

Company Name: Hera
Company Ticker: HER IM
Date: 2017-11-08
Event Description: Q3 2017 Earnings Call

Market Cap: 4,435.85
Current PX: 2.978
YTD Change(\$): +.786
YTD Change(%): +35.858

Bloomberg Estimates - EPS
Current Quarter: N.A.
Current Year: 0.160
Bloomberg Estimates - Sales
Current Quarter: N.A.
Current Year: 5027.714

Q3 2017 Earnings Call

Company Participants

- [Unidentified Speaker]
- Tomaso Tommasi di Vignano
- Stefano Venier
- Luca Moroni

Other Participants

- Javier Suarez
- Enrico Bartoli
- Roberto Letizia

MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

[Unidentified Speaker]

...operator. Welcome to the Financial Results as of September 30, 2017 for Hera Group. All participants are in listen-only mode. Following the initial presentation, there will be a Q&A session. [Operator Instructions] And I would now like to give the floor to Mr. Tomaso Tommasi di Vignano, Executive Chairman of the Hera Group. You now have the floor.

Tomaso Tommasi di Vignano

Good afternoon, everybody. Thank you for joining us as we illustrate the results of the first nine months of this year. And as I'm sure you'll be confirming, the results we achieved have been quite satisfactory. They are in line with our expectations including our business plan expectations, but I feel that you're most recent assessments confirm the soundness of the progress made.

We still haven't achieved the full year so we will be looking at these past nine months through which we have shown our desire to expect all of our businesses. I'm taking into account that we have reaped the benefits of the initial progress made by the country. The performance of which has been more positive compared to recent years. To this, we also have the contribution from our liberalized businesses, allowing us to enter new businesses more so than in the past by benefiting from the changes and the regulatory framework of the market. We've been competing in public lighting. We have been competing in district heating, which means that we've been to – slightly beyond what our traditional businesses have been.

All of this, of course, went along with the more traditional businesses including M&A of course which, despite the explicit difficulties posed by the market, is something that we continue to focus on by looking at those sectors which are characterized by a higher degree of [ph] utilization (3:13) which often offer more sizable opportunities. This is something that we did in the waste sector through the acquisition of two companies, which focus on the treatment of industrial waste. These acquisitions allowed us to increase our ability to treat waste in this segment which had already

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begun in recent years, as you may remember.

Also in the waste business, we benefited from the fact that a number of our landfills are now back on track, following some difficulties encountered given the need to update and restore these assets. And therefore, thanks to this we were also able to post positive growth in the waste sector. Also, as far as the liberalized sectors are concerned [ph] and besides waste (4:21), we also had a major contribution from the energy business, which contributed to the group's overall results. This was not a surprise to us although it was an increasing source of satisfaction. In fact, when we illustrated our current business plan, we were still lacking some specific points in the energy sector. These points have now been completed in the energy business and through the tenders we took part and we were able to post some truly brilliant results that we'll be illustrating later.

We also expanded our customer base, which was especially significant. Also thanks to the contribution in the energy business, which means that we are already in a situation in which our plus 2.3 million customer base in energy alone and our customer base grew by 150,000 (sic) [153,000] (5:31) customers over the past nine months alone, which brings us to some figures that I'd like to underscore briefly since I am sure you have already received the information. We posted a significant growth in terms of revenues with a plus 12.4% growth compared to the previous year's nine months. In terms of EBITDA, we posted a double-digit growth equal to 11.4%, which is more than satisfactory also in comparison to some more difficult periods during the crisis years.

And finally as far as the net profit is concerned, once again and I'm saying once again because even in recent years, the net profit we posted was significant. And in fact, these past nine months allowed us to achieve a plus 28.6% in terms of net profit growth. I think all of these figures speak for themselves and they are very much in line with our forecast when we illustrated our business plan.

We are obviously constantly committed to improving efficiency beside all the things I've said. All of this of course is the recipe with which our organic growth has developed on a year-by-year basis, which means that as far as our businesses are concerned especially in organic growth, we were able to achieve growth. We also focused on M&A of course as far as our businesses are concerned. And within the businesses, we posted very good results in the energy and waste sectors. This is the summary of the way in which our results were distributed.

