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Q1 2023 Hera SpA Earnings Call

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## PRESENTATION

### Operator

Good afternoon. This is the Chorus Call operator. Welcome to the conference call presenting Hera Group's First Quarter 2023 results. [(Operator Instructions) I will now turn the conference over to Christian Fabbri, Hera Group's Executive Chairman.

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### **Cristian Fabbri** *Hera S.p.A. - Group Market Manager & CEO of HERA COMM S.p.A.*

Thank you. Good afternoon, everyone. I'm Christian Fabbri. I'm the new Executive Chairman of the group after the retirement of Mr. Tomaso di Vignano. And I'm not new to the group because I have been with Hera for 15 years and managed the sales rig activities of the energy sector with very good results. We've just come out of the Board meeting that approved the annual financial statements for 2022. And here with me, we have our CEO, Mr. Orazio Iacono, whose mandate has been reconfirmed for the next 3 years. And then our CFO, Massimo Vai; and Mr. Hansen Investment Relater. We're here to illustrate to you the main results that have already been read in the press release issued today on the first page, you will see that we have very good results with a high increase in terms of capital investment and the notable increase in the net financial position.

We know that you have plenty of conference calls today. So we'll try and keep it sure so that we have enough time for taking your questions, should you need any further information. Let's start with the first figure. That is our turnover that is settling at EUR 5.75 billion, up 6%. All business carriers have provided their contribution to this growth. When it comes to energy, we see the expansion of electric energy segment and this offset the decrease in volumes due to weather conditions. On top of this, we had very good results coming from the waste business. So higher revenues due to a larger portion of activities when it comes to special waste. And also we had very good results when it comes to energy-related services. So a very good picture overall.

As you can see in the second box here, you see the EBITDA went up 9% if compared with the same period last year. So Q1 '22 we had EUR 375 million. We will have the opportunity to comment upon the main reasons behind this growth. Let me now turn to EBIT, which went up by 7%. It settled around EUR 236 million. And this has perfectly set off of the higher depreciation and amortization costs. So all of that increased our profitability, and this bodes well for the future because in terms of payment times the customer delinquencies of customers in arrears, and the situation has remained substantially changed. So to some extent, the situation has even improved vis-a-vis previous years.

Let me now turn to our net profit. This is also growing EUR 126 million, so 1% up in spite of the increase of the leverage, which I'll come to in a minute. So in terms of the profit and loss account, overall, very positive results across the board. Let me now turn to our investments to our capital expenditure, which went up. Investments went from EUR 135 million to EUR 205 million, marking a 52% increase -- this increase is due to M&A activities, which we performed in the first quarter of the year. We acquired a company that is in charge of land reclamation and remediation. I'll come to that in a minute. This accounted for EUR 54 million out of the overall investment volumes and

operating investments have gone up by 21%, which is perfectly in line with our business plan. We also completed the revamping activities of the waste to energy plant located in Trieste.

You will remember that last year, we performed a very important investment in terms of gas put into storage. And you may want to recall reasons behind this investment. The idea was to make sure that we could rely on a safe and sure gas reserve ahead of a very complex winter. That investment was almost risk-free because we were buying, again, this gas, and we were planning to sell it at a later time. And all that allowed us to achieve a premium because of this gas storage. You will remember that the gas storage that we had at the end of October was entitled to a premium place. All this allowed us to be very flexible, and this was particularly useful because throughout the whole winter, we have seen that volumes went down. On the one hand, the mild climate and on the other hand, the fact that many people decided to reduce their gas consumption because of the very high prices.

So basically, that was an option which we had and we have been paid in order to have this option. So that was well worth investment. We also said that we would go back to square 1 on this investment before the end of the first quarter. And here we are to tell you that, again, this investment completely went back to EUR 878 million. Then it went down to EUR 104 million during the year. And then it went back to square 1, to 0 by the end of Q1. So this reduction of the investment by EUR 504 million happened within the first quarter. And if you have a look at the graph on the right-hand side, you will see that the net debt-to-EBITDA ratio went from 3.62x to 2.84x for in Q1 2023. As you have certainly read in our press release, which we issued earlier on today.

So we have come back to the leverage, we are confident with. And this bodes well for future investments. So we now have the necessary flexibility to seize all the opportunities that the market is going to provide us with. So this flexibility in the past allowed us to better come to grips with the energy crisis. And now we have plenty of flexibility to deal with future challenges. Let me now go to Page 3. I would like to illustrate the main drivers behind the growth of EBITDA. In this first quarter, we had very good results in terms of free market activities in the waste segment. We have seen a slight decrease in terms of networks, but this is due again to the economic situation and not to structural reasons. This growth is very well balanced just throughout all our segments.

