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NKT.CO - Q1 2025 Nkt A/S Earnings Call

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PRESENTATION

Operator

Welcome to this NKT financial presentation for the first quarter of 2025. (Operator Instructions)

This call is being recorded. I will now turn the call over to speakers. Please begin.

Claes Westerlind - Nkt A/S - President, Chief Executive Officer

Ladies and gentlemen, good morning and welcome to today's conference call following the release of our interim report for the first quarter of 25. My name is Claes Westerlind. I'm the CEO and I'm joined today by our CFO, Line Fandrup.

As usual, I will cover the overall development and the business lines in the first part of the presentation, and afterwards Line will take a deeper look at the development of the financials for the quarter. Please turn to slide number 3.

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

We were off to a solid start in the first quarter of this year. We continued the diligent focus on the execution of our backlog, resulting in revenue growth and an increased operational EBITDA of EUR81 million driven by all three business lines. This was achieved while we are operating in a volatile world in times of uncertainty.

At the same time, we maintain our high voltage order backlog at EUR10.7 billion, a level we have seen since the end of 203. Together with additional booking commitments, it continues to give us good visibility for the coming years.

The stringent focus on execution of our capacity expansion programs also continued in the first quarter. The construction of the new high voltage factory in Karlskrona progressed as planned. During the quarter. The capacity expansion at our application sites in Sweden and the Czech Republic were completed and taken into operation, and they both contributed positively to the revenue in the quarter.

Last but not least, we signed an eight-year agreement with Hydro last week regarding the supply of aluminum. With this, we have secured a long-term supply of low carbon aluminum wire rod from a well-established European partner.

And not only does this agreement secure a long-term supply of aluminum, but it also reinforces our position as a sustainability leader in the industry. It underlines our strategy to improve the carbon intensity of our power cable systems and reduce emissions, supporting both Nkt's targets and our customers' decarbonisation ambitions. Let's turn to slide number 6 for a look at the financial performance.

In Q1 of 2025, we delivered solid financial performance with organic growth of 11% and an operational EBITDA of EUR81 million. The improved EBITDA was driven by increases in all three business lines, while solutions and applications were the drivers behind the positive revenue development.

From a margin perspective, the operational EBITDA margin was 12.9%, a decline of 1.2% points compared to the first quarter of '24. This was mainly a result of natural fluctuations in the product business as well as continued weakness in the construction segment.

In Q1, the activity levels in the solutions business line was high, driven by continued execution of our high voltage order backlog and increased installation scope across several projects.

The project execution was overall satisfactory, resulting in higher revenue and increased operational.

The higher revenue and higher in applications were driven by the acquisition of SolidAI and the additional medium voltage capacity coming online in Sweden and the Czech Republic. Volumes in the power distribution grid segment remain robust, while the construction exposed segment continued to be subdued as just mentioned.

Service and accessories more than doubled operational as the activity level was high in both segments. Revenue was lower than last year as Q1 '24 was affected by work related to large offshore repair through a legacy service contract.

Now I will dive deeper into each of the business lines starting with solutions. Please turn to the next page.

In the first quarter of '25, solutions revenue increased to EUR388 million up from EUR325 million -- EUR321 million in the same quarter last year.

This equals an organic growth of 20% and was driven by overall satisfactory product execution and installation scope across several products, including high utilization of NKT Victoria.

In addition, solutions continue to benefit from increased organizational and operational capabilities as a result of the investments made during the last years.

Operational EBITDA increased to EUR57 million compared to EUR52 million in the first quarter of '24. The margin for the quarter was 14.7% and thereby declined relative to last year due to a less favorable product mix. Compared sequentially to Q4, the operational EBITDA model increased slightly.

As we have seen over the years, margin in a product business like will vary between quarters depending on the facing of the products and execution.

In the quarter we saw progress on several products in the backlog being at different stages of execution. Main contribution came from Champlain, Hudson Power Express, East Anglia Three, Hornsea 3, Sulink, and SuedLink. On the Champlain product, we progressed with the installation of the cables, and the picture on the slide is from the offshore installation campaign in '24. And personally, I believe that it also captures very well the beauty with our business.

We continue to execute on the investment programs both in Karlskrona and in Cologne, as well as the construction of the second cable laying vessel NKT Eleonora. All programs progressed as planned during the quarter and are expected to be operational from 2027. Later in the presentation, I will give a more detailed status of the development.

Please turn to the next page for an update on the high voltage market. Activity levels across our addressable market continue to be high in the first quarter of this year, and we estimate product awards in this market amounted to around EUR2 billion. Like the last couple of years, the awards were mainly driven by DC technology.

We managed to maintain our order backlog basically unchanged at EUR10.7 billion compared to the level at the end of last year. During the quarter, we supplemented the backlog with a number of relatively smaller orders, including variation orders to existing projects. On top of the firm orders in the backlog, we continue to have booking commitments from our customers totalling more than EUR3.5 billion. We expect these booking commitments to be converted into firm orders over the next couple of years.

The composition of the backlog is unchanged compared to three months ago. From a customer perspective, more than 85% of the backlog is with European TSOs, and with regards to use applications, around 55% of the backlog is interconnected products and around 40% offshore wind.

This strong backlog supplemented by the booking commitments gives us good visibility for the coming years and thereby also into our medium term financial ambitions. It also provides comfort in the long term development of the company.

