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NKT.CO - Q4 2022 Nkt A/S Earnings Call

EVENT DATE/TIME: FEBRUARY 22, 2023 / 9:00AM GMT

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## PRESENTATION

### Operator

Good day, and thank you for standing by. Welcome to the NKT Annual Report 2022 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, CEO of the company, Alexander Kara. Please go ahead.

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

Good morning, everybody on the call. Thanks for joining. This call where we present our annual report and the Q4 numbers. So with me in the room is Line Andrea Fandrup, my CFO, and she will also take a part of the presentation.

So let's come first to the key messages from Q4. We had an organic growth of 35%, which was driven when supported by all the 3 business lines. We had a high order backlog reached a new level with new awards in different segments and also variation orders in existing projects. The EBITDA improved operational driven by all 3 business lines. The NKT Board of Directors will propose to increase NKT share issuance authorization up to 50%, I repeat up to 50% to have the flexibility to act on future growth opportunities. Let me go here a little bit into details. The high-voltage market has grown fast, and it has grown faster as anticipated when we had the Capital Market Day last year. So we have seen EUR 5 billion in '21 on orders and on market last year at EUR 8 billion -- around EUR 8 billion. And we see for '23 and '24, at least EUR 8 billion in average could be even higher, depends on how many project materials. This is a great opportunity for NKT, and we are aiming to keep our fair share on this development.

Subject to a significant project board or, we are preparing to extend our production and installation capabilities even further. In the past, either, we have invested in a disciplined way in new capacity on the back of sizable project board. I want to mention here again the corridor projects in 2020 and the Champlain Hudson Express Power last year. This -- we have a staged investment here. We need the financial strength to support our current and future high-voltage backlog in a market with a high growth rate. With tender horizons are longer than earlier. We are transparent communicating that we potentially need to issue up to 50% shares in order to have the flexibility to act on a growing market. Please is rebated to the year.

Let me now come to the Q4 highlights. So in solution, we have grown on the revenue, on operational EBITDA based on the activities in the business line. We progressed well on the execution on several orders. In application, we could also grow the revenue and increase the prices. We could pass on the high inflation of the pressure on several cost items. But we have still seen low activity on the building wire, which is negatively impacted by the recession. They're still the same, what we have seen in the quarter before. So operational EBITDA margin has slightly improved Q4 '22

compared to the year before. Service and accessory grow revenue slightly organically and operational developments positive driven by onshore activities (inaudible) to service and accessories.

If you look at the full year, -- we ended at the top end of the guidance in sales and EBITDA. We had a record high orders received of EUR 2.7 billion, which is the highest ever. And as a company, NKT passed first time the EUR 2 billion revenue on market price, at least due to a 15% growth, the third time in a row. So we have done a good progress on the sustainability part on a C2 emission, which reduced 20%, which is now 79% down to the -- compared to the baseline of 2019.

Coming to Solutions. As I said already, solution, we had a good development on the revenue growth and operational improvements, as you can see it here on the numbers on the right side, 90% growth to EUR 27 million and EUR 27.2 million EBITDA. So we have on different projects as listed here, and we have seen, as expected, lower activities of the Victoria in Q4. The factory expansion upgrades in Karlskrona and Cologne continued as planned.

If you look at the full year development on solution, we improved 1.1% to EBITDA margin from 2021 from 13% to 14.1%. Looking at the market, we have seen a '22 market, around EUR 8 billion and roughly 80% were long-distance, high-voltage interconnectors and DC offshore wind. -- a strong market. And I mentioned already the EUR 2.7 billion, which have been awarded, and most of the project, the majority of the bigger projects are listed here on the table with Hugin and Munin called before Krafla, and Draugen and Njord in power from shore and interconnector Hertel from Canada to New York, Champlain Hudson and SuedOstLink second system. So -- and some other variation order at up to EUR 2.7 billion. Also, it's nice to mention here. We -- the Norwegian project, our 3-core AC project, which gives us a better mix in the factory.

So the addressable market for '23 and '24, as mentioned already, is at least EUR 8 billion on average. -- could be even higher, depends on how the development is on certain orders. We see also in the coming awards that the majority of the orders will be in DC technology. Nevertheless, there will be also AC orders, which is also important to us.

