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CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

Casper Blom *Danske Bank A/S - Analyst*

Daniela Costa *Goldman Sachs Group, Inc. - Analyst*

Kristian Tornøe *SEB - Analyst*

Claus Almer *Nordea Markets - Analyst*

Akash Gupta *JPMorgan Chase & Co - Analyst*

Lars Topholm *Carnegie Investment Bank AB - Analyst*

PRESENTATION

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

Morning, everybody. Thank you for calling in to listen to today's presentation on the annual results for NKT for 2023. If we go to the first slide, just before we head into the materials. I want to draw your attention to this slide explaining that the both the words coming out of my and Line now together with this presentation, will contain forward-looking statements.

My name is Claes Westerlind, and I'm the CEO of NKT, and that's been so since May and next to me, I also have the second speaker of today, Line Fandrup, who is the CFO of the company. If you start from a high level, reflecting a little bit about the annual results for NKT for last year, This is the result that we are proud of and I think it honor’s the employees of NKT it honor’s and also our customers and other stakeholders. It's a testament to the journey that we are on for the moment, and I think it also serves as a proof for what NKT is capable of doing.

Looking into the bullet points here, it's shown by a heavy organic revenue growth of 36%, primarily driven by the solutions and applications business lines. We exited last year, a record year from a market perspective, and I will come back to that later. And also from a success perspective of NKT, where our order backlog stood at just short of EUR11 billion after a record annual order intake of EUR7 billion.

Our operational EBITDA stands at a very decent level of EUR255 million. This is the highest annual level for the company, and it's also EUR100 million improvement compared to the preceding year. And last but not least, also, our positive free cash flow generation stood at EUR305 million, driven by of course, the higher earnings, but also by the positive working capital developments coming from the larger high-voltage order backlog.

So moving in into the business lines and zooming in potential, a little bit more on the quarter, the fourth quarter of last year, some key developments here. We had a strong growth in the solutions business line, both in terms of revenues and also the operational EBITDA. And this is driven by overall satisfactory execution in our project, a higher activity level across the business line, both in Cologne and Karlskrona and also that we were reaping some of the benefits from the increased capacity from the investments decided upon and executed in the last couple of years.

The applications business line continued to benefit from the positive sentiment in the power distribution group segments, primarily impacting medium voltage cables, but also part of the 1kV. And in general, also, the construction market kept on a fairly stable, albeit low level.

Service and accessories increased in terms of revenues, despite the fact that we did not have any offshore repairs also in Q4 as was also not in the year in full, while the operational EBITDA came at a lower level. But this is also in comparison to very high comparison period in Q4 2022, where we released some warranty provisions.

All in all, if we look to the right there, this again, to reiterate what I said before, but looking at the quarter instead led to a 40% organic growth in the fourth quarter and EBITDA percentage development from 10.2% to 11.8% comparing to the same period in the preceding year. Assuming in all the solutions business line for the fourth quarter. As said before, revenue and operational EBITDA increased and overall satisfactory execution, higher activity and the capacity coming online from the investments we made continued progress on several of our large projects, including Baltic limited to Baltic Power, Borwin 5, in Germany Champlain and the US, Dogger Bank C and Shetland in the UK, and SuedLink, and SuedOstLink in Germany.

In addition to that, we also note that the investment program that we announced and decided in May last year continued in a good manner from a timing perspective, and the ground works have started and commenced in Karlskrona most of the note that we have also ordered the vessel former now from awards in the end of last year, overall, leaving the business line with EUR350 million of revenues for the fourth quarter, very high organic growth of 65% and more than acceptable EBITDA level of EUR54 million.

Taking a moment to reflect on the market development. As I also said, initially, it has been an extraordinary year from basically any perspective or dimension that you look at our estimation when we view the market from what we call our addressable market our estimates are that the market volume exceeded EUR15 billion when it comes to firm awards.

So products that are being booked into the backlog. It's also our estimate that around 90% of the awarded products were based on DC technology and NKT was awarded around EUR7 billion of those leading to a market share of roughly 45%. Also very respectable on top of the EUR15 billion. There was also a number of long-term booking commitments allocated towards the market.

Also those coincidence, around EUR15 billion, bringing the total market activity to EUR30 billion for the year of 2023. And for the ones of us who have been in the cable business for a while and the solutions segment in particular, this is a very, very high activity level, basically 10 times what the activity level has been if we go back five to six years.

We see that the European transmission system operator, they were very highly active in 2023. And the activity showed through the framework agreements that were both awarded or the process that were initiated in order for them to secure long-term commitments for products that we are supplying from the high-voltage solutions business line.

When we now look forward and tried to make reflections about the market sizing in both this year and also the coming years. We have decided to communicate with you here today that we expect market volumes to be above EUR10 billion in average between 2024 and 2030. And the reason we have taken this average measure is that these volumes can fluctuate year by year, certain years that will be higher in certain years, it can also be lower and to take one example of this is 50 Hertz agreement being awarded in the end of last year was around EUR5 billion in total, the one by NKT to the biggest extent and one of our large competitors to a smaller extent and EUR5 billion, of course, is a massive volume from a single customer allocated to the market in one instance.