As you can see on page 3 here, we have our results with a growth breakdown. We've begun with a €650 million in 2016 in terms of growth. We were able to further grow internally with a plus €70 million and some €13 million more brought about by the M&A transactions so far. As I've said, the M&A transactions covered at the waste sector in two cases and we also had some minor transactions in terms of size in the liberalized energy sector.

As we have forecasted, within the business plan, we also had the expired incentives in a – with the energy plan we have in the Molise region which expired at Cip6 incentive. That too was included in the business plan forecast. And with all these in mind, the group's total EBITDA is now up to €724 million, a figure that we are continuing to work on in light of the end of the year according to our desired expectations. I don't think there really is very much to add because again, the figures speak for themselves and they are quite satisfactory.

I will now give the floor to Stefano who will be sharing some further insight with us although I think that even during our board meeting today, we could only assess the extremely positive elements in the report.

Stefano Venier

Thank you very much, and I'll be focusing on the various business areas. Apologies, we had a slight problem with the microphones. Good afternoon, everybody and I'll give you a breakdown on the business areas so that you can have an idea of the distribution we had in the various sectors, as far as our results are concerned.

Let's begin with waste, as usual. In this sector, the most important element as far as the business dynamics are concerned, organically speaking, stemmed from a greater ability to treat and dispose of waste, which brought about a sizable growth worth over 150,000 tonnes of special waste. And as we had already mentioned during the first six month result presentation, we had some good increases in terms of prices.

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The new element in Q3 refers to the price of energy – of electricity rather, allowing us to have a tangible, and a major contribution on Q3 so much so that compared to the other years, quarters, this is the quarter which posted the most growth compared to last year, with a €4 million growth on Q3, half of which was brought about by the improved conditions on the electricity market. And this is an aspect that we benefited from during the third quarter. To that, we also have to add the dynamics which are in line with our expectations when we made the acquisition of Aliplast, which during Q3 or during the nine months, rather, posted a result worth some €11 million, which are perfectly in line with our year-end target, which is at around €16 million.

Moving on to two well-known facts which are in continuity with the previous quarters, we have the extraordinary maintenance in the Ferrara and Padua waste-to-energy plant to which happened in the first half of the year which has a minus €4 million impact plus the expired incentive on the Molise plant which is worth less – minus €8 million. And we hope we'll reach year-end soon so that we will be able to forget this negative figure.

But again, the overall growth we posted, which is worth some €9 million. From this point of view, this €9 million are entirely linked to the treatment, recovery, and recycling of waste since the waste collection results were perfectly in line with the result we posted last year. There were no shifts whatsoever from this point of view. These are the most significant elements in a nutshell.

Moving on to the networks, we posted a €3 million growth vis-à-vis the previous year, so same period. We posted €306 million, the part pertaining gas distribution accounts for €90 million and it had an almost €7 million growth. The contribution to this refers to the excellent activities, the excellent so called offshore activities, activities we have in Bulgaria to be specific, with an improvement worth over €2 million compared to the previous year. This was a growth brought about by the good thermal season in the first half of the year. We also had a couple of items linked to an increase in tariffs which brought about a further €2 million for a total amount of €4 million which accounts for the two-thirds of the overall growth. The remaining part of which refers to efficiency and other activities.

Moving on to water distribution, the result of which was slightly above €178 million with a growth worth of €4.5 million compared to the previous year, taken to account that these €4.5 million stemmed from tariff increases in the northeast of Italy which accounts for 50% of that increase; and a further €3 million which stemmed from commercial quality, given the fact that last year the recognition scheme for commercial quality only happened at the end of the year and therefore, the benefits were posted in December. Whereas in this year, since the scheme is up and running, we are posting it on a quarterly basis, which means that compared to last year, of course, this is all a contribution to growth.

