

Company Name: Hera
Company Ticker: HER IM
Date: 2019-07-30
Event Description: SA1 2019 Earnings Call

Market Cap: 4989.95479575
Current PX: 3.35
YTD Change(\$): 0.632
YTD Change(%): 23.252

Bloomberg Estimates - EPS
Current Quarter:
Current Year: 0.206
Bloomberg Estimates - Sales
Current Quarter:
Current Year: 6212.2

SA1 2019 Earnings Call

Company Participants

- Tomaso Tommasi di Vignano, Executive Chairman
- Stefano Venier, Chief Executive Officer
- Luca Moroni, Group Director of Administration, Finance and Control
- Unidentified Speaker

Other Participants

- Bartoli Enrico, Analyst
- Unidentified Participant
- Roberto Letizia, Analyst
- Emanuele Oggioni, Analyst
- Federico Pezzetti, Analyst

Presentation

Operator

Good morning, this is the Chorus Call operator, and welcome to the presentation of the Financial Results for Hera Group June 30, 2019. All participants are in listen-only mode. Following the initial presentation, there will be a Q&A session. (Operator Instructions)

I'd now like to give the floor to Mr. Tomaso Tommasi di Vignano, Hera Group's Executive Chairman. You have the floor, sir.

Tomaso Tommasi di Vignano, Executive Chairman

Good afternoon, everybody. We apologize for the slight delay. Our Board meeting was filled with the information to be discussed, of course, because we are about to go on holidays for the summer, which means that we were discussing all things today. I'm sure you've already read the press release. We are quite satisfied, and I hope you are, too, since as you can see on the first page of the presentation, our EBITDA is up to EUR546 million with a EUR22 million growth, equal to plus 4.3% year-on-year. Keep in mind that the growth is almost exclusively organic because, as we'll be seeing, the contribution of two M&A transactions was very limited during the first half of the year. Within the organic growth, there have been some very good results posted over the past three months, which contributed to the results I mentioned earlier.

As far as the EBIT is concerned, we are at EUR289 million, with a EUR15 million growth, equal to a 5.6% growth, which also takes into account a slight increase in amortization compared to the investments made over the period, up to EUR214.5 million with an increase of 16.8%. Net profit post minorities is at EUR166 million compared to the previous year's figures, minus an extraordinary transaction in H1 2018, which was the sale of a company in Sardinia. The profit marks an increase of EUR13 million equal to a plus 8.4%. As far as our financial situation is concerned, things went well this time, too. We were able to fully cover the sizable investments we made and the payment of dividends, which was equal to EUR0.10 per share, up by 5.3%. This also allowed us to confirm a net debt-to-EBITDA ratio, which was the one that we have grown accustomed to, equal to 2.55 times.

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Now how were we able to achieve this good result? As I mentioned earlier, most of the EUR546 million were brought about through our organic drivers, both in the liberalized businesses with a plus EUR30.5 million and on the regulated side of the business with a plus EUR12.5 million. The latter area of activities includes the networks, the waste collection service, all of which contributed to the EUR12.5 million I mentioned earlier. Most of the contribution in the liberalized businesses include the power generation, also given the fact that the Teverola plant is now up and running again after having been down for maintenance for much of last year. We also had a good outperformance on ancillary services which allowed us to contribute in a significant way to the EUR30.5 million growth. Also, the liberalized part of the business, we have also increased our customer base in energy with a plus 90,000 in the first half of 2019. This too is a very good result I think.

As far as the waste business is concerned, the driver there was certainly the very good prices, which followed the increases we had over the past two years plus the increase in our business customers in waste. That too had a major impact on our growth, and we also were able to work with some very important industrial partners and industrial customers. The last component in the liberalized part of the business refers to public lighting. And thanks to this sector, we are working well. We are expanding our market share with a significant growth in EBITDA equal to EUR2.3 million compared to the previous year. The regulated businesses contributed to our growth with a further EUR12.5 million, thanks to the energy tariff review, thanks to the investments we made and also thanks to the efficiencies which allowed us to be rewarded by Arera due to our quality and due to the technical elements of our services. These are the more significant parts of regulated businesses, whereas in waste collection, we had a slight reduction equal to EUR1.4 million.

As far as M&A is concerned, M&A didn't contribute to the results of the first half of the year or not too much since the two M&A transactions were smaller transactions. One happened in May, the other in early March, which brought about a growth of only EUR1 million which, of course, isn't what we expect to achieve in the next half of the year.

