

# **Vestas Wind Systems A/S (VWDRY) Q2 2024 Earnings Call Transcript**

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**Body**

Vestas Wind Systems A/S (VWDRY)

Q2 2024 Earnings Conference Call

August 14, 2024 04:00 AM ET

Company Participants

Henrik Andersen - CEO

Hans Smith - CFO

Conference Call Participants

Ajay Patel - Goldman Sachs

Kristian Tornøe - SEB

William Mackie - Kepler Cheuvreux

Daniel Haugland - ABG

Casper Blom - Danske Bank

Akash Gupta - JPMorgan

Deepa Venkateswaran - Bernstein

Colin Moody - RBC Capital Markets

Sebastian Growe - BNP Paribas

Vlad Sergievskiy - Barclays

Claus Almer - Nordea

Ben Heelan - Bank of America

Sean McLoughlin - HSBC

Henry Tarr - Berenberg

Lucas Ferhani - Jefferies

Presentation

Henrik Andersen

Good morning and welcome to our Full Presentation of our Q2 and also First Half Reporting for 2024. Clearly, you've seen it from Monday, the negative quarter for service, but also with a solid progress in most other areas. I'm sure we will talk more about all of these topics in much more details in the coming good hour. I'm also sure here that we will look at the trajectory for the full year.

And with that, I would like you to take us to the key highlights for Q2 and to some extent, first half. Key highlights for Q2 revenue of €3.3 billion. That is a revenue decrease of 4% year-on-year, affected negatively from the service and offset by higher delivery ASP from the Power Solutions. The service impacted by the adjustment to the plant cost service EBIT negative of €107 million in Q2 due to the approximately €300 million in negative adjustment and also there with no cash flow effect.

Underlying earnings progressing as expected, we've seen the turnaround in Power Solutions is on track and has improved EBIT margin almost 8 percentage points year-on-year from the Q2 2023. The order intake was 3.6 gigawatt. The order intake grew, therefore, 54% year-on-year, driven mainly by onshore projects in both Europe and Asia-Pacific. We'll talk more about that in a minute.

See a strong cash flow for the first half, adjusted free cash flow of €0.5 billion drives leverage down to 0.7% net interest-bearing debt to EBITDA. And then we narrowed the outlook, the turnover expected now between 16.5%, 17.5% and an EBIT margin of 4% to 5% for the full year and we will talk more about the outlook in details in the end.

So, with that, if we go to the business environment first. I will say the first two sections, the global environment and the market environment about the same. So, we've seen that the global environment still contains some of the geopolitical volatility.

I will also say we see that in a number of markets where the overall inflation are declining, but specific components rising and still wage and salary are sticky in certain local markets both in Europe, Americas, and to some extent in Australia.

When we look at the market environment, I think the grid investment is getting prioritized in key markets. We, of course, welcome then. We also can see that they're upgrading in general, and we can talk more about that in details of examples.

I think here, welcome to also Germany and U.K. Overall, permitting are progressing. The auctions, we can see that also with the budget increase from the U.K. There are really here political commitments to start getting this moving into concrete actions.

I think for us and both Hans and I will talk more about that at the project level, some of the supply chain normalization we have been speaking to are now also influenced with some of the regional disruptions. We know the Red Sea, which I'm sure some will have comments or questions, too.

But for us here, the main part is the second one where we see that the project execution are taking place as we planned. And we are working patiently through the low order margins back from prior to first half of 2022.

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Really important thing here is that we can see our execution have very little differences to what we plan to do, which is also one of the material contributions to the progress and the progressing in Power Solutions. But, of course, we are seeing a better ASP also to be executed.

So, with that, let me go to Power Solutions and give you the highlights of that. So, good order intake across our markets. The order intake ended at 3.6 gigawatts, up 0.54 compared to the last year has a good activity driven by onshore projects in both Europe and Asia-Pacific as well as the North Sea cluster offshore project with RWE.

The largest onshore project in the quarter was the 577-megawatt Golden Plains Stage 2 wind farm in Australia, potentially making it a revival of a very important market that is also finding itself in the middle of an auction process.

I also here point to the Golden Plains 1 was an order intake back in 2022. And it also just document the that is firmly with that the best way of getting the next project done or in the order books is executing well on the first project or the existing projects. And at least with this customer in target, we are well ahead in the Golden Plains 1, which is a project approximately hour and a half outside Melbourne.

In the quarter, the ASP increased to €1.21 per megawatt in Q2. Of course, that's helped by mix effects from scope with a higher share of EPC orders in the quarter and a continued very good commercial discipline.

Also the highlights go back and see the first order coming in, in Golden Planes. There, you will also see an ASP. There was a significant influence by that in the quarter in 2022. So, to the right, you will see the order intake in onshore and offshore and you will see the specific offshore order here with the 660-megawatt and below the development in ASP.

With that, I'll go to the service and service remains a strong business area despite the question so we have raised to our own announcement from Monday. So, if we look at the highlights, the service order backlog increased to almost €35 billion from €32 billion a year ago.

The inflation indexation remains a key mechanism to protect backlog profitability. However, adjustment to plan costs impact current profitability. The revision has no significant effect on the service backlog nor the cash flow.

Enhanced focus on the operational excellence and cost-out initiatives to mitigate higher operational costs. We'll talk more about that. And at the end of Q2, Vestas had 151 gigawatt under active service contracts.

You'll see the breakdown to the right. Again, the backlog of €35 billion. And again, the average contract duration of 11 years on average in more than 80 countries and then you'll see the breakdown per region in below.

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With that, I'll go to the development business. And again, here, the Mississippi wind farm with Amazon as a main off-taker. And I will say here that's a heading, but the other heading that is still in the development business is a quality over quantity because it is about getting the quality into the development projects right now, which is also the underlying reason why you see a new secured pipeline who bring around.

In Q2, Vestas' development commissioned the Mississippi U.S. first ever wind project, the 185-megawatt Delta Wind project. Amazon will purchase most of the renewable electricity generated to generated to power, it's nearby operations.

The Vestas development experienced strong political support for new renewable energy projects, but faster permitting processes and new grid investments remain bottlenecks. There are still queues on some of the grid projects in and around our key markets in Americas and in EMEA.

At the end of Q2 2024, Vestas' pipeline of development projects amounted to 29 gigawatt with Australia, U.S., and Spain being the countries with the largest project pipeline. You will see the breakdown to the right again. And you will also see the breakdown of development pipeline in the regions attached to it.

