

S1 2021 Earnings Call

Company Participants

- Luca Moroni, Group Manager of Administration, Finance And Control
- Stefano Venier, Chief Executive Officer
- Tomaso Tommasi di Vignano, Executive Chairman

Other Participants

- Emanuele Oggioni
- Enrico Bartoli
- Javier Suarez

Presentation

Operator

Chorus call operator speaking. Good afternoon. Welcome to the Presentation of First Half 2021 Results of the Hera Group. I'd like to remind you that all participants are in listen-only mode. Following the initial presentation, there will be a Q&A session. (Operator Instructions)

I would now like to give the floor to Mr. Tomaso Tommasi di Vignano, Executive Chairman of the Hera Group. Sir, you now have the floor.

Tomaso Tommasi di Vignano {BIO 1449180 <GO>}

Thank you. Good afternoon and welcome back. I am here to comment upon the results, which have just been approved by our Board of Directors meeting. I'm sure you have already received our press release, which we issued a couple of hours ago during the Board of Directors meeting itself. Half year results are very good and they show significant growth rates, both compared to the same period last year and compared to the results of the first half of 2019.

Why are we talking about 2019 here? The idea was just to give everybody a comparison for the past of the good results that we have achieved. And so this is just to give you another view of what we managed to achieve after going through the COVID-19 lockdown period. 2020 had very impact due to COVID-19, 2020, 2019 was the last recent normal non-lockdown affected here. So, you will hear in a minute more details about all the elements that have led to this very good results for the first half of 2021.

The results of the first half are as follows. EBITDA, up EUR58 million which meant an increase by 10.4% compared to the first half of 2020. If we now made a comparison with

FINAL

the first half of 2019, then this increase would be even higher. Then the EBIT was also increasing, up EUR48 million, increasing by 16.2% compared again with the first half of 2020. Had we made a comparison with the first half of 2019, then the increase would amount to 19%. Net profit post minorities plus EUR50 million with an increase by 30% vis-a-vis the first half of 2020. Had we made a comparison with the first half of 2019, then we would have posted an increase by 30.1% vis-a-vis the first half of 2019. There again, a very long list of very good news, and again very consistent good news. And all this translates into a very positive income statement.

Let me now turn over to the free cash flow. Cash flow generation coming to EUR270 million brought the net financial debt below EUR3 billion. And this is something that we really like to highlight here today, so that's our net financial position. There again, very good performance, and even in the second quarter in the year, which adds up to what you have already seen in the first quarter of the year. The Board of Directors of course approved all these results with great satisfaction. Since -- these good results have been underpinned by a very good performance level in all the main business areas and Mr.Venier will shed more light on this. And August was a very lasting and sound growth and a very linear expansion strategy.

All this paid off because even in the year of COVID-19, again our uninterrupted growth path continued. So, we recorded no significant effect. So with this very solid results, we were then able to pursue and fully fund some external growth opportunities. And these new opportunities are already giving their own contribution to our economic results. So some of the external growth opportunities that we have seized already given their own contribution in the first half of the year and then there are some more opportunities in the pipelines, which just need to be finalized in the nearest future. So for some red tape reasons, some of the external growth opportunities cannot be mentioned today.

Let me now focus on the stronger growth in EBITDA plus EUR58 million in this first six months of 2021. All this was propped up by a solid contribution from organic growth drivers, plus a EUR24 million, and the very first contribution from the recently completed M&A activities amounting to EUR3.5 million. Then these good results were also complemented by the results of the COVID-related impact recovery activities, which generated an increase by EUR30 million. So this really confirms the solidity and soundness of our growth models with results that exceeded the 2019 figures.

So without anticipating the analysis that we're going to make in a minute, so without going into the specifics of the business areas, I would like to underline the positive contribution of all the business areas and more specifically, the good performance of organic growth, in particular in the free market activities with energy, thanks to the expansion of the value-added services related to the 110% ecobonus and energy customers increasing by almost 35,000. So in the first half, we managed to be awarded the first tender that was issued in this sector.

