

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

NKT.CO - Q1 2023 Nkt A/S Earnings Call

EVENT DATE/TIME: MAY 10, 2023 / 9:30AM GMT

CORPORATE PARTICIPANTS

Claes Westerlind *NKT A/S - Executive VP & Head of HV Solutions Karlskrona*

Jens Peter Due Olsen *NKT A/S - Chairman of the Board*

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

Kristian Tornøe Johansen *SEB, Research Division - Analyst*

PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the NKT First Quarter Report 2023 Conference Call. (Operator Instructions) Please be advised today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Line Fandrup, Chief Financial Officer. Please go ahead.

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

Thank you very much. Welcome, everybody, to this quarterly call for NKT financial results. Please note the first forward-looking statements about the rest of presentation. Today, in the room, we have Jens Due, the Chair of the NKT; we have Claes Westerlind, our newly announced CEO; and we further have Mike Nass, Head of Investor Relations.

I would like to hand over the first slide already now to Jens Due Olsen on Photonics.

Jens Peter Due Olsen - NKT A/S - Chairman of the Board

Thank you, Line, and good morning, everyone. I would just like to take you through the divestment process of NKT Photonics before we focus on the leadership change in our cable business. So as you are all aware, our Photonics transaction was prohibited by the Danish authorities under the Danish Foreign Investment Act. Normally approvals are granted within 90 business days and this prohibition came out of the clear blue sky after more than a 9-month process.

We have not received any other reason than that it is for so called national security reasons and that we will not receive any other explanation. Also we cannot appeal and we cannot really get any insights into the merits for the prohibition as it is grounded in national security.

As to the contract in an SBA, and in this SBA, governmental approvals recycle the continuing entity, i.e. Hamamatsu. Without disclosing our contract, what you will typically also find are various guarantees, warranties, reps of the buyer, and sometimes also the ability to do carve outs and also what would happen in case of non-approvals. We cannot engage in a dialogue with the authorities as it is the obligation for the buyer to sort this out. We still have a contract, and we do expect Hamamatsu to live up to this. All right.

Then I would like to [shift] the attention to NKT and to first of all the leadership changes. So, first and foremost, Alex has resigned for personal reasons, and as they are personal, I cannot go into this. What I can say is that the rest -- it is not any disagreement on strategy. It's not a misalignment

on commercial operational issues. As you have seen we become the company -- the financials also doing very well. We had a strong Q1. Line will come back to this in a second.

We did an upgrade for the rest of the year. We just won 2 significant contracts Friday, and this also triggered the decision to invest in additional capacity. So all of this is of course aligned both with Alex, but also with the new team.

Rest assured that we do -- have achieved securing our big contracts, and Claes, whom I will introduce in a second, and Michael Hjorth, our CCO, are key in these customer engagements. Also I want to say there are no keyman clauses in any of our business relationships, including these major contracts.

We do take succession planning seriously, and sometimes you wonder if you do too much, but this time it was worth the while. This is why we could quickly provoke Claes and also fill the gaps left behind Claes, following [his introduction].

As to Claes, Claes has been running our biggest activity, the Karlskrona plant, including the expansions done over the past years. Claes has a long background in the industry and besides he is also an excellent team leader. He built strong organizations and has the ability to move between detail and strategy. Claes has had a lot of impact on NKT and we are proud and grateful that Claes has decided to take this opportunity.

With that, I would like to hand it over to Line again, or Claes actually, if you want to say something more about yourself?

Claes Westerlind - *NKT A/S - Executive VP & Head of HV Solutions Karlskrona*

Yes. Thank you for the kind word, Jens, and good morning, everybody. As Jens said, I'm Claes Westerlind. And as of then yesterday I will have the privilege to now lead NKT going forward, following Alex leaving the company. I have had the pleasure to be with NKT since 2017. I came over from ABB at the time, and basically for the entirety of my career, now around 15 years, I've spent it in the large product business starting on the HVDC commercial side inside ABB and later on then ABB cables and then since 2017 in the [HP] solutions Karlskrona business line and plan, focusing on commercial aspects, operational aspects and in particular around the sales of very large projects.

And ultimately for me, it is a tremendous privilege to have been asked by the Board to take over as CEO, and I come with a fair amount of experience from the solution side, recognizing also looking forward to learning a lot more about application side and other aspects of NKT. So I think without those words, I will hand it over to Line.

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

Thank you, Claes. So turning back into the key messages of the first quarter. It's been a strong quarter for NKT. It grew 34% organically compared to the same time last year and it is driven out of all of our 3 business lines. Operational EBITDA reached a record high to quality level of EUR 57 million. This is primarily due to the Solutions and Applications business.

Also our high voltage order backlog took a significant step upwards. We closed our 2022 on a level of EUR 4.7 billion and now we're closing our q1 on a EUR 7 billion, a testimony to the significant awards out there and NKT's position in the markets.

