Strategy and financial and capital structure targets

(For an extended introduction to the Vestas strategy, please refer to the Annual report 2018.)

Today, the world is faced with two primary energy challenges: meeting the growing global energy needs sustainably and addressing climate change by making the existing energy system sustainable. As a consequence, the world has taken steps to fight climate change that make a 4°C warming of the planet much less likely than it was a decade ago[1], while renewables have become the cheapest source of electricity, making wind and solar the preferred source of new energy capacity. In fact, today's renewable energy solutions are at a scale and cost that can meet both the world's energy demand and bring the world to the 1.5°C warming scenario that will limit impact from climate change.[2]

Vestas – creates the energy system for future generations

Vestas has been and continues to be a cornerstone in making the world's energy mix sustainable and with growing global energy needs and the 1.5ºC warming scenario far away, renewable energy's growth potential is enormous.

In this environment, Vestas wants to drive the necessary change of the existing energy system and create a sustainable energy system for future generations. By doing so, Vestas aspires to be the global leader in sustainable energy solutions and will develop and offer the sustainable energy solutions that can replace fossil energy and meet the growing electricity demand across the globe.

The planet's sustainable development is therefore both an integral part of Vestas' business and a tremendous growth opportunity for the renewables industry as energy demand increases. Compared to 2017, this demand is set to increase by more than 40 percent in 2035 due to population growth and electrification of transport, industrial processes as well as heating and cooling.[3]

At the same time, more than 30 percent of all current electricity generation capacity is expected to be retired by 2040, which equals around 1,500 GW of coal, oil, gas, and nuclear plants alone.[4] Moreover, renewables will grow from around 10 percent today to more than 30 percent of the world's electricity demand by 2035.[3]

Due to renewables' progress, developing countries added more renewables than fossil fuels in 2017, highlighting renewables' competitiveness, and societal benefits.[5] In total, Bloomberg New Energy Finance projects around USD 4.5tr to be invested in onshore and offshore wind energy up to 2050.[6]

As such, Vestas' vision, Global Leader in Sustainable Energy Solutions, sets a clear purpose and direction for Vestas' employees and fuels its ambitions for the global energy transition: Vestas wants to lead the industry on volume, revenue, and margins, and together with its key stakeholders wants to make the positive impact on the planet Vestas has the potential to create.

Strategic framework to ensure Vestas stays in the lead

While Vestas' strategy has delivered industry-leading profitable growth and shareholder value since 2013, it is important that Vestas both understands and adapts to the mid-to-long term changes in the markets for renewable energy.

Technologies, policies and markets are maturing, which entails the success parameters and business models along the renewable energy value chain are expected to adapt. The key underlying trends include increasingly market-based remuneration for renewable projects, an expanding set of low-cost renewable technologies and hybrids, a focus on delivering high system-value, and shifting patterns in types and sources of funding for new renewable installations. To reflect this reality, Vestas' 2019-2021 strategy update includes a new set of mid-term strategic objectives and priorities.

Vestas' mid-term objective, Global leader in wind power plant solutions and Global leader in wind service solutions, entail:

- Leading in innovating products, services, and digital solutions that deliver the lowest cost of energy, increase the penetration of renewables, and help customers fully optimise value from renewable power plants.
- Being the preferred solutions provider and partner to the customers.
- Leading by market share in established markets and competing for leadership in emerging markets.
- Leading in profitability to enable us to reinvest into Vestas futures innovation and competitiveness.

[1] Source: UN Environment; Emissions Gap Report 2018. November 2018.
[2] Source: The Boston Consulting Group; The Economic Case for Combating Climate Change. September 2018.
[3] Source: Bloomberg New Energy Finance: New Energy Outlook 2018. June 2018.
[4] Source: International Energy Agency (IEA): World Energy Outlook 2018. November 2018.
[5] Source: Bloomberg New Energy Finance: Emerging Markets Outlook 2018 – Climatescope. November 2018.
[6] Source: Bloomberg New Energy Finance: Data Viewer. June 2018.

Mid-term priorities, the route to continuing leadership in sustainable energy solutions by:

Transform commercial capabilities

- Combining all of Vestas' strengths to help customers win in auctions and achieve the optimal business case.
- Develop more advanced solutions, with hybrids and digital solutions.

Expand industry-leading wind turbine portfolio

- Continuously develop technology to be competitive in all priority wind markets globally.
- Take full advantage of Vestas' global scale and operational excellence to deliver lowest cost of energy.

Expand service value and cost leadership

- Expand customer value and continue to deliver service at the lowest cost utilising its scale, processes, and new tools.
- Further develop digital solutions that improve internal efficiency and output from installed wind turbines creating customer value.

Pioneer solutions to increase wind penetration

- Constantly addressing the challenges created by the intermittency of wind.
- Ease the integration of wind energy into electrical grids by using solutions like hybrids and storage facilities that can store and release renewable energy it into the grid when it is needed.

Actively build project pipeline to grow margin

- Accelerate the replacement of older wind turbines with new, more productive ones.
- Selectively engage in co-/development of projects to grow the pipeline of future projects.

In order to achieve the mid-term priorities, Vestas will need an organisation that is talented, agile, and cost-effective. Vestas' organisation is inspired by its values of Accountability, Collaboration, and Simplicity. These reflect guiding principles in terms of how Vestas' employees work and engage with each other internally and with the full range of stakeholders externally.

Financial and capital structure targets and priorities

Vestas' financial and capital structure targets, as well as related dividend policy, link to the strategic aspirations of the company. Financial stability and structural strength of the balance sheet remain key priorities for the company.

Long-term financial ambitions

Vestas envisions market conditions which in the long term will reflect wind power having achieved merchant levels in the vast majority of markets. The wind industry is undergoing a transition towards a more mature, unsubsidised renewable energy industry. This transition leads to a highly competitive market and will likely drive a further consolidation in the industry. Beyond the transition, a matured market for wind energy creates opportunities for Vestas to leverage and strengthen its leadership position.

Within this context, Vestas aims to grow faster than the market and be the market leader in revenue, to achieve an EBIT margin of at least 10 percent and to generate a return on capital employed (ROCE) of minimum 20 percent over the cycle. Vestas expects to be able to finance its own growth and hence the free cash flow is expected to be positive each financial year.

In the coming years, revenue in the Service segment is expected to grow faster than the market with an EBIT margin of approx. 24 percent.

Capital structure targets

As a player in a market where projects, customers, and wind turbine investors become larger, Vestas aims to be a strong financial counterpart. In line with the prudent balance sheet approach, the target for the net debt/EBITDA ratio remains unchanged at below 1 at any point in the cycle. In addition, the target is a solvency ratio of minimum 25 percent by the end of each financial year.

Dividend policy and priorities for excess cash allocation

Any decision to distribute cash to shareholders will be taken in appropriate consideration of capital structure targets and availability of excess cash. Determining excess cash will be based on the company's growth plans and liquidity requirements, thus securing adequate flexibility to invest in Vestas' strategy.

The general intention of the Board of Directors is to recommend a dividend of 25-30 percent of the net result of the year after tax.

In addition, Vestas may from time to time supplement with share buy-back programmes in order to adjust the capital structure. Such share buy-backs, if any, will likely be initiated in the second half of the year based on realised performance.

In years without major investments, the total distribution to shareholders through dividends and share buy-backs may constitute the majority of the free cash flow.