Let me now turn to the second aspect of our portfolio, so free market activities. In the waste sector, we had more than 10% increase in industrial volumes in very good market conditions where prices remained stable or even increased. And it is also worth

highlighting the strong increase in market demand for regenerate plastics positively influencing Aliplast's results.

M&A made its contribution coming to EUR3.5 million, thanks to the deals recently closed in the waste sector. The first deal which has a retroactive effect as of the 1st January 2021 is again the deal of Recycla and then second -- so Recycla is based in the region of Friuli in Italy. And then the second deal was closed with SEA, a company we own 31% of, and here the deal was closed and we are already sitting on the Board of Directors.

Here again, the EBITDA will go up. And so we will acquire 100% of the company as already planned in the various stages of the acquisition phase down to 2023. And along with that, we will have a third deal, which will only have its first input on the second half of 2021. And in this case, this deal will be closed in the region of Veneto and this will allow us to further bolster our presence. So, we will strengthen our presence in the regions where we are already present and where we would like to further bolster our positioning.

And then in the first half of 2021, we also have a contribution of another acquisition relating to the energy sector. And this company is based in the region of Abruzzo. And there, we will see a rapid increase in the number of our energy customers and this will certainly further strengthen our already significant group presence in the region. So, we are constantly looking for new opportunities in the M&A sector, and we managed to fully integrate and secure three acquisitions in the waste sector and two acquisitions in the energy sector. So, these are the two free market areas we operate in.

Now, delving into the waste sector more specifically. Once all the three acquisitions will be up and running, they will certainly generating a total EBITDA of approximately EUR20 million per year with a negotiated and fixed total enterprise value of EUR123 million. So as regards our geographical presence and our need to bolster our planned facilities, all these three companies will help us to create synergies, two of them are quite close from a geographical point of view. So, this will certainly lead to very good economies of scales and we do expect synergies coming to 20% to 30% of EBITDA.

Two more deals are in the process of being closed in the commercial sector. And these two deals will allow us to expand to the area we are present in the region of Abruzzo. And again, there is another deal in the pipeline, I'm not allowed to tell you more on this since the deal has not been formally closed yet. Confidentiality matters aside. I would say that all the rest is pretty clear, and all the other deals are pretty consistent with our strategy. And this is -- this will become even more clear once Mr.Venier takes the floor and tell us about the impact of all the operations that we have carried out, and you will appreciate how organic growth has allowed us to bolster our growth.

Stefano Venier {BIO 17107208 <GO>}

Thank you very much, and good afternoon.

If we now go to Page 4 of our presentation, you will immediately see the contribution during the first half of the year, given by all the business areas. And you see the energy

FINAL

are doing very well growing by EUR31 million. And as we will see in a minute, several factors have led to this result. There's no one single element that has determined this growth. It's the mix of three to four different factors that are part of the activities within this type of consolidation.

And then we have the waste sector. Here, you see a surge, a very clear surge, EUR21 million growth. And as mentioned earlier on by our Executive Chairman, all this was propped up by an increase in volumes and by very good performance in the field of waste recycling activities and Aliplast being one of the main successful factors here and the prices for commodities, so all these have added some added value to our mix. And then a couple of millions more were added by public lighting and some more activities in the ITC sector. And public lighting last year suffered, because of lockdown-induced activities and new optimization and refurbishing activities have to be carried out in the public lighting grid. Now the result is stable, especially when it comes the networks, energy and the electricity networks and water cycle networks.

So here, you see an overview of the situation. You see a double-digit substantial growth in two out of the three areas and now I'm going to deep dive into the details. I will start with the most stable or the most resilient sector, which is the sector of networks. And as you can see, we have a very stable performance in the first half as regards to electricity distribution and the growth in terms of gas distribution. EUR3.3 million, so this growth in the gas sector can be linked to several factors. On one hand, we have certainly optimized the efficiency in the sector and then we also have the positive contribution coming from the regulation of white certificates.