The financial performance in the first quarter lead also to an update of our outlook for the year. We are now expecting a revenue of EUR 1.8 billion to EUR 1.9 billion and corresponding operational EBITDA between EUR 200 million and EUR 230 million.

On Friday, and together with the project awards announced, we also announced that we will invest additional in our high-voltage production capabilities in Karlskrona to support delivering on our backlog and to continue to take our share in the market and keep our positioning. We are considering also additional installation capabilities, and we'll come back later on this. And not to forget the mentioning of Claes as the CEO of the company, keeping focus on the existing strategy execution and the growth ahead of us.

Turning over to the business highlights of the quarter. On the first slide here, they combined for all the business lines. The improvements in the business is primarily driven out of Solutions and Applications, both revenue-wise and operational EBITDA-wise.

Revenues and operational EBITDA increased in Solutions driven by execution of awards and also the expansions over the last couple of years, and more to come later this year. In Applications, we have seen a strong recovery of passing on increasing input costs to our customers, meaning also an improved growth on our revenue and an improved EBITDA.

On our Service & Accessories, we saw not any -- we didn't see any repair jobs in Q1, meaning a more steady development in the business line, underlying growth in especially Accessories and also picking up on our earnings level.

Moving on to each of the business lines. Solutions, Q1 is a revenue of EUR 215 million, up by EUR 65 million -- EUR 64 million compared to last year. It's an impressive 47% growth. Also, the operational EBITDA is up by almost EUR 11 million from EUR 25 million last year to EUR 35 million this year. Margin-wise, the profitability, the operational EBITDA is on par between the quarter -- the same quarter last year.

On the operational execution, we are seeing several projects in production in varying stages of project execution. We are seeing the Champlain Hudson in our Karlskrona factory. We're continuing to see our Dogger Bank projects. And we are also seeing both the SuedLink and SuedOstLink in production.

Actually, we had the arrival of the first cable drums to the storage area in Germany for the German corridors also during the last quarter. So a very important milestone for the company. Overall, the execution of our projects has been satisfactory.

Turning into the Applications, where it's really an impressive growth of the quarter. At the same time, the business line has grown 32% compared to '21. And this year, we can report here a growth of 25% on top of that. So it's been a very strong quarter for the business line, and this is a very strong operational EBITDA of EUR 18 million, and this corresponds to 11% operational EBITDA margin for the quarter.

Primarily, we're seeing the revenue being driven by our ability prices towards our customers and thereby offset the high inflationary pressure. We've also seen the volumes relatively stable in totality. But underlying, we see an improved momentum in the medium voltage within Germany and Sweden, whereas the construction sentiment and thereby also the momentum around our building wire segment is at a lower level. We have recovered some on our building wire segment to the second half of '22, but we do still see a low traction there across Europe.

Turning then to our Service & Accessories business, revenue of EUR 48 million, slightly up from last year and also an operational EBITDA of EUR 3.9 million, almost on par in absolute terms of last year, a little bit up.

As said, we did not have any repair jobs in our Service business, but our [Accessories] business is up on a higher revenue number and associated operational EBITDA. And we do see that our Accessories business, especially within the medium-voltage and high-voltage segments will continue to reflect also the favorable market development that we see in our Solutions business.

With this, I will turn back to Claes on a bit of insights on our Solutions business and the markets out there.

Claes Westerlind - NKT A/S - Executive VP & Head of HV Solutions Karlskrona

Thank you, Line. So if we start from the very general perspective and look into the development from 2010 to 2015, and we expect to see for -- how the distribution between different generation sources will develop on the annual energy generation. Then on the screen here, depicting basically 2 important factors for NKT. One is very heavy tilt towards renewables, for example, offshore wind, but also solar, which are 2 important segments for us; and the other one is also a change in the generation pattern in society, where both generations is moving from physical locations to another physical location, but of course, also is displaced against the demand which is consuming electricity.

And this development, of course, is what presents the very good opportunity for NKT as a whole, seeing that we have a portfolio, both addressing the large transmission cables, but then also cables in the LV and MV segment connected to generation and also distribution. So this is a very positive sentiment for NKT in general, and it's also what we are starting to see now for the last, I would say, 2â€¦

And with that, if we go into the next slide, there are a couple of [notations] here. To start with our order awards looking at from 2020 to '22. We have a number of different (technical difficulty) around -- between 10 and 15 active large projects. I think what is particularly good to see over the last 3 years is the fact that we have also entered some new markets, taking [Ataris] as an example, taking (technical difficulty) segment. And last year where we also entered back into the U.S. and Canada with very large transmission project in [play] as Power Express.

So takeaway for me from that table is also new customers that we are able to penetrate and we also have a lot of repetitive customers. which I think is a testament to our ability to execute, which is also fundamental for our forward journey.