This €4.5 million growth could have been slightly better had we not had a significant contraction in Q3 this year in terms of new contracts, which reduced the overall result by some €2 million, and they focused during the good season, during the summertime, which is something we took into account. The residual part is represented by power distribution, which is equal to some €30 million; and district heating, which refers to some €8 million. These are the most relevant items that we'd like to underscore within the regulated sectors.

Moving on to the main protagonist as far as these results go in terms of the size of the growth posted, I'm referring to Energy. In this case, we have been posting growth on the entire first nine months of the year. There were some €60 million, within which €25 million refer to Q3. The determining elements refer to the summertime, with the drought on the one hand and extreme heat on the other, allowed us to post a good profitability on our power generation activity, both in terms of optimization and in terms of dispatchment to market and ancillary services. Compared to the same period last year, the contribution here was worth plus €6 million. The rest was pretty stable and in line with the results posted in the first six months.

In general, the delta perimeter for the Salvaguardia market, the safeguard market, contributed to put a further €36 million, to which we have to add an extraordinary effect, an unexpected effect. And I'm referring to the effects of the GALA company going bankrupt, which means that within the safeguarding market, that we obtained all of that company's customers. The customers, they managed up to mid-September basically. As far as Hera is concerned, this refers to an increase in our customer base. These are the typical safeguard customers, these are excellent payers, although they are public administration. They are leaving us progressively, but we are still being able to benefit from

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the positive contribution stemming from this transition.

€11 million are the overall benefits posted compared to the previous year from power generation, half of which is concentrated in Q3 this year. The final element refers to a structural improvement stemming from the increase in our customer base on the one hand, besides the optimization of our sales, allowing us to add almost €7 million in terms of further margins compared to last year's results, which leads us to the €220 million which is the result you can see on page 5.

As Chairman was saying, there were some interesting dynamics in our customer base. We have reached over 2.55 million (sic) [2.355 million] (19:45) customers with 150,000 (sic) [153,000] (19:50) new customers. Part of this growth was linked to the [indiscernible] (19:56) services, the new perimeters for these services, which account for some 40,000 new customers, as you can see on page 5 (sic) [page 6] (20:08).

The remaining part refers to M&A, which is just worth 17,000 new points of delivery. And the rest is the result of our sales activities, which we focused on systematically and continuously, as we've been doing for a number of years now, allowing us to have a number of customers in the power service, which is above 850,000. The remaining part refers to the gas sales market, which is a further 1.5 million.

On the following page, page 7, you have a bit of information that we were especially proud of. This is a way of recognizing years of commitment and a strategic choice we've made for quite some time now on the issue of sustainability, in general, and specifically, with a focus on the Circular Economy. The fact that – based on the results we posted and the projects we're working on, our company was included in the World Top 100, the most representative 100 companies working on sustainability in general and on the Circular Economy, specifically, within the context of the MacArthur Foundation activities together with the organization, which organizes the Davos event.

And within these top 100 companies worldwide, we are the only industrial representative, together with another Italian company, which is the Banca Intesa Sanpaolo. We are the only two Italian companies, and we are the only industrial company in Italy included in this list. Now, what is the expectation we have from our belonging to this network? Well, we expect to further drive forward our initiatives and our projects, especially by interacting with the other members of this association, beginning with other companies similar to ours, such as Suez, [indiscernible] (22:34) Schneider, and others. As far as we're concerned, again, this was a significant event.

As far as the financial results are concerned in terms of net profit, we had a significant contraction in terms of our financial management of worth some €50 million. This is the outcome of an activity, which we started over the past two years, which allowed us to optimize the average cost of debt, which is reflected by a contraction in financial burdens worth some €5 million year-on-year. But this also part of our product contribution we posted due to the further contraction of the safeguarding services linked to the invoicing of interest, which are guaranteed by the part of customers, which cannot be cut off.

As far as the tax rate is concerned, thanks to our work, we were to improve by 4.5 percentage points compared to last year. 3.5% refers to the reduction in the [indiscernible] (23:47) tax and a further 1%, which is the outcome of Luca Moroni's team's work on hyper-amortization, patent box, investment in R&D and so on, which is also linked through the initiatives I mentioned earlier on the topic of the Circular Economy and the MacArthur Foundation.

