Hera's New Business Plan 2024 to 2028 Update Call

Company Participants

- Cristian Fabbri, Executive Chairman
- Jens Klint Hansen, Investor Relations
- Orazio Iacono, Chief Executive Officer

Other Participants

- Emanuele Oggioni, Analyst, Kepler Cheuvreux

Presentation

Jens Klint Hansen {BIO 17372393 <GO>}

Good, everybody. My name is Jens Hansen, Investor Relations at Hera. Welcome to the business plan presentation for Hera Group and let me immediately give the floor to our Executive Chairman, Mr. Cristian Fabbri.

Cristian Fabbri {BIO 20821433 <GO>}

Thank you, Jens. Good afternoon, everybody. As usual, we'll begin our presentation with a forecast regarding our 2024 results. Which we went over during our Board meