NKT A/S Q4 Report 2021

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Alexander Kara

CEO, NKT

Introduction

Good morning, everybody. Welcome to our Q4 Results. And we have published this morning also our annual report. So in this meeting, in the meeting room, I have here with me Basil Garabet, President and CEO of NKT Photonics. Line Andrea Fandrup will call in from home. She's on sick leave, so we need to see how we manage that with the questions, but that should be possible to manage that.

Highlights of Q4

So if we go to the highlights of Q4, in NKT cables, we grow organically at 7% and the development of the growth was contributed by application, Service & Accessories. We still have a high order backlog of 2.87 billion by end of '22. And also what is not listed but is worth mention, we had a good cash flow generation in the fourth quarter of 93 million, and a leverage ratio on the group of over 1x. We had a small acquisition of Ventcroft in UK to strengthen our portfolio, its fire-resistant cables.

Photonics got high Q4 revenues and organic growth of 6%. Going now to the Q4, a little bit more in detail. We have as mentioned 7% growth on cable and this is the ninth consecutive growth with organic growth. Also, for the full year, we had 15% organic growth which is the same growth like we had in 2020. So good momentum on overall growth as you can see here also on the slide here on the right side. In solution, we had a decrease in revenues. This was related to the mix in Q4, due to lower activities from AC cables.

We had a good momentum in application in growth revenue and operational EBITDA and I'll come back to that later. And the same is applicable for Service & Accessories with growth and improvement on operational EBITDA.

You see on the right side the improvement compared in Q4 on EBITDA, from 9 million to 14 million. It would be 4 million higher. It was impacted here from commercial settlement dispute, otherwise we would have a 14 plus 4. And the same is applicable for the full year, from 57 to 131 which was also impacted by the 4 million from the commercial settlement. So overall, for the full year, I think it's worthwhile to mention here going from 5.2% EBITDA to 10.4% is a significant improvement. In this 10.4, we are in the midterm guidance which we communicated in 2020. In January 2022, we had an unannounced inspection from the German Federal Cartel Office into our factories in Germany and we're cooperating here with the authorities.

Going to solution-specific, I mentioned already that we had lower revenues, minus 10% in Q4. This is due to the mix and the less activities from AC cable orders. For the full year 2021, we had the growth of 9% on solution. And also, on EBITDA we improved 35, 36 million in numbers to 83 million EBITDA on solution side. We executed several orders, as listed here, Attica-Crete, NMI Cable, Dogger Bank, DC Shetland, DC and as mentioned we had this commercial dispute on a project which was related to the two installation of 4 million. We finalised the commission to Moray East. And with this, we can bring a green energy to 950,000 households in Scotland.

High Voltage Market

Going towards the overall high voltage market, we assess the high voltage market in 2021 as a €5 billion. The group momentum development on the market in the last two years, and we see further increase on the markets and we expect the market growth to 7 billion to 8 billion in average over the year from 2022 to 2024. There will be different regions where cable is needed in Europe, North America, Asia and also Middle East, and the different technology like DC, AC or MI even. Of course, with cables, wind farms going further out in the sea, DC is the more preferred solution for technical reason, otherwise you need to ramp your power compensation.

High voltage order backlog

Going to the high voltage order backlog, we are at €2.87 billion which is a high level or 2.43 in market standard price. And then out of the backlog, we have seeing here 25% will be executed in 2022, not included AC orders which will be awarded in 2022 and will have a revenue impact in 2022. So still high order backlog and this is, of course, based on orders received in ’22, is expected to go up again.

Application

Coming to application, application has really a good Q4 with an organic growth of 32% and [inaudible] application has a weak Q4 and the revenue itself 212 million in EBITDA. So good momentum in the market, good growth momentum which drives this revenue and EBITDA. We also were able to manage satisfactory increases in price increases, inflation, energy prices and so on and could protect the margins in our deliverables projects and also focus on procurement. As mentioned earlier, we did an acquisition, a small acquisition with Ventcroft in January which specialise on fire-resistant building wires on the low voltage side.