The results on financial returns was also very good, and this is something we're very proud of. We would like to take a snapshot of this. We have an ROI at 9.3% and ROE at 9.7%. These are significant figures, not just for Hera, but also in absolute terms within the industry. And we also had the subsequent improvement on the group's net profit, which as you can see, and as the Chairman mentioned, posted a €40 million growth compared to 2016.

I'll give the floor to Luca now, because, also, as far as the cash flow is concerned, things went pretty well.

Luca Moroni

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Thank you, and good afternoon, everyone. We had very good economic results, which are also reflected on a very consistent way from the financial standpoint. During the quarter, we were able to produce some €150 million in terms of cash generation, with which we were able to fully self-fund almost €100 million in terms of investments, and the variation in working capital and the funds needed to cover post-mortem costs.

As far as the working capital is concerned, we continue to pay close attention to the topic, and we continue to monitor the dynamics in this sense. We had growth due to the invoicing process of the safeguard market, which was offset by the constant growth of our cash flows and the working capital of our core businesses, where we reached an unpaid ratio, which is below 1%, which is the result we had given ourselves when we drive for the business plan and which we achieved one year in advance.

All this allowed us to keep our net financial position at a constant rate. It's at around €2.61 billion, and we were also able to significantly improve our debt-to-EBITDA ratio, which now stands at 2.6 times, which is a result we obtained after roughly 10 years at these levels. As far as the nine months cash flow is concerned, we produced slightly over €200 million – €203 million to be specific of operating cash flow, with which we were fully able to finance the dividend, which is worth €140 million and a large chunk of the extraordinary operations.

Well, I think, the elements you heard are a summary, which is entirely consistent with what we had announced at the beginning of this conference call. We are currently working on the year's last quarter. It's the last stage of the year, and we intend to use all of the traditional levers. We will be continuing to focus on M&A, looking at further expansion. You appreciated the results obtained in organic growth in the first nine month, and we'll be continuing to focus on that.

We will continue to focus on efficiency, which is what we did even in the most complicated years. And we'll also be focusing on new elements, not just the current things we're looking at, but also on sizable investments to be made in the future, all of which is very solid, thanks to the financial situation we illustrated. All of which allows us to look to the new innovations and further investments in a very relaxed way – or in a very confident way.

As you know, in the past, we concluded a number of important transactions such as Trieste with the renovation of a major purifier, which covers the entire region. [indiscernible] (29:01) we're continuing to work on the entire water cycle and all things connected to it. These are all things that we can afford to do, because we pay very close attention to our financial terms of commitment.

I'm saying this because we always have new similar things to these. We will be focusing on the biomethane sector, which is another major commitment. And many are looking to us to see when the time will be right to imitate what we're doing. And that effect is a business line, which we will be committed to in the upcoming months. And these are just a few of the examples, which show our commitment, the fact that we haven't lowered our guard from this point of view.

The only thing I can add at this point is that besides all of the elements we are managing, we're also celebrating our 15th Anniversary. The company started on November 2, exactly 15 years ago, and that is something that we will be celebrating together with all of our staff by the end of the year. When the company began, we still had no idea what kind of an adventure we were embarking on and the complexities it entailed, although I think it's safe to say that these 15 years have been quite satisfying. And since there's never enough time to rest, I simply wanted to mention that we are working on the new business plan, which will cover the five years to 2021, and this new business plan that is going to be illustrated to the market in mid-January.

And that's it as far as we're concerned for the time being. And we can now open the floor to some questions.

Q&A

Operator

This is the Chorus Call operator, we will now be beginning our Q&A session. [Operator Instructions] The first question is by Javier Suarez, Mediobanca.

