



Sif

HY 2019 Results

Friday, 28th August 2020

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Fred van Beers: Good morning, ladies and gentlemen, and welcome to the Biannual Sif webcast. This morning we published interim 2020 results, and we are here to elaborate on this release and to answer any questions you may raise.

In line with social distancing recommendations to fight COVID-19, we again decided to do a virtual presentation of results. This time, however, with the faces of our CFO, Leon Verweij, and myself, on your screen in an attempt to bring a bit more connectivity. Let's see how it works out.

The slides we use for this presentation can also be found on our website. And a transcript of today's webcast will be posted on our website shortly after this presentation.

Talking about COVID-19, we are pleased to inform you that none of our employees personally suffer from COVID-19 and that our sickness leave has more or less normalised after the spike in the period March, April, May. Meanwhile, all our office staff is back at work in our offices in Roermond and Maasvlakte with stringent precautionary measures in place like workplace screenings, walkway corridors and obligatory facemasks for people not able to keep 1.5 metre distance.

Our policy to proactively send people home when showing signs of illness like fever or coughing has remained unchanged. In principal, meetings are online via Teams, etc., and only in specific and limited occasions we deviate from this policy. So let's please go now to slide number two.

Let's move on a bit with an update on how our business is actually developing. First of all, our new activity marshalling and logistics services is growing nicely despite some delays in the ordering pipeline due to COVID-19 and oil and gas downturn effects. Besides the steady inflow of relative short-term and quick turnaround small orders, we managed to book a third sizable order to support the final assembly of floating offshore wind units at our quay at Maasvlakte.

This in addition to the successfully completed order for DEME on marshalling for the Borssele 1-2 components and the order for marshalling and logistic services for Siemens on the Hollandse Kust Zuid turbines starting from December 2021.

Let's move on to slide number three. In our core activity, we reached a milestone by delivering our 2,000th monopile since we started this activity some 20 years ago. Hand in hand, with the increase of wind turbine sizes from 1.5 up to 12 to 40 megawatt, the monopile has shown similar growth. In addition, the number of foundations per project has grown over the past two decades from around 10 units on average at the start to some 80 to 100 units today.

This puts pressure on production capacity and competences but also on the installation process offshore. In cooperation with industry partners, Sif is in a permanent search of innovations to help facilitate solving the associated challenges. The Skybox for example, an innovative TP-less design that we launched at the London exhibition, is a good concrete sample of this approach.

The design is well received as the standardisation and simplification compared to the existing technical solutions, looks promising in order to reduce the levelized costs of energy in foundation designs.

On the Skybox solutions, Sif works very closely together with DOT, Delft Offshore Turbines in order to incorporate that innovative slip-joint solution in the Skybox design. The slip-joint connection was successfully applied in the Borssele 5 project, which was produced by us in the first half of 2020. This example illustrates that we aim for cooperation between professional players in the industry in order to materialise innovations faster, make sure the wheel is not invented twice and as such help to reduce the cost of renewable energy.

Let's move onto page four. If we look now at the overall offshore wind market, the ambitions had been raised again by different countries both in Europe as well as in other parts of the world, mainly the US and the Far East. Total installed capacity in Europe, I mean in the North Sea, stands at some 23 gigawatt according to Rystad Energy in their 7th May 2020 report.

Global installed base is approximately 29 gigawatt according to the Global Wind Energy Council in their 2020 global offshore wind report. In our press release of this morning, you can learn a little bit more about the build-up of this 23 gigawatt over the last 20 years.

In short, this implies a one gigawatt increase per year in Europe. Today the ambition of the Netherlands alone is already 1GW annual increase for the next 10 years. It is expected that by 2030 installed capacity will be close to 100 gigawatt in Europe and 234 gigawatt globally. Already for some years the levelized costs of electricity generated by offshore wind can compete with any, less sustainable source of energy, and a growing number of countries in Europe now build unsubsidized offshore wind farms.

