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Q1 2020 NKT A/S Earnings Call

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PRESENTATION

Alexander Kara NKT A/S - President & CEO

Yes. Good morning, everybody. I hope that you can hear us well and better than the operator. We have a little bit struggle to hear it clear and loud. So I have you with me in the room as presenter, Roland M. Andersen as CFO of NKT. Then we have also here Basil Garabet, Photonics CEO. So let me first start, thank you that you take the time to listen to this call. And let's first start here with the news, which most of you, I guess, are interested that as you may have read in the announcement this morning, NKT seeks to strengthen its capital base. And now my CFO, Roland, he will give you the background of why we are doing that and why it's a good thing to do it right now. And afterwards, I will continue with the Q1 report.

Roland Munkerod Andersen NKT A/S - CFO

Yes. Thank you, Alex. So following our order win last week and also our announcement that we are reviewing our capital Structure, we have now concluded on that. And we have decided to strengthen the company's capital base for primarily 3 reasons.

So first of all, the company is growing in its Solutions business, the Projects business. We have, over the past 3, 6 months, won significantly larger orders in U.K. and also recently in Germany, which is the new DC technology, these orders are bigger. They take longer. They are more complex. It's with new technology and also execution risks are higher. And for that reason, we think that it's prudent to have a more robust balance sheet.

There's nothing new in that compared to what we have said in the past year or so. But what is new is that in November, last year, we initiated the strategic review of NKT Photonics. And contrary to the Cables part of NKT, Photonics is negatively impacted by the corona pandemic and Basil will come back to that later. But that means that the strategic review of NKT Photonics is not expected to be concluded in the near future.

And even though, as a third reason here, even though that the Cables part of the business is not impacted by the corona as for now. We realized that there is an elevated uncertainty in the markets where we operate. And we find it prudent to establish a more sustainable structure and reduce our debt levels moving forward. It is, however, not so that the company has imminent debt maturity and also our overall liquidity situation is stable. And the way we plan to do this, let me just add a little color to that, I expect there may be questions around that is, in 2 steps. So first of all, we today have an authorization to issue 18.15% shares without preemption rights. And as we speak here, we are attempting to base that in a direct placement and hopefully, will conclude that today.

By the same token, we will -- as soon as we can be allowed to call for an AGM, we will ask the AGM to roll our existing authorizations over like we did last year and the year before. And then we will -- we have the intent, if so approved, to use the authorizations to issue another 6.4 million shares, which approximates 20% of the share capital in a similar direct placement as today without preemption rights.

And why do we do it in this way and not in any other way. First of all, we have the authorization today. The capital markets are there, and we can do this fast, presumably. Now have we done it in a different way with a larger rights issue or similar, we would have had to wait



for an AGM, uncertainty on when we could call that, we need to do a larger prospectus and funding date would be further out. So that's why we have chosen to do it this way.

I think we'll leave it at that for now. And then I'll give the word over to Alex to comment on Q1, and then I'll get back to the financials on Q1, and then we'll open up for the Q&As in the end of the call.

Alexander Kara NKT A/S - President & CEO

Yes. Thanks, Roland, for the explanation. So coming to the Q1, Q1 is slightly better-than-expected positive [with you] to mention the 19% growth, where all business lines have contributed to the growth, mainly a solution with 37%. 10.2% EBITDA is more than we have expected, and all 3 business as we contributed. Particular positive for the development of applications with higher earnings and I come back to that. We have seen growth in service and accessories, and this, we expect, hopefully, then also to continue.

The order backlog is all-time high. It's a little bit reduced compared to end of last year to EUR 1.24 billion. But this recent order with SuedOstLink, which will be added then to the backlog, we will exceed the backlog end of 2019. And this, of course, is a great achievement that we can participate in this offering, which has a value of approximately the EUR 500 million, and the (inaudible). So this is -- we are really proud that we can participate in this project as we have developed -- spent a lot of work on this development of 525 kV extruded cable. And now finally, the industry moved to this new voltage level and new technology, which is key to transmit efficient power from the North Sea to the load center in the south of Germany and with the cables from us, we contribute here to the energy and a key vendor in Germany and contribute to the green transformation in Germany, big achievements and was a lot of work.

