



**NKT**

27 February 2018

# Annual Report 2017

Webcast presentation

# Forward looking statements



This presentation and related comments contain forward-looking statements.

Such statements are subject to many uncertainties and risks, as various factors of which several are beyond NKT A/S' control, may cause that the actual development and results differ materially from the expectations.



# Today's presenters



**Michael Hedegaard Lyng**

**NKT**

President & CEO



**Roland M. Andersen**

**NKT**

CFO



**Basil Garabet**

**NKT Photonics**

President & CEO

# Agenda



## **04 Highlights 2017**

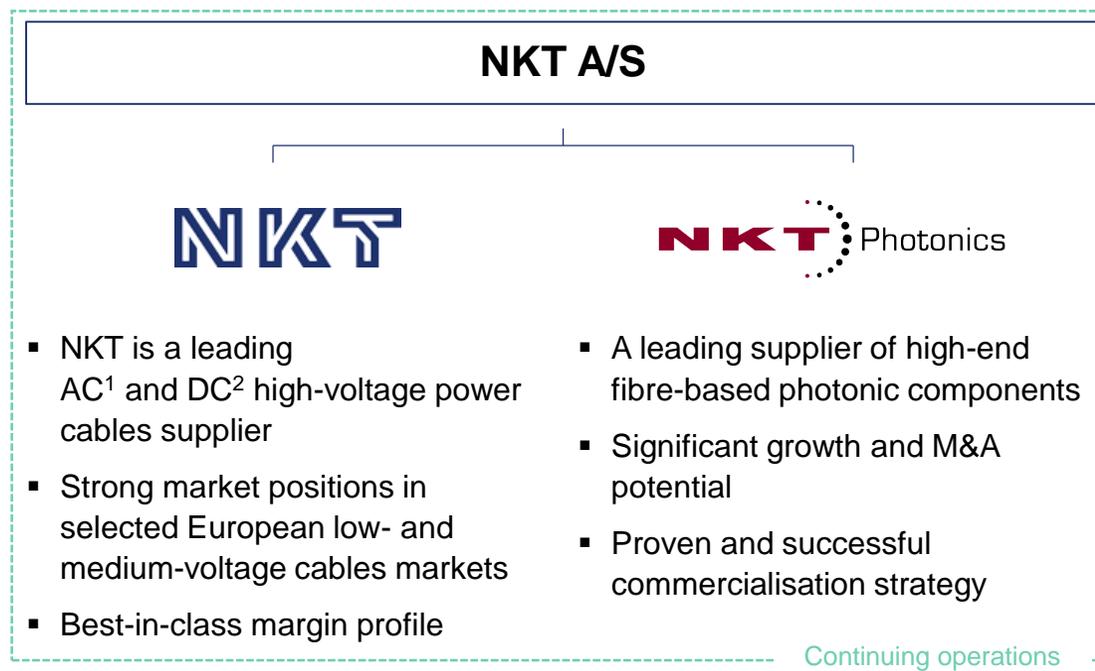
- 10 NKT
- 16 Financial highlights
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# Nilfisk demerged from NKT in October 2017

Listed entity

Underlying businesses

Key highlights



**Nilfisk**

Discontinued operation



- A leading global premium supplier of professional cleaning equipment products and services
- Organic growth potential and significant M&A opportunities
- Improved profitability potential
- Strong cash flow

Change of name from NKT Holding A/S to NKT A/S was adopted at the 2017 Annual General Meeting

<sup>1</sup> Alternating current  
<sup>2</sup> Direct current



## Increased revenue and operational EBITDA driven by strategically important acquisition in high-voltage segment

- In March 2017, with the acquisition of ABB HV Cables, **NKT created a leading power cable company in the high-voltage segment**. The integration process has progressed according to plan during 2017
- **In 2017, revenues\* increased** by EUR 307.6m to EUR 1,058m, which was driven by acquired activities. This translated into organic growth of 7%. Excluding the impact of the acquired activities it was -4%
- The **operational EBITDA almost doubled** to EUR 138.3m due to the acquisition, which also led to an increase in the operational EBITDA margin\* from 9.7% to 13.1%
- Projects awarded in the high-voltage market were at a relatively low level in 2017 leading to expected lower capacity utilization and earnings in the second half of 2018. However, **NKT underlined its solid position in the offshore wind market** with three announcements: Borssele Beta (order award), Moray East (preferred supplier) and Triton Knoll (preferred supplier)
- The **Products business had -3% organic growth** in 2017 due to high comparison base in German medium-voltage market and challenging Polish market conditions

## Satisfactory revenue growth and acquisition of leading ultrafast laser supplier

- **Revenues in 2017** amounted to EUR 50.9m, up by EUR 7.8m, driven by organic growth in the existing business as well as acquired activities. The organic growth was 7%
- **EBITDA of EUR 3.5m** was impacted by provisions of EUR 2.5m for LTI programmes. Excluding this amount, EBITDA was EUR 0.3m lower than in 2016
- The acquisition of **the ultrafast laser supplier Onefive** was completed in September 2017 and strengthens NKT Photonics' position in the Materials Processing segment
- **Management competences were strengthened** with the establishment of a COO position

