

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

NKT.CO - Q2 2023 Nkt A/S Earnings Call

EVENT DATE/TIME: AUGUST 16, 2023 / 8:00AM GMT

## CORPORATE PARTICIPANTS

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

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

## CONFERENCE CALL PARTICIPANTS

**Akash Gupta** *JPMorgan Chase & Co, Research Division - Research Analyst*

**Casper Blom** *Danske Bank A/S, Research Division - Analyst*

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

**Kristian Tornøe Johansen** *SEB, Research Division - Analyst*

**Lars Topholm** *Carnegie Investment Bank AB, Research Division - Co-Head of Research of Denmark & Research Analyst*

**Moyo Adebayo** *Goldman Sachs Group, Inc., Research Division - Research Analyst*

## PRESENTATION

### Operator

Good day, and thank you for standing by. Welcome to the NKT's Second Quarter Report 2023 Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to our speaker today, Claes Westerlind, CEO. Please go ahead.

---

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

Thank you, and good morning, everybody. I would like to start by showing you this slide that the presentation and also the comments made by the speakers today will entail forward-looking statements.

And on that note, today, you will listen to myself, Claes Westerlind, the CEO since May of NKT and also Line Andrea Fandrup, CFO, sitting next to me.

On that note, we go into the presentation. First, I would like to just provide some quick updates on NKT Photonics. I think the background is clear for most of you. But nevertheless, in June 2022, we entered into the agreement with Hamamatsu to divest NKT Photonics. Since then, we received the regulatory approvals or the divestment received the regulatory approvals from Germany, U.K. and also in the U.S. However, on May earlier this year, the Danish Business Authority denied this authorization under the Danish Investment Screening Act and, thereby, put a temporary hold to the process.

The purchaser has since taken further actions around this matter and has also recently refiled its application to the Danish authorities. And of course, awaiting for that decision, we are also continuing to evaluate our options. NKT Photonics continues to be presented as discontinued operations and asset held for sale meanwhile.

So coming to the quarterly results in Q2. Allow me just to summarize a little bit. We achieved a 26% organic growth in the second quarter compared to the same quarter of the year before. And that is contributed by all business lines. Our operational EBITDA on group level reached a new record high level of EUR 58 million. That's the highest absolute level in any quarter in the company's history. Our high-voltage order backlog increased to a record high level of EUR 7.6 billion. And the most significant awards that were added in the second quarter were the East Anglia THREE project, Baltic Power and also Bay of Biscay.

Strong quarterly free cash flow generation of more than EUR 280 million, and that was driven mainly by the earnings contribution and significant milestone payments in Solutions. And some of those milestones were in relation to the investment support given by customers to support NKT's growth plans.

We also launched and announced a moderate investment program of EUR 1 billion that we have discussed with yourselves previously, which is extending the Karlskrona both from a factory perspective, a greenfield factory in a brownfield environment and also adding another vessel to NKT's fleet. The investments will be carried out between now and be concluded in the end of 2026 to become operational in 2027. And in support of that process, also, we have completed the rights issue even though formally that was closed in July.

Going into some of the business highlights. We -- when we view the performance in the second quarter, I can conclude that we had satisfactory product execution in Solutions. The revenue growth that we sustained in Solutions and also in general was large -- attributable to the additional capacity and capabilities that we have added in the Solutions business over the recent years.

On the Applications side, we have continued in the second quarter to benefit from a positive performance in the power distribution grid segment, driving both medium voltage and also partly the 1 kV cables. And that, in turn, is, of course, supported by the renewable energy transition and also general electrification of the society.

Last but not least, Service & Accessories also had a good quarter seen versus same quarter in 2022, and that is basically our accessories business benefiting from the same structural growth trends as we have done in medium voltage and Application and also Solutions. And that then constituted the growth of 26% in revenue and also a growth of EBITDA with EUR 17 million, reaching the EUR 58 million. taking our operational EBITDA percentage up to 12.4% for the quarter.

Diving further into a little bit around Solutions' second quarter. As I just said, the revenue increase in Solutions is driven by the execution of orders that have been awarded in recent years, paired with the extended capacity that has also gradually coming online and being filled up in Solutions.

