Profitable Growth for Vestas

Strategic objectives

The world in which Vestas operates continues to evolve in ways that significantly affect the wind industry and Vestas’ ability to compete in it. Economic growth and demand for the electricity that Vestas’ wind turbines produce is unevenly distributed and shifting to new regions of the world. Future demand for energy is expected to grow mostly in Asia, Latin America and Africa.

Public policies that have supported renewable energy’s growth continue to evolve as well, along with the shifts in demand. Policy support is uncertain in many markets and governments, customers and societies are relentlessly demanding that the wind power industry continuously reduces the cost of energy.

This ties well with Vestas’ vision to bring the cost of wind energy on a par with coal and gas which today is a reality in some markets. Wind energy’s advantages are strong and Vestas’ aspiration is to continue to be the global leader of the wind power industry, and in order to succeed – together with its customers, shareholders, employees and the surrounding society – Vestas will continue to provide superior cost-effective wind turbine technologies, products and services to the market.

Upon completion of the two-year turnaround plan initiated by the end of 2011, Vestas has come a long way towards realising its vision. Costs have been significantly reduced, while divestments and outsourcing have made the manufacturing footprint lean and scalable without compromising quality or Vestas’ global presence. Hence, building on the results achieved during the transformational turnaround period, Vestas has revised and updated its strategic focus areas, divided into four main areas:

- grow profitably in mature and emerging markets
- capture full potential of the service business
- reduce levelised cost of energy
- improve operational excellence

Grow profitably in mature and emerging markets

Vestas will leverage on its strong position in mature markets such as Europe and North America. Simultaneously, Vestas plans to further reduce costs and capital expenditure requirements in these markets by offering tailored, technologically advanced product variants based on innovation of existing wind turbine platforms.

In addition, Vestas expects to improve its regional competitiveness in markets like China and India by continuous cost and performance improvements.

Vestas has already established a strong track record of winning firm and unconditional orders in new wind turbine markets in Asia, Africa and South America.

In order to win more and larger orders, Vestas seeks to partner with potential customers early in the project development phase. Through advanced services such as SiteHunt® and SiteDesign®, providing transparency and business case certainty for its customers, Vestas is able to unlock value and enhance customer relationships at an early stage of project planning. Thus, Vestas has increasingly become an opportunity originator by helping both established and new customers and investors to step up their commercial focus on wind power as well as enter new and promising wind power markets with a high return on their investments.

Through its unrivalled track record and close customer relationships, Vestas has developed a clear understanding of the customers’ requirements and how to optimise projects in order to maximise value. Combined with Vestas’ unparalleled capabilities within siting, operation and servicing of wind power plants, Vestas has a competitive advantage which will be utilised even further going forward, where the ambition is to grow faster than the market.

In the first quarter of 2014, Vestas saw an increase in the order intake of 84 per cent compared to the first quarter of 2013. The increase was primarily driven by orders in the USA.

Capture full potential of the service business

Having installed an accumulated amount of more than 61 GW of wind power – a significantly higher amount than the closest competitor – Vestas has a unique platform from which to grow its service business, which is already today the largest in the wind power industry.

As the majority of wind turbine contracts are sold with service agreements, typically running for five or ten years, the stable revenue stream from the service business is set to continue its growth as the installed base of wind turbines increases.

Vestas intends to expand its service business further by offering new and value-adding service solutions and a variety of upgrades of existing wind power plants to its customers.

In May 2014, Vestas launched the PowerPlus™ upgrades designed to optimise the performance and increase the power output on existing wind power plants by up to 5 per cent while maintaining high reliability.

Due to its size and global presence, Vestas is well-positioned to offer its customers the most effective service at the lowest cost, and the ambition is to grow the service business by more than 30 per cent midterm.

In order to strengthen the focus on the service business and enhance the service organisation, Vestas has appointed a new head of service reporting to the CEO.
Reduce levelised cost of energy

Based on two wind turbine platforms, Vestas’ comprehensive product portfolio will continue to be customer and market driven. Vestas will maintain focus on matching its wind turbine and service capabilities with customer requirements, following market fluctuations in demand and regulatory policy.

The recent technological improvements to the existing 2 MW and 3 MW wind turbine platforms have resulted in significantly increased annual energy production, among other things, enabling Vestas to defend its strong position in market segments characterised by constraints in terms of grid compliance, tip-height and noise. In these often highly complex markets, Vestas will further leverage on its vast expertise within site and power plant optimisation to maintain its already leading position.

Vestas will also continue to leverage its cost structure by simplifying both its global manufacturing footprint as well as its products. An example is the increased integration of standard components and modularisation across Vestas’ product platforms which reduces the technical complexity and thereby the cost of the wind turbines.

The ambition is to reduce the cost of energy faster than the market.

Improve operational excellence

Cost savings remain a priority for Vestas, and Vestas will continue its journey towards lower costs through further site simplification, shared service centres and increased efficiency by leveraging on the scale of its operations. In the first quarter of 2014, Vestas announced the closure of one office building in Aarhus, Denmark, as part of its site simplification programme.

The size of Vestas provides a competitive foundation for lowering costs at every stage of the value chain. Through its accelerated earnings programme, launched in the end of 2012, Vestas leverages on its size and global presence in any major decision and initiative. By delivering improved cost bases, accelerated earnings help Vestas consolidate its leading position in a competitive market. Going forward, Vestas intends to further lower the cost of energy by reducing the costs associated with manufacturing and sourcing to an even larger degree.

Optimisation of the supply chain and increased use of standard components also decreases Vestas’ need for investments, reduces lead time and keeps inventories low. Yet, the growing degree of outsourcing must never compromise Vestas’ leading position within the areas of quality, technology and safety.

The goal is to achieve cost leadership within the wind power industry.

Working capital management remains a high priority for Vestas. Consequently, the focus remains on improving the cash conversion cycle and lowering the working capital tied up while transporting and installing the wind turbine projects.

Financial and capital structure targets and priorities

The completion of the two-year turnaround plan has not changed ‘Vestas’ focus on continued optimisations, efficiency improvements and value creation.

By increasing earnings and keeping investment and net working capital requirements low, Vestas aims to generate a double-digit return on invested capital (ROIC) each year over the cycle. Vestas expects to be able to finance its own growth and thus, the free cash flow is expected to be positive each financial year. For 2014, the target is a free cash flow of minimum EUR 300m.

As a player in a market where projects, customers and wind turbine investors become larger, Vestas aims to increase its financial strength. Consequently, the target for the net debt/EBITDA ratio is lower than 1 by the end of every financial year, and the target for the solvency ratio is above 30 per cent.

Dividend policy and priorities for excess cash allocation

Vestas has the following priorities for excess cash:

1. Repayment of debt if the net debt/EBITDA ratio is above target.
2. Allocation to shareholders if the solvency ratio is above target.

The general intention of the Board of Directors is to recommend a dividend of 25-30 per cent of the net result of the year. However, pay-out of dividends will always take into consideration the Group’s plans for growth and liquidity requirements.

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The strategic direction set for the coming years will be enforced by a more clear delegation, more financially measurable business units, increased transparency and a further improvement in the performance management. The vision is to bring wind on a par with coal and gas, to remain the global wind power leader with the strongest brand and to secure best-in-class margins and shareholder value over the cycle.