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NKT.CO - Q3 2023 Nkt A/S Earnings Call

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PRESENTATION

Claes Westerlind - *NKT A/S - President & CEO*

Good morning, everybody. Thanks for calling in to this Q3 call. If we get started and look at the first slide, I just want to make the comment that both the presentation and also the related comments by myself and Line will contain forward-looking statements. And on that note, today, I will be speaking to yourselves. And next to myself, I also will have Line, who is the CFO. Although Line is on the tail end of a flu. So she has called Chief calling in from a distance.

Then we start with something that would otherwise I'm sure come up as a question, and that's the status of the divestment of NKT Photonics. And on this page, you can see a brief summary of the latest events. And I think maybe just to mention the fact that in July 2023, a couple of months ago, the purchase of Hamamatsu we filed their application with the Danish Authorities, and this is currently under assessment, and we don't have much further information as to how this is going or to where it's leaning, but we are in a standby mode around this.

NKT Photonics continues to be presented as a discontinued operations and also an asset held for sale. And with those words, we come to the quarter. So the third quarter of this year is something that we are proud of in NKT. We achieved a 44% organic growth in the quarter. This is driven primarily by solutions and also the applications business line.

Our operational EBITDA reached a new record level of EUR 76.5 million, and on the side of that, also our high-voltage order backlog increased to a new record level of EUR 11 billion. And this was primarily driven by the award of 5 projects under a frame agreement from the German TSO, 50Hertz, which we were very happy to be able to be secured during the third quarter. And if we look at the backlog as a whole, and I will come back to that later on, we are also noting that more than 75% of our backlog is with large transmission system operators.

On the cash side, we are also happy to report of a positive quarterly free cash flow generation of EUR 91 million. This is driven by primarily activities in the solutions business. And also as part of early Q3, we also closed the rights issue that was conducted earlier in the year and also added the net proceeds of the sale of EUR 357 million to our balance sheet. And on the back of the above events, we have also recently, as you're well aware, both pre announced the results for the third quarter, but also revised our financial outlook for 2023.

So with those key messages, if we go into some of the business highlights, and this may be, again, just to stress what I said in the introduction here. We have had a continuous growth in our revenues and operational EBITDA, which is driven by primarily one on the one side solutions where we have had satisfactory execution both in our commercial projects, but also in the investment projects that have allowed us to grow in terms of revenue and also EBITDA.

In applications, we have continued to benefit from positive performance, in particular, in the power distribution grid segment effect both part of the KV business but also medium voltage. And we have seen a lower activity in the construction business, although on a stable level if you compare with the second quarter this year.

And thirdly, if you look at the service necessary with business lines, here, we are recording lower revenues and earnings, and this is due to less service repair activity if we compare it to the same quarter in the previous year.

So to the right on this slide, you can see what I just said in numbers, a strong revenue growth comparing the third quarter of EUR 22 million to EUR 23 million of EUR 144 million or 44% and operational EBITDA, we are coming up to a round number, EUR 77 million, which is more than doubling our EBITDA compared to the same quarter last year and also a healthy growth from a percentage perspective in EBITDA.

We come into the solutions side of the business. As I said, the satisfactory execution of the ongoing orders also about the investments. I think most of you on the call are aware that we are conducting investments. And one of the ones which are in the tail end is now the EUR 90 million investment announced in conjunction with the Champlain Hudson Power Express project, which is now in final completion phase. And the assets of the debt investments are now being gradually taken online, and this has both impacted the Q3 numbers and also they will be completed now at the end of this year.

We continue to progress several projects in our backlog, including but not limited to BorWin5, Champlain in the U.S., Dogger Bank A, B and C in the U.K. hotel in Canada, Shetland in the U.K. and last but not least, also Silicates kink, which are on the German corridors. Also note that our Cable A vessel and T Victoria continued to enjoy a healthy loading during Q3. And overall, this took solutions to a revenue of around EUR 300 million with an EBITDA of EUR 50.4 million. And if you look at the organic growth, it's a very strong growth, which I think is also should be seen as a testament to our capabilities to both attain the people that we need and also to carry out the investments that we are planning and to also take these investments into operation as per the plan with good quality and output as a result.

