

# Q4 2022 Investor Video Transcript

26 January 2023

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During this presentation, we will be making forward-looking statements regarding our future business and financial performance and these statements are predictions that involve risks and uncertainties. Actual results may therefore differ materially from the results we currently expect. Factors that could cause such differences can be both external as well as internal operating factors. We have identified such risks in more detail in the section titled “Operating and financial review and prospects – Risk Factors” of our 2021 annual report on Form 20-F, as well as our other filings with the U.S. Securities and Exchange Commission.

Please note that our results release, the complete report with tables and the presentation on our website include comparable results information in addition to the reported results information. Our complete financial report with tables available on our website includes a detailed explanation of the content of the comparable information and a reconciliation between the comparable and the reported information. Today’s stock exchange release and presentation can be found on the investor relations section of the Nokia website.

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David Mulholland, Head of Investor Relations
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Hi everyone, and welcome to this short introduction to Nokia’s fourth Quarter 2022 financial results.

My name is David Mulholland and I am Head of Investor Relations and here with me in Espoo today is Pekka Lundmark, our President and CEO.

Please note that during this short video where we discuss Nokia’s financial performance in terms of growth rates, it’s on a constant currency basis and where we talk about margins, it’s on a comparable basis. You can find full reconciliation tables to our reported financials figures in the financial report on Nokia’s investor relations web site.

With that – let’s get started.

Pekka – we’ve just reported our fourth quarter 2022 financial results – can you give us a quick overview?

Pekka Lundmark, President and CEO

Thanks David. At the start of 2022 we said it would be a year of acceleration for Nokia and I'm pleased to say we delivered. For the full year we achieved 6% net sales growth – a strong acceleration from the 3% in 2021 and we also finished the year with good momentum growing 11% in the fourth quarter.

Our operating margin was stable in 2022. From my perspective, this was a strong result considering the 150bps of one-offs that we benefitted from in 2021. This illustrates the strong underlying progress in the business.

David Mulholland, Head of Investor Relations

Thank you Pekka. One area that did end quite differently to how you expected was Nokia Technologies – can you explain a bit what happened in the fourth quarter?

Pekka Lundmark, President and CEO

You're absolutely right – it was quite different. As you know, when we published our Q3 results we said that delivering stable operating profit for the full year would depend on closing some outstanding deals, which continue to be in litigation and renewal discussions. Courts around the globe are validating our position and our approach remains unchanged – we will defend the value of our patent portfolio over achieving certain timelines.

What happened in Q4 was that late in the quarter we received notice from a long-term licensee exercising an option to extend their license indefinitely. This triggered revenue recognition of the outstanding €305m deferred revenue for the contract, that would have otherwise been recognized in future periods. This license had been pre-paid so it did not actually have a cash impact on the business, but it meant operating profit was largely stable in 2022.

I would also like to add that I'm very pleased with the announcement we had earlier this week that we had signed a multi-year patent license agreement with Samsung.

David Mulholland, Head of Investor Relations

And if we move onto the other business groups – Network Infrastructure had a very strong fourth quarter with 14% growth – what was it that drove that?

Pekka Lundmark, President and CEO

Yes, it was great to see another strong performance from Network Infrastructure to end the year. Network Infrastructure has strong technology differentiation, but in my opinion deserves more recognition than it typically gets externally. One thing to note in Q4 is that while fixed and submarine networks have been growing well for some time now – we saw strong acceleration in both Optical Networks, which grew 21%, and IP Networks, which was up 11%. We also saw great profitability in the quarter at 16% and the demand outlook remains strong for 2023. It is our technology strength, across the Network Infrastructure portfolio, that is driving these results.

David Mulholland, Head of Investor Relations

And in Mobile Networks you delivered 3% growth in the fourth quarter, but we saw margins decline y-o-y – does that start to worry you?

Pekka Lundmark, President and CEO

Mobile Networks' Q4 came in pretty much as we expected and there was an impact on profitability in the quarter. This was largely due to a shift in regional mix and some front-end loaded spending in North America in 2022, which exacerbated the regional impact in Q4.

