

NKST

**Rights Issue Update
Conference Call**

Thursday, 19 November 2020

Group Highlights

Alexander Kara

President and Chief Executive Officer, NKT A/S

Roadmap of Recent Development

Transformation 2016-2017

Good morning, everybody. I'm just going to introduce – I'm the CEO of NKT A/S. Thanks that you take the time to listen to our update on the rights issue. And I have here in the room with me our CFO, Line Andrea Fandrup, and also Michael Nass Nielsen, Head of Investor Relations and Treasury.

So, just going to an overview on the roadmap of NKT and recent developments over the last years. If you look back between 2016 and 2017, there were – one key milestone where NKT acquired ABB high-voltage cables, which – with this acquisition, they acquired also the technology of the DC cables, which is today key for the growth in the renewable market, so there are the two acquisitions on Photonics. Also in this year 2016-17, we had the demerger of Nilfisk and so that the Company could focus on the power cables and photonics, and there were some smaller divestments in certain areas.

Challenging market 2017-2018

From 2017 to 2018, there were some challenging market conditions. Projects have been postponed and lots of orders. And as a consequence, we have seen very low earnings in the year 2019. In '18 then, second half, we were successful in getting awards of around €800 – more than €800 million on projects like [inaudible], Ostwind, [inaudible] and so on. And during that time, '17 and '18, we have also a good growth on Photonics.

Stabilisation 2019 – H1 2020

'19 – 2019 and first year 2020, we could further increase our order intake – over €750 million in 2019 and then with the German corridor project, which – in which we have several – very successful of more €1.5 billion in the second quarter 2020.

As a consequence of these large orders, we did a capital increase in May, over €93 million to – to strengthen our financial position as the first step. And today we announce the second step.

Also, during this period, the management has changed. Line has joined, but also in my management team there are several new team members.

Today H2 2020 onwards

Today, in the second half of 2020, we have further increased our order backlog to a record high number of €3.1 billion, and – which is the highest ever. And in Photonics, unfortunately due to the COVID-19 situation, the market situation, we resume the strategic review.

As a consequence of the high order intake and the need for a capital – for investing in strategic extension, we found it prudent to strengthen our balance sheet.

Background for Strengthening the Capital Base

Attractive opportunities

Going to the next slide, here's the background [inaudible] the key elements are really – is the market is – I perceive the outlook is good. The projects are becoming bigger, and with this also, to a certain extent, the cash flow is more volatile, lumpy. And also, of course, with the large projects, the risks are going up, so it's prudent to have a stronger balance sheet. So, that was one main reason; further, in order to execute the large project – the corridor project, but also new orders which we expect that we need to invest in expansion there – the factory in Karlskrona and Cologne. And that's what we are – we'll do with these proceeds, what we will get through this rights issue.

COVID-19 impact

And we have, of course, unfortunately still uncertainty over the COVID-19 in the market with the second wave, which has a big impact to the entire society. But as I have to say, we at NKT have limited impact. But Photonics has a more severe impact due to COVID-19; they deliver globally.

Summary Overview

Business description

Going to the next slide, overview of NKT, NKT consists of two parts: NKT cables, NKT Photonics, although the focus today is on NKT cables, as the rights issue is for strengthening NKT. So, NKT is – we are really in the face of the green transformation. And with our product solutions, we will contribute to the CO₂ reduction, which I consider as one of the key challenges of this century, to limit the climate impact. So, you see also, on the bottom, our revenues over the last 12 months, around €1.1 billion internal recognised and around €50 million operational EBITDA. And then on the right, you see Photonics, who's active in the high-end fibre-based photonic components. And here, organic growth and acquisition is the main key topic.

Going to the next slide, the business in cables consist out of three business lines. Solutions, where we have the high-voltage projects, off-shore interconnectors, oil and gas is the biology of the revenues. Then we have Applications business, with medium-voltage and low-voltage cables and building wires and telecom, is around 37%; and Service and Accessories, which is the smallest portion with around 12%.