So we had the acquisition of ACR, which is a regulation company. And then we had a second acquisition in the second part of last year, it was a company that's called [indiscernible] that is dealing with special waste treatment. So all of that added up to EUR 6 million. In terms of sustainability, we are witnessing a growth of about EUR 40 million, which, again, derived from decarbonization activities, energy efficiency services that we provided to our customers for site installation bonuses, and we improve our customers' experience. So we provide more and more value-added services to our customers that are becoming more and more loyal. And this in turn translates into higher profitability.

In terms of organic growth, we're doing very well. We've been very strong. The energy market is doing very well, plus 106,000 customers in the energy segment. And then the waste segment, we have plus 188,000 tons more mainly industrial customers. So this is a very well balanced growth. So to sum it up in terms of EBITDA, we have stayed our course. We continued our growth path, looking back at the last quarters. And a large portion of this growth comes from sustainable business activities. And you know that we use shared value as a metric in order to identify the part of our EBITDA. It's not just the determining and generating financial results for the company, but it's also increasing sustainability. And we have -- we managed to achieve our objective by year-end last year. Our purpose is to get to 70% by the end of 2023. So we are well on track.

Now let me turn to an analysis business by business. Since I have been with Hera for 15 years and since they've been operating in the Energy segment, I will be concentrating on the Energy segment. And then when we had a look at the sharing of tasks among me and the CEO and CFO, then we decided that I will be taking care of energy. And so this is basically the only change that we have generated in terms of process and in terms of the responsibilities within the Board or actually has been with us for a year now. I've been with the company for several years.

So this provides full continuity with the past. So let me now draw your attention to energy. Let me make one step backward. Let's go back 1 year, the energy crisis was hit in the ground and one year ago, we confirmed our results. They were slightly increasing. So no decrease whatsoever. So EUR 151 million in 2021. And then in Q1 2022, this went up to EUR 254. So again, from there on, we managed to increase our EBITDA. And as you can see, the contribution is over around EUR 31 billion. So how did we get to this EUR 31 billion? Let me start with the first graph, supply and trading activities. There, again, we had EUR 6 million positive contribution, which came from the expansion of markets. I'm talking about the free market as well as large resort markets. We have 16,000 new customers as compared to last year, and we are continuously increasing our customer base and which is hovering around (inaudible) customers. And so again, we are almost around \$3.6 million.

And again, it's not just economic growth, but this is also an increase in terms of the overall underlying assets in the Energy segment. But we are not only operating on the free market. We're also operating on all the energy markets, and we are certainly a very important stakeholder in the last resort and safeguarded customers market. This provided, again, very good results in the past. I'm talking about concept, talking about public tenders, pull administration tenders. And we've been very active in terms of tenders for protective customers. There again, you have tenders that only used to be issued for the energy customers. Now we have a lot of large companies. And now we only have retail customers in this part of the protected customer segment. So we do expect a lot of tenders coming down the line by year-end. So the fact that we are operating in all these different markets, perfectly offset the reduction of low volumes minus 17% for the gas segment. And this is due to the fact that our customers, in general consumed about 18% less in Q1 vis-a-vis last year in the same period. This is due to the climate on one hand. But at the same time, it's also due to the fact that customers were afraid of prices going through roof see tried to reduce their consumption in order to, again, ensure energy efficiency.

This effect was more than offset by the growth on last sorter markets or on safeguarded customers market and also commercial development, business development helped us because if you have a look at the box on your right-hand side, you will see there was an increase in volumes for electric energy. So minus 17%. But when it comes to electric energy, we had again minus 19% on average in Italy, and we only had minus 17%. We are still working on our customers. We are very much focused on our customer base. And we're doing so because we want to seize all the opportunities that this new market scenario is providing us with. So we would like to provide win-win offers. What do I mean when I say win-win?

Well, within this context where prices tend to oscillate strongly from 1 month to the next, then you have more cost to bear. And we have tried to offset all this with the sales and trading activities. So in terms of commercial offers, we're really trying to optimize our offers so that our customers have full visibility about their daily consumption with just 1 day delay. And more specifically, they know how much they're going to pay. So they know that they can cut down their consumption during the day when prices for instance, are higher. So customers have the opportunity to save money. And at the same time, this type of commercial offers will have lower modulation cost. So this is a win-win situation for us. It's a positive situation for us and for our customers. Then at the same time, we are providing fixed price offers so that our customers, again, can have more stable prices. And at the same time, we are reducing our modulation costs as a

company, which we will have, of course, to turn over on our customers down the line.