So coming to Q1, Solution. Solutions production executed order as expected. We worked on (inaudible), Hornsea 2, we completed for the Dutch offshore Borssele, 220 kV cable. And that was all as expected. In 1 project, in Cologne, we have a delay, which was compensated by other projects. The Victoria in Q1 was not fully loaded. And -- but as it's not unusual in Q1 that you have lower vessel base of Victoria. So overall, Q1 for Solutions was positive.

Looking at the high-voltage market for Q1, around EUR 0.4 billion has been awarded, and we got some small orders and of course, as I mentioned, the SuedOstLink, of course, is after Q1 is positive, and we'll continue to work on tenders for regions or segments despite the COVID-19. So we do not limited in our tender activities, and we'll do so and continue. The market outlook is still attractive. We have the big turn corridor projects, but also other projects in the market in all segments.

Coming to the next to the backlog. The backlog, all-time high, (inaudible) a little bit decreased from the last end of last year. And SuedOstLink will be added to this and we work in all the segments, offshore wind in the connector and oil and gas and have also opportunities in all these segments. And coming to application that is really the highlight and beyond our expectation.

Finally, our actions, what we are taking to improve efficiency. In the factory, we see first results. We see also, overall, the demand unaffected. And where it's a little bit a shift more to medium voltage with higher-margin compared to low voltage and that is positive. So 3% organic for growth, EUR 24 million and EUR 3.5 [million], I think is a nice achievement and which needs to be continued.

Coming to Service, overall, good traction organic growth. Our (inaudible) are full and operate no impact from COVID-19, maybe more (inaudible) stores we produce without any interruption. And so far, all good and also the market is here a stable and growing actually. We see them actually already through, but happy to answer later question. So all in all, a good Q1 above, SuedOstLink after the Q1, a nice really very positive, I have to say. And we are looking forward to continue for the full year, and we confirmed our guidance for this year.

And we this, I hand over to Basil, and he can lead you through the Photonics part.

Basil Garabet NKT Photonics A/S - CEO and President

Thank you, Alex. Good morning. For NKT Photonics, Q1 first quarter is traditionally our lowest quarter. However, even so, the revenue came in at EUR 12.7 million. This is down from the EUR 14.5 million in the same quarter of 2019. Main reason for that we'll go through it in a minute is that the industrial portion of our market was heavily impacted by various postponements of orders because of shutdowns due to the coronavirus outbreak.

The EUR 12.7 million actually comes up at a 13% negative organic growth for the business. The -- again, as I mentioned, industrial has been the main contributor for that. Medical and life sciences portion of our business was flat to slightly down. However, the aerospace and defense came in quite strongly in the quarter and looks like it's coming strongly in for the rest of the year.

EBITDA, due to the lower revenue, came in at a negative EUR 1.8 million. That compares to a negative EUR 0.4 million in the same quarter of 2019. Our order intake is 16% lower on the same quarter of last year. Again, there were some larger orders that came in, in the first quarter of last year. So it's comparatively lower. However, this is improving as they still -- as China and Korea is opening up at the moment, and Europe is beginning to open up. However, there's still uncertainty out there in the market. But again, as I said, it is improving.

NKT has been impacted by the coronavirus pandemic, again, mainly, in the Industrial segment, which is our largest segment to date. We believe that, that segment will continue to have uncertainty in it looking forward. So good news with regards to our Medical and Life Sciences segment. Beginning of the quarter, Leica Microsystems, which is one of our larger customers, launched a new confocal microscope, which is powered by our NKT Photonics, Super K, Supercontinuum white light lasers, and we see that business improving steadily throughout the second quarter and going into the third quarter, helping our revenue.

Moving on to the next slide on business development in Medical and Life Sciences. Again, as I mentioned, it was flat to slightly down on the same quarter. We expect this to grow again on last year. Today, the percentage of revenue is 15% of our total. We believe that, that will increase by the end of the year. The Industrial segment, which today is 70% of our revenue, saw a significant drop, again, because of the coronavirus, because of postponement of orders, because of some supply issues that we've had. However, again, with regards to orders, we see this as improving. But again, there is a lot of uncertainty, and we'll get back to looking at forecast for the next quarter. In Aerospace & Defense, which today is 15% of our business. We see that revenue and our backlog growing steadily. This business doesn't seem to be impacted by the coronavirus outbreak. And again, as I mentioned, I would imagine this business segment as a percentage of the total will increase to the end of the year.