We have continued to execute multiple of our projects in various phases of execution, some of them in production, some in installation. These projects are including, but not limited to, Borwin 5; the Champlain Hudson Power Express, both the U.S. part; and also Hertel in Canada; Dogger Bank A, B and C; Shetland; and also the corridor projects. And for the corridor projects earlier this year, we announced that we have shipped the first run for SuedLink. And as part of the second quarter activities, I'm also happy to see that we have now also shipped the first run in the SuedOstLink project.

And last but not least, NKT Victoria, our current cable-lay vessel, was utilized and had a good utilization for various assignments during the quarter. You can see (inaudible), we are happy for. Revenues, EUR 285 million, and EBITDA close to EUR 42 million.

Reflecting further on the solutions side, looking into the market development (inaudible). When we view the first half of '23, we can conclude that in our addressable segment of high voltage, we have seen around EUR 7 billion of orders which have been awarded, and that's mostly produced in Europe. The trend of the market diversifying between spot and also frameworks is continuing, so we can see activity both across all segments, interconnectors, power from shore and offshore wind but also for spot projects, so individual project awards and procurement process and also framework agreements. And of course, framework agreements, as you know, the market manifested itself by TenneT awarding the first multibillion-euro framework agreement during May earlier this year. And there is further activity around this, which I'll come back to.

The addressable market in '23 and also in '24, if we look on the full year's expectancy, we now expect to be significantly above EUR 8 billion. Of course, this development always depends on some very large projects or very large framework agreements. Sometimes, if a project is late by 3 months, then it can go from 1 year to another. But we see the market in terms of volume positive for the moment, which is similar to as what we have said before.

Last but not least, also reflecting on the amount the technology being -- the activity in the market. And there, we can see that DC technology and also higher voltage levels, an example of that is 525 kV but could also be 400 kV, is the absolute majority of the activity that we can see for the moment.

To the right on this page, you will also see some of the particular projects that we have been awarded during the first couple of months this year. On this page, I also want to just mention what has been fluctuating quite a bit lately in media and around that. And that's around project cancellations and inflation pressure, which is ongoing. This is something that also we have seen and are closely following. From our perspective, it's not so unexpected that certain projects are delayed to a certain extent or some processes also in need of resetting following the unexpectedly high inflation that we have seen for the last 2 years.

So projects resetting themselves to cater for new cost levels is perhaps a natural process of the aftermath of high inflation. I can also just reflect on the fact that the supply-demand balance when it comes to high-voltage cable volumes for the moment, the demand for that is somewhat higher than what the supply capacity can actually support. So in that, there is a little bit of a tolerance for what the suppliers such as NKT, what we also can tolerate in terms of delayed volumes. But having that said, we also, of course, take extra comfort from the fact that we are leaving the second quarter with the highest backlog that we have ever seen.

And should the unexpected happen for a project that we are in pursuit of or even that we have in the backlog for our contracts, as we have discussed and disclosed also before, we typically do not commit capacity towards the customer without the commercial commitment in return. So we do have protection mechanisms in our contracts. And of course, over and beyond, a compensation does not replace -- affirm the fixed volume, but we also have replanning possibilities internally. And on that note, of course, also a very high backlog supports us in those kind of opportunities. So while we note that these streams are happening in the market, we are not overly concerned by it from an NKT perspective.

On the note of backlog development, we have this picture that I think shows a very nice journey for a cable manufacturer, an increase in the backlog since end of '19, where we stood at EUR 1.4 billion up to where we are for the moment of EUR 7.6 billion. In the first half of 2023, we have secured approximately EUR 3.5 billion of new awards. And that is if you look at the total order backlog, about 8% of that is set for execution this year and 92% set for execution in 2024 and beyond.

In the context of backlog as well and what we just discussed, the spot markets and also framework markets, we have said before and we continue on that path that we have now been awarded both frameworks and spot markets. And our intention is also to continue to pursue both of these types of projects. The good aspect with the framework agreement is that they do provide a long-term earnings visibility for us. They bring us close to our customers. They allow us to focus resources internally, and they allow also for better replanning possibilities should the unexpected happen.

