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Q2 2019 NKT A/S Earnings Call

EVENT DATE/TIME: AUGUST 15, 2019 / 7:00AM GMT



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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to today's Q2 report 2019 conference call. (Operator Instructions) I must advise you that this conference is being recorded today, on Thursday, the 15th of August 2019. I would now like to turn the conference over to your first presenter today, Alexander Kara. Please go ahead.

Alexander Kara NKT A/S - President & CEO

Good morning, everybody, and welcome to the presentation of NKT's Q2 2019 Results. My name is Alexander Kara, CEO of NKT. Together with me, I have my colleagues: Roland Andersen, CFO of NKT; Basil Garabet, CEO of NKT Photonics; Mads Bodenhoff, CFO, NKT Photonics; and Michael Nielsen, Head of Investor Relationship of NKT.

The two gentlemen, Roland and Garabet, will be the main speakers today. But before I hand the floor over to them, I will give a short introduction about myself. As mentioned, my name is Alexander Kara, CEO of NKT, and I have started just 2 weeks ago, 1st of August, in Denmark. I'm 58 years young, and I'm a German and Swiss citizen. I moved to Copenhagen and physically now work out of Copenhagen and work in the headquarter in Brøndby.

In the next couple of weeks, I will obviously spend a lot of time in visiting customers and visiting colleagues in the various factories and sites around the globe. I have a long career behind me in ABB and held several management positions, leadership positions. And one of them was the power cable business from 2012 to 2014, which was then acquired by NKT in 2017. I have a lot of experience and have worked in different parts of the organization and different functions in power transmission, power generation and lived also in several countries and have a long track record and work also and turned around units. I'm looking forward very much to bring NKT to the next level and make it a success. We are working in an interesting industry, which has potential to grow. And I'm very optimistic that -- I'm optimistic that we can grow.

Today, Roland and Basil will do the main presentation of the results of Q2 2019, as I have just joined and I hope you understand that. And I will be more in a listening mode during the Q&A and will be very happy to answer questions related to me. But please accept that operational performance questions need to be answered and handled by Roland and Basil.

Having said that, I will now hand over to Roland and Basil.

Roland M. Andersen NKT A/S - CFO

Thank you, Alex. Let's jump into Slide 6. And for the second quarter in NKT, we had a revenue of EUR 245 million, which was down from EUR 306 million in the same period last year. And this revenue reduction is primarily driven by the expected reduced activity in our Solutions business. It also meant negative organic growth, driven by the Solutions business despite a positive development organically in our Service & Accessories business.

Our EBITDA ended at EUR 9.4 million. It was down from EUR 32 million in the same quarter last year but up from some minus 2% in Q1 this year. This is also primarily driven by the reduced activity in Solutions, primarily the Karlskrona plant. We managed to keep our high-voltage order backlog basically flat compared to Q1 '19. And we were awarded a few smaller projects here under the Gina Krog



turnkey project to connect the Johan Sverdrup 2 platform.

After the Q2, we were awarded another EUR 90 million contract for the Viking Link project. Profitability in Applications remained unsatisfactory. We have a mixed bag of growth performance across our countries, where we serve with our products, coming back to that. And a new head of that business line was appointed in -- during Q2. Service & Accessories delivered a satisfactory financial performance. It's driven both by growth in Service but also in the Accessories business that is experiencing a good traction in these months. This leads us to remain our -- maintain our financial outlook for 2019. We still guide a revenue of between EUR 0.9 billion and EUR 1.0 billion and operational EBITDA between EUR 10 million to EUR 30 million.

If we jump to Slide 7, our Solutions business. I think the Solutions business experienced a reduced level of activity and the financial result was as expected, EUR 111 million in revenue and a minus 29% organic growth with an EBITDA of EUR 4.3 million. Low capacity utilization in Karlskrona continued. And this is predominantly because we have seen a very low level of high-voltage projects awarded in the market during '17 and '18. And as expected, suffering from that during 2019.