If you look at the high-voltage market development, we have increased our backlog to EUR 4.7 billion from EUR 4.5 billion to EUR 4.1 billion in standard metal price. And you see here that we expect 25% out of this EUR 4.1 billion to be turned into revenues in '23 and 75% on '24 and beyond. So we work all on this segment offshore wind and interconnectors, power from shore, and we are getting a little bit more international, as you can see on the flags on the right side, with the Canadian flag.

So coming to Application. We have seen the positive development. Q3 was, for us, a tough quarter where we have seen the full impact of the Russian Ukraine invasion in terms of input costs. So we could do a good job here in Q4 and could increase prices and pass on the inflationary pressure on cost items to customer and could increase prices. As mentioned already, building via the volume was still negative impacted. We had a good growth on the medium-voltage business. In volume, but also price developed positive and we see good momentum in the market here. Building wise, as I said, is down, including 1 kV particular copper, which is used in the construction business.

Coming to Service and Accessories, we had a growth, a slight goal from Q4 '21 to Q4 '22 1%. -- operation EPA improved significantly. This was mainly driven by a reversal of provision of 4.7 – EUR 7 million, but we have also an underlying performance, which was satisfactory. The EUR 4.7 million was reserved. As you know, in 2021, we have several offshore repair orders, very complex partly offshore repair orders. And when you make -- when you have these orders, you make an assessment what it is -- how is the likelihood that you may go out and need to repair, if you need to repair because of the complexity, then, of course, it is a higher amount. So we have taken this provision in order to be prepared in case that would happen. Obviously, people have done a good job, and this was not needed. This is why we could reverse this EUR 4.7 million provision. We had high onshore maintenance activity repair in Denmark and Germany and the high sales activities, the sales in the high voltage, which raised out the lower sales in medium voltage.

Coming to Sustainability. As mentioned already, we improved -- reduced our CO2 emission by 20%, mainly by changing to biogas, but also switching to renewable energy in offices. This is a big step, a big step further. We have reduced -- also improved our total equate injury from 1.19 to 1.14, and we're planning to reduce that further. And our goal is to be half as good 0.6% in '28. Also important in the diversity aspect is important to high female hires, and we have improved here new from 19% to 21%.

With this, I would hand over to Line, and she gives you the details on the numbers.

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

Thank you very much, Alex. So dwelling here on the income statement and Alex covered already the growth from -- in the Q4 of the 35% where all of the business line contributes. Similar on the full year, we have a 15% growth for the third year in a row. All of the business lines are contributing. Service and Accessories has, let's say, a very strong comparison base back from '21, where services have a lot of repair jobs. So that is coming down a bit, too. When we look at the operational EBITDA margin, you see also -- as Alex mentioned, the close of Q4, a good recovery from application which was central and also a solution that enabled a very different earnings level than back in '21 for Q4. For the full year, on the earnings, especially solutions are the contributor to the step-up on the margin level here in '22, so good job.

Looking at the next side, it's a significant step up from EUR 21 EUR 55 million, contributing, of course, from the positive earnings. And then on financial items, we're also getting a bit of support into the -- to the net results from that. If you look at our full-time employees, so the full year it also reflects a very high activity level in the company. It's very good, and we welcome all of our employees at the different sites very much into our production to enable the cable production of the years ahead of us.

Turning more to the cash flow statement. -- dwelling here on our net working capital, which had a very strong finish of the year, which is usual, let's say, for NKT. We had some good prepayments and milestones coming in, in Q4 and even that. And that they also enable the free cash flow generation of Q4, EUR 142 million and the full year of EUR 92 million. Catering well for our investment activities, which continue to be at a similar level as '21. You know that we have invested in our German factory and our Swedish factory, and we have continued in especially Sweden and summer to move but on that. So all in all, a lot of good activities there to support the future and the growth ahead of us.

Coming to the balance sheet highlights. -- what you notice here, the improvement in RoCE compared to last year. We are at 6.6 percentage very much from the earnings level and of course, of the capital employed in on. We are continuing looking into improving our RoCE level as we also have in our lien-term ambition. So the fees will absolutely also be a key focus on that.

