



NKT Q3 Report 2021

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NKT

Alexander Kara

*President & CEO, NKT A/S***Welcome**

Good morning, everybody, and welcome to the Q3 Report. Thanks that you take the time to listen to our Q3 results. In the room, I have here two more presenters, Line Andrea Fandrup, CFO, and Basil Garabet, President and CEO of Photonics.

Key messages Q3 2021

Let me start here with the key messages for Q3. As you know, we have pre-announced our Q3 result on 19th October, and since then, our normal figures have not changed. As such, there may be not too much news.

But if you look at Q3, NKT power cables, we overall grow 10% organically. This was supported by all three business line and also the impact consequently on the operational EBITDA.

Our high-voltage order backlog is €2.9 billion in market price end of Q3, which is at a very high level. Also, I would like to mention here, in Q3, NKT cables received the highest sustainability rating from three independent rating agencies, which is a consequence of our actions taken in the area of sustainability.

Coming to Photonics. Photonics had a record-high Q3 in revenues and also drove the EBITDA, but in addition, also our highest Q3 orders received of up to 25%. In Photonics, we are ongoing with the strategic review, and we have appointed our lead financial advisor, JP Morgan.

NKT performance in Q3 2021

Positive performance driven by all three business lines

If you look at the cables' performance in Q3, specific, as mentioned, all the three business lines have contributed on the revenue growth, and you see on the graph on the right side for Q3, 11%, and for the first nine months, 19%.

On operational EBITDA, we have a change from 7.1% to 13.5%. This was mainly driven by Solutions, which included an insurance one-time income of €20.7 million, but also without this insurance, we have improved the Q3 2021 number compared to Q3 2022. If we look at the nine months result, we increased operational EBITDA from €48 million to €117 million or without insurance to €96 million, meaning an increase in percentage from 5.8% to 12.1% including insurance, or from 5.8% to 9.9% without insurance.

We had some good development on the Applications side with the improvement, and I will come later back to that.

In Service & Accessories, the increase on revenues was mainly driven by service, and also, we had a modest EBITDA growth.

Solutions – Q3 2021

Coming to Solutions. We worked on various projects, and we finalised the Moray East project, the 220 kV high-voltage AC cable, which provides power for 40% of the Scottish households.

Further, we have launched an initiative, as already pre-announced in Q3, to improve the profitability on the Solutions business, where we focus in Cologne on moving the lower part of the high-voltage cable to Velké Meziříčí and focus in Cologne on the high-voltage on AC and DC. This has an impact on the workforce in Cologne. We will reduce the workforce then with more than 100 FTEs, which also resulted in €14.5 million one-off costs in Q3.

The focus of moving the production of the lower end of the high-voltage to Velké and to increase the focus on high voltage AC and DC in Cologne requires an investment of €25 million, which is a split between Cologne and Velké. Overall, both together, the €14.5 million, €15 million, and €25 million is the €40 million on cost and investment initiative, as informed earlier.

High-voltage market development

High activity level leading to order awards

If you come to the high-voltage market development, we have received orders in Q3, in and out orders and variation orders of existing orders. Further, we selected a preferred supplier for the Champlain Hudson Power Express transmission line, which is a project which brings power from Canada to New York. It is not yet a firm order, and as such, also not in our backlog. We are working on the contract negotiation as we speak.

In the first nine months, around €2.5 billion of projects have been awarded in different regions around the globe. We have seen mainly in 2020 and 2021 DC technology versus AC technology.

High-voltage order backlog

The high-voltage order backlog was €2.97bn at end-Q3 2021, down from €3.16bn at end-Q2 2021

Looking at the backlog. Our backlog has slightly been reduced from €3.16 billion to €2.297 billion in market price or to €2.52 billion in standard metal price. You can see on the graph in round numbers the distribution of the backlog, how it will be executed in 2022 and in 2023 onwards.

Overall, we are working on different projects in execution, offshore wind, interconnectors and oil and gas. You see a list here on the slide on the right side.

Applications – Q3 2021

In Applications, we have made some good progress in driving our efficiency in the factory output. This has increased operational EBITDA by 2.6% from 5% to 7.6%. Further, we work also on commercial initiatives which includes also pricing. We see good momentum here in Applications.

