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Introduction and Presentation

Speaker

Good morning everyone and welcome to the Sif Q4 and full year results presentation. This morning we released our Q4 in full year numbers and we also published our annual report. CEO, Jan Bruggenthijis, and CFO, Leon Verweij will elaborate on the release and are happy to take questions afterwards. If you follow this presentation through audio webcast, you can ask questions by using the orange button and submit your question. Live with us is are sell side and independent analysts. I hand over to CEO, Jan Bruggenthijis.

Jan Bruggenthijis

Thank you very much. Let me start by reminding you of our strategy. A major investment programme to expand and modernise our production facilities was finished in Q3 of 2017. In Q4, set up of production lines and training of employees continued, and I'm happy to conclude that by the end of 2017 everything is up and running. Manufacturer output in the last months of 2017 indicates that the total capacity is even slightly higher than initially expected – 300,000 kilotons per year. The mass facility improves to have a maximum capacity up to 200,000 tonnes annual.

Sif now is ready for future market developments. Monopiles and transition pieces can be built for wind turbine sizes up to at least 15 megawatts. The modified oil and gas line has proven in the Beatrice projects, to be competitive, to produce pin piles for the wind jackets. This was part of our defend and extent approach for 2017 and 2018. In 2018, we will further strengthen our cost leadership by optimisation on production flows.

Lean production methods will support us in achieving our goals. One of the indicators of improved production methodology is on safety. I'm happy to report that LTIF has further come down to 1.49 compared to the 2.83 last year. There's an improvement but by no means may result in complacency. The safe workplace is a priority at Sif.

For 2019, the strategy is aimed at development of new products and expansion of geographical markers. Looking at the evolution of Sif, this is an approach that matches the DNA of the company.

Before we take a look at developments at Sif, let's have a look at the business environment. The levelised cost of energies, LCOE for offshore wind, has decreased further and is now expected to drop below €50 per megawatt hour, somewhere between 2022 and 2025. Offshore wind will then be one of the cheapest sources of electricity. Make consultants expect that from 2018, an average of 4 gigawatts offshore wind capacity will yearly be added to the total North Sea capacity, bringing total grid connected capacity at 40 gigawatts by the end of 2026. By the end of 2017, total North Sea capacity was 15.8 gigawatts.

In the latest EWEA scenario of 2030, the central scenario even expects an installed offshore capacity in Europe of 70 gigawatts. Very promising markets developments of course, but after 2020, much depends on what new offshore wind volumes governments commit to the national energy and climate action plan for 2030 – the so-called new NECAPs.

If this growth materialises, we foresee that some of the suppliers in the offshore winds will have to invest significantly to meet demands. A good example is the flange production for diameters of 6.5 metres and above, which with the introduction of the large turbines in 2020 already foresees delivery challenges. So fast decisions by the government is required to meet targets.

In 2017, Sif worked on approximately 30 projects, of which 18 were offshore wind related. These 18 projects represent 90% of the revenue. The remaining 12 projects were mostly oil and gas related. In offshore wind farms, monopiles are the still the foundation of choice and it's expected that for the near future between 70% to 80% of all offshore windmills will still have monopiles as foundations.

Sif also worked on projects with alternative foundations such as Blyth, which was gravity-based construction, and you see it on the top picture. The choice for gravity based for jacket foundation is mostly driven by seabed composition. We find them on rocky seabeds, for example, off the Scottish coast.

Monopile-based wind farms that Sif worked on in 2017 are Hohe See and Rentel. Of the latter project, you see a loading operation on the lower picture on the slide.

Other projects in 2017 were Galloper and Norther. On the lower picture of the slide, you see the loading operation of the transition pieces. In 2017, quite a few of you may have visited to our new facilities in Maasvlakte. The size of the completed project is actually something you must have seen in reality to understand the magnitude of it.

Of total revenue, still 10% is largely oil and gas related. For example, when supplying legs and pin piles for the jackets like the Aegir jacket for Sverdrup. The Aegir jacket is the largest ever produced jacket in Western Europe. Pin piles are also supplied for wind jackets, like for example the jackets for Beatrice here on the lower picture on the slide.

We also supply the pin piles for the Oseberg jackets, which you'll see here on the next slide.

As said, an important milestone in our strategy was the 80 million investment in a new assembly facility at Maasvlakte. Between the first quarter of 2016 and Q3 2017, this facility was built and taken into operations. We used the final quarter of 2017 to optimise production flows and train our employees. By the end of 2017, the facility is running at total capacity and total capacity now is proven to be even 30% higher than we had anticipated. This is encouraging and it enables Sif to not only compete for future tenders, but also to drive scale of the individual windmills.

The location in Rotterdam and the quality of the harbour facilities are ideally suited for projects that are expected for the period 2018 to 2026 on the North Sea. Let me hand over to Leon Verweij, who will explain how these all is reflected in our Q4 and full year 2017 numbers.

Leon Verweij

Thank you, Jan. Good morning to you all. Starting with Q4 2017, this quarter showed the high level of production that resulted in a contribution of some €30.9 million, which is equal to the Q4 numbers of 2016. This was slightly better than anticipated and therefore resulted in a slightly higher EBITDA for the full year than we have guided in November 2017.