Of course, we cannot have this call without discussing the market a little bit. The high-voltage market this year and particularly in the third quarter, has continued to enjoy the very strong momentum we have seen recently. We estimate that the value of the product awarded the, so to say, bookable projects this year are in excess of EUR 14 billion. And in addition to this number, the market has also placed a number of long-term booking commitments mainly as part of framework agreements. And these reservations, we estimate to more than EUR 13 billion.

Seeing in combination, this then shows that cables with a combined volume of more than EUR 27 billion have been allocated towards the market. And we continue to see large European transmission system operators as being very active in this segment, trying to end in a successful way securing capacity for the cables that are needed in the next decade to complete the green transition.

The absolute majority of these projects were awarded based on the DC technology. On the right of this slide, you can see a selection of our notable order wins during the last couple of months. And if we turn to the next page, maybe just a few words on perhaps the most notable one. And this is the recent order that we have been able to secure from our customer and partner 50Hertz, it equates to 2,500 kilometers of core cables with a value of around EUR 3.5 billion. This is distributed across 5 projects that you can see on the map here and also in writing to the left. They are all based on 525 kV DC technology that most of you remember, NKT launching back in 2014, first in commercially deployed in 2020 on land. And the first collet ever awarded on 525 Kv DC was the (inaudible) that we announced earlier this year, and that is now followed by this massive brain agreement.

Perhaps what's worth also to note here that this frame and the 5 different projects that cut across all the different applications that we are active in. So it cuts across offshore wind with the examples of land in Fisker & Nielsen. It is also onshore interconnector projects with Nordisk and also NordLink plus. And last but not least, at least to my knowledge, the first hybrid HVDC interconnector product, connecting the island of bone home and also aiming to integrate offshore wind in the same project.

So it is really a testament to the versatility of the technology that we are bringing to the market and also the customers really applying the full extent and potential of this technology. We cannot help ourselves, but reflect a little bit back in time to the left on this graph. In December 2019, many of us, myself included, it was a very different market at the time and our order backlog was also very different below EUR 2 billion. Today, we

now EUR 11 billion of booked orders. And on top of that, also further orders in terms of booking commitments from the customers tenant and SSE, which if you look at the booked orders, it's an eightfold of our backlog from 2019.

And this record high backlog really provides us with the confidence that the investments we are carrying out is the right thing to do. It provides us with the earnings visibility that is healthy for a cable manufacturer now looking into the next coming years. And out of the EUR 11 billion, around 25% to 28% is set for backlog conversion in '24 and '25, giving the message that we have a good loading in those years, but also a very healthy loading even beyond those years.

And as I said earlier, also important to note that over 75% of these projects or with large UP and transmission operators. If we look at the backlog as such and try to split it down a little bit further, also by application, around 50% of our backlog currently is in the interconnector segment, around 45% is on the offshore wind segment and 5% in the Power offshore segment.

We are well aware about the past and also the present turmoil in the ultra wind segment, which has been primarily seen in the U.S. and the U.K. And I just want to add a comment then that NKT's exposure to the U.S. offshore wind market seen from a backlog perspective is 0. So the product we have in the U.S. currently is Eastern Plan Hudson Power Express, which is an interconnector between Canada and the U.S. It is a product which is well into execution where both installation and production is ongoing for the moment.

In the U.K., NKT is a strong player from an offshore wind perspective. But if we look at the backlog and, in that backlog, try to isolate projects, which are in a very early stage of execution, the relative proportion of that to the backlog is fairly low. So the approximate amount that we have in the U.K. in early stage is around EUR 750 million to be seen in proportion of the total EUR 11 billion backlog.

Moving on, leaving the solutions market and that business is behind us looking into applications, we note that the higher revenue levels in applications in comparison to last year was driven by, on the one side, higher volumes. But on the other side, also price adjustments that have been conveyed to the market to compensate for inflationary pressure. And this revenue growth also in combination with efficiency initiatives is leading also to a higher operational EBITDA, if you compare with the same quarter last year.

We continue to see a positive sentiment in the power grid market, which is driving medium voltage, it also drives 1 kV to a certain extent. And we are proud to say that we have a strong presence with this segment also that we need and plan to reap the benefit of going forward.

