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# EDITED TRANSCRIPT

Q2 2022 Nkt A/S Earnings Call

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## PRESENTATION

### Operator

Good day, and thank you for standing by. Welcome to the NKT Q2 Report 2022. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Alexander Kara. Please go ahead.

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

Thank you. Good morning, everybody, and thank you that you take the time to listen to our Q2 results. With me in the room, I have my CFO, Line Andrea Fandrup. I have Basil Garabet here, the CEO of NKT Photonics. This is Basil's final meeting for the results.

Just let me say some words. So Basil started in 2015 in NKT and developed NKT to the status where we are. So he was obviously instrumental. And welcome Basil. So you have today a chance to ask him some final questions in case you have any. So welcome, Basil.

So let's go to the key message for Q2 and the highlights. In Q2, we had an organic growth of 11%, which was based on good performance of Solutions application where service and accessories was below -- was low in revenue and in EBITDA compared to a strong Q2 last year.

We had a record high backlog because we could book finally the Champlain Hudson Power Express project in the U.S., which brings power from Canada to New York and the SuedOstLink 2nd system. Based on this backlog and the new project which we have awarded, we have decided to strengthen our manufacturing capabilities in NKT solutions, and we've expanded our high-voltage production capability in Karlskrona.

As you know, we have also entered an agreement to divest NKT Photonics, which will be the final step in the process to fully focus NKT on the core business, the power cables business.

If you look at NKT, the divestment. So on 24 June, NKT entered into an agreement to divest NKT Photonics to Hamamatsu, a company in Japan. The closing transaction is subject to regulatory approval, and we expect that this take place latest in Q1 2023.

The Q2 results of NKT Photonics was that we grew 18% in revenue. The EBITDA was minus EUR 5.8 million, which was negatively impacted by the transactional cost of EUR 6.1 million of the divestment. This led to a net result for discontinued operation of minus EUR 9.1 million in Q2 2022. NKT Photonics is presented as discontinued operations and as assets held for sale from Q2 2022.

If you look at the performance in Q2, the development. So we have the positive financial performance of the Solutions business line, where we executed orders which we have won in the last quarters and years. So that was a positive development.

Also, we grew the revenues in Applications, whereas the EBITDA was negatively impacted on increasing costs, and we may come back later.

Service & Accessories revenues and EBITDA was lower against a very high comparison of last year in the same quarter, and we had temporary higher costs in Q2 in the Accessories business.

Overall, H1, if you look at, we grew from EUR 650 million to EUR 700 million, 9% for the half year and on EBITDA from EUR 73 million to EUR 80 million, which is 11.4%. If we look at the Q2 Solution results, we have increased activities and brought on different projects with different technologies, just to name here some; Attica-Crete is an MI technology project, Borwin, Dogger Bank, Shetland, SuedLink is 320, respectively SuedLink 525 kV DC. And then we work also on AC project, Ostwind and Troll, which is -- Troll is for power from shore. So a good mix of projects with different technology.

In April, we commissioned the power cable for Hornsea 2 in offshore wind farm in the U.K., which will deliver green electricity to 1.3 million households once it's in operation.

Based on all this execution, we have a good utilization -- actually full utilization of the Victoria in Q2 with various installation activities. The high backlog and also the contract awards of Solutions extension in Champlain, as already mentioned, NKT made the decision to expand the production capacity in Karlskrona. Overall, in Q2, we increased organically 22% and EBITDA from EUR 23 million to EUR 30 million, which is satisfactory result.

If you look at the markets we got in 2022, Q2, 2 large projects awarded, the second SuedOstLink, which is parallel to the first order from 50 Hertz and is a part of the energy submission from the North Sea to South of Germany, and we received Champlain Hudson Express.

So SuedOstLink was below EUR 700 million and Champlain Hudson more than EUR 1.4 billion. If you look at the total market in the first half year of 2022, it was around EUR 5 billion, which includes obvious SuedOstLink extension and Champlain Hudson Express.

After the end of Q2, NKT announced the turnkey supply for the prospectus East Anglia THREE offshore wind farm in the U.K. This is not yet in the backlog, and it's based on final notice to proceed from the customer and final investment decision. So overall, a strong Q1 on high-voltage project of order of EUR 5 billion.

If you look at our backlog, our backlog has grown from EUR 2.8 billion at the end of Q1 to EUR 4.6 billion in market price or EUR 4.0 billion in standard metal price. So in round numbers, increase of EUR 2.1 billion in market price and EUR 1.85 billion in standard metal price. On the backlog, we expect to execute around 10%, which means 10% out of EUR [EUR 4 billion].

On the right side, you see here the projects on which we work, offshore wind and interconnectors, and we have added now the Champlain Hudson and the SuedOstLink 2.

Looking on Applications. The revenue has increased in Q2 with a contribution from various geographies where we are active in product segments. The growth in the revenue was mainly from high inflation price, means price increase, less on volume. Despite the higher revenues, we have seen a decrease in the operational EBITDA, and this decrease is due to higher material costs in Applications on the metal side.

We work with customers to see -- to increase prices and work on the contracts to improve the situation, and we work also with our supply chain to secure the future. We see in the market overall a slowdown in certain market segments and in particular, on the construction-based segment, where we deliver cables.

So overall a growth, but driven by the price increases, organic growth 16% and EUR 7.2 million EBITDA versus EUR 7.6 million.

Service & Accessories in Q2 dropped from EUR 65 million to EUR 47 million, whereas last year, we had several repair jobs. Besides the decrease of the revenues on the repair jobs in Service, Service did well on the remaining business. But of course, the repair jobs are important in terms of revenue and EBITDA contribution.

On the Accessories side, we were impacted by higher temporary costs, which is consequences of the transfer of -- (inaudible). Overall, we to stay here, clearly, EUR 1.8 million EBITDA in Service & Accessories is not satisfactory and needs to be improved.

With this, I want to hand over to Line and she goes through the financial details.

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

Yes. Thank you, Alex. So given the full highlight here on the income statement and just recapping what Alex also said. NKT is continuing the good growth momentum back from '21, where we grew 15% year-on-year and Q1 with 7% and now here for the Q2 with 11%, fueled for the quarter primarily by Solutions and Applications.

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NKT did have a slightly lower operational EBITDA in this quarter. Just to note, the comparison base exactly as we closed off with Services & Accessories here, we're a 2021 Services & Accessories business line was very, very strong performing. So a slight decrease on an absolute terms, only some part.

For the first half, we are at an operational EBITDA of EUR 80 million compared to the first half of 2021, where we were EUR 73 million. In respect of the net results from discontinued operations, representing Photonics as Alex went through a solid growth and a negative EBITDA primarily due to the transactional costs.

When you look at our FTE numbers comparison base full year when we ended 2021 and until now, you'll see the underlying growth in Accessories due to, of course, expected growth ahead of us and the expansions in Cologne and Karlskrona, but also some of the footprint changes in our factory layout.

Moving on to the balance sheet highlights. We saw a strong improvement in our working capital position from EUR 35 million working capital in Q1 to a very positive available of minus EUR 212 million in Q2. This is very much due to the Solutions business line, phasing of milestone payments and then related to the order backlog and the recent awards.

This impacted positively our capital employed position for the quarter. And our ROCE, also in combination with the improvement in earnings, is at 4.1% compared to end '21, we were at 3.4%.

We, of course, continue to follow this important performance metric for the return on capital employed for the company. The net interest-bearing debt reduced from Q1 to 24 in Q2, leaving the quarter at 0.2x EBITDA.

If we then turn -- and just to note also on the hybrid, you probably saw in our press release that we redeemed the hybrid up to EUR 150 million here for 12 September. NKT does have sufficient funds in place to repay the securities. And we are, of course, considering the future financing capacity to make sure that we have enough flexibility for the growth ahead, the strong backlog and even the activities we see and at the same time, securing the right financing structure for the company.

Turning to the cash flow of the quarter, positively impacted by ongoing capital position, leaving us at a positive cash flow from operating activities. Investment continues at a level more or less on par with same time last year due to the expansion programs in Solutions. As you also note from the key highlights and the report that we announced further in expansion in Karlskrona of around EUR 90 million (inaudible).

The quarter closes to free cash flow at EUR 88 million. We keep the financial outlook for 2022 at EUR 1.35 billion to EUR 1.45 billion revenue and an operational EBITDA of EUR 130 million to EUR 155 million.

Geopolitical and macroeconomic, let's say, dynamics at the moment means that there are certain

uncertainty associated with second half. Therefore, we maintain. Repeating the messages -- the key messages of Q2: an organic growth of 11%, primarily driven by Solutions & Applications, while Service & Accessories, as expected, came down from the very favorable 2021.