If we turn to the upper right, depiction of the market size. When I came into the cable business in 2014, the market size annually for the segment that we are aiming for was around EUR 2 billion to EUR 3 billion and that's depicted here under 2016 to 2019.

What we see both now and also next year is something vastly different, up to EUR 8 billion, and saying that it was EUR 2 billion, the whole (technical difficulty) in a couple of years ago, should be put against our collected order intake so far this year, which stands at around EUR 5 billion. So with impressive numbers. And what we all hope to see a couple of years ago is now really happening.

And you can see on the lower right well that we are not only protecting our market share, but also showing our ability to gain market share as we go here.

If those orders was not enough, then I mentioned the order intake so far this year. You can see here 3 different examples of progress which we have been successful with recently. The Bay of Biscay interconnector was announced on Friday, and this is a connector between France and Spain with the customers, REE and RTE. Although NTK as a company, we have -- we are active with these customers in the high-voltage segment and the product segment, this is a new entry for us to be able to gain the trust of a new customer also in the new market within the [HVC] segment, which is an important aspect for us.

If we view the mid example of the Hornsea 3 project, they say that all good things comes in 3, that goes also for wind farms and this example, Hornsea 3, which is a DC product in the U.K. where NKT has been part of supplying also Hornsea 1 and 2. So this is a good example of repeating customers that, again, puts their trust into this company for helping them to provide the grid connections.

And last but not least, finalize off with the biggest order ever for NKT as a company. And until somebody will tell me differently, also one of the absolute biggest in the history of the cable business, the IJmuiden Ver project, or actually 3 projects with our customer, Tennant, that was awarded during Q1. It equates to EUR 2 billion and is the world's first 525 KVC cable projects, which has been awarded ever.

And it's good to see also here that technical progress is also an important part of this company. We are a technical company, first and foremost. And here, we prove in launching the 525 KVC cables some years ago. Now this is also anchoring into a commercial project and contract.

And as said, this was not enough, then we finalized with the final page also showing you the award of the frame agreements, which were announced last week on Friday. Again, we are in the Netherlands with the customer, Tennant, where both Netherlands and also Germany, together with other countries around the North Sea have agreed to install at least 120 gigawatt of offshore wind by 2030. And the Tennant's 2 gigawatt program utilizing 525 KV XLPE technology is a major part of that ambition.

This is, as I mentioned on the previous slide, one of the biggest projects, but also -- or together with the IJmuiden Ver

that the world has seen from a cable perspective. It's also a new sentiment in the industry where we are moving from single contracts into framework setups. Our customers are aiming to secure cable capacity on a longer-term base for several reasons, both for the delivery time to be able to conduct the green transition, but also in order to allow the cable manufacturers such as ourselves have a better visibility and planability in our factories and

on operations, which is extremely beneficial having been a plant manager myself, from an operational perspective, but also gives better financial stability for us as a company.

This very framework here is running from -- running until 2028 and also possibly with an extension until 2031. And in the framework agreement as such from the beginning, the customer, they are committing to 3 different projects with specific route lanes, as you can see depicted here. The combined value of these projects is around EUR 1.5 billion, and there will come some installation scope on top of this.

But that's not to say that, that's where it's going to end. The customer has also a right to call off further projects under a bilateral agreement with ourselves. So this is merely a frame and a starting point for what this may mean for NKT.

So all these nice orders warrants for a little bit of a historic perspective and also what we're doing going forward now, and we have disclosed this to a certain extent on Friday. You can see here how the Karlskrona factory has sustained continuous investments and improvements from the years 2010 up until today.

Right now, we are in the phase of completing the investment projects that we announced in conjunction with the corridor projects where we increased the XLPE capacity in Karlskrona, combined also with a capability increase to handle very heavy drums. That will be completed this year and to be operational during next year.

And then as of Friday, we announced also an ambition to expand the operations even further with the most prominent part of that being the third tower. But of course, for our third tower to be able to be operational, there will come machine lines also before and after that. And I think as Lina pointed too in the beginning, this will also be followed by a close consideration of installation assets and also capabilities. This is a huge project for us in NKT and also Karlskrona site.

But having a little bit of experience myself around that, I think there is no better place than Karlskrona to do this kind of expansion, because what is the most critical -- or one of the most critical aspects for us is the competence; the competence to manage the risks that it means to deliver these projects, the competence it requires to make these investments successful on time, on budget, with safety and on quality. And that capability we do have in Karlskrona, and we have just exercised that during the last investments to be completed this year. So I very much look forward to a third tower and the high tower, but even more so, it will be a very important part for us to be able to grow the Solutions side of NKT even further.

So with those words, I will hand it back to Line.