With that, I'll go to the sustainability overview for Q2. And again, here, in the quarter, we've seen a lifetime CO2 avoided by product and shipped capacity increased by 11 million tonnes compared to a year ago. The carbon emission from our own operations decreased by 7,000 tonnes year-on-year due to the lower offshore activity leading to a reduced fuel usage.

This is something we will start talking more to because as you can see, when we are measuring this in approximately 100,000 tonnes of CO2 per quarter, we only need one or two project activities to, in reality, materially influenced this number. So, we will talk to it, and we will also talk to it as we start ramping up some of the offshore construction when we look towards 2025 and 2026 beyond.

The number of recordable injuries per million working hours declined to 2.8. We tirelessly work to improve our safety performance across our entire value chain. And of course, this one is we're never happy with until we are fast approaching zero.

With that, I will hand over to Hans for a walk-through of the financials.

Hans Smith

Thank you so much Henrik. And we turn to the income statement first, where we can see that revenue increased 4% year-on-year, affected, of course, by the adjustment to the planned costs and service also by lower volumes delivered.

But importantly, this was almost fully offset by the higher average prices that we have on turbine deliveries and Power Solutions, which is also indicating as it says here on the slide that the underlying business continues to improve in many ways.

Gross profit was €156 million, equivalent to 4.7% margin, again negatively affected by the service adjustment. However, the underlying Power Solutions business, as I said before, actually continues to perform better and better. We come back to that on the next slide.

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EBIT margin before special items was minus 5.6% and disregarding the effect of the planned cost adjustments and service, service EBIT margin would have been positive. As that, we are seeing the profitability significantly improved in Power Solutions segment.

Revenue increased by 4% year-on-year as we are seeing that the higher pricing that we have achieved on our deliveries can more than offset declining volumes that are being delivered.

EBIT margin before special items was sitting at around 0.7%. That's a substantial increase, almost 8 percentage points compared to last year. I think it's good to highlight here that this really evidences that the profitability is improving and that our commercial discipline sticks and that we continue to see that this division is getting into better and better shape.

Nonetheless, I would also like to point to the fact that also in this quarter, profitability remains hampered by execution and completion of some of the low-margin projects that we took in before midyear 2022. And as we've said before, and I would like to confirm that also again, we should be largely through this when we get to the end of this year.

That takes us to the service overview, and there's effectively no change to the slide here compared to the one that we presented earlier in the week. And we can see here how the adjustments to planned costs impact the profitability.

Service generated a negative EBIT of €107 million as a consequence of this and due to -- again, this is due to the percentage of completion method that we are using. And of course, that affects EBIT in the quarter.

The adjustment itself had a negative accounting effect of approximately €300 million or €312 million. And I should also stress that there is no cash flow effect in the quarter from this adjustment. And this regarding this, the earnings were pretty much flat year-on-year.

Service revenue declined 26%. And again, this is driven also by this adjustment. And I should highlight here as the last point, the transactional sales were a bit up in the quarter and that we had currency headwinds of 1%.

In the quarter, I would say we had a quite strong cash flow where the operating cash flow stood at €830 million. This is, I would say, a quite credible improvement compared to last year of €783 million, so basically going from 0 to €800 million. This was driven by a reduction in the net working capital, but also, of course, by the improved underlying profitability that we are seeing.

The adjusted free cash flow then stood at around €0.5 billion. This is also a significant improvement compared to last year. So, all-in-all, I would say a strong cash flow in the quarter is definitely what we have observed.

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I mentioned briefly working capital before. And here, we can see the composition of how that has played out net working capital did decrease in Q2 due to a decrease in the contract assets, driven by milestones from customers down and milestone payments in the Power Solutions segment, partially offset then by inventories that are a signal that we are preparing for our activity level in the remainder of the year.

So, I should say it is a development that reflects a very busy second half of the year, but at the same time, as we also saw in the cash flow I think well-managed in a way that we can be quite pleased about.

Turning to the investments. I'd like to highlight here that we are preparing still for the ramp-up of the production in both Europe and the U.S. And of course, in Europe, the main thing that we're investing in is the 236 offshore manufacturing platform, preparing for the first deliveries that we have next year in 2025.

But I'd also like to highlight that we are also investing into our onshore American footprint where we are ramping up production and where we are expecting for deliveries to come up in the coming quarters. And all-in-all, that takes us to the investment level of the €269 million that you can see here on the slide to the right-hand side.

That takes us to the provisions and to the LPF overview that you see here, where we can see that the warranty costs are improving further. But at the same time, we are still seeing an LPF sitting at an unsatisfactory level. It is improving, though, and there are concerted efforts going into addressing to taking this down.

We are seeing that some of these efforts are paying off, but I would also again point to the fact that we are still at a level that we are not happy about when you look at the graph here to the right hand side.

Warranty cost stood at €141 million in the quarter, which corresponds to 4.3% of revenue and that compares to a level of around 5% a year ago.

That takes us to the last page here in the financial section where we can see that our financial leverage is back within targets. And of course, that is driven by a combination of the profitability improvements that I've spoken to already as well as the cash flow developments that are also coming through in a quite good way.

All-in-all, that gives us a net debt-to-EBITDA ratio of 0.7, which compares, I would say, quite favorably to the 4.5% level we were at a year ago. So, I definitely say it's good to see now that we are coming back to movements and levels that are let's say, less dramatically than what was the case if you go back three, four quarters, so good development there.

Finally, let me point to the rating we have from Moody's Ba2 with a stable outlook.

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And that brings us back to you, Henrik, for the outlook.

Henrik Andersen

Thank you so much Hans and let me take you through the outlook. No changes to the slide you saw on Monday for sure. So, revenue was €16.5 billion to €17.5 billion and the EBIT margin before special items sits for the group between 4% and 5% versus previously 4% to 6%.

And the EBIT of the service business around €500 million, considering the €312 million adjustment in the quarter from previous €800 million to €880 million. Total investment sits around €1.2 billion. And all of this, of course, is based on the current foreign exchange rates for the remainder part of the year.

So with that, operator -- I just want to thank everyone on the call and also for some of the many discussions that have been over the last hours, and I'm sure we will look forward to see many of continue some of those over the coming days.

So, over to you, operator and Q&A.

Question-and-Answer Session

Operator

[Operator Instructions]

The first question comes from the line of Ajay Patel, Goldman Sachs. Please go ahead.

Ajay Patel

Good morning. I have two questions, please. Firstly, it's on the margin. So, if I take the performance over the first half in EBIT terms and the revenue and then take it from the midpoint of your new guidance, I end up with an implied margin of around 9% for the midpoint and that compares with your medium term target of 10% and consensus for -- before the prerelease of around 6%.

