



press release

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## Hera Group approves Business Plan to 2020

*Solidly based on data from the 2016 forecast, the new Plan confirms the Group's track record of growth and responds to the most recent changes in the utility sector. Efficiency and innovative solutions fuelling organic growth to be pursued alongside opportunities for development through M&As*

### Operating and financial highlights

- **2020 EBITDA: € 1,080 million**
- **Capital expenditures and financial investments: almost € 2.5 billion**
- **Net financial position/EBITDA ratio to improve, reaching 2.8 by 2020**
- **Net profits per share to grow by roughly 5% annually over the duration of the Plan**
- **Dividends expected to increase, as of 2017, reaching 10 cents per share in 2020 (+11%)**

### Operating highlights

- **5 strategic priorities: growth, efficiency, excellence, innovation and agility**
- **Group development based on a balanced mix of organic growth and M&As**
- **Current grants confirmed in tenders for gas distribution and urban hygiene**
- **Objective for 2020 energy customers set at 2.4 million**
- **Growth in line with sector trends: Circular Economy and Shared Value, Customer Experience, Industry 4.0**

### Forecast indicating over € 905 million in EBITDA at year-end 2016, and a plan designed for growth

This morning the Hera Group's Board of Directors, who met to approve the Business plan to 2020, also examined the 2016 forecast, which consolidate a year-end EBITDA of over € 905 million (compared to the € 884 million recorded at 31 December 2015), higher than analysts' consensus and entirely compensating for the negative effects ensuing from the reduction in regulated returns (WACC) and the expiry of incentives on renewables.

On the solid basis of these excellent results, the Plan approved today, in line with the previous strategic document, confirms the path of growth pursued by the Group in recent years. Hinged on organic growth and M&A, it is aimed at consolidating the competitive advantages accumulated over the years and seizing the new potential market opportunities.

### Operational objectives increase, financial asset indicators improve

From an operational-financial standpoint, the Plan foresees a 2020 EBITDA amounting to € 1,080 million, with a net increase of roughly € 200 million compared to the € 884 million recorded at the end of 2015. A well-distributed, balanced growth of the activity portfolio is also expected, maintaining a low risk profile. As always, the Plan's financial sustainability will be guaranteed: in spite of an over one billion euro increase in invested capital (caused among other things by almost 2.5 billion in Capex over 2016-2020), the net financial position to EBITDA ratio at 2020 will see further improvement, dropping to 2.8, compared to the 3 seen in 2015. In addition to enhanced financial management, with an average cost of debt expected to decrease from 3.7% to 3.5% and an average length of eight years, benefits are expected to be derived from fiscal management and the recent stability law, with its decreased corporate income tax. Another of the Plan's objectives is to maintain the credit ratings assigned to Hera by Standard&Poor's and Moody's, which at present are already among the best in the sector and throughout Italy.

The initiatives foreseen by the Group are founded on its consolidated cornerstones of efficiency, excellence, growth and innovation, but will also turn to the new strategic tool of agility, now held to be indispensable in order to react incisively within the increasingly dynamic and challenging context faced by utility companies.

The Plan to 2020 has furthermore been elaborated so as to respond in the best possible way to industrial trends emerging from rationales such as Circular Economy and Shared Value, with respect to which the Hera Group has offered a tangible contribution to reaching 10 of the 17 objectives of the UN Agenda. Other key elements include the new needs of clientele, to be met with new solutions, and the most recent changes involving Industry 4.0 and processes of digitalisation, data gathering and analysis and diffusion in our cities of "intelligent" infrastructures. In a

sector undergoing profound transformations, it will become indispensable for the Group to count on its own solidity and efficiency in order to remain astride these trends and continue to reinforce its own leadership.

### **An increasingly dynamic context**

The context in which utility companies find themselves operating involves markets that evolve rapidly, or are in any case marked by significant novelties on more than one front. As regards regulations, the current framework offers greater opportunities in terms of development and stability compared to the past, but also requires operators in the sector to sustain higher investments (e.g. electronic gas and electricity meters, gas tenders, service quality), in order to anticipate and remain in line with the aforementioned trends regarding changes in the sector. The macroeconomic context, while not yet reaching its expected performance in terms of growth, now shows encouraging signs, above all in the main geographic areas served by the Group: Emilia Romagna and Veneto stood out in 2016 for their growth in GDP, above the national average.

