

NKT

Q4 Report

Wednesday, 24th February 2021

Presentation

Alexander Kara

President and CEO, NKT

Alexander Kara: Yeah, thank you. Good morning everybody. Thank you for your time to participate in our call, annual report, and Q4 data information. So we are happy to present today first NKT cable results, and then later Basil the CEO of Photonics will present the Photonics data. So we have here in the room at present Line, the CFO, Basil, and myself, and I will start with the presentation.

Orders

If we look at 2020, I think 2020 I would consider for NKT a successful year, a transition year. So if we look at orders received, we have EUR 2.3 billion orders received, five major orders in Europe supporting through the green transformation. And we expect that this trend on the green transformation in Europe, but also beyond Europe will continue in North America and also in Asia.

EBITDA

Our operational EBITDA in cables tripled from EUR 15 million to EUR 57 million. So this is at the upper end of the guidance also what we communicated to market earlier what we expect. And we delivered as our expectation. NKT Photonics had some challenges in the first half of the year.

But later in Q3 and Q4, we have seen some positive signs and some organic growth also in Q4. And Basil will come back to this in more detail. We were able to reduce our debt level and we closed the year 2020 with minus 0.4X positive free cash flow development. And we had some capital – successful capital increases with around EUR 260 million on net proceeds.

Earnings

So all in all, I consider 2020 as a successful, but a transition year. If we look at Q4, we improved our earnings in cable and all the three business clients contributed to the result. We have been also selected for one more offshore wind farm as the third supplier with a value of more than 250 million.

And this is not yet in the backlog. We have delivered on solution on the backlog and executed as planned. We have seen some negative impact in application due to COVID-19 on demand side, not on the supply side. But earnings despite lower revenues have improved compared to the same quarter in 2019.

Revenues

In service and accessories, we improved also. Organic growth in Q4 was 1%. But overall for the full year as you can see on the diagram, we improved revenues by 15%. And in absolute terms from EUR 15 million to EUR 57 million as indicated earlier and in the quarter from EUR 1 million to EUR 9 million.

Solution

Looking now on the individual business line, Solution as mentioned before we executed on the backlog and have an organic growth of 6%, and our vessel Victoria was busy with various

activities like more lease and so on. Overall execution in Solution was as expected. Looking at high voltage market. 2020, I would consider it was a good year for the entire cable industry, but also particular for NKT cable with five large orders, EUR 2.3 billion supporting the green transformation.

And the total orders worth in 2020 was around EUR 6 billion where we got the major share of it. Most of the projects which have been of orders with the DC technology and all the five projects what you see on the right side where we DC technology for with XLPE technology and one with optical grid project.

Tender

For this year, we expect that we are busy with tender work. And we expect volume to be of orders more than EUR 3 billion less than last year of EUR 6 billion, but EUR 6 billion last year was heavily impacted by the German corridor projects. And we are busy in all these areas. If you look at the order backlog, we have a record high order backlog of a little bit above EUR 3 billion relative to EUR 1.4 billion in 2019.

And we are active in execution on offshore wind, interconnector, and oil and gas in the various countries as listed here on the right side. Looking at the next applications, application we have some headwind on the demand side with COVID-19 was impacted us. And you can see the revenues have decreased compared to 2019 from EUR 92 million to EUR 84 million.

But despite of the decrease of the revenue, we could still improve the earnings from previous quarter in 2019 from minus 2.6 billion to 2.4 billion. So with the negative close, still we could compensate through to a better mix, cost efficiency, and production efficiency. So that the weaker market was mainly Sweden and Denmark.

And again it was the demand side. We have a successful rollout IT system in Eastern Europe. And this will help us also further in the future in transparency and driving efficiency. In service and accessories, we have grown 11% and revenue EUR 39 million, a good quarter in service. And we have also completed a repair job Skagerrak 1 and 2 which are interconnected between Denmark and Norway.

Service Agreement

And we have signed a new service agreement, one with Elia in Belgic and one with [inaudible] for the North [inaudible] interconnector. Overall we have improved the business in the growth in accessories mainly driven by the Middle East and also in Scandinavia. So we have very active since years on our climate programme.

And we have now a first cable supplier in Europe, signed up for the Science Based Targets. And we will continue this journey in reducing our CO2 footprint, the mission all our power cables are running on clean energy. And we are looking now how we can further improve our consumption by for example switching to biofuel and working continues to drive our CO2 emission down and be committed to 5% decrease year on year.