Then we come to Applications, which had a strong second quarter, a high revenue level, which was, to a large degree, due to increased prices in turn to compensate for the inflationary pressure that is very existing in the Applications space. We have benefited from a strong offering and also performance in the medium voltage power segment, which is in relation to the power distribution and grid trends driven by the green transition and electrification. And of course, at the same time, being challenged on the building wire segment. So in the aspects where construction business is on a slowdown, and we have seen that also now in the second quarter. And concluding on this, the revenue growth combined with also the never-ending endeavors around efficiency initiatives led us to very a decent EBITDA margin standing at 10%, which is significantly higher than the same quarter last year.

Service & Accessories business line have also -- we have seen a strong quarter in the second quarter. Revenues and earnings are increased, and this is mainly driven by the accessories business, where the same -- they have benefited from the same structural trends that we have discussed earlier in the presentation. From a service side, so far this year, we have not had any offshore repair work. And of course, that brings the totality of the business to a lower level than if we would have had. The reoccurring business has been largely on a satisfactory level, and we are continuing focusing on growing on the service side by adding more and more service agreements and also exploring other potentials of business in terms of geographical expansions, et cetera. So that left the business line with EUR 51.7 million of revenues and EUR 5.7 million operational EBITDA.

And with that general introduction, I would like to hand it over to Line for the financial highlights.

---

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

Thank you, Claes. So hello, everybody. Yes, we are on the first page of the financials. We have the income statement. And as Claes went to per business line is consolidating into a nice revenue development for the full company.

So for the quarter, revenue is up 26%. And for the first half of '23, we are up 30%. And that is really a contribution across all business lines. Operational EBITDA, both in absolute terms but also percentage margin, is also taking a good step-up compared to last year, especially margin -- EBITDA margins that driven out of the Solutions and Applications.

No, we had no one-off items in the quarter. But as some already know that we had an effect of nonallocated cost of the CEO change of EUR 1.5 million.

On the net result also from continuing operations, a very good step-up here, and we continue to hire in the right people for driving both our programs now in terms of investing but also the expansions in the different business lines. So we are, today, more than 300 people more than last year.

If we turn to the next slide, zooming in on the working capital, which is quite extraordinary this quarter, we would say. It's very much the continued support from our customers' willingness to support the supply chain. And this is across more customers that we've seen this support. And that enables a very strong performance on working capital. This pans into cash flow, which will come to on the next slide but also, in general, also on ROCE. So the contribution of improved cash and stronger earnings, we see a good step-up in the ROCE, where we end the quarter at 10.5% compared to 4.1% at the same time last year.

With this performance on cash, we now have available liquidity reserves of EUR 616 million. This is cash of EUR 416 million and then our credit facilities of EUR 200 million. And then in Q3 reporting, you'll see the capital increase, the proceeds of that also coming. To mention also guarantees, which we have spoken about more this year than before, we have seen a significant step-up in issued guarantees from Q1 to Q2, we would say. This is, of course, because of the high activity we have on Solutions very much, and you will see this stepping up as you also have to see also growing the top line.

Going into the cash flow generation. I'm not repeating myself here. It's a very strong performance on the working capital, which is good to see, but also, Applications has -- which has different mechanics in terms of actually getting to a more favorable working capital position in the Applications. That's [worked very diligently] and is also contributing a fair deal here. We are continuing our investment program and, of course, also ramping up on the EUR 1 billion investment program Claes mentioned as a part of the highlights and much more to come on that ahead of us.

Just to mention also the acquisition and divestment of business line of minus EUR 9 million. This is related to the associate company in Taiwan with Walsin. It's a net 0 effect on cash flow. You would see the corresponding plus EUR 9 million in the working capital line. So free cash flow ends up at EUR 281 million for the quarter.