# 2017 actuals versus financial outlook

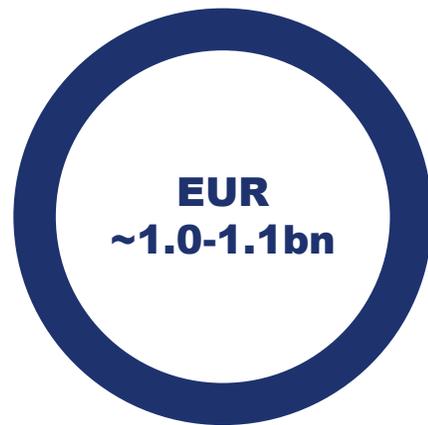


	Initial**	Adjustment in Q3 2017 report	Realized
<b><u>NKT</u></b>			
Revenue (EUR)*	~1.1bn	~1.1bn	1.058bn
Operational EBITDA	~140m	~140m	138.3m
<b><u>NKT Photonics</u></b>			
Organic growth	~10%	~10%	7%
Operational EBITDA margin	~15%	~10%	7%

\* Std. metal prices

\*\* NKT (incl. acquired ABB HV Cables activities) was provided in Company Announcement No. 8 of 11 April 2017, while NKT Photonics provided it in the 2016 Annual Report

# Financial outlook 2018



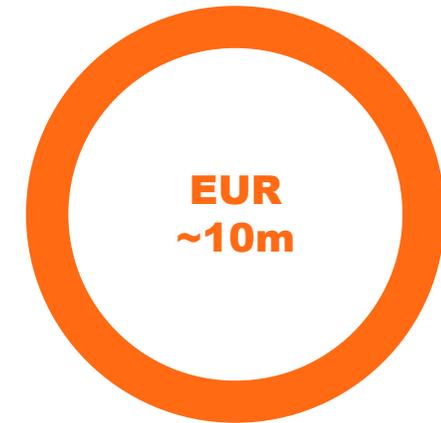
Revenue\*



Operational EBITDA



Revenue



EBITDA

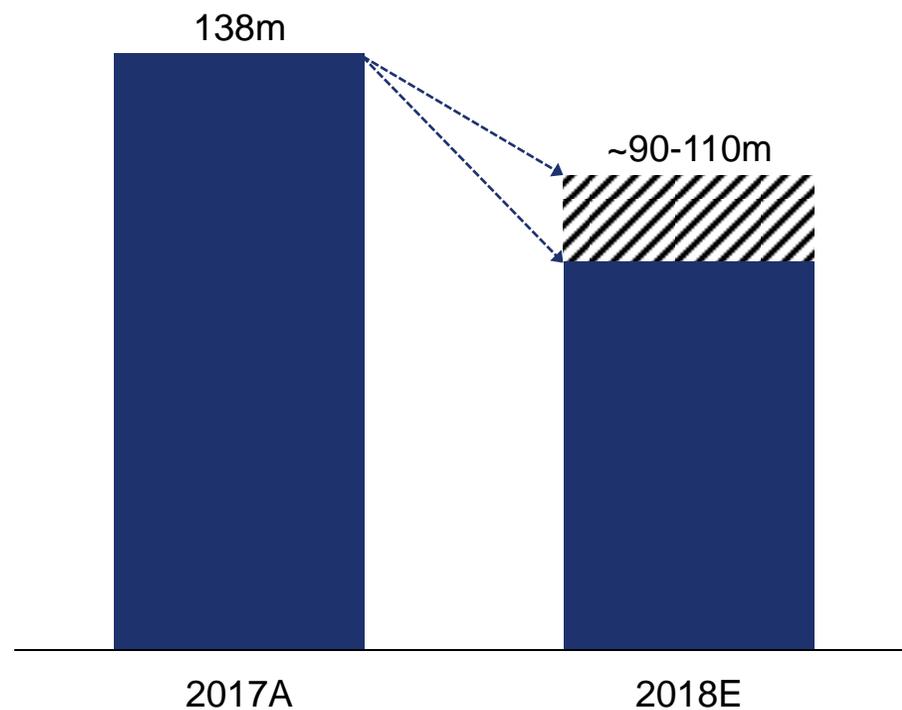
- Expected one-off costs, primarily related to the integration of ABB HV Cables, of approx. EUR 15m
- Projects awarded in 2017 in the high-voltage market have been at a relatively low level

- Full-year contribution from the Onefive business (acquired on 1 September 2017)

\* Std. metal prices

# Financial outlook for 2018 in NKT impacted by high-voltage order situation

## Expected operational EBITDA (EUR)...



## ...impacted by orders to the Karlskrona factory

- High-voltage order backlog impacted by relatively low amount of projects awarded in the market in 2017
- Current intense tender activity, which includes potential to improve capacity utilization in Karlskrona in second half of 2018
- Earnings from new and existing orders are dependent on the product and service composition of each individual order
- Intensified focus on getting production flexibility between the factories in Karlskrona and Cologne
- Majority of synergies are volume-related and timing will depend on the level of capacity utilization

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# Organic growth driven by acquired high-voltage business



Organic growth	2014				2015				2016				2017			
- Quarterly (Y/Y)	6%	-11%	1%	-12%	16%	13%	-12%	2%	-24%	-13%	1%	-2%	-8%	8%	24%	-1%
- Annually	-5%				4%				-10%				7%			

## Projects

Period	Growth	Market	Direction
Q4 2017	1%	Market	
Q4 2016	8%	Offshore	↗
FY 2017	15%	Interconnector DC	↗
FY 2016	-25%	Onshore AC	↘

