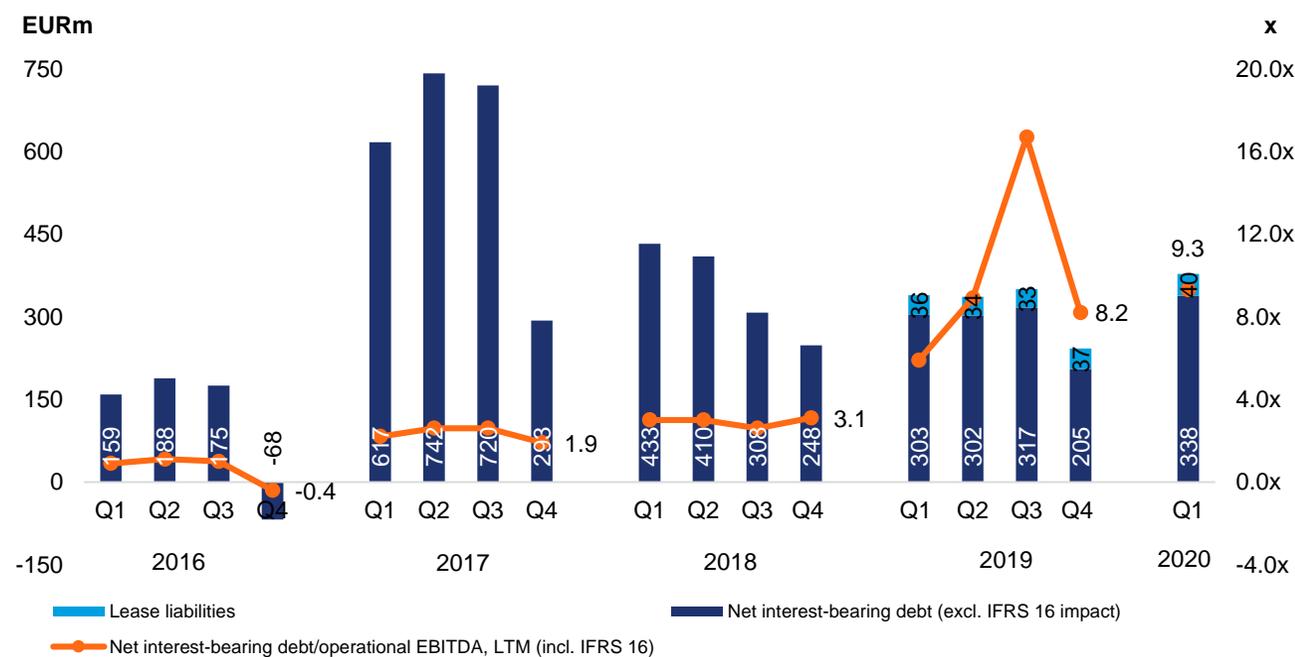
Comments

- Cash flow from operating activities was negative:
 - Development in working capital was unfavourable as expected, primarily driven by NKT
 - Partly offset by positive EBITDA contribution from NKT

- Cash flow from investing activities higher than Q1 2019:
 - Higher investment levels in both NKT and NKT Photonics
 - Q1 2019 included sales proceeds from the divestment of railway activities

NKT A/S: Group financial leverage ratio

Quarterly development in net interest-bearing debt (NIBD)

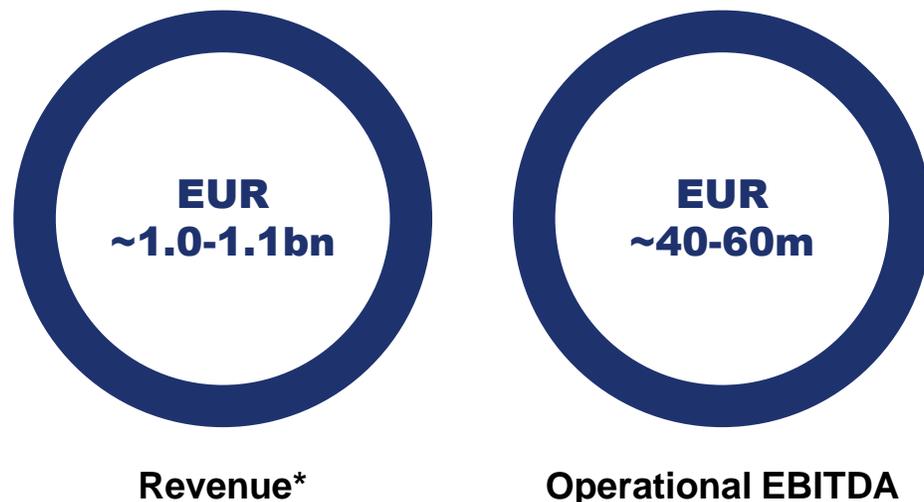


Comments

- NIBD (excl. IFRS 16) increased from end-2019 as expected, mainly due to working capital development in NKT
- The net interest-bearing debt consists of:
 - EUR 164m of mortgage debt
 - EUR 177m drawn on RCF (availability EUR 300m)
- 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 2020



“Due to the negative impact of the coronavirus outbreak to NKT Photonics in Q1 2020 and the continuation hereof into Q2 2020, particularly in the Industrial segment, it has been decided that the outlook of organic revenue growth of approx. 5–15% and the EBITDA margin of approx. 15–18% has been withdrawn until better visibility in the markets can be established.”

* Std. metal prices

Agenda



- 05 NKT
- 13 NKT Photonics
- 16 Financial highlights
- 25 Questions & Answers**

Financial calendar



2020

Event

Date TBA

➤ **Annual General Meeting**

19 August

➤ **Interim Report Q2 2020**

18 November

➤ **Interim Report Q3 2020**

For full list of Investor Relations events, please visit investors.nkt.com