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An LSEG Business



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PRESENTATION

Cristian Fabbri Hera SpA - Executive Chairman of the Hera Group

Good afternoon, everybody. We're here with our usual team, our CEO, Orazio Iacono; our CFO, Massimo Vai; and our Investor Relations Director, Jens Hansen.

We have just approved this morning, at our Board of Directors, we approved our 9-month results, which I'm sure you have already had a look at with the press release. And these results are in line with the good results we posted in the first two quarters of the year. In fact, we are, in fact, accelerating the growth we saw in the first two quarters.

And if we look at the first lines, P&L, you'll notice that turnover is going down. But it's going down due to the price effect, which accounts for 80% of that reduction, along with the reduction in the Super Eco Bonus activities. EBITDA is up by EUR30 million, with a 3.1% increase. And this good results, as you can see, is inserted in the results of the first nine months, which are in line with the growth we saw in 2023. So we had a good growth in 2023, and we're still growing in 2024.

If we go down to EBIT, we'll see that this growth increases in terms of percentage points, which stood at EUR18 million growth EBIT. So of the EUR30 million we saw in EBITDA, more than 50% goes down to EBIT. And we'll be seeing how that increase in growth happened.

And then although we're down to net profit, which is up by EUR47 million, net profit post minorities, which is up EUR47 million, equal to 20%. Now this significant growth we're seeing in terms of the net profit is a growth which is also linked to the major reduction in financial expenses out we'll be seeing in a few minutes over the next few pages of the presentation.

So we posted good results. And let's take a look at how we achieved these results more in detail. If we look at EBITDA, we're seeing an organic growth here, which is driven both by growth in the liberalized markets and on the regulated markets, EUR74 million and EUR43 million, respectively. So we're seeing an overall organic growth worth EUR117 million.

Inorganic growth, which allows us to more than offset the extraordinary effects that we had seen in 2023 to the fiscal benefits linked to the Super Eco Bonus, thanks to which we had developed activities with benefits in 2023, but which, as you know, expired at the end of that year, which means that this year we're not seeing those effects anymore. The group was able to withstand achieving a good organic growth.

In terms of EBIT, we're seeing that the amortization, which is up due to the higher investments we're making in recent years, are more than offset in terms of growth by lower provisions, which are also linked to the reduction in turnover, which means that you can easily appreciate that, as far as provisions are concerned, we had a reduction work 25% compared to last year, which is in line with the reduction in turnover.

So these are the main elements in terms of EBIT, which gives us a final result of EUR523 million in the first nine months of the year. We can now see how these variables create value in terms of ROI. We're seeing a 50 basis point growth from 9%, which was the result we had a year ago, up to 9.5%, which is the result we posted in the first nine months of the year. The growth further expands as far as ROE is concerned, with a 10 basis points increase, which further underscores our ability to create value.

Now these growths in terms of profitability are also linked to the fact that, given the higher investments we made over the period, we were also able to increase net invested capital by over EUR200 million, which leads to the effects we're seeing on the right-hand side of the graph, highlighting an earning per share growth equal to 20%.

And if we add that to the 4% dividend yield, if you take into account the dividend we paid this year, and that our stock price is at 3.5, all in all, we have a total shareholder return in the first 9 months of the year which stands at around 24%.

You may remember that when we looked at our business plan, we had an average growth of the total shareholder return worth 12%, which means that we are speeding up compared to the average we expected in the business plan. Let's now move on to the business-by-business breakdown, beginning with energy.

In energy, we highlighted the contribution stemming from the Super Eco Bonus and the VAS in recent years, which were significant both in 2022 and in 2023. You can notice that the structural growth grew in 2022 and 2023, and we've seen a further increase in 2024, with an overall effect worth EUR59 million over the period. That was as far as organic growth is concerned.

This is a significant organic growth level, which already considers the marginalities of the STG. You may remember that early this year we had acquired 1 million customers on the STG auction.

We didn't have to make an upfront payment to acquire those customers. It was based on the discount offered toward customers. This discount, which had effects on the margins, was already offset by the organic growth, which should have been even higher had we not had that discount. But as we had mentioned, back then, we had all the tools, all the skills needed to continue to grow organic.

For the very first time in our history, we are above 4 million customers. We currently stand at 4.7 million customers in late September. For the first time in history, we have more electricity customers compared to gas customers, given the auction we were awarded, which goes to show that we were able to increase by 900,000 customers compared to the previous last year.