All this potential is clearly reflected in the tender pipeline we are working on which gives us a confident feel for the future orderbook. Operational facts for today however are not as stable due to the gap in the order book because of the missing Vineyard Wind project (104 kton), the inefficiency effects due to COVID19 and the start-up of two new projects in parallel. In the first half of 2020, we produced 76 Kton against 94 Kton in the first half of 2019. In the first 3 months, we mainly manufactured for Borssele 1-5 and Triton Knoll. During the second quarter, we started manufacturing for Akita Noshiro in Japan and for Saint Nazaire in France. The start-up of new projects has its own dynamic, also in terms of Profit and Loss and cash flow. Leon will explain more on this later on. An unprecedented dynamic came through the effects of the outbreak of COVID19, effects that were not foreseen to this extent in many risk analyses. It led to higher sickness rates and absence levels that had an impact on productivity. Counter side of the very strict measures we put in place from the very first days of the start of the pandemic is that we (so far) managed to keep COVID19 out of our organisation. Please turn to slide 6

As far as new work is concerned, we added three projects post-closing year 2019 and after the shelving of Vineyard wind. The Akita Noshiro project for Japan we already discussed. It was added in the first half of 2020 and production started in the first half of 2020, as well a very turnaround time with a relative newcomer in the market, which had its impact on the efficiency of the project handling process – programme as such.

Overall we managed to establish a good cooperation with our new Japanese client Kajima though. This project could partly fill the gap that the cancellation of the Vineyard wind project left behind. The other two order book additions are on an exclusive position basis. One concerns an already announced 130 kTon OSW project and the other comprises 70 MP's (70 kTon) for a North Sea OSW project we announce today. Combined they add approximately 200 Kton to our

orderbook for North Sea projects for the period 21-23. My colleague Leon Verweij will explain how this translates into numbers. Please turn to slide 7. And I hand over to Leon.

Leon Verweij: Okay. Thank you. Thank you, Fred, and good morning to all as well. I see the camera turning to myself. Now, how did all this translate into numbers? Fred already mentioned the 76 Kton production output. With 41 Kton Q2 was better than the first quarter with 35 Kton. Contribution for the first half year 2020 with € 45.7 million was almost equal to first half year's 2019 contribution. It translates to € 602 per ton for the first half year 2020. This is in line with our guidance of low 600's for contribution per ton. The first half year production was under pressure of COVID measures, and consequently also the result due to lower levels of completion. Our clients shelved some smaller projects and project- handovers were delayed. Sif applied an aggressive quarantine policy which led to higher sickness leave and absence rates. Together with replacement of Vineyard by the new project Akita Noshiro and the pulling forward of production of Saint Nazaire, this caused production delays and inefficiencies. Working capital was negative with € 64.5 million. This is a snap shot situation and may vary overtime depending amongst others on status of projects, invoicing and payment behaviour. Net cash excluding ground lease effects subject to IFRS16 was at € 38.3 million. Under IFRS 16 the lease of land is treated differently than before. The impact we discussed in earlier presentations and can also be found in our annual report 2019 that includes a bridge from IFRS to Dutch GAAP.

The order book for 2021 and beyond is 300 Kton of which 200 in exclusive negotiations. These are the 2 order book additions Fred referred to in his part of the presentation. Please turn to slide 8

As explained before, we look at contribution as a performance indicator. It reflects the pricing of projects in the market, corrected for costs of steel and other materials. Steel is often half of total revenues and a pass-through cost for Sif. On a quarterly basis, contribution per ton may be very volatile. We therefore rather present this performance indicator on a half year basis. This gives a better view of the trend we see in the market. And as indicated earlier, we realized contribution margins of low 600's per ton in the first half of 2020. Please turn to slide 9

We discussed working capital and net debt (or net cash at this point of time) already. Here you see the development over time indicating that this is a snapshot situation rather than an indication of structural working capital requirement. It also indicates that Sif has conservative financing and with a good year, combined with maintenance CapEx only, can easily become a debt-free company.

