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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to today's NKT Annual Report 2018 Conference Call. (Operator Instructions) I must remind you that this conference is being recorded today, Thursday, the 28th of February, 2019. And I would now like to turn the conference over to your speaker today, Mr. Roland Andersen. Please go ahead.

Roland M. Andersen *NKT A/S - Interim CEO & CFO*

Thank you very much, and welcome to Annual Report 2018 of NKT A/S. With me today, I have Basil Garabet, President and CEO of NKT Photonics; and Head of Investor Relations, Michael Nass Nielsen.

If we jump to Slide 5, this is just briefly a key highlights for Q4. We ended the Q4 with a revenue of EUR 232.3 million. This compares to EUR 281 million in Q4 2017, and the development is in line with our latest guidance for the market in November 2018.

The quarter was a 16% -- minus 16% organic growth. We had the positive development in our Applications business but the Solutions business is the one set back a little bit because of the lower project activity in that part of the business. Operationally, EBITDA ended at minus EUR 8.4 million, in line with our latest guidance in November but down from 38 -- EUR 33.8 million in Q4 '17. And this was especially impacted by -- of course, by a lower activity in Solutions business but specifically by the 2 external incidents that we reported in November that impacted 2 specific projects and delayed them considerably into Q1, Q2.

Our order backlog increased by EUR 470 billion (sic) [EUR 470 million] compared to end Q3 '18, where 3 large high-voltage order project was added so the various -- that was in on a happy note. For the full year, we have an ending revenue of EUR 1,080,000,000 versus an outlook of EUR 1.0 billion to EUR 1.1 billion. And our operational EBITDA is now ending at EUR 70.2 million versus an outlook of around EUR 70 million guided in November 2018.

If we jump to Slide 6, I think operational EBITDA was slightly lower as we have guided the 3 large high-voltage projects was awarded in Q4 of 2018. We executed projects largely in line with the guidance in November but profitability was obviously negatively impacted in Q4 by the external factors that impacted especially one project out of Cologne and another installation project that we had ongoing in Q4.

Then we finalized the Kriegers Flak cable system and delivered that to the customer and also NKT Victoria had full deployment in Q4 on different projects.

And that means a total revenue of EUR 111 million and an operational EBITDA of minus EUR 9.4 million.

If we jump to Slide 7, this is just an overview of the 3-year large projects we were awarded in Q4. First of all, Moray East was firmed out -- firmed up. And production will start in Karlskrona in '19 and expectedly be installed in 2020. It's a 220 kV AC offshore export cable project. And then also we firmed up the Ostwind 2. All of the 50Hertz just became the largest offshore export cable order ever to NKT. This order here will be split for manufacturing both in Karlskrona and in our Cologne factory. And that is also 220 kV AC export cables and a smaller part onshore.



And then lastly, we signed the Johan Sverdrup 2 project with Equinor with this 2x 200 kilometers 80 kV DC offshore cables through the installation rigs in Norway.

If we jump to Slide 8, just brief update on our market outlook. We still believe that the medium- to long-term attractiveness in this market remains. The market has admittedly been low for the past 2 years or more. That is impacting our 2018 performance and also our 2019 performance. Reason for those delays have been various. There are political reasons. There are legislative reasons, and there is also locally, specific issues for why various projects, especially interconnect infrastructure projects have been delayed.

But nevertheless, we estimate that the market has gone from approximately EUR 1.2 billion awards in 2017 to approximately EUR 3 billion in '18. So a significant uptake and out of that, we took EUR 800 million worth of orders. And also for '19, we expect that the market will be at a similar level as we saw it in '18, but I think that history have taught us of that there's considerable volatility in this. But that is our current outlook. But that also means that we still think that the infrastructure market here is attractive in the medium- to long-term.

Tender activity loss is ongoing. We have a number of projects on its way for tender and also in preparatory phases across geographies and also across different segments.

If we jump to Slide 9. Our backlog increased to EUR 1.12 billion at the end of '18. And it's about double of what we had by end Q3 '18. 40% of that we expect to be produced in '19, and 60% will be for production in 2020 and onwards.