While remaining highly active in the market to further strengthen our position and value creation, it allows us to maintain a selective approach to optimize utilization across our production and installation assets.

Our view on the addressable average annual market remains more than EUR10 billion in the period of '24 to 2030. For the past two years, this number has been exceeded, evidencing the strong demand and visibility in the market.

The short term timing of awards and other decisions always come with some uncertainty as the individual projects are getting larger in size and the investment process is affected by permits and other political decisions.

With that being said, we still expect the supply demand balance to remain healthy throughout this decade.

When looking beyond this and into the 2030s.

The market appears to move into a more balanced territory. When looking this far ahead, it obviously comes with a higher degree of uncertainty, but we remain confident around the importance of electricity as an important enabler to sustain modern life, including the electrification of society and general energy transition.

This should support the long term grid investments and thereby the demand for both HVDC and HVAC technology.

Currently we are all living in a volatile world with elevated uncertainty among others from tariffs being imposed in the US. Our exposure to the US is predominantly through the Champlain Hudson project, where the offshore cables are produced in Sweden and shipped to the US.

As we are in advanced execution stage of the project, we only have miniature minor production scope and shipments left scheduled for the rest of this year. Except for the remaining part of this project, we have no US exposure in our backlog. Therefore, we are not concerned with the US situation directly impacting our business.

Please turn to slide number 9 for a look at the applications business line.

In Q1, revenue and applications increased to EUR203 million thereby for the first time exceeding the EUR200 million mark. This was driven by a combination of the acquisition of solidal and organic growth of 11%, as additional medium voltage capacity in Sweden and the Czech Republic became operational in the quarter. The development in the construction exposed segment remained subdued, with both prices and volume below the first quarter of 2024.

Operational EBITDA increased to EUR18 million from EUR16 million in the same quarter last year, driven by SolidAI and the increased median voltage capacity. The margin for the quarter was 8.9%, which was a decline compared to 10.5% last year.

In the quarter, the margin was negatively affected by the lower volume and prices in the construction expo segment, a slightly changed product mix, and an increased competitive environment in selected markets. Compared sequentially to the fourth quarter of '24, the applications margin of 8.9% was an improvement of 1.1% points.

Medium voltage cable volumes remain robust, driven by upgrades and strengthening of Europe's power distribution grids. We have a long standing relationship with local European DSOs and with the additional capacity online, we are well positioned to benefit from this development.

Now please go to slide 10 for service and accessories. Service and accessories had a strong start to the year. Revenue of EUR70 million was lower than last year, and organic growth was negative at 6%. However, let's remember that revenue in the Q1 of last year was impacted by a large-scale repair work related to a legacy contract.

Both segments enjoyed a high activity level in the quarter. Service benefited from a number of smaller jobs, several maintenance projects, and installation work, and across the segment, execution was satisfactory. The revenue growth and accessories was driven by increased demand for both medium and high voltage accessories. The demand for accessories continued to increase, mainly driven by the solutions projects in our backlog. We are therefore ramping up production. And capabilities and during the first half of '25, we expect a new test tool in Sweden for high voltage accessories to be completed.

Operational EBITDA more than doubled to EUR13 million in Q1 of this year, up from EUR6 million last year, driven by the high activity level and improved profitability in both segments. For the quarter, the margin was 19.3% compared to 8.1% in the same quarter last year.

Please turn to the next slide for a look at our investment projects. In December of 2024, we provided an update on our ongoing investment programs, and for the period '25 to '28, we expect accumulated CapEx of around EUR2 billion. This expectation is unchanged, and all investment programs progressed in line with the plan, with some important milestones achieved during the first quarter.

In Karlskrona, several work streams are currently ongoing. The tower reached its final height of 200 m in November. And in the first quarter we have worked on the internal installations in the tower, including electricity, sewage, water, et cetera.

And also installation of machinery. As you can see from the picture on the slide, the roof on the tower is now completed and the construction off and within the other buildings is also progressing as expected.

During the first quarter, we received the important permit to expand the harbor to handle NKT Eleonora, and the appeal period is behind us. The new factory is still expected to be gradually operational from 2027.

The construction of NKT Eleonora is also progressing according to plan. The key laying ceremony took place in Romania in January, where the initial construction is done. Several of the hull sections are already completed, and in the first half of 2026, the hull will be shipped to Norway for final equipment.

As planned, NKT Eleonora will also be operational from 2027. We are also expanding capacity across applications. The expansions in Sweden and the Czech Republic are completed, and in Asnes here in Denmark, the construction is ongoing with foundation work and the construction of the new medium voltage extrusion tower. As previously communicated, the new capacity is expected to come online from 2026. In Portugal at our site in Esposende, the relevant permissions have been received and as planned, the construction is initiated.

This, ladies and gentlemen, concludes my part of the presentation, and I will now hand over the word to Line to go through the financials.

Line Fandrup - Nkt A/S - Chief Financial Officer

Thank you very much. Good morning from me as well. I'll now take you through the financial highlights of the first quarter of 25, and we'll start with the income statement.

So turning to the next slide, starting out with the revenue in Q1, we generated organic growth of 11%, driven by 20% organic growth in solutions and the increased medium voltage capacity available in applications. Additionally, the acquisition of SolidAI contributed to the revenue in the quarter, which was EUR630 million for the group.