Stefano Venier, Chief Executive Officer

Good afternoon also as far as I'm concerned, let's move on to the business-by-business breakdown and to the details of our various activities. In the first half of this year compared to last year, our activities in networks marked the best growth. Also and especially thanks to our growth in the water sector, as we'll be seeing. We are now up to EUR233.8 million in the network sector. As you can see in the graph, this is an increase equal to EUR14 million compared to the previous year. We also posted a slight growth in the waste sector, we're substantially stable. The Chairman already mentioned, most of the elements earlier, and I'll be describing some further elements later on.

In the energy sector, we were able to achieve the result we forecasted less. In the first half, we were able to fully offset the loss of a part of our Salvaguardia profits which as you know, is a market that we were confirmed for 2019 and 2020, with a similar perimeter compared to the previous period, but with profitability levels which are lower compared to the past, as we already mentioned. Despite all this, the good performance in the ancillary services, as the Chairman was saying, allowed us to offset these results, and, in fact, to improve things. Also thanks to our commercial development, and we are now up to EUR170.9 million with a 3.2% growth compared to 2018. We also performed well in the other services, which includes public lighting, as mentioned earlier, along with district heating, which is something we're very pleased with.

On Page 4, you have a description of the performance in the various areas of business in networks. As I already mentioned, we had a significant contribution to growth from water with a result which marks a EUR10 million growth, which means that we are now up to EUR122.8 million at the end of this first half of the year. Gas is also on the rise, it benefited from an increase in recognized revenues plus some benefits, some premiums on the service. The same goes for electricity. In this case, this was underpinned by recognized returns and by an increase in margins equal to EUR1.2 million.

And to that, we also have to add district heating which despite higher temperatures compared to the previous year, was still able to mark a EUR0.8 million growth, bringing the total for the sector up to EUR14 million in growth. I think it's

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worth going back to the results posted in the water sector as we have underscoring a few aspects. The first of which is that the contribution to this result was brought about by EUR2 million in efficiencies on costs; EUR1 million by slate of recovery in the third-party services, which means activities for third parties; and the remaining EUR6 million can be divided partly in premiums on the technical and commercial side of the business plus an increase in recognized revenues given the investments we made in the previous years. So these are the components which have brought about this growth, a visible and important growth. It is nothing new for us. In fact, it's consistent with our growth last year in the water business.

If we move on to Page 5, the water sector -- the waste sector, excuse me, this includes some especially positive elements which contributed to the result. On the one hand, we had an increase in prices, which consolidated continued in the first half of the year with further contribution equal to EUR5.5 million compared to last year, despite the volumes managed was slightly lower compared to last year. And this of course amplifies the effects of prices. We also had very positive results from Aliplast, which was able to benefit from the new investments that we started last December with a new line for washing PET in the Nevada plant, which allowed the Company to increase its operations, plus the good trends on the market. This is a sector in which demand is on the rise. And of course, this had an impact on the results of Aliplast.

And then in H1, we also started to measure the contribution stemming from the new plant, the new biomethane plant tangibly. And in the first half, it posted improvements equal to EUR2.3 million, a result we are satisfied with, but which still does not fully express the potential of the plant since in the first three months, we did have to deal with a few issues concerning the fine-tuning, especially when it comes to stripping the biomethane. And therefore only in the second quarter of the year where we were able to have the plant working at full capacity, which is what we expect to continue doing in the upcoming months. Our expectation is to have an EBITDA for this unit worth EUR7 million to EUR8 million per year, which makes the EUR2.3 million in the first quarter are only a partial amount of the full potential of the unit.

Following these positive results, we also had a negative component, which we had already commented on and discussed at length during the conference call for the Q1 results. This refers to some extraordinary maintenance, which was required on some of our plants, especially in the northeastern part of the country in Padua and Trieste. And then, of course, to that, we also have to add the limited availability of waste management capacity at landfills to close the waste cycle, also vis-a-vis the industrial activities with a special focus on industrial activities, in fact. And as we'll be hearing later, this was an issue which was really dealt with and solved over the months.

