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NKT.CO - Q2 2018 NKT A/S Earnings Call

EVENT DATE/TIME: AUGUST 15, 2018 / 7:00AM GMT



AUGUST 15, 2018 / 7:00AM, NKT.CO - Q2 2018 NKT A/S Earnings Call

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PRESENTATION

Operator

Good day, and welcome to the NKT Interim Report for Quarter 2 2018. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Michael Hedegaard Lyng. Please go ahead, sir.

Michael Hedegaard Lyng - NKT A/S - President, CEO & Member of Executive Management Board

Thank you, operator. And from my side also, good morning to everybody, and welcome to the Q2 announcements call that -- the Q2 we just released this morning. My name is Michael Lyng, CEO of NKT. And together with me today, I have Roland Andersen, CFO of NKT, and also as usual, Basil Garabet, CEO of NKT Photonics.

So together, we will go through the Q2 numbers that we announced this morning and try to give you a little bit more flavor on what's going on in our businesses. First, I will do it for NKT, then Basil will do it for NKT Photonics. And in the end, Roland will take us through some finance numbers. And then in the end, we will, as usual, join you to a Q&A session.

So -- but let's look at Slide #5, looking at the quarterly results for NKT. So the former NKT Cables part, we are delivering a Q2 that, according to our view, is pretty much in line with expectations. We have seen very good, solid organic growth in all the different 3 business lines that we are reporting on. And as you can see here, top line is up from EUR 288 million Q2 last year to EUR 306 million standard metal prices this quarter, and that translates into a 12% organic growth with 12% in our Solutions business, 11% in our Applications business and strong growth in our Service & Accessories business with 19%. And I will come back to that.

On this page, we were able to deliver EUR 32 million in operational EBITDA and that leaves us with EUR 52 million after the first 6 months. It should not come as a surprise that we are slightly down earning-wise compared to second quarter '17 as a result of compensation of our backlog. Backlog end of the quarter came to EUR 0.5 billion, slightly down, so that also excludes the Hornsea 2 project with a value of EUR 145 million that we won just in the beginning of July and also announced in the market, and we will talk about that definitely later in this call.

We also focus a lot on cash flow in Q2 and have a nice positive cash flow as a result of improvements in working capital, but also stringent management of the investments that we do in the business.

We move to the next slide, then let's take a look at the performance in the Solutions business. We have had pretty good execution in our business under various projects that we have been working on, although the activity level is slightly lower than last year. And we have been working on the Nordlink project and Hornsea 2 -- Hornsea 1 project in Karlskrona and have had pretty good execution on that. And then in the Cologne facility



AUGUST 15, 2018 / 7:00AM, NKT.CO - Q2 2018 NKT A/S Earnings Call

that still are producing as much as possible when it comes to the offshore segment, we started up the Borssele Alpha production after having finalized the Galloper project in Cologne.

In the low end of the segment, the high-voltage AC market remains to be a challenge not only for us, but also for the industry, although we are actually satisfied with some project wins that we have had in that business, among others, a frame contract in Italy.

The Victoria vessel had been producing or installing the Johan Sverdrup DC power cable project in Norway and have been pretty busy with that and are now looking into starting installation of the Nordlink project in Q3.

Looking at the composition of the backlog on Slide 7. I think these projects -- the projects mentioned here are probably very familiar to everybody. So backlog is EUR 0.5 billion and -- so slightly down, but that also excludes the 3 projects mentioned in the right side of the slide, lower end -- lower part where the Hornsea 2, a project win we were awarded in beginning of July are not included in that number and also the Triton Knoll and Moray East are also not included. There, as you know, we are having a preferred supplier agreement and we still expect that to be turned into final orders here in the second half.

If we then look at that Hornsea 2 project that we won. First of all, I think we can be very satisfied with that project win. It puts NKT in a significant strong position with this project compared to without. And it's about supplying 190 kilometers of 220 kilovolt high-voltage AC cable to the world's largest offshore wind park. Part of the agreement that we have with the customer being asked here that we can start up production pretty soon, which means here in August, September. And then it will, of course, also improve the situation in Karlskrona, where -- because that is the site where we have had the issues with filling up capacity. It's, of course, not turning around that factory fully, but it has a good impact, in particular, also moving into '19. And with this order where we in the end got the 50% of the total scope, we again proved our strong position in the offshore wind segments.

