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PRESENTATION

Operator

Good afternoon. This is the Chorus Call operator. Welcome to the H1 2022 financial results for Hera Group. (Operator Instructions)

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

Tomaso Tommasi di Vignano *Hera S.p.A. - Executive Chairman & Group President*

Good afternoon. Here we are following a fairly long and complex Board meeting to wrap up our first half of the year the details of which we will be giving you in a few minutes, and I do hope you have already received the press release. And despite the difficulties that we are all aware of and that we are all trying to access and measure, so as they have some intent regarding the future and the present.

Despite of this, I think that the results we posted are good, and they are even more satisfactory if we compare them to the difficult situation we are currently going through. The context, as we know, is characterized by a number of events. The low availability of gas and raw materials, difficulties in the logistics chain. And hopefully, the very last part of the pandemic, along with the war, which is so close to our territories.

To that -- in recent days, we also have to add two other aspects I'd like to mention, namely the ECB's monetary decisions and the Italian government crisis. Uncertainty is on the rise, and this, of course, has an impact on the price of energy. It has an increased effect on inflation, which, as you can see on the first page of our presentation, inflation has reached 8% last month.

The gas prices continue to be very volatile with an average over the half of the year equal to EUR 96 per megawatt hour, and even the price of electricity is higher compared to the past with EUR 252 per megawatt hour on average for the first half of the year. These price levels, as we all know, is well above normal averages, showing a trend for at least the same prices, if not higher prices in the near future.

On Page 2. As far as H1 this year is concerned, we decided to highlight our results in terms of turnover, EBITDA and net profit. The turnover during the first half of the year was up 111% compared to the same period in 2021. This is, for the most part, due to the commodity prices. EBITDA during H1 stands at EUR 631 million with a EUR 20 million increase compared to the same period in 2021 with a growth equal to 3%, which means that there has been a further increase compared to Q1 2022, which is equal to EUR 12 million, which was underpinned by a number of different components that we will be looking at.

The growth in EBITDA, which I mentioned, goes to show how positive our hedging policies have been despite the fluctuation of commodity prices. And then the net profit results shows the good results that we've posted so far with a slight difference equal to minus EUR 3 million compared to last year. This is equal to procurements for devaluation of prices linked to commodity prices. But the soundness of our customers has stayed as it was and with low bad payments and a substantial confirmation when it comes to the payment of bills on Page 3.

And despite the scenario we all face, you'll notice that we were fully capable of executing our investment projects. As far as maintenance of our infrastructure networks for the most part, plus the revamping activities on 2 waste-to-energy plants in Trieste and in Ravenna. And then we have the net investments, which are up to almost EUR 300 million, EUR 289 million, to be specific, which is equal to plus 16.7% compared to each 1 last year, which means that we are on track with the schedule that we defined in this year's business plan.

The net debt-to-EBITDA ratio stands at 2.96x, and it is well in line with the goal we have given ourselves, which is equal to 3x. Of course, the stocking of gas at market prices had an impact on the net debt-to-EBITDA ratio. Without that, things could have been even better. Now these results underscore the resilience, including the financial resilience of our group. And in fact, we are continuing to execute our plans, and we are on schedule as far as the commitments we took when illustrating our business plan. And in fact, in June, we paid our dividend equal to EUR 0.12, which was what we had announced during the business plan presentation.

On Page 4, you have the EBITDA drivers, which I mentioned earlier, which led to a EUR 20.3 million growth. This figure also offsets the negative effects of the WACC review, which was decided by ARERA in previous months, equal to minus EUR 10.2 million. Very first contribution, you can see here on the graph on Page 4, is equal to EUR 20.9 million, stemming from all of our activities, which are based on the circular economy model.

And this figure is broken down. On the one hand, the positive effects we received for the facade bonus and energy efficiency activities in condominiums, which is worth almost EUR 12 million. The second item included in the circular economy activities is equal to EUR 3.9 million. That refers to the commercial offers we made specifically on the value-added services in the energy sector. The third item refers to the continuation of the long-lasting good results equal to EUR 5.1 million.

