

The NKT logo is displayed in a white, stylized, blocky font in the upper left corner of the slide. The background of the entire slide is a blue-tinted photograph of a long, narrow tunnel filled with rows of fiber optic cables on both sides, receding into the distance.

**NKT**

15 May 2018

# Interim Report Q1 2018

Webcast presentation

# Forward looking statements



This presentation and related comments contain forward-looking statements.

Such statements are subject to many uncertainties and risks, as various factors of which several are beyond NKT A/S' control, may cause that the actual development and results differ materially from the expectations.



# Today's presenters



**Michael Hedegaard Lyng**

**NKT**

President & CEO



**Roland M. Andersen**

**NKT**

CFO



**Basil Garabet**

**NKT Photonics**

President & CEO

# Agenda



## **04** NKT

13 NKT Photonics

17 Financial highlights

24 Questions & Answers

## Key highlights Q1 2018



Increased revenue and earnings versus Q1 2017. Organic growth was 7%  
Unchanged financial outlook for 2018



Satisfactory execution on high-voltage projects in **Solutions**  
Earnings development in **Applications** not satisfactory with Scandinavian sales down due to colder than normal weather  
Strong performance in **Service & Accessories** demonstrates future potential driven by cable repair assignments



No material high-voltage order awards in Q1 2018. However, no tenders were lost as the interconnector market remain impacted by project postponements  
The high-voltage order backlog decreased from EUR 0.76bn end-2017 to EUR 0.64bn end-Q1 2018



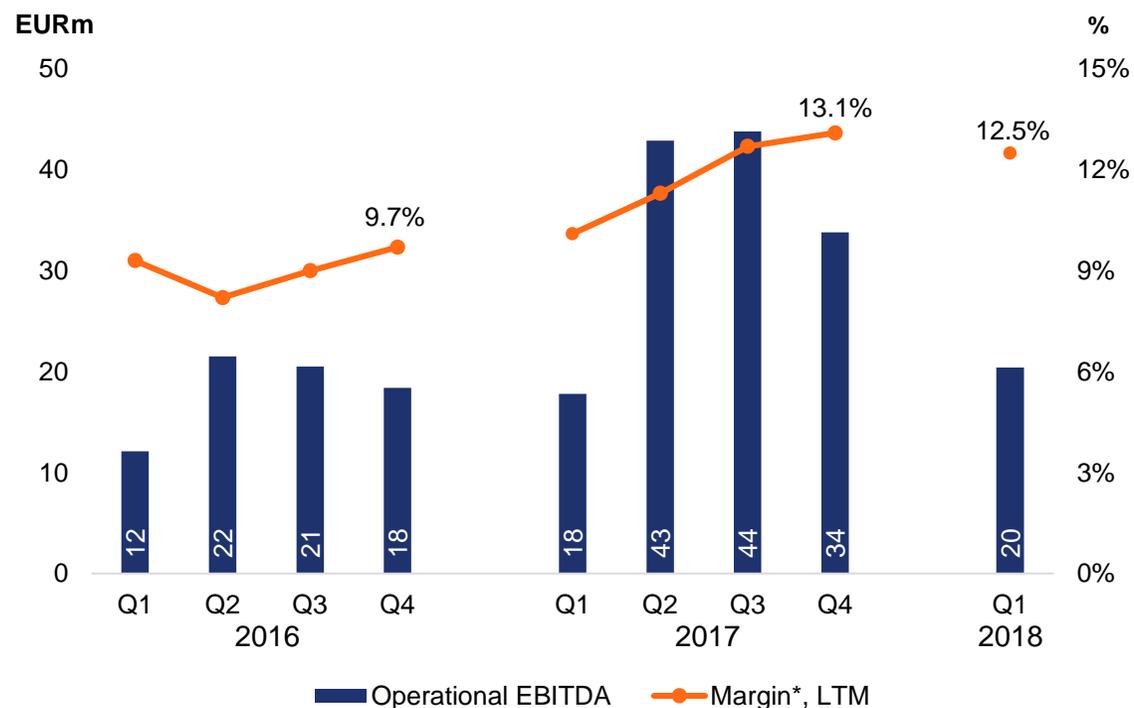
Cost base initiated with an expected annual positive impact of approx. EUR 10m from 2019, driven by current lower high-voltage order backlog and to further accelerate acquisition synergies and the journey towards excellence  
Reduction mainly of white-collar organization in Karlskrona and Cologne