A very strong order intake in Q2, a record and a very high corresponding in the order backlog, giving a good visibility into the future. We will expand our high-voltage production in Karlskrona further. And at the same time, also this quarter, the announcement of the divestment of NKT Photonics to a good future home where we will maximize the potential of the company.

So with that, we will hand it over to question and answers.

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

Operator, we are ready to take questions from the audience.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) We will now take our first question. Please stand by. Your first question today comes from the line of Massimiliano Severi from Crédit Suisse.

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**Massimiliano Severi Crédit Suisse AG, Research Division - Research Analyst**

It's Massimiliano from Crédit Suisse. My first question would be on the Karlskrona expansion. And if you could maybe comment a little bit on the phasing of the EUR 90 million of CapEx? And what does it mean in terms of sales capacity for NKT Solutions in 2024 and further?

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

Yes. Thanks for your question. So the EUR 90 million, the majority of the investment will happen in 2023, a little bit this year and the capacity expansion will have approximating impact of EUR [200 million] after it is completed from 2024 onwards.

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**Massimiliano Severi Crédit Suisse AG, Research Division - Research Analyst**

Perfect. And my second question would be, if you could maybe talk about the guidance. Is it fair to say that if we expect supply chains to not get any worse than they are right now, you should be able to be on the lower -- on the higher end of the guidance? Or do you expect the weakening outlook for construction to be at (inaudible) potentially bring you far away from the upper end of the guidance?

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

So let me say something about supply chain. The supply chain, what we are looking here impacts mainly the Application business and the construction part of the cables, which deliver the goods to the construction business.

What we have seen -- let me give a little bit more color on this. What we have seen, we dropped out of Russia for material procurement, aluminum, and also from any sales activities in Russia. So we have to switch to new suppliers in the market. We have seen also in a market that there is some supplier of metals in particular, aluminum have seen huge price increase -- cost increases on energy and gas and even some reduced or stopped even production of their output.

So we have to look for new supplier and this also outside of Northern Europe or even Europe. So this has led to an increase in the cost, particularly in aluminum due to the transportation, but also on the premiums in aluminum. So this is an effect which we try to correct through discussion with price increases and discussion with our customer, but also price increases, you need to be able to change price based on your contracts and on the terms and conditions which are defined.

So we work on price increases with the customers. At the same time, we look at the supply chain, how we can secure going forward, the supply chain. So we have seen a sharp increase of this cost in Q2, which we could not compensate through a price increase. And this will be not over in Q3. It will go into Q4 and work what we want to correct with actions.

That's 1 part in Applications. And then Applications also what we see is slowed down in some market segments, which is related to the construction side of the cable. So we have here 2 effects to slow down and the increase on particular aluminum in Applications. That's to say for the Applications. Then on the other side, we have Service. As I said, we have an unsatisfactory Q2 in Service & Accessories. One part is the higher cost on Accessories, but we -- it's depending also the Q3 or Q4 results, second half that's been formulated in this way or if you have any other (inaudible).

We believe that we have reached the bottom of Accessories from the footprint change, and I believe that should go up. So -- but also here, as I said, important is contribution from repair jobs. So here, we have also a certain uncertainty in the Service business. So -- and then on the Solutions side, as you know, from quarter to quarter, there's a different phasing in the project, it can also be changed. So based on this Applications, Service, and Solutions, we came -- and uncertainty overall in the market, we came to the conclusion not to upgrade our guidance.

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**Massimiliano Severi *Crédit Suisse AG, Research Division - Research Analyst***

Perfect. And my last question would be on the repayment of the hybrid and the sale of Photonics. Now you have announced EUR 90 million of CapEx in Karlskrona, but you still have more than EUR 100 million less from Photonics' disposal. So my question would be, if you have any comment on what you think could be the strategic priorities and maybe also on the hybrid, if it would be -- did you think it will be fully refinanced or maybe just partly and you will use part of that to bring down the leverage?

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

Thank you for the question, Massimiliano. And I hope I heard all you asked, but so to touch on the hybrid here in our considerations, we see a great, let's say, future here for NKT in terms of the backlog. And what's important for us is to secure the flexibility ahead of us to grasp this growth.

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And we call the hybrid now, but we also see that there is a scenario where doing a new hybrid would be the right way to finance NKT's growth ahead, making sure that we have a capital structure that will be best fit for the years to come. So this is intimidating right now, and I think we see a hybrid as a -- new hybrid as a route that is definitely something to consider.

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**Operator**

We will now go to our next question. And your next question comes from the line of Daniela Costa from Goldman Sachs.