Net profit attributable to the shareholder for the full year 2017, came in at €30.8 million. Net profit was influenced by a somewhat higher tax burden in comparison to the 2016 level – 23.2% compared to 21.8% in 2016. This higher tax burden is the result of a prudent approach towards the application of the innovation relief awaiting possible awards of patents.

Per share this results in a profit of €1.21 and we will propose a 25% payout on the general meeting of shareholders in May, equal to a dividend of €0.30 per share.

Total contribution increased to a level of €135.6 million. This is an increase in comparison with 2016 by 4.7%. The later-than-expected coming online of the second production line in Rotterdam, and the necessary production line adjustment in Roermond influenced the achieved contribution levels.

Contribution per tonne declined in 2017, to a level of €585 in comparison to the top year 2016 when it was at €677 level. This decrease was relatively strongest in the oil and gas, 22% against 12% in the offshore wind. This decline was mainly caused by the mix of projects and the current market circumstances with high tonnages and large diameters.

The higher 2017 cost level put pressure on the EBITDA if compared to 2016 and resulted in €57.1 normalised EBITDA for the full year 2017. As already communicated during 2017, the cost increase is due to start up expenses for the Rotterdam facility, and build-up of the organisation over there.

As already indicated, these non-recurring costs, are estimated to be somewhere between €5 million and €10 million. Also part of Q4 still showed this higher cost level, but it faded towards the end of this year. Using the high cash conversion rate of the company, in combination with the lower CAPEX levels, as compared to previous year, and with lower working capital, net debt at the end of the year, came in at €25.1 million. Discipline on working capital remained good at €7.1 million at year end, slightly lower than the €8.3 million at year end 2016. This low usage of working capital is of course a snapshot situation at year end. The level is influenced by the agreed finance terms with customers and the moment of settlement of project milestones and can therefore differ from time to time.

Going forward, no major CAPEX is expected besides the normal maintenance CAPEX, which lies in the order of €6 million to €8 million yearly. Given the order book and outlook for 2019 – on which Jan will comment shortly – the anticipated EBITDA effects and debt levels made us preventively discuss financing and government ratios with our banks. We have agreed suitable arrangements with them to address an eventual lower level of activity if the contract on the exclusive negotiation would not come to final closure. Jan?

Jan Bruggenthijs

Thank you, Leon. The offshore wind market is on average, growing from 3.72 gigawatt annual installed capacity to 4.1 gigawatt. This shows a strong momentum. We also expect first projects for Taiwan, Japan and US to be produced in Europe, and of final investment decisions to start production locally. Especially Japan we expect new projects already coming in 2019 and 2020.

Not counting for the possible additional influx of the export opportunities, the expected production volumes for the European XL monopile producers are shown on this graph, on page number 13. And we see a stable expectation for the coming years, meeting the possible production numbers of the three major supplies in Europe.

Consistent with our disclosure policy, we publish new contracts when signed and we include projects in our order book as exclusive negotiations when awaiting final contract award, and financial closure. You understand we cannot communicate on the identity or characteristics of these projects. And although there is no history on this, projects can still not reach final contract and/or financial closure and in that case, not come to maturity.

We still foresee a very busy 2019 and 2020 offshore wind market, and of course you may expect Sif to be fully involved in nearly all tenders for these projects.

The oil and gas market is still slow despite oil price rising. We see some small developments which still tries to be involved at reasonable pricing levels. For our customers, we see a high pricing pressure in this market.

Herewith we come to an end of our presentation. For me, this was the last time I spoke to you as CEO of Sif Holding. My appointment ends in May 2018 and I have not made myself available for reappointment. This is for purely personal reasons, but these are not related to my health.

I enjoyed working with you and the listing of Sif added a dimension to my engagement for the company in the last two years. Sif is a great company and I'm proud to have contributed to set the company ready for the future demand, in a very promising market.

I'll miss the vibe and I'll miss working with my great colleagues at Sif, but it is not so far yet. We may meet at a general meeting of shareholders in May 2018.

Thank you for your attention.

Q&A

Speaker

Thank you, Jan. We're happy to take your questions. And if you're tuned into the webcast you can submit a question through the orange button.

Martijn den Drijver

Yeah, Martijn den Drijver, NIBC. With regards to the 70 kton contact exclusively in negotiations, apart from prices, is there any other decisive factor on which this contract is hanging? Second part of that question is, have you ever lost a contract which is already in exclusive negotiations?

Jan Bruggenthijis

I'll just start with your last question – part of the question. No. Up until now when we were in exclusive negotiations the project, always came to a finish. But as I said before, there was always a possibility that, but we never experienced it before. Is there – and I call it maybe the showstopper of this project? As far as we can see today, no.

Martijn den Drijver

Okay. And then a follow up on that –

Jan Bruggenthijis

It's a normal part of the procedure in the project that you come to exclusivity just to tie up the file [inaudible] in the contracts.

Martijn den Drijver

And in more negative scenario, if there is some sort of hiccup, that you don't win that particular product contract, you've already mentioned that you will look at the flexible labour force and possibly other measures. Can you provide a bit more clarity of what that actually means? Provide a bit more on numbers cost basis? Anything that you could provide would be very helpful with that respect.