And if such volume would slip from, let's say, December to January, it would not make a difference for the cable producers or the market, nor would it from the customers, but it would make a big difference. If you look into fiscal period from a market volume perspective.

Then to the right of this slide, we couldn't help ourselves to put down some of the notable order wins that we are proud of from last year and also that owners all the colleagues in NKT and also the customers that have worked hard to make them realize.

Turning around and then looking at the NKT backlog, we can also see a favorable development to put it, in my words, comparing to 2019 and to date, we have had an [eight from] the growth in the order backlog, which positions us with a very good earnings visibility in relative terms for the coming years.

Backlog as such the composition of it, you can see to the middle here and that stands in essence, unchanged from when we had this last discussion in Q3, whereby the absolute majority is with transmission system operators situated in Europe. And there is a smaller part with other types of customers, SPVs or non-European. And by application, the around half of it is in the interconnector segment, while 45% in the offshore wind segment and minor part in the power-from-shore segment.

The other aspect of this slide that I want to draw your attention to is to provide you with some level of visibility of how this backlog is distributed over time. We are also today communicating that around 26% to 29% of the EUR10.8 billion is set for execution in this year and also next year. And then obviously the remainder in 2026 and beyond.

Over and above the EUR10.8 billion of backlog. We also have secured another around EUR2.5 billion of the capacity reservations from the customers tenant and also SSEN Transmission.

Then coming to the applications business line, which has had a very good year last year. Q4 enjoyed higher revenue based on -- basically a overall positive situation in especially the power distribution grid segment, the revenue grew with 3% if you compared to the same period in the preceding year and together with some efficiency initiatives and the results of those.

The EBITDA margin ended up with 7.1%, and that's an increase with 1.2%. If you compare to the same period in the preceding year. And it deserves to be mentioned that the full year operational EBITDA margin for applications stood at 9.2%, which resonates very well with where we think that this business line should be. I also again want to emphasize what we have said before that the part of the applications business, which have the connection to construction activity the revenues connected to this segment were continued at a lower level.

All byte, now more stable and both seen from Q3 to Q4. Also, if you compare Q4 last year with Q4 in the preceding year, actually a slight increase has left the business line with revenues of EUR149 million and the organic growth I mentioned and operational EBITDA of EUR10.5 million.

Coming to the service and accessories business line enjoyed a growth in revenues despite the fact that we have not had any offshore repairs during the full year last year. The other segments of the business lines being both the accessories business, but also the sustainable service business continued to enjoy a positive development in the accessories part of the business that's primarily driven by the increase and ramp-up in delivery of HVDC accessories supporting the solutions business.

The operational EBITDA, as I said before, was lower than the same period of Q4 in '22. And this was primarily driven by a warranty provision release that was made in 2022. Profitability was also impacted by the business line by some temporary higher cost within the accessories business. And those were in relation to warranty provisions taken for some rectification or products that have been delivered in the past and also some inventory write-downs. The business line as a whole for the quarter left the year with EUR53 million of revenue for the quarter, an organic growth of 2% and operational EBITDA, EUR3.5 million.

And last but not least before we head into the financial numbers, I also just wanted to take a moment to reflect on sustainability, an area that is paramount to NKT and also society as a home, where we, in our opinion, also continued to do good progress on this journey and especially our decarbonization targets, but also the wider parts of the ESG agenda.

As you can see here, the total scope 1 and scope 2 emissions when we close the year of 2023, we had a 77% reduction in comparison with the baseline year of 2019. And this confirms the trajectory that we are on towards reaching the target of minus 90% in 2030.

You can also note a slight increase compared to the preceding year, which is well in line with our expectations also that we are now enjoying and much higher activity levels inside the business, scope 3 emissions, we note a decrease comparison to the preceding year of 24%, although compared to the baseline year, we have an increase of 28%. And again, the same comment applies there, this is not unexpected and connected to the fact that NKT is growing.

On the only point that we are not proud of is the safety results of last year where we had an increase in the total recordable injury rate to 1.52 from 1.13 in the preceding year. And this is by no means acceptable, but you can rest assured a lot of work has been done last year or why this is not visible in the end result numbers and more rigorous work will follow during this year.

We can see that an absolute majority of our incidents are driven by behavioral aspects and this is something that we are now also firmly addressing in the year to come. And -- we remain determined to reach the target in 2028 of less than 0.6. And in fact, the vision we have is something that we all should and must have, and that's zero people should get injured working for NKT or for any employer for that matter.

Diversity and inclusion, one of the metrics that we apply is the perception of our employees, how much active we work within this dimension. Here, we have a target to reach 74% score in internal surveys. And last year we record a 76 score. So meaning that our people do recognize the efforts that are taken internally to become an even more diverse and inclusive company. Recycling rate, we are on a good path towards the target of more than 90% of recycling the development from '22 to '23 stands at 78% and up to 83%. So overall, I just want to emphasize how important sustainability is for us at NKT and also as I hope you recognize we are making progress also within this discipline.

And with those words ladies and gentlemen, I hand over to our CFO, Line Fandrup.

