

Company Name: Hera
Company Ticker: HER IM
Date: 2020-07-29
Event Description: S1 2020 Earnings Call

Market Cap: 4903.56154854
Current PX: 3.292
YTD Change(\$): -0.612
YTD Change(%): -15.676

Bloomberg Estimates - EPS
Current Quarter:
Current Year: 0.2
Bloomberg Estimates - Sales
Current Quarter:
Current Year: 7604.667

S1 2020 Earnings Call

Company Participants

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

Other Participants

- Javier Suarez Hernandez, Analyst
- Emanuele Oggioni, Analyst
- Unidentified Participant

Presentation

Operator

Good morning. This is the Chorus Call operator. Welcome to the presentation of the H1 2020 Financial Results of Hera Group. All participants are in listen-only mode. Following the initial presentation, we will have a Q&A session. (Operator Instructions)

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

Tomaso Tommasi di Vignano, Executive Chairman & Group President

Good afternoon, and welcome to our H1 2020 presentation. We will be talking about the complexity of the first half of the year. Although, I'm sure you are all aware of it, it was very challenging due to a number of reasons. And I think it's safe to say that without bragging too much about our results, I think we were capable of reaching the targets we had given ourselves.

We were in line with our business plan, ever since the beginning of the year when these external events have still hadn't played out. As we had mentioned during our Q1 presentation, let me reiterate the fact that all of our services continue to work. And this is something of course, which says a lot about our company, and all the people who work for us, both within the company and outside of it.

Now as you can see on the first page of the presentation, there were some events, which marked the first half of the year. We'll be seeing the events, which happened during the first half of the -- different events between Q1 and Q2. Obviously, because the impact of the COVID crisis had a different impact, both in terms of the length of time and its impact in Q1 and in Q2. As I mentioned, all our services continued working, with a few extra efforts in some of our services, efforts which, of course, were due to the fact that in some sectors, specifically some companies and some clients had stopped their business. following the health emergency.

Now what happened in Q1? Well, in Q1, we had our shareholders meeting, which confirmed the dividend, as we had mentioned, it would be during the presentation of our business plan. We then continued to implement a number of projects linked to organic growth, which are a normal part of our growth process and which had already been

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mentioned in the business plan's forecast.

Third element I'd like to focus on, is that during the quarter, we further consolidated in a positive way the agreement we had signed at the end of last year as far as our important relationship with Ascopiave is concerned. In other words, we had some opportunities immediately, operate at the beginning of the year with the creation of EstEnergy, which is now the most important player in the energy sector in terms of the number of clients in the Veneto region. That was the first thing we did.

And then we also further strengthened our relationship with Ascopiave. And in two steps, we made the acquisition of Ascopiave shares, and therefore, we also became shareholders in the company. As I was mentioning, Q1 was different compared to Q2, also in terms of the impact of the warm weather. The winter was extremely mild. This is unforeseeable compared to the previous years. And therefore, in some of our businesses we suffered due to, again, the mild weather.

And of course, keep in mind that in Q1, the biggest issue, the most worrisome issue was the beginning of the health emergency, although that only had an impact of one month in Q1. So these are the main items, which marked the first three months of the year, which, of course, we had already discussed together. And then we entered Q2, in which of course, we continued working towards achieving continuity. We didn't allow ourselves to become depressed by the scenario we had to deal with. And of course, we didn't give up on achieving the targets we had given ourselves, which we had already summarized in terms of the impact it would have had in the conversation we had with you.

In Q2, we confirmed again the execution of the dividend, which we had illustrated in the business plan. That dividend was fully paid. We also had our shareholders meeting, which reconfirmed our Board with some major continuity, as far as the top management are concerned. Both myself and the CEO were confirmed for a further three years. And we also had some new entries in the Board. We have a significant number of new Board members.

I already mentioned, that as far as Ascopiave is concerned, we completed the acquisition of a stake in that company. And then over time, we realized that the impact of the health crisis, which we had already started feeling in Q1, was even greater in Q2 because out of the three months of the quarter, two months were characterized by major difficulties of the market, which, of course, didn't allow us to fully work on our activities. It was a very challenging part of the year with the health emergency.