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

Thank you, Claes. So let's turn into the financial highlights and the first slide here covering the income statement. We're repeating the messaging on the 35% organic growth driven by all business lines, a strong operational EBITDA of EUR 57 million and a 13.5% margin compared to 12% at the same time last year. This panning into also a positive net result at EUR 30 million compared to EUR 11 million last year.

And then last, going back to also Claes's statement here about competencies and people. We are continuously growing the company to actually take down this growth. And over the last year, we have added around 280 people. The primary part of that to support our Solutions business and then the footprint changes within our Applications.

Turning to the balance sheet highlights on the next slide. You'll see that compared to the end on capital in 2022 of minus EUR 303 million. We have increased compared to that. This is primarily due to a shift of the milestone payments in Solutions.

Also note, our ROCE level coming up from -- especially to Q1 in 2022 to 8% in this quarter. Improved earnings is the primary driver of this. The net interest-bearing debt is increasing compared to end of 2022. This is due to our ongoing investment program and also the net working capital shift that you see, leaving us at a leverage level of 0.3x EBITDA, well below our targeted range.

Turning to the cash flow highlights. As just mentioning, cash flow from operating activities is negative. A strong EBITDA is counterbalanced by a net working capital change. And our cash flow from investing activities added EUR 31 million lower than last year, but very much also ahead of us is the expansion on Karlskrona for rest of the year, where you will see also our CapEx picking up momentum. Free cash flow at minus EUR 98 million due to this.

Turning to the next slide, repeating the financial outlook of the year that we updated back in April. Revenue of EUR 1.8 billion to EUR 1.9 billion and EBITDA up EUR 200 million to EUR 230 million. All of this is, of course, based on assumptions here under the satisfactory execution of our high-voltage projects. actually an award of a high-voltage project that could have financial impact in 2023, satisfactory offshore power cable repair work activity and then that we would see limited the impact due to any kind of uncertain global macroeconomic environment, supply chain challenges or due political unrest.

(inaudible) the key messages of the quarter. The organic growth and a very strong EBITDA, primarily driven out of Solutions and Applications, but all business lines contributing positively here. A very strong order win during the last months, enabling a record-high order backlog closing our Q1 at EUR 7 billion and even more project awards following Q1.

The upgrade of the financial outlook for the full year by (inaudible), and the commitment to invest further in our Karlskrona's production side with further high-voltage capabilities and also considering installation capacities ended appointing of Claes Westerlind, our new CEO.

With this, we are ready to turn over into Q&A.

Claes Westerlind - NKT A/S - Executive VP & Head of HV Solutions Karlskrona

Operator, we are ready to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) 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 have 3 questions, if possible. So the first one relates to, if you can elaborate on -- given sort of the delay in the Photonics situation, if that has any implication on how you think about the sizing and the timing of the equity raise? How shall we think about the 2 things in aggregate?

Second thing, you have got a lot of recent orders. Can you perhaps comment in terms of the margin on those orders versus what you have on the backlog and what you have today in P&L? The whole industry has had a lot of orders. So color on that trajectory would be great.

And my final question relates to applications. I guess, given how big the Solutions business is getting, can you talk through sort of why is Applications core for you? What synergies do you get from that? Why doesn't it derail you from the focus on Solutions? That would be my questions.

Jens Peter Due Olsen - NKT A/S - Chairman of the Board

Maybe I can take the first one in [here]. So if you think about -- I mean, on one hand, we have a need to strengthen our balance sheet and also fund future aspirations, i.e., the planned factory expansion and installation -- capacity expansion that Claes and Line talked about a second ago.

Now if we built a new factory in Karlskrona -- or as we build a new factory in Karlskrona, the cash outlay for that is not going to happen now. It's going to happen, say on the course of 1, 2, 3, and even 4 years. So if we raise money now in the equity market, that should drive down, of course, our leverage, and then that leverage will gradually increase as we actually have the cash outlay for the factory expansion.

So combined with this -- without giving long future projections, combining our earnings and working capital requirements on one side and then the cash outlay for the factory expansion on the other side, you will kind of reach a situation where you can see that leverage is not peaking right now, but leverage will peak when we have the big cash flow. So there's factory expansion. And after this long intro, what I want to say is that, yes, we -- the plan was to get EUR 200 million approximately for the Photonics transaction, but we don't really need that money now. We need it in 2, 3 years.

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

Following up on the question 2, in terms of the recent order wins and the margin, Claes, do you want to comment on?

Claes Westerlind - NKT A/S - Executive VP & Head of HV Solutions Karlskrona

Yes. I can give it a shot. If we go back to my slide where we looked at the market volumes there, I think it is clear that the volumes on the market have increased quite a bit, if not quadrupled now in the recent years. And of course, seeing it coming from a situation where many of the cable suppliers were not utilized to 100% to now the suppliers having a good utilization. And by that, our expectation has always been that the margins would increase and give -- allow for a more sound pricing and that is also what has happened. So I will conclude that we are satisfactory with the margins that we see for the moment on the recent order intakes.

