

Company Name: Hera
Company Ticker: HER IM
Date: 2019-05-15
Event Description: Q1 2019 Earnings Call

Market Cap: 4,918.46
Current PX: 3.302
YTD Change(\$): +.64
YTD Change(%): +24.042

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: 0.195
Bloomberg Estimates - Sales
Current Quarter: N.A.
Current Year: 6302.000

Q1 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

- Enrico Bartoli, Analyst
- Roberto Letizia, Analyst
- Emanuele Oggioni, Analyst
- Roberto Ranieri, Analyst
- Sara Piccinini, Analyst

Presentation

Operator

Good morning. This is the Chorus Call operator. Welcome to Hera Group's Q1 2019 Financial Results. All participants are in a 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 are here with the usual team. And you will be hearing from them during our presentation. We have concluded our first quarter, and of course, today we presented the report with the results to our Board meeting, which ended about a half hour ago. There aren't any major events to mention. The results are in line with what we were expecting. And therefore, we decided to illustrate the results to you before going into some of the details, which go back to what was planned in the business plan, and therefore, we will be giving you a snapshot of the work in progress we are going through.

As far as the numbers are concerned, they are pretty straightforward as you can see on Page 1. We are up to EUR331 million in terms of EBITDA with an EUR8 million growth. Our EBIT grew by 3.7% up to EUR205 million. And the net profit is up to EUR124 million compared to the EUR121 million last year. Now as far as the events in the more recent period are concerned, we also confirmed our decisions as to our dividend. And therefore, on June 24, if I remember it correctly, we will be paying EUR0.10 per share, which is in line with our plan and in line with what you were already familiar with. Therefore, there are no negative surprises, thankfully and we are working to achieve the results we expect even this year.

As far as our various business lines are concerned, the EBITDA growth, I was mentioning, stems from the Networks business, especially, and as you'll be hearing from Mr. Venier, we will be discussing some of the more significant things we have done in terms of increasing efficiencies and in terms of the investments made even last year with a focus on this area. All of this, of course, justifies the growth in EBITDA, which was mostly concentrated in Networks.

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The other sectors are all positive as well. Both in the regulated businesses and in the liberalized ones, as we will be seeing in a few minutes.

As I was mentioning, the Networks are the largest contributor to EBITDA growth with a plus EUR5 million. We also (inaudible) about benefits from new tariffs, which, as you know, apply to the gas and electricity distribution sectors. As far as the Waste business is concerned, we have a result, which grew slightly, despite the maintenance in one of our waste-to-energy plants. And although, we weren't thinking of mentioning it, we also obtained a good result from our more commercial activities, our sales, which suffer from the maintenance in one of the major plants, as I was mentioning, but it's also suffering from the situation as far as our landfills are concerned, we'll be mentioning this in a few minutes. We were committed to recovering in this area, because as you know, we had to recover some availability in the landfills, which lasted a little bit longer than expected. But as you'll be seeing, we have been working to obtain some good results. And these situations don't have an impact on our numbers. So these are things we'll also be seeing in the upcoming quarters.

Moving on to energy. Thanks to the gas sales. We were able to offset the negative effects in two specific areas. On the one hand, the reduced margins stemming from the Salvaguardia tenders and this was the more obvious point. But again, despite that we were able to offset the results. Also, thanks to the major growth we had in our gas and our electricity customers, as we'll be seeing in a few minutes. And on top of this, we also have to mention the fact that we were able to recover quite well from the weather and gas consumption. During the year this is something you're familiar with because this was the general situation for everybody.

If we move on to Page 3 in our presentation, we tried to summarize, and I'm sure, our CEO will be giving us further details on some of the main things we have been doing, our daily bread so to speak, all of which will have an impact on the upcoming quarters. Now let's divide them by business areas. So the first area is where we stand as far as the tenders are concerned. Currently, we have one gas tender, which has been published for Udine.

We have already concluded the activities pertaining to the renewal of concessions for waste collection in two provinces, namely Ravenna and Cesena. And we are only waiting for the outcome of the tenders, although we know that the outcome is a positive one. The third item, as far as tenders are concerned, is the announcement made a few days ago, regarding the fact that in the next few months the waste collection tender will be published for the entire province of Modena, which is one of the more sizable areas in our territory.