These are the positive results posted by the Aliplast company, which can further benefit from the increase in the price of recycled plastic products. We also had a contribution through organic growth equal to plus EUR 5.8 million, which is brought about by the increase in our energy customer base with a further 107,000 customers, thanks to our -- the growth of our market share and the tenders won on the major Maggior Tutela market. In fact, we were able to win 3 out of 9 tenders.

The second element within organic growth refers to plus 4.6%, stemming from 106,000 tonnes in further waste on the market. Then we have new cost efficiencies, premiums and new connections on the regulated activities in the Networks business. Plus, we have the usual M&A contribution with a further EUR 3.8 million pertaining to 1 of the 2 transactions we finalized last year, but which became operational only in 2022.

I'm referring to the Vallortigara transaction in the waste sector, to which we also have to add a significant acquisition in the district heating area in the area surrounding Bologna. Plus 2 further transactions in the energy sector, namely the Eco Gas and [COMM] and Energia companies. And I hope that after this presentation, and over the next few months, we can be able to give you some further information because our M&A activities continue to be very demanding and very significant.

Let me just devote a final remark on the waste sector, which I am very fond of since I deal with it every day. I think it's worth mentioning that even in H1 this year, waste treatment was able to post an EBITDA growth equal to 12.1%, equal to plus EUR 12.7 million. Now if we take into account that -- to this figure, we also have to add the contribution of the upcoming revamping of the 2 waste-to-energy plants I mentioned earlier, worth between EUR 6 million and EUR 8 million, we will be able to fully conclude the revamping activity.

Another remark refers to the effective inflation on raw materials and on energy production, which also underpinned the treatment of waste. Now these negative consequences, which stem from the current state of inflation were offset, in fact, by a positive price trend and by the production of energy in our treatment plants. As I mentioned earlier, Aliplast is working fully. And in this case, the further increase in the cost of plastic was able to boost the price of recycled plastic, the one treated by Aliplast equal to a contribution worth EUR 5.1 million.

Finally, synergies with a EUR 0.8 million contribution, which is in line with the integration plan we had for the acquisitions -- for the companies that we had already made the acquisition of in 2021. Finally, let me just complete the picture by going back to the perimeter delta I mentioned earlier. I'm referring to 1 of the 2 companies we made the acquisition in 2021. Plus a waste acquisition we made in the waste sector in a new area for us in the Macerata province, which contributed to the EBITDA's growth by a further EUR 3.8 million.

As you can see, life goes on and quite well, in fact, as you can see in this sector, which as we have obviously in the past, was able to achieve good results, which wasn't accompanied in the urban waste collection, but let me explain. In fact, in this case, we had two recent

news to deal with. First of all, the fact that we had tenders for the renewal of concessions in the 3 largest provinces.

We were able to replace the old -- 3 old concessions. We were awarded all 3 tenders, but of course, since we didn't know what kind of competition we would be facing since issues the very first 3 tenders. We had a negative impact equal to minus EUR 4.6 million linked to the tenders and the start of these services, which also required a certain degree of discount. This is nothing worrisome because our new concessions will be 13 years long, and therefore, we will have plenty of time to recover what we lost due to competition.

So these are the most important elements I want to highlight today. But would have another important thing to mention because, for the very first time today, we are here to introduce our new CEO, Mr. Iacono, who I would like to give the floor to.

Orazio Iacono *Hera S.p.A.* - CEO

Thank you, Mr. Chairman, and good afternoon, everyone. My name is ratio Orazio Iacono. I wanted to be here with you today despite only being in Hera for a relatively short amount of time.

Let's focus on Page 6 of the presentation, focusing on energy with a EUR 225 million EBITDA, up EUR 6.8 million compared to H1 last year, which fully offsets the EUR 11 million negative impact linked to MSD normalized. We had a higher contribution to growth equal to EUR 15.8 million, which is linked to the eco-efficiency services, which, especially in the recent period, is becoming extremely strategic given the current context in which energy is no longer an abundant and cheap resource.

