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Q2 2020 NKT A/S Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the NKT Q2 Report 2020 Conference Call. (Operator Instructions)

I must advise you that this conference is being recorded today on Wednesday, the 19th of August 2020.

I would now like to turn the conference over to your first speaker today, Alexander Kara. Please go ahead.

Alexander Kara NKT A/S - President & CEO

Yes, good morning, everybody. Thank you that you will take the time to listen to our Q2 report of NKT. I have here in the room with me Line Andrea Fandrup, my new CFO, who has just joined some days back on the 10th of August, and she will just say in some minutes, a little bit about herself. Then we have Basil Garabet in the room here as President and CEO of NKT Photonics; and Michael Nielsen, Head of Investor Relations, who will today answer the financial question as Line just joined a few days ago, and I'm happy that she is here. And good that she's here.

And with this, I want to hand over to her so she can say some words about herself.

Line Andrea Fandrup

Thank you, Alex, and good morning, everybody, here on the call and listening in. I am very excited to be here. It's officing my 8th working day. So being absolutely new to NKT. I'm sure many of you have read upon a little bit on my background. But anyway, just to give you a short version of that, I come from a caviar of the international companies across different businesses. So I've been a part of the shipping. I've been a part of biotech, innovation pipelines, production, professional services, large projects around the world. And lately, I was part of the ROCKWOOL capital incentive industry and the wool production chain of that.

So I was happy when NKT approached me, listening into the business here and the different pillars we have. That has a lot of similarities to what have been done so far. And I must say, I'm encouraged by the first days in the job, but also very encouraged about the wins over the spring and summer. So happy to be on board and work with Alex and the rest of the team. Thank you.

Alexander Kara NKT A/S - President & CEO

Okay. Thanks, Line. So then we go to the highlights of the quarter. And I would say the quarter 2 was satisfactory quarter, in line with our expectation, whereas I have to say application exceeded our expectation. So overall, good revenue growth, 15% organic growth, which was supported by all the business lines, which, I think, is a nice achievement and EUR 16 million EBITDA operational is satisfactory.

Further, we have a nice run of some good orders. We could grow the order backlog from end of Q2 of around EUR 1.2 billion, up to around EUR 2.7 billion. That is more than doubling the order backlog with some major wins, and they come to those in a minute. It is, I think, a big achievement.

Going now to the next slide already. And here, the first 2 orders, SuedOstLink and SuedLink, which is part of the German corridor project,

I think that is excellent that NKT can participate in a German and a given -- and as a German cities and citizenship proud to that we can continue or participate in these great projects. So that was a big achievement and hard work to get there.

Further, we were successful in Greece with Attica-Crete project, interconnector from Greece Mainland to Crete where we participate. After the -- after the Q2, we have received some more orders for Shetland and interconnectors from Shetland Mainland to -- from Scotland to Shetland, around EUR 235 million, TC excluded the cable and also then just recently from tenant, both inside for offshore wind, which is below EUR 250 million. So that was also a nice start into Q3.

Looking at the solution. We have a nice growth of 21% here organic growth. Overall, good execution of the project, and we finalized 2 AC projects, Gina Krog, which is an as AC project between 2 platforms on Equinor. And then Oresund, which is the AC cable between Denmark and Sweden. In both projects, we use the NKT Victoria to lay the cable. And further, we use also the Victoria in one repair job for the Baltic cable.

Going to the next. I think, overall, the first half of 2020 was great year for the cable industry, which is positive for all cable manufacturer with more than EUR 5 billion orders which have been awarded, and we got our good share of about EUR 1.6 billion, the 3 projects, which I mentioned before and followed by almost EUR 500 million with BorWin5 and Shetland. I think this is a great achievement. We are still busy and work on our teams on several tenders, different market segments and also geographies.

And so -- and in fact, the tender work has not slowed down due to the coronavirus pandemic. It's just maybe a little bit more difficult to deal with all these Skype and Teams, and you name it, tools for all the meetings. But otherwise, it works. So the outlook is still attractive medium or long term. So nothing has changed compared to the previous quarter.

And going to the backlog, you see how the backlog is distributed, the all-time high EUR 2.7 billion end of Q2. In the end of Q3, we will be more than EUR 3 billion due to the recent Shetland, BorWin5 orders received. We are active in all the segments, offshore wind interconnectors, oil and gas and then receive new orders. We continue to work on it.

