

Ørsted

Analyst and investor call

Ørsted announces impairments relating to US interest rate increases, value of seabed leases, and execution of Sunrise Wind. 2024 EBITDA excluding new partnership agreements and cancellation fees of DKK 24.8 billion, in line with guidance

Transcription

21 January 2025

Mads Nipper

Thank you very much, and good morning, and thank you for joining this call.

As we announced yesterday, adverse developments relating to increases in the US interest rates, valuation of our seabed leases, and the execution of our Sunrise Wind project, have led to an impairment as part of our Q4 2024 results. This impairment, and especially the continued construction challenges, are very disappointing. Before going into the details around the impairment, let me start out by highlighting that our operations continue to perform well. Based on our preliminary and unaudited reporting, we expect to deliver a 2024 group EBITDA, excluding new partnerships and cancellation fees, of DKK 24.8 billion in line with our guidance. The operational earnings from our offshore and onshore assets were the main contributors and have delivered in line with our expectations.

Turning, then, to the impairment, I'll go through the different drivers. First, the increase in the long-dated US interest rates during the fourth quarter of 2024 led to a 75-basis-point increase in our weighted average cost of capital. This increase has a negative impact on the value and use of our US portfolio, and leads to a decrease of the value creation across a number of our US offshore and onshore projects.

Secondly, we have substantially reduced the book value of our seabed leases located off the coast of New Jersey, Maryland, and Delaware. The adjustment is based on market-informed valuation indications, which, among other factors, reflect prevailing market uncertainties. Following the reduction in the book value of these seabed leases, we have no material carrying value for US seabed leases. I want to highlight that we believe the leases continue to hold strategic optionality and value, based on the long-term potential of the US offshore market.

Thirdly, with regards to Sunrise Wind, a number of execution risks have impacted our current assessment of the projects. As we have communicated on several of our earnings calls during 2024, we have, throughout the year, managed risks relating to the fabrication and supply of monopile foundations, for instance by taking the mitigating action to de-scope part of the procurement to another supplier, and extending installation vessel charter. These developments led to significantly increased costs relating to the fabrication, supply, and installation of foundations, which eroded the majority of the project's total contingencies.

In terms of the offshore construction work, I want to remind that we had to change our original installation set-up, as a result of the Jones Act-compliant Charybdis vessel not being constructed in time for our installation work at Revolution Wind and Sunrise Wind. By using an alternative feeder barge solution, which is less efficient and more weather-dependent, we have relied on estimates and assumptions regarding the expected installation rate of turbines of our two projects, where Revolution Wind is currently in the offshore construction phase, and Sunrise Wind will follow.

At this point of time, we have accumulated data from the installation and construction of Revolution Wind. This includes, among other things, experience and learnings from the ongoing winter installation window. The installation of Sunrise Wind will cover two separate winter installation windows, and based on our learnings from Revolution Wind, we have decreased the anticipated turbine installation rate at Sunrise Wind. This leads to a later commissioning of Sunrise Wind, driven by an extension of the turbine installation period, as well as higher costs relating to the vessel chartering and turbine installation crew. Our team continues to identify and implement opportunities to accelerate the installation rate, and any such improvement to the revised rate would lead to a reduction in the installation costs and improve the ramp-up generation profile for the project.

As we highlighted in our Q2 2024 results, we had identified risks relating to equipment fabrication, installation, and commissioning of the first-ever US offshore HVDC system, which, at that point of time, resulted in a risk of a project delay. We are working through finalisation of the jacket fabrication, which is taking longer than expected due to technical considerations, and we have therefore taken the decision to adjust the relevant contingency level. With regards to the HVDC export cable, a defect was discovered, necessitating a cable redesign and remanufacture. The cable is currently being remanufactured and undergoing its final tests, which we expect will be finalised during Q1 of 2025. The defect, redesign and remanufacturing had led to a delay in the load-out and installation, and will lead to increased vessel costs.

Altogether, these developments have, in combination, led to a depletion of the project's existing contingencies and a need to re-establish contingencies for the project's execution risks to reflect higher project costs and delayed project commissioning, leading to an impairment of 4.3 billion in Q4 of 2024. We continue to navigate the complexities and uncertainties we face in a nascent offshore industry in the new US market. We will continue our dedicated efforts to strengthen the execution and navigate the supply chain challenges, and we are working diligently and in close cooperation with our suppliers to manage the remaining risks impacting the execution of Sunrise Wind and delivering the project to the updated schedule and cost is an absolute top priority for Ørsted.

