

Vestas financial performance

Income statement

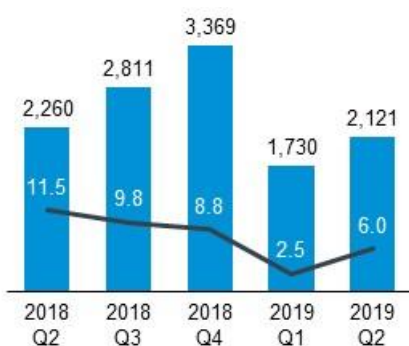
Revenue

Revenue amounted to EUR 2,121m in the second quarter of 2019, which was 6 percentage below second quarter of 2018. Comparing the quarter to the same period last year, this reflects a positive impact of approx. EUR 23m from translation effect in relation to foreign exchange rate development, primarily from USD.

In the first half of 2019, revenue amounted to EUR 3,851m which is on par with the reported revenue for the first half of 2018 of EUR 3,954m.

Revenue and EBIT margin before special items

mEUR and percentage



Gross profit

Gross profit amounted to EUR 301m, corresponding to a gross margin of 14.2 percent, which is a 4.2 percentage point decrease from second quarter of 2018. The gross profit decrease was driven by lower average project margins in the Power solutions business impacted by orders received during the price decline in 2017. Furthermore, external factors such as trade tariffs, transport, and raw material prices increased costs.

This is partly offset by improved profitability within the Service business benefitting from continuous cost-out and reliable performance of the turbines under service contracts.

Research and development costs, Distribution costs, and Administration costs

R&D, Distribution and Administration costs recognised in the income statement amounted to EUR 173m in the second quarter of 2019, corresponding to an increase of EUR 16m from second quarter of 2018.

R&D costs increased by EUR 6m mainly as a result of bringing new product offerings to the market, including the EnVentus modular platform and digital service offerings.

Distribution costs increased by EUR 8m compared to second quarter of 2018, reflecting higher activity in the market.

Administration costs was largely in line with second quarter of 2018.

Depreciation, amortisation and impairment amounted to EUR 127m in the second quarter of 2019, compared to EUR 110m in the second quarter of 2018. The increase was driven by higher depreciations and amortisations related to new product variants as well as impact of change in accounting principles from capitalisation of operating lease contracts as per implementation of IFRS 16.

Operating profit (EBIT)

EBIT amounted to EUR 128m in the second quarter of 2019, equivalent to an EBIT margin of 6.0 percent, a decrease in the EBIT margin of 5.5 percentage points compared to the second quarter of 2018. This was a result of decline in gross margin and higher capacity costs.

The EBIT margin showed a decrease of 5.3 percentage points to 4.4 percent in the first half of 2019 and amounted to an EBIT of EUR 171m. The lower margin was impacted by orders received during the price decline in 2017 which impacted project margins in the Power solutions business negatively, where the Service business reported a higher EBIT and EBIT margin compared the same period last year. The EBIT margin was furthermore impacted by higher capacity costs due to the addition of new products and digital services in the market.

Income from investments in joint ventures and associates

Income from investments in joint ventures and associates amounted to a profit of EUR 9m in the second quarter of 2019, compared to a net loss of EUR 13m in the second quarter of 2018. The profit mainly stems from Vestas' share of profit in MHI Vestas Offshore Wind on a standalone basis.

In the first half of 2019, income from investments in joint ventures and associates amounted to a profit of EUR 15m compared to EUR 5m in the first half of 2018. The increase was mainly related to income from MHI Vestas Offshore Wind, where a higher activity level and successful installations of V164 turbines contributed to the positive development.

Financial items

In the second quarter of 2019, net financial items amounted to a net cost of EUR 18m against EUR 1m in the second quarter of 2018. The development was mainly driven by various currency effects and fees.

Income tax

Income tax amounted to a cost of EUR 29m in the second quarter of 2019, equivalent to an effective tax rate of approx. 25 percent which is in line with the second quarter of 2018.

Profit for the period

Profit for the period amounted to EUR 90m in the quarter compared to a profit of EUR 184m in the second quarter of 2018 driven by the lower operating profit.