And then by June, we were able to really pick things up compared to Q1. The winter was almost over, although this affects some of our businesses -- an effect we certainly felt. So these two factors had an impact on the first half of the year's results, although they weren't able to entirely damage our results through its effect, and we'll be hearing about this from our CEO. So these events didn't erode all of the growth that we had achieved through our typical levers, such as M&A, which in the first half of the year accounted for over EUR27 million in growth, mainly coming from the EstEnergy deal but also from a major transaction in the waste treatment sector. And I'm referring to industrial waste, specifically. And therefore, having been able to achieve and defend these results were important for the targets that we'll be describing.

And in fact, the main results as far as H1 are concerned, the ones you saw in the press release, are quite consistent if you look at the general scenario in the first half of the year. First of all, our turnover was stable at EUR3.6 billion, with EBITDA, which is at EUR560 million, with a growth equal to EUR14 million compared to year-end last year. And despite the negative impact we suffered in both Q1 and Q2, and despite the impact of the mild winter, we were still able to defend our growth. We were able to preserve most of the growth despite the conditions I described.

As far as EBIT is concerned, we're up to EUR296 million, with a 2.4% growth and an increase worth EUR7 million compared to year-end last year. Net profit post minorities is at EUR166 million, which is the same level we had achieved in H1 2019, which means we were able to fully offset all of the negative impact stemming from the two general factors I mentioned earlier. And we also included, of course, some of the impacts of the EstEnergy deal, the deal we struck with Ascopiave.

We did receive some help from the tax rate in the recent period, which is at 27% compared to 28% that we had in 2019, in the same part of the year. We had a very positive creation of cash, which allowed us to fully cover our investments

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equal to EUR248 million. This is something I'd like underline because it is a strength, which underscores our will and our ability to meet the targets we have given ourselves in the business plan. This kind of investment -- these levels of investment goes to show that we wanted to continue working towards achieving the content of the business plan.

The net debt-to-EBITDA ratio stand at 2.81, which is good results, which improved things, also all included figurative debt, besides all the things which are required by the investment plan. All of the drivers contributed to these results as usual, and I think that this really underscores our ability to withstand the elements. Our company has again, even despite the unique conditions we are living, the same conditions our competitors also face, and you can draw your own conclusions.

EBITDA growth drivers are the typical ones, which allowed us to achieve EUR560 million. And M&A was worth an organic growth worth some EUR51 million. M&A accounts for EUR32 million, and that refers to the EstEnergy transaction. And to that, we also have to add an acquisition in Tuscany, which I mentioned earlier. So that in H1 2020, we were able to achieve some EUR5 million, which was consolidated as of July 1, 2019.

Organic growth was a lever that we used with the specific commitment, with a contribution worth almost EUR19 million. And this is the result of the client expansion program, which is very good during the first half, with a further 35,000 energy customers. It is also the result of our actions towards cost cutting, especially in terms of staff, which allowed us to continue to work on efficiencies. And we don't have to recruit through external support as many others had to.

Cost cutting was important, of course, but we also have to keep into account some innovations, such as the use of smart working initiatives, which was very intense from the beginning of the period. Although, of course, as soon as the conditions were there, we reduced smart working initiatives, although they're still pretty relevant.

Substantially, our growth was able to fully offset the negative impacts we faced stemming from the external elements I mentioned. Again, the mild weather during the winter, which accounted for minus EUR7.5 million, and the effects of the COVID emergency, which over the first half of the year, had an impact worth EUR29.8 million.

This goes to show that we were able to deal with these events without swerving from what we were expecting to do when we first described what our expectations were for the period. We were able to achieve our EBITDA target, and it is fully consistent with the growth projections in our target. Hopefully, we won't have to face similar external problems in the second half of the year. And therefore, we continue to work with the awareness that by focusing on continuity, we will certainly be able to achieve a number of other excellent things.

And let me give the floor to Stefano now, who will be giving you some further insight in terms of how we were able to achieve our results.

Stefano Venier, Chief Executive Officer and Executive Director

Thank you and good afternoon. As usual, let me give you a quick update on the three business areas. I think we can skip Page 4 because the Chairman already mentioned those things.

We can move to Page 5, which gives you an illustration on our regulated businesses. We can see a contraction worth some EUR7 million. EUR226.9 million as the H1 results.