At the same time, the challenging situation in the construction activity continues, and we also, as a company, continue to be handled for what this brings in the future. although we would also like to note that the volumes are all by the low level, they are stable if you compare to the same quarter previously. Then we come to Service & Accessories which if Q3 seeing a decrease in both revenues and earnings, if you compare with the same quarter last year, and this is primarily driven by that the repair, offshore repairs in particular, it's on a lot lower level than what we have seen in the past years.

However, on a positive note, other segments within our service business is contributing positively to compensate for this shortfall and this is due to various strategic initiatives that have been taken by our service business line in expanding both from a geographical perspective, but also from a little bit of a business and offering perspective.

Our broad-based improvement journey in accessories is continuing. For example, the ramp-up of our HDC production capacity to support our solutions business, but also the shift from production capacity from Germany to Sweden. And then also here, we have more work to be done in the coming quarters. And with those words, I would like to hand over the presentation to Line.

Line Andrea Fandrup - NKT A/S - Executive VP & CFO

Thank you, Claes. So a few slides on the financial highlights on the quarter, and we start with the P&L, I would like to start off a little bit more high level here to just acknowledge that with this financial result, we reckoned the movements on revenue and EBITDA between business lines in nations and also the large impact on financial items for Q3. And we would like to explain this thoroughly as solely as possible because we don't predict currency fluctuations into the future with a list the mechanics behind what out of NKT accounts set up.

So we will invite for a separate session on this in the future, we just want to acknowledge if we can fully understand that we have more questions to it than what we are able to cover here in the webcast. With the 2 main reasons why this fluctuation happens is we have a number of entities that are not in Europe. They have local currencies as their functional currency of the entity. And overall, that will give fluctuations on intercompany eliminations when we look into currencies.

NKTs, overall financial target is to secure our cash flows in euro are not disturbed by any kind of the purity impact. But due to this setup, there will be fluctuations. So we are only protecting externally our exposures against the euro but not for the local entity prudence's, does to say that upfront. So if we look here at the P&L, Claes just mentioned, the substantial growth of the 44%. For the first half, that corresponds to 35% in the first half or first 3 quarters were for the full year of 2022 grew 15%.

The operational EBITDA being EUR 77 million, more than 2x the level of 2022 at the same time and an operational EBITDA margin of 15.2%, where we closed out 2022 on 10.7%, so good uptake on the margin here.

When it comes to the financial items. And here, you see the minus EUR 24 million, which are primarily unrealized value adjustments on currencies, I mean assets liabilities and our balances that have market values different than those we accounted for modality. We regulate our values on financial items, and it's unrealized value adjustment, yes, to say that just the effective tax rate was 23% kind of similar to the previous quarters.

The FTE level, you continue to see increasing due to the higher activity levels, certainly also preparing for the growth ahead of us. If you go to the next slide, looking at our balance sheet. We always say we closed a year at a very favorable on close to a mid-capital of minus EUR 300 million. And now we're closing the third quarter year at minus EUR 600 million. So it is a very favorable position, which is very much due to the milestone payments in solutions and a structurally higher backlog that we built up for executing in a larger company also in the future.

The elements of an improved earning and a higher net working capital amount also to RoCE where we closed out Q3 on 15.4%, that's a very good level also just looking back to closing Q2 with the capital raise, we see our net interest debt at minus EUR 674 million and a leverage level at minus 2.9% to EBITDA. And then I just want to ask you also that we have issued guarantees at EUR 1.8 billion at the end of Q2.

Turning over to our cash flow, which closed the free cash flow for the quarter of positive EUR 91 million that was due to our earnings of EUR 77 million, also the change in one capital of EUR 98 million and then the cash flow from investing activities was at EUR 60 million, the progressing well on our plans of investment summarized in the customer side. So on face Cash flow from financing activities of EUR 257 million over the mute.

On the next slide, our updated guidance for the year, communicated earlier of a revenue of EUR 1.85 billion to EUR 1.9 billion and an operational EBITDA of EUR 240 million to EUR 260 million. This tall assumes that we will execute satisfactory on our projects, rest of the year and do not have any unforeseen impacts from external environment. Also important to note, the last entrance here on this slide that this update does not change the enter financial ambitions for the trajectory into '25.