And with that, that concludes my segment, and I'll pass over to Roland.

Roland Munkerod Andersen NKT A/S - CFO

Thank you for that, Basil. So we flip to Slide 17, the group revenue development. If we clean revenue for the metal price impact, we had a slight currency impact primarily from Swedish kroner, but otherwise, healthy organic growth from the NKT Cables business and negative organic growth in the Photonics business. So overall, positive organic growth for the quarter compared to the same quarter last year.

If we move to Slide 18, the group's income highlights higher profitability, obviously, driven by NKT that outweighs the negative development in Photonics. As Alex mentioned, profitability in Solutions was higher, and it was driven by a higher load in our factories related to projects executed in primarily cars (inaudible). Earnings also increased in both applications and the service driven by organic growth in revenue. And Photonics was unfavorably hit with lower revenue primarily from the headwinds that was made in Industrial last year but also accelerated by the corona outbreak.

If we move on to Slide 19, the group's operational EBITDA. For the quarter, the margin increased to 4.2% in Q1 against minus 1.2% in Q1 '19 as profitability start to increase in the HV Cables part. And we all recall that the swings in the 16 to 17 is primarily driven by the acquisition of the ABB HV Cables and also the divestment of our Chinese operations.

If we move to Slide 20. And have a look at our balance sheet highlights. Working capital increased as expected from an exceptionally low level at the end of '19. NKT, primarily driven by phasing of milestone payments combined with the absence of significant new high-voltage project awards and solutions. And thereby also a lack of prepayments (inaudible). And also applications started to build up in Q1 preparing for the traditionally higher season quarters Q2 and Q3. So yes, so that drove the working capital in NKT. The working capital here, and that's worth noting includes an impact of EUR 28 million due to unrealized hedges reported on equity. So that's a noncash item.

So if we move to Slide 21. Again, the working capital increasing. Same reasoning as as we had on the previous slides. And again, working capital is primarily driven by the timing of payments in Solutions, which will cause quarterly fluctuations and are also highly dependent of whether the -- we have inflow of new projects.

And moving to Slide 22. Cash flow highlights. Cash flow primarily driven here by the negative movement in the NKT working capital. And I think we don't have so more to say here. Again, the changes in working capital here, EUR 115 million is the cash impact and we recall that there's EUR 28 million here of noncash that are offset when you read the balance sheet item. Cash flow from investing activities, higher investment levels in both NKT and Photonics, EUR 14 million in CapEx compared to EUR 9.6 million in the same period last year that also included the sales proceeds from the divestment of Railways activities.

If we then go to Slide 23, the group's financial leverage ratio compared to Q4 '19, we are increasing from 8.2x to 9.3x. NIBD, excluding IFRS 16 increase driven by the working capital. And by the end of the quarter, we have 164 million in mortgage debt and 177 million on our revolving credit facility, where we have availability of 300 million. The RCF and only the RCF is subject to financial covenants, including agreed remedies in the form of the security over NKT Photonics and the vessel NKT Victoria. And NKT A/S has sufficient financial headwind to manage the level of activity expected in 2020.

And if we move to Slide 24, as per the announcement last week, we're reiterating the financial outlook for 2020, and the revenues will be between EUR 1 billion and EUR 1.1 billion. And operational EBITDA between 40 million and 60 million. And for NKT Photonics, due to the negative impact of coronavirus outbreak, we have decided to discontinue the guidance for 2020.

And with that, I will give the word over to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Akash Gupta from JPMorgan.

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

My first question is on working capital. Maybe, Roland, if you can talk about phasing of working capital this year. I mean, in second quarter, you are getting SuedOstLink contract. I don't know whether it would be formed straight away or will it be formed later. But how should we think about phasing of working capital between Q2, Q3? And like how high working capital can go from the levels we saw at the end of Q1? So that is question number one.