Operational EBITDA of EUR81 million was an increase of EUR6 million or an 8% increase compared to the same quarter last year. All three business lines contributed to the positive development. The margin for the quarter was at 12.9%. Compared to Q1 2024, the margin declined by 1.2% points, mainly due to the project mixing solutions. So relative to Q4 2024, the margin was largely unchanged.

Due to the investments and the acquisition of SolidAI, depreciation and amortization increased to EUR30 million and that's leaving EBIT for the quarter at EUR51 million which is a decline of EUR2 million.

When you look at the financial items, you'll see an income of EUR25 million in the quarter. That's up from EUR8 million same quarter last year. This was mainly driven by effect fluctuations related to the development of the SE and interest income from the cash position.

Tax for the quarter amounted to EUR19 million reflecting the higher earnings level and an effective tax rate of 25%. So this leaves a net result of EUR57 million, an improvement of EUR12 million compared to last year.

Our employee had continued to increase, reflecting our growth journey and our investment to support this development. On average, almost 6,000 people were employed at NKT during this first quarter.

Let's turn to the next slide to look at the cash flow. Free cash flow for the first quarter was negative at minus EUR308 million. This is driven by a negative effect from changes in working capital and the investment conducted during the quarter, all as expected.

Changes in working capital reflected the normal facing between milestone payments and project execution in the solution business line.

Additionally, the quarter was affected by the adverse timing effect from Q4 following a strong end to the year in 2024. Investments in the quarter amounted to EUR167 million reflecting a higher activity level across our investment programs, mainly in solutions but also in applications. This level was more than double compared to the same quarter last year, and a high level is expected for the remainder of the year. All in all, net cash flow for the year was then negative EUR323 million.

Let's turn to the next slide and have a look at the balance sheet. The working capital position at the end of the quarter stood at negative EUR1.2 billion. This was an increase compared to the record low level at the end of 2024 due to the fluctuations mentioned on the previous slide. The position remains healthy and compared to a year ago, it has declined by around EUR500 million.

ROCE amounted to 32% compared to 35% at the end of 2024. The decline was mainly a result of the increase in capital employed. Compared to the first quarter of 2024, ROCE improved by 10% points due to the higher earning level.

Roshi will continue to vary between the quarters and over the coming years. This development depends on earnings from operations, timing of payments from customers, and not least a higher asset base from ongoing investment which will ramp up during the years.

The net cash position remains at a solid EUR1 billion at the end of Q1 and thereby we maintain our robust financial position. This is to fund our ongoing investments across the business and in addition, the strong financial foundation allows us to continue progressing on the growth journey that lies ahead of us in the coming years.

We'll turn the page and look at the outlook for the year. Based on the financial performance in the first quarter and the expectations for the rest of the year, we maintain the financial outlook for 2025 on all parameters.

We therefore still expect revenue at standard metal prices in the range of EUR2.37 billion to EUR2.52 billion and operational EBITDA between EUR330 million and EUR380 million.

As we communicated in February, revenue and solutions in 2025 will be impacted by the fact that we have unchained production and installation capacity available and expect lower level of subcontracted revenue.

In 2025, we will continue to execute on our backlog, mainly on projects awarded in 2020 to 2022 and like in 2024, we will have a higher cost base and solutions to support the ongoing investments and ramp up production for the future value creation. We still expect both applications and services and accessories to contribute positively to the revenue and EPA development in 2025.

This is due to the Fouli effect of the solidar acquisition, additional capacity, and the good activity levels. All other assumptions presented in the annual report 2024 are also unchanged and listed on the right hand of the slide.

Let's turn to the next slide. So reiterating our trajectory towards the medium-term financial ambitions of 2028, we have a strong foundation for the growth journey ahead of us, and when the results and execution in Q1, we make progress towards our financial ambitions for '28. Here we expect to have a significantly higher revenue base from more than 40% organic revenue growth target from 2021 to 2028. And also an operational EBITDA of more than EUR700 million not least, we expect to generate a rosy of at least 20%, reflecting the improved earning level and a solid return on our investments.

Before opening up for the Q&A session, let me just recap the main highlights of the quarter on the next slide.

We were off to a solid start to the year, and we continued the rigorous execution of our high voltage backlog. Combined with additional medium voltage capacity, we delivered organic growth of 11% and increased our operational EBITDA to EUR81 million. We also stringently executed on our capacity expansion programs, and across all sides we saw the expected progression. The progress is in line with the plan, and we are on track with the programs.

With the agreement we have signed with Hydro, we have secured long term delivery of aluminum with a European partner. The agreement underlines our position as a sustainability leader in the industry, and the aluminum will support both us and our customers achieving the sustainability ambitions.

With this, Claes and I concluded the presentation, and I will hand over the word to the operator to steer us through the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Claus Almer, Nordea.

Claus Almer - Nordea - Analyst

Thank you. Thank you. Yeah, a few questions from my side. So the first is about this around EUR50 billion of smaller and variation orders. Is this a step change in these types of orders or is more a one specific development? That will be the first one.