Yes, and then yesterday, we announced a change to our outlook for the year. Following the strong performance in the first half of the year, we have maintained our revenue guidance for the full year of EUR 1.8 billion to EUR 1.9 billion whereas the operational EBITDA is lifted to EUR 215 million to EUR 255 million (sic) [EUR 245 million]. We remain to secure continued satisfactory execution of our high voltage investments and projects. We need the offshore cable repair works, which so far this year, we have had one up, and then, of course, the environment impact around us, we should see limited financial impact of that in supply chain and inflationary position.

So turning to the recap of the key messages from this quarter: a 26% organic growth and also a good step-up on the EBITDA, a record high quarterly level; a strong backlog as Claes went through, very good for the visibility of the execution ahead of us; very strong quarterly free cash flow generation and very much constituting also the fact of our customers to support into the continued investments in the company; and then the actual investment program of the EUR 1 billion on the new factory and the vessel to be executed on the coming years.

With that, we will turn over to Q&A.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And the question comes from the line of Casper Blom from Danske Bank.

---

### Casper Blom - Danske Bank A/S, Research Division - Analyst

I have 3 questions, please, and I'll try to take them one by one. So Claes and Line doesn't have to write anything down. I would like to start on the subject that Claes also talked about, the sort of current situation within offshore wind specifically. Claes, you mentioned that should the unexpected happen that something in the backlog would end up being canceled, then you would have some sort of economic protection. Without going into contract specific, could you give us any kind of indication on what this typically would be, maybe some sort of percentage of the contract value, for example?

---

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

Thank you, Casper, for the question, highly relevant. I'm not sure how much details I can actually give you. But I can say it is a considerable amount. So it's not only single-digit percentages of the contract value. That much, I can say. But I can also, on the flip side of the coin, say that a project cancellation with that compensation paid will also never, of course, make NKT whole. We would always want the volume and the project better than the compensation. But that's also in the context of the risk. The more backlog we have and the longer visibility we have, it also helps us because the next to the compensation remedy that we would take is to replan our operations to cater for the potential shortfall that an actual cancellation would leave.

So I think it's those 2 things in combination. Typically, you've heard me say in the past that the compensation levels is a message -- contractual message, don't cancel the customer. But even if they do, of course, it's part of the Band-Aid that we need then to repair the damage inflicted.

---

### Casper Blom - Danske Bank A/S, Research Division - Analyst

Okay. I appreciate it's a sensitive subject. Then moving on to framework activity. We saw your recent announcement regarding work with SSE that could potentially lead into framework agreements. Maybe you could give us an update on what other kind of framework projects we should expect over the next, let's say, 6 to 12 months, both in terms of how many TSOs, et cetera, you are currently engaging with? And also, if possible, how big this could potentially be in economic terms?

---

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

If we start with the economic terms, I think the frameworks would support the market volumes that I stipulated before in '23 and '24. So in terms of total size, together with the spot market project. So it is significant volumes, typically, the frames we saw earlier this year, multibillion framework. Without going into details, I think it's fair to say that also many of the others -- most of the others are more than EUR 1 billion, and some of them are significantly larger as well.

As you say, we are in the dialogues with SSE for the moment, and there are several other TSOs also in Europe that, for the moment, are either in the active process of the tendering of a framework or in start-up phases and in the planning and issuing phase of the frameworks. And maybe also in the context of what we talked about, the potential cancellations, I also would like to say there that looking at the frameworks, we have not seen a reduced activity level following the spot market cancellations, so to speak, that are in a wider discussion. So these frames, they are scoped and planned recently, as we can see it also taking into consideration the current cost levels.

---

**Casper Blom** - *Danske Bank A/S, Research Division - Analyst*

Interesting. And then finally, a question on competition within high voltage. There is, of course, your classic competitors Nexans and Prysmian. We see those all the time. And then we've seen LS Cable and Sumitomo also being mentioned on some of these recent framework agreements. Are you seeing any signs of other competitors trying to enter the European market? As you say, supply can probably not support demand right now. So is that opening a door from -- for other Asian players, for example?

---

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

Yes, we have seen for several years now, it's a continuous pressure from new competitors, depending a little bit on which segment we look at, but if we look into the DC segment, which, I think, Casper, that you're targeting here, we can see that there are many players wanting and also some actively trying to get into that segment. That's in light of the supply-demand balance on the one part, of course, but it is -- the threshold to actually establish oneself is quite large. But in general, with the supply-demand balance that is for the moment, we also do not -- we don't fear competition.