Before Q&A, just closing out on the key messages of the Q3, the 44% organic growth and a rate high voltage quarter EBITDA operation in the Danio, a strong order backlog for the future of the mines, a quarter of positive free cash flow generation in 1 million and a close finally rights issue, which was fully subscribed, and we all subscribed, proceeds amount to line and then an updated (inaudible). With that, we will turn into Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Moyo Adebayo from Goldman Sachs.

Moyo Adebayo - Goldman Sachs Group, Inc., Research Division - Research Analyst

I have 3 questions. So firstly, I was just wondering how you assess the risk around cancellations or delays in the home C3 project? Secondly, given the unprecedented level of industry high-voltage order backlog that you've seen this year and as you've actually highlighted for us in this presentation, do you see risks of much more order intake in 2024? And just a small housekeeping one as the third one. You mentioned in the report that a smaller portion would be executed in Q4 2023. Just want to confirm that you mean relative to this quarter. Thank you.

Claes Westerlind - NKT A/S - President & CEO

Thank you for the question. Just on the third one, I didn't really perceive that. Could you repeat the third question, please?

Moyo Adebayo - Goldman Sachs Group, Inc., Research Division - Research Analyst

You mentioned that a smaller portion would be executed in Q4 2023 in the report this morning. So I was just wondering if this was relative to this quarter, which is compounding, I've interpreted that correct correctly.

Claes Westerlind - NKT A/S - President & CEO

Yes. Yes. That's correct. And we start from the back. And then Michael can also give some more comments on that. Thank you for your questions. If we talk with the first one, assessing the risk on the C3 project, I think I will refrain from commenting on specific projects but what I can say in general is to reiterate, I think communication we have done in the past, which is that we have been disciplined and will continue to be disciplined when it comes to booking production capacity. And that will not be done with less than that we have a commercial compensation in place should the product be canceled. Having said that, if a product is canceled there, it will be a negative impact. Before a project get canceled, I think it's fair to assume that the customer will always try to find a replacement project or cable to be utilizing in the same slot otherwise, money is lost, so to speak.

And of course, the bigger the customer and the more projects that they would have with the bigger that possibility is. Should that not be possible then a cancellation will take place and there will be a level of compensation, which not in full will compensate the shortfall or to repair the damage that we would sustain. But in addition to that, we also would then turn to re-planning possibilities, which is basically making shifts in our backlog. And that's where even though this would not be a good event, we have the biggest backlog we've ever had. So meaning also possibilities to try to mitigate and compensate for such a shortfall. We do recognize that some projects are in a very early stage, and I think that's fair to say about C3. But for us to be able to make an assessment on whether it will be canceled or not, I think we are not qualified to do that. And we read the media and we have not any indications from the customer that they will not go out with those projects. I think I would leave it like that.

On your second question, considering the level of awards this year, is there a risk of fewer or lower volumes to be awarded in 2024? From a total level, if I start with the market, the market continues the outlook to be very positive. There is several large European TSOs who are in the realm of starting up or have started procurement procedures to secure cable capacities for the next 5 to 10 years. There is always, of course, a risk that things get shifted left or right. But so far, we don't have an indication of the lower pace than that. Looking at NKT as a company, of course, the more we sell in excess of our own existing capacity, so meaning the more better we build, the more difficult within bracket it will be to win further orders. And that is, if you will, as being victim for our own success. Only full in the next coming years, no. I mean we always have the capacity here and there to be able to entertain some pursuits. And starting in '27 '28, then also we have a lot more capacity to partake in the upcoming tenders. But I want underline it's a good situation we are in for the moment with a massive backlog. And I can also note that we have not made compromises neither from a risk or a profitability perspective in the last awards in the order intake we have done. So we feel comfortable from where we stand at the moment. I hope that was answers to your questions.

Michael Yong

Maybe before we leave just a final remark. This is Michael Yong, Head of IR here. I just wanted to clarify your last question on the smaller portion comment. The smaller portion was meant in relation to the full order backlog. So obviously, there will only be a smaller portion of that full backlog to be executed in the remaining part of 2023. So it's not related to comparing to the previous quarters or anything like that. So just to clarify that it's a small portion of the EUR 11 billion that will obviously convert into execution and revenue in Q4.

Operator

We'll now move on to our next question. Our next question comes from the line of Casper Blom from Danske Bank.