And in the water sector, we also have a positive -- very positive contribution, so new connections in that case. So this is a clear indication. So on the one hand, new services are being required, energy efficiency activities are becoming more and more widespread. And at the same time, we're getting very good results from production activities, because most of the requests come from production activities from companies. So again, industrial activities are on a very successful path. So industrial activities in Italy are recovering after the COVID-19 period.

In the water sector, we have very similar results. So, we have the combined effect of higher cost as regards sludges and higher costs of electricity. But all this has been offset by an increase in efficiency and by the request for new connections. So a higher number of new connections and higher number of third-party services, and this accounted for EUR1.8 million. So we had good performance for district heating as well. Here again, we had a very favorable weather in the first half of the year, this adds up to a contribution of EUR1 million. And then EURO.5 million came from further efficiency activities, which we are currently carrying out on making the entire district heating system very smart.

And again, these activities are giving very good results. And we have a variable factor in the mix, which is always the trend in temperatures. So, we would like to counter this possible negative effect in this way. So, we're getting good results from the higher number in new connections and the higher number of requests for third-party services, and we are getting good results in terms of efficiency.

FINAL

Let me now turn to the energy sector. Here, you see three categories where we operate. The first one being the gas supply. When it comes to gas supply, we had higher volumes because of more favorable weather conditions, we said so at the end of the first quarter as well. The month of May was cooler than last year, and that of course gave a positive contribution to sales levels. And all this went of course hand-in-hand with the general recovery in terms of volumes at large. We then had very good margins, the margins are improving. And as you know, as of the 1st of April, we have been using supplies coming from the TAP pipeline, and we have carried out some operations in order to increase the efficiency as regard to our gas portfolio.

And then we have a third element which improved the situation, in comparison to last year, so as regards the good results of the Consip tenders we took part in. And then as you can see, there is a very cool element here, which is the column of services and added value services. And EUR14 million account to higher efficiency, higher profitability for the management of energy-related services. And all this was driven by the super ecobonus and the facade insulation bonus. These elements -- these benefits were introduced by the government in Italy in year 2021, and they certainly successfully propped up the activities of one of our companies, one of our subsidiaries, which is dedicated to this very specific businesses.

Our company was already in the position to serve the wave and to reap the benefits of this bonus and the benefits granted by the government. Then another important aspect, which I would like to mention, although this does not account for a double-digit growth is the EUR1.5 million growth determined by the added value services sale. As you know, this is something that we started doing very recently. So photovoltaic panel installation, and here, we're getting very good results. And here, we see the first good signal of a very high profitability when it comes to all the services that can be provided in and around the commodities.

And then EUR10 [ph] million, this is the effect of dispatching services market. Last year, they were representing the other side of the mettle. So they were a clear indication of a decrease of the market. So we had to support the power plants during the year in March, in April and in May. So, that was last year. This year the situation is completely different. So again, we -- such services were not so frequently requested. And as a result, again, we have to post this variation.

As our Executive Chairman pointed out a minute ago, as part of the general context, we concluded another acquisition yesterday. It's a company based in the Abruzzo. They operate in the gas trade sector. It's called Ecogas and they will bring around 20,000 new customers. And this acquisition is very important for us. We were already operating in Abruzzo with a lower number of customers. And with this new customers package will go as high as 110,000 customers in this region. So, this will certainly give us new opportunities in terms of cross-selling activities. And at the same time, we will manage to increase our customers' base in this region as well. So that will be a very third -- we will be the third operator there. So again, although this is not a major operation, but it is very strategic as a deal since it allows us to set foot -- further foot in a region where we would like to be very present and very strong, and we will do so very effectively. That's about it as regards the energy sector.

In the first half of 2021, we managed to secure an increase of our customers base by 35,000 new customers and as of today, we will add 22,000 new customers.

Now, let me turn to the waste sector. Here, you have a higher number of factors to be taken into consideration. When it comes to collection, our performance slightly increased. And the main element to be mentioned here is the way in which we derive value from the sorted and collected waste starting from paper down to glass. And as many other sectors, the recycling sector for these two materials has been experiencing a steep growth.

Here, you see the special waste volume up 100 kilotons respect to last year. So, volumes are going up. Our growth is higher than in 2020 when it comes to volumes. And this is a plus 10% increase vis-a-vis volumes in 2019. So this is a clear proof of the fact that we not only managed to offset the decrease of last year, but that we also managed to exceed the growth in 2019. As far back as in 2018, we managed to perform a very significant investment in the PAT sector, and this is paying off years on that we have organic growth again.

Here, again, we see an increase in volumes when it comes to industrial waste. 100 kiloton increase was recorded, as I was saying earlier on, small contribution was given by the Recycla acquisition. But at the same time, we increased the market that we are serving. And at the same time, we're getting good results in terms of prices. So we had very positive trends for prices, then EUR3.5 million as regards Recycla, we have already mentioned that and then EUR6 million are due on the one hand to energy prices. As you will remember, last year energy prices went down to EUR40 per megabit hour. The gas price has been around EUR9 per cubic meter, and we had been suffering a lot. So, we managed to keep our volumes constant. And this year, we are deriving full benefits from the recovery in prices. And urban waste is going up 4% to 5% in our territory, and this is again the consequence of the economic recovery. So as you can see, these -- all the business areas contributing to growth. So, we have managed to turn a corner after very difficult year and we managed to record a growth of around EUR20 million.

Before I turn over to Mr.Moroni, I just wanted to shed some light on two further topics which we hold very dear. On the one hand, we are constantly trying to reduce the cost of debt, which has gone down to 2.8%. So this means a 0.4%, 0.5% improvement vis-a-vis the end of 2020, and this was due to a buyback operation , which we carried out on one of the bonds with maturity date in 2028. And this was possible, thanks to the current market conditions. And we also managed to slightly reduce the tax rate 30 percentage points lower compared to 2019. And as mentioned earlier on, we've seen a very good result as regards the increase in the earnings per share. So even excluding, again, the good results brought about by special items, again, the EPS would amounted to EURO0.131, so 15% to 16% growth was recorded here.

Now, I would like to give the floor to Luca, who is going to shed some light on the financial results. And there again, we had very good result we were quite happy with.

Luca Moroni {BIO 17372407 <GO>}

Thank you very much, and good afternoon, everybody. Before I turn to the financial results, I think it is important and significant to underline how 63% of the EBITDA growth then turned into the increase of our profit before special items. Special items have already been mentioned by Mr. Venier, and the special items are linked to two special operations, which we put in place. On one hand, the realignment of goodwill on one hand and we managed to have a capital gain of about EUR15 million. And this has been offset by the charges and the expenses we had to bear in order to repurchase parts of the bonds that we currently trade in the market.

So from a financial point of view, very good results are very clear to everybody and the results continue to be extremely good. Net working capital, if you go to Page 9, so this value has to be broken down. And the additional cash flow, which we received from the credit world hovers around EUR60 million. So the positive trend continues as regards our proactive management of our receivables, and then we have EUR20 million been offset. And then we have some more items concerning the dividend, which we're going to pay out, which we have been paying out basically in the month of July.

So cash flow management, which is absolutely very positive and which allowed us to continue with deleveraging activity of the company 2.5% net debt-to-EBITDA ratio. This is very good and this allows us to have the necessary financial flexibility to manage the next six months been quite relaxed. And I think it is also worth mentioning that we were given the BBB+ stable by Standard & Poor. So this upgrade is a further proof of the very good results that we have achieved in terms of cash flow management and in terms of receivables management. We then managed to secure a ESG rating by Standard & Poor after careful assessment and we got very good results there, 81 points out of 100. So this means that we are now the best multi-utility company throughout Europe. All this will certainly be very usual for us for the issuance of the next bond in the future.

Tomaso Tommasi di Vignano {BIO 1449180 <GO>}

I think we can simply say that there are just a few items to be mentioned. We don't have any more surprises, anymore beams to build, so to speak. I always like to embrace a three-year view. And of course, the last three years were quite complicated on the one hand. And it is, again, maybe worth pointing out how valuable our company is and how successfully we managed it to go through the last three years. So this very good results are, as you can see on Page 10, are in line with those presented at the end of the year and the first quarter of this year, this highlighting a very consistent and continuous trend.

And at the same time, as regards 2021, as regards to the first half of 2021, this results are basically stunning results. And with the exception of 2013 where we acquired a company listed in Italian Stock Exchange, again, we have never had such good results over the past. So as you can see, these figures prove that we have really done to great strengths and that we have done everything possible in order to have very good results. Then we have the consolidation in the free market and fragmented sectors. This is certainly an area we are constantly focusing on and this will be the case in the future as well. As you have already heard, several deals have been recently concluded, some more will come in the nearest future. And I'm sure that you have also understood how quickly we managed to react to new opportunities.

We are now strengthening our presence not just in the regions where we have always been present, but also in other regions. So, we are also very quick in deriving some benefits and seizing the opportunities offered by the market in terms of environmental sustainability activities as you have seen with ecobonus. That said, more or less, I think we have managed to tell you everything we wanted to tell you.

On one hand, we have to prepare ourselves very well. We wanted to continue with our merger and acquisition path, and we have to stay focused on the concessions market. At the same time, we can rest assured that we can embrace new topics. And as Mr. Moroni pointed out, we were recently awarded a recognition by Standard & Poor, two different recognitions by Standard & Poor and this will certainly boost our reputation further.

I will conclude here, and we'll now be happy to reply to your questions. Thank you.

Questions And Answers

Operator

(Question And Answer)

This is the Chorus Call operator. We'll now start the Q&A session. (Operator Instructions)
The first question is by Javier Suarez from Mediobanca.

Q - Javier Suarez {BIO 1700016 <GO>}

Yes. Good evening, everybody, and thank you for this presentation. I have two, three questions. The first question concerning the regulatory environment, ARERA have published the first consultation document concerning the regulatory act for the next regulatory period and also published the second documentation or consultation document concerning waste collection. And I would like you to add some color to this. How did your company read this document? How did you interpret these two documents? And how can they contribute to the expansion of infrastructures in Italy, which is badly needed in Italy?

Then second question, I was surprised by the contribution of this called energy efficiency. And I think that the question here is, what do you think the contribution can be for the whole year 2021? And is this going to contribute to the structural growth of the company?

Then third question, I've seen a great contribution of the net working capital in the first half of the year. Can you please provide more information on the managerial actions or decisions that are behind this strong growth of the net working capital and the operating cash flow?

Last question concerning the recovery fund, possible additional contribution of your business plan by the recovery plan, if you can provide some insights into that, if you have identified some projects, which you deem to be realistic and which you think that you could carry at this part of the recovery plan? Thank you.

FINAL

A - Stefano Venier {BIO 17107208 <GO>}

So I will reply to your questions one after the other. As regards of the work consultation document, I'll be very frank here. This seemed to be quite severe as a document. You asked the question. So I think I can certainly say that I pretty much agree with your interpretation at Mediobanca of this document. And I trust, I still trust that again a lower range activity can be foreseen. I have already explained the reasons for my position in different situations. So we're going through a very specific period of time and infrastructure have to be bolstered in Italy, and we have to take into consideration the last 12 months and these next six months, as a very unique period in time. And I think that this period of time should not have an impact on decisions that have a six-year horizon and although an update is foreseen at a three-year interval. So we have already talked about this document and the ARERA document analogies that documents have been submitted by companies. And we are now in a position to comment upon all the items of this consultation document.

