

Company Name: Hera
 Company Ticker: HER IM
 Date: 2019-11-13
 Event Description: Q3 2019 Earnings Call

Market Cap: 5746.64047821
 Current PX: 3.858
 YTD Change(\$): 1.14
 YTD Change(%): 41.943

Bloomberg Estimates - EPS
 Current Quarter:
 Current Year: 0.204
 Bloomberg Estimates - Sales
 Current Quarter:
 Current Year: 6190

Q3 2019 Earnings Call

Company Participants

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

Other Participants

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

Presentation

Operator

Good morning, this is the Chorus Call operator and welcome to the Q3 2019 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)

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

Tommaso Tommasi di Vignano, Executive Chairman & Group President

Thank you and good afternoon everybody. Despite the delay which we apologize for we are now ready to illustrate the 9 month results of the group for 2019. You've already received the figures in our press release. As you certainly also received the presentation our results that our Board approved with a great deal of satisfaction, which we share of course and they underscore some of our commitments and our results and they go to show that our commitment to grow and to achieve our targets as highlighted by the business plan to 2022 to go to show. But first of all as you can see on Page 1 of the presentation our results underscore an EBITDA, which is reached EUR786 million with a EUR37 million growth which equals to plus five 5% compared to the same period in 2018. The growth was organic for the most part and it also highlights another important figure here the fact that Q3 this year contributed significantly to the overall result, which goes to distributor growth has been on the rise over the year.

Of course this trend that we're very pleased with also compares to Q1 this year, which was marked by few difficulties given the weather. And therefore, the speeding up in the growth has brought us up to the EUR37 million I mentioned earlier, which have cover the growth we posted over the past 9 months. As far as EBIT is concerned, we are now up to EUR406 million with the EUR29 million growth and as we will be seeing this is also due to some smaller acquisitions that we were able to conclude over the period and which completed our presence in some territories by acquiring some territories that we still didn't have.

We also had some more sizable acquisitions as we will be seeing the waste sector. Acquisitions which happened over the period and which could only be added to our results in more recent weeks and their contribution has been quite significant already. As far as our development investment is concerned as we'll be hearing later we performed very well with our biomethane plant, which we mentioned a number of times already which is now fully up and running this year

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and it is posting some as good results. Also as far as our development investment is concerned we also activated another landfill in the Pordenone province in the Friuli region.

In the town of Cordenons, a transaction which was completed at the beginning of the summer, and that landfill is doing quite well.

Also as we are mentioning, the more important investments in development, I also wish to mention the amount of new meters we're installing with a special view to focus on technological innovation, which I'm sure that Mr. Venier will be mentioning later on.

Our net profit post minorities is at EUR231 million, EUR22 million of which are the outcome of the most recent quarter. And our net profit growth was very useful because we are referring to a plus 10.6%. We were also able to achieve good cash generation, which was able to fully cover the investments made equal to EUR343 million, which marked a 16% growth compared to the same period in 2018.

Furthermore, we also paid a EUR0.10 dividend per share as we had planned. And these actions as far as investments are concerned, did not have any negative impact on our net debt-to-EBITDA ratio, which stands at 2.5 to 7x, which is what we had already mentioned on previous occasions.

On Page 2, you have a summary, which goes to show how filled with projects the most recent period was. Some of these projects are still at a partial stage since they happened over the past 9 months. Some other projects have been fully completed and are now fully turning a profit.

I won't go into the breakdown that you can see over the 3 quarters. It's just a way of mentioning the ongoing growth I mentioned earlier. And I think we can summarize things in 3 categories. We had a first group of events which refers to the already operational external growth projects, such as minor mergers and the integration of our stake in some companies, which allowed us to further cover our territory. This is an activity that we have always focused on, and it will continue over the next 3 months and in the future.

A second group of activities refers to M&A. And in this sector, the most sizable transaction, which we were working on in the more recent months for the preparatory phase and for the negotiations, and of course, to head towards the closing phase, which is very close, it will be happening in December, quite soon. And of course, I'm referring to the Ascopiave deal with the trade of our assets, which is the underlying elements of our agreements and which will be fully completed at the end of 2019.

As you know, our target is to increase our presence in the Veneto area so that we can become the more sizable operator in that part of the territory for the sale of energy commodities and services. And some of the very first targets linked to that transaction have already been completed, although we won't be discussing it today since the transaction still hasn't been completed, although we'll be certainly seeing the initial results at year-end.