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

Thank you very much Claes. So and the financial highlights section now that balance with the income statement focusing on primarily on the quarter with a few comments on the full year development and also overall high organic growth with positive contribution from all three business lines. It's a we are up at 40% in revenue growth and it follows a strong performance between three as a whole.

Our operational EBITDA also increased materially. Our EBITDA margin is up by 1.6 percentage points. If you look below EBITDA, depreciation, amortization, the Q4 particular was up slightly compared to previous quarters under financial items, you'll note a minus EUR8 million for the quarter compared to EUR14 million of last year.

And what you need to be aware of here is the underlying elements of we actually have total interest line was positive to our cash position. So we are up around EUR3 million, though, while we are now -- on the currencies. In general, excluding losses, we were having unrealized value adjustments of our assets, liabilities, and our hedges. And this is due to the Swedish crown strengthening against the euro in Q4.

We actually had a gain unrealized hedges of EUR3 million that was settled in the first part of June fall when the Swedish crown was weakening. On tax, our reported tax was low in Q4 '23 due to various adjustments of the year in the quarter. But if you look on it on a full year, you'll see that our reported tax rate was around 20%.

All in all, this led to a EUR20 million improvement of our net result. And if we look to the full year, you'll see more than doubling our net result compared to last year. It's just a commentary also to the employees, very important for the growth of the year, but also certainly on what we are planning the years ahead, and we are hiring more and more people to activate it. So you're seeing the up stick also.

So turning to the next slide, some highlights on our cash flow, continued positive free cash flow generation driven by higher earnings and improved working capital position. So if I start out with the strong cash flow contribution from the operating activities driven by our EBITDA development, but also very much our first contribution from the wind capital, primarily due to milestone payments in our solutions business line as we execute on the projects in our backlog.

Further, I'd say a positive contributions also from applications in. You'll also note that in Q4 our investment program is really kicking off in strong, but this is very much, of course, due to the overhang of the new cable laying vessel, but also in general, we are executing as planned on our activities in total for the quarter, we had a free cash flow generation of EUR23 million. But on the full year, we had a tripling of the free cash flow generation compared to '22. So based on the current activity level. Our cash flow from financing activities was slightly positive in Q4. But the major part of the '23 full year is, of course, capital free increase that will continue in Q3 '23.

Turning over just to a few highlights on the balance sheet here already mentioned the Cales development in this, combined with the strong EBIT generation meant that our RoCE went up to 19.5%, a very solid level. I should also say, if you compare against our medium-term ambitions from between 25 and 28. What you need to note, of course, is obvious our EBIT level in general, the increase with increased earnings of the company. But it very much also depending on the flow and the development within working capital, how that will RoCE of the year would look in the capital employed.

On net interest bearing debt is largely on unchanged from the Q3. The positive cash contribution was offset by increased leases relative to some of our sites in how we will compare to '22. We've seen a significant decrease in our debt level due to the cash flow generation and the capital increase.

We have a strong liquidity position at year end with liquid reserves at EUR1.1 billion. And this of course, we still have a large investment program in front of us. We recovered probably the wording around and investment program being built shaped meaning this year and next year we will be at a high value on investments in general, and then it should be coming down and that investment program beyond.

What you also see is our issue, the guarantee line is coming up comparing in '22 with a EUR1.2 billion to now in '23 and EUR1.9 billion and this is, of course, due to the execution of the backlog and the guarantees proposed against the different projects as well customers.

We then flip to the last slide of the financial section here and the financial outlook for the year, continued growth in revenues and earnings uptick in. Just to mention a few comments to this, as you also know when they have time to go do things which includes the financial report of the year, and we expect to improve our in our financial performance again in '24, revenues of EUR2.21 billion to EUR2.36 billion and an operational EBITDA of between EUR285 million to EUR335 million.

The main growth driver of '24 is solutions we have seen us come online with the capacity expansions in both Cologne and Karlskrona. And this will have a 12-months' impact up in '24, which is, of course, a strong contribution to this year's expected financial performance. And we have great visibility, as Claes mentioned on our backlog, which means we know what it means to producing this year in the solutions.

NKT and services and accessories also, we should contribute positively to the continued development delivering on the application. And not to mention that in '24, our revenues in solution will have a positive impact from a relatively high amount of subcontract vendors. This is expected this level of subcontracting revenues to come down again in '25 and '26.

So I think this is an important dynamic on the financial performance you need to reflect about for the solutions business line. We're also getting positive impact from the investments in the past years and solutions and the uptake here and what we also want to mention and maybe a new fracking. But when we talk about capacity, we actually measured in number of machine hours.

What you should think about is when now the capacity is online and we're working on further capacity, which is only coming online beyond '26, that that means that the machine hours of NKT solution business we'll stay largely flat over the years ahead of us and put them in.

So we should gradually see the uptake later, but this is as expected, and this is also the assumption that is a underline our medium-term financial ambitions. So there's no news in this we're just trying to be a bit more explicit on what we should expect here. So we are ramping up our business to grow you see we are seeing a more employees to secure business ahead of us. And this is really also expect that we will see a trajectory up on our cost base with a certain uptake to cater for the growth that's coming.