Moving on to the energy sector. Here, we can see a few contrasts which did bring about a positive result ultimately. First of all, we have the effects of the last resort market which, as you know, will have -- it was EUR40 million compared to the previous year plus EUR21.7 million on the first half of the year. This was offset by certain market expansion activities and commercial activities at a pace that allows us to increase our electricity customers by over 100,000 per year. This also applies to the gas sector with over 50,000 new customers in the first half of the year. To that, we also have to add the result we posted in the ancillary services market and specifically with the first -- with the two small units we have in the Campania region, and that amounts to a total of worth EUR16.4 million. This is a visible net result which was compared to a figure, almost equal to zero the previous year, since, last year, especially the Teverola plant, was down for maintenance for a long time. And therefore, these two elements -- and this was a surprise to us, as we weren't able to expect the contribution from ancillary services.

And all-in-all, we were able to offset the reduction in profits in the last resort markets. And we have a positive result, ultimately, which is worth slightly over EUR5 million. We're now up to almost EUR171 million in EBITDA with a customer base which is now stably above 2.6 million customers, with 1.4 million in gas and 1.2 million, roughly in the electricity.

And Mr. Moroni can now go with to the cash flow.

Luca Moroni, Group Director of Administration, Finance and Control

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Good afternoon. We've heard good news so far, and we can complete the good news with the cash generations. The operating lever allowed us to self-finance investments, which are up EUR30 million to EUR40 million compared to the previous year, with a major contribution in allowing the company to develop its operations, and we were also able to finance the payment of dividends, which only leaves out the application of the IFRS 16 accounting principle, which already, since the beginning of the year, had an impact worth roughly EUR100 million of the net financial position, which means that the figures in the cash generation are very positive, allowing us to conclude with a debt equal to EUR2.685 billion, which is EUR100 million more compared to last year, but only EUR60 million more compared to year-end, which means that we have already been able to bridge part of the gap brought about by the accounting principle, which had burdened us a little bit at the beginning of the year.

The net debt-to-EBITDA ratio is stable at 2.55 times, and I think it's worth mentioning that the cost of debt was further improved slightly at 3.5%. And the part pertaining to taxes was optimized once again by taking full advantage of the opportunities offered by the financial loss. In June, the tax rate is at 28.7%, which is another very important result we were able to obtain.

And I'll conclude by mentioning the green bond issued, which issued at the end of June, a period of time during which we reopened the market with this green bond, which has appreciated very much. The result we obtained was very positive both in terms of subscriptions and request, but also in terms of the rate we were able to obtain. This is an eight-year transaction with a yield, which is slightly above 1%. And our debt is stable with an average duration of six years. Therefore, this transaction also testifies to the gratitude of the financial market as to our credibility and also in terms of the green strategy that we have been working on for quite some time now.

Let me just go on to the last part of the presentation with a brief overview of the Ascopiave transaction. As you know, we had given ourselves a deadline. We would come up with a final contract by tomorrow. We're almost there and we have been working on the final transaction, and therefore, over the next 24 hours, we will be giving you the final details. You are familiar with the structure of the transaction. There haven't been any major changes. This is what we have already communicated. And for the time being, this is a project that I'm sure you're all familiar with, since it was already illustrated when the binding agreement was signed.

And I'll give the floor to the Chairman since there are a couple of important news in the waste sector.

Tomaso Tommasi di Vignano, Executive Chairman

Yes. Thank you. Our attention to the waste sector is brought about by the fact that we suffered for a while, sadly, without saying too much. But we did suffer because we have encountered a few obstacles in authorizations. And therefore, we had a reduction in the overall availability of landfills. And therefore, we committed to finding solutions in this sector as a way of protecting us from any future surprises. And we were able to obtain a number of results, and we'll be seeing some positive effects already in the second half of the year, because these results of course, are based on events, which happened at the end of the first half of the year.

Now, the news I'm mentioning doesn't include the biomethane plant that Mr. Venier was mentioning earlier. So let me focus on the landfill sector. Over the past few weeks, we were able to add a couple new strategic assets plus a third smaller one, allowing us to be able to fully use landfills from now on. The first asset is a landfill, which covers the northeastern part of the country, and more specifically, the Pordenone Province. This is a new landfill which was opened a few weeks ago. It is fully up and running, and it will be devoted to urban special waste. This is a landfill with a capacity of 700,000 tons, which enriches our asset portfolio. And to that, we also have to add the fact that in the very same weeks, a new landfill area was opened close to the city of Ravenna, a city we're already present in, the landfill of which had been exhausted. Whereas for this new area, we were able to add a further 300,000 tons devoted to special waste for the Ravenna area. So these two initial initiatives allowed us to have a further 1 million tons capacity, and that is now fully operational.

And secondly, recently, we also made the acquisition of a large landfill for industrial special waste. This is the largest landfill of our new ones. The interesting thing is that, it is located on the border between Emilia-Romagna, our

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traditional region and Tuscany, a region in which we are already present as far as industrial waste is concerned, which means that this second transaction, which is larger than the first two operations, I mentioned earlier, equal to 1.4 million tons in capacity. This is a landfill located in the city of Pistoia. They will be at the very core of our activities in Tuscany along with the activities we have in the Emilia region. And as you know, Emilia is on the border with the province of Pistoia.

The authorizations for our other landfills, the authorizations that we suffered due to, the ones which were delayed. We expect to receive in the second half of the year. And therefore, given the fact that we have made the acquisition of these new landfills, we'll be able to wait for the necessary authorizations for the use of our landfills, which we have a right to. As I mentioned, the Pistoia landfill has a capacity of 1.4 million. The other two have a capacity of a further 1 million tons, which means that we have a further 2.5 million tons capacity, which means that things will look quite good for the upcoming years. It's something we're very pleased with because we did suffer in this sector a couple of years ago, when the authorizations had started to expire and it was becoming increasingly difficult to renew or extend authorizations. All of this brings us to something which is somewhat new.

On Page 10 here, you can see a comparison with what happened in 2018, the first year of our new business plan and with the first half of the year 2019. Now if we compare our previous business plan, which targeted a EUR200 million EBITDA growth over a five-year period, you'll be able to see that through organic growth and M&A, and going back to what Stefano was saying in Ascopiave, and this latest acquisition we made with the Pistoia landfill, which means that if we sum these parts of our program. As you can see, we have been able to achieve 60% of our target in only 30% of the time we have given ourselves, according to the business plan. And that's something that we are very pleased with and I'm sure it will give us extra boost in dealing with the upcoming months.

Obviously, we didn't take into account the gas tenders which as you know, still haven't started in the gas sector, which means that the growth that we had forecasted in that sector didn't happen. But to offset that, we had an increase -- a larger increase in organic growth. And of course, we also had a larger involvement in M&A. And these are the two items which we feel, and we hope you agree, can show our ability to continue moving forward, not just in achieving our plans. But, as we were able to achieve this time, to overperform what we were targeting, taking into account, of course, that the Ascopiave transaction, given its size, was already very positive. Besides the impact on EBITDA we mentioned earlier, it also allowed us to reach the 3 million energy customer target, which is what we were targeting for the end of the business plan, in four years' time, therefore.

And therefore, I think this opportunity we seized goes to show, just how positive we are, and just mentioning the things we've already achieved without looking to the future. All of the things I mentioned are already things we have concluded. And therefore, this is the spirit with which we wanted to share this presentation with you today. And we do hope that you share this positivity with us.

Questions And Answers

Operator

This is the chorus call operator. We'll now be beginning our Q&A session. (Operator Instructions) The first question is from the Italian conference call by Enrico Bartoli, MainFirst.

Bartoli Enrico, Analyst

Good afternoon. I've a few questions for you. First of all, some questions on your electricity EBITDA. You were able to recover from the lower margins in the Salvaguardia market. So can you give us some details on how much of this recovery is due to power generation, especially the performance in ancillary services and how much is due to margin supply? And specifically, as far as margin supply is concerned, can you give us an idea of the performance compared to H1 last year? And can you also give us what your outlook is for H2?

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I have a second question on the Ascopiave transaction. Can you tell us something about its strategic meaning and on the transaction's rationale? The market noticed the price per customers, of course. Can you comment on that, also taking into account the fact that it was significantly higher compared to previous transactions? And then I have a final question. On slide 9, on your new landfill capacity, can you give us an idea of what these new assets will be contributing to EBITDA?

Luca Moroni, Group Director of Administration, Finance and Control

As far as the contribution of ancillary service is concerned, if you go back to page 6, where it says power generation, of the EUR16 million, you can see there, EUR15 million refer to ancillary services. Because as we mentioned, we don't have significant generation capacities. If you compare that to the previous year, the previous period -- the same period last year, since that same capacity was under maintenance, the overall result was equal to EUR3 million. In other words, during H1 last year, the contribution for this activity was worth EUR3 million whereas in H1 this year, it was worth EUR19 million with a EUR16 million growth, EUR15 million of which has come from ancillary services.

