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NKT.CO - Nkt A/S Initiates Rights Issue Call

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PRESENTATION

Operator

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

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

Claes Westerlind - NKT A/S - President & CEO

Thank you, and good morning, everybody, and thanks for calling in. It's an exciting day. We wanted to talk to you about what we launched this morning, the rights issue. And I will change the first slide and draw your attention to the disclaimer and also ask you to read through that carefully.

Moving on. I'm here today, Claes, and I'm the President and CEO of NKT since about a month now. And next to me, I also have Line Andrea Fandrup, who is the CFO of NKT. And we wanted to address 2 topics today. That's the rationale for the transaction that we are now announcing and also a little bit around the structure of the same. And starting to reflect a little bit about this company and the development in recent years, I think most of you would be aware what we have come to. And it's fair to say that if you compare it to 5 to 10 years ago, we are a very different company today. We were in 2016, 2017 in a transformational phase with a very large acquisition of the high-voltage cables from ABB, and that enabled us as a company to firm step into the DC market, which has been a pivotal element in the recent news and is expected to be more so in the coming years.

With the demerger of Nilfisk (technical difficulty) other than noncore assets (technical difficulty) the structure, which we have. In the years to come, there will be a challenging market, and especially on the (technical difficulty) where the elements of large orders, that was due to political legislative reasons and also aspects. But then in late 2018, things start to pick up again for NKT.

We went into stabilization phase, where we managed to do a certain backfill of the orders that we were like previous years. We also launched 2 capital increases in 2020, which helped us also in the further development of the company and the announcement that we did in 2020 of an investment in the solutions business in the realm of EUR 150 million, which was targeting both the capabilities and capacities in Karlskrona respective Cologne factories.

We also, in the last 3 years, have very successful in terms of order intake. And that stood on the back end of the first quarter this year, we are pleased to [residual] order backlog and more has happened. And today, before you with a very strong market outlook that we feel suitable and confident around. We have a clear path forward for this that's actually in mind with the investments we have done with what we have shown in the recent years. And this is where we have also announced another significant growth step of NKT being the large investment in the Karlskrona factory. And this comes then to this day where we are now also aiming to raise some further capital to further improve and strengthen NKT as a company.

With that development in mind and zooming in on the Karlskrona side, that's one of the examples we have in NKT of the success we have seen in recent years. This site is the largest site we have within NKT on the high-voltage side. It is a pivotal site, not only for NKT, but also for the green transition in Europe. The factory has been in continuous development since 2010 and also before that, in fact, where we have made a number of larger and more modest expansions, such as building another factory called the Northern factory back in 2010 to 2015, we've extended our harbors.

We have expanded the storage capacity. We built commissions and are using still NKT Victoria. As I said on the previous slide, in 2020, we built the second tower and the connectors and then now and for the next couple of years, we will do a significant expansion, both in terms of capacity, but also capabilities. And that's in the onshore factory in Karlskrona and also what we sometimes call our offshore factory -- in the cable installation vessel, and we will aim to add another vessel to our fleet.

I mentioned the market situation as it stands for the moment, which is a very favorable market situation. And the slide here is trying to depict the same where from 2020 to 2030, there is a significant growth expected in the global electricity generation. You can see going from 7,500 to 14,000 gigawatts. And out of that growth as can also be seen the fossil fuel will not grow but the majority will be very loyal to the green transition take place in solar, wind (technical difficulty). And the excess where NKT as a company is a technology provider.

Our applications, as an example, business is providing empty cables for the solar business, our HV side of the business is providing interconnectors, which could be generated from solar expansions, but also offshore wind and also onshore wind applications. And of the wind, as such, taking that as an example, it is a massive growth that will take place in the next couple of years. And only the number 12% therefore offshore wind doesn't seem like huge, but putting in relation to the growth and where we are today, it's a massive growth that will transform its sales to cable kilometers at the end of the day.

And if we go into the offshore wind part a little bit further on the next slide. Then we can see that there are a number of different ambitions depending on the country. They are all countries and the EU as a whole. Safety ambitions. Europe aims for at least 300 gigawatt of offshore wind generation by 2050. That is basically a consistent message and ambition from all countries that can also be seen left there. And I believe in that growth, we need to recognize 2 aspects. One aspect is that NKT provides the lifelines to offshore wind farms as an example, with no power cables and then working properly. There is no offshore wind to be integrated into the main grid. But on top of that, I mentioned solar, but also offshore wind, it changes the demand supply pattern in our electricity grids creating further need for interconnectors between countries and between regions. And here we take Europe as an example, but there are also other examples. And that's where we are the technology provider in the high-voltage solution part.