Jan Bruggenthijis

As I've said before, before in the beginning[?] with the start with the numbers, we already started, of course, using our flex[?] base so we're very keen on that. So we should use that instrument also to control our cost base compared to the left[?] off course of production. Leon, maybe you want to say something about the numbers?

Leon Verweij

Yeah. I don't know exactly what you're looking for but like Jan said, the scenario entitles that our – we build on all complete flexible workforce going down to only our fixed work force, which is roughly today some 250 – 240, 250 at the edge. We even might bring that down somewhat during the period. We will focus mainly on maintenance, which hasn't been done in the last few years as far as machinery, etc., is concerned.

And I think that everybody can, based the annual reports, then recalculate what roughly the salary, the costs will be. The depreciation stays the same, of course, because we will not be investing anything more as to the maintenance investment and things like that. And if you look at the further cost base, like the things like selling expenses, etc., well then might be somewhat lower in last year but they will be the same, otherwise, you will have known 2019, of course. I'm looking at the rest of the cost based which is very limited of course. We will take out wherever we can but that will be no more than a couple of million.

Jan Bruggenthijis

And maybe also just an addition to that, it's good for our equipment that we have some period of time even also when we gain contract, we will have some period[?] of time to do some maintenance work here[?] overtime and to transferring time because I, obviously, we have to produce and even if we would not win the contract and we will do maintenance then we still stay within the €6 million to €8 million, as we've already indicated before.

Martijn den Drijver

And with regards to that maintenance, you said that you haven't actually been able to do the normal makers because of the high production levels. Has that led to any cost savings that you then obviously realised in 2017 that we should take out from normalised EBITDA? Probably small amount by then.

Speaker

Don't think so. If anything rather the opposite that's taking out that. We have some breakdowns, of course, as a result of job as not being able to do the maintenance in machinery which indirectly costs you probably more than doing the maintenance.

Tijs Hollestelle

Yeah, I've got also a question. Tijs Hollestelle, ING. The last time I spoke to you a couple of months ago, the production for this year initially was a domain[?] and it was very tight. So you told me that the deadline for very tight so that's the profitability of that production group on the low ends. Now that you have shifted some of that production into the fourth quarter, does that mean you also able to produce it potentially higher profitability levels?

Leon Verweij

Not at higher efficiency levels, which at the end of the day which maybe a little bit and some of the higher rough profit level.

Tijs Hollestelle

Yeah.

Leon Verweij

And what Jan already said is that what we experienced in Q4 when the second production line in Rotterdam really came onto line is that we are able now in Rotterdam to produce even more than[?] we expected it and that was laid out for. So that gives you somewhat more efficiency so that improves your gross profit level and somewhat in the sense that you need less production hours to produce the same amount of kilotons. So in that sense you brought profit margins on what improves with larger portion of contribution margin.

Tijs Hollestelle

Yeah. Is it still safe to say that you still need temporary employees to execute your orders in the first months up to here?

Leon Verweij

We will always, but actually we are right now in a process already building that number down. We form that on a week-to-week basis even because, of course, like we said, we made a plan driving down capacity. So then it's very important to follow that on a weekly basis. So we are building it down but whenever we produce, it's hard to imagine that we won't be able to produce with only our own people. That we will have always some sort of temporary labour in there.

Tijs Hollestelle

Okay. That's clear. And the potential of new order – is there already a kind of a prediction scheme set up for that? Is that starting the third quarter or in the fourth quarter?

Leon Verweij

The answer there is, of course, there is a production scheme set up otherwise we wouldn't have known what we will be selling or whether we could commit to what the customer is asking. So, yeah, that's in place.

Jan Bruggenthijns

The basic case is still that we don't get the contract so that's how we drive it forward today. And of course, we have a production scheme on that if the contract is finally signed that we will immediately decide to reproduce and we expect to produce soft production in somewhat in July.

Leon Verweij

July, yeah. Okay. And then that it is reason that we don't start it early in the first week, we need some weeks –

Jan Bruggenthijns

For maintenance.

Leon Verweij

– for maintenance and so also to refit some parts of the line, because that's something you always do with projects. And secondary, it also has to do with the time of delivery of steel and flanges[?].

Tijs Hollestelle[?]

Okay. Yeah, I've got one follow-up. Seeing the huge amount projects for 2019 and 2020, you have a full costing[?] model and you speak to everyone so you have seen basically all these projects in front of you discussing in details what are the plans are. Can you kind of estimate which of the larger ones a kind of a point of no return in which they have to put out the order for the foundations? Because, you know, got a great connection, you know, there are logistics planning because, I assume, that's what they're discussing with you. So then if you work your way back, you have a kind of an indication from somewhere in the next two weeks, five weeks, two months, they should go over it. It could mean it's a project still goes to one of the general competitors but at least you know that they have to do something.

Jan Bruggenthijis[?]

Yeah, of course, as we all exactly know when these projects should be awarded to meet, of course, target date, also connected to the subsidies. And so we see that through all of the pressure of the projects, in Belgium, for instance, all three projects. They have to be produced in 2019. We see the same with also one and two and we see some push now definitely also on the first part of the Saint Nazaire[?], so we see some projects there that will definitely build in 2019. Some may shift a bit too late 2019 like, for instance, Fryslan[?].