**Revenue\***: EUR 254.5m (EUR 69.3m higher than Q1 2017)  
**Operational EBITDA**: EUR 20.4m (up EUR 2.6m vs Q1 2017)  
**Working capital**: EUR 28.7m (versus EUR -106.5m end-2017)

# Operational EBITDA development

Increase in operational EBITDA in Q1 2018 – with margin slightly down



**Increase in operational EBITDA from EUR 17.8m in Q1 2017 to EUR 20.4m in Q1 2018**

**Operational margin\* of 8.0% in Q1 2018 versus 9.6% in same period of 2017**

**Positive revenue development in all three business lines**

**Decrease in operational EBITDA margin due to lower performance in Applications**

**The LTM margin\* was 12.5%, a decrease of 0.6%-points against end-2017**

\* Std. metal prices

# Solutions – Q1 2018

Satisfactory financial performance – However, no material projects awarded or lost in Q1 2018

<p><b>Customer offerings</b></p>	 <ul style="list-style-type: none"> <li>High-voltage AC/DC on/-off-shore cables</li> </ul>
<p><b>Development during Q1 2018</b></p>	<ul style="list-style-type: none"> <li>Project execution satisfactory</li> <li>First part of Hornsea 1 cables delivered for installation and cables for Johan Sverdrup finalized and loaded to the cable-laying vessel NKT Victoria</li> <li>NKT Victoria installed cables for the Caithness Moray project and further assignments to be performed in 2018</li> <li>High-voltage onshore market conditions remained challenging</li> </ul>
<p><b>DC qualification</b></p>	<ul style="list-style-type: none"> <li>Continued progress of DC qualification in Cologne. As part of this process, selected machinery in the factory will be upgraded</li> </ul>

## Q1 2018 financial highlights

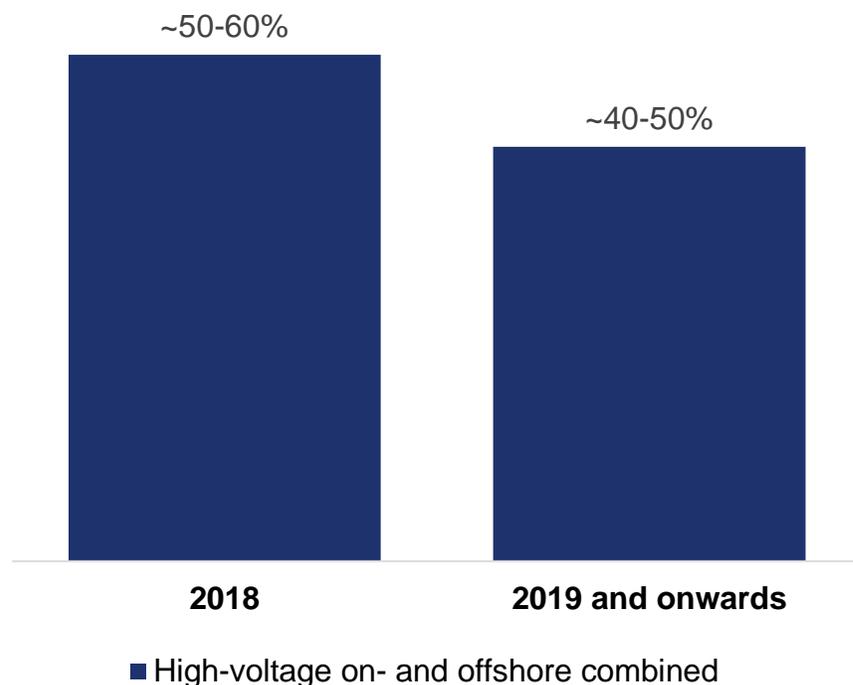


\* Std. metal prices

Note: AC = Alternating Current and DC = Direct current

# High-voltage order backlog

High-voltage order backlog decreased to EUR 0.64bn\* at end-Q1 2018 from EUR 0.76bn at end-2017



## Mix of high-voltage projects

Offshore wind			Interconnectors		
Galloper	2018		Caithness Moray	2018	
Walney East & West	2018		Nordlink	2019	
Borssele Alpha	2018		Oil & Gas		
Rentel	2018				
Kriegers Flak	2019		Johan Sverdrup	2018	
Hornsea 1	2019		Martin Linge	2018	
Borssele Beta	2019				