Last year we had investments additional to our maintenance CAPEX in coating facilities and production adjustments following PISA regulations. Our estimates were that PISA adjustments would require max € 34 million. In total € 10.5 million was committed in the first half of 2019 of which €6 million for coating facilities. Further investments under this heading are frozen and will be invested as soon as the market demands this. For the remainder of 2020 we have not planned CAPEX in addition to our maintenance CAPEX of approximately € 8 million on an annual basis, except for Capex required for the execution of HKZ. And with that note I hand back to Fred. Please turn to slide 10

Further investments under this heading are at this moment frozen and will be invested as soon as the markets demands this. For the remainder of 2020, we have not planned any CapEx in

addition to our maintenance CapEx of approximately €8 million on an annual basis, except maybe for CapEx required for the execution of Hollandse Kust Zuid.

And with that note, I hand back to Fred.

Fred van Beers: Thanks Leon. And please turn to the next slide. Let's move on with slide number 10. The heading of our closing remarks basically hasn't changed much over time. The market for offshore wind is growing. We used analysis of different industry consultants to substantiate this heading. This time we show you a recent (June 2020) graph by GWEC. They made projections to 2030. It connects to the table by Rysted energy of May 2020 that we used in our press release. Prospects for offshore wind are good and getting better all the time. We are in a healthy market with a leading product. We are market leaders and well situated in Rotterdam for especially the North Sea based OSW developments which is still the strongest market- segment. Competition is developing and we try to stay updated on both the existing and new developing players. We take signs of possible new competition very seriously and follow developments closely. For example, the recently by the South Korean producer of tubular steel products, SeAH announced investment in a new plant in the UK. Supported by the UK government SeAH plans to build a 100 MP production facility at a not yet decided location. It will require (at least) 2 to 3 years' time to get it up-and-running. Like with all others we will monitor them closely and timely update you on changes we notice in the landscape. Please turn to slide 11

Our outlook for 2020 remains unchanged. We expect to arrive at 170 Kton total production with an EBITDA result at the level of 2019. Our order book for 2021 and beyond stands at 300 Kton. Thereof 200 Kton is reported as exclusive negotiations. Tender activity in the market as a whole is high with various large projects entering final stages. Hollandse Kust Noord, Doggerbank A-B-C and Sofia to mention a few. Also, outside North Sea, activity is high and specifically In the USA the tendering is proceeding despite unclarity on the outcome of the environmental permitting process by the federal government. Overall, the present tender pipeline combined with the growing market demand and bearing in mind the possible successful entry of new competitors in the market make us confident that we have to continue our efforts to increase our production capabilities in our existing facilities. This to further increase both our production output and planning flexibility.

For now, this is what we had to add to the release and the slides and I cordially invite you for questions. If you follow this webcast on the internet, you can use the specific button to put up a question or remark. This was the final slide of this presentation. Thank you for your attention and first question please.

Questions and Answers

Speaker: The first question is, what is the approximate kiloton quantity of tenders you see coming up in the next 12 months? Question by Ron Adtech

Fred van Beers: Well, thanks for that question. There is various ways to answer this one because if you look at the total tender pipeline, it goes up to something maybe, not even calculated completely, but up to 800 kilotons or so. But that is also taken into account various

stages of the tender itself. Some are in the budgetary phase, others are in the final stages of completion.

Speaker: Okay. A question from Turner Holm. What do you think of the recent announcement that the South Korean company is planning a monopile factory in the UK? How and when do you think could affect the competitive landscape?

Fred van Beers: I referred already a little bit to this. It's very fresh news indeed last week. We are putting an analysis together. We think that this capacity will not affect too much our position with increasing demand. The other thing is as mentioned that we believe it takes at least three years, I would say, before they can enter the market.

To our knowledge they don't have any experience on the production of monopiles, but they are a respected party when it comes to tubular product.

Speaker: Thanks. A question by Nikolai Ødegaard also from Clarkson. How do you see pricing and contribution margin developing in 2021?

Fred van Beers: We still maintaining our position that we believe a 600 plus sold margin is absolutely doable and there are no signs that that is much under pressure. And the real gain, I think, that's worth mentioning here as well, we – as you know, we have stepped into this design service as well. We clearly notice that by clever designs you actually can make big gains on total cost of product without sacrificing on the margin of your product itself.

Speaker: Okay. Question by Andre Mulder (Kepler). You mentioned 230 kiloton at the end of Q1. Now you mentioned 200 kiloton. What has changed?