If we move to Slide 9, some updates on the high-voltage markets. I think, overall, the business or the industry is still impacted by too little visibility, although we are still having a positive view on the number of projects in front of us and we also start to see some of the projects moving ahead. The Viking Link project have started off in tendering phase again after having been put up on hold since the fall of this year and also the SuedLink projects in Germany are moving in -- or have started off a pretender phase, so also very positive. But that doesn't change the fact that we still are challenged in '18 and '19 with -- getting sufficient visibility, but we are working very hard on that every day.

We also have a positive view on the market outside Europe. We start to see significant potential in the U.S. and also Taiwan within offshore wind and are, of course, sitting very close to customers there in order to assist them, advise them and hopefully, also in the end, turn that into complete orders for NKT.

I think that was more or less it for the high-voltage market update.

So if we move on to the Applications business on Slide #10, then we are announcing EUR 115 million in top line, which is up from last year -- second quarter last year, and it translates into an organic growth of 11%. We have seen a better performance on the earnings compared to Q1, but I also have to say that we are not satisfied with the earnings level that we are reporting for this business. Good thing is that we can grow it and we are also satisfied with the fact that we have been able to produce more volume in the factories, and now we need to work hard on translating that increased capacity utilization into higher margins. We are negatively impacted here by a number of these projects that we are working on. You need to remember here that we are moving from a very contract-based organization some years back into now a functional organization and that comes, on the positive side, with the fact that we can utilize our assets better, but on the negative side it comes also with additional complexity. Complexity is fine if we can manage it and that is what we are working heavily on now to translate that complexity into higher margins, so we can see a more satisfactory earnings level in this business and we are confident that we will see that in the coming quarters and next year.

Some of the markets here, as mentioned, we have seen a recovery of the market in Poland. Other markets are also doing fine. We are still impacted a little bit in Sweden by the fact that the building market in that segment are slowing down. We are not significantly exposed to that. It's more in the medium-voltage business that we are exposed to there where it is a high-margin business for us. And as you remember, we were, in the first quarter, negatively impacted by a very harsh winter, which meant that the utility companies could not install medium-voltage cables underground.



AUGUST 15, 2018 / 7:00AM, NKT.CO - Q2 2018 NKT A/S Earnings Call

We saw a nice pickup in April, May, also beginning of June, but that has now also turned into a slowdown not because of cold weather, but the opposite, because of a very warm weather in Sweden over the summer, which has meant that the installation work had been stopped because of the risk of having fires. So we expect to see an improvement there as we're moving into the fall with more rain and hopefully be able to catch up there. So it's not that we're losing anything, it's just the impact from weather conditions.

And the automotive business that we divested last year in April are still in the numbers here, so you need to be adjusting for that.

If we move into the next slide, Slide 10, and look at -- Slide 11, sorry, and look at our accessory -- Service & Accessories business, then this is, although still a relatively small business then, it represent a big potential for us in particular in the service business. We are here reporting 9% -- 19% organic growth and that translates into a EUR 37 million top line. And on that base, we do almost 10% EBITDA margin, the EUR 3.8 million, which is pretty good, although slightly lower than last year. This business will be impacted quarter -- from quarter-to-quarter with -- from how many repair works we do offshore and that -- so it will be a relatively volatile business until we get into a position where we get a sustainable baseload related to, for example, service contracts that we are working on achieving with our customers. But positive development in this business.

The regular businesses they are also part of this and there, as you know, we are looking into strategic options there, including also a divestment, and we expect to be able to conclude on that process in the second half this year.

Then Slide 12, just an overview of the different excellence initiatives that we are working on. Last quarter, we announced a cost-reduction exercise, mainly targeting FTE reduction in Karlskrona and Cologne to adjust for lower capacity utilization, that is being executed according to plan. I think we are approximately 70% done with that and the remaining 30% will be executed here in August, September and then that is behind us.