We also have some organic development products -- projects, some of which I mentioned earlier, which includes our commercial development. We were able to grow in energy with a further 185,000 customers, which is a record of sorts, since over the years we continue to grow in this sector, although not in the same way over the years. And that we have the development of our waste treatment plants, which was another sector we were committed in with a few difficulties in more recent -- in the more recent period since we were waiting for the completion of authorization processes. But along with that, we also focused on new development initiatives, such as the biomethane plant, which performed well in these first few months of activities and plus, we have the Cordenons landfill I mentioned earlier. And in our effort to complete our array of waste plants we also, with the acquisition of a landfill in Pistoia, Tuscany, which began working for us as of the end of July, if I remember correctly, which, therefore, also allows us to benefit from the initial months of its activities. Also given the good market conditions that we've had over the past 9 months in terms of prices, which, of course, allow us to be very confident as far as the upcoming months are concerned.

We also had very positive performances in our public lighting services as we did in our telecommunications company for which we rounded up our geographical scope, which further contributed to our business. I mentioned the topic of the new meters, which I'm sure Stefano will be describing later.

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So all in all, over the past 9 months, we were able to strengthen our position in all of our businesses. There were no sectors in which we did not post growth with investments worth EUR 343 million, which is equal to a plus 16% compared to the investments made over the same period in 2018. These are all things which we either fully completed and which are already posting a profit or which are almost complete, which I think give us a great deal of confidence for the end of the year and for the upcoming new business plan.

One final remark regarding the way in which we were able to achieve the growth in EBITDA, of course, we have to keep in mind that over the 9-month period, besides the growth factors which are very concentrated, as you can see on Page 3, especially in the liberalized market, with EUR50 million growth and a further EUR15 million growth stemming from the regulated part of the business and a further EUR2 million stemming from a smaller M&A transaction, which we completed over the period.

All of this, of course, would have been even more. We would have had a larger growth still, had we not had to cover the reduction in profitability following the more recent tenders in the last resort market. And we also had some positive results in the default market, but all in all, our margins were reduced by some EUR30 million, as you can see in the graph on Page 3, besides all the positive growth elements I mentioned earlier.

We certainly had the opportunity to expand our market share. We also focused on cost efficiency, which is something we do constantly. And that we also have synergies, which were also supported by some organizational improvements we made over the period, something I wish to highlight, specifically, the merger of 2 companies within our waste portfolio, both of whom deal with the industrial waste sector. And then, of course, we had the reorganization in Aliplast. And as you know, Aliplast is a leading company in the plastic sector. And over there, we completed a restructuring and integration project, thanks to which we were able to strengthen the company, which has been a part of our group for the past 3 years and which was now ready for the organizational changes we had in mind when we made the acquisition.

I already mentioned the main asset development. And then in the regulated business, we had a good increase in regulated tariffs, especially due to the WACC review. And then as far as the water sector is concerned, we also had quality premiums, which we were able to obtain over the period. And as far as investments in innovation are concerned, we are focused on this specific sector, including over the past few hours as our CEO will be mentioning later.

Generally speaking, therefore, I think that nine month period is supported by the figures we were able to post, and it's also supported by the future prospects we have, thanks to which we intend to continue in our virtuous growth process, as illustrated by our business plan.

Let me now hand it over to Stefano.

Stefano Venier, Chief Executive Officer & Executive Director

Good afternoon, everybody. Let me go back to the presentation with Page 4, with an overview regarding the various business areas. The regulated networks businesses, as you can see, made a further step forward in terms of its development, which is very much in line with last year's performances, as is the very nature of this business. There were no major changes from 1 year to the other. And in the first nine months of this year, we posted a EUR17 million growth, which is very similar to the one we had between 2017 and 2018. To this result, as you'll be seeing later, we also had a major contribution from the water sector, but we also had electricity distribution and gas, which had some smaller growth.

Moving on to the waste sector. The growth here is worth some EUR4 million over the first nine months of the year. Our Chairman already mentioned many of the effects we saw in that sector. And as you know, we were waiting for the new provisions from the regulator as far as our urban waste collection is concerned. The service continued, of course, without any major change, and therefore, the growth here is entirely due to the waste management activities, which in our case, referred to the Herambiente company.