Scope 1&2

So we're working on Scope 1 and 2. Scope 1 is our own emission and Scope 2 is from the supply what we are buying, for example on the electricity. But we work also with our suppliers on Scope 3 how we can cooperate with them and reduce this, but at least it's a major part of the value chain if it comes to CO2 emission. So with this, I would like to

conclude the cables part. Overall good, and now I would give it to – hand over to Basil and he can give you some insights on the Photonics side.

Financial results overview

Basil Garabet

CFO, NKT

Basil Garabet: Thank you, Alex. Good morning, everyone. Glad to come after a good presentation from Alex on the improved results and cable doing fantastically. Hopefully, we will follow on that as we go along.

Growth

So on NKT Photonics, we continued the positive growth, organic growth in Q4 that we had seen the beginnings of in Q3 which shows a reversal in the fortunes of NKT Photonics. It comes really after a very challenging first half of the year. The first two quarters were not good. We got hit pretty hard by COVID. But this trend has reversed, we see that reversal going into 2021 into the positive areas that we had been experiencing before and hopefully move forward in the same levels that we were pre-pandemic.

We had a very good positive development in our medical life sciences. Despite the pandemic that has been moving quite nicely forward. It's also a nice business that the global trends in is moving in the right direction. In our industrial market, which comprises a number of different industries, we see the challenges in Q4.

We have done better, but there's still challenges, and there's still challenges that are going into 2021. Again mainly driven by COVID-19, and I'll go through it a little bit further in the next slide or so. The development in our Aerospace & Defence business was pretty much flat.

Flat

And again, a little bit disappointing to be flat, but again because of many projects that moved basically being presented as being hit by COVID. So they were delayed. We hope and see those projects happening in 2021. The EBITDA in Q4 even at 16.4% which is pretty good was much lower than it was in the same period in 2019 which was about 28%.

So we see that again hit by a number of different issues mainly the cost base that we had. We had built the company on higher growth. They had been somewhat of a less favourable customer mix. And we've had temporary year old inefficiencies which we have overcome at the moment, but they hit us hard in Q4.

Business development

Okay, so if we move to the next slide in business development, we are on slide 15 for everyone at the moment. You can see that part of the Medical & Life Sciences, that's a part that has been growing the best in our business at the moment. We've had solid growth. This solid growth continues with a number of different areas.

Ophthalmology

Main applications is in ophthalmology and medical devices are doing very well. Ophthalmology and things like cataract and various other procedures is moving really well.

And so is our bio-imaging and microscopy. Again despite the COVID-19 pandemic, all those areas have done remarkably well.

Industrial

The industrial segment as I said has been the main pain that we've basically experienced. And going forward, we see that easing up as we have seen in Q4 and as we see now going into 2021. And finally the Aerospace & Defence market had been relatively flat as we said. However, with our very large customers, we see improvement going into 2021. And with that, I will pass over to Line, our CFO. And thank you very much.

Financial results overview

Line Andrea Fandrup

CFO, NKT

Line Andrea Fandrup: Thank you. Yes, so taking us through the financials of the quarter and the year.

Revenue

Here on our income statement, the main elements to pick up here is the revenue growth. And if we start by looking at the full year for cable, you see a very nice revenue growth, up 15% for the full year, so a good recovery and staying with the recovery even noting here that the Photonics as Basil alluded to is coming to Q4 and getting into a growth mode again. So with the stabilisation of in Q3 and Q4, we're now into a better mode.

EBITDA

Going into the operational EBITDA, of course it's a good place to be to see that we are improving our operations EBITDA to the degree we do of doubling compared to last year, and this constitutes of both Cables and Photonics contributing positively in the quarter of Q4. And then looking into the – further down the line, so I think stopping at the EBITDA for the year, the \$49 million. And if you go further down, you'll see that we are getting to a net result of \$75 million for the full group of negative \$75 million.

And the main contributing factor this I would note also that our taxes is different compared to last year, very much related to the revenue recognition differences between IFRS and local tax accounting, but also the capitalisation of deferred tax assets, so an improved operational performance definitely, and a revenue growth that is a very nice thing on [inaudible].

