



Ørsted A/S. (OTCMKTS: DNNGY)

Brown Socially Responsible Investment Fund
October 13, 2020



Macro Update

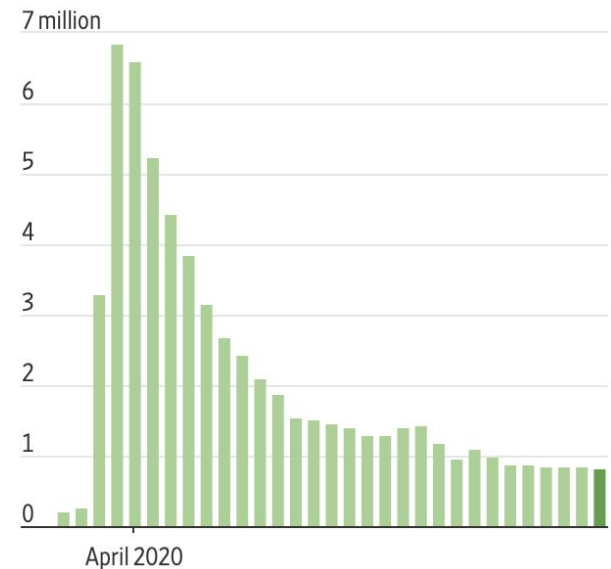
Politics

- In light of the news that the 2nd presidential debate would be virtual, Trump decides he would not participate. Subsequently, the **CDP canceled the debate** altogether.
- **Confirmation hearings for SCOTUS nominee Amy Coney Barrett** begin this week.

Economy

- After suggesting stimulus talks would be halted until after the election, the **White House came out with a \$1.8 trillion virus-relief package** to counter the Democrats
- **US unemployment claims were at 840,000** last week, which is well below the peak in March but remains higher than numbers in any previous recession since 1967
- Chief Economist of the European Central Bank implied that the **ECB would also pursue aggressive stimulus measures** and overshoot inflation targets
- **US budget gap tripled in fiscal 2020**, widening to \$3.1 billion from \$984 million. This is the largest US deficit as a percentage of economic output (15.2%) since WWII in 1945

Initial unemployment claims, weekly



Markets

- Indexes see major volatility this week due to **uncertainties regarding the upcoming Q3 earnings season**



Finance Pitch

Company Overview

At a Glance:

- Danish multinational power company
 - Operates in Denmark, Sweden, UK, Germany, Netherlands, US, Taiwan
 - Ranked #1 most sustainable company in the world (2020 Global100 Sustainability Index), produces 88% of power from renewable sources
 - World's largest producer of offshore wind power (29%)
 - 50.1% of shares owned by Denmark government

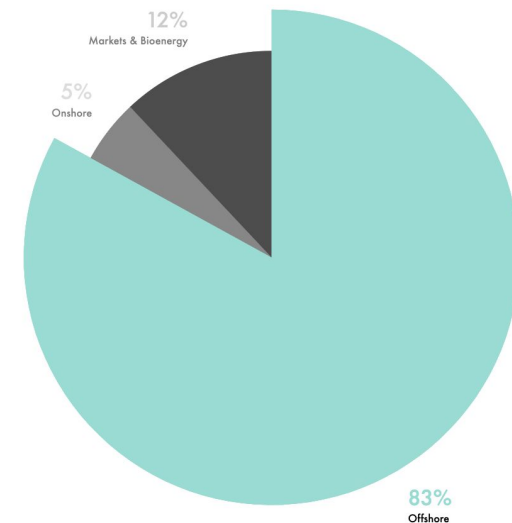
Products/Services:

- Primarily focused on offshore wind farming
- Onshore (US): wind farming + solar energy and storage
- Markets & Bioenergy: CHP plant management, sale/distribution of power, energy portfolio risk management, natural gas portfolio services
 - CHP plants use wood, “Renescience” (waste recycling tech), coal/oil

Strategy:

- Commitment to sustainability (carbon neutrality by 2025, zero-emission by 2040)
- Plan to double offshore wind capacity by 2025, quadruple by 2030
- Expansion into US, Taiwan
- Investments in solar energy

EBITDA by Segment



Key Markets and their Outlooks:

- Denmark's Energy Market (Orsted's share = 49% of electricity & 35% of heat)
 - Total Production 13.78 Mtoe, Electricity Consumption 33.4 TWh; of which:
 - 57% of production and 47% of consumption was wind powered. [1]
 - Expected CAGR 2020-2025 is less than 1%, but the with upcoming projects like Thor and Krieger's Flak, the wind energy share within this market is expected to grow at a considerable rate. [2]
- Global Offshore Wind Energy Market (Orsted's share = 29%)
 - Total Production 29.1 GW, 75% of which is in Europe. [3]
 - Orsted expects to capture at least 15% of the new installations in the next 5 years.
 - CAGR: See chart

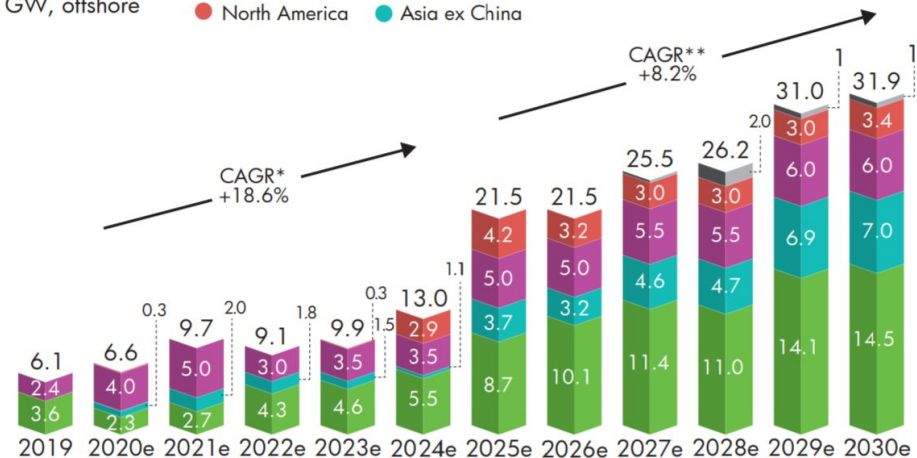
Key Competitors

- Vestas Wind Systems
 - 48% of Denmark's wind energy sector
- Vattenfall
 - ~50% of Nordic Region's energy production
- Enel
 - World's largest renewable player (46 GW under mngt)

Global offshore wind growth to 2030

New installations GW, offshore

Other China Europe North America Asia ex China



* CAGR = Compound Annual Growth Rate
Source: GWEC Market Intelligence, June 2020

[1] IEA: <https://www.iea.org/countries/denmark>

[2] Mordor: <https://www.mordorintelligence.com/industry-reports/denmark-power-market>

[3] GWEC: https://gwec.net/wp-content/uploads/dlm_uploads/2020/08/GWEC-offshore-wind-2020-5.pdf

Comparables



Company	Market Cap. (\$B)	P/E (TTM)	3-Yr EPS CAGR	EBITDA Margin	FCF per share	Dividend yield	Debt/Equity	Interest Coverage Ratio	ROIC
Ørsted A/S. (OTC:DNNGY)	\$48.5B	83.33	-19.88%*	44.29%	(\$3.21)	1.05%	0.44	4.61	4.52%
Enel (MIL:ENEL)	\$87.8B	41.84	-17.02%	19.78%	\$1.15	4.36%	1.24	4.88	4.51%
Energias de Portugal (LIS:EDP)	\$17.4B	37.88	-23.87%	25.20%	\$0.06	4.25%	1.25	2.16	3.67%
Vestas Wind Systems (CSE:VWS)	\$20.64B	58.48	-5.70%	6.73%	\$2.24	0.72%	0.22	54.5	12.36%

*Calculated from continuing operations due to divestiture of non-renewable division

Income Statement Overview

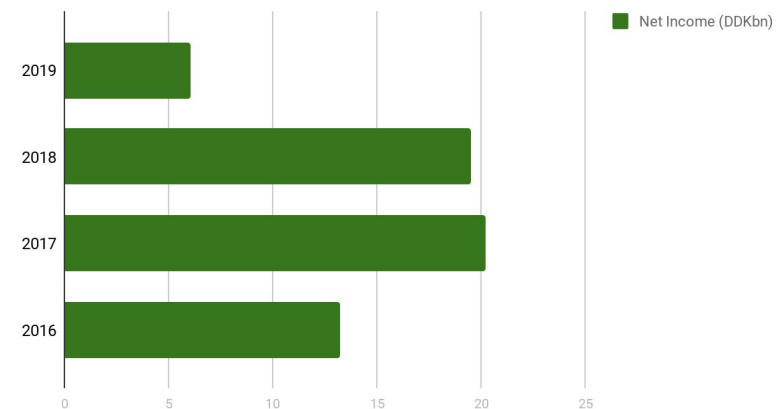
2020 H1:

- Revenue **-20%** YoY to 27 DDKbn
 - **Revenue drop:** lower gas/power prices, hindered construction, less (UK) electricity demand (COVID-19)
- EBITDA **+11.5%** YoY to 9.8 DDKbn
 - **Increase** due to high winds and ramped up power generation (ie. Hornsea 1)
- Net Income **-32%** YoY to 2.5 DDKbn
- EPS **-35.8%** YoY to 5.2 DDK
- **Operating Margin:** 22.9% (6.2 avg);
Net Profit Margin: 9.2% (5.36 avg);
EBITDA Margin: 36.2% (17.2 avg).