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In the energy sector, as we'll be seeing in a few minutes, the net growth effect worth EUR10 million is the result of the effects of lower efficiency in the Salvaguardia business, which, as you can see, was entirely offset by our more organic businesses, the ones closest to our more traditional markets.

The Chairman already mentioned that this year we did especially well in terms of public lighting. And in the small TLC business we have, with a EUR 6 million growth, part of this growth, of course, was brought about by the application of the IFRIC 16 criterion, which means that the overall organic growth is equal to EUR3 million. The remaining EUR3 million refers to the change in the accounting standards, which affects all listed companies as ours. And all in all, the growth was equal to EUR37 million, as we mentioned earlier.

Now moving on to the fifth page of the presentation, where we have a breakdown of the progress made in networks with the various levers we use. As you can see, the EUR17 million can be broken down into EUR12.2 million, which stem from changes in premiums and revenues, which refer to waste -- to water for the most part. As many of our peers had, we had negative effects. As far as white certificates are concerned, we had very good results and efficiencies, which account for EUR5.6 million growth. And finally, after a long time, we also had a -- an initial recovery on new connections with a EUR2 million growth.

Now with a more cross-cutting business interpretation, I'm sure we can answer one of your typical questions. And let me just say that the water sector grew by EUR13.8 million out of the total of EUR16.9 million that you can see here. So that -- as of September 30, 2019, the overall value is equal to EUR200 million.

Gas distribution, which also reached EUR100 million result has a growth which was referring to recognize revenues for the company. Electricity distribution posted a slight growth, a slight EUR1 million growth up to EUR33 million, whereas executing[ph] stable. And as we mentioned earlier, it has completely offset Q1, which was fairly warm in terms of the weather.

The Chairman during his introduction mentioned the fact that our commitment on innovation was very significant, and he also mentioned the presentation we made yesterday and today in Paris during the Utilities Week. We presented a new and fully electronic meter, which we developed over the past four years within our group in cooperation with two partners, which are Panasonic, which made the devices' electronic part and (inaudible) the Italian company, which built it and assembled it -- which will be building and assembling it and all of the equipment will be installing.

This is a project that we're very proud of, not just because it began based on the ideas and the experience of our technical experts, but also because it's a really revolutionary device. It is a true innovation within the sector. And this is the feedback we got over the past two days in Paris during the technical presentations.

Let me just mention the main characteristics. It's a very compact device. It is equipped with a very efficient volumetric system, the most efficient one in the market, the electronic ultrasound one. And therefore, thanks to this technology, it will be able to measure the new clean gases, which we will be developing both the gas developed from renewable sources, this is our biomethane. Therefore, it's a device which can communicate or have a dialogue rather. It can no longer communicate as the traditional meters do. They simply communicate the consumed volumes to a data collection center.

These new meters can have a dialogue, a true dialogue, whenever the managing company equips itself with a telecontrol system, an infrastructure that we ourselves are equipped with in Forli. It's also a device which is capable of detecting through the sensors. It has many more -- much more data compared -- regarding the gas flow. And this gives us more information regarding consumption trends and the performance of the system and it can also intercept these weak signals that can show that there maybe some kind of damage on the device or a malfunction.

It is also equipped with an anti-seismic sensor, a sensor which perceives earthquakes and therefore, automatically interrupts the gas flow. And therefore, it secures households from possible explosions.

And then, of course, it's also built with fully recycled materials. Another thing which has become one of our traits. And it certainly is a plus as far as this product is concerned, a product that we will be installing in over -- with over 300,000 units, beginning with the territories which belong to the so-called red zones, the ones which are more exposed to

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earthquakes, including the provinces of Modena and Ferrara and our territories of the province of Udine and the Marche region. So this is an excellent news indeed.

Moving on with our presentation and moving on to Waste on Page 6. In this case, as you can see, the EUR 3.8 million growth has fully offset the negative effects we mentioned on a number of times during the year, thanks to the delay and the availability of infrastructure for the management of waste, especially landfills, which over the nine months had an impact close to EUR10 million, a figure which has been offset by the good price trends we had over the past 3 quarters, giving a contribution compared to last year, equal to EUR7 million. The profitability of Aliplast also improved. It is up by EUR2.9 million over the nine month period. And then we have the very first contribution from the Sant'Agata biomethane plant worth EUR3.6 million. These are the key figures I want to share with you.