The net interest-bearing debt ends at a low level of EUR 55 million and a corresponding leverage ratio of minus 0.4%. Just to make the note also here in terms of our guarantee levels very much a key to securing our projects and our tendering efforts. At the end of '22, we had issued guarantees of EUR 1.2 billion, up from EUR 1 billion the year before, and these are very key to the whole tender activity ongoing high-voltage projects.

Turning to the next slide, our financial outlook for the year, a revenue expectation of EUR 1.75 billion to EUR 1.85 billion. So significant growth from our '22 levels and our operational EBITDA level of EUR 185 million to EUR 215 million. For the supporting assumptions of the delivered here, worth to say that, of course, we are assuming a satisfactory execution of our high-voltage projects. You see them 25% of our current backlog is executed this year. A lot backlog of the larger projects we have seen in Northern last year is at the early stage of execution, and that's a part of our guidance for this year. We translating a bit more orders, both in -- within the AC, but also variation orders, and that could improve our profitability further. And we need to see the applications performing well. There was risk and uncertainty of '22. We have not put that fully behind us. Inflationary pressure and cost increase is a part of the tuning market. So that will remain to be something we still very tightly.

In terms of the repair jobs we do in our service business, I think fair to say that the activity level there has certain fluctuations. In '22, we had more or less half of the activity level of 21%. So of course, they can also have a swing into the middle of the year. And then we assume a good performance with limited impact on global macroeconomics, supply come challenges and the high inflationary pressure in general. So that is our expectations for the year.

Closing out with the key messages of Q4, a 35% growth from all of our business lines in a record high order backlog movement going out of the year. improving our operational EBITDA broad-based from all of our business lines and with the Board of Directors of NKT proposing to increase the shares of stations for rights issue to have a flexibility to add on the very strong future opportunities of growth and securing that can take our share of the markets ahead of us.

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

## QUESTIONS AND ANSWERS

### Operator

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

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

I have a couple of questions, please. If we could please take them one by one, then you don't have to write things down. First of all, regarding the potential issue of new shares, Line, you mentioned that your guarantees are up to EUR 1.2 billion. Could you maybe comment a bit to what extent are these guarantees also and expected even higher guarantees in the future. To what degree are these also part of your considerations with regards to strengthening the balance sheet. If you could sort of maybe discuss a little bit the weight of that and potential capacity expansions. And also maybe give us a little bit more flesh on sort of these guarantees. What is it really that customers are getting guarantees for -- that's the first question, please.

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

Thank you, Casper. That's a super good question. And definitely, the guarantee lines is sold into NKT growing and the share issuance here that the authorization of up to 50%. It's -- what we've seen over the last 6 months is a market that is having a very high pace and also tender activities that have longer horizons than so far. And that means when we go in and secure orders of the future that we need to ensure similar guarantees for that. And usually, the structure, but it can differ very much. And this is, of course, also something we debated is what kind of guarantees do you actually put up for security. It's for prepayments, you would usually put some relativeness into a guarantee that, and it can also be performance bonds. So this is the structure. And that is what we also need to secure with a strong balance sheet.

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

And could you sort of say if you were to put weight on it, how much of a potential issue would be due to the need for higher guarantees and how much would be due to capacity?

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

I think for now, what we're doing, and we will come back later with be much more specific of a potential lights. It's important to say that it's also a authorization up to 50% that the Board of Directors is seeking to get here. So we will come back to that later. But I think you can assume a certain size in this due to that.

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

Then my second question builds a little bit on this, but we've seen that some of the larger TSOs have issued framework tenders. Have we learned anything or have you learned anything new about the terms of such tenders would these TSO be willing to give prepayments that could substitute some of your potential spending on capacity expansions? Anything sort of on the terms of such framework agreements would be really interesting.

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

Yes. Of course, I mean, if you look at this frame agreements and the customer has different approaches. But definitely, a part is prepayment and one payment guarantees and that can vary between, yes, the different percentage, let's say, 5% to 15% where you need to bring the cannot be

drive that customers, obvious several will participate in these tenders for the frame and some try to harmonize the terms and conditions so that they can evaluate on a fair basis for different participations in the tender – in the frame agreement.

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

These frame agreements, are these sort of the potential upside to the EUR 8 billion that you talked about in the addressable market?