Announced preferred supplier agreements (contract value >EUR ~245m):

Moray East	2020		▶ Not part of order backlog
Triton Knoll	2020		

\* Market prices (EUR 0.58bn in std. metal prices)

# Market development in high-voltage market

## Interconnector market impacted by postponements, but long-term potential remains attractive

- Larger projects have been postponed in the interconnector market due to a variety of external factors such as political decisions, legal approvals, land permits and others
- The offshore wind market has been more stable
- The postponed interconnector projects have led to an unfavorable supply/demand balance for the cable manufacturers. This is expected to impact the activity level for NKT during 2018 as well as 2019
- Long-term perspectives in the interconnector and offshore markets remain attractive backed by the ongoing tender activity. However, timing is uncertain

## NKT well positioned in the market

- 
 Leading provider of high quality turn key solutions
- 
 Advanced cable production plants and specialized DP3 cable laying vessel
- 
 Highly experienced cable manufacturer produced ~50% of all installed wind export cables\*
- 
 Best in class technology with ability to produce highest voltage ratings worldwide
- 
 Optimally positioned for future HVDC Onshore projects

\* Source: 4C Offshore 2017. Market share of cable manufacturers 132-220kV – all offshore construction since 2010 (NKT incl. ABB HV Cables)

# Applications – Q1 2018

## Not satisfactory earnings level - mixed revenue development

<b>Customer offerings</b>	 <ul style="list-style-type: none"> <li>▪ Medium- and low-voltage cables &amp; building wires</li> <li>▪ Power cables for telecom market</li> </ul>
<b>Development during Q1 2018</b>	<ul style="list-style-type: none"> <li>▪ 4% Organic growth</li> <li>▪ Q1 is seasonally a low quarter</li> <li>▪ Scandinavian sales down due to colder than normal weather– especially in Sweden</li> <li>▪ Increase in costs to support initiatives to improve the operating platform</li> <li>▪ Recovery in Poland in revenue and earnings</li> </ul>
<b>Progress outside largest markets</b>	<ul style="list-style-type: none"> <li>▪ Execution on medium-voltage frame contract in France</li> <li>▪ First revenues generated in US power cable telecom market</li> </ul>

## Q1 2018 financial highlights



\* Std. metal prices

# Service & Accessories – Q1 2018

Strong financial performance demonstrates future potential

<p><b>Customer offerings</b></p>	 <ul style="list-style-type: none"> <li>High-, medium- and low-voltage accessories</li> <li>Services             <ul style="list-style-type: none"> <li>Railway</li> </ul> </li> </ul>
<p><b>Development during Q1 2018</b></p>	<ul style="list-style-type: none"> <li>Successfully performed a number of offshore and onshore cable repair assignments</li> <li>Engaged in discussions with several cable system operators to establish long-term service agreements</li> <li>Mixed development in Accessories business - stronger presence in Asia and challenging market conditions in central Europe</li> <li>Quarterly earnings will be volatile depending on the number of offshore cable repairs</li> </ul>
<p><b>Railway</b></p>	<ul style="list-style-type: none"> <li>Assessing various strategic options including a potential divestment – decision expected later this year</li> </ul>

## Q1 2018 financial highlights



\* Std. metal prices

# Cost reductions initiated – focus on acceleration of synergies and impact from strategic initiatives

Cost reductions	Operational excellence	Shared Service Centre	Integration on track
<p><b>NKT has initiated a reduction of its cost base driven by</b></p> <ul style="list-style-type: none"><li>• Current lower HV order backlog</li><li>• Acceleration of acquisition synergies and journey towards excellence</li></ul> <p>Reduction mainly of the white-collar organization in Karlskrona and Cologne</p> 	<p><b>An optimized operating platform across NKT factories</b></p> <p>Initiatives to increase throughput and quality across NKT factories</p> <p>Upgrade to new common production system</p> <p>Factory optimization headed by the Chief Operating Officer</p> 	<p><b>New shared service centre established in Lithuania</b></p> <p>Improved financial processes and a leaner and more efficient setup</p> <p>This setup will enable improved scalability</p> 	<p><b>Integration of ABB HV Cables</b></p> <p>Integration of ABB HV Cables progressing according to plans</p> <p>Majority of the synergies are sales and volume-related and timing hereof will depend on the ability to increase capacity utilization</p> 
<p>Expected annual positive cost impact from 2019 of approx. EUR 10m</p>	<p>Positive outcomes in factory output gradually materializing</p>	<p>Migration of tasks to the Share Service Centre will start in Q2 2018</p>	<p>Cost synergies gradually realized during 2017 and 2018</p>

