

Ørsted Conference call

**Ørsted acquires Ireland and UK onshore wind power platform from Brookfield Renewable
Transcription**

PRESENTATION

Operator

Welcome to this call with Ørsted. I now hand the word over to CEO, Mads Nipper. Please go ahead.

Mads Nipper

Thank you very much, and good afternoon or good morning, everyone. I'm here today with our Group CFO, Marianne Wiinholt, and onshore CEO, Declan Flanagan.

As announced earlier today, we have entered into an agreement to acquire Brookfield Renewable Ireland and UK, a leading onshore wind platform with an attractive portfolio of 389 MW in operation and under construction, 149 MW of advanced development projects, and a development pipeline of more than 1 GW of mainly onshore wind projects in Ireland and the UK.

With the acquisition of Brookfield Renewable Ireland and UK, or simply BRI, we acquire a fully-functional standalone business with a sizeable and attractive operating portfolio and development pipeline of high quality, as well as a strong team of more than 70 professionals between offices in Cork and Edinburgh. We will acquire 100% of BRI and an enterprise valuation of 571 million as of 31st December 2020.

The acquisition is an investment case with healthy economics based on prudent assumptions on key value drivers and market developments. We expect a meaningful spread to WACC from the investment with upside related to utilising the platform's development capabilities to pursue further growth opportunities. BRI is a strong and scalable platform in an attractive and growing Ireland and UK regional market. The platform brings in a very complementary skill to our existing onshore capabilities with BRI's deep expertise in complex project development at scale as well as deep commercial expertise.

BRI offers substantial medium to long-term opportunities within Europe and fits our existing renewable portfolio very well. The acquisition will expand our business platform in Europe and provide us with additional access to customers, partners and talent, as well as deeper insight into market and regulatory dynamics, all of which will provide additional critical mass to our global presence.

We also see complementarity and synergies to offshore wind business in the UK and as a platform as further expertise and market presence to the Scottish renewable market, and adjacently, Ireland is a promising new market for offshore wind. In the coming years, we expect that our customers will demand more and more green multi-technology solutions, combining wind, solar and storage to deliver more efficient and stable low profiles, supporting the transition to an entirely green energy system. This acquisition allows us to further diversify our geographic footprint and technology platform.

Now turning to Slide Four. Our onshore portfolio has until today been solely focused on the US where we are operating at scale with 1.7 GW of operational capacity and 2.3 GW under construction. The rapid expansion of our US onshore portfolio has made us among the five largest constructors in terms of new capacity additions in 2020. With our strong US position, we see this as a good time to expand into Europe. The expansion will not dilute our focus on maximising value, creating growth in the US, which remains our dominant onshore growth engine.

Our strategic ambition is to further strengthen our position in North America by building a diverse onshore wind and solar PV portfolio, most recently underpinned with the announcement of the final investment decision of the 518 MW combined wind and solar PV project, Helena Energy.

When we entered the onshore renewables business in the US, we did it via acquisition of two different platforms, and with this experience, we have a tested model of buy, grow, integrate that we can now deploy for BRI. The onshore team has accelerated project development and execution compared to what we had initially expected, while at the same time, showcased the ability to take on projects in different status from home-grown greenfield projects to acquiring projects in different stages of maturity. This mix of organic and M&A growth has been the formula behind our very strong onshore performance.

We have carried out an extensive assessment of the European onshore market, and have assessed multiple onshore targets across Europe, and believe to have found the best fit as BRI offers a platform with a competitively advantaged position, driven by its development pipeline, its operating portfolio, and its very strong team with the capabilities and expertise to support broader growth into other attractive European onshore markets.

All in all, this acquisition is an important strategic milestone for the Ørsted Group, and we see this acquisition as a natural next step for us in our vision of creating a world that runs entirely on green energy. With that, I'll now hand over to Declan.

Declan Flanagan

Thank you, Mads. We'll turn to **Slide Five** at this point.

Let me start by saying that I obviously share Mads excitement about the acquisition of BRI. It's a strong strategic and operational fit and a very complementary business culture. This transaction is the result of a long process that has involved the valuation of opportunities in various European markets. At a high level, I would summarise three things we think about when looking at a deal like this. How good is the fit? Is the scale meaningful in terms of near-term investment and earnings? And what is the long-term growth potential of the platform under Ørsted ownership?