If we jump to Slide 10, I think our applications business posted significant organic growth for the quarter and also a healthy growth for the year, actually. Unfortunately, our profitability was not able to follow, and that is clearly not satisfactory. There's a few reasons for that. First of all, we have been impacted by the situation in Sweden. Weather conditions have impacted the ability to install and expand, and repair the medium voltage grid in Sweden, and that also impacted negatively our sales. There was also a little bit of impact from the currencies situation in Sweden. And secondly, the internal issues in NKT have impacted this part of the business. We have had a number of strategic initiatives and probably a little too many for us to handle but significant impact, and that means that our financial performance have been negatively impacted for '18 and will also, to a certain extent, continue to '19.

And if you jump to Slide 11, just to pick up on that, in 2019, we will focus a bit more on the transformational activities in Applications. I think we will do a little less. They will be carefully selected. They need to have bottom line impacts in '19 in order to be on the list here. Initiatives will include workforce reductions. It will do include very specific initiatives that will increase our production throughput, especially on 2 or 3 of the factories. Supply chain planning across the factories will need to have more focus and also procurement optimization need to be accelerated. And then we expect positive effects from that to gradually start to kick in over 2019. I think transformation like this is a little bit of a journey and it's hard to say exactly when and with how much this will kick in. But result of this expectedly start to materialize over the course of '19.

If we jump to Slide 12, I think in our third business lines, service and accessories, we view the financial results as satisfactory. We had a number of onshore cable maintenance and repair projects that played out well for us. We didn't have offshore cable repairs in Q4. But we did, early in the year. And also revenue growth in our accessories business were driven in the regions outside Europe, for instance, Middle East, Australia and some part of Asia.

And we see this business line, especially the service part, as showing its potential once we really get this going, both with our self and with the customers that appreciate the value that a strong service business can do for them.

If we jump to Slide 13. We have launched a cost program in February 2019. We have launched the program with careful consideration to the fact that we need to be able to execute it without hindering future anticipated growth. That means that we will reduce our white collar organization by around 8% which is equivalent to about 130 white collars. We will focus on reducing administrative functions and the support functions around our factories and also in the factories and the functions that not near-term are deemed to be anticipating new orders coming in. And then we have a few programs, running on general approach to lower various general and administrative cost items. There will be a procurement efficiency program, and also where we work more closely with optimizing our working capital and, thereby, our cash flow.

We expect this program to have annual positive EBITDA impact of EUR 15 million and we expect half of this to kick-in in '19. One, of course, relates to this program expected to be approximately EUR EUR 8 million to EUR 10 million that we anticipate to expense in 2019.

And with those words, I'll give it over to Basil for review of NKT Photonics.

Basil Garabet NKT A/S - CEO & President of NKT Photonics

Thank you, Roland. Good morning. NKT Photonics ended the year at EUR 67.7 million of top line revenue. Of that, 16% was organic growth. The quarter came in at EUR 22.5 million, which is up by EUR 1.5 million against same quarter in '17. That translates to an organic growth for the quarter of 7% versus the total growth of 16% for the year.

EBITDA came in at EUR 8 million, again that's an increase of about EUR 2.3 million compared to the same quarter in '17. And that translates to an EBITDA margin of 13.3% compared to 6.9% in '17. Another good healthy growth came from our order intake, which was up 22% on the same quarter of last year.

The market conditions were favorable for us and they came right across all our product lines, and as in previous years, the last quarter of '18 was the most significant earnings contributor to our year. Q4 is, again -- a big year in '18.

We continue to invest in creating a stronger organization or platform. We are growing in a number of areas. We've also established a new facility in the United States, in Boston, to increase our presence in the global photonics market.

Finally, I must also mention again that the realized figures compared to the financial outlook. The revenue came in at EUR 67.7 million versus an outlook of EUR 65 million to EUR 70 million. And EBITDA came in for the year at the EUR 9 million versus an outlook of approximately EUR 10 million.

We move to the next page, Page 16. With regard to the business development across our 3 sections. The year ended where the 3 market segments that we're in are roughly at [work] of each of our business. In Imaging & Metrology, which is slightly our largest, we continue to have important growth in several segments of the semiconductor, bio-imaging and medical as well as the industrial metrology part. The growth was right across markets.