# Agenda



04 NKT

**13 NKT Photonics**

17 Financial highlights

24 Questions & Answers

# Key highlights in Q1 2018

## Positive start and financial outlook for 2018 maintained

<p><b>18%</b> Organic growth</p>	<ul style="list-style-type: none"> <li>▪ Compared to Q1 2017, revenue increased by EUR 4.9m, or 65%, to EUR 12.4m</li> <li>▪ The performance was broad-based with all business segments contributing</li> </ul>	<p>Business conditions in the photonics markets remain positive and developed favourably</p>
<p><b>-1.5m</b> EBITDA, EUR</p>	<ul style="list-style-type: none"> <li>▪ EBITDA increased by EUR 0.6 versus Q1 2017</li> <li>▪ Underlying improvement was even stronger as Q1 2018 included provisions of EUR 0.7m for the LTI programme for senior management. No similar provisions were made in Q1 2017</li> </ul>	<p>Continued allocation of costs in realizing the growth potential. More employees and global ERP system roll-out</p>
<p><b>45%</b> Order intake growth</p>	<ul style="list-style-type: none"> <li>▪ Improvement versus Q1 2017 was driven by all business areas</li> <li>▪ Order pipeline is attractive and serves as a good indicator for NKT Photonics' growth ambitions.</li> </ul>	<p>Integration process of the acquired Onefive business is well advanced</p>

# Business development – Q1 2018

## Imaging & Metrology

56% of revenue



**Markets:**

Semiconductor

Bio-imaging & Medical

Industrial metrology

- Growth across markets, including semiconductors and life sciences
- Order intake grew solidly

## Sensing & Energy

31% of revenue



**Markets:**

Energy

Security

Structural monitoring

- Growth driven by fire detection, power cable monitoring and other sensing applications
- Won the prestigious 2018 Prism Award for LIOS EN.SURE power cable monitor system

## Material Processing

13% of revenue



**Markets:**

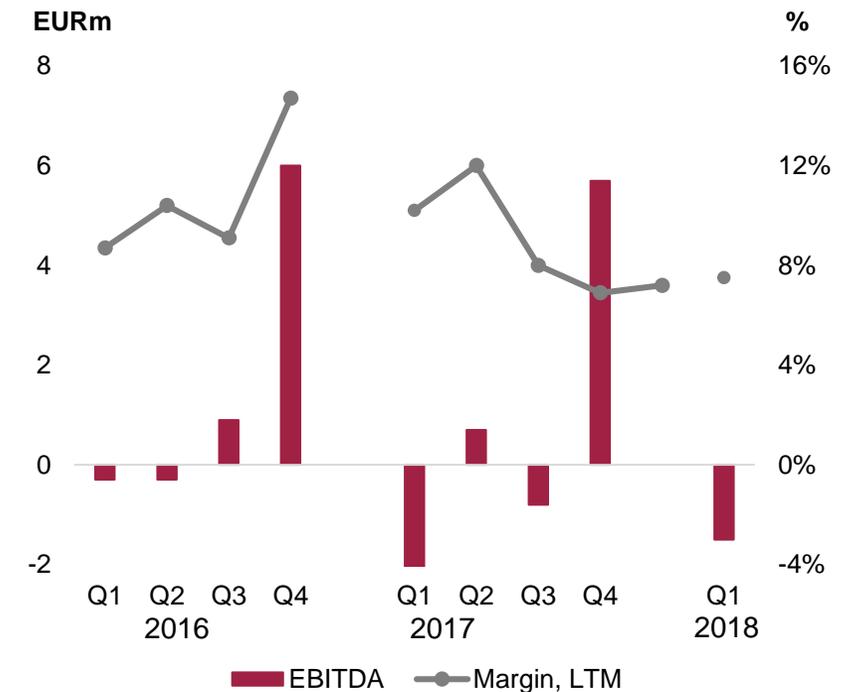
Micromachining

Medical

R&D

- Significant growth mainly from ultrafast lasers for medical applications and components for industrial ultrafast lasers used for micromachining