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**Daniela C. R. de Carvalho e Costa *Goldman Sachs Group, Inc., Research Division - MD and Head of the European Capital Goods Equity Research Team***

I wanted to ask on 2 things. First, if you could comment a little bit, given the new CapEx investments on the cadence of free cash flow that you expect over the coming years? Is that going to be like, I guess, -- do you expect it to be negative in '22-'23 and then harvest the benefit after? Will you start harvesting some benefits a bit before?

And related to this new investment, actually, why did you decide to go for Karlskrona versus, for example, going for some investment in the U.S.? That's the first part. On the second part, I wanted to ask you regarding margins of the backlog, I guess, your peers have commented recently that margins in the high-voltage segment. I think Nexans said could go between 17% and 24%, more towards the submarine side. They've commented that terrestrial was a bit lower.

Can you comment a little bit given Champlain and Germany, their terrestrial contracts, are those more on the lower end? Do you see this kind of very high teens has a long-term possible for NKT? I'm curious if you could give us some commentary there.

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

Thanks for the questions, Daniela. And let me start with your first question, and then I will hand it over to Alex and some of the others. So the new CapEx in Karlskrona, we don't guide on cash flow, as you know. But obviously, this should be a solid contributor at the end of inauguration to the continued future hit for NKT also, meaning cash contributing. What we are, of course, looking into an equally will as we do is a very booming market even with, let's say, scarce capacity in terms of getting all projects executed as customers are actually approaching us. And even in some cases, we are -- we cannot take in more orders at certain points in time.

So this is an ongoing consideration in general NKT's capacity. And therefore, we will see a future where, of course, this new investment will be contributing to cash generation, but also in future, we will continue to consider what next steps to take to make sure it continues the growth.

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

Okay. Yes. So the question was why do we invest in Karlskrona, expand in Karlskrona and not in U.S.? So

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as you will see, the EUR 90 million CapEx is not a full factory. So with EUR 90 million, we use already existing, to a large extent, civil buildings already built, in particular, which we have just finished. So we have here the most returns from the investments. So we can practically, as I mentioned earlier, with the EUR 90 million, we can increase revenues in 2024 -- from 2024 onwards by around EUR 200 million. So within, let's say, yes, a little bit more than a year.

So it's relatively low CapEx compared to the revenues and cost. So this is a decision for Karlskrona. And also, of course, we have delivery obligations from the contracts which we have in hand.

Now the question regarding the margins, do we -- the 17% to 24%? If you look at our Solutions business, we have onshore business and offshore business. So where we said we moved the lower end of the high-voltage onshore business to check to -- that is in order to improve the profitability. And then we work further on improvements in the factories. And as we execute the project with improved margins, which we are seeing coming in due to the improved supply demand balance. We will also expect -- we also expect to go up with the margin over time. But that is -- yes, I think that's -- hope that answered your question.

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**Daniela C. R. de Carvalho e Costa *Goldman Sachs Group, Inc., Research Division - MD and Head of the European Capital Goods Equity Research Team***

Sorry, can I ask a quick followup on actually on the answers on both. You mentioned the EUR 200 million incremental sales on Solutions. Can you recall us because that there was already some incremental sales from the prior factory expansion that you had announced, I think, mid or end of 2020, at full capacity, I believe in the past, you used to guide too close to EUR 1 billion at full capacity. What's the level that we should think full capacity now with all the once older factory expansions are done?

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

Yes. I mean let me, then in 2021, we decided to increase the capacity of Solutions around EUR 700 million to EUR 750 million. Then we started the first investment where we announced EUR 150 million.

And so this, we said not -- we had some EUR 49 million in between to EUR 1.1 billion from 2023. So from 2023, EUR 1.1 billion and from 2024, we said now that we have EUR 90 million investments, which brings us to EUR 1.3 billion a year on the revenue.

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

And of course, pricing is a big part of this mechanism also. So that's embedded in what, Alex told.

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

Exactly. Pricing is a big part. And then, of course, the question is how much you have turnkey or supply only. So this is the round numbers.

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**Daniela C. R. de Carvalho e Costa *Goldman Sachs Group, Inc., Research Division - MD and Head of the European Capital Goods Equity Research Team***

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And on your second answer, sorry, just to clarify, I'm not sure I fully understood. Do you agree that terrestrial is lower margin than submarine? And do you agree with the bans, I think Nexans mentioned sort of terrestrial more on the low-teens, submarine more on the sort of high-teens to 20%. Just I'm not asking you to give a value, but does that make sense in broad ranges when we think about the mix?