What is our outlook as far as year-end is concerned? I don't know. This market is highly volatile, it depends on demand. It's impossible to make any forecasts. In H2 last year, things were quite good, not as good as H1 this year, but it's impossible to give you an outlook.

As far as the Ascopiave transaction is concerned, which we hope to formalize over the next 24 hours, what is the rationale? Well, the rationale lies in the business plan we have illustrated. Since we are the third -- since we were the third largest operator in the national market with 2.5 million customers, our goal was to consolidate our presence and to grow above 3 million customers. That was a goal we had for the medium-term, because we -- also because we feel that, thanks to a critical mass of customers, we can obtain significant results. And keep in mind that, in order to be a player on the market, you have to have a presence, which has to be above 2.5 million customers, and that's why already in the business plan, we had identified the 3 million customer target as one of the core targets we had to obtain. Being competitive, it doesn't simply mean having the capacity to offer, but it also means, being efficient on cost to serve, and size can have an impact on that. The opportunity to reach that target with a single transaction, with a qualified operator and with a quality customer base in terms of churn rate, in terms of unpaid ratio, taking into account all the metrics which give value and which bring about the difference between customers in a certain territory with a company compared to elsewhere. And therefore, this was the motivation, and this justified pricing which face value can appear to be higher compared to other transactions. But I think that the customer base in this transaction can't be compared to many examples made in recent weeks by some of you. Having said that, of course, the challenge now is to be able to generate further value with synergies, with opportunities, together with the rest of the Group.

The second important aspect is that with Ascopiave wanting pure customers for a cash transaction, it was a lot more complex, it was a broader transaction, which on the one hand, creates a commercial partnership with a joint venture with 1 million customers, because, of course, keep in mind, the 700,000 customers at Ascopiave, they will also have a further 350,000 customers from our side of things, will create an entity with 1 million customers which standalone would be the sixth or seventh largest player in Italy. And this, of course, I think describes the entity of this project.

Then, of course, there was also a reshuffling financial allocation in our various -- in our respective portfolios for gas. In our case, we don't think what we offered Ascopiave changes our competitiveness and our role in the industry. Whereas, on the contrary, those assets were especially interesting for Ascopiave. And therefore, taking all these things into account, we were able to set up a transaction which was very different compared to how it had originally been designed. When we brought about a combination between the two of us, with the right synergies on both sides.

And the final element I'd like to mention, and it's important for you to keep in mind, is that with this transaction, we will have asset swaps, which don't require cash-outs on either side, which means that this is a transaction which has a zero cash balance. Of course, with the presentation of the new business plan, we will go into further details. But for the time being, for the next 24 hours at least, please allow me to continue working and to keep my fingers crossed that everything runs smoothly, which is what we expect. And I'll leave the floor to the Chairman to discuss the landfills

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issue.

Tomaso Tommasi di Vignano, Executive Chairman

Well, as far as our outlook is concerned, on the impact of these operations on the waste EBITDA, if you take those three landfills into account alone. And if you take into account the current prices, on a yearly basis, which won't be possible in 2019, of course, because one-half of the year had already gone by before everything was completed, but if that's on a yearly basis, we could be looking at EUR16 million in terms of EBITDA -- further EBITDA if you take all three landfills into account. That includes the two larger ones and the smaller to medium-sized one I also mentioned earlier. So this is, I think, a result we can obtain beginning next year to have a full year. In the meantime, we will see if we can add anything on top of that since we're waiting for authorizations for other than those.

Bartoli Enrico, Analyst

A follow-up, the EUR16 million contribution on EBITDA for the landfills are they already included in the business plan targets or not? Just going back to my first question, can we have an idea of the supply margins and how they evolved in recent months compared to last year. Thank you.

Tomaso Tommasi di Vignano, Executive Chairman

Well, I'm not sure I can answer that since these are very recent events. As for the presence in our budget, we couldn't be very specific because we didn't know when the transaction would be completed, whether June, July or May. But anyway, the elements that can change the contribution in 2019, already included some major efforts. I really can't remember if the figures matched the ones that we used to make the acquisitions. And of course, if we refer to next year, the figure I mentioned is reliable, and it's also included in the business plan. As far as the market margins are concerned, you can see the figures on Page 6, EUR10.6 million. Of course, these EUR10.6 million reflect a few components.

