

Company Name: Hera  
 Company Ticker: HER IM  
 Date: 2020-05-13  
 Event Description: Q1 2020 Earnings Call

Market Cap: 4787.37752643  
 Current PX: 3.214  
 YTD Change(\$): -0.69  
 YTD Change(%): -17.674

Bloomberg Estimates - EPS  
 Current Quarter:  
 Current Year: 0.202  
 Bloomberg Estimates - Sales  
 Current Quarter:  
 Current Year: 7400.833

## Q1 2020 Earnings Call

### Company Participants

- Tomaso Tommasi di Vignano, Executive Chairman & Group President
- Stefano Venier, Chief Executive Officer
- Luca Moroni, Group Director of Administration, Finance and Control

### Other Participants

- Javier Suarez
- Roberto Letizia
- Enrico Bartoli
- Emanuele Oggioni

### Presentation

#### Operator

Good afternoon. This is the Chorus Call Operator. Welcome to the Q1 2020 financial results of Hera Group. All participants are in listen-only mode. Following the initial presentation, there will be a Q&A session. (Operator Instructions).

I now like to give the floor to Mr. Tomaso Tommasi di Vignano, Hera Group's Executive Chairman. You have the floor, sir.

#### Tomaso Tommasi di Vignano, Executive Chairman & Group President

Thank you, and good afternoon, everybody. We are pleased to talk to you today, the first day of our new 3-year period. We just recently concluded our Board meeting. So, I'll be giving you some news, although I'm sure you're familiar with the most things given in the press release.

Today, we presented and approved the results of Q1 in our Board meeting. And as you can imagine, Q1 was characterized by some major complexities, which we try to deal with as best we could, as I'm sure you'll be able to appreciate from the things we'll be saying today.

Certainly, the beginning of the quarter was complex due to the weather because January and February were both marked by the very mild weather, the warm weather, which didn't allow us to take advantage of the full winter conditions of those months.

So this is what happened in January and February. And then, of course, a second -- a bigger issue emerged, one which is even more difficult to tackle in terms of its consequences, and I'm referring to the virus, of course.

That as all the times, we too had to try to understand what the implications of the virus would be for all our sectors, for all stakeholders, and we had to try to understand what we had to do. We did take action. And therefore, at this point, let me explain what happened in the different months of Q1, which were marked again by different events.

In January, as I mentioned, we had to deal with the mild winter. But besides that, we also had a number of positive things that we'll be seeing when we look at the figures.

Company Name: Hera  
 Company Ticker: HER IM  
 Date: 2020-05-13  
 Event Description: Q1 2020 Earnings Call

Market Cap: 4787.37752643  
 Current PX: 3.214  
 YTD Change(\$): -0.69  
 YTD Change(%): -17.674

Bloomberg Estimates - EPS  
 Current Quarter:  
 Current Year: 0.202  
 Bloomberg Estimates - Sales  
 Current Quarter:  
 Current Year: 7400.833

Early on in January, we began working on something which had already been decided, namely the implementation of the agreements we had with Ascopiave. And therefore, specifically, we focused on the EstEnergy Company, which, of course, was the focus of a number of actions that we had set out with our agreement with Ascopiave.

So January 1 was a date, in which we started the implementation of the EstEnergy project.

And then, of course, we also presented the new business plan to you. And the only difference was, of course, the mild weather compared to the things we said during the business plan presentation.

And then we also made an acquisition also within the framework of our Ascopiave relationship, namely, we bought the stake in Ascopiave. So these were the more significant things which happened over the month.

February, besides the negative weather despite the -- or with the mild winter, we also had the beginning of the COVID-19 emergency, with all of the consequences it had from the organizational standpoint.

Because the very first thing we asked ourselves was, how we could tackle with -- how we could tackle that very difficult situation, which, of course, wasn't easy to interpret.

And how we could deal with our employees, our shareholders, all these things were very complex to interpret. And that's why we decided to set up a cautious management unit.

Of course, this committee, as a way of a focusing on guaranteeing the health and well-being of our main interlocketer. And of course, we also wanted to deal with the possible consequences of the virus on our services.

There was a shutdown in a number of facilities as far as our clients are concerned, which was sudden. And even the indications we were getting from the government weren't very clear as to the path ahead.

And therefore, we had to deal with a major commitment. On top of all the things that we traditionally do because, of course, we decided to hold fast in terms of our commitment, our work and our projects.

There on top of all the things we typically do, we of course, had to deal with a few meetings to deal with this major problem.

The climate, the weather in February was in line with the weather we had in January, which brings us to the third month of the quarter, the month of March, in which of course, a locked down was very present.

And therefore, we focused on the continuity of our services and quite modestly, despite a few changes in organization. We were able to guarantee the delivery of our service at a 100% level throughout the period.

And that gave us strength because our reaction and the reaction of all of our employees, there capability of adapting to this new reality we face. Again, gave us a great deal of strength in terms of continuing in a very linear way in terms of our approach to our businesses.

During the month of March, we also presented our 2019 annual results with a great deal of satisfaction, of course. Because if they've not been ruin by the emergency was the best annual results we had in our history.

And of course, we had to deal with a number of difficulties logistically, but we were able to see that our results were appreciated. And our results showed that we had no intention of making any changes to our goals.

And that's an underlying principle on that we'll be seeing, even when we discuss the more recent events. Of course, we had our shareholders meeting, which is very linear and the consequences stemming for another shareholders' meeting were very much in line with the things we had already mentioned to you.

We had said that we wanted to have the shareholders meeting at the date we had programmed along the same lines, and we had no intention of changing our approach to things.