The business on the building wires, good output from Warszowice in Poland, but also on the medium-voltage side is medium-voltage demand in Scandinavia. This is really a positive highlight of Q3.

Service & Accessories – Q3 2021

Coming to Service & Accessories. The revenue growth was mainly driven by service and the closeout of repair jobs from the first half of this year and also consequently EBITDA. What we also plan to do is what I have illustrated is execution hub in Gdynia, Poland, to prepare for the coming growth in Poland on offshore but also the high demand on onshore.

In Accessories, we had a good medium voltage deliverables from Luddenham[?], whereas we have some challenges on the high-voltage side with the Cologne footprint moving to Alingsås with increased cost.

NKT improved its ESG ratings in Q3 2021

The improved ratings reflect NKT's ongoing commitment to sustainability and underline NKT's position as a sustainability leader in the power industry

Coming to our ESG rating, as mentioned in the beginning. We do a lot on the sustainability side. We have all factories running on green electricity. We work on reuse of cable scrap. For example, also on forklift, either electrical or run on biofuel and so on.

Scope 1 and Scope 2 is less than 5% of the total, whereas 95% is Scope 3, meaning, for example, CO2 emission from raw material and so on. However, here we have started actions with our suppliers to improve and reduce the Scope 3 side.

On the diversity and inclusion, we have completed in Q3 an employee survey, and also here we have improved. We plan to have 30% of female leaders in 2024. You see the ratings here quite good improvement compared to previous years.

With this, I would like to hand over to Basil to talk about Photonics.

NKT Photonics

Basil Garabet

President & CEO, NKT Photonics

Quantum and Nano Technology separated into a new segment

Thank you, Alex, and good morning. We will start off this quarter by announcing that we are separating a different segment in our reporting. The segment is Quantum and Nano Technology.

Now, this segment has been part in the past of our Industrial segment. For this reporting and going forward, we have decided to separate it out essentially because we have seen some tremendous focus on the area in different governments and different industrial portions of the industry, but also because it is growing quite significantly for us.

Quantum today covers about 16% of revenue in the last three quarters and is growing. As a segment, Quantum Technology covers a range of very fast-moving areas, especially in quantum computing and quantum sensing and in quantum communications. Nano Technology also covers the applications within the development of advanced materials, mainly for the quantum different areas.

NKT Photonics performance in Q3 2021

Record-high Q3 revenues for NKT Photonics

Moving on to the performance in Q3. As Alex mentioned earlier, the revenue increased in the quarter, and it is actually a record total for us, considering that Q3 last year was our first quarter of growth after the pandemic. It was a record quarter. However, this quarter is 10% over the same quarter in 2020.

EBITDA also rose significantly to €3.2 million, again, driven mainly by the higher revenue and gross margin improvements. Comparing with all of this is we have had the highest-ever Q3 order intake, again, a record 25% over the same quarter of last year. Business is moving well in most of the areas, especially in Industrial and Quantum Technology.

Business development in Q3 2021

We move to the next slide to outline the business development in Q3. In Medical & Life Sciences, the trend did continue with regards to improvements, especially in ophthalmology and in microscopy, where it is quite strong quarter for us.

In Quantum, the area that contributed mostly has been in quantum computing and all the research associated with quantum computing. On the Industrial segment, which is still our largest segment and is showing a significant growth, a lot of the growth has come from our segment in the semiconductor industry and in remote sensing.

In Aerospace & Defence, the growth was relatively flat, but still positive, but affected by the timing factors. We have existing projects and some interesting projects on the horizon that will move it forward.

With that, I finish my segment and pass it on to Line. Thank you.

Financial Highlights

Line Andrea Fandrup

CFO, NKT A/S

NKT Group: Improved revenue and operational EBITDA driven by both NKT and NKT Photonics

Thank you, Basil. Turning to the financial highlights of the Group. For the third quarter, the revenue and operational EBITDA came out satisfactory. The 10% growth in both NKT Cables and NKT Photonics was a good contribution across the growth of the businesses.

When you look at the earnings, also these improved compared to last year, especially take a note on year-to-date performance up significantly compared to the year-to-date result of 2020.