So we're doing all this for some customers, but for new customers on our already existing customer base. So we are providing the offer to our customer base. In terms of energy efficiency, we did very well, the marginalities doing very well, as I said in my previous slide. So we focused very much on customers retail, about 30% of our customer base has bought at least one of our services over the years throughout our business segments. So we have more than 7,000 units of subservices being sold. I'm talking about oilers, air conditioning, high efficiency, and air condition systems, photo attack panels, insurance on such systems. So again, we are providing synergies here.

Last but not least, I would like to talk about this dotted line. You will remember that we made this investment last year, and we had to introduce a disfiguring part of our accounting reports so that economic data could be put and posted very transparently in terms of warehouse, in terms of inventory. Otherwise, values would be distorted. So last year, if you have a look at our statutory financial statements, we had minus 93. So in this first quarter, taking into consideration this investment activity for the inventory, we're going back to the positive side. So as you can see, we have a beneficial effect of EUR 93 million, and this is perfectly offsetting the EUR 93 million we had last year. So if we add up the financial statements of the last 2 months, then you will now find the very same figure. This is something that we already announced several months ago. And today, I really wanted to say that we have just lived up to our promise.

Again, we are perfectly in line once again with our promises. Now I would like to give the floor to Orazio, who is going to concentrate on waste.

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

Good afternoon, everyone. Thank you very much, Christian, and I will now continue with the analysis of the results with the waste business. Here again, we started the right foot. The EBITDA was up 11%. So an increase of approximately 9 million vis-a-vis Q1 in 2022. What happened? Well, we have seen an increase in terms of volumes of special waste from the market, coming from the market. So we had a positive trend in terms of prices continued positive price trend, more contained in the past. And again, the energy production or treatment plans went very well. And now the waste to energy plant interest is fully operational. So plus EUR 5 million BDA growth. And then next to the organic growth, we also have the positive contribution of M&A operations, as Christian already flagged out. So this is basically the missing piece, let's say, mosaic of the puzzle, and we are now providing a Turkey solution to our industrial customers because we have acquired a leading company in Italy in terms of land and tire reclamation. So that was a missing piece in our jig saw, if you will. This is something I will come back to in a minute.

So this is a partnership we are entering into with the ACR company, which will enable us to consolidate our leading role in the waste segment. And we managed to acquire the first operator in Italy in terms of global services for industrial waste and land and site remediation. So that was a very nice M&A operation. And this segment demand is on the rise. And so our country needs such services. And given the national resulting term recovery plan, several funds will be made available for site remediation and recognition. And we are now well equipped to tap into this potential and to enjoy full growth. This growth also allowed us to fully mitigate the higher costs we are currently bearing in terms of waste collection because of the new concessions.

Again, here, we are resettling and rebalancing after the last 2 years. We have a 15-year old service comfort. And there again, we are being penalized to some extent. But at the same time, we're getting good financial results, we are providing integrated services. We are

continuing with our efficiency, increasing the activities. And in terms of differentiated waste collection, we are higher than 70%. So in the areas where we operate. So that's a very good result. So that's it as regards now the waste segment. Now let me turn to our networks. As Christian was saying, minus vis-a-vis Q1 2022. This is due to extraordinary nonrecurring factors. So the situation is pretty flat. Then we have districting that is going down. That is due to the very mild and warm winter season in terms of again, higher cost for chemicals, higher costs in terms of outsourcing activities, maintenance activities. So we are now running a full efficiency increasing activity in order to have, again, a better situation in the profit and loss account in 2023. We don't have the inflation consequences, which will then be fully taken into consideration in 2024.

In terms of the gas distribution, we see that in Q1, we don't have any upward date in terms of revenues based on inflation. This will have to be integrated in the next few months. And this also applies to electricity distribution as well. So there's one thing I can say. We -- the entire investment process, as Christian said, almost EUR 100 million were invested in our networks, plus 30% vis-a-vis last year. And then the mild climate helped us. So this increase was deployed on all our network-related businesses, and more importantly, to water in general. These figures do not include potential premiums, which are in the process of being defined by Arera based on our performance levels. And as you know, this allows us to stay our course and to counter climate change challenges if you think of what happened in the Romania region recently. So again, we can only expect good results in terms of the award of such premiums. But we will come back to that at a later stage.

Here, in this graph, you can see how the Hera's model, and please forgive me if I'm again repeating myself, but I would like to echo Christian -- I would like to echo Christian's work. We are a very well-balanced company with a very well-balanced portfolio. We're very effective. We were able to weather many storms in the past. We're very resilient across the Board throughout all our business sectors. In the Energy business, of course, there, we see our lion's share in the very beginning of the year, and then it goes down and then it speeds up again towards year-end. And so after the first portion of the year, networks do play an important role. They're not a physical business at all. And waste, which we have just illustrated is constantly growing in terms of EBITDA. So this business has certainly increased its growth and with ACR with the new acquisition, of course, this provided us with a nice assist.

And as it is always the case at Hera, we are always going for mergers and acquisitions that will generate value for our group. And this is certainly the case with the ACR acquisition. Again, we set out on the right foot and for the entire waste segment, we are well ahead of our business plan in terms of achievement in terms of results. In the Networks segment, well, there, we have been investing a lot. We didn't stop investing, not even in 2022. As our Chairman said, that was a very complicated here to say the least, because of all the geopolitical aspects. But still, we continue investing. We continue generating value, thanks to the upside tension that is envisaged in our business plan because of all the returns that we can envisage due to the new interest rates, which we do expect to come by the end of the year and to be applied as of the year 2024.

So our portfolio is very well balanced. So the risk profile is very well balanced. And as such, we can look at the future with a very positive attitude. Now I would like to give the floor to Massimo, who is going to add some color in terms of financial results. Thank you.

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

Good evening, everybody. Let me now take you through some of the relevant financial elements, underlying EBITDA. If we start from the graph on the left-hand side, you will see the incidence of the cost of debt. If you have a look at last year, there was an increase with a slight increase if you consider the interest rate changes, which we have been experiencing on the market for the last 12 years. So our shorter medium-term cost of that has gone up. And we stayed very much focused on our liquidity needs, which we handled and managed very accurately over the last 12 months. And we also concentrated on the duration of that solar group, and we were capable of optimizing

our resources. So the cost of debt is still under 3% because of all the activities we put in place.

If you have a look at the second graph, you will see the tax rate, which is below the tax rate we had last year. So we derived some benefit due to the optimization of fiscal activities, which we always try to do. But this is also due to some tax reliefs when we, for instance, we carried out the operations that Orazio just mentioned. So one-off tax exemptions helped us a lot. And then we have the (inaudible) and DRI. So the 2 main indicators, as you can see the return investment is paying our ground, again, 8.6% return on investment. So this is way above the 8% objective. And then in terms of the return on equity, here, we are above 9.4%. So that recession vis-a-vis the year 2022. The financial management impact is being felt here. But there again, this is just a Q1 figure and we're very much focused in order to improve our cash flow, our liquidity and to reduce again the impact on this bottom line on our profit and loss account.

If we now go to the next slide, well, this provides us worse of satisfaction because from -- starting from the last quarter conference call that was back in November. There, we were talking about operating cash flow. We were talking about commodities and as you can see, if you have a look at the graph on the left-hand side, you will see that the operating cash flow that was generated in the first quarter 2023 was enough to cover all the investments that we performed, and these are significantly higher values vis-a-vis last year. And we were able to perfectly cover the operations, the M&A operations, which we carried out over the first 3 months of the year. And then on top of this, we had the reduction in terms of inventory because of the gas storage, and we also had a corresponding decrease of commodity prices on average, and that also provided a very positive contribution.

As a consequence of all this, we have the most representative figure. So our debt went down by 11% over the last 3 months vis-a-vis the year and 2022. If you have a look at the graph on the right-hand side, you will see, again, how extraordinary the situation is. So it all came about very quickly. So benchmark indicators, starting from the third quarter last year went higher than 3x. And we said it will go down and it did go down as quickly as possible. So 3.28x by year-end. And then 1 month ago, we had 2.84x. So this is far away from our cap from or threshold that is 3x. So EUR 3,778 million. So that's it in terms of debt and EBITDA ratio. And you will read here under the graph that parallel to this, we also optimized our debt structure. Last year, we were very fast in reacting to the situation. So we used the bank leverage in the past in order to come up with some good solutions to deal with the cash flow. And as of the beginning of the year, we started again repaying these loans. And we transformed all this into bonds, which is the usual structure for us for long-term investments.