And just on a side note, as usual, our decisions for governance were very important ones at the end of the 3-year period. And as you can see, we were very pleased to be reconfirmed. And our Board of Directors was renewed with a few

Company Name: Hera  
 Company Ticker: HER IM  
 Date: 2020-05-13  
 Event Description: Q1 2020 Earnings Call

Market Cap: 4787.37752643  
 Current PX: 3.214  
 YTD Change(\$): -0.69  
 YTD Change(%): -17.674

Bloomberg Estimates - EPS  
 Current Quarter:  
 Current Year: 0.202  
 Bloomberg Estimates - Sales  
 Current Quarter:  
 Current Year: 7400.833

younger elements, which I'm sure will be very positive and very healthy for us, which brings us to the end of March with no major changes to our plans.

And with the weather which improved in March, the winter was colder, which also continued in the month of April.

So, the negative effects of the mild weather were concentrated in the first 2 months. And of course, we still have to deal with the emergency, the COVID-19 emergency, which we had to deal with throughout the month of March.

And of course, this had an impact on our operations at the end of the quarter. As I mentioned, in the month of March, the weather was more favorable to us, and that allowed us to recover part of our results.

And at the same time, we also continue to work with the goal of achieving a very similar results to the ones we had in Q1 last year despite the emergency.

The shareholders meeting was held on the 29th of April we agreed upon the dividend, which we had decided upon when we presented the business plan to you, which means that we are on track to solve the problems we face with a certain degree of confidence.

Because I think that in this phase, I think that we're fully capable of being on top of our organizational needs a lot more so now than in early February. Having said all this, as you can see on Page 2 in the presentation, we were able to achieve some very positive results, both in terms of EBITDA, in terms of EBIT and in terms of net profit, with a few differences in terms of the results.

And we also had good net debt-to-EBITDA ratio because, of course, we had positive effects in our cash flow, and that allowed us to reduce our debt.

Of course, Stefano will be giving you a greater details even with a business by business breakdown. But let me just give you an overview of the results we obtained.

Our EBITDA was up to EUR349 million with a plus EUR18.4 million. This is a good result also because this was made possible. Thanks to a good level of organic growth, which goes to show our ability to produce results.

And it was also supported by some M&A transactions, which, of course, are part of a typical way of proceeding, which also happened in Q1, fortunately.

As far as EBIT is concerned, we're up at EUR211.7 million with a EUR6.7 million increase. And this, of course is also due to amortization and provisions, which also depend from the EstEnergy operation.

Then of course, the net profit post minorities stands at EUR124 million, with a slight increase compared to the first quarter last year. Although, it is a positive result, nonetheless, and therefore, it is a positive result.

The debt was reduced, thanks to an increase in the free cash flow worth EUR45 million, which benefits from the major contribution from the EstEnergy transaction.

As a consequence, as I mentioned, we were also able to improve our net debt-to-EBITDA ratio, which stands at 2.44x, had we included the figure rate of debt of the Ascopiave transaction, the value would have been at 2.93x, which is below the 3x threshold we've given ourselves.

So this is a very quick summary, but I think it goes to show that our numbers are confirmed. And with all of our commitment, we do hope to be able to continue to show how resilient our group is.

Let me move on very briefly to the end of my introduction on Page 3 by underlining a few elements, which go back to the figures I mentioned earlier.

As I mentioned, we had a EUR18 million EBITDA growth, but of course, we also had to absorb EUR18 million worth of negatives, which stem from a few different components.

Company Name: Hera  
 Company Ticker: HER IM  
 Date: 2020-05-13  
 Event Description: Q1 2020 Earnings Call

Market Cap: 4787.37752643  
 Current PX: 3.214  
 YTD Change(\$): -0.69  
 YTD Change(%): -17.674

Bloomberg Estimates - EPS  
 Current Quarter:  
 Current Year: 0.202  
 Bloomberg Estimates - Sales  
 Current Quarter:  
 Current Year: 7400.833

The 2 major components I mentioned earlier, the mild winter in January and February on the one hand and the virus on the other. And then, of course, we also had to take into account some expired incentives for the EstEnergy plant in Ferrara.

So, these 3 items combined accounted for EUR80 million in negatives before the EBITDA growth I mentioned. And that gives you an idea of how well we did in Q1.

Because, as I mentioned, organic growth, as we'll be seeing in the business by business breakdown, was achieved in all 4 of our business areas, which is very positive regardless of the size of the growth in each of the businesses. It just goes to show that we never stopped, we continue to work.

And therefore, the EBITDA breakdown, I think, can comfort us a great deal as we look to the future. We also achieved very good results and waste with the higher volumes. And with an increase in prices, which something which, of course, is very positive, also considering that in the previous months, we have seen an increase in prices, too.

Just a few remarks on M&A. The contribution from M&A is worth EUR26 million, partly stemming from the EstEnergy transaction. And partly stemming from other transactions that we have started at the end of 2019. Such as the acquisition of the Pistoia landfill and another smaller transaction in the waste sector in the Apennine region close by.

Both of these operations contributed to M&A growth. As I mentioned, we had the major boost from the energy -- from the EstEnergy transaction that we also had the contribution on our synergies from EstEnergy, which means that we are satisfied.

And all of our units have been up and running despite the crisis. And again, all of our businesses grew. One last thing I'd like to mention, which shouldn't be overlooked is the fact that we also took into account the spin-off of the gas distribution networks in Padua and Udine, which were also linked to the Ascopiave deal.

So this is a general picture in terms of the results we were able to post it. We had good results from organic growth, we had constant M&A.

