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NKT.CO - Q2 2025 Nkt A/S Earnings Call

EVENT DATE/TIME: AUGUST 15, 2025 / 8:00AM GMT

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## PRESENTATION

### Operator

Welcome to NKT's presentation of the interim report for the first half of 2025. (Operator Instructions) This call is being recorded.

Today's speakers are President and CEO, Claes Westerlind; and CFO, Line Andrea Fandrup. Please begin your meeting.

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

Thank you. Good morning, everybody, and welcome to this conference call covering our interim report for the first half of 2025. My name is Claes Westerlind, and I'm the CEO. And as usual, I'm joined by our CFO, Line Fandrup, for today's call. In the first part of the presentation, I will cover the overall and business lines development, while Line afterwards will go through the financials for the first half of the year and the second quarter.

Let's move on to slide 3. Before going into the presentation, I will ask you all to pay close attention to this disclaimer as the presentation may contain forward-looking statements. Now let's move on to our key messages for the quarter.

The positive development was maintained in the second quarter of 2025. The stringent focus on execution, both of our backlog and the investments to increase capacity across the businesses was maintained. Throughout the quarter, the activity was high across all three business lines. And again, here in Q2, we delivered double-digit organic growth.

On the earnings side, for the first time in company history, our operational EBITDA exceeded EUR100 million, which is up 22% compared to last year. This is a remarkable achievement, a notable milestone for us as a company, and it's also a testament to the hard work by all our employees.

The improvement compared to Q2 in last year was primarily driven by the performance in Applications and Service & Accessories. We also had a high activity level on our capacity expansion programs, where the strong focus on executing with sufficient quality at cost and within the time frame continued. Across all investments, the progress was as planned during the quarter.

The new high-voltage factory in Karlskrona, the second cable-lay vessel, NKT Eleonora and the capacity expansions at our application sites in Asnaes, Denmark and also in Esposende in Portugal.

Based on the solid financial performance so far in 2025 and the expectations for the rest of the year, we are updating our financial outlook. We now expect revenue in standard metal prices of approximately EUR2.65 billion to EUR2.75 billion compared to previously approximately EUR2.33 billion to EUR2.52 billion, and operational EBITDA of approximately EUR360 million to EUR390 million compared to previously EUR330 million to EUR380 million.

Let's turn to slide number 6 to take a look at the overall financial performance for the second quarter. The solid financial performance was maintained in the second quarter of 2025, where the organic growth landed at 13% and operational EBITDA amounted to EUR105 million.

The high activity level across the business line was the driver behind the organic growth with positive contributions from all three business lines. From an operational EBITDA perspective, the improvement was driven by the Applications and Service & Accessories business lines. We also saw a margin improvement reaching 14.5% compared to 14.2% in the second quarter of 2024.

In Q2, the high activity level in Solutions was maintained as the execution of the high-voltage order backlog continued. In addition, organic growth was supported by specific variation orders and operational execution was overall satisfactory.

Operational EBITDA was largely unchanged compared to the same period last year. The high revenue and improved operational EBITDA in Applications were driven by the contribution from the acquisition of SolidAI and the additional capacity coming online in Q1.

Volumes in the power distribution grid segment remained healthy with a robust demand for medium-voltage cables. The construction-related segment is still subdued, but we did see a slight improvement during the quarter, but volumes and prices remained below the second quarter of '24.

Service & Accessories had a strong quarter. Activity level was high in both segments, leading to a positive organic growth and with satisfactory execution, operational EBITDA more than doubled. Margins improved in both Service & Accessories.

Let's turn to the next slide for a deeper look at each of the business lines, starting with Solutions. Solutions revenue amounted to EUR450 million in the second quarter of 2025, up from EUR379 million in the same quarter last year. This corresponded to an organic growth of 18%.

The positive development was driven by a continued high activity level as we progressed on our high-voltage order backlog with overall satisfactory product execution. In the quarter, we also had a positive revenue contribution from specific variation orders. Again, in this quarter, installation activities were high and our installation vessel, NKT Victoria was well utilized.

Operational EBITDA was EUR66 million and thereby basically unchanged compared to the same quarter last year. The margin for the quarter was 14.7%, unchanged from the first quarter, but a reduction compared to last year. This was due to a less favorable product mix and the margin dilution from certain variation orders executed at lower margins.

We wish to remind you that in a product business like NKT, quarterly margins will vary between quarters depending on the phasing of projects and execution, but the larger trajectory leading towards '28 and beyond is confirmed by the performance in the second quarter.

We saw progress on several projects in the backlog being at different stages of execution during the quarter. Main contribution came from Champlain, Hornsea 3, East Anglia 3, SuedLink and SuedOstLink. In July, we shipped the last segment of the offshore cables from Karlskrona to the Champlain Hudson project, and focus is now on continued installation of both the onshore and offshore parts.

At the site, both in Karlskrona and Cologne, the investment programs to expand high-voltage capacity progress as planned. The same goes for our second cable-lay vessel, NKT Eleonora. I will later in the presentation reflect on the status of the individual projects, but the main point is that all are on track to become operational from 2027.

Please go to slide 8 for an update on the high-voltage market and our backlog. In the first half of 2025, the estimated project award across our addressable market amounted to around EUR3 billion. Like the last couple of years, the awards were mainly driven by the DC technology.