The waste management world grew from EUR131.5 million to EUR136.1 million, whereas the waste collection and street sweeping had a EUR1 million contraction and at 30th September, stood at EUR55.5 million. In absolute terms, as far as volume is concerned, we had a 29,000 ton decrease, which is also included in the EUR9.8 million contraction.

As I mentioned earlier, the recent acquisition of Pistoia Ambiente in Tuscany gave us contribution only for a part of Q3, and that is worth EUR2 million.

Recycling is doing well. We are now up to 63.5% sorted collection on a total of 4.5 million inhabitants and the recycling index is at 55%. And packaging recycling is 75%. As you may remember, these are targets set by the European Union with a said directive on circular economy for 2025 and for 2030, which means that we are 5 to 10 years ahead of schedule compared to the European target. And these 2, I think, are elements which give value to our business.

And finally on Page 7, you have the results we achieved in energy. As I mentioned earlier, we have the negative effects, which refers to the last resort market with minus EUR30.8 million, which is per se the result of the contraction of the Salvaguardia market, which we had already mentioned to all of you, and that was equal 40 million -- to EUR 40 million, which was partially offset by the good results we posted in the broader management of the default and FUI markets in gas, which means that the total negative effects was equal to EUR30 million. This is fully offset, thanks to the good contribution we had this year from our production plants.

Last year, you may remember that one of our two power plants we have a stake in had been down for maintenance for a long time. This year, it was available and it was able to contribute with EUR21.6 million, which includes EUR17 million, which referred to the MSD market. Trading, both in gas and electricity with similar figures performed very well compared to the previous year, improving profitability by some EUR9 million, whereas what truly brings about the positive results as far as growth is concerned, is the supply market expansion. Also thanks to the further 184,000 clients we achieved with an improvement worth EUR10.4 million, which is the overall result of the sector, which closes at 2 -- EUR 226.1 million.

On Page 8, you have the cascade effects of our results. Below EBITDA we also have some good news because as far as depreciation and provisions are concerned, we had a modest growth. On the one hand, we had good performance on cash and the reduction of the Salvaguardia market also allowed us to significantly reduce the provisions in bad debt. And therefore, we were able to offset by almost 50%, the natural increase of the depreciation linked to investment.

Our financial performance was good despite the impact of IFRS 16. The result was pretty much in line with last year. We had a very good trend for our taxes, which improved by almost 1.5%, the already excellent results we had in 2018. When, as you may remember, our tax rate was at slightly above 30%, whereas over the first nine months this year, we were at 28.5%, mostly due to the benefits brought about by the Industry 4.0 incentives and also due to some tax benefits stemming from special situations, which exist within the framework as it was defined for 2019.

And this on a net to net basis brought about EUR127 million increase on net profit, which is -- EUR27 million on net profit, which is similar to EBITDA.

Let me hand it over to Mr.Moroni for some financial figures before we conclude today's presentation with our Chairman.

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Luca Moroni, Group Director of Administration, Finance and Control

Thank you, and good afternoon, everybody. The good news we've heard so far are just as consistent from the financial standpoint. As you can see on Page 9, our operational lever was up -- extremely positive with over EUR500 million. We paid very close attention to control and to monitoring the net working capital. We invested more than last year, a further 15%, equal to a further EUR40 million and our operating cash flow stands at EUR180 million, with which we invested both internally and externally with some M&A transactions.

We paid for dividends and therefore, we have a net result of some EUR50 million, to which we also have to add a further EUR100 million due to the effect of the IFRS 16 principal as of January. And therefore, our net financial position is at EUR2.74 billion, keeping into account that we are referring to the first nine months of the year.

Also as far as the dividend flow is concerned, the net debt-to-EBITDA ratio is the same we had last year at around 2.6x, and even the ROI and ROE indicators are very positive, respectively, 9.5% and 10.6%, also showing the positive work we've conducted from the financial standpoint as well.

I think in conclusion is fairly simple at this point. All I can add is that we are fully convinced of the fact that we are well ahead of schedule in terms of obtaining the targets we've given ourselves. It's in fact very easy to see on Page 10, we have already used up 20 months of our time from when we started implementing the current 5-year plan and 21 months have to be compared to an EBITDA growth, which is equal to EUR83.7 million, which is equal to 42% of the EUR200 million that we had targeted in the business plan, which means that we are well above the -- we're well above 35% of time consumed as a way of completing our schedule.