Casper Blom - *Danske Bank A/S, Research Division - Analyst*

I have a couple of questions also. And I'll just take them one by one, so you don't have to remember too much. On the whole supply and demand situation, Claes, I understand your comment that NKT does not have any direct exposure to the U.S. offshore market. But you do have competitors that have added capacity to serve an expected U.S. offshore market with high-voltage cables. That competition might now see that projects are being canceled and they might have factories in the U.S. with open capacity. How would you view that in regards to the European market? I mean, would it pose a threat of additional capacity being poured into the European market? That's my first question.

Claes Westerlind - *NKT A/S - President & CEO*

I think people reflect on it, Casper. I'll let you rightfully say, of course, there is an indirect correlation there. Whether I consider it to be a threat or not, I would say that it's been an opportunity for the supply-demand balance to come closer to something which will make it possible to execute the product in time at least in the near term. There is, of course, also a cost disadvantage with transporting cables over the Atlantic. But I think for some cases, where the European-based factories are not able to deliver on time. It could be an opportunity to bring the cables from the U.S. So I would not be overly concerned with that threat for the moment, considering the overall supply-demand balance.

Casper Blom - *Danske Bank A/S, Research Division - Analyst*

Okay. So if I may elaborate a little bit on your answer class, that's simply because when you look at that capacity standing in the U.S. compared to the capacity gap that you see in Europe, then it's still not at a point where you could sufficiently cover the whole demand in Europe?

Claes Westerlind - *NKT A/S - President & CEO*

Correct. Yes.

Casper Blom - *Danske Bank A/S, Research Division - Analyst*

Okay. Then coming back to your comments regarding the high activity among the large European TSOs, we've also seen you guys receive orders from several of those. Could you maybe sort of elaborate a little on what's left in that equation? I mean, there's been mention of other TSOs also preparing the framework agreements or large orders in terms of that sort of hurricane of orders, which one are we still missing?

Claes Westerlind - *NKT A/S - President & CEO*

Here, I need to be careful to see what public and not, Casper, to respond to your questions, but I mean there are several large European TSOs, which have not completed, let's say, their frameworks. I think one thing which is well publicly known is that Amprion are procuring, Prysmian announced also being awarded part of the entrant agreement, there are more parts in that in U.K., the TSO has not awarded framework agreement. So I think

that can be expected. And there are also opportunities in France with RTE, which I think they have also publicly stated that they are in the process of awarding HVDC equipment covering both cables and converters during the course of next year. So that's only to give a couple of examples where I believe I think that information is also public.

Casper Blom - *Danske Bank A/S, Research Division - Analyst*

Okay. That's helpful. Then finally, just following up on Photonics. Claes, I'm not sure how much you can say, but can you provide any kind of time line as for when you would expect the Danish authorities to respond to Hamamatsu's renewed application?

Claes Westerlind - *NKT A/S - President & CEO*

Not quite. It is refiled. There has been questions and answers a process there. And when that is to the satisfaction of the authorities, then I think we can say it is a response time of 125 days. But what we cannot say is when that period starts. So that is basically leaves us unable to make a prediction here.

Casper Blom - *Danske Bank A/S, Research Division - Analyst*

Okay. Is it possible for us sort of outside as to find out when that process starts, just so we know sort of how long to wait?

Claes Westerlind - *NKT A/S - President & CEO*

I'm looking at Michael here, a little bit unfamiliar with the Danish system, but I think --

Michael Yong

No. I can't confirm that.

Casper Blom - *Danske Bank A/S, Research Division - Analyst*

Okay. Then you can expect a few calls.

Operator

Thank you. We'll now move on to our next question. Our 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, and I will also do them one by one. As I heard you Claes, you said that next year could also see same level of order activity as we've seen this year, i.e. this EUR 14 billion, was that correctly understood?

Claes Westerlind - *NKT A/S - President & CEO*

Yes. I don't know if I said that, but I think it's not an unreasonable expectation that the award activity could be not too similar to this year. Why I'm a little bit hesitating on the response. And as you know, Claus, if there is a massive frame agreement, which will be awarded in Q3, Q4 next year and by coincidence, it flips with a quarter that can cut the market down quite a bit. So I think if you'll remain in round numbers. I think we will see

similar high activities from the remaining European TSOs going into next year, whether that will materialize exactly to the same amount of billions. I think I will leave that onset. But there is significant activity going ahead.