Coming to applications. Applications is -- as I mentioned, in the early beginning, it's above our expectation. 10% organic growth, I think, is a remarkable achievement in these unpredictable times of the corona pandemic. So we have seen some good growth in Germany, Netherlands, Eastern Europe, but also some countries where some were difficult like U.K. and France, which were closed. And -- but this was compensated by others. So high revenues, good growth, good earnings. So our actions, which we have taken in productivity, product mix, is showing results. And we wrote off some nice medium-voltage frame contracts in Q3 -- Q2. I have appointed also a new head of applications with solid track record in a cable install with Henrix, and we will continue here on a good journey with the publication.

Going to Service & Accessories. Accessories is developing well, in particularly on the medium -- voltage side, and we deliver in the different countries, also in the Middle East. Service was also a good quarter, even a little bit down compared to a strong comparison over last year quarter. We repaired the DC Baltic cable in -- very fast in 29 days, which is, of course, important as the power should be transmitted again as fast as possible. And also here, I have hired a new head of Accessories, Fredrik Eskengren.

So, overall, we are on good track on growth, on revenues on others. I would conclude then before I hand over to Michael, I would say we are on the way up.

And with this, I will turn over to Basil, sorry, and he will now give you insight in Photonics.

Basil Garabet NKT Photonics A/S - CEO and President

Thank you, Alex, and good morning. I'd like to welcome Lina as well to the team, a great addition. So Q2 for us was a quarter that was heavily influenced by COVID. Our revenue came in at EUR 14.6 million, which is down on the EUR 17.9 million we did in the same quarter in 2019. Again, the main effect that we had was on our industrial segment of our business.

Organic growth is at minus 20%, again, mainly driven by the impact on the industrial segment. However, both our Medical & Life Science and our Aerospace & Defence businesses showed satisfactory growth, actually, very positive growth in both segments. EBITDA came in

at minus EUR 0.8 million, which is down from EUR 3.9 million in the same quarter of 2019, mainly driven by the lower revenue. We are very much at high-margin business. So revenue going down will drive the lower EBITDA.

Order intake for the quarter, again, impacted heavily by COVID, came in at minus 26%, mainly due to the high intake of the same quarter in '19, which was affected by large Aerospace & Defence projects. However, orders in the Medical & Life Sciences and in Industrial segments were actually on par of what we did in 2019.

The Industrial segment, which is still the largest segment of our business, comprises 70% of our revenue, and as I mentioned before, has been heavily impacted. Not all segments in the Industrial side have been impacted, but some are at very low at this stage. We do see improvements going in and have been from June onwards. But the quarter was impacted because of that.

In light of these consequences, NKT Photonics have adopted several measures to keep costs down. However, the company does prioritize growth at this stage. We are still in a growth industry, and most of our actions are there to enable that growth in the markets that we serve.

We turn to the next slide on the business development. In the Medical & Life Sciences, which is 15% of our revenue, the revenues grew satisfactory. And the primary growth drivers were within our bio imaging and microscopy side as well as ophthalmology. We manufacture lasers for cataract operations and other ophthalmology applications.

In Industrial, which is 70% of our revenue, we have been experiencing headwinds, and that did get worsened by the coronavirus pandemic. We are working with a number of customers to support future growth. And we see that turning around -- especially in areas such as Asia, turning around from the effects of the pandemic.

In Aerospace & Defence, the business is doing very well. We are getting new contracts. Both the revenue and order intake is improving dramatically in those areas. And we see that as a future revenue and EBITDA pro forma that will help us going forward.

On that, I pass on, since I finished my segment, to Michael.

Michael Nass Nielsen NKT A/S - Head of IR

Great, Basil. Thank you very much, and I would also like to welcome all on the call. As Alexander mentioned in the beginning, I'll do the financial section today, given the fact that we've only had Lina here for 8 working days. And then I promise you that she'll be ready to do the presentation when we'll meet here again in November.

So let's start on Slide 18, where you have a bridge on how the revenue developed during Q2. So revenue has been driven upwards by the development in NKT. So the organic growth contribution of 15%, much more than outweighed the headwinds that we've seen in NKT Photonics during the quarter. So that has really been the main events, whereas the currency effects in the actual quarter were relatively material.