But we are also vocal about that the playing field needs to be even. So that's also an important thing from a regulatory perspective and also from a tender evaluation perspective. One example are sustainability matters with CO2 emissions of transportations that needs to be taken into consideration in the tender valuations. We can see positive trends there, but I would hope and expect from the market in general that, that picks up even further.

---

**Casper Blom** - *Danske Bank A/S, Research Division - Analyst*

Okay. If I may follow up, when you have your discussions with the large European developers, the large European TSOs, is it for them an option to potentially order HVDC cables from Chinese producers? Or is that politically not yet a possibility for them?

---

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

That would be difficult for me to comment what our customers -- ultimately, what their position is on that. What I can say is that, typically, what they are doing is, I mean, they have the qualification process. There is a pass-fail criteria for if you are qualified to participate in the process or not. If you are qualified, then it's about the tender evaluation criteria. And it was the latter I was talking about with the playing field that needs to be even as well. I think we have seen that our customers that do entertain cables being supplied from Asia, LS being one example. So I think there are examples of it. Whether all would entertain it or not, I will try to refrain from speculating.

---

**Operator**

And the next question comes from the line of Lars Topholm from Carnegie.

---

**Lars Topholm** - *Carnegie Investment Bank AB, Research Division - Co-Head of Research of Denmark & Research Analyst*

Congrats with a good quarter. A couple of questions for me. One goes to the intragroup eliminations for the quarter, which jumped from EUR 5 million in Q1 to now EUR 39 million. And I understand it might be currency-related, but I just wonder if you can explain this increase and if it's currency-related, also if it has any impact on absolute EBITDA or if it's, in fact, something that affects top line negatively but not earnings, which means it would be margin-enhancing.

And then the second question goes to the net working capital position, where, of course, I understand that we shouldn't necessarily extrapolate on 1 individual quarter. But I wonder if you can give a view on the long-term level of net working capital relative to sales and maybe also comment on what we should expect over the next 3, 4 quarters.

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

Thank you for the questions. So on the intrasegment transaction, and we understand why this (inaudible) when you go through the accounts. I think there's 2 elements to this. One thing, which has been very consistently, but now we're growing company more in the company trade of both services and goods, and that means both from our services, to our Solutions, accessories to Solutions but also from our Applications to Solutions. Because we made a footprint move where we're working on that between Germany and Czech, we will have more intercompany. So expect this to continue, and then leveling will be going up and down, of course, depending on execution.

And then you're right on the other side, we have -- we also have an impact of hedges where we eliminate on the group level for the companies that are in functional local currencies. And this is especially for this quarter related to Czech and Poland, but trading in euros, eliminating the impact on the hedging in the local environment. And then we actually take it out on revenues. We will have -- that's not transparent in the accounts, but you have an offsetting effect further down before operational EBITDA.

So the impact on the operational EBITDA is almost net 0. On the nonallocated, you see minus EUR 2.5 million, which is related to currency hedges. But this is the kind of flow of the account. So very technical. But when the currencies change, especially Swedish crowns, the Polish and Czech currencies, we will have the revenue indicating that, and we will eliminate on group and cover the exposure.

**Lars Topholm** - Carnegie Investment Bank AB, Research Division - Co-Head of Research of Denmark & Research Analyst

So Line, just to make sure I understand it completely correct. So this has a negative impact on top line in this situation but not on earnings. Is that correct?

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

Yes, that is correct. It's a very small, I would say, a marginal impact on the nonallocated where you do see -- if we take that cost separately, there's a EUR 1.5 million on the CEO change. And then there is EUR 2 million, EUR 3 million on FX hedges on group.

On the net working capital, I think what's extraordinary about this quarter and I think it's the same for every quarter where you see significant awards for the company. It is the advance payment from the customers that follows in relation to that. And one is the extraordinary of Q2 '23 is that we are getting further support by some of the frame agreements and other customer arrangements we're going into to actually support the investment in the company.