We have satisfactory production execution on our backlog projects. We have completed the pull-in of the last Nordlink project connecting Norway and Germany. So the offshore part, that is basically done and remains to do the onshore part down in Germany and then expect that we conclude that project during the end of next year. Also the Caithness-Moray project is approaching finalization. And we progressed our (inaudible) project production in the Cologne factory. NKT Victoria was satisfactory deployed during Q2, and we expect that to continue for the remainder of the year also.

If you jump to Slide 8, a short update on our view on the high-voltage market. NKT won a few smaller orders during first half of 2019, but a very few number of the large orders was awarded in the market. As mentioned before, a part of the Viking Link was won after closure of Q2 in July 2019. We continue to have good progress on several tender processes across geographies and across market segments, predominantly in Europe and also in U.S. We maintain our market outlook that it looks attractive both in the medium term and in the long term. And we still expect that the total value of awards of high-voltage projects during 2019 will be at least on par with the level in '18, i.e., approximately EUR 3 billion.

If we jump to Slide 9, our high-voltage order backlog. Our high-voltage order backlog ended at EUR 1.0 billion by the end of Q2 against EUR 1.10 billion at the end of Q1, so basically flat. 1/4 of that will be delivered during the remainder of '19 and 75% of it will be from 2020 and onwards. And as we see from the list here, we have a lot of offshore wind but still have to fill the factories, especially in Karlskrona, with further interconnections.

If we jump to Slide 10, the Applications business. The financial performance in that business is still unsatisfactory. We had revenues of EUR 106 million, organic growth were minus 8% and EBITDA ended at EUR 2 million. I think across the markets, we saw relatively healthy growth in some of our Central European markets, where we have suffered a little better during the quarter in Denmark and to some extent in Sweden also. We continue the implementation of our SAP upgrade, and we think we are on top of that coming out of Q2 2019. And that first wave was done in the Scandinavian sites.

So if we jump to Slide 11, our Service & Accessories business line, it posted a revenue of EUR 32 million with a plus 9% organic growth. And that is considered as a satisfactory financial performance. There was positive developments in both segments. The Accessories business have performed well and have gotten a breakthrough in the Middle East market but also in Continental Europe. Our Service business successfully conducted a few repair orders in Q2 and also a sizable offshore power cable repair whereas the onshore service business was less active. The development at our high-voltage accessories segment was below expectations. And that -- it's primarily due to the market conditions in U.S. and in Russia.

And with that, I'll give the word over to Basil for a flash on Photonics.

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

Thank you, Roland. Good morning. Going through the key highlights for Q2 and 2019. Our revenue came in at EUR 17.9 million. That is up from EUR 17.6 million in the same quarter of 2018, mainly driven by Imaging & Metrology and sensing. That represents an organic

growth of 1%, which is as expected in our planning. Q2 is going to be exceeded at Q3 and in Q4 with a higher increase.

Our EBITDA came in at EUR 3.9 million, very satisfactory. That is up from EUR 1 million in the same quarter of 2018. And it's the best quarterly results that we've had in EBITDA outside our traditionally high Q4 results. Our order intake was also satisfactory, came in at 4% growth. And it represents a positive book-to-bill. The financial results for the quarter are in line with our expectations.

In the quarter, we also launched 5 new products in industrial photonics market at the LASER World of PHOTONICS show in Munich, which happens every 2 years, and that was very successful for us. We do, however, see a global market headwind in our industry, but we are still guiding with an organic growth of 15% to 20% for the year and an EBITDA margin of 15% to 20% again.

If we move on to Page 14, business development. In the 3 sectors that we report on, Imaging & Metrology was, as I said before, the main driver for the growth. It represents today 38% of our revenue, driven mainly by our supercontinuum lasers and the U.S. market, both of which are moving very satisfactory in our planning. Sensing & Energy had moderate growth in the quarter. However, it is moving in the positive area. And the large part again of the growth was generated in our U.S. market.

The third sector, which is Material Processing, is 31% of our revenue. We saw a slight negative movement in that. That really belies the way the market is advancing. And it is a significant part of what we're trying to do, but we are releasing new products. And you should see more positive growth in that in the next 2 quarters. All in all, a satisfactory quarter for NKT Photonics.

And with that, I'll pass over to Roland.