In Photonics, we have three segments: Medical and Life Science; and Aerospace and Defence – those are – which are growing fastest, but as I say are the smallest; and then we have the Industrial segment of Photonics.

Strategic Initiatives

Solutions

Going to the next, strategic initiatives, if you look at Solutions, key is obvious that we utilise the assets, what we have in Karlskrona and Cologne to the maximum extent, to an optimum product mix, keep it – maintain a technology leadership and improve execution and production. So Solutions, we grow and we control that also and start already to improve the margin.

Applications

Applications, it's all about efficiency – planning sales and operations for our portfolio, factory efficiency and several other initiatives to improve the margins, where I think this year we were – done the first steps to improve from last year.

Service and Accessories

And Service and Accessories, it's – we grow. We've grown in new markets, and we also have strengthened our portfolio and optimised our cost base.

NKT Photonics

Photonics, the focus is on growth, which will come back. Actually, we turned back to organic growth of 3% in Q3, but we need to see that – what will be at a more normalised level after the COVID-19 is behind us. So, growing is the goal and also here with margin potential.

Sustainability

If you look at the next slide, how NKT contributes to sustainability and to megatrends, we have here, on the number one, the large project, off-shore wind is a megatrend, interconnectors, where we are very active on the technology side. We have been successful with the corridor project, the first site on a 25 DC, a land interconnector which is a milestone, a new – a new area. And then we have on the other side here also the trend to more electrical cars. And then you have the chargers and obviously you need to have cable to the charging station in order to charge the cars. And it's a – we're growing volume on cables – power cables. Also, the demand for Service and Accessories will go up. And in photonics, we have a fast-growing – or expect a fast-growing business in the fibre-optic laser technology.

Organisation – we have a new organisation. I just mentioned before, Line has joined, but also in my management team I have some new colleagues there. And we are now committed to work further to deliver on our promises and to our sustainability targets.

Investment into Sustainable Energy Solutions

Reduce greenhouse emissions

The good part is all our Company – the Company is supported by global initiatives from the European Commission. There will be huge investments in renewable energy to reduce the greenhouse emissions by around 55% in 2030 and then 100% in two – 2050. This will trigger huge investments on offshore wind sites. And you can see on the slide here from 2022, from 25 gigawatts to 2030, 228 gigawatts at nine times, and then again 4.5 times to around 1,000 gigawatts. That's massive expansion of offshore wind which is in the pipeline.

Renovation of existing building stock

And then we have also investments in renovation of existing buildings, meaning also potentially putting solar panels on the roof, heat pumps to get rid of oil heating and electrical chargers.

So, there is also a trend and reason to increase also from 1% to around 3% in order to meet the target – the climate target goals of the European Commission. So, good momentum here to support the business.

High-Voltage Order Backlog

Double historical levels

If you go to the next slide, you see how the backlog has developed. And as I mentioned earlier, we have increased the backlog to €3.1 billion. Roughly this is 4.9 times the revenues of Solutions over 12 months which is a massive increase, as you can see, compared to previous quarters. And here you see also the quarterly revenues on Solutions, which is expected to go up, going forwards.

Notable order wins

Key orders received this year were Attica-Crete, which then came with MI technology; in Shetland, the interconnector in Scotland from the main island to Shetland; BorWin5 wind farm and then SuedOstLink and SuedLink as a part of the German corridor project – so, some nice orders.

Structural Drivers Will Drive Growth and Demand for LV and MV Power Cables

Building renovation

Looking on the next slide on the low-voltage, medium-voltage cables, there will be investment also in again the buildings – the upgrades of buildings to improve the efficiency.

Urbanisation

There's a trend to the urbanisation; more and more people live in urban areas and always need to be kept electrified using mainly cables, also from the acceptance point of view.

Grid

And then further, the electricity grid with all the changes in the – you will need to get upgrades – upgraded, as it will be not changed only on the transmission level, but also on the sub-transmission and medium-voltage level.

And last but not least, also the equipment in the grid. Aged equipment needs to get replaced. And as an example, we have recently replaced [inaudible] cable from 1930s – 1973 by a new cable, as it has – is – reaches the end of the lifetime.