So I'd say it's extraordinarily favorable. Would we have the same amount of awards in the following quarters, we could probably get to the same extraordinary level, but you will see the fluctuation on this with awards. So I'm not saying we will maintain it consistently in such a low level. That would depend on awards. I think that the basis so far is that you could look at revenue -- working capital to revenue for at least the '22, maybe average would be the market as is, and then with these extraordinary large awards, you will see us turning into even more favorable levels.

**Lars Topholm** - Carnegie Investment Bank AB, Research Division - Co-Head of Research of Denmark & Research Analyst

So going forward, from a 10% level, maybe towards a 15% level, would that be sort of a reasonable assumption?

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

Yes. I'm not being specific on numbers now. But obviously, it is also as going back to Claes' comment on similar level slide that -- with frame agreements and more than ahead of us. And with real success, that could mean a different level in the time ahead of us [soon].

**Operator**

And the next question comes from the line of Moyo Adebayo from Goldman Sachs.

---

**Moyo Adebayo** - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

I've just got one today, and it's on the Applications business. I was wondering if you could provide some color on the pricing trends that you're expecting for the second half this year.

---

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

Thank you. It's also a good question. And I think we are -- it's a dynamic macroeconomic environment. I think I don't need to educate the people on this line around that. So therefore, we are humble. What I can say in general, if you look on the 2 primary drivers for the Applications business, the 1 side is the power infrastructure driven and 1 which is driven in turn then by the green transition and general electrification. I think there, we expect the volumes to continue to be favorable, and that should also support a decent price level.

If we look into the construction segment, both volumes and prices, we don't have any large hopes for the coming quarters, to be honest. So I think that's the way I would summarize it without going into percentages.

---

**Operator**

And the next question comes from the line of Kristian Johansen from SEB.

---

**Kristian Tornøe Johansen** - *SEB, Research Division - Analyst*

Also, a couple of questions for me. So first of all, to your guidance, you said the upgrade of the EBITDA guidance related to the strong first half. Just curious into your assumption for the second half of the year. So have you changed any assumptions for the second half of the year in your updated guidance?

---

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

I think the -- sorry, yes, so if I take the question or [point], it's very much first half performances. What we're changing for the rest of the year, I think you see the same kind of comments on what needs to happen as first. It's a ramp-up year in terms of the capacity and towards the end. I think that's a continuation of what we said before. We also see -- and as Claes mentioned, some of the big larger projects in execution, we need to have satisfactory execution here. And that's more or less on Solutions, Applications. We are not changing our, let's say, approach to the uncertainties around the environment but also the positive (inaudible). And then we would like to see repair jobs in our Services & Accessories business. So this is kind of the fundamentals around portfolio continuity also.

---

**Kristian Tornøe Johansen** - *SEB, Research Division - Analyst*

So if I understand you correctly, your budget for the second half of the year is roughly unchanged. Is that correct?

---

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

Yes. So yes. Yes.

---

**Kristian Tornøe Johansen** - *SEB, Research Division - Analyst*

Great. Then slightly along the same line. The margin in Solutions in Q2 is a bit lower than what we saw in Q1. If I remember correctly, in Q1, you had some reversal of provisions, which sort of helped to boost the margin. Were there any such reversals in Q2? And if not, is the Q2 margin representative for sort of a base case margin for the coming quarters?

---

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

Maybe I can have a go first a little bit the general reflection, and Line can fill in. Reflecting about Solutions in general, it is a difficult business to look on from a quarter-to-quarter perspective, seeing that these projects are some of them as short as 3 years, most of them 5 to 6 years long. And the revenue in any given month, any given quarter, any given half year will be a mix between our various projects. Just estimating for the moment that we have maybe in something like 20 to 25 large projects in execution in very various stages, some of them just in engineering stage, some in manufacturing, some in installation. And they will mix in the quarters, which project is being executed when.

So that will vary quarter-to-quarter. And of course, as every project has a different margin connected to them, a different scope, some projects have only products. Some projects have installation together with it. Some projects have only, for example, sea cable-lay installation. Some are trenching. So that will push revenues up or down quarter-over-quarter. And also, together with that, margins can vary up or down. So the mix aspect is an important one.