Over the course of diligence, we have become very excited about this field under each heading. We like the fit. This is a fully-functioning business with a long history of performance and a cohesive leadership team who are excited to join Ørsted. The ambitious culture, strong greenfield development DNA, plus great commercial skills all combine to make this a strong fit for the onshore business unit and the Group more broadly.

The near-term scale of the investment is meaningful at the onshore business unit level, including 2022 earnings contribution. Obviously, the scale of projects in Europe is smaller, as indeed it is almost everywhere outside our core U.S. market, like Texas in the Midwest. Scale has therefore been a big part of our filter when looking at European expansion. We have been impressed by the team's ability to develop 100 MW range projects in Ireland and Scotland. And given their relatively higher unit revenue, such projects stack up well against significantly larger-scale projects in many other markets.

Overall, this is a platform with a long track record of execution. In addition to the current operating projects, the BRI team have developed, financed and sold multiple projects to a variety of institutional buyers in recent years. So, we believe this is a platform and a team that can execute at scale. And indeed, we believe there is much more capacity for growth under Ørsted ownership, both in an Ireland/UK context and as a springboard for broader European growth.

Similar to Lincoln Clean Energy's evolution under Ørsted ownership, we see potential to expand the technology focus to include solar and storage, positioning us to be the leading multi-technology onshore platform in the Irish market. Needless to say, our long-term ambition for Ørsted is to be a significant Europe-wide onshore player in a market that will add 200 GW of new renewables over the next decade. The

combination of BRI with our existing commercial teams in Europe deepens our capability set and can create new market entry options, for example, via joint ventures or standalone larger-scale project acquisition. Finally, the BRI team have demonstrated very strong capabilities in the area of energy trading and corporate PPA, both of which will provide direct synergies to Ørsted's existing market efforts and offtake solutions in the region.

Turning to Slide Six, I will conclude with a brief quantification of the platform and growth plan.

We believe we have agreed a disciplined purchase price, the significant majority of which is tied to the operating and under construction portfolio. This is a portfolio which is backed by a combination of government contracts as well as strong credit corporate offtake agreements, including repeat Ørsted customers. We step into a portfolio of approximately 400 MW of operating or under-construction onshore wind. And based on our expected EBITDA for the portfolio in 2022, we estimate an enterprise value to EBITDA multiple of around 13 times after customer repurchase price adjustments at closing and CAPEX spend through 2022.

There are some small projects in the operating portfolio. The BRI team have shown they have good technology partners, good contracts, and are an efficient asset owner, so we are very comfortable owning this fleet. But obviously, the growth focus is on larger projects, as mentioned previously.

In addition to the 400 MW operating and under-construction projects, there are approximately 150 MW of advanced stage projects in Ireland and Scotland, and we expect to commence construction on the first of these next year. The longer-term wind pipeline of around one GW is weighted towards larger projects in Ireland, including a number in partnership with Coillte, the state forestry company, and the largest landowner in Ireland. Altogether, we are planning a 1.5 GW onshore business in the Ireland and the UK, both markets with strong policy ambitions for clean energy.

Ireland has committed to a very ambitious target of 70% clean energy by 2030. Indeed, Ireland is already at the forefront of renewable energy adoption and has a rapidly-growing corporate offtake market. The combination of government support and corporate demand creates an attractive investment environment. These attributes, coupled with growing interconnection to the UK, as well as planned interconnection to mainland Europe, all combine to make for a very interesting regional market with Ørsted as a major multi-technology player. So, while the US will clearly remain our major onshore growth engine, this transaction marks an important step in the growth and globalisation of our onshore business.

Finally, let me conclude by saying that throughout the transaction process, we've been very impressed by the BRI team. It's a team that we really feel is the best fit among the European opportunities we have looked at over the past year or so. They have shown the key attributes of cohesion and owner mindset that we've been looking for, and we very much look forward to welcoming the full team to Ørsted.

On that note, I will now open for questions. Operator, please.

Q&A

Operator

Thank you. This concludes our presentation, and we're now happy to answer your questions. Please respect only one question per participant, and then you can go back to the queue for a second question. So, if you do wish to ask a question, please press 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel.