Electric vehicles

The other megatrend is the electrical vehicles where it's more and more coming, and there's a lot of – a million charging points planned until 2025, and this is – also needs a lot of cabling in the cities in order to be able to charge the cars.

So, with this, I would like to hand over to the Financial Highlights, to Line.

Financial Highlights

Line Andrea Fandrup

Chief Financial Officer, NKT A/S

NKT A/S Financial Performance

Overview

Thank you very much, Alex. So, the next seven slides or so is a little bit of looking at the strong performance of NKT and a bit – different business lines, as well as Photonics. And

then we look ahead into how our outlook looks for – and how it happens and what Alex touched upon with the nice developments and megatrends around us.

Revenue and operational EBITDA development

So, if you look at the first financial slide 16, the overall Group performance is a combination of both Photonics and the cables you have here. So, if you start looking at the revenue development there, it is obvious if you look at the small rings, in the red and the blue above the stacks, that from '17 and ahead, Photonics until this year has had a very nice growth actually. And that also panned out to some margins that were very nice and [inaudible]. And then unfortunately, as other companies, Photonics is impacted by the COVID this year, and therefore we see the growth decline on the revenue side of things.

And then when you look at the cables part, we had some nice growth coming into – to '17 under revenue, and '18 and then '19 that had a [inaudible] and a shortfall due to the lack of orders that were simply won over this period of time. And that panned also into the earnings at the – the lower end of the graph here, where you see the negative effect of the fewer projects and lack of utilisation in the factories.

What we're seeing now in 2020 – and if you look at the last one, it is an upward trend, especially on the cables. So, you see the larger order intake, and you see some of the – you see the execution of the orders over the [inaudible], which is giving a 19% growth for NKT cables alone. And you also see the earnings here increasing with that high utilisation.

Segment Split

Revenue and operational EBITDA by segment

If you flip to the next slide, going in and looking on the segments that Alex also talked about, so it is – it's, as you know, a varying business in terms of contribution of revenue and associated operational EBITDA.

For the Solutions business, which is the major part of the cables, there is a – it's a clear strong link between the revenue part and the contribution into the EBITDA. What you see on the Applications business here – the orange – is the large top line and then the lower margin business that corresponds to the lower end of our EBITDA levels.

Both Services and Accessories and Photonics here have a good margin over the revenue generated there. But that's kind of how the development of [inaudible] closed.

Solutions: Key Financials

If you go to the next slide, the Photonics ones will be more of a deep dive into each of the business lines and Photonics here and a bit on the history.

High-voltage order backlog

Furthest to the left, you have the high-voltage order backlog in [inaudible]. And here, you see the nice optic that Alex talked upon in full.

Revenue

When you then go to middle one, the revenue, that is in standard [inaudible]. And here you see exactly the development of the revenue shortage in '18 and then the shortcoming in '19, but where you also see the pickup here very nicely at 35% due to the high-voltage orders that is supporting the green transformation across Europe.

Operational EBITDA

Going to the operational EBITDA, you then see the – the margins of the projects we had in '18 and the short-coming in '19, of course impacting the overall levels compared to 2017. But you also see that there is a pickup in 2020 related to the – to the projects we won, the better utilisation and execution of these. And this is the – as you'll see later in the outlooks also – what we expect to continue ahead, and we have our close attention to that.

Applications: Key Financials*Revenue*

Going to the next one, a bit on Applications here. Applications are around €400 million on revenue going into '18, a shortfall in '19. And then you see the growth here in 2020, which I would say in spite of COVID. Actually, our spring turned out favourable in terms of not a material impact from COVID. Now, we are in the – at the end of the year, and more businesses are impacted by COVID, so we're kind of waiting in this second round to see that the – what kind of market developments will – will come from this.

Operational EBITDA

If you then look at the operational EBITDA with the same time horizon, we were at 5.8% EBITDA margin in 2017. And then due to market circumstances, we fell very short; and I would also say in '19. And some of you were probably here in that point in time. Complexities and – around our organisation and how we run our plants and combined with external factors, came – they came – made us come to a – very low.