It is no longer safe in terms of its supply. Now this growth is linked to the eco bonus. It still hasn't been fully used in the H1 2021, but it's also led to all of the value-added services, which contributed in a positive way to the result. The supply activities are slightly better, plus EUR 2.3 million, which underscores the effectiveness of our group's policies to hedge against the commodity fluctuation risk.

And in this context, Hera was able to assist its customers facing difficulties by offering installment plans for bills in 3 installments, and we expect to receive full payment or most of the full payment by end of the year. Obviously, the scenario still doesn't give us a clear visibility regarding the future. However, we continue to stay focused on the current scenario by trying to take advantage of any possible opportunity.

And in fact, on June 30, we were able to stock a considerable gas volume, plus 70% compared to the same period in 2021. This is a way of allowing us to guarantee our customers' demand for the next thermal season. The gas stock is accounted for with the weighted average cost, which still doesn't represent the current scenario with a very high oscillations of prices. In fact, the criteria considers all of the volumes of gas bought in the April to June price, including those which had the contracts which have been signed in 2021, which means that the weighted average cost as of June 30, 2022, was equal to EUR 0.83 per cubic meter. While the market price, over the same period, was equal to EUR 0.103 per cubic meter.

As a consequence of that, this difference applied to the 420 million cubic meters of gas, we have stocked, has an impact to EUR 88.3 million on the energy sector results. And therefore, to give us a view, which is more in line with our management, we were able to show you the current scenario on the graph you can see. Obviously, the gas we have in our stocks is already hedged by the risk of market price variation.

So if we continue the analysis of our results divided by the various activities, we can now move on to Networks on Page 7. Here, we can see that EBITDA has grown by 3.6% compared to H1 2021, equal to roughly EUR 239 million. This is an especially positive result. If we take into account that it offsets the WACC cut as the Chairman was mentioning.

Now in order to achieve this result, the Networks were supported by the contribution from all of the efficiency and growth drivers. Beginning with, as you can see, the premiums for quality, the contribution of which was above EUR 17 million, thanks to the technical quality, recognized to our water assets with a premium equal to EUR 16.6 million, which is, of course, a way of rewarding the investments we made over the years, especially in the more recent years, in which innovation, resilience and the circular model were achieved with a great deal of commitment by Hera Group.

Then we also have the technical quality of our gas distribution networks. They too contributed with a premium equal to EUR 0.7 million. These premiums, therefore, go to show the excellent performance reached by our group in terms of the technical quality of our networks. The other driver you can see here is the typical one, which refers to general efficiency and optimization, which contributed to a further EUR 1.4 million.

In this case, the main components were a number of items referring to a number of regulatory matters, but most of this result stems from the district heating sector, a business which performed very well, thanks to the low temperatures during the winter season, which we already commented during the Q1 presentation. At this point, let me just underline the fact that all of the main businesses in our portfolio allowed us to achieve a growth in EBITDA.

As you can see on Page 8. This is a result which I found surprising, given the very difficult context we faced. This was made possible thanks to the diversification of our activities in each business. And it was also due to the cautious policies that we apply to the management of these businesses. And let me just also mention the fact that I had the opportunity to work with all of the managers who are in charge of the various business areas.

I was able to work with them on a daily basis, even given the current difficult situation on the market. And I was able to appreciate their commitment, which gives our group its strength. In energy, the policies we have and our positioning on the various market segments allowed us to protect our margins on sales despite the difficult market conditions. Networks are neutral vis-a-vis the scenario, thanks to the tariff regulation.

These businesses, in fact, are protected by inflation and by the increase in tax rates and by the spread. We were also able to take advantage of the premiums obtained by our assets, which go to show the quality of these assets, thanks to which we were able to fully offset the WACC cut made by ARERA. And as the Chairman was saying, we also have the waste treatment business, which was affected by the general context.

But despite that, it was able to improve the positive growth we already saw in Q1 this year. This was due to our M&A activities and also thanks to the renewable asset base we have, meaning that we are capable of transferring the inflation to our sales prices. So as you can see, all of our businesses are guaranteed. They are resilient. We have a very well-controlled risk performance profile, thanks to which we can have a portfolio marked by synergy. Therefore, we have a resilient formula, which is especially appreciated especially not that we face the uncertain context around us.