On the margin level, also improvement across both businesses, with a one-off item related to the restructuring at Cologne, the total EBITDA of the combined companies in that €34 million for the quarter. On the net result, we are, for the quarter, at a zero and a year-to-date performance of €13 million compared to the minus €44 million last year.

FTEs is increasing year-on-year for the cables part, in particular, which is due to the expansions in our Solutions and the high activity level in Applications.

NKT Group: Lower debt level driven by earnings and working capital development

On the balance sheet highlights, worth to notice that the working capital improved, was stable compared to the Q2. For the Cables part, €106 million reduction in the working capital, mainly due to milestone from Solutions business. With good improvements on earnings and working capital, the RoCE over the quarter has also improved. Net interest-bearing debt decreased compared to Q2, so we are now at €97 million for the quarter and at 0.7 times EBITDA compared to 1.7 times for the last quarter.

Also in this quarter, we have refinanced our revolving credit facility, and for now have engaged with the five banks for three-year facility of €200 million.

NKT: Working capital was reduced in Q3 2021, mainly in Solutions

A little bit more specific on the working capital, where we can say we are back to a more normalised level compared to our Q2 with the milestone payment from the Solutions business. Also, our overdues, our account receivable balance in the Applications business decreased and over the time we will see this fluctuation coming in with especially the project and solutions business award and milestone payments, where the Applications business is more running business related to the inventory and accounts receivable.

NKT Group: Positive earnings contribution and working capital development outweighed investments

On the cash flow statement, I think it is satisfactory to note that our cash flow from operating activities is at €146 million. This is, of course, due to improved earnings and also the positive impact on the working capital of the quarter. We will continue our expansion programme, and by that also we increased our cash flow from investing activities. This is more than offset by our cash flow from operating activities, therefore our free cash flow for the quarter is €99 million.

Financial outlook 2021

On the outlook for the year, as 19th October press release stated that we are now expecting the NKT Cables to come in at around €100 billion on the revenue for the full year and an operational EBITDA of between €125 million to €135 million.

NKT Photonics outlook is unchanged after the second half. An organic growth and revenue of 8% to 15% for the full year and an EBITDA margin of 6-8%.

Key messages Q3 2021

The key messages of Q3 is noting the growth of revenue of 10% organically across all business lines, a still high-voltage order backlog of €2.97 billion in Q3. We continued to add a number of projects book-to-bill quarter-by-quarter.

The record-high €18.5 million revenues for Photonic is understating that there is a solid recovery from the COVID impact of the last year and then the continued review of the strategic alternatives for Photonics where we now engaged JP Morgan as lead financial advisor.

With that, we will turn over to question and answers.

Q&A

Kristian Johansen (SEB): I have three questions. First one is on the German corridor projects, and if you can update us on the expected production start for these two projects you have, considering the customer dialogue I understand you have been having.

Alexander Kara: Yeah. On the German corridor project, we have discussed in the last quarter with the customer, and we will produce next year for SuedOstLink and SuedLink cables, and it will have quite also a big impact on our revenues next year.

Kristian Johansen: Okay. That is very clear. Will you produce according to the original plan, or I mean, will you produce a bit less than originally thought but still a meaningful amount? Is that what you are saying?

Alexander Kara: It is a meaningful amount, not exactly as originally planned, but a meaningful amount.

Kristian Johansen: All right. That is very clear then. Then my second question is on the backlog mix. I think you write yourself that you have primarily been taking in DC orders. Again, focusing on 2022, what is the outlook and possibility to actually take in orders on the AC cables which can have a revenue impact next year?

Alexander Kara: Yeah. Of course, we work on the various tenders for AC cables, but also for MI cables. There can be cables projects awarded, but the likelihood that they must become very soon in order that we have a meaningful contribution in 2022. We look now how that we focus on the backlog what we have, meaning, we have progressed in the backlog AC. We have a lot of DC offshore projects in the backlog, and report now the German corridor projects.

Kristian Johansen: Just to clarify, so do you see tenders being awarded within the next three months on AC cables which could make a difference?

Alexander Kara: It will be difficult then really to come fast because we have also a time file[?] to start production. For next year it will be difficult that we get revenues, and if at all, then it might be not substantial.