This is lower than what we saw in the first half of last year, but it's still a high figure in a historical context, and we continue to see healthy tender activity. As the individual projects are getting larger in size and the investment process are affected by governance processes, permits and other political decisions, the short-term numbers could easily vary.

Our high-voltage order backlog ended the quarter at EUR10.1 billion. This is slightly lower than the level from the previous couple of quarters as we have executed on the orders in the backlog. Unchanged since at the end of 2024, we, on the top of the order backlog have booking commitments from our customers of more than EUR3.5 billion.

We expect these bookings commitments to be converted to firm orders over the next couple of years. The composition of the backlog has changed slightly, and now more than 90% of the orders are with European TSOs. With regards to used applications, the view is unchanged with around 55% being interconnected projects and around 40% offshore wind.

Together with the booking commitments, the backlog gives us good visibility for the coming years and thereby also into our medium-term financial ambitions for 2028, which gives us the opportunity to focus on the long-term development of the company.

We remain highly active in commercial pursuits, abiding to our disciplined approach to optimize utilization, risk and profitability across our production installation assets. On an ongoing basis, we are also assessing the expected market development. Our view is unchanged and for the period of '24 to 2030, where we expect our addressable market to remain on average more than EUR10 billion annually.

As also seen here in the first half, the short-term development always comes with some uncertainty, but with that being said, we remain confident in the expectation of a healthy supply-demand balance throughout this decade. Our view of the market appearing to move into more balanced territory when looking into the 2030s also remains unchanged.

Please turn to slide number 9 for a look at the Applications business line. Revenue in the Applications business line increased to EUR234 million in the second quarter of '25. This was driven by the contribution from the acquisition of SolidAI and 11% organic growth.

The additional medium voltage capacity that we have added in the Czech Republic and Sweden were fully operational in the quarter. The Construction exposed segment continued to be subdued with both volumes and prices below last year, although a slight incremental improvement compared to Q1 was observed during the quarter.

Operational EBITDA increased to EUR31 million compared to EUR21 million in the same quarter last year, driven by the SolidAI acquisition and the additional medium voltage revenue. The margin improved to 13% from 11.8%. This positive development was driven by SolidAI and also the increased revenue in the Power Distribution Grid segment.

From a market perspective, we observed a slight incremental improvement during the quarter. The demand for medium voltage cables remained robust, especially driven by European DSOs, upgrading and strengthening the Power Distribution Grids. With our increased capacity, we were able to meet this demand.

And during the quarter, we saw a slight easing of the increased competitive environment in selected markets that we mentioned in Q1. As said, also the construction-related segment remained subdued, but during the quarter, we saw a slight improvement due to a modest increase in construction activity.

Please go to slide 10 for Service & Accessories. Service & Accessories continued a strong development. Revenue of EUR70 million was EUR6 million higher than last year, and organic growth was 7%. The growth came from accessories segment as organic growth in aervice was slightly negative due to the high comparison base from the second quarter in '24, where we executed large offshore repair work.

Both segments enjoyed a high activity level in the quarter. Service benefited from a variety of different activities, including repair jobs, maintenance projects and also installation works. Execution was satisfactory and thereby also positively benefiting profitability.

The demand for accessories continued to increase, driven by both medium and high-voltage accessories. The projects in our high-voltage order backlog also contributed positively to the development and execution in the quarter was satisfactory.

To support the positive development, the construction of a new test hall in Alingsås in Sweden was as expected, completing during the quarter and the facility is undergoing a gradual ramp-up.

Operational EBITDA more than doubled to EUR14 million in the quarter compared to EUR5 million in the second quarter of '24 with the margin landing at a satisfactory 20.2% compared to 7.1%. Profitability in both segments improved and the positive development was driven by higher revenue and improved operational performance.

Please turn to the next slide, where I will give a status of our investment projects. We made solid progress on our investment programs, and they all followed their individual plans. This also means that the expectation of an accumulated CapEx of around EUR2 billion for the period of '25 to '28 is unchanged.

In Karlskrona, Q2 was characterized by a lot of construction activities going on simultaneously at many different locations. Within the tower, we have progressed with installing both ancillary and machine equipment and across the site, installation of machinery progressed.

The first building was completed as we inaugurated the new logistics center and took it into operation. All necessary permits for the expansion of the harbor has been granted and construction started in early August. Following a public competition, the 200 meter extrusion tower was named NKT Crown alongside its sister Lighthouse and Anchor.

We are following the plans and the factory is still expected to be operational from 2027, the latest. The construction of our second cable-lay vessel, NKT Eleonora is also progressing according to plan. The completion of the individual sections of the hull are progressing, as you can tell from the illustration on the slide.

The final outfitting of the vessel will be done in Norway during next year, and the planning of this part of the construction was initiated also during the second quarter. In parallel with the factory, NKT Eleonora will also be operational from 2027. In Cologne, where we also add additional high-voltage capacity, the progress was also in line with plan.

We initiated the installation of the new extrusion line and installation of additional equipment progressed. The additional capacity in Cologne is also expected to be operational from 2027.

Lastly, in Applications, the construction in Asnaes progressed with the completion of civil work, including foundation cast and construction of the new extrusion tower. The installation of equipment has been initiated and the new capacity is still expected to come online from 2026.