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

And then I'll close out the third question on the Applications. Our Application business is doing very well also in this quarter. And I think if you go back just 1 year or 1.5 years, one of the things we did back in announcing was moving, let's say, the low [voltage] part of our high voltage product from Cologne to one of our Applications target in [Nilfisk]. And that's kind of the -- one of the online mechanism on what we are able to optimize in the company when we're having these kind of opportunities with different factories.

Also, we do have the shared suppliers between the different business lines, enabling both -- for example, within the metals, aluminum and the copper supply in combination. The customer base to a certain extent, also has some of the same, which also enables our approach to our customers benefit of both offering segments from the Solutions business as well as the Applications business. So all in all, we think that the Applications business also is a good complement in the global NKT.

Operator

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

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

Yes. I have 3 as well, and I'll ask one at a time. The first question I have is for Claes. Thanks for the presentation and the Slide #14. And the question I have is that, when I look at this chart where you show that orders for industry rising from EUR 2 billion to 5 billion, and now EUR 8 billion, can you also walk us through what is your best assumption on the supply so that we know that, okay, if the supply is like EUR 3 billion or EUR 4 billion or EUR 5 billion, then how much capacity addition for the entire industry might be required to reach to EUR 8 billion figure? So that's question number one.

Claes Westerlind - *NKT A/S - Executive VP & Head of HV Solutions Karlskrona*

Sorry, do you want me to answer directly? I think it's a very good question, Akash. And I have my own perception of it, but I'm not sure I actually should or can disclose it at this point here. But I think with what we have seen recently from the expansions that have been announced, also including the one that we announced on Friday, we think that these are the correct decisions by the industry as such and that the market will respond well to that. So there will be no oversaturation with supply capacity, looking at the EUR 8 billion here with what has been announced lately. And then projecting what will happen going forward, I can only speculate, and I'm sure you're the same, so I'm unable to comment that further.

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

And the second one I have is that you have announced you are going to build a new tower. You haven't said whether that would be for 1 line or 2 line -- maybe if you can tell us, with this tower, are you investing in 2 lines simultaneously or one at a time? And then can you also tell us how much CapEx would you need only for this tower and the lines that you have announced so far and phasing of that CapEx?

Claes Westerlind - *NKT A/S - Executive VP & Head of HV Solutions Karlskrona*

No, I've been personally involved in the planning of this, which has been going on for a while, as you can see. And nobody is more eager actually to tell you all of those -- the answer to all of those questions. But I think what we have said as a company is that we will come back before the end of May to disclose further information around this investment, which will include some rough estimates also on the figures around it. So I think it's all very relevant questions, but you will have to allow us to come back on that, Akash.

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

And final one is on Applications margin. I mean, you had a very strong performance in the quarter, exceeding expectations there. I'm wondering how shall we think about sustainability of these low double-digit margins which you haven't had sustainable track record of making? Clearly, on medium voltage, there is a much favorable demand/supply situation than low voltage where we have risk of slowdown in construction market. So any comment on sustainability of Application margins? And what have you baked in for the rest of the year for this segment?

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

Yes. And I think you're doing the reflections that we are also, right, that the -- strong quarter, absolutely good coverage and good -- well-done job by the Application business. It is so that the visibility on this business is also shorter than the Solutions. So guesstimating about how everything was available, including the construction sentiment, as you talk to, and the pickup on the medium voltage is also early days still. So we don't expect this to be necessarily -- we don't guide on quarters, and we don't guide on business line just to say that right.

But I don't -- we don't commit at this point to this being a level that Applications could maintain. But we appreciate, let's say, the quarter behind us.

Jens Peter Due Olsen - *NKT A/S - Chairman of the Board*

Line, can I just add that the strong quarter is not only market driven. It is also the result of a very operationally savvy team. So I think we have good operational KPIs from the applications team, but also very good market management. And I think in a business that is not depending on long-term contracts, but more exposed to shorter-term fluctuations as Line talked about, these are 2 critical areas to have in an Applications team and they are basically demonstrating they can do both.

Operator

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

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

Yes. I would just like to start by following up on your comments in an early answer, yes. So you said that you don't need the money from Photonics now, but in 2 to 3 years. So can you confirm this means you will not need to raise the equity you need by the EUR 200 million you're missing from the Photonics divestment?

Jens Peter Due Olsen - *NKT A/S - Chairman of the Board*

Yes. I think what I'm saying is that this will not increase the current equity ticket by EUR 200 million. Having said this, of course, this is also a question of how the banks look on us as a risk, and we also do need to strengthen our balance sheet, given the size of the projects we have right now. And although we are [implementing] very, very well, we just need a little more resilience also on the balance sheet until the earnings start coming in from the big projects we have actually started to engage with.

