REFINITIV STREETEVENTS

EDITED TRANSCRIPT

NKT.CO - Q4 2024 Nkt A/S Earnings Call

EVENT DATE/TIME: FEBRUARY 21, 2025 / 9:00AM GMT

CORPORATE PARTICIPANTS

Claes Westerlind *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Line Fandrup *Nkt A/S - Chief Financial Officer, Executive Vice President, Member of the Executive Management Team*

CONFERENCE CALL PARTICIPANTS

Casper Blom *Danske Bank - Analyst*

Lars Topholm *Carnegie - Analyst*

Lucas Ferhani *Jefferies - Analyst*

QING WANG *Barclays - Analyst*

PRESENTATION

Operator

At this time, I would like to welcome everyone to NKT Cable's Group Annual Report 2024 conventional. Today's call is being recorded. (Operator Instruction)

I would now like to introduce Claes Westerlind the CEO, and I'm also joined by our CFO, Line Fandrup, you may now begin.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Good morning, everyone. Welcome to this conference call following this morning's release of our annual report for 2024. I'm Claes Westerlind, the CEO, and I'm joined by our CFO Line Fandrup. As usual, I will cover the overall development and business lines, and Line will walk you through the financial performance for the 4th quarter and 2024. Please turn to slide number 3.

Before we begin, please note that this presentation may contain forward-looking statements, and I therefore ask you to pay close attention to this disclaimer. Now let's move on to our key messages for the year on slide 4.

2024 was a pivotal year for that we are proud of. We delivered significant growth mainly driven by expanded capacity and capabilities in solutions. We progressed on our major expansions, and we launched new investments across our business lines. Further, we continued to deliver value to our customers and maintained our diligent focus on sustainability.

With the closing of the divestment of NKT photonics during the 2nd quarter, we completed the transition of NKT to a company with full focus on our core business of power cable solutions. To strengthen our positions, we in June, acquired the Portuguese power cable manufacturer Solidal. During the second half of the year, the integration process progressed, confirming the business case behind the acquisition.

Looking back at 2024, it was a busy year in a positive sense, and all in all, is a better and stronger company compared to a year ago, supporting the energy transition and enabling the electrification of societies. With this, we are well positioned to take advantage of the opportunities that lie ahead of us.

Throughout last year we delivered double digit organic growth and Q4 was the 9th consecutive quarter with double-digit growth in both revenue and EBITDA. We ended the year with 26% organic growth, and operational EBITDA amounted to EUR344 million record high for NKT, and an increase from EUR255 million in 2023. This positive development was supported by all business lines but primarily driven by solutions benefiting from increased capacity and capabilities as I just said before.

Further, we left 2024 generating a satisfying level of free cash flow at an amount of EUR400 million and also worth mentioning is that our net earnings doubled to EUR236 million. We also made progress on our commitments on sustainability, which is an area that remains important among our customers. We play a vital role in relation to climate change and decarbonization as our cable solutions are important enablers of the energy transition. We have full focus on achieving our sustainability ambitions and targets, and our focus here is twofold maximizing our product handprint and at the same time minimizing our product footprint throughout the product lifetime. We acknowledge that there are several challenges that we need to address to achieve these targets.

Let's turn to slide number 6 for a look at the financial performance in the 4th quarter and the full year. As mentioned in Q4, we again delivered double digit growth both in revenue and operational IITA. Revenue and operational IITA increased across all three business lines, with solutions being the most significant contributor. Revenue for the quarter amounted to EUR963 million and EUR2.5 billion for the full year. This corresponded to organic growth of 23% and 26% respectively. Profitability also improved as operational EBITA and Q4 increased by EUR27 million to EUR90 million and the margin improved to 13%. We thereby with EUR344 million for the full year ended the year at the very high end of our guided range.

In solutions, activity levels remained high in Q4, and we continue to execute on our high voltage order backlog with overall satisfactory product execution. The positive development from the previous quarters was maintained with continued solid growth in revenue and operational.

As the business line benefited from the recent year's investments to increase capacity.

The higher revenue in applications was driven by the acquisition of Solidal. Compared to the same quarter last year, organic growth was slightly negative due to continued weakness in the construction exposed part of the low voltage segment. The medium voltage power distribution grid segment continued the positive development, but as we are running at high-capacity utilization, it had a limited effect on growth for the quarter.

In-service and accessories, both segments contributed to the positive development in the quarter. The high service activity level was maintained both on and offshore, and the increased demand for high voltage accessories had a positive effect. Operational EBITDA doubled, and the margin for the business line was at the historical double-digit level.

Now, I will dive deeper into each of the business lines, starting with solutions and slide 7, please. In the fourth quarter of 2024, revenue and solutions increased to EUR469 million up from EUR350 million in the same quarter last year, equaling organic growth of 34%.

The development reflected the previous year's investments in capacity and capabilities, as well as overall satisfactory product execution. Installation activity was also high in the quarter, partly driven by subcontracted scope.

Throughout the quarter we made progress on several projects in the order backlog including Champlain, East Anglia 3, Hornsea 3, Suudoink, and also Sulink.

The high activity level, execution of multiple projects and management of the associated risks continues to put an elevated demand on the solutions organization.

Operationalities increased to EUR67 million compared to EUR54 million in the same quarter in 2023. The margin for the quarter was 14.3%, a slight decline relative to last year, driven by a different product mix. Naturally, in a product business like NKT, quarterly profitability will vary depending on the facing of the products in execution. In addition, we are constantly investing in enhancing capabilities, and the margin was negatively impacted by an increased cost level to support the construction and ramp up of the new high voltage factory in Koskrona.

