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Hera SpA 2022 - 2026 Business Plan Presentation

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PRESENTATION

Operator

Good afternoon. This is the Chorus Call operator. Welcome to Hera Group's business plan presentation covering 2022 to 2026. (Operator Instructions)

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

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

Thank you. And I am very happy to resume our dialogue with you. At least in physical terms, we weren't able to conduct it as usual, for the past few months and years now. I'm here with Mr. Iacono and Mr. Vai, who is our new CFO as of this year. And of course, we also have Mr. Hansen with us, who will help us to share some news with you. And also to give you a flavor of our figures for 2022. We'll also be discussing some of the elements included in our new business plan, which was approved a few minutes ago by our Board. The new business plan, of course, covers the years to 2026.

I am a little rusty maybe because of my age, but also because we aren't used to these types of meetings anymore, given the COVID restrictions we've had over the past 3 years.

But let me just say that I'd like to underscore 2 main topics. First of all, let me say that we are presenting an ambitious business plan, which is in line with a lot of the commitments that we made even before all the complexities we faced in the more recent period and which, as you will be seeing, are supported by the quality of the figures and by the data that we'll be sharing with you. Part of the presentation will be delivered by our CEO and by Mr. Vai after me, and we can now begin.

As far as the figures for 2022 are confirmed -- are concerned, excuse me, we have confirmed our ability to outperform the targets we have set for ourselves in the various business plans over the years. And the same applies to 2022. In fact, we are expecting to conclude with a 1.123 EBITDA result, which is above what we had expected by some EUR 100 million. And this, I believe, gives you a flavor of what we have included in our presentation.

The more recent period has been complex, of course, for all of the reasons that, of course, you are all familiar with. But over the period, we were able to recover, thanks to what we have achieved in the past, despite the complexities we faced in the more recent period.

As you know, our current business plan spans all the way up to 2026, and we'll be able to continue growing. This is an attitude that we have always shared with our shareholders and with our investors even despite all of the tensions on the market, despite all the concerns people had. But as you will be able to appreciate, things have gone quite differently from what many feared.

As far as 2022 is concerned, as I was saying, we were able to outperformed our forecast by some EUR 100 million. So again, we are very consistent, very continuous in being able to deal with the challenges we face and even to outperform our projections.

As far as our dividend per share is concerned, we will be giving you a flavor of how we did in 2022 before we go into the business plan itself. The dividend per share will be standing at EUR 0.125 per share, equal to EUR 0.02 above what we had expected in the previous

business plan, which I think is already a very good sign.

And therefore, let's move on to the actual presentation now. Based on these pre-final figures that I've already mentioned, let me just mention that 15 minutes ago our Board meeting ended following a morning's worth of work. And based on the figures we currently have available, the Board decided to set the upcoming dividend for 2022 at EUR 0.125 per share, which is 19% more compared to what we had committed to in the previous business plan, which again, is proof of our coherence, something we've always focused on with a great deal of commitment. There isn't very much else to add besides the fact that we began our new business plan with some very good results as seen by the previous figures I shared.

Let's move on to some quick comments regarding the overall scenario. Now we felt it was crucial to continue in our growth process, which is in line with our 20-year history. And -- even for the current 5-year period, despite the difficulties I mentioned earlier, our goal is to continue to grow, which, again, is very much part of our track record without any moments in which we averted from this task.

Let me begin by saying that we are focused on offering new services, which is something that our commercial unit has been focusing up very much. And these, of course, are opportunities that we had been studying for a few years. which are now very much part and parcel of our daily activities with a number of new services that we've introduced.

Secondly, our CapEx, our investments. And of course, we have a CapEx plan, we'll be discussing later, which was very generous. In fact, our projections in terms of the investments we'll be making is further enriched from 2 main points of view, the first of which is our desire to grow. And I'll be explaining how we intend to do so.

And secondly, our investments are also based on the contributions we were expecting to receive following the presentation of a number of projects linked to the national recovery and resilience plan. And in fact, a few weeks ago, we received a positive response from the national government, which gives us a further EUR 140 million in terms of benefits, an amount which was granted to us, which means that we have been able to further boost our growth expectations with EUR 142 million worth of further resources to date.

And by saying to date, I mean to say that we still have 2 important parts of our portfolio, we still haven't received the final response as far as the NRRP resources are concerned. Two main sectors, in fact, the first of which is waste collection and the other is the water sector. And in both sectors, we expect a number of positive responses so that we can further implement the EUR 140 million in resources that we've already received and included in our business plan, since, as I mentioned, we've already received a final response, which means that these figures have been consolidated in our business plan forecast.

The third element I'd like to mention, which we'll be seeing the details of later on, is the fact that we are continuing to focus on our 2 main growth pillars. On the one hand, of course, we have organic growth, which all of our company is able to produce. And we'll be seeing what that organic growth has made up of. And of course, we will also have a number of extraordinary M&A transactions. Another sector we've been focused on.

Some of these M&A transactions have already been completed in the first quarter this year, whereas all of the other operations will be completed in the upcoming months, which means that we studied a number of opportunities, both in terms of services and in terms of the contribution that we were able to take advantage of to have constant growth levels over the years.

Moving on to Page 4 in the presentation that we shared with you. And you have an idea of our CapEx commitment. The total amount of our investments through 2026 will allow us to reach EUR 4 billion roughly, to which we have to add the EUR 140 million I was mentioning earlier, which are linked to the National Recovery and Resilience Plan.

Another way to interpret these figures is that over the past 5 years, the average growth of investment was equal to EUR 518 million of the previous business plan to 2025. We had the previous business plan before the current one up to EUR 728 million. Now with the overall figures I mentioned earlier, we're now up to EUR 824 million per year for every year up to 2026. This too, I think, is a very concrete response, which goes to show how committed we are to confirming our investments, with plenty of incentives to the investments themselves.