I just want to go to bullet by bullet the assumptions of the outlook and the satisfactory execution at the relevant (inaudible) there's some needed, stable market conditions around applications, normalized offshore power, cable repair work activity, stable development of the global economy, stable supply chain with limited disruptions and the needed access to required labor, material and services, and then a stable development in foreign currencies and lift it twice.

So we look forward to yet another exciting year and continue to show and just going through the highlights. Again, a year of significant growth with a 36% driven by both solutions and applications it's a very high order backlog. We have of EUR10.8 billion with a very strong order intake of EUR7 billion for the year. And operational EBITDA of EUR255 million, a company high of EUR100 million up compared to last year and then tripling our positive free cash flow generation compared to with stand at a EUR305 million and close this deals.

And with that, we will hand over to questions and answers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Casper Blom, Danske Bank.

Casper Blom - *Danske Bank A/S - Analyst*

Thank you very much and congrats on a strong Q2. Sorry, a strong Q4 and great guidance for 2024. And I have a couple of questions. I'll just take them one by one. I'll limit myself to three. But first question goes to the cash flow outlook. You don't really give a cash flow outlook, but could you give us any indication to how much CapEx we should expect for 2024 and if you could split that into the, I would say, new investments and maintenance.

And secondly, on the cash flow, if you could give any kind of a guidance on what we should think about net working capital as I understand it, you are still waiting for some prepayments on some of the orders received in 2024. But any insight there would be very appreciated? Thank you.

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

Thank you, Casper Blom, good questions. Thanks. So on the CapEx for 2024, I think I'll separate it exactly as we do with new investments and then let's say, maintenance, but also the other business lines. So to say, in our technology, not to forget so when we talk about the EUR1 billion investment program, you should think that it was the slow start in '23.

So the major part of that will come in '24 and '25. And I think you can do that significantly above what you assumed on the running phase of maintenance and technology. We've previously said around when we are done with the capacity expansions between EUR80 million to EUR100 million you need depending on, let's say, how does this unfold.

So I think you should take something like that also for 24 net working capital. You know, when you get EUR7 billion of orders, it's a pretty interesting in terms of working capital. But actually as we execute also on some rather large project continuously. Now, I think you also should expect a positive net working capital in '24 in similar levels, maybe I should say like that.

Casper Blom - *Danske Bank A/S - Analyst*

Just to be sure I understand. Would you say that the change in working capital would be the same in '24 as in '23 or that the absolute working capital would be at the same level a year from now?

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

The absolute level.

Casper Blom - *Danske Bank A/S - Analyst*

Okay, understood. So a flat impact on the on a cash flow basically.

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

And it is very dependent, of course, on order winds and if we come back to that question, you probably know that how exactly '24 will develop in terms of order wins. There's a lot of stuff to the used and said about that. So we also have to see how the years they needed.

Casper Blom - *Danske Bank A/S - Analyst*

Okay, understood. Then my second question goes to the two solutions and the how could you say, capacity that you also touch upon? As you mentioned, you have a fairly high part of subcontracted revenue here in 24. As I understand it also in '25 and relating to the Champlain project as that levels off and becomes nothing in 2026, will you still be able to basically keep solutions revenue flat in '25 and '26 on the back of higher pricing?

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

Yes. Thank you, Casper, Claes here, I will give it an attempt to answer your question and Line can also fill in more. And I think the statements we are making here is basically as Line said, the machine hours, basically the investments that we have done over the last couple of years have now, in essence all become operational. And going back to what Line said, that we'll keep the machine hours constant in more or less over the last the next couple of years, that means '24, '25 and also '26 until the new factory comes online.

So the revenue capability based on internal resources will be constant, more, or less of course, this depends on what kind of mix do you have? Is it a limited copper. So there are lots of different aspect that you can inject to this to get different numbers. But overall, that's how it's going to be. On top of that, it would lean refer to the Champlain project in particular. This is where we have a lot of subcontracted scope and it's well known that we are also utilizing Southwire for external cable production there and also installation activities are extensive, and that will be a big part of the year this year.

This will turn down going forward, as also said before, and this will turn down in '25 and '26. So we are trying to help you a little bit to come to the conclusion that we're all what we have said about CAGR for the company in the reference year to '25, '28 still stands, but I think it deserves to be mentioned that there is a negative sentiment from a revenue perspective from '24 heading into '25 and '26 which is nothing that we haven't planned with. This is fully in accordance with our expectations. But I think our perception that we may not have been clear enough about this in the past.

Casper Blom - *Danske Bank A/S - Analyst*

I appreciate the, but I would just say I appreciate the transparency, but what I would add then is it fair to assume that while you have that negative impact in '25 and '26 from less sub-contracted revenue than there should all else equal, be some sort of positive impact from working through the backlog towards projects with a higher average price per unit.

And secondly, also a positive impact from a better productivity planning. As you have this transparency on the backlog, is that a fair assumption to have, but you can at least partly mitigate that lower sub-contracted revenue?

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

I think the mechanics of what you're saying, I wouldn't say that there are false, what I do think that I want to add use a new user. If the length of the existing projects. So the tail, if you will, for how long would the legacy projects be with us for the future, and I think they will be us for some time. So this year, we are basically executing a similar approach as we did last year. And they right the perspective that we will gradually change over to new projects over time, but it will not be enough to compensate for the negative incentive coming from the lower external revenue coming from sub-contracting of installation and also cables in '25 and '26. So the tail will be with us for a longer period of time to be able to compensate to for that.