The construction of the factory progressed as scheduled during the quarter. With the extrusion tower having reached its final height of 200 m, we have started the construction inside the tower, and we are installing machinery in parallel with constructing other buildings. The construction of NKT's second cable lat vessel, NKT Eleonora, progressed as expected, with a key laying ceremony conducted in January this year.

In Cologne, the investment program to expand production capacity and capabilities progressed according to plan, and supplier selection for several major machine lines have been finalized. Timelines for both investments remain unchanged, and they are expected to be operational from 2027. Please turn to the next slide for an update on the market development.

Activity across our addressable market remained at a high level throughout 2024. We estimate that products awarded in this market exceeded EUR17 billion for the year, and the development was mainly driven by DC technology, where demand for production and installation capacity remained high.

When looking at our awards in 24, it should be seen in the light of the high order intake we secured in 23 and our available capacity. If you combined the two years, our market share was around 25%, which is a very decent level. Between Christmas and New Year, we were awarded two Turkey products under the existing framework agreement with Tenant. Those contracts are expected to be called off in 26 to 27 and have a combined value of approximately EUR1 billion. The products will not be included in our reported high voltage order backlog before call off, just as the previous awards from 2023. In total, 5 products have now been awarded to us under the Framework Agreement with Tenant, which runs until 2028. With possible extension until 2031.

Our view on the addressable market remains largely unchanged, and we continue to expect an average market of more than EUR10 billion in the period 2024 to 2030. For the past two years, this number has been exceeded, evidencing the strong demand and visibility in the market.

There are currently several circumstances globally that could impact short term energy policies and investments, including but not limited to the new US administration, conflicts, elections in Germany, as well as the new EU commission. But like we've said previously, we currently expect the supply demand balance to remain healthy throughout this decade before appearing to move into more balanced territory.

This said, we also remain humbled that political decisions may impact primarily the demand side short term, but in this context we also take comfort in the backlog and the booking commitments that we have.

On the longer term, we remain confident about the importance of electricity as an avenue to sustain modern life, including electrification of societies and the energy transition. This should support long term grid investments and thereby demand for both HVAC and HVDC technology.

The Presidential election in the US has attracted a lot of attention and it has also increased uncertainty in the US, including potential impact on electrification and installation of offshore wind. We are following the development closely, and the US continues to be an interesting opportunistic market for us with future potential. Looking at our current exposure to the US, which is limited. It's primarily through the Champlain Hudson Power Express project which we are executing on as we speak. This interconnector project is linking hydropower from Quebec, Canada to New York City, providing around 20% of the city's need for electricity.

Please turn to the next slide and our order backlog. We ended the year with a high voltage order backlog of EUR10.6 billion which is a slight decline compared to last year, as the order intake is only partly offsetting the product executing during the years.

On top of this, we have more than EUR3.5 billion in booking commitments which we expect to be called off during the next couple of years. The current level reflects a structural step change compared to previously and a strong demand for high voltage production installation, mainly driven by the energy transition and general electrification of society.

The composition of the backlog has only changed slightly. From a customer perspective, more than 85% of the backlog is with Europeans, and with regards to use applications, around 55% of the backlog is interconnected products and around 40% offshore wind.

This backlog gives us good visibility for the coming years and thereby also in our medium term financial ambitions. Executing successfully on this backlog in the coming years is crucial to realize the inherent value, and as product execution is at the core of, and managing any potential risks is a clear priority not only for the solutions business line, but also for the whole group leadership team, including Lina and also myself.

We remain highly active in ongoing tenders to further strengthen our position and to support earnings and value creation. We will maintain a selective and disciplined approach which allows us to optimize asset utilization across our production and installation assets.

Please turn to slide number 10 for a look at the application's business line. Revenue and applications increased to EUR178 million in the fourth quarter, driven by the acquisition of Solidal, which contributed EUR32 million. Organic growth for the business line was negative, 4% as the weakness in the construction ex exposed low voltage segment continued, which was mainly related to residential construction activity. Demand and volumes in the power distribution grid remained at a satisfactory level, but when looking at growth rates compared to last year. It has to be kept in mind that our current medium voltage capacity limited our growth in the quarter.

Operational IITA increased to EUR13 million from EUR10 million in the fourth quarter of 2023, driven by the acquisition of Solidal, while the IITA for the existing business was slightly down. Operational IITA Mardin improved 70 basis points to 7.8% in the quarter. Excluding the positive effect from Solidal, the margins was slightly lower due to the lower volumes in the low voltage segment.

From a market perspective, demand for medium voltage cables remained robust, driven by upgrades and strengthening of European power distribution grids. NT is well positioned to benefit from this development, and during 2024 we have secured extensions of several framework contracts with local DSOs. We expect this positive development to continue in 2025, where we will also benefit from additional capacity. At our sites in Faun in Sweden and also Welka in the Czech Republic, which we announced in April last year.

The construction at our site in Anes here in Denmark is progressing as planned, and we expect the additional capacity to be operational by 2026.

Please go to the next slide. Lastly, turning to the service and accessories business line, which here in Q4 delivered a solid quarter with 7% organic growth driven by growth in both the service and accessories business, in service, we saw a high activity level coming from smaller onshore repair works, offshore installation work, and maintenance of existing cable systems. Combined with satisfactory execution both on and offshore, it generated higher revenue.

The accessories business also reported positive organic growth driven by increased demand for high voltage accessories. Operational EIA doubled to EUR6 million in the fourth quarter, up from EUR3 million last year, driven by improved profitability in both segments. For the quarter, the margin was 11.1% compared to 6.6% in the same quarter last year.