Some elements of course are due to the things, Chairman mentioned earlier, such as the health emergency, which had an impact worth EUR3.8 million. And that is due to the slowdown in demand and customer requests, new meters and so on. We had an impact on the entire perimeter linked to the tariff review, which came about at the end of 2019. That is worth some EUR6 million, the tariff review implemented by the national authority at Hera. To that, we opposed EUR11.6 million in terms of organic growth in terms of cost efficiency, including staff, the internalization or the in-house activities we were able to add and a recovery in terms of profits. And this would have given us a positive impact.

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But then we had an impact stemming from the sales we made in the Ascopiave transaction, especially the gas business in Padua, which compared to last year accounts for a minus EUR8.7 million throughout the perimeter, which brings us to a grand total of EUR226.9 million, which is the H1 result. And again, just to give you a business by business breakdown, this is, of course, an answer to one of your typical questions.

The gas distribution business, which accounted for EUR80 million EBITDA in 2019, is at EUR74.8 million in H1 2020. The water business is pretty much in line with last year, standing at EUR122.8 million. The electricity networks are in line with last year with EUR21 million, whereas district heating, especially due to the effects of the mild weather in Q1 this year, had a contraction in profitability from EUR9.5 million down to EUR8 million. So this is the breakdown of the various businesses within the general network sector.

So this is an overview of the regulated businesses, which suffered a limited impact from the COVID emergency. That only happened in the one single commercial business. Moving on to the waste business, Page 6. In this case, we had a contraction worth slightly less than EUR4 million, which of course, suffer the impact of the health emergency. Just to give you some figures, you know that the reduction in the volumes of urban waste was at around 9%. The reduction of special waste in general terms was between 10% and 12%. And we had a decrease on the price of electricity and the gas commodity in general, especially in the months of April and June, which, of course, had an impact on our revenues from sale of energy or biomethane. And therefore, we've a total impact worth EUR9.4 million, which is due to the health emergency.

This was partly offset by cost cutting and bringing certain activities in-house. And of course, we also have the benefits of the acquisition we made in July last year of the landfill in Pistoia, Tuscany, the net contribution of which was EUR5 million in H1. All-in-all, therefore, we stand at EUR122.4 million, of which the waste treatment and recovery part is worth EUR86 million, which is down EUR2 million compared to H1 2019, which was worth EUR88 million.

Moving on to Page 7, the energy sector, supply specifically of electricity, gas and value-added services, in this case, we have a growth worth EUR23 million, up to EUR193.5 million despite EUR17 million, which is the impact of the COVID emergency. The EUR17 million stem from the lower volume delta and the price delta. Lower volumes refer to the lower procurement contraction -- the year-to-date contraction and sold volumes in Northern Italy, a figure which is in line with the figure we have whenever we manage the network, such as Modena, Imola and Trieste is worth 11%, but it's also a delta on price because the lower commodity prices, especially where we had already completed the procurement of energy for its end supply, obviously forced us to sell the volumes we hadn't supplied at market prices. And therefore, the impact of that was significant.

Deferred gas plus electricity equals EUR17.2 million -- minus EUR17.2 million, to which we also have to add the minus EUR6.4 million due to the mild winter. We have seen those figures during the Q1 presentation. This was especially true on February, and that accounts for minus EUR6.4 million in terms of lower volumes sold. Then we were able to achieve a plus EUR10 million cost efficiency, service recovery and so on, including the fact that during the period, we also had less push commercial activities. And therefore, we had lower costs. And to that, of course, we also have to add the contribution brought about by Ascopiave, which is worth EUR36 million.

Having said all this, our growth is equal to EUR23 million. And within this figure, this goes back to a question you asked us during the Q1 presentation, this growth figure includes benefits stemming from the ancillary services, MSD, which compared last year was some EUR10 million more. At this point, I'd like to move on to our cash generation graph, and I'll let Mr. Moroni describe the events referring to our net cash flow in the first six months of the year.

Luca Moroni, Group Director of Administration, Finance & Control

Good afternoon, everybody. I'll begin my part of the presentation by saying that our cash flows went very well, especially our cash in. We had already commented together on the sensitivity we had at the beginning of the health emergency. We tried to imagine a worst-case scenario, had we had to suffer from a cash shortfall for any possible difficulties our clients could have had, especially in the business segment.