At our Esposende site in Portugal, we are seeing clear progress in the construction as illustrated on the picture to the bottom right. The additional capacity is still expected to be operational in 2027.

This, ladies and gentlemen, concludes my part of the presentation, and I will hand the word over to Line to take a look at the financials. Please turn to slide 12.

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

Thank you, Claes. And good morning from me as well. Let's start by going into the income statement for NKT's financial highlights of Q2. Revenue in Q2 amounted to EUR723 million, up from EUR605 million in the same period last year. Organic growth of 13% was driven by positive contributions from all three business lines, which saw also high activity levels.

In addition, the SolidAI acquisition contributed to the revenue and as we now have owned the company for 12 months, this business will contribute to the organic development going forward.

Operational EBITDA for the quarter was EUR105 million, an increase of 22% compared to last year. The first time in the company history, EBITDA exceeds the EUR100 million mark. The margin was 14.5%, a slight improvement compared to 14.2% reported in the second quarter of 2024.

As Claes went through in his presentation, Applications and Services & Accessories contributed positively to the improvement, while the EBITDA in Solutions was on par with last year, mainly due to a less favorable project mix.

Depreciations and amortizations are up by EUR10 million to EUR34 million, driven by our investments and the SolidAI acquisition. EBIT thereby amounted to EUR71 million compared to EUR61 million last year.

Financial items net was a cost of EUR1 million as interest income on our cash position was more than offset by costs related to fluctuations of foreign exchange rate. In Q2 2024, the income of EUR16 million was a result of income from both interest and FX fluctuations.

Tax for the quarter amounted to EUR16 million, equal to an effective tax rate of 23%. The low tax cost of EUR2 million in Q2 2024 was impacted by regulation of German tax assets. All in all, this leaves us with a net result of EUR54 million compared to EUR75 million from continuing operations last year.

The net result in Q2 2024 was positively affected by EUR104 million related to the divestment of NKT Photonics. Our employee headcount continued to increase, reflecting our growth journey and our investments to support this development. On average, more than 6,000 people were employed at NKT during the second quarter.

Let us turn to the next slide to look at the cash flow development. Free cash flow for the second quarter was negative minus EUR175 million, driven by a combination of a negative effect from changes in working capital and the investments conducted during the quarter.

Changes in working capital was an outflow of EUR82 million, and it reflected the phasing of specific milestone payments in the Solutions business line. This development offset the positive operational EBITDA. Investments in the second quarter amounted to EUR174 million, reflecting the higher activity level across our investment programs, mainly in solutions, but also in applications.

This level was almost a doubling compared to Q2 2024, and the high level is expected for the remainder of the year. Net cash flow for the quarter was negative EUR198 million.

Let's turn to slide 15 for a look at the balance sheet. The working capital position stood at negative EUR1.1 billion at the end of the second quarter. This reflects an increase of EUR52 million compared to at the end of our first quarter and is unchanged relative to a year ago.

These movements are due to the phasing of specific milestones in solutions as described on the previous slide. Capital employed increased by EUR163 million during the quarter due to investments and a less negative working capital position.

Compared to a year ago, capital employed has more than doubled, but this effect has been offset by an increased earnings level, leaving ROCE unchanged at 30%. Over the coming years, ROCE will continue to vary between the quarters as it depends on earnings from operations, timing of payments from customers, and not least, a higher asset base from the ongoing investments, which will ramp up during the years.

The net cash position was around EUR750 million at the end of the first half, providing a robust financial position. This is a requirement both to fund our investments and also to continue progressing on the growth journey that lies ahead of us in the coming years. During the second quarter, we also refinanced our revolving credit facility.

Let's go to the next slide for a update on the outlook for '25. So based on the financial performance so far in 2025 and our expectations for the rest of the year, we have updated the financial outlook for the full year. We now expect revenue at standard metal prices in the range of EUR2.65 billion to EUR2.75 billion compared to previously EUR2.37 billion to EUR2.52 billion.

Operational EBITDA is now expected to be between EUR360 million and EUR390 million compared to our previous outlook of EUR330 million to EUR380 million. The update is driven by the Solutions and Services & Accessories business lines.

In the first half of the year, we reported double-digit organic growth driven by the high activity level across the business, including specific variation orders and a high level of subcontracted revenue in Solutions. This is expected to be lower in the second half of the year, but we expect the revenue growth in Solutions business line to be slightly positive for the full year.

Throughout the year, we continue to execute mainly on projects awarded in 2020 to 2022. Looking at the projects planned for execution in the second half of the year, the project mix appears to be slightly more favorable compared to the first half. Unchanged from previously, we have a higher cost base in Solutions as we support the ongoing investments and production ramp-up.

The dilution on group margin in 2025 from these costs is still expected to be slightly higher than they're around 1 percentage point in 2024. We expect Service & Accessories to maintain a high activity level for the rest of the year, driven by the overall demand in the market and contribution from repair jobs.

We therefore expect a higher contribution from Services & Accessories on both revenue and EBITDA compared to our initial outlook. Unchanged, we expect Applications to contribute positively to the revenue and EBITDA development in 2025. All other assumptions presented in the annual report 2024 are unchanged and listed on the right-hand side of the slide.

Please turn to slide 17. We have a strong foundation for the growth journey that lies ahead of us. With the results achieved and the execution on our capacity expansion investments in the first half of the year, we made clear progress towards our financial ambitions for 2028.