To meet the increased demand for accessories driven by solutions, products in our backlog, we are ramping up production and capabilities. During the first half of 25, we expect the new test hall in Sweden for high voltage accessories to be completed.

Please turn to slide 12 and sustainability. Sustainability is a key priority for us and our biggest impact is on climate change and decarbonisation through the cable solutions we manufacture and install for our customers. We play a critical role in the transition to clean energy as electrification and grid modernization or prerequisites for a net zero and a modern society.

We are committed to actively contributing to the same by maximizing our product handprint, which refers to the positive environmental or social impacts a product has, and minimizing our product footprint through the product lifetime. A clear example of a product having a positive impact is the Shetland HVDC Li project, which we finalized last year. The 320 kV interconnector now transmits clean wind energy into the UK covering electricity need for approximately 500,000 homes.

We made progress during the year on our commitments and targets, and by the end of 204, we have reduced our SOP 1 and SOP 2 emissions by 68% from the baseline in 2019.

We are thereby progressing on the target of 90% reduction in 2030. One of the main contributors to these emissions is from our installation vessels. We have taken several actions to reduce emissions, and we also made investments enabling both NKT Victoria and the new vessel NKT Eleonora to run on sustainable fuel. With the adoption of the adoption of these fuels are, however, still limited, and we are working closely with all stakeholders in the industry to overcome the switching challenge.

As you can see, our scope II emissions have increased compared to 2019 baseline. While helping countries reduce carbon emissions, accounts for the emissions caused by power losses from the cables installed in the power grid. Upgrading the power grid is essential for countries to achieve net zero emissions. Therefore, we will continue prioritizing these projects even though the impact will challenge the fulfillment of the near-term COPI target approved by STI.

Importantly, and to confirm our direction, N's long term target to reach net zero greenhouse gas emissions across the value chain was verified and approved by the Science-based Target initiative in the 4th quarter in 204.

We also made progress on our social commitments during 24. Our performance with safety improved significantly compared to the year before, and while we are positive with this improvement, we are not at an acceptable level yet. In 204, we introduced several additional safety measures to drive this metric down, and NKT will continue this focus going forward. Furthermore, the female representation and senior leadership team positions has increased from 21 to 221 from 13% since 21% and in 24%, 25% of our new hires were females. This ladies and gentlemen, concludes my part of the presentation, and I will now hand over the word to Lene to go through the financials. Slide 13.

Line Fandrup - *Nkt A/S - Chief Financial Officer, Executive Vice President, Member of the Executive Management Team*

Thank you and good morning from me as well. So let me take you through financial highlights, and we'll start with the income statement on slide 14. So starting out at the top with revenue, as mentioned by CAS, we generated 23% organic growth in Q4 and it took us to 26% for the full year 2024. This was mainly driven by 34% organic growth in solution. As we executed on our high voltage order backlog, would benefit from our investments in both capacity and capabilities. Additionally, the acquisition of Solidal contributed EUR32 million equal to 6% growth to the top line in the quarter.

Operation EPA amounted to EUR90 million an increase of EUR27 million or 43% compared to the same quarter last year. Again, solution was the main contributor with an improvement of EUR13 million but all business line increased EIA.

Foul year IIA at EUR344 million. It's a 35% increase from last year. It's leading to a margin for the full year of 13.8%. Depreciations and amortization were slightly higher than last year, primarily due to the inclusion of solidal. That brings us to an EBIT of EUR60 million a EUR20 million increase in the fourth quarter compared to last year at the same time, where the EBIT margin was 8.6% and now 24% closing out at 9.6%. That's an improvement of around 1% point compared to last year.

Financial items net was an income of EUR6 million in the quarter. It was driven by the interest income from our cash position, and this was in line with the development we have seen throughout the year. And for the year financial items was an income of EUR34 million.

Tax for the quarter amounted to EUR9 million reflecting the higher earnings level. Tax rate for both Q4 and the full year was 14%.

This leaves a net result of EUR57 million.EUR23 million higher compared to the net result from continuing operations of EUR34 million in Q4 2023.

This was mainly driven by the improved EBITDA and and income from financial items. Net resolve for the full year benefited from the gain related to the investment of NKT Phonics in Q2, and net result thereby landed at EUR337 million.

Our employee headcount continued to increase, reflecting our growth journey and our investments to support this development. During 2024, we have added more than 1,000 new employees to MKT with around 430 located at our site in Isa Portuan.

So let's turn to the next slide to look at the cash flow development. Free cash flow for the fourth quarter amounted to EUR152 million driven by EBITDA and a favorable net effect from changes in working capital more than offsetting investments conducted during the quarter. For the full year 2024, free cash flow was EUR400 million.

We had a strong ending to the year on working capital, benefiting from timing effects, and we had a positive effect of almost EUR300 million in Q4. This was a result of normal quarterly fluctuations and solutions related to the facing between milestone payments and project execution.

The positive timing effect from Q4 will most likely have an adverse effect at the beginning of 2025. As expected, investments increased and amounted to EUR216 million in the quarter as we are ramping up our investment program mainly in solutions, but also in applications. This was nearly a doubling compared to the level in Q4 2023. Including proceeds from divestments of NKT Phonics and Q2, net cash flow for 2024 was EUR621 million.

Let's turn to the next slide in the balance sheet. Due to the positive development within W Capital, as mentioned on the previous slide, the working capital position improved. It stood at a negative EUR1.4 billion at the end of the year. Roshi improved further to 35% for the quarter, up from 20% last year due to a combination of higher EBIT and lower capital employed from the working capital position.

For 2024, Roshi was 31% compared to 15% in 2023. Roster will continue to vary between quarters and over the coming years. This development is depending on earnings from operations, timing of payments from customers, and not least a higher asset base from ongoing investments. During 2024, we have ramped up our investment programs, and CapEx has gradually increased.