Casper Blom - *Danske Bank A/S - Analyst*

Understood. That's all for me. Thank you.

Operator

(Operator Instructions) Daniela Costa, Goldman Sachs.

Daniela Costa - *Goldman Sachs Group, Inc. - Analyst*

Thank you so much. Actually, if I may start with I'm not sure I kind of completely got the legacy commentary now on your last question, were you talking about very specifically the legacy subcontracting, which I guess your messages, it's going to come down in '25 and '26? Or were you talking about those legacy backlogs that have impacted margins as well in the quarter? Because I know in the statement you talk about some legacy some charges and provisions that you had to do for legacy contracts, those are done or will there be further impacts?

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

It's a good question that we clarify Daniela. So it's totally unconnected to the last point made by you to the legacy onshore projects that we talked about in the report. This is a totally unconnected area. This is about what we typically we have a discussion very often in both calls like these, but also individual talks when does NKT come into execution of the projects that have been acquired within the last 12- months to 18-months and for how long will the legacy projects that we have acquired from 18 plus months ago?

The with us and this was the comment I was making here the positive impact from a revenue perspective from projects with better pricing than what we have in the past. I think customers question there was could that compensate for the shortfall that we would have in revenues coming from less subcontracted volumes. And my answer to that was no because the legacy products will be with us for longer time than when we will start seeing that negative information was that clear enough Daniela?

Daniela Costa - *Goldman Sachs Group, Inc. - Analyst*

That was clear enough, maybe you can also follow up on those projects that have been impacting the margin, which is a separate issue, but can you talk us through those legacy this was an isolated thing or are there still things in the backlog related to those?

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

Yeah I understanding right now are you referring to the annual report and solutions comment?

Daniela Costa - *Goldman Sachs Group, Inc. - Analyst*

Yes.

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

Yeah, it is an isolated thing, hello can you hear us?

Daniela Costa - *Goldman Sachs Group, Inc. - Analyst*

Can hear you yes.

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

It is an isolated thing. These are products within the segment that we define there is products which have been produced in a specific time period where we have like in any products business sometimes come across an unconformity that requires you to act upon them and discovering that now in Q4, we have made provisions for what we think are the likely needed remedies that we see will be needed going forward.

Daniela Costa - *Goldman Sachs Group, Inc. - Analyst*

Okay and then just one final one for me. In terms of your RoCE well above the medium term target of over 12% as at 19%, I believe, in your annual report. I mean, given all the things that you have mentioned, how should we think about that? Is the 19% sort of a bit of a one-off? Or do you see that how sustainable I guess you haven't changed the target. So can you reflect a little bit on that, please?

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

(Inaudible - microphone inaccessible) I mean, I think how you should reflect about this that our medium term ambition still stands, including the RoCE ambitions of RoCE, which means underlying, of course, that the EBIT is going to improve year-over-year and where you'll see the capital employed is going to fluctuate. And this year, it's a very it's at a lower level, generating the 19.5%, but dependent on the net working capital and investment programs in the coming year that can be very different. So we stand by our medium-term ambitions, and that's what you should kind of assume.

Daniela Costa - *Goldman Sachs Group, Inc. - Analyst*

And sorry, if I may, one very final one on the subcontracting point. In terms of mix on percentage margin, how does that impact to you it's sort of a positive the subcontracting getting off?

No, can you hear me?

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

Daniela sorry, I had the trouble to get the question. Could you repeat the question?

Daniela Costa - *Goldman Sachs Group, Inc. - Analyst*

I think it was pretty clear what you mentioned on the revenues from subcontracting sort of being high in '24 and then sort of lower in '25 and '26. But on a margin percentage, how does that impacting how is the margin of the subcontracting versus the versus the total?

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

We don't foresee a big impact from that cleaning off, neither positive nor negative.

Daniela Costa - *Goldman Sachs Group, Inc. - Analyst*

Okay so subcontracting to have similar margins to your own?

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

But like I said with all the moving parts we have when that comes down, that will not be a visible impact on the margin on what we will look at in the coming years.

Daniela Costa - *Goldman Sachs Group, Inc. - Analyst*

Got it thank you.

Operator

(Operator Instructions) Kristian Tornøe, SEB.

Kristian Tornøe - *SEB - Analyst*

Yes, thank you. I have two questions. So firstly on this the provision to legacy onshore projects you mentioned in the annual report. So given that you're talking about legacy onshore projects, I assume we are not necessarily talking big numbers here.

Can you just reassure us why this would not have any impact on sort of your current onshore, offshore projects for that matter?

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

I think I remain with my earlier statement there that it was connected to produced. Produced in a specific time period. And as I said, it is legacy. So it is connected to what has been produced in the past. And we have made the provisions for what we believe is the more than likely cost in conjunction with remedies connected this, non-conformance is I also want to add there that it is they have been deemed not material from a group perspective going to the size of the provision itself.