So shortly after Easter, we issued a sustainable bond, EUR 600 million. That was a very successful operation. And we had orders of 6x higher than what we had offered. And the quality of the investors that have picked up this offer of ours was extremely good. As a result of that, we are now -- we now have access to a EUR 450 million revolving credit facility, which will only be using if need be. So we will have more margin, more flexibility to reduce our debt and to reduce financial costs and their impact on the P&L. Now I would like to give the floor back to Christian for some final words.

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**Cristian Fabbri Hera S.p.A. - Group Market Manager & CEO of HERA COMM S.p.A.**

Thank you, Massimo. Thank you, Orazio. This takes me to our very last slide, and then we'll open the floor for questions and answers. So where do we stand? So the results of the first quarter are in line with our expectations. So we're doing very well. In the year 2022, we weathered the energy crisis very well, although we are risk -- in spite of our risk aversion, and in spite of the soaring energy prices. And so in 2022, we managed to continue with our growth path. In 2023, we started off very well with very good industrial results, which determined a 35% increase. So what does this mean basically we only used off 25% of our business plan time horizon, and we have already achieved 44% growth out of the overall total.

So basically, we are well on track on our business plan. So we're doing very well. Q1 has been very strong. And then in June, we will be paying out our dividend, EUR 0.125 which goes back to our results in the year 2022. And this is an increase in terms of the dividend. So we're doing getting good results. We started off on the right foot. I'm very happy to be here today to share with you these results. Our car has started off on the right foot.

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## QUESTIONS AND ANSWERS

### Operator

This is the Chorus Call operator. (Operator Instructions) Now the first question is from Javier Suarez of Mediobanca.

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

Thank you for this presentation. I have some questions. The first one concerns the new business responsibilities of the new Executive Chairman. So was there any difference in terms of business lines. So I was asking if you can help us to understand what is this business expansion leading to has there been a change in the commercial policy in the business strategy of the company. If you could just add some color on this. Just to help us to understand how the company managed again to weather the storm. And then I have another question concern the business lines. And how did you achieve this efficiency increase? Are there any indicators that are going down? And what do you make with the activity indicator? So that's it as regards the energy business.

And then if we go back to Slide 9, I would like to ask you if you could just add some color concerning the breakdown of this EUR 35 million concerning the increase of the EBITDA. So if you could just add some information concerning this. And then my third question concerns the year 2023. Given that the market consensus, I think that you can expect a PDA growth of EUR 30 million to EUR 40 million. So in Q1 2023, you already mentioned a EUR 35 million increase. I know that you don't give any guidance for Q2, Q3. But maybe it would be nice to have some comments on this to understand how the remaining quarters of 2020 are going to play out. So if there's a negative pressure from the commodities market or not?

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### **Cristian Fabbri Hera S.p.A. - Group Market Manager & CEO of HERA COMM S.p.A.**

Good afternoon, Javier I hope I have understood your questions because we had some issues in understanding what you were saying due to the quality of the audio. So business expansion. What happened this year? Well, there are 2 sites to this point. In the year 2022, we experienced monthly scenarios that were completely different. So we had to handle every month a different scenario with different problems and different issues. And as a result, we had to react differently. When it came to energy, our results went up. And as you know, energy for our group have margins that are related to sales and trading but in spite of all this, we managed to have very positive results at year-end.

And we managed to do so because we stayed very much focused on business propositions on commercial offers in order to mitigate the risks of inflation, then we work very much on storage-related activities because we wanted to have the necessary flexibility to offset the negative effects, which we could have experienced in terms of gas and gas sales. But more importantly, the 2022 year was a nice exercise ground for us because it allowed us to learn how to optimize some of the operations, which have never been stretched in the past as they have been over the last 12 years. So basically, we reacted very quickly from day 1, in Q1 2022, we started working on our processes. We double check everything. And over a period of 1 year, we came up with new processes. And in normal times, this processes were already optimized. And now we have reoptimized all these processes in light of a new scenario, in light of higher needed efficiency, in light of price oscillations. And now that the situation has come back to some sort of normalcy all this, again, is generating good consequences, positive results on our financial statements.



Last year, we had to come to grips with a situation where the station change completed for 1 month to another. We have fixed prices and then variable prices, mixed offers, fixed and variables. Then we launched offers to, again, provide across the board services that we put in place a lot of services, which were very helpful last year in order to offset the situation. This year, the situation is much quieter and we are generating more value as a result of all the strategies we launched last year. And the potential was already there last year, but it didn't translate into tangible numbers because it helped us to offset a very negative situation, very risky situation. So results went up last year, but that machine is now in place and it's running at full speed. So there again, we are very happy.