Claes Westerlind - Nkt A/S - President, Chief Executive Officer

Thank you, Claus, for the question. I would say it's you cannot consider it to be a general step change these levels, they are always specific from quarter to quarter, and of course there is a materiality limit above which we will make announcements of orders, but there is one below and of course we can accumulate orders below that limit that then together sum up to to the specific level for the quarter. And similarly also depending on which products are in execution and with what scope is being done for the moment, also variation orders can fluctuate up and down for the quarter.

Claus Almer - Nordea - Analyst

Sure, I guess it was not fair to multiply by four to find a full-year number, but let's just say you get 0 variation orders the rest of the year. So you're still at a full year of half a billion. Is that also not a number to use going forward? It is very special for for this quarter.

Claes Westerlind - Nkt A/S - President, Chief Executive Officer

I would say it is special. I could not give advice that you should use such a number for the rest of the quarters, no.

Claus Almer - Nordea - Analyst

Okay. Then the second question is also to the solution segment. Also this quarter were impacted by this, let's call it less favorable order mix. When do you expect these list margin projects have been delivered and we're going to see a margin uplift.

Claes Westerlind - Nkt A/S - President, Chief Executive Officer

Thank you, Claus. Again, let me start and then then Line can compliment. I think there is a bigger picture and there is a quarter-to-quarter picture. If you look at the bigger picture longer term, we have commented previously that it will take perhaps longer time to get through the legacy backlog and into solely the more recent one orders than what the market has appreciated.

I think this fact has been picked up and I think the message from us has been that. It will take until '27 until we see a significant margin uptake, and this also coincides with us taking into operation the new assets. So that's that's one aspect. The other aspect on the quarter to quarter fluctuation is that this will continue to vary quarter by quarter and keep in mind that the profitability and solutions continues to be impacted by the ramp up in OECs.

If we take the very short scale, I think it's not unreasonable to assume that towards the second half of this year, the margin or project mix will be less unfavorable compared to what we have seen now in Q4 and Q1.

Claus Almer - Nordea - Analyst

Yeah, okay, that makes sense. If you look at mid to the high end of the guidance range, definitely the cross margin and the EBITDA margin needs to be improving, and that will mainly happen in the second half. And by the way, is this execution or is it the mix that will be the main driver?

Claes Westerlind - Nkt A/S - President, Chief Executive Officer

I'm not sure I understood the question, but I think the mix is what we are referring to will be the primary driver or has been also the primary driver of this.

Claus Almer - *Nordea - Analyst*

It was just what you said that things will be improving, as I understood in the second half of the year. Look at your guidance, then the mid to the higher end of the range, you need to do a much better margin than we saw in Q1. So the question was more if this margin improvement will come from execution or better mix or a combination, obviously.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer*

I think the structural change will come from the mix itself. Then of course our ability to execute can impact this both up and down.

Claus Almer - *Nordea - Analyst*

Okay, that was all for me. Thank you so much.

Operator

Kristian Johansen, SEB.

Kristian Johansen - *SEB - Analyst*

Yes, thank you. Two questions from me, both to the application, segment. So firstly, you talk about increased competitive environment in selected markets. Can you please elaborate on this? Is this only low voltage and what markets are you talking about?

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer*

Thank you, Kristian. Yes, when we talked about and we were discussing or describing the profitability of the business line we were referring to continued weakness in the construction segment, and that has, I think we also mentioned that the report has gotten even sequentially worse if you compared to the same quarter last year, so it continues to be very subdued.

The competitive environment that we also refer to in selected markets is primary that we are seeing some pockets of increased competitive pressure in the Central European region.

And this does not only stretch into the construction segment but also into the power distribution segment.

Kristian Johansen - *SEB - Analyst*

So this also impacts medium voltage, picing, et cetera. Obviously, understand it.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer*

It has also impacted the margins in medium voltage.

Kristian Johansen - *SEB - Analyst*

Correct, understood. And then my second question goes to the, added capacity, you bought online during the quarter. Can you just talk about the essential dilution from that in the quarter? Has there been a delusion or did you take that up front?

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer*

I'm not sure I understand the question of dilution.

Kristian Johansen - *SEB - Analyst*

Cost dilution. So I assume that ramping up your capacity, you will start being more inefficient in quarter one than you plan to long term. So just curious to what extent the added capacity dilutes market in application.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer*

I understand your question, and of course I think we haven't -- we haven't really communicated per business line what the dilution is on profitability when it comes to the OPEC's ramp up. What we have said, and I'm sure we recollect, Kristian, but for the rest of us that around 1 percentage point of EBITDA. We have the impact on group level from the continuous ramp up both for the investments that we are carrying out in solutions but also the investments that we are doing in applications.

The two completions that we have described in the quarter in the Czech Republic and in Sweden and Poland. They were completed and they were taken into operation in the quarter. We don't have a full quarter impact, so of course you would also have a certain cost dilution before you have them into operation, but we will not be able to go into further specifics than what I said on group level.

Kristian Johansen - *SEB - Analyst*

Thank you.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer*

Thank you, Kristian.

Operator

Ilaria Buricelli, Goldman Sachs.

Ilaria Buricelli - *Goldman Sachs - Analyst*

Hi, good morning, thanks for taking my question. So first one, is do you expect that the negative impact of, the phasing between the milestone payments and the project execution will become more sort of recurring as your back growth decelerates and on the back of that like what are your expectations for free cash flow in '26 and '27. And then I was curious because you mentioned around EUR2 billion projects was awarded in your addressable market this quarter. Have you seen historically any seasonality in the tendering activity?