Also as far as the STG world is concerned, we concluded all of the activities to bring the customers on board. And compared to what we thought as far as those customers are concerned, we found a very good customer base, good payers, very loyal. And this to us is very valuable.

The onboarding activity was converted swiftly. We have already received the very first payments from them. We've already activated the home payments for those customers, all of which is very positive. We have already sent out all the communications to our customer base, and we concluded that in a very positive way. This, of course, is also linked to all of the activities of the business we're working on.

We also figured out how many times citizens are served by at least one of our group services. We now have over 7.5 Italian citizens, which means 13% of Italy's customers receive at least one service from Hera Group, and roughly 80% of them have at least one energy service.

Let me now hand it over to our CEO, who will talk to us about networks and waste.

Orazio Iacono Hera SpA - Chief Executive Officer, Executive Director

Thank you, Cristian, and good afternoon. As you can see from the slide regarding waste, we are continuing to consolidate the growth that we had described during the H1 presentation this year. On the left-hand side, you can see the acceleration we had

already commented in Q2, which was confirmed in Q3.

And in a moment in time in which industrial production, as you all know, are slowing down, we are still continuing to grow. In fact, we are continuing to conquer market share. And to this growth, all of the various parts of the waste business contributed, waste collection, waste treatment, all contributed.

As far as waste collection is concerned, we were recognized inflation, as you know, given our increased efficiency and given the expansion of value-added services offered to the territory, all of which give us margins. But also thanks to the lower goodwill for the long 15-year concessions we were awarded in our territory.

Moving on to the waste treatment activities. In this case, we have a plus 11% growth, which means that it is a business which continues to grow by volumes for the most part, as we can see on the graph on the right-hand side, with 260,000 tons in special waste volumes, which are up in the first nine months of 2024 compared to 2023.

We've also expanded our market share. We're also looking to those sectors, to those parts of the market, which aren't linked to economic cycles. Therefore, with our commercial channels and through cross-selling, we are able to continue to create value, which means that our plants are always running at full capacity.

What you can see on the left-hand side of the graph, negativity as far as urban waste is concerned, is simply a normalization, is a delta linked to the flood emergency we had in 2023.

As you can see in the top right-hand part of the slide, we included the Innovation Fund label. We're continuing to invest, and in fact, recently, we continue to activate our carbon fiber recycling processes. We are the very first to enter that business.

And in the future, we'll be able to share our very first results in the production of recycled carbon fiber, and from the European Executive Agency, Seneca, we received the news that we were recognized, the Innovation Fund, for our CO2 to capture project.

And we received a EUR24 million grant for that product, which is the carbon capture projects in our waste energy plants, the first one in Ferrara, which means that we are the leaders in that market segment, and we are leading the way in terms of innovation. And when waste energy plants will be included in the EGS, we'll certainly be able to manage this development process in the best way possible.

Moving on to the networks business. Decrease for the first nine months of the year, we confirm the fact that networks are the main contributor to our growth with a national value worth EUR391 million, a growth which is in line with the previous quarter. Even here you can see the effects due to the purview of the WACC which in turn allowed us to post a double-digit EBITDA growth. We are above 11%.

Now we have an overall growth, which is also the effect of the investments that we are continuing to make in terms of innovation, extracting efficiencies. And as you can see on the left-hand part of this graph, EBITDA has really boosted the results we've had in recent years, even in years in which we didn't have an increase in WACC, when it was constant in fact.

Therefore, thanks to our investments, thanks to our efficiency, and thanks to the premiums we obtained, we were able to -- our EBITDA to grow this much. As you can see in the graph on the right-hand side of the screen, we have growth both in energy, energy distribution, plus EUR25 billion, we also have plus EUR25 million in water, both of which more than offset the negative result in district heating, which in 2023 was affected by one-off events. And even this year, we're seeing some effects which lead to that difference we're seeing in the first nine months of the year.

So let me just conclude by saying that if we compare the first nine months of this year to the first nine months last year, our growth would be even higher. We would be up to 50 had we not had one-offs related to district heating, which means that networks contribute to EBITDA in a very significant way, improving our risk management abilities, because we are at 38% on the regulated side of the business.

And let me give the floor now to Massimo Vai for his part of the presentation.

Massimo Vai Hera SpA - Central Director of Administration, Finance and Control of the Hera Group

Good afternoon, everybody. On slide 7 we are seeing an overview of the cash flow. Let me also make a comparison with what we had seen in late July for the first six months of the year.