So on one hand, we need money to reduce our leverage to an acceptable level. We need money so that the banks believe that we have more resilience as a company. But if I look at the cash inflow and the cash outflow, whether we had the EUR 200 million now or the EUR 200 million 2 or 3 years from now, does not really matter.

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

Does this also mean that the current mandate you have to issue up to 50% new shares is still sufficient to the need you're looking into?

Jens Peter Due Olsen - *NKT A/S - Chairman of the Board*

Absolutely. We have asked for a 50% mandate for a good reason, and we will come back on the actual sizing of this. When we got the mandate, it was to be able to plan for the future.

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

And then just my final question. On the growth in Photonic -- sorry, in Applications, this 25% organic growth, can you tell us how much of that is price?

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

To a large extent is price driven. We see more or less flat volumes. I would say, it's a mix on the line, but it's primarily prices.

Jens Peter Due Olsen - *NKT A/S - Chairman of the Board*

Pricing...

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

Any reason -- and is there any reason these prices shouldn't stick in coming quarters?

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

In terms of revenue, it depends very much -- our segments are priced differently. So depending on the developments around the building wire and the medium voltage and even that in between, you will see some -- we can see some changes in the revenue development.

Operator

And the next question comes from the line of Casper Blom from Danske Bank.

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

First of all, welcome Claes and congratulations on your appointment. I have a couple of questions also. The first one goes to Jens. You mentioned that you expect Hamamatsu to live up to the contract that you have made with them. Let's assume that they are not allowed to take over Photonics. What would that then mean living up to that contract? Is that, that you would have some sort of compensation from them? Is there a walkaway clause that would be triggered from that? That would be great to hear some flavor on that to the extent possible?

And then secondly, on your framework agreement with Tennant. It would be great if you can shed a bit of light on the terms in such framework agreements. How do these differ from regular contracts? How firm is -- how certain are you that this will be triggered in 2025? And when you will actually do the production and book the P&L impact? How certain are you about the design of the projects, et cetera? How you say, safeguard yourself about that uncertainty?

And then finally, Tennant is now becoming a very big part of your business and a very dominant client for you. How do you safeguard yourself against having that many eggs in one basket?

Jens Peter Due Olsen - NKT A/S - Chairman of the Board

Perhaps I should just start with the Photonics question. So what we have disclosed is that we have a -- of course, we have a buyer and we have a very good contract. Now we are in a discussion with the buyer and how exactly they're going to honor that contract, and we really need to keep that in-house for the time being because we are in negotiations. We do know they are trying to find solutions.

But again, this is a dialogue between them and the authorities, and we are not part of those discussions. So for now, I would just like to say that we -- reiterate that we have an agreement. We have a strong contract and we need to sort this out between us before we can disclose further.

Claes Westerlind - NKT A/S - Executive VP & Head of HV Solutions Karlskrona

And on your second and third question, I will provide some comments and then Line can also complement. Around the framework contracts there, I also need to be a little bit careful in how much I say. I think what you're coming to is very true. I think what is unusual here is that we are writing a contract in 2023, and we will basically book these orders in a couple of years' times into the company in 2025 for the 3 mentioned projects.

And of course, with that comes an awareness from our side and potentially a worry from your side in the market, what about input costs and changes over these years and how does that impact. And of course, how firm are the prices. And we are -- we have been fully aware about that, our customers to recognize that. So apart from the normal adjustment mechanisms like metals and plastics and things like that, which we have in all contracts until they are booked -- and we don't take the risk for it.

We have made sure that we feel satisfied with the risk exposure that we have in the coming years. Also, you will note the comment on the slide that there is some volume of that contract which will come on top. That is volume, which is connected to things which is not possible to firm up and establish today, such as burial operations on the cable, et cetera. And obviously, also if the signs and other things change for changes in

conditions which are outside NKT's control, then that is also a discussion we would then have with our customers. So I hope that was at least shedding some light on how we are dealing with that.

And thirdly, you mentioned Tennant becoming a very big part of NKT. I would like to say that, that is true to a certain extent. They have been a big customer for us, and they will continue to be so, now even bigger from a volume perspective. But we also have to keep in mind that it is growing. And our capacity is by no means exhausted for the next 10 years. That also means we will be able to take in more orders to balance that. But I would also raise the counterargument what I mentioned before about competence aspects and risk management.

What we are very worried -- wary about is, of course, that we need to be able to lead, engineer and execute our projects at the higher safety, quality, cost time perspective and us focusing then on fewer customers rather than more individual, smaller contracts, is a big benefit for us. But that's not to say that we will only proceed with only one customer. I don't know, Line, if you want to make any comment on that?