If we consider last resort market, last year, we had the tender for safeguarded customers in the last quarter. And we managed to increase volumes as our -- as we pointed out later on, but also margins went up because this is a very critical situation. We managed to hedge our marginality. And as a result of that, we derive benefits last year. We're still deriving benefits this year, and it will do so in the year 2024. So it was a mixture of different activities, which we put in place and which helped us to weather the storm and to overcome all the criticalities. Now the criticalities have almost gone away because the general situation has improved. And all this is now giving us the opportunity to derive full benefits. You know that our risk management policy is very rigid. So when it comes to hedging activities, well, we never lose sight of hedging activities for every single customer.

Last year, of course, we didn't have any bundles, any oscillations in terms of marginality. This year, we have volume as a risk element because if you cover all the expected volumes based on ordinary consumption levels and then that consumption does not come -- does not come true, then the -- you may find yourself in a negative position because you may have too much or too little to cover the needs. So again, with these new tools, we are trying to find a solution to limit as much as possible volume-related risks. In terms of energy efficiency, -- this is very much linked to incentives. And here, there are 2 main phenomenas to be taken into constation. We still have a backlog of activities. There are still part of the scope of these called old incentives, but we are already in the process of launching new business propositions, which can be appealing and attractive when these incentives just disappear.

I'll give you one case in point, one very tangible example. You know that -- again, for small activities, I'm talking about small boilers. I'm talking about air conditioning, the transfer credit is no longer possible tax credit. So that was very useful for customers, for end users in the end. So this transfer of credit of financial credit is no longer possible. So we have transformed this tax credit into a loan inter-financing scheme that is made available to end users. So the overall expenditure is the same. And once then the customer repays the loan and hechowill have access to this tax credit. So this is a good solution for those customers that would not have the opportunity to do otherwise. And we're also thinking along the same lines for apartments or condos, the 110% onetime that we have in Italy will no longer be accompanied by this transfer of tax credit. And the balance itself 110% of one is also going down. So we are now in the process of finding a business offer that will generate good results for the year 2024.

For the year 2023, we're still fully enjoying the good results of the contracts which we signed in the 2022. And those activities are being completed in the year 2023. So there again, we're doing absolutely fine for the year 2023. And we are now working on the 2024. So these activities will be reduced. But still, we do expect to have a whole series of operations to be completed because again, for many customers, the tax credit will still be very usual. It will be less usual or less appealing than in the past, but still it will be something very usual and very opinion. So we are working very well. And before I give the floor to Massimo to talk about the EUR 250 million breakdown, and this goes hand in hand with this EUR 500 million inventory reduction, which is, of course, the most important aspect of this value.

And if I have correctly understood your last question was about the growth of the EBITDA because you were reading EUR 35 million in Q1, and that was a result that we had envisaged for the full year. Of course, we will not give you any guidance, but we do expect DBA to further grow. And we are now in a place where, of course, we're always very cautious about our activities and our numbers. But still, we are getting ready for winter, that could be more critical than we envisaged. So we are ready again to tackle worst case scenario, should that take place, again, of course, we will get ready for that. Massimo, over to you.

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

Yes. Now going back to what Christian was saying, the order of magnitude is correct, EUR 451 million in terms of net working capital post storage of EUR 400 million are relating to the inventory in the remaining EUR 51 million is related to variations of debt and credit due to the variations in commodity prices and due to investments. We had a reduction of the necessary investments. But in terms of growth, of course, there are additional investments in terms of business development, and this will absorb a part of the net working capital. So 90% of this reduction went down as under our expectations because of a reduction of inventory.

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

Now I would like to echo your words, Massimo. You provide me the to give you further information on this to add some color? Because as you said, yes, the inventory went down by EUR 700 million. Massimo said EUR 400 million, and we will be asking where are the other EUR 100 million?

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**Cristian Fabbri Hera S.p.A. - Group Market Manager & CEO of HERA COMM S.p.A.**

Well, that's very easy. We have basically sold out all the gas, which we had bought. The storage here came to an end on March 31, but we have already started storing some gas for next year. And since we are now in a quieter situation in a more relaxed situation, we're buying less. And more specifically, prices are just 1/3 of the price, which we paid last year. And we have already factored this in, in our Q1 report. So the overall investment, I think, will be much lower, and we'll come back to this in our future in our future meetings. And of course, we are providing full support to our customers.

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**Operator**

Roberto Letizia of Equita.