We have continued to work on increasing efficiencies, I'd like to focus on the topic of purification or depuration. Besides the meters that we will be manufacturing and implementing, and then keep in mind that during the first quarter, we have the effects of the premiums, the technical water premiums, whatever -- first is the technical quality, which was recorded in our areas. So as far as the top line growth is concerned, I mentioned, our market expansion. And between the organic growth of our customers and the growth brought about by the tenders we were awarded, especially, the Salvaguardia market in 12 months we were able to increase our customer base by 150,000 customers compared to the same period last year. Even here, we now have new tariffs for distribution in energy, which means gas and electricity. And I also wish to underline our good commercial expansion, the Waste sector with a very qualified customers, I can't mention any names, but we have signed some very important contract, both in terms of quantity and quality, given the fact that our industrial customer portfolio is starting to become quite significant. And you may remember that through the merger of two of our companies, we were planning to create a single structure dedicated to managing our industrial customers from all points of view and that is something that we are working on from the organizational standpoint, something we will be implementing as of July 1.

ARERA has also asked us to express our views on the waste collection tariffs, and in fact, we have already forwarded our opinions to the national authority, and therefore, this too can be a further opportunity to clarify things, and I'm sure that this can also help in consolidating the sector. Another item that we continue to work on, as usual, is M&A. And as far as M&A is considered, we have concluded some three or four different transactions. The first is a transaction we may have already discussed with you and on previous occasions. I'm referring to the acquisition of a multi-services company, located in the province of Ferrara, the company is called CMV.

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The transaction has been finalized and it is now being integrated in the various sectors with our previously existing structure in that same province. I also mentioned the merger concerning our industrial customers that we already have a date by which the transaction will be finalized. And then, we have also worked on further acquisitions, an acquisition we still haven't made official, although we are very close to the signing of an agreement to take over a sizable landfill, which is close to our territory. And then just last week, we signed a contract regarding a company, which has always worked independently here in the Apennine region in the waste sector with its own landfill and with its own waste collection business, which covers 20 municipalities. And through this agreement, we have now been able to cover the entire territory in the province of Bologna, except for Imola, which is independent given its size. But all other municipalities are now within the services we offer. And this too is a sign of the actions we are taking.

As far as the effects of our investments are concerned and our more recent initiatives are concerned, let me just mention the fact that the biomethane plants, that we illustrated a number of times last year, is now fully up and running. And therefore, that too is an important opportunity, which has now been completed following the inauguration which happened in the second half of last year.

And just to conclude, as far as landfills are concerned, it's no mystery that we had some issues for the authorization of three landfills, which had been recognized, as qualified landfills in the Emilia region, this was included in the regional waste plan, we were still waiting to complete the authorization process, two of these landfills have already completed the authorization process, and therefore, we are about to launch the new plan for these landfills, which we used in the past and which have been exhausted. And we now have to complete the final authorization processes to have them available once again, since we did have some issues as far as this item was concerned.

I already mentioned the topic of the smart meters, and I'm sure Mr. Venier will be giving you some further details. And then as far as the other companies which are concerned there is nothing further to mention. Because as you know, after we presented the business plan we have been on the road for a 1.5 month abroad, much like in other years, an opportunity to illustrate to our investors what our business plan is to 2022. And then as far as our inclusion in the FTSE Mib index, I don't think there is very much to say, other than as far as our stock performance is concerned, we feel we are reasonably satisfied with the initial impact we've had, which offset our stock performance the previous year. It was the right moment to enter the index and we were very well to obtain some much-deserved returns, even the shareholders of some -- general meeting went well with no problems.

And I think this summary covers all of the events, which helped our sectors to conclude the first quarter with some good results. And let me just add that even the energy customers, as a sector in which we are now up to EUR2.6 million, which is yet another step forward compared to achieving our target, the target we envisaged in our business plan, which, as you know, in this sector has a target of 3 million customers, no surprises, therefore, a great deal of work and this is the typical way we go about doing things.

And let me hand the floor over to Stefano, who has a few things to add.

Stefano Venier, Chief Executive Officer

Well, thank you, good afternoon. Moving on to Page 4 now, to go into the business-by-business breakdown. Concerning these first three months of the year, in comparison with the first three months last year. The total EBITDA result, as you saw, was equal to EUR330.8 million, up by some EUR8 million by the previous period. This was achieved, thanks to EUR5 million coming in from the Networks area, up EUR336.5 million, which covers 40% of our overall result. The biggest growth, as we'll be seeing, came about from the water sector, especially from the efficiencies we were able to achieve in the sector.