Service & Accessories

Looking at Service & Accessories, good activities will continue on the growth part of this service and also accessories, mainly medium voltage accessories, 17% organic growth in the quarter, revenues 49 million and 5.9 million EBITDA, so good activities. We have also established our execution hub in Gdynia. Well, I had to first join test and prepare for the growing market in Poland and in the Nordics. So overall, also satisfactory development.

With this, I would turn over to Basil to give you the highlight of Photonics. Basil?

Highlight of Photonics

Basil Garabet

President and CEO, NKT Photonics

NKT Photonics

Thank you, Alex. Good morning, everyone. For NKT Photonics, we had a good quarter. It was the sixth quarter where we had a record revenue. The key developments in the quarter is that the both revenue and the EBITDA improved. And the rate of improvement on revenue was 6%. And that's compared to the same quarter in 2020 which was in itself a record quarter. So nice improvement there.

We managed a high activity level with limited disturbances from supply chain in the quarter. However, that continues to be an issue going forward. The organic growth of 6% as in previous quarters was probably driven by a strong performance in both the quantum sector and our industrial sector. Our EBITDA increased to 5.5 million, again, driven by the higher top line along with better growth margin from a more favourable mix of products. NKT Photonics also had its highest ever Q4 order intake which is up, again, by 5% compared to the same quarter in 2020 which again in order intake was a record quarter.

Business Development

On the business development in the quarter, in medical and life sciences, we continued the trend in microscopy and ophthalmology, especially in ophthalmology where we're doing reasonably well with new orders. The revenue, though, in the quarter was relatively flat. However, we believe that that's a timing issue that will improve.

Quantum

In quantum, which is a great area for improvement for us and a great growth area, quantum contributed quite nicely to the growth especially in quantum computing.

Industrial

The industrial side which is our largest sector, did very well especially in the semiconductor sector.

Aerospace

And finally, in aerospace and defence, net growth was relatively flat, but that's really, again, due to timing factors. And we see that improving going into 2022.

And with that, I'll pass on to Line, NKT's CFO.

Financial Highlights

Line Andrea Fandrup

CFO, NKT

Financial Highlights

Thank you very much, Basil. And so turning over to the financial highlights of the quarter and full year on slide 16, the income statement is summing up what both Alex and Basil spoke to here, organic growth on the quarter, so both of the businesses, 7% for NKT and 6% for NKT Photonics. And for the full year, both of the businesses are a plus 15% compared to 2020. And this turns into also a strong performance on the earning period where both businesses more than doubled the earnings compared to last year, closing the NKT cables at 131 million for the full year and Photonics at 80 million.

Operational EBITDA Margin

And then going to the operational EBITDA margin, it's worth to notice that also here, improvement for the quarter compared to last year and the full year for both businesses. So overall here, we can see the step up compared to last year.

Going to the next result and zooming in here on the full year from a minus €75 million in 2020 to a plus €4 million, so turning positive on the net result is a very satisfactory conclusion to 2021.

Balance Sheet Highlights

If we turn the page to the balance sheet highlights, as Alex also mentioned, we had on the cables business, a strong improvement on the working capital between the Q3 and Q4, positive development of the around €100 million, closing the working capital for cables at the favourable €92 million. Photonics stayed more or less flat compared to Q3 with €34 million working capital. All in all, this turns into the earnings and into improved ROCE for the year where we did close 2020 on a negative ROCE, but for the full year for the businesses, we are at 2.4 percentage, for the cables business for the full year, at 3.4, and for the Photonics business, a negative.

Net-interest Bearing Debt

On the net interest-bearing debt, obviously very positively impacted of the working capital and improved earnings and we closed the NIBD of ’21 at €30 million and [inaudible] so that’s a good result.

Cash Flow

So if you go to the next slide here on the cash flow, we have a good cash flow from operating activities, mainly contributed from the change in working capital, but also in EBITDA. The investment level especially on the CapEx for the full year we noted to 128. That consists of the primary package to the cables business and solutions expansions is the major part. The free cash flow for the full year, we closed this at minus €18 million. And we’re looking for a plus €91 million.