Line Fandrup - *Nkt A/S - Chief Financial Officer*

Maybe I'll start on your first question and then Claes can come in on the tender activity. I think our answer to that first question on free cash flow generation will not change significantly from what we've said earlier, so just excuse me for repeating more or less the same message here. I think the first component you can look at is the networking capital as you do, and here we have said that a negative EUR1.2 billion to EUR1.3 billion is a

fair estimate. And then there are larger fluctuations to that number always because as you also pointed out, milestones fluctuations can be pretty large and actually change over a fiscal year or this amount significantly.

Then combining and this goes for the years ahead, I would say keep an eye out on when we start ramping up the new factory in Kona, then of course we will start to use that networking capital position with us for the future production of the cables in the new factory for exactly that purpose, and then our profile on the network capital will be more directly correlated to the size of the backlog as you have seen, let's say historically.

The second component, the larger one, is the CapEx, and when we communicate our medium-term ambitions, we said the accumulated CapEx for the period of '25 to '28 would stand at approximately EUR2 billion and then we more or less gave you the profiling of how that would pan out, meaning a high '24 that we now know.

Then at '25 that will be very significant and the highest year in terms of investment level coming down in '26, not to the levels of '24 but kind of in between '24 and '25, and then you'll see a gradual decrease towards a normalized level that we will reach '27, '28-ish and I think this is the Two largest components in for you to do the free cash flow and when you do this and you look at our outlook for the year, you're going to conclude that negative free cash flow generation of the year is very likely.

And then I would just say that you do the same calculation for '26 and '27 and reflect about these profiles, and that will give you a good idea about where we will end up.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer*

And to your second question there on the tender activity, the very short and simple answer is that no, there is no clear seasonality on these on the awards in the solutions business where at any point in time, it could be a winter quarter, it could be a summer quarter, it can come with significant lump, and then it can be zero for two quarters. So I wouldn't be able to point to any seasonality there.

Ilaria Buricelli - *Goldman Sachs - Analyst*

Got it thank you. And then a quick final one, what were the drivers of the inter segment transactions CV that this quarter?

Line Fandrup - *Nkt A/S - Chief Financial Officer*

It's not different than the usual, but what's different than the usual is that the Swedish krona has strengthened against the EUR, and that does give some implications for our. So if you think about the inter segment transaction, you should think about let's say Group. Overhead cars that are not directly allocated to business lines and then you should think about elimination of internal FX hedges where we do have Karlskrona as a Swedish krona entity, and they are executing on EUR contracts.

So when the Swedish crown strengthens or the opposite that will have some implications for the segment, but also on the financial items you actually see this currency fluctuation having a rather large item.

But I think that's how you should think about it. Overall, we're not very exposed to currency fluctuation as our portfolio stands, so I think in the grander scheme of things this is a minor thing to talk about.

Ilaria Buricelli - *Goldman Sachs - Analyst*

Got it, so that was the only driver, right? Hello?

Line Fandrup - *Nkt A/S - Chief Financial Officer*

No, sorry, I said yes. I don't know. We were waiting for that? Okay, sorry. Okay.

Ilaria Buricelli - *Goldman Sachs - Analyst*

I didn't hear you. Thank you.

Operator

Akash Gupta, JPMorgan.

Akash Gupta - *JPMorgan - Analyst*

Yes, hi, good morning, Claes and Line. Thanks for your time. I got two as well, and I'll ask one at a time. My first one is, how shall we think about revenues and solution in the full year when we look at Q1, you had 20% growth, and, you are saying that your production hours are largely similar and as the year progress your.

Subcontracted revenues will go down so I'm just wondering if you can help us giving us some building blocks for how shall we think about 2025 revenues in in solution where you have visibility from backlog.

Line Fandrup - *Nkt A/S - Chief Financial Officer*

I can start and then higher cash can chip in here. I think we've done this, let's say more or less pocketing exercise earlier of telling you about that the machine house between the years '24 and '25 are more or less the same or is the same. And then that the subcontracted revenue is decline year over year, but that's to a certain degree also compensated by other effects. This hasn't changed for now and we don't do an outlook for each of the. Business line, but I think reflecting about it like that, then of course there can be ups and downs based on the variation orders we just talked about on the different progress on the on the different projects and that's going to be the main contributor to revenue for the year.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer*

No, and I have nothing to add Akash there. I think also with that I think we have led all of you to believe that it's not unlikely that the revenue level on solutions will be similar to what we had last year.

Akash Gupta - *JPMorgan - Analyst*

Okay, so is it fair to say that as your year progress there may be some quarters when revenues in solution would be down year on year and also giving the comp that we have in some of the quarters.

Line Fandrup - *Nkt A/S - Chief Financial Officer*

The mix is different than last year, so that could be a scenario, yes.

Akash Gupta - JPMorgan - Analyst

Okay, and my second question is on competition in the high voltage market in Europe. So we had this, National Grid framework award in March, and I think there were 6 companies or consortium that were shortlisted by National Grid to award their table needs. So I'm just wondering any thoughts you have on competition because we saw some new players in that and any any any implications that we should be aware of thank you.

