Q3 2024 Investor Video Transcript

17 October 2024

David Mulholland, Head of Investor Relations

Hi everyone, and welcome to this overview of Nokia's third quarter financial performance.

My name is David Mulholland, I'm Head of Investor Relations here at Nokia and with me is Pekka Lundmark, our President and CEO.

Please note that during today's conversation where we refer to growth rates it will be on a constant currency basis and where we discuss margins it will be related to Nokia's comparable reporting. You can find reconciliation tables to Nokia's IFRS financials in the third quarter financial report published on our website.

With that – let's get started.

Pekka – what were your overall thoughts on the third quarter?

Pekka Lundmark – President and CEO

Thanks David.

The market of course continues to be weak with net sales recovery happening slower than we previously expected, but I am optimistic that we are now turning the corner in many parts of our business. I was pleased to see Network Infrastructure returning to modest growth, driven by Fixed and IP networks, both of which delivered strong growth in North America. Orders also continued to be strong which gives us confidence that growth in NI will accelerate in Q4.

Importantly, we delivered a significant improvement in gross margin across all of our business groups, and cash generation was also strong in the quarter.

We made good progress with our strategic goal of expanding the share of sales into non-Service Provider markets. For example, we further strengthened our IP portfolio in the webscale market, where we see exciting growth opportunities going forward.

So all-in-all, while we continue to have a topline challenge, the stronger gross margin and progress on cost savings means we remain on track for our full year operating profit outlook.

David Mulholland, Head of Investor Relations

Thanks Pekka and regarding Network Infrastructure – how do you see the underlying market trends currently?

Pekka Lundmark – President and CEO

Well in general, the trends are consistent with what we have said in the last couple of quarters. We have seen a solid recovery in order intake which continued again in the third quarter for Network Infrastructure with solid year-on-year growth in orders and a book-to-bill above 1.

The recovery is being led by Fixed Networks which grew 9%, with spending picking up now at Tier 1 operators in North America. Looking ahead, the underlying opportunity in fiber remains significant with nearly 70% of homes globally outside of China still to be connected. We also see government funded programs like BEAD in the US starting to impact net sales in Q4 and further ramping next year.

We have also seen a significant improvement in IP Networks which grew 6%. The growth is being led by North America and I would also mention that we saw good growth in WebScale for IP Products.

Optical Networks continues to lag, declining 15% in the quarter and will take longer to recover – also because we have lower exposure to North America and webscale which are the stronger parts of the market today. This is something which we will be addressing by the pending Infinera acquisition.

David Mulholland, Head of Investor Relations

And if we just touch on that for a second Pekka, how is the Infinera acquisition progressing?

Pekka Lundmark – President and CEO

We have been making good progress. The feedback from our customers continues to be highly supportive and the deal was recently approved by Infinera shareholders. We have also recently received the CFIUS and US Antitrust approvals. There are still regulatory approvals pending and we remain confident we will be able to close the deal in the first half of 2025.

David Mulholland, Head of Investor Relations

And if we turn now to Mobile Networks, how did the business perform in the third quarter?

Pekka Lundmark – President and CEO

Net sales declined 17% in Mobile Networks mainly due to the challenging comparison in India, similar to last quarter. We continue to see positive deal momentum – with some significant wins including being awarded as the largest supplier to Vodafone Idea's 5G network build in India, a deal with a key customer in Japan and Spark in New Zealand.

Mobile Networks' gross margin performance was a highlight, increasing 500 basis points year-on-year. This reflected the actions Mobile Networks has been taking to reduce product costs, in addition to favorable product and regional mix.

We have been moving quickly on our cost reduction program in Mobile Networks. We said last December that with the actions we were taking we would lower the approximate net sales required to deliver a double-digit operating margin in Mobile Networks to EUR 10 billion by 2026. With the actions we are now taking we expect to be able to achieve that margin level with EUR 9.5 billion in net sales.

David Mulholland, Head of Investor Relations

And if we now turn to Cloud and Network Services how did you see the performance in that business group in Q3

Pekka Lundmark – President and CEO

Cloud and Network Services net sales declined slightly, mainly as a result of the divestment of the Device Management and Service Management platforms earlier in the year. Excluding this, sales would have been stable. Additionally, CNS saw a strong performance in both gross and operating margin.

CNS is seeing excellent momentum in 5G core along with strong progress in network automation, cloudification and enabling network APIs. September marked the one-year anniversary of the launch of our Network-as-a-Code platform and we ended the quarter with more than 20 partners globally, including many of the world's leading CSPs.

David Mulholland, Head of Investor Relations

And if we finally turn to Nokia Technologies you saw very strong growth in the quarter – what was behind that?

Pekka Lundmark – President and CEO

Yes - overall Nokia Technologies showed strong year-on-year growth, largely reflecting the various smartphone licensing agreements we signed earlier in the year.

Nokia Technologies continues to make solid progress in its new growth areas – they recently signed a second agreement with a multimedia video streaming service. While this is still a nascent area for them, these are important steps in a segment with a lot of potential.

David Mulholland, Head of Investor Relations

And turning to some of the other financial metrics in the quarter, cash was also very strong and has been strong through the first half of the year, how was Q3?

Pekka Lundmark – President and CEO

Q3 was another strong quarter for cash generation with free cash flow of EUR 621 million, which led to a net cash position of EUR 5.5 billion. This was mainly driven by our good profitability in the

quarter and improvements in net working capital. Year-to-date, we have generated nearly EUR 2 billion of free cash flow.

David Mulholland, Head of Investor Relations

And if we start to look forward, how do you see Nokia's 2024 outlook today?

Pekka Lundmark – President and CEO

Well, clearly the year has been marked by a weak demand environment, however we have delivered good margins, excellent free cash flow and have made progress in many of our strategic pillars. In spite of the challenging net sales development, our comparable operating profit outlook remains to be EUR 2.3 to 2.9 billion. We are currently tracking within the bottom-half of the range as our improving gross margin and quick action on cost is helping to offset the weaker net sales development. On free cash flow conversion, we expect to be at the high-end of the 30% to 60% range.

David Mulholland, Head of Investor Relations

And finally Pekka you have mentioned on a few occasions about some of Nokia's ambition to grow beyond CSP and grow in areas such as enterprise, can you give us an update on how some of those initiatives are progressing?

Pekka Lundmark – President and CEO

Yes, absolutely – as you know, this is one of our strategic pillars. Across Nokia we are investing to create growth opportunities with these non-Service Provider customers. We saw strong performance in this area in Q3, with net sales to enterprise customers growing 11%.

Looking ahead, we see a significant opportunity to expand into the data center market and are investing in our portfolio to ensure we can address this fast-growing segment. Recently we announced a win with CoreWeave who will deploy our IP and optical networks products in their data centers across the US and Europe. We also recently launched our Event-Driven Automation or EDA platform, which will help automate data center network operations.

Expanding with non-CSP customers is also a large part of why we are acquiring Infinera – this will bolster Optical Networks' exposure to webscale and accelerate growth opportunities.

I also believe there are compelling opportunities in the Defense market, particularly utilizing 5G technology, and in private wireless networks where we are building on our market leadership.

While it is a bit too early to give an exact date, we are planning to hold a capital markets day in 2025 after the Infinera deal has closed. Once we have better clarity on the timing of the transaction closure we will communicate more details. These growth opportunities will clearly be a key focus of the event.

David Mulholland, Head of Investor Relations

Thank you Pekka for these comments and thank you everyone 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 2023 annual report on Form 20-F.