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

I mean if you talk about terrestrial land cable, AC onshore land cable classical has a lower margin than sea cable. But also here, we're seeing increasing demand going forward on 400 kV AC in Germany and that could also have a positive impact. But in general, AC onshore is lower. If it comes to DC, DC 525, you have seen that we announced the SuedOstLink extension. And here, I would say margins are not necessarily lower than sea cable.

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**Operator**

We will now take our next question, please standby. And your next question comes from the line of Akash Gupta from JPMorgan.

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

My first question is also a follow-up on projects margin. So I know you had fully utilized vessel in Q2, but I'm wondering if you can talk about current capacity utilization rates in overall Solutions business in all aspects of manufacturing and installation? And is there any scope of improving margins from full saturation in future that was perhaps not the case in Q2?

I mean basically, I want to understand when we look at future margins in Solutions, how much improvement can be driven by price mix? Or could -- utilization could also play a role versus last quarter?

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

That is a big and complex question, Akash. But I mean, of course, the result is impacted by utilization and also on the mix of the factories. And we are increasing our utilization, and we have a high backlog, and so we have still potential, for example, in -- on AC for 2023 and onwards.

On installation, obviously, with more volume in Karlskrona and in extrusion and more turnkey projects, we also have a higher utilization of the Victoria, which helps us. We had a good utilization in the first half, and we see a little bit less in the second half. But overall, the increased revenues on turnkey has logically and consequently an impact on the utilization of our vessel. And last but not least I think -- yes, please, Akash.

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

Yes. And then I had a follow-up on Applications' margins. So I think you explained well that you have some contracts and you had some cost increases. I wanted to understand more on the timing of when you will be allowed to revisit or increase the pricing, like when these contracts will roll over and maybe if you can tell us more about the timing of Accessories' margin improvements going forward?

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

I mean as you can imagine, opposite to Solutions, we have hundreds of contracts and the terms and conditions are varied from them. So that is not a quick fix. We have increased the prices, substantial. In Q2, the revenue increase was practically from price.

So -- and whereas the volume was flattish, was slightly increased. So we are able to increase prices, but we have total limitations and these limitations are set by the contracts and the terms of completions with the customer. So we work on that.

And at the same time, we see that we can improve on the procurement side to come to a more normalized levels on materials, which then, of course, would help us. Also, what is not now will work also on the footprint movement. These are not yet, let's say, activated. This is still ongoing. So -- but overall, we work on it and -- but it will drag into Q3, and we are not sure when we are through, to be honest.

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

And my final one quickly is on Rhine River water levels, which are, again, back in headlines in recent weeks. Is it fair to say that there could also be a headwind in the second half, which is incorporated in the guidance? Or are you better placed now versus a few years back when you had impact from low water level impacting your transportation costs?

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

No, the Rhine River is -- will not impact us at all in Q2, as we have no load out of cables from Cologne. So we have delivered Ostwind 2. And so there is no impact at all. Unfortunately, it's only for the nature and the fishes.

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

Yes. Just Alex on Q3, but...

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

Sorry, Q3. Sorry. Q3 and Q4, sorry.

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

We are in a better position because we have, let's say, a barge that actually can handle shallow water bigger than the situation back in 2018.

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

Yes, that's correct. Good that you mentioned that we have a barge which is designed for low waters in the Rhine -- to cope with Rhine River. But as I said, we have no load out in the second half of this year.

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

Basically, this is not a risk for guidance for this year?

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

No. That is risk 0.

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**Operator**

(Operator Instructions) We will now take our next question. Please stand by. And your next question comes from the line of Claus Almer from Nordea.

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

I hope you can hear me?

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

Yes. Yes. Have a question for...

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

Yes, I do actually. So first of all, I just want to say thanks for the years within NKT and the many quarterly presentation, Basil. And I hope you are very happy about the new owner of the company. And not least, now you know if you were the prettiest person in the bar.

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**Basil Garabet NKT Photonics A/S - CEO and President**

Absolutely, yes. Yes, we definitely were the prettiest girl in the bar.

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

Good to hear. Okay. And then going to the cable activities. Alex, maybe you could give some comment on the pipeline, both for the more near term, so 2022, but also the pipeline for the next year? That will be my key question.

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

The pipeline you mean in Solutions, I guess?

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

Exactly. Exactly.