In Sensing, where we have 32% of our revenue, the majority of the positive revenue came from our coherent single frequency line and LIOS product series. And finally in the Material Processing side, the growth came mainly from our ultrafast lasers for medical applications, mainly for ophthalmology.

We move to slide on Page 17, the strategic initiatives that we have launched in 2015 continued for 2019. We continue our drive to move up the value chain. We are focusing on organic growth movement in all areas and that's showing from our results. We had initiated LEAN operations right across our facilities and we continue doing so. And finally, as in all fast-moving technology companies, the introduction of new products is our lifeblood and we'll continue on that route.

During the year also, we have started 14 different initiatives with 4 key areas to grow the business within the next 5 years.

And with that, the end of the Photonics segment. I pass it back to Roland.

Roland M. Andersen NKT A/S - Interim CEO & CFO

Thank you, Basil. And let's just briefly have a look at the '19, not so much to remark. Clearly, the negative organic growth here came from the NKT business of bringing our SP revenues Q4 '17 from EUR 302 million down to EUR 254.6 million for the group NKT A/S.

So if we jump to Slide 20, again highlighting the operational EBITDA. Impacted by lower activities primarily in Solutions, whereas Photonics improvement was driven by the revenue growth that Basil just touched upon. Our one-off cost in Q4 was related to ABB integration, that is about to be done. And then EUR 4.7 million regarding to our strategic initiatives in EXCELLENCE and EUR 2.0 million

of severance cost related to the previous CEO.

If we jump to Slide 21, our operating margin -- EBITDA margin, is now dropping to around 0 in Q4 and an LTM of 6.9%. And again, just looking at the historical numbers, the jump in '17 was primarily due to the acquisition of the ABB HV Cables activities but also supported by divestment of our Chinese operations from NKT.

And if we jump to Slide 22, I think there's our working capital improvement in Q4, 2018, that is primarily driven by Solutions. And then just as a reminder, here in September 2018, NKT A/S issued a EUR 150 million hybrid security and that hybrid security is classified as equity and total equity increased thereby primarily due to (inaudible) compared to '17.

And if we go to Slide 23, a working capital improvement from Q3 '18 to end '18. And that is primarily driven by the Solutions business, new projects coming in and also project installments on ongoing projects under execution, but also applications have worked more thoroughly with their working capital and inventory levels that improved over Q4 2018.

If we go to Slide 24, driven by net working capital improvement, we actually had quite a good cash flow from operating activities and our free cash flow ended at EUR 61.1 million for the group out of Q4 '18.

And if we then go to Slide 25, we then -- using that cash to reduce our net interest-bearing debt from EUR 308 million to EUR 248 million by end of Q4. Our leverage ratio out of 2018 is at 3.1x.

Just touching briefly on our net interest-bearing debt, it then ended at EUR 248 million. The composition of that debt consists of EUR 171 million of mortgage debt. There was no covenants on mortgage debt. We have, in second half of '18, establish a new RCF, revolving credit facility, with availability of EUR 300 million. On that, we have drawn net EUR 77 million by the end of the year. And that revolving credit facility carries financial covenants. And those covenants include agreed remedies in the form of security over NKT Photonics and also over the vessel NKT Victoria. Nothing new in that and we also explained that a little bit in our -- in the annual report.

And again as part of the refinancing hybrid security in Q3 was issued of EUR 150 million that is now accounted for as equity. And that means that NKT A/S has sufficient financial headroom to manage the lower level of activity expected in 2019.

If we go to Slide 26. NKT is then reiterating their preliminary financial outlook from November 2018. Revenue will be between EUR 0.9 billion and EUR 1 billion, and operational EBITDA will be between EUR 10 million and EUR 30 million.

We can also say that with a current order backlog and as we also indicated in November that earnings in NKT are expected to be higher in second half of the '19 than in the first half of '19. And on NKT Photonics, we're guiding 15% to 20% organic growth, and an EBITDA margin of 15% to 20%.

And I think with that, I'll give it over to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have a few questions that have come through. The first question comes from the line of Kristian Johansen from Danske Bank.