First of all, the fact that the customer base grew by almost 200,000 customers year-on-year, which means that this has a further contribution to the business's profitability. And secondly, the contribution of the ongoing business for our electricity sales was at around a few million euros more, that went well. And as far as gas is concerned, we were able to fully offset the effects of the very mild climate in Q1. Of course, the very cold April and the very cold early May we had probably offset that. But of course, February and March were very good. So in terms of volume, like-for-like, the volumes were lower, but we were able to offset that with a few higher margins. Thank you.

Bartoli Enrico, Analyst

Thanks.

Unidentified Participant

(inaudible) Good afternoon, everybody. My first question is on the Water Distribution business. The performance was very good which you explained with your efficiency gains and the premiums in the business. Can you give us the details as to the contributions of these premiums in the water distribution business? Second question on the waste management business. I was surprised by the flat performance in H1. Of course, that's due to the landfills problem. Now given these three projects you illustrated, which will allow you to expand your capacity, how many months or how many years will that cover given the fact that the market is performing very well? Of course, not having landfills is very painful, which didn't allow you to seize the opportunities out there. The Chairman will also say that European and

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other projects. Can you give us an idea as to how sizable, how large these landfill projects are? Is there something which can realistically be completed in the short-term? And that can this give you the chance to further expand your business?

And then my final question refers to the supply business and your agreement with Ascopiave. Of course, I'm interested in understanding how quickly you can expand, especially in the electricity business, which is very significant. Can you give us an idea as to why Hera is so capable of growing in the supply business? In that context, I think that the -- how do you see the premium of the Ascopiave transaction? The premium was considered high, of course, but -- do you think the rationale behind this transaction lies more in the cross-selling opportunities? Or does it lie in the possibility to improve profitability through operational improvements or both of these? Can you give us some ideas, some further clarity? That could help us a great deal, I think.

Stefano Venier, Chief Executive Officer

Let me begin with the waste sector -- or rather with the water sector. As I mentioned, the further EUR10 million of profitability can be broken down in the following way, EUR2 million refer to cost efficiency, to which we can also add the third-party activities we conduct. Then the further EUR7 million improvement refers to premium on quality; the remaining part refers to higher revenues coming from the investments we made last year, on top of amortization; plus a few items that we are capable of recovering from previous years, which are expiring, of course, although some effects can still be felt in 2019. So this is the breakdown of the EUR10 million.

Let me move on to the question on supply in Ascopiave. First of all, as we had already described in the press release for the term sheet, we will be closing the transaction once we receive authorizations from the antitrust authority. And after we do things within the end of the year, so 2020 will be the first year in which this operation, this partnership, will be up and running. That's why we ask you to wait for the business plan presentation for some more detailed description.

Of course, as far as your question is concerned, some efficiencies can be possible, but we are especially focusing on improving and expanding the customer base. So this deal is revenue-driven. Since, as you yourself was mentioning -- were mentioning, we feel there can be some further opportunities through electricity, cross-selling to the customer base, which is gas for the most part. But we can also sell gas services which, as far as our customer base is concerned, we are already up to 50,000 customers in 6 to 12 months from when we began these types of services. But of course, there are a number of other optimizations which we can work on over the years. So this is the outlook we have. And then, of course, we also thought of possible synergies. But of course, these are outside-in assessments that hopefully, over the next few weeks and as we start drafting the business plan, these assessments will be inside-in, so we'll be a little -- we'll be much more specific in a few months' time. Of course, the underlying issues are the ones that you, yourself were mentioning, plus all the things I mentioned as well. Then you had a third question on the landfills, and I'll leave the floor to the Chairman.

Tomaso Tommasi di Vignano, Executive Chairman

Well as far as our outlook is concerned, we hope that what we presented today would be enough. The value of these three landfills, I think the landfills will be useful for at least five years given the capacity. And I already said that we are working on other -- some further capacity. These were landfills that we already own, the authorizations for which have to be renewed. But of course, we don't have the same problems we had two years now. So this is the situation of the outlook. We're being somewhat conservative, of course. But you also have to keep in mind that not all landfills are good for all types of waste. I also mentioned the fact that we have to save some space for industrial waste. Of course, industrial waste is one thing, and it's different compared to urban waste and the capacity required for urban waste. These are -- these landfills we bought are gems, and we chose them carefully. In this case, two of these landfills were major acquisitions indeed. And therefore, we will be paying close attention to these landfills. We don't want to fill up the space we bought too quickly in. Rest assured though that this is a topic that we will continue to focus on.