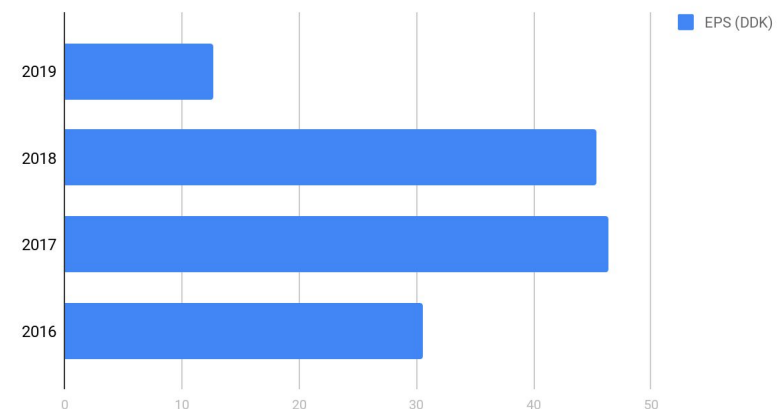
FY 2019:

- Revenue **-11.8%** YoY to 67.8 DDKbn
 - **Due** to weather and market conditions
 - 30.5% **Gross Margin** (up **10%** from FY 2018)
- EBITDA **-42%** YoY to 17.5 DDKbn and **EPS -72%** to 12.7 DDK
 - EBITDA actually increased **17%** adjusted for new partnerships (Hornsea 1 in 2018)
- **Margins** have largely **increased** over time
 - **Offshore** EBITDA growth YoY has consistently been in the double digits
 - Onshore and offshore earnings grew 30% in 2019

Net Income



Earnings Per Share



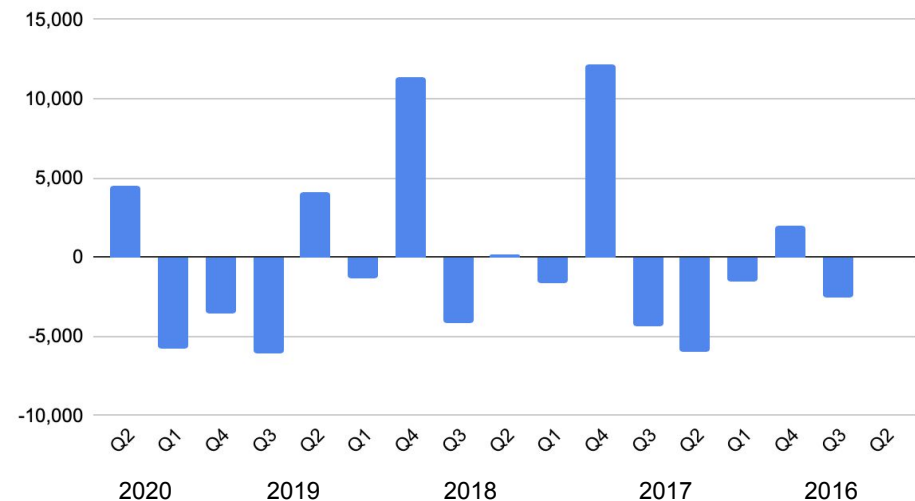
Balance Sheet:

- **Assets:** 193.1B DKK in 1H 2020 vs. 185.9B DKK in 1H 2019 (**3.8% increase**)
 - Due to a 25% increase in PPE and a decrease in securities held over the past year
 - Slight increase in cash in since 1H 2019 from sale of securities and increase in deferred taxes
- **Liabilities:** 98.7B DKK in 1H 2020 vs. 94.7B DKK in 1H 2019 (**4.2% increase**)
 - Significant rise in tax equity liabilities, as well as a slight increase in bond and bank debt
- **ROE:** 6.02% vs. an industry average of 9.3%

Statement of Cash Flows:

- **Cash Flow From Operating:**
 - **5% increase** from 1H 2019 to 7.8B DKK in 1H 2020
- **Cash Flow From Investing:**
 - **9% decrease** from -4.5B DKK to -4.89B DKK in 1H
 - Attributed to a significant decrease in the purchasing of securities, but offset by the increase in PPE
- **Cash Flow From Financing:**
 - **Down 369%** from H1 2019 (-3.5B DKK in 1H 2020 vs. 746M DKK in 1H 2019)
 - Due to an increase in loan paybacks in 2020 vs. raising debt in 2019

Free Cash Flow Q2 2020 - Q2 2016



Rising National Renewable Portfolio Standards

- UK: annual build-out of 3GW offshore wind capacity to reach 40GW by 2030
- US Northeast: signed political commitments alone >25GW offshore capacity by 2030
 - 29% global market share

Growth in Corporate Power Purchase Agreement Market

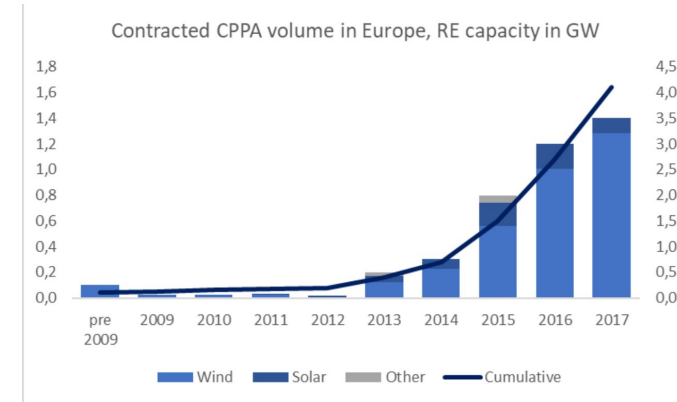
- Due to National RECs and voluntary net-zero targets
- CPPAs with TSMC (Taiwan), Nestle (UK)

Increases in Installed Capacity

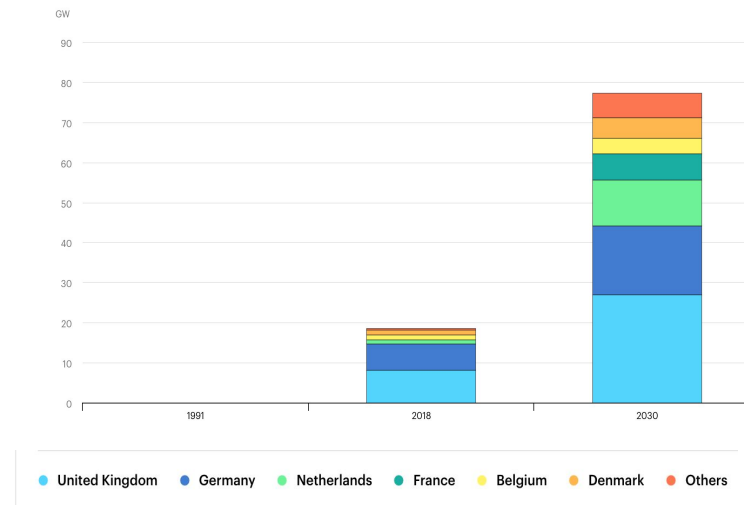
- 42% yoy increase in total power capacity and on track to triple total capacity by 2030 to **30 GW** (exceeds current global installed capacity)
- Development consent order for Hornsea 3 expected on 31 December 2020

Acquisitions and Partnerships

- Acquisitions:
 - Deepwater Wind, Lincoln Clean Energy, Coronal Energy
- Green Ammonia project just announced with Yara: operational by 2024/2025



Offshore wind capacity by country, 1991-2030



WIND POWER IN TOTAL GENERATION MIX

Onshore and offshore
wind generation share (%)

1.7%

6%

21%

35%

Macro

- Energy Commodity Prices and Subsidy Erosion
 - Exposed to fluctuations in energy prices and reducing/changing subsidy policies

Industry

- Immaturity of the US Renewable Market
 - Difficult to domestically source materials for construction
- Construction Risks
 - Offshore construction comes with increased construction site risks
- US Project Regulatory Structure
 - Uncertainty around receiving grid connection and consents may delay projects
- Increased Competition in Offshore Wind
 - More companies (especially European oil companies) coming into the market