Roland M. Andersen NKT A/S - CFO

Thank you, Basil. And if we look at Slide 16, on the group's revenue bridge, just a few highlights. The low revenue is obviously driven by the development in NKT with minus 17% growth in NKT and 1% in Photonics. We had a few swings from currency. And that's primarily the Swedish krona but also a little bit the Polish and the Czech currency. And then important to highlight, we disposed our railway business cable activities in February 2019.

So if you jump to Slide 17, the income statement. Operational EBITDA in Q2 impacted by lower revenues; profitability in Solutions primarily due to the loading factors in Karlskrona; and Photonics positively impacted by development in improved project profitability and also in more effective cost containment. Then the implementation of IFRS 16 have increased our operational EBITDA by EUR 1.7 million across the group and it's EUR 1.1 million from NKT and EUR 0.6 million from NKT Photonics. And then we have had a few one-off items primarily relating to NKT. And it's predominantly the execution of our cost program but also a few strategic initiatives, where we are running production improvement programs.

And if we jump to Slide 18, the group's operational EBITDA. Margin was down by 1.6 LTM from Q1 to Q2 2019, driven by NKT. And important to highlight that the profitability improvement from '15 to '17 was primarily driven by the acquisition of the ABB HV Cables activities but also the divestment of the loss-making Chinese operations in NKT. And following the relatively low level of high-voltage project awards during '17 and '18, the profitability for NKT has decreased since '17.

If we jump to Slide '19, the balance sheet. Working capital have improved during Q2. And main drivers for that has been a favorable development in the Solutions business, but also Applications have improved somewhat. In NKT Photonics, working capital was on par with Q1. Capital employed has increased, partly due to the impact of IFRS 16. These liabilities, gone up by 33.9%, has gone on the balance sheet. And also important when you compare it with '18, remember that NKT A/S issued a EUR 150 million hybrid security bond in Q3 last year. And the hybrid security is classified as equity and thereby reducing our net bearing interest by the same amount.

If we go to Slide 20, a little bit of breakdown on our working capital, where milestone payments and careful management of the projects improved our working capital a little bit from the order backlog in the Solutions business. And also Applications improved during Q2, primarily because they had built up inventories in Q1, preparing for the higher seasons over summer. Yes. And important to note here that working capital will primarily depend on timing of payments in Solutions, which will cause quarterly fluctuations around a certain level.

And if we jump to Slide 21, cash flow statement highlights. Positive EBITDA contribution for both NKT and for Photonics. Working capital was positive, driven by NKT. The investing activities were higher than the same period last year. And CapEx was mainly driven by NKT. We've been operating some of the equipment in our Cologne factory. And we are also about to conclude our DC qualification in Cologne, expected to be done by end of 2019. And then there's been a smaller payment related to the acquisition of Onefive in NKT Photonics. And that means the cash flow from financing activities at breakeven with no significant movements.

Well, if we jump to Slide 22, our financial leverage ratio or our NIBD, excluding the IFRS accounting impact, decreased slightly from the last quarter, driven by positive earnings and favorable working capital development. Accounting-wise though, the implementation of IFRS 16 has increased our debt level by EUR 34 million of now capitalized lease expenses. The net interest-bearing debt is broken down into EUR 169 million of mortgage debt and EUR 133 million net drawn on our RCF, revolving credit facility, under which we have available EUR 300 million. Only the RCF here is subject to financial covenants. These include agreed remedies in the form of security over NKT Photonics and the vessel NKT Victoria. This development was as expected. And NKT has sufficient financial headroom to manage the lower level of activity expected in 2019.

And if we jump to Slide 23, this leads us to reiterate our financial guidance for 2019. And that means that NKT is set to deliver a revenue of between EUR 0.9 billion and EUR 1.0 billion with an operational EBITDA in the range between EUR 10 million to EUR 30 million. NKT Photonics maintain their 15% to 20% organic growth targets and an EBITDA margin of 15% -- 15% to 20%.

And with that, I think I'll give it over to the moderator and open up for potential questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Artem Tokarenko from Crédit Suisse.