- **Satisfactory execution in the offshore segment** with progress on among others the Hornsea Project One and further projects
- **High activity level on NKT Victoria** with satisfactory execution on Caithness Moray, Kriegers Flak and Rentel
- The AC onshore market remains challenging

## Products

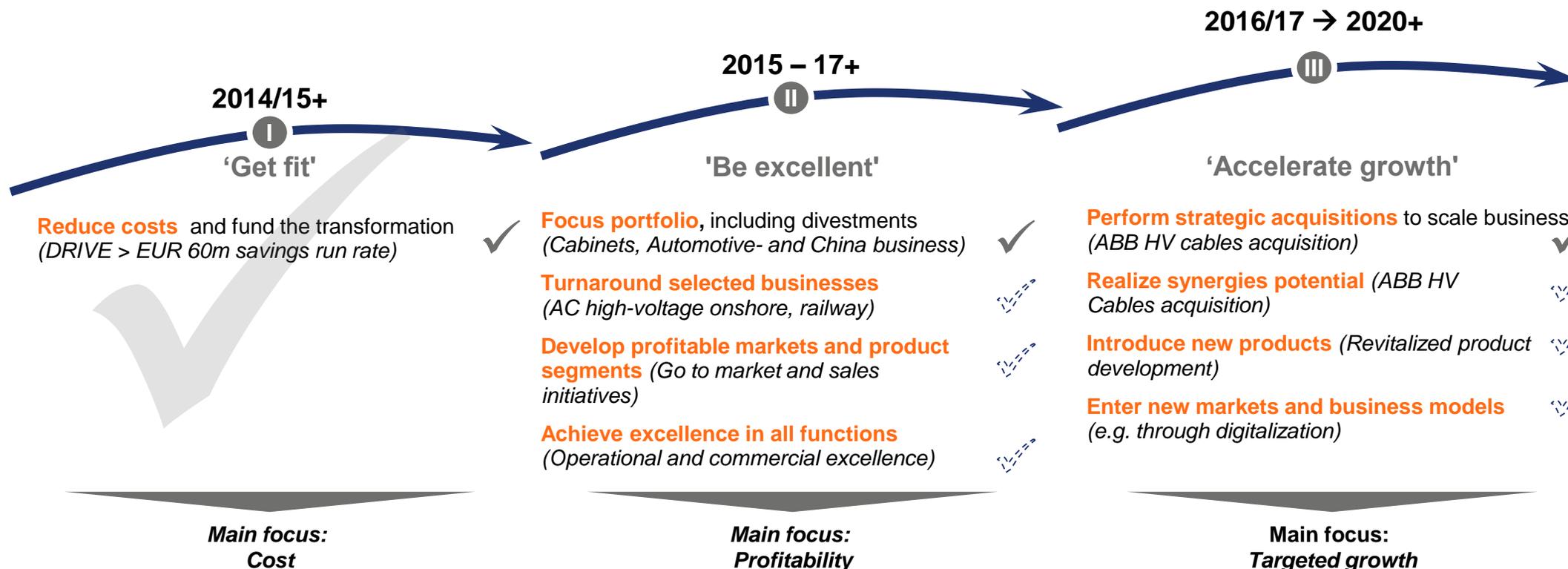
Period	Growth	Market	Direction
Q4 2017	-4%	Market	
Q4 2016	-8%	Medium-voltage	→
FY 2017	-3%	Low-voltage/BW	↗
FY 2016	0%	Others	↘

- **Healthy market conditions** in Sweden and the UK. More modest development in Denmark
- High investment level in the German medium-voltage market in 2016 impacted this segment's growth
- The **Polish market was challenged due to overcapacity** with slight improvements towards the end of 2017

# Further progress on the EXCELLENCE 2020 strategy

New milestones achieved in 2017

2016/17 → 2020+



DRIVE programme

EXCELLENCE 2020



Completed



Ongoing

# Strategic initiatives for each segment

## Develop and grow

Attractive markets with growth potential:

- Focus on innovation and differentiation
- Improve offshore services and expertise

	<b>AC/DC HV offshore</b>
	<b>DC HV onshore</b>
	<b>Accessories</b>
	<b>Service &amp; Installation</b>

## Focus on profitable growth

Fragmented commodity markets:

- Focus on costs
- Concentrate on profitable customers and markets
- Service level improvements

	<b>Building wire &amp; Low-voltage</b>
	<b>Medium-voltage</b>

## Turnaround

Markets NKT believes in, with a need to restructure:

- Improve sales excellence & close product gaps
- Fix operating model and reduce costs

	<b>AC high-voltage onshore</b>
	<b>Railway</b>

# Creation of a world leading high-voltage power cable company

## ABB HV Cables acquired in March 2017

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- Full product portfolio in high-voltage on- and offshore with leading AC and DC capabilities
- Premium production sites in Cologne and Karlskrona
  - DC qualification of Cologne is ongoing and initial approvals expected within 12 months
- Integration progressed according to plan
  - Fully integrated organization in place
- Synergy potential of around EUR 30m still expected to materialise
  - Majority of the synergies are volume-related and timing hereof will depend on capacity utilization
- Satisfactory performance of the cable-laying vessel NKT Victoria in 2017



# Development in the high-voltage power cable segment

## Highlights

## Comments

Market development in 2017

- ▪ Relatively low level of project awards in the high-voltage market
- Few DC projects awarded