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<Q - Javier Suarez>: Good afternoon, everyone, and thank you for your time. I have three questions. The first is on the waste business. I would like to have some insight on the commercial dynamics you observed during the second quarter. During the Q2 conference call, we discussed the prices, which were increasing significantly, especially as far as special waste was concerned. I would like to have an update as to what you noticed on the market in Q3 and what your expectations are for this business, which is very cyclical, and therefore, it should improve from the macro improvements? During the conference call, you mentioned your expectations to increase your landfill capacity in three specific landfills. Can you give us an update on that?

The second question is on the Energy business on page 6. And in the right-hand chart, I was interested in the underlying expansion of the customer base, which stands at around 100,000 customers. Could you tell us what your company's policy is? Because expansion of the customer base is pretty significant, and I'd like to understand what your commercial approach is. And can you give us figures on the MSD contribution to-date?

And then I have a third question on slide 9, the Q3 cash flow. The networking capital, which is negative €23 million in Q3, can you give us your assumptions as to what the net working capital should be by year-end, if you intend to reabsorb it by year-end? And the very last question on the net debt-to-EBITDA ratio, which is at 2.6 times, it seems to be objectively low. I would like to go back to some of the statements made by the Chairman to ask you how you see this in terms of indebtedness and what your priorities are.

<A - Stefano Venier>: Beginning with your first question, on the commercial dynamics in the waste sector. Well, in the quarter we just closed, we noticed a consolidation of the prices we had in Q1. So, there is a certain degree of continuity. There wasn't any further uprise on these figures, which had grown between 4% to 6% in the beginning of the year. In comparison, the price delta we saw to-date, the volumes managed, contributed some €3 million to €4 million compared to the previous year. This is the view on the first nine months of the year, which gives you a flavor of what we obtained.

As you probably know, the largest national and European fares are currently happening on the [indiscernible] (35:30) system, Ecomondo, it's called, in Rimini. And we expect to have a number of commercial contacts, [indiscernible] (35:41) confirming and consolidating our commercial policy for 2018. And at the end of the week, therefore, we will have a feel of what our clients view on further developments will be in the upcoming 12 to 18 months.

As far as the landfills are concerned, I will then leave the floor to the Chairman, and I'll move on to the next questions. The Energy business and the 100,000 customer growth, it's not a surprising figure, in fact, because even in previous years, we were always at around 60,000 to 80,000 new customers each year. So, it's not a significant change, vis-à-vis the ongoing business we've been developing. And in fact, in just a few weeks ago, we took part in the convention for the launch of our commercial offers for 2018, which are based on three main values.

First of all, we'd want to make our offer flexible, with some options, which customers are especially fond of. We want to be flexible and transparent, which was rewarding in the past. The second point is that we added a number of options to our offer, which are a menu, a catalog of sorts, that the customers can choose from. And these types of options, in fact, are either advanced tools to save on energy, such as consumption meters, and smart meters, smart thermostats. These are all things we've been using for quite some time now, along with a number of other services, which refer more to the safety of one's home.

The third item is a major push on energy efficiency, thanks to a number of different tools, digital tools such as apps or Web tools through which we can perform a self-diagnosis. And something we've been using for over a year now, which is the fact that in our invoices, we also have the consumption overuse compared to other customers in the same territory, with the same types of homes, who have other suppliers, which means that all customers can have a direct comparison to their consumption vis-à-vis a similar family, in the same city, in the same period of the time.

To that, we also have to add a number of suggestions, tips and possible interactions allowing our customers to take advantage of these dynamics. This is a detailed overview, but I felt that your question was a way of understanding how we are working, and what we're doing as a way of improving, not just through the relations we have with our customers, but also as a way of increasing our customer base.

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We continue using the channels we have organized for quite some time now, both in the outbound channel, indirect sales and our agents of key accounts, which means that we have a 360-degree approach, and we want to use all the available channels, because otherwise, it will be difficult to obtain a further 100,000 customers. And take into account that this doesn't include the churn rate, which means that we have acquired over 200,000 new customers.

Your third question that referred to the MSD contribution in absolute terms. In absolute terms, out of the nine months of the year that accounts for some €10 million, which is a €2 million growth vis-à-vis last year's results. And as I said, another chunk of the result on power generation, stems from optimizations, which on the nine months of the year had a similar contribution, a further €9 million to €10 million.