But it is important to note that on a full year basis margins expanded 90bps in Mobile Networks to 8.8%. The reset we completed in 2021 has put the business on a much stronger footing and on a growth trajectory to deliver double-digit operating margins in the longer-term.

David Mulholland, Head of Investor Relations

And of the questions we have received frequently from investors in the last few months has been how Mobile Networks navigates through 2023 – how do you see the outlook?

Pekka Lundmark, President and CEO

As we look into 2023, even as some developed markets, like North America mature, other markets, like India, are just starting to ramp up. So we see the addressable markets for Mobile Networks continuing to grow. With the recent deals won, we believe we are in a strong position to outperform the market. From a profitability perspective, while the regional mix will be a headwind in 2023, we believe this can be largely offset by scale benefits, product cost improvement and supply chain normalization.

David Mulholland, Head of Investor Relations

And Cloud and Network Services grew 5% in the quarter and gross margins expanded 200bps – are you starting to see the benefits now of the hard work rebalancing portfolio playing through?

Pekka Lundmark, President and CEO

There has been a lot of hard work ongoing to refocus our investments in CNS, and yes, I do think we are starting to see that bear fruit. There is clearly more work to be done but this is better positioning us for profitable growth in the future.

David Mulholland, Head of Investor Relations

And one of the stand out that we saw in in the fourth quarter was the growth you had Enterprise – was this just a one-off?

Pekka Lundmark, President and CEO

We said two years ago that diversifying our customer base and growing in enterprise was a strategic priority for us so I'm delighted with the strong momentum we now have. While the 49% growth in Q4 might be somewhat exceptional, I'm pleased with the 21% growth for the full year. And we are broadening our customer base with momentum in private wireless and webscale both of which should continue to grow well in 2023.

David Mulholland, Head of Investor Relations

And then if start looking forward, how do you see the outlook for the business into 2023?

Pekka Lundmark, President and CEO

While there is obviously a lot of uncertainty about the global economy we're currently forecasting another year of growth. We forecast full year net sales of between 24.9bn and 26.5bn which would imply constant currency growth of between 2% and 8%.

From an operating margin perspective we're currently targeting between 11.5% and 14%.

The growth we're expecting will however mean that we will have another year of somewhat weaker cash flow and expect free cash flow conversion of between 20% to 50%.

Overall, we see a lot of opportunities heading into 2023. And while we will continue to be vigilant for any indication of changes in customer appetite, we intend to take another step towards our long-term target of growing faster than the market with at least a 14% operating margin.

David Mulholland, Head of Investor Relations

And one final question from me Pekka. In terms of cash generation Nokia had two very strong in 2020 and 2021, but cash generation has been little bit more muted in 2022 at 27% conversion and the outlook you have given for 2023 suggest that it's still at somewhat more lower level at 20 to 50% conversion. Where is your confidence in the ability of the business to generate cash in the future?

Pekka Lundmark, President and CEO

Clearly cash generation is of critical importance to us but as we start to accelerate growth, and considering the regions we are growing in, that will consume some more cash in working capital. Also, while the supply chain situation has improved, lead times have not really normalized yet and so we continue to hold more buffer stock.

So yes, short-term we will see some headwind as growth accelerates and working capital expands. However, I'm very confident in our long-term ability to generate cash and that we will see significantly stronger cash flow in 2024.

It is because of our confidence in our outlook, and our strong balance sheet position, the Board is proposing an increase in the dividend to 12 cents per share in respect to 2022. And we're continuing to execute on the €600m share buyback program announced last year.

David Mulholland, Head of Investor Relations

Have you got any final remarks before we finish Pekka?

Pekka Lundmark, President and CEO

I just want to say a big thank you to the entire Nokia team. There were a number of challenges we had to overcome throughout the year, but I'm delighted we still managed to deliver on our guidance, accelerate our performance and demonstrate the resilience of our business. Thanks to the team, we've put ourselves in a strong position for 2023 and beyond.

David Mulholland, Head of Investor Relations

Thank you Pekka for your time today and thank you to everyone for watching.

During this video, we have made forward-looking statements and these statements are predictions that involve risks and uncertainties. Actual results may therefore differ materially from the results we currently expect. We have identified such risks in more detail in the Risk Factors section of our 2021 annual report on Form 20-F.