At that point in time, we will have a significantly higher revenue base with more than 14% organic revenue growth CAGR from 2021 to 2028 and an operational EBITDA of more than EUR700 million. And just as important, we expect to generate a ROCE of at least 20%, reflecting the improved earnings levels and a solid return on our investments.

Now let me just recap the main highlights of the quarter on slide 18. We maintained a positive development in the second quarter of 2025 with continued stringent focus on execution of our high-voltage order backlog and our investments to expand capacity. We delivered 13% organic growth with positive contributions from all three business lines. And our operational EBITDA amounted to EUR105 million, up by 22%, and it exceeded the EUR100 million mark for the first time in company history.

All capacity expansion programs followed the plant across both solutions and application, we saw the expected progress. Last but not least, we updated our financial outlook for 2025 based on solid financial performance we have seen so far in the year and our expectations for the rest of the year. We now expect revenue in the range of EUR2.65 billion to EUR2.75 billion, and operational EBITDA between EUR360 million and EUR390 million.

With this, we have concluded the presentation, and we will now hand over the word to the operator to guide us through the Q&A session.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Claus Almer, Nordea.

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**Claus Almer** - Nordea Markets - Senior Analyst

Thank you. Yeah. I will start out with a few questions. The first is about the whole margin trend within Solutions. As I understand, part of the revenue and the surprisingly strong revenue comes from variation orders that may only be more or less a pass-through of third-party work. So maybe you

could give some more color to how did this part of the revenue impact margins both in Q2 and maybe also how it impacts the full year guidance? That would be the first question.

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**Operator**

Klaus, can you please repeat your question again?

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**Claus Almer** - Nordea Markets - Senior Analyst

Yeah. So it seems like you didn't hear my question. So I'll try again. A question to you, Claes, is about the Solutions division. As I understand, part of the very strong revenue trend is given based on variation orders, which is partly driven by third-party work, where you only will add a small margin. So could you put more color to how does this third-party works impact your margins, both in the Q2, but also on the full year guidance? That will be the first question.

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

How much color I can give to that question, to be honest. But what we were drawing to on the Solutions margin for the second quarter were two aspects of it. The first one was the product mix. And let me also add that, that the product mix, of course, is a part of both the margin in the actual projects and then the second one is also obviously the absorption of the assets that we have. So that's the first one.

And the second one was also the reference to the variation orders, as you rightfully bring up now. Now the only thing we wouldn't have said that unless it was not an immaterial impact on the margin overall for the business line. Variation orders typically is always good news from a nominal perspective for NKT.

So it's the right thing to execute those. It is giving us return without increasing our capital employed. So I want to start by saying that. Having said that, if it is more complex scope, obviously, the variation orders will carry inherently better margin.

If it has been foreseen from the beginning, it would also typically carry better margin. If it is more low complex scope, it will carry a percentage-wise, a lower margin, or if it has not been envisaged from the beginning, it would also potentially be a cost-plus situation. But as for the total impact on the business line, I think it's difficult for me to give further guidance than this, Claus.

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**Claus Almer** - Nordea Markets - Senior Analyst

Okay. But it would be very helpful. It is so difficult to figure out how is the margins trending in Solutions. So maybe trying in a different way, if you look at the guidance upgrade, and I know this is on group level, but is the higher revenue more about these variation orders with very little profitability impact and then the profitability or EBITDA upgrade is more about execution. Would that be a fair assumption? Or how should we think about the guidance upgrade then?

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

I think that's a good way maybe to ask the question. If I start on the revenue part of the reason looking backwards for us now, all else changed looking forward to increase the outlook, from a revenue perspective, this is pertaining to Solutions and also primarily Service & Accessories seen what has happened in the first half year.

And this is in Solutions, it is pertaining to installation, the traction in installation and also variation orders that have been acquired. And for Service & Accessories, it's primarily connected to the fact that we have had a higher amount of discrete work, meaning repairs and maintenance products than what we foresaw from the beginning of the year. So that's the revenue perspective.



If you look at the EBITDA perspective, then there is a less EBITDA impact coming from this revenue increase. And there, it goes back to the VOs from the variation orders, which are primarily executed with subcontractors, but also the fact that applications had a relatively low Q1 from a margin perspective, which is necessarily not possible to compensate in the second.

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**Claus Almer** - Nordea Markets - Senior Analyst

Okay. A little bit more -- now that I understand a little bit better at least. Then my second question goes to the pipeline conversion. And so, as you mentioned that these conditional orders of [EUR3.5 billion] will be converted over the next couple of years.

But you also have the National Grid frame agreement and others. Maybe you could give little bit more precise on what should we expect for the second half this year and maybe what will be for the next year? What are you seeing, so to speak?

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

Yes. Absolutely. If I start with the EUR3.5 billion that you referred to as basically the order commitments maybe on top of the backlog, so to speak. And there, we don't expect any conversion of that to backlog for the remainder of this year, but as we said, in the coming years, and that also includes potential conversion next year.

But then without going further into the details of that, then for the rest of the spot markets or frames, we have seen in the first half year around EUR3 billion, as I said, initially being awarded. We can see that there is a fair amount of activity on the market for the moment, and we do expect some larger awards to be made in the coming months.

That's now I'm refraining from speculating as to whether NKT will win or not, but I can confirm that we see that it's likely that there will be some major awards in the coming months.