Roland Munkerod Andersen *NKT A/S - CFO*

Yes. Thank you, Akash. Yes. So as we said coming out of Q4, we knew that Q1 would be more an execution quarter than actually sales or order intake quarter. And that's also why our net working capital is bouncing to a relatively high level. And we should think about it as hopefully, we will get a few more orders in Q2, Q3. We already announced one of them. And as we get new orders, there will also be prepayments attached to those. So you would expect that working capital will start declining or sliding downwards, again, over the next couple of quarters and towards the year end. Also, the Applications business that build up working capital towards the end of Q1 should at least once they come into Q3 starting to bring capital bound in that further down. So we would think about an improved level of working capital as we move forward from here.

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

My second question is on the German link. So we saw first order award last week. When do you expect SuedOstLink to come in your firm backlog? And will it be Q2 or maybe sometime in second half of the year? And then maybe a few words on phasing of this project into your P&L. And finally, will you require any additional CapEx to increase production in your German plants?

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

So SuedOstLink, we will -- after contract signing yes, of course, first on separation work and so on, and production start is foreseen towards end of next year. So I mean that is the point when we will start to recognize substantial revenues, not before. And then

installation will start somewhere in '22, '23. So that is the plan for SuedOstLink. In respect to SuedOstLink, we have a production capacity in Karlskrona and Cologne. And we need to see based also mainly what would be the outcome of further wins potentially if and to what extent would we invest.

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

And my final one is on Photonics, and a couple of questions here. First one is on if you can talk about April trading. What sort of level of decline you have seen in April? So we know what kind of -- how should we model Q2? And secondly, on Photonics, I mean, I think part of the reason why you're doing capital increase today is because you're suspending strategic review of Photonics. But sooner or later, when this strategic review happens, is it fair to assume that you may use part of proceeds to buy back some of the shares?

Basil Garabet NKT Photonics A/S - CEO and President

Hi, Akash. I'm not sure I caught the first part of

the question clearly. Is it more about...

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

April trading? Like how -- what's the level of decline you have seen in April? And maybe if you can talk about also exit rates in -- at the end of first quarter? Because, I mean, many industrial businesses are reporting 20%, 30% decline in April so. I just want to better understand how Photonics is trading in early Q2.

Basil Garabet NKT Photonics A/S - CEO and President

Yes. April for us was also a tough month because there's still a lot of closures from our customers. The order book that we have is actually quite healthy at the moment. It's getting shipments out to customers that has been affected. We see it opening up. We see China opening up, we see Korea opening up. We see a lot of European companies come back. So there is light at the end of the tunnel. I mean, obviously, it's hard to predict the rate they will come back. But at the moment, we see a turnaround in that. It will happen to the second half of the second quarter and then going into Q3 and Q4, but not before.

And the second question with regards to NKT Photonics, the strategic review, we've put that considering where we are in the market. And considering if you compare us to our peers and competitors out there, everyone is down. It's not really the right time to have a strategic review in the short to medium term.

Roland Munkerod Andersen NKT A/S - CFO

Yes. I think if the question was, what would we do if Photonics would yield excess cash, I think, it's too soon to speculate on that.

Operator

Our next question comes from the line of [Josep] from Nordea.

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

Was that me? So this is Claus Almer from Nordea?

Unidentified Company Representative

(inaudible)

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

(inaudible) my name yelled out. Okay. Good. A few questions from my side also. The first question goes to Basil. You are putting in the slides that COVID-19 was the main driver for the decline in Q1. What was the other drivers for the negative performance? That would be the first question.

Basil Garabet NKT Photonics A/S - CEO and President

Well, the majority did come from COVID-19. But as we mentioned before, there is headwinds in the Industrial sector with regards to our -- essentially, with our customers and the business has been a little bit more flat than we expected on the Industrial side. But the majority of the decline is COVID-related.

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

Sure. But I guess, Photonics is a growth business, so excluding all the COVID-19, I'm quite surprised that, adjusted for that, that Photonics shouldn't be a growth business. But how should we think about Photonics, excluding COVID-19?