We provide turnkey interconnectors, offshore wind applications, power control applications and also undergrounding with the best example, maybe being the German corridors. We do this offshore. We do it onshore. We do it not only cable production-wise, but also installation wise. So in essence, our range of high-voltage solutions is speaking directly into the green transition, which Europe is undertaking for the moment.

If we flip to the next slide, that can also be seen in main -- the numbers. The market has grown significantly. I've had the privilege to be part of this industry now for about 15 years. And I've never seen a market like this with the strength that we are seeing for the moment, which is scaling to the upper right in the annual project awards expectations but can also be noted in the awards that we have been able to achieve now in 2020, 2021, '22 and also 2023 year-to-date, but we have been able to secure orders across all segments, interconnectors, underground, offshore wind farms. We have, as you can see, a spread from a geographical perspective. We have new customers. We also have (technical difficulty) which are testament to our ability to (technical difficulty) return to us. And that seen from a total perspective also can be recognized in our market share, which has been continuing to grow.

And with those words, ladies and gentlemen, I wish to hand it over to Line.

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

Yes. Thank you very much. So on this slide, just to recap what we will also share is the updated financial ambitions and building on top of what we said in September '22. What we see here since, it's exactly what they speak into a very strong market development, especially in our voltage segment, but also in the medium-voltage segment. So we aim to a continued growth of the company towards 28% of above 2020 target, revenue growth and then we are seeing also a good uptick in our EBITDA until '25. We expect about EUR 300 million corresponding to the upper end of the margin that we communicated back in September '22.

And then we're expecting above EUR 500 million EBITDA in 2028. And the uptake from '25 to '28 is from the expansion in Karlskrona. And then there's also a corresponding improvement in ROCE above 15% in '25 and above 20% in '28 and this is all due to earnings but also very much due

to backlog growth and improved capital spend. So the investments in the high voltage capability that we are undertaking, it's fully accretive once in operation.

On the next one, just to underline the reason for initiating the rights issue and also the eventual use of proceeds. This is more or less the synthesized version of a introduction of the very strong markets, our investment in the Karlskrona side and then securing a robust capital structure. We are becoming a larger company with a significant part of the business in the project business, which is associated with some complexity, longer lengths of time horizon when we will execute on much larger projects that we undertook for 5 years ago. So this seems to secure a strong financial structure around.

Turning to latter part of presentation, is the transaction structure and then going to (inaudible) so today, we launched the rights issue, which has an offering of -- it's approximately DKK 2.74 billion, which corresponds to the EUR 268 million in gross proceeds. What the structure of the offering is that at a subscription price of DKK 255 per share, there is a subscription ratio of 1 to 4. And what that means is that all existing shareholders in the company will receive 1 subscription right for each share held at the date -- of the record date. We sold subscription rights that entitled to have one share -- of the new share into the rights issue. Use of proceeds not to repeat ourselves, listed here, but also the log update, the 180 days for the Board of Directors, 180 days for effective management and 180 days NKT reports.

Finally, a bit on the timeline on the rights issue here. So the perspective is launched today. On the 12th of June the period for trading rights starts; on the 14th of June, the period for subscribing to the new shares starts. On the 23rd of June, trading period for rights closes and on the 27th June the trading window for the new shares closes. So on 29th, we will public results of the offering. And on 4th of July we expect to complete the offering. And finally, on the 5th of July will be the first day of trading the new shares in combination on system. So this lines out the whole process from -- we do turn into Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

We will take our first question -- and the question comes from the line of Daniela Costa from Goldman Sachs.

Daniela C. R. de Carvalho e Costa - *Goldman Sachs Group, Inc., Research Division - MD and Head of the European Capital Goods Equity Research Team*

I actually have 3, but they are quick. First, I think sort of originally NKT has said it could be up to 50% issuance, and then you seem to be coming sort of significantly lower than that. Can you give us some color between when you first sort of laid out and thought about the size of the potential issuance versus now sort of what -- why didn't you go for sort of the higher part of the range, is that the CapEx was cheaper in the end or sort of like interested on a rationale there?