Financial Outlook

If you go then to the next slide 20 for the financial outlook for the year, over all the cables division expect to end the revenue on the full year around €1.35 billion to €1.45 billion. And then operational EBITDA and then raised from 130 to 155. Photonics expects to grow in ’22 between 12% to 17% and an EBITDA margin of 11% to 14%. And then we are reconfirming for the cables division, the medium-term ambitions on the next page with CAGR above 10% growth on revenues from 2019 as base year and operational EBITDA margin of 10% to 14%.

NKT Photonics is introducing a medium-term target also and an organic growth on volumes from 12% to 17%, so it’s similar to the 2022 target with 2021 as a base year. And the EBITDA margin is expected to increase to 20% to 25% over the medium-term.

Summary

And then turning to the last slide here, to repeat the key messages of the quarter, a 7% organic growth in NKT for Q4; very positive performance in applications and Service & Accessories; a high voltage order backlog, maintained to the highest and sound levels from the end of the year; the acquisition of Ventcroft, a good contribution and addition to our application business; and a solid working capital improvement for Q4; and a corresponding low NIBD; for Photonics, the record high Q4 revenue with 6% organic growth and a good contribution on earnings.

With that being the last slide, we will turn over to question-and-answers.

Q&A

Alexander Kara: Operator, we are ready for question-and-answers.

Operator: Ladies and gentlemen, we now begin the question-and-answers session. If you wish to ask a question, please press star one on your telephone. We have the first question from Claus Almer from Nordea. Please go ahead. Your line is open.

Claus Almer (Nordea): Thank you. Yeah. I have a few questions. The first for you, Basil, the order intake I think was 26% for 2021. Why does that not reflect in your revenue growth in 2022? And maybe a side to this question is, was it 5% to 6% in Q4 alone, is that a reflection of a slower growth rate or what did happen in Q4? That will be the first question.

Basil Garabet: Okay. The 5% or 6% in Q4 was actually an improvement because Q4 of last year was pretty high. So it's not a slowdown. It's a number of different markets, so it's really – it's seasonal and it depends on how they come in. As you know, the business has changed from many years ago from mainly resource to more of an OEM business. So a lot of our order intake is more on the OEM side which is multi-year orders going on compared to the past which was really orders that we will deliver within a quarter or so. So the difference is the business is changing to being more OEM. It's growing that way which is what we planned for when we started on this journey to make Photonics more of a commercial entity. And that's the differences that you see to before. It's still very healthy, 26% in increase in '21 was very good. This is continuing into '22 and we hope that that will basically make our growth go in the way we had forecasted and we planned.

Claus Almer: That's great. And then my second question goes to this 7 billion to 8 billion market outlook for the cable division or for the high voltage part of the business. So first of all, is this a addressable for NKT's only Europe or what is actually the 7 billion and 8 billion covering? That will be the first question about cables.

Alexander Kara: 7 billion to 8 billion is a market which is addressable for us and it is in different regions. And I have here the list in front of me, but I need not to go here through. It's in Europe, it's in Americas, different regions in the world, and it sums up to the 7 billion to 8 billion, actually a little bit more. But then as you know, projects tend to shift sometimes, so on a fair assumption can be 7 billion to 8 billion in average.

Claus Almer: Okay. And is Champlain for instance included in this market forecast? And if you win, how much would that impact your revenue in '22?

Alexander Kara: It is included. Yes, Champlain is included. But how much the revenue will be impacted in 2022, I mean, we don't provide yet the other details, but Champlain would contribute to 2022 results.

Claus Almer: Okay. And then, should we assume you are winning one-third of this market, giving you three plus minus players?

Alexander Kara: Give me a crystal ball, Claus, and I tell you, I mean, we need to see, of course, what capacity do we have available, which project would fit in our production and our capacity. From a schedule point of view, I think, just to say, flat 23%, I think that maybe would be wrong. And you can see in 2020, we had a high orders received. Last year, more moderate. I think you need to look in – if you look on to look at market share, you need to look over a period of two years or potentially even three years to get a better understanding. But definitely, we expect to be winning some orders this year.

