

# Q4 2023 Investor Video Transcript

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David Mulholland, Head of Investor Relations

Hi everyone, and welcome to this short introduction to Nokia's fourth Quarter 2023 financial results.

I'm David Mulholland, Head of Investor Relations and with me in Espoo is Pekka Lundmark, our President and CEO.

In this discussion when we refer to Nokia's financial performance and in terms of growth rates we will be referring to it on a constant currency basis and we refer to margins it will be related to our comparable reporting. You can find full reconciliation tables between our comparable reporting and our IFRS results on our Investor Relations website in the financial report that's published there.

With that – let's get started.

So Pekka – we've just reported our fourth quarter results – how did you see the performance?

Pekka Lundmark – President and CEO

Thanks David. The fourth quarter saw a continuation of the trends we saw in the third quarter, with customers remaining cautious on spending due to the macro environment and as they work down inventories.

This meant we saw sales decline 21% in the quarter primarily driven by Network Infrastructure and Mobile Networks which were both a bit weaker than we expected a quarter ago. There was also a decline in Nokia Technologies which was primarily due to a significant one-off benefit we had in the year-ago period.

On a positive note, we saw strong sequential improvement in gross margin across all of our networks business groups due to cost improvements but also beneficial product mix in a number of areas such as software in Mobile Networks.

In terms of operating margin, the higher gross margin combined with proactive action on cost and lower variable pay accruals, led to a strong operating margin of 14.8%. Considering the drop in sales and lower contribution from Nokia Technologies in the quarter, this is a pretty resilient performance.

Q4 did see a significant improvement in cash generation with EUR 1.7 billion of free cash flow and we ended the quarter with a net cash position of EUR 4.3 billion meaning we continue to have a robust balance sheet supporting the business.

David Mulholland, Head of Investor Relations

How would you summarize the full year performance?

Pekka Lundmark – President and CEO

Well as mentioned, the demand environment was more challenging than we expected at the start of the year, particularly in North America, and we ended with a full year net sales decline of 8%.

However, I am pleased with the resilience of the profitability within our networks business groups. All three delivered within the ranges we targeted at the start of the year despite the net sales headwinds.

The delays in signing the renewal agreements in Nokia Technologies meant we achieved a 10.7% operating margin for the full year, below the targeted range from the beginning of the year of 11.5% to 14%.

With the strong cash flow we saw in Q4 we delivered Free Cash Flow conversion of 34%, well within the 20% to 50% target we had for the year.

So, all things considered I believe we performed well in a highly challenging demand environment.

David Mulholland, Head of Investor Relations

So if we turn to discuss the specific business groups – how did you see the performance in Network Infrastructure?

Pekka Lundmark – President and CEO

The first thing to mention is that we saw a strong improvement in order intake in Q4 and this was consistent across all of the units within NI.

Importantly some of the orders we received were from webscale customers for our IP Routing portfolio which support our expectations that we will see substantial growth in webscale for IP in 2024. We are still early in our journey into webscale. However we are getting more recognition for the quality of our products as demonstrated by these orders.

In Optical Networks, we are making good progress with our PSE-6s based solutions. These have been in customer trials in the second half and demonstrated their market leading performance. In one trial we achieved a new record of 800Gbps on a single wavelength over a 6,600km fiber. We have been gaining share in optical and with the products we now offer, I see further opportunities ahead.

In the fourth quarter, we also saw good momentum with government initiatives for funding fixed broadband deployments. We expect these programs to begin to benefit our net sales in the second half of 2024 and into 2025.

David Mulholland, Head of Investor Relations

So if we turn to Mobile Networks next, obviously there's been a lot of questions about the business from investors given the announcement around AT&T in December and there's been a lot of concern around how people see the future of the business. Do you still have confidence in that business and how do you see the path ahead?

Pekka Lundmark – President and CEO

We are of course disappointed with AT&T's decision to largely single-source their RAN network around a different vendor. I want to be clear that it was not a decision related to the technological competitiveness of our products. With the investments we have made we have a competitive offering which has enabled us to gain significant market share in Radio Access Networks in recent years.

This will clearly be a setback to the business but as we discussed in our investor update in December, I firmly believe we have the right strategy in place for Mobile Networks to create value for our shareholders in the future with opportunities to gain share, diversify our business and achieve a double-digit operating margin longer-term.