Artem Tokarenko *Crédit Suisse AG, Research Division - Research Analyst*

I have three, if I may. My first question is to Alexander. I wanted to ask about your initial findings on the business, maybe more strategically from high level, what are the main areas you see that need some improvement within NKT? And also how do you think about the group's financial leverage, whether you think high leverage is a risk to future project awards or whether customers are happy with current levels? If you can give any comment on this, that would be very helpful.

Alexander Kara *NKT A/S - President & CEO*

Yes. I can give some comments but not to the financial leverage. As I said, the operating questions will be answered by Roland. I mean I have worked in this business some years back. And if I look when I was leading in the cable business from 2012 from 2014, and I see today the numbers of projects which are in pipeline that are great opportunities. And looking forward now, we expect that some orders will be -- large orders will be awarded in Q3 -- Q4, sorry, and Q1. And we need to secure some of them. And with this, we will build the backlog for Solutions. And that will bring us to higher revenues. And this we need to execute in a professional manner. So I'm optimistic that we will come up here if we build up the backlog in Solutions. So that is a very clear market to win some of these orders.

Artem Tokarenko *Crédit Suisse AG, Research Division - Research Analyst*

Right. And my second question is around profitability. Given that you have very good visibility from your order books, could you give us some color about how we should think about profitability in H2 sequentially compared to Q2 in Cables and Solutions business in particular? And also maybe if you could help us to understand a bit better the delivery of your order book for 2020. And what level of profitability is currently secured for 2020 in your order book?

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

Thank you for that question. I think with regards to profitability, our Q1 and our Q2 is exactly as expected. And we are reiterating our guidance, right, on EUR 10 million to EUR 30 million of EBITDA. And as we said back in November, there's basically no large orders that can realistically impact '19 and that's also still the case. What we have done is that we have posted a few small orders during Q1 and Q2

that will support utilization in Karlskrona. And further, what we said about 2020, we're not guiding on 2020, but we said that 2020 will be better than '19. And that is still the case.

Artem Tokarenko *Crédit Suisse AG, Research Division - Research Analyst*

Right. And could you give us account deliveries of your order book in 2020?

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

Yes. So the color we give on the order book is that we had about EUR 1.05 billion in the order book. About 1/4 of that will be delivered during the remainder of '19 and 75% of it will be delivered in 2020 and onwards. And the exact planning between the years are a moving target. That's why we are not more specific on that. That's also often something that we agree with the customers when and how we can both produce but also deliver.

Artem Tokarenko *Crédit Suisse AG, Research Division - Research Analyst*

But is the majority of that 75% for 2020? Or...

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

I beg your pardon?

Artem Tokarenko *Crédit Suisse AG, Research Division - Research Analyst*

Is the majority of that 75% to be delivered in 2020?

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

We're not guiding on that. Thanks for the question.

Artem Tokarenko *Crédit Suisse AG, Research Division - Research Analyst*

Okay. And my last question is around demand for high-voltage cables. You have been very vocal previously that your 2020 -- a material step-up in 2020 earnings will depend on Viking Link project. Given current project pipeline, and namely Crete-Attica, U.K. CfD and SuedLink projects, which of those can potentially contribute to your 2020 earnings? And what's the time line of those project awards, please?

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

Yes. So I think what we said about Viking is that it would, of course, be an important project for our 2020 earnings because potentially we could start early with that project. And that means had we been awarded a larger part of Viking, the pickup in 2020 would have been higher than now, where we have been awarded a smaller part of that project. So that means that the 2020 figure expectedly will be slower than otherwise. I assume that, that is logic.

Now with regards to SuedLink. I mean as far as we're concerned, we know what the projects are communicating. They are pushing for award in Q4, maybe Q1. And if that is happening, potentially we can start production, I'm guessing Q3, Q4 2020. So not a massive impact to our '20 earnings, but there are a few other projects that we are working on that potentially can have a 2020 impact. And it's too soon to say before we know more exactly both the voltage but also financial close on those projects.

Artem Tokarenko *Crédit Suisse AG, Research Division - Research Analyst*

Right. But maybe on Crete-Attica, I know you don't like going into individual projects. But in terms of the way it stands, is there any scenario where it can be produced in 2020?

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

Assuming we were looking at that project, we have, as it looks today, availability both for SLTE and also for MI open slots in 2020.