Kristian Tornøe Johansen Danske Bank Markets Equity Research - Senior Analyst

I have three questions here. The first one is on Applications and your comments on how we should think about profitability going forward. So first of all, I mean, do you feel margins have thrust here in '18? And should we expect a gradual margin improvement then to in '19? And what levels by the end of '19 that you expect?

Roland M. Andersen NKT A/S - Interim CEO & CFO

Thank you, Kristian. On the Applications business, apart from our issues in Sweden, we are not really been on the margin pressure super significant effect. So I think what you should expect to see is we get our act together in executing some of our improvement initiatives, and they will slowly kick in. We will be more efficient. Will see better throughput, and we will reduce our workforce a little bit. And impacts from that will come gradually over '19. I don't expect us in '19 or by the end of '19 to be at full potential. So I think, things like that is a little bit of a journey, and we need a little time to get it back on track.

Kristian Tornøe Johansen Danske Bank Markets Equity Research - Senior Analyst

All right, good. Then my second question is on Solutions. Obviously, you are suffering here in '19 from a low capacity utilization. Looking at your current backlog and focusing on 2020, what types of orders do you need to further optimize capacity utilization and other sufficient opportunities to get this, and in other words, make it realistic to substantially improve utilization?

Roland M. Andersen NKT A/S - Interim CEO & CFO

So on the Solutions business, as you can see, we have taken in a few offshore wind orders, AC orders in 2008, and that's great. That's our bread and butter. That's what we know how to do. But we also know how to do large-scale DC projects, and we have had less of them in 2018. So in order really to be -- really to optimize in '20 and '21, we would need more HVDC orders in the high end. So that's one thing. The second thing is we also have -- as we complete the ongoing Nordlink project, then we will have MI high-capacity. So we will preferably also have orders in for MI in production. And currently, we can see projects that offers that. But it won't have production impact in '19. That's too late. That's not going to happen. But moving forward into '20 and '21, the pipeline looks promising. I think we're a little more careful talking about timing of this but the pipeline has not decreased, not at all.

Kristian Tornøe Johansen Danske Bank Markets Equity Research - Senior Analyst

All right, that's clear then. Then my last question is on NKT Photonics. I'm mostly positively surprised by the level of organic growth -- your organic growth for 2019. How confident are you that you -- I mean, it's -- in the, at least, in the other end further acceleration of growth? And also how does that place you towards having to invest in further production facilities?

Basil Garabet NKT A/S - CEO & President of NKT Photonics

With regard to confidence, we obviously are confident, hence, we're guiding the 15% to 20% top line growth. The nice thing about that, we see that right across all the market segments. So we're not in one specific market. But we see a poll on the products who are coming to maturity right across the different areas. The facility we have in the U.S. will help with, essentially, manufacturing. But that's not going to come into full manufacturing capacity until '20. So the facilities that we have today cater completely for the growth we are forecasting. We don't need to invest more in existing facilities for the growth.

Operator

The next question comes from the line of Artem Tokarenko from Crédit Suisse.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

I have 3 and go one at a time. My first question is around Solutions. What's the level of profitability secured in Solutions for 2019? And if you could help us understand a bit better how much more revenue is required to get to the top end of your guidance? And whether there are enough orders or what are the orders which you'll see as contributing in '19?

Roland M. Andersen NKT A/S - Interim CEO & CFO

Thank you for that question. That's a very good question. Now we're not really guiding on the margin level in Solutions. I think if you look at the relevant homepages and so on around the world, then you will know what projects are out for tender, and potentially we will start off tender as we move forward. And that's one I'm going to refer to here. Now in order to reach the other end of our guidance, we need more orders in than we have today. And we need more orders in with some sort of 2019 impact. If we don't get that, then we are closer to the lower end of the guidance interval.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

Right. But is this around EUR 50 million to EUR 100 million revenues you need? Or is it a fair assumption?

Roland M. Andersen NKT A/S - Interim CEO & CFO

I think the marginal order most likely have had relatively high contribution. So then I think you can do the math a little bit.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

Right. Okay, and then my second question is again around Solutions for 2020. I guess, if you could help us understand a little bit better, what's -- again, what's the level of profitability in your current order book? And also given the projects which you are bidding at the moment, what's the maximum potential the business could recover to by 2020?