So let's move on to the next slide, where we will touch a bit upon the other items on the P&L. So as mentioned before, revenue driven up by NKT. That also led to an improvement in our operational EBITDA, where the growth in NKT meant that our operational EBITDA for the group ended at EUR 15.2 million, which was basically EUR 2 million above the same quarter last year.

When we'd move further down in the P&L, we can see that we've had an increase in one-off items compared to last year. The majority of that increase is cost related to the cart cell case that you are probably familiar with. So back in 2014, NKT was fined by the European Commission to be part of a less price fixing activities in the high-voltage market. NKT, back then, disagreed with the conclusion and still disagree with the conclusion. So we've appealed that position a number of times.

And actually, earlier this year, we were also partly received a ruling in favorable losses, which meant that our fine from back then was lowered slightly compared to what it initially was back in 2014. Nevertheless, there are still customer claims related to this case, which means that we've taken provisions of around EUR 8 million related to this. So based on our current assessment of this case, we believe

that we have provisioned what is needed to cover the cost for this case.

And then if we move all the way down to the net result that is slightly up compared to last year, still in negative territory. Where we, among others, have seen a beneficial development in our financial items due to some FX gains during the quarter.

If we then move to Slide 20. We are showing our usual slide on the development in our operational EBITDA for the group. And as you can see, we are starting to trend upwards again after the development in 2019. So Q2 shows that we are on the right track and are gradually starting to improve our EBITDA margin again.

Then I'll move to Slide 21, where we are looking at the highlights on the balance sheet. And the first area we'd like to focus on is on the working capital side, where we -- if we compare to the end of last quarter, so end of Q1, we've seen an increase in our working capital. That increase has primarily been related to the development in the power cables business. I'll come back to that on the next slide and what has caused that development.

And in Photonics, we are slightly up, basically only related to a receivable on corporate tax. But apart from that, other working capital items were broadly on par with what we saw at the end of Q1. On the back of the improvement in earnings, we're also seeing RoCE moving up slightly from what we've seen over the past couple of quarters. And obviously intend to continue that traction in the years ahead of us.

Finally, on the last line of the table, you will see that our total equity has increased, which has obviously been due to the issuance of new shares that we did in Q2, where we placed almost 5 million new shares in the market in the direct placement at that point in time, giving us net proceeds of just around EUR 90 million.

Then let's jump to Slide 22, where we will provide a bit more color in the working capital development in the power cables business. So as mentioned, up from Q1 and also up from Q4, last year where the level, as we also mentioned back then, was exceptionally low. As in previous quarter, we are obviously very dependent on the milestone payments in our largest division, so in the Solutions business.

And here, we've seen a relatively low inflow of funds from milestone payments related to projects that we've taken in. So the phasing between Q2 and what we will see in Q3 has been unfavorable in that sense. So therefore, we expect to see some sort of reversal going into Q3, in the working capital in Solutions.

In Applications, we've improved our working capital level slightly compared to end of Q1, which has primarily been driven by a favorable development in our trade payables.

In the Service & Accessories business, not much to mention in that regard, largely on par with Q1. So overall, we expect the capital -- the working capital position to improve during 2020.

Let's move to Slide 23, which is an overview of the cash flow statement. Some of it is impacted by some of the topics that I've just mentioned before. So the development in working capital outweighed the positive EBITDA for the quarter. So we've seen a negative cash flow from operating activities of around EUR 12 million.

On the investment side, we've seen a similar CapEx level across the group of around EUR 21 million, which was similar to the level that we saw in Q2 2019. And in 2019, we also had a small cash outflow related to the acquisition of Onfive in our Photonics business.

In regards to the CapEx line, I would also like to mention here that we, a couple of months back, announced our intention to increase our capacity in the Solutions business. So we are basically running an investment program of EUR 150 million over the next years. So from this year, up until 2022, where we are preparing ourselves to deliver on the large backlog that we've secured ourselves in the recent months. And also making ready for the orders that we are expecting to come in the upcoming years, which we still expect to be around when we look at tender activity, as Alexander mentioned earlier on. And also compared -- also in relation to the activities that we see on a public level to support investments in the green energy transition, not just in Europe, but basically also outside of Europe.