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But I have to say that compared to our worst-case scenario, we were quite resilient. And it also goes to show the soundness of our customer base and the resiliency of our customer base.

And besides some requests for payments-related installments in the business sector, which is worth some EUR10 million to EUR20 million, there really was nothing else for the time being. And therefore, the cash flows were very positive, which also allowed us to close with some equally positive financial indicators. You'll see that the operating cash flow, especially from the operational level, were above EUR400 million. To that, we also have to add some EUR90 million from the net working capital, which went well and which is a typical characteristic of this part of the year in terms of its seasonality.

We did well. Things are definitely positive. Then we have some EUR27 million in provisions, which we consume over the 6-month period and over the full year period. We spent CapEx worth some EUR250 million. And here, you can see that we have a fairly solid number, which is worth some EUR220 million on operating cash flows.

Then we had a small part of the dividends we paid in June for the EstEnergy Group. That refers to Ascopiave or the part Ascopiave owns. Then we have a small portion of impact on M&A and buyback of shares. The net effect, as far as the cash flow is concerned, is worth EUR190 million. And also taking into account the dividend we paid on July 8, which is worth EUR160 million, net-net, as far as cash is concerned, we have a plus EUR30 million compared to the end of last year. This allows us to come up with a net debt-to-EBITDA ratio worth, despite the put with Ascopiave, which is up at 2.8 times, the net figure would be 2.35 times. So these are especially sound figures, they're very solid, and they show excellent financial soundness.

And I'll give the floor to the Chairman for his conclusions now.

Tomaso Tommasi di Vignano, Executive Chairman & Group President

Well, there really isn't all that much to add as far as I'm concerned. What I want to reiterate is that, hopefully, we can leave this phase behind us, although from January 1 to the present, we worked well. All of our results are positive. The fact that we were able to continue to work on our strategy, our results are on track. We were able to achieve results, and we were able to achieve all of our commitments, including dividends, which, as you know, continue to grow, and that is something that we have no intention of reverting from. And then we are still continuing to invest. And that wasn't easy,

Of course. We were able to be in line with the business plan, and they are above the investments we've made last year. I think that these are -- the two latter figures go to show that the company is solid, and we are extremely committed to delivering when it comes to our targets. And at this point, I'll open the floor to any questions you may have.

Questions And Answers

Operator

This is the Chorus Call operator. We will now be beginning our Q&A session. (Operator Instructions) The first question is from the teleconference call, Javier Suarez, Mediobanca.

Javier Suarez Hernandez, Analyst

Good afternoon, and thank you very much for the presentation. I have three questions for you. The first refers to the cash flow generation, which was very strong during the first half of the year. I was surprised, because I expected the Q2 -- I expected the company to suffer, much like the country in Q2. So why is it that you were so resilient in terms of cash flow generation? I would have expected an increase in provisions for bad debt, although there is no track of that in your accounting.

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So I was wondering, why it is that you're so resilient. Why is it that you had a positive contribution on your net working capital? So that was the first question.

Second question is on the generation business. Even during the lockdown period, the company was able to increase its underlying client base. That is pretty surprising to me. I would have expected the company's commercial activities to slow down, to suffer. So can you tell us what managerial actions you took because our customer base, especially in electricity, continues to grow.

And my third question is on the net income. Page 2 of the presentation confirms the net income. Can you give us some insight as to what the net income of the company is, without all of these figurative accounting which are connected to the EstEnergy deal because I think the underlying net income would continue to exist even if you adjust these performances and these figurative accountings? Thank you.

Unidentified Speaker

Let me answer beginning from your last question. Beginning with the impact of the Ascopiave deal on net income, you can see it on Page 2 and the note. It's worth EUR20 million, EUR11 million of which refer to figurative amounts and another EUR9 million refer to the amortization of the goodwill on the client list. So that is a total of some EUR20 million which had an impact on the result.

Moving on to our commercial activities, it is true that we increased our customer base. Now the growth you see in the presentation is when we compared to June 1, 2019. So that shows you the increase of our customer base in a 12 month period. We did have a slowdown in April and May, of course, because all of the physical channels were shut down. But I also have to say that we did continue to allow our agencies and our operators to continue working. Over the period, we got them working at the outbound acquisition of clients.