Kristian Johansen: I understand. That is very clear. Then my last question is just on the strategic review of NKT Photonics. In the light of the fact that you have now hired in an advisor here, can you sort of maybe elaborate a bit on what your conclusions has been so far and what potential outcomes are you now looking at in the [inaudible] development?

Basil Garabet: Hi, Kristian. Yeah. We obviously have, as announced, hired JP Morgan, and there are no conclusions as yet. Really any question should be directed at JP Morgan.

Kristian Johansen: Okay. However, can you say whether a sort of industrial-sale IPO and so on, is that still in play?

Basil Garabet: Again, everything is on the table, and that is the reason we have hired JP Morgan. Therefore, I would suggest communicating directly with JP Morgan on this issue.

Akash Gupta (JP Morgan): I have three as well, and I will ask one at a time. The first one is on the 2022 Solutions revenues bridge. I think now you say that a quarter of your backlog will be for 2022, and that gives me a number and where the consensus is roughly €200 million above that. Basically, you need to get €200 million more in the orders to hit 2022

revenues. If we do the same kind of work for last year, like if we look at your last year backlog and how much at this point in time was due for 2021, I think the in for out after Q3 was around €100 million. The question that I have is that do you think that this consensus expectation for the Solutions business, which has roughly €200 million more in revenues than the backlog you have at this point in time, do you think is realistic, or could there be any upside or downside risk from new orders?

Alexander Kara: Yeah, Akash. Thank you for the question. I mean, we gave some indication about the revenue with the 25%, what you see, and the 25% of the €2.52 billion is roughly €660 million. This is a round number. A percentage up or down is a €25 million impact. That is number one.

Then there is Champlain, for example, is not in the backlog yet and would have a positive impact in 2022, provided it becomes an order. We can also have here a further positive impact from project not yet in the backlog.

Akash Gupta: Okay. You think consensus for the next year could still be doable?

Alexander Kara: I mean, we will guide on the next year in February, and I gave you some hints with the 25% of the €2.5 billion and the 1% is €25 million, so 2% more, then you are already at €50 million, plus projects which are not yet in the backlog, for example, in Champlain, can have a meaningful impact.

Akash Gupta: My second one is on cash flow. I mean, Q3 was pretty strong. You said working capital is now more normalised after a step up in Q2. Can you say anything on Q4, what your expectations are on both progress collection as well as on CapEx? What sort of trajectory we should expect for Q4 cash flow?

Line Andrea Fandrup: Akash, this is Line talking here. I think our investment programmes, we have a real trust upon, and they are a significant impact also to our cash flow for the full year. If you look at a proxy for our working capital, I think history will help you most. Usually, we will continuously in the Solutions business, have a milestone payment, which is a major swing. Then if you do a proxy on the Applications, I think you can do percentage to revenue or something like that. Not to be exact, but I think those hints will give you some proxy for the working capital and cash flow of the fourth quarter.

Akash Gupta: My final one is on COVID headwind. I think in the last couple of quarters or maybe since the start of the year, you are highlighting that uncertainty from COVID and also from raw materials. The question I have is that, if you look at this year's guidance, how much of a COVID headwind have you seen or have you factored in that guidance? If we have not had these headwinds, what could be the upside this year in EBITDA?

Alexander Kara: I mean, for Cables, we have managed during the whole COVID-19 period very well with our actions to protect our employees. We had the minor impact in the past. We also do not expect to have an impact until end of the year. No plus and no minus.

Line Andrea Fandrup: I think what we do not do is narrow this down to a single absolute number that would be the net impact of COVID. Our business as other businesses can be impacted by several activities. When we give an outlook, of course, we [inaudible] COVID, it could be execution. It is a lot of different items and then that is what we account for when we do an outlook.

Claus Almer (Nordea): I will also have a number of questions and take them one by one. The first goes to Photonics and you, Basil. Could you please provide a bit more colour to this Quantum and Nano Technology division? What are actually applications or technologies that is within these segments? That will be the first one.

Basil Garabet: In the Photonics segment, which is very fast growing for us, and by the way, we have been in this segment. This is not new for us. We have been supplying into this segment for the last 20 years. It just halted up in the last year quite significantly.