Positive actions for future development

- ▪ Three offshore wind farms awarded Contracts for Differences (CfDs) in UK in September 2017
- European Commission invested EUR 680m in European electricity projects in January 2018. Further projects are identified as eligible for project support going in the year to come

High-voltage projects to NKT in 2017

- ▪ Order for the Borssele Beta project in the Netherlands (estimated contract value EUR ~90m)
- Preferred supplier for the Triton Knoll and Moray East projects in UK (estimated contract value above EUR ~245m). Final investment decisions expected during 2018

**Order intake for the market expected to increase in 2018 and 2019 compared to 2017**

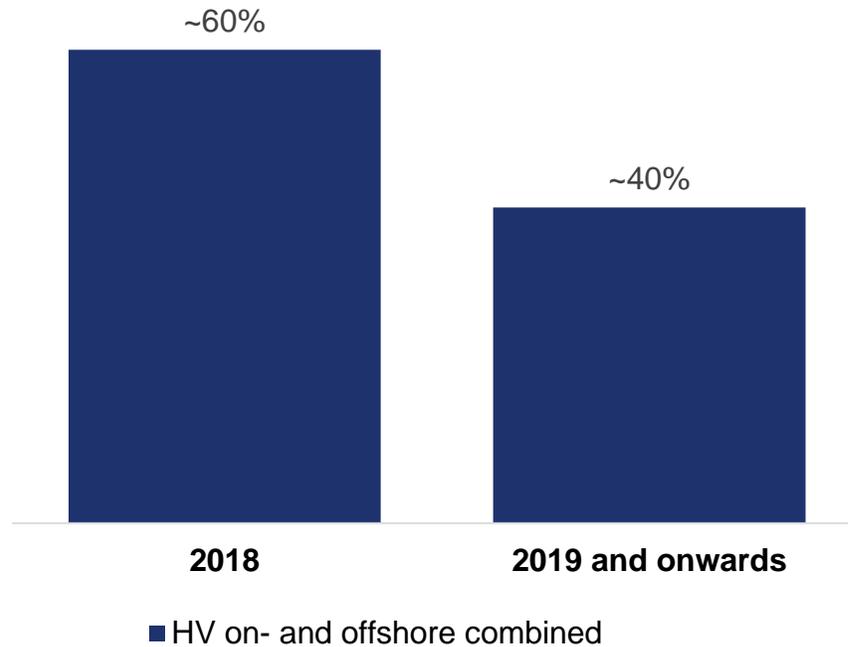
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# High-voltage orders of EUR 0.8bn in backlog

Orders on hand at EUR 0.76bn\* end-2017



## Solid mix of high-voltage orders

### Offshore wind

Galloper	2018	
Walney East & West	2018	
Borssele Alpha	2018	
Rentel	2018	
Kriegers Flak	2019	
Hornsea 1	2019	
Borssele Beta	2019	

### Interconnectors

Caithness Moray	2018	
Nordlink	2019	

### Oil & Gas

Johan Sverdrup	2018	
Martin Linge	2018	

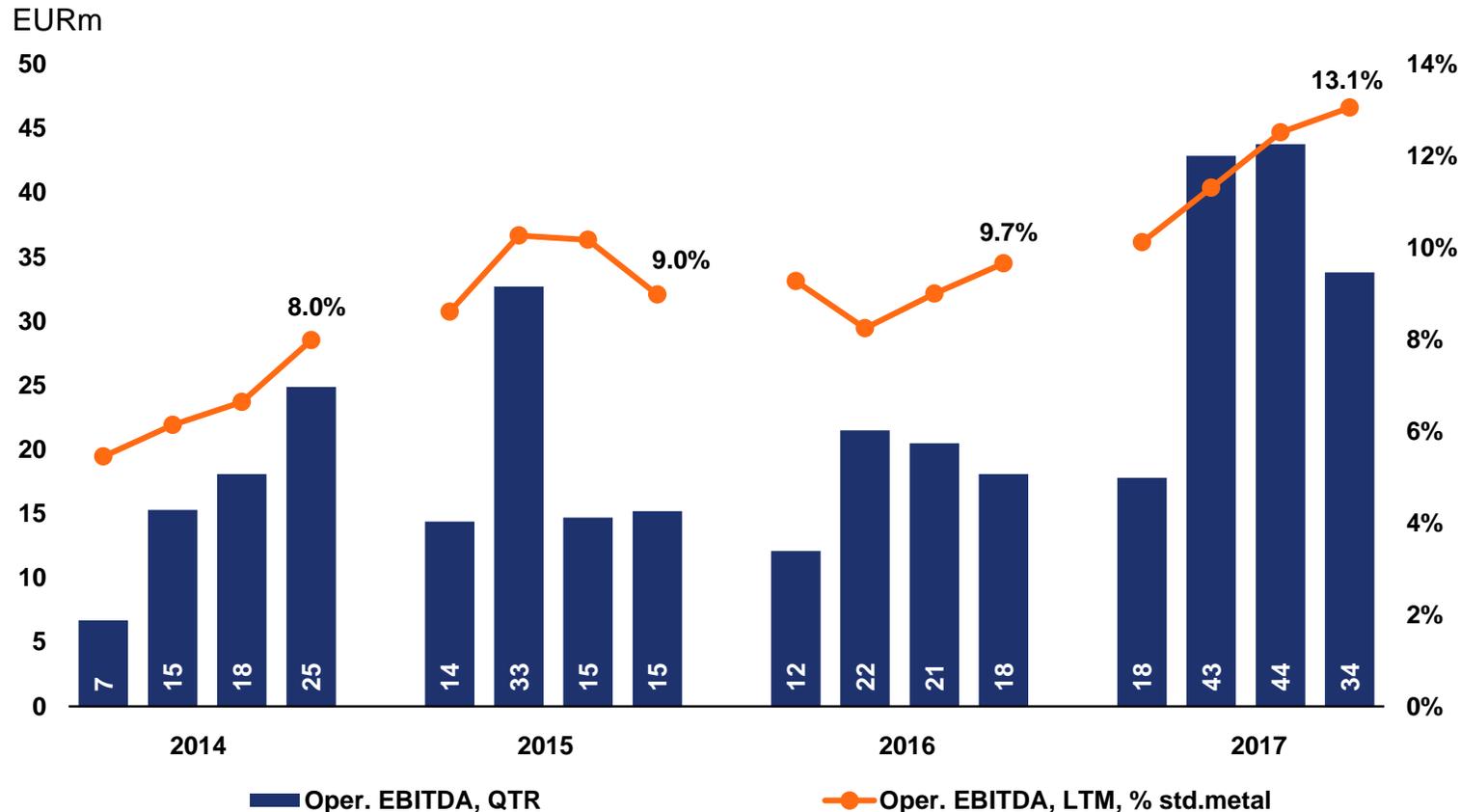
Announced preferred supplier agreements (contract value >EUR ~245m):