Of course, the pace of things are different from the one we usually have. But the fact that they were able to stay operational, and this means that they kept working, although partially. And that allowed us to recover very quickly once things were reopened in early June. And if we look at the results of the past three weeks, we can see that we are back to the pace we had prior to the lockdown. And that, I think, explains not just the variation we had over the past 12 months compared to 12 months ago. And it also gives you a good view of how things picked up once we exited the lockdown.

The only channel, which is still suffering somewhat refers to the physical shops. We're still at 70% to 75% of the flow we used to have in January or -- compared to the same period last year. That means that the people who in Q1 and Q2, were more familiar with our digital channels continue to use those same digital channels and still are physically going to our shops. So in terms of behavior, I think this is the only thing, which is still suffering from a lockdown to a certain extent.

As far as the cash flow is concerned, maybe Luca wants to answer.

Luca Moroni, Group Director of Administration, Finance & Control

I underline the resiliency of our customer base. And the news here is that we had no deterioration in our cash in, due to three reasons. I think: The first is the very close attention we pay when it comes to acquiring customers with an origination system, which is very careful when it comes to the customers we pick.

Secondly, we worked hard to -- on prevention to allow all of our customers to overcome the emergency in the best possible way. In other words, we were able to offer three months installments and then six months installment. And when the lockdown continued, of course we feel that did help our customers, especially our business clients. Some of them did ask for these installments. But at the end of the day, the payment ratio -- didn't suffer significantly.

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So we are continuously working and acting as a way of supporting our customer base. The third reason refers to pay a slight drop in volume and prices and that means that the working capital deflated somewhat compared to a normal situation. And then as far as the provisions for debt -- for bad debt are concerned, even here, we had been somewhat cautious in our math [ph], but they were in line with the new accounting principles, especially the new IFRS accounting principles which say that you should account for your provisions with an outlook to the future and in the figures, we had for the 2019 accounts, our provisions were more than adequate.

And also given the sensitivities, we performed P&L as of June 30 this year. Well, we were able to assess that those provisions were very much in line with any possible bad debts we would have to face in the coming six months. So I think that we were able to prepare for these events, allowed us to be ready even despite the complicated situation.

And going back to what Luca was saying concerning the -- I mean, bad debt provisions, please keep in mind about we finished drafting our 2019 final figures in early March. And in early March, we already knew what was happening and given that we have to apply IFRS 9 with a view to the future for cash-ins even in the results of last year, we already had our view of how things have to be managed and therefore I think in 2019, we already started working on certain dynamics. We started seeing in the very first week of March when we closed the figures for 2019. And that of course, had an impact on the results of H1 consistently.

Javier Suarez Hernandez, Analyst

Thank you.

Operator

The next question is by Emanuele Oggioni, Banca Akros.

Emanuele Oggioni, Analyst

Thank you and good afternoon. Two questions, the first is on waste. The second is on energy. As far as waste is concerned, I noticed a larger decline in Q2 compared to Q1. Can you give us an outlook on the second half of the year. And are you seeing a recovery in Q3 due to the end of the lockdown. And are there any specific items, which have an impact on the waste business in Q2, besides the lockdown, of course.

And my second question refers to your energy business. Your performance here was above our expectations. How much of that is due to the synergies you extracted from EstEnergy, for synergies, you may have achieved with Ascopiave and what is your forecast for the entire year 2020?

Unidentified Speaker

Even here, let me start from the last question to make things easier. As far as Ascopiave is concerned we were already able to capitalize a bit by anticipating the synergies curve we had imagined and we were already able to achieve a EUR4 million or EUR5 million Q1 was in line with our expectations. And that is due to the actions we're done.

We worked more on merchandising proportionately, we couldn't work on increasing our commercial presence of course due to the health emergency things were very limited although we started working on the customer portfolio on the office portfolio and on rationalizing certain costs.

And of course, that part about the result I mentioned. As far as the waste sector is concerned, we had different situations. Basically, the difficulties happened in those companies of ours, which only focus on business customers, such as the Aliplast company, for instance, which focuses on plastic. For the other company we own, or which focuses on treating industrial waste. These two companies suffered very much, because beginning in the second month, certain

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factories -- many factories started closing down. And once factories closed down, they had no waste to be disposed of. It's very simple. And therefore, there was an impact on our business clientele.