Claes Westerlind - Nkt A/S - President, Chief Executive Officer

Thank you, Akash. No, I couldn't give any specific guidance there. We noted exactly like you do on the six successful players there, of course. I think what we are seeing is also what we have seen in the last couple of years aspirations being put forward. I would like to draw the attention to the fact that the frame itself is not meaning any guaranteed volumes as such, so I think that was also quite clear from the outcome.

So and any volume allocations, will come to the market in a in a separate manner but of course being pre-qualified in the frame would be a prerequisite for being able to compete on that and apart from that I would just refer to many of the other discussions we have had where competition tends to be higher or more, the lower in the segments you go and it tends to be.

Only a few players that that really has the experience and the proven ability to deliver on the very high end on the HVDC 525 sea and land cables.

Akash Gupta - JPMorgan - Analyst

Thank you. That is it from my side. Thank you.

Claes Westerlind - Nkt A/S - President, Chief Executive Officer

Thank you, Akash.

Operator

Chris Leonard, UBS.

Chris Leonard - UBS - Analyst

Hi there, just two questions from me, if I may, please. I'll go one by one. The first actually just following up on the National Grid framework, orders, and I think Prismis was saying recently that they expect, that they could see some orders land in in 2025. Just wondered if as a follow up if you had any visibility on when you think those frames will turn into into firm orders. Thanks.

Claes Westerlind - Nkt A/S - President, Chief Executive Officer

Thank you. We try not to guide on specific agreements or customers when orders will come, etc. It's also connected to a big volatility of course things can pass quarter to quarter from year to year even without having a substantial difference for us as a business. Now with that said, it's not unlikely that we will see a number of orders being awarded this year, and we have also earlier said that the UK is a prime market for such potential orders this year and I think I will, we'll leave it with that statement that I think is unchanged from before.

Chris Leonard - UBS - Analyst

Okay, thanks. That's clear and the second one's on applications and just thinking about the weaker profitability as a result of construction markets, and I think it's clear from Q1 across your peer group that there's commentary in Europe that construction markets probably remain weak. Would you share that view across 2025 where you're expecting maybe a rebound in the second half that that can help improve margins alongside. I suppose the new sites being a full ramp just any color there on what you think the trajectory looks like on the construction margins, would be very helpful thanks.

Claes Westerlind - Nkt A/S - President, Chief Executive Officer

Oh thank you. I think in earlier calls when we were here a couple of months ago we talked about us expecting this segment to remain subdued for at least the first half and then to return to very modest to zero growth in the second half. I think this was before also many of the reinforced global discussions around tariffs, et cetera. So with that, I think without referencing any newer statistics, our expectations on this segment for the rest of the year is very modest. Okay, super helpful.

Chris Leonard - UBS - Analyst

Thank you.

Operator

Casper Blom, Danske Bank.

Casper Blom - Danske Bank A/S - Analyst

Yeah, thanks a lot. I have three questions. I'll just try and take them one by one. And first one is actually a little bit of a follow up to the previous question. Can you give any kind of help as to how bad profitability within low voltage and construction cables is hit right now? Is it still a positive EBIDTA margin in that segment?

Line Fandrup - Nkt A/S - Chief Financial Officer

In general, and Casper, thanks for the question. I understood. In general, we don't comment on the profitability on, let's say even the sub segments of the business lines.

I think what I would rather refer to is that the construction segment in application is a rather small part of the whole NKT business, so by that I don't think you should be too worried about this. It's also built into our outlook for the year that this is subdued and remains subdued.

Casper Blom - Danske Bank A/S - Analyst

All right, fair enough. And then coming back a little bit to Akash's question about, solutions, and revenue here, I think you have in previous calls mentioned that you could see a solutions revenue that would be flat to potentially down 5% in '25 versus 2024. Is that still sort of the, possible outcome that you see? Because I just heardla say that it's not unlikely that revenue is similar to '24.

Line Fandrup - Nkt A/S - Chief Financial Officer

This is what we let's say continue to see and then expect and there's a plus minus to that really also the beauty of the solution business in terms of what can you catch up and thereby POC all the opposite, but I think we remain at that level.

Casper Blom - *Danske Bank A/S - Analyst*

Okay, that is fair. Then my final question just goes to sort of the general market environment within high voltage cables. Obviously, somewhat of a hype scene in '23 and '24 in terms of market awards and I think it's also widely known that that there's been some pricing tailwind for both you and your competitors. .

Are you still seeing that pricing can hold up or is the sort of less hype starting to have a negative impact on pricing in the auctions observed in the market? Thank you.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer*

Thanks Kaspar it's a relevant question. The difficulty in answering it is of course the sample size that we operate with. So there's not so many awards, to be honest, which is out there, and we refer to the volumes being awarded in the first quarter just now.

Now with that said, we don't have any evidence suggesting that the supply demand balance looking at the risk reward aspect of the product that we are in now has substantially changed, and we also don't have that expectation for the near term.

We remain with the overall comment on the market that we believe it's going to be an average more than EUR10 billion from '24 to 2030, and we reiterate that now of course in light of what has happened the last two years when we look at this year specifically, it appears to be closer to the 10 more than anything above that. But as far as the risk reward balance is concerned, we don't, we haven't noted any changes.

Casper Blom - *Danske Bank A/S - Analyst*

So that's your way of saying that that pricing is holding up and I would then assume that that's also your starting point for tendering activity this year.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer*

I think that's your interpretation and I think there is not a big change in the market sentiment so so I think that's not an unfair conclusion, Caspar.