I won't go into the details regarding the yearly investment figures. But as you can see, on average, we stand at above EUR 850 million to EUR 870 million for each of the business plan years. And keep in mind that the lower figure for 2026 takes into account that we won't have the effects of the NRRP funds. Those resources are focused on the 3 central years of the business plan years.

Now these are the more significant elements. And let me just focus on how we build these investment forecasts. Well, first of all, we have EUR 1.5 billion, which we expect to invest on organic development. Because, of course, when it comes to a positive growth forecast, organic development is very important in all of our business sectors. And therefore, this figure is a focus on 3 main business areas that we'll be referring to later, namely networks, waste and our supply activities.

Then of course, we have M&A, which envisages an allocation of some EUR 370 million, which is the figure we expect to invest all the way up to 2026. And so far, we have concluded some 60 extraordinary transactions in the first quarter, which prove that we have already begun to invest from the very beginning, EUR 60 million, which, of course, are only a portion of everything we intend to invest for the entire years of the business plan.

I already mentioned the resources we will be obtaining for the National Recovery and Resilience Plan. And we'll be allocating the resources that have already been authorized, and the remaining part we expect to allocate within the end of the business plan years. As far as the tenders are concerned, and the outcome of the tenders are concerned, I've already said it all. Therefore, there's nothing much else to add as far as Page 5 is concerned.

So let me move on to the growth drivers to 2026, which are the focus of economic forecast. We expect to have an EBITDA at EUR 1.47 billion by year-end 2026. Keep in mind that 2021, which is the first year before the current business plan, had an EBITDA of EUR 1,224 million, which means that we are expecting to have a 4.5% growth per year.

We are also expecting a good performance as far as EBIT is concerned. And since we've been discussing these issues for many years now, some years, we had a lower growth as far as EBIT was concerned compared to EBITDA, whereas now our forecasts are more balanced than our EBIT forecast at year-end 2026 is expected to stand at EUR 750 million compared to the EUR 612 million at the end of the previous business plan, which means that the EBIT value is now more balanced compared to the EBITDA value.

As far as organic growth is concerned, I've already mentioned what our ideas are. But let me also mention that the factors which contribute to organic growth, our market share in the waste treatment sector with a 2 million tonne growth. We've also had the expansion of our customer base on the supply side with a further 0.5 million customers. We are already working on achieving 4 million customers in the energy sector by 2026, which means that we are consistent with what we've already done in the past.

But of course, we also have an increase in demand for value-added services both in the waste treatment sector and in the energy sector. And we have plenty of news in both of these sectors, which explains why, as we'll be seeing 3 main elements, which contribute to EBITDA and to our overall results.

And I'm referring to the 3 main sectors in which our group decided to focus with a strong commercial presence for the market. Then of course, we have the effects of all of the new initiatives and offers we have. But of course, we have a very strong presence in the networks area, another sector that we innovate on constantly.

And then, of course, we have the waste sector, not waste collection, of course, which is a regulated business. Whereas when it comes to waste treatment assets, and the investments we're making on those assets, that is the third area that we're focusing on with a great deal of innovation and investments. And as what we're seeing in the figures waste treatment has contributed significantly to EBITDA growth.

Now an important thing to underscore is that these 3 sectors have a yearly growth rate, which is absolutely comparable between these 3 sectors. And as we'll be seeing -- de-consolidation of these 3 areas is consistent over time, which means that we now have a portfolio which is well balanced and consistent.

I mentioned what our target is as far as M&A is concerned for 2023. Now we've had a number of M&A transactions, which we were already able to conclude in the waste sector. Specifically with the acquisition of the Reggiani Company, which is one of the Italian market leaders and the site remediation business.

So we're doing quite well from the M&A sector because, of course, we'll be able to extract synergies which we'll be adding on top of the results and targets, which we announced for the business plan.

I already mentioned that we expect a EUR 750 million EBIT with a plus 5.7% average yearly. Also if we take into account some negatives, which characterized in the more recent period, somewhere due to the national regulators' decision on the WACC, plus the fact that a couple of incentives expired for some of our waste treatment plants. And despite these negatives, the situation we face are something we're quite pleased with.

We've achieved a good balance both in terms of the assets and structures and as far as the EBIT to EBITDA ratio is concerned. The current business plan is ambitious. It has a number of very visible growth targets, which are already a good result. Of course, we're only commenting 2022 so far. But as far as the near future is concerned, we have some very visible results that are achievable.

As far as the waste sector is concerned, this was an especially good year. As far as our assets are concerned, we now stand at over 100 available plans, and we have expanded our customer base, which recognizes our leadership even beyond the territory we operate in. And they reach out to us given the innovation we offer on the market.

And of course, we're focusing on the concept of circular economy. And as far as our business partners are concerned or our business customers are concerned and the requirements to have our assets close to their production sites, that is in another offer, we can give them as far as M&A is concerned.

Of course, we're still not satisfied with the way things are. We had a number of in-house departments in the past, which didn't grow as we expected them to. We still have to face plenty of [room] tape. The market continues to be very fragmented, although it's still very difficult to go out and find new partnerships with larger players such as ourselves.

We were hoping for the legislation that the previous government was about to pass. We were hoping that it could help the market to develop. But at the end of the day, the legislation, which was approved, wasn't enough. We'll continue to focus on M&A. We will continue to struggle to complete those transactions. But of course, we aren't supported by the regulatory framework.

As far as waste is concerned, I already mentioned the fact that it is a sector which performed very well. There has been an increase of the request for value-added services and our desire to increase our presence in global waste management. That will certainly help us to continue to evolve in line with the very positive results we've achieved this year.

And along with that, we will continue to expand our customer portfolio. We expect to have a 30% growth in our capacity equal to some further 2 million tonnes per year compared to what we had achieved with the previous business plan. We will be investing on the new plants. We will be modernizing and enhancing the already existing assets.