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

Yes, these frame agreements are partly in it and that goes also beyond. And -- but the frame agreements will be -- have a sizable amount, but it will become, let's say, an order once it's called off. So just as a location of a frame agreement of x billion that we call this doesn't mean it's automatically in order which you can book. So you need to wait on you'll get called off. And if you are looking at this frame agreement, we are talking a production on '26 and beyond. So this is also what we are saying, we need to prepare ourselves for the future, having a stronger balance sheet, increasing our capital structure to be ready to be a bigger company in a few -- in the years ahead provided we win the orders, of course, are part of it.

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

Then last question from my side, a little bit more operational. I at least was a little bit disappointed about your EBITDA guidance for 2023. And I was hoping maybe you could shed a little bit of light on the -- how could you say margin profile in some of the high-voltage projects that you're starting up here, '23. Is it fair to assume that the sort of relative margin on these projects get better and better during the production of the projects as you get more and more certain about it.

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

Okay. Sorry that we disappointed you was quite clear. So -- but I said before, we have seen improvements on the solutions on a margin '21 to '22 from 13% to 14.8%. We are seeing that the margin improving the gross margin in the backlog, of course, it's a question of phasing. And also how you -- the revenue recognition is also based on activities meaning we have a lot of installation activities and so on. And obviously, the guidance what we have provided is we are striving not for the low end, just to be clear. But we have seen last year also a lot of impact, in particular in applications from this inflationary pressure as a consequence from the Ukraine. But we have also seen that these unhedged items in the solutions business. So -- and we work, of course, hard to deliver our promise and our promise is not the low end of the guidance.

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**Operator**

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

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

Two questions from me. So first of all, again, going back to sort of your increased estimate on expected market awards. Just to understand what has moved exactly in just the last few months. I would assume that that's not a new project, which has come in, given the lead time on these projects. So is it the scope of projects, which has gone up? Or is it just the probability you see our projects actually being awarded that's going to -- can you elaborate on that?

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

Yes. I mean, definitely, if you look at the development on these projects, they get bigger and bigger. This is also just simply of more and more (inaudible) cable, including metallic return. So a project getting as it was in the baby in the past, 300, 400 million, 500 and beyond. And then we

see these frame agreements, what we get step-by-step the out of Qs, they are massive. They are massive whether the TSOs want to secure the supply chain for the year '26 and beyond. So it's big.

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

So what you're saying is as you get some firm tender mature and some of these frame agreements they have proven to be bigger than you sort of originally thought?

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

Yes. Yes. Absolute. Absolute. -- absolutely, they are bigger. And then, of course, with the demand, pricing or also increased and that the numbers get also better. That is, of course, good for us but also good for the entire industry if prices are going up.

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

Then my second question, in terms of the guarantees. So you say that you have EUR 1.2 billion. If I compare that to a backlog of EUR 4.7 million, it's roughly 25%. Is that the right way to think about it, i.e., if you win a new order that you need to put up guarantees in the magnitude of 5% of the order value?

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

I think I want to say first that it differs a lot. Customer defense approach to this. But I think if you model it on a company level, you can go with an assumption like that. But also, let's say, strengthen conditions as Alex says pricing is very strong for us, terms and condition is also on the table. So we are also working, of course, to secure business from a growing factor and especially with the project of that size, I think, important to say.

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

And then just a follow-up. I mean, when you then discuss framework agreements because as you also mentioned earlier here, they will not all be firm orders that day you signed the framework agreement. But how does it work with the guarantee? So will you have to put up guarantees for some of the framework, which is not necessarily firm emission and then sort of the ratio of guarantees to firm backlog would be higher?

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

No. You provide guarantees for advanced payment, and that is a classical or typical when project is called off. So a project which may get called off in 2 years or 3 years, we would not have to provide advanced payments and the performance as for the project.

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**Operator**

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

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

My first question is also on the new investments that you plan to raise money through capital increase. Can you give us some flavor in terms of split of these investments into brownfield, greenfield and perhaps a need for additional installation vessels. And at this stage, what would be the early time line in terms of earnings contribution from these investments? I guess if you go for more greenfield, then it may take a bit longer, but

for brownfield, we may see some earnings accretion sooner than later. So any high-level comment that you can provide at this stage would be very helpful.