Then let's move to Slide 24, where we will have an overview of our debt situation and our leverage ratio. So in the quarter, we are lowering our net interest-bearing debt by a bit more than EUR 50 million. The main driver for this development has been the issuance of new shares that I just mentioned previously, that brought us these rough EUR 90 million in proceeds during the quarter.

We've also mentioned in May when we announced the first equity issue that we intend to issue further shares. They will be with preemptive rights and -- for the current shareholders, and they are still expected to be issued before the end of 2020. Today, we will not add any more color on this, and we promised that we will, obviously, come back to the market when we have more information to share in regards to that part.

So the net interest-bearing debt mainly consists of our mortgage debt and then the draw that we had on the revolving credit facility, where the draw net of the cash that we have in the bank was EUR 121 million going out of, Q2 out of the revolving credit facility that has a total availability of EUR 300 million.

All in all, this leads us with the financial headroom needed to manage the level of activity that we expect in 2020.

And on the last slide here on Slide 25, I will briefly touch on the financial outlook for the 2 businesses. So we are basically confirming the communication that we also had back in May. So for the power cables business, we still expect revenue to be between EUR 1 billion and EUR 1.1 billion in standard metal prices. And the operational EBITDA is expected to be between EUR 40 million to EUR 60 million.

In the Photonics business, we keep our guidance withdrawn. We do not believe it is possible to achieve the guidance that we provided in the beginning of the year, given the development that we've seen in the first half of the year. And we decided to keep it withdrawn at this stage given the significant uncertainties that we see in -- especially related to our largest segment, the Industrial segment. And also given the fact that we have the largest quarters of the year ahead of us in -- particularly, in Q4.

So I think that was the overall messages from our side, and we will now hand it over to Q&A.

So operator, please go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Artem Tokarenko from Crédit Suisse.

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

My first one is around the equity raise for the second half. I appreciate, Michael, you mentioned normal color, but I just wanted to check, in terms of the size, considering the -- considering that you want so many projects in H2 and all associated prepayments with them, is there a scope for you now to decrease the overall size of that second tranche?

Alexander Kara *NKT A/S - President & CEO*

Yes. I mean I can say a little bit something to that. I mean we are just in the process in looking into that and really too early to conclude. We are in the process and looking what we want to do and it can't get designed. So we're working on it, and we really will come up, inform as soon as we are ready. So nothing more to say at this point in time, really.

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

Okay. My second question is around the Solutions backlog on the Slide 11, where you show that you have EUR 464 million of revenue secured for 2021 in Solutions. I guess this compares to around EUR 700 million of revenue at full utilization of your plants. So thinking about the next year, could you maybe give us some color about whether you're able to push forward any of the projects in the backlog to get closer to the EUR 700 million revenue? And if not, what's the -- are there any big -- are there any projects in the market which can contribute materially to next year revenue?

Alexander Kara NKT A/S - President & CEO

I mean with the project awarded also with the last 2 months, forming in Chaplain, we have a better visibility, and they will contribute partly in 2021. But we have, as you may have seen, recognized all the projects that have been awarded were DC projects and ideally, you look for the optimal mix in the factory as you have different production lines. So meaning ECO, AC, AC cable, DC or MI, and this is to have the best optimal mix. You need to have orders backlogs to execute in all these lines. So we have still capacity for 2021 and beyond. But as I said, we have now a better visibility where we are.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

I guess maybe just to elaborate on this, if my math is correct, I think with the new projects, your revenue is still somewhere in the ballpark of EUR 500 million for next year. So just reiterating my question, is there any scope for you to push forward the projects in the backlog? Or that's not an option for you?

Alexander Kara NKT A/S - President & CEO

No, you -- I mean, if you look the project, what you have, you try to execute them as planned. Also to have that aligned with the payment as agreed with the customer, you have a certain flexibility to what you call left back, but with limitations because if you left back, you need also storage in the factory and which you need maybe for others. You have a little bit possibilities to push forward some backlog, but is limitations.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

Okay. And my last question is about Photonics. Obviously, the valuation of peers is back to pre-COVID levels. So is this enough for you to come back to assessing the potential disposal process? Or considering the trends in underlying markets, you'd rather keep it for next year or maybe later?