Roland M. Andersen NKT A/S - Interim CEO & CFO

I think that with regards to profitability -- I was questioned about that this morning as well. During 2018, we took in one particular project, where we went below our thresholds for normal pricing. We did that in order to cater for availability in our Karlskrona factory. We were ready, the customer ready. And then we did it with a very short runway. Now currently, what we are looking into is tender activity with production in 2020 and '21. And it's not my impression in the industry, and we are certainly not doing it. Pricing below, what we call, a normalized price level. There are simply too much optionality in the order pipeline out there for that for now. So for us, I think it's very different whether we get a project for production starting mid-March this year, and whether we are tendering for a project with production somewhere 2020. So I hope that sheds a little bit of light on how we're thinking.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

Got you. Well, is my understanding correct that 2020 profitability currently is broadly same as in 2019 given the order book assuming there are no more orders at the moment? No more new orders booked.

Roland M. Andersen NKT A/S - Interim CEO & CFO

That will be too early to say, probably too early to say. We expect that 2020 will be better than '19. That's what we are saying in terms of profitability.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

Okay. And my last question is around cash flow. It's very strong working capital inflow in Q4. If I look backwards, I think historically, you had working capital outflows and build up in Q1, Q2. So in the context of H2-weighted year quite weak profitability in Q1, Q2. Could you help us understand a little bit better the cash -- main cash flow items which you expect? In particular, what do you expect for working capital and free cash flow in H1 and for full year '19?

Roland M. Andersen NKT A/S - Interim CEO & CFO

Yes, so you need to look at the Solutions business line for itself and the Applications business line for itself. And Solutions is pretty much driven by new orders coming in and then projects under execution. And that means in a quarter where you receive new orders, most typically, you will also receive some sort of payment -- prepayment depending on how far you are from actually starting work design or production or whatever. And also as you execute projects, you will have different milestone payments typically coming in. So then you'll be seeking -- that can be spread out over the year and very much depending on where you are and your project inflow and your project execution. Now Applications business is a bit more seasonal, and you would expect Applications business at all-time to have some sort of working capital, inventory tie up and a little bit of receivables and so on. So Applications have low season in Q4. Some of the factories are shut down over Christmas or refurbishment and holidays and so on. And then we start building off inventories in Q1 and Q2 again. So a little bit the same pattern as you saw last year would be expected in first half of '19 in the Applications business. For Solutions, it's a little bit more depending on when the orders will come in and also a little bit on the payment milestones.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

Okay. Well, I mean -- I guess assuming there are no more orders to keep it simple, Q1 and Q2, I guess you have good visibility on payment milestones, what should we expect for working capital? Because if I look at last year, I think you had more than EUR 100 million of outflow, which means all Q4 prepayments will be reversed and you would get back to previous net debt.

Roland M. Andersen NKT A/S - Interim CEO & CFO

I think last year was a little special. But conceptually if our solutions business does not get new orders, slowly but surely, working capital will start increasing towards 0. There will be projects on the execution, money in, money out and so on. But the prepayments will obviously not come. And that means working capital will start to increase in that line -- in that business line.

Operator

The next question comes from the line of Claus Almer from Nordea.

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

Also a few questions from my side. The first question goes to this. Your CMD few years back where we talked about EUR 5 billion project per year, can you maybe give an update on the split on projects vanishing from the market and how many are still in the pipeline? But maybe where the time is a little bit unclear? That will be the first question.

Roland M. Andersen NKT A/S - Interim CEO & CFO

Thank you, Claus. I think if you compared to the EUR 5 billion we were talking about then, we basically ending out at EUR 3 billion. And that difference is mainly due to postponements. That's not a lot of projects that has been cancelled. There are minor ones but the bigger ones, especially the infrastructure projects, that to a certain extent, politically dependent, have been postponed. So we're talking about uncertainty with regards to timing more than regards to size or potential.

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

Okay. And this is -- so looking at 2019 and your EUR 3 billion indication or best view, how good could it be or how bad could it be do you think? So what's the volatility in that number?