Moving on to Waste, Chairman already said a number of things. The business area had some ups and downs as we had already been able to comment over the past two quarters, less satisfactory in terms of our commercial volumes, given the limited availability of our assets, but we were very satisfied in terms of prices, which allowed us to post a slight growth of almost EUR1 million compared to the previous period and EUR3.3 million compared to two years ago. Energy, this was the sector which started with a handicap from the beginning of the year given the news of

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Salvaguardia perimeter. But thanks to the positive trends in these dispatching services and the limited capacity we have, the contribution allowed us to offset the delta parameter on the Salvaguardia service. So at the end of the day, we have EUR1.5 million growth up to EUR118.6 million with a growth equal to 1.3% roughly.

Moving onto the following page, networks. I was mentioning the good trends in Water, up by EUR3.3 million, which is an excellent result, based on the good result posted last year already. The effects in this case are essentially links to revenues and on invested capital, which could benefit from the investments made last year, but also, especially in Q1, due to some more limited costs, especially, on the cost of the raw material and Water and the overall management cost, and this includes also the efficiency we have on energy consumption, which we were able to work on over time, allowing us to reduce consumption by 5% in this sector.

We also had a good performance, which is back in line with our timeline, our activities in energy distribution, especially gas, which in terms of size, as you know, is more significant. And in this case the largest benefit is due to the revenues, due to the increase in the revenue rate and also due to the major investments made and in installing the meters, which we had especially at the end of last year.

Electricity distribution -- distributing were stable, as far as distributing is concerned more specifically also given the weather. We were mentioning the climate, we were mentioning earlier, this EUR1 million, a negative effect, was entirely offset by efficiency and optimization initiatives, which allowed us to break even, during the period.

On the following page, on Page 6, we have the information concerning the Waste sector. We have a positive contribution compared to last year coming from the biomethane plant, which was up and running in Q1 with its initial positive results worth EUR1 million. And the result, of course, is the outcome of a fine-tuning process in the technology to clean the biogas to produce biomethane, which took the first six weeks of the year, so that we could be fully up and running only at the end of February. And this, of course, subtracted a few hundred thousand euros from the revenues we expected, which was positive, nonetheless.

Aliplast performed well. In Q1 alone, it posted a growth equal to EUR0.6 million due to the good differential between the cost of the raw material and the sales price of the recycled product. They also mentioned the excellent contribution coming from the market prices. Compared to the previous year, we were able to incorporate the growth that we were commenting during our previous conference calls. And year-on-year, we are seeing an improvement despite the lower volumes equal to EUR4 million. And therefore, the contribution, as we already mentioned, came about from the various types of waste, especially, the so-called dry waste.

The urban or non-hazardous waste -- the non-hazardous industrial waste, which were the two types of the waste which grew more than others. Vice versa, we had a lower capacity, a lower availability as far as our infrastructures are concerned, which had an impact on volumes, which has a similar value, minus EUR4 million, and that is due to the availability of a waste disposal capacity, and it does also has an impact on waste and energy plants, which were down for maintenance during Q1. And it also has an impact on the availability of landfills for the final part of a destination of waste due to reasons the Chairman mentioned earlier. All-in-all, though, we were able to post a growth equal to EUR1 million in Q1.

Moving on to energy. This was a race we began with a handicap in early 2019, since we knew that the Salvaguardia market had given us a very satisfactory results since we have been able to reconfirm, in general terms, the territories that we were already managing previously with a little bit more on top, although the effects of competition had removed some of our profitability, which on a yearly basis is worth minus EUR40 million. And kilowatt-on-kilowatt in Q1 that was worth EUR13 million.

Having said all this, as I already mentioned in the conference call six weeks ago, commenting the year results, Q1 was satisfactory from other points of view. As far as sales, given the growth we mentioned earlier, both in electricity for a further 150,000 customers and in gas with another 50,000 to 60,000 customers of which the organic part of these customers, the organic commercial growth is worth over 70,000, the remaining part, as I was mentioning, stems from either M&A transactions, such as operation with CMV, spread about a further 20,000 customers or other operations linked to that (inaudible) markets.