We continue to operate as far as mergers and acquisitions are concerned, as usual. And I think that this is good for morale. And we'll be seeing, of course, how to continue working in the future. Of course, as far as the virus is concerned, there are a number of uncertainties, not just due to the virus itself. Last night, I was listening to the government's first conference after Phase III, and my perception is that they seem to be very confused still.

Hopefully, this won't last very much in terms of understanding what you do in the future. Not as far as we're concerned. We still -- we already know what to do. I'm referring to those companies, which are still waiting for the government decisions, our clients basically who are still waiting to understand if and when they can reopen.

These companies, these clients of ours had expressed how difficult it was for them to continue to operate, to continue to run their companies, and therefore, hopefully, something has already started to change over the last couple of days. So, we're seeing a little bit more traffic on our street.

And therefore, hopefully, our clients the companies we serve have also started working once again. Of course, the scenario is still a difficult one. And therefore, we have to continue to work all of us with the same spirit we've had so far.

At this point, I'll leave the floor to Stefano, who I'm sure will be giving you some more specific details.

## **Stefano Venier, Chief Executive Officer**

Thank you, and good afternoon. Let me just give you an overview of the effects and the business by business breakdown.

Company Name: Hera  
 Company Ticker: HER IM  
 Date: 2020-05-13  
 Event Description: Q1 2020 Earnings Call

Market Cap: 4787.37752643  
 Current PX: 3.214  
 YTD Change(\$): -0.69  
 YTD Change(%): -17.674

Bloomberg Estimates - EPS  
 Current Quarter:  
 Current Year: 0.202  
 Bloomberg Estimates - Sales  
 Current Quarter:  
 Current Year: 7400.833

On Page 5, we have a graph, which is almost redundant. We're giving you an overview of the elements that have been at the center of all discussions in the more recent weeks. As we mentioned, all in all, the mild winter has an impact worth EUR7.5 million. This was a figure we had already mentioned during our conference call for the annual results.

Given the fact that the month of February had already ended, we had already mentioned that we would have had the EUR7 million to EUR8 million impact.

It was EUR7.5 million to be specific, EUR6.4 million in gas and EUR1.1 million in district heating. These effects happened in January and February, a little bit in early March. To split the better weather conditions in March. Of course, we also had to face lower demands from our industrial sector.

Of course, as far as the health emergency is concerned, which was focused in the month of March.

The impact from the virus is worth EUR9.5 million, roughly EUR8 million on the energy sector and roughly EUR1.5 million in the waste sector. The former saw a decrease in volumes and in the price, a lower sales, and then, of course, in the waste sector, we had to deal with lower volumes, given the fact that prices continue to do well as the Chairman was mentioning earlier.

Based on these figures, therefore, we were able to deal with the remaining parts of the business. And let me just answer one of your more likely questions. In other words, how did April go? And I'm sure you've already asked this to other companies, too.

April was similar to the last 2 weeks in March. The volumes, the sales in the electricity in April contracted by roughly 17%. Whereas, gas sales had a reduction linked to the industrial side of things worth 10% to 15% on our networks. So this is a general picture we'll be seeing in April. And just to change our term.

We monitor the crisis on a weekly basis, we monitor a number of drivers on a weekly basis. And in the week, which ended last Friday, we did see a recovery in the electricity consumption.

So the contractions compared to the previous year was down to 10 -- minus 10% compared to minus 17% 2 weeks ago. And even in waste, in March, the contraction was worth 15% to 20%. And last week grew to minus 10%. So it's a very likely that this week in which activities will be closer to normal, even on the industrial side of things and even next week, when all commercial activities will be reopened, I'm sure we'll be able to reabsorb this difference compared to last year.

So I think this covers most of the data, which characterize both this week and the upcoming weeks. Let me move on to Page 6 in the presentation. To give you an overview of the results we posted. All in all, we are up to EUR349 million as far as EBITDA is concerned.

Given the nature of the business, we had more liberalized, a higher part of the liberalized businesses in the early part of the year, which then is rebalanced over the year. 44% was regulated, we're on Page 4.

The networks contracted slightly, and I explain why, although a good explanation is the fact that since we had the spin-off of the gas distribution our networks in Padua and Ferrara, which account for 4.5%, in fact, already explains the contraction. And then we have a number of more composite effects that I'll be explaining, but that already gives you an idea as to why the networks contracted a bit in Q1.

As far as waste is concerned, we had a growth mostly because the development activities on the plants we owned and the plants we acquired allowed us to conclude Q1 with the growth compared to last year.

And then, of course, that had a number of benefits on our P&L, reabsorbing the negative effects we had posted up to that date. Then of course, we have the major rise in energy, up to EUR138 million. As you can see, with an improvement worth some EUR20 million. And we know that in this case, that is determined by the increase in our perimeter.

On Page 6, we have information on our networks business. You can see that there was a slight contraction we have both positives and negatives. A bit of the COVID-19 effect, of course, because with the shutting down of commercial



Company Name: Hera  
 Company Ticker: HER IM  
 Date: 2020-05-13  
 Event Description: Q1 2020 Earnings Call

Market Cap: 4787.37752643  
 Current PX: 3.214  
 YTD Change(\$): -0.69  
 YTD Change(%): -17.674

Bloomberg Estimates - EPS  
 Current Quarter:  
 Current Year: 0.202  
 Bloomberg Estimates - Sales  
 Current Quarter:  
 Current Year: 7400.833

activities in early March, now with the shutting down of our shops in early March.

We had no requests coming in from our customers compared to last year. Then, of course, we also had some costs, given the fact that we continue to be fully operational, with a roughly 50% of our workforce in the field.