However, the main pull on that is in quantum computing. It is an area where our lasers make a significant difference. We are seeing a lot of push and a lot of pull from customers on that and a lot of market movements. If you look at the investment by governments and companies worldwide, it is quite a few billion euros being spent in China, in Europe, and especially in the US. That is the segment that we are pulling out because it is moving. It is exciting for us. It is an area where we make a big difference.

Claus Almer: Basil, just trying to figure out the potential. Quantum computing is still low in volumes terms. I guess, as you said, not big commercial volumes yet. If things are progressing, as hoped for, could this be a significant increase in the volumes if you look two, three, four years ahead, or how is the outlook?

Basil Garabet: Absolutely. If you look at all the investment in quantum, whether it is in computing or communication or cryptography, it is being driven by big data, it is being driven by banking, it is being driven by security, it is being driven by medical and life sciences. There is a lot of pull on that.

The quantum computing industry, as such, which is still in its infancy, is getting a lot of boosts to basically take it wherein four, five, or six and probably a little bit more years the amount of product that needs to be out there is significantly high. That is the exciting part.

Now, obviously, what we sell is very high value, very high technology, very sort of involve parts that make up that. In quantum computing, these are atom computing where you trap and cool and steam and get all kinds of quantum effects from the atoms to be able to make the computer work. We are at the heart of it.

Claus Almer: Sounds good. Then with this strong performance so far this year both in your order intake and in your revenue, so in nine months, you have had a 20% organic revenue growth, I think. You are guiding for 8-15% full year. What is actually going to go against you in Q4? That means a quite depressing Q4.

Basil Garabet: If you look at Q4 of last year, it was a record for us. We are performing well, but there are some issues that do affect our shipments, for instance. The business is still very buoyant. The orders are coming in, business is very good, the outlook is very good. What is working against us is the possibility of COVID affecting us. There is a spike in Denmark at the moment, especially in the Copenhagen area. Because most of our shipments are back-loaded into the second half of the quarter, what happens is if we miss them a week or two, I mean, we are not that many people, if it takes out three, four, five, six people from a production line, it shuts us down for a week or so. That affects revenue.

The other thing we are seeing is that even though we have everything in place with regards to supply chain, we are seeing that things can change with one day notice. We have one day

notice of a supply with key item coming in change. That is why we have this range at the moment, which is the 8% to 15%. We are being prudent on that.

If everything was fine, we would be doing better. However, we cannot sort of guarantee that with the current situation that we are in.

Claus Almer: That is fair. Of course, Q4 last year was the best quarter ever because you are a growth company, but it was not like you had enormous growth in Q4 last year. However, just to be sure, so the way you are guiding is who knows what happens tomorrow or next month; therefore, if things happen, then you will probably be able to absorb that in your guidance, and if things do not go wrong, then it could be more rosy than your guidance is reflecting; is that the way to read it?

Basil Garabet: Yes.

Claus Almer: Good. Okay. Then moving to the Cable division, Champlain. Maybe an update on the milestones. There is this public hearing going on in Q4. Is everything going well there? Also, should we expect that hopefully signing of the contract will happen in Q1 this year? An update there would be helpful.

Alexander Kara: On Champlain, I mean, we are in the negotiation with the customer, and TDI got the green light from CEDA[?]. There is one permit missing public hearing which should happen in Q1. We expect that this should be not too difficult, but you never know. You need to wait until you have it. We are in negotiations. We said that we expect that it will be in order in 2022.

Claus Almer: Okay. Then going to your investments in Poland, I guess, that must be due to strong hopes to get your fair share of the offshore wind key projects. Can you give us an update on the timing, and if possible, discussions with the developers?

Alexander Kara: Now what we are doing in Poland, we are creating an execution hub, and we start here with hiring of Jointas[?] and they will be located in Gdynia, and we will expand that as we capture hopefully some orders in Poland, and then we will expand on that.

Claus Almer: Normally you don't do these investments ahead of some specific region or local investment ahead of getting orders. Why is Poland different than the other European offshore wind markets?

Alexander Kara: There is a growth expected. Then also with Poland with adding local workforce, which you can also utilise for service activities outside of Poland, you should have an advantage from the cost base. It is not only necessarily that we use the execution up for Poland itself.