Company

- Currency and Exchange Rates
 - Exposure to GBP, USD, and NTD
 - Inflation can lead to reduced real value of fixed contracts
- Majority Government Ownership
 - 50.1% owned by the Danish government; political interference could cause volatility
- COVID-19 Delays
 - Travel delays resulting in risks in keeping plants operational
 - Travel delays resulting in delays of permitting and consent for projects
 - Supplier delays may result in postponed deliveries of crucial construction materials

Reasons to Buy:

- Leader in European renewables space; market leading position in offshore wind
- Significant growth in offshore capacity, esp. in UK and US
 - Technical promise of offshore is powerful
- Growth in CPPA market to drive accelerated growth of renewables
 - Up >40% from 2018 to 2019¹
- Increasing installed capacity (offshore: 4-yr CAGR of ~35%) + large goals
- New opportunities: green hydrogen
- Strong EBITDA growth
- Defensive balance sheet: low D/E, high & increasing FFO/net debt, liquid

Reasons to NOT Buy:

- Erratic / declining top line
- Uncertain regulatory and political landscapes (and COVID) leading to delays and cost overruns
- Highly exposed to fluctuations in energy prices + inflation/forex risk
- Trading at 85x earnings - expensive



Finance Vote




ESG Pitch

Key Issues	Opportunity	Risks
GHG Emissions & Renewable Energy Generation	<ul style="list-style-type: none"> Global Leader in offshore wind infrastructure (30% Market Share in Offshore wind Hornsea 1 -1218 MW) Won four large-scale projects in the US and Taiwan, which are new markets for offshore wind, cementing global leadership position Committed to reduce GHG emissions from supply chain and energy trading by 50% by 2032 Commitment to Carbon Neutrality in Scope 1 and Scope 2 emission by 2025 and carbon neutral footprint by 2040 (scope 1-3) Reduced coal consumption by 91% 	<ul style="list-style-type: none"> Material effects of climate change (Precipitation, temperature, wind speed/direction) Fined 5.9 million (2019) for a blackout that lasted a maximum of 45 minutes and affected 1 million customers Broken pipes at the Nybro Gas Treatment Plant in Denmark, which may lead to personal injury
Waste Management & Ecological Impacts	<ul style="list-style-type: none"> Water withdrawal decreased by 16% in 2019 compared to 2018 Conducts waste-data monitoring and reporting and integrates a circular design into site waste-management processes In 2019, 98 % of waste was reused, recycled, composted, or went through a energy recovery process 	<ul style="list-style-type: none"> Many offshore wind farms lie in protected areas, and can lie near threatened bird species and critically endangered species Non-hazardous waste increased by 16% in 2019. The primary driver was the construction activities from Hornsea 2 Three incidents in 2019 were oil leakages from cables or piping &

Key Takeaways:

- Global leader in offshore wind infrastructure
- Focus on building out their renewable energy capacity in decarbonization process

Key Issues	Opportunity	Risks												
<p>Employee Health and Safety</p>	<ul style="list-style-type: none"> Employee satisfaction index: 77 (out of 100, increased by 1 from 2018) Employees experiencing bullying, harassment, threats, or violence: 2.4% (decreased from 2.5% in 2018) Total employee turnover rate is 11.6% Voluntary employee turnover rate is 7.2% (increased from 0.1% in 2018) 	<ul style="list-style-type: none"> Total record injuries increased from 98 cases (2018) to 106 (2019, 8.2% increase) Number of lost-time injuries increased from 31 (2018) to 45 (2019, 45% increase) Lost-time injury frequency per million hours worked increased from 1.5 (2018) to 2.1 (2019, 40% increase) 1 fatality (lost their lives in a work-related accident) in 2019 compared to 0 in 2018 												
<p>Employee Diversity and</p> <p>Gender distribution, management levels, 2019, %</p> <p>● Women ● Men</p>  <table border="1"> <caption>Gender distribution, management levels, 2019, %</caption> <thead> <tr> <th>Management Level</th> <th>Women (%)</th> <th>Men (%)</th> </tr> </thead> <tbody> <tr> <td>All employees</td> <td>31</td> <td>69</td> </tr> <tr> <td>Middle management</td> <td>25</td> <td>75</td> </tr> <tr> <td>Leadership conference</td> <td>13</td> <td>87</td> </tr> </tbody> </table>	Management Level	Women (%)	Men (%)	All employees	31	69	Middle management	25	75	Leadership conference	13	87	<ul style="list-style-type: none"> Executive Management - Gender with lowest representation increased from 15% (2018) to 29% (2019) All employees - gender with lowest representation 31% Gender pay gap median decreased from 16% (2018) to 14% (2019) Gender bonus pay gap decreased from 49% (2018) to 43% (2019) 	<ul style="list-style-type: none"> Board of Directors - Gender with the lowest representation decreased from 38% (2018) to 33% (2019) Gender bonus pay gap still quite high
Management Level	Women (%)	Men (%)												
All employees	31	69												
Middle management	25	75												
Leadership conference	13	87												