Kristian Tornøe - *SEB - Analyst*

All right, understood. And then to your guidance specifically for applications, put you assume because obviously we've seen throughout 2023 is a declining margin. So going into '24, is it sort of the run rate you'd see in the second half of '23, you assumed to continue or how should we think about the margin in applications for '24?

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

I think including you should expect about application overall for the year, a stable development that's how we have made the guidance.

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

Yeah, I think maybe I should also just add the reflection there that the applications business line also as Line talked about some of the prerequisites is that the market continues in a similar manner that what it has been. But from also seasonality perspective, the applications business line is impacted by, let's take an example. The first quarter of the year entails the month of January, a lot of holidays, harsh weather conditions, obstructing installation possibilities.

So therefore typically would not be a strong quarter. And you could argue the same for the fourth quarter connected to Christmas, harsh weather conditions, et cetera. So there will be seasonality fluctuations for the applications business lines, while when looked at the full year perspective, we are leaving a successful year behind us.

Kristian Tornøe - *SEB - Analyst*

Sorry, maybe I just didn't completely understand what you're saying. So we should expect a margin, which is somewhat similar to what you did in '23, assuming markets remain as you expect consol?

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

We as you're well aware, we are not guiding per business lines. We are guiding for the overall group. What we have said in the past. And then also I've used the words that we believe lower, high single digit margin percentage is the word the profitability of the business line.

Kristian Tornøe - *SEB - Analyst*

Understood great. Thank you for that's all for me.

Operator

(Operator Instructions) Claus Almer, Nordea.

Claus Almer - *Nordea Markets - Analyst*

Thank you. Yeah I also have a few questions. I'll do them one by one. The first question goes to your CapEx or sorry, market activity, a guidance of this minimum EUR10 billion per year average until 2030, if I do the math and assume, let's just say got 1/3 of the market, then you would not have enough capacity even with the new factory coming on stream. So what's your reflection on this? That will be the first one.

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

I think there are thanks Claus, it's a very relevant question. I think it's fair to say that we don't anticipate to have the same market share like we had last year for many different reasons. There are more players and entity out there and also our capacities, of course, constrained that we are victims of our own success, if you will.

And having that said, there is a lot of uncertainties connected to exactly what the market volumes will be and going forward, of course, now right now, we are expanding at the pace which we feel are prudent, frankly, as a company and something that we can lift, both from a financial perspective, but also human capital perspective. And obviously, we are also reflecting about the period over and beyond '27, '28.

What are the next steps for NKT? And there we have not made any final recommendations reflections that we are prepared to share with the market. But market share percentage per say is not the primary driving numbers for us.

What we are doing is trying to be prudent in the growth pace that we are enabling for the company and also ensuring that we can fill and utilize the assets that we are building and those are the main priorities, including also having the right risk reward balance in the projects that we acquire.

Claus Almer - *Nordea Markets - Analyst*

I might be a bit slow here, but is that I didn't really understand. So does that mean you're not going to add more to it? I guess you agree on my math that if minimum EUR10 billion plays out you don't have enough capacity if we just assume a not a '23 market share but a more normal market share. And if that's the case, does it mean you are not going to try to meet the market demand, I not adding more capacity? Or how should we think about this in a longer-term perspective?

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

Yeah, I think in the longer term, perspective, I'm not ruling out anything. I'm not saying that we will not add capacity in the short-term perspective now and what have you which short-term is up to '25 and also '28. There we will stand by our growth plans as they are.

We should also keep in mind that NKT is not the only cable manufacturer who is adding capacity. So there will also be others growing, as you are well aware class, also our largest competitors and also some competitors that are established name in Europe and for the business as a whole, of course, our prerogative as a cable supplier is that the demand should be on the right side of the supply capacity and that we feel is the case for the moment and that is also what we want to make sure that it stays that way.

Claus Almer - *Nordea Markets - Analyst*

But so when you go out with this guidance for until a target or a market view until 2030 in order, given your history, I think you are pretty confident this is also what's going to play out. So when will you go be ready to, I will say, okay, we have we are happy with our current capacity, including a new factory or we are going to add more capacity. So we can meet the market demand?

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

It's a good question and I understand why you ask it. I'm afraid I have to disappoint you a little bit. I cannot give you a time point when we will come out with reflections of the strategy period over and beyond the '26 to '28, this is something that we are reflecting on internally and when we are ready, then we will come out and communicate with yourselves for now. We are very much focused on sticking with our current plans and executing on the existing capacity increases which are and this is a substantial effort for NKT, both from especially from a human capital perspective. And it's about striking that balance between pace of growth and fill them meeting the market requirements, but also doing it in a way so that we can carrying it in a safe and sound way.

Claus Almer - *Nordea Markets - Analyst*

Fair enough. And then my second question goes to the '24 guidance, what assumptions have you made about provisions as to the German Cologne projects and the Champlain project? So is that the same performance that you had in '23 is it on a conservative assumptions? Any color on that would be helpful thanks.

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

I think the best reference point here, though, I know you're looking for something more detailed. If we plan to the guidance of the of '24 is planned on a good execution in our solutions business without any major disruption, meaning German Cologne and playing everything come into as we are now planning it.