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All-in-all, we were able to post EUR5 million growth. On top of that, we also have the good performance in our small power-generation activities. These are good performances also given the fact that last year, as you may remember, that the more significant unit we have a stake in, roughly 40% was down for maintenance, and therefore, this is the comparison with an almost zero result. And from our point of view the result was extremely satisfactory, allowing us to entirely offset the effects of the safe Salvaguardia market, and, therefore, even here, even in energy we have a slight growth up to EUR118.6 million, with a good contribution coming from sales and in terms of our asset management.

I'll give the floor to Luca now for a couple of comments on the cash flow and on the tax rate, which benefited from further optimization processes even in Q1.

Luca Moroni, Group Director of Administration, Finance and Control

Good afternoon. Beginning with the cash flow, and as you can see on Page 7, we are able to express how consistent our results are, even from the financial standpoint we still stand at 2.5 times, the net debt to EBITDA ratio rolling, which allows us to continue to have a very good flexibility with a very positive outlook, as far as the future is concerned. The cash flows were positive, plus EUR65 million, even after having financed investments larger than the ones last year worth some EUR8 million to EUR10 million more. We were also able to manage the net working capital in a very positive way, as usual. And therefore, the cash flow contribution allows us to offset the negative start we had on the net financial position given the application of the new IFRS 16 accounting principles, which had given us a EUR96 million step-up, which means, thanks to these cash flows we were able to stick within a limited range or indebtedness, and therefore, very good on our cash flows and very consistent with the results you've seen so far.

As far as the tax rate is concerned, we closed Q1 at 29.5%, lower compared to the same quarter last year, equal to 30.1%. Also, thanks to what we had already explained during the 2018 financial results, due to the fact that we were able to use all of the laws concerning hyper and super amortization laws, which we were able to fully use, thanks to our investments in innovation and technology. And this, of course, will continue to offer a positive contribution in the upcoming years. At this point, I don't really think there is very much else to add. The things we have said relates to the introduction we gave you. And at this point, let me open the floor to you for any further questions or further requests. Although, I think everything is fairly straightforward. And what Mr. Moroni was saying in terms of the improvements we've made to our financial structure, which is something which characterized in more recent years. In March, we were at 2.5 times the net debt-to-EBITDA ratio. And as I mentioned it was sort of news I gave you earlier, I'm sure, we will have the opportunity to look at further opportunities as we had announced, and in fact, when we were presenting the business plan. And therefore, I'll open the floor for -- to some questions.

Questions And Answers

Operator

We will now begin our Q&A session. (Operator Instructions) The first question is by Enrico Bartoli, MainFirst.

Enrico Bartoli, Analyst

Good afternoon. I have some questions for you. First of all, on the gas business. First of all, what was the impact stemming from the reduction in volumes due to the weather? And I saw that EBITDA grew and you mentioned the effects stemming from the increase in your client base given the default margin, can you give us some figures as to this impact? And then a question on margins. Did you have a positive impact from the significant reduction in the gas prices in Q1? And from this point of view, do you expect an improvement in margins and positive effects even in the next quarters?

Second question on Waste. I may have missed some of your comments, but I was wondering whether or not the impacts of the availability of your assets will be recovered in Q2, and then you also mentioned the three landfills,

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which have already received authorizations, with a fourth one, which will have authorization soon. And I'm sure there will be some positive contribution from those assets in the upcoming quarters. And then a question on (inaudible), we've read in the press that you are interested and I'd like to know, strategically speaking, in what terms are you interested in the company. Is it from the customer's side? On the asset side there are -- in the integration with your other companies in the Veneto region? Thank you.

Unidentified Speaker

Well, as far as the climate conditions are concerned, the effects are equal to some EUR5 million. And as you can see looking out of your window was partly recovered in Q2 from mid-April to mid-May. We weren't able to fully recover just based on some indicators, we think we were able to recover up to date roughly 40% of the impact from the weather, from the mild weather. As far as the food market and the default market are concerned the contribution we obtained in comparison to the previous quarter is equal to roughly EUR8 million or EUR9 million more, referring to the perimeter delta.