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**Operator**

Lucas Ferhani, Jefferies.

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**Lucas Ferhani** - Jefferies LLC - Analyst

Good morning and thanks for taking the time. My first question was again on Solutions. Is there a part of the kind of higher revenues that's maybe a bit more pricing on the backlog? Or this is solely kind of those variation orders? I'm just asking that question again as we think into 2026 if excluding even variation orders, there's still some positive impact from pricing as you move project mix?

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

No, I wouldn't say, not to a material extent in the second quarter. Of course, you can discuss the churn of the backlog. I think we have talked about that before, and that will be a gradual churn over the next couple of years. But the material impact from a change from legacy to more recent projects will come in '27, both for the existing assets in operation today, but of course, also with us taking the new assets into operation.

Then again, this will vary from quarter-to-quarter. But if anything, I think the composition, as we also alluded to in the presentation, was perhaps less favorable in the second quarter.

**Lucas Ferhani** - *Jefferies LLC - Analyst*

Perfect. Thank you. And the second one is on Applications. If you can talk around, firstly, in Power Grid, it seems the contribution from SolidAI is kind of similar to what we've seen before, but the margin has really rebounded versus kind of Q3, Q4, Q1 that we've seen this last 12 months. So is it just that the pricing environment is better? Is there also some seasonality? Q2 is usually a bigger quarter, so you can speak around that.

And just to confirm on the improvement in low voltage in construction, it's not something you have seen in Q2. So it doesn't necessarily have a positive impact in that Q2 number? Or is it still better kind of year-on-year? And do you expect kind of Q3, Q4 to be better in the (inaudible) construction segment? Thank you.

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

There was many questions here. So you have to correct me now if I miss anything of it, but I will try to shed some color on the profitability in Applications. And you're right, it was very strong quarter for Applications. So from a margin perspective, the 13% margin is a record for that business line. So that we are definitely satisfied with.

If we try to put it into a little bit of context, if I start with the segments, so the Power Distribution segment, meaning then primarily the medium voltage cables, but also part of the 1 KV cables. Here, we were benefiting in the second quarter from assets that we took into operation in the first quarter.

And this is in Sweden and Czech, particularly following those investments that we've earlier said that on a full year base may imply a 5% to 10% revenue increase. That allowed us to recognize more revenues. And because of the strong market, there was also loading to do the same, and that also contributed to the earnings.

And on top of that, of course, also SolidAI had an aspect in that as well into that very segment. Secondly, if you look at the Construction-based segment, this remains subdued. So that means both prices and volumes on a year-on-year comparison was lower in the second quarter versus the same quarter last year, although we did towards the end of the second quarter, note a slight improvement in the demand for construction-related cables.

And we maintain our pessimism around this segment for the full year of '25. But of course, it was not bad news that we did see a slight improvement at the end of the second quarter. So that's a little bit from a segment perspective. If I then take the perspective of Q1 to Q2 development, you will recollect the discussions we had also in this forum, where we explained the profitability in the first quarter referencing to three different areas.

We talked about the mix in Applications, especially in the medium voltage to Power Distribution segment. we talked about selected pockets of competition, and we talked about the Construction segment. I think the Construction segment I just described.

And if I then go to the mix, we noted a positive development of more favorable mix enjoyed by the Applications business line during the second quarter, which contributed also to increased earnings. And finally, the selected pockets of competition, I think we labeled as we saw an easement of that in the second quarter.

We are humble and competition will always be there and will always be there, but at least the impact of that was less in the second quarter. I hope that sheds some light, Lucas. Now you can enlighten me if I forgot any aspect of your question.

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**Lucas Ferhani** - *Jefferies LLC - Analyst*

That's all super clear. No further question. And just to Line, congrats and wish you the best for your next adventure.

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

Thank you.

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

So maybe just to add one last thing, reminding what you said there, seasonality, yes, Q2 is a strong quarter typically for the Applications business line, and that needs to be kept in mind also when extrapolating further.

And especially Q4 is typically a fairly weak quarter for the Applications business line. So just leave you with that reflection. And I don't know if congratulations is in order, actually. That's not how it feels to me, but we take your comments.

**Operator**

Akash Gupta, JPMorgan.

**Akash Gupta** - *JPMorgan Chase & Co - Analyst*

Yes. Hi. Good morning and thanks for your time. I got a couple of questions as well. I'm sorry, I got disconnected earlier from calls, so apologies if I ask them again. But my first one is on Solutions. So I mean, if you look at the full year or second half expectations.

I mean, Line, you mentioned in your prepared remarks that for the full year, you are still guiding for slight growth, if I'm not wrong, and that would imply double-digit decline in the second half. So maybe if you can clarify if that math is correct or anything that you would like to add to that calculation?

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

I think what we say about rest of year or we say about the outlook in general is that we have a higher installation scope than we expected when going into the year, and that's due to this, especially driven by specific variation orders and we see a high activity level to be continued.

And then we see also Service & Accessories having a higher activity level related to repair works. And these are difficult to predict. But based on what we know now, this is what we have included in the outlook. And then Application is more or less in line with expectations. So that's on the revenue side.

**Akash Gupta** - *JPMorgan Chase & Co - Analyst*

My question was more specifically on Solutions. So if I recall correctly, you said slightly positive for the year. Is that revenue outlook still hold? Or how do you see solution revenues for the full year?