Taking these adverse developments into account, Sunrise Wind continues to be a profitable project with a mid-single-digit lifecycle IRR, and attractive forward-looking IRR. This assessment does not take into account any potential initiatives of the incoming US administration. With enough offshore wind energy to power nearly 600,000 domestic homes, Sunrise Wind will create hundreds of long-term US jobs and build a statewide clean energy economy that will energise New York for decades to come.

Before turning to the Q&A session, let me clarify that the purpose of today's call and the upcoming Q&A session is to answer questions related to the content of yesterday's announcement only. We will address questions on other topics and business updates once we get to the release of our annual report, taking place on February 6th. And with that, let's go to questions. Operator, please.

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and 1 on their telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press star and two. Questioners on the phone are requested to disable the loudspeaker mode while

asking a question. In the interests of time, please limit your questions to one. Anyone who has a question, may press star and 1 at this time. One moment for the first question. Our first question comes from Kristian Tornøe from SEB. Go ahead.

Kristian Tornøe

Thank you. So, my question really goes to your ability to execute. In Europe, you had such a stellar track record in construction of offshore wind, and even in Taiwan it seems that you did significantly better than competition and execution. So, can you in any way try to help us, why is it that in the US, execution just seems to continue to go wrong, almost quarter by quarter?

Mads Nipper

Yes. Thank you, Kristian. Obviously, the angle to this question is that it is a very new market with a completely nascent industry and supply chain. And also because the permitting regime, with the time it takes from the award to the FID just simply introduces by design of the process a greater uncertainty on supply chain and execution due to the extended timeline. And without mentioning any specifics, it is obvious that the few projects in the US market, that there are just inherent execution challenges that come from this.

So, we are constantly taking these learnings. As I said, it is very disappointing that we are running into these, but it is simply the immature and nascent industry of both the supply chain and the execution set-up of the US projects compared to any other place we operate in the world, most notably Europe.

Kristian Tornøe

Understood. Thank you.

Operator

And our next question comes from Deepa Venkateswaran from Bernstein. Please, go ahead.

Deepa Venkateswaran

Thank you for taking my question. I think my main question is what is the impact of the Sunrise Wind delay and CapEx increase on the divestment programme? I'm assuming that there was something included for a farm-down, maybe that's got delayed. So could you comment on how this impacts the 70 billion to 80 billion divestment or not? And what is the CapEx increase within that 4.3? I'm sure there's something which is NPV, so when we are revising our models, how much more CapEx should we put in to try and see the impact of this? Thank you.

Trond Westlie

Well, when it comes to the effect of the farm-down programmes, as Mads said in his first statement, we are only going to comment on the actual impairment elements. And for all the other questions, we'll come back to that on February 6th. Of course, the NPV effect is taken into consideration, the tax credits. So, I think that's the biggest element that is the change between the gross CapEx increase and the NPV effects.

Deepa Venkateswaran

Sorry, so out of the 4.3, should we say that most of it is the CapEx effect, or is there the delay effect? So should we basically assume that CapEx of Sunrise has gone up by 4.3, or is it a different number?

Trond Westlie

It is a different number. The CapEx number is higher, and it's taking into consideration the tax credit effect.

Deepa Venkateswaran

Okay, but the net effect, after tax credit, is this 4.3?

Trond Westlie

It is not one-to-one, but, yes, that's the biggest effect.

Deepa Venkateswaran

Okay.

Operator

Thank you. Our next question comes from Alberto Gandolfi from Goldman Sachs. Please, go ahead.

Alberto Gandolfi

Good morning, and thank you for taking my question. Am I right in thinking that the impairments do not include anything, any provision, for the ITC bonus that has not been approved yet, or does not take into account any import tariffs on the offshore supply chain? And if we were to ask you for a sensitivity to it, would it be possible to provide a sensitivity to these two effects on both the Sunrise and Revolution? Just trying to gauge what would be a clean-up trade here if you were to impair everything on all these projects. Thank you so much.

Mads Nipper

Thanks a lot. Yes, you're right that we have based this impairment assessment on the current valid treasury energy community guidance, so including the 10% ITC. And if our projects ultimately cannot qualify for that, we have provided explicit guidance on these risks before. So that is in our accounts. And we have also indicated, before that, that any tariffs, we don't want to speculate on any level, but that would not be at a very material level, but, of course, be a negative impact.

Alberto Gandolfi

Thank you.

Trond Westlie

And just to allude to the ITC element, we did provide that information in the third quarter report. So you will find that in the notes. And in the third quarter, it was DKK 4.7 billion, the NPV effect of that one.

Alberto Gandolfi

Thank you once more.

Operator

And our next question comes from Peter Bisztyga from Bank of America. Please, go ahead.