On the operational excellence, which is some of the initiatives that are also short term impacting our earnings level in the Applications business negatively, we continue to roll out our standardized lean-based operating system across the different factories. And we strongly believe that, that will also yield not only more capacity, but also higher margins short term. Roland also had worked on establishing a shared service center in Lithuania. We did not have that last year same time and now we have approximately 30, 40 people sitting there doing transactional-based work. And then we are in the mid of -- moving more to Lithuania, and at the same time, ramping down those activities in high-cost countries like Denmark, Sweden, Germany, et cetera. But there's, of course, also a timing impact here. There are a period of time during -- under which you are running with these double costs before you can really take out the costs, but positive development there as well. The digitalization hub in Berlin is getting more and more established. We are working on some very promising projects there, and I look forward to be able to talk more about that in coming quarters.

So with that, we have -- I have finalized the NKT part, and I would like to hand it over to Basil to do the same for NKT Photonics. Please, Basil.

Basil Garabet - NKT A/S - CEO & President of NKT Photonics

Thank you, Michael, and good morning. Now on Page 14 through the key highlights in Q2. The quarter worked well for us. We had a good quarter. The top line revenue came in at EUR 17.6 million, that's up by EUR 6.4 million versus Q2 of 2017. That's roughly about 70%, which is driven by the existing business and also largely by the acquired Onefive facility in Zürich.

The organic growth for the quarter was 25%, also very healthy. That came in really from all 3 business segments roughly equally. So it's healthy right across-the-board growth.

EBITDA came in at EUR 1 million, that's up from about EUR 0.7 million in Q2 of 2017, again mainly driven by higher revenue. EBITDA was impacted by provisions of about EUR 0.4 million, which is related to the long-term incentive program for senior management. That wasn't provided for in 2017.

Another healthy sign of growth came in with the order intake, which is at 75% above Q2 of 2017. As mentioned, all the markets that we are in showed growth for the advanced products that we made. And we continue investing in a platform for the future at the company with organizational increases and excellence program right across the company.



AUGUST 15, 2018 / 7:00AM, NKT.CO - Q2 2018 NKT A/S Earnings Call

In the quarter, we also opened a facility in Northern Sweden in Hudiksvall, basically helping us with our Fargo facilities in Denmark. This facility is fully operational at the moment and continues to do so into this quarter and into next year.

The financial outlook for this year we're not changing. The revenue is approximately EUR 65 million to EUR 70 million and our EBITDA is approximately EUR 10 million.

Moving over to the next page, on the business development side. Imaging & Metrology continues to be our largest percentage of revenue. Markets again mainly are in semiconductor manufacturing side, in life sciences and our traditional business in scientific. The market was mainly driven by the positive development of our super continuum laser sights and our white light lasers.

In Sensing & Energy, which contributes 31% of our revenue, the increases mainly came from the Koheras line of our single-frequency fiber lasers. That's doing very healthy increase. In fact, that's increasing by more than 50% year-on-year. Also positively impact by applications in fire detection protection, power cable monitoring throughout the different parts of the world.

In Material Processing, which is the smallest part of our business development, but the one that we see the greatest growth in future quarters, the integration of the acquired Onefive business is going well. We've successfully completed that in Q2 of 2018. We've also released several new products in the ultrafast lasers line where we will see impacts later on this year and mainly into 2019.

We move to the next page, on our strategic priorities for 2018. They are the same. We've been working on this for 3 years now. We're seeing the positive impact of those. On moving up in the value chain, the Onefive acquisition is a main example there. As mentioned, that's going well. We focus on organic growth now that we've done the number of acquisitions we've done the last couple of years. We're integrating these acquisitions, and we are working with the market to increase our top line. So most of it will come from organic growth.

In our growth, and if you see the growth from the company, we needed lean operations right through. That's come also through hiring of a new COO last year. And that scalable manufacturing is working well for us, you'll see benefits as we go along.

And finally, as a high-tech company, we live by fast introduction of new products. We continued introducing new products. U.S. products that we introduced in the LIOS line came from our long-range monitoring systems with a new 70-kilometer range and advanced RTTR software.

On that, I conclude, and I pass over to Roland. Thank you.