Tijs Hollestelle

And then differently you were expect the orders? Is that – it is still six, eight weeks in front because I would say it's –

Jan Bruggenthijis

No, no, no. That will be the normal case like we normally had. This was an exemption to have. The key, you know, we always said is that this project could have been also produced at 2019. But our endeavours made it possible then to produce down 2018. Other projects will be in the normal scheme and that means normally you will have a window of four to six months before you start production. It's just as it always was.

Tijs Hollestelle

Yeah.

Jan Bruggenthijis

We see some pressure on the market, of course, because it's very busy, so we expect that some of the customers might decide quite fast. There's pressure of market, there's pressure on how many capacity we have for installation. As we always also said it's that there is more pressure now on the market in value chain now for flanges[?], which is new on the market. And six[?] now with flanges now we see that due to the bigger towers coming out for with larger turbines that more flanges of six now means [inaudible] are required. That means that you only have a few companies that can deliver that in the world. And, of course, we speak will all of these companies from China, Korea, Europe. So, we're very focused on that. But it might also influence the moment of decision of our customers.

Thijs Berkelder

Thijs Berkelder, ABN AMRO. In your list of near-term project awards and tenders, there is Borssele 1 and 2. Are you still in the race for Borssele 1 and 2?

Jan Bruggenthijis

Well, to be quite honest you have to ask my potential client. But yes we are in the tender process.

Thijs Berkelder

Okay, so your competitor is not yet in exclusive negotiations?

Jan Bruggenthijis

No.

Thijs Berkelder

Okay. It's just what I wanted to hear.

Secondly, management in the company is at safe[?]. You have maybe you announced your departure but, let's say, maybe we can have some clarity on the exact procedure now going forward. Additional questions, Leon, are you worried? Are you employed and an employee of Sif yet or are you hired in? The COO, is he still on board? What will be time scale he will be on board, etc.? Just in summary, can you explain, in terms of management, who will manage the company in 2018 and 2019? That at this moment, I think, relatively unclear.

Leon Verweij

Yes, first of all shall I start, Jan?

Jan Bruggenthijis

Yeah -

Leon Verweij

Yeah. Well. I am employed by Sif already for quite some time, I must say. As, you know, we already announced that – I started off, of course on an interim basis and was, in that sense, what you call hired in for a couple of months. Actually I'm on payroll, if that's where you referring to, as of 1st July, I think, last year, yeah? So, I'm not a newcomer then. And I still expect to be on the payroll and stay on the payroll and continue going forward. So, that's maybe the answer to the first part or the second[?] part of your question.

The other part is of course that as far as the procedure is concerned, it's now up to our supervisory board to start, and I think they've already started, the search for a successor of Jan. Of course then, approval has be drawn up or this council has to be involved in there. I think that we, as management also would like to have a say in a what the profile looks like, but it's up to the supervisory report, of course, to decide about and search for the successor for Jan.

So, what will happen in the meantime is that at least I will be in place. We still have management team on board. And we will discuss shortly with the supervisory board whether at any additional measures has to be taken. As far as the COO is concerned, we already announced last year that Luc will leave the company in May. We actually have somebody on board which, already for a couple of months, is functioning as a CEO, although not formally yet appointed in that role and announced it. But we have somebody who has already been working for now three to four months.

Thijs Berkelder

Starting 1st of November?

Leon Verweij

Yeah, in the COO role.

Jan Bruggenthijis

Yeah, and he's a very experienced person who work also with me at Stork. He's very good in – especially the improvements we need now on the work for Soflon[?]. That's his experience. Actually, his background is – he started to, by the way, this as a welder then he developed himself as HR person but later on he became, like, an expert in changing companies through higher improvements. He did that, for instance, for Aldel and his name is Eric Bot.

Thijs Berkelder

Bot?

Jan Bruggenthijns

Eric Bot.

Thijs Berkelder[?]

Very good. Then of course the first cost saving is that the CEO salary, this will be much lower in 2019, so that's a helpful for you, Leon[?].

Leon Verweij

Yeah, of course. I will have to work harder. Someone has to renegotiate my -

Jan Bruggenthijns

That was the new cost -

Thijs Berkelder

Can you maybe indicate where the flex base is right now? Let's say if year-end it was around 360 levels where are we at this moment?

Leon Verweij

Yeah, more or less 300.

Jan Bruggenthijns

Around 300.

Leon Verweij

Now for the next few weeks it's rather rapidly coming down.

Thijs Berkelder

Okay.

Jan Bruggenthijns

Just to be clear that in Roermond we started already to lower the number of flex workers. That will be the first part that we will rapidly then bring it down further. But Rotterdam will take some more time because at Rotterdam we also do, of course, the finishing and coating. And it will go in Rotterdam, it will go to Roermond.

Thijs Berkelder

Yeah.

Leon Verweij

Yeah. And we have to finish some running horse[?], so it's not that important.

Thijs Berkelder

Let's say talking about efficiency, you said we can produce more than we thought. We already are at Maasvlakte to produce, let's say, at your full capacity, Roermond and Maasvlakte. What kind of staff base do you need at full capacity in the new set up? Of course, you were at a max of, let's say, 650, you know, made the efficiency steps, etc. In case, let's say 19 is back at full capacity, you never know. But what kind of staff base is needed there, fixed versus flex?