Beginning on the left-hand side, the operating cash flow in the first nine months of this year stands at EUR774 million, which means that, compared to the (inaudible) we had in June 23, we have a growth worth EUR238 million. And if we compare that to the same period in 2023, we have a growth worth EUR110 million compared to the volume we had in September 2023.

Now beginning with this operating cash flow generation, let's now see how it was used. We have a cash absorption worth EUR261 million, as far as net working capital is concerned, which is up EUR90 million compared to the value we had in late June, and which stands at around the same value as late March.

This year, we know that after a major net working capital in 2023, we have an increase linked to commercial development plus as the Executive Chairman was saying, beginning July 1 this year, we now have an extra EUR1 million energy customers.

And as we were saying, all of the bidding, invoicing and cashing in services, our performance was very good. It exceeded our expectations, in fact. And the process, of course, was completed after September 30, given the goodwill period you have, we're dealing with these major numbers. And of course, to us, this was a very important figure compared to our previous customer base. Moving on to the cash flow needed for CapEx.

At September 30, we stand at EUR535 million, compared to the -- which is up EUR212 billion compared to the value we had as at June 30. A sizable increase, therefore. And compared to the same period last year, CapEx is up by some EUR50 million, which also show that we are continuing in the recent years as a way of supporting our organic growth. Then we have dividends, which is, of course, a figure you're already familiar with because we referred to it in late June.

Then we also have EUR45 million cash-out linked to the TRS Ecology company, which operates in the waste sector, which is a part of the group and which is already starting to generate its economic benefits, which leads to a value variation worth EUR347 million, which is up by EUR100 million compared to the figure we had seen in June this year.

Moving on to the two graphs on the right-hand side. In the top right-hand graph, you will see that our debt-to-EBITDA ratio continues to stand stably at around 2.7 times, which is well below the threshold we tend to give ourselves, which is 3 times, giving us a good financial soundness and a good flexibility for any further growth opportunities.

And then in the lower right-hand graph, you'll see the net interest expenses, which are a major part of the company's P&L. And in the first nine months of the year, we are now back at the figures we had in the first months in 2022, compared to 2023 which had a major impact linked to all of the provisions we needed for the energy commodity shock, which you will remember, which we've been able to (inaudible) also thanks to the cash we had available as a company.

Obviously, this result isn't only linked to the scenario. It also requires a careful management of our debt and our resources, something which began midway last year, and which is already giving major effects, as I have mentioned, during the past month. I said that this comparison would have been consolidated as the months went by, all the way up to the end of the year.

Moving on to the following slide. On the left-hand side, you'll see that our cost of debt is confirmed at 2.7%. This is a medium to long-term debt. You'll see the mix in interest rates stands very much focused on fixed interest rates, 97%, which guarantees stability of the cost of our debt.

Moving on to the right-hand side of the graph. We have a change in the financing mix, which happened in the recent months, during the summer. We had the expiring of the Green Bond, which is the very first Italian Green Bond, which was (inaudible) in 2014, which expired in July, which was worth EUR288 million. And we had another loan which expired in August. Both of which were repaid using the cash we had available.

And then in September, also given the development of our investment plan, and taking advantage of a dip in medium- to long-term interest rates, we decided to use the EIB line that was given to us a year ago, something that we were very proud of, of course, because it proved how positive our investment plan on resilience, innovation and sustainability.

So basically, we took advantage of this EIB loan, which is in line with the optimization process of our debt structure as we are guaranteeing our resilience and a very low refinancing risk.

And back to the Chairman for some conclusions now.

Cristian Fabbri Hera SpA - Executive Chairman of the Hera Group

So let me just summarize the presentation by using four main indicators allow us to underscore the good organic growth we've seen in the first nine months, which stands at around EUR117 million. This is an organic growth which is worth roughly 11.6%, excluding

the negative effects linked to the Eco Bonus activities, which have developed a significant amount of turnover.

EBIT is up by 3.5%. Our net debt-to-EBITDA ratio stands at 2.7 times. It has now become a constant element during the year. But above all, we're seeing a further growth in net profit, plus 20%. And this growth is something that continued even this year. In June, we stood at 16%, and we now stand at 20%, which means that we are progressing from that point of view.