Nothing new, in fact, we have often been able to work ahead of schedule. And let me just add the fact that we have been working on our largest M&A transaction to date. We've been working on it for almost a year now. We still have to complete the deal and therefore, that too will be essential in terms of the quality. We expect to obtain with a new business plan that we will be presenting on the road as of January 12 next year. We don't expect any surprises, except for some positive surprises because as we've already said a number of times, we already have started working on a number of things which still can't be factored into our results, except for this deal, which is the largest one.

Thank you very much, and we are now available for any questions you may have.

(Question And Answer)

Operator

(Operator Instructions) The first question is for the entire conference call Roberto Letizia, Equita.

Roberto Letizia

Good afternoon. I have a few questions for you. The first is on the ARERA document you mentioned as far as waste is concerned, can you tell us what you think of it in terms of the potential benefits submitting the regulatory proposal. What do you expect from the regulatory return proposal for the invested capital in the sector. Can you give us your view of things so far. And what is the yearly contribution since we are in November, stemming from the biomethane plant? And if this year's figures are also similar to the ones you expect in the next few years?

On tax rate, you were saying that 28% is a good estimate for the full year. Will the results we've seen so far be further penalized by Q4, given the fact that the weather is still fairly warm. So do you think there will be a negative impact as we saw in Q1?

And then a final question on trading, which contributed with a further EUR9 million. Can you explain what the overall value of your trading activity is? Can you give us an idea as to whether or not this will be a good estimate for the upcoming years?

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Stefano Venier, Chief Executive Officer & Executive Director

Let me begin with the more interesting question, the one on ARERA's Deliberation, which is executive. There are a number of aspects, which we feel are especially interesting. Your question will the final outcome be positive or negative. I think it will be very positive due to a number of reasons. Beginning with remuneration on capital, which as we mentioned earlier, will be applied within the street cleaning tariffs. And in this case, the invested capital is fairly modest, we spend at around EUR100 million, they will be especially interesting for the waste disposal activities, the regulated part for urban waste, where the invested capital is much higher, it's well above EUR300 million, 6.4% is far away compared to the 3.8% to 4% we currently have included in our tariffs. So this is a very first positive element.

The second positive element is that, for years now, we have been in a litigation with the regional authority in our territory, given the fact that in the disposal tariffs, the entire contribution was subtracted the ones stemming from incentives and electricity. In this case, the authority has to find that, that contribution has to be shared. And the worst-case scenario, we can get back at least 30% of that. This is something which is worth a few more million euros.

The third good news is that this sharing mechanism also applies to the revenues stemming from first and second raw materials stemming from recycling, which even in this case, and our tariffs were completely subtracted to the benefit of citizens. Obviously, the implementation of these two sharing components has to be -- has to pass the quality of service and the cost, and this is the aspect that we will be focused on over the next two or three months, together with the local authorities as a way to determine our correct positioning. Of course, we have our ideas and evaluation, our assessment, which we feel will allow us to benefit by at least 30% from those 2 positive components.

Roberto Letizia

Do you already have an estimate of these figures?

Stefano Venier, Chief Executive Officer & Executive Director

No, we still don't. If we will be in the lower end, it will be a few million euros in terms of improving our profitability. And then in terms of our plan, we are completing some further analysis, we still have six weeks time to work on it. But frankly speaking, in the upcoming weeks, we will be having our first discussions with the local authorities, so that we can position ourselves in the matrix, as I mentioned, which is essential in order to make a correct assessment of things.

Roberto Letizia

And then the real thing, we're not certain about as to when this will be implemented whether in 2020, 2021?

Stefano Venier, Chief Executive Officer & Executive Director

According to authority it should be implemented in 2020 already. Of course, it's a matter of working with a mechanism, which the whole system wasn't used to, and which is only starting to be implemented.

So we'll do our best to speed things up, but net-net, this is a positive thing, which we're very pleased with. And it goes to show that being able to have a competent regulator was the correct choice to make, because that's giving transparency and fairness of the sector. It also offers comment on homogeneous rules within the territory.