Moray East	2020	
Triton Knoll	2020	

▶ Not part of order backlog

\* Market prices (EUR 0.69bn in std. metal prices)

# Increasing operational EBITDA margin level

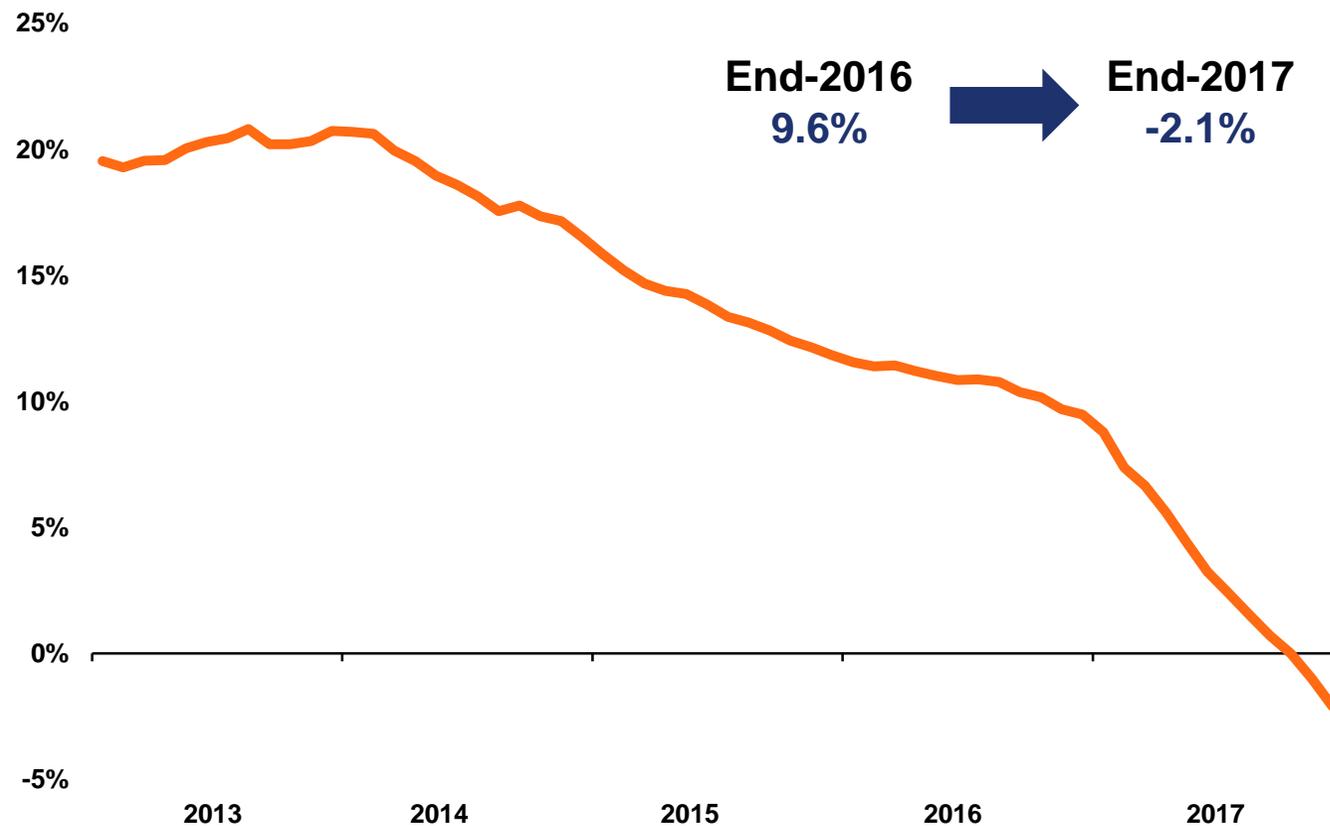


Increased operational EBITDA margin reflecting higher exposure to the high-voltage segment, where capacity utilization was at a high level in 2017