Claus Almer - *Nordea Markets - Analyst*

But is that a different assumption than you had six-months ago? I mean, looking at the guidance upgrade in '23? No startup of the projects must have been at no cost with no hiccups is that. Do you assume this would continue in '24 or who knows what will happen in '24? Therefore, you are taking a conservative approach to how things how production will play out this year.

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

I think the when we just look at the company overall, our approach to the guidance is our best estimation based on our plan and that was the same for '23. You're right, some of the projects we had in our portfolio of execution in '23, we knew at that point in time. And that those constraints, let's say, risk mitigation to we didn't foresee an upside with different pursuits, and that's the nature of this business.

Yes, we have more experience with the projects we have in the portfolio of '24, but it's still a lot of cable kilometers. And this project it has to come through so, yeah I think that's how I would face it.

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

I agree with it that there are, of course, both aspects in the products you mentioned, but also in many other dimensions of the business, which could cause our result for this year to end in the upper part of the guidance. But there are also many different moving parts that can move us towards the down part of the guidance. And when we look at providing a guidance, we look at well, the projects, we look at the business as a whole together with the other business lines. And we have also upside and downside scenarios and based on that and a reasonable business perspective, that's how we provide the guidance.

And I can understand and I are fully reflections on last year. And of course, it is easy in the aftermath to reflect that something is conservative when all most things have gone in accordance with plan, but of course, you could easily also be in the opposite situation where you end up within the initial guidance easily as well as we would expect if there is a balance between upsides and downsides.

And we know that this is the product business thinks will happen that we know for a fact. But we also know it's our job to constantly be on the forefront and act upon all risks and opportunities and that's what we also will continue to effort this year.

As Line said, Claus, we understand it's not crystal clear response to yourself. This is also how we are thinking about the business and how we are planning for the guidance.

Claus Almer - *Nordea Markets - Analyst*

This Fandrup, having followed the company for quite a while, we know that there's some day there might be some hiccups, out down the road. So all good. That's all from my side thanks.

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

Thank you.

Operator

(Operator Instructions) Akash Gupta, JPMorgan.

Akash Gupta - *JPMorgan Chase & Co - Analyst*

Yes, hi. Good morning, everybody, and thanks for your time. And my first question is also on high-voltage business. So I think last time that you have increased the market volume outlook to more than EUR10 billion average, and that's higher than what you guided in 2022 capital markets day.

And the question I have is that how much of this marketing increase or increase our market outlook is driven by inflation that the same cable might work a lot more and given the inflation in last couple of years and how much of that is underlying increase in margin, underlying increase in market, given the energy transition is gathering pace and I think more and more customers are realizing that they need cables sooner than later.

And then on a follow-up to that question is also this EUR10 billion is this market in constant metal price or is it in actual metal price?

So let's just start off and I have a few more, thank you.

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

Okay. Starting to reflect on the first one, there are Akash it?

It's a good question. I will not give you a defined split on the difference there, but I would say that the primary part is driven by activity levels that we see. And again, I want to reiterate what I said before, we are turning to an average value per year, knowing that things can easily swing both up and down and I think last year was an excellent proof for exactly that. But you should see that's a reflection of an increased market activity more so than the prices or improving.

Akash Gupta - *JPMorgan Chase & Co - Analyst*

And then is this in a constant metal price that actual market price more than EUR10 billion?

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

It's an actual market price.

Akash Gupta - *JPMorgan Chase & Co - Analyst*

And my second one is on the technology innovation in high voltage. So we used to have 320kV and now we migrated to 525kV and almost all of the projects that I in your and your competitors' backlog the newer ones are on 525 kV. I mean, where do we stand on the new technical generation where we increased by 525kV maybe 600kV or more, which can allow more power transmission to the same cable and probably allowing you to increase the revenue per kilometer and given the higher voltage and anything on that in terms of when do you think that we might go above 525kV in the foreseeable future?

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

Good and relevant question. I will not be able to give you time lines more than that. We take innovation seriously also suggested by the fact that it's one of the three pillars. And I think the drivers for R&D in general is looking at losses as an example. Another one is exactly what you say Akash, that's the power transfer capability, where, of course, voltage has a big aspect to play, and it's also about, for example, depths reaching higher depth. And it's in the end also about sustainability.

And our R&D efforts are addressing all of these different dimensions of increased capabilities of the system. I think racing up in voltage, making more power flow through the cables is not only a technical challenge. It's also the system aspect of things whereby the grids also needs to be powerful enough to handle a single contingency if something happens in the grid.

So if we take the example and compare to China in China, you have power lines transmitting 5 gigawatt to 10 gigawatt through as a single pair of overhead line wires. And while the technology may get there or maybe they're in some aspects for cables and converters today, the grid strength of Europe certainly is not.

So I think that this is not only a technical aspect is also an aspect on where or the grids able to actually implement the same. But I think it's fair to say that we are working on making advancements and when we feel that it's the right time to announce and bring this to the market and then we will be proud and open about these achievements.

Akash Gupta - *JPMorgan Chase & Co - Analyst*

And a question for Line. And I think you have a different way of accounting the bonding or guarantees line than some of your competitors. And if I understood correctly, you basically account these open bonding facilities in your operational expenses above adjusted EBITDA. Could you give us a some color on how much of a financing cost have you included in your 2023 numbers so that we can compare your margins versus competitors' margins?