Then to your point about reversals of provisions or risk and contingency as we call it, that also varies quarter-on-quarter depending on which project is in execution at what time and what milestones are we reaching. As an example, if a type test is completed in a certain quarter and there is some sort of a risk reservation against that, if we are successful, then such a risk would be released to profit. If we are not, then we have to execute part of the test again. We have to consume it and use it for cost instead and, thereby, not release the profit. So this will also vary greatly quarter-to-quarter.

And last but not least, it's also -- deserves to be said that the inflation that we talked about, we are also seeing that some of the legacy projects, which are also in execution, of course, have been struck in part by the inflation and input cost increases, which also then goes into what I said before about the mix. So some project margins are also impacted.

So that's just reflecting a little bit about the margins in Q1. The fact that they are lower in Q2 is, as far as I'm concerned, not necessarily a proxy on how the Solutions business is performing from a profitability perspective. To make that kind of judgment, we have to look at many quarters, if not 2 years or 3 years.

I don't know, Line, if you want to add anything to what I said there.

---

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

No, I think that covers, unless Kristian has a follow-up.

---

**Kristian Tornøe Johansen** - *SEB, Research Division - Analyst*

No, no, I think that's fine. Then just my last question here in your initial remarks on NKT Photonics. You said that Hamamatsu has now refiled the application to Danish authorities. Do you have any indication of when the Danish authorities is expected to sort of reply or sort of react to this new application?

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

No. We cannot comment on that out in the open. So we are -- as the rest of you, we are also eagerly waiting and just hope it's in the not-too-distant future.

---

**Operator**

And the next question comes from the line of Akash Gupta from JPMorgan.

---

**Akash Gupta** - *JPMorgan Chase & Co, Research Division - Research Analyst*

I have a few as well. The first one is on the phasing of the backlog. And here, when I look at your phasing and implied full year Solutions revenues based on first half revenues and what you are implying in your backlog slide and compare this with Q1, I see that you have now roughly EUR 100 million lower Solutions revenues implied versus before. And I was wondering if you can provide any color on that. Is it because of any delay in ramp-up or maybe customers are shifting execution and implementing that (inaudible)?

---

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

Akash, it's Claes here. It's a little bit of a bad line. Maybe it's only on our part. But I understood your question that you say that revenues in Solutions will decline in the second half year if you compare to the run rate in the first quarter. And I think it goes back to a little bit of the story that I just told before, different mix, different scopes, which can impact both revenues and also margins in any given quarter or half year. And I can confirm that it's not due to any delays in our investment projects or inside our projects.

---

**Akash Gupta** - *JPMorgan Chase & Co, Research Division - Research Analyst*

Maybe to rephrase the question. So when I look at your Q1 Solutions revenue, if I look at your Q1 presentation on how much of your backlog is due for 2023, I get implied revenues of around EUR 1.160 billion. And now when I look the same slide now, I get to EUR 100 million less, about EUR 1.060 billion. So I was just wondering whether something has changed or this is just because of some rounding error in the numbers in the slide that you provided.

---

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

Yes. I think it's fair to say that the numbers that you referred to and that we have disclosed are rough numbers, and they need to be treated as such. So for fine counting, then we would need to use different sources, or maybe you would have the need to have different sources from us.

---

**Akash Gupta** - *JPMorgan Chase & Co, Research Division - Research Analyst*

Okay. And my second one is on the legacy backlog project. So when you [mention your competition] and they basically said a number of projects taken before (inaudible) been a bit lower margin than the projects that have come afterwards. And when I look at your backlog, I get around 15% to 20% of the backlog could be relatively (inaudible) compared to other projects. And is that a fair assumption?

---

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

I apologize, Akash. I don't follow because the sound is very, very bad. I don't know if you're in a bad location. Could the operators confirm? Do you hear the sound as bad as we do? Or is it on our end?

---

**Operator**

Yes, it is Akash's line. It's pretty bad. So maybe Akash is on loudspeaker or something.