And then you had a fourth question, I believe, on whether or not we feel that lever is too low. And as the Chairman was saying earlier, this is a result that we were targeting. This was our ambition as a target. We wanted to reach roughly 2.7 times debt to EBITDA. Take into account that the 2.6 times in September benefits from the net financial position, which will rise inevitably during Q4. Therefore, this is the optimal point throughout the year.

But going back to the topic, we had already planned for 2017 to be the year in which we would have obtained the best optimization as far as leverage is concerned. But this is the underlying foundation, allowing us to focus on further four years in investment and development, which will allow us to go back to this kind of a level. We're close to 2.9 or 3 times, which was the long-term target we had. Had we not been able to benefit from this kind of a ratio, we would never had been able to make an acquisition worth over €100 million, which is what we did at the beginning of this year.

I will leave the question on the net working capital to Mr. Moroni.

<A - Luca Moroni>: As far as the net working capital is concerned, as I mentioned during my presentation earlier, I would divide the answer into two parts. The first would refer to the [indiscernible] (41:56) referring to the core activities, which is in line with our expectations. It is under control, and I don't think there will be any significant changes from here to year-end. And then, as far as the Safeguard segment is concerned, we had the effect of our turnover in Q3, and the fact that this can be factored in, in the month of November at the opening credits, stemming from the older tenders, which will likely give us a positive contribution in terms of inflows by the end of the year. And this, in fact, will allow us to offset a major part of the credit, which will be generated in Q4. Our rough estimate was that we would have had a €50 million variation by year-end. And I think that, that will be the figures we'll be looking at.

The last point you mentioned refers to the landfills or the waste treatment plants. And I think the current situation is a lot better compared to 18 months or 24 months ago. But we also have a number of further hopes, because if we look at the authorizations, either to expand the plans or to open new plans, rest assured that taking into account that we expand it into territories we weren't present in, in other words, territories that we had not provided landfills for in the past.

Nowadays, we are present in the entire northeastern part of the country, in Tuscany, and our traditional territories, which means that the figures which may appear to be relevant, if not excessive, are in fact, figures which have to take into account that the geographical scope we now have, the geographical needs we have, which means that were we to look at the procedures that we are working on to obtain the authorizations we need, we'll take into account that we have five such ongoing processes, three of which are located in our traditional territory, and a further two which are currently being processed in the two regions we entered more recently, Tuscany and Veneto, which means that we will have plenty of work to do.

Being able to obtain authorizations is never easy. It's a boring and tough job. Although we have a very clear idea as to what our needs are and what are possibilities are in terms of completing these processes. So, the situation in fact is a lot more comforting. It's a lot more adequate to our needs compared to what the perspectives were two years ago. Thank you very much.

Operator

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Main First, Enrico Bartoli is the next question.

<Q - Enrico Bartoli>: Good afternoon. I also have a few questions for you. I'll begin by the Electricity business. Can you give us your impressions as to what you expect in Q4? You mentioned that in Q3, the main results were due to power generation. Do you see this trend continuing in Q4? And then you also mentioned the €6 million one-off stemming from a tender. Can this be replicated, or will there be a similar contribution in Q4? And can you also give us some insight as to the supply margins performance on your customers?

I also have a question on Gas. In Q3 there was a €5 million growth, this was due to the regulated part of the business. You mentioned the Bulgaria and some payments – or where there effects from trading volumes which increased a great deal in Q3. And then in Gas, you are probably about to finalize the contracts for 2018. Can you share your impressions as to the evolution of margins? The business plan includes a possible reduction, is this hypothesis confirmed for 2018 based on what you're seeing or do you think the situation is slightly better?

And the final question on waste, do you think there will be further impact on 2018 due to expired incentives similar to what we're witnessing this year? The electricity market, what are the impressions as far as Q4 is concerned?