Basil Garabet NKT Photonics A/S - CEO and President

The strategic review of Photonics is ongoing, and there is no conclusion at this stage. As you might imagine, we are working pretty hard on tactical issues on day-to-day operations. The outlook is looking better for us as we go forward. In fact, we have the highest backlog we've ever had. However, the future is very uncertain in the markets that we're in. Some are good, some are completely down. So there's no point in concluding the strategic review at this time.

Operator

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

Yes. Also a few questions from my side. The first question goes to the pipeline within the cable division. How do you see progress both in large orders or projects and midsized orders and also pricing? That will be the first question.

Alexander Kara NKT A/S - President & CEO

I mean what we have seen in the region awards, that was mainly large orders. And there is -- of course, there's a trend towards larger, bigger orders. We see that too with interconnect with huge projects. And I think there's still a project in the pipeline to come and where we are working on the different segments. So the outlook is positive. Or Claus, what do you want to know?

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

As much as possible, obviously. But...

Alexander Kara NKT A/S - President & CEO

I know. (inaudible) You wanted to -- yes. I know. Yes.

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

So first of all, how do you see the pipeline for orders to be signed this year? And how much for 2021? Could we see a EUR 5 billion order market in 2020, like this year?

Alexander Kara NKT A/S - President & CEO

That is -- I have not the list in front of me. But I mean the few projects awarded for in the second half. Now the timing, there's also some uncertainty. So it could be also that the award -- many decision is taken this year, but the award happens next year. So there's still some projects in the market to be awarded. As you can see in the list.

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

Right. And about pricing, we have at least seen in the past when utilization goes up and the backlog goes up among all participants in the industry, then that is healthy for the pricing environment. How do you see that playing out in these days?

Alexander Kara NKT A/S - President & CEO

No, I think positively, as I mentioned, EUR 5 billion in the first half. This is good for the cable industry for us, but also our competitors, peers, and that will drive utilization industries and will consequently -- if economy, let's say, follows normal rules, will result in higher prices.

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

Okay. And then my second question goes to the Application division. And first of all, congratulations with the performance in the quarter. There has been years of, I guess, disappointing results out of that division. Do you think it is now a new and more sustainable level? Or is there some specific Q2 things that boosted the performance?

Alexander Kara NKT A/S - President & CEO

No, it's not specific. I mean we had a good Q1 with EUR 3.5 million, now EUR 5.5 million. We see results from our actions and I have -- I had an experienced senior cable manager with growing in the industry, and we expect that we continue with this journey.

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

Okay. Then just a final, welcome to you, Lina. We are looking forward to your presentation in Q3. That's all for me.

Line Andrea Fandrup

Thank you.

Operator

The next question comes from the line of question, Kristian Johansen from Danske Bank.

Kristian Tornøe Johansen Danske Bank A/S, Research Division - Senior Analyst

First question is on the project pipeline as well. So obviously, you've had a very strong order intake on, I would say, DC projects. But you also mentioned in the report that the awards on AC projects has been below expectations. So maybe just to elaborate, are there any specific project delays in the AC segment that you have seen? And also how does the near-term pipeline within AC look?

Alexander Kara NKT A/S - President & CEO

I mean as a consequence of wind turbines getting larger and being more remote from shore, DC is the natural economical technical solution. This you have seen in the last CfD project we were successful was almost everything DC, and there's a shift towards DC. There are still AC projects in the market that is used. And also partly from technology, if you look in the past, there was -- from wind turbines, you have an AC platform before you went to DC with a large share, with an export cable, and nowadays, you go from a wind turbine with 66 KV directly straight to the DC platform. So there's also AC volume, which disappears in a sense and moves to the best ray cable like in more than 5, 6 years back, you would have the 138 KV AC voltage cable.

So -- and the positive side is move to DC to high end, which benefits the manufacturer we are -- which are in this field. But of course, it's also nice to have these 3 Ks, in order to have an optimal mix. So -- and that is really not only for us, I guess, also for others in the market. And there are some opportunities in the market, but less result being too specific.

Kristian Tornøe Johansen Danske Bank A/S, Research Division - Senior Analyst

Okay. So just to clarify, it's not -- I mean, the lower-than-expected AC volts, it's not about specific projects being delayed, but rather a technology shift from AC to DC, that's what you're saying?