Claus Almer: Sure. I was not talking about 2022, your market share was more – so for this three years, should we assume on average, that you can win one-third of the market? That was actually the question.

Alexander Kara: One-third is, in average, would be rather on the high side, because we need to – we can just take in as many as order as we can execute, and as we can produce, then we could take – 2.4 billion would be pretty high, most probably less than 23%.

Claus Almer: Okay. That makes sense. Thanks so much.

Operator: Thank you for your question. We have the next question from Casper Blom from Danske Bank. Please go ahead.

Casper Blom (Danske Bank): Thanks a lot. I would actually, as expected, I'd like to follow up on the 7 billion to 8 billion outlook that you put out now. Such a market outlook – not speculating what your market share might be, but when would you see that sort of feeding into the P&L, and secondly, you're expanding your factories now, if this comes through, obviously, that would require additional expansions. How would you go about with that? Would it be continuing to expand in the current facilities, or would you be looking towards new facilities?

And then finally, if you could please elaborate how this corresponds to your medium-term target, of these average 10% growth for NKT? Thank you.

Alexander Kara: That's a lot questions.

Casper Blom: Sorry.

Alexander Kara: That's fine. No problem. So how does that mix in the P&L, I mean, we have – what we have, is, it’s distributed over the next year. So we indicated also, and as we win more, if some plans will become ordered, we’ll have revenue impact in 2022 and the years to come and further project if we will win. And we look at, of course, what capacity can we have and which projects can we take, in order to fill our contractual obligation.

If it comes to factory expansion, we expand Karlskrona and Cologne, and that is the current status. And we said also, we move one focus, the lower high voltage on cologne to the Czech Republic and do some investment in Cologne, to be able to do more high voltage, AT NTC. So that will give us some improvements on capacity. And then we need to see, based on orders received, if we do further expansion that we would come back to you if we have any news here.

The midterm guidance is 10% to 14%, and of course, if we win orders with good profitability, and have also progressing well on application with our improvement, and other business and service, and essentially, we want to rather – higher end of the guidance, and we will give them more news if we think we are there. So for the time being, it's 10% to 14%,

Casper Blom: Well, actually, just to follow up on that, what I was hinting to was more the 10% revenue, or organic growth outlook. I do know that you’re saying at least 10%, but if I take 2019 as the starting point, and add 10% a year, then in ‘25, ‘26, ‘27, that would correspond to a number that is, you know, very far below the 33% market share that Claus talked about.

Alexander Kara: Okay. Okay. That's your point. Okay. But then it's clear, the CAGR of 10% is related to midterm. So between '25, '26, 10% CAGR, this would be not possible without further investment. That is clear. So, I think with investment, and so with the CAGR, '24 up to '24, roughly. To grow further on 10% CAGR, that would require investments.

Casper Blom: Okay.

Alexander Kara: I'm not sure that answers your question. I mean –

Casper Blom: No, I can follow up later on, actually just one additional small question. Should we expect any one-off costs in '22?

Alexander Kara: Nothing planned.

Casper Blom: Excellent. Thanks.

Operator: Thank you for your question. We have the next question from Akash Gupta from JP Morgan, please go ahead.

Akash Gupta (JP Morgan Chase & Co): Yes. Hi, good morning everybody. And thanks for your time. My first question is also on these projects. I think the 7 billion to 8 billion average over the next three years would be 21 billion to 24 billion over the period. Can you maybe help us with the phasing of these orders, how do you see them to come in the next three years? Will it be more front end loaded, or even reloaded or backend loaded and especially what do you have in industry order award expectations for 2022? That's the first one.

Alexander Kara: Okay. I cannot – I have here the list of the project for '22, '23 and '24, and that's pretty much balanced. So how the annual project will be awarded, it's quite a lot of number of project in the range to over 30 projects per year, roughly. We don't count this year, and so, it's pretty much balanced. It's not unbalanced. But then again, individual orders can move as we see. And we have seen also last year, the UK – moved from 2021 to 2022, but now, it will be every year, so, going forward. So that is – 7 to 8 could be pretty stable.