Casper Blom - *Danske Bank A/S - Analyst*

Okay, thanks a lot.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer*

Thank you.

Operator

Xin Wang, Barclays.

Xin Wang - Barclays - Analyst

Hi there, thank you for taking my question. Firstly, I want to follow up, on the consolidation line question that was asked before. So I'm working because I think there was some nervousness on the high voltage margin this morning, and I think this potentially could help explain that. So I'm working with two assumptions. One is accessories is higher margin than cables, which was what your peers communicated. And that was kind of also verified by a recently IPO accessories stand-alone business in Germany.

The second one is, I think the majority of the consolidation line was the accessories sales from services to solutions, and from your disclosure.

We can see you have [33 million] in the quarter, which is [70 million] higher year on year. And that's the vast majority of the movement in the consolidation line. So the FX effect is actually very minor. So if I normalize the revenue and EBITDA for the consolidation line and move this to solutions, which is how your peers book accessory sales, the solution margin would have been 100 bps higher. Therefore, you didn't really miss consensus on the solutions margin. Would you think this is a reasonable way to think about it?

Line Fandrup - Nkt A/S - Chief Financial Officer

I really like your attempt at driving the logic all the way through on accessories, margins and solutions. I would not confirm your calculation here, and I think there are some missing pieces in there, but probably something we can follow up on behind. What I want to afterwards, what I want to say is that.

The assumptions that accessories should carry a good margin, I agree to or we would agree to, should it be higher than cables, we would not say always. It depends again on projects that we have.

Significant, I would also say for the accessory size of business in-company sales to solutions, I would say yes to. It's always so for us that that's the let's say edge of our offering in the market. It's a solution including the cable, the accessories, the joints, the installation, and that's really how we make also a strong business.

When we didn't return to the currency impact, it is something you see in the consolidation on the non-allocated, and it has a certain bearing, for sure. So trying to separate a little bit your business logic and then the the curing implication, which I don't think you can draw directly through as you try here.

Xin Wang - Barclays - Analyst

Okay, that's why we can follow this up later. And you also said in the release that during the quarter, NKT completed the site acceptance test for the Attica-Crete power cable project in Greece.

Would you tell us the implication of this top line margin? Could this be the margin dilutive part?

Line Fandrup - Nkt A/S - Chief Financial Officer

So you're fully right, we did this acceptance system it's more for us to show you or share with you some of the traction on the underlying projects. We would dare is one of the oldest projects we're executing on, so I think you can draw some conclusion about at least profitability from that time, how much it ends up contributing right now. We would not comment at that level, but certainly the mix is in there.

Xin Wang - Barclays - Analyst

Okay, great. My last question if I may, so people already asked about the construction exposed low voltage, demand, by country, would you see divergent trends because some of your peers mentioned recovery in selective markets, just wondering, in which countries have you seen signs of recovery if anything at all?

Claes Westerlind - Nkt A/S - President, Chief Executive Officer

I assume now that you're asking about the construction related segment and we have not seen any broad-based recovery, and I think we will refrain a little bit from commenting too much on different regions, but I would confirm the hypothesis, and I think you're referring to others as well there that it is a very regional market, so they do behave differently both from a volume perspective and also from a pricing perspective. But I will say that without going into details what markets carry which volumes or margins.

Xin Wang - Barclays - Analyst

Okay, great. Thank you very much.

Claes Westerlind - Nkt A/S - President, Chief Executive Officer

Thank you.

Operator

Lucas Ferhani, Jefferies.

Lucas Ferhani - Jefferies - Analyst

Thank you. Good morning. I have three questions as well if you can do it, one at a time. The first one is on, application and more specifically on the power grid, business, the medium voltage business within this, because obviously you mentioned competition and pricing also there and probably the margins also impacted.

There I'm just wondering if you can give some more details about where you're seeing necessarily the issues there obviously we haven't necessarily seen some of the the other companies in the sector talk about, power grids margin being a bit more under pressure and also within the solidar. Business, there's quite a high exposure to low voltage kind of within the grid. Is that maybe more the part where you're seeing that weakness? Thank you.

Claes Westerlind - Nkt A/S - President, Chief Executive Officer

Thank you. I think on the second part of the question around SolidAI, I think we will refrain commenting on specific factories or perimeters within the applications business other than to confirm that we are on track with the integration and as far as the performance goals we are satisfied with that perimeter, to your first question.

Around the power grid area, as I mentioned before in the presentation, what we have seen in the first quarters are two aspects. One aspect is that there are some pockets in the market where we see increased competitive pressure, which is putting the margin under pressure.

And then secondly, there is also a mix aspect obviously also within the power grid segment there are different kinds of products and not only products but also different kind of projects or customer segments and there the mixed change that we experienced in Q1 also put the margins of the business lines a little bit impacted, so these are the two.

Tendencies that we are seeing, we are of course vigilant around this also going forward, but that's what we observed during the first quarter, and this was primarily in the Central European markets.

Lucas Ferhani - Jefferies - Analyst

Perfect, thank you. And the second one was just on the phasing of of CapEx. Usually the first quarter is lower and then it accelerates throughout the year with a stronger Q4 just because now you're running obviously very different projects across different geography. Should we see a different kind of quarterly phasing, otherwise that would imply probably a much higher CapEx number for for the year. So should we expect that we're not necessarily going to see. As much seasonality as the usual year on CapEx. Thank you.