And in fact, we are currently working on a project regarding the number of operational hours of our -- all of our waste energy plants. And by fine-tuning our activities, we'll be able to establish a new limit equal to 8,000 hours of operations, which is what we have in mind for almost 10 assets now.

So we have the remaining part of our expanded capacity, which is equal to 1.4 million tonnes per year. We'll achieve that through M&A and through partnerships including with international players.

Let me also mention our focus on innovation. As far as the waste sector is concerned, we expect to enhance the production of PE and PET or regenerated PE and PET with innovative plans of North of Italy. This is, of course, something that we will do. Also given the fact that the Aliplast Company performed very well in 2022.

So much so, in fact, that we believe that the regeneration of plastics will continue to be very important in the future. It is a market with a very high development potential. We're also focusing on the new and niche market. We're building a small asset in Imola, which will allow us to treat the tissue carbon fiber, which is a very high value market segment. which will allow us to meet the demands of the Motor Valley area.

Of course, with the hope that these projects will be developed -- as far as EBITDA is concerned, we expect to go up to EUR 442 million from the EUR 292 million last year, with a EUR 150 million growth year-on-year equal to a 9% growth, which is very good indeed.

As far as organic growth is concerned, it's worth EUR 108 million. And of course, I'm still focusing on the waste sector. It is also based on the work on the assets I mentioned earlier, plus efficiencies, which I already mentioned. And then we also have a positive trend in terms of prices and demand, which worked very well over the past 3 years despite the difficulties we faced and we continue to progress from that point of view.

We expect to achieve a further EUR 45 million in terms of M&A. We will be focusing on players who are active and complementary sectors. We are already working to complete we're already able to complete 2 transactions in the very early part of this year.

As far as our growth forecasts are concerned, we didn't have any impact from the hike in energy prices and inflation. Therefore, the waste sector will continue to be a sector we will focus on very much. So we're now confident that we will continue to achieve excellent results as we did in the past.

As far as our CapEx plan in the sector is concerned, we have an ambitious investment program equal to EUR 1.18 billion, covering the years to 2026. Of course, we will be focusing on M&A and asset development as well.

At this point, allow me to give the floor to Mr. Iacono, who we are very happy to have with us, who will be focusing on the other sectors that our company operates in.

Orazio Iacono Hera S.p.A. - CEO

Thank you. Thank you, Mr. Chairman. Good afternoon. On Page 9, as you can see, we have an overview of the networks area, a sector which is at the very core of our portfolio. As you know, tariffs here are protected from inflation, and they are updated periodically to interest rate levels. which, of course, gives us a very low risk profile as far as our investments are concerned, which are the main drivers in this sector.

Now we have 2 main goals in mind. The business plan is focused on the one hand, on the optimization of returns in the short term with the premiums with high performance levels from a technical and contractual standpoint. And on the other hand, of course, we wanted about resilience. And we want to enhance our networks vis-a-vis the main global risks that we'll be facing over the next decade, namely how we can adapt networks to the energy transition, which is already ongoing.

And it is something which is very visible in terms of the evolution of our customer base and the business plan years. our commitments to being resilient is something we've been focusing on for quite a number of years. We want to reduce the interruption of services due to damage and leakages We can do this by using predictive maintenance algorithms, which is something we've been using to support our asset management.

We also want to focus on climate risks, especially when it comes to our water networks. We want to be able to secure our water networks also in light of the increasing droughts we face. Of course, everything in our tariff system will allow us to guarantee and always higher performance even despite the extreme climate events. The energy transition has led us to focus on renewable gases. And therefore, we've been investing on developing our networks with a focus on green gas mixes with biomethane in the present, with hydrogen in the future.

We'll also be enhancing our Power Grid, which is also something that is linked to an increased electrification of consumption. And district

seating will allow us to transition progressively towards more sustainable forms of energy. Keep in mind that the gas distribution network will continue to be an infrastructure allowing us to have fuel with lower carbon footprint so that we can focus on energy savings, especially.

And we're working on pilot projects, which are a one-of-a-kind on the national level. Power to gas, for instance, is one of our main pilot projects. It is innovative and it is consistent with the concept of sector coupling, which is an example of how we can blend plants and businesses, the goal of which is to stockpile renewable energy through biomethane passing from the electron to the molecule in which we can use purified water and the CO₂, which we extract from the purification of sludges.

And then, of course, we also have the oxygen, which we are able to recover through the electrolyzers. We split the (inaudible) molecules and then we introduced them in the oxidization plans. And therefore, this is a perfect example of decarbonization and circular economy. Now all of these challenges will be supported by the major elements of innovation, which is something the company is working on through new technologies. -- through digitization and through the increased use of available information.

Now information is an intangible assets, allowing us to obtain greater efficiency, greater effectiveness -- the things we can do with digitization is amazing. And let me just share some figures with you. With what we already have within the group, we received 30,000 signals per second for meters or 20,000 cells per minute for our networks and assets. And therefore, this allows us to optimize the use of our assets and the information we receive from them.

Moving on to the following page, Page 10. You'll appreciate the fact that this strategy leads to figures for the development of our networks. We now have EUR 2.2 billion in investments, which is up by 3% compared to the previous plan, up by almost 40% compared to the average investments made over the past 5 years.

You'll see that the RAB grows all the way up to EUR 4.2 billion, with an average yearly growth of 5.4%. This plus EUR 1 billion, I think, supports the growth of the EBITDA throughout the networks for the (inaudible) years.

And the investments we've allocated to development are equal to EUR 924 million for the organic development of the networks, slightly over EUR 100 million for the development of networks, thanks to the funds we received from the National Recovery and Brazilian plan the Chairman was referring to earlier.

We are very committed to developing our networks, both in terms of water, in terms of power and in terms of district heating? Whereas the gas distribution network will be evolving, as I was mentioning earlier, so that we can work with an increased amount of green gases.