Peter Bisztyga

Hi, thanks for taking my question. Can I just get a quick clarification first? I'm not sure I understood from Deepa's question, from your answer, how much should the 4.3 billion in total be cash effective, and how much is just non-cash NPV effects? So, if you can just clarify that, please? And then, can you just comment on the extended timeline here? It's another six months delay, or six-plus months delay at Sunrise Wind, how does that potentially start to impact your window vis-à-vis vessel availability and any other kind of timelines that you have to stick to avoid another Ocean Wind kind of scenario, where suddenly everything snowballs because of delays? So if you could comment on that, please?

Trond Westlie

On the on the cash effect, of course most of the NPV effect of 4.3 billion is cash over the time until COD.

Mads Nipper

Yes, we don't give a specific percentage, but the majority is cash, as Trond says. On the delays, what you are asking, and the concern you are asking for, Peter, is exactly one of the key drivers of the additional costs. So there's nothing here in these delays that trigger an increased risk of a situation where we run out of vessel scope. We have secured all the necessary vessel scope for this delay. But that is part of what triggers the additional cost, but we do not see an increased risk of a scenario where the project is not buildable. So we are fully continuing with secured scopes towards COD.

Peter Bisztyga

Got it, thank you.

Operator

And our next question comes from Mark Freshney from UBS.

Mark Freshney

Hello, thank you for taking my question. Just regarding the executive order, which I understand has been drafted, and which no doubt, Mads, you would have seen or your lobbyists would have communicated back to you what's in there, can you remind us what you expect in relation to Sunrise and Revolution, and whether that is informing the impairments in any way?

Mads Nipper

Thank you, Mark. We, of course, have taken note of the executive order issued of offshore wind late Monday evening. So you will understand that, because it was issued late last night, we are in the process of reviewing it to assess the impact of our portfolio. That's all we have to say at this stage.

Operator

And our next question comes from Harry Wyburd from Exane. Your line is open.

Harry Wyburd

Hi. Morning, everyone. So, just coming back to Sunrise with some understanding from your answer to Alberto's questions, you are still assuming that you get the 10% ITC bonus adders. If you didn't, I know, Trond, thanks for reminding us for the sensitivity of 5 billion, but what would the life-cycle IRR be? Because you mentioned it mid-single-digit now, but I presume that's with the bonus adders. So I

wonder if you could help us with what the life-cycle IRR would be if you lost the bonus adders?

And how far are we, or would you be happy to completely rule out the risk of the project being cancelled? Because I guess, obviously, you've eaten into a bit more of your buffer here. So at what point do you consider cancellation? And would you say that you would still definitely go ahead if you lost the bonuses on the ITCs? Thank you.

Trond Westlie

Thank you for that. As I said, the amount of the NPV effect over the ITC, of that 10% level, is the DKK 4.7 billion, as we disclosed in the third quarter. It is, of course, marginally affected by the interest rate as well, so there will be minor changes to that number at the full quarter. But having said that, that amount does not get us close to any cancellation discussions in my mind, in our mind. The forward-looking IRR is good. The lifecycle IRR as of now is mid-single-digit. And that's basically what we're able to disclose as of this moment. The 4.7 has, of course, some elements of sensitivity to the returns, but not major.

Harry Wyburd

Okay, thank you.

Operator

And the next question comes from Daniel Haugland from ABGSC.

Daniel Haugland

Good morning, everyone. So, I just wanted to touch a bit back on the vessel availability, because that was a key reason that Ocean Wind was completely cancelled in 2023. So my question is, how confident are you now that your extended vessel charter for both Revolution and Sunrise will be enough this time?

Mads Nipper

Yes, thank you. As I mentioned to the previous question, with the knowledge we have today, we have a very good confidence that we can complete the project. We have built in the plans that reflect our current knowledge. We have taken a thorough assessment of the installation rates. And, right now, we have also secured that the installation of monopiles, which is not the feeder barge solution that we talk about, which is now the critical path. For monopiles, the manufacturing still goes to plan. That has come at a cost. And we have also secured the necessary vessel scope. So at this point, we are not concerned that there is a risk of vessels becoming a critical factor for the execution of the project.

Daniel Haugland

Okay, thank you.

Operator

Thanks. And our next question comes from Jenny Ping from Citi. Your line is open.

Jenny Ping

Hi, morning. Just a quick question around the seabed. Can I check two things, effectively? One, what triggered the write-down for the seabed, I presume, is you tried to sell the assets and that triggered it. Then, secondly, just to confirm, the \$600 million, or circa \$600 million, that you spent

buying the 50% seabed from Eversource back in 2023, that is obviously in Massachusetts and that's not included in the impairment that you've announced today. Thank you.