---

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

Okay. Sorry, because I couldn't follow. If you try again or if you reposition yourself a little bit.

---

**Operator**

Excuse me, dear speaker, Akash just dropped out from the -- asking the question. (Operator Instructions) And 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*

We have also some questions from my side. Coming back to the pipeline and the potential order intake in the second half of this year, what do you see -- is there more orders to be signed maybe from framework and conditional or just conditional orders? That would be the first one.

---

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

Claus, it's Claes here. Thanks, it's a good question, relevant one. I think we can say it's a potential for both. But I just, again, want to say that it is also, as you are well aware, in these processes, the process can easily slip with 2 months or 3 months, making it not being in this half year but in the first half of the year of '24. That has no material impact on NKT as such, but of course, has a big impact on the quarter in terms of order intake. So I just want to give it with that caveat.

---

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

Fair enough. So your working assumption is that those projects or some of these projects will materialize or is up in the air?

---

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

I think I go back to what we discussed in the slides there, we recognize what has happened and what we are seeing in the market that a limited amount of projects gets mildly delayed or some even canceled. But the majority of the projects, we expect them to materialize. It's more a question of timing when they do. And we have a high activity. We have a situation whereby we cannot tender for everything which is out there. And that's for 2 reasons: one, because we don't have the cable capacity to supply; and two, because simply there is so many tenders so that we don't -- we are even struggling sometimes with tender resources to do the tenders.

---

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

Okay. So that means that your working assumptions is that there could be some orders coming in the second half. That's how I should read your -- not really answering my question?

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

Yes, yes, sorry. No, you're reading it correctly. I think we said that EUR 7 billion has been awarded so far this year, and we see that it's going to be significantly above EUR 8 billion, which I think -- that's the answer. So yes, we expect the volume.

---

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

Fair enough. Okay. And then coming back to these projects being delayed or even canceled, what -- is there some specific type of projects that is being canceled or delayed? Or how can you give some more color to this early trend?

---

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

Yes, that's -- my reflection is when I see the projects which are -- and even processes which are questioned, procurement process or how should I put it, like the CfD process in the U.K. When I see both projects and this kind of process, what is common -- the common denominator as far as I see that is that they are scoped quite a while back. They are planned and scoped and framed a while back. And then, of course, since inflation has caught us all a little bit by surprise, so of course, input cost rises and, thereby prices, and that makes the business cases in need for a reset. We have seen it primarily within offshore wind if you just look at numbers and volumes, which is, as I said, also initially, maybe not a surprise. So those would be the reasons that I would quote.

---

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

Okay. Fair enough. And then my last question, that goes to execution, especially the SuedLink projects are getting closer. So where are you from a technology product quality point of view? Are you fully satisfied by the progress or anything we should be aware of?

---

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

The -- typically, we don't provide too much specific comments around certain projects. So I will try to be a little bit careful there. But the 525 kV technology in general, NKT or at that point in time, even with ABB launched this technology as fully prequalified and ready for commercial use in 2014. Now we are in 2023 following the awards in 2020, and we are in production of 525 kV cables. And what I can say on the specific projects, we have delivered cables from Cologne to sites, both in SuedLink and also SuedOstLink. And we don't deliver cables from our facilities lightly. So we do that when we feel comfortable.

Then, of course, we are humble, and we are in an environment where a lot of diligence and care has to be taken around quality. That's not only about doing a qualification that we need to exercise every day, every month, every quarter to ensure that we also maintain and continue with that.

---

**Operator**

(Operator Instructions) Dear speakers, there are no further questions. I would now like to hand the conference over to Claes Westerlind for any closing remarks.

---

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

Yes. Thank you. And I just wish to thank everybody that you took the time to listen in and also take the opportunity to praise also the NKT organization for what has been accomplished in the second quarter. So kudos to all people that work in NKT and actually made it happen. Thanks a lot.

---

**Operator**

That does conclude our conference for today. Thank you for participating. You may now all disconnect. Have a nice day.

**DISCLAIMER**

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2023, Refinitiv. All Rights Reserved.