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

I understand the question Akash I do and that's the transparency we don't give the Indian move in to the operation EBITDA because you are right that it is different. But I think you can take it market confirm let's say, costing of these kind of the financial instruments and then do something like that to do that in comparison, if you want to.

Akash Gupta - *JPMorgan Chase & Co - Analyst*

Okay and the final one also Line for you is that you're giving the guidance on adjusted EBITDA. Could you give us a high level the below-the-line items in terms of any nonrecurring that we should expect or D&A, how much growth we should expect based on your capacity expansion plans and any color on tax rate for 2024?

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

So in one of we if you look at least the last three, four years on this, it's been very limited and directly associated with the restructuring program in Cologne, for example, that we conducted. And so we don't sit with anything at hand that we're planning and everything is kind of business in decided so for now nothing.

Akash Gupta - *JPMorgan Chase & Co - Analyst*

And on D&A and tax rate for 2024?

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

So you say what Texas?

Akash Gupta - *JPMorgan Chase & Co - Analyst*

I mean depreciation and amortization charge and the tax rate, any high-level view on how that should be in 2024 versus 2023?

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

Yeah, so you should expect a slight uptick on depreciation and amortization with the capacity programs being done online. And I think you can you can definitely use Q4 as a proxy for some of that on the taxes you should consider, I would say, an effective tax rate around 22% or something like that.

Akash Gupta - *JPMorgan Chase & Co - Analyst*

Thank you.

Operator

(Operator Instructions) Lars Topholm, Carnegie.

Lars Topholm - *Carnegie Investment Bank AB - Analyst*

Yes, thank you. Congrats also from me to a good quarter, I'm just a little bit confused about your comments on subcontractor revenue and mix from a margin perspective. So if we have a 2025 with revenue from Champlain and from SuedLink and we have a 2027 revenue, that does not contain subcontracted revenue of any magnitude and at the same time will be based on contracts one later than Champlain and SuedLink is your comment that we should not expect any margin uptick? I mean that must be a better product mix from a margin perspective. So I wonder if you can just enlighten me there?

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

It's a good question, Lars. I just want to correct, maybe if I misspoke before it's not so that we would not have any subcontracted revenue in the years to come. That has been then I misspoke around that. There is a natural component in the business we are doing whereby we do, as an example, both cable laying and burial by in-house assets, but there are also cases where we hire in subcontractors to do cable burial. There's also other ancillary scope like rock dumping and surveys, et cetera, that entity typically pay acquires from subcontractors.

So we will continue to have the subcontracted revenue also in the years to come and that's how our Power Solutions business is construed.

The message that we are bringing here today is that the amount in relative terms of subcontracted value this year is on proportionately high if you compared to what we can expect in the coming years. And that's driven as one example by the simple planned project.

And my comment before was that from when Daniel asked the question, all else equal, you should not expect a big margin impact from that unusually high subcontract value falling away in '25 and '26. So I was not considering whether legacy projects with one type of price level or recently one product with a different type of price level that was not contained into my answer.

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

(multiple speakers) And of course, the composition of those here is mostly out of the walls of the almost the last two years, which I think we have spoken to this demand supply could be in favor of the cable producers so that is really what we can have in production in doses available.

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

Was that clear enough Lars?

Lars Topholm - *Carnegie Investment Bank AB - Analyst*

Yeah, I was just worried you canceled any margin expansion post 2025, but that doesn't seem to be the case.

And then I have a second question more on the pricing environment right now. So contracts you bid for win now versus a year ago. Have you seen any further price inflation. And if you have, to what extent is that mainly a function of input cost inflation?

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

And I think my mind the discussion we have had last year when we compare pricing a couple of years ago to the current pricing. I think I used the words that it was on sustainable a couple of years ago and now we have come into sustainable environment from a pricing perspective. And we are remaining in our opinion and this sustainable pricing level. And then, of course, costs to the extent that they change of course, also this is something that we are bringing forward also in the prices to our customers.

Lars Topholm - *Carnegie Investment Bank AB - Analyst*

So surprise is now stable or still going up?

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

I think that's what I tried to say in a more complicated way.

Lars Topholm - *Carnegie Investment Bank AB - Analyst*

But didn't understand the answer please, sorry.

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

That's why I confirm it. So the prices, I think level compared to last year to what we see now is more or less stable.

Lars Topholm - *Carnegie Investment Bank AB - Analyst*

Okay, fantastic very clear. Thank you both of you for taking my questions.

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

Yeah, happy to do so thanks, Lars.

Operator

Thank you. There are no further questions at this time. I would like to hand back over to Claes Westerlind for closing remarks.

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

Thanks a lot. And again, as I started this telephone conference by thanking you for participating and also, well, not reiterating the messages other than that, we are exiting a year which confirms the trajectory that we are on. And I also want to extend my huge thanks to all the colleagues in NKT who worked very hard to achieve what we did last year. And as you can see NKT is that from a backlog perspective from an ambition level perspective to go in with that confidence into 2024. So with those words, thanks a lot everybody and looking forward to see you and hopefully in the next couple of weeks and months.