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**Roberto Letizia Equita SIM S.p.A., Research Division - Analyst**

I just want to -- just wanted to ask you what you expect for the next 3 months? And if you could just provide us with a snapshot of competition in retail.

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**Cristian Fabbri Hera S.p.A. - Group Market Manager & CEO of HERA COMM S.p.A.**

Yes, sorry, sorry, but Roberto, we can't really hear you. We can't really hear Roberto. If you could just speak into the...

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**Roberto Letizia Equita SIM S.p.A., Research Division - Analyst**

I'll try and take up the headset -- if you could provide a snapshot of the situation. So what is the competition level? And if you have any visibility concerning margins for the remaining portion of the year, and you expect again a contraction of the market? And then one last question concerning debt. Do you expect any changes in terms of the net working capital. So what are the new dynamics for the year.

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**Cristian Fabbri Hera S.p.A. - Group Market Manager & CEO of HERA COMM S.p.A.**

I'll try and reply. But again, I'm not sure whether I fully understood your question. Let me start with the energy side. So if I already, if I have correctly understood your question, you're asking if switch rates have increased. And if we expect to continue with our growth, switch rates are absolutely in line with last year. And again, so we did not increase our -- again, our exposure said there's no -- we don't see any more some elements here, looming on the horizon. We don't see any criticalities in terms of commercial development. If we have a look at the last 10 years we have been enjoying a very stable business growth in terms of customers year-on-year with values going from EUR 40,000 to EUR 80,000 every year in terms of business development.

And then on top of that, we had free market activities, M&A activities and all the activities connected to lost resort activities. So that's a track record, which we've been enjoying for years now, no matter what market conditions applied. And this year, the situation is just about the same or even better. So we don't see any criticalities looming on the horizon. Then I'm not sure I got your first question, I'm sorry. So what were you referring to because we just didn't get it. The waste energy plant interest. Yes, Orazio is going to take this question.

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

Right. So I forgot to tell you this. This year, we had the full speed operation of the DLT interest. So we'll certainly be enjoying plus EUR 8 million in terms of EBITDA just because of the waste to energy plants interest. And there, again, I'm not going to repeat what I said concerning the AC of our operation. But there again, we do expect very good results because not only filled in the missing piece in our jig saw, but it will also generate synergies. So this is typical of what here it does when it enters into a partnership with a leading company. And in this case, it's a leading company in the site remediation segment. Massimo, you we want not to give the guidance on the net financial position on net working capital, not on net financial position. Just a bit of it.

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

Well, the net working capital is not a marginal aspect when it comes to expectations of the evolution of net financial position. So it's hard to provide any guidance here. What we certainly said in March was very important because it allowed us to shed some light on this very important investment component. This year, again, we will be repeating the same operation, but it will be different because of quantities and because of the price. So basically, we are going back to the new normal, so to speak. And this investment in the net working capital will depend on the seasonality, which is typical of our operations with some trends some business trends that will again absorb more cash insertion seasons and less in others. So we do expect to have some benefits on this. And then we have business development activities. This will also generate a capital investment, cash flow investment.

In terms of the purchase of energy materials, there you know that we have a weekly payment time. So should we now enter into bilateral contracts with longer payment terms like 2 months or 3 months, then, of course, the net working capital will derive some benefits. More importantly, I believe that we I believe it is very important that we went down the 3x threshold. And now we have all the weapons in place in order to stay our course and make sure that the situation continues as it is in the next few months. And then we'll have to see what happens in terms of prices at the beginning of the next heating season. We'll have to see with what Russian gas will be replaced.

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**Operator**

Next question Emanuele Oggioni, Kepler.

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

I have just a couple of questions. Most of my questions have already been replied to concerning the EBITDA and concerning the guidance. And I heard that you are not going to spill the beans there. So in terms of the cost of that, is there any guidance that you can share with us for the year 2023. Given the refinancing activities, which we recently carried out, which was very interesting, but again, it is higher than the rate that you usually apply or that you used to fly in 2022. Then as regards the regulated market, if I correctly remember, in your business trial, which you presented at the beginning of the year, you did not include a regulated walk on the rise in 2022. While in 2023, we see there will be an 80, 85 basis points increase, so EUR 25 million, EUR 30 million EBITDA increase. So if I remember correctly, this was not part of your business plan. So that's an additional contribution possible upside. Is that correct?