So, I'm just trying to understand, is there any one-off in that second half of the year? Or is it really like the 9% a genuine sort of 9%, clearly with higher activity that we should be thinking about as a driver going into 2025 where there are no -- very limited legacy projects compared to this year where we had quite a few.

And then the second question I had, I think it was just a clarification from the conference call. Now, you've highlighted this one-off cost on service and as a function of higher planned costs. And that should have its impact in regards to the margin that you would earn in future years on service. And I think you've made a reference to broadly having the same profitability as what you've been experiencing in the last quarter.

So, I think in the last six quarters was 21%. Is that the right way to think about it? And how that will then evolve into the future years as a starting point? And was there an assumption of margin within your 10% margin target, so that we can sort of reference where we are on the back of the news flow this week? thank you.

Henrik Andersen

First of all, Ajay, thank you so much for your questions and I can I can hear both of them addresses and leans towards the 10% EBIT target. But let me start with first thing first, you're right in terms of H2, there are no single effects on that.

So, it is, as we are also seeing here, it's the ramp-up we are doing, and it's also probably, as you can see on the numbers, when you do those comparisons even to also 2023, we have a busy second half of the year, and we also have a more back-end loaded second half of the year than we have had previously.

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And of course, that comes through with what we are seeing now on the assumptions that we are executing in an environment where we have less deviations, and we can see some of the ASP coming through. So, second half of the year, we get the operational leverage with the volume we are executing on. And of course, that leaning towards normal things.

But also here, and now we have had a long discussion after Q1 this year. Didn't just be aware that, that operational leverage doesn't sit in quarters where you only have €1.5 billion or €2 billion.

So, therefore, before you sort of extrapolate your 9%, 10% into this is the 2025. There will be quarters where we don't have that operational leverage also in 2025. And you will also have the ramp-up of offshore, which is not giving us the right critical mass in 2025.

On the service from that, as we said, it will perform accordingly to what we have seen in the recent quarters. We don't see an effect of what you're doing here to immediately on the coming quarters.

This is a backlog review of planned costs. And therefore, it's much longer than what you will assume in just being the future coming quarters as well. So, service profitability assumes you are having in your previous quarters in the model.

Ajay Patel

Thank you very much.

Operator

The next question comes from the line of Kristian Tornøe, SEB. Please go ahead.

Kristian Tornøe

Yes, thank you. Two questions from me as well. So, first question goes to the order ASP. There is obviously a scope impact in this quarter. But I also note that you stayed good commercial discipline and I think you said very good commercial discipline as a subscriber here. So, does this mean that there is actually an underlying like-for-like price increase in the quarter, ASP?

Henrik Andersen

I can hear every word needs to be said carefully here. Very pleased to see that we are progressing with what we are doing. The split also here indicates that we see it across a wide range of countries. So, for me to see that we are able to both keep and build on the commercial discipline, Kristian, is the main point for me. So, that's what I mean by very good commercial discipline across that many.

You can also see we have had a relatively large volume announced orders, which sits to the tune of 700-megawatt. Of course, that comes predominantly from close core markets in Europe and particularly also in Germany, which, of course, is also why we are welcoming it.

So, there is a very good mix in this quarter. And for some of you, I can see you also noticed that there was a line on the first of June, but we have continued probably what is a better momentum in Q3, beginning, but it also hints that there was things that probably got delayed from end of Q2 into Q3, but that's what you now see in the first weeks of Q3. So, actually pretty pleased with the commercial progress so far.

Kristian Tornøe

Okay, that's quite clear. Then my second question goes to the business environment slide where the supply chain it has turned yellow from green last quarter. On Monday, we learned that the inflation indexation in your service business is not fully compensating the expected cost increases.

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So, just reflecting a bit on the similar view for Power Solutions considering supply chain may be a bit more difficult. Should we expect that you are fully able to mitigate the additional costs through your decision and contracts and so on?

Henrik Andersen

We go from a green to an amber. I think what we also discussed before, the Red Sea and other things causes some time and cost discussions right now. We have strong partnerships, which puts us in a good position together with the partners to mitigate some of these I call it disturbances, we won't, in the long run, go on touch by that.

But on the other hand, that is then what it will also, to some extent, shared with our customers. So, in this sense, it's just a highlight that it seems to have gotten not any better, at least, and it starts coming to some disruptions also in some local areas in harbors and others. But so far, not really of a concern to any similar comparisons to what we have seen in the previous years, Kristian.

Kristian Tornøe

Very clear. Thank you so much.

Operator

The next question comes from the line of William Mackie, Kepler Cheuvreux. Please go ahead.

William Mackie

Yes, good morning. Thank you very much for the time. I have two questions. The first question relates to the outlook for the Power Solutions business in the second half of the year.

Just with respect volume, I note that your installation volumes in Q1 and Q2 were down 22% and 17%. But the guide you're giving for the second half implies a significant step up in revenue, partly driven by ASP improvement.

But can you give us some indication of your visibility and confidence in the step-up of installation volumes in H2 and if you see any emerging risks or opportunity to deliver there?

The second question relates to the efficiency opportunities in your service business. I note that you have 15,000 people or so in service, but some of their activities are being, if you like, pushed to deal with your warranty issues in the Power Solutions business, therefore, consuming employee time in service.

So, my question would be what opportunity is there to improve the efficiency of service as you work through your warranty backlogs and therefore, the people have more time to deal with your service activity?

Hans Smith

Yes, so I'll take the first one here, Will, and then I guess Henrik might take the next one. So, you're absolutely right that we are expecting to see a very busy second half of the year. And you're also right that we are seeing that prices are compensating for lower volumes.

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In some ways, that's also a good thing, right? Because then effectively, for the same amount of euros you are doing less than what you otherwise would be doing. And we have an organization that has been used to installing quite a few number of megawatts in very busy periods.

But I don't think we at the of admitting that it looks set to be a very busy set of quarters, Q3 and Q4. And if you look at, say, the implied Power Solutions guidance we have, you can basically go calculate it right, you will see that it's very back-end-loaded.

But as we have also pointed to, we are seeing good performance there. We are seeing an organization that increasingly delivers in the right way. So, that is what -- when we look at it gives us the confidence, so to say that things heading in a direction that they are heading, and that's a good direction.

That allows them to install what we're expecting for them to install in the second half of the year. But it is definitely true that when you look at the implied guidance, I don't know if you take midpoint to midpoint or whatever where you're looking at it, it is very busy, but that's what we expect now.