I hope, I really hope and trust that -- again, I want to be optimistic as regards these elements, which are, if you wish, less technical from a rigorous point of view, but that again needed to be a bit more pragmatic given the current context. Then from the point of view of the waste document, well, we will certainly have all our doubts cleared very soon because the authority would like to issue decisions in the short run. And our interpretation for the time being, well, the document does not really include many new aspects. So, it's a positive interpretation on our hand.

We are very interested in finding out how this identification regional mechanism will work out when it comes to the so called essential plans. And I think that there will be an asymmetrical regulation system in place. And at the same time, we would like to be provided more information as regards composting activities within the perimeter. In terms of business, this is a regulation that will certainly be providing the necessary stability, the necessary visibility that we will need for the next few years. And we would certainly like to have a disposal tariff, which has already been in place in the region Emilia-Romagna for some years now, but we would like to have a consistent approach for other services as well.

So, we can only derive benefits from this new regulation. So this longer visibility over time will certainly be helping us to further develop our business. And all that will certainly go hand in hand with some of the activities foreseen under the PNRA [ph] plan, so incentives in order to prop up investments, in the biomethane sector for instance, or to develop smart solutions for collection activities, I'm thinking about new infrastructures for activities that will not certainly involve Emilia-Romagna or the Veneto or the Friuli regions where we already operate, but also in other catchment areas like in Tuscany, where we are also present when it comes industrial waste. And again, the infrastructure there is still quite lacking when it comes to industrial waste.

Now, energy efficiency now. The super ecobonus and all the incentives, this is something we have already shed some light on. Of course, this is not something that we decided upon at the very last minute. As our Executive Chairman pointed out, we were able to see the big opportunity, but we were in a position to seize this opportunity because we had already acquired a company that has already been operating in this sector with more than

Bloomberg Transcript

FINAL

300 employees for many years now. So, we were able to optimize energy efficiency in industrial sector and in the public administration sector. So once you have -- once you have such an infrastructure in place, then it is easy to seize such opportunities. Our company, our subsidiary has been operating in the condominium sector for many years now. So we have already developed our market. We now have a portfolio of contracts of more than 300 contracts and the contribution that we had in the first half amounted to EUR14 million. And we think we will be doubling this figure in the first half, possibly even more than that.

And this brings me back to the net financial position topic. This will certainly have an impact and we have already started assigning of EUR55,000 fiscal credit in the past. And towards the end of the year, we will see that one portion of the financial impact will be clearly perceived, and we will see that it will go from EUR50 million to EUR80 million. So, that is the bracket we are interested in. And this is one of the elements that we have to stick to when it comes to the net working capital and the net financial position. So again, very much depends -- a lot depends on the time horizon that will be decided upon for these incentives.

I think that 2021, everything is all set when it comes to contracts and again, everything has already been set. And then for 2022, we are already working on this year in terms of our portfolio. And I think that these incentives will certainly be issued for 2022 as well. And we trust we will be replicating the good results that we are achieving in 2021. Then 2023, we will see that incentives will continue until the end of June. We will have to see how the situation plays out, since this intervention benefits are part of PNRA.

But again, all this is very important because it allows us to consolidate our positioning in the sector of condominiums, which does not just account for extraordinary maintenance activities. This has been an activity sector for us for years where we were just managing the energy aspect.

Let me now turn to the net working capital. There again, we are working quite hard. And as Luca was saying earlier on, if we have to break down this EUR160 million, and if you wanted to identify the core aspect, there we have EUR40 million net improvement. So EUR60 million higher receivables are being cashed in. And how did this EUR60 million came about? Well, we started to cash in this receivables in 2020. We had already told you that we had already improved our cash in rate. And at the end of June, I can tell you that we had 69% of bills been paid, which is 4 percentage points higher than in 2020, which in turn was already a couple of percentage points higher than in 2019. So we started to cash in on a more timely basis, and this has a very positive and successful impact on our credit management as already pointed out on -- in different situations.