Artem Tokarenko *Crédit Suisse AG, Research Division - Research Analyst*

Right. And that project will be MI?

Roland M. Andersen NKT A/S - CFO

We don't know yet.

Operator

Your next question comes from the line of Casper Blom from ABG.

Casper Blom ABG Sundal Collier Holding ASA, Research Division - Lead Analyst

First of all, Alexander, looking forward to meet you. And then a couple of questions from my side also. First, sort of a little bit of a broader question. The whole -- you can't really open the newspaper without talks about recession, slowdown and so forth right now. Do you see that as something that can potentially postpone projects? Or would you actually argue that it is something that could accelerate projects as governments would want to stimulate economies? That's my first question.

Alexander Kara NKT A/S - President & CEO

I mean this is a very broad question. And of course, I think that if you look in Germany and in Europe in general, the CO2 discussion will -- I think that will continue. And that could have an impact in the long run that projects may get accelerated in order to bring more renewable energy on the grid. But that is just an assumption, which could potentially happen. And then we don't know what is really -- will happen with the Brexit and interconnectors between U.K. and France based on the financing. So there could be a potential impact of shifting or maybe even that some projects maybe get canceled.

Casper Blom ABG Sundal Collier Holding ASA, Research Division - Lead Analyst

But have you seen any sort of indications in the last 3 months or so that anything could be pushed out due to sort of the increasing uncertainty in the world?

Roland M. Andersen NKT A/S - CFO

I think that mostly the green transformation is a little bit detached from the underlying economy, right? It's more political unrest that can disrupt the larger projects, for instance, Brexit and so on. Where we are more sensitive is probably in our Applications business, right, because that's closely correlated to the underlying economy and to the construction business. So to the extent we will see a slowdown in Continental Europe, then that business will suffer from that as well but more well correlated than the Solutions or the Projects business.

Casper Blom ABG Sundal Collier Holding ASA, Research Division - Lead Analyst

Okay. That's helpful. Then secondly, you're doing some internal changes. I think it was at the full year, you announced some cost cuttings and redundancies. Could you give an update as to how far you are in this? And then maybe in Applications also, where there's been some IT integration, how far are you there? And what is sort of the road map towards your longer-term margin target within Applications?

Roland M. Andersen NKT A/S - CFO

Yes. So if we start with our reduction program, that is on target. We had a target of reducing the white-collar workforce with about 130 people. We have concluded on the 60. And we are on target to conclude the rest over second half. And also our general spending costs are on target, so we delivered what we promised for '19 and also full year impact for 2020. What was the second one?

Casper Blom ABG Sundal Collier Holding ASA, Research Division - Lead Analyst

Yes. The IT integration in Applications.

Roland M. Andersen NKT A/S - CFO

Exactly. Yes. Okay. So that integration is basically done in the Nordic countries now. There's a little bit of leftover getting acquainted with the fully automated end-to-end production platform. And so out of August into September, I think we are fully up and running. And then we will prepare for the next rollout, where we install the same platform to Central Europe.



Casper Blom *ABG Sundal Collier Holding ASA, Research Division - Lead Analyst*

Okay. Cool. Then just my last question, which I totally understand if it's difficult to answer. But with regards to the Viking Link project, I think you've got a little less than a lot of us were hoping for. What is it really that sort of decides that? I suppose, since you've got something, your product must be good enough. So is it -- does it come down to price at the end of the day?

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

I think the competitive situation was very fierce on that project. And exactly, as you say, I think both we and also the customer think that we had a strong solution, if not the best solution. So I think it's correct to conclude that the competition also on price has been fierce.

Operator

(Operator Instructions) Your next question comes from the line of Kristian Johansen from Danske Bank.

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

Just a question on the growth in Applications. And you mentioned that you saw sort of weakness in Denmark and Sweden. I just want to understand what is driving this and whether there's any sort of structural movements here we should be aware of. I mean you mentioned this underlying cyclical. So can you elaborate a bit more on, I mean, essentially the minus 3% negative organic growth in the first half as well?