Akash Gupta: And then my follow up is on geographic split of these projects. So like, I mean, not that long ago, this industry used to be 3 billion to 4 billion in size, it's more likely 3 than 4, and now, we are talking about €7 billion to €8 billion, which is essentially implying a hundred percent growth in the last two, three, four years. And maybe if you can help us with where this growth is coming from, how much is US or North America, how much is Europe and how much of this is opportunities outside of Europe and North America?

Alexander Kara: Yes, Akash, I mean, I have not the percentage here, but a lot is in Europe, but also in projects in the US, also Middle East, there are projects but I have not now split it in percentage per region, but a lot in Europe, but also US, Middle East, Asia, all regions, but definitely, Europe is strong and also North America is becoming more.

Akash Gupta: Okay. And my final one on the same orders, is, if you look at this 7 billion to 8 billion, typically it takes around three years to feed into revenues at full extent. So if 2022 is going to be 7 billion to 8 billion, then it would be around 2025 when industries revenues would be in line with the order intake. And if we apply historic market share, then you can get as much as 2 billion, you should get 2 billion in euros out of the 7 billion to 8 billion industry by 2025 in revenue term.

And if you look at the current capacity, and coming back on that earlier question, it looks like you may need to soon start with big investments if you want to maintain your market share. And so far we have not seen any indication of that, while we see some of your competitors are in raising capacity before some of these orders come or orders materialise. So maybe, any comment on your market share in future? Is there any risk that your market share in the medium term might be lower than the last three, four, five years that we have seen, simply because of the constraint you have on the balance sheet side that might impact your CapEx programmes?

Alexander Kara: No. I think we want to maintain our marketing share. And on the balance sheet, I mean, you have seen, we have, sky high, quite high investment that €213 million or €214 million and still, cash flow almost neutral for cables. So, if needed, and if we see it opportune, then, we will review that and potentially invest. But at the moment, we are not there.

Akash Gupta: Thank you. And one final question I have for Line, is on inflation and net price cost, which you see every year. What are your expectations for 2022 versus 2021, if you can help us with that?

Line Andrea Fandrup: I do think like all other companies, we also see inflation rise, and the raw materials security and also on wages and salaries. We're navigating this very much and in general, to commercially passing on our customers in both in terms of our solution business and applications business. So you will see why I see input cost, but you will also see us pushing prices to enable the let's say, zero impact to our PE.

Akash Gupta: Thank you.

Operator: Thank you for your question. We have the next question from Daniela Costa from Goldman Sachs. Please go ahead.

Daniela Costa (Goldman Sachs): Hi, good morning. I wanted to ask on three things and sorry if they have already been asked because I joined a little bit later. But first, I wanted to check on Q4 solutions margins. I guess even if we take the dispute, they're still at 7%, which I think is – given Euro utilisation rates have been improving, we've talked about pricing getting better now for quite few quarters in high voltage. This still seem rather low. I wanted to understand sort of, what is still hindering this from being into the double digits like some of your peers?

I understand AC is not fully utilised, but DC, I would thought, should be margin accretive. Is it an under-utilisation impact? How much would that be? Is it pricing in the backlog that is a negative? Any color on those headwinds would be useful.

Second, I wanted to check regarding Services & Accessories. If you comment a little bit on how you see demand going forward, I guess the pool of wind offshore, particularly there has expanded, but we've been at quite elevated levels of services. So, if you can help us think about that in 2022, and afterwards, would be great.

And then my final question relates to, I think we've seen some execution issues and turbine delays and things on like players on the turbine side, I don't know, this is not a direct, read across for you, but can you talk through like, normally, like on the cable ordering process on offshore, when does the cables go in, when do the turbines go in, if we keep seeing delays on the turbine side, can it hit the demand and how bad does it have to be to hit the timelines of awards of cables? Thank you.

Alexander Kara: Okay. So, coming to the first, without this dispute, we would, around 10 million, or 7.2% and the margin is impacted by the mix. And as I said earlier, less activities on the AC cables projects. So that's how it is. And in service and accessories, we see a growing demand on accessories, particularly on medium voltage, but also with the good momentum here on service side, without disclosing anything further on Q1. And we expect that the service and accessory business line will continue to grow and also on the profitability.