Line Fandrup - Nkt A/S - Chief Financial Officer

That's a good question, Lucas. I think you should. You should primarily go by the the annual caps and I understand your wish maybe to split by a quarter. I wouldn't say that you could expect that we wouldn't have the seasonality sometimes in a business, and I've seen this other places too, it is so that it's like there is a certain sprint on investments throughout the year where you get mobilized, you increase the spend and you get certain things done.

Even closer to new year's and the early days, but we're running such a big project in in Karl corner, so it's, I think you're right that it will be maybe less of that because it's more big pieces moving, but I wouldn't comment necessarily on the exact split around the quarters.

Lucas Ferhani - Jefferies - Analyst

Okay, thank you. And the last one was just on the service and accessories just the level of of margins in that quarter you point to kind of specific one off maybe here and that we shouldn't necessarily take the Q1 margin for for the full year that's something to to highlight there or it's just, maybe the. Increasing accessories will kind of continue your scaling the solutions business and so the margins are maybe higher than what we expected before which is more kind of low to meet teams versus this level. Thank you.

Claes Westerlind - Nkt A/S - President, Chief Executive Officer

I can start and leading and compliment, I think both business lines are contributing in a positive manner to the quarter if compared to the same period last year. So there is sustainable improvements in the baseline business in both business lines.

Now with that said, part of the strong performance and the margin in particular also came from, as I said earlier. A number of repairs and maintenance projects which themselves are of a discreet manner. So as you can understand we are of course extremely satisfied with the 19.3%, but this is not something that we are using as a proxy now going forward with reference to what I just said.

Line Fandrup - Nkt A/S - Chief Financial Officer

No, I wouldn't have anything.

Lucas Ferhani - *Jefferies - Analyst*

Great, no thank you that's it.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer*

Thank you.

Operator

Lars Topholm, Carnegie.

Lars Topholm - *Carnegie Investment Bank AB - Analyst*

See, a couple of questions on my side to applications, also, the first one is in such a scenario where you see increased competition and problems and price pressure, how do you respond in terms of pricing? Do you follow suit in being a little bit, More lenient on price or do you rather say, okay, then we take in fewer orders and on the cost side, are you in a situation where you feel you need to do something to cater for this situation? I have another question on applications afterwards.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer*

Thank you Laurs good speaking to you. It's good questions I think if we start with the just the operational footprint in our situation and applications we are satisfied with the changes we have done over the last couple of years and and.

We are also of course never satisfied with respect to improvements on cost-based improvements on operational efficiencies just to continue the journey to get better all the time.

Now with respect to how do we act in an environment like just described, I think I would be very careful to disclose our market tactics on how we respond on it more than to say that of course we strike the balance between absorption, turning the assets, and also of course the margin of the same and and and in that obviously also having just a whole market component of our positioning, the competitive environment in mind but I would.

I would ask not to go deeper into that also for competitive reasons. I hope you understand.

Lars Topholm - *Carnegie Investment Bank AB - Analyst*

Yes, of course, I understand that that's all there. Second question, on a more positive note, in applications, you won a framework agreement with RTE of France.

So a couple of questions to that. If I look at the length of cable you have to deliver and the total framework that also include others than you, my guess is EUR180 million. Is that's completely far off. And can you talk a little bit about the execution profile of this? When will it become firm orders? Are you in the future going to announce such framework agreements in general and can maybe also talk about what some of the other CSOs are doing in low and medium voltage.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer*

Yeah, thank you. If I just take in general in the low and medium voltage this sentiment in the market, I can repeat what I think I have said a couple of quarters ago where we have said, which is that we have seen a tendency in that market of the frames are getting longer in circumference, so they're moving from being quite short term agreements to becoming longer, also becoming more articulate when it comes to volumes.

So what the volumes are that are projected and even there are not tangible examples of contracts being signed but at least in discussions of framework agreements even with some sort of a volume guarantees in them.

It is obviously we have to distinguish between solutions and applications, but at least that's a sentiment we have seen in general without going into particular markets and I think you can see us also during last year having announced quite a couple of frames that we have been successful in RTE is one of these frames and I will I think disappoint you a little bit by saying that I you know I cannot go into further details on that agreement than what we have disclosed.

In the past through the press releases now as to whether we will announce or not, we do so when we have either a material obligation to announce or we see that there is a marketing aspect that is positive for us in announcing, but the frame agreement with RTE is an important one you know we have been a supplier to RTE both in the legacy NKT era, but also solid has been.

And this agreement, I think manifests that situation both on medium voltage but also on the low high voltage sphere which is what is being covered by this agreement, and I will unfortunately not give you an indication of whether the estimate from your side on the monetary aspect is right or wrong.

Lars Topholm - *Carnegie Investment Bank AB - Analyst*

Fair enough. Thanks.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer*

Thank you. Okay, so with that I understand from our operator that we are out of questions and I just want to thank everybody for tuning in today and of course me and me and Line and the organization are happy to say that I think you one shows a positive continuation of last year and that's also another step in the staircase towards our medium term ambitions in '28. And with that said, I wish everybody a good day and a good weekend when it comes.

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