<A>: Well, certainly the benefits we obtained in the first nine months, thanks to our optimizations, will no longer be present because the regulations changed in the first two months. We had some neutral results comparing plusses and minuses which means that we weren't able to drag this effect into Q4. As far as MSD is concerned a lot will depend on the next two months as to any other extraordinary situations. In the month of October, given the warm weather and given a good reliability of water and a good functioning of renewables plants, there were no extraordinary situations as far as the MSD market is concerned. And I have no way of seeing what will happen in the upcoming two months. I think the only event which may have an impact on this has happened at the beginning of the year would be a specific situation in France, but I have no specific information as far as that's concerned.

Moving on to the supply margins, it's a little too early to give you an answer as far as the industrial market is concerned, as you know, most of the contracts are finalized in November. So, we're still working on the large industrial players. They are a component, of course, but they are not the core business. As far as the more Soho and residential customers are concerned, the small owners, homeowners are concerned, we're not seeing any major changes as far as margins are concerned, which means that we are continuing along the lines of the results we posted in the previous nine months.

As far as gas is concerned, the largest contribution in Q3 stemmed from a couple of extraordinary transactions [ph] in the regulated part (49:58) of the business, increased tariffs [indiscernible] (50:07) well, as you know, the summertime is kind of dead in the sense that there aren't major levels of consumption or trading. The only real activity during the summer is, in fact, working on our stock – on stocking up. So, other than the changes in fair value, which did move around a bit, but not very much, that was the only element I'd mention and how we see things moving forward.

Well, as you know, the industrial contracts have already been finalized. The thermal year began October 1. And both in terms of acquisitions and sales, they are in line with what we saw in 2017. As far as the residential market is concerned, there was a slight erosion on margins, take into account that as of October 1, as we mentioned in the business plan, the tariff component which have been introduced by the authority ended and I'm referring to the component as a way of guiding a migration towards the new indexing system regulated by SIMEM which means that we lost €0.01 due to the expired component.

And then you had a last question on waste. No, we don't have any major deadlines in 2018 similar to the ones we had in previous years. That's something which we focused on in the past and for the upcoming years, we don't have any major deadlines we'll be having. This will start once again after 2020.

And then you also asked a question on GALA. We had a mass customer shifting as I had mentioned earlier. I made a mistake, it wasn't in mid-September, it was mid-July, in fact. And they are leaving us progressively, they haven't left us entirely [indiscernible] (52:33) Q4, I do expect to have a certain degree of carryover, on this phenomenon we've mentioned in Q3. And therefore, I do expect a portion of that in Q4. I expect a couple of million euros from that. Thank you.

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 Company Ticker: HER IM
 Date: 2017-11-08
 Event Description: Q3 2017 Earnings Call

Market Cap: 4,435.85
 Current PX: 2.978
 YTD Change(\$): +.786
 YTD Change(%): +35.858

Bloomberg Estimates - EPS
 Current Quarter: N.A.
 Current Year: 0.160
 Bloomberg Estimates - Sales
 Current Quarter: N.A.
 Current Year: 5027.714

Operator

The next question is by Roberto Letizia, Equita SIM.

<Q - Roberto Letizia>: Good afternoon. Let's go back to Enrico's question on the energy side of things because a scenario we saw in Q4 last year is looming ahead. In fact, over the past weeks, we had a price which was above €80 per megawatt hour. France is already announcing problems as far as the nuclear plants are concerned. There are some problems as to the cooling down of the plants. Therefore, we are likely heading towards a similar scenario.

Were we to have the same scenario we had last year and average price which, in Q4 last year, was €56 per megawatt hour, what would the benefits be vis-à-vis the business plan in Q4 with this kind of a scenario? I would like to have a few more indications on urban waste in Q3, there was a significant decline. What is driving the decline and what can we expect for the upcoming months?

And a follow-up as far as GALA is concerned. Could there be an impact on Q1 next year? Do you think this dynamic will expire in this Q or do you feel there are may be some further benefits in Q1 2018. And the final question is an update on regulation. The recent discussions, have they brought about a positive effect on the possibility of having the energy authority regulating energy as well?