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YTD Change(%): 23.252

Bloomberg Estimates - EPS
Current Quarter:
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Bloomberg Estimates - Sales
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Unidentified Participant

Well, thank you very much for some interesting answers.

Operator

The next question is by Roberto Letizia, Equita SIM.

Roberto Letizia, Analyst

Good afternoon. What is the improvement you expect following the renegotiation of your debt? Or will the net effect be on a yearly basis compared to 2018? And were these transactions already included in your business plan targets in terms of cash generation? And did you also have the chance to look at the Arera document and the future of dispatchment, since it opens up to the opportunity for distributors to offer complementary services to what (inaudible) offers in dispatching? Can this be an opportunity for a Company like Hera? Or is this something which isn't on your radar screen? And then going back to the energy sector. At this point, on a yearly basis, what is the negative effect you expect from the loss in margins in the Salvaguardia market? Would the figure be EUR15 million? Can you confirm that? And just a final quick question, any possible update on the Daga bill and its discussion in parliament?

Stefano Venier, Chief Executive Officer

Well, I'll save your question of the Daga reform for last. Let me begin with the easiest question, the Salvaguardia market. Since we had been able to perform the netting on the first half, our target for year-end is for the impact to be in the range of EUR10 million to EUR15 million, hopefully, more EUR10 million. As far as the Area document on dispatching by distributors, honestly, we're still trying to understand what it's about. I wouldn't be able to answer today. Honestly, I wouldn't know what to say right now. We still have to study the possible implications. Then Mr. Moroni can talk about the financial question you had. But keep in mind that compared to last year, we were able to reduce the Company's overall financial burden from 3.7% to 3.5%.

As far as the Daga reform is concerned, currently, what we have are plenty of rumors but nothing confirmed. What we hear time and time again is that this reform was included in the government's programs. Seems to me that currently, the government has other priorities they are focusing on. We do know that Ms. Daga is working on a 2.0 version of her bill. Hopefully, it won't be worse compared to the previous version of her bill. Although we are convinced of the fact there is no need to reform the water sector. In fact, we feel the water sector requires stability and visibility as we were able to achieve in recent years, and the effects of which are tangible, they're visible. In fact, this year, we increased our investments in water with a further EUR10 million. It's plus 10% compared to last year's investments. We can invest because we have a certain degree of visibility and a scheme -- a project that gives value to our industrial projects. And I don't think that's something we'd like to give up.

Luca Moroni, Group Director of Administration, Finance and Control

As far as the financial question is concerned, the comparison isn't very easy. We can try to look at the gross debt and to compare that with the 0.02% advantage, which will have an impact on H2, which will give us the EUR1 million to EUR1.5 million advantage. But we also have to keep in time -- in mind that the application of IFRS 16 had a EUR1.8 million impact in H1 because, as you know, the application of the principle contributes to EBITDA because it transforms assets which have an amortization rate, which have an impact on the total amount of the financial management. Plus last year, we had the contribution of a dividend from a company we have -- we control different rigs, taking into account these various aspects to have an overall consideration of the total financial impact this year. Although the effects on the cost of debt should be the ones I described earlier.

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Operator

The next question is by Emanuele Oggioni, Banca Akros.

Emanuele Oggioni, Analyst

Yes, good afternoon. In fact, you've answered all the questions. And therefore, let me ask you something regarding the interest that you have efficiently expressed between the two companies in Verona and Vicenza [ph]. As you mentioned in the Ascopiave case, you had an asset that you were able to use to your advantage, whereas for these two other companies I had mentioned the merger would be entirely different.

Unidentified Speaker

It is different. Of course, we're still willing to understand how things will evolve. So the only thing I can say is that if that is a project to create a company in the Veneto region, well, in the Veneto region ours is the largest group. And I'm referring to Veneto and Friuli-Venezia Giulia. This refers to regulated businesses, water, electricity and gas but also in terms of the waste business. And therefore, I think it's only fair for us to observe what happens in the rest of the Veneto region, which, as we've always said, is the territory we look to with plenty of attention. That is the situation as far as I'm concerned for the time being. Of course, we read the papers just as you. But I think that for the time being, we're still waiting to understand what the mayors of these two cities have in mind.

Emanuele Oggioni, Analyst

Thank you.

Operator

The next question is by Federico Pezzetti, Intermonte.