We are keeping our promises as laid out on the business plan. In fact, we're doing even better compared to what we were forecasting in terms of the execution. And you have the results in front of you. We tried to give you this presentation of the figures to give you plenty of time for questions for any doubts or any comments you may have.

QUESTIONS AND ANSWERS

Operator

Javier Suarez, Mediobanca.

There is a technical issue. We can't hear Javier.

Javier Suarez Hernandez Mediobanca - Analyst

I have three or four questions for you. The first is on the cash flow statement. I noticed the increase in the net working capital absorption in Q3. And I heard your explanation in regards to the commercial development that the group is working on with the acquisition of these new electricity customers.

What are our expectations for net working capital absorption for to the end of the year? And how are you looking to the balance sheet for 2025 to 2026? Is the negative net working capital something that we should consider as being structural after having acquired so many new customers?

The second question refers to something the CEO was saying when he said that, in Q3, you're speeding up. And I wanted to focus on the waste business. There was an acceleration in volumes, especially when it comes to special wastes, and even the economic difficulties the country is facing. How is Hera able to increase its market share? And what are the dynamics you expect in the next few quarters for price/volume dynamics?

Third question. Management is referring to this acceleration compared to the business plan. Can you comment how you're doing from the qualitative standpoint? Not the quantitative ones. What are the qualitative dynamics we should expect for the next few quarters? Also compared to what you were saying early last year, are you speeding up in your deliveries?

Cristian Fabbri Hera SpA - Executive Chairman of the Hera Group

Yes. Let me give the floor to Massimo for the question regarding the net working capital.

Massimo Vai Hera SpA - Central Director of Administration, Finance and Control of the Hera Group

Thank you for your questions, Javier. As far as the outlook regarding what we're seeing today on the net working capital cash absorption, well, my focus is that it won't change or the remaining part of the year.

Whereas, as far as the future outlook is concerned, we're seeing this year, we saw a negative impact linked to a number of events, which last year generated a positive effect and which were one-offs. Typically, the commercial growth absorbs net working capital. When it stabilizes, we expect the net working capital to stabilize as well.

And then it's a little bit more complicated to see how it performs in each single quarter. As you know, we're currently working on the new business plan. Following that, we'll have more detailed forecast on a month-on-month basis. But I don't expect to have a prolonged negative effect cash absorption for the net working capital. Of course, with a price scenario that would remain stable.

Because, as you know, where the energy prices grow, in turn it would amplify as we saw in the past. But that's something which is normal when it comes to net working capital linked to turnover and then linked to energy commodity prices that we have to manage.

Cristian Fabbri Hera SpA - Executive Chairman of the Hera Group

And Orazio, do you want to answer the question on waste?

Orazio Iacono Hera SpA - Chief Executive Officer, Executive Director

Yes, that was -- I kept it short, so I didn't describe the growth we're seeing in the waste sector, especially when it comes to waste treatment. We are treating 260 million tonnes for urban waste, or for special waste, excuse me, that is split in the agri, food sector on the one side, and the oil and gas sector, which aren't affected by the economic cycle.

In this case, we have, for the most part, liquid waste. And in that sector, the oil and gas sector. Prices have gone up, in fact. The other half of the 260,000 tons refers to the so-called utility switch. What that is urban wastes from areas of the country which don't have waste treatment plants.

So basically, it is the outcome of trading activities or commercial waste which goes into our waste treatment plants. Plus, as I was saying earlier, we have a very developed commercial network, plus our waste treatment plants are local strategically where the waste is created.

For example, recently, we were able to expand our market presence, attracting the waste from the major infrastructure construction sites in our country, especially, of course, in the northeastern part of the country, which is where our waste treatment facilities are located.

So the Increase in volumes, the broadening of our portfolio, our cross-selling capabilities, along with the positioning of our plants in the more strategic parts of the country, how much we continue to expand, along with the fact that the country is still short in terms of waste treatment capacities, and it will continue to be so for a very long time, due to all these, prices are high. They continue to be high.

And in fact, when it comes to liquid wastes, as I was saying earlier, in fact, we have seen a slight increase in those already high prices. So we will certainly continue to have a -- it's a positive situation for us.

Unidentified Company Representative

When we talk about accelerating, you wanted to have a flavor of what we want to do from the quantitative -- or from the qualitative standpoint. Well, let me begin with a few figures.

If we look at EBITDA, in the first 9 months of the year, we grew EUR117 million organically. In June, we stood at EUR66 million. So if you compare things to last year, in Q3 this year we had a good performance, which is also linked to a sizable increase compared to last year, compared to the growth we posted in Q3 last year. So that gives you a way to measure our acceleration.