Leon Verweij

Oh I would say, but Jan, correct me if I'm wrong, first hold, no fixed or flex but let us first talk about our own people, people on payroll. That's a 225, yeah, approximately, and I would say that's in a flat base, but useful capacity in Roermond and Rotterdam, that would probably in terms of flex being somewhere 400, 425 people.

Jan Bruggenthijns

Right. It depends a bit on complexity. It's difficult to ask this question because, for instance, for a project we are aiming for this year, we will have the modern[?] head welding so you have more manual labour. So then we will have – if you look at per total we will have some more people working. If I do a compare from last year, let's assume that going out of [inaudible] I expect that you should be able to work with an average lower than 600.

Thijs Berkelder

Jan, can you maybe shortly describe what you see in terms of per country opportunities from a Sif perspective? And let's say maybe where you are in a advantaged or a disadvantaged situation.

Jan Bruggenthijns

Oh, let me start with Taiwan, maybe.

Thijs Berkelder

Yeah.

Jan Bruggenthijns

If we look at Taiwan, we see that the appetite for monopiles is not so high. We also saw it as a pioneering for us to look in to that[?] market. We have quite some studies also which we can also use for other expansions in other countries. So we optimise layout, flexible layout for a production factory. And always look at pros to the CEO is this working? And he's an expert on that. So we see Taiwan, we just see it as something where we might deliver from Europe, if rising as well. Because there was only one project for 2018, and we foresee that this project might even shift down to 2019. So then we will look at it just as normal pricing levels for 2019.

If we look at Japan, Japan will see that first projects will be delivered, as we can see it from – not from inside Japan, because the first one or two projects – there will only one be one project per year, then that is not important base to start up a factory. And that's also what we together with our very good partners at techo[?] also bring to the market and we saw a positive recognition now in the market. And the way we approach it and market for Japan is different. It's built up on trust until[?] one is more business-wise, it's about money. The Japanese want to make a success of first project. So we see that a bit differently in that sense.

The US is still developing and there are quite some challenges for the whole value chain. If we look at steel, we see how can you import steel because the US is not able to produce steel for the motor parts. There might be some solutions, but I don't want to talk about that because I see that as a competitive edge. But on the other hand, we also see the JOBS Act, we see some other issues there, that US still has to deal with. As long as they didn't deal with that, there will be jackets. But jackets are very expensive. Even much more expensive than the jackets we use in Europe. And so, we expect and we are also talking to a larger customers to look at the opportunities from monopiles and then especially you should think about the New York, New Jersey areas as first ones to start with.

Thijs Berkelder

Is Poland a market for you?

Jan Bruggenthijns

Of course, Poland is a market, but it's all a market but that means that probably our competitor EEW is better situated at Rostock. But if they have of course filled up their lines, then it's good for us.

Thijs Berkelder

But you expect Poland to be monopile based, or...?

Jan Bruggenthijis

There might be monopiles, yes. Until now or most time choice of course was jackets because of the ice situation especially. But we see now in new developments also coming in with monopiles.

Thijs Berkelder

Then maybe let's say you are working on a project with [inaudible] on hammering efficiency. When can we expect such a project for the first time to go really live?

Jan Bruggenthijis

Okay. First of all, hammering on efficiency we do inside our company, Thijs. But hammering efficiency in such, yes, I've – I expect a lot of it. We know the results also from the prototype where the final hammer is nearly ready. This of course all this is pushed left by [inaudible] but it is expected that in Q2 the hammer will be tested. The monopile is being built. Now, it's ready. And we were also part of the production as far as the hammer. So we hope that we will do the test, the test will be done in Q2 and that results then will come out. And of course then we have to make sure that the numbers are correct.

Thijs Berkelder

Yeah. Just for my understanding, the 70 kilo tonnes under exclusive negotiations, is that for one project or is that primarily for several projects?

Jan Bruggenthijis

One project.

Thijs Berkelder

That's one project. Okay.

Speaker

And these in transition pieces or just in these[?]?

Jan Bruggenthijis

I'm not going to answer that because then you know which project it is. The production is to fully reproduce.

Speaker

Yeah.

Jan Bruggenthijis

I guess that's what you want to know.

Thijs Berkelder

So, there's a good chance that you potentially enter other projects?

Jan Bruggenthijis

I can't say the name.

Thijs Berkelder

So, there's clear potential you entering other projects for 2018, for exclusive negotiations?

Jan Bruggenthijis

We might enter into exclusive negotiations for other projects into 2018 but they will be for production in 2019. We don't expect other projects to come in for 2018 anymore unless this Taiwan project still goes online.

Speaker

Are you done, Thijs?

Thijs Berkelder

Yeah. I'm fine.

Speaker

Okay.

Jan Bruggenthijis

What's – is the answer good?

Thijs Berkelder

Yeah, of course. That's –

Leon Verweij

He looks a little bit puzzled but –

Thijs Berkelder

No, I'm fine.

Mark

Mark [Inaudible]. Two questions. First of all, one of these days the government will allocate first – not the first but the zero subsidies. Will that put pressure on pricing for you?

Leon Verweij[?]