Roland M. Andersen - NKT A/S - CFO

Thank you, Basil. So if we move to Slide 18 and just have a quick glance of the group's more detailed revenue development. If you adjust for metal prices and look at the development in spend on metal prices, we've been impacted slightly negative by currencies and that is primarily the weakening Swedish kroner, also smaller acquisition impact has to do with NKT Photonics' acquisition of Onefive, and then lastly, the Cables side of the business exposed to the automotive business back in Q2 last year, and that means that an organic growth of 12% corresponded to EUR 32.6 million developed in Q2 and in the Cables side of the business and 25% growth corresponding to EUR 3.4 million in the Photonics business.

Now if we move to Slide 19. I guess not so much new here. Obviously, a lower operational EBITDA than Q2 last year, partly driven -- or mostly driven by the project composition in the Solutions part of the business and also too low profitability in our Applications. We've had one-off costs in Q2 and there's a smaller part of that related to the remaining integration of the ABB cables part -- cables business. That is almost done. Then we have a few strategic initiatives ongoing here under the formerly this cost base adjustment or adoption that will be -- most of that will be concluded in Q3 this year.

So first half of '18, about EUR 10 million in one-offs, and we remain guiding about EUR 20 million for the full year of '18.



AUGUST 15, 2018 / 7:00AM, NKT.CO - Q2 2018 NKT A/S Earnings Call

So if we move to Slide 20. Our operational EBITDA margin. The margin percentage slightly down this quarter, mainly due to the Applications business, also a little bit to the Solutions business, but both of those business lines drive up the nominal EBITDA. And here also clear that the jump in Q1 to Q2 in '17 was when we had ABB Cables HV -- former ABB HV Cables fully consolidated into the accounts.

Now let's move to Slide 21 and have a quick glance on the balance sheet. And working capital here, excluding Nilfisk is at a higher level than the same period last year, but it has moved lower than by the end of Q1 this year. And the working capital in Photonics is driven not by higher -- primarily by higher revenue. And then just a note here that the NIBD number by end of same period last year still contained the group's part of Nilfisk debt.

Now we move to Slide 22, working capital. So working capital improved slightly in Q2 and that had to do with a bit more firm steering of that and also that the Solutions business had a few projects meeting the milestone criteria for payouts and that improved the balance in Solutions. And this all we have separately broken out in our segment reporting in our Q report.

Yes, so let's move to Slide 23, which is the group's cash flow. And we had positive free cash flow from our operating activities both driven by EBITDA, but also from positive movement in working capital. As mentioned, we are driving our investment activities a little more firm now than we used to, so CapEx remained at a lower level for Q2 in '18 and that means positive free cash flow could be used to reduce our net interest-bearing debt.

And if we move to Slide 24, that is what that is showing. So our net interest-bearing debt came out at EUR 410 million and -- versus at EUR 433 million by end Q1, driven by development in the free cash flow.

Our leverage ratio remained at 3.0, as was the same as by end of Q1 2018. Our medium target still remains to go below 1.5x as leverage ratios. And then we can inform that the refinancing process of the group's entire debt facilities is progressing satisfactory, and we expect this to be finalized in the near future.

If we move to Slide 25. The development in the order situation in Solutions and also earnings performance in Applications has led us to adjust our guidance slightly. And that means that guidance is updated from being expected to be approximately EUR 90 million to EUR 110 million EBITDA in the NKT business, we now expect it to be in the low end of the previously announced range of approximately EUR 90 million to EUR 110 million. So the revenue expectations for NKT remain unchanged, between EUR 1.0 billion and EUR 1.1 billion. For NKT Photonics, guidance on both revenue and EBITDA remain unchanged.

And with that, I'll give it over to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from Kristian Johansen.

Kristian Tornøe Johansen - Danske Bank Markets Equity Research - Senior Analyst

So my first question is around prepayments. I assume that you haven't -- or will receive the prepayment from Hornsea 2 project here in Q3. If Triton Knoll and Moray East turned into firm orders, will you also receive the full prepayment for these projects here in the second half?



AUGUST 15, 2018 / 7:00AM, NKT.CO - Q2 2018 NKT A/S Earnings Call

Roland M. Andersen - *NKT A/S - CFO*

Yes, that question -- this is Roland speaking, thank you. So the timing of the prepayments depends on where we are in phasing of the projects, right. So depending on when we sign and when we move from preengineering into actual production, then prepayments are agreed and they are agreed a little differently across the projects. But generally speaking, yes.