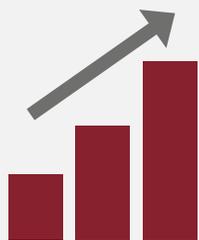
## EBITDA performance



# Strategic priorities for 2018

## Move up in value chain

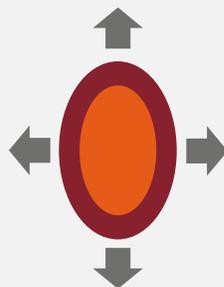
Expand from supply of components to complete optical systems



**New Onefive lasers** Move from components only to full industrial ultrafast laser system

## Focus on organic growth

Actively pursue growth opportunities within core areas organically and through partnerships



**Acquisitions** The acquisitions of Fianium in 2016 and Onefive in 2017 completed to support future growth

## LEAN Operations

Scalable manufacturing  
Commercial excellence



**COO organization** In October 2017, a Chief Operating Officer was appointed to drive production sites more efficiently

## Fast introduction of new products

Continued introduction of new products and technologies to meet customers' needs



**LIOS EN.SURE** New long range cable monitoring system with a 70 km range and advanced RTTR software

# Agenda



- 04 NKT
- 13 NKT Photonics
- 17 Financial highlights**
- 24 Questions & Answers

# NKT A/S: Income statement highlights

Increased revenue and earnings

## Financial highlights

EURm	Q1 2018	Q1 2017	FY 2017
<b>Revenue</b>	<b>363.5</b>	<b>281.3</b>	<b>1,479.3</b>
<b>Revenue (Std. metal prices)</b>	<b>266.9</b>	<b>192.7</b>	<b>1,108.4</b>
NKT	254.5	185.2	1,058.0
NKT Photonics	12.4	7.5	50.9
<b>Organic growth</b>			
NKT	7%	-8%	7%
NKT Photonics	18%	-18%	7%
<b>Operational EBITDA</b>	<b>18.9</b>	<b>15.7</b>	<b>141.8</b>
NKT	20.4	17.8	138.3
NKT Photonics	-1.5	-2.1	3.5
<b>Operational EBITDA margin</b>			
NKT	8.0%	9.6%	13.1%
NKT Photonics	neg.	neg.	6.9%
One-off costs	-3.1	-14.6	-44.9
<b>EBITDA</b>	<b>15.8</b>	<b>1.1</b>	<b>96.9</b>
Depreciation and impairment of PP&E	-16.4	-9.2	-61.3
Amortisation and impairment of int. assets	-5.0	-2.5	-18.3
Financial items, net	-2.1	-1.9	-14.7
Tax	2.7	4.6	-6.0
<b>Profit from continuing operations</b>	<b>-5.0</b>	<b>-7.9</b>	<b>-3.4</b>
<b>Full-time employees, end of period</b>			
NKT	3,393	3,703	3,393
NKT Photonics	296	254	302

## Comments

- Increased revenue driven by both NKT and NKT Photonics
  - Organic growth 7% and 18%, respectively
  - Positive organic growth in all three NKT business lines
  - Automotive in NKT was included in Q1 2017 (revenue (std. metal prices) of EUR 11.0m)
- Operational EBITDA increased
  - NKT: Increase primarily due to the two additional months of revenue from the acquired activities and positive performance in the Service business. Margin decrease due to Applications
  - NKT Photonics: A seasonally low quarter, but improvement driven by the higher revenue level
- One-off costs related to NKT
  - EUR 1.8m for the integration of ABB HV Cables and EUR 1.3m for strategic initiatives primarily related to the EXCELLENCE 2020 strategy

# NKT A/S: Balance sheet highlights

Working capital increase in Q1 2018

## Financial highlights\*

EURm	31 Mar 2018	31 Mar 2017	31 Dec 2017
<b>Working capital</b>	<b>48.3</b>	<b>156.7</b>	<b>-83.5</b>
NKT	28.7	-35.2	-106.5
NKT Photonics	19.6	12.2	23.1
<b>Capital employed</b>	<b>1,207.6</b>	<b>1,588.3</b>	<b>1,109.5</b>
NKT	1,140.5	1,006.7	1,040.5
NKT Photonics	67.1	46.3	69.0
<b>RoCE</b>	<b>7.8%</b>	<b>12.1%</b>	<b>11.8%</b>
NKT	5.3%	9.5%	7.5%
NKT Photonics	neg.	neg.	neg.
<b>Net interest-bearing debt (NIBD)</b>	<b>432.7</b>	<b>616.8</b>	<b>293.2</b>
<b>Total assets</b>	<b>1,923.3</b>	<b>2,682.4</b>	<b>1,904.6</b>
<b>Total equity</b>	<b>774.9</b>	<b>971.5</b>	<b>816.3</b>