Federico Pezzetti, Analyst

Good afternoon. I'd like to ask you a further question on the acquisition of the Pistoia landfill and the 1 million ton capacity at Ravenna and Cordenons. Your EBITDA at EUR16 million per year, I think is a little conservative. So I'd like to wonder -- so I'm wondering how you intend to use the landfill capacity as a way of understanding. The margins you expect per ton, are there any differences between the three landfills you mentioned? And then you were mentioning further capacities, you may have in Modena a further 1.5 million tons. That's something you mentioned in the previous conference call if I remember correctly. So here, too, reasonably, by the end of the year or early 2020, this landfill can be up and running again. And here, too, what kind of margin do you expect per ton? Thank you.

Unidentified Speaker

You never seem to be satisfied, you always want more, more news. Now besides the three landfills we talked about earlier and describing the capacity they have, we certainly have three other items, three other instances, in fact, two sizable landfills, one is smaller, they're present in our territories. And for these three landfills, we are looking to complete the documents needed to obtain -- to do authorization. Of course, since we still don't have the authorization, so I didn't take that capacity into account, it wouldn't have been cautious on my part.

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The second thing you have to consider is that the capacity of the landfills we made the acquisition of is certain, of course. But keep in mind that for the other landfills, the ones we're waiting authorizations for, there is always a certain amount of time you have to wait. Since it refers to sites which have already been used in the past, which have to be refurbished, so to speak, and that takes 2.5 to 3 years' time, which means that we have to wait a few for some time after we receive the authorization. That's where we were concerned with the fact that we would have to cover that amount of time with other landfills.

So now that we've made these new acquisitions, we can work in a more relaxed way so that we can then update the landfills that we're waiting for the authorization for. Of course, one is a landfill you were mentioning, the one in the Modena province. It's a landfill that we used for a few years, which had to be refurbished through a landfill mining activity, which means that we have to remove all the waste from the landfill and then to work on it. So we still don't have a clear view as to how much time we'll have to wait. But with the two landfills we acquired, we're able to cover our needs. They are two very large landfills, they're kept very well. And therefore, for the time being, we'll be able to use the new landfills we acquired without being too much in a rush, because of course, once you're left without capacity of landfills then -- you understand how difficult it is to close the circle, as Stefano has mentioned earlier. So for the time being, we're sure as to the capacity we have. We mentioned the impact we're expecting on the EBITDA beginning on next year. And then we'll see what happens next. If we're able to complete the other transactions and we're still working on, we can further improve things. But again, for the time being, we are very confident as to the current situation.

Federico Pezzetti, Analyst

Yes. Of course, I didn't want to ask you too much on the future. My question was more on the EBITDA related to the tons you already have. So let's say, on the EUR16 million you mentioned.

Unidentified Speaker

Well it's a very complicated answer because as the Chairman was saying earlier, there are very many codes we would have to take into account, it's very difficult. There are at least 100 codes with different margins, of course. The (inaudible) landfill pertains urban special waste is lower margins, and you have the Pistoia landfill, which has a broader set of codes. And in turn, it is perfectly in line with the businesses we have in Tuscany or the waste recycling and the other platform we have. So it's not even a matter of discussing the margins per managed tons or tons disposed of. But we have to think about the tons we manage because, of course, you have to select the waste earlier to sort it out to recover waste. And then, of course, the remaining part of the waste, which actually will be disposed of is the remaining part of the business. So therefore, the margins we have is a combined outcome of a number of different businesses.

Operator

(Operator Instructions) The next question is a follow-up by Enrico Bartoli, MainFirst.

Bartoli Enrico, Analyst

This is a quick follow-up, can you give us an update on the political discussions on the liberalization of customers beginning in mid-2020? Do you think that data is still feasible? Or will there be any further delays? Also, considering that there hasn't been any concrete proposal concerning -- customers' allocations.

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Well, let me answer by what the present -- what the authority said during his report to parliament three weeks ago. He said that a further extension would be -- a further delay would be very difficult for Italy as a system. And therefore, the authority has been working to avoid a further delay. Therefore, we are confident that, that day will be complied with.

Bartoli Enrico, Analyst

Thank you.

Operator

Mr. Tommasi di Vignano, gentlemen, there are no further questions for the time being.

Tomaso Tommasi di Vignano, Executive Chairman

Well thank you very much. Have a wonderful summer. Thank you.

Operator

This is the Chorus call operator. The conference is now over. You can disconnect your phones. Thank you.

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