Henrik Andersen

And on the efficiencies and so-called also inefficiencies. I think you're right in the sense of when you work through the last couple of years, we have seen that we are investing heavily together with the 15,000-plus employees across the service business and in some areas than others, they are more affected by it. That triggers some of those comparisons, and we are doing that not only country-on-country, but also cluster for cluster on it.

And in there, there are what we also describe as inefficiencies. And we're measuring that in several ways. We -- of course, we are measuring it as a progress on the warranty and that goes into the repair and upgrade as we are also mentioning here.

But it also goes in the parallel thinking of what do we have as a backlog of tasks for normal business. And of course, that is a comparison we are working. And of course, that task backlog should trend towards zero been in the scope and the size of our business across the task backlog will never be zero.

So, for us, we can see that as task backlog has been higher, it's trending downwards, and that's good for us as well because that indicates that we are getting the efficiencies in parts of the service business back, but they are also parts of the service business where we are still having it outstanding.

That, I can promise you, and we are on it, both from a cluster and a country perspective, which is why we are addressing it and saying it's in Americas is in main part of Europe right now.

William Mackie

Thank you.

Operator

The next question comes from the line of Daniel Haugland, ABG. Please go ahead.

Daniel Haugland

Hi guys. So, I have two questions. My first question is compared to the Q1 guidance you gave the implicit guidance for Power Solutions is materially up. I think it's up more than 60% if you look at implied full year EBIT for that segment.

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So, what has changed versus Q1 to make that upgrade? Because I guess you already knew what projects were going to be delivered in the second half at the Q1 presentation. So that's the first question.

The second question is, you talked a little bit about how small revenue quarters, you will also see lower than the targeted 10% margin in 2025, and that obviously makes sense from an operational leverage perspective?

But if we more look at underlying profitability in terms of trying to estimate a gross margin, excluding warranty costs, should -- when we get up to a higher level in second half this year, should we assume that it kind of stays at that level or how should we think about that? Thank you.

Hans Smith

Yes, so I'll start here. You're absolutely right that we are seeing that our Power Solutions business is performing better. I was mentioning a bit also in Will's question. And I guess what we can say there is that we see better execution than what we thought would be the case.

We are seeing less risks materialize as well. I'd like to remind you that we have been going through quite a rough patch where it has been very difficult to predict exactly how things would play out in supply chain logistics at the sites, transport and a lot of other things.

And whilst we are seeing a more uncertain environment there, as Henrik pointed to, I would generally say, as I also said before, that we are seeing the execution machine, so to say, coming up in gear. Of course, it also needs to be a high gear based on what it needs to do later in the year.

But I'd say, relatively speaking, we are seeing better execution and say, risks not materializing to an extent that allows us to then form the view that we have done on the second part of the year.

It's, of course, also -- in some ways, you can argue it is the trajectory that we would like to be on, but I think it's also good to see in the first half of the year. And based on what we know now that it's also confirmed that, that's the direction it's taking.

Yes and then on your second question, let me just see if I can remind myself exactly of that one. I guess, if you're talking to the underlying profitability of what's going on there.

As I said, we are executing still on projects this year that comes from the old backlog, and we are generally seeing that our business continues to improve. So, if you look at it underneath, we are expecting also an underlying profitability journey to continue into 2025. But of course, there are all kinds of effects that plays into this. There's leverage.

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And even when you look at our numbers, there's also leverage in the gross profit that we are reporting for instance. But all things else equal, our hope would certainly be that we can continue to see this underlying improvement in the profitability journey we're on.

Daniel Haugland

Yes. Just to be totally clear there, should we expect that there will be quarters of low-margin projects also in 2025? Or given that you will finish the low-margin projects this year, 2025, the differences in margins for the quarters will be more due to the operational leverage?

Hans Smith

This comes back to something that -- I mean, we have almost forgotten it by now, but where there used to be also a situation where you didn't have all this turmoil. But we're also in the past, we have had good quarters, bad quarters, quarters with good projects, bad projects. That will always be the nature of what we sit with. So, you're going to have those fluctuations.

So, I think we are seeing -- we are getting back to that type of situation, but that does not mean that you can get hit in a small quarter if you have a small -- or a bad project in that quarter still, that might impact the numbers. But overall, we are certainly seeing that the profitability should continue to come up.

Henrik Andersen

I think what Hans was saying was that you see a change in gross margin, and that's the most important thing. And we're happy with that, then there will always be swings around that higher level.

Daniel Haugland

Very good. Thank you.

Operator

The next question comes from the line of Casper Blom, Danske Bank. Please go ahead.

Casper Blom

Thank you very much. A couple of questions from my side as well. First, I was hoping you could talk a little bit to the offshore ramp-up that you're doing you. Of course, you have mentioned for one that you start to -- you expect to have the 0 production of the 236 in 2025, but is -- should we think about this as something that just starts 1st of January and then it goes on through the year? That's sort of part one of that question.

The other is that where in the past, you had a target of €3 billion of offshore sales next year. I think maybe today, we're expecting more like €2 billion or so. Could you speak to where will that take the offshore business in terms of profitability? Will it be visible in the group profitability next year? And also sort of what is the kind of like hurdle rate in terms of activity to see the offshore business hopefully contributing to a group margin of these around 10%? That's the first question, please.

Henrik Andersen

Thanks Casper, quite a lot, and I'm pretty sure as a Danish person that has driving around, you will probably have noticed that there are heavily activity both and around both linear and [Indiscernible] where the primary ramp-up is going on. So, the ramp-up is happening as we are speaking, and it's not happening 1st of January because I'm pretty sure we will be way too late in some of the deliveries.

You've also seen that we put prototype number two up in the Danish West Coast. So, we are doing that and that means there is a lot of ramp-up going on, not only in serial manufacturing, but also in training and really getting service technicians to be in that offshore turbine.

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So, how do you change things? So that's happening as we speak. And of course, you can say considering that we are in a year where we are absorbing those ramp-up costs, and we're also absorbing those fixed capacity costs as we spoke about. That's not -- that's also going to weigh on 2024 in that sense.

When we look towards 2025, it's -- we have over the last quarters strongly hindered at the $3 billion. There's no need to pursue the €3 billion because we ended up probably having somewhere around €2 billion with the two projects we have in the pipeline. It's very visible because it's headed and its Baltics respectively, in Germany and in Poland.

And that is not yet for scale because there is that much going on when you're ramping up both from a tooling from service technicians and construction teams. So, the first €2 billion has all of the incremental investments into setting it up for the first time. So, when we then start building beyond €2 billion, then we will all start having a meaningful margin accretion, but it's not in 2025 for sure.