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

Yes. I think I just want to add also that we are also safeguarding the spot market in general. So one thing is the framework agreements and what kind of load that can give in our factories. But another part is also care taking that we can a bid continuously on -- in the spot market on the projects that may come to support our customers in a broad sense.

Operator

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

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

Also some questions from my side and do one by one, and we'll start out with some questions for you, Jens. And I know you have touch pointed departure of Alex. But just to avoid any rumors and stipulations, can you confirm that departure has actually nothing to do with the NKT business or projects being signed in the widest aspect, and therefore, there's nothing that will show up in the P&L at a later point? That will be the first question.

Jens Peter Due Olsen - NKT A/S - Chairman of the Board

Yes. we're interested in the subject, I understand that. I can at least confirm that Alex's departure has nothing to do with business or projects being signed. I think the only thing that will show up from Alex's departure will be the normal severance payments in relation with him resigning. This is always

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

Then the second question also for you is that the Photonics -- When do you expect or hope that we will hear some more about the future ownership of that business?

Jens Peter Due Olsen - NKT A/S - Chairman of the Board

I honestly cannot reveal this because we do have an agreement with Hamamatsu and we need to sort out what they're going to do. And with -- because of that, we have an intensive dialogue with Hamamatsu and they have a dialogue I assume (technical difficulty) and we need to sort that out before we can say anything on this.

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

But you keep saying that it was also included in the initial announcement that you are well protected by the contract. Does that well protected also include a timing clause?

Jens Peter Due Olsen - *NKT A/S - Chairman of the Board*

Yes, maybe being more generic than specific, and it's not to sort of lecture you, and you know this better than I. But when we do have contracts, there's -- typically the contracts run for a while. It's the obligation, again, of the buyer to get the necessary authority approvals. Sometimes you can extend in good faith, but there's typically also a drop-dead date in the contract. Now during the phase until the drop-dead date the buyer has an obligation typically to get the approval and to take some actions to make sure that you can get the approvals.

And then, of course, in a contract, you can also have representations and warranties and guarantees and they extend on the drop-dead date of the particular contract. So it's a combination of all these things that make us say that we have a very good traction agreement with Hamamatsu. But having said all this, what we focus on right now are all the commercial aspects of it and the contractuals, of course, we'll have to resolve...

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

And when is this stop date?

Jens Peter Due Olsen - *NKT A/S - Chairman of the Board*

That we are using.

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

I thought so. Was worth fine. My last question goes to you, Claes -- and also from my side, congratulations with the job. It's probably a difficult question to give a short answer to, but I will try anyway. As a CEO, do you see a need to change the strategy or do any other large adjustments or changes to the business?

Claes Westerlind - *NKT A/S - Executive VP & Head of HV Solutions Karlskrona*

It's a good question. Taking the perspective that I've been part of the group leadership team and have also had the privilege to (technical difficulty) the Board in the last 3 years and also been an integral part of the strategy, I think my short answer is no on that. So I stand just as I did as a GLT member. I now as a CEO, stand fully by the strategy, which has been laid out, and this also robustly supported by the Board looking to my left here. And also over and beyond that, I think that is for the business (technical difficulty) on the principle that, of course we need to fix what's broken, but also [need be] what's working.

And there are a lot of things in NKT, and I think numbers and our development is a testament to that, that is working very well. There are things where we can become better. And that's, of course, for me, together with the GLT on the surveillance by the board to address now in the coming months and hopefully years in office.

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

Now you open up for that discussion. So I have to ask, so you say there's areas where you can get better. Where is that?

Claes Westerlind - *NKT A/S - Executive VP & Head of HV Solutions Karlskrona*

I think this is for me now to get into a little bit and spend my first days and weeks in trying to understand that. But I think we can get better in many different places. Satisfactory numbers, but also looking behind those, can the numbers get even better. I think it's also in Solutions Karlskrona that I know very well and it's operating in a very nice way. Same thing as for Cologne, same thing goes for, of course most of Applications and other aspects as well. So I will have to wait and see and make my considerations a little bit.

Operator

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

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

Thanks for the follow-ups. I have 2 small ones. The first one was that in Q4 results, you mentioned that addressable market in '23, '24 is estimated to be at least EUR 8 billion per year. I mean, so far, if you look at order awards and only the firm ones and taking this framework agreement out, I think we already got more than 5 billion in industry orders where you were also involved in some of those. Can you talk about how does the pipeline looks on large orders in the next 6 to 9 months? And are there more framework agreement orders on horizon?

And then the second follow-up I have is that, do you see any impact of inflation on your solutions margin?

Claes Westerlind - *NKT A/S - Executive VP & Head of HV Solutions Karlskrona*

Yes. I can give it first go, and Line, you can complement. We don't comment typically on individual projects or frame agreements. But as you could see in the numbers on the slide I presented there, the sharp rise in volumes, I think, supports also the indications, and I think the general information on the market that there are more customers looking at this in a similar way that Tennant does. So -- and then as far as the exact time horizon goes, I'm unable to give that.