The other element, of course, is the speed with which we were able to normalize our financial expenses. In September, we were back at a level which was consistent with last year's level, with a positive difference worth EUR50 million.

So that's the picture for the quantitative point of view. But how did we do so well from the qualitative point of view? Well, surely we've overperformed in terms of waste, which is what our CEO was mentioning, point in time in which the amount of waste hasn't grown.

Despite that, being able to grow, our market share was very positive. Plus in the energy business, we were able to grow net-net by EUR60 million on the organic side of things, if you consider our commercial development and the very quick normalization of our (inaudible) costs compared to the same period last year.

Those are two elements, which really did speed up, they really accelerated compared to what our expectations were. So this acceleration doesn't mean that we are ahead of schedule in terms of achieving our year-end results, which is something that we were expecting, in fact, also everything came into place in a very positive way.

We are very confident even for the last quarter of the year. We are halfway through the quarter, and for the time being we're doing well, which means that we are confident that we'll be continuing in our good performance.

Operator

Emanuele Oggioni, Kepler Cheuvreux.

Emanuele Oggioni Kepler Cheuvreux SA - Analyst

Yes. I hope you can hear me.

Unidentified Company Representative

Yes, we can hear you.

Emanuele Oggioni Kepler Cheuvreux SA - Analyst

Thank you for the presentation. I have a couple of questions for you. First of all, on energy supply. The 4.7 million customers that you have are worth 900,000 net growth year on year. And in your first statements following the auction, you said that you had acquired 1.4 million customers, which then had become roughly 1 million in H1, whereas now the net amount is 900,000.

So can you just walk us through the moving parts since these figures can't fully be compared? We have both additions which go beyond the auctions, along with the normal market churn rate dynamics. So a first question refers to this number, the number of new customers.

And the second question is on the profitability, the shift rate you expect, not so much in Q3, of course, it was far too soon, of course. Beginning with the end of this year and especially in 2025, tell us what you expect in terms of the shift you expect to see towards that premarket contracts through cross-selling and other services.

How do you expect to convince these customers to migrate from the former Tutela market conditions to the new liberalized market conditions?

Unidentified Company Representative

Well, thank you for your questions. As far as the numbers are concerned, the number of customers you were mentioning, we began with an estimate worth 1 million customers. Those were our expectations, figures relating to October. So we made our estimate in July. And then the customers we actually acquired were below 1 million -- slightly below 1 million.

Nowadays part of those customers left. And part of them we've been able to turn into premarket customers. The goal, of course, is to offer different tariffs through them, because as you know, there is a variable tariff for the variable safeguard contracts, whereas currently, with the relatively low interest rates we're seeing compared to the past, many already decided to stabilize their price with these new offers that we are making to them.

Now I don't want to give you very specific numbers because it is somewhat price-sensitive. from a commercial point of view. But what I can say is that, so far, we're doing better than expected. Quality of our customer is very good. The customer loyalty we're seeing is better than what we were expecting, in terms of the churn rate.

We were a little bit more pessimistic in terms of customers who had been (inaudible) customers for so long. We were expecting them to leave us very soon. But we're seeing a very good loyalty rate, with good returns with the comfort calls we're making just to verify all of the data and invoicing information.

So we're seeing that customers are very satisfied. We're seeing positive returns. So as both myself and Mr. Vai said earlier, we're seeing a good quality of customers and we're doing better than expected from all points of view. But of course, as you were saying, it's only been three months that these customers joined our company.

We'll see how things continue. But I think that the first few months were very positive. And as far as market dynamics are concerned, yes, we had 1 million customers coming in. Currently, we sit at 900,000, a few customers left us. And then we also saw some specific dynamics regarding other markets such as (inaudible) resort market, which means that currently we stand at plus 900,000 customers.

But you may remember that in the business plan, we were expecting to reach end of the business plan years at a lower number compared to 0.7 million customers, just to take into account the churn rate in general when it comes to this customer base. We will be updating these numbers with the business plan update just so we are illustrating where we're getting -- what we're seeing by getting to know these new customers.

Emanuele Oggioni Kepler Cheuvreux SA - Analyst

Just a short follow-up on provisions. So you don't expect any changes in provisions given the good quality of these customers? So we don't have to expect any changes in your provisions, in general, not just energy supply. So provisions in 2025 and over the next few years will continue to stay on the low levels we've seen in 2024 so far?