There will just be a brief pause while any questions are being registered.

Our first question comes from the line of Jenny Ping from Citigroup. Please go ahead.

Jenny Ping

Hi. Good morning, or good afternoon. This question comes in two parts, but it's joint and it's a strategic question for Mads, if possible. Basically, Declan mentioned in his presentation that the ambition is to have a European-wide onshore business, and the development of that. I just wondered how you look at the opportunities of onshore in the context of offshore, given the growth in offshore is ever-expanding and growing, and given your leading positions. How do you select the allocation of the capital that way? And does this also mean, given the wider European onshore ambition, that you will be looking at other things coming up? Clearly, Greencoat have recently talked about their possibility to sell further assets, so any commentaries on that would be welcome.

Mads Nipper

Absolutely. Happy to provide some comments to that. Clearly, we do not see onshore replacing any of our offshore ambitions. On the contrary, we actually have a clear ambition to be offensive on both the continued expansion of offshore, which we still expect to be the fastest-growing technology within the renewable space in the coming years. And like you say, we have a very strong leadership position in offshore and we also have the strongest pipeline of projects, which we'll continue to expand and invest in at an unchanged pace, if anything, more than that.

But as we are also expanding our CAPEX programme, we do see that both the opportunities and the growth prospects and the returns on onshore, both in the US and Europe, are attractive. So, we don't see a trade-off, and we're not doing any onshore expansion based on defensive reasons that an expectation of offshore looking different. This is a purely strategic expansion that we've been looking for, for some time. And we're not done here. We will come out in the CMD on June 2nd - we expect to come out with updated ambitions. And clearly, onshore is a growth platform, and we also see that we are not at the end of the road with this acquisition. We think that BRI can be a strong platform for expanded growth also outside of UK and Ireland. But for now, for BRI, the regional focus in the UK and Ireland is focused, but we clearly have European expansions beyond that which we hope to materialise in the coming years.

Operator

And the next question comes from the line of John Musk from RBC. Please go ahead.

John Musk

Yes. Hello, everyone. Perhaps a question for Declan. I just wanted to understand the age of the operating portfolio, so the 327 MW. Obviously, in Ireland, we have the REFIT scheme, which is a 15-year feed-in tariff. What's the average age of the portfolio, and how many years of feed-in tariffs do we have left?

Declan Flanagan

Yeah, for the operating portfolio there, you're looking at about an average of five years remaining in the underlying original subsidy contract. I said two things. One: we have very firm views by virtue of the fact that UK and Ireland power prices are very closely aligned, and obviously, we've very firm views on long-term UK power pricing. But also, there is an active market on the re-contracting, and the BRI team have successfully done that with some existing off-subsidy stuff. So, five years left on average in contracts, and a market for re-contracting and firm views on long-term power prices is really how we were very comfortable wrapping our heads around the fleet from the vintage viewpoint.

John Musk

OK. So, the 13 times EBITDA, though, would obviously step up in five years' time when the REFIT period ends?

Declan Flanagan

The multiple is, obviously, as I quoted, on the 2022, you're going to have a number of factors as the years play out, the growth, et cetera.

John Musk

OK. Thank you.

Operator

And the next question comes from the line of Kristian Johanson from Danske Bank. Please go ahead.

Kristian Johanson

Yes. Thank you. Just curious whether this company has any planned exposure to the upcoming CfD auction in the UK, considering that onshore is now a part of the CfD auction again.

Declan Flanagan

We have the advanced developments - they're approximately 150 MW, as I mentioned - in Scotland. It is largely contracted, but not fully so. And so, there is potential to participate in that. It may well come a little soon is probably a fair statement. As regards the CfD, the Scottish development, it's really about building out the under-construction, the advanced development with a view on a longer-term development opportunity.

Kristian Johanson

Understood. Thank you.

Operator

The next question comes from the line of Robert Pulleyn from Morgan Stanley. Please go ahead.

Robert Pulleyn

Yes. Thank you. I think you've answered the question I was going to ask about asset allocation. So, can I just ask around the PPA market in Ireland to re-contracting? You mentioned a couple of times it's quite active, but I think investors on the whole probably are not that well-informed about that element. So, could you add a little bit more colour around what counterparties are on offer there, what duration of PPA, where strike prices are at to market price, et cetera? Just to flesh that out? Thank you.

Declan Flanagan

Obviously, there's pretty limited detail. You're really getting to the core competitive advantage here, but to give a little more colour, I would just say we see a lot of overlap. As I mentioned, repeat Ørsted customers from our both offshore corporate customer base and our US onshore customer base are obviously very active in Ireland, particularly if you take just the technology company segment.

On the re-contracting, I would say that there's a range both in terms of years and structures. As I mentioned, one of the many things we like about the BRI platform is their track record in crafting offtake solutions, and there is a range. So, in a positive way, I wouldn't say it's just one type of option when it comes to the re-contracting in corporate, broadly.

Robert Pulley

OK. Thank you. If I may just try a follow-up on that. In terms of the PPA duration that you have or you're looking at that have been re-contracted already by BRI, could you just give an indication? Is that five years, ten years where that lands, if that's possible?

Declan Flanagan

It's also commercially sensitive, I have to say, because there's another consideration in repowering, as we have mentioned. That's an interesting value lever here. So, there's a commercial decision around how much you would choose to re-contract versus where it sits in your workflow around repowering. So, there's some core commercial proprietary commercial decisions that go into that.

Robert Pulley

Fair enough. Thank you for the colour. I'll turn it over.

Operator

And the next question comes from the line of Mark Freshney from Credit Suisse. Please go ahead.

Mark Freshney

Hello. Thank you for taking my questions. Declan, can I ask you on where you see the LCOE in the UK? I accept that every project is different, but the spectrum of projects is now increasingly moving into being economic on the basis of PPAs or power prices. So, could you give us, not specific to BRI, but what you see and what your perception is there?

Secondly, the last time you stood up at the CMD two and a half years ago, you spoke about PPAs in North America being 12 to 15 US dollars a MW hour with the benefit of 100% PTC. Where do you see PPA prices in North America now that the PTC has gone to 60% and is probably going to remain there for a little while longer? Thank you.

Declan Flanagan

Cutting across both parts of the question, we're really going to cover these types of issues more in the Capital Markets Day that's coming up in a couple of months around these key inputs. Again, to the prior question, you get really to the heart of commercially sensitive stuff, so I wouldn't expect too much detail. And so, I really wouldn't say anything more than that around UK LCOE and competitive position relative to CfD, et cetera.

What I can say on the US is that we have seen an improvement if you just timestamp to back to the last Capital Markets Day. We have seen an improvement in pricing in CPAs across the board, the corporate segment and broader segment, and we feel that improvement in terms, as well. So, we're very happy with the evolution there. But again, more details in a broader context, we'll deal with that at the Capital Markets Day. Perhaps Marianne might want to add to that.

Marianne Wiinholt

I think we will come back at CMD, so no further details for now.

Mark Freshney

Sorry to be cheeky and ask a third question when I was restricted to one, but I was evidently put pretty low down the list. But Declan, the UK government had to settle the banks' case by letting onshore wind and solar into the coming CfD round. Clearly, a lot of pent-up demand for support for solar and onshore wind in

the UK. Your gut feel? How many GW of onshore wind and solar goes into the CfD round later this year? From your industry knowledge, not necessarily from your own book.

Declan Flanagan

I wouldn't give a specific number on that because, again, you are getting towards commercially sensitive, for all the reasons that you outline. I would just note that what we like about both of these markets we're talking about today, Ireland and the UK, is that you have two options: a growing corporate market, the corporate offtake on the in-construction project in Scotland, for example; and the government-run auction process in both Ireland and the UK. We like the fact that you're not just one or the other, but both exist in parallel.

Mark Freshney

Super. Looking forward to catching up on June the 2nd.

Operator

And the next question comes from the line of Peter Bisztyga from Bank of America Securities. Please go ahead.

Peter Bisztyga

Thank you, and good afternoon. When RWE bought the Nordex development pipeline, they said that it would have taken them something like ten years to organically build up that capability in France, which was the key market they were targeting there. So, I don't really understand how this acquisition will help you enter other European markets, given that you need to build up development and capabilities ground up. And therefore, is it reasonable to expect that, given that you want to expand the European platform, that we should expect more M&A like this in order to achieve that. Thank you.