If you look at input costs and the rise of the cost, which we have seen also last year and also continue to see this year to a certain extent, yes, that we see also in the Solutions projects. And we work actively on 2 aspects of that. Of course, both to the extent we can retain compensation from our customers, we do that.

And of course, also we are actively working with lowering -- or looking at different suppliers, looking at hedging of our electricity contracts and also utilizing risk and contingency reserves which have been put in place -- in the first place to cater for what is now coming to a certain extent.

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

I think the only thing I would add here actually is maybe the interesting fact on some of these frame agreements because they have a certain dynamic. And as you recall earlier discussions about the winter time where some more of these frame agreements actually surfaced, and we realized that the industry was also structurally changing here.

And just this week, we had a discussion with one of the larger European utility companies about a tender they expected to run over the next window for also a frame agreement. And actually, they are preponing that even to this summer and looking into a larger portfolio of cable projects that they want to establish with the different suppliers in the market.

So it is a very dynamic model we are seeing out there. And when we talk about the projected market awards and any kind of numbers, these dynamics are not reflected, obviously, to the full extent and depending on when they will be awarded, that can change our view on that also.

Operator

(Operator Instructions) And the next question comes from the line of Kristian Johansen from SEB.

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

So just to follow up on your answer here, Line. How many framework agreements do you expect to be awarded here in 2023, beside with the (inaudible) one?

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

Expect to be -- that always is an interest path wise. But the tendering out there, I think Claes would even be better to answer that. But there are several ongoing and over the summer and the fall that we see without being more specific.

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

Then just to the margin in Solutions in Q1. Obviously, it was sort of on par year-on-year, but Q1 last year was also by far the strongest one. So a decent step up versus the second half margin. Can you talk about whether there's any project completions in Q1 because that's typically where we see the market spikes? Or what is driving the improvement quarter-on-quarter on the marketing solutions?

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

I think, on a general level, as you know and see also in the numbers historically, yes, it does differ in terms of which projects are under execution, which part of the phase is the project in. And as you know, right now, we have many larger projects also ongoing. So I wouldn't say any extraordinary events, good execution was that implied in our Q1 numbers.

Claes Westerlind - *NKT A/S - Executive VP & Head of HV Solutions Karlskrona*

I would convert to that to add just -- of course, if we look at individual projects, as Line said, which is production for the moment, which is still an undergoing heavy installation activities for the moment, that in itself generates a different level of profitability quarter-on-quarter. And it's not the financial answer. But of course, from an operational perspective, it's difficult to measure solutions quarter-by-quarter because we are not that short cycle, so to speak.

And on top of that, also a lot of our work is connected into risk management and dealing with physical risks that we are facing in the projects. And when we get past that, when the risks mature, then on top of the pure margin of the project, then hopefully, by good management, we will have additional profitability. That will also swing a lot further. And of course, it's connected to the actual physical time plan and the operation in a single project.

Jens Peter Due Olsen - *NKT A/S - Chairman of the Board*

Can I just add a final comment. I mean, as you know, that we talked about the supply-demand imbalance here in the past and our customers are trying to secure capacity also for the future, this is why we see these big frame orders. It's also to allow us for long-term planning, as Claes said before. So we can actually make the necessary investment. This is just to say that as our order book is growing at the moment, the incoming orders have a more attractive financial profile than the orders we actually are executing on. So as time goes by and provided we can execute, our margins will go up, maybe not necessarily sequentially quarter by quarter, but on average, they will.

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

But given that you -- as you mentioned in the beginning -- I think it was Line, that your execution on a few long-term contracts, is there any expected then mix changes -- or maybe [framed] in a different way, this level we're seeing on the margin in Q1, is there any reason why that should not continue in the coming quarters?

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

I think it depends very much on what we executed. And I think it's exactly what Jens alluded to here, we do still -- we are still executing on awards, that we actually

had award back in 2020 and even a little one before that. So the more we transition into projects that we will award, let's say, over the last 12 months, the margin will improve. But we need to close out some of the ongoings.

Operator

Thank you. There are no further questions at this time. And I would like now to hand the conference over to our speakers, Line Fandrup, and Claes Westerlind for any closing remarks.

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

Thank you for the good questions today. Yes, have a nice day out there.

Claes Westerlind - *NKT A/S - Executive VP & Head of HV Solutions Karlskrona*

Yes. Likewise for me. Pleasure to be part of this call and looking to get to know you even further.

Jens Peter Due Olsen - *NKT A/S - Chairman of the Board*

Thank you, everyone.

Operator

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

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2023, Refinitiv. All Rights Reserved.