Competitive pressure among utility companies will become stronger, not only in “free market” activities but also in most of the other activities in the Group’s portfolio, given the many public tenders that will be announced over the duration of the Plan to assign services in Gas Distribution, Urban Hygiene, Public Lighting and the safeguarded/administrated clientele in the sector of energy sales. The increase in competition, along with the impetus created by the reform of Public Administration and Local Public Services, lastly, will be able to create the conditions for a progressive consolidation of the sector, overcoming the system’s shortcomings as regards overall efficiency and industrialisation.

### **Roughly € 200 million of growth in EBITDA, thanks to efficiency and external growth, with dividends progressively increasing**

The Group’s business model has been confirmed, with the objective of a 2020 EBITDA equal to € 1,080 million, i.e. € 50 million higher than the 2019 target included in the previous Plan, with significant growth coming in 2017-2018. The increase in EBITDA over the duration of the Plan amounts to almost € 200 million compared to 2015, obtained thanks to a balanced contribution coming from internal and external growth.

The strong attention given to creating efficiencies and synergies will be the preponderant factor fuelling the Group’s organic growth between 2015 and 2020. Over 20 million synergies are expected to come from the most recent changes in the Group’s scope of operation, with efficiency-boosting interventions reaching over 80 million, distributed among all the sectors in which the Group operates in addition to its “corporate” activities. Efficiency will also be pursued by introducing innovative technologies: from using data gathered on the field to optimise activities such as collection and sweeping, to searching for leakage in water networks with advanced satellite monitoring systems. Further stimulus towards growth will come in 2017-2018 from safeguarded electricity and default gas services and, following this, from gas tenders, with an expected EBITDA of € 27 million, were the Group to be confirmed as manager for its reference territories.

Thanks to these results, Hera will be able to absorb and more than compensate for the negative effects (reaching over € 50 million) tied to the recent reduction in incentives for renewable energy production and the rate of return on invested capital in regulated businesses (WACC). Net of these non-recurring effects, an even more significant organic growth would have been witnessed.

As regards development through acquisitions, the average annual contribution coming from M&As called for in the Plan is in line with the past. Regarding mergers with multi-utility businesses, faced with a potential customer pool largely defined by a rationale based on geographical proximity, the Hera Group will be able to count on its role as a centre of aggregation within the region in question, a role it has reinforced with the many M&A operations carried out in its first fifteen years of activity. In liberalised sectors as well, as of early 2017 the Group intends to continue seizing acquisition opportunities involving mono-business companies, as it already had in 2016 in the waste and energy sectors.

Lastly, the Group’s high degree of attention towards creating value for shareholders has also been confirmed, with a gradual improvement over the duration of the Plan in financial return on invested capital (ROI) and on equity (ROE), profits per share expected to grow by an annual average of roughly 5%, and transparent dividend policies increasing with respect to the Group’s historical trend. As of 2017, in fact, dividends per share are expected to rise to 9.5 cents and, as of 2019, to 10 cents (+11%).

### **Investments totalling almost 2.5 billion in five years**

The Plan is sustained by highly significant investments, coming to roughly € 2.5 billion (€ 250 million more than in the previous strategic document), which will help fuel growth over the five-year period, but also initiate the transformation of the Group’s activities towards new industrial paradigms such as Circular Economy and Industry 4.0. Networks will receive approximately 70% of 2016-2020 investments, including roughly € 350 million dedicated to gas tenders and

other important infrastructure modernisation interventions such as replacing meters with electronic devices or completing the Rimini seawater protection plan and the Servola purifier.

The investment program will continue to be sustainable from a financial point of view, thanks to a positive and growing cash flow, sufficient to cover both the investments themselves and dividend payments, in addition to allowing financial solidity to improve and remain sufficiently flexible to sustain other mono-business acquisitions not included within the Business plan.

#### **Networks: smart infrastructures underlying the Industry 4.0 model**

The greatest growth in terms of industry is expected from networks: EBITDA resulting from gas and electricity distribution, water cycle and district heating services will go from € 428 million in 2015 to € 533 million in 2020, when it will represent almost half of the Group's overall earnings.

Growth in the entire area will be based on achieving operational efficiencies and synergies and on the recognition reserved to operators able to provide excellent services in the water cycle, but also on optimising existing assets in district heating. By gradually digitalising network infrastructures and applying state-of-the-art technologies (smart metering, IoT, network modelling, use of drones, etc.), the Group will reach new levels of excellence, which will lead to reducing operating costs, optimising resources and improving service quality.