What we're seeing now is a good improvement, a strong improvement of product mix and how we execute on the business here. And this is the upside we are seeing and expecting to come ahead also.

Service and Accessories: Key Financials*Revenue*

If you turn to the Service and Accessories, which is the smaller business line within NKT, but which has a very nice growth story attached to it. And, of course, the Accessories also ties in very strongly to the – to the high-voltage order backlog, so we do expect a good growth momentum to continue here. And in the services, it's very different on the – the different services, the needs [inaudible] are needed there.

Operational EBITDA

But over the years it has been a growth story. We expect to see the growth momentum continue. And when you then look at the operational EBITDA, it is a margin that – that is in the high end of it within the business line. Over the years here, you have – you see a slight decline, I would say. Some of this relates to, of course, some fluctuations of how each of the quarters fall out, but right now also some investment in warehouses and factories. Because we are planning for growth and preparing ourselves for that, we will continue to see good margins coming out of this business.

NKT Photonics: Key Financials*Revenue*

If you turn to slide 21, the Photonics. Here, you see what we already touched upon: the good growth story, the COVID impact on 2020. And then there, associated with the growth from '17 to '19, a very nice margin pickup.

This year it's very different, and you do see the decline in revenue and even also the cost structure, the Photonics, taking us to a low. We are though, with Photonics, investing for the expected growth to come on the flipside of COVID-19, but of course our [inaudible] payments is over the short-term horizon.

NKT A/S Adjusted Capital Structure as of End-September 2020

Turning to the next slide, it's into the – how our capital structures at the end of September looked when you looked at our Q3 announcement, and how the two big activities here actually impacted the [inaudible].

So, if you look at the debt – the gross debt level, what you see here is the revolving credit facility that in September closed at €125 million. Due to the interest-bearing receivable, which was a full link into a cash collateral that we were guaranteeing towards our – the financing partners we have, we had €126 million debt. After the balance sheet date, this was removed. Therefore, it now is a part of our RCF, the revolving credit facility. It goes into a [inaudible] under adjusted September [inaudible].

If you – the other thing that of course impacts here is the rights issue offer expected to – after the cost procedure, €175 million expected, which will impact, of course, our cash position and our equity. So, by the – by – by the jump from 30 September 2020, you will see these flows.

If you look at the graph, debt maturity profile, there the orange stacks are the adjusted 30th September. The number for actually corresponds to both the rights issue, and the capital level will be fixed. And so, if you look at the longer-term debt, it is the mortgage loans coming in here.

So, after the fact here, we'll have unused facilities of a full revolving credit facility which stands at €300 million and €177 million in cash, yes.

Financial Outlook

To the next slide of the presentation, which is the financial outlook, we are also at a such point, to a large degree now, to three announcements. We're just recapping here what is – with year end – expect. We specified the 2020 guidance to the upper end of our guidance on the revenue and operational EBITDA.

Under 2021, we are early guiding, I would say, a higher revenue than this year, so a growth coming into 2021, and also a good improvement in performance on operational EBITDA to €82,110 million. The underlying assumptions of 2021 when regarding the early stage is, for us, that we assume that we don't – won't have a material impact from COVID-19 in our businesses; we will have satisfactory execution across all businesses; we will have additional work impacting our 2020 financial in the high voltage; and our Applications business will continue to improve profitability; and a satisfactory portfolio will be prepared in a – our Service business line.

Medium-term ambitions

On the medium-term ambitions, the 10% Compound Annual Growth Rate over the period and an associate operational EBITDA margin of approximately 10% to 14%. This – the underlying assumption of this is also the COVID – no material impact. It is an optimised – optimum utilisation of our factories and installation efforts, as well as the continued successful awards of high-voltage orders, a project execution that is good and strong, and that Applications continues to improve profitability, as well as Service and Accessories keeping the growth momentum. That will take us into the medium-term ambition level.