As communicated in connection with the update of our medium-term financial ambitions in December, we expect this development to continue into the coming years.

The net cash position increased to EUR1.3 billion at the end of the year and thereby we maintained our robust financial position. This is needed to fund our ongoing investments across the business and in addition, the financial foundation allows us to continue progressing on the growth journey that lies ahead of us in the coming years.

The value of NKTs issued guarantees increased to EUR2.7 billion at the end of the year, up from EUR2.5 billion and at the end of Q3 and EUR2.1 billion at the end of 2023.

Please go to the next slide where we'll go through the outlook for 2025. For 2025, we expect revenue in standard metal prices in the range of EUR2.37 to EUR2.52 billion and operational IPA between EUR330 and EUR380 million.

The outlook for 2025 reflects limited growth and solutions, as we have discussed before. Production and installation capacity available in 2025 will be the same as in 2024.

In combination with a lower level of subcontracted revenue and solutions could be slightly lower in 2025, with organic growth in the range between 0 to mid single digit percentage negative.

This is as you as you always should expect, depending on execution and timing of specific operations in different projects. We will in 2025 continue to execute on our backlog, mainly on projects awarded in 2020.

2020 to 2022 and like in 2024, we'll have a higher cost base and solutions to support the ongoing investments, production ramp up and future value creation. This is all reflected in the current EBA outlook.

Both applications and services and accessories are expected to contribute positively to the revenue and EBA development in 2025. The solidar acquisition will have full year effect compared to six months in the current year or in the last year, 2024, and the additional capacity in Sweden and Czech is expected to contribute with high single digit growth to the business line.

Services and accessories are expected to see positive effects from capacity ramp up, and in general the business line is dependent on the activity level in the market.

Currently NKT is going through a heavy investment phase, with construction activities ongoing at multiple sites. In connection with the update of our medium-term financial ambitions in December, we share our CapEx expectations for the period up to 2028 of around EUR2 billion. We also gave indication that you should expect the KEC spend to be front loaded with 2025 being the year with the highest level.

This indication still holds, and a step up in CapEx is therefore expected compared to the EUR463 million spent in 2024. Also, it should be kept in mind that with the projects ongoing, some variables could shift during the year and specific items could move into 2026.

As always, the outlook rests on several assumptions. First of all, satisfactory execution of our high voltage investments and projects along with satisfactory operational execution across business lines. Market conditions for applications and services and accessories are expected to be stable, including normalized offshore power, cable repair work activity.

We assume limited supply chain disruptions with access to the required labor, materials, and services, and a stable development in the global economy, foreign currency, and metal prices.

Please turn to slide 18. Before we conclude the call, I would like to spend a few moments on our medium term financial ambition for 2028, which we updated in December. We see a continued strong growth journey ahead of us, and for the period from 2021 to 2028, we expect an organic revenue cog of more than 14%. This is a reflection of current order backlog, including the pricing of the projects and the additional capacity coming online.

Depending on how you calculate this, it means that we in this period will more than triple the company's revenue from EUR1.1 billion generated in 2020. On the basis of this. In 2028, we expect to generate an operational EBITDA of more than EUR700 million which is more than doubling compared to the EUR344 million in 2024, driven by improved profitability across all business lines. And last but not least, to secure value creation, return on capital employed will exceed 20% in 2028 due to the improved earning level, reflecting a solid return on our investments.

Now, let's turn to the next slide and last slide, where I will repeat the highlights of 2024 was a pivotal year for NKT. We delivered organic growth of 26%, and in Q4, Operation APA grew by 35%. It was thereby the 9th consecutive quarter with double-digit growth for both revenue and operational EBIDTA. We reached operational EBIDTA of EUR344 million the highest result in KT's history and thereby underpinning the positive development.

Reflecting on the 2024 result in the bigger picture and looking back to 2020, MKT has gone from revenue just above EUR1 billion to now EUR2.5 billion. At the same time, Operation EPA has improved from EBITDA 57 million to now EUR344 million. This is truly an impressive development. With the divestment of NKT photonics in 2, we concluded the strategic transformation of NKT into a pure play cable solution provider, and with the acquisition of Solidel, we strengthened our market position.

Finally, we advanced on our sustainability efforts where we maintain a strong and dedicated commitment. In relation to climate change and decarbonisation of societies, NKT plays a vital role. The journey is not without challenges which we need to address to meet our ambitious targets. This concludes the presentation, and we are now ready to take your questions. Operator, please.

QUESTIONS AND ANSWERS

Operator

We will now start the Q&A session. (Operator instruction) The first question will be from the line of Casper Blom from Danske Bank.

Casper Blom - *Danske Bank - Analyst*

Thank you very much. I have two questions, please. The first one is about competition. There was in the latter part of 2020 for an article in Danish media about potential competition from Chinese OEMs. Clay and Dina, I was wondering if you could sort of share your view on how you see that potential threat. Is it something that you are seeing at the moment or is it more something that could happen at one point? Any kind of flavor to that subject, will be much appreciated. I'll take the second question afterwards.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Good morning, Kasper. Thank you. Allow me to start to comment. I mean we went out in the article there, I think to comment a little bit. We are not in any way afraid of competition. I think what we want to make sure is that any competition is made on a fair and even base on European soil. So I think that's also what we tried to convey in the article. Now with respect to what we are seeing and meeting currently, I would say that as far as Chinese competition goes, we don't see that in the higher end. Of ongoing procurement process in Europe and that's also not something that we have done in recent years.

There has been some activity on lower voltage levels, but not on HVDC and not on the high end.