Balance sheet

If you turn to the next slide going into a few of the highlights on the balance sheet. And on the working capital, I should say here that it's an unusual low also for 2020. We came in very low already in 2019. And now it's improving further. The next slide a little bit more on that. But then down to the return on capital employed which is improving also for the year, contributing from the improved earnings in the NKT.

Leverage

On the leverage level, we are at a very different place now compared to when we were earlier. And so the issuance of new shares and development in the working capital takes us at a very good level. So the debt right now is – the leverage ratio is at -0.4 times EBITDA. So flipping to the slide on working capital and just to give you a few insights to this.

It's very much related to the big backlog after the wins in 2020 that we saw and the prepayment. So I would also not expect this level to continue as you've seen before this is [inaudible] also, right. So in that sense, Q4 came out very nice for NKT. And then slip into the cash flow statement where we start at the bottom of the table here for Q4.

Cash flow

So the net cash flow of EUR 232 million is very much of course impacted by the additions of new shares last year. And then going off further, you see the improved earnings also turning into a positive cash flow for operations this year. And then you also should know here that now we're – we've ramped up activity around our investments.

So our Capex is increasing. And you'll see even more of that in 2021. If we then go to the next slide, it's our leverage ratio. And here you of course see the investment of – sorry not the investment, the impact of the issuance of the new shares. And right now to say we had the total available liquidity reserves of EUR 536 million in this year, in 2020.

And that consisted of cash of EUR 239 million and ongoing credit facilities of EUR 297 million. And just to note that of course 2021 is a year of peak in business within the cables business. So this will of course change our cash position leading off it. If you turn to the next slide, here we have the financial outlook for the year.

We are reconfirming our guidance for the year on the cables you can see. And of the EUR 1.1 billion to EUR 1.2 billion revenues and operational EBITDA margin of EUR 80 million to EUR 100 million. So we expect to continue to grow and also certainly improve our operational performance.

Photonics

And when we look at Photonics just to remind you that the – of course 2020 has been the year of fluctuating performance. We still go in with some uncertainty for 2021 not knowing exactly how COVID will impact us. But despite, we see a stabilisation in 2020. And of course in our guidance for the year build in that revenue growth of 0% to 10%.

And looking at the EBITDA margin at 3% to 7%. And noting on this that we have included a restructuring cost of around EUR 1.5 million related to FTE reductions in the business. So therefore you see this level, but this will of course pan out into an improved performance going beyond 2021.

Concluding thoughts

So if to close this presentation, and over to the questions on the key messages of 2020. It's a record high order intake. And NKT is very well positioned within the global trend of the green transformation. So that's a very positive note on [inaudible] of 2020. We're improving our operational EBITDA, more than tripling NKT performance, contribution – a strong contribution from all business lines.

We are landing in the upper end of our guidance on EBITDA. And looking to Photonics, a challenging 2020 but good to see the recovery in the Q3 and Q4. And finally also that we changed our whole capital structure. And we now have a stronger balance sheet and a much lower debt level and a positive free cash flow contribution. And so by that, we will leave it over to question and answers.

Q&A

Alexander Kara: Operator, we are ready to take questions and answers please.

Operator: Thank you. Ladies and gentlemen if you wish to ask a question, please press star one on your telephone. We have a couple of questions lining up at the moment. Your first comes from the line of Artem Tokarenko of Credit Suisse. Please ask your question.

Artem Tokarenko (Credit Suisse): Yes, good morning everyone. Thank you very much for taking my questions. My first question is around Solutions margin in Q4. Can you maybe elaborate a little bit about the drivers of weak margins, and maybe confirm whether you're seeing any cost overruns on projects or maybe project delivery delays?

And also if the margin weakness is driven by just delivery of – the [inaudible] of weaker margin projects from the backlog, how much of a headwind or for how long that headwind could continue in 2021?

Alexander Kara: I mean we executed the backlog and the revenue recognition is of course of depends on the project which we execute just in this quarter. So we expect that margin obviously to improve going forward in 2020 before that – otherwise we could – therefore we guided also on the values of EUR 80 to EUR 110 million for next year.

So it's a little bit weaker if you want to say so the quarter, but in Q4, but overall better than the year before. So there were – we have no, I mean no major delays in projects. In some we have, but not substantial, so yeah.

Artem Tokarenko: Okay and just to confirm you haven't had any cost overruns in Q4?

Alexander Kara: No, we have – I mean we have – we don't comment on specific projects. Obviously, you have some projects where you improve the results and some were – you may have some challenges. But no overruns, no major issues to report.