Alexander Kara NKT A/S - President & CEO

It's a more technology shift in the offshore wind, definitive, and there will be maybe still AC if you are closer to shore or for, let's say, connection from land to islands if they are close to shore, just a technical limit where you can go with AC due to the reactive power, which is needed from generator.

Kristian Tornøe Johansen Danske Bank A/S, Research Division - Senior Analyst

Great. Then my second question is on applications and on medium voltage, specifically, where it seems that you're really having a good momentum. Can you elaborate on the visibility you have on demand here? And then whether we should just expect that to continue as strongly as we've seen in the first half?

Alexander Kara NKT A/S - President & CEO

I mean we have, as we said, received some orders on the medium-voltage frame agreement. These frame agreements can be pulled also based on the customer requirements, and we see some higher demands here. And as I said on the presentation, particularly in Germany, Netherlands or Eastern Europe. And the visibility in, let's say, outside the frame agreement and they call off, this limited as this is not a long-cycle business like in solutions. So this really depends a little bit how the market develops and how the investments are taken.

Operator

(Operator Instructions)

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

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

I have a couple of questions as well. My first one is on capital increase. I know you will not be as sharing the equity of debt, but just wanted to know some high-level thoughts. So basically, I mean, if I look at the NKT against the 2 large European peers, you have high share of solution business, which means share of project business authority projects is much higher at NKT compared to their peers, which we can also see in working capital that occasionally, you have negative working capital, which means that you don't need to have high leverage on your balance sheet.

And that's for coming back on to the point of capital increase. I mean, obviously, there are several moving parts in terms of getting down payments on these projects, a potential sale of Photonics, given peers have related. But just wanted to know, do you -- can you share any comments on kind of balance sheet you are targeting out of this capital increase process because I would assume that this would be the last opportunity for you to ask for shareholders for more funds?

Michael Nass Nielsen NKT A/S - Head of IR

Akash, Michael speaking here. I think we kind of provided a target leverage structure for the company of 1.5x debt-to-EBITDA, that, obviously, is still a plus. We haven't put an exact timing on when we expect to get there. So that hasn't been communicated specifically apart from that is what we are targeting. But I think you're right to what we also mentioned in the first equity increase back in May that we are seeing -- we have a large share of Solutions business in -- currently, and that will grow further with the investments that we are doing.

So we will be more dependent on larger projects with larger moves in working capital and milestone payments, so to speak. So that is also one of the reasons why we want to strengthen ourselves for that apart from the fact that we are going to do investments to basically grow as we intend in the years to come. So I think that is probably as much color as we can give at this stage.

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

And my second one is on margins. So if I look at your backlog, can you provide some comments on how does the backlog margins looks against pre-2018 levels when we had a long period of very low order activity, which kind of impacted pricing?

And obviously, since then, we had some change in mix with offshore wind, getting a higher share of backlog compared to before where you had more like oil and gas projects and interconnector in backlog. So how does that mix impacts margin?

And then maybe continuing on the same topic, previously, you said that you need to have utilization of all the units, including vessel. So if you can indicate when we can get there in terms of full utilization of all the assets? Will -- could it be in 2021? Or it would be more like 2022?

Alexander Kara NKT A/S - President & CEO

I mean regarding the margins, what I can say that the margins in the project what we have received was satisfactory. And in general, you can say, margins in DC projects are better than in AC. In general speaking, wind terms, then of course, the large projects, they have opportunities and risks, and those you need to manage. And you manage in a good way then you may improve. So -- but -- and then regarding the vessel, I mean, with this region award, Shetland and BorWin5 will add some vessel capacity going forward, which is positive. And I hope that answers your question.

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

And then my final one is on production expansion. So you announced this EUR 150 million investment in Cologne factory. Will it be purely for land-based DC projects? Or can you use also this new facility for submarine? And just wanted to know like what are the limitation as this factory would be right next to Rhine River? And can you bring your vessel to, like, let's say, use this factory for submarine projects?

Alexander Kara NKT A/S - President & CEO

No. I mean we said the EUR 150 million approximately, we will invest into 2 factories, Cologne and in Karlskrona. And some of the machineries you can use for land as well as for sea cable at both locations. So we have a certain flexibility. Of course, in Cologne, we have the Rhine River, but we cannot control the weather. Thanks, God, that we cannot do that. But of course, we can -- with parches, with a lower draft can improve the load out also if the Rhine River has low levels.