On turbine execution issue, we do not see any execution issues at the moment, at least, in NKT cables. This cable, large cables are ordered early ahead, and even if there would be delay in the turbines, you can either store the cables at the factory site, or you could also do a so-called wet storage, and lay the cable into the sea, and then if – the platform, if it's the DC make the connection, make it to pull in, into the platform at the later stage.

So I do not expect that delays from turbine or installation of turbines will impact order, or have an impact on that delay over all.

Operator: Thank you for your question. The next question from Kristian Johansen from CEB.

Kristian Johansen (CEB): Yeah, thank you. So, my first question is on applications and it’s pretty impressive for 33% organic growth. Can you give a bit of color on the, growth and demand you're seeing in the quarter between medium voltage, and low voltage and in particular, for medium voltage, we've been talking about this potential structural growth as well.

Do you feel there's enough evidence now that you can firmly say that it is happening, or what's your sort of updated view on the more structural growth demand for medium voltage cables?

Alexander Kara: Yeah, I mean, we see high demand on medium voltage, and on low voltage, pretty much in all the regions we are active. And normally, Q4 is about a weak quarter for application, you can see a quite significant growth. And we expect that it's continuous. Okay, not seeing it extremely happen. So, but we see a good underlying dynamics in the market which, for us, also confirmed by other cable manufacturer.

Kristian Johansen: Understood. And then my other question was on the pipeline of AC orders. So you have highlighted that the lag of AC orders is a diluted factor currently on your mat. And so, can you just update us on the progress of – on the potential – the pipeline within AC or have you gotten more confident or less confident in terms of winning anything short term?

Alexander Kara: I mean, there are some AC orders, which we will be awarded in 2022, project in UK, projects in the Baltics, and other regions. So there's some opportunity, to be successful, but we need to see when they will be awarded. But even if they awarded, it would not – and if you would be successful, it would be not an immediate revenue impact. It will come with some delay, over, let's say nine months.

Kristian Johansen: So in any case, the potential impact on 2022 revenue would be fairly limited. Is that fair to assume?

Alexander Kara: It's very limited. I mean, our guidance is based on AC, realistic to achieve.

Kristian Johansen: Understood. Great. That was all for me. Thank you.

Operator: Thank you for your question. The next question from Max Yates from Credit Suisse.

Max Yates (Credit Suisse): Thank you. My first question would be around, two specific projects. So the SuedOstLink and the Hudson Champlain. So, I just wanted to understand what you've assumed within your revenue guidance for these projects and particularly Hudson Champlain. Have you assumed any contribution this year in guidance?

And then also, if you could just give us an update of the discussions with the customer on the SuedOstLink and how that's progressing, and when you think you'll start producing this project at your factories. Thank you.

Alexander Kara: Yeah. Okay. So, we have SuedOstLink and Champlain is a part of our guidance. And SuedOstLink as well as Champlain, will contribute to the revenues in 2022 provided of course Champlain will be awarded, but, I will not provide here, details on how much. SuedOstLink, we will start to produce around, end of Q2. So, we have agreement, we have agreement with customer when we produce also the same with SuedLink, so we will have revenue recognition from the corridor projects, and as well as the Champlain, if it gets awarded.

Max Yates: Okay. And just a couple of others. So, when you think about – you obviously talked about capacity today, and you talked about some investments that you're making in Karlskrona, and also Cologne, and also shifting some productions. So what I wanted to understand was, with the available expansions, adding line, essentially brownfield expansion, what is the maximum revenues that you can get those facilities to, without going down the route of a new factory kind of in the US or in Europe? So, yeah, what's the maximum with expansions that we can get to, in terms of revenues for those facilities?

Alexander Kara: Yeah. So, maybe as a guideline, around 200, 200 million plus revenues – through the expansion, roughly.

Max Yates: Okay. And so then, is it fair to assume, is it fair to assume that kind of, that would take your total potential revenue without Greenfield expansion to about 1.2 billion in solutions? Is that fair?

Alexander Kara: Maybe a little bit more.