Artem Tokarenko: Okay, thank you very much. And my second question is also on Solutions margin. Could you maybe give us some colour on how much better margins in the backlog for 2021? And also thinking about your outlook for cables of EUR 80 million to EUR 110 million. Could you maybe confirm whether with current backlog you have the lower end of that guidance already secured?

Alexander Kara: I mean with the orders which we're taking in and with the better demand and supply base, the margin situation improves also. And but we have still some project with a weaker margin in the backlog which we are phasing out. So we expect that this improves now in 2021.

Artem Tokarenko: Okay, but I guess in terms of the group outlook – the cables outlook, could you confirm that the lower end of that outlook is already secured in your backlog?

Alexander Kara: Yeah, I mean as we said, we were quite successful last year with 2.3 billion. This year we expect the market over more than 3 billion, and we are active in all segments, interconnectors, offshore wind, and oil and gas, and we expect to win our share of the orders, which are out.

So the timing of this large project cannot cause a worry, but we expect to win some orders. And we also can take some orders particularly to improve the mix in the factory on the three-core AC cable side.

Artem Tokarenko: Okay thank you. But I guess just to elaborate a bit more on your EBITDA outlook for 2021, what are the major sort of swing factors determining whether you will end up in the lower or the higher end of your outlook?

Alexander Kara: Yeah, on the higher end, we need to execute the orders, which we have in the backlog flawless without any execution issues. And so we – what we need to also to secure one or the other order as just mentioned particularly on the three-core AC side to have a better mix in the factory.

This will contribute towards the higher end. And then on the application side, we have improved from 19 to 20 from around zero million EBITDA to EUR 14.5 million. We plan to continue this journey to further improve the result on the application side, this higher factory output, more efficiency, cost consciousness, and be more selective on orders.

So this, we need to continue. And then on the service and accessory side, well we need to get some offshore repairs in 2021 and continue also our performance on the accessory side. So if that all and [inaudible] then we will move towards the higher end. And if not materialise, then it will be rather on the lower side.

Artem Tokarenko: Okay, understood. Thank you very much. And my last question is about your outlook for the market of EUR 3 billion in high voltage segment. I guess could you maybe talk a little bit about the phasing of those projects? Are there any bigger projects for you to win in Q1 or Q2 or the phasing will be more H2 weighted this year?

And also secondly what are your underlying assumptions for interconnectors within that EUR 3 billion market estimates? And maybe you could name any particular projects you include in that estimate? Thank you.

Alexander Kara: I mean, if you look at this year, there is in UK [inaudible] with we're talking 9 to 12 gigawatts. So this will happen towards the end of the year, potentially could even slip into next year. That is a bigger event. Then we have several interconnectors, three interconnectors. And here it's difficult to predict really from the timing point of view how they materialise because there are so many aspects which are relevant and those projects are well known.

I can also mention and it's North Connect [inaudible] and North Connect. These are the three, so that's exactly what is the timing and will one or the other even potentially move into the next year, it is difficult to say.

Artem Tokarenko: Thank you very much.

Operator: Thank you. Your next question today comes from line of Claus Almer of Nordea. Please ask your question.

Claus Almer (Nordea): Thank you. Yeah, I also have a few questions. The first will also go to the cable division. What about the pipeline outside Europe? Should we expect one or two or maybe even more projects outside Europe to be announced? That would be the first question.

Alexander Kara: I mean there's a project outside of Europe in North America, offshore wind and interconnector. And we also attend on those projects, and there's also projects in Asia which we are also active. So again here the same applies like for Europe, the timing can vary and when they will exactly happen particularly on every one of these projects.

Claus Almer: And do you need to make some more performance bonds or those securities when you are active outside Europe or is that just a normal project for NKT?

Alexander Kara: That's normal project where you have your performance bond, your different bonds. There's nothing specific where you have higher bonding requirements in projects outside of Europe.

Claus Almer: Okay. And then as to pricing in past calls, Alexander you have mentioned – let's just call it a positive pricing trend. Is that still the case or maybe you can put some more colour to how the pricing environment is at the moment?

Alexander Kara: Yeah, I can say overall the utilisation has increased in the cable industry, which is very positive for the whole industry. And we have – we had a good success rate last year. So we can be more selective. And I guess also in the industry, the higher utilisation logically will result in more discipline on the pricing side. So I would confirm that, yes.