Operational EBITDA margin in Q4 2017 was 12.0%, up 2.4%-points from Q4 2016

As expected lower operational EBITDA in Q4 2017 compared to Q2 and Q3 due to seasonality and project portfolio phasing

# Working capital development driven by Projects business



Working capital continued to develop positively driven by the acquired high-voltage project portfolio

NKT has consistently focused on improving working capital, which has further been supported by acquisitions and divestments during 2016 and 2017

Working capital was at an extraordinary low level of EUR -106.5m at end-2017 versus EUR 57.8m at end-2016

# NKT – Financial summary 2017



## Financials

EURm	Q4		FY	
	2017	2016	2017	2016
<b>Revenue</b>	<b>368.2</b>	<b>255.0</b>	<b>1,428.9</b>	<b>1,003.7</b>
<b>Revenue, std metal prices</b>	<b>281.5</b>	<b>190.7</b>	<b>1,058.0</b>	<b>750.4</b>
Organic growth	-1%	-2%	7%	0%
<b>Operational EBITDA</b>	<b>33.8</b>	<b>18.4</b>	<b>138.3</b>	<b>72.5</b>
Operational EBITDA margin*	12.0%	9.6%	13.1%	9.7%
<b>RoCE, LTM</b>	<b>7.5%</b>	<b>9.3%</b>	<b>7.5%</b>	<b>9.3%</b>
<b>CAPEX</b>	22.3	11.7	62.9	30.6
<i>PPE</i>	13.2	7.6	38.4	18.6
Intangible assets	9.1	4.1	24.5	12.0
Acquisition and divestment of businesses	3.4	-3.0	-753.4	-3.0
Capital employed	1,040.5	348.4	1,040.5	348.4
Working capital	-106.5	57.8	-106.5	57.8
Cash flow from operating activities	63.0	28.9	78.2	33.7
Cash flow from investing activities excl acq/div	-21.1	-11.2	-63.0	-31.5
Free cash flow	41.9	17.7	15.2	2.2
Full-time employees, end of period	3,393	2,769	3,393	2,769

## Comments

- **Increase in revenue** driven by the acquired business both in Q4 and FY 2017
- The **operational EBITDA** was also positively impacted by the acquired business with a higher margin compared to 2016
- **RoCE was lower than in 2016** driven by the increase in capital employed due to the acquisition of ABB HV Cables that added goodwill of EUR 390m
- The **CAPEX level increased** due to the acquired activities, and to support investments in DC capability upgrade and IT infrastructure
- Driven by the acquired activities, the **number of employees increased**

\* Std. metal prices

# NKT A/S: Q4 2017 versus Q4 2016



EURm	Q4		FY	
	2017	2016	2017	2016
<b>Revenue</b>	<b>388.7</b> *1	<b>270.5</b>	<b>1,479.3</b>	<b>1,046.1</b>
<i>Revenue, std.metal prices</i>	302.0	206.2	1,108.4	792.8
<b>Operational EBITDA</b>	<b>39.5</b> *2	<b>22.6</b>	<b>141.8</b>	<b>74.9</b>
<i>Oper. EBITDA margin, std.metal prices</i>	13.1%	11.0%	12.8%	9.4%
One-off´s	-17.7 *3	-10.4	-44.9	-47.0
<b>EBITDA</b>	<b>21.8</b>	<b>12.2</b>	<b>96.9</b>	<b>27.9</b>
Depreciation/Amortisation	-23.5	4.1	-78.7	-27.0
Impairment	-0.9	-41.6	-0.9	-41.6
<b>EBIT</b>	<b>-2.6</b>	<b>1.7</b>	<b>17.3</b>	<b>-13.7</b>
Financial items, net	-3.3	2.7	-14.7	5.7
<b>EBT</b>	<b>-5.9</b>	<b>4.4</b>	<b>2.6</b>	<b>-8.0</b>
Tax	-4.8	-4.0	-6.0	-9.5
<b>Profit for the year from continuing oper.</b>	<b>-10.7</b>	<b>0.4</b>	<b>-3.4</b>	<b>-17.5</b>
Profit for the year from discontinued oper.	876.8	5.7	932.2	29.60
<b>Profit for the year</b>	<b>866.1</b>	<b>6.1</b>	<b>928.8</b>	<b>12.1</b>
<b>RoCE</b>			<b>11.8%</b>	<b>11.7%</b>
<b>CAPEX</b>			<b>94.1</b>	<b>79.0</b>
<i>PPE</i>			50.3	40.2
<i>Intangible assets</i>			43.8	38.8
<b>Acquisition of business</b>			800.8	53.3
<b>Working capital</b>			-83.5	217.0
<b>NIBD</b>			293.2	-68.4

## Revenue development (\*1)

EURm	
<b>Revenue increased by</b>	<b>118.2</b>
Metal prices	22.4
FX changes	-4.1
Acquisitions	111.0
Divestments	-11.4
Organic growth	0.3
NKT	-2.1
NKT Photonics	2.4