Your second question relates to the contribution of the biomethane plant. As you can see, we're up to EUR4 million, and the first quarter was operating in since its production is flat or stable over time, that by the end of the year, it will stand at around EUR4.5 million to EUR5 million. But it isn't what we expect from a full year of activities because this year, in the first 3 months, as I mentioned, we still have the start-up phase. We still had to fine-tune the plant. And as

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always happens, we expect to have a progressive improvement in 2020 and in 2021.

The tax rate, we stand at 28.5%, and we think that 28.5% is a plausible figure for the full year. Warm weather in Q4. Yes, of course, over the past few days things have improved in October with a contraction in gas sales for some EUR4 million or EUR5 million, but November this year is better than last year. We'll be drawing our conclusions in a fortnight, but I look at the graphs every day and I'm seeing an improvement compared to last year. And that's something, of course, I'm very glad to see.

As far as trading is concerned, trading is fairly volatile, and it depends on market trends, of course. In this case, we are referring to a mediation between 2 commodities. Of course, given the warm weather you mentioned, the Q4 will be a little bit more difficult in terms of further increasing our numbers. As far as future years are concerned, we want to somewhere in the middle of the ground.

It's difficult to understand the figures very many years ahead. It's a matter of understanding how the European markets will be doing in terms of gas and electricity. Sometimes you're able to forecast things better than others. It's a volatile business.

And I think that is about it as far as your questions are concerned. Thank you.

Operator

The next question is by Javier Suarez from Mediobanca.

Javier Suarez

Yes. Good afternoon. I have a few questions to share with you. The first is a follow-up from Roberto's question regarding the new ARERA regulation on the waste collection business. So the total RAB, which should be subject to the regulation, as you mentioned should be at around EUR400 million. Is that correct? So do you think it's safe to say that on this invested capital, you have a profitability, which is equal to 6.3%, ARERA mentioned or is it below that at 4%. Can you confirm those figures?

The second question refers to the energy supply business. I was very surprised with the supply business profitability because you're expanding your customer base very much and your profitability in the business isn't suffering. Can you give us some further details regarding the company's commercial strategy?

And also, as far as power generation activity is concerned, you mentioned that there is certain degree of volatility, can you explain why that is? In Q3, we did see a major contribution from the trading activity and do you think that this should be normalized? And then, of course, in the power generation business, both of your -- most of your customers and the ancillary services market and Canada's profitability disappear with the new capacity market, which is approved for Italy?

And then a final question on the waste business. On Page 6, one of the strongest trends you're showing refers to the price increase. Is there a major reason in that? Can you share what you're seeing on the market as far as pricing is concerned?

Stefano Venier, Chief Executive Officer & Executive Director

So your first question on regulation. In fact, what we currently have is that we're going to the authority remuneration on capital for waste collection and street sweeping is worth some EUR100 million that we have the waste disposal business, which is equal to slightly above EUR300 million. In the future, the authority has said it will be regulating the treatment tariffs over there, the invested capital still hasn't been measured. We still don't know how it will be measured. Currently, we have 4% on the assets, and we will be earning 6.3%.

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On energy supply, the result we posted was excellent. That result was also brought up by a broader perimeter, more customers, 30,000 of which came about through 2 smaller acquisitions. The remaining 100,000 came about through our commercial activities, but we wish to continue growing with that same rate and the transaction we expect to complete by the end of the year with Ascopiave will be a catalyst for the development that we expect to have over the next 2 to 3 years.

Of course, we will be focused on coming up with a homogeneous commercial policy and tools with them since they have proven to be very effective in terms of what we've achieved in our perimeter. And I also like to mention the fact that this growth was also brought up by the added value services we developed with a contribution worth more than EUR2 million this year, which we feel is an excellent message going forward with the new business plan.

And of course, with full transparency, the plus EUR10 million in our commercial activities also include a few million euros stemming from the settlement regarding 5 years ago in the gas sector. So that's some EUR2 million to EUR3 million.

As far as MSD is concerned, this year went very well also in Q3. Unfortunately, 1 of the 2 plants, the one which contributes most to the results is currently going through a second maintenance cycle, meaning that it will be shut down up to mid-December, meaning that in Q4, we won't be able to have the same contribution we've had in the first 3 quarters. Going forward, our choice in the 2022 settlement competition, we didn't make a bid for the two plants in Campania. We'll be seeing how things go, and we'll be seeing what we can do for 2023. Of course, our hope is that we can stabilize the average results posted in recent years.