Fred van Beers: I'm not so sure where that comes from? What I could imagine in that the theoretical capacity of the company is in the range of 240, 250 kiloton and that I'm assuming certain order intake for oil and gas, you could come close to that number but basically we have not changed our order backlog.

Leon Verweij: Of course, the order book is 300 kiloton, of which 200 kiloton in exclusive negotiations.

Fred van Beers: So I'm ready if there is more specific to that, please ask again.

Speaker: Question also from Andre Mulder. Can Haizea and Bladt produce XXLs or do they only do small monopiles?

Fred van Beers: Well, I think Bladt is able to make an XXL, one every 10 days which is a bit of an issue when you want to build a project. Haizea definitely not. The layout of their factory is such that they will not be able to make.

Leon Verweij: Okay. We received some questions by mail from Henk Veerman from Kempen. First question is relating to working capital. The question is, can you give an indication of the expected working capital in the second half of '20? Will long-term average working capital be around between €10 million and €20 million positive or whether it remains sustainably negative in upcoming years?

Well, like I said in the presentation as well that there are situation as far as working capital and net debt is concerned is a snapshot, which is actually due to receiving a prepayment on orders just before closing of June and the phasing of the project. So it really is a snapshot to what is the expectation as to working capital reversion in the second half.

Like we said in the past that especially looking at the cash flow, the situation that we have now will reverse to what we still expect to be the long-term average which is between €10 million and €20 million positive.

Okay. We mentioned already sickness leave is of course in the quarter related to COVID-19. Question by Henk Veerman: Do I understand correctly that people filed absence but actually returned home to their family? Is there any measure to prevent this in the future as in years with the full order book and file schedule, this may result in significant delays?

What happened is a couple of things. First of all, if we have people in our company with any kind of indication, like a cough or whatever, we not only send them home but we also send their colleagues home and sometimes we even sent complete crew to home for a couple of days just to make sure that if it was COVID-19, we would contain it to, let's say, a small group of people. So that drove up our sickness leave.

Second to that, especially we show that in March and April, is that we have higher people in-house sometimes out of countries not being in the Netherlands and they were especially afraid were no lockdown situation happened that they would be caught up in homes, couldn't go home without any income since they were afraid that the government would also shut down the factory.

What we did is we tried to convince them to be employed by us so, then we could solve the financial issue. But at the end, they rather went home, and of course if there was a lockdown they wanted to stay with their families and not in Holland.

Also that when the lockdown was, let's say, released, with some countries we have problem of people getting back because they were not allowed out of the country. Those are situations that we have to deal with. I think we're not in a position as Sif to prevent this. If this happened, it happens. So we have no specific measures in place to prevent this because I don't think it's possible, but we of course learned during March and April how to be flexible on this and how to shift around with your production, etc.,

Fred van Beers: I'll take the next one. Thank you. Thanks for asking all these, I think, very good questions. The fourth question Henk Veerman put on his list concerns production. Fred, you mentioned in your comments that production efficiency needs to improve. What kind of initiatives are being taken to increase stability and efficiency? Do you actually believe more measures need to be taken before company can produce the true capacity for a full year without running significant project risk? That's a lot of questions basically in one question.

We spent last half year actually a lot of time and energy in a few things to improve the efficiency. First of all, mapping again the process, the optimum process between Roermond and Maasvlakte, one of them. I mentioned this a few times before. And in order to do that, we needed to find a good balance between existing experience in the team that we have and new knowledge and experience from outside Sif, meaning that the team for production and operation has been partly renewed and newcomers have been added on that are now in place, understand the situation and working on that part of the game.

The other one is preparation. We know very clearly, also in relation to the project list, that a better and more detailed work preparation and planning preparation brings a lot in order to reduce the risk later on and increases the efficiency. So that's why our operational organisation

was changed a bit and the operation office is now in charge of making a very detailed planning and also running, for example, a few tests and simulations before we actually start any production process.

The third one is that we have said let's more have a better and detailed look at what equipment tools are needed in order to optimise the flow of the project through the production. We mean that also Leon and myself are constantly being informed about small changes that are needed in the production. Why they are needed and what it means to the picture. And that works pretty well as we notice now, for example, in the preparation of projects at hand. That's basically a few of the highlights of what we're doing besides training and information and communication and what have you.