And let me give the floor to Luca Moroni now to illustrate the financial side of things.

Luca Moroni Hera S.p.A. - Group Manager of Administration, Finance & Control

Thank you, and good afternoon. Let me begin with some good news, the cost of debt. We have promised that this was something we would have done, we had committed to doing this in recent years. And in fact, we are now seeing the results of that, 2.6% of the cost of debt compared to 2.8% over the same period last year and compared to 3.2% in H1 2020.

We had conducted liability management operation in late October last year with the emission of a new sustainable bond, which allowed us to obtain these results. We also remitted a new green bond in May, very quickly, in fact, and ahead of schedule compared to the increase in the tax rates we saw, and we were able to obtain some interesting conditions on the market capital -- capital market, excuse me.

Tax rate stands at 29%. But in fact, we should read that at 27.8% or 27.5%. In this case, the difference refers to the extra profit contribution, the impact of which is worth EUR 2.5 million only, pushing us up to 29% in terms of tax rate. Of course, this is a one-off event. We also have the ROI and ROE indicators, which are very good. ROI, in this case, is marked by a decrease, which stems from the increase in the working capital, which, in turn, was due to the commodity prices, especially the gas we stocked as we can see later on. And then we have the ROE, which stands at absolutely good levels, roughly 10%.

Let's move on to our cash flow analysis on the next page, which shows that our operating cash flow is very positive EUR 524 million. We

invested almost EUR 300 million further -- or more than EUR 40 million or EUR 45 million compared to the previous years. We have an increase in our working capital, which, as is explained in the graph, is due, for the most part, to the effects of the price of our gas stock. Otherwise, once again, we would have had a positive performance as far as the net working capital is concerned.

Then we have the M&A transactions, which were already mentioned with the acquisitions we made earlier. And last but not least, we have the payment of dividends, which was worth EUR 223 million, as was mentioned earlier. We have EUR 420 million in terms of cash flow. Our debt goes up to EUR 3.682 billion with 2.96 net debt-to-EBITDA ratio with a very solid position.

As far as the financial point of view is concerned with an average duration of debt equals to 7 years. And the increase of which, as I was mentioning, is mainly due to the effect of gas. And once those prices will be included on the contracts for the new thermal season, that effect will dry up and we will be able to reabsorb the figures that we are currently seeing, which is normal given the seasonal nature of the business. That's it as far as I'm concerned. Let me hand it over to the Chairman for some conclusions.

Tomaso Tommasi di Vignano Hera S.p.A. - Executive Chairman & Group President

Thank you. And I think that after a few months, we are back with the same kind of commitment to deal with a complicated year like this one. But I think that the things you've heard so far go to show that we are capable of meeting our commitments, which is something that we have always done. And therefore, this is just the first stage.

Our Board of Directors approved many of the aspects were dealt with during the Board meeting. We also approved the replacement of Mr. Moroni who will be leaving the company. He will be here for a few more weeks. But we have already identified a replacement among our group's managers so that we can deal with all events, including those which we didn't expect.

Having said that, we will continue to focus on all of the possibilities to achieve growth. This was made possible despite the current scenario linked to commodity prices, which is something entirely unprecedented. This is something that we had no way of expecting that we have never seen before. However, I think the things that we've shared with you today, to reassure you that, we mean business and that we will continue to commit to all the things that we planned.

And this is a commitment which will continue to guide us in the upcoming months and with the support of our CEO. And with Mr. Hansen's imagination, we will make sure that we meet all of these commitments. And also as far as the execution of the business plan is concerned, keep in mind that we are ahead of schedule compared to what our plans were in terms of the targets that we were already able to achieve, vis-a-vis the business plan targets.

And this is yet another element that we think can underpin our activities. And I'll leave it to you now for any questions, doubts or comments you may have. Thank you.

QUESTIONS AND ANSWERS

Operator

This is the Chorus Call operator. We will now begin our Q&A session. The first question is from the Italian conference call, Javier Suarez, Mediobanca.