Key Takeaways:

- Employee injuries seem to be increasing across the board (number of lost-time injuries, lost-time injuries, fatalities)
- Females in executive management positions are increasing, and they make up 31% of the workplace
- Gender bonus pay gap median is still quite large at 43%, but they're putting effort into decreasing disparities

Current CEO - Henrik Poulsen (Until the end of 2020)

- CEO since 2012; 8 years of experience with the company

Future CEO - Mads Nipper (Starting in 2021)

- Currently, CEO and Group President at Grundfos since 2014
- Prior was Exec VP/Chief Marketing Officer at Lego A/S
- Projected 2021, annual total compensation ~\$3.17 million a year
 - ~20 % in stock/options



CEO-Henrik Poulsen

Executives and Board of Directors

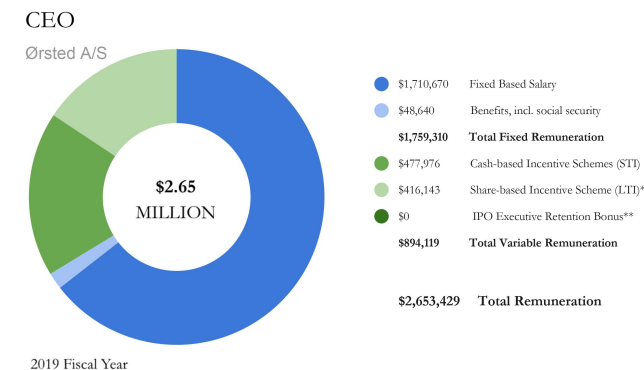
- 7 executives: 2 women, 0 person(s) of color
 - 2 of executives have expertise in the field of energy other than Ørsted
- 9 board members: 6 independent, 2 women, 0 person(s) of color
 - The 3 non-independent board members are elected by the employees as required by the Danish Companies Act.

Opportunities

- Nipper has a history of initiating sustainability goals
- Board/management have strong backgrounds

Risks

- Nipper does not appear to have extensive experience in the energy space
- Lack of diversity



*The expensed remuneration includes the grant value of the LTI in the year of the grant, distributed over the three-year vesting period.

**The IPO Executive Bonus was \$0 because the Programme expired.

Highlights

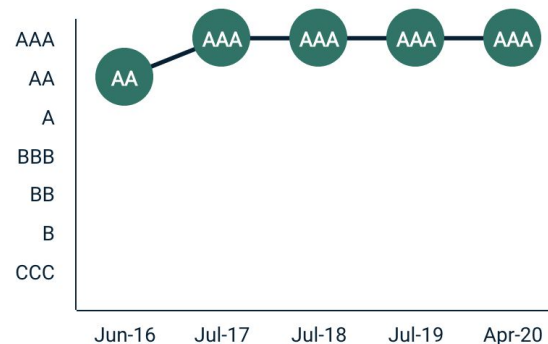
- New CEO has history of focus on sustainability
- Global leader in offshore wind energy
- Integrates consideration for biodiversity in farms

Risks

- Lack of diversity in board and management and gender pay gap issues

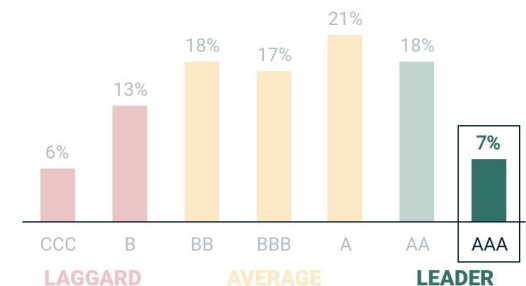
ESG Rating history

MSCI ESG Rating history data over the last five years or since records began.



ESG Rating distribution

Universe: MSCI ACWI Index constituents utilities, n=146.



Company	Environmental Risk	Social Risk	Governance Risk	Total ESG Score	MSCI Rating
Orsted	8.5	7.5	4.9	21	AAA
Enel	9.5	8.9	5.0	23	AAA
Energias de Portugal	10.1	7.1	7.6	25	AAA
Vestas Wind Systems	3.1	6.3	6.8	16	AAA



ESG Vote