Of course, we had to have a certain degree of precaution we had some personal safety equipment, we had to give our employees the guarantee to their health, and that had an impact on costs. But of course, we also had the effect of the weather, specifically on district heating, EUR1.1 million. Then we had the tariff review.

You may remember that, I had said that the impact of the tariff reform and gas distribution would have been worth roughly EUR10 million on the year. And therefore, in Q1, we're seeing the first quarter of these effects. Besides a slight adjustment of a couple of million euros today of the water tariffs.

Then we also have a number of recovery initiatives that we had implemented as a way of offsetting the effects of the tariff reform. And we have been able to offset the tariff cut in Q1 with a number of other initiatives linked to efficiencies and the quality of service, especially.

The premiums, which allowed us to offset the tariff review. And then, of course, we also have the absolute variation stemming from the spin-off of the networks in Padua and Udine that I mentioned earlier.

All in all, I think this gives you all the information as far as networks are concerned. Moving on to the following page, Page 7. The waste sector. As I mentioned earlier, we do have the effects from the COVID-19 emergency. We have the final portion of the expired incentives on the waste-to-energy plants. And then, of course, we also have a topic of organic growth.

And in this case, we have better prices we even compare to Q1 2019. And as you can see, we have had an increase between 5% and 10%, which is something that we were able to take advantage of, along with the volume increase of worth some 80,000 tons.

Because besides the full functioning of the biomethane plant we've mentioned so many times already, we were also able to use the Cordenons plant in Friuli village was opened in 2019.

And then in M&A, we were also able to benefit from the plants that we bought in Tuscany. And those 2 assets together allowed us to increase our volumes by 80,000 tons.

And that was a way of offsetting the contraction in volumes that we saw in the last 10 days of March. These are the main elements. We were also able to reabsorb the price dynamics on the price of electricity, which is less favorable compared to last year, especially in the second half of March. Due to the effects of a lower demand, and a sharp drop in the cost of oil, which, as you know, had a major impact on the Italian P1.

Page 8. Energy supply. We've already mentioned the negative effects we had to face. Let me just underline organic growth, which is worth EUR4.4 million, which is due to the portion of the customer base that we continue to work on, regardless of the increase in perimeter brought about by the EstEnergy transaction with a further 86,000 customers year-on-year.

Then we also decided to underline the fact that the activities we started working on at the end of last year and in the first 2 months this year. Already allowed us to reap the benefits of a few quick wins in terms of efficiencies, for instance, vis-à-vis the Ascopiave transaction, which contributed with a further EUR27.4 million.

In the energy sector, which in total grew by some EUR20 million, as I mentioned earlier, compared to last year. So, these are I think the most important elements I wanted to underline.

And as far as integration processes in EstEnergy is concerned, things are going well. They went very well up to late February, of course, part of our activities in March had to be moved to remote working. But, of course, some of the activities to enhance some of our sales channels, given the fact that sales start -- those have been postponed a few months.

Company Name: Hera  
 Company Ticker: HER IM  
 Date: 2020-05-13  
 Event Description: Q1 2020 Earnings Call

Market Cap: 4787.37752643  
 Current PX: 3.214  
 YTD Change(\$): -0.69  
 YTD Change(%): -17.674

Bloomberg Estimates - EPS  
 Current Quarter:  
 Current Year: 0.202  
 Bloomberg Estimates - Sales  
 Current Quarter:  
 Current Year: 7400.833

Although, we continue to work very intensely on homogenizing our management models. We started to realigning on our customer management policies, these are all the things which, of course, refer to the back-office operations.

On Page 9, we have a slide which I don't think needs to be commented on. It's just that we are showing all of the things we've been working on over the past 8 weeks, in terms of managing the COVID-19 emergency.

And at this point, before I give the floor to Mr.Moroni, I want to mention a few things regarding investments. Including our financial investments, we had activities, which seem to slowed down significantly. And from that point of view, we were above the 2019 figures by some EUR25 million.

And Mr.Moroni will be giving you the details concerning our operational investments and our financial investments, which, as I mentioned, are especially the ones linked to the stake we bought in Ascopiave.

Luca, you have a floor.

## **Luca Moroni, Group Director of Administration, Finance and Control**

Good afternoon, everybody. Q1 was positive. As far as the cash flow is concerned, as the Chairman was mentioning early on in the conference.

The free cash flow generation, if we don't consider the extraordinary transaction, Mr.Venier was mentioning, is worth EUR76 million, which was made possible by a good performance on the operational level.

As we saw in all of our businesses, with over EUR230 million, our net working capital was in line with the period.

And then we also had the possibility to make operational investments worth almost EUR100 million, EUR95 million, to be more specific in all of our businesses.

And then we have the residual part, which is worth EUR30 million, EUR25 million to EUR 26million of which were devoted to strengthening our partnership with the Ascopiave group.

Even as far as the cash flow is concerned, things went well. In fact, throughout the quarter, they were in line with our expectations.

And even in April, in fact, there haven't been any significant problems to underline. And this allows us to be very confident as far as liquidity is concerned, and given the situation we're in, that is very important.

Our debt stands at EUR3.229 billion, and that also includes the figurative element, which refers to the put option. And we are in line with the debt level we had in late 2019.

And with the net debt-to-EBITDA metrics, which is at 2.44x and 2.93x, respectively. So Q1 was solid from the financial standpoint, and it puts us in the best possible position to deal with the second part of the year.

I don't have much else to add. I think we've said it all, even as far as our sentiment is concerned, we described a fact, we describe the evolution of things.