Javier Suarez Hernandez Mediobanca - Banca di credito finanziario S.p.A., Research Division - Co-Head of European Equity Research

Good afternoon. Good afternoon, everyone, and thank you for the presentation. I have 3 or 4 questions for you. The first is on the supply activity. I think we have to underscore the achievements you made in the supply margins in a very difficult context. But can you -- please explain your company's strategy once again. I think that your strategy has to be underpinned. Do you think that your supply margins, with your current strategy, is something that will also be present in H2 this year?

Second question is on the net working capital absorption, which is linked to gas procurement. Can you give us some indications as to where do you see the company's debt standing at the end of the year, given the current context and also given the gas stock context. You

have this temporary accounting difference that you mentioned. And when you mentioned that this is temporary, where do you think that this gas stock [adjustment] should be by year-end? .

Unidentified Company Representative

As we have explained, this is a noncash item.

Javier Suarez Hernandez Mediobanca - Banca di credito finanziario S.p.A., Research Division - Co-Head of European Equity Research

And finally, the Chairman was mentioning that M&A is an ongoing development. I'd like to ask if there will be any additional steps during Q3. Can you give us some feedback as to what business you're focusing on as far as M&A is concerned, which has always been a very important growth driver?

Orazio Iacono Hera S.p.A. - CEO

Let me begin. This is Orazio Iacono speaking. As far as energy is concerned, the group's cautious policy allows us to cover what we do. And therefore, acquisitions and sales are balanced. We're hedged from all risks. We have already had sales which are consistent with the acquisition as far as variable offers are concerned, of course, we transfer that price to the end customer. But going back to the fixed price, the extra consumptions for customers who have fixed price contracts for quite some time now. The group has a risk aversion strategy, which is withstanding the difficult market conditions. We have started to transfer to the largest customers the larger shaping costs that all customers have accepted as a way of avoiding losing the very good fixed price contracts they have. When it comes to the retail customers, the issue is less relevant because retail customers are more regular, so to speak. Furthermore, let me just mention that as a way of curbing this risk, we equipped ourselves as of June 30 with a stocking ability, which is far above that we had in H1 2021. We stand at plus 70% compared to last year as far as our gas stocks are concerned, and this will certainly contribute to the way we can hedge ourselves vis-a-vis commodity price fluctuation.

Let me move on to your second question, the one on stocks. We are certainly looking at the opportunity to further increase our stocks. Of course, we will be studying the market. We will be observing the market conditions carefully. We will be looking at the price scenario. Consequently, were we to increase our stocks, we would also have an increase in working capital. And that, of course, will depend on volumes and on prices. And if that goes up, of course, we know that, that will be a temporary situation. And as far as the third question is concerned, a question on M&A is a question that our Chairman can answer.

Tomaso Tommasi di Vignano Hera S.p.A. - Executive Chairman & Group President

Well, as far as M&A is concerned, you know that, that is something we always look at, and we will continue to do so. And it's obvious that the businesses we look at, for the most part, are the liberalized ones. We look to the market more than elsewhere. And therefore, I think that gives you a pretty good idea as to where we are looking. We won't be giving you any clues, but I do hope that one of the transactions we're looking at will be a fairly positive size.

Operator

The next question is by Davide Candela, Intesa Sanpaolo.

Davide Candela Intesa Sanpaolo Equity Research - Research Analyst

I want to welcome the new CEO. I have a couple of questions for you. The first is linked to the energy supply sector. Now given what was approved in the EU as far as gas prices are concerned, beginning in late August this year to March 31 next year, I was wondering if these tax cuts will be sizable. Will they have an impact on the business? And can you give us a breakdown of consumption between retail and business as we have understanding the possible impact on the company.

And will you have some kind of liability management from this point of view? Second question on your debt and on the working capital for gas stocks. Despite any possible new gas stocks, do we have to consider the debt as being reabsorbed by year-end compared to the levels we have in H1, do you think they will be increasing in Q3 before they are reobserved towards the end of the year?