Basil Garabet NKT Photonics A/S - CEO and President

Oh, excluding COVID-19, we would be ahead. I mean, if you look at where we are today on our book plus ship, we are ahead of last year. But again, if customers' facilities are shut, we can't ship. We had customers in India that were shut for 3 months. We can't ship. We've got customers in California. The facilities are shut. Yes. So otherwise, I mean, the beauty of NKT Photonics is we have a very balanced portfolio. So we're in a lot of markets. And some of our markets that we're in are doing exceptionally well. Aerospace & Defence is doing well. We're up. The Semiconductor market is doing exceptionally well, if you look at other companies in that sector, they're doing well. So it's regional. It really depends on where they are. It's tactical. And we deal with this on a daily basis. So it's -- the COVID has put through a pretty big wrench into the works.

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

Right. Okay. Then my second question goes to, yes, the changed capital structure. Roland, has there been projects where the customer have mentioned or excluded NKT to win that project due to the weak balance sheet? Or is the projects in the pipeline where, yes, the same topic has been raised? That will be my next question.

Roland Munkerod Andersen NKT A/S - CFO

Yes. So no, the answer is clearly no. That has not been an issue. We are structuring the way we are tendering, the way we are offering projects, performance bonds and ring-fencing the projects towards the customer in exactly the same way as everyone else. So this has nothing to do with that.

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

Okay. But then if that's the situation, why are you issuing new shares of nearly 20% in a time where the equity market is kind of challenged by the COVID-19 concern, and also stating that another 20% will be issued within, I guess, 1 or 2 quarters. Why the speed?

Roland Munkerod Andersen NKT A/S - CFO

Yes. But the speed is really the threefold thing. First of all, we need to reduce our leverage. Our long-term leverage is 1.5 and now we're starting to see the bigger projects. We had hoped for that also, expected some of that. So that is not new. But what we had in the toolbox was it was a position to do something with Photonics, and that is now out and -- at least for time being. And thirdly, the corona thing it looks like we're getting the orders. It looks like we only impacted by corona, but we don't really know, right? There are uncertainties around it. And we just don't think it's the right thing that is prudent to move ahead with a relatively high leverage, where those 3 things in combination just continue ineffective. So that's right now. And I don't think that the capital markets are so negatively impacted, as you indicated, I think we will hopefully see some appetite for what we're doing today. And our share price is not the worst either.

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

Okay. But I mean one could speculate, that the interest for Photonics has not been that great as you had hoped for. I mean, it has been a possible sale for a few quarters now. And still, more or less ruling out a divestment could happen this year. So could you maybe put some color to the interest or you have had for Photonics?

Roland Munkerod Andersen NKT A/S - CFO

So when we use the word strategic review, we actually mean it. So it's not a for sale sign that has just been put on. We've been thinking a little bit about what would the right structure be, what would the right ownership structure for Photonics be, is it a wholesale? Is that a part sale? Is it a partnership with somebody else that could boost growth even further? So that's what we've been sort of considering.

And whilst we were considering that, admittedly, we were overtaken by the corona situation. So for now, we can't conclude on that review anytime soon. I think that's how you should think about it.

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

Okay. But I just think the consideration must have been whether divesting Photonics with a given discount due to the situation or do a nearly 40% rights issue in the group? Has that been part of your consideration?

Roland Munkerod Andersen *NKT A/S - CFO*

Yes. I'm not going to be so detailed on what we consider. We think this is the best for the company to do now.

Operator

Our next question comes from the line of Casper Blom from ABG Sundal Collier.

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

First, a little bit of follow-up on a previous question and a possible extension of production facilities. As I recall it in Cologne, you have the opportunity to increase your production facilities relatively easy. Could you just remind us a little bit what the possibilities are there? How long it would take it? And what would be the cost of doing that? Just as a reminder, please? That's my first question.

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

I mean, we have, of course, a possibility to expand Cologne with additional extrusion capability. If we decide to do so, I think we need to first now see how the market and the orders received develops before we take a decision. So to make and conclude already now it's too early to say. And there are other projects out in the market and so on. And we will revisit that before we spend any money.

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

Yes. I'm not looking for any conclusion. I'm just asking for a reminder. You have previously talked about how much you could expand and what the price would be. So basically --

Roland Munkerod Andersen *NKT A/S - CFO*

Yes. So -- yes, thanks, Casper. So what we've previously said on extension is that we can expand capacity on the offshore lines by 50% in Cologne, and that will cost us EUR 30 million to EUR 50 million to do so.