Kristian Tornøe Johansen - *Danske Bank Markets Equity Research - Senior Analyst*

Okay. And for me to sort of try and estimate the level of prepayments here, is it a fair assumption to take the revenue levels you -- or the value levels you have indicated on Slide 7 and then apply sort of a 10% to 20% prepayment level giving EUR [40 million to EUR 85 million].

Roland M. Andersen - *NKT A/S - CFO*

Yes, that's a fair generic assumption. And we don't maybe do it exactly on signing, but within the first months of the project start-up.

Kristian Tornøe Johansen - *Danske Bank Markets Equity Research - Senior Analyst*

Okay. So if Triton Knoll and Moray East is turning unconditional in the second half, we should see a significant net working capital improvement?

Roland M. Andersen - *NKT A/S - CFO*

We should see prepayments coming in from those projects, yes.

Kristian Tornøe Johansen - *Danske Bank Markets Equity Research - Senior Analyst*

Great. Then my second question is on the tendering activity and whether you can sort of update us on ongoing tenders and specifically how many projects within high-voltage you expect awarded here in the remainder of 2018.

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

Yes, we can do that. Question is, of course, difficult to give you a precise number, right, and also in particular how many will be awarded because we have learned that there is a tendency of the orders or award being postponed here and there. But I can confirm that our tendering function or people are extremely busy working on a number of tenders. And there will be, according to plan and according to customer information to us, there will be a number of offshore wind projects being awarded in the second half from now on until year-end. We also have seen some of the other projects in the DC area moving ahead. So we were all disappointed with the fact that the Viking Link project were postponed because of permit issues, but that has now been started up again here -- or will start up very soon and we expect it to be awarded in the beginning of next year, which is positive. And then also the corridor projects in Germany. And remember there that are 4 different projects, two of them have now moved into a so-called pretender phase, which is a very short condensed phase where the customers are looking into who is it actually that we want to have in the real tender phase, so that we always expect to start up pretty soon. So a number of projects is out there. And that also ties into our comment in the quarterly report about that we remain to be positive and optimistic on the future outlook.

Kristian Tornøe Johansen - *Danske Bank Markets Equity Research - Senior Analyst*

Okay. And then actually just a follow-up on that SuedLink. I obviously understand there is some uncertainty on the time line on these types of projects. But given the current time line of this for -- part of SuedLink, what is the expected award date?



AUGUST 15, 2018 / 7:00AM, NKT.CO - Q2 2018 NKT A/S Earnings Call

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

The expected award date is, according to our information now, now we don't know exactly because it has not started up yet, but it will be over the summer, third quarter is my guess or expectation next year.

Operator

Our next question is from Andreas Willi from JPMorgan.

Andreas P. Willi - *JP Morgan Chase & Co, Research Division - Head of the European Capital Goods*

It's Andreas from JPMorgan here. Just a couple of questions. When you have discussions currently with customers on the big solution projects, is there any concerns on their side about the level of debt or level of debt relative to profitability that, that would impact you being selected for some of these large projects? And second, on the guidance, could you maybe elaborate a little bit more what made it move to the lower end on profits while it's unchanged on sales for NKT in terms of what the impact is on mix and some of the things you mentioned earlier?

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

On the first question, it's not the first time that we are being asked that question. And I can clearly say no, we don't have any issues with customers around that. And bear in mind that every time we get an order, we somehow issue a performance guarantee to our banks, and our ability to do that is exactly unchanged and we have sufficient power to do that. So there is no concern from a customer perspective around that. On the guidance side, I will pass it over to Roland to give a little bit more flavor on that.

Roland M. Andersen - *NKT A/S - CFO*

Yes. On the guidance, I think the positive news for us is we're actually delivering on the growth side, but the challenges we have had is converting them into sufficiently satisfactory margins. And hence, that's why we actually are guiding that we will meet our top line, but we think that our combined group margins will be in lower end of the interval.

Operator

Our next question is from Dennis Dinkelmeyer from Goldman Sachs.

Dennis Klaus Dinkelmeyer - *Goldman Sachs Group Inc., Research Division - Research Analyst*

First question is on the refinancing of your debt. Appreciate you've gotten comments on this and you've provided some more information. But this morning, we've seen an equity raise on one of the vendor OEMs, which is we're -- I'm wondering if you could provide a little bit more reassurance on how your conversation with your bank are going in that regard.