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

So we don't guide on the business lines. So I think what we said back in early this year was the expectations. Then variations orders will come in and can change the picture. And this is also what you are seeing here in the first half, and you will see in the second half as a part of why we changed the outlook for the year also.

**Akash Gupta** - JPMorgan Chase & Co - Analyst

Okay. So basically, you're expecting some impact of variation orders also in the second half as well?

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

Well, variation orders by nature also come at different kind of times and not to be predicted linearly. But yes, definitely, that's what we execute on, and we could see rest of year variation orders is a part of that.

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**Akash Gupta** - JPMorgan Chase & Co - Analyst

Thank you. My second one is on competition in medium voltage. I think in Q1, you commented about competition in some countries. Where do we stand on competition when we look at various countries exposure you have in medium voltage space? And has there been any change in Q2 versus Q1? Thank you.

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

Thanks, Akash, for your question. And I will repeat the question a little bit or the answer from earlier there that you're right, we talked about selected pockets of increased competition in the first quarter. And what we could note during the second quarter was an ease in that pressure. So that means a sequential improvement versus Q1.

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**Operator**

Xin Wang, Barclays

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**Xin Wang** - Barclays Services Corp - Equity Analyst

Hi, there. Thank you for taking my questions. A very strong execution there. Congratulations. My first question may be a follow-up on the high-voltage order momentum there. So you said you will likely see larger tenders coming to the market over the second half. Can you maybe give us more color on what region looks more promising or which TSO have potential tenders that they will launch on to the market?

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

Thank you and good morning. I know we are a little bit apprehensive of being too specific around exactly what tenders are out there, but I think we can repeat what we have said before, just first clarifying that it's not only tenders coming to the market, it was when I was referring to activity, I was referring also to tenders being firmly awarded to the market.

So meaning being converted into backlog with any of the suppliers. And we have historically said that we expect UK to be a strong market this year. And I think I would leave it with that. And then I think you will be able to guess what could be the case.

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**Xin Wang** - Barclays Services Corp - Equity Analyst

Yeah. Indeed. Thanks very much. And then my second question is on Applications. So in the regions where you encounter or foresee higher competition from local suppliers, do you see opportunity to consolidate them, which will help you take out competition and also improve your mix in the segment and you did execute the SolidAI consolidation very well.

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

Thank you. And a good question, a strategic one. If just reflecting in the wider perspective, the Applications segment also in the medium voltage space is much more diversified and fragmented, if you will, than what it is in the high voltage. So just by that aspect, of course, the opportunities of consolidation presents themselves, so to speak. And we have also seen historically that consolidation has occurred.

You mentioned one of the examples now, and there are others. Our growth strategy has primarily been and still is organic, where we are investing our money if we want to grow primarily towards opportunities that would allow us to support our 20% ROCE ambition. So that goes to the first or if there are strategic relevance to those organic investments.

But secondly, it would also, of course, be an opportunity for M&A. This is more opportunistic and not something which is a fundamental part of our strategy. So we will let logic lead us. If there is good business logic to do something like that, then we would absolutely not take it off the table.

**Operator**

Chris Leonard, UBS.

**Christopher Leonard** - *UBS AG - Analyst*

Yeah. Hi guys, thanks for taking the question. Quite a few actually. Maybe I'll go in turn, but just to start, really strong beat in applications. And obviously, you've spoken about some of the drivers already. And clearly, competition was slightly more favorable, which helped on pricing with the new capacity.

But should we expect into the second half that margins are kind of staying at that first half level of sort of 11% EBITDA, or actually now with medium voltage maybe coming up in the mix more? Could you actually raise those levels into the second half in terms of margin? That would be really helpful. Thanks.

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

Thank you. I think there are a couple of different aspects to the question, but I think you were also pointing at some good topics. The fact that we are investing and growing organically, of course, in applications in the medium voltage segment, which is a healthy segment in that business line should have not only a positive impact, of course, on the revenues, but also on the earnings as such, also from a relative perspective.

I would just like to remind ourselves that we have had discussions also in this forum as to whether we expect firmly a double-digit profitability from this business line. And me and Line, we have been hesitant to commit to that.

And here we are with a record high margin, but to commit to even higher margin, I think that, that will be a little bit too early. But the other aspects that I want to draw your attention to is also the seasonality aspect that we talked about earlier, where Q2 is a strong quarter.

And then we have to keep in mind that, for example, the third quarter includes a summer month, where people typically go on vacation for a bit. And then we have the winter quarter, which also includes frozen grounds in the Nordics, et cetera, with the implication that, that has. And obviously, the profitability will vary also based on seasonal topics.

But from a business perspective, we have modest expectations on the construction segment for the rest of this year, and we continue to believe strongly in the medium voltage segment.

**Operator**

Daniela Costa, Goldman Sachs.

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**Daniela Costa** - *Goldman Sachs Group Inc - Analyst*

Hi. Good morning. I have two questions. One was more -- I know this is not a question about the quarter. It's just to understand the business more in general through the years. When you look at sort of what you execute on a year, can you give us an idea of like how significant variation orders tend to be?

And is it [10, 20, 30] sort of like how should we think about looking beyond your backlog of what you might execute just on a long-run steady state? And then I'll ask the second one after this.