Casper Blom

Okay, that's very good, Henrik. Then my second question goes to your warranty provisions. As you mentioned, Hans, 4.3% of revenue here in the quarter, I suppose one could be cheeky and adjust the revenue for the €312 million and then you get down to 3.9%. Is that sort of like a turning point? And are you still how could you say optimistic in reaching the 3% level next year?

Hans Smith

So, first of all, you're talking about what is effectively very small numbers when you sit on a quarter like this with the €3-point-something billion of revenue and talk the say, decimal of 4.3% versus implied 3.9% and that kind of stuff. So, let's be clear, it's really not something that necessarily super meaningful.

What I think is important is -- and I see where you're coming from. And yes, I would like to say that it's good to see that it's coming down relatively speaking to where we were before.

So, we are optimistic still. I guess that's a message that we can continue to take it down. And as we also highlighted is to get it to around 3%. That is still what we're working on. And in that sense, this quarter is a good data point that things are heading very much in the right direction.

Casper Blom

Okay, great. Thanks a lot.

Operator

The next question comes from the line of Akash Gupta, JPMorgan. Please go ahead.

Akash Gupta

Yes, hi, good morning and thanks for the time. I have two as well. The first 1 I have is on the balance sheet. If I look at the solvency ratio, which fell to all-time low level of 12.4%. And when we compare this with your competitors, your level is quite below your peers and what you used to target in all times.

We have a big offshore ramp ahead of us and also the industry is going to grow a from the levels that we are at today. So, the question I have is that how do you see your balance sheet in order to take participate in the industry growth and they're successfully delivering on offshore ramp or anything that you would like to highlight?

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The second question, I have it on development unit. So, my understanding previously was that you do early stage development and you don't construct projects on your own balance sheet in the development unit.

But I see today, you talked about commissioning Delta wind project. So, maybe if you can clarify, is this on your balance sheet? Or is this a project that has been sold to customers and you were just mentioning because this came out of development unit? Thank you.

Henrik Andersen

Last thing first, announced well and long ago in the U.S. So, it is on behalf of customers. So, no worries with that, I guess. So, we're not spending unnecessary capital on our balance sheet on these things.

On the solvency, I think you bring up here and you also therefore, asking should there be any adjustments to capital structure and the clear and short answer is no. It's not an issue. We also had conversations with some of you in four quarters ago when our leverage KPI, of course, was significantly higher.

And you will also take a note of that after two quarters this year where you're not having a higher net profit. But if you then did do a trajectory with the coming quarters, where you have earnings picking up, then that is actually the best way of doing a recurring and a positive to your solvency ratio. So, the solvency ratio is not at the current level. Any issue and the retained earnings, of course, will help in that setting on the solvency as well.

Akash Gupta

Thank you.

Operator

The next question comes from the line of Deepa Venkateswaran, Bernstein. Please go ahead.

Deepa Venkateswaran

Thank you for taking my questions. So, I have two questions, both on the service business. So, firstly, I just wanted to discuss the outlook on the growth. Clearly, you've got the contract asset buildup, which should stabilize and start falling. So, could you maybe talk about near-term, what your expectations are on the top line growth for that business?

And then the second question I had is on the margin. So, could you clarify whether the backlog service margin is around this 20%, 21% mark? Or is it a different number?

And then, Henrik, you all sold on Monday that 25% is still a target. Can you elaborate anything on what's the time frame? Is it 2030, 2028? I mean anything? And what are the sort of actions you would to go from this 21% to 25%. So, yes, I think those are the two questions. Thank you.

Hans Smith

So, first, on the growth trajectory, of course, there is a link to the service assets you have on the balance sheet. But generally speaking, of course, we are expecting service business to continue to grow overall. That is clear. And I should point to the fact that there are many elements that goes into, say, how they service the business growth trajectory looks like.

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It's also a function, for instance, of how many turbines you install, how much transactional sales you have and a lot of other things. We'll get back to, of course, what that means then for next year once we're closer to that. But again, that is the expectation.

Your second question went to the backlog margin.

Deepa Venkateswaran

Could you just be a bit more specific, like maybe less than 5%. I mean, something ballpark like for the next two to three years, not just for 2025, but more because I think consensus is sitting at an 8% growth, at least pre the earnings. So, just wondering maybe with reference to that?

Hans Smith

So, we have said on the long-term, we have said that we would like to grow, say, market growth plus, and that would indicate an 8% to 10% level. That is what we have said, and that's what we are looking at on the growth side. I hope that gives you, say, a degree of indication of this.

Then on the second question on the backlog margin, I should say, we are not disclosing the margin in the backlog. But as we have also pointed to, of course, right now, when you look at where we are, we are saying also that we expect for the service business that it can deliver on the short-term margin levels are on par with the margin levels that we have been carrying out in past and prior quarters. And of course, that gives you kind of an indication of where we are.

You also point correctly to the fact that we have a 25% ambition level. And of course, that's what we're then targeting on the long-term and there are various initiatives that they are put in place and that we're working on to get us to that level.

And speaking to the growth part of it as well, of course, this is an EBIT margin target. So the fact that the business continues to grow also means that there's a degree of operational leverage in the business itself. That also helps in getting to that ambition.

Deepa Venkateswaran

Okay. Thank you.

Operator

The next question comes from the line of Colin Moody, RBC Capital Markets. Please go ahead.

Colin Moody

Hi all. Thanks for taking my questions. Just I wanted to ask about your conversation of customers on their willingness to invest, perhaps broken down by geography, i.e., U.S. versus Europe versus APAC?

Perhaps then as a follow-up to that, could you give us a little bit more set kind of timeframe view on when the U.S. orders should start to pick up again? Is it more like H2 this year, like 2025.

And then perhaps just a kind of quick follow-up then to the U.S. market question. Specifically, the IRA and the 45 tax credit more kind of a long-term question. Do you get to hold on to much of those benefits? Or is the market situation such that you have to share views of customers? Thank you.

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Henrik Andersen

Last thing first, as it is a tight market in the U.S., I think here, they are not that many that are basically a few of us delivering. So, it comes down to a question between us and customers on an individual basis. So, talking in general there, I think here, it's a market that works well. And right now, it's also a ramp market where there is, to a certain extent, some capacity discussions with customers.

And therefore, I think we are sharing and we are taking the orders we are happy with from a commercial standpoint in the U.S., and I'm sure everyone else are doing and prioritizing the same.