The next question concerns the low water levels. Water levels were dangerously low again this summer and always represent an operational risk. What can be done to mitigate that impact especially in the years with higher production schedule?

Thanks for asking that question because indeed we had a very dry period here again, but did not have any problem with the water levels or supply of material. Although we have cautiously watched it of course and monitor that, but you clearly notice that the water management policy of the local government has changed. So from a policy where water had to be carried out of the country as quickly as possible, there's now a policy in place to keep water as low as possible in the country to avoid in the situation that we faced in 2018. So despite the hot summer and the dry summer, we did not see any problem in the transportation of steel to our facility.

Last question by Henk Veerman relates to the expansion. Fred, you mentioned in your comments that the existing company will most likely be very busy with projects in Europe and that management is looking at opportunities outside of Europe. Are you referring to the existing operation in Japan and opportunities in Asia? Or does this comment relates to anything else in other parts of the world and maybe in other forms? And you've got us Henk here. It's Mozambique.

Fred van Beers: No. It's clearly definitely indeed Asia and also the US. We're monitoring them both, but as we have mentioned many times, we have small team in Japan. We now pretty successfully completed or nearly completed Akita Noshiro. And we see the Japanese market continuously developing. So we are in close contact with local governments and with potential parties, like we mentioned before, to investigate and put a business plan to go up to see if it's viable to go into that area and it is a positive development as it looks now. And we are also very closely monitoring the US.

We haven't changed our mind that we believe that first few years would definitely be realised with European supply, but we also notice that there are more and more hope giving initiatives to make, to increase the chances of being successful with a local US outlet there as well. But we will always, as we said before, if we do something like that, we will not do it without a very strong local partner.

Those were the questions raised by Henk.

Leon Verweij: I think that we skipped one.

Fred van Beers: Did we?

Leon Verweij: Yeah. We skipped the third question, which is about the number of permanent staff which Henk said to increase to 314. And his question is whether these hires are related to production or other functions, where he makes the remark that in 2019, we also hired more staff that was not directly related to production. This led to an increase in personnel cost. Why does the organisation need these people?

Well, you're correct, the number of permanent staff increased. I think in general the majority of this increase is production related, yeah, like you know, and we said we're more like rebuilding our production organisation. But it's not only production. It's also quality assurance. It's also health and safety, etc.

Fred van Beers: But also redundancy of critical.

Leon Verweij: But we also made some people redundant and replaced them. Next to that, we've always said that looking at the build-up of our staff, we are far too dependent on external temporary hire, yeah, so we also have a policy in place to increase the permanent part of our staff, because it makes, as we see with COVID-19 uncertainties, you benefit from the fact that you have more stable permanent base.

Why do we need those people? I think it's – to put it in a short phrase, our clients have become more professional. The market has become more professional, and we have to increase our professional as well. And basically this is usual.

Speaker: Thanks for having that one. Next question by Turner Holm from Clarksons. Can you provide more detail on the timing of the backlog? Do you have enough backlog at this point to reach full production capacity in 2021?

Fred van Beers: I'll take that one if you switch the camera to me. Yes, to simply answer, yes. We are very confident that for '21, we will be faced by the very nice order book on the wind side. The oil and gas side of the game, as we all know, is not looking promising at all and that is still a big chunk of our capacity. We can use that personnel capacity for wind, but we can't use the equipment and the manufacturing space for offshore wind.

So if you then look at our kilotons for next year we believe that we will be full on that. And it's a matter of time I would say – I have to say that differently- manpower restrictions at customers have a bit delayed the announcement of the [inaudible].

Speaker: Question by Maarten Verbeek. Could you provide more insight on your contract win for the logistical services for final assembly of five floating offshore wind units?

Fred van Beers: No. We – I think these units will be that everybody will see when they are being completed, but it is unfortunately an agreement with the customer that we do not announce more than what we just announced. But what I can tell you is that they are big that the reason for coming to us is because of our facility both of the space we have and the ability to come with very heavy crane equipment etc to complete these units before it goes out to the permanent location at the North Sea.