And this lasted for a certain period of time although as the factories started reopening, and as we started getting rid of their waste stock, and started going back to a normal life, the more we moved along during the half of the year. We were going back to situations which were similar to what we started from.

Let me stick to Aliplast, for example. IKEA is one of Aliplast's biggest customers and of course, they have a very big impact on their activities. When they closed down their business due to the health emergency, Aliplast no longer had their biggest customer. Fortunately, we were able to offset things by a number of other activities because, of course, we continued working. We continued looking for new opportunities. We started to work on reopening up certain plans by asking new authorizations, and therefore, things slowly got back to normal.

And this allowed us to focus on residential waste. It allowed us to focus on services. We did have some moments in which it was difficult to collect waste because in certain households, they simply didn't open their doors because they were afraid for their health, although they still expected you to come collect the waste twice a day. That, of course, had an impact on the timeliness of our work.

Despite all these problems, we were able to continue working. Of course, we were able to uphold our reputation and to continue satisfying our customers. Despite the health emergency, we didn't have any kind of impact on the relationship we have with our customers. One of the core points of our strategy was to guarantee continuity, both on the inside towards our employees and towards the outside, towards our suppliers and customers.

Obviously, the more we work to consolidate the continuity of things and the more we had a positive return on our activities, although, of course, the things I mentioned earlier, did have an impact on the amount of volumes, factory closures. They can be our best customer but unless they reopen their factory, things aren't going to change.

So basically, we continued to work to improve things on the competitive markets, not in the regulated market because in that case, things continue to work without any major problems. And if we just want to look at what we expect and how things are going, we monitor some 30 KPIs on a weekly basis to understand how things are going, both in terms of the external factors and our internal situation.

As far as energy consumption, we are seeing some peaks and troughs. Electricity consumption in Northern Italy is minus 11% compared to last year, taking into account minus 25% or minus 28% in April. Although in recent weeks, this difference compared to last year was only 5% or 6% whereas last week the difference was minus 11%.

So we have these peaks and dips -- peaks and troughs. So it's a trend which really changed beginning on May 15. There was a step-up with the reopening of factories beginning in mid-May. From then on, the trend was a little better, but again, with ups and downs. Even on the urban waste, the year-to-date percentage is minus 9%, although in the two -- in the more -- recent two or three weeks, this gap has now reduced. Last week, it was minus 4%. It was the first week in which tourism really picked up. Although two or three weeks before that, we were still at minus 7% or minus 8%.

So there is a slight underlying trend with some ups and downs. That's just a flavor of things. What we expect is that this underlying trend will continue over the past few -- over the next few months. And then between November and December, we will recover to last year's figures. We'll be recovering some 1% to 2% each month.

And then as far as the forecast on waste is concerned, keep in mind that as you can see on Page 6, in H1, we had the contribution of the Pistoia Ambiente company. You may remember we began consolidating the company in July 1, 2019. So you can see this difference compared to last year. And we won't be seeing that impact in H2 this year.

Operator

The next question is by (inaudible)

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Unidentified Participant

Good afternoon. Can you give us some insight on the approval of the recovery fund? Do you think this can be a short term contribution? Or do you think we'll have to wait a long time before we see the funds reaching Italy, before we see the impact on projects? And then can you give us an update on the regulations in waste?

Unidentified Speaker

As far as your first question is concerned, I think there are two or three things to say, beginning with the recovery fund. As you know, the goal of the recovery fund is to make available a number of resources, which are familiar with, from what I understand these resources will be made available 2021. They won't be made available immediately or in September.

The calendar the government and the European Commission has given itself is to go after these projects which would have to be presented in October. These projects will be screened, by the CEO to make sure they are consistent with a number of principles. Our association with Litalia [ph] already started to see whether or not some of our projects, the portfolio includes projects which are inline with the EU demands. Of course that includes biomethane, that includes safeguarding our coasts and our water system and that includes green hydrogen power to gas, just to name a few.