When it comes to customer conversations in the U.S. You have seen a number of U.S. orders coming through actually now in Q3. Some of those might have been scheduled to do in Q2. So, I think the U.S. market is still progressing. We don't -- I don't -- we don't see generally a stop, actually the opposite. So, people are keen to progress their projects. But of course, they are also only keen to progress their projects if they have all full permitting and also the grid access sorted.

So, I think those are the -- those are some of the bottlenecks right now. And I don't see any acceleration or deacceleration in terms of the IRA considering 5th of November coming around.

So, -- but as I said, been spending over the next two weeks, substantial time in the U.S. as well. So, I'm pretty sure an update on that. But generally, here, our commercial team is still very busy in the U.S. of planning.

Colin Moody

Thanks. That's very clear. Just on that, any kind of comments on the investment sentiment in the other regions, APAC and EMEA?

Henrik Andersen

I think, EMEA, it speaks its own language. It's ticking off, but it is also within EU 2026. It's a broad range. Some countries are doing not a lot. Other countries are reemerging as countries and you can see some of the orders specifically taking in some countries where that comes out a bit of a positive. Now, they restarted.

And I think you said in a place in the U.K., we're definitely what has been announced and done probably in the last or the first month and a half of a new government, seems to open an onshore market full. And potentially, we will know a bit more when we see the outcome of CFD around six on the offshore as well.

But that's a good hint of where we are moving. And of course, then in Asia-Pacific, we've seen various things coming through sort of reasonable thing on both New Zealand and Australia. And Australia is working through. their new policy and the new regime of auction, which, yes, I was in Australia in June.

So, therefore, it's imminent in the discussion in and around the organization of that and the government in Australia are very much leading towards a new program that takes five, 10 years aim for absolutely accelerating renewables. So, positive there. We've got a great team there. And as you can also see, we also have a tradition for executing on our projects well in Australia.

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Colin Moody

Very clear. Thank you.

Operator

The next question comes from the line of Sebastian Growe, BNP Paribas. Please go ahead.

Sebastian Growe

Good morning. Thanks for taking my questions. I also have two. The first one would be on Germany. Installations are apparently up about 20% year-to-date. Considering your historical market share of about 35% plus the significant acceleration we have seen in allocated option volumes over time.

Can you share with us how you see volumes progressing for you over time? And could this eventually really become a 3 gigawatt delivery market for you, if you could specify your thoughts around that one?

Then I have a quick follow-up on offshore. As you labeled of this wage inflation for the quarter two adjustment in the service business I'd be interested whether we earlier in a anticipate on the Power Solutions business in 2025 has further expanded as I said. And maybe you can also provide a quick update on how the over hiring activity is going [Indiscernible]?

Henrik Andersen

I think the second question, I'll come back to -- I'm not sure I heard all of it, but I will try to answer it in the best possible or just correct me Sebastian. I think on the German market, I think it's on a nice development. We come from something three years ago that was very low and then we have seen an acceleration.

And I think maybe you shouldn't ask me about the size of market and auctions and permitting, but we can generally see that the auctions are taking place. They are getting permitting as well and the German government has worked out with the Department of Energy and planning modes of renders that works to a number of projects being approved and going through.

I think it's important also for a lot of European countries to actually pick up that way of working because it does add to the volume. Could it become a 3 or 4 gigawatt market, I think the market will.

Then in terms of Vestas' market share, we got a good market we have been there for a long history and long tradition for doing both the projects but also looking well after customers on the maintenance and service afterwards. So, we're not moving the foot away from the throttle there.

The on the--

Sebastian Growe

Quickly jump in there, I was specifically talking about your delivery volume, which might head towards 3 gigawatts. So, the market is apparently going towards the direction of 6 to 8 gigs probably in the not-too-distant future. I was curious to get some more color around your order take in the pipeline, et cetera?

Henrik Andersen

Yes. You know me well enough, basin. I'm not going to hand out your splits in a market where there are potentially two and a people looking at it right now. So, -- so I think we will much prefer to say individual markets, then that is something we are in the middle of it. we are positive there.

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And I won't give you a split of what we expect because that is flagging to any competitor that sits on the same call as we are now. So, that one your guess, but you can see we got our historical market shares, and we are working towards that because the quality is there of our turbines and solutions.

Sebastian Growe

Okay. And for the offshore part?

Henrik Andersen

And for the offshore parts, I think on getting the service and the technicians and also the factories ramped up. It's something we are working on right now. Offshore is not new for us in this part of the world, but the turbine and the solution we are installing is, of course, new.

So, therefore, a lot of the service and the service technicians are being onboarded also in some of our existing parts, which then will be trained and be working on that and then be passed on to also when we have the construction done doing 2025 of the two projects there.

So, the real important here is to be slightly ahead on onboarding and slightly ahead on training because that's the whole aspect of the scale and the ramp-up of offshore. And that is going to have a dilutive effect for 2025.

Sebastian Growe

And that's -- sorry, for specifying lever in this point, but given what happened really in the service business, has this sort of further diluted the overall outlook then for the offshore business as part of our solutions because of wage inflation on these?

Henrik Andersen

Now, we are mixing areas there. service business at a site. This one we are looking into, and this one is priced both from a solution point and other stuff. So, that's not -- there are we are trying to draw areas together that shouldn't be drawn together.

Sebastian Growe

Okay. Thank you.

Operator

The next question comes from the line of Vlad Sergievskiy from Barclays. Please go ahead.

Vlad Sergievskiy

Yes, good morning gentlemen. Thank you very much for the opportunity. Hopefully, two quick housekeeping questions, please. Just could you explain the underlying increase in unbilled revenue in the second quarter. Service reset reduced contract assets by about €300 million, but actual reduction was about 140, which means excluding this reset, you continue to book more revenue than you invoiced to customers. So, would you be able to give us in rough timeline, when do you think anything would start maturing revenue? That's the first one.

And quickly, second was you have developed some progress assets, which reached about €1 billion this quarter. It's roughly 3 times above what it used to be historically. Could you give us some idea if you have capitalized some of the offshore ramp-up costs into this asset, when are you planning to start amortizing this €1 billion? And what sort of amortization increase per year could it lead to? Thank you very much.

Hans Smith

Yes, so I'll give it a go. On the first one, on the contract assets, you absolutely look at, of course, we are trying to say, assess what kind of development should we be expecting from that. And of course, over time, we would expect for that to be, say, flattening out, coming down. That is the expectation we're seeing. And of course, we also see now by virtue of, say, the adjustment that we have done here that, that has had an effect on that asset.