And maybe also if you allow me, on the basis of this question, also to comment on the complexity in what we are doing in the most high and premium segments. Both of course, to develop the technology to be able to produce the technology. To deliver it on a turnkey basis where I think many of the European, or at least 3 of the European players differ quite a bit from the approach of Asian players as far as turnkey goes, but also when it comes to expanding capacity, both building capacity within an existing perimeter, but especially to construct and build new capacity outside your existing perimeter. This is something that is not easy.

Or uncomplicated even for a company like NKT who have been in the HVDC business for more than 70 years and of course even more so than for for players and vendors which have much less experience than what we do.

Casper Blom - *Danske Bank - Analyst*

Thank you. Much appreciated. Thanks. Thanks for that. Secondly, I would like to ask a question regarding, solid L. Reading through the annual report, I can sort of find that, it contributed with a revenue of EUR60 million and an EBIDTA of EUR5 million in 2024. When you acquired the business, you talked about an annual revenue of 120 to 125, and an EBTA of around 20. And I understand that there wasn't an inventory, negative inventory impact in 204, but could you elaborate a little bit about how you see solidL in 25? Are you back at the EUR120 to EUR125 million revenue?

Is it more due to medium voltage maybe, or is there a negative impact and low voltage in that business and the EUR20 million EBIDTA that Solidel came into NKT with, should we be at that level in 25 or above or below?

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Thank you. If I can start to comment, I think we will be a little bit careful, Casper, to guide and comment on specific perimeters to a much too detailed extent, but what I can say is, and I think you were right in your comments, the EBTA specifically was impacted by event some one-offs during the 3rd quarter.

When we go into 25, we expect for the perimeter, as we now call it, to contribute at least in line with the with the business case that we set up when we acquired the business and that I think is is is well in line with what you said yourself.

Casper Blom - *Danske Bank - Analyst*

Understood. Any additional flavor to the expansion of the Portuguese operations, you also, initiated an an investment in connection with the acquisition.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Be happy to provide comments on that. That expansion is of course standing next to the other three expansions that we have within the applications perimeter, out of which 2 have now been completed. 2 are remaining. One is the solidad expansion and one is the expansion here in Denmark in the Ane factory. As far as the solidad expansion goes, we are still in, I wouldn't say early phases, but at least in the first half of that expansion.

We have procured long length items. We have also very recently actually gotten the permit, which is a crucial matter, the construction permit to construct the tower down there. So with that also we have the path is cleared for us moving ahead there. So it is on budget and on time as we speak for the moment.

Casper Blom - *Danske Bank - Analyst*

Thank you. Much appreciated. I'll leave the floor to others then.

Operator

The next question will be from the line of Christian Johansson from ACB. Please go ahead. Your line will now be on muted.

Unidentified_10

Yes, thank you. I will also do, two questions. So, first one goes to the, EBIDTA marking in solutions in info. So in your presentation you point to project mix being the key reason for a somewhat lower margin. Can you elaborate a bit further, what kind of projects comes with a sort of materially low, lower margin since we are seeing a fairly low level in Q4.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Thank you, Christian for the question, relevant one, of course. Without going into the margins of specific project, it is, like we said there, it's about the project mix, which, lend itself in an unfavorable way, to the relative margin of Q4. I want to draw everybody's attention to the absolute EITA development from the preceding quarter in 2023.

But I think you've heard us say also in the past and taken examples of as an example, the corridor projects being also in these days legacy projects, which were won back in 2020. And of course, I think we also mentioned them on the slide as part of the projects where we made some progress on and that together. With also the effect of us carrying some costs in conjunction with ramping up of time, but also O's costs in conjunction with the expansion in then resulted in that quarter ended up with the profitability like what you see.

Unidentified_10

Understood. And maybe just to avoid any potential speculation, can you just confirm that there's so there are no marking write down for the like in the court a pool. Excellent. Then my second question, goes through application and the margin here as well. So, as you point out in your previous answers on the margin in Q3, there was a one-off. So if we look at The margin in Q4 applications, it's roughly and what you did in Q3, but adjusting for the one-off in Q3, the margin is actually materially lower in in Q4. So maybe just help us understand the dilution in Q4 for applications.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Yes, I think also when you look at the fourth quarter, it is always a little bit special considering also with the Christmas season. So there is a seasonality effect if you are to compare the 3rd quarter with the 4th quarter, but of course you can also make a comparison with the 4th quarter in 23 then to get the adequate seasonal comparison period and what caused the in relative terms then. Maybe a lower margin is the construction sentiment where both volumes but also pricing was below our expectations in the 4th quarter.

Unidentified_10

Okay, so is it fair to say that there is, I mean, when I compare Q4 to Q3, is there a higher proportion of low voltage in Q4 then?

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

I think the relative proportion, I think would be, it's a difficult one. I would say I think especially the profitability in the construction related segment is where we, together with some volume effect, took some beating in Q4. On the medium voltage, I think we have. Commented also in the past that we are running at the fair capacity and we do that throughout the quarter. So it is primarily the construction segment, both the one but also the wirestood for me.

Operator

Thanks, Gretian. The next question will be from the line of Lars Topholm from Carnegie.

Lars Topholm - *Carnegie - Analyst*

First, congrats with a very solid quarter, maybe not on margins, but at least in absolute numbers. I have a couple of questions. So on solutions, Lina, I really appreciate you give some flavor on the revenue outlook for 2025, that has been a topic of a lot of debate. My question is to what extent does that outlook of 0% to 5% topline decline. Include third party revenue that will not reappear in 2026. And other question is 25, the trough for solutions, or are you seeing a fate also in 206 and then growth from the how should we think about this?