Trond Westlie

As you rightly say, the way we have done the evaluation as of now is, of course, market anticipation on the value of the seabeds, and also the elements of a discussion we have had in the Ocean Wind seabed. So the element is, of course, an aspect of the recoverable amount, that has been the basis. And when it comes to the total book value of all our seabeds in the US, it's not a material amount residing in our balance sheet.

Jenny Ping

Sorry, so are you confirming that the Eversource 600 million is included in this write-off?

Trond Westlie

What I'm saying is that, in essence, that has been considered previously and, as a result, the sum of our seabeds in the US is not material in our balance sheet.

Jenny Ping

Thank you.

Operator

Thanks. And the next question comes from Lars Heindorff from Nordea. Your line is open.

Lars Heindorff

Morning, thank you for taking my question. Sorry, if I could go back to the Sunrise CapEx, it was a late yesterday evening and also early this morning, but still don't really understand the impact here. So the 4.3, when will that have an impact on your CapEx? Will it be 25, 26, or will it be 27? Or maybe all of the years? And also, to what extent, going back to some of the previous questions, in terms of the overall CapEx for Sunrise, how much should we increase our estimates and our estimated CapEx for Sunrise in order to reflect the here and now?

Mads Nipper

The construction period, Lars, is from this year through 27, and we don't have the specific split on that but it would be in these three years with a majority in the latter two years expected. And as Trond said, the actual CapEx is higher due to the tax credit impact, and we don't give the specific percentage increase due to this, but you can calculate the number. If you take that the majority of the 4.3 is the cash or the CapEx part, and then if you take into consideration the tax credit, you can make a qualified estimate to what that additional CapEx is.

Lars Heindorff

Okay, thank you.

Operator

And our next question comes from Caspar Blom from Danske Bank. Please, go ahead.

Caspar Blom

Thank you very much. Just a brief one here. A year ago, when you came with your capital markets

update, you set an EBITDA target for 2026 of DKK 30 billion to DKK 34 billion. Given that you have not updated that, should we still take that as valid, despite of the delays that you've seen across the portfolio over the last 12 months?

Mads Nipper

Thanks a lot, Caspar. As we said, the purpose of today's call is about the preliminary earnings, and the anticipated impairments only. So given the nature of these adverse developments related to interest rates, seabed and Sunrise, we deemed it necessary to give this information now, and any other topics will be addressed as part of the full year earnings call at the beginning of February.

Caspar Blom

Okay.

Operator

And our next question comes from Olly Jeffery from Deutsche Bank. Your line is open.

Olly Jeffery

Thank you. Good morning. Two questions, please. The first one is just coming back to the likely impact of Trump potentially introducing import tariffs. My understanding previously was that although Revolution Wind has been pretty well installed, and therefore we see limited impact there, you saw more of a risk on Sunrise Wind from import tariffs. So could you could you talk about your latest view on that?

And then the second question is just coming back to the issue you mentioned with the cable that need replacing. Can you give a bit more detail about how that's come about, what the cost of replacing that will be, and how you hope to avoid a similar issue happening in the future? Thank you.

Mads Nipper

Thank you, Olly. As mentioned, we're not commenting in details on this now. We don't want to speculate on any tariffs, but I can say, as we've said before, even on Sunrise, it is a less material impact than, for example, the ITC sensitivities. That's as far as we can go at this stage. But we really don't want to speculate on any level levels, given the lacking clarity.

And on the cable cost, we also don't break down the totality of this impairment impact, but we can say that that the foundation and the turbine installation scope are by far the bigger scopes, so consider both the jacket and the cable issue of smaller impact compared to the other two deviations.

Olly Jeffery

Thank you.

Operator

And our next question comes from Ahmed Farman from Jefferies. Please, go ahead.

Ahmed Farman

Thank you. Just a very quick question. I think, from your comment earlier, I understood that you do not have any meaningful amount of seabed leases on the books now, including the Eversource.

Could you just maybe also give us an updated figure of the recoverable amount of the offshore wind farms? I think that in the third quarter you had 15 billion. Presumably, we can just directly apply the non-seabed impairment to it to get a sense of where that figure is? Thank you.

Trond Westlie

When it comes to the recoverable amounts, as I've said, it's not a material amount left in our balance sheet. And we're not going to be more specific on the residual amount, so I'm sorry, again, we won't be more specific on that, but we have reduced the value to the recoverable amount, and that is, as said, not material anymore.

Ahmed Farman

Okay, thank you.

Operator

And we have a follow up question from Deepa Venkateswaran from Bernstein. Your line is open.