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But I said, it's -- there are -- I mean there is an expectation that this is going to be flattening out. And then eventually, it's going to be coming down as well. But there are many reasons why you can have this. So, of course, the influence on how that develops.

On the development project in offshore and the capitalization of that, I would expect that we start to, how do you say, to depreciate on that quite soon as we start to do the installations.

I don't think we have made specific, say, disclosures on what that level would be. But of course, given the size of the project, it's a quite significant amount that we will need to depreciate as a consequence of that.

On the other hand, we are also expecting, of course, for the offshore business to get to a sizable amount. But getting back to what Henrik was talking to earlier on the size of the business, for instance, of course, this is not something that necessarily works in our favor when you have a suboptimal scale of the business in terms of again, how big it is in a year like that when you add, say, €2 billion plus of revenue.

Vlad Sergievskiy

That's very clear. Thank you very much.

Operator

The next question comes from the line of Claus Almer, Nordea. Please go ahead.

Claus Almer

Thank you. Also some questions from my side. The first is about the pipeline being converted to firm orders. Henrik, you mentioned that some projects have been postponed or delayed from Q2 into Q3. Is there any common reason why that happened or is it is just the normal quarterly volatility? That would be the first one.

Henrik Andersen

When you said in a year and you take last year as well, Claus, you also saw that we ended plus 18 gigawatts, there will always be deviations. And of course, then generally, when you see something coming through in the first couple of weeks in July, some of those just passed the line in the sand of the 30th of June.

So, there is no other reason that generally, we would like to have it in the quarter, if it's possible because that also puts a lot more security and clear on the execution for the future.

But on the other hand, it's more important to get it in and whether it's in Q2 or Q3. So, I think the ones that picked up that it seems like the July and the first couple of weeks here in August have actually contributed higher than what you would normally see is a good indication of sometimes there is just a spillover between quarters.

I won't say this sort of how we, I'm still more focused on what the overall gigawatts as on the 31st of December because that, I think, is an important number. And you can see that number developing in our favor when our backlog has gone from approximately €20 billion to now €28 billion in the Power Solution and that's really for us the main point to follow right now also with the better priced backlog.

Claus Almer

That makes sense. Then if you try to zoom in on the U.S. market here. You have given a few comments about this very important market. Is there any difference in your talks with, let's say, smaller larger developers, utilities et cetera, et cetera, that we should be aware of -- around the U.S. addition, obviously?

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Henrik Andersen

Yes. No, I think you can sort of say here, you probably also noticed today that Bill Furman had to leave our Board again. He joins a player in the U.S. market as well. And of course, if he has to leave a Board of investors, that also means that there is a commercial discussion with both regulated utilities and infrastructure and typically developers.

I would say, in the U.S., still the same. I think we all see that there is election coming, and we all see the uncertainty around it. But I will also say here, the priority to critical infrastructure in the U.S. is also pretty outspoken, then maybe there's a different way of saying it between candidates. But I think between the two parties, there is a recognition of that it's the drive for the same.

There will be a lot of uncertainties on the 5th of -- until the 5th of November but we generally don't see customers slowing down or accelerating their projects due to state coming up because the legislation is firmly there, at least when it comes to the onshore.

Claus Almer

Okay. Do you think -- let's just assume that Trump will become the President that some developers will try to secure firm orders before a possible link to the IRA or the PTC scheme? Or is it like me and others are saying this has no impact on the onshore target?

Henrik Andersen

Claus, I won't add to this speculation. I simply don't know. And as I said here, I'm seeing customers over the next 10 days, a lot of them in the U.S., and I'm sure I'll have a better answer in a couple of weeks' time. But generally, there is a real folk on the commercial development of projects and if you are right in your assumption, we will also see on the early development of projects that, that will be slowing down. That's not the case either. So, I don't think.

I think everyone in all the states are preparing for more projects, more energy to be generated. And don't forget, there's still the offtake, there's still the offtake from the data centers, the AI, the all of that. And don't forget the green hydrogen, the ammonia and other parts are out there in the States.

So, we are going to see, and some of that is, of course, coming from major infrastructure build-outs in the U.S. So, I can't say much else, Claus right now. And it is lumpy when you have sizes of projects of that nature.

Claus Almer

That's fair enough. Then we will try to test you on Australia and you have been out in the past, making some estimates for when orders will come. And now you've just been in Australia. Would it be this year, we should see some of these larger orders that you have been talking about in the past?

Henrik Andersen

I think we just had one. So, that was probably why I mentioned it. No, I think I think Australia here, it's been a stop and go. It was not intended to be a stop and go, and it wasn't intended to be a stop and go from the government either. But the way if you ask Mr. [Indiscernible] to put the electricity price as a floor and a seal in an auction, then it just takes longer time.

But if you look at the turnover or the volume of projects that has come into the first auction, they're in an enormous luxury position because the auction has received enormous attention with volume.

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So, if that volume doesn't come as it is a double-digit gigawatt number that has come in to the auction as the first one, then the auction will be repeated, but that also means the Australia is ramping up if you visit [Indiscernible], the grid company with the CEO, he will also talk to that he is preparing for a grid company in Australia that is much more receptive and also ready to receive that volume.

So, as I learned from the meeting you gave me last year of being poor in predicting timing. I'll refrain from doing that. But at least I will say the momentum from 577 on Golden Plains probably count in my favor in second quarter, right?

Claus Almer

Fair enough. That was all from my side. Thanks.

Operator

The next question comes from the line of Ben Heelan, Bank of America. Please go ahead.

Ben Heelan

Yes. Morning guys. Thank you for squeezing me in. The primary question I had was around the cash generation that you've seen in the services business over the last couple of years? And any kind of general expectations for this year? Yes, that's primarily it.

Hans Smith

Yes. So, generally, we would think of our service business as a good cash business also whilst we haven't disclosed specific figures on the cash flow in the business, that's how we would think about it. So, I don't know how much more specific I can be there given that, that is not something that we're out right informing about. But it's -- that's kind of the logic we're having.

And of course, with the kind of profitability we are looking at referring back to what we discussed earlier on, that also gives an indication of what it is that we're expecting from the business. It's a good solid business. And as I pointed to earlier on also the effect from the adjustment we're doing is, for instance, non-cash. So, I mean that's out as much as I think we can talk about it here.

Ben Heelan

Yes, super clear. Thank you. And a quick follow-up, I think, in response to one of the questions earlier. You said that there are fees in quote kind of bad projects or underperforming projects in 2025. And when we think about Asia, just be about kind of operating leverage in the given quarters. So, can -- is that true that none of these kind of badly performing contracts in 2025? Or is it very low number?