Tomaso Tommasi di Vignano Hera S.p.A. - Executive Chairman & Group President

As far as your first question is concerned, we are, obviously, looking at the market carefully. We are paying close attention to all the news we are getting regarding further decreases in supply and on possibly reducing consumption next winter. Of course, we will have an emergency plan by the government, which we'll have to rebalance demand vis-a-vis the gas supply available, also considering the gas stocks and the country's strategic resources. Therefore, Italy will be using the gas from imports plus stocks and the latter is sizable.

And what impact will there be on consumption? Well, we feel that the largest cuts will be happening on the larger customers on the large energy consuming customers. And the impact on this segment is very limited for Hera. As far as the retail sector is concerned, which is most of our margin, this, of course, will have a priority in terms of gas consumption. And in fact, the reduction in consumption will probably be reduced from what we know so far, only in terms of decreasing the temperature of heating systems by a couple of degrees. Therefore, in a nutshell, were there to be rationing, we feel we are fairly hedged. And as far as the second question is concerned, let me give the floor to Luca Moroni.

Luca Moroni Hera S.p.A. - Group Manager of Administration, Finance & Control

Now had we not considered that with the right market conditions, we could increase our gas stocks, which is what we did. The reabsorption of working capital would be consistent with the seasonal elements. Typically, in December, which means that we are currently halfway through the thermal season, stocks would decrease by 40%. But were there to be the right market conditions, we would take advantage of them to increase our gas stocks so that we could deal with the thermal season in a more resilient way. So if we could transfer that resilience to our customers, well, the trend of the net financial position would depend on that aspects, too. So I think it's a little too early to say, given the fact that the market is somewhat volatile and there need to be the right conditions there to do what we planned. Therefore, I think we have to give you an update later on.

Operator

The next question is by Emanuele Oggioni from Kepler Cheuvreux.

Emanuele Oggioni Kepler Cheuvreux, Research Division - Equity Research Analyst

Congratulations for your results. I have a question on the Water business. Recently, you were giving premiums for your technical quality. And I'd let you ask if you've already seen an impact in H1 and what the full impact can be for the entire year? Premiums on the technical quality of water?

Tomaso Tommasi di Vignano Hera S.p.A. - Executive Chairman & Group President

As far as the Water business is concerned, thanks to the significant investments we made as we were saying earlier, we were able to receive these premiums for 2018 and 2019, which we were awarded in 2022. Of course, Hera Group's investment on our networks will continue. We have EUR 2 billion in the business plan out of a total of EUR 3.8 billion, which means that our network will be more resilient, it will be more digital, it will be more reliable and more efficient. And therefore, we expect to continue this way. And therefore, we feel that we will be able to have a similar pace that will guarantee further quality premiums.

Emanuele Oggioni Kepler Cheuvreux, Research Division - Equity Research Analyst

Just a follow-up question, if I may. Your Water EBITDA in H1 2022 compared to the same period last year was fairly in line, some EUR 3 million. So there are more -- so there must have been a negative effect stemming from your new tenders, which, of course, initially had a certain degree of pressure on the margins, like the one we saw at Rimini. Can we have an idea of the effects this will have on premiums for technical quality?

Tomaso Tommasi di Vignano Hera S.p.A. - Executive Chairman & Group President

Well, thank you for that follow-up question, which allows us to give you some further information. Well, certainly, we had to deal with the WACC cut, which is worth some EUR 10 million for all networks. Then, of course, we also have the Rimini tender, for which we had to give up a certain amount. But despite that, we were still capable of having a further EUR 3 million growth, which is significant. Of course, we have to continue along this way. We have to continue working so that we can receive further premiums given the good performance that Hera has always had so far.

Operator

Mr. Tomaso Tommasi di Vignano, there are no further questions.

Tomaso Tommasi di Vignano *Hera S.p.A. - Executive Chairman & Group President*

Thank you very much for joining us today, and we will see you after the summer holidays, we're a little tired. But we will continue to pay close attention to the situation. Thank you very much. See you soon.

[Statements in English on this transcript were spoken by an interpreter present on the live call.]

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