Claus Almer: Okay. It is not like you have a number of Polish projects on a more conditional status. Once these projects hopefully win in auctions, it would be NKT projects. How certain are you about your market share in Poland?

Alexander Kara: That is a good question. I mean, we work on tenders and so on. Historically, our market share is somewhere between 20% and 30% and that can vary. Last year, it was more. This we need to see. We just prepare that on manpower mainly and the Jointas and we can then, if needed, scale it up. That is the plan.

Jakob Magnussen (Danske Bank): Two questions from my side. Can you talk a little bit about your plans for the upcoming hybrid that has its first call date next year? What are your thoughts around calling this bond, and furthermore around refinancing it potentially? Will you be refinancing it, or will you just be drawing on your credit facilities? Down those lines, also your cash position has improved. What are you thinking about distributing some of that to shareholders in the maybe short to medium term? Yeah. Let us start with that.

Line Andrea Fandrup: Thank you, Jakob. On the hybrid and, I guess, in general what you are asking about our cash position, I think, right now a satisfactory performance, of course, depending on better cash flow position, you can see there is a list of a significant change [inaudible] transition. Our readiness for where the markets are growing and what would happen, we are pretty agile at the moment. That means it costs us a lot of things going on.

Of course, dividends to the shareholders could be one thing. Investment in the business could be another thing. Then changing our financing structure, not to have the [inaudible] another thing. I think for now, we are working with this in hypothesis and not to be concerned about that. However, we will come into 2022 and with more [inaudible] direction of NKT in this regard.

Jakob Magnussen: Okay. Then just a conceptual question or your thoughts around when or if you are awarded the Champlain US cable, what are you thinking about setting up construction capacity in the US versus producing the whole lot in Europe and then shipping it to the US?

Alexander Kara: Provided we get an order[?], we can produce in Europe in our factories, but we have also possibilities to produce in US.

Daniela Costa (Goldman Sachs): I have three questions. One is actually a follow-up on the prior question. Can you elaborate, sorry, you said you have possibilities to produce in the US. Exactly what are you talking about? I thought you would even have local capacity, so interesting to hear there. The second thing was wondering if you could give us some indication of what are the biggest tenders that are going on at the moment, and if you still think that the price of current tenders is increasing, given the industry in general is more utilised?

Then a follow-up on Photonics on the comments earlier. I was just interested on hearing the motivation on why you are now giving us the split of the business. Is that in any sense kind of mapping how you are addressing the process of optimisation, mainly maybe sort of like more on a piecemeal segment-by-segment versus the whole of Photonics or no? What is the motivation there on giving the disclosure on the details?

Alexander Kara: Okay. Maybe for production, I mean, obviously, we are not producing in the factory from Prysmian or Nexans, but there are also other companies which is not the direct competitor and where we could produce. I am not sure that I need to be more specific. I think it is pretty obvious.

Coming to the next question about ongoing tenders and so on. What we expect going forward, of course, is in the timeframe from April to July expected awards from the UK CfD rounds. There are several projects which could be awarded in the area of 10 gigawatts. As I say, in the US, projects are ongoing. Some has been already awarded and some may come.

Then we have in Europe several projects in project in Poland. We have projects in Germany and Netherlands on offshore wind. We have also interconnector projects with MI technology, and those are public known information. Then there is also projects which expect to come in the oil and gas field in Europe but also in the Middle East. There is a lot of activities on several tenders with different technology, different regions.

Then we acted on several projects. Of course, we expand our capacity in Karlskrona and Cologne, and we need to see what can we take on orders in order to fulfil commitments on delivery times. If we expand, we have also limited capacity. That needs also to be understood.

Line Andrea Fandrup: On the Photonics. You are asking, Daniela, about region including in the segment of Quantum for now. We are having a strategic review. The Quantum segment is an important part of the Photonics business as such with a good growth so far and an increased focus, and that is the main motivation of that.

Alexander Kara: Okay. If there is no further question, then thank you very much for the good questions and your time and wish you a good day and talk to you for the Q4 numbers. Thanks. Bye-bye.

[END OF TRANSCRIPT]