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

So I mean, we stated in -- I said before, half year, there was a EUR 5 billion, then we have the U.K. CFD round, where we were successful to sign a contract with -- for -- with Anglia THREE and of course, the remaining, what is it, around 5.5 gigawatts needs to be awarded.

So -- and as you know, there are some contracts where there may be 3 agreements, some customer may play the market. So -- and we have, of course, here some chances in the U.K. CFD. And there are several other projects in the near future, which comes to the statement of EUR 7 billion to EUR 8 billion in average for '22, '23 and '24 is valid for all segments: Interconnectors, Offshore Wind, Power from Shore. So there is plenty of opportunities. And so that is good for the industry. That means the supply/demand

have shifted and we can now really be more selective. So there are more projects in the market, which we can cope with. So enough, I guess, for the whole industry.

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

And what kind of projects would you say no to? Is that purely due to timing and price? Or this being more selective, what does that actually mean?

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

No, I mean the timing, of course, you need to have a production capacity available, otherwise -- unless the customer is willing to change their schedule. It depends also on the other cable companies, competitors, if they can deliver or not. So timing, availability of capacity is a prerequisite unless customer can change. The second is then pricing. So there's enough projects in the market so we can say, okay, this price is attractive and also, of course, terms and conditions in the contract. And is it -- yes, these are the 2 main criteria.

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

Okay. That makes sense. Just a final question regarding hybrid, Line, you mentioned that there is a scenario where you could issue a new hybrid, what scenario would that be?

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

I think what we are very much considering here is market conditions, right? Now we called the hybrid we had when it was also stepping up to a coupon above 10%. And there's, of course, let's say, a pinpoint to win such a -- when we would finance NKT usually with a hybrid. But we do think the hybrid, if market conditions are good, could be a good way to finance, the growth ahead of us also.

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

So that would mean if you're going to do a greenfield new factory, is that what you mean?

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

No, it's not -- it's actually a little bit broader than that. It's not a trigger when we're waiting for it. It's actually making sure we have to finance the right capital structure for NKT from when the hybrid is eventually called on towards September, there we need -- we want to have a hybrid in place or some other kind of financing to make sure we can continue the good momentum we have.

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

Sorry, just to be sure. So does it mean that without a new hybrid, your balance sheet is not strong enough to get some of these larger orders?

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

No, it doesn't mean that in a complete line of context, it means that we see a future where NKT has a lot of opportunities to grow and continue the momentum, and we want to secure that. So if and when we make a new hybrid, it is to secure that. It's not for a trigger event and it's not (inaudible) to secure we

have a stronger balance sheet.

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**Operator**

We have 1 more question. Please stand by. And your question comes from Massimiliano Severi from Crédit Suisse.

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**Massimiliano Severi *Crédit Suisse AG, Research Division - Research Analyst***

Thanks for taking my followup. It's a very general one. If I think about the cost of transportation of cable, do you think that -- first of all, if you could give us a sense of how much of the total cost of a project would be in order to transport the cables from Europe to the U.S.? And the follow-up would be if you don't open a factory in the U.S., do you think that in the future, you will still be competitive enough to transport a cable from Karlskrona to the U.S. even after your competitors have opened their U.S. factories? What would that mean that you would basically focus on Europe rather than on the U.S.?

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

Yes. I mean if you look at transportation, I mean, you need to look at the cost of the vessel order at the day rate of a vessel and then you take the numbers of days which needs to take from Karlskrona to the U.S. But you need to consider also even if you have not the factory, take 1 of -- or take our competitor, if their vessel is currently in Europe and they have a job in the U.S., they need also to go with an empty vessel over to the U.S., load the cable in the U.S. and bring it to transport.

So it's unlikely that maybe at a certain point in time that a competitor has permanent vessel on standby in the U.S. So because they have projects not only in the U.S., but that is, of course, a little bit assumptions. So you need to calculate the cost or the price of the vessel, the day rate and the vessel price and then you need to put it in relation to the total project size. Obvious, small project connecting 2 islands, I don't know, I'll just say now, EUR 10 million or so, it would not make sense, that is clear. But for the large projects with several hundred millions, the transportation cost can be -- may be absorbed in the overall package.

And of course, we need also to see what is the drawback. If you have a factory in U.S., you need also to ensure that you have the load. So there's plus and minus for both. What we think, we can deliver projects in the U.S.

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**Operator**

There are currently no further questions. I will hand the call back to you.

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

Okay. Then thank you very much for your time to listen to this -- to our results, and wish everybody a good day and talk to you soon. Bye-bye.

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**Operator**

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

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