Claus Almer: That sounds good. And then a question regarding Photonics. Basil in giving the guidance for 2021 even looking at the high end of the range on the EBITDA level, it is not that much higher in F2 terms at least than what you achieved in Q4 2020? So maybe you could put some more colour to why you're not more optimistic about – yeah the 2021, even in the high end of the guidance?

Basil Garabet: Okay, yeah thanks Claus. I think if you look at 2020 – if you look at Q4, Q4 is always our largest quarter. A lot of what we ship goes out in Q4. Actually a lot of what we ship goes out in December of Q4. And hence you saw the 16.4% EBITDA number. That is really if you look at our past performance at the top end of every year.

So Q4 is always a good year. So you can't really compare Q4 with the full year going forward. 2021 for us is a year that we are readjusting the company. We're looking at our core business. There are some one-offs that Line mentioned in her talk that will affect us in 2021. What we're doing really is building the company for the type of growth and the type of EBITDA levels that we had before.

So going into 2022 that's what we're building the top company for in 2021. So you should see again the double-digit growth in topline and organic growth. And you should see EBITDA levels starting to hit the 20 plus percent that we've always been forecasting in the past. And I should see COVID as basically hit us and knocked us sideways.

And we're going back on the path by essentially concentrating on our core business and readjusting the company to do so.

Claus Almer: Right, so the reason why I mentioned Q4 is I know you are always doing a great job in Q4. Hopefully you will do the same in Q4 2021. But it seems like the first three quarters of the year, we're not sure a lot of profitability if any. Is that the way we should think about 2021?

Basil Garabet: No, I think what we're saying is we should be cautiously optimistic. So the business looks much better and we are doing better. And we're doing better in Q1. In fact we're doing better in Q1 than we have in any other Q1 before. If we still have COVID and that's the wildcard. That's the joker in the deck.

I would be a very brave man Claus if I would so be highly optimistic considering that we should have two more quarters at least or maybe three more quarters of COVID. So I mean I think that's the cautious optimism you see, but there's also conservatism there to move forward.

Claus Almer: Fair point, then I'm sorry.

Basil Garabet: I don't like to overshoot on this one.

Claus Almer: That's a fair point. And about the order intake, I think it was in the report that the growth in the order intake between Q3 and Q4 has been quite substantial. Can you put some numbers or more colour to how the backlog looks going into 2021? That will be my last question.

Basil Garabet: We don't report on that in exact numbers because it varies so much. And we own so many different industries and what gets pushed out and gets pulled in. And it will be just a mixed bag and you'll have some quarters of very high and some quarters very low. So it's almost nonsensical to report on a quarterly level.

All I can say is getting into the year, the business looks good. Our backlog looks good. It looks much better than the start of many years. But we're being cautiously optimistic.

Claus Almer: Okay, thanks a lot, Basil.

Basil Garabet: Okay, thanks Claus.

Operator: Thank you. Your next question today comes from the line of Kristian Johansen of Danske Bank. Please ask your question.

Kristian Johansen (Danske Bank): Yeah, thank you. So two questions from me. First one is on application. And whether you can elaborate a bit on this minus 8% organic growth in Q4? And how it does relate to the pandemic and also how it differentiates between low-voltage and medium voltage?

Alexander Kara: Thanks for the question, Kristian. First of all on the COVID-19 side, we are fine on the manufacturing side and also on the supply chain. But we have seen really that some countries had a weaker demand like Sweden, UK, also building wires to a certain extent. So it's difficult to predict how this will continue or not continue in Q1.

We – despite the lower revenues and the negative organic growth we still could improve our earnings. So with our actions to improve the profitability, we are on track. And so for that considering that if the demand come back, we assume that we will continue on the improvement. So we are not concerned on that fact.

But this is a path which is difficult to influence. Of course we try to compensate with other companies, with other customers. But that was limited possible in Q4.

Kristian Johansen: I understand. So just to clarify, so it's primarily the low voltage segment than the construction demand, which is creating the headwind in Q4? Is that how we should understand it?

Alexander Kara: Yeah you can say, so it's building wires is one area. And then we see also a little bit impact here that is not [inaudible]. It's COVID-19 on the utility side in Sweden with – that's more a regulatory thing, but it's a lower demand. So and but it's – we will see how that will continue or will not continue.

It's too early to say. We're now just in February, mid-February. And so I can also not comment on the Q1.