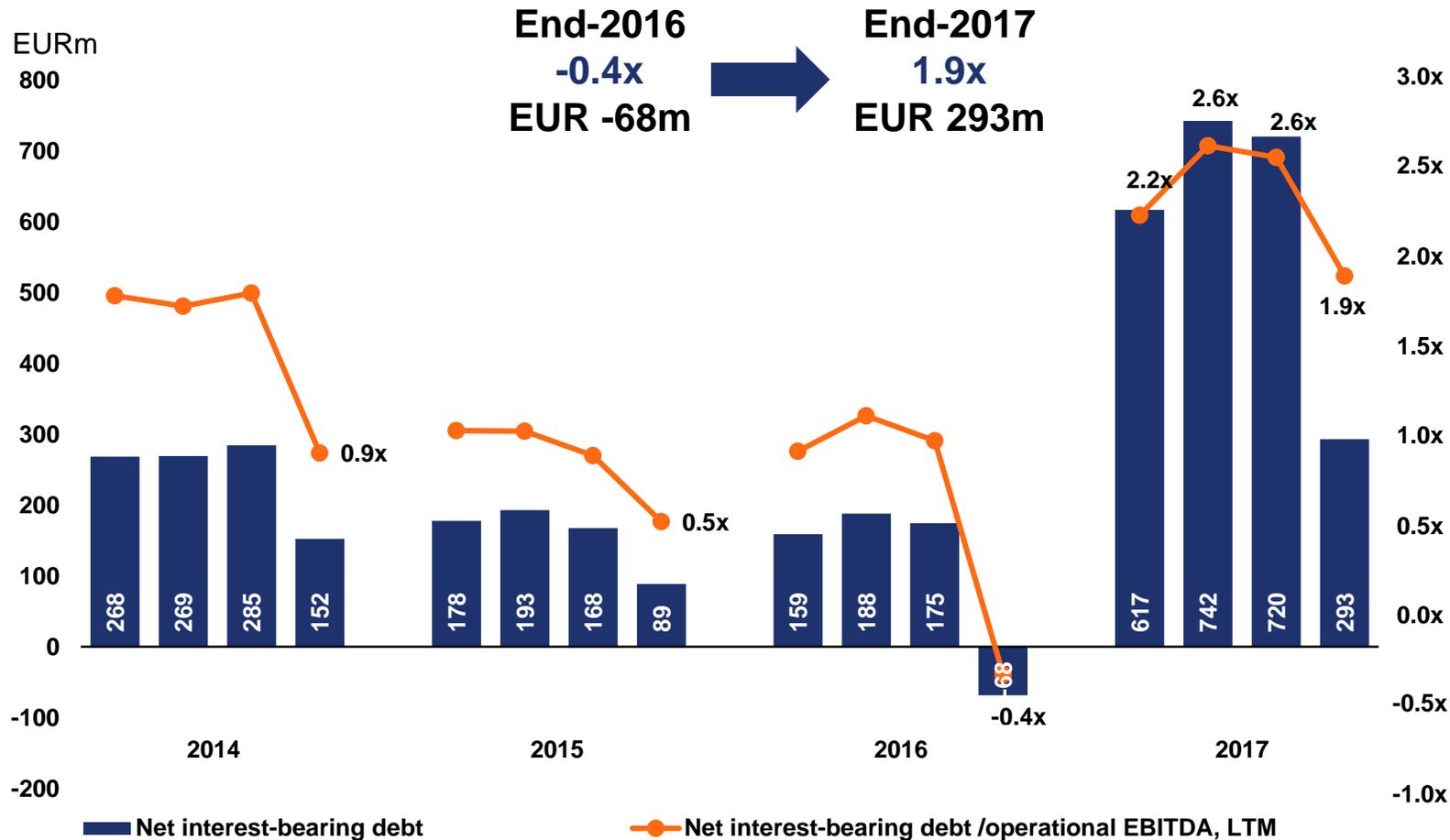
## Operational EBITDA devevelopment (\*2)

EURm	
<b>Operational EBITDA increased by</b>	<b>16.9</b>
NKT	- Margin 12.0% (Q4 2016: 9.6%)
NKT Photonics	-0.3
Other	1.8

## One-off cost composition (\*3)

EURm	
<b>EBITDA one-offs</b>	<b>17.7</b>
NKT	ABB integration costs
	EX2020 and other strat. Initiatives
	Costs related to demerger of Nilfisk
	6.1
	7.2
	4.4

# NKT A/S: Leverage ratio moving down by end of 2017



The net interest-bearing debt has declined sharply since end-September 2017 due to

- 1) The demerger of Nilfisk
- 2) Strong cash flow generation in Q4 2017

At the end of Q3 2017, the pro forma net interest-bearing debt excl. Nilfisk was EUR 340m corresponding to a leverage ratio of 2.2x

The operational EBITDA for NKT A/S was EUR 141.8m in 2017. The leverage ratio includes pro forma earnings from acquisitions

\* For the 2017 leverage ratios, pro forma EBITDA for the acquired ABB HV Cables activities has been added to LTM EBITDA in the period when NKT was not the owner of ABB HV Cables. The pro forma EBITDA is based on ABB HV Cables' estimated average annual pro forma EBITDA of EUR 79m for 2014-2016

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# Financial development in 2017

## Imaging & Metrology



### Focused growth area

- Strong organic growth in 2017 driven by OEM frame contracts and sales to the academic market
- Release of SuperK EVO supercontinuum product platform. First OEM projects already running