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

Right. So I guess you have a lot of discussions with the TSOs, both with the frames you have won already and those being planned. And I guess they are also reading the newspapers and offshore comments so speed not just in the U.S. but also in Europe, U.K. around 5% being a prime example. So how does that impact the discussions you are having? I know what you said about the order activity, but do they not at all consider delaying some of the volumes into longer into the future?

Claes Westerlind - *NKT A/S - President & CEO*

It's a good question. And I think what I can respond on is, of course, what we hear in the discussions that we are having, what they're considering internally, I believe that unsaid. But we have not today in reduced ambition levels when it comes to securing capacity for the next 10 or even up to 15 years in some cases. And I think it's maybe perhaps also a reflection of that, the green transition will continue. But then here in this year and next year, perhaps there are some products in need of resetting. But the overall process will continue, then it's more a matter of an adjustment in pace perhaps. But so far, we have not seen reduced ambitions from the TSOs.

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

Okay. And then my second question goes to this liquidity research. Line, you had a slide showing you have EUR 1.1 billion in reserves. How is it when you look at your office reserves? What's the number there? And how much have you in off-balance guarantees?

Line Andrea Fandrup - *NKT A/S - Executive VP & CFO*

So I'm just wondering if I get your question in terms of off-balance sheet reserves because we have the utilized guarantee lines we say, right, what we have, but we don't disclose what the sizing of the total guarantee line back if that's what you're asking about.

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

It is. Just curious, given the things you got out of Sweden, for instance, the export credit agencies. So where are you? Are you starting to get limited on accepting new orders? Or is there ample room to just keep growing the backlog?

Line Andrea Fandrup - *NKT A/S - Executive VP & CFO*

There is -- so I think this part of the equation of NKT and tendering, you should not have any worse.

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

Okay. So, do you have the reserves or the capacity to repeat this year's order intake next, year if you have the capacity, obviously?

Line Andrea Fandrup - *NKT A/S - Executive VP & CFO*

I understand the question. So what we do is we have a process of predicting what kind of centers are coming in the future that we need to put an offer on the table on. And with what we have line of sight on to now, we can tender and put in the guarantee line needs for those. I think what we

were advised about last time, just going back, was the structural change. So let's say, what kind of structural change could come that would then enable the market to go even further. But what we see in the pipeline now, we can tender and put this sufficient guarantee lines in.

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

Okay. That makes a lot of sense. And then just a small question. When are you going to have a positive in the financial result, giving all the net cash sitting on the balance sheet?

Line Andrea Fandrup - *NKT A/S - Executive VP & CFO*

Are you talking about interest rates here on the cash? Yes. But then I guess I have to be able to predict our currency is the Swiss crown and

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

Excluding that.

Line Andrea Fandrup - *NKT A/S - Executive VP & CFO*

And we are having a positive interest income with just minor in the grants.

Claes Westerlind - *NKT A/S - President & CEO*

Just if I may, just to make a clarification or all addition to what Line said on your second question, Claus. From my perspective, I think it's unlikely also that next year, we would have an order intake with equal to this year. I think that would not be realistic seeing that our market share on the EUR 14 billion this year has been very high, 50%. We have built extensive backlog also and that we will be able to add a similar sized backlog after the current backlog, which has just been added, I think, is from a capacity perspective in relation to the delivery times, not realistic. So I think we have won, we have been too successful, if you will, this year versus it not a sustainable level of success if you look at it over 2 years. So I just wanted to add to that comment on the side of our financial capability to entertain that.

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

Sure. Yes. I guess that is obvious more or less. Just wanted to get an indication on the capacity from a financial point of view, but thanks for the case.

Operator

We'll now move on to our next question. Our next question comes from the line of Akash Gupta from JPMorgan.

Akash Gupta - *JPMorgan Chase & Co, Research Division - Research Analyst*

I have a few as well, and I will go one by one. The first one I have is on offshore wind and risk of cancellation, et cetera. I see you are not going to give a project-by-project details, but I'm wondering if you can help us figuring out when we look at your business plan at this stage for 2024, 2025, can you say how much revenues you see from these U.K. projects that people are worried about and may get canceled? Any indication at least for 2024 in terms of whether there will be any impact or they are more back-end loaded that there will be no revenue impact in 2024? That's the first one is that.

Claes Westerlind - *NKT A/S - President & CEO*

I don't think we will not guide into next year for the various business lines and also not down on project level. What I can say about the projects in the U.K., which are in early stage, that's prior to production, then I can make the comment that, yes, there are plans for production to be started next year. So if there will be cancellations that production will be started within 12 to 18 months, of course, that it would not be optimal, not good. It will be an art financially compensated and in part, we would have to make re-planning to mitigate the consequences as far as possible. So I'm sorry, I cannot go further into details than that cash.

Akash Gupta - *JPMorgan Chase & Co, Research Division - Research Analyst*

No worries at all. The second one I have is on solution margins. You had 16.7% margin in the quarter, which is probably the highest in many years. How shall we see sustainability of this high margin and going forward? Is this a level you can maintain? Or maybe if you can talk about nuances for margin development in coming quarters in solutions?

Claes Westerlind - *NKT A/S - President & CEO*

Yes. It's a good question, Akash. I think it's a good margin, as we said, for the quarter, and we are happy and proud for that. At the same time, I would also be cautious to extrapolate based on the margins of the Solutions business in a single quarter. This has to be seen in the context of many quarters, if not years, to create the adequate proxy and the simple reason is, as I'm sure you're well aware, I think we have communicated that in the past. The margin in an individual quarter will depend on the product mix with different products carrying different margins. It will also depend on risk and contingency maturity, where some quarters have more risks connected to them than also reserves, where NKT successfully mitigating the risks as we open or that renders extra profit.

And also thirdly, another dimension is seasonality. So for example, a winter month is typically less installation activity, also less revenues and absolute EBITDA then so I think you should view it as across many quarters and also years, we are on the trajectory of fulfilling our guidance for 2025, respectively, 2028 solutions is an important part of that, and we take comfort in the fact that we have a record-high order backlog, which also provides us with the right prerequisites and foreseeability to be able to do that successfully, also maybe unprecise answer, Akash. I hope youâ€¦

Akash Gupta - *JPMorgan Chase & Co, Research Division - Research Analyst*

And maybe can you say if there was any positive effect of finalizing any projects that you had in the backlog in third quarter?

Claes Westerlind - *NKT A/S - President & CEO*

Finalization of projects is import. That would be such an event, like I said, I'm not sure if we comment on specific products which we have completed this quarter. What I can say is that we have had installation activities which have been done during the third quarter. And those are typically also activities which have risks connected to them. And to the extent we are successful, then this it comes to profit. But none of the products that I talked about before in the presentation on solutions have been closed, if that was the question.

Akash Gupta - *JPMorgan Chase & Co, Research Division - Research Analyst*

And the next one I have is on applications. The demand for medium voltage cable has been very strong. We have seen some of your other competitors are increasing capacity. Can you talk about if you have considered any capacity expansion plan to sustain the high level of growth in the coming years?

Claes Westerlind - *NKT A/S - President & CEO*

Yes, we share the view that you mentioned there about a strong market from the media voltage perspective and also the expectations going forward. And we are continuously evaluating both debottleneck investments and also operational efficiency measures and additions, pure additions to the machine park. From a CapEx perspective, this is something which if you excuse the expression, flights almost under the radar in the context of solutions CapEx. So with these more modest things. But there, we are continuously doing some smaller investments and efficiency measures and, of course, also work actively on operational efficiency measures.

Akash Gupta - *JPMorgan Chase & Co, Research Division - Research Analyst*

And my final one is on -- I mean, recently, we had European wind package announcement. And within that, there was mention of that you will come out with the next package or announcement to accelerate grid investments. And I've seen you as well as other CEOs of cable companies have been to Brussels to speak to bureaucrats. Maybe if you can talk about what sort of discussions are taking place. And is there a possibility that we may need to have another round of investments because the growth, which is already very high, may require further investment in capacity.