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

Yes, Massimo. Well, to try and best reply to your question concerning the cost of debt, I'm going to split up into 2 elements. So when it comes to average interest rates on our debt, the trend here, if we have a look at interest rates, it will, yes, increase if you look at the future. We have just issued a bond with a coupon 4.25%. So that's higher than our previous cost of debt. So that had a marginal influence on the overall debt because we had a debt structure that was deriving benefits from liability management operations, which we introduced a couple of years ago. So the real weapon in order to canter financial and debt costs is quantity. So we're really working very

much on this. So we are optimizing the quantity of debt available to us.

Last year, we send up credit lines with average interest rates. So should we not need discrete lines and of course, we will close them. And in terms of financial costs, of course, there will be a reduction. And then we are also trying to optimize long-term solutions, but we'll come back to that once we have completed a project we are currently working on so that we don't have any sharp turn in terms of increase of interest rates and differences in our term medium interest rate. For us, financial costs, of course, are niche because this is part and parcel of our active management of exposure to risk. So we don't want, again, to have all the deadlines advances, so we tend to spread all the deadlines throughout all the year so that would reduce again the risk. I do hope to have replied your questions and have provided with enough color concerning the year 2023.

Yes, it's ratio speaking. Yes, you remember correctly, our business plan did not include the benefits deriving from the activation of a pick generated by an increase in interest rates until the end of this year until September this year, which would determine an increase of the worth by 80, 85 business points. So EUR 35 million or so that's the estimated impact on the EBITDA. And of course, this concerns the network Energy, it concerns gas and also water.

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**Cristian Fabbri Hera S.p.A. - Group Market Manager & CEO of HERA COMM S.p.A.**

In both business segments, so water and energy distribution, although the underlying mechanisms are different, but the estimates are similar 80, 85 basis points, different mechanism but a similar context in 2024, we have a new water regulation scenario, and we do expect a similar evolution of the work -- all right. Any more questions?

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**Operator**

The next question is by David Candela, Intesa SanPaolo.

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**Davide Candela Intesa Sanpaolo Equity Research - Research Analyst**

Thank you for this presentation, and welcome to our new Executive Chairman. I just have one question concerning the issue of the bond. So it's a liability management strategy. So are there any specific deadlines concerning year 2023. Is this bond issuance aimed at funding some resources for M&A operations? Or is this related to a new gas storage operation for the summer? Or is this something that you will need for the energy market. So will there be any investment needed.

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

So as I was saying earlier on, as Massimo was saying, all these activities generated the necessary flexibility that we need. And so we are creating the necessary space, the necessary flexibility and we can see then all the opportunities that are needed. So we are now very happy. We're now very relaxed. But as you know, we always, again, look at what is happening in the future, and we wanted to be able to deal with complex situations. And then next year, of course, will make sure that we can be kind of relaxed. Why am I saying that? Because there has been an increase of gas available. I'm thinking about the regasifying plans in Bombino. And this will be, again, 5 billion cubic meters more. So we will be able to see through the future. So on the supply side, we now have Pembina, so we have more gas supplies.

And then other activities were put in place, new gas streams coming from Africa. And then we have the demand side, which was particularly low this year because of the climate situation. And if we consider the first quarter, the electricity consumption went to 5% in our country. And there was a reduction by 30% of the production of combined gas cycle energy production. So there again, this optimization of all plants will be generating more guest assumptions. So on the one hand, the demand will go down on the other side, we'll have more supply. And so again, there can be some retialsituations if the winter is particularly cold. But again, we should just have a very relaxed attitude, I think, because we are gearing up. We will be in a position to be as visible as possible to, again, deal with the

situation, Massimo, sorry, I just kept wrong.

Yes, more specifically the bond issues was helping us to fully enter bridge the bond so to transform a bank debt into a bond issuance. And as Christian correctly said, we are, again, able to have EUR 450 million revolving credit facility, which will allow us to be very flexible should cost increase.

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**Operator**

(Operator Instructions) Christian Fabbri, we don't have any more questions.

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**Cristian Fabbri Hera S.p.A. - Group Market Manager & CEO of HERA COMM S.p.A.**

Very well. Then thank you very much for your attention. And along with Mr. Hansen, we will be planning some meetings to get a meeting in person. We will continue holding conference calls, of course. So you will be in touch with Mr. Hansen. I have already met some of you, but not all of you. And I would love to have the opportunity to meet you in person. So along with our CEO, we will certainly have the opportunity to meet you in the next few months. Thank you very much and enjoy all the conference calls today. Thank you. Bye-bye.

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**Operator**

This is the chorus call operator. The conference call has come to an end. You may now disconnect your phones. Thank you.

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