Unidentified Company Representative

Well, we have no reason to believe anything will change. And these customers are not customers we're concerned with for the time being, so. And if then prices will go back up to EUR500 per megawatt per hour, then we'll see. But for the time being, that isn't a reasonable scenario.

And then more or less stable conditions, as we were saying earlier, our business plan, we're expecting a return to more normal levels. We're currently at these more normal levels. And typically, Q4 is very packed with events, and therefore, even when it comes to the (inaudible) market, we'll take all the necessary steps. But for the time being, we don't have any specific topics we're looking at.

Operator

Davide Candela, Intesa Sanpaolo.

Davide Candela Intesa Sanpaolo - Analyst

Good afternoon, and I do hope you can hear me. Thank you for your presentation. I have 3 questions for you. First of all, a question on energy supply. Customer loyalty linked to the fact that you acquired customers with a low churn rate.

And therefore, the discount you offer has a higher impact on your accounts. Or is it simply quality? In other words, how you see your customers, and you expect to have a net evolution in moving to the liberalized market?

And the second question is also on energy supply, on the competitive scenario. What do you expect next year? Do you expect to continue seeing (inaudible) price levels? Will commodity prices continue to increase? What are your expectations given the fact that commodity prices had gone down in the past?

Then I have a question on waste, which just goes back to what Javier was saying, Europe is anti-cyclical. And despite a slowing down in the economy, you're doing quite well. So can you tell us something more regarding your diversification on customers, and waste, plus the fact that it is short in infrastructure, will the prices continue to be high? And can this be lack of incentives when it comes to M&A? Because companies tend to be more profitable, and therefore, they may be more resilient towards M&A.

And if I may, one last question. Looking at your balance sheet and your leverage. There's a EUR300 million difference between 2.7 and 3.3 times in net debt-to-EBITDA, which means you have some EUR300 million to invest in any possible opportunities. Are you looking at any possible opportunities? Or are you conservative regarding your possibility to use the net working capital?

Unidentified Company Representative

Well (inaudible) with our presentation to give you some time for questions, of course. So we have plenty of time. Let me begin with your question on churn rate.

Well, thanks to this auction, we got new customers without having to pay for them upfront. We were able to make that acquisition by offering these customers a discount, a discount that we would expect to pay for the months that they will receive their supply from us.

The fact that we have a higher loyalty rate compared to what we were expecting means creating value. Why? Because it means that, at the end of the period, if we will continue to have churn levels over the next few months, we'll have more customers who will go to profit from this higher customer number.

And since our business plan is very conservative, although it has a positive profitability, the fact that we can increase the terminal value of the investment means that we create more value. So that would be the effect that we expect.

Then, of course, will we spend more because more customers stay on, we have more margin? Well, that depends on the speed with which we will manage upselling, cross-selling, and how we amend our offers, which is something we're working on.

So by offsetting these two levers, we can offset the impact of having more customers, and we'll be holding on to the positive thing, which is the terminal value of the operation. As far as your second question is concerned, I hope I understood it correctly. Let me try to answer and let me know if there's anything else you'd like to ask.

Yes, prices are changing. Currently we aren't seeing any major changes on the market. We certainly had a slight bounce back on prices, and our customer trends are the same we were expecting. So we haven't seen any major changes in churn in the first few months. We haven't seen any specific criticalities in recent months.

Currently, we're working on two different fronts, and commercial development. But in the more recent period, we are trying to profit from this treasure we receive and we have to -- which (inaudible) maximum value. So the biggest return regarding our business and our time is to start as best as we could with these new customers, which is what we did.

So if I understood your question correctly, that would be the answer. And then let me give the floor to Orazio to answer your question regarding waste.

Orazio Iacono Hera SpA - Chief Executive Officer, Executive Director

Well, as far as the waste business is concerned, the industrial sector where we continue to increase our market share, is food and the agri industry. To that, we also have to add the oil and gas sector, which is anti-cyclical.

And in this case, as I mentioned, we have liquid waste for the most part, which we then treat in our plants. You may remember that we have 100 assets covering the north, central and the southern part of Italy, all the way down to the Molise region. And this asset base allows us to manage all of the waste coming from industry.

To that, of course, we have to add all of the special ways which is derived from the urban wastes from other regions which don't have waste treatment capacities. Therefore, they have to ship their wastes either to our waste treatment assets or to the ones that we trade with. So it's food, the agri industry, and oil and gas.