And the rest, which brings us to the plus EUR5 million was brought about by some margin dynamics and some commercial clients. The significant impacts on the customer mark that's referring to the lower wholesale gas prices is nothing significant to date, in fact. We do expect benefits moving forward. Although, they will be fairly limited given the fact that you don't sell very much gas during the summer. And that in a case, as of the 1st of October, we'll have to renegotiate the contracts. But I still have no visibility as to how the market is positioning itself.

Moving on to the Waste sector, some of the capacity availability or the lack of capacity refers to the in-availability of the landfills, we did have some waste-to-energy plants, which were down for maintenance, although we were able to recover some of that partly in Q2. Although most of that depends from the landfills, although as the Chairman was saying the three landfills have been approved and they will be up and running shortly, although none of these three landfills will have effects on 2019. The effects may start in 2020, for a part of 2020. You mentioned you were late in joining the conference call, although we did have some positive effects from that acquisition that we were mentioning. Thanks to that, we will be acquiring an asset which is already operative, it will be immediately available, which should be giving us a positive contribution in the second half of the year, since we intend to conclude the transaction by the end of the first half of the year, so that we can start using the assets as of July. That was for the Waste business.

As far as Ascopiave is concerned, I think my colleagues have said it all. What is the strategic rationale as far as we're concerned? Well, you know that we have a significant presence in the Northeast of Italy. Our business plan has defined a target, which is equal to 3 million customers, obviously, an extraordinary transaction, such as the Ascopiave one would allow us to speed up the achievement of the target. And therefore, with our 2.6 million customers, keep in mind that we are third or fourth largest time player, and therefore, I think it's only fair that a company such as ours can look at a possible opportunity. And then, as you know, these types of transactions are long, and I think that covers all of your questions.

Enrico Bartoli, Analyst

Yes. Just a very quick follow-up question. The landfill that you made the acquisition of, can you tell us what impact it will have on the year's numbers?

Unidentified Speaker

Well, we're expecting somewhere between EUR5 million and EUR6 million.

Enrico Bartoli, Analyst

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Thank you.

Unidentified Speaker

Which, of course, will be calculated on the one half of the year, and therefore, for 2020 will be up to EUR10 million or EUR11 million.

Enrico Bartoli, Analyst

Thank you.

Operator

The next question is by Roberto Letizia, Equita SIM.

Roberto Letizia, Analyst

Good afternoon. Just two very quick questions. The first is very simple. Can you remind me of the IFRS 16 impact on this first half of the year as EBITDA, and the effects on the year? And then, the recovery of the Salvaguardia effects we saw in Q1, do you expect to recover them fully on the entire year, and how so?

Unidentified Speaker

Well, the impact of IFRS 16 on -- yearly basis is equal to EUR15 million. The impact of the Salvaguardia market will need continue to have such a performance on the way we manage our assets, we may be able to offset it entirely, although it's quite unlikely. As we mentioned in the end of the year conference call, we will do our best to offset that impact in the energy sector, although I think it will be difficult, although as you can see, the other businesses are performing well, and therefore, generally speaking, as a company we will be able to fully offset that. The EUR15 million on the quarter divided by four, yes, it's a straightforward effect, EUR3.8 million roughly. Thank you.

Operator

The next question is by Emanuele Oggioni, Banca Akros.

Emanuele Oggioni, Analyst

Yes. Good afternoon. As far as the Waste business is concerned, the effects of the price trends, which benefited the quarter by EUR4 million, how do you see the trend for the full year, based on your forecasts? And then regarding the acquisitions you mentioned, can you give us a total amount of potential EBITDA stemming from the potential targets you're looking at? I seem to understand that the sum of the various relatively small targets would be worth a certain amount, can you tell us what that amount would be? Where you do complete all these transactions?

Unidentified Speaker

All right. Well, your first question on the price trends, well, of course, prices grew progressively on a quarter-by-quarter basis, therefore, the EUR4 million impact can be measured by comparing it to Q1 last year,

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obviously, during the year, if we consider that the prices are stabilizing after this very long growth, there is a slight increase here and there, although they can't compare it to the rates we've seen over the past 24 months. Therefore, this difference on a quarter-by-quarter basis will dwindle. Of course, what could push the prices up again, would -- is the increase in capacity, we mentioned earlier, the EUR5 million or EUR6 million, which is the contribution we expect from the landfill we are negotiating.