Financial ratios

Earnings per share amounted to EUR 0.45 in second quarter of 2019, a decrease of EUR 0.47 compared to EUR 0.92 in the same quarter of 2018 driven by lower net profit.

In the first half of 2019, earnings per share amounted to EUR 0.58 compared to EUR 1.42 for the same period in 2018, due to lower net profit in the first half year of 2019. Return on capital employed (ROCE) was 15.5 percent for rolling 12 months, compared to 23.6 percent for the same period a year ago. Return on equity was 17.1 percent in current period, compared to 27.1 percent in same period a year ago, which was a decrease of 10.0 percentage points. For both ratios, this decline was mainly a result of the lower operating and net profit.

Working capital and free cash flow

Net working capital

Net working capital amounted to a net liability of EUR 1,197m as at 30 June 2019, an improvement compared to a net liability of EUR 1,143m as at 30 June 2018. Though, net working capital development was negatively impacted by inventory build-up for deliveries later in the year, it was partly funded by down- and milestone payments from customers.

Cash flow from operating activities

Cash flow from operating activities was positive EUR 100m in the second quarter of 2019, compared to negative EUR 52m in second quarter of 2018. The development in cash flow from operating activities was driven by the change in net working capital, which in the second quarter last year was negatively impacted by increased inventory, only partly offset by higher down- and milestone payments whereas this year reflects a larger impact from the down- and milestone payments.

Cash flow from investing activities

Cash flow from investing activities before acquisitions of subsidiaries and short-term financial investments amounted to negative EUR 175m in the second quarter of 2019, compared to negative EUR 121m in the second quarter of 2018. The development in cash flow from investing activities was mainly a result of investments in blade moulds, transport equipment, and tools to cater for new turbine variants as well as a high activity level.

In the second quarter of 2019, net disposal of short-term financial investments amounted to EUR 195m.

Free cash flow

Free cash flow, excluding acquisitions of subsidiaries and investments in short-term financial investments, amounted to negative EUR 75m compared to negative EUR 173m in the second quarter of 2018. This development was mainly driven by cash flow from operating activities including net working capital development.

In the first half of 2019, the free cash flow excluding acquisitions of subsidiaries and investments amounted to negative EUR 951m mainly driven by the change in net working capital due to inventory build-up in the first half of 2019. The development compared to the first half of 2018, was driven by increased investments in blade moulds, transport equipment, and tools over the two first quarters of 2019.

Capital structure and financing items

Equity and solvency ratio

As at 30 June 2019, total equity amounted to EUR 2,957m which is on par with the level 30 June 2018. The development in equity compared to 30 June 2018, was mainly impacted by Vestas initiated a share buy-back programme in the first half of 2018 which offset the higher net profit in the first half of 2018 compared to the first half of 2019.

As at 30 June 2019, the solvency ratio was 22.1 percent, which is a decline of 3.8 percentage points from 30 June 2018, mainly as a result of higher total assets driven by build-up of inventory and other net working capital items for deliveries later in the year. To a lesser degree, the solvency ratio is impacted by implementation of changes to accounting policies as per 1 January 2019. This includes capitalisation of operating lease contracts as per implementation of IFRS 16 and implementation of IFRIC 23 clarifying the accounting treatment for uncertain tax positions. Combined, these changes have an impact of decreasing equity by EUR 43m and increasing total assets by EUR 251m corresponding to a negative impact of 0.9 percentage points to the solvency ratio as per 1 January 2019.

Net interest-bearing position and cash position

At the end of the second quarter of 2019, the net interest-bearing position was positive of EUR 1,679m, a decrease of EUR 391m compared to the end of the second quarter of 2018 with a positive net interest-bearing position of EUR 2,070m.

Cash and cash equivalents as at 30 June 2019, including bank overdraft, amounted to EUR 1,995m which is a decrease of EUR 113m compared to 30 June 2018.

Cash flow from financing activities

Cash flow from financing activities amounted to negative EUR 175m in the second quarter of 2019 compared to negative EUR 352m in second quarter 2018 impacted from share buy-back programme executed in the second quarter of 2018.