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

Maybe I can start, and Claes can -- I think in general, we say that coming into a year, we have approximately [100 million] orders coming in, in the year or close to the year this book-to-bill. And that's still some of the uncertainty when we communicate the outlook for the year to you and some that can create also changes during the year. So this is probably the normal and then there can be other things happening also.

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

I think I would confirm that and also say that also means that we have a certain level of anticipation of VOs in the base case for any given year. And us drawing your attention to VOs for the first half of the year also is a pretty clear statement that it's not immaterial. So it goes beyond what we expected in the first place.

The delicacy, of course, is, if you ask what can we expect for the second half or going into next year. We will have our base assumptions, but VOs, of course, comes from unexpected things happening only that needs to be carried out in the projects.

And by that, it is also very, very difficult to see. Will it be bad weather or will it not? Will the soil be amenable to the operations which are planned, will it not or permits delayed or they're not? So there are a couple of variables that are difficult to foresee whether we can expect a VO or not.

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**Daniela Costa** - *Goldman Sachs Group Inc - Analyst*

Got it. Thank you. And then my second question more relating how should we think about free cash flow trajectory into the second half? Maybe if you could talk a little bit second half in 2026 in terms of the CapEx phasing, given where you are on your expansion plans and also the working capital situation given what you've said that you expect hopefully some more orders into the second half. Can you help us think about the deviation or not versus normal seasonality this year and into '26?

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

Okay. And I think on a high level, nothing has really changed compared to what we have said earlier, but let me just kind of repeat that messaging also because now we are halfway through the year. I think just double-clicking on the CapEx, right, you see really a pickup in the execution.

And this is, as Claes also said, we are on plan and progressing as expected. We expect this pace to continue rest of the year, and that should give you a pretty good indication of where CapEx could end.

On net working capital, we do expect -- usually, you have a more favorable Q4 or pattern in Q4 than rest of year. We have earlier said that landing in around [minus 1.2 to minus 1.3] on net working capital is kind of what we expect. And then quite quickly, and I think that's also what you see here in Q2, there can be timing effects for specific projects that can actually move the net working capital EUR100 million. That's not unusual.

And that also goes a little bit into your question on new orders, what could happen there, where down payments on new orders would, of course, also change our net working capital position, and that could be within a range of this EUR100 million.

So on the free cash flow I should just maybe sum it up, sorry, Daniela, and say we still expect a negative net working -- sorry, free cash flow generation for the year due to the -- simply also the pace of this year on the CapEx program.

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**Daniela Costa** - *Goldman Sachs Group Inc - Analyst*

Just on variation orders on what you mentioned just right now, do they command normal advance levels? Or are they just mainly in-for-out and so that advanced linking doesn't really matter so much here?

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

If you repeat that question? Actually, I didn't understand it.

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**Daniela Costa** - *Goldman Sachs Group Inc - Analyst*

Just on the variation orders, make sure I understand your last point. Do they command -- are they normally in-for-out orders? Or do they might be for a couple of quarters and command a normal profile of advances?

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

No. So it's very much kind of in-for-out orders and then in association with the projects we execute on, of course.

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**Operator**

(Operator Instructions) Chris Leonard, UBS.

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**Christopher Leonard** - *UBS AG - Analyst*

Yeah. Hi again, Sorry, I got cut off. Hopefully, you can hear me. Just following up and looking again at the upgraded guidance for 2025, the new revenue range obviously is implying a lower EBITDA margin to previous. And you've highlighted that Service & Accessories is going well in those applications.

But just to be clear, it looks to me like it's implying a 100 basis point reduction in Solutions margin against consensus for 2025. And can we just maybe split out for us, but is it purely due to variation orders? Or are you thinking that second half is also going to see maybe slightly lower capacity utilization on your side that would mean that the margin is weaker?

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

Yeah. So I'm going to repeat a little bit what Claes said earlier on that second half, what we expect there is that the variation orders in solutions is a part of the full year outlook, and they carry a relatively lower margin and thereby also diluting the overall margin.

What then is the second part that we, of course, also still have in the books for the year is the Applications Q1, which came in lower on the margin. For second year on Solutions -- second half of the year on Solutions, we do still see this project mix, right, that we talk about in terms of how can each quarter pan out.

And we do still see also the load on the EBITDA margin from ramping up resources for capacity expansions. But we also see a good or satisfactory execution. So I think we are on plan as expected. And it is around the variation orders when you see a margin changing a bit in solutions here.

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**Christopher Leonard** - UBS AG - Analyst

Okay. Thank you, And then looking at the targets for '28, staying in place for above EUR700 million of EBITDA. Just thinking at the starting point of where you might land in 2025 for solutions on profitability, it's implying a very steep step-up in margins.

Obviously, we know backlog pricing has been improving, but we're going to need to ramp the facility as well at Karlskrona, but it implies a 6 percentage points or higher increase in margins to 2028 from '25 levels. And I think other players in the space at Prysmian will be looking at a 2 to 3 percentage point increase in their guide. So just can you give us comfort as to why that much higher?

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

So not commenting specifically on the, let's say, the comparison base to our competitors. But for sure, your assumption around '27, I would say, and then '28 about a margin step-up is correct. And I think what Claes alluded to in terms of, let's say, the new orders coming into the new factory, but also to the existing factory, that's really the bias in earning relative to revenue you will see in those years.