Roland M. Andersen NKT A/S - Interim CEO & CFO

I think you also know that our project is out there for EUR 0.5 billion and EUR 1 billion, right? I think in order for that to go up to EUR 1 billion or EUR 2 billion, that will be 1 or 2 of the very big projects that needs to be accelerated compared to the plan I know today. So I find that unlikely. Then the risk of that number going below or significantly below EUR 3 billion, that means that 2 or 3 of the bigger ones needs to be significantly delayed. So there are volatility along that. We don't see it go down to EUR 1.2 billion, that's unlikely, but there are volatility around that number.

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

Okay. And we should expect 20% market share or something like that?

Roland M. Andersen NKT A/S - Interim CEO & CFO

I cannot see why we are not taking our share of those awards. So that's (inaudible)

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

Okay. Then my second question goes to your redundancy program. And once again, you're launching a new program. Now 8% of the white collar people. If you look at the number of employees within Cables in 2018 actually went up despite 0 organic growth. So maybe you could update us on this number of employees. Did you just start to hire too many and then you -- now you're reversing? Or maybe a bit better understanding on that trend.

Roland M. Andersen NKT A/S - Interim CEO & CFO

I think we are building a shared service center, among others, in Lithuania. And that has been build up over 2018. And the transformation of activities from the existing organization after that shared service center will happen during 2019. So therefore, we are running a little bit with double headcounts in parts of the organization until that is settling in.

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

Okay, so that's why -- and okay. Then I just noticed during your presentation saying that this is white collar redundancies. We're targeting those not being exposed to near-term improved activity level. Does that mean that when activity goes up, hopefully, then you have to reemploy staff, i.e. this EUR 15 million of cost savings will vanish in that scenario?

Roland M. Andersen *NKT A/S - Interim CEO & CFO*

I think hopefully not. So I expect that there will be some efficiencies in this, and that means as and when we'll start to load the factories again, we'll be able to do more for less. And what we also mean with this sentence is that we are focusing on our administrative functions. We are focusing on support functions and around the factory network that are not directly involved in sales or tendering, where we need all hands on deck. And then also on the production facilities, where we're not within the next few quarters expect to lower the lines or lower the activities. That's why we have been focusing in cutting back. So we have spent quite some time thinking about how do we secure growth? And how do we secure readiness when these expected new orders come in?

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

Okay, and if you're going to split the effect between the 3 divisions in ballpark, how should we expect that?

Roland M. Andersen *NKT A/S - Interim CEO & CFO*

It's primarily headquarter functions, and then the Solutions, and then to a smaller extent, Applications.

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

So should we just do from the split of revenue, would that be -- how to look at it?

Roland M. Andersen *NKT A/S - Interim CEO & CFO*

We're not that many in headquarter-- there's not that many -- that much revenue either, but the broader part of this will be Solutions.

Operator

The next question comes from the line of Casper Blom from ABG.

Casper Blom *ABG Sundal Collier Holding ASA, Research Division - Lead Analyst*

First of all, just a follow up on the previous question regarding cash flow development in 2019. You finished '18 with net interest bank debt of EUR 248 million. Let's just assume the midpoint of your 2019 guidance, Roland, where would you see roughly your net interest-bearing debt ending up in '19?

Roland M. Andersen *NKT A/S - Interim CEO & CFO*

Casper, that's a good question, right? It very much depends on where that earnings come from. If it comes from one of the larger projects that we need to start preparing for, then you can expect some prepayments. If it comes from pure earnings, I think you would expect that our net interest-bearing debt will be going out a little bit in the first half and then going back down in second half, right? So it's a little bit speculations. I think you need to work a little bit with my assumptions around the working capital for the 2 business lines in order to model a few scenarios on that.

Casper Blom *ABG Sundal Collier Holding ASA, Research Division - Lead Analyst*

Okay, fair enough. Then my second question, in the report today, you reiterate the medium-term guidance of EUR 200 million to EUR 225 million of EBITDA, saying that the time period is still 2020 to 2022. Let's say that things go well. You start getting orders at a faster pace than you saw last year. And would it be, how do you say, physically possible to reach EUR 200 million in 2022? Or I'll ask in another way, I mean -- that you've previously talked about, sort of, how the factory dries out a bit, and then you, sort of, start to reignite the processes. So I mean would it even be possible to reach that level in 2022 in a, call it, blue sky scenario?