So, how is the second half of the year going to play out? Well, there are a couple of factors to be taken into consideration. First, the price of commodities. You need to take into consideration when it comes to gas storage. We are now hovering around 24, 25, 26. So inventory that we will have at the end of year will certainly have a higher value vis-a-vis to last year, maybe twice as much vis-a-vis last year since we had gas storage last year hovering around EURO.14, EURO.15 per cubic meter.

Second aspect, commodity prices have gone up. So, the invoicing cycle at the end of the year we'll see higher credit linked to the commodity delta value.

And then the third aspect is represented by tax credit coming from the energy sector. And why am I telling you all this? Well, everything that we have been earning during this first half of the year will help us to cover and sustain the natural evolution of the market without having a second half that is too bumpy, so that our balance sheet remains very sound.

Net financial position and PNRA [ph]. Yes, we have already submitted several projects. We're working very hard in this regard. And the key things here is again, to find out we can derive the highest benefits from the situation. And in September, we will see how tenders will be issued under which conditions investments will be approved. And there, of course, we will have to give it a thought and see what we can do. And this will require a careful reflection on our side during Q3 and Q4, and we will have to review our business plan, which as usual, will be presented at the beginning of next year, so that we can derive the highest benefits from possible activities which may lead to an optimization of the operating management of our assets. And we will also ponder other activities in the biomethane sector or in the production of renewable energies, so that we can bolster our presence in this sector and to say that, again, we can underpin our growth there. I'll stop here. I hope I have managed to reply to all your questions.

Q - Javier Suarez {BIO 1700016 <GO>}

Yes. Absolutely. Thank you very much. That was very useful.

Operator

The next question is from Enrico Bartoli from Stifel. Please.

Q - Enrico Bartoli {BIO 3699377 <GO>}

Good evening, everybody, and thank you for replying to my questions. I have a few questions. First of all, could you please provide an outlook as regards sustainability in the second half for all the growth trends, which you saw in the first half? And again, if you could just expand on the increase in volumes for recycling activities connected to Aliplast? And you also mentioned a slight increase in growth and slight growth in prices. So is this going to be a growth driver in the future as well?

And -- then as regards to electricity. Now looking at the Slide number 6, so there was a decrease due to the current market situation. And you had lower volumes as regard to safeguarded customers, but then you had electricity supply providing a very positive contribution, the same holds for the gas supply. So what is the trend in Italy as regard to these two sectors in the first half? And what are the sectors -- what situation will this sectors experience in the second half?

And then you also mentioned the mild weather conditions, if you could just give us a flavor of that? And what is again the positive contribution of the weather conditions? And

did you derive any benefit from the reorganization from the supply portfolio, top line and other contracts? So if you could just add some color to a that? So, what benefits you have derived in this first half? And if they're going to be present in the second half as well?

A - Stefano Venier {BIO 17107208 <GO>}

Well, I will just give you some general information and I'll go back to the description, which we provided in the very beginning, which our Executive Chairman gave in the very beginning, EUR58 million. So this result was achieved to put things very -- in a very simple way, by offsetting the negative effects of the first half of last year, EUR38 million. And then we added another EUR28 million, which is just our growth. So, that's the breakdown in a very simplistic way. So of course, I will not be really recovering this EUR38 million in the second half of 2021, but I do expect we'll be able to replicate the EUR28 million growth in the second half. So, that's just my reply.

And of course, you need to take into consideration all the nuances here and there. And we are currently taking for granted that 2021, we will have normal weather conditions as in 2020. If the weather conditions change, then, of course, that will have an impact. So we have, again, higher volumes in the first half, and it is difficult to see or to say how much of that growth was linked to a recovery or the economic recovery and to the weather conditions. So, that's very difficult to differentiate that.