Obviously, there are some projects which are in line what the EIB [ph] wants. Now how the European funds will be activated in the favor of companies is still something we don't understand clearly. We still don't know how those funds will be given. Will they be linked to PPP projects or will they be awarded or whether companies [ph] won't have access to those types of funds. And I talked about the two or three people, we still don't understand fully. And then you also mentioned the Green Deal which is management of EIB and which is referred to the principles of taxonomy and all the things I mentioned earlier, of course, refer to this. We will certainly be looking at how we can structure the funding in the upcoming months.

We'll be seeing if it would be more convenient to turn to EIB work on a more structured product, although for the time being we're not concerned with the funding. First of all, because we have no refinancing needs in the short-term but also because we had already planned our investments. So when we drafted the business plan, we are expecting to invest EUR500 million to EUR600 million per year, and we think that is the level which is sustainable, given the financial structure we want to have. Then of course, were there to be some subsidies available, of course, we may start working on certain projects ahead of time or we may speed things up.

Unidentified Participant

I was more interested in the fact that recovery fund can increase the number of investment projects, and not so much that have an impact on the interest and CapEx. Is it reasonable to think that all developments combined can allow companies such as yours, which are fully operational (inaudible) deal under the COVID fund to significantly increase CapEx, with benefits for both regulated and non-regulated investments?

Unidentified Speaker

Well, it depends on the nature of the funding. Obviously, we made an investment plan, which is worth EUR3 billion over a five-year period. And we decided to choose that figure to stay below debt or on the reading of the debt or if these would be subsidies. In the first case, they wouldn't be a part of the ramp, and therefore, they would increase the profitability of the company. Whereas if they are public subsidies, of course, they could improve the quality of the infrastructure, although they would not have a direct impact on the profitability of the individual companies.

They may improve the investments made but it wouldn't have an impact on the funds which have to be invested. As far as projects are concerned, keep in mind that we're talking of hundreds of billion euros. And they want us to come up

Company Name: Hera
 Company Ticker: HER IM
 Date: 2020-07-29
 Event Description: S1 2020 Earnings Call

Market Cap: 4903.56154854
 Current PX: 3.292
 YTD Change(\$): -0.612
 YTD Change(%): -15.676

Bloomberg Estimates - EPS
 Current Quarter:
 Current Year: 0.2
 Bloomberg Estimates - Sales
 Current Quarter:
 Current Year: 7604.667

with a list in one month's time. Of course, you already know that, that would be close to impossible. Either you already have the projects ready, but we already have these plans ready and we would have been able to use some of the younger plans, otherwise, drafting plans take time as we are avoiding wasting resources and investing them as best as possible.

That also headlines our aging, but real projects are tougher to draft.

Then you had a second question on the application of the tariff system, the missing parts and the findings of regulation treatment to find the RAB, the mechanisms to recognize inflation. Some of them are things which are still missing, I know that the national authorities working on it, but for the time being. I don't have any immediate deadlines when it comes to the publication of the regulations. with the application on the tariff system on the economic and financial plans from the collection systems. As you know the legislation which was drafted envisages the application of the legislation before the end of the year.

For the time being they were all regulated, according to the 2019 price mechanism. And in the second half of the year, we'll be working to apply 2020 criteria. We have two examples within our territory, which have implemented the new mechanisms on EFPs for the first time. One is in the City of Vieste whereas all other municipalities chose to continue working with the 2019 regulations before the second half of the year review of the tariffs with the new criteria.

Operator

(Operator Instructions) Mr. Tomaso Vignano for the time being, there are no further questions.

Tommaso Tommasi di Vignano, Executive Chairman & Group President

Well, thank you. I want to thank all participants. We will get back to work, but before that I think we can go on some much-deserved vacations, although, I think it's safe to say that we were successful in allowing you to understand where our spirit was in the first half of the year. And of course hopefully there will be a better general scenario in the second half of the year, so that we can continue to speed up the recovery process that we have been waiting for so long, on which we worked on with major determination.

And let me say good bye by reminding you of the fact that the emergency was extremely tough. Some say that it is only comparable to the situation after World War II, I wasn't alive back then, although it is true that it was a challenge for us and we continue to be challenged in achieving our targets, and achieving the promises we made to you. Have a good summer and talk to you soon.

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