David Mulholland, Head of Investor Relations

Could you also provide a few words on how you saw things progress in Cloud and Network Services in 2023?

Pekka Lundmark – President and CEO

We made good progress last year with our portfolio rebalancing efforts as we divested Vital QIP, partnered with RedHat on Cloud Infrastructure and announced the divestment of our Device Management and Service Management platforms.

We also led the industry trend towards programmable networks with the launch of our Network as Code platform.

When we consider these strategic steps along with the strong progress on profitability with its operating margin up 260bps for the full year, I think it has been a good year for CNS.

David Mulholland, Head of Investor Relations

And finally if we turn to Nokia Technologies, there were obviously quite a lot of deals signed in the year – how did you see the progress through 2023?

Pekka Lundmark – President and CEO

We signed significant long-term deals with both Apple and Samsung in 2023 and we also signed a deal with Honor late in the year. I am also pleased that we have now finally signed a licensing agreement with OPPO and we are close to concluding another agreement in China. After these, we are in the final stages of our smart-phone license renewal cycle with only one recently expired major agreement outstanding.

This will provide welcomed long-term stability for Nokia Technologies and we can now increasingly focus on opportunities to grow our licensing run-rate in new growth areas including automotive, consumer electronics, IoT and multimedia.

I remain confident that with growth in these new areas we can return to an annual net sales run-rate of EUR 1.4 to 1.5 billion in Nokia Technologies.

David Mulholland, Head of Investor Relations

Enterprise declined 3% in the quarter after a number of quarters of very strong growth, is this something that concerns you?

Pekka Lundmark – President and CEO

It is important to remember the context here. In Q4 2022 we grew 49% in Enterprise and benefited from webscale which doubled in that period.

So the 3% decline in Q4 is a reflection of that and not a change in the underlying dynamic.

For the full year, we saw a 16% increase in Enterprise sales and order intake was strong, particularly in webscale as I mentioned before.

So we are pleased with the development of Enterprise, which is now more than 10% of Group net sales for the year and we target another year of double-digit growth ahead in 2024.

David Mulholland, Head of Investor Relations

One thing you already mentioned Pekka was the strong cash performance and the strong cash balance at the end of Q4 – what does that mean for shareholder distributions as you look ahead into the next year?

Pekka Lundmark – President and CEO

I am pleased to say that the Board is proposing an increase in the dividend to EUR 13 cents, up from the EUR 12 cents the year before. Also – considering our cash position – the Board is initiating a new share buyback program to return up to EUR 600 million over two years.

You will recall that we have a new target to maintain a net cash position of 10-15% of annual net sales. We will move towards it in a measured way considering the on-going macro and geopolitical uncertainty which our strong balance sheet will help us to navigate.

David Mulholland, Head of Investor Relations

And if we now look forward – what is your view on the outlook into 2024?

Pekka Lundmark – President and CEO

Looking ahead, we expect the challenging environment of 2023 to continue during the first half of 2024, particularly in the first quarter.

However, we are now starting to see some green shoots with improving order intake for Network Infrastructure and some of the specific deals we have won.

This is expected to drive a strong improvement in Network Infrastructure net sales growth in the second half of 2024 which we believe, even with a challenging first half, will drive solid growth for the full year.

In Mobile Networks, we expect top line challenges in 2024 related to a more normalized pace of investment in India and the AT&T decision. We expect further improvement in gross margin and in the second half we will start to see more benefits from our cost savings program.

At the Nokia level, we currently estimate we will deliver comparable operating profit of between EUR 2.3 and 2.9 billion in 2024. We also expect to deliver an improved free cash flow performance with conversion of between 30% and 60% after the 34% we achieved in 2023.

David Mulholland, Head of Investor Relations

Thank you Pekka and do you have any final thoughts you want to leave with the audience?

Pekka Lundmark – President and CEO

I want to say a big thank you to the entire Nokia team for their resilience and determination that enabled us to navigate a highly challenging environment.

This was not an easy year but we made progress in critical areas and, as I said before, we are starting to see some green shoots.

I also believe the decisions we have taken regarding our operating model, which gives our business groups more autonomy and moves them closer to the customer will accelerate our strategy execution and position us better for the future.

David Mulholland, Head of Investor Relations

Thank you Pekka and thank you to our audience for joining us today.

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. 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 Risk Factors section of our 2022 annual report on Form 20-F.