Kristian Johansen: Great, understood. Then the same question is on NKT Photonics, and the cost ramp up and the cost adjustments. So in Q4, you say that you are increasing cost to prepare for future growth and now you are also talking about some redundancy costs. So perhaps can you maybe just elaborate a bit on how you balance this current challenge on your probability versus what sounds like a firm expectation that once that will normalise, the growth potential is there and you still need to ramp up?

Basil Garabet: Okay, we did not increase costs in Q4. The costs had been there in the complete year. So we did not adjust the cost increase in Q4. But we – being a growth company and in high tech, we have looked forward and increased our cost base with the expectation as is prior to the pandemic that we will have higher growth.

And hence when the pandemic hit, it knocked us sideways or slightly backwards. But we had already built in the cost that we had. And so that affected us in the year. And obviously to adjust and to adjust to the changing business and to the new realities out there and the different paths that our markets take.

Remember, we have a number of different markets so each one is going at a different pace. To adjust to it, and to adjust to the new reality and to keep the increase we have to sort of reorganise the company. And that is being, it was – it is being done in Q1 going forward. And we'll see – we should see obviously that one-off costs that will hit us.

And we should see again going back to positive growth, both on EBITDA and topline going forward. I mean that's our – like I said our cautious optimism looking forward.

Kristian Johansen: And where exactly is it that you're taking cost out? Could you be more specific on that?

Basil Garabet: It's everything. We're looking at working capital. We're looking at headcount cost. We're looking at readjustment, and reorganisation, looking at the priorities that changed. So it's not one. There's many, many levers in here. As I said before, we operate in completely different markets.

So some markets are not moving at all. Some are moving backwards and some are actually doing exceedingly well. So we are concentrating and reconcentrating our efforts, both commercial, engineering, manufacturing, on the core business and on where we are doing

well. So it's not – there wasn't one lever. There are many, many levers in that that we're using.

Kristian Johansen: That's understood. Very clear. That was all from me, thank you.

Operator: Thank you. Ladies and gentlemen once again as a reminder, it's star and one if you wish to ask a question. At the moment, we do have three more questions. Your next question comes from the line of Akash Gupta of JP Morgan. Please ask your question.

Akash Gupta (JP Morgan): Good morning, everybody and thanks for your time. I have a few questions as well. And I'll ask one at a time. My first question is about Solutions business. So if you look at 2020 performance, then I would say that quarterly performance has been a bit volatile. And the question I have for you is that when we look at 2021, can you comment on phasing of your backlog that how you expect H1 versus H2 on both revenues and margin?

Alexander Kara: So 2021, I mean the quarter is I would say we have particularly in the first half still in my project [inaudible] and Viking in it, so that showed a positive impact in the quarter. And overall it really depends on which project we have in the backlog and which we executed, and what we will see.

But we don't guide here now on Q1. So it's clear that solutions needs to pick up in order that we deliver in the guidance which we gave EUR 80 million to EUR 110 million.

Akash Gupta: Thank you. And my second question is on this offshore wind growth. So if you look at the forecast from third party, a significant growth will be coming outside of Europe. And we see some of your – some of your competitors are either working on or contemplating plan to have a manufacturing footprint outside of Europe.

So maybe on a five-year view, do you have any such projects lined up? And then the question is also like how much of this growth outside of Europe can you address with your footprint – existing footprint in Europe?

Alexander Kara: So at the moment, we are on the implementation phase of the expansion of the Karlskrona and Cologne factory, and with this, we have good cover. And we can also serve out of Europe, North American market, and also we can also deliver towards Asia. So at the moment, we have implemented investment which is ongoing.

Akash Gupta: Thank you. And the next question is on portfolio. I mean if I look at applications business and size of that business compared to some of your other competitors in listed ones, where basically they use application equivalent business to generate cash flow and use that cash flow to fund growth in projects.

And clearly compared to these players, your application business is quite subscale and you have a very big project business. So if you look at current portfolio and yeah, what was your thought on application business like how core is that business? And let's say if you get a good price, then could we see you might exit that business and becoming more of a pure playing in solutions?

Alexander Kara: No, we're not considering to exit the applications business. We are working here on improvements also on the cash side to generate positive cash flow from applications.

We have some good improvement from 19 to 20 from 0 to 14.5 in EBITDA. So and we plan to continue this in 2021. So there's no plans to divest here anything.