I have another question afterwards.

Line Fandrup - *Nkt A/S - Chief Financial Officer, Executive Vice President, Member of the Executive Management Team*

Yeah, okay, thank you lads. I think I'll start from the top with a little bit more color on, and then if you miss something, then just let me elaborate further. So I think what we have said is That the growth between the years of 24 and 25 is, as you say highly impacted by the subcontracted revenue, but also that our capacity online in solution is at a steady level in these years. So when we are benefiting from this subcontract revenue in 24, it will come down in 25, and that will be a negative contributor when comparing the year on year revenue solutions.

It will be balanced by a couple of factors, and this includes a different project mix with execution of some of the more recent orders and the installation scope in other projects, and I think here we should say that we will only gradually start to produce on the orders one in 23 and 24, and we continue to execute on some of the orders from 2020 and 2021. And this includes of course the German coders that will. Is already a big load into our solution factories and will remain to be.

Upgraded capabilities in the recent years will also allow for some additional output on certain products and then adding these dynamics up, it's not unfair to assume that solutions revenue in 25 could be below the level of 24, but we don't foresee will be dra dramatically below. So there are mixed effects in here and of course uncertainties which is also reflected in our outlook.

Lars Topholm - *Carnegie - Analyst*

But then my question is more, if these same drivers also play a role from 25 to 26. So the question is actually more regarding 2026.

Line Fandrup - *Nkt A/S - Chief Financial Officer, Executive Vice President, Member of the Executive Management Team*

Yes, okay. And I, to pick up on that, when you look at the sub-grant to revenue, it's very much, let's say a single event change between 24 and 25. 24 was the unusual year in terms of the magnitude of the subcontract revenue. 25 would look more as it normally. To say about 26, I think the only thing I would say, not being specific about revenue between the years in terms of. Numbers is that there will be continuous mix changes in our portfolio and this is of course which projects are we executing on, but also which phase of the project are we in. Are we producing in the factory or are we installing?

And if you do the mapping of the different projects that we have. And when we want them and when they will be inaugurated, you will also see that some of these larger projects will come closer to installation and that will also mean a mixed change to 26 potentially, and I think that would be as close as I go to indicating something about 26 now.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

If I can just add maybe if I can just add on the revenue side to draw your attention to the annual report where we are also speaking about that we expect around 30% of our HV order backlog to be converted in 25 and 26. I think that, together with the explanation that Lina gave now will also give you, help you to get maybe an overall view on solutions in 26.

Lars Topholm - *Carnegie - Analyst*

That's super helpful. Thank you very much. And then if I may stay in solutions because when I just recently visited the Calcona factory and saw you class and we saw the simulator you used to train staff. It's quite obvious that you're going to take on staff to run the expansion.

Well before that expansion is operational. So I wonder if you can put some comments on what kind of cost ramp up we should expect here. Will it be significant enough to, for example, cancel out Martin expansion between 25 and 27 and then solutions. So how should we model that?

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

It's a very relevant question. If we go back to the announcement of the big expansion in Kokrona, we talked about roughly 500 people, and I think that was for the investment in itself. Then, of course, also, when you look into the products, different projects can also be, requiring different amount of staff. That's just to say that the number may not be 500 at the end of the day. A big part or a considerable part of those we have already hired and we will also continue maybe perhaps less so in this year, but even more so in 2026 to complete that hiring and of course it goes to that we have to hire the most sophisticated, let's say roles first and then we can finalize off with less sophisticated roles and as you can see in Koskrona, this reaches from running a load carrier.

Which is relatively simple. I think you experienced yourself that it's not so simple, but at least you can hire a couple of months ahead of time to something which is much more sophisticated like a machine expert on an extrusion line which will take maybe 345 years to actually get up to that level and then you will disperse it in between. Now this not only applies for the Koskrona perimeter but also in general for NAT across application sites and also across the Cologne investment. What we have said last year is that let's say OPEC's run up ahead of time was around 1% point on IITA, and this is something that I think looking at 2025 we can reiterate that also for this year and maybe it will actually be marginally above the 1%. So I think hopefully that can help you launch a little bit.

Lars Topholm - *Carnegie - Analyst*

That that is super helpful. And then, a third question, and you'll probably find this stupid and not going to answer it, but you have given 2028 targets, of course, but given the time it takes to Become fully efficient on new equipment for the reasons you just alluded to. Is it fair to assume that 2028 is not the end of the Martin expansion in solutions. I think by logic, shouldn't we assume a significant Martin expansion from 28 to 29?

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

It's a good question.I think it is a good question and I will try at least to give maybe a nuance on it. I think there is the element that you talk about that of course we want to get better every year, and especially when you start something up, then you then you hope and think that you will get better by time.

But the other aspect is also that we will not even from a revenue state be in a steady state in 28 for the new expansion. So, we can also expect revenues out of the EUR2 billion CapEx that we talked about as part of our medium term ambitions. The full revenues of that will not be visible in 28, but there will come also more revenues over and beyond that and with that also. Both in relative terms, but especially in absolute terms, obviously.

I don't know if it was a bad answer to a good question or a good answer to a good question.

Lars Topholm - *Carnegie - Analyst*

I know that lene is little, but thank you. That's very clear answer.

Operator

Thank you, Lars. The next question will be from the line of Daniel La Costa from Goldman Sachs. Please go ahead your line while I'll be on muted.

Unidentified_11

Hi, good morning. I have two questions as well. One is just more in terms of can you comment a little bit about the tendering outlook in high voltage, which are, do we expect 25 to be in general sort of a stronger year than 24 and to see the backlog going back to growing again. And the second one is just, can you help us with bridging from your guidance to how we should think about free cash flow for 2025.