And your last question, if I remember correctly refers to trading. And as I mentioned, some elements of trading went well. As you know, we work on the entire European market. We obviously also manage a significant part of our procurement portfolio for sales on the end market, especially for gas. And obviously, in this sector, we were able to obtain some advantages from the forecast we have made, the EUR9 million I mentioned.

Javier Suarez

There was a question on price trends in waste.

Stefano Venier, Chief Executive Officer & Executive Director

Yes. Yes, as far as waste prices are concerned, we don't expect there to be a questioning for a review of these prices, since they stem from market conditions, which we haven't created. It's merely a snapshot of the country's situation regarding assets, and it continues to be -- it continues to have a number of shortcomings.

And the news we've had in terms of the possibility of exporting waste doesn't seem to work towards building new assets. And therefore, of course, it is a matter of finding out the right balance for waste for each country. If this only happens in certain regions or certain provinces and not in others, obviously, we don't expect prices to become any lower. That's where we stand. And as you heard earlier, and as we had announced, our commitment is to continue to improve and expand our plant range with a more sophisticated approach, as a way of avoiding being caught offguard from things we are capable of envisaging for the time being. I think it's difficult to reduce those prices, and we're doing quite well. Thank you very much.

Operator

The following question is by Enrico Bartoli, MainFirst.

Enrico Bartoli

Company Name: Hera
 Company Ticker: HER IM
 Date: 2019-11-13
 Event Description: Q3 2019 Earnings Call

Market Cap: 5746.64047821
 Current PX: 3.858
 YTD Change(\$): 1.14
 YTD Change(%): 41.943

Bloomberg Estimates - EPS
 Current Quarter:
 Current Year: 0.204
 Bloomberg Estimates - Sales
 Current Quarter:
 Current Year: 6190

Good afternoon. I have some questions for you. First question on the gas business. Can you give us a flavor of your sales campaign for 2019, 2020? What kind of margins do you expect compared to your previous campaign?

Second question on electricity. Given the nine month results, we have almost fully offset the Salvaguardia results. Is it reasonable to expect the same trend in Q4? And then a question on the consultation documents for water. Can you give us your interpretation and were you already able to make your assessments on the impact on allowed return and on the allowed OpEx you'll be having as of 2020?

And a final question regarding the Vicenza and Verona situation. Can you tell us how interested you are in participating in that part of the country?

Stefano Venier, Chief Executive Officer & Executive Director

As far as the gas commercial campaign is concerned, it was concluded some four months ago, and the procurement conditions for wholesale gas are less favorable than the ones we have in the current year, roughly at EUR0.5, that's because the market is shorter now. There is less competition on the market compared to the interest in procurement. That is a matter of fact.

And we try to solve that by increasing the amount of gas we managed ourselves directly. The procurement of which takes place with our European portfolio through our trading unit and therefore, we will be increasing the portfolio managed from 50% up to 60% to 65%, if I remember correctly.

As far as electricity is concerned, yes, in fact, we have covered most of the -- we have offset most of the effects from the default market, both through gas and electricity. Unfortunately, as I mentioned earlier, in Q4, we won't be having the contribution from the Campania plant, which is under maintenance, as I said. And therefore, as far as electricity is concerned, there will be a larger difference in the last -- in the final quarter of the year, although we do hope for some good news in the gas sector. Thanks to the performances we're seeing linked to the weather.

As far as the water sector is concerned in the documents, it's a little too early to say, although there are -- the document does include some interesting things such as better structuring of premiums, incentives for all initiatives linked to sustainability themes, that's a sector that we are leaders in, not just in terms of energy efficiency, not just in terms of closing the management of sludges, not just in recovering chemicals and not just in reusing water, to use it in agriculture. These are just a few examples, which show the value we have in our industrial management process.

And if the documents will be completed as we're expecting them to be, we will be expecting premiums, incentives, or increased remuneration. So currently, except for 3 or 4 aspects, we're still focusing on I think that our opinion is positive. Of course, it is still subject to the final draft, the final definition on the allowed return and on the recognized OpEx.

Currently, we still have a range, which is still too broad in order to make specific assessments.