Now the National Recovery Resilience Plan funds were received to expand our district heating networks, to increase the resilience of our electricity grids to strengthen our water networks and to also develop the power to gas innovative project in Bologna.

Of course, the recovery business plan funds weren't included in the RAB since these are all funds that we have been able to obtain free of charge. Now the increase of EBITDA is well above the regulated WACC review, which took place last year. As you can see in the graph in the top left corner, this plan did not include the benefits stemming from the activation of the trigger or the update of the WACC on the energy networks.

And even the water sector has been projected taking into account the current conditions. And keep in mind that the new regulatory period will begin, in fact, at the -- in early 2024.

Therefore, our assumptions for the business plan are conservative, which are very much a part of our corporate culture. We, of course, are committed to doing more than we are sharing with you. But our assumptions tend to be conservative, which is what we wanted to underscore -- our results will be supported by a constant search for efficiencies which are one of our traditional recipes.

Also through the use of predictive maintenance, as we mentioned earlier. And alerting in the short term, we will be having some premiums, which were projected with an average of EUR 8 million per year. This was achieved thanks to technical leadership, especially

in our water assets.

And even in the quarterly reports for 2022, we already mentioned the premiums we received for 2018 and 2019.

Moving on to the following page, and our focus on energy. As far as this sector is concerned, despite facing a year in which everything happened basically and many unexpected things took place, we were able to continue in our development process with new initiatives and thanks to the major team effort.

And therefore, we're very proud to say that we were able to conclude 2022, the first year of the business plan, with a growing EBITDA. We were able to exceed the expectations we had. I wanted to mention this because we were all very much committed to achieving this, especially in the second half of 2022.

Furthermore, throughout the business plan years, we'll be seeing the indirect financial effects of the current energy scenario. And based on what we've been recording in the more recent period, we expect to have a more normalized situation with the reduction of the working capital, with a reduction of credit devaluation and also possibly with lower commitments when it comes to storing gas.

Since we have been beginning to see this trend in December as far as gas prices are concerned, the normalization of things may, in fact, be closer than we expect. Also thanks to this new scenario that we've been recording over the past 60 to 75 days.

The crisis that we are still experiencing has been a stimulus for customers and businesses, allowing them to focus more on energy savings. And therefore, customers know how important they are for the company, and they can take advantage of the offers we have and services that can be tailor-made for them.

Technology is, of course, a crucial aspect. And therefore, by studying our customers' information and data in real time, through our gas and electricity meters, we can also activate marketing activities aimed at our customers, allowing them to improve their experience. And that, of course, is something which is our most precious intangible asset.

And giving value to our customers is essential, not just to enhance our normal commercial actions, but it will also be a way of exploiting the opportunities we'll have in 2024 the year in which we will have the liberalization of the [Mazo Futura] retail customers.

We have made a conservative projection to 2026. And based on that projection, we expect to add a further 200,000 new customers with our commercial offers and a further 400,000 customers with the actual liberalization of the market.

And the strategic development of our growth in this sector also have a major focus on the energy transition. And since we have already optimized our production processes very much, we are now focusing on supporting customers in the decarbonization of their consumption, which is linked to Scope 3.

And besides developing the sale of traditional photovoltaic panels and domestic accumulators. We have also designed new generation and distribution systems for electricity. We've been building these new energy communities, which will be made up by small-sized plants open to a number of different customers. These new collective forms of consumption will be differentiated based on the type of customers, be they retail, be it small businesses or even the public administration. And therefore, we will continue to strengthen our presence on the local territories.

So just to give you a flavor of what we're talking about, throughout the business plan years, we expect to install the very first 150 megawatts. And just as a way of concluding our marketing activities, we will continue to expand even through M&A.

Something we have always focused on, which is even more visible the difficulties that a number of small- and medium-sized players have been facing throughout the crisis that we have experienced and continue to experience.

Moving on to the following page. These are the strategic growth levers. And in the energy sector, we will be contributing to EBITDA

growth with EUR 73 million, which is a 3.2% average per year, 60% of the growth will be organic, which is in line with what we've always achieved. And this growth can offset 2 major negative effects.

The first, of course, is the lower profits from MST ancillary services following the introduction of the capacity market. And then of course, we have the second negative, which is linked to the energy efficiency services with the end of the Super Eco bonus. And thanks to the support offered by EU policies, we will be able to offset these negatives although somewhat more conservative way compared to the past 2 years.

Organic growth is worth EUR 42 million, and it is linked to the supply side of things. We've had an increase in our customer base by 400,000 new electricity customers, some 4% of the customers which were auctioned off through the liberalization process, and then we'll have a further 200,000 electricity customers with the organic expansion of the market.

And you'll see on the graph that the gas customer base is expected to contract slightly -- given the focus we will be having on the electricity market, given the energy transition, and therefore, we'll be shifting our gas customers to electricity. Then we have the expansion of value-added services focused on the energy transition, including heat pumps, photovoltaic panels and solar power.

This will contribute with a major contribution. So we have, of course, the new photovoltaic plants, which I described a few minutes ago. That will be worth a further 90 megawatts roughly. And that is, of course, something which refers to the sites owned by the group.

M&A, of course, is a level we continue to use. As you know, the national market is still highly fragmented with dozens, if not hundreds, of small and medium-sized players, which, of course, have been hit very hard by the energy crisis, which has further underscored how frail the system is in Italy.

Our group has continued to create value through M&A transactions. And the current scenario certainly continues to offer plenty of opportunities to expand our customer base to which we can also cross-sell value-added services, which is something that smaller players don't offer. And then, of course, we have to consider all of these synergies, which stem from integration. And in this case, we have expected a major contribution equals to further EUR 31 million.

Moving on to page -- to the following page, Page 13, which goes back to the overall vision we have for our activities. As you can see, our regulated businesses will generate 60% of our EBITDA to 2026. And both the networks and the waste treatment sectors have attracted most of the CapEx plan resources equal to roughly 80%.