Hans Smith

So, the way to think about it is, as I said earlier on, there's always going to be, say, a distribution of different types of projects in a business like ours, some are goods, some are bad. But we are down to, say, a more normalized profile now compared to what has been the case in recent years.

So, that's how you think about it. It doesn't mean that you're not once in a while, going to run into a of a project. That might happen, but it's a normalized thing compared to where we have been in recent years.

Ben Heelan

Super clear. Thank you Hans.

Operator

The next question comes from the line of Sean McLoughlin, HSBC. Please go ahead.

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Sean McLoughlin

Thank you for taking my questions. On offshore, could now noticing Q2 Power Solutions revenues. This is the highest proportion from offshore that we've seen for -- well, for many quarters. So, I'm wondering, how did offshore contribute to that positive margin in Power Solutions in Q2? And how important is it to that 9% margin assumption for the second half? Should we be thinking despite offshore wind or because of offshore wind?

And the second part of the question then is thinking -- you've also mentioned a higher drag in 2025 from offshore. How should we think about the profitability bridge from today in offshore to the €2 billion top line guide for 2025? Thank you.

Henrik Andersen

Thanks Sean. On the first question, it's despite because if we look at it, what we are coming with now, we're sitting with a couple of projects that is related to a turbine type that is basically running out. It's the V174. So therefore, it's despite and of course, it's execution.

And you also would appreciate in some of those quarters, it becomes lumpy, especially when you compare it. But you will also see compare, for instance, on the sustainability that we actually can see that there is a lower CO2 footprint because we are using less of those ships.

But it is, as you are saying, it's a smaller proportion, and you shouldn't expect any of that uptick in the second half of the year coming positively from the remaining part of the -- of those projects.

The then on the 2025 -- as I said, I will still try to refrain from giving more specific on 2025 outside that there is not a positive margin accretive effect from the approximately €2 billion in 2025, it is simply not possible in a year where you're ramping up for two projects because back to Vlad's point also, there will be depreciation hitting a business unit that is only having €2 billion approximately in turnover.

So, therefore, when you do that EBIT calculation, it will be dilutive for your target for 2025. And I haven't, therefore, set any target for 2025, but it will be diluted to the target anyway to the target.

Sean McLoughlin

That's helpful. Thank you.

Operator

The next question comes from the line of Henry Tarr, Berenberg. Please go ahead.

Henry Tarr

Hi and thanks for taking my question. Two quick ones. One, do you see any tension, I guess, between the ASPs and market share at this point? And I guess just is market still one where it's extremely sort of competitive. And if you comment on sort of you see your competitors being rational, et cetera, that would be helpful?

And then just the second question, I guess, on the service provision. I know you've talked a lot about it. Just in terms of sort of tracking this going forward, the sort of health of the costs, et cetera, should we be looking at warranty provision plus LPF plus cash conversion as a sort of indicator on costs here running on track to your estimate? Thank you.

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Henrik Andersen

Thanks Henry. If I take the first one on the market share versus ASP. I think we for a very, very long time and also quarter-after-quarter, I've said it is absolutely quality and value over volume. And therefore, for us, we will look at that.

Yes, we look at our market share as a reflection and as an outcome of it, but it's not the driver. The driver is the health of the backlog, and we can also see the rest of the industry has had for obvious reasons to do exactly the same.

So, with that, we continue what we are on. We're very pleased with it. And for the first time, I think, quarter-on-quarter for this time on the Power Solutions, you can see the effect of it, and it's actually paying off.

Hans Smith

Yes. And then on the tracking, so to say, on the, say, development in the service business, I think the best way of looking at that was to see what is the margin that we are delivering quarter-on-quarter. I guess that is the best indicator that things are say, heading in the right direction and on track.

Of course, we can think about all kinds of things. But at the end of the day, it comes down to a margin. And so seen from our perspective, the best way of thinking about this is the service margin that you're looking at.

And then yes, of course, it is also helpful if you see that the LPF comes down, let's say, the warranty provisions come down, although the provisions are a function of work that needs to go on later, right?

So, the provisions actually indicate work that needs to happen out there. So, there's a delay factor in that. And then just let me point to the last point on that. it's not a provision we're making. It's a cost update. We are making just a small technical point.

Henrik Andersen

And with that, if I could ask for the last questions to this conference call, operator.

Operator

Would you like to take the next question?

Henrik Andersen

Yes, please if we make that the last question in the conference call. So, please go ahead the next question, operator.

Operator

Next question is from Lucas Ferhani from Jefferies. Please go ahead.

Lucas Ferhani

Good morning. Thank you for the question. I just had one on service, more related to offshore. Just slightly shorter contract duration and the fuel offshore orders you have seen more of a warranty and what you call long-term support. Will service in offer be more of the spare parts agreement rather than kind of full coverage that you can provide in onshore?

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And also as we kind of saw and knew before, there's a lot of assumptions that go into the accounting when it comes to the service business. How do you see that offshore where you have even moving parts when it comes to servicing offshore wind turbine? Thank you.

Henrik Andersen

Thank you, Lucas, for your question. And in reality here, I think we are, as an industry, not just from a Vestas point of view, we are ramping up in an industry and a business area that is still in its early days.

I think if you ask somebody three or five years ago, there was a clear perception of that the service structure within offshore would be different, it would be much shorter because there will be a drive for especially customers and others to at some point in time, take over the self-provision of services in offshore.

I think that has raised in the last couple of years, more question too, is that really the right structure because if you end as a partner in there with limited megawatt or gigawatt or potentially only one project, then the turbine provider and the partner there will be much better because, of course, we will have several projects coming out from the same harbor.

So, I don't think necessarily the sort of the estimations of ramp and scale and maturity gives us a clear answer yet how that will be. We can see it. Certain customers will like to go for a longer in offshore. The contract might change under the 15, 20 years break. But then there is also somebody that would say, we'll run for five years and then potentially the remaining years will be much more on the components assistance technology.

So, there are various parts of the service, which deviate probably from the onshore. But I would also say there are things in the offshore that indicates how the market is developing, that it comes more and look more like the onshore when we look five, 10 years ahead on the customer structure.

Lucas Ferhani

Thank you.

Henrik Andersen

Okay. With that, thank you so much, everyone. I know we've given you and we are giving definitely also ourselves a different week than we probably expected. Hope, we'll see many of you over the coming days, and then we can have a lot more conversations directly face-to-face.

With that, I would just thank for this conference call and wish you a nice day from here.

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