No, I don't think it will put further pressure on pricing because at the end I think still with foundation is still about quality and delivery on time. We see in quite some projects now, luckily enough not in a monopile-based projects, but especially in the projects which are based on the jackets, a lot of issues on timely delivery and delivery within budgets. And that's not good for the business. So we think that our customers will definitely focus on reasonable pricing and I would – but we also stated and you will see there is also annual report for us, we see quality, timely delivery and within budget. That's the base case for us. That's something we always have to deliver. As long we deliver that then we will also see that our customers are willing to grant us an acceptable pricing. There have been issue of course for zero-based subsidy has to do at the end with electricity pricing. It's much more than just our monopile question.

Speaker

Secondly, the French government is reconsidering or wants to renegotiate the offshore wind parks. Would that be a threat for you or would that even offer opportunities for you?

Jan Bruggenthijis[?]

Up until today I can say we don't see it as a threat. I don't want to say anything more because that's insider information.

Speaker

Thank you.

Speaker

Yes, just one follow-up question on Japan. I know you're very positive about your partner, with your position in that particular market. So we've also seen that Universal Foundations has actually its first feasibility study in the Japanese market. So how should I view both what you're saying and what we actually see happening in terms of feasibility studies?

Jan Bruggenthijis

Oh, as I[?] say like in Europe, Universal Foundation is also now with Deutsche Bucht[?] involved[?], and it might be that we are delivering the two monopiles. So I see those especially as a chance. We always have to look at new developments. And if necessary, we will do it together. And whether our monopile will be driven in by hammering or it will be on the suction bucket, it's still monopile.

Speaker

And then with regards to the competitive environment here, you're actually almost explicitly saying that you will meet some production capacity constraints in 2019, 2020. But can you elaborate a little bit on the competitive environment because there have been some changes, the joint venture between Bladt and EEW with the UK has been dissolved. EEW has taken control of that unit. Bladt is not doing too well, to put it bluntly. [Inaudible] is dealing with its own issues, so how should we view the competitive environment? Is EEW and Sif actually in a much stronger opposition today? Is it the same? How should we take that?

Jan Bruggenthijis

I still see for the exo[?] monopiles stream, they are real competitors. I should also say that I think here in our presentation which on EEW steel worked[?] with us. And I think if these three competitors – if they can bring on the right qualities then we will meet the demand for the market. And that's good. So as far as I know today, I don't expect any other company to come in.

Speaker

And the reverse? Do you see any company not doing any activities in this particular space?

Jan Bruggenthijis

Which might happen, but it has no influence in the exo monopile market. But there might be especially some shake up in the tower market. Tower market there are far too many competitors and there's too much capacity and that's what you see worldwide now where you see even some companies closing down their factories or temporarily put out of corrections.

Speaker

But that will only impact outbound.

Jan Bruggenthijis

No, [inaudible]. Yeah. But the key for – if you look at a question you also brought is, if tower builders are not having any market anymore, why don't they start production more for monopiles? That's practically impossible because the layout is all set up for 40 metres sections. And so that's – and monopiles you have to produce in one piece. That means that all their production capacity is not laid out to produce parts for 800 tonnes to 1,200 tonnes. So as soon as they were started, they would have to refit and invest half of it in their production facilities again. And well, with the present situation, they don't make money, so it's very difficult for them to invest again.

Speaker

Yeah, just one final question on the MAKE[?] consultant forecast is very positive – it used to be very positive about 2019 to 2020. And then there was a little bit more uncertainty with regards to the period following that in 2020. The Netherlands seems pretty straightforward in terms of the policy. Germany as well. But I see uncertainty in the UK, Denmark and France. So what is the risk that you may have another more difficult year in 2021?

Jan Bruggenthijis

Yeah well MAKE looks at projects which are known for the markets. We are already involved now for projects in 2025, 2026, which are being developed. And that means that we see the market a bit fuller at MAKE, but it's their system that they just only look at projects that are really known[?] in the market. I think I explained that before and that's why I also see differences also with other companies who'll look at the market like – look at EWEA. They have a totally different projection. I think that one is a bit over optimistic, 70 gigawatts. We don't take that in account, but even not to mention Arion[?].

But the good thing is we looked at the mid scenario of NWA at that time, which is now changed. But – and we at that time said while we expect 23 gigawatts in 2020, which was their base case is now 25 gigawatts at that time. And we are now actually coming in 2024 is at 24 gigawatts. So that's – so actually the estimation in all still looks very good.

And coming back to your countries, yes, but I think and I foresee that UK will definitely invest in offshore wind because for them it's a generator for jobs, which they will need. And I don't see any other opportunities for them at this stage and that's what we also hear when we talk to the people in which[?] government.

The French will definitely also come out. And if only they have to rethink about their tendering system, but you never know with French. The Belgians are thinking already about new projects also, especially now that the subsidies went down because they found too much subsidy. So it's very understandable that it went back and said, 'We have to renegotiate.' Well, and then we – Denmark, I think Denmark will stay a bit slow, but stay actually more or less very full supportive for their economy. So if they would invest, it's for export.

Speaker

I would like to have follow up question on this issue. Looking at the MAKE forecast, does it include roll out Poland?

Jan Bruggenthijis

No.

Speaker

No. Does it include roll out second phase Belgium?

Jan Bruggenthijis

No.