As far as our price outlook is concerned, it is high and stable. And in fact, when it comes to liquid waste, as I said earlier, we saw an increase in prices, especially when it comes to the liquid waste in oil and gas. It's something that we're very pleased with.

And recently when it comes to markets we're entering, we are now present in the large infrastructure sector where there is the need to work on site remediation. You may remember that we made the acquisition of the ACR Reggiani company, which means that we are now leaders in the remediation market.

And also thanks to the many large waste treatment assets we have, we can positively manage our customers' requests in terms of quality. And as we mentioned, prices continue to be high. But of course, for those high prices, you have to offer high-quality services.

And Hera is a company that is recognized by the market as being a company capable of offering high-quality services when it comes to treatment, regeneration and recovery. I think that is key when it comes to accessing new customers.

And once we conquer them, we are able to turn them into loyal customers over time, thanks to the quality of the services we offer in all sectors. Also thanks to our global services product, we sell circular economy. Ultimately, we don't wait for the waste to come to us.

We go out and conquer the waste, thanks to the commercial network we have allowing us to cross-sell our various services by using all the streams we have in the waste sector. So basically we don't expect any difficulties.

We don't expect to see any problems in terms of growing even through M&A. As we were saying earlier, this year's growth was almost entirely organic with a small piece of M&A, a TRS ecology company that we bought near Piacenza. And that allows us to focus on the Southwestern part of Lombardi, which is an area of the country which is very rich in industry.

And of course, the waste treatment sector is very fragmented. So I feel that there still are plenty of opportunities out there. And as Massimo Vai, our CFO, was saying, thanks to our financial flexibility, I think that the future is very promising.

And more specifically, we started talking about M&A (inaudible) 2.7 times net debt to EBITDA means we have more than EUR300 million to invest, because EUR0.3 million of to EUR1.5 billion EBITDA is worth EUR450 million. And we're using the EUR450 million to create more EBITDA.

If you go up 3 times, that would mean EUR600 million. And in special moments of time, we even increase the lever to deal with complex situations on the one hand, such as when we face the energy crisis. But we also use it to invest on M&A, which is what we did in 2019 when we bought the Ascopiave customers.

So we do have the lever, our goal is to invest with good profitability. So we have our organic growth investment plan and we also expect to continue to look to the market for possible M&A opportunities. And as you know, we (inaudible) conclude new transactions. In the more recent periods, they have been smaller transactions. But they do allow us to make the most of profitability because those companies, those acquisitions that are a perfect match for our portfolio.

But we can also look at larger sized operations. And of course, as you know, we only explain what we do when we sign the contracts. And as soon as we have something signed, we will communicate things in the best possible way.

M&A to us is almost an organic business line. And since we have many different types of businesses in a number of different territories, we can always look for targets that can create synergies both in terms of efficiencies and development, which can be a perfect fit for our portfolio and our territorial dimension. So we never get bored from this point of view. We always have plenty of things to look at.

We're very choosy. That's where we want to make the most of our investments, of our resources. And we want to create value, as we explained during our business plan presentation.

Operator

Francesco Sala, Banca Akros.

Francesco Sala Banca Akros - Analyst

I hope you can hear me. I have three questions for you. First of all, what do you expect on gas volumes for the 2024, 2025 thermal season, also compared to last year? What are your forecasts?

Question number two is have you made any assessments on the Arera documents regarding the factors? And how do you think the situation will evolve in 2025 and looking forward? And what are your forecasts on WACC or the regulated businesses in 2025?

And finally, on the supply business, especially in electricity, there are some newcomers on the market. Do you expect the competitive scenario to change? Do you expect any pressure on margins, more so than in the more recent quarters?

Unidentified Company Representative

Well, what we expect in gas volumes compared to last year is something less, as we've already seen in the first nine months. That's also linked to a reduction that we expect in the last instance market. The last resort market is something that we've already, which

means we expect slightly lower volumes in gas. But at the same time, we have grown significantly in electricity due to the market development, not just in STG but also in certain developments we see in a number of segments beginning at the end of last year and early this year.

As far as competitors are concerned, in Italy, we have some 500 different energy players. If 500 becomes 501 or 502 or 503, the pressure -- the competitive pressure doesn't change very much. So good look to the newcomers. It's a market with plenty of competition and plenty to do. We're not concerned.