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

Let me say first that our guidance, which we communicated on the Capital Market Day was until 2025. And the reason for that was why we put this year in because then we have all the investment plan implemented, and then we see the earnings until end of '25. So all new investments, and I'm talking about solutions high voltage to build a new plant or let's say, a large extension in an existing plant, as you like it, you can call it cream or brownfield. This takes time. It is -- and this is why earnings would come not before 2026. So 2026 onwards, we would see earnings -- revenue, sales and earnings for a new high-voltage plant, brownfield or greenfield. If your question regarding split, I mean, we have communicated we are considering based on significant order awards to invest in production and investment -- installation capabilities, sorry. And that means practically, yes, okay, you need to not be a mean factory and the potential vessel based on significant walls.

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

And maybe a follow-up on your market share. I think in your prepared remarks, you talked about maintaining market share. But when we speak to your competitors, one of your competitor has told about being more selective and we don't have any plan to increase further capacity. So is there any potential to gain market share on top of historical market share? Do you see that opportunity in the medium term which could also require this high level of investments that you are announcing today?

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

No. I mean we are very disciplined this investment. And we mentioned before, we want to maintain our market share, of course, with a growing market that puts a lot of demand on us on increasing the capacity. So we'll be disciplined. And of course, important is also, yes, let's say plenty some.

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

And my final one is on application business. I think here, you commented some slowdown in building wire volumes, but you had a good medium voltage business development. And when I look at your outlook, you also sound a bit caution on application segment. And so I'm just wondering, have you seen any slowdown or anything which is different in trends versus Q4 in early part of the year?

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

No, we have seen early part of the year. We see on the medium voltage side, good traction on volume and pricing. We see the building wire still low. This is still -- has continued from Q4 into Q1. And yes, we need to see when the construction business will pick up or we come out of the recession, -- and -- but we have improved, as you -- Akash, as you have seen from Q3 to Q4. And of course, we work hard to improve also in '23. But yes, we have seen this negative impact in last year. And yes, we think how to be better preferred. But if the market is low in certain segments, then it's difficult partly to compensate.

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**Operator**

And the next question comes from the line of Nancy Ni from Goldman Sachs.



**Nancy Ni** - Goldman Sachs Group, Inc., Research Division - Research Analyst

Actually, I missed that have been answered by now. I suppose just one maybe on your Solutions margin in the quarter. I was wondering if you can maybe give a bit more color on sort of the different moving parts in there. I think earlier, you mentioned sort of unhedged items, but just some more detail would be great.

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

Yes, Solution margin, I mean, in general, the margin has improved, and the once item -- we have seen also an impact in the solutions business, for example, steel, you cannot hedge. And the obvious project, which you have in the backlog, 2, 3 years back with a certain price and with these materials, which are not hedgeable, if the price goes up, then we will face here an impact on your results unless you can compensate otherwise.

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**Operator**

And the next question comes from the line of Massimiliano Severi Severe from Crédit Suisse.

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**Massimiliano Severi** - Crédit Suisse AG, Research Division - Research Analyst

I have 2 really. The first one is, again, on the potential capital raise and capacity additions. In the past, we talked about potentially raising the capacity in case of a very large order, potentially adding a new tower to Karlskrona. My question is now that we are seeing this increase in the authorization of shares from 20%, 50%. Are we just talking about your higher degree of visibility on these very large orders? Or are we really talking about an expansion, which will be larger than we talked about in the past. So not only the new tower in Karlskrona but something larger, and therefore, you need to raise more capital than you thought in the past?

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

No. I mean we see -- we have a better visibility of the orders of individual orders, but also frame agreements and assuming we are demining our fair share, then that could be quite substantial, and that could then trigger this investment. And based on the amount of what we win, we will then decide how many shares we will issue. And as we mentioned, it is up to 50%.

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

And I think just to also repeat what I said before, it's production capacity and installation capacity we love into. And then it's very much strengthening most of our capital structure and our balance sheet to make sure we can cater for the great future opportunities.