56% of revenue

## Sensing & Energy



### Established area

- Solid demand for the Koheras fiber lasers in 2017
- Due to delays of infrastructure projects, revenue from LIOS sensing systems was lower than expected. New contracts secured primarily for 2018

31% of revenue

## Material Processing



### New growth area

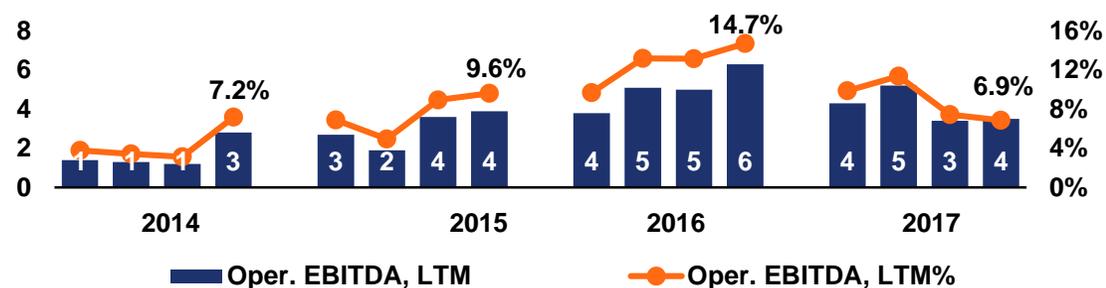
- Acquisition of Onefive, a leading ultrafast laser manufacturer, was completed on 1 September 2017 to strengthen foothold in growth market
- Fiber and gain modules development driven by larger frame contracts

13% of revenue

# NKT Photonics – Financial summary 2017

## Financials

EURm	Q4		FY	
	2017	2016	2017	2016
<b>Revenue</b>	<b>21.0</b>	<b>16.2</b>	<b>50.9</b>	<b>43.1</b>
Organic growth	13%	10%	7%	7%
<b>Operational EBITDA</b>	<b>5.7</b>	<b>6.0</b>	<b>3.5</b>	<b>6.3</b>
Capital employed	69.0	49.3	69.0	49.3
Working capital	23.1	18.5	23.1	18.5
Full-time employees, end of period	302	240	302	240



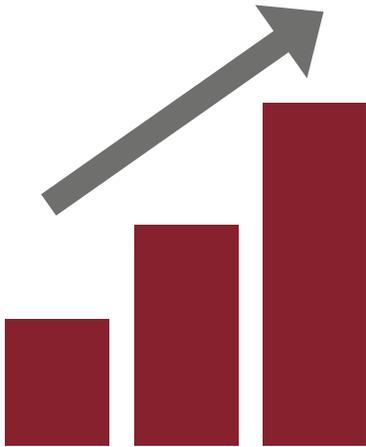
## Comments

- **Revenue increased by 18% to EUR 50.9m** in 2017, which was partly driven by growth in the existing business and by the addition of Onefive. The organic growth was 7%, driven by 13% in Q4 2017
- The **EBITDA was impacted by provisioning** of EUR 2.5m for Long-Term Incentive programmes for senior management. Excluding these, the EBITDA was EUR 6m, slightly down compared to 2016
- **Preparing for future growth opportunities** with implementation of a new ERP system and addition of further employees
- Capital employed including goodwill was up by 19.7m, mainly due to the acquisition of Onefive

# Strategic priorities for 2018

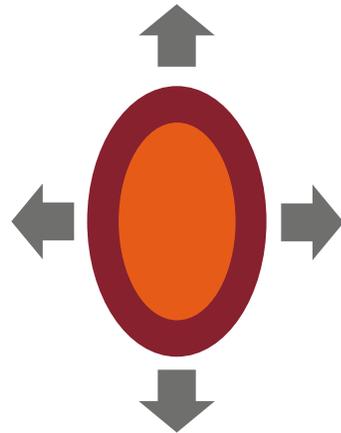
## Move up in value chain

Expand from supply of components to complete optical systems



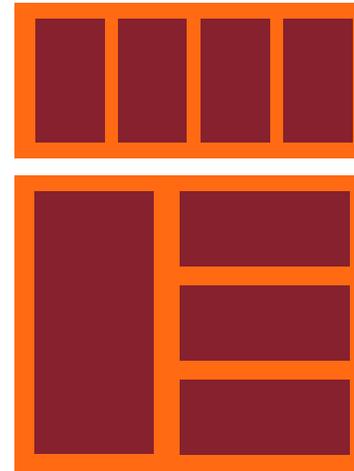
## Focus on organic growth

Actively pursue growth opportunities within core areas organically and through partnerships



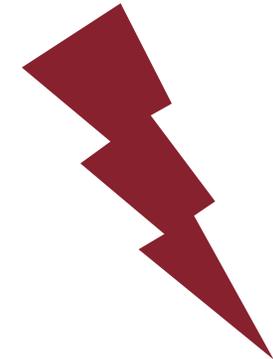
## LEAN Operations

Scalable manufacturing  
Commercial excellence



## Fast introduction of new products

Continued introduction of new products and technologies to meet customers' needs



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# Financial calendar



2018

Event

22 March

➤ Annual General Meeting

15 May

➤ Interim Report Q1 2018

15 August

➤ Interim Report Q2 2018

16 November

➤ Interim Report Q3 2018

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