This capital allocation, of course, underscores 2 positive aspects. The first is that both waste treatment and the networks have a low-risk profile, which treatment, in fact, is a lot more protected compared to past, thanks to a larger amount of regulated EBITDA with RAB activities to determine the margin for the treatment of the waste for the territories we serve. And also for the sharing of revenues stemming from waste recycling and the incentives we receive in biomethane. And of course, Hera has an important track record on treating organic waste. But of course, we have increased our leadership in site management.

And then, of course, we made the acquisition of ACR Reggiani, the site remediation business leader. Then, of course, we've had -- we've increased our presence in the sale of biomethane and regenerated plastic, which, of course, stem from the recycling of waste.

And then, of course, finally, we've seen an increase in the waste treatment prices, a trend we've been seeing for years, which is, of course, underpinned by the shortage of national assets, which guarantees the inflation pass-through.

In a nutshell, therefore, the risk profile for networks continues to be very low. This too is protected from inflation from the volatility of customer demand, which are especially important given the current context. And secondly, both the networks and the waste treatment sector have the perspective of higher returns. The networks have a high visibility for lengthy regulatory periods and a tariff system with a review of returns linked to the increase of interest rates, which are the outcome of the tightening policies of central banks. Therefore, we expect this trigger to happen next year already. And we expect to have an impact on the water networks, too. And in fact, next year, the new regulatory period will begin.

As far as the waste treatment sector is concerned, the returns we expect will be higher also given the evolution of customer demand. And we'll be focusing more on advisory services in this sector instead of purely capital-intensive services. Therefore, we will be focusing on the waste treatment, and we'll be increasing returns on our invested capital.

Moving on to the following page. And capital allocation and the investment plan is in line with the trends that have been dominating the macro scenario. You'll see that 1/3 of the CapEx, roughly EUR 1.3 billion, is focused on innovation, focused on infrastructure to have a more smart approach to information and collection and processing to increase flexibility, effectiveness in security.

We'll be increasing our resilience to climate change, which will absorb EUR 1.6 billion of our CapEx, which goes to show how committed we are to protecting our infrastructure in the long term. And of course, we also want to reduce emissions and focus on energy savings as much as possible.

As far as European taxonomy is concerned, most, if not all, of our allocated capital is allocated in admissible activities. Roughly 98% are in line with the technical criteria as defined by the European Regulation.

And finally, 70% equal to EUR 2.9 billion is capital invested on projects that can create wealth to the advantage of all stakeholders, which is in line with the UN Sustainable Development Goals as a way of increasing environmental and social protection. These are all commitments that we have included in our business plan to 2026 with a growing results in economic terms. And you'll see that EBITDA will be creating value for all stakeholders, and it will represent 62% of the results produced by the group.

Keep in mind that this amount is equal to a growth for EUR 340 million, which will cover the entire growth we expect over the 5-year period. And it was also transformed over the existing activities.

And just as a way of concluding my comments to this page, our strategic planning requires the selection of the investments we require so that we can be consistent in our strategies pertaining to sustainability since we've always had a sustainable approach.

Moving on to the following page. I'm sure you'll be able to appreciate the targets we have for the main KPIs to 2030, which confirm the commitments we have made with the previous business plan. Let me just mention that we are continuing to focus on all of these topics in the long term, and therefore, beyond the years included in the current business plan. We're looking all the way to 2030.

And we are targeting a number of things to be achieved by 2030 as certified by Science Based Target. And despite the geopolitical problems, we are continuing to focus on the 3 sustainability macro areas. And in fact, we are committed to creating value. And we expect to share that value with all stakeholders. We want to be in line with the UN Sustainable Development Goals, and we want to continue to have a positive impact on the environment and our local communities.

Thank you very much for your attention. And let me now give the floor to Mr. Vai. Thank you.

Massimo Vai Hera S.p.A. - Group Manager of Administration, Finance & Control

Good morning, everyone. Let me just focus on 2 graphs that summarize some of the indicators that we have traditionally shared with you.

Page 16. On the left-hand side, we have our cost of debt forecast linked to the group's funding needs for the business plan years. Compared to what we introduced last year, this must be no surprise to you. We have a different scenario because the evolution of interest rates over the past 6 months give us some entirely different references that we had 12 months ago.

And therefore, to be consistent with the replacement of a part of our long-term debt, we will have a progressive differentiation of the debt components, which will have a slightly higher cost, which means that from 2.8% on average in 2021, our forecast is at 3.5% by the end of 2026. Of course, unless we have any significant changes in interest rates, given that the volatility we've been facing over the past few months, things may change. But this is the current trend we're seeing.

The second graph focuses on the tax rate. We stand in the range between 27% and 28%. And of course, when we make our forecast, we tend to focus on theoretical percentages. Whereas when we finalize the figures, we consider any possible efficiencies, which means that we were able to achieve excellent results in 2021, and we're trying to do the same for 2022 as well as we work on finalizing our yearly results.

As far as the earnings per share is concerned, we've had a 3% growth on a yearly basis with EUR 0.256 per share at the end of 2026. And then as far as ROE is concerned, at the end of the business plan, we will stand at above 10%, which is in line with the reference we had for 2021.

So in a nutshell, besides the change in the cost of money which was entirely foreseeable but which has a partial impact on our overall funding, every other element is in line with what we had shared with you in the more recent period.

With regard to the second page and to the next chart, we'll see the evolution of the cash flow. Even in this case, the trends we're seeing are in line with our strategic coherence, the one we've been sharing with you for years now.

Let me just underscore the fact that this year, we have a higher impact of the development CapEx. This is, of course, an important part of the increase of our investments in the business plan years. We'll be focused on developing growth, especially in the regulated businesses in which, of course, development CapEx is essential when it comes to achieving growth, including economic growth.