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**Massimiliano Severi** - Crédit Suisse AG, Research Division - Research Analyst

And going back to the team of guarantees because we talked to us about performance guarantees. So you already said that, okay, looking at backlog is very informative. But my question is, in terms of then once the project is ongoing. So it's no longer on the backlog, but it is then delivered. You still have some guarantees on that project, mainly performance guarantees, I think. So how should I think about the phasing of these guarantees over time? Because is just looking at the backlog the right way? Or should I think about also how much you delivered in the past and the fact that you will still have some guarantees on those projects for a couple of years?

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

No. I mean, you have, of course, once you have a repayment guarantees. And then you have a performance guarantee, which goes typically over the lifetime of the project. And if you go to a moment into the warranty phase, meaning you have handed over the project to the customer, it

moves into warranty guarantee application. So this is -- and the warranty can take several years, as you know. So this is the mechanism and the level of the different sizes of performance currently warranty guarantees and advanced payment guarantee and how it stacks up can vary between from customer to customer.

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**Massimiliano Severi** - *Crédit Suisse AG, Research Division - Research Analyst*

And my last question would be, again, on the guidance. And if I think about the not implied, but what we are seeing in terms of solutions. Clearly, now you have full capacity utilization of your existing lines plus EUR 200 million of additional capacity coming online, but we are not really seeing a lot of operating leverage there. I understand that a part of it is because of the installation versus production mix. But I was wondering, is there also an issue of having more land than subsea maybe than in the past? And especially if I think about the fact that you are using a production line in Karlskrona, which is for subsea to produce German corridors. Does this have an impact on the margin profile? Or is it really just about installation versus production?

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

No. I mean if you look at the margin as different aspects, which is on one side, it's the mix the mix over the execution of the full year, but also within a given quarter, that can vary and can change. Then it's the question how you execute. If you have lawless execution. That has an impact food execution, you can release contingencies, which are from production. And if you do also installation and other activities in a good way is risk mitigation, then diesel risk mitigation can flow to the bottom line. Further, you have in the project other upside potential like variation orders to projects typically variation orders in the project have better margin than the original projects. So there's different upside potential. But of course, you have also downside risk.

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**Operator**

And the next question comes from the line of Claus Almer from Nordea.

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

Also a few questions from my side. The first is about this up to 50% new shares. How can we translate 50% new shares to a potential order intake? That will be the first one.

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

Claus, you ask a typical question. I mean how we advance orders into shares? I think are difficult, not difficult. I mean if you get orders, there is a certain size. -- you need obvious tend to produce these orders, as I mentioned, the year '26 and beyond. So let's say you get -- make a simple example, right? But the numbers are not right, but don't quote me for that. You get another EUR 500 million, your existing capacity is utilized, you may need an expansion with a certain number of (inaudible). If you get more to a certain level, then you need additional. So like we have in the past a staged approach from the (inaudible) project to Champlain, where we expanded. So -- and this -- the size of the expansion, let's say, the order, the orders triggered the capacity expansion and that will be a determined factor for the factory, but also for the installation potential vessel. And as Line has said also, we need to strengthen also our capital structure. We have a client, we need more bank guarantees and so on. So there are several aspects we're playing in. It's not only the capacity expansion, it's also other elements.

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

Sure. That I get -- and if you get a 10-year contract rather than 5 years, then the total volume will obviously be larger of the contract. So I'm just trying to understand, should we expect the most likely -- most likely outcome is a, let's just say, 25% issue of new shares or is it actually 50%. And

that's why if we're getting a 50% issue of new shares, is that a EUR 500 million order intake in the first half? Or is it even more than that? I think that is quite useful to have that in (inaudible).

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

I think you need to -- I cannot comment, and that's not our philosophy to comment on -- no, you need to wait a little bit, and we need to see also what it is. And it's not only what it is, it's also the mix, what we win. I mean there are certain projects, just to give you an example, Claus. Certain projects have a large sea cable portion and a small land and other has a large sea and large sea and the large land cable. So if you have a huge land cable scope, you need to also be able to produce, let's say, a land cable, meaning this has another consequence on investment and where do we invest, then and how much based on what you -- so the type of project or you win also determines where we invest and also the rich machinery or in which capabilities on a vessel or trenching equipment. So it is not so simple to say that you need to -- how much it is? I mean, just assume you would win only land cable then the investment case and where we invest... If you have another... So I think we need to first win and then we will do what we do. Of course, we have different plans, Claus, in the drawer, but I think, one step at the time.

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

Sure. That's fair. May just -- will you add -- part of this is also adding capacity outside Europe?

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

I mean we mentioned before, we have flexibility to expand the capacity in our existing sites Karlskrona and Cologne, but we have also other possibilities.

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

But are you planning to do outside Europe?

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

I don't want to be too specific. We have other possibilities with this, that must be good enough for now.

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

Okay. Fair enough. Then my likely final question. So will this issue of new shares be in one go? Or could it be, let's just say, 20% when you receive a certain order. And if you then get a second large order, then you will do another issue of new shares.

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

No, it will be one goal.

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

Right. Okay. And you said we will learn -- you will be more precise at a later point. When do you think that would be? Is that in Q1, Q2 or...

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

It's within it is in Q1, Q2, yes.

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**Operator**

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

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

I had question regarding the new capacity. Is it safe to assume that it will be all for HVDC cable or more specifically extruded HVDC cables? Or would there be some for HVDC as well? And then secondly, I mean, there were some talks of European equivalent of IRA or the net 0 Act, and there were like provisions for state subsidies, including incentives for manufacturing. Do you see any potential of those as subsidies, which can reduce the need for capital increase? Or do you still need to do capital increase because you want to strengthen the balance sheet to improve your book equity in order to take more complex projects and improve the risk reward and margin profiles in projects?

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

So your assumption about capacity expansion in D.C. is 100% correct. If it comes to this IRA to Europe, we need to see what is the outcome. And obviously, if that comes, we would look into do we see any potential to get subsidies. We will look into that, but we need to wait what is coming again. Definitely, that could be an option.

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**Operator**

And the next question comes from the line of Massimiliano Severi from Crédit Suisse.

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**Massimiliano Severi** - *Crédit Suisse AG, Research Division - Research Analyst*

My follow-up is, again, on a bit of the project mix between land and subsea and installation versus production? Because if I look also 2024 and at your Slide 9, there are not -- there are really not a lot of big projects, which will be commissioned even if the installation of the German corridors will start in 2024. So my question is as we look beyond 2023 and into 2024, is it fair to then expect an improvement in margins because you have Champlain Hudson starting production in Karlskrona and despite the fact that you don't have much commissioning in 2024? Or will it be similar 2024 to 2023 with an improvement in 2025 when there will be commissioning of SuedOstLink?

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

Massimiliano, I have a little bit difficult to follow way. You will see the installation profile based on the slides. But I mean, the Champlain Hudson must be in service by end of 2025. And obviously, we need to start installation mark. And as we speak, last year, we had good utilization of the vessel, and we will -- it's planned that the installation of the Corio projects will start in '24, but we have ongoing projects on this list like Draugen and so on, where we have installation activities. So -- but we don't provide you details on how much revenues are coming from installation or production.

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**Massimiliano Severi** - *Crédit Suisse AG, Research Division - Research Analyst*

So just to clear it up in 2024, can we expect a margin improvement because we talked 2023 will be also because of margin phasing. In 2024, will it be more normalized in terms of project phasing? Or will it be a similar margin profile to 2023 in solutions?

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

Massimiliano, we are now in 2023. We work now that we deliver on the guidance and on our promise. And so -- and then we come to 2024. I think it's a little bit too early to comment here on -- we have not done a budget for '24. We have, of course, public planning for '24, '25. We have a plan how if we do investment, how we -- it steps up, we have that all, but we are not yet here to provide the details for 2022. -- need to wait a little bit until we give them more color. We need to push our pool out by 5 and then we need to wait for 50 minutes on the call until we have everything ready...

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

And I think million, you can -- our medium-term ambitions, you know, right? So I think with that at the end, you will look into the future based on that.

**Operator**

(Operator Instructions) Dear speakers, there are no further questions. I would now like to hand the conference over to our speaker, Alexander Kara, for closing remarks.

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

Yes. Thank you very much all for your interesting questions. So a little bit more than usual, which we expected and can follow. And thank you that you joined the call, and wish you a great day. Bye-bye.

**Operator**

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

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