We described the way in which we dealt with the psychological impact of this situation. Our company is a solid one, but of course, none of us were ready for the emergency for the earthquake we're all facing.

So there isn't very much else to add except for further appreciation of the soundness of our models. From a financial standpoint, I think we're doing very well, it's very reassuring.

And the things we mentioned regarding EstEnergy and the other transactions we worked on are all things which still have a lot to offer. And I'm sure they can further accompany us in the next phase.

According to the government, it will be Phase III, other say, we're still in Phase II. It will be the phase-in which everybody has to recover, although, we never stopped recovering, we never start working.

Company Name: Hera  
 Company Ticker: HER IM  
 Date: 2020-05-13  
 Event Description: Q1 2020 Earnings Call

Market Cap: 4787.37752643  
 Current PX: 3.214  
 YTD Change(\$): -0.69  
 YTD Change(%): -17.674

Bloomberg Estimates - EPS  
 Current Quarter:  
 Current Year: 0.202  
 Bloomberg Estimates - Sales  
 Current Quarter:  
 Current Year: 7400.833

The only difference compared to the patches that both myself and Mr. Venier, eat in the office because none of the restaurants in Berlin are open. Hopefully, that will end soon. Everything else is something we're working on.

At this point, I'll open the floor to any questions you may have.

## Questions And Answers

### Operator

(Question And Answer)

### Operator

This is the Chorus Call operator. We will now begin our Q&A session. (Operator Instructions) The first question is from the teleconference by Javier Suarez, Mediobanca.

### Javier Suarez

Good afternoon, everybody. I have three questions for you. The first is for the Chairman, on the current political context. It seems to me that your company continue working without any help from politics or from the government. Do you think that the public administration can offer better and stronger support to the benefit of everybody? Do you think the public administration will have this approach towards companies, towards the utility sector, so they to can contribute to recovery? So that will be my first question.

The second question on the topic of net working capital, which didn't suffer too much compared to the COVID-19 emergency. Why is it that the company isn't seeing a major impact on net working capital deterioration, given the current context, given the COVID emergency? And what do you expect in the upcoming quarters? And another question. Do you think the company will have to increase its provisions given the current crisis? And then another question. Have you been able to quantify the impact of COVID-19 on Q1? Can you give us your opinion as to what the impact would be for the entire year, if you have any figures or ideas?

### Stefano Venier, Chief Executive Officer

As far as our net working capital is concerned and why we haven't seen any major impacts. As Mr. Moroni was saying earlier, the situation as of March 30, showed that we had an impact worth EUR40 million to EUR50 million.

The postponement of payments basically, which weren't within the deadlines, we expected. These aren't the normal payments we typically expect, this is mostly linked to companies, and it's a relatively small number.

In April, that number hasn't changed very much. And I'm referring to the situation as at the end of last week. We still had some EUR60 million rolling, which are postponed on a week-to-week basis. So this is what we've been seeing so far, of course, we also intervened very quickly with a program offering installments.

We offer our customers the possibility of paying for the invoices in 3 installments or to postpone, pay it in by 1 month. And then, of course, that's also something we offer to the companies, which are forced to shut down and to our clients who are on unemployment benefits or who are obtaining subsidies from the government.

So these are the more delicate categories that we decided to support by offering on a request by a request basis, installments up to 6 installments. And as you know, due to regulatory issues, we can no longer send request for payment.



Company Name: Hera  
 Company Ticker: HER IM  
 Date: 2020-05-13  
 Event Description: Q1 2020 Earnings Call

Market Cap: 4787.37752643  
 Current PX: 3.214  
 YTD Change(\$): -0.69  
 YTD Change(%): -17.674

Bloomberg Estimates - EPS  
 Current Quarter:  
 Current Year: 0.202  
 Bloomberg Estimates - Sales  
 Current Quarter:  
 Current Year: 7400.833

As you know, this is one of the best methods we have of getting paid from those who delay payments, and therefore, that led to the effects I mentioned. I also wanted to say that to date, up to the month of April, therefore, we haven't had any major delays in payment from the public administration.

Especially a very complex matter, which is that of the payment for the service referring to waste collection. As of April, we haven't had any major shortcomings from that point of view. As far as our forecast for the upcoming months are concerned, for the time being, I can only confirm the things we said a month ago when we talked to comment the 2019 annual results.

Our estimate at the time was at the results would have been worth some EUR 50 million to EUR 100 million in terms of the impact on our P&L by our net financial position, excuse me. So, nothing very different today, as I mentioned, we have the plans up to 6 installments, and therefore, I'm sure we'll be able to recover by the end of the year.

Now the impact that we've seen even in terms of credit risk haven't seen any major changes so far. Of course, at the end of the year, we'll be seeing the changes compared to 2019, but that, of course, will be due to -- but that will also be linked to the increase of our perimeter, though we'll have to be considered given the Ascopiave deal.

But on a like-for-like basis, we don't expect to see the figures that we read about in the newspaper, especially referring to the banking sector. The general impact as far as 2019 is concerned, well, I can just repeat the numbers I mentioned a month ago.

A month ago, we said that the potential impact on EBITDA would have been between 3% and 5%. When we look at March and then in 3 or 4 days' time, we'll be looking at the results for April, although we still have -- we already have a flavor for April.

So, these 2 months allow us to confirm the assessment we made a month ago, which is an impact assessment that, of course, will be worth some EUR30 million. Which, unfortunately, will have an impact on the growth we were expecting to post this year.

So these are the assessments we can give you to date. Then of course, the way in which the government or the political world can support companies, such as Hera in terms of consolidation. Well, let me hand it over to the Chairman.