Max Yates: Okay. And just the other sort of couple. So just then, in terms of CapEx for 2022, I mean, I assume given your sort of bullish market or your, I guess, optimal, positive market comments on the 7 billion, that kind of available investments, to existing capacity, will likely be made. So I guess, how should we think about CapEx over the next couple of years, in the context of you, most likely adding these expansions, versus what happened this year? So any guidance on sort of how CapEx should evolve in '22 and '23 would be helpful.

Line Andrea Fandrup: Maybe I can jump in here. On CapEx I think 2021 has been a very high level because of the parallel ongoing expansions in the solutions factories in Cologne and

Karlskrona, and we are closing out on the Cologne expansion, but the Karlskrona expansion will continue for some part of the year. So you should expect – you don't guide on CapEx, but you should expect, a somewhat of a CapEx level. Usually we would say before the expansion, we had €50 million to €60 million of maintenance CapEx, and we are turning into a bigger company, right? So that is, let's say, incrementally growing up and then closing out on the Karlskrona factory and then our continued investment both in our technology and our cyber or IT in general.

So, it's not expected to be at a similar high, but still pretty impacted by the expansion throughout '22. And beyond that, let's say we don't have a scope of larger expansions. As what Alex alludes to, of course we are considering the longer term, how to transform in KT to take our share of the growing market out there.

Max Yates: Okay. And just my very final question would just be on the midterm margin targets, which is sort of 10% to 14%. It's obviously quite a wide range. And I would say you have some fairly unique visibility in that, you have a big backlog, very healthy kind of market conditions that I would argue, would almost guarantee you that your capacity will be fully utilised at some point in 2023 or 2024.

So I guess I feel like we have pretty good visibility on the revenues. So, what I really wanted to understand was, what are the moving parts, or what do you see as kind of most important to get you to the upper end of that margin range? Because pricing should be good if the industry utilisation is high. So is it just execution? Is it mix of projects? Do you see the mix of projects in your backlog as sufficient to get you to the upper end? I'm just trying to understand the moving parts around that medium term margin guidance, given some of the building blocks, feel like they're in place.

Alexander Kara: No, it's, as we said also earlier, it's a good execution, getting project in with good margins, which would happen, then, further improvements on the application business line, and service also that we continue to have a fair share on offshore repairs, and also on accessories. So if that all happens, then we would be rather on the upper side of the guidance. And I think consensus is 13.9%. So, this is how it is.

Max Yates: And just – sorry, a very final one. When you look at a lot of the projects coming to market, I mean, we've seen obviously quite a big range of projects, which are some land high voltage projects, and offshore wind will come in the UK CFD auction, I'm think in 2022, we have some larger interconnections, like the terrainian link that came to market, do you see very different margin profiles across these projects?

I'm trying to think about kind of across that 7 billion to 8 billion. I know you've mentioned DC is more profitable, but just thinking about the major projects where you have the opportunity to win, which I see as sort of the CFD Hudson Champlian, do you see very different margin profiles in a lot of these projects or not so much?

Alexander Kara: No. I mean the margin, I think varies from project to project, you cannot say. And we are active on all the areas, on interconnectors like Champlain Hudson, it could be also land interconnectors, offshore wind TC, oil and gas, power from shore. So, it's a mix bag, but overall, this higher utilisation, we can also, with our backlog and also our capacity, we can be more selective and we see that margin. We see that margin go up and also – we also raise those prices whenever we can.

Max Yates: Okay. Actually, I mean, maybe if I could sort of slightly rephrase it. The SuedLink and SuedOstLink project and Hudson Champlain, are going to be a very, very big contribution of your revenue in the next two or three years.

And so I guess, maybe my question is, do you see different margin profiles in the land projects to what we've traditionally been used to in some of the offshore wind and larger interconnections? Do you see much in the difference in terms of margins?

Alexander Kara: I mean, Champlain Hudson is obvious and direct negotiated deal where you can expect satisfactory margins, and also in the corridor project, we communicated earlier that we are having satisfactory margins.

Max Yates: Okay, fantastic. Thank you very much.

Operator: Thank you for your question. The next question is a from Akash Gupta from JP Morgan.