Roland M. Andersen NKT A/S - Interim CEO & CFO

Yes, we think it is, Casper. Absolutely. But obviously, we need to start posting some of the bigger orders and also get the right mix and so on. So I think that if you look at the Karlskrona factory, it probably dried out in the wrong way or over 2, maybe, 3 quarters. I think we can build it up again in the same period if and when we get the right mix, as I think Kristian was alluding to also. So it's absolutely possible.

Casper Blom ABG Sundal Collier Holding ASA, Research Division - Lead Analyst

Okay, interesting. And then finally, just 2 sort of smaller ones here. First of all on the, sort of, expected one-off cost or special items in '19. You mentioned the EUR 8 million to EUR 10 million regarding this new program. But am I correct in assuming that they're still probably around 10 more of the, how can you say, previously announced programs that will impact you. So we're talking about more like EUR 20 million in total in '19, is that correct?

Roland M. Andersen NKT A/S - Interim CEO & CFO

We're not guiding on that, but that's not completely off.

Casper Blom ABG Sundal Collier Holding ASA, Research Division - Lead Analyst

Okay. And then finally, on Applications, where you were negatively impacted by the weather situation in Sweden in '18, could we sort of hope for a bit of a catch-up effect here if we have, how do you say, normal weather in the summer of '19?

Roland M. Andersen NKT A/S - Interim CEO & CFO

I don't think it's possible with a catch-up effect because there's a limit to how fast the utilities can actually do what they have to do with the grid expansion in Sweden. So it's not that they can install the double amount of cables or distance kilometers in the Swedish underground. So it is revenues that is -- that are postponed. It's not going to build up like a bubble over 2 quarters or so. Unfortunately not, no.

Operator

(Operator Instructions) The next question comes from the line of Akash Gupta from JPMorgan.

Akash Gupta JP Morgan Chase & Co, Research Division - Research Analyst

Roland, it's Akash from JPMorgan, and I have 3 questions as well. My first question is a sort of follow-up of earlier question regarding your medium-term guidance that you have [read] with it. If I look at EUR 200 million to EUR 225 million EBITDA target, that would imply a significantly higher sales number versus what you have guided for 2019. So given that you are expecting submarine market to be your -- high-voltage project market to be largely stable, at least stable in 2019, does your medium-term outlook assume that industry outlook in 2020 could be materially higher that could support you reaching towards this medium-term goal? That's question number one.

Roland M. Andersen NKT A/S - Interim CEO & CFO

I think the market doesn't necessarily needs to be much higher than we anticipate in '19 to support the medium term. I mean, EUR 3 billion, EUR 4 billion, EUR 5 billion. And if we just get our share at best, then that's enough in the Solutions business. I think in order to think a little bit about that, we need to rewind time back to 2017, right? Where we did EUR 138 million, that shows a little bit of the potential in the Applications business. We would have 2 more months of Solutions, we will have some synergies on top. And then we would potentially have the service business -- Service & Accessories business line also have grown from where it was back then. That will, sort of, give you a little bit of flavor on how close we are on our medium-term guidance, I think.

Akash Gupta JP Morgan Chase & Co, Research Division - Research Analyst

Okay. Second question is can you talk about discussions that you're having with customers of large projects like Viking, and maybe if you can talk about whether balance sheet and high leverage that you have right now could be concerned in getting fair share of some of these large projects that we have in pipeline?



Roland M. Andersen NKT A/S - Interim CEO & CFO

Well, I think there's not enough customers that are raising debt, right? We had a relatively good free cash flow in Q4. We are reducing our debt. We -- so all customers are actually comfortable with debt. You also know that projects like these are ring-fenced by guarantees on prepayments and installments and so on. So customers are completely comfortable with debt. We have not met that argument.

Akash Gupta JP Morgan Chase & Co, Research Division - Research Analyst

And my final question is, how should we expect order awards this year to be as skewed between first half and second half, especially like last year, most of the orders that came in and second half and first half was very -- a little dry? And also if you could update us when you expect Viking to come for award?