Akash Gupta: Thank you. And my final question is on medium-term EBITDA margin target of 10% to 14%. And can you tell us a rough estimate of depreciation and amortisation that would be in the medium term, so we can back out operating margin implied by this EBITDA margin target?

Line Andrea Fandrup: And I think what – how you can look at this cash would be that we say that before we started the big expansion, we were at [inaudible] investment even of around EUR 50 million to EUR 60 million, and now we're expanding in the next coming year. And then we will come back to normal level being a bigger company also. Then I think you probably have some metrics to get that into a depreciation in for the medium term particularly.

Akash Gupta: Thank you.

Operator: Thank you, ladies and gentlemen. Your next question today comes from the line of Casper Blom of ABG. Please ask your question.

Casper Blom (ABG): Thank you very much. My first question goes to the working capital. You mentioned Line that right now it's probably at an unusually low level. Could you give any kind of flavour to how you expect it to develop during 2021 obviously depending on order inflow and prepayments.

But still if you could get any kind of help to what the setback we might see on the working capital side in 2021? Second question, following up a little bit on the previous one regarding Capex. If you could just confirm that things are going as expected with the capacity expansions within the cable business.

And also if you could give any guidance towards the EUR 150 million of expansion expenses, how much has been consumed, how much do you expect to use more in 2021. And if any, how much in 2022? And then my third question to Basil, there was a deal in your space here earlier this year with Lumentum acquiring Coherent, obviously Coherent being a somewhat larger company than Photonics.

But are there any read-through that you find relevant for Photonics in such a deal? And also when it comes to valuations here or is it something else than what you're involved in? Thank you.

Line Andrea Fandrup: Okay so three good questions, so thank you. So starting off with the working capital position. I think you should take a note of course that we say this is an unusually low. And it is due to a lot of wins and the wins also in 2021 will be the major thing in making the working capital development right.

So I think you know by now that we're a preferred supplier for one project, but besides that, everything depends. We are engaged in many tenders across and this eventually the wins and the terms and conditions of the project will define that. So I think not being – not giving any numbers, you should look a bit at the pattern of our history, right.

And then the expectations to wins, I think that's the closest I get to that for the solutions business which is [inaudible]. Then on the Capex part, you're clearly right, and we are

expanding now between factories in Cologne and it's a big project ongoing. We saw by in Q1 here that our Capex level went up, and I think we were earlier communicating to do that.

The major part investment is in 2021. So definitely here you will see a high level and some of it also will pan into 2022 before we finish the Swedish factory. We're doing well on the expansions, absolutely. And I think that's actually how you should think about the investment level of 2021 and 2022 to be finalised. Yes, I think then over to Basil on the last question.

Basil Garabet: Okay, I think it was somewhat of an open question. So Lumentum hasn't bought Coherent. Lumentum put an offer for Coherent which then got – then Coherent got a better offer from MKS. And then they got a third even better offer from II-VI. So what that tells you really is that the market's pretty hot in M&A in our industry.

The multiples are very high. The companies that have announced results similar to what we have and seen a return to favourable growth especially in the second half of the year. And they see positive growth in the industry in general in 2021. I would say a lot of them are saying the same as we did that there's cautious optimism going forward.

Obviously there – that from the multiples that you see from those Photonics companies, there is a lot of excitement in the market. And there is a lot of movement in M&A. And I think you'll see much more going forward. I'm not sure what you were trying to get as an answer from me on [inaudible].

Casper Blom: No, I was basically looking to hear your view is if you think that there is anything fundamentally different from a Coherent to your business, that would suggest another type of multiple or if you would – if you find that would also be a relevant multiple to look at if Photonics were to be taken over by someone else?

Basil Garabet: Okay, yes. Now I understand. Well we're very similar in what we do to Coherent. It's – even though it's much, much larger company than us and has been going since 1966. So it's quite long in the tool passage, but we're very similar to Coherent. We're very similar to the Photonics side of MKS.

We're very similar to what II-VI do. And probably more similar to companies like nLIGHT. So if you follow nLIGHT's results and multiples, we're in that type of league. So I don't see us any different. As for multiples we have not looked at that. This is – it's – we're part of NKT. So it's – we don't look at the separate multiples for Photonics as such.

Casper Blom: That's absolutely fair. So can you give any update to how things are progressing with your previous comment about potentially divesting a non-core part of the business?