Speaker

No. Does it include – it's Europe only, so it doesn't include Taiwan, Japan, India, whatever, rest of world?

Jan Bruggenthijns

Right.

Speaker

It doesn't include that? It doesn't include expectation that Netherlands will go from 700 megawatt to 1 gigawatt.

Jan Bruggenthijns

Yeah.

Speaker

Nor there[?]. So – and this likely what you mean in –

Jan Bruggenthijns

That's why I say we are always a bit conservative in our approach so that's why we don't show[?] it. If you look at 70 gigawatts in 2030, that's taking that all in. Not the export, but Europe in total. So it's taking in the developments in Portugal, the developments in Spain and Poland and etc. – some Sweden stuff as well. We are very hesitant to take that in. So we always say, if you see the numbers that we've put in, in the expectation of production, that's what we really take the projects in that we foresee coming in in the coming three years, and that's our management expectation, you see there. And that's why we don't go any further than three years looking ahead, which is five years in connecting to the grid by the way.

Speaker

Is there's any chance that local content rules would also start applying to the foundation market?

Jan Bruggenthijns

Well, they can try but if you don't have any production facility, it doesn't work.

Speaker

Yeah, that's one of the key issues in the US as well. You have all the rules per state and not on a federal level. I can imagine with default being in trouble that the UK will actually say, 'We'll crank up a lot of local requirements for monopiles or for foundations.'

Jan Bruggenthijns

Well, they – I spoke to them quite often and they are not – up until now they say, they don't foresee that anyone will be willing to invest to produce monopiles in the UK because it's not a viable business case. You can ask for it, but who's going to invest? And the UK government doesn't want to invest themselves because that was a big issue also in BiFab[?]. BiFab had a 40-million investment programme, which extended to 70 million at the end to produce in-house jackets and the UK government said, 'We are not going to support that.' And OGN[?] have the same ideas. And OGN now is – through all this, our partner is now producing jackets at the OGN [inaudible], but not in-house.

Speaker

But the UK more or less saw what it caused by tendering local with the [inaudible] big issue, making losses of tens of millions on one project. Do you see there that the UK is learning so that the tendering in that sense maybe can become more rational?

Jan Bruggenthijns

In the end, it's always a decision of the one who is developing the field.

Speaker

Yeah.

Jan Bruggenthijis

They make the decisions. And I think that coming back to the question you had before, EEW took over the facility in the UK which was partly also owned for 40% by plot[?]. And they are focused to make transition pieces locally in the UK, but it's known it's more expensive. And up until now results were not too good, I can tell you. So, it's very difficult to set something up in the UK to make money with. I think the only one who's successful in that now at this stage is [inaudible] who rented a yard and it's a very efficient way of building jackets now for Beatrice.

Thijs Berkelder[?]

Can I ask a question about the 2017? And it was a bit dominated, especially in the beginning of the year, for all these recurring and non-recurring issues. That's how the expansion multiple or the training of crews, the double painting, all those kind of things, which I would say a safety cost involved to them[?] a bit underestimated. To me things that are quite normal if you set up such a big plant in the new area, there also much have been positive surprises because – I mean one thing you mentioned is that the oil[?] loading time for the installation vessels much quicker. To me that seems as a major competitive advantage because that saves the ultimate customer a lot of money or maybe the subcontractor like GOC Oil or [inaudible] if they know that so they probably are able to share that kind of gains with you. You also have the ability to store the monopiles outside the factory, which makes you more flexible in terms of production and you can setup the transition pieces to coating, to painting – it's all concentrated there. So, are you already willing to say anything about if you have, let's say, a production year like 2016 what the impact on profitability might be if all those things – the recurring things have been – the non-recurring thing has been smoothed out and then taking also advantage of the positives?

Jan Bruggenthijis

Well, as you know I'm leaving so I'm not going to say anything about the future. But yes, we have big advantages with our location in Rotterdam especially with all the projects that are projected in UK and Northern France, in Belgium and the Netherlands. Yes, we see that was a good cost saving for the loading of the monopiles and transition pieces. Will it be passed on to us? Unfortunately, not. And that's something that will be passed on to the end customer by the installation company.

Thijs Berkelder

You're mitigating the price – the potential price pressure by that, I would say.

Jan Bruggenthijis

Of course, of course. But in the end, of course, it's known to the customer because they have their supply[?] is also on site, so they see it. The good thing is that, not all of our competitors is able to do this, what we do. That's where we have the competitive advantage. The storage area we have is the largest storage area that we all have, of all the competition. Even taken – the only one who might have this also is Blyth, but they cannot produce the large monopiles, and they are not located at a convenient location for the projects to come.

So, you see that's what we – on purpose that's why we wanted to go to Rotterdam, the Maasvlakte, because that was the competitive edge. Like I said before, the whole key for us is deliver on time, to deliver the right quality within the budgets, as agreed. That's where they focused on. And I think if we don't kind of focus fully on the production, which we couldn't at first of 2017, yes there's definitely opportunities to have higher efficiencies at the results.