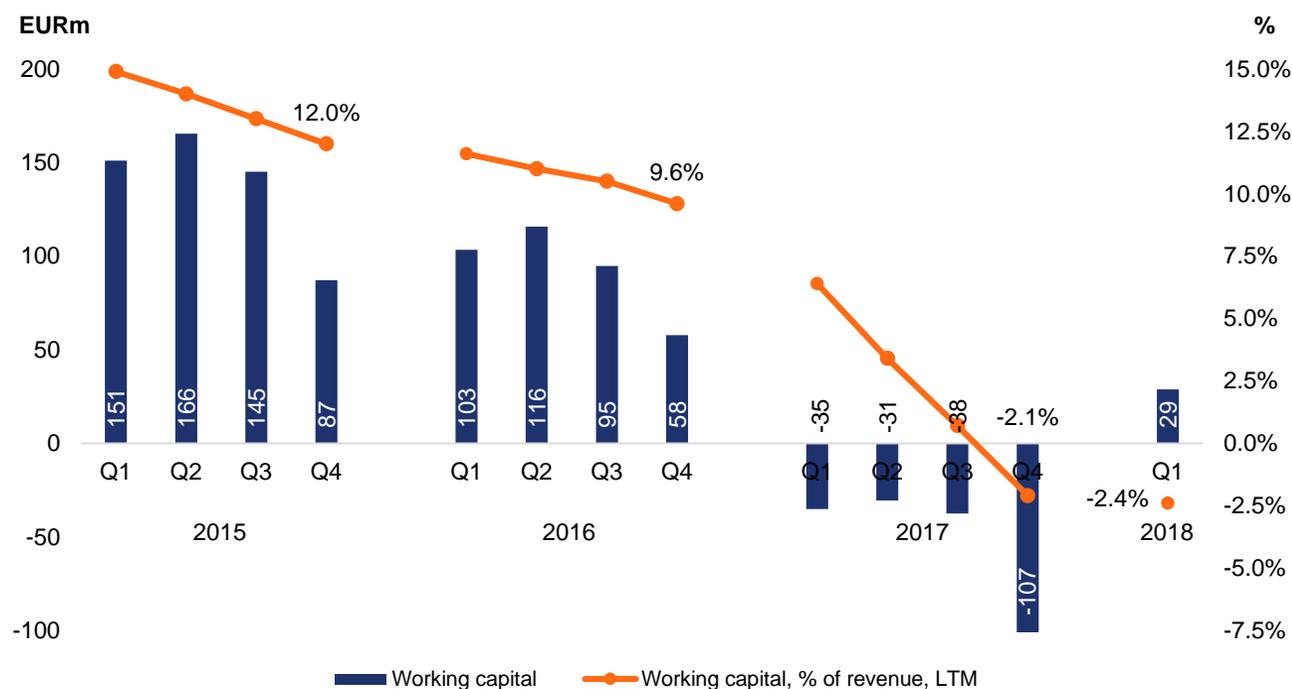
## Comments

- Working capital at higher level than at end-2017
  - NKT: Increase mainly due to timing of payments in the Solutions business (see next slide)
  - NKT Photonics: Higher working capital level following the improved revenue and the acquisition of Onefive
- Capital employed impacted by working capital change from Q4 2017 to Q1 2018
- NIBD increased to EUR 433m from EUR 293m by end-2017

\* Nilfisk items were classified as assets held for distribution to owners until the demerger was finalized in October 2017.