<A>: The energy market, yes, it is true that we are seeing similar things, also in terms of forward prices for 2018. The value is high, so to speak, compared to what we may have expected. But we also have to understand the underlying elements which, to us, may bring about a positive result. In other words, last year, we posted a positive contribution worth some €50 million due to the following reasons. The reason was that the situation in France was a surprise to many players. And since we had bought some options on some export capabilities from Italy to France, we were able to benefit from the position we had. But the fundamental element was the fact that this situation was at a standstill, basically. There was a wait, which means that other operators weren't structured, they weren't covered to face this kind of a situation. That's what gave us the most benefit from last year.

This year, of course, were the price to be at around €80 per megawatt hour, although these are peaks in price and not the average daily price, of course, [ph] from our – with (56:27) energy production, we can benefit from this process, take into account that on a quarter, were the average price to be €60 rather than €50, I would benefit some €2 million or €3 million. And everything else since we don't have a significant production of electricity, the extraordinary profit can be brought about within asymmetrical position vis-à-vis the market. In other words, not on the same market trends, I hope that it's clear.

<Q>: Yes, it is clear. I was referring to the €2 million or €3 million you were mentioning, which were the ones you posted on the first nine months of the year, urban waste.

<A>: Well, if I understood your question correctly, you were asking for an explanation as far as the contraction of urban waste volumes are concerned. It's pretty marginal, just a few thousand tonnes. Take into account that on a yearly basis, we collect 2 million tonnes of urban waste. So again, it's a zero-point-something percent decline. It's not a sign at all. And it's also in line with the ISPRA report, which was published just a few days ago, which shows that one of the indicators of an improved industrial situation in Italy can be identified by the increase in the generation of waste. Obviously, this growth and energy consumption, of course, has a certain degree of flexibility, and of course it is affected by energy efficiency and lower amounts of wastes. But these are marginal figures which don't have an impact on our economics.

GALA [indiscernible] (58:31) carryover on our Q1. Well, I do hope it will, I hope there will be a benefit in 2018. Of course, we have no [ph] way of stalling (58:42) the process down. A lot depends on the speed with which [indiscernible] (58:50) will complete new tenders for the supply. And on the other hand, the public administration which are all worthy of credit, with the speed with which they will accept the new offers that [indiscernible] (59:12) is working on territorially. So, my answer is we won't be down to zero in Q1, there may be something left of the €2 million I mentioned for Q4 this year.

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And your fourth question was on the authority, the national regulator. Yes, as far as this last question is concerned, honestly speaking, I personally supported this approach without very much success, in fact, and I think that with the incumbent elections and the general atmosphere prior to the elections, make it difficult for that to happen. And yesterday, I was at the Ecomondo fair and I have to say that in the few weeks before political elections, I don't think anyone will be willing to tackle and they weren't able to solve it over the past 18 months. And in fact, we talked to everyone and despite the fact that everybody agrees on this, they still haven't been able to find a law or a bill allowing it to be passed.

At the beginning, people thought that there was someone who oppose us but nobody declares to oppose us anymore. But where do we stand now? Well, we stand in the exact the same situation we had 18 months ago. I think we have to be patient, and we will have to go back to a discussion as soon as the political atmosphere allow us to do so, as soon as Parliament will be able to work on it again.

And I'm not being selfish, we are affected relatively by all this. The bad thing is that the waste sector, as a system, cannot continue with a lack of general rules and regulations. The lack of rules has simply ruined the sector. It exposes the larger players to risks, as we wait for a solution to these issues, which means that the political world will have to deal with this sooner or later. Otherwise, the sector will continue to encounter difficulties. [ph] The small in-house (1:02:15) solutions to the problem is the exact opposite of what Italy would actually need. We've been studying this topic at length and Italy would need the exact opposite. Thank you.

<Q - Roberto Letizia>: Thank you.

Operator

[Operator Instructions] Mr. Tommasi di Vignano, gentlemen, there are no further questions for the time being.

[Unidentified Speaker]

Well then, thank you. Good-bye. We are going back to our offices after a very satisfactory nine months. Thank you, and all the best.

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