Regarding the acquisitions, the ones the Chairman mentioned earlier, CMV and Cosea are two small local acquisitions we made, which on a yearly basis are worth a few million euros in terms of EBITDA. The other transaction we are negotiating, which I just recently mentioned as I was telling Mr. Bartoli, for 2020 the contribution will be worth some EUR10 million to EUR11 million. Thank you.

Operator

The next question is by Roberto Ranieri, Banca IMI.

Roberto Ranieri, Analyst

Yes, good afternoon. I have a couple of questions for you. The first is on the Waste business. On the stop [ph] of the waste-to-energy plants, which you kind of referred, minus EUR4.6 million, is this the entire waste-to-energy plant EBITDA? Or was there any further costs for this stop? And therefore, what do you think the positive incremental effect could be with the startup of the waste-to-energy plant quarter-by-quarter?

Second question, when will we be able to have some more visibility on the waste in regulations, specifically, on the waste-collection tariffs?

Unidentified Speaker

Let me be clear, the EUR4.6 million impact due to the reduced availability is divided in the following way, 30%, one-third slightly less than one-third is due to the maintenance in waste-to-energy plants and more than two-thirds refers to the lack of capacity for waste disposal in landfills. Keeping in mind that waste-to-energy plants were down for a couple of weeks and they were up and running again.

And therefore, in Q2, since we have 10 waste-to-energy plants, we may have three undergoing maintenance in a quarter, and seven which were up and running. And then the next quarter, there may be 200 maintenance and eight which are up and running. Therefore, in general terms, for the overall volumes, as a downtime took away, sort of, 25,000 tonnes out of the total. Also the lack of landfills is a more structural issue that we will solve with the acquisitions I mentioned. As far as regulation is concerned, while we are in a phase in which the national authority is now collecting data on the costs that the various operators have to deal with the reference to the figures, which dated back to 2017, if I remember correctly, which means that we can reasonably expect some initial indications in the fall and a final report by end of the year and that's what we hoped for.

Roberto Ranieri, Analyst

Thank you.

Operator

The next question is by Sara Piccinini, Mediobanca.

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Sara Piccinini, Analyst

Yes, good afternoon and thank you for your time. My first question is on the Water business, the EUR3.3 million increase, is it entirely due to efficiencies? Has there been an increase in tariffs? Can you please explain the reasons behind the increase? And the second question is on waste. There has obviously been an increase in prices, which is now stabilizing. But as far as the waste-to-energy capacity is concerned, we did see that other competitors have been talking about saturation of the market, is this something that you are seeing in your plants as well? Could you give us some information on the volumes treated? And then my final question is, can you give us some insight as to the contribution stemming from synergies and M&A in Q1?

Unidentified Speaker

Water, the EUR3.3 million increase were brought about, as I mentioned, as follows: EUR1 million from reduced costs, in terms of the cost of raw material and management costs; then we also had an improvement in other operational costs worth a few hundred thousand euros; and then we had increased revenues worth EUR1.5 million, roughly. And the total is EUR3.3 million. Then, you also had a second question on price trends, yes, keep in mind that we don't have a daily information. Typically, in Waste, we have yearly contracts or 24-month long contracts. Therefore, once you renegotiate them, the contracts continue to be enforced for the residual part of the year. The good news is that even in 2019, the prices were positioned on the maximum levels we had in 2018. And then, of course, as far as 2020 is concerned, in just a few weeks we will start negotiating the supplies for 2020. And in some cases we've already pre-contractualized them, given the fact that the market is self-exposed to major tensions, customers are asking for contracts which are longer than 12 months. The total amount stemming from synergies are efficiencies, I don't have the figures for that, I'm sorry. We are mentioning in that EUR8 million growth, a part of which is linked to IFRS 16, but the residual part, I'd say that some EUR2 million come from efficiencies, the other EUR3 million are the market delta, but again, these are very rough figures that I'm giving you, as we speak.

Sara Piccinini, Analyst

Thank you. And as far as waste is concerned and volumes, the load factor, that's the waste-to-energy plants are subject to, are they saturated. Are you, yourself, seeing this trend, and if I may, a follow-up question on water? Can you give us some insights, some updates on the DAGA, a decree discussion and your expectation as to the new regulation?