Second thing, can you lay out in terms of either euros or kilometers, what type of extra capacity this third tower will give you when we think about -- I think in the past, you have commented on the MAX type of sales and solutions. So how much does this add? And third, in terms of the vessel, I guess, can you say, were you outsourcing any installation at the moment? And will this vessel allow more in sourcing? Or this is all incremental over and above whatever you are doing now, but for newer contracts rather than for any outsourcing of installation -- just trying to think about the advantages of the potential margins of having in case you're doing any outsourcing having the vessel for everything now.

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

Okay. Thank you Daniela for the question. I will start off with the first one, and then Claes will possibly take over on the next ones. So going a little bit back in terms of the time line and the choices and communications from our side. So to say, over winter time, the market really picked up structurally. Also, we will see the pipeline of tender coming in being larger and having longer time horizons. And this was, let's say, the early days of the trigger when we were expecting and also communicated at the CMD, but it came more for us places that the market really picked up. So we could see that there would be a spring that we would need to tender into much larger projects, and we would need possibly if we were successful to establish more capacity.

And when we knew this, we needed to secure that we could build that capacity, and we would also be able to tender and secure the financial structures, i.e., guarantee lines and the like over 100 tenders. When you commit on a tender, we need to be able to say we will be able to produce and we'll be able to secure the whole project with these financial structures. So when we saw that the tender timelines would need (technical difficulty) in spring of this year, then we also -- that we need an authorization of up to 50% to secure this. And that we have to commit because at that point, we still had undergoing discussions of where we have to place a factory and what to invest in and also how to secure the guarantee loans and the like.

So we will end up communicating as you stated. And then what happened after that date was that we became more specific and with the Board of Directors eventually decided that Sweden was the most attractive place to actually expand. This also enabled dialogue with the Swedish municipalities, regions in terms of how attractive was the case for them in Sweden. And this enables further that the Swedish export credit agencies wanted to step up and engage you further and continue securing guarantee lines. So in this consequence of choosing Sweden as the site from factory that there are too many good -- some elements also enabled that this rights issue we launched today is much below 50% and more around 25%, simply because of funding is still different at this point in time.

Claes Westerlind - NKT A/S - President & CEO

Okay. And then I will take the next 2 questions. The first one was the extra capacity in the new tower. It's a good question, but I will -- I'm afraid I have to give a little bit of a fussy answer, not so that I don't want to respond to you, but also being mindful about competition, and this is the puzzle exactly that we are trying to make about our competitors and they about us. What I can say, it's less of an incremental increase if you compare to previous investments. And this is a step change in terms of capability and also capacity. The easiest way is to view this. We have 2 towers in Karlskrona today, and now we're adding a third tower. And then you can linearly make the extraction. But actually, this will add more capacity than such a simple analysis.

If we move away from what capacity means in terms of kilometers, I would draw your attention to the medium-term guidance that we have provided with the CAGR between '25 and up to the guidance year of '28. And the difference there that you will get stimulation you can attach that the absolute majority over to these investments, which will also show the significant capacity investment in terms of money and then also consequently, the same analysis can be done on the profitability by comparing the guidance between these 2 years. So this is a significant addition.

On the vessel side, today, we have NKT Victoria at (technical difficulty) which we are using. We are adding capacity also during this year. We are completing the investments in Karlskrona, so more capacity will come online. So we will come to a reaching point where we would have to go to outsourcing, which I think we are almost already there. And of course, with this new capacity addition for sure, we will be there. And that's why it's a natural decision both from an insource/outsource perspective, but also risk management perspective to own our own second best. There will always be cases when we will or may do outsourcing for spreads, which don't deserve such cable-laying vessels stand for the near shore operation with very shallow drafts of the vessel. But the majority of our projects will be installed with own assets from a cable-laying perspective.

Operator

(Operator Instructions)

There seems to be no further questions. I would like to hand back for closing remarks.

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

Yes. Thanks a lot for attending this move and something that we think is very exciting for us as a company, but also for the green transition in Europe. So we thank you for your participation and wish you a good day.

Operator

This concludes today's conference call. Thanks for participating. You may now disconnect.

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