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

And maybe just to add from my side as well. I think there are three factors that come on top of each other. I mean, now in the period up until that point, we are carrying excessive costs, as Line mentioned before, which is impacting, of course, the Solutions margin as well.

We have the existing assets executing on perhaps more legacy orders than the really fresh orders, and this will be a gradual churn, but the real fundamental change occurs in '27. So that's the second aspect.

And then you have the third aspect of these new assets coming online based not on 0 legacy products, but only new projects. And of course, these three things in combination will enable that there will be a significant step-up in earnings also relative wise.

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**Operator**

Lucian Cawthron, CapeView Capital.

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**Lucian Cawthron** - CapeView Capital LLP - Analyst

Hello. It's Lucian Cawthron. Claes and Line, hello and congrats on the results. A few questions and they're kind of along the lines of some of them have already been asked.

But just Line, in terms of your prepared remarks on kind of revenue outlook for the full year, can you just go through them again with respect to the upgrade in revenue guidance because like, as Akash said, Solutions, I think you said slightly positive. And then like, obviously, we're trying to then link it to the overall revenue.



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

Yes. So Solutions, it's driven by a higher installation scope than we expected going into the year. So that's part of the upgrade of what we now communicate on the revenue, but also the variation orders received during the year. And this is back to what the question also from Daniela, around these orders that we get, which, of course, some we assume and then on the variation orders, but sometimes, of course, they differ from that assumption, and that's what we are seeing here. So we do expect that the Solution revenue for the full year to be higher than that of 2024.

And then in the Services & Accessories business line, we've seen a higher activity level so far related to both onshore and offshore repair works. And these activities are difficult to predict when we stand in front of the year. And of course, we have assumptions in there. But any difference to that will change the view on the year. So this is higher than we expected. And then the applications, more or less in line with the outlook that we started the year with on revenues.

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**Lucian Cawthron** - CapeView Capital LLP - Analyst

And just in terms of the applications, let's say, from the start of the year, what was that kind of outlook for the full year?

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

We don't guide on the business lines by themselves, right? We give these indications. And I think on group level, we came into the year seeing that revenues would be flattish and that included, let's say, the expectations on the group.

But then we also added that we have new capacity coming online already in Q1, there was an effect on applications of two factories expanding their medium voltage capacity. And I think we said for the Application business line in a total, that could be around 8 to 10 percentage revenue increase.

And this is a part of what you're now seeing us execute on. And then just for the record also, we have capacity in our Danish factory in application coming online also in 2026. So that's also going to be a part of the applications picture ahead of us.

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**Lucian Cawthron** - CapeView Capital LLP - Analyst

Got it. And sorry, just offering solutions. I know you're not going by division, but I'm going to try my best. And so just if we're thinking kind of like H2 last year and therefore, the outlook for H2 this year or even just -- yeah, H2 last year to this year.

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

So you were asking about the change in Solutions revenue?

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**Lucian Cawthron** - CapeView Capital LLP - Analyst

Yeah. I mean, Solutions is flat year-on-year revenue line. So it's kind of like trying to understand what the kind of full year outlook is for Solutions. You said like kind of high activity in kind of H1, but it's like what does that mean like how should we be thinking about H2?

Because if it was high in H2, should we be thinking that revenue is more going to be like H2 last year? Or are you kind of thinking it's more going to be in line with H1, even though you just said it's kind of like there were some specific activities that led to that?

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

I can just say and Line can provide more comments to it. But what I can say is the underlying mechanics, something that we drew your attention to last year was the Champlain project and the amount of subcontracted revenue that we enjoyed last year and that we have enjoyed also parts of this year.

Now this is expected to gradually come down also. So I would just like to add that sentiment. And then you have the seasonality aspect also in Solutions, especially in Q4. So that is some of the underlying mechanics.

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

Yeah. Let's keep it at that --

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**Lucian Cawthron** - CapeView Capital LLP - Analyst

Well, no. I'll follow up. I'm seeing you next week, so I'm going to follow up then and with a few others. Then maybe just in terms of the upgrade of the guidance. I mean, if we look at kind of the midpoint, you've gone from a sort of EUR255 million revenue increase and a EUR20 million EBITDA.

So that's kind of implied an 8% margin, which is obviously very weak. So could you just explain maybe what some of the moving parts were? Obviously, you might not be midpoint to midpoint, but just help us there.

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

So in terms of the midpoint margin being different from the outlook from the start of the year, this is a part of the mentioned variation orders with a profitability that is not, say, contributing to the margin improvement more on the other hand.

And then it is really applications with the Q1 margin being lower than expected. And this, we don't expect in the Q1 outlook to be able to catch up. So those two effects gives you this midpoint margin change.

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**Lucian Cawthron** - CapeView Capital LLP - Analyst

Got it. And then one final question, if I may to Claes on a comment on the backlog. Just in terms of the EUR3.5 billion that's not in the backlog, were you saying that you don't expect that to come into the backlog this year?

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

Yes. Correct.

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**Operator**

As there are no further questions, I'll hand it back to the speakers for any closing remarks.

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

Yeah. Thank you and thank you for calling in today. As we said in the initiation of the call, it's a historic quarter for NKT showing a different kind of scale with an excess of EUR100 million of EBITDA. So we leave you with that positive note, and thank you for your attendance, and have a nice weekend.

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