Unidentified Speaker

As far as the waste-to-energy plants are concerned, for the past three years now, they have been running at full capacity. So much so, in fact that as you can see from the numbers, and as I was mentioning earlier, all you have to do is stop for two weeks maintenance and you'll reduce the volumes, had we had spare capacity, I would have been able to offset that in other plants, but there is no such spare capacity. There is such a need for capacity that the waste-to-energy plants are fully saturated.

As far as the DAGA, it was concerned, the only information I have currently is that the commission had to discuss the bill on the 27th of May, a special day, as you know, because it is the day after in the European elections, as we speak there has been the water festival in (inaudible). And there was a very good speech from the MP, Mr. Gali [ph] who had drafted the first bill. And his position is published on his website, asked his opinion on this bill, on this reform and that's all I know. It still hasn't been debated, it's not at the very core of the discussions. And of course, I think that the future will also depend on the outcome of the European elections. And as far as water regulation is concerned, currently, the tariffs have been approved and I think we're only at the very initial phases if that's what you were referring to.

Company Name: Hera
Company Ticker: HER IM
Date: 2019-05-15
Event Description: Q1 2019 Earnings Call

Market Cap: 4,918.46
Current PX: 3.302
YTD Change(\$): +.64
YTD Change(%): +24.042

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: 0.195
Bloomberg Estimates - Sales
Current Quarter: N.A.
Current Year: 6302.000

Sara Piccinini, Analyst

Yes, I was referring to the regulatory period, which should be starting in 2020. Although I don't think the authority has published any consultation documents?

Unidentified Speaker

Yes. Correct. The tariffs have been approved for 2019 and that's what we're sticking to.

Sara Piccinini, Analyst

Thank you.

Operator

First question is a follow-up by Roberto Letizia, Equita SIM.

Roberto Letizia, Analyst

Yes, if I may, a more strategic question. Can you just remind us of what your rationale is when it comes to investing in new landfills? Given the circular economy regulations, something you're aware of, also in light of Aliplast acquisition. Therefore, also in terms of assessing the acquisition price, in light of the EUR10 million or EUR11 million EBITDA contribution year-on-year, can you tell us why not invest on recycling plants? And therefore, I can't seem to understand the growth brought about by landfill over the next six or seven years, given the fact that prices may be good now, although we may face regulatory changes that could really alter things on the market.

Unidentified Speaker

Let me just say that the regulations concerning the circular economy and the use of landfills referred to urban waste. But we often forget about the fact that we also have industrial waste, the waste generated by companies by production processes. And besides, the waste coming from the construction sector has taken to industrial waste. If you think of the territories we serve, they are the same amount if not as far above the amount of urban waste, which means that if we collect 111 million tonnes of urban waste and only 3% or 4% of this urban waste goes into the landfill, they are the final residues of recycling, although in the industrial waste sector, recycling isn't as easy. It is possible for some types of wastes, but not for all types of waste. Think of the sludge stemming from production processes that's why landfills are assets, which are important in terms of offering waste-management services to corporations.

Much of the industry, we too, would love to find a magic solution to make all waste disappear or to recycle all waste completely. Things aren't quite that way. Think of the hazardous waste we have to deal with, they can't be disposed off -- they can't be recycled, excuse me. They can be disposed off in special waste-to-energy plants and we own one such waste-to-energy plant, but it has limited capacity with 40,000 tonnes. No other such waste-to-energy plants aren't authorized besides the revamping of the already existing plant, such as ours. And therefore, we have to find solutions, after having treated the waste, after having removed all the materials that can be recovered, so that an ultimate destination can be given to this type of waste.

And as we speak, the only possible destination is in a landfill. Therefore, the landfills we were mentioning earlier shouldn't be seen as a strategic business, per se. They have to be seen as plants which serve and support our activities and managing the entire waste cycle.

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Roberto Letizia, Analyst

What profitability do you expect from that type of business?

Unidentified Speaker

Well, our estimate is to have a return on the equity investment equal to 9% or 10%. Because again, a part of that value is in the pricing of the final service. In other words, I'm not selling the space in the landfill, per se. The space is part of a bundled price for the entire service. I hope that's clear.

Roberto Letizia, Analyst

Thank you very much.

Operator

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

Tomaso Tommasi di Vignano, Executive Chairman

Well then, thank you.

Operator

Thank you. Thanks to all of our participants.

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