Roland M. Andersen - *NKT A/S - CFO*

What did you see this morning? What was that? Sorry, this is Roland.



AUGUST 15, 2018 / 7:00AM, NKT.CO - Q2 2018 NKT A/S Earnings Call

Dennis Klaus Dinkelmeyer - Goldman Sachs Group Inc., Research Division - Research Analyst

Roland, there's an equity raise of a German wind OEM. We just wondered, that of 2.5 net debt-to-EBITDA, you could -- net debt-to-EBITDA of 3x, we were wondering if you could provide some more reassurance on the options that you have with your bank at the moment and by when you can actually expect to close the refunding of your debt?

Roland M. Andersen - NKT A/S - CFO

Basically, as we say, that process is moving forward and is moving forward satisfactory. We also need to conclude that in the very near future, and there is no equity raise planned.

Dennis Klaus Dinkelmeyer - Goldman Sachs Group Inc., Research Division - Research Analyst

Okay. Moving to the second question, you -- I appreciate your comments on capacity utilization and pricing trends and the current tendering phases going forward. But in terms of your current backlog, could you help us understand the margins that are actually inside your backlog and how are they working sequentially from here, Nordlink being one of the examples you mentioned up for execution in 3Q in 2019. DC Contract, which -- with a 525-kilovolt technology should have a very strong profitability. Could you help us understand the backlog evolution and the margin here?

Michael Hedegaard Lyng - NKT A/S - President, CEO & Member of Executive Management Board

Yes, I can do that, although we don't want to disclose margins on individual projects, but it's very clear that, given where we are today, where there is an imbalance between demand and supply in the business. It's not only NKT having high in capacity, it's also competitors. That, of course, put pressure on price because of that starting point, right? We are -- we want to make sure that we get load into our factories. And with that mindset, we, of course, sharpen our pen when we are giving the best and final offer to our customers. If you look at the competitive environment here and also try to link that into installed capacity, then this is, of course, seen to a high magnitude in the offshore wind segments where we do see more competition and more -- a higher number of cable players being able to do that. And it's less impacted in the DC segments where you have a lower number of competitors. So the way we do planning and also tendering is, today, is very much similar to the past years. But then during the negotiation phase, you are tying that into your capacity load and planning into your factories, and that somehow define your appetite. And I also know that there have been some speculation around the Hornsea 2 profitability level and price level. And as we also communicated, when we communicated that, first of all, we are very satisfied with that, but we of course also communicated that there was an element of being sharp on the pen looking at the prices. But we still believe that we can get a satisfactory margin given where we are in the supply-demand balance on that project. Long term, there's no question about the price level in this industry needs to go up because otherwise none of us or competitors can somehow pretend to do further investment into the industry. So -- but today, we are impacted by that supply-demand balance.

Dennis Klaus Dinkelmeyer - Goldman Sachs Group Inc., Research Division - Research Analyst

And then more specifically on the margins in your current backlog. If you -- how much more in for orders are you expecting to meet your margin guidance this year and also for next year's? If you don't receive more orders, what do you expect your margin outlook to be for next year? So appreciate if you could provide us any comments there on your margins.

Michael Hedegaard Lyng - NKT A/S - President, CEO & Member of Executive Management Board

That's a bit too early. We cannot give you any margins for '19 because we don't know yet, right? And I can also not give you a specific margin on our -- looking at our backlog. There are definitely projects in the backlog that are not negatively impacted by supply-demand balance in the industry right now. And then the last one regarding Hornsea 2, there's an element of that. But there is still solid profitability in the majority of our backlog



AUGUST 15, 2018 / 7:00AM, NKT.CO - Q2 2018 NKT A/S Earnings Call

that we will execute on this year, but also going into '19. And bear in mind that the preferred bidder contracts have been there for a while and we expect them to be turned into real orders in the second half. So that's a flavor we can give you.

Dennis Klaus Dinkelmeyer - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Okay. Just one brief last question. What are you guiding for CapEx this year then? I appreciate you tried to lower -- or keep a tight handle on CapEx.

Roland M. Andersen - *NKT A/S - CFO*

We're not exactly guiding on CapEx-wise, but I think that average levels of what we've done in first half and then second half will probably be less. I think that's what we can say.