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

Perfect. Then secondly, you now were successful in the SuedOstLink, and congratulations on that. What is sort of the current trend in profitability within high-voltage in Europe? We've previously talked about how a ramp-up in awards could sort of make a little bit of squeeze and maybe give you back some pricing power if order books start being full at the different producers. What's the sort of current trend on profitability within high voltage?

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

I mean, let me first say for SuedOstLink, we are at the cheaper satisfactory margin level. And obviously, more project gets awarded to the industry. The utilization industry is good for all the cable and manufacture. That's positive. And so with higher utilization, higher loads, you would expect with the normal market dynamics, that margin would go up. But of course, each project in itself may have a specific dynamics.

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

But are you there yet where you're sort of starting to see that potential margin improvement? Or do we need to sort of see things getting even hotter?

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

Yes. I mean, let's say, the margin development doesn't -- is not just defined by ourselves. It's defined by the market, by the total environment and how competitors act also. So for sure, if the market goes up, we expect higher that also the margins would go up.

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

But you haven't seen it yet then?

Alexander Kara NKT A/S - President & CEO

I said that we have seen in SuedOstLink satisfactory margin level for SuedOstLink.

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

Okay. And how does that compare to, for example, where margins were 3, 4 years ago before you saw sort of a downturn in the market?

Alexander Kara NKT A/S - President & CEO

The margin level now on the SuedOstLink, you can compare it with the offshore, large offshore projects, not with at onshore projects. So yes.

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

Okay. That's helpful. Then for Basil, the lack of orders that -- or business that you've seen here in Q1 and also into April. Do you think there is a sort of a pent-up demand where we will see a sort of potential catch-up effect in the second half of the year when the current shutdowns are being opened up?

Basil Garabet NKT Photonics A/S - CEO and President

Yes, I think so. I think we're already seeing it. So as countries open up, we're seeing the business coming back. So like I said, where we are today with regards to book plus ship, we're actually slightly ahead of last year. So we see a continuation. I mean, but again, the uncertainty that we have is we don't know at what rate will come back or if there's a second wave, et cetera. So it really depends on how countries open up and in which markets. Remember, we are in a number of different markets.

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

Okay. And then finally, just for Roland, a little bit of housekeeping. On the net financial items and also the sort of one-off restructuring costs that you report. What should we expect for the full year on those 2 lines?

Roland Munkeroed Andersen NKT A/S - CFO

Yes. So restructuring, there won't be a lot of restructuring, this year to be less than next year. I think less than last year. And on financials, you should probably expect something that is in line with last year also.

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

Okay. So it was a lot in Q1 then?

Roland Munkeroed Andersen NKT A/S - CFO

Yes, there were some noncash items, like derivatives and so on in Q1. So a little large in the numbers in Q1. But full year should be in line with '19, slightly more.

Operator

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

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

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My first one is around the rights issue in the year, is around the equity raise and the ways to use the proceeds. So could you maybe talk a little bit about what are your strategic priorities to use that cash? And in particular, how you will be thinking about further investments into Photonics? And also, I appreciate you mentioned only EUR 50 million CapEx for Cologne expansion, but I think previously, you were more talking in the range of EUR 50 million to EUR 100 million or even more EUR 100 million for CapEx if you get a big share of SuedOstLink maybe also if you can give us any color on that, that would be helpful.

Roland Munkerod Andersen NKT A/S - CFO

Yes. Thank you for that question, Artem. So it's not a right issue. It's a about placing at market price. And the expected use of procedures is sort of general corporate purposes, right? We have a cash management structure with a revolving credit facility. So you get the cash in and then basically your net interest-bearing debt goes down, right? We don't have term loans that we are reducing, and we are not affecting the size of the revolver. So it all goes into the same pot, so to speak. These funds are not meant to do capacity expansions. That's not what I meant to. It's meant to delever the balance sheet.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

Right. But I was more thinking about capital needs of Photonics because I think previously, you indicated that once that business reaches close to EUR 100 million revenues, it will require EUR 50 million to EUR 100 million CapEx investments. Is this is this requirement still in place?