And as the CEO was saying, this is in line with the remuneration that the national regulator currently envisages for our regulated businesses, which, of course, may be amended, taking into account the highest -- the higher cost of money and inflation. Therefore, this development in the cash flow will lead to a change in debt, which is consistent with the growth we expect in economic terms.

And therefore, we have a debt-to-EBITDA ratio at the end of the business plan years at 2.8x, which is well below the 3x threshold, which is the target we have given ourselves, allowing us to have the flexibility required to take advantage of interesting opportunities, or to absorb any unexpected peaks in financial volatility without going beyond any dangerous threshold, and to be in line with the commitments we have made with you. So that we can go back to manageable figures in a very short amount of time.

And therefore, along with economic growth, we will also have a careful focus on the financial side of things so that the company can continue to operate and develop the businesses and to take advantage of any opportunities which may arise.

Thank you very much, and I'll give the floor over to our Executive Chairman for some final remarks.

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

There isn't very much else to add. The scenario we've described, we're still missing one final element, namely shareholder remuneration. We confirmed the dividend forecast that we had made in the previous business plan. We are committed to the figures we have shared with you despite the critical scenario we face. And in 2026, we have included a further increase in our dividend per share. And we expect our dividend per share to be at EUR 0.15 by 2026 with a 4.5% increase on average for each of the business plan years.

So I think we're -- we've been very continuous, very consistent. We have committed very much to growth. We have been able to become credible over the years. Of course, our business plans tend to be similar to one another. Although the current business plan wasn't drafted in a relaxed period of time. In fact, the more recent period has been very complex. And I'm sure you appreciate the fact that we didn't include figures which haven't been carefully studied.

And I think that we have been able to show over the past 20 years that we never disappoint. Therefore, before you decide whether the business plan is original or not. Keep in mind that we have always been able to guarantee growth as proven by our track record.

Over to you for any questions you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is by Javier Suarez, Mediobanca.

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

I have 3 or 4 questions for you, beginning with the waste business. The trigger for growth in this business plan is the waste business. What are your forecasts for 2026? Your EUR 440 million EBITDA in waste, how much of that stems from waste treatment? And how much stems from your -- from the review compared to the previous business plan? So I'd like to understand what is the contribution of waste to energy, and what has changed in the scenario since January 2022.

Then I have a second question on the networks business. Your company has increased its financial expenditures compared to the previous business plan. The RAB compared to the network seems to be very conservative. And given the fact that we have higher interest rates and the RAB's leverage ratio, don't you think the growth of EBITDA should also be translated to the EPS?

The third question refers to the fact that the figures in 2022 will be higher compared to the figures we saw in the previous year. With all the events which happened last year. I'd like to understand what dynamics you observed in 2022 because your performance was very positive compared to other market players. And looking to 2026, how will you have to adjust your commercial offers?

And then finally, we have the net working capital absorption, which continues to be stable compared to the previous business plan. Why haven't you felt the need to increase this capital absorption compared to the net working capital? Of course, the scenario is much more difficult compared to what you were expecting in January 2022.

Jens Klint Hansen Hera S.p.A. - Manager of IR

This is Jens Hansen speaking. Thank you for the question, Javier. As far as your first question is concerned, the growth drivers also include the growth stemming from the new waste-to-energy plants. The business plan years include a strengthening of the fourth line of the Padua waste-to-energy plant which, of course, helps us to support the growth. And then, of course, we also have a different energy scenario compared to 2021, which, of course, contributes to this new scenario.

These 2 factors in the waste-to-energy sector led to a further contribution worth EUR 35 million to EUR 40 million. And to that, you also have to add the fact that, as the Chairman was saying earlier, the waste-to-energy sector will have this efficiency and maintenance plan so that we can reduce the downtime required for the maintenance of these plants every year. And this, I think, will help us support the figures I was mentioning earlier.

Let me move on to your second question regarding the conservative assumptions we made. Yes, of course, as far as our regulated businesses are concerned, our assumptions are conservative. We are sure that there will be a WACC review in early 2024, but we continue to consider the WACC as it was in the past. And this is a value that we will have to consider throughout the business plan years. This is a trigger that we didn't include in the business plan for the networks, for the -- for energy sector and for the water sector, meaning that we consider the current WACC values, the current WACC levels for the entire business plan years.

As far as the energy sector is concerned, as I was mentioning earlier, we're quite satisfied because in the energy sector, we witnessed some real turmoil. And therefore, in that area of business, we were able to react swiftly by changing from standard solutions to innovative solutions. But of course, Hera, as always, tends to have policies allowing us to hedge all of our activities. And therefore, no sales contract for commodities to our customers is never left uncovered.

We're never -- we're always hedged with our procurement contracts and our sales to customers' contracts. Therefore, the fact that we are hedged, the fact that we are balanced when it comes to procurement and sales, I think, ultimately, gave us the results we expected.

Then, of course, in October, we had lower margins due to the effect of the thermal season, due to the effects of the weather and lower

consumption, and we were able to compensate those lower margins with other commercial activities. Whether they're trading and energy efficiency activities, which means that all in all, we were able to post a positive results compared to 2021.

As far as the networks' CapEx plan is concerned, I'm not sure I understood your question perfectly, so I'll hand it over to Massimo.

Massimo Vai Hera S.p.A. - Group Manager of Administration, Finance & Control

Javier, if I understood correctly, you were referring to the very little change in the CapEx of the private networks compared to the previous years?

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

No. I was referring to the net working capital absorption I was looking at slide -- the slide on Page 17, the 0.1% in net working capital absorption and provisions, which hasn't changed compared to the previous business plan. The question was since the scenario was more difficult compared to the previous year, how were you able to keep those figures in line with the previous years.

Massimo Vai Hera S.p.A. - Group Manager of Administration, Finance & Control

Well, we're expecting a fairly swift return to the working capital figures we had from the previous year. So we're expecting a normalization of the absorption of the working capital. Which, as you know, is generated and is reabsorbed very swiftly based on the evolution or the contraction of our turnover.