The date at which gas tenders will be assigned is also approaching, and the Group aims at confirming its presence in the areas already served, for an overall increase of its gas network corresponding to roughly 290,000 delivery points, matched by a higher value of the distribution networks managed (RAB).

Over the duration of the Plan, almost € 1.7 billion in investments will be allocated to networks.

#### **Waste: development increasingly based on recovery**

By 2020 the waste cycle will account for 27% of the earnings generated by the Group, with EBITDA expected to grow from € 230 million in 2015 to € 289 million in 2020.

The Group's attention towards issues involved in Circular Economy has been confirmed: even though, with 9% of urban waste destined to landfills in 2015, Hera had already reached the objective set by the European Union for 2030, the Group expects to drop as low as 6% by 2020. Similarly, the Plan foresees that 75% of packaging will be recycled by 2020, anticipating the deadlines set by the EU by ten years.

One important challenge in the area of collection services lies in public tenders for assigning urban hygiene services in Emilia Romagna. The Group aims at confirming its presence in the areas already served, thanks among other things to the important innovative projects already introduced to increase service efficiency and thus allow the costs incurred by customers to be contained, with an increased target for sorted waste, set for 2020 at an average of roughly 66% across the areas served by the Group. Existing plants for waste disposal, treatment and recovery will be developed so as to respond to the increase in sorted waste and further development of recycling. Thanks to its overall plant structure, indeed, the Group has stood out for years as the reference figure for this market, able to offer all-inclusive services even to its most demanding customers. Commercial activity development through to 2020 will furthermore be able to count on the relations already established with recently acquired companies, with synergies coming from a few customer segments not previously served by the Group. In the same direction, new initiatives in waste treatment and recovery have been included, such as the S. Agata Bolognese plant, one of the first in Italy to produce biomethane.

Investments dedicated to waste services will amount to € 546 million.

#### **Energy: the currently solid customer base to be reinforced by attention towards *Customer Experience***

The energy area will increase its earnings from € 205 million in 2015 to € 226 million in 2020, as a result of commercial strategies, an energy context expected to recover slightly in upcoming years and the growing interest shown by household, industrial and public customers towards the energy services and energy efficiency offers that the Group is now able to propose. Hera's care towards energy savings has moreover driven the Group itself to set a series of objectives, including reduced consumption within corporate structures aimed at reducing its own consumption by 5% within 2020.

Already today, Hera can rely on the almost 2.2 million *energy* customers it has built up over time. The initiatives set into place in upcoming years will increase this number to roughly 2.4 million, with a growth target in line with the rate of expansion seen in the past (about 50,000 customers per year), and will furthermore be accompanied by contracts involving opportunities for acquisitions. In the two-year period 2017-2018, these results will also be sustained by the tenders recently awarded to the Group for safeguarded customers in electricity and default gas, two areas in which Hera was recognised as the leader, producing an important operative contribution also regarding cash flow. Hera's clientele has demonstrated its satisfaction over the years, with significantly lower abandonment rates compared to national competitors. And yet, customer requests are rapidly changing thanks to digitisation and currently ongoing technological revolutions, something the Group has fully born in mind while developing its own Plan. Customers will be



ever more attentive to the possibility of obtaining information from a wide range of supports (smartphone, PC, etc.) or receiving services and offers increasingly designed to meet their own specific needs: Hera will be able to fully meet these requests thanks to its growing attention towards each customer's experience and the introduction of innovative technologies supporting the changes introduced in its own CRM system.

**Tomaso Tommasi di Vignano, Hera Chairman**

"Our recently approved Plan confirms a steady path of growth, sustained by traditional tools geared towards enhanced efficiency and growth by acquisitions, all reinforced by the use of new technologies. Improvements in our financial solidity will allow us on the one hand to confirm and further improve the dividend policy pursued in recent years, and on the other to consider the deep transformations currently seen in the sector as a further opportunity for development, potentially involving M&As, as has been the case in the past."

**Stefano Venier, Hera CEO**

"Innovation, sustainability and energy efficiency are only a few of the issues addressed by our Business Plan, which is intent on making the most of new trends such as Industry 4.0, Circular Economy and Customer Experience. Our leadership in the main reference markets has been confirmed, sustained by the competitive advantages that we have built up over the years, making us fully prepared to take on ever-changing challenges. This Plan as well has been elaborated in full respect of the financial balance that has defined us until present, with the aim of reinforcing on the one hand our credit standing while maintaining a low risk profile, and on the other continuing to create value for all our stakeholders, guaranteeing the financial flexibility best suited for further developments."

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