### **Tomaso Tommasi di Vignano, Executive Chairman & Group President**

As far as consolidation in the utility sector, I'm trying to understand what the government is trying to do, frankly, and what all the various forces within the government correlation of trying to do. I'm trying to figure out what their intentions are. Although yesterday, for instance, I heard -- I saw a number of interviews with the people who are getting fed up, interviews of parliamentarians and other people. Yesterday, for instance, all of the mayors in Italy received only a part of something that they had to receive in 3 days' time, it was a document, which is 350 pages long. And a mayor I talked to said, I can't think of reading 350 pages to figure out what the government will do for my city. It's very difficult, it's very complex, it's a constant stop and go situation. And it's not so much linked to the health situation, which, of course, is very important when I'm around. And it's a way of understanding how the government tends to respond.

And the government has been working through decrease a loan over the past 2 months. We were expecting some decrease a month ago, and they still haven't been published, But and without going into politics at all. Think of all those people who have to stay home because they cannot go out, think of a entrepreneurs who've had to shut down their facilities or their factories.

The condition we're in can only last so much. And therefore, going back to your question. Since this condition cannot continue forever, we need some clarity. And therefore, hopefully, sooner or later, the government will start doing things in a sensible way and in an orderly way.

And hopefully, we'll have a possibility to deal with these problems we face better than we've done over the past 3 months, and hopefully, we'll all be going in the same direction. I don't know if the political parties will be able to go

Company Name: Hera  
 Company Ticker: HER IM  
 Date: 2020-05-13  
 Event Description: Q1 2020 Earnings Call

Market Cap: 4787.37752643  
 Current PX: 3.214  
 YTD Change(\$): -0.69  
 YTD Change(%): -17.674

Bloomberg Estimates - EPS  
 Current Quarter:  
 Current Year: 0.202  
 Bloomberg Estimates - Sales  
 Current Quarter:  
 Current Year: 7400.833

together along these lines.

As you know, within the government, there have been some quarrels. I think, it's difficult to -- it's unlikely we'll be seeing change in the government. But of course, we also have to be very careful in terms of waiting for the government to give us some clear guidelines.

Of course, politics is something problematic. The political world is dealing with new -- this new emergency, but hopefully, they will be able to improve things. And of course, we have to have a certain degree of reassurance in terms of the time frame we're looking at. Thank you very much.

## Operator

The following question is by Roberto Letizia, Equita SIM.

## Roberto Letizia

Good morning. I have a question on the EUR30 billion impact from the COVID-19 emergency. What will the real impact be? How much will the company be able to reabsorb in terms of efficiencies? Will be seen -- or will we be seeing some further efficiencies in the upcoming months? Will there be a buffer that you'll be looking -- use to recover in the upcoming months?

And is the current market context, such that it will increase the number of your customer base? Based on some surveys we've conducted we know that some companies aren't very happy with the treatment they've been receiving from some of the smaller retails. Who will do the financial issues, cannot offer any discounts or they can offer payments and installments.

Or who are a lot more aggressive in terms of demanding payment of their invoices. Do you think that at the end of this crisis, you'll be able to benefit from those customers who haven't been served adequately during the crisis and who'll be looking for better providers?

In terms of dealing with these types of emergencies, companies such as yours, who can offer installments for payments and more favorable conditions? And then a final question. Despite the political support to the sector, as Venier was mentioning.

Despite the integration of policymakers, do you think that there may be the intervention from some financial operators? Then one very last question. Can you remind us what drivers you're expecting from the waste sector for EBITDA this year?

## Stefano Venier, Chief Executive Officer

Just to clarify things, when you mentioned -- when you asked the question referring the impact of the COVID-19 emergency, I mentioned an impact were 3% or 4% that is the net impact, it's not the total impact of COVID, it is the net impact.

Also taking into account the actions we're taking to curb the impact. So all in all, it will be worth some 3%, EUR30 million. As far as the topic of customers is concerned, your view is possible. I still don't have a direct flavor of the situation, but the combined effect of the prices of gas and electricity, which is -- which are very low this year, have favored the renewal -- the campaigns to renew contracts with customers for 2021. And if I remember correctly, we are 6 months ahead of schedule when it comes to renewing 70% of our industrial customers' portfolio.

This is very significant, I think, not only because it is brought about by the favorable conditions on the market as far as pricing is concerned, but I think it's also due to the fact that these customers are satisfied with Hera.

Company Name: Hera  
 Company Ticker: HER IM  
 Date: 2020-05-13  
 Event Description: Q1 2020 Earnings Call

Market Cap: 4787.37752643  
 Current PX: 3.214  
 YTD Change(\$): -0.69  
 YTD Change(%): -17.674

Bloomberg Estimates - EPS  
 Current Quarter:  
 Current Year: 0.202  
 Bloomberg Estimates - Sales  
 Current Quarter:  
 Current Year: 7400.833

Otherwise, they would have signed a contract with somebody else. Now being able to assess how much switching there will be towards Hera? Well, that's something I still don't know, given the fact that the more operational companies will start working in next week.

But I do know that so far, there has been a very high degree of loyalty towards Hera. Because of that is already an intangible value, it is intrinsically an intangible value we have. Then you are mentioning, the drivers for the Waste business and M&A.

As far as 2020 is concerned, the driver we had identified was the contribution stemming from the increased perimeter. Such as the assets that I mentioned earlier, the acquisitions we made earlier. And then you may remember that the larger volumes stemming from these new assets are also accompanied by especially favorable conditions for prices.

And in this case, since there are no flows towards foreign countries, this is especially true. Therefore, we have these 2 major elements, and then we have some negatives stemming from the cost of electricity, which I was mentioning earlier, or the price of electricity, rather, and the slowdown in industrial production.