We're not worried by the newcomers if the sector are coming from other sectors. We're not especially concerned. We saw other competitors in the past who conquered their market, niches, but they never made a significant impact on our results.

Moving on to your question on the Arera document. We're waiting for everything to be finalized, to be perfectly defined. The elements linked to the (inaudible) on WACC have different meetings, because the former, as a way of making some updates, whereas the latter, the WACC reduction is something we expect in 2025.

But for the time being, we're not especially concerned by the impact. And based on what we've heard from the authority and we'll have the final version of these documents over the next three to four weeks.

And we're not especially concerned by the update. And we're waiting for update on the district heating, which as the CEO was saying, may define a non-transitional framework. It will be more customized, and therefore, it will allow us to recover compared to the decline we saw this year compared to last year.

Operator

Roberto Letizia, Equita SIM.

Roberto Letizia EQUITA SIM - Analyst

Thank you for your presentation. Let me focus on numbers first before asking a more qualitative question, also given the very positive nine-month figures. Let me ask for an outlook for the end of the year. Were you to replicate Q4 last year, we would reach an EBITDA worth EUR1.53 billion or EUR1.54 billion, with a net profit worth EUR850 million. So this is my quantitative assessment.

And from the qualitative standpoint, what will change in Q4, what are the drivers in Q4? Will it be a quarter marked by growth in terms of we stand in mid-November? Just to give us an idea of where you expect to be by year-end.

Second question, is on the bottom line. Of course, your operational results are very good. But most of the efforts are the ones we're seeing on profit and on financial dynamics. So it was very good to reduce your financial expenses. How sustainable is this? What would we expect for next year? Will we be seeing a normalization trend compared to what we saw this year? Or when it comes to financial expenses and provisions and the effects of these new customers, will be the below-the-line part be different next year?

Unidentified Company Representative

Well, let me try to answer both questions at once. But let me take a step back. Last year we grew sizably in terms of EBITDA, it was EUR200 million. And most of that growth was then transferred down to the bottom line. Now we have upped the ante.

And as Mr. Vai was saying earlier, the significant growth we saw last year, which happened in a year in which the energy prices were being normalized following the year 2022 which was very volatile in the market by very high prices, in turn, that led to an increase in the financial expenses, which drained part of those resources besides having to manage Super Eco Bonus, of course, which did generate value, but part of that value was absorbed by the part relating to financial expenses.

Now those elements no longer exist. We are now back to levels we had in 2021 and 2022, without the peak we saw. At the same time, what we're seeing is that this year, with a different recipe, we're seeing an improvement compared to last year's good results. And besides what we're seeing on the EBITDA delta, we have a reduction in financial expenses, which means that we are transfer value all the way down to the bottom time.

Now when we presented the business plan to you, we underlined that we wanted to create value, that we wanted to grow the bottom line. You may remember that in our business plan, in terms of creating value and increasing the bottom line, we wanted to continue

growing consistently over the five-year period, from 2024 to 2027, which is what we're doing. We are in line with the things we had said or we projected the business (inaudible)

And then what do we expect for the last quarter from a qualitative standpoint? And since you already shared enough numbers with us, the macro scenario. Well, compared to last year, many things will change, because as you saw, this year's recipes are different compared to last year.

But with these new recipes, as you can see, the results continue to be quite solid, compared -- and as far as year-end is concerned, we had a good growth in the first nine months of the year. We're confident that we will continue, along the lines of what we've done so far. And we're confident that we'll continue to have positive numbers compared to last year.

As usual, we'll be focusing very much on the bottom line, which is where we see all of the effects of our policies, both the industrial and financial costs, of course. And all of those effects go down to the bottom line, of course.

And I kept it somewhat vague but let me just say that we're not concerned by the results we'll be seeing at year-end.

Operator

There are no further questions, Mr. Fabbri.

Cristian Fabbri Hera SpA - Executive Chairman of the Hera Group

Very well then. Thank you very much. Thank you very much for allowing us to manage time in a wonderful way. We gave you a brief overview. We had plenty of time for questions.

Thank you for your kind attention. All the very best. And besides working on year-end, which requires plenty of efforts, we're also working on drafting a new business plan. So as usual, we will be joining you again in January for a preview regarding the year-end results and will also be giving you the --

Editor

Statements in English on this transcript were spoken by an interpreter present on the live call. The interpreter was provided by the company sponsoring this event.

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