And therefore, given the evolution of the numbers or the volumes we have, given the growth forecast we have and the evolution of prices, we expect the net working capital will be stable for the business plan years, and they will be in line with the projections we had last year. And we have already reconsidered the absorption we saw in previous months, especially during the summer months and in Q3 last year.

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

Now what about the net working capital for year-end 2023? Will there be a different figure? Will you see this negative impact for the net working capital in 2023?

Massimo Vai Hera S.p.A. - Group Manager of Administration, Finance & Control

Well, it all depends on the price of gas. Let me just mention something that we didn't say earlier. All of our customers' KPIs, which includes the unpaid ratio, have always remained constant. In fact, they have improved compared to 2021 even despite the overall scenario.

Therefore, the drop in commodity prices, which began in December, will continue, hopefully, because, of course, it has an impact on the credit devaluation. And it also has an impact on the financial burden, and therefore, it will have an impact on the cash absorption of the NWC.

Operator

The next question is by Emanuele Oggioni, Kepler Cheuvreux.

Emanuele Oggioni Kepler Cheuvreux, Research Division - Equity Research Analyst

I have a few questions, beginning with the preliminary forecast for 2022. How do these EBITDA figures relate to the 9-month results in which you made a difference between posted and adjusted. I wish there was EUR 160 million difference? Of course, part of that was reabsorbed due to lower gas prices. So I was just wondering, how do these figures compare to the figures you shared for the first 9 months of 2022?

My second question refers to the debt. Your 2022 debt should be slightly higher. Of course, in Q4, the lower commodity prices certainly went in your favor, giving you better results compared to the first 9 months of 2022 given the fact that the peak in prices was hit in the summer or just after the summer. Then of course, we have a very mild weather and the reduction in consumption by end customers both

in terms of electricity and gas. And therefore, how big of an impact did that have in both positive and negative terms? And what impact do you think it will have in 2023, not so much as far as the commodity price scenario is concerned but more in terms of the consumption levels?

In other words, what is the scenario you are expecting for 2023 as far as consumption is concerned? You haven't given an EBITDA guidance for 2023. But what kind of consumption dip do you expect in your budget given the fact that in H2 2022, in general, throughout the country, we've seen gradual savings also linked to the affordability of electricity and gas bills. We saw a much lower consumption level both in terms of the industrial players and the retail customers.

And if I may, I have 2 other questions. The first is on the gas tenders. The previous business plan included a few hundred million euros in terms of CapEx, which I'm not seeing this time. So I'm assuming you haven't included the gas tenders and the business plan. Otherwise, where can we find those figures? And that's about it.

Unidentified Company Representative

So let me begin with your first question. At the end of 2022, since we had 60% of the gas we have stored at the beginning of the thermal season, we will be reducing our accounting figures compared to the figures we had shared on September 30. Therefore, we should be standing at around EUR 80 million to EUR 90 million.

Your second question was on debt.

Emanuele Oggioni *Kepler Cheuvreux, Research Division - Equity Research Analyst*

Yes.

Unidentified Company Representative

The reason why we said what we said is the fact that we have become a system operator. In other words, we have the last instance market in which volumes increased considerably. But if those volumes are well managed, and of course, Hera has a consistent track record, we can also obtain some economic advantages.

Therefore, for the last instance market, the value of the debt that we are expecting is slightly on the rise. And therefore, we couldn't do anything otherwise. But again, if we manage things well and given the current price scenario, I expect some good results to be obtained.

Moving on to the dip in consumption. Let me share some figures with you compared to December. In December, in fact, we witnessed the decrease -- or in Q4 rather than December. In Q4, we saw a dip in consumption linked to weather on the one hand. 50% of the dip refers to the behavior of our customers who perhaps have lowered the temperature of their heating systems. The overall mood in the country was focused on reducing consumption. So that was something that we were expecting.

As a consequence of all this, we have some lower margins, which we were able to offset, thanks to a number of commercial and marketing activities, including activities through energy efficiency. So this is what we expect to continue doing. Were we to face a similar situation compared to the one we had in October, where, of course, due to the weather, the consumption was higher compared to what we expected.

All in all, we were able to really learn a great deal from this experience, meaning that even were these things to repeat themselves in 2023, we would be able to fully optimize the modulation costs we would face. And this is an activity that we are fine-tuning a little by little.

Of course, the events over the next few months are linked to the weather, and it's quite difficult to plan ahead when it comes to weather. So it isn't very easy to give you a very accurate answer. But surely, we have been fine-tuning the solutions we have through innovation, which is much better compared to what we would have implemented in normal scenarios.

And when it comes to your last question on gas tenders, that isn't an area that we are ignoring. We are continuing to focus on the gas

tenders. We confirm the fact that we will continue to focus on the gas tenders, although we aren't seeing very many evolutions, at least not for the years included in the business plan. And therefore, I think we'll be delaying all of the preparations for the tenders. And I think that the tenders will go beyond 2026. That is the forecast that we have made. That is our assumption.

Operator

The next question is by Davide Candela, Intesa Sanpaolo.

Davide Candela Intesa Sanpaolo Equity Research - Research Analyst

I'd like to go back to debt and working capital. As far as the gas scenario trend is concerned with prices which stand at EUR 121, which will be going down over the next few months and years, I will expect a recovery in the net working capital. When it comes to leverage, I was wondering if the 3.3x debt-to-EBITDA we have in 2022 will be 2.8x you expect in 2026. Will that be a gradual decrease or will it be a little bit faster, based on your assumptions, of course? Then, of course, there are other things, which is consumption, which, of course, have an impact on forecast but which can't be forecasted.