Declan Flanagan

I would say two things. One: we like this deal because we are excited about the potential for a meaningful business in the core markets in which this team has a proven track record. And so, we are obviously ambitious, as we've touched on, and we plan to be a major European player. But this team, this platform can deliver a value and meaningfully so in their core business, core territory, shall we say? But I would add to that that over the last year, as we've been evaluating a huge volume of opportunity on a Europe-wide basis, that really has led us to conclude that it's really useful to us to have the capability set, as we've mentioned, that come on board with the BRI team. And it really adds more tools to the toolbox for European expansion. That's not to say we would preclude any further deals. I think we always say to these questions we're always open-minded about, in this instance, mirroring the LCE evolution in the few years after the deal. We don't feel under any particular undue hurry, but I would say the BRI team can be very useful in a pan-European expansion, based on the market view we've developed over the last year.

Mads Nipper

And if I may here, I can just supplement with what you were saying, Declan, that the BRI team has actually developed and sold off projects in other European territories, as well. So, it's actually a proven capability that they would have. It's not just something we hope for. It's something that they have actually shown possible.

Peter Bisztyga

That's helpful. Thank you.

Operator

And the next question comes from the line of Dan Togo from Carnegie. Please go ahead.

Dan Togo

Hello. Just a clarification question here to start with. The 13 times EBITDA, as I understand it, was on '22 estimated earnings. Could you maybe give an indication of what the multiple would be on the '20 earnings? And also, is there room for further improvement of the EBITDA, either from additional costs being taken out, and also when scaling up the business, just to see if returns can improve even further? And also, in relation to that, maybe some comments on how you view the risk onshore versus offshore, and the impact on the value creation spreads, so to speak, in your business between the two. Are they very different depending on how you view the risk? Thank you.

Marianne Wiinholt

Should I take it, Declan, or will you take the first part?

Declan Flanagan

You go ahead, Marianne, please.

Marianne Wiinholt

There's not a very big difference on the multiple if you go to 2020. It has been quite a stable portfolio. Very similar. I will not say there is huge opportunity to take out costs because it is already a very optimised business. The growth will come through an increase in portfolio. That's the answer to that one. Of course, after five years, you will see some of the subsidies will no longer be there, but that will be compensated by growth.

Then, on the risk for offshore versus onshore, onshore is low risk, no doubt about that. Smaller projects, less complex. So, you will see, in general, a lower spread, but it varies between markets. In the US, with the PTC and the current market, you see very attractive for the onshore projects, and you see that Europe is somewhat more sure on the margins in Europe, but we still think that we can find attractive and value-creating projects. And this opportunity has proven for us to be a good place to be - Ireland/UK - where it's probably not as crowded as in some of the other markets in Europe.

Dan Togo

I'm just trying also to understand this 7% to 8% implied return on invested capital here. It's still somewhat away from the ten you target at the Group level.

Marianne Wiinholt

Ten percent ROCE. That is an average. And so, you can't, in a way, use indication for the ROCE on this, in particular.

Dan Togo

OK. Thank you.

Operator

And the next question comes from the line of Pujarini Ghosh from Bernstein. Please go ahead.

Pujarini Ghosh

Hi. Thanks for taking my question. Could you possibly give us a little bit more colour on the split of your upcoming pipeline between UK and Ireland? I think you said that it is due to larger projects in Ireland, but if you could just maybe give a bit more colour on that? And in terms of the IR spreads, did you just imply that it's about 7% to 8% to ROIC that you are expecting for these onshore projects?

Marianne Wiinholt

No, the last is not correctly understood. I think that Dan was referring to the spread that we have announced for these portfolio projects in offshore. So, we're not saying anything around spread here. And then, Declan, you could perhaps answer the first part of the question.

Declan Flanagan

The 1 GW pipeline, the vast majority is Ireland. There is some Scotland, also, but fair to say that beyond the ready to build, which is more Scotland-weighted, then the next wave of focus would be Ireland for the existing pipeline.

Pujarini Ghosh

OK. Thank you. Do you want to share some ROIC or IRR spread targets that you expect for the onshore pipeline?

Marianne Wiinholt

No. You'll have to wait until the Capital Markets Day, where we will come with some guidance on returns, but not for now. Okay, thank you.

Operator

And the next question comes from the line of Elchin Mammadov from Bloomberg Intelligence. Please go ahead.

Elchin Mammadov

Thanks a lot. My question is, again, I'm just trying to understand why you decided to start with this UK/Ireland deal rather than, let's say, there are some developers that have less than 13 times multiple, located in Spain, for example, where you don't have to compete with exchange listed funds, renewable funds, for example, and where there is a massive pipeline of auctions coming up in addition to merchant projects.

So, can you explain why you decided? You started explaining it in your presentation, but I'm just trying to figure out why Ireland and UK rather than, let's say Spain, or perhaps buying a developer with a truly pan-European portfolio. Because you know how to build onshore capacity. What you're literally buying is knowledge of the market, how the trading and optimisation works, and all the permitting ideas. So, wouldn't it be easier to buy someone with a more diversified European portfolio? Thank you.

Mads Nipper

Would you kick that off, Declan?

Declan Flanagan

Sure. What I would say, as I mentioned, is this is the result of a process that involved evaluating various European opportunities, that's different geographic markets, more solar-focused, wind-focused, pan-

European, which is a relatively small data set, I would say, and we really came to the view over detailed diligence that this was the best fit, and seeing the scale we wanted to see, meaningful scale, et cetera. And so, it's not to exclude other markets - we'll be very much focused on making a success of this deal in the near term - but we see it as being complementary to and adding capability to doing stuff in some of these other markets that are very much on the radar.

And also, just to elaborate on the fit and the integrate-ability of the business, it's something Mads mentioned. We've done this a few times now. We feel we have a tested playbook, and that very much factors in and made us comfortable that this was a really good place to start, versus some other, I would describe as, more complex options that remain possible. But we felt, balancing it all up, this was a really good place to start.

Elchin Mammadov

Thank you, Declan.

Operator

Just as a final reminder, if you do wish to ask a question, please press 01 on your telephone keypad now. We have another question from the line of Emmanuel Turpin from Société General. Please go ahead.

Emmanuel Turpin

Thank you very much. You kindly provided us with the remaining average duration of the PPAs. I didn't catch the answer to the question about the average age of the fleet - on average, how many years have they been in operation. How many people are you onboarding with these transactions between development teams on commercial teams? And finally, on the 13 x EBITDA, how much capacity are you valuing at end of '22, and how much is the CAPEX to completion? Thank you very much.

Declan Flanagan

On the average age of the Irish operating fleet, it's approximately ten years. And so, five years of average remaining. There's a bit of a range, but those are the average numbers: 10 years old; and on average, five years remaining contract life.

On the, I think, as I've mentioned, the 2022 EBITDA factors in the obviously the EBITDA from the in-construction and the costs to complete the in-construction, which is a 62 MW project in Scotland.

And other customary adjustments, the purchase price is, as was mentioned, it's December 31st, 2020 valuation.

Marianne Wiinholt

And then, the number of people, Declan. The 70 people.

Declan Flanagan

Yes, 70 people. The majority in the head office in Cork and the small office in Edinburgh.

Emmanuel Turpin

Thank you very much.

Operator

And we have one follow-up question from the line of John Musk from RBC. Please go ahead.

John Musk

Yes. Thank you for the opportunity to ask another question. Just on the one gigawatt of development, can you give us a rough idea of the timeline of when that may come through? Specifically, is any of that going to be in the next RESS auction in Ireland, which I think has just been delayed to the start of 2022?

Declan Flanagan

Starting with the second part first, yes, we will be material participants in the next auction, but other than that, at this point, it's too early to be specific on the online dates, but it's post-2025, as we've said in the materials, but I wouldn't want to get more granular on the GW pipeline at this point.

John Musk

OK. Thank you.

Operator

And as there are no further questions, I'll hand it back for any closing remarks.

Mads Nipper

Yes, and thank you very much for great interest and great questions. Appreciate your time, and we hope that you join our excitement with this acquisition. We are confident that, despite its not huge size, that it is strategically a very, very important step for Ørsted. So, thanks a lot and have a great day, all.

Operator

This concludes our conference call. Thank you, all, for attending. You may now disconnect your lines.