But again, if I don't have, again, the same changes in weather conditions in the second half of 2021, we'll not certainly replicate this EUR6 million growth, which we had in the second half of 2020. And then this brings me back to your third question. The full year default, what was its contribution? The contribution was around EUR10 million. So, this tender will take place again in September, and the outcome of this tender will then have an impact on the performance of the fourth quarter. But we already had a foothold back in the last quarter in 2020, so we'll have to focus on the variation on the delta there.

Then electricity, yes, sales went better. We had higher margins, and it's true. We have lost a large portion, a major portion of projected customers, but we managed to offset that with the free market and with optimization activities in the trading sector. That's why we posted EUR3.9 million here. And we need to take into consideration that last year, we had a sizable decrease. The entire market posted a sizable decrease by 12% to 13% in terms of sales. And this year, we managed to fully offset that.

So I think in fact I have just replied to your question. Then in general terms, again, we expect to replicate the same development path, which we recorded in the first half, in the second half as well. So again, this should be more or less what comes out of the forecast, which we did today.

Q - Enrico Bartoli {BIO 3699377 <GO>}

I think that this will apply to the waste sector as well?

A - Stefano Venier {BIO 17107208 <GO>}

FINAL

Yes. Yes. I forgot to mention the waste sector. Now to go back to the example of Aliplast, the order portfolio does not give us any signal in terms of a decrease. So the price of virgin polymer for instance is doing very well. It's stable at very high prices. And of course, so we will see how prices play out between recycled plastic and virgin polymer. So we have really done our best in order to make sure that profitability remains extremely high. And there again, we will see the differences vis-a-vis last year. In the first half, of course, there was a surge in terms of growth in the second half of the year. This surge will not be as high as it was in the first half, because that was a one-off situation.

And again, in terms of volumes, we're doing very well and we are experiencing a growth in terms of industrial waste around 20% to 30%. So, that's something safe. And I don't really think that prices will further go up. That I don't think is going to be the case. So I think it -- it's going to be kind of difficult to see further growth.

All right. All right. And then, of course, I was forgetting to mention that we are constantly enlarging the portfolio of services that we can provide. And these two acquisitions, which we -- 2.5 acquisitions, I should say, which we have carried out will allow us to be better present from a geographical point of view. We will be more present in the waste sector and we will also just make sure that we will optimize our activities as well.

Operator

The next question is from Emanuele Oggioni from Kepler Cheuvreux.

Q - Emanuele Oggioni {BIO 20133627 <GO>}

Good morning, everybody, and thank you. I would say that all my questions have already been replied by Mr. Venier. Maybe one further clarification as regards to Slide number 3. So here, you have the expected synergies as regards EBITDA increase. So this EBITDA increase has already been factored in in your calculation of EUR20 million, so EUR6.1 million EBITDA, or is this something that we have to add on top?

A - Stefano Venier {BIO 17107208 <GO>}

Yes. As our Executive Chairman was pointing out, one deal was closed in June, one deal will be closed in September, and the third acquisition was carried out in April, that was the first step. And then the second and the third steps will take place in the next few years. So in 2023, we will have full contribution to the EBITDA, EUR20 million. And on the top of that, we'll also have all the synergic effect, so they're not included. And in 2021, we'll have the full year consolidation of Recycla amounting to EUR7.58 million. And then we will have six months of consolidation of the other acquisition we are going to carry out in September with a contribution over the six months period amounting to EUR3 million to EUR3.5 million. So in 2022, we will have the full year contribution of these two deals, plus the equity contribution of SEA which will be fully consolidated by 2023. I couldn't be providing more details than that.

Q - Emanuele Oggioni {BIO 20133627 <GO>}

Thank you.

A - Stefano Venier {BIO 17107208 <GO>}

And thank you very much for your attention. We're all quite happy today here. And even more importantly, we will go on holiday soon. Thank you very much. Bye.

FINAL

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2021, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

Bloomberg Transcript