Thank you.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Okay, thank you, Daniela. I think I will take a step at the first question, and I will leave it to Lina for the second one. So tendering outlook, there is a number of interesting projects that are being tendered for the moment, so the activity is definitely there.

When we look at this year, we are also viewing that in the context of last year and the year before. Last year, as I said, also in the presentation. The total awarded amount amounted to EUR17 billion and the year before to EUR15 billion so we are leaving two extraordinary years behind us. We have said in our communication last year that we expect on average more than EUR10 billion in terms of market size to be awarded between the years of 24 until 2030.

We remain with that view on average that this will be the market. But we stand cognizant of the short term volatility now politically and also economically, and when we look at from where we stand today, looking at this year, we would expect the market to be around the 10 or below the 10 number. But again this has to be seen also in the context of the two previous years.

And I think, needless to say to you, Daniela, because you know the market well, big products can easily sway this number significantly up or also somewhat down.

So, no. And on backlog, I think it remains to be seen. I think we still have a very high backlog, so we will continue to strive and optimize our risk reward balance rather than to hunt market share. I think we will aspire to exit this year of course with similar or higher backlog, but I would not be disappointed if that doesn't happen and we leave the right products to the side. Instead of hunting just market share.

Line Fandrup - *Nkt A/S - Chief Financial Officer, Executive Vice President, Member of the Executive Management Team*

Okay, then let me cover your second question, Daniella, and I'll start from the top, just doing the dynamics here. So of course our cash flow will always depend on our ability to execute and generate free cash flow from our operations and especially the working capital and solutions can be fluctuating quite some between the quarters, depending on how we execute and the milestone payments to the customers.

Depending on, and that was your first question, how the awards of the year will look. There's also of course the fluctuations of advance payments from new orders, and that's also going to be a part of this year's view into networking capital and thereby also free cash flow. Then very central is the development of our investment program. And we said in December that we expect to take a significant step up or step up in expected capex in 2025, and this we remain, so that you should expect. So in general, NKT's cash flow and working capital will fluctuate quarter by quarter.

Due to this, so if I just zoom in on 25 and think about the logics of how you could look at this, so you have our expectations to be from the outlook. And then on working capital, you saw a significantly favorable development in 24 as it decreased by around EUR700 million to a much more favorable level by 24. This was due to milestone payment and pre-payment solutions, and very much related, I would say also to the order and take back in 2023.

I will say that you should expect a similar fluctuating level in 24 or 25, as you've seen in 24. But I would also say that probably a good base level of minus EUR1.2 to EUR1.3 billion you can reflect about and then swings to that where EUR100 million is not uncommonly seen. Then the the step up in 2025 on Kpex, And we will have this as the highest level expectedly on the full CapEx program. If you ask me now about a number, it could be very different from what I would say in 6 months or different certainly, and that doesn't mean that we don't have a very clear plan on how to execute our investment programs. It's simply also something about optimizing the commercials of an investment program.

So the CapEx eventually will be dependent on the spend, but if you add all of this up, it's fair to assume that we could have a negative free cash flow in 2025, but we will continue to have a substantial cash balance throughout the same year. I think I gave all the disclaimers, but also trying to give the buildings here, yeah.

Unidentified_11

Yes, thank you. I didn't quite understand the working capital One. Did you say you had you had a positive move of 750 and you expect a similar move, and I guess this was talking with I didn't, maybe I got it wrong.

Line Fandrup - *Nkt A/S - Chief Financial Officer, Executive Vice President, Member of the Executive Management Team*

I was referring to the fluctuations of 24, which was a positive EUR700 million. And then saying that you should think about 25 that a base level could be around EUR1.2 to EUR1.3 billion and fluctuations to that can be quite large and 100.

Unidentified_11

I see the, yeah, thank you.

Thank you very much.

Operator

The next question will be from the line of Lucas Ferhani from Jefferies.

Lucas Ferhani - *Jefferies - Analyst*

Thank you. So just the first one to come back on solutions and the margin in Q4, you talk about kind of project mix and also, the subcontracted or partly subcontracted scope. What would you highlight on kind of the beat is it because you had a bit more on champ and Hanson maybe in Q4 and does that also impacted the margin that subcontracted scope maybe coming at slightly below is that the way to look at it thank you.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Thank you, Lucas. I think we are not able to give full clarity to the question, but, I think we commented that subcontracting is a part of the revenue beat and then without going into too much exactly what projects that is that brought it. So I think we will have to leave it like that.

Lucas Ferhani - *Jefferies - Analyst*

Okay, and just the project mix, is it more which project or is it also manufacturing versus installation as well, maybe less installation in Q4?

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Oh, it is, it is a part of both, but it's primarily going towards the product mix, so different products carry different margins.

Lucas Ferhani - *Jefferies - Analyst*

Perfect, thank you. And then another one on application again on the margin, I think solid that was pretty much in line with kind of the the financials we saw at at acquisition, but the NKT scope, is relatively weak if you compare to kind of, early 24 and 23. Can you highlight a bit in which region you are really seeing that low voltage kind of volume and pricing pressure.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

The construction side of the segment is that which is under pressure, and as you may be aware, this is roughly around 30% of the business line and it has not been a specific region where we see weakness in the construction segment. It is basically throughout, so I would not be able to pinpoint any country or any region like this.