Claes Westerlind - *NKT A/S - President & CEO*

It's correct. We have been both in Brussels and also speaking with other representatives for the EU Commission around these factors. And the message from NKT and I think it's similar also from, or us supporting also Europe cable who is delivering the messages is that foreseeability is very important to be able to entertain the investments that are being done for the industry for the moment. So visibility, not only 2, 3, 5 years ahead, but 10, 15 years ahead. These are massive investments, and we need to make sure that we have the use of them for an extended period of time. That's one strong message. Another message is around permitting as well that permitting is an imperative part of enabling the green transition and to also basically underpin the foreseeability of timely execution on these projects. And the third one being fair competition and an even playing field for NKT and European manufacturers to make investments in European soil, we need to make sure that the playing field is even, tax instruments like CAM needs to be applied in a way so it doesn't counter to have a European supplier base, but rather facilitated. But with these conditions fulfilled, we are not excluding the possibility that further investments are needed, and we would also not be opposing to partaking such. But at the same time, I want to say that NKT is now very focused on carrying out the investments, which we did announce earlier this year in May, the EUR 1 billion investment in extra vessel and also another factory in Karlskrona.

Akash Gupta - *JPMorgan Chase & Co, Research Division - Research Analyst*

Yes. And maybe last housekeeping question. Have you placed the order for vessel? And do you have any time line when it will be delivered?

Claes Westerlind - *NKT A/S - President & CEO*

We have not placed the order to the yard. We are in a detailed design phase and in the selection phase of the contractor. And yes, we have a time line also for our intended time line for the vessel.

Operator

We'll now move on to our next question. Our next question comes from the line of Kristian Torn e from SEB.

Kristian Torn e Johansen - *SEB, Research Division - Analyst*

So my first question is on application. So in fact, in Q1, you booked 11% EBITDA margin in education and told us that we shouldn't necessarily expect that to be sustainable. And since then it has come down and it's now 8.5 year in Q3. So just curious whether you're more comfortable around this market level as being sustainable going forward.

Claes Westerlind - *NKT A/S - President & CEO*

Thank you for the question. And I think your read back of the historic communication from our side is correct. And as we now not on the line. Now I would be prepared to say that, yes, we are within the realm of what is to be completely sustainable for application for the moment. However, of course, to the construction market and the (technical Difficulties] in which we are -- and also we believe that from a medium to long-term perspective, this is a good level (inaudible).

Kristian Tornøe Johansen - *SEB, Research Division - Analyst*

Okay. That's quite clear. And then yes so you've talked about the strong margin in Q3, but I have to say, I can still feel like I'm not getting a very clear picture of what the dynamic is. So more to your upgraded guidance, purely something you must have progressed better than expected in the quarter. So is there any way you could give us a bit more concrete on exactly where this outperformance in the quarter exactly comes from?

Claes Westerlind - *NKT A/S - President & CEO*

I'm thinking here how to respond on this. It's correct. I think that we have performed better than what we expected also led to the upgraded guidance. And as I said before, we are in a situation where installation works are being carried out, which in itself also entails risk and contingency and when we are successful in that, then sometimes, we will get more money to the bottom line, which was previously expected. That we have a (inaudible) also in this quarter. Another one is that we are a set in the presentation, we are on the tail end of the investment announced in conjunction with the Champlain Hudson Power Express project and where we have now gradually started to take these investments online and also not completely but in part, that has prevented down a little bit earlier than expected.

And then lastly, NKT has projects like the Champlain Hudson Power Express where we are also having revenues from ex manufacturers or acquire that there's also something else which depending on the planning and (inaudible) to give them an extra leverage from a profitability and revenue perspective. So it's difficult for me to go into the details of describing, I think that summarizes from the solution. If you view it from an application perspective, also applications that I would say that in relation to the the narrative, which was explained earlier, we have seen NKT performance and mostly what we were expecting as well, that is another contributing component.

Operator

There are no further questions. At this time, I'll hand the call back to Claes for closing remarks.

Claes Westerlind - *NKT A/S - President & CEO*

Yes. Thank you, everybody, for listening in to this discussion about our quarter, which, as I hope you also hear we are proud of, and I think it's a quarter that is confirming the journey that NKT is on, which is profitable growth. Things can vary quarter-to-quarter, but I think we are happy to come with this kind of report, and we look forward to continuing the trajectory with some quarterly fluctuations going forward. So thanks a lot for listening in and looking forward to meet you hopefully in the next couple of days and weeks.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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