Basil Garabet: Yeah, that's a small non-core part of our business and we're still looking at the opportunity of divesting that.

Casper Blom: But is there also appetite in the current market environment?

Basil Garabet: Is there appetite on that non-core business?

Casper Blom: Yeah, from bidders.

Basil Garabet: Oh yeah, absolutely, absolutely. Yeah, it's not exactly and totally in the Photonics market as such. It's a side market. And as I said, one of the things that we do

concentrate on going forward is our core business. And our core business is the business that if you have to sort of look at it from a different point of view is the most successful.

It's also the part that is a – basically elicits the most excitement from the market. This is really non-core to what we're doing at the moment.

Casper Blom: Okay, that's fair. Thanks for that flavour, Basil and thanks Line for your answers also.

Basil Garabet: Thank you.

Operator: Thank you. Ladies and gentlemen, we do have one more question on line. This comes from the line of Artem Tokarenko of Credit Suisse again. Please ask the question. Your line is now open.

Artem Tokarenko: Thank you very much for taking my follow-up. My first one is around the low margin projects. In Solutions you mentioned that execution of those will continue in 2021. So could you maybe let us know when you expect to finalise all those projects?

Alexander Kara: So I'm not sure when I talked about low margin, I said we had some in the past projects which have been average. And we are phasing them out. And as we get more project in with higher margin, this has a positive impact, so [inaudible] more specific.

Artem Tokarenko: All right, thank you. My second question is around NKT Victoria. I think your competitors have just recently delivered new ships. I guess a question to you, how do you see the competitive position of NKT Victoria in the current market? And what's the likelihood that you will need to make new investments into maybe a newer boat in the space of the next two to three years?

Alexander Kara: Now the NKT Victoria is still a very new vessel and a state-of-the-art vessel with a lot of features, and which is absolutely suitable to deliver current projects. And so we are not planning here any further investments on the vessel side. Also we need to consider that if you would need more capacity, there's also third party vessels on the market which we could take in as on a sub-contract basis for specific jobs.

So there's several installers which have cable-laying vessels. And we could reach out to them in case the Victoria would be occupied with certain jobs. So there is no need for – with the current size and even with the size on the expansion to go beyond and invest in a new vessel.

Artem Tokarenko: Understood, thank you. And my last question is about industrial markets in Photonics. Could you maybe talk a little bit about which specific areas of industrial markets are causing the weakness at the moment? And also considering that as you mentioned some of your peers have already started seeing relatively sharp recovery in Q4, what's your typical lag to maybe industrial production and those peers?

Basil Garabet: Yeah. So our industrial market is a basket of a number of different markets. The part of our – the industrial market that is associated with the semiconductor industry is for instance doing very well for us. And it's also doing very well with our competitors and peers. So that market is advancing.

Anything to do with quantum, whether it's quantum communications, quantum computing, cryptography, banking et cetera is doing very well. There's a lot of investment from different

governments especially China and the US and now to a lesser extent in Europe in quantum technology. So anything to do with that is doing very well.

The parts that are a little bit lagging behind is R&D business, research and development with a number of different areas mainly because of COVID, mainly because most institutions are still closed. Most universities are closed. Most research establishments are still closed or working at a very reduced capacity.

So a lot of the market which is also highly profitable for us is slow and will continue being slow in Q1 and Q2 this year because of COVID. So that's the lag. And I think if you sit and analyse our peers and competitors, you'll see that market there doing a little bit worse. The industrial manufacturing market, it really depends on geography.

So our market in China was doing for instance really badly at the beginning of 2020. It's recovered nicely in the second half of 2020. And it looks like it's recovering really well into 2021. So China is going back to more positive growth. It's always been positive, but even more positive growth going forward.

However, industrial markets, anything to do with manufacturing or alternative manufacturing, different kinds of manufacturing in Europe and in the US are lagging behind. And that again is very much pandemic-driven. It's very much driven by the economy, and what will happen after the pandemic.

So there is not one single market that we are in industrial that is just pointing in one way. It's a basket.

Artem Tokarenko: Understood. Thank you very much.

Operator: Thank you. It appears there are no further questions at this time. Please continue.

Alexander Kara: So if there's no further question, then I would like to thank you once more for participating in the call and for the good questions. I always appreciate it. Wish you all a good day and talk to you soon.

[END OF TRANSCRIPT]