Roland Munkerod Andersen NKT A/S - CFO

No. So we expect the investment level in Photonics is to continue at the level you saw last year.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

Right. Okay. And could you maybe also give us some color in terms and conditions on the German corridors and on SuedOstLink, in particular, I guess, all cable manufacturers have previously spoken about challenging terms and conditions, and that's a small problem on the project can require kind of a full replacement of that project. So maybe could you give us some color on potential maximum liability on those projects which you have?

Alexander Kara NKT A/S - President & CEO

Yes. I mean, these corridor projects, as you know, is 525 kV DC technology first time. So far, there is no reference project on this voltage level. That means we have a technical risk. On other side, we have terms and conditions, which vary from customer to customer. And in SuedOstLink, if you look at (inaudible), the terms on conditions, the technical risk and the reward was balanced and we were successful to secure the 3 lots from 50 hertz. Now in the north, we were not successful. And obviously, these parameters, which I mentioned, we are not in balance. So it is how it is.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

Well, I guess my question is if -- considering that you have to -- consider that it looks like you have to do an equity increase after winning those projects. And that, as you mentioned, profitability is just satisfactory where risks are quite high. Will you be willing to share maybe maximum liabilities you may incur on that project? If there are any problems with SuedOstLink?

Alexander Kara NKT A/S - President & CEO

No. I think we don't share in detail total liability on warranty and LDs and all these detailed terms. I can just say, these are a project, which have a long duration, the complex projects from the execution point of view, it's complex terms on conditions. And I think in SuedOstLink, it was the terms and conditions that balanced, satisfactory for us as well as for the customer.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

Okay. And my last question is around solutions. And the order pipeline, which can contribute materially to 2021 revenues. Could you maybe talk a little bit about whether there are any projects you're actually building on, which can materially contribute to next year's results because as it looks now, those German projects will be more 2022 story for you from a P&L standpoint?

Alexander Kara NKT A/S - President & CEO

Typically, we have secured quite some orders over the last couple of months, which contribute partly this year on revenues. And of course, for the -- as I mentioned earlier, this will not contribute substantial in this quarter as we (inaudible) start production end of next year. And typically, large projects and solutions from orders received until revenue recognition takes 12-plus months normally. And so as such, large project would not necessarily contribute to 2020 or it's not significant. Let me restate. And there is besides the quality of project, there's, of course, other projects in the market, which we tender. So our people are busy. Despite the corona and COVID, and I don't know you name it, effects and yes.



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

Yes. And maybe a last quick follow-up, on that second tranche of equity increase, which you're aiming for, what's the time line you're considering, please?

Roland Munkerod Andersen *NKT A/S - CFO*

Yes. So what we're saying is that, hopefully, we'll conclude that before the end of this year, but it's obviously subject to us having the authorizations in an AGM, an AGM that is currently a little unclear when we are able to convene.

Operator

The next question comes from the line of Andrea Scatozza from Goldman Sachs.

Andrea Scatozza *Goldman Sachs Group Inc., Research Division - Research Analyst*

I have 2. The first one is on applications. I appreciate that good profitability this quarter was driven by mix and production efficiencies. And I was wondering how sustainable are those drivers and this profitability level beyond the impact from COVID-19? And whether you see further margin expansion in this division?

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

So I'm not sure whether I got the full question. Our connection is not so well, but the obvious actions which we're taking to -- in the production to improve efficiency is sustainable actions. It's not one-off actions. So that is what I also mentioned in earlier calls, we work in applications, for example, to improve the efficiency of the production and the output of the production, and we have here our plan and continue to do so. And we will improve. Obviously, we will not -- will not make a step function in 1 or 2 quarters. But with our actions, we believe that we continue, can improve profitability in application. And we see a first result in Q1. But production efficiency is not obviously limited to applications. We also look in other areas in Solutions, Accessories, how can we become better and more efficient, more productive, having higher productivity means more output with the same number of people. Yes, and more efficiency.

Andrea Scatozza *Goldman Sachs Group Inc., Research Division - Research Analyst*

And my second one, which may already have been addressed but have some line issues, is on the production plan for the German corridor contract. If you can please remind us of how the capacity decision now stands in Karlskrona and Cologne? And how do you plan to produce for the German corridor? In addition, so the second contract arrive from the German corridors, how that production plan can change?