Lucas Ferhani - *Jefferies - Analyst*

Okay, no, that, that's fair. And just the last point on the capacity coming online over 2025 in medium voltage is that kind of already set up to be used by some framework agreements you've already signed, so we expect that as soon as it kind of comes online to be fully utilized and also should we assume that the margin on that kind of additional capacity should come at something maybe closer to where solidad is.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

It's a good question. Without giving exact reference points, what I can say is that the two capacity extensions being in fall in Sweden and also Czechelke, it is focused on medium voltage capacity expansion and as you're well aware, this is where the situation for the moment, it enjoys a good commercial momentum, both from a volume perspective and also pricing perspective. So we expect these assets to be utilized from when they come online and not that we will run with idle capacity. So we have a positive expectations both for volume utilization, but also from a margin perspective so that the margin will be let's say accretive to the applications business line.

Lucas Ferhani - *Jefferies - Analyst*

Perfect, thank you. And just to confirm, is it coming online from 11 or it's more during 2025?

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

During to one now.

Okay, perfect, thank you, that's all.

Operator

Thank you, Lucas. As we are running out of time, the last question will be from the line of Qing Wang from Barclays. Please go ahead, your line will I'll be unmuted.

QING WANG - *Barclays - Analyst*

Hi there. Thank you for taking my questions. If we stay on a medium voltage, topic, the EUR7 million synergies to be realized on solid out by 2026, do you now have more visibility on the phasing of this?

Line Fandrup - *Nkt A/S - Chief Financial Officer, Executive Vice President, Member of the Executive Management Team*

So, what we can say about the synergies here is that we are already seeing a contribution ongoing. I think one anecdote we shared is the inclusion of solidar supplier contracts in the scheme has given some of these contributions. So we are on good traction with this, and I think coming in as expected and communicated, that is what you should expect to see.

QING WANG - *Barclays - Analyst*

Great, thank you. And then my second question is, subcontract. In 2025, do you think you have other scope to subcontract other projects? And also, does the contingency release work in a similar way and in a similar scale to normal projects?

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

If I try to comment there a little bit and maybe if I don't get clear enough, then maybe you can also further clarify or ask me then on the subcontracts, our solutions business is comprised of a natural element and volume of subcontracting. In basically every turnkey project. So obviously in most cases we manufacture the cables ourselves. There is an exception to this, and that is the Champlain Hudson Power Express, where we are also manufacturing cables through the factory we built once upon a time today owned by Southwire, but otherwise that's an in-house, in-house manufacturing.

As far as the installation goes, we have, we are using both in-house resources and also external resources. And what we use and when for what project, it depends a little bit on the exact scope of the project. Typically cableA we do ourselves, typically also trenching to to to a certain extent we do ourselves, but we also use external subcontracts. Going back to I think what Lina said before, 2024 was maybe the odd year with the Champlain project, considering that we had external cable manufacturing. And also an unusually high amount of installation works. So, when you think about 25 and 26, we will move into more normal territory.

QING WANG - *Barclays - Analyst*

Thanks, that's very clear and Contingency relief.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Contingency releases a difficult question. We have in all our products we have risk in contingencies, as you're well aware. These risks are coupled to risk maturity dates. They will differ from product to product depending on the actual timeline. Whether they will be consumed to cover costs depends on our ability to manage the risk. If we are unable to manage, then they will be consumed as cost. If we are able to mitigate it without consuming it, then it will be released. And we don't have anything else to give we will follow our normal procedures for 25 as we have done for 24 and 23.

QING WANG - *Barclays - Analyst*

Thanks very much. So, maybe if I can ask one more question on the high voltage, I think, your ex expectation for EUR10 billion, Annual awards seem a little bit conservative versus what your peers are saying. Is that just because, you view the US market as more optimistic op opportunistic to you, and they include that in the addressable market, or is it because you're, don't know, just being more conservative in general?

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

It is a difficult one for me to comment on, to be H1st, but of course it could be that we have, we talk about our own addressable market when we talk about on average more than EUR10 billion.

It is also admittedly difficult to make exact predictions, especially as the product they grow larger and larger, so a single product shift can be a big difference as well. And of course then you can make different analysis what you take in and what you take out depending on.

Where you're sitting in what company. But overall, admittedly, also in 23 and 24, we were conservative, was a lot higher than EUR10 billion. We'll have to see how this year ends, but it's also a good reason for why we wanted to talk about an average number over a couple of years rather than individual year number.

I think these are the best comments I can give to that.

QING WANG - *Barclays - Analyst*

Oh, that's very clear. Thank you very much. My last question, so the testing center you're completing, in services, this year, is it contributing to external revenue? Can you remind us?

Line Fandrup - *Nkt A/S - Chief Financial Officer, Executive Vice President, Member of the Executive Management Team*

So yeah, in services, is it the repair job of 24, sorry, I couldn't hear fully.

QING WANG - *Barclays - Analyst*

Oh sorry, I think you are completing this test center in 2025 in your service and accessories, segment.

Is this test facility contributing to external revenue?

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Yes, you're right. It's a test haul in Allingsos, and that will support us in ramping up both towards the solutions divisions, but also in testing accessories for also direct sale to the external market.

QING WANG - *Barclays - Analyst*

Great. Would you be able to comment on the scale of contribution at all?

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Oh, we're sorry, it's difficult to say the exact scale.

QING WANG - *Barclays - Analyst*

Okay, no worries. Thanks very much.

Operator

We are running out of time; I'll hand the call back to the speakers for any closing remarks.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Thank you for calling in and we just, also want to finalize off by saying that thank you for taking the time today to listen in and ask questions and also to leave you with that 26% organic growth and EBITDA race of 35%. If you compare 23 to 24, free cash flow generation of EUR400 million. And last but not least, the net earnings that have doubled from 23 to 24 concludes a good year for NAT and puts us in a strong position for 25 and going forward.

So with those words, thank you a lot for today and looking forward to seeing many of you in the coming days.