# NKT: Working capital

## Change in working capital during Q1 2018



- Working capital is up by EUR 135m from end-2017 to end-Q1 2018
  - The level at end-2017 was extraordinary low
  - Primarily impacted by Solutions: Timing of milestone payments, new projects coming in, progress in project executions and others
  - Inventories in Applications increased due to lower than anticipated sales volumes and season build-up
- Quarterly fluctuations in working capital expected going forward
- Over the past years, NKT has been reducing its working capital driven by various initiatives and divestments

# NKT A/S: Cash flow statement highlights

Impacted by working capital change and low investment level

## Financial highlights\*

EURm	Q1 2018	Q1 2017	FY 2017
<b>Cash flow from operating activities</b>	<b>-131.8</b>	<b>-38.4</b>	<b>87.8</b>
NKT	-131.8	-23.0	78.2
NKT Photonics	0.0	1.5	-0.4
<b>Cash flow from investing activities</b>	<b>-9.6</b>	<b>-655.9</b>	<b>-493.3</b>
Capex	-9.6	-22.5	-94.2
Acquisition and divestment of businesses	0.0	-633.4	-399.1
<b>Free cash flow</b>	<b>-141.4</b>	<b>-694.3</b>	<b>-405.5</b>
<b>Cash flow from financing activities</b>	<b>126.6</b>	<b>567.0</b>	<b>293.6</b>
<b>Net cash flow</b>	<b>-14.8</b>	<b>-127.3</b>	<b>-111.9</b>

## Comments

- Cash flow from operating activities was impacted negatively by the increase in working capital
  - Changes in working capital of EUR -135m
- Investment level in Q1 2018 at a relatively low level
  - The acquisition of the ABB HV Cables activities was closed in March 2017 impacting the comparison period
- Cash flow from financing activities increased
  - Increase in NIBD driven by the increase in working capital

\* Nilfisk was part of the cash flow up until the demerger was approved on 10 October 2017

# NKT A/S: Financial leverage ratio

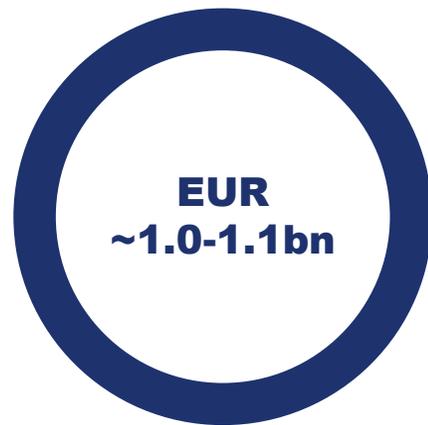
## Leverage ratio up to 3.0x



- Net interest-bearing debt was EUR 433m at end-Q1 2018 versus EUR 293m end-2017 due to the negative working capital change in Q1 2018
- Leverage ratio at 3.0x end-Q1 2018 from 1.9x end-2017
- Operational EBITDA (LTM) as of Q1 2018 amounted to EUR 145m for NKT A/S
- As stated in the Annual Report 2017, part of the debt facilities are expected to be refinanced in 2018
- Nilfisk was part of the group's consolidated debt until Q3 2017
- The medium-term target remains a leverage ratio up to approx. 1.5x

\* For the 2017 leverage ratios, pro forma EBITDA for the acquired ABB HV Cables activities has been added to LTM EBITDA in the period when NKT was not the owner of ABB HV Cables. The pro forma EBITDA is based on ABB HV Cables' estimated average annual pro forma EBITDA of EUR 79m for 2014-2016

# Financial outlook 2018 maintained



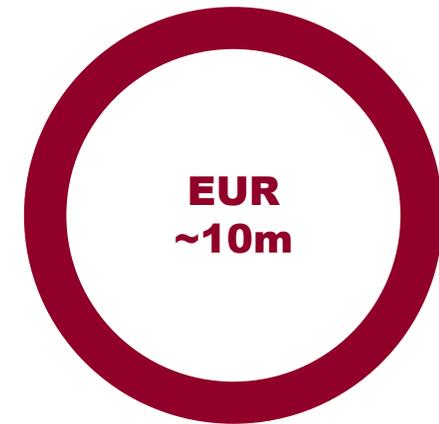
Revenue\*



Operational EBITDA



Revenue



EBITDA

\* Std. metal prices

# Agenda



- 04 NKT
- 13 NKT Photonics
- 17 Financial highlights
- 24 Questions & Answers**

# Financial calendar



**2018**

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**Event**

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15 August

➤ **Interim Report Q2 2018**

16 November

➤ **Interim Report Q3 2018**

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