And then I have a question on M&A. I was doing the math. And if you consider the contribution of M&A to EBITDA considering CapEx, we have an EBITDA multiple equal to 6x. Now since the waste sector is the one with the most M&A, is this reduction in multiples compared to previous years linked to what the Chairman was saying earlier? In other words, how difficult it is to find efficient players, and therefore, that leads to lower multiples? Or is it due to the absorption of multiples themselves?

And then I have a final question regarding the National Recovery and Resilience Plan funds. I noticed that you included those funds in the CapEx plan. And will we be seeing the same figures as far as debt is concerned? And how will that contribute to EBITDA? Based on the information I have, these public funds had to be treated separately. And therefore, what is your approach to these investments and the funds you've received.

Massimo Vai Hera S.p.A. - Group Manager of Administration, Finance & Control

Yes. This is Massimo Vai speaking. Let me answer your first question on working capital. And what we are expecting as far as the net debt-to-EBITDA ratio for 2023 is concerned, as you know, we expect to reduce the levels we had reached in Q3 -- in the Q3 report in September. And as you can see, we now stand at 3.3x EBITDA at the end of 2022.

As far as 2023 is concerned, we will still be in a scenario characterized by very volatile prices. And the prices we're seeing today compared to early January, those -- the prices now are much lower. Therefore, were that to continue, I'm sure we'll be seeing benefits in terms of the release of working capital compared to the absorption we saw in 2022.

However, we also have to manage the larger values in the default markets and last instance markets, which in October 2022 compared with the reference of the tender that we had made a bid in has higher volumes. And therefore, this leads to a major absorption of working capital.

As you know, in those specific markets, the payment levels aren't as good as the [March] market. Therefore, this leads to an investment of working capital which isn't solved when we recognize those amounts at the end of the period by the (inaudible) value, which means that we'll be keeping the same levels in 2023, although we'll have higher margins compared to what we were forecasting following the tender given the different volumes.

In a nutshell, therefore, we expect to have a progressive lowering in the net debt-to-EBITDA ratio, and it will be quicker the more the prices were lower, especially without any peaks at the end of the year when we'll have the new thermal season, which should be the last possible season subject to volatility as we wait for the regasifiers and the gas -- the Russian gas independence activities be completed.

Jens Klint Hansen Hera S.p.A. - Manager of IR

Davide, this is Jens speaking. Let me just answer your question concerning the multiples -- or EBITDA multiples linked to the M&A opportunities in the waste sector. We have always tried to avoid an upfront dilution of investors with multiples that would dilute our investors vis-à-vis, the market assessment of our company.

But of course, we are also aware of the fact that over a 4- or 5-year period, following the M&A transactions and following their integration with our companies, of course, our activities are industrial activities, and we have to integrate our assets in strategic parts of the country. And we know that we tend to obtain synergies, and that is what we expect to do, as usual.

And we were expecting some 40 to 50 transactions over the past 20 years. And what we've seen is that we can increase EBITDA by 25% without any development CapEx involved. So basically, these are integration synergies. And most of these are also linked to the ability to create synergies in terms of revenues, not just in terms of cost.

Think of some niche operators which are integrated in our platform, which can treat waste in all areas. And therefore, we can work on cross-selling our services to the customers of the company we integrate. These, of course, are synergy values that we didn't include in the business plan because these synergies depend on the time it takes from the initial acquisition to the end of the business plan. And therefore, it's very difficult to understand how much time we'll need to integrate and to create synergies.

But again, on average, typically, we increase EBITDA by 25% over a 5-year period, thanks to these synergies. And therefore, I think that has to be taken into account when you consider all of the M&A transactions we've been finalizing. And I hope that answers your question.

Unidentified Company Representative

Let me focus on your question on the Recovery and Resilience Plan Funds. These are funds that we won't have to pay back. As far as waste treatment assets are concerned, we're working on the fiber carbon recovery plant in Imola or the rigid plastics plant in Modena. These are plants that will generate profits, and they have an impact all the way down to the bottom line. As far as the networks are concerned, we don't consider the RAB here, and they don't have an impact. The funds don't have an impact on networks basically.

Operator

The next question is a follow-up by Emanuele Oggioni, Kepler Cheuvreux.

Emanuele Oggioni *Kepler Cheuvreux, Research Division - Equity Research Analyst*

Just a quick question that I forgot earlier regarding the water business. So EBITDA growth from EUR 260 million in 2021 to EUR 320 million in 2026, can you give us some details regarding that growth, the various moving parts? And what are your assumptions regarding recovering energy costs in the tariffs? I don't know if I'm fully updated, but I understand they're still being defined by the authority as far as 2023 is concerned.

Unidentified Company Representative

As far as the water business is concerned, we have a RAB component which, as you can see from the graph, is worth EUR 561 million. And linked to that RAB a share, you also have a growth portion of the EBITDA. Which is linked to efficiency and which is also linked to a premium, something that we have a major track record in, as we've seen in recent years.

So basically, it would be the sum of the RAB, the investments, the efficiencies and the premium. Which is related to the performance of the technical and contractual performance of our networks.

As far as WACC is concerned, as I mentioned earlier, we have made some conservative assumptions. And if I understood the question correctly, what we expect is at least the current values. But of course, we are hoping for a certain level of improvement already beginning early next year.

Emanuele Oggioni *Kepler Cheuvreux, Research Division - Equity Research Analyst*

No. In fact, my question wasn't on the allowed return. It was on the tariff.

Unidentified Company Representative

Because in this business, in fact, what we expect is that beginning in 2023 or 2024, there will be a recovery of energy costs in the tariff. Although we have to consider that these energy costs exploded in 2022. That would mean increasing tariffs very much. And that, of

course, would be an area that the regulator will step in. But what we expect is that much like we saw in 2021, we'll have a full recovery even in 2022.

Operator

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

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

Thank you. Thank you very much for your attention, and we hope to see you soon. And we will be leaving tomorrow to present some of our figures to the market. So we'll be on the road for a few days. Thank you.

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

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