Dennis Klaus Dinkelmeyer - *Goldman Sachs Group Inc., Research Division - Research Analyst*

And any comments around working capital excluding new orders for 3Q and for 4Q?

Roland M. Andersen - *NKT A/S - CFO*

No, it's the same sort of dynamics that's driving working capital, right? It's important -- if we want to improve working capital, it's important to get new orders and get the prepayments that Kristian was alluding to. Now the Applications business is more stable, the building inventory and working capital in these 2 quarters that are relatively high season. And then as a normal seasonal pattern, reducing it towards new year. So it's a requirement to improve working capital from here to get new projects.

Operator

(Operator Instructions) We will take our next question from Claus Almer from Nordea.

Claus Almer Nielsen - *Nordea Markets, Research Division - Senior Analyst of Capital Goods and IT*

Also a few questions from my side. First of all, the Triton and the Moray East project, it seems like you have expanded the positive value from these projects. Is that correct? And why is that?

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

No, that is not correct. Unchanged value there.

Claus Almer Nielsen - *Nordea Markets, Research Division - Senior Analyst of Capital Goods and IT*

But didn't you normally use a value of EUR 245 million as a combined value? And now you are having a range for the Moray East project. So that actually in the upper end, it will be more than EUR 245 million at least.

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

The EUR 245 million is the minimum value. Situation is unchanged.



AUGUST 15, 2018 / 7:00AM, NKT.CO - Q2 2018 NKT A/S Earnings Call

Claus Almer Nielsen - *Nordea Markets, Research Division - Senior Analyst of Capital Goods and IT*

Okay. Then coming back to your full year guidance. You now aim for the lower end, but also saying you need to sign some more orders, not large orders but more orders in latter part of this year. Can you provide some magnitude of orders you need to sign or a win rate expected? More color on this part.

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

It's a little bit difficult, Claus, but we are still working on orders that we hope will impact the fourth quarter. And we are -- of course, given we are talking about big money, right, we are maybe talking about EUR 3 million, EUR 4 million, EUR 5 million kind of thing. But that, of course, also important to get in with the guidance that we have. And the EUR 3 million, EUR 4 million, EUR 5 million and the result of getting orders, it can also be a result of a very smooth execution in projects, et cetera, so there are some pluses and minuses in that. But of course, the more orders we get in, the better we are not only for '18, but also '19. So that is somehow the magnitude that we are talking about.

Claus Almer Nielsen - *Nordea Markets, Research Division - Senior Analyst of Capital Goods and IT*

On EBITDA level, I guess.

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

Yes, sorry, on EBITDA level.

Operator

(Operator Instructions) We have a follow-up question from Claus Almer.

Claus Almer Nielsen - *Nordea Markets, Research Division - Senior Analyst of Capital Goods and IT*

I just forgot to ask another question. Regarding your backlog, it seems like that you have won some smaller deals that had been included in the backlog. Is that correct? And is this a project in Canada? Or what has actually happened in the low announcement limit?

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

Yes, that is correct. We also win smaller orders that are not meeting the threshold for announcing to the markets, and it's not a project in Canada. It's projects in the core markets, in the Nordic region, et cetera, so -- but we tend to focus on the bigger ones here.

Claus Almer Nielsen - *Nordea Markets, Research Division - Senior Analyst of Capital Goods and IT*

Sure. And those smaller orders, that's the ones you are talking about not being impacted by the current imbalance between supply, demand?

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

No, that's not what I said. Of course, you also need to be sharp on your price there, but they are smaller projects, which is also managed under a different structure. It's not a structured tendering process. There's also variation orders that we manage to get on existing projects that are contributing healthy to our margins, et cetera. So those kinds of things.

AUGUST 15, 2018 / 7:00AM, NKT.CO - Q2 2018 NKT A/S Earnings Call

Operator

It appears there are no further questions at this time, so I'd like to hand the call back over to the host for any additional or closing remarks.

Michael Hedegaard Lyng - NKT A/S - President, CEO & Member of Executive Management Board

Good, but I have not so much more to add. Thank you for this call. We will be back on November 15 with the announcement of our third quarter results. So thank you, everybody, for listening in. Goodbye.

Operator

Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.

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