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

I mean, again, production, I mentioned, is out in next year, Q4, 2021, and existing production plans can of course change based on order development as we hopefully get in. And I think we will now see just how project awards will happen in the next 2, 3 months on Solution, and then we decide where and how to produce. There is not an immediate urgent need based on the current information available to decide today where we need to produce, for example, the SuedOstLink or any other order between we potentially would get in the next couple of months.

Operator

(Operator Instructions) I believe that Claus Almer from Nordea has a follow-up question.

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

Yes. Just a follow-up and coming back to my question regarding the speed of this rights issue. No doubt that the outcome of the SuedOstLink tender will be important for your share price and by your order backlog. Why don't you wait until that outcome has been communicated? That will be the question.

Alexander Kara NKT A/S - President & CEO

Claus, it's not a rights issue. It's a (inaudible). It's an authorization that we have. And I cannot add more color, and we think now is the right time to do it. There will be more tenders coming up, and you can always speculate on where you want to do it and not want to do it. We need to get this done. We have communicated on the back of the biggest order win we have ever had, a decent Q1. We think the investor interest is there now so we have chosen to do it now.

Operator

Gentlemen, Artem Tokarenko has a follow-up question as well.

Artem Tokarenko Crédit Suisse AG, Research Division - Research Analyst

A follow-up from me. Just a quick one on applications. Given that Q2 has historically been a very important quarter. Could you maybe talk a little bit about what level of growth you've seen in April and have you seen any kind of recovery in May?

Alexander Kara NKT A/S - President & CEO

Yes, I'm not sure, April, so far, we see the good trend, let's say, from Q1 to continue. And application is also a mixed bag. It's not that we are impacted in any way from or was slightly just the minor from the corona, but we see differences that in some countries, it's difficult to deliver cables, like particularly, for example, France and U.K. But so far, April, we see the good trend continue. We can produce, we can deliver, in some countries more than in the others.

Operator

(Operator Instructions) The next question comes from the line of Kristian Johansen from Danske Bank.

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

Just a question on medium voltage outlook. So now that the German corridor projects are definitely happening, which we've been waiting for quite some time. Can you speak a bit about the outlook on the medium voltage market in Germany? Because I assume that these high-voltage corridors will have some sort of adjacent investments needed in medium voltage grid?

Alexander Kara NKT A/S - President & CEO

I mean, the medium voltage grid is, of course, impacted mainly how you -- I would say, also by different factors. One is the renewable. I mean, you have also offshore wind farms. You have solar. This large (inaudible) project change, of course, the overlaying high voltage grid, and that impacts the dynamics from the network and the network stability and the whole, let's say, power flow on the high-voltage side. And then consequently, on the, let's say, sub transmission and medium voltage. And there's no doubt that the medium voltage creates distribution grid that needs to be strengthened over time by all these factors. Now the question is with what speed that will go and will it be free to even further accelerate? That's difficult to say. But it would just simply a consequence of also the strategy of decarbonization. If you have more electrical car, if you go to heat pumps and so on. So you need the strength and also the distribution grid, you cannot just stay on the high-voltage level.

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

But can you make any prediction on when you would expect an impact on the investment (inaudible).

Alexander Kara NKT A/S - President & CEO

I mean, we see -- we certainly see impact, and we mentioned that the mix has changed towards more medium voltage. So we see higher demand as we speak on the medium voltage with a better margin, which is positive for us, but I think also positive for the industry. For all, we see the margins are going up on this relative low-margin business. So that is positive. And now I can not (inaudible) to look ahead and tell you exactly how that will develop. I think it will continue. And most probably from the market driver, from the trends -- megatrends, will be accelerated. I would -- at least I would, from a logical point of view, expect that.

Operator

No further question at this time. Please continue.

Michael Nass Nielsen NKT A/S - Head of IR

Okay. So if there's no more questions. Then thank you, everyone, for attending this Q1 report from NKT. Thank you, and have a good day.

Alexander Kara NKT A/S - President & CEO

Thank you very much. Have a good day. Bye-bye.

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