Although our industrial customer portfolio, also includes a large number of companies operating in the food sector and in the mechanical sector, which continues to work even during the lock down. In fact, the food industry was always open during the lockdown.

Although there have been some reduced volumes on the plastic recycling, Aliplast specifically because in a couple of major customers and in the consumer goods sector had to shut down their business for 6 weeks. And in fact, one of these customers was based in Cordenons, and it was one of the very first facilities, which was shut down.

So we have had a contraction in volumes as of last week, which is worth some 10%, which is a minus 3,000 tons roughly. And as far as consolidation is concerned, going back to your question, this pays as other crisis in 2008 and 2012, and those were phases in which we did make some very sizable transactions.

Even in this crisis may end up creating major problems for some medium-sized players. It's difficult to say how fast the situation will evolve because it's difficult to meet with one or another. Often, these opportunities stem from direct contact and direct conversations. And given the fact we can't meet currently, it's difficult to have an idea of possible consolidation opportunities.

But from a statistical point of view, after the crisis in 2011 and 2012, we completed some major transactions, such as AcegasAps, Amga Udine, Gorizia, and then following the 2008 crisis, we had some similar transactions, too. So why not?

## Operator

The following question is by Enrico Bartoli by MainFirst.

## Enrico Bartoli

Good afternoon. I also have a few questions. The first is on the electricity business, which grew significantly in Q1. Can you give us some details as to the contribution of ancillary services, and how will this market continue to evolve in the coming quarters? What was the contribution to the electricity sector by the EstEnergy consolidation?

And then can you give us a comment on unitary margins. Because from the figures you mentioned, there was an impact on volumes due to the emergency, although on the EBITDA, the impact was fairly limited.

And that a second question on water. In Q1, there was an EBITDA contraction, can you give us some details on the drivers? Was there an impact from the new regulation? And then a final question on Waste.

Company Name: Hera  
 Company Ticker: HER IM  
 Date: 2020-05-13  
 Event Description: Q1 2020 Earnings Call

Market Cap: 4787.37752643  
 Current PX: 3.214  
 YTD Change(\$): -0.69  
 YTD Change(%): -17.674

Bloomberg Estimates - EPS  
 Current Quarter:  
 Current Year: 0.202  
 Bloomberg Estimates - Sales  
 Current Quarter:  
 Current Year: 7400.833

Given here, you gave us a few ideas on the impact of volumes in March and April. Can you give us a flavor of the impact on margins? Will the price trend offset the lower volumes? How do you think that part of these volumes, part of these industrial volumes will be offset by larger volumes of urban waste, which is what you said a month ago during the previous conference call for the annual results?

## **Stefano Venier, Chief Executive Officer**

The contribution of MSD year-on-year, Q1 2020 compared to Q1 2019. This quarter was better by some EUR2 million, so we made EUR2 million more on MSD compared to Q1 2019.

As far as the contribution of electricity is concerned, electricity linked to EstEnergy. As you know, we made the acquisition of 100,000 customers roughly, we grew by 180,000 customers, 80,000 were ours, 100,000 came from that transaction, most were residential and reselling. So that wasn't a major margin that's not where we posted most of our volume growth.

Moving on to the water sector. In the water sector, we had a slight contraction, which on the one hand, is due to a lower numbers of new meters or third-party operations, which is worth EUR1.3 million, whereas the tariff review at the end of the year, had an impact worth EUR0.5 million.

As you know, on a yearly basis, this part here is worth EUR2 million, which means that Q1 accounts for EUR0.5 million. For a grand total of EUR1.7 million, 2/3 of which are linked to the COVID emergency and 1/3 is linked to the review.

Waste, as I was mentioning earlier, the waste sector grew compared to Q1 2019. As I mentioned, prices were up between 5% and 10%, depending on the various components of the waste, the dry waste or the waste-to-energy plants or the organic waste, all of these products increased by 5% to 10%. And of course, this turned into larger margins on the treated volumes.

And since all in all, we treated 180,000 tons more compared to last year. We were able to benefit on the price delta on these 180,000 tons. Will the prices fully offset the reduction in volumes that we will be Consolidating? Hopefully, only to the end of May. It's difficult to say because I don't have the figures concerning volumes, allowing me to give you a rough idea.

Although I don't think it'll be able to entirely offset things. Although we were certainly able to use the available capacity in our waste-to-energy plant, stemming from lower urban waste should dispose up a parts of other types of waste.

And we were able to a deal with the plus mix waste of from (inaudible), which is facing an emergency. It used to be exported abroad and therefore, given the fact that it couldn't be exported, we were able to offer (inaudible) a partial solution, given the fact that we had some spare capacity available coming from lower levels of urban waste. And therefore, we were able to optimize the disposal pricing.

## **Enrico Bartoli**

Just a follow-up question on electricity. Given the fact that MSD went slightly better compared to last year. And given the fact that EstEnergy contribution was ideal -- the margins were good for the quarter.

## **Tomaso Tommasi di Vignano, Executive Chairman & Group President**

Yes, the margins went well. I think it's safe to say that the margins were good. They could have been even better had we not had some minor negative effects. Concerning the sale, we had to make of those volumes of electricity, which were part of the fixed price, which weren't used by those industrial customers, which had to shut down their facilities,

Company Name: Hera  
 Company Ticker: HER IM  
 Date: 2020-05-13  
 Event Description: Q1 2020 Earnings Call

Market Cap: 4787.37752643  
 Current PX: 3.214  
 YTD Change(\$): -0.69  
 YTD Change(%): -17.674

Bloomberg Estimates - EPS  
 Current Quarter:  
 Current Year: 0.202  
 Bloomberg Estimates - Sales  
 Current Quarter:  
 Current Year: 7400.833

which means that these lower volumes had to be sold on the market with a negative spread. Had we not had those effects, the results would have been even better.