Operator

(Operator Instructions)

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

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

Actually, mostly follow-ups. On the Application where -- I also applaud the rebound in profitability here. Could you confirm that you still sort of have a medium-term target of getting to an EBITDA margin of 7% to 9%?

Secondly, a bit of housekeeping. The -- after -- you surprised me a little with the provisional one-off here in the quarter. Could you give any kind of guidance on the one-off levels that we should expect in the second half of the year? That's all from me, actually.

Alexander Kara NKT A/S - President & CEO

So maybe I can answer the first question. I mean we have communicated the 7% to 9% in 2017. And as I mentioned earlier in the previous calls, we work now on improving the Application business and we're improving gradually. So it will not go -- it will not go -- it will not be a past one. So -- but we are in a good way. And obviously, we are ambitious. We should be also ambitious and work towards -- to be, let's say, equal than our peers, that should be our ambition. So -- but that will -- it will be not this year, that we achieve these levels and I can also not tell you exactly when we will reach it, but we work forward to be equal than our peers.

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

But just coming back to the question, could you confirm that you still have that target?

Alexander Kara NKT A/S - President & CEO

No. No. Look at our peers as they are and we target those.

Basil Garabet NKT Photonics A/S - CEO and President

Casper, in regards to one-offs for the remaining part of the year, I think that, that can be relatively short because as of now, we expect only limited one-offs in the second half of the year.

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

So it's low single digits or...

Basil Garabet NKT Photonics A/S - CEO and President

Yes, yes.

Operator

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

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

Just on Applications business, could you give us some color on, in Q2 how much of the EBITDA improvement came from internal efficiency measures as opposed to just better mix in revenues?

Alexander Kara NKT A/S - President & CEO

I'm not sure what I heard totally right. So we had some improvements on the profitability due to the mix with a higher portion of the medium voltage, where we see higher demand with better price levels, which is positive. And then we have also worked on factory efficiency that we continue to work. So those elements without being more specific here.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

Okay. Well, maybe I can ask differently. My sense from better orders and medium voltages is that this partly comes from you winning market share during the COVID because of some of your peers, we are not able to access the markets where you have high market shares. So do you see those market share gains as sustainable into the future? Or the results of the first 2 quarters are largely -- should largely be seen as a one-off because of this situation?

Alexander Kara NKT A/S - President & CEO

I think we -- I mean, I mentioned that U.K. and France was closed. So definitely, we have not gained their market share, if we could not deliver. We believe that we gained market share, but low voltage, medium voltage, it's a lot of customers, a lot of delivery is not so easy calculate market share compared to the Solutions, but we believe we gained market share. And this we need to defend going forward.

Michael Nass Nielsen NKT A/S - Head of IR

And I think it's also fair to mention that these are customers that we have worked with for a number of years to improve our share with. So it's not like they are just callers because they couldn't find anybody else. It's also a question about our sales team that has actually done a really great job in securing these orders across the markets, also before COVID came.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

And my last question is for Lina. Congratulations for joining the company. And I guess any of your thoughts or any color on what will be the major focus topics for you in the coming 6 months?

Line Andrea Fandrup

Thank you for the question. And being fairly new, I must also probably give myself some time before I jump to conclusions. But of course, the execution of the big corridor project is a key priority and investment-related here, too. So that is what I'm really looking to get further into and understand better also from a financial end.

Operator

Our next question comes from the line of Akash Gupta from JP Morgan.

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

Yes. Just a follow-up on working capital, and it's a quick one. So you said there was some impact or basically lower milestone-based payments in Q2, and you expected that to improve in Q3 and thereafter. Just checking that we are already halfway through Q3. So have you received some of these milestone-based payments? Or you expect to receive in remaining period of -- remaining part of Q3?

Michael Nass Nielsen NKT A/S - Head of IR

We will not comment on Q3 -- on the month of Q3, but we are comfortable that we will improve our working capital in Q3.

Operator

We have no further questions. Please continue.

Alexander Kara NKT A/S - President & CEO

Okay. If there's no further question, then thank you very much for your good questions and your participation. And we wish you all here together a good day and talk to you soon in November.

Thanks. Bye-bye.

Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect.

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