Speaker: Okay. Question by Lotte Timmermans, ABN. Would you increase your capacity if demand is there? What kind of investments would be involved?

Fred van Beers: Thanks, Lotte. Now let me try to answer this way. We – as you may know, we have given the market a signal that for the moment we are not going to produce anything

above nine metre. Why? Because we first want to learn how – what is the best technology in order to be able to produce monopiles above nine metre at a level of four monopiles per week in an economical viable way.

We are very seriously looking at that question at the moment as we speak, because we also believe that in three, four years' time we should be able to make these king size monopiles. And what that means, how that translates into actual investments or capacity is still to be seen but it's definitely on our strategic agenda.

Speaker: What – also by Lotte Timmermans. What kind of impacts had the absence and sick leave on your first half EBITDA?

Fred van Beers: The camera needs to swing again. Can I give it to you, Leon, or do you want me to answer?

Leon Verweij: Well, I think that you can do the calculation yourself. I mean, if you look at – we are now at sick leave rate which lies between 4% and 4.5%. And during the months March, April and partly May, yeah, we were at levels around 10%. So if you take the difference and just apply that on the personnel cost, you have a very good indication.

Speaker: Final question by Lotte Timmermans. The Vineyard permit is scheduled for December. Do you still consider this a potential project?

Leon Verweij: Okay. The camera is now here. Yeah. We always said we continue talks with Vineyard. We still, in that sense, continue to talk with them. We consider it still a viable project. But the world is continuing, order inflow is continuing, tender processes are continuing. So I think that once it really comes to the market, the question is whether we could fit it in between the other jobs we are probably taking.

So we keep it in the air. We keep moving. Yes, it's still a viable project. But the question is does it fit us in combination with the other jobs we have.

Fred van Beers: And if I may add to that to, Leon, the overarching question also is how the project will landscape, yes or no change after the election because we clearly know that there is still a lot of political pressure at this moment that jeopardise the issue of workable permits, let's say, coming out in December. That's a big question-mark. And I think the whole industry is waiting for the answer.

Speaker: Question by Maarten Verbeek.

Leon Verweij: Maybe to add something, it's at the moment not only Vineyard.

Fred van Beers: Correct. The whole US.

Leon Verweij: The whole US is waiting for some clarity and on the back of that you actually get requests for other jobs in the US, substantial jobs in the US. And what we see is that, let's say, the whole supply chain is more or less hesitant to enter into talks or quotations because everybody is waiting for what actually is going to happen in New York.

Speaker: Okay. Question by Maarten Verbeek. This year's utilisation rate is some 70%. Do you expect the contribution margin of low 600s? Could you indicate what this contribution could be at 90% utilisation rate?

Leon Verweij: Utilisation rates.

Fred van Beers: And contribution per ton.

Leon Verweij: I mean that the utilisation as such has no effect on the contribution per ton. I mean, the contribution per ton is just simply, let's say, revenues minus your material cost minus your subcontracting cost. So in that sense, the contribution per ton is not influenced by any utilisation rate.

Speaker: I think that was the final question.

Fred van Beers: All right.

Speaker: So if there is no further questions – there's one here by Ron. What production capacity do you see Sif having by 2027-2028 in kilotons?

Fred van Beers: '27 and '28. Definitely, the one we have today whereby the big question. I just talked a bit about what implication of over nine metre diameter would have. Before I answer on that one, we can't say much but we definitely believe that what we have today should be filled from day one. But what does Japan do, how did US work, there's a lot of question there to be asked?

Speaker: And I think this was the final question and I think we can close them here.

Fred van Beers: All right. Then ladies and gentlemen, thanks a lot for asking all the questions. Hopefully this setup worked a bit better. Leon and myself are a bit worried because we can't see who is on the line. We would like to see faces next time again as well. Hopefully that's possibly. Hopefully it can be a face-to-face meeting. And if not, then we will work on this setup a bit more to bring as close as possible to a face-to-face meeting. Thanks a lot. Take care. Stay healthy and have a good weekend.

Leon Verweij: Thanks a lot. Stay healthy and thanks for your interest in Sif. Bye.