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

Yes. So it's a little bit of a mixed bag in Applications. I think, first of all, in Q2, nothing has been strong in '18. But Q2 was our strongest Q in '18, so it's a little bit with the comp. But we have had issues in the Nordic countries and not only related to the IT platform, also a few production issues and so on and the market in Denmark has been weak. And there's nothing structural in that. I think the competition on building was and then the low-end products is quite intense. And there has also been delays in the customers' drawdowns in Sweden and so on. So a few issues in the market in Scandinavia that are not growth-related. And then on the contrary, we don't (inaudible) in the Central Europe. They actually had a good run in Q2. It's a little bit of a mixed bag on the back of a relatively stronger comp in '18.

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

So these internal issues you're highlighting for the Nordics, is that going to remain in the second half of the year? Or how should we think about H2?

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

Well, the -- no, they have been solved coming into Q3.

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

Okay. So growth should improve in the second half?

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

Yes. Operationally, yes.

Operator

Your next question comes from the line of 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. The first is cash flow. On the positive side, you had a breakeven free cash flow in Q2. Could you put some color to second half of the year?



Roland M. Andersen NKT A/S - CFO

I mean we're not guiding on that level, Claus. But I think what we said in Q1 was that you can expect working capital to be at par with what it was coming out of Q1 by the end of the year. And again, you take our EBITDA line and our financial expenses and also tax and so on, and we have also guided that our investment level is most likely to be a little less than last year, I think then you have sum of the parts.

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

Okay. And then coming back to the Solutions, I guess the profitability level wasn't that bad despite a significant negative organic growth. Is that the result of these smaller projects having a better profitability than larger projects? Or it's just timing? Could you put some more color to that?

Roland M. Andersen NKT A/S - CFO

I think the profitability drop for us was meaningful by over EUR 20 million or so. That was a meaningful drop. But we have been loading Karlskrona with smaller orders. We have also had a little below-the-radar variation orders and so on that are profitable. So a little here, a little there, I think we have managed to get through a relatively low utilization in Karlskrona, quite okay, considering the situation. But I think the earnings drop is meaningful.

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

Absolute, just not as bad as one could have feared, I think. Okay. And then just as a final question is in Photonics. Basil, you mentioned this slowdown. I think that's the first time in a very, very long time we see negatives when it comes to market demand. Could you put some more color to what you are seeing? Should we fear that demand is more affected by the overall economy?

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

Well, the Photonics market is pretty much affected by the situation in China. So slowdown and trade wars in China do show some headwinds. So equivalent companies to us and much larger companies to us have seen headwinds in the slowdown. Our exposure to China isn't that big. Our direct exposure to China isn't that big. But there's always secondary exposure. We have not seen that yet, but there are headwinds that we are careful of, so we are planning for. But in general, because our business is also more diversified in various sectors, we are not seeing a direct thing. But obviously, we're planning in fear for a slowdown in that sector.

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

Sure. Then I can -- Yes, sort of. I understand the overall dynamics. But Photonics coming from -- the smaller player coming up with new products, you should be able to grow nicely, at least even in a more difficult market, I would argue, at least.

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

Yes, absolutely. And we're still keeping our guidance. So 15% to 20% growth isn't too bad.

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

No. But again, just coming back to a little more negative wording, I mean it wouldn't be the first time a company coming up with some negative wording, keeping the guidance and then 1 or 2 quarters down the road, guidance will be changed. So I'm just trying to figure out how concerned should we be about your more negative wording, especially going to 2020? One thing is this year.

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

Yes. I mean it's -- if you look at the market, we're just reflecting what other companies are saying in the market. There's no more to it and no less to it. Our planning continues as is. And again, direct threats, we're not seeing at this stage.

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

Right. Okay. And then just when part of the market is under pressure, sometimes you will see the price declines. Have you seen anything like that?

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

Not really because again, as you mentioned before, most of the products we have are new products. So we are not competing with existing large infrastructure orders. We are into the newbuilds. So we are not seeing price pressure on our side.

Operator

(Operator Instructions) And we have another question from the line of Artem Tokarenko from Crédit Suisse.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

Just to elaborate a bit on that working capital guidance by the year-end, could you give us some color in a scenario where there are normal orders won for NKT this year? How should we think about working capital?