Deepa Venkateswaran

Thank you for my follow-up. I just wanted to check whether the amended timeline means that you may require any fresh federal permits, or is the current permit still valid? Could you just confirm that you don't need any fresh federal permits? Thank you.

Mads Nipper

Yes, thank you, Deepa, I can confirm that both Sunrise and Revolution Wind have all federal permits in place, including key permits such as Record of Decision and operations plan. This is not impacted by this delay.

Deepa Venkateswaran

Okay, thank you very much.

Operator

And another follow-up question from Alberto Gandolfi from Goldman Sachs. Your line is open.

Alberto Gandolfi

Thank you for taking my follow-up. I know that in February you're going to address all of this, but I was going to ask just about the implication of the impairments from today. Given how much is cash/non-cash, given the delays, can you comment on the expected FFO to net debt for this year, and if you require, on this basis, any incremental balance sheet funding, and how you're thinking about filling that potential gap on the balance sheet? Thank you so much.

Trond Westlie

And thank you for the follow-up, Alberto. But the answer is going to be the same as previous. When it comes to other issues other than the impairment issues, we will follow that up on our conference call on 6th February.

Alberto Gandolfi

Clear, understood. Thank you.

Operator

And the next question is a follow-up question from Mark Freshney from UBS. Please, go ahead.

Mark Freshney

Hello, thanks for taking my question. Mads, presumably, there is absolutely nothing for any recoverable amounts from the supply chain, and I know that it can take years following completion, as you've seen in some of your earlier projects, to fix out costs with the supply chain. Would you rule out being able to recover any additional costs today or from previous overruns from the supply chain? And what do you think the probability is?

Mads Nipper

Thank you, Mark. We cannot go into any kind of detail of the supplier contracts we have. But, as I believe we have also said before, the liquidated damages cap is typically around the contract value. And in many cases, also in some of these, the total impact to the project due to delay and need to secure additional vessels is typically quite a lot larger than that. But of course, if there are deliveries that are not happening to the contracts, then there is a recovery of that. I think the agreement we have made, and the settlement we have made, with Dominion on the Charybdis this vessel is a good example of that. So, of course, yes, there are these types of settlements, and, yes, they do contribute, but as mentioned, typically with a meaningfully lower amount than the total impact on the project due to schedule impacts and ripple-effects.

Operator

Thanks. Our next question comes from Ide Kearney from Pictet. Your line is open.

Ide Kearney

Great, thank you very much for taking the call. The first question was have you spoken to the rating agencies prior to making this release, and what was their reaction? Because, obviously, they're looking at the debt at the moment. And to follow on from that, I know you said you won't discuss it, but the charges are large, can you confirm if you generated positive or negative free cash flow in the fourth quarter, please?

Trond Westlie

As previously said in this call, we are only going to comment on the impairment issues on this call, and we are happy to answer any other questions relating to this or other topics when it comes to our announcement of the annual report and the fourth quarter on 6th February.

Ide Kearney

But did you preview the impairments with the agencies or not?

Trond Westlie

I can only repeat the answer I just gave you. We will answer those questions on 6th February when we come out with the fourth quarter report.

Ide Kearney

Okay. Thank you.

Operator

And the next question comes from Pierre-Alexandre Ramondenc from Alpha Value. Your line is open.

Pierre-Alexandre Ramondenc

Hi, good morning. Thank you for taking my question. I wonder about the first point you mentioned, when you mentioned an increased long-dated US interest rates that affected the US portfolio. I'm trying to better understand the reason behind it, because, correct me if I'm wrong, but it means your existing projects are accounted for at amortised cost and not at fair value, so if rates decrease, you won't reverse impairments, right? And the second point is it because you fear to face some certain financing or purchasing issues that are not yet secured? So, could you please elaborate around these elements, please? Thank you.

Trond Westlie

The basis for your question is that, of course, the assets or the projects are accounted for in historic costs, but when we come into impairment territory, the IFRS rules, not the US GAAP rules, require us to have a net present value on these projects. And as a result of that, the projects or assets, or the cash generating units as the IFRS defines it as, makes it necessary for us to actually have a net present value assumption on the assets that is coming into impairment territory.

And so for those assets, and that is really Sunrise, Revolution, and some of our US onshore assets, which is in this impairment territory, they are then written down or impaired, up and down, depending on this interest rate. And it is the increase of these interest rate that make the charges, in total, DKK 4.3 billion in this quarter.

Pierre-Alexandre Ramondenc

Many thanks.

Operator

Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Mads Nipper for any closing remarks.

Mads Nipper

Yes, and thank you very much for your time to join this call. We look forward to reporting our full year results on 6th February. And then, in the meantime, take care and stay safe. Thank you.