Financial Outlook for NKT Photonics

If you flip to the next slide, similar on Photonics: keeping the outlook from October as stated, and – and not, at this point, guiding on '21 or medium term. For this business, we would like to see it coming out of the COVID in a more stable business market just to – and then we expect to see that the [inaudible] pick up again in terms of growth and associated profitability.

Capital Structure Target

On the – this next slide, the capital structure target, just to recap what the – also on the Q3 announcement, a change in our expected leverage ratio target which the rights issue, of course, is a large contribution to. It's – it's going to 1.0 times ex-leverage ratio target where we – before was 1.5 times. We do, as Alex also said, aim for this level, certainly to have a more – have a stronger balance sheet to support also the – the transformation of the Company into a larger profit doing business with a portfolio of projects that has a – a significant size and also a certain complexity to it and [inaudible] it's longer than we have seen historically.

Details of Transaction*Offering structure*

If you turn to the next one, the – the next two slides are more on the exact rights issue, what is – what is the offering structure, and – and there's – of course there's much more to find on that also, now with these slides.

Transaction and terms

So, what we expect from the rights issue to be seeing is a – is a, of course, approximately €176 million in gross proceeds, a rights issue in the subscription ratio of 1:3, which means that for all existing shareholders, they will receive just one subscription right per share. Three subscription rights can be converted into one share in this rights issue.

Support from investors

On our investors side, we can say that some of our largest existing Nordic and international shareholders have expressed their support directly to us on the rights issue and take their share of this.

Use of proceeds

Coming back again to the use of proceeds: strengthens the financial foundation, securing [inaudible] comes into this new level of [inaudible] a more different project portfolio and having a sustainable capital structure at this period of time.

Rights issue key dates

The last slide before the question – the Q&A is a little bit on the timing here. So, today is the publication of the prospectus, and upon the Monday the rights trading period commences. It will close at 4th December, and at 10th December we will know the outcome of the offering in this.

With that, I will turn over to the operator for Q&A.

Q&A

Operator: Thank you very much. Ladies and gentlemen, as a reminder if you wish to ask a question, you will need to press star one on our telephone keypad and wait for your name to be announced. Again that's star one for any questions.

Our first for today is from Artem Tokarenko from Credit Suisse. Please go ahead.

Artem Tokarenko (Credit Suisse): Good morning and thank you very much for taking my questions. I have three, please.

Firstly, could you talk a little bit about why you decided to increase the size of the equity raise from initially at 120? It stands – 233 now. And does it imply any incremental investment needs?

Alexander Kara: Yeah. Let's say it may even be – indeed the first, ABB, over €90 million – a little bit more than €90 million, we had one project awarded that was the SuedOstLink. And afterwards, we were successful with the SuedLink with more than €1 billion followed by Shetland and BorWin5. So, we were, yeah, extremely successful. And so that has resulted in that investment – has to a certain extent increased, compared to the original plan, what we had.

Artem Tokarenko: Okay, thank you very much. But just to double check on this, you – this comment basically relates to the €150 million of expansionary capex which you already disclosed this summer.

Alexander Kara: Yeah, this we disclosed in the – when we had the press release about the SuedLink, whilst we said approximate €150 million. And afterwards, we got Shetland and BorWins, and so this is approximately – number. And so, we were not so specific here.

Artem Tokarenko: Okay, thank you very much. My second question is around – is around your debt. Could you maybe give some comments on whether you expect any early redemptions of debts on the back of this? And also what's your plan with the hybrid bonds which is up for the first call in 2022?

Line Andrea Fandrup: So thank you for the question here on the debt. So, so far, what we're going out with now is an assumption based that we – we're lowering our debt with this rights issue to get to the – also the targeted leverage ratio. The hybrid is up in 2022, as you say, and we will at that point consider whether to continue or refinance in a different manner. NKT is coming through a large transformation now and over the 2021, so we will also allow ourselves the time to – to decide on that.

Artem Tokarenko: Okay, thank you. And my last question is around the project pipeline. At the Q3 conference call, you mentioned that there are a couple of projects for you to win

later this year. We've obviously seen Prism announcing one of the big projects in the markets. Does this change your outlook for this year in any way?