Roland M. Andersen NKT A/S - CFO

So as we said before, once we get orders in, right, we typically also get prepayments and pretty soon after maybe milestone payments and so on. So the more orders we get in, the more prepayments. The less orders we get in, no prepayments. That's why we should think about the financials.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

So in a scenario where there are no new orders won, but in the next 6 months, how should we think about working capital from here onwards?

Roland M. Andersen NKT A/S - CFO

Then you should think about in a way that we don't get in any more prepayments. But I think what you need to note is that I'm saying that the group's working capital expectedly is at par with the level we saw coming out of Q1.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

Right. Okay. And my second question is around your cost savings, I think you're targeting -- you've been targeting EUR 10 million of cost savings from that EUR 15 million of cost saves from that white collar program? How much have you achieved already? And what's the -- do you expect to achieve the full run rate by the end of this year?

Roland M. Andersen NKT A/S - CFO

Yes. So we expect to have achieved the full run rate by the end of this year. And that means EUR 15 million for the years to come and about half impacting '19. And we are on track to do that.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

Okay. And I have two more questions. On -- first thing I want to ask is on -- we heard from Ørsted that they had power outages in 3 of their wind farms. And all of them had the export cables supplied by NKT. So I wanted to ask if you heard from them anything, if you see this as a potential risk of some working to fix any problems there. And also to add to this, there were headlines in the press saying in river levels in Germany are again getting to low levels. What do you see in your Cologne factory, whether you see any logistics bottlenecks?

Roland M. Andersen NKT A/S - CFO

I think with regards to customers' issues and so on, I've seen what Ørsted is talking about. But it has not impacted us, if that was the question.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

Yes. And in terms of low levels of rivers in Germany, is this something which can potentially impact you again this year?

Roland M. Andersen NKT A/S - CFO

Yes. So far, we have our logistics plans lined out.

Artem Tokarenko *Crédit Suisse AG, Research Division - Research Analyst*

Right. Okay. And the last question is around FX, just housekeeping. Could you help us with the FX guidance for full year?

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

What was the question? On how currency will impact us for the full year?

Artem Tokarenko *Crédit Suisse AG, Research Division - Research Analyst*

Yes.

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

But we are not really guiding on that wide. We have a Swedish krona exposure, to a smaller extent, in the Applications business and also a little bit in the Solutions business. And the impact was EUR 3 million in Q2.

Artem Tokarenko *Crédit Suisse AG, Research Division - Research Analyst*

Okay. How much (inaudible) on the group level for you?

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

That I'm not guiding on. But the EUR 3 million could -- have a look at how the Swiss krona has developed over Q2. But then you need to put your own prediction on the Swedish krona. And just on that one, in general, we will be hedged up against euro. So we'll be hedging -- all the metal exposures we have, we'll also be hedging all currencies up against the euro. So in general, you can't expect large swings from currencies. But obviously, from an Applications factory that is based in Sweden (inaudible) in Swedish krona, there's an underlying economic exposure that on the long run can't be (inaudible).

Operator

And we have no further questions. (Operator Instructions) And we have another question from the line of Artem Tokarenko from Crédit Suisse.

Artem Tokarenko *Crédit Suisse AG, Research Division - Research Analyst*

Actually, my last question is around Photonics' book-to-bill. I think order intake slowed -- growth in orders slowed to 4% in Q2. So what's your book-to-bill for H1? And does that low single-digit growth environment in orders is indicative of revenue growth likely slowing down to low single-digit next year?

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

We're not guiding on orders. We're just only guiding on our growth, organic growth, which is 15% to 20%.

Artem Tokarenko *Crédit Suisse AG, Research Division - Research Analyst*

Okay. But the book-to-bill for H1?

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

We're not guiding on that.

Artem Tokarenko *Crédit Suisse AG, Research Division - Research Analyst*

Okay, no worries.

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

It is positive.

Operator

And we have no further questions.



Roland M. Andersen NKT A/S - CFO

Okay. If no further questions, then thank you, everyone. Thank you for participating. Thanks.

Operator

That does conclude our conference call today. Thank you for participating. You may all disconnect.

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