(Operator: } The next question is Emanuele Oggioni, Banca Akros.

## Emanuele Oggioni

Good afternoon. I have a couple of questions. So, first is a follow-up regarding the margins and impact of the lockdown. What about the price of the cost of commodities, of course, there will be benefits as you renegotiated contracts. Do you think this benefit will be visible in 2020 already? And is it already included in the guidance you've offered? And will it mitigate the impact of the COVID emergency? And then I have a second question on waste collection.

As the new regulations which should have a benefit on your company's EBITDA. Do you expect a benefit or given the economic situation, will there be a delay in the implementation of this new regulation? And will you then have to postpone those benefits to 2021? I'm going to have a third question, in fact.

On the integration between the Verona and Vicenza companies. I know there has been -- there have been some appeals filed and given the fact that there wasn't a public tender to choose a partner. Do you think the situation is still one which will evolve in the future?

## Stefano Venier, Chief Executive Officer

As far as prices are concerned, when I said that the current situation will have an impact on a renegotiating contract, I was referring to the year 2021, that's where we'll be seeing the effects, of course.

The current low prices whenever they are referred to fixed price of supplies that would be irrelevant because we have already signed the contracts and the supply has been set.

Whereas, whenever the prices are indexed, it becomes a pass-through to the client, which means that we set the margin and the pass-through. Generally speaking, the low electricity prices are a bit of a problem, given the energy produced by renewable sources.

Especially with the energies or biodigesters, which produce electricity. That does have an impact on us, of course, we will be able to recover something, both in terms of internal consumption and water activities and other industrial activities, and we're also seeing some major savings on the price of fuel.

But of course, things aren't fully offset. So, from this point of view, I don't have any major effects to note. Of course, the peculiar market situation led us to renegotiate and signed the contracts for gas supplies for the following thermal year, we've already done that.

And we try to take some advantages from the current market situation and I think we were successful. As far as the collection is concerned, with collection, your question was, will the new regulation be implemented? Now according to the new legislation, this will have to happen by year-end.

And given the position taken by the municipalities association, they are continue to insist on a postponement on a delay. I do hope that we will comply with the time frame, which has been set.

## Emanuele Oggioni

Will this have an impact on certain municipalities, and they fear that this will have an impact on the price for waste collection, local taxes?



Company Name: Hera  
 Company Ticker: HER IM  
 Date: 2020-05-13  
 Event Description: Q1 2020 Earnings Call

Market Cap: 4787.37752643  
 Current PX: 3.214  
 YTD Change(\$): -0.69  
 YTD Change(%): -17.674

Bloomberg Estimates - EPS  
 Current Quarter:  
 Current Year: 0.202  
 Bloomberg Estimates - Sales  
 Current Quarter:  
 Current Year: 7400.833

## Stefano Venier, Chief Executive Officer

This is a legitimate question, but of course, this is something that the authority has to decide upon. Last week, they made a deliberation, which offers an initial response to this topic. But of course, this also has to take into account the lower costs for lower services or lower volumes collected. Of course, it cannot have an impact on our costs or on margins. That's something that I would have to exclude. I, think it would be unlawful. And I don't know about Verona and Vicenza. I've read so many different things, I also read that will -- that they will be contacting us. But see what they have to say. I have nothing else to add. Thank you.

## Operator

(Operator Instructions) The next question is a follow-up by Roberto Letizia, Equita.

## Roberto Letizia

A follow-up question regarding Cenex campaign's procurement. (inaudible) was saying. Given the fixed or 2-year or multiyear contracts with your customers. What kind of margin increase are you looking at in 2021? I'm referring to those contracts in which pricing isn't stable. Is the potential increase significant or is it negligible?

## Stefano Venier, Chief Executive Officer

I didn't understand the second part of your question.

## Roberto Letizia

I just wanted to quantitative or qualitative assessment as to the increase in margin for next year. Given the fact that the procurement was at very low prices, and the impact on the margins you have on your customers? Is it going to be significant or not?

## Stefano Venier, Chief Executive Officer

Well, all of the customers renewed ahead of schedule in 2021. We've closed our positions. And, therefore, at this point, I'm not sure if the margins are slightly better or if they are in line with the previous margins. So, I'll just -- I can give you an idea in the summer when we've completed 100% of the portfolio.

As far as the renewal of gas contracts are concerned, our concern was that we would have to have -- that we would have higher prices, given the impact from the warm weather on the midstreamers. But, in fact, we were able to reabsorb this set differential completely. And, in fact, we were able to have a benefit worth a couple of million euros. For us, the important thing was to avoid having to deal with higher costs. That was our number one concern. And, of course, that didn't happen.

## Tomaso Tommasi di Vignano, Executive Chairman & Group President

Very well then, if there are no further questions, thank you very much. All the best.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript*

Company Name: Hera  
Company Ticker: HER IM  
Date: 2020-05-13  
Event Description: Q1 2020 Earnings Call

Market Cap: 4787.37752643  
Current PX: 3.214  
YTD Change(\$): -0.69  
YTD Change(%): -17.674

Bloomberg Estimates - EPS  
Current Quarter:  
Current Year: 0.202  
Bloomberg Estimates - Sales  
Current Quarter:  
Current Year: 7400.833

*and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP.*

© COPYRIGHT 2020, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.