And also the follow-up to this question, I think the submarine cables market has been around €3 billion to €4 billion this year. Considering all the projects you track, how do you see the market in terms of the size for the next year?

Alexander Kara: I mean, it doesn't change our outlook. And I mean we were very successful, and we cannot win everything, so that till other projects are out where we have chances, and we follow. We cannot disclose – I can follow up on those. For next year, there's a lot of projects in the market, and the question will that – the timing remains as planned. And so that's – yeah, all these or off-shore wind, but potentially all things are connected if they materialise on time and on this, in technology, but also some of [inaudible]. So, the market outlook looks good, also for next year.

Artem Tokarenko: Thank you very much.

Operator: As a reminder, ladies and gentlemen, it's star one if you have questions. The next is from Kristian Johansen from Danske Bank. Please go ahead.

Kristian Johansen (Danske Bank): Yes, thank you. So, a bit along the line of the increased size of the equity issue compared to what you communicated in May. So, I do fully understand that this reflects your very successful order flow over the summer specifically. So, if we look ahead and look at the pretty substantial order pipeline, which you have also highlighted, the capital structure you will have post this rights issue, and to what level of further projects win – will that be sufficient? And I'm obviously specifically looking for the scenario where you again win quite a lot of large orders. Can this capital structure capture that scenario as well, or can you elaborate a bit on how you see the planning versus the pipeline for the next coming years?

Line Andrea Fandrup: So – so the – so, as we see it now, yes, the equity ratio will support fully our investments in Karlskrona and in Cologne for the extensions we need to supply the orders being won. If you ask me on the specifics about – about our project pipeline in general, there's a lot of different scenarios on that. That's not at this point any choice of further expansions. This is – this game is about utilisation and execution and getting the right wins at the right time; and getting that whole – you can call it [inaudible] – to be optimal for us in how we run our capacity. So, at this point in time, that's how we plan and work very actively, secure a good pipeline, a good execution and high utilisation.

Kristian Johansen: Okay, that's fine, the answer. That was all from me, thank you.

Operator: Okay. There are currently no further questions waiting, so I'll hand back to the speakers for any further remarks. Apologies –

Alexander Kara: Yeah.

Operator: – we've actually – sorry, sir. We've had some follow-up questions from Artem. Please go ahead.

Artem Tokarenko: Thank you for taking my follow-up. Just, if I may, on Photonics business, does the big equity raise kind of gives you a higher flexibility around the disposal? And

maybe do you expect any change in your plans for the – in regards to the business on the back of this?

Line Andrea Fandrup: On Photonics, right now what we are – we’re doing, right, is that we – on the strategic review, we postponed that. We need a bit of lower – make market stabilisation to have a good conversation and assessment of this. So, in the rights issue as such, it’s not to – it’s not changing in that – in that regard. Eventually the Photonics business and strategic review is dependent on the business and how that is performing and what – how the markets will continue.

Artem Tokarenko: Okay, thank you very much. And my last question maybe on the discounts of the rights issue. Could you maybe talk a little bit about the third process of specialty discount?

Alexander Kara: Michael.

Michael Nass Nielsen: Yeah, I’ll take that, Artem. I think when – Michael here. When we looked at the – at how to price this, we obviously looked at similar transaction in the markets. And the discount that you see to the – to the third is what we believe is to some extent market conform. So, we believe that when we’ve looked at what we’ve seen in the past in rights issue, well then – then you’ve seen a discount at a similar level. So, I think that has kind of been the assessments and analysis that we’ve done before deciding on the exact structure of this offering.

Artem Tokarenko: Understood. Thank you very much for your comment, thank you.

Operator: Okay, then –

Alexander Kara: Any further questions?

Operator: No further questions, sir.

Alexander Kara: Okay, then – then we’d like to close this session. And thank you for your time to participate in this information about the rights issue and wish everybody a good day. Thank you very much, bye.

[END OF TRANSCRIPT]