And as far as the Vicenza, Verona affair is concerned, I'll hand it over to the Chairman.

Tomaso Tommasi di Vignano, Executive Chairman & Group President

Well, our Board members asked us to be fully transparent. And therefore, let me just say that the situation over there isn't very clear. Also because there had been an initial negotiation between those 2 companies, but that didn't lead to nothing, they continue to claim that they want to take things forward as they don't want to stay as they are. The newspapers have been writing articles about this.

They may have talks with some interlocutors. Of course, we did look into it. And if you just look at the map of Italy, if you think of Hera's position in that area of the country and if you could think of what our presence will be in those regions once we fully complete the Ascopiave transaction, our ambition, which we have also mentioned, maybe that of supporting those companies so that together we may end up creating the Veneto multi utility. And even before the

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Ascopiave transaction, we already have 2,500 employees, Hera employees working there. So that's already pretty close to the Veneto multi utility of the future.

And large companies, such as ours, which are starting to use that label. Therefore, it will be a matter of two things. First of all, we'll have to wait and see how the mutual assessments between Verona and Vicenza end up. They may come to a complete halt and therefore, we may end up talking to one or the other. Or of course, they may end up finding an agreement so that as their advisers tell them, they may start looking for another company with a major infrastructure to join with. And of course, that would be a part of the country, we'd be interested in since we already have a very strong presence over there. We certainly would be interested in further increasing our presence.

So this is a snapshot from Hera's point of view this afternoon, of course. Then, of course, we'll simply wait and see what the other players intend to do.

Operator

The next question is by Emanuele Oggioni, Banca Akros

Emanuele Oggioni

Good afternoon. I also have 2 or 3 questions for you. The first is a recap on your RAB? You gave us an overall figure earlier on. Can I have a breakdown for collection, EUR200 million and waste treatment EUR250 million, if my figures are correct?

The first question -- the second question refers to the market and supply. You have 6% growth, which is organic over the first nine months, and therefore I'd like to understand what trend do you expect for 2020? Of course, we're referring to your organic levels without any changes to your perimeter, without considering Ascopiave and considering the possible liberalization of the market?

And then the final question, referring to acquisitions and whether your focus is on waste or another businesses? What areas are you focused on?

Stefano Venier, Chief Executive Officer & Executive Director

As far as the RAB split is concerned, I think it would be easier for you to talk to Jens so that you can compare your figures with ours. As far as developing our customer base, over the past 12 months, we had a growth worth 180,000 customers, 150,000 of which are organic. This was an excellent year indeed.

We were always between 100,000 and 150,000. Therefore, this is a pace that we -- I think, can manage to have in the future with any changes to our scope, to our perimeter. And as far as the perimeter of Pesaro market is concerned, much like the rest of the sector, we're waiting for the next steps, which will be made.

We read the authorities document. It's a document which needs to be completed, and it also needs to be shared from the national institutional standpoint. Obviously, the July 2020 deadline is looming ahead. I think what the authority is doing and rightfully so we'll bring about a six month postponement for the deadline. But maybe in 2021, we already have made the first steps.

As far as M&A is concerned, you are well aware of our priorities. We're focused on the energy sector and on the waste sector. Obviously, we are working on the Ascopiave transaction, which is very demanding. We will be focused over the upcoming 12 to 18 months to fine tune and reorganize things for the activities in that perimeter.

And then, of course, extracting all the synergies will require even more time. But that's where our efforts will be focused in the next few months.

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And if we consider the effects of this past -- of the operation, our balance sheet will not be as burdened. We will have room for maneuver, less so in the first few months more so in the second half of 2020 and moving forward. So that -- would there be any interesting opportunities in the waste sector, we would surely look into it very carefully as we've always done in line with our strategic portfolio choices, which, as the Chairman was saying earlier is always focused on being present in the various waste streams and that we can support our global service policy that we have been implementing with our industrial customers in recent years. Thank you.

Operator

The next question is a follow-up by follow-up by Roberto Letizia, Equita.

Roberto Letizia

Thank you. You have already answered. I'm fine. Thank you very much.

Stefano Venier, Chief Executive Officer & Executive Director

Since there are no other calls. I think it's safe to say that we've answered all the questions and I'm sure we will be seeing you soon. Do the things I mentioned earlier. Thank you.

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