Akash Gupta: Yes. Hi. Thank you for taking the follow up. The first one I have is on Photonics, so, here, if I look at your margin guidance, you are guiding 11% to 14% EBITDA margin in 2022. And if I compare then against 2019, when on an underlying basis, you had 15% to 16% margins, I mean, we are looking for revenues that are quite ahead of 2019 level, but margins are somewhat down. So maybe if you can help us explain what is really driving it, is it more investments or is it the segment mix within Photonics? And then how do you see the path to midterm margin ambition? Should we expect a more of like a straight line or more like backend dotted margins in Photonics?

Basil Garabet: Okay. Alex, you're obviously not on –

Alexander Kara: Yes, sorry, I did not hear that.

Basil Garabet: Yeah. I can answer that. 2019 was affected by a number of one-offs. And if you adjust for those, actually 2019 will come further down than the 14%, 15% you alluded to. So actually, we are on a very positive track here to see EBITDA margins that will be higher than they've been in a number of years coming into 2022, with this guidance that we've issued.

In terms of the longer range or the midterm guidance, we will see a gradual improvement towards the guidance of 20% to 25%. It is not as such back loaded towards the later part of the period. The improvement will be driven by obviously more than anything else, it will be driven by scale effects from the increasing revenue, and it will be, driven also to some extent by improved gross margins and improved efficiency within production.

Akash Gupta: Thank you. And my second follow up is on working capital progression. I think there was a positive surprise in Q4. And if we look at in 2022, on one side, you have execution of projects where we don't know what sort of working profile, working capital profile you have, and on the other side, you have a prospect of very strong order intake where you might get some customer down payments. So for modelling purposes, what's your current expectations on working capital in contribution in 2022? Should we expect any headwind or tailwind any comment on that?

Alexander Kara: Line, will you answer to the modelling question?

Line Andrea Fandrup: Sure. So, in terms of the '22, sorry, I didn't hear the question there.

Akash Gupta: Yeah, it was on working capital progress that you had a positive in Q4 and are there any projects, working capital profile where you may have to, consume cash because of the ramp up that may be something you would like to flag, and overall, given on one side, you may be executing on these projects, and on the other side, you are expecting some large order awards. What's your expectations at this point in time for full year working capital? Like, is it a positive number or negative number? What should we expect?

Line Andrea Fandrup: I think you expect to see it fluctuate throughout the years, as in general, we have it. I think Q4 again, '21 was very favorable, right? So, expect some of that to be in the quarters. And then it very much depends on awards in some of these projects. And I think you can actually look up, some of those projects that we talk about when they would expect it to be awarded, of course, that would have a very positive impact if Champlain is awarded and the prepayment on that. And then on the other side, you will see that we expect to start production on some of the larger DC projects later this year, which of course then will also impact our working capital. So I think nothing out of the usual fluctuations to expect here.

Akash Gupta: Thank you.

Operator: Thank you for your question. The next issue from Jakob Magnussen from Danske Bank.

Jakob Magnussen (Danske Bank): Yes. Thank you very much. A question on your capital structure. You have a hybrid that's up for its first call date later this year. So just wondering, your thinking around, first of all, calling this, which seems quite obvious, in terms of reducing your interest cost, but more on, if this should be refinanced in the debt markets, or you want to simply go with a lower cash profile going forwards? And maybe also in prolongation of that, your thoughts around longer term ability to pay out dividends to shareholders. Thank you.

Line Andrea Fandrup: Thank you for the question. We are not at a conclusion yet in terms of how we will act. I mean you're fully right, it is in our interest of course, to have the lowest cost of capital, possible. And what that means in terms of the how we will make a decision on not too far away, fully right on that one. So let's see with the, the movement here of the year, in the first half, and then we will of course share when we get to that conclusion.

Jakob Magnussen: Thanks.

Operator: Thank you for your question. There are no further questions at the moment.

Alexander Kara: Okay, then, thank you very much for your good questions. And thank you for your time, to listening to this conference call. Wish you a great day. Bye-bye.

[END OF TRANSCRIPT]