Roland M. Andersen NKT A/S - Interim CEO & CFO

I don't want to comment on specific projects, but I think for our sake, we don't expect any significant awards that would earliest be in Q2.

Operator

There are no further questions at this time. (Operator Instructions) We have a question from the line of Artem Tokarenko from Crédit Suisse.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

I have a couple of follow-up questions. Firstly on Applications. Could you help with understanding how big of a tailwind was Sweden and the breach -- of headwind was Sweden and the breach this year and how is that headwind split between weather and project postponements?

Roland M. Andersen NKT A/S - Interim CEO & CFO

Projects postponement -- I mean we have some sales through Sweden, right? And that sales dropped over Q1, Q2 because they couldn't dig in the ground over winter. And then that sales dropped again in Q3 because they couldn't dig over summer due to fire hazards and all digging in the Swedish grand island, [Sandön] was prohibited. And that meant that our sales and, thereby, also our earnings dropped. We're not putting numbers on that.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

Okay. And obviously, you now have much healthier order book, could you help us understand a bit better your capacity, both in HVAC and HVDC for 2020 and 2021, as in could you still take large HVAC orders for both factories?

Roland M. Andersen NKT A/S - Interim CEO & CFO

So the Cologne factory is full out of 2020 basically. So if we need to take more offshore wind, that will be for Karlskrona, and that we can do. Now in order to optimize Karlskrona, it would be better to get some DC orders in and also be better to start loading it with MI production. That's how we are thinking about it.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

Okay. And a last question on project opportunities for this year. I appreciate you don't want to comment on stand-alone projects, but if you could maybe talk a little bit about separately interconnect offshore wind market may be in Europe, U.S. and Taiwan, what are the opportunities there for H1, H2? How do you see pricing, et cetera?

Roland M. Andersen NKT A/S - Interim CEO & CFO

I think offshore wind -- there is still a number of offshore wind projects in the pipeline. And that's actually also DC offshore wind. So that looks quite promising for awards both in '19 and also in 2020. On HVDC, it's a -- we've been more uncertain with regards to timing and so on. But that's obviously one of the very -- or 2 or 3 of the very big prominent projects that are moving forward in Europe. The ones in U.S., we're a little more reluctant on where they may go. And regards to Taiwan, I think there's a little political uncertainty out there. There was just a -- some of the developers that concluded an electricity and subsidy deal last week or the week before, and one of the other guys pulled out. So I think with regards to Taiwan, we're currently observing. I think there's still a potential but I think politically, they're not 100% clear on how firm they want to be in really following that through.



Artem Tokarenko *Crédit Suisse AG, Research Division - Research Analyst*

Right. And my last question on H2-weighted year. How should we think about Solutions profitability in Q1 and Q2 maybe sequentially versus Q4?

Roland M. Andersen *NKT A/S - Interim CEO & CFO*

We can't say anything about that, but first half won't be pretty.

Operator

We have a question from the line of Kristian Johansen, Danske Bank.

Kristian Tornøe Johansen *Danske Bank Markets Equity Research - Senior Analyst*

Yes, just a follow-up regarding the Cologne factory and the qualification of the DC cables. Can you tell us why that hasn't happened yet? And how far are you? And what are the final hurdles here?

Roland M. Andersen *NKT A/S - Interim CEO & CFO*

Well, I think in Cologne, we have been full doing offshore wind. And therefore, that has been prioritized. We need to, in certain windows, in order to type test it, we need to open some of the lines for DC production. And that has been done sequentially, and that also means that we expect to -- over summer to conclude that, and that means that we have our type test ready during the second half of this year for full DC production.

Kristian Tornøe Johansen *Danske Bank Markets Equity Research - Senior Analyst*

Okay, so the fact that it hasn't happened yet is by choice, not because of ...

Roland M. Andersen *NKT A/S - Interim CEO & CFO*

That is by choice because we have available capacity in Karlskrona. So there was no need to disturb the flows in Cologne that was actually full.

Operator

We have no further questions at this time.

Roland M. Andersen *NKT A/S - Interim CEO & CFO*

Okay. Thank you, everyone, for participating. Thank you.

Operator

Thank you. This does conclude the conference for today. Thank you for your participation. You may now all disconnect. Have a good day.

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