Thijs Berkelder

Okay, that's clear. And also, the fact that you also took a project on, on which you're also now responsible for the design. Has that to do, for instance, with what you mentioned earlier that if you get a new project, you have to basically set up the production lines a little bit different than if you had to do a lot of manual welding, you probably don't want that. So if you take over the decision to do that, then you can drive the design of the monopile in order to make it more efficient for your production facilities? Is that one of the reasons behind it? Or is that –

Jan Bruggenthijns

You could be our competitor. Yes, Thijs, that's correct. The reason that we did this was that we have more influence in how the design will be. And it fits us even more seamless than if it would have been after discussion, if the design would have been with us not being involved.

Thijs Berkelder

And it also saves the end customer another interface?

Jan Bruggenthijns

Of course, yeah.

Thijs Berkelder

Yeah, okay.

Speaker

I have a question of Sean McLoughlin. How should we think about contribution per tonne in 2018 for this – or for 2017 levels and going forward into 2018, 2019 and 2020?

Jan Bruggenthijns

2021?

Leon Verweij

2021, 2022? Okay, hello Sean. So I understand you're listening in as well. Well, I'll try to answer that the best as possible. First of all, 2018. You have to keep in mind that 2018 is a very peculiar year. We are right now finishing off some of the jobs we were already working on in 2018. We also mentioned that for de-risking purposes, we have subcontracted a part of another job. And that situation, of course, drives very much a contribution level per tonne, as you're asking for in 2018. Second to that, what we said is we are in exclusive negotiations for another job which we could produce in 2018. But that is a job that also could have been produced in 2019, like Jan just said. So you can imagine that that job, if being onboarded, has been gained by Sif under a huge, let's say, commercial pressure. That all drives, of course, contribution level for 2018.

So looking at 2018, my expectancy is that looking out for the whole year, the contribution level will be lower than the level in 2017 which, of course, is a very – is due to the current market situation. Going forward, looking at 2019 where the situation seemingly quite changes back to another situation and then looking a little bit sideways to a long year plan, we see contribution margins – at least that's what our expectancy is – coming back to levels of somewhere between 2017 and 2016.

So maybe, Jan, you would like to add something to that, but I think that describes the situation. 2018 is very difficult. I mean everybody can imagine that we did everything in our power to further[?] the production. That doesn't necessarily mean that you get the best price because the customer also has the possibility to produce this in 2019, which we also would have been happy to do but we could have – we have in 2019. So that has cost us margin. As simple as that.

Jan Bruggenthijns

Yeah. The other thing a part of course of having this project in 2018 also for us is that we can practice also the new setup sometime. So we are always looking, of course, for more optimised setups, which you can do that in a more moderate way. If we would produce this project, it means that we are not producing in the weekends, for instance, but just within the normal days, the working days and in three shifts per day. So we will work for five days, 24 hours. The good thing is, then, you can optimise also. You have time to optimise. And if something is not optimised yet, then you can, say on Saturday for instance, you just do some recovery.

So that's why we're also not intent to be very aggressive on other – in other projects on the market. It's just optimising, optimising, optimising all the time for this year. So I think it suits very well in that sense. And also we can look at how to optimise the lines and the equipment.

Speaker

As a check there, you mentioned for Maasvlakte now 200 kilotonnes as full capacity. That's based on seven days a week, 24 hours?

Jan Bruggenthijns

Nearly, yeah.

Speaker

Okay.

Jan Bruggenthijns

Yeah. That's always the same. Maximum capacity always based on the maximum –

Leon Verweij

Well, not all companies.

Jan Bruggenthijns

– profits[?]. That's why I always say that if you go over 100%, there's always a big danger because then you have no spare time left anymore. So you have to run your facilities, always at 80% to 90% is the best way to run them. And sometimes, you peak. That's how last year-and-a-half we got a peak for year-and-a-half.

Speaker

A follow-up question from Sean. He wants to know if we are competing for projects in subsidy-free auctions.

Jan Bruggenthijns

Well, without being arrogant, I think we might say that we are involved in all projects at this stage at our market.

If the question means are we involved as a partner in these projects, no. We are free on the market and we focus on the parties that are now bidding on the subsidy-free projects like for instance Oseberg[?] site. There are multiple entrants who are willing to look at this project to build it subsidy-free and we are connected to, as far as we know, all.

Thijs Berkelder

Is there – additional question. Thijs Berkelder, ABN AMRO. Floating wind is progressing, the Statoil project is live, up and running. Statoil is looking at a big rollout of floating offshore wind based on the floating spars. What is your expectation on your role in floating wind going forward?

Jan Bruggenthijns

Well, first of all, we are following very closely. We are involved in one or two of these experiments, as I still call them. I even think that even Statoil spar is still an experiment, because it was fairly expensive, as we all know, and it could only be materialised after, presumably, a lot of subsidy and additional cost for Statoil. They are looking at how they can improve it, how they can cut the cost. And I talked to them about these issues but I see floating has still some challenges to go. I only have to mention, for instance, the mooring[?] costs, which is one of the big issues. And we are thinking with some partners about how we can bring floating to the market and our approach is that floating should be cheaper than the jacket. The jacket is the first one to be replaced by floating, rather monopile. That doesn't make sense.

Speaker

No further questions from the audience? Then this is the end of the presentation. Thank you all for listening in. Thank you all for being here. And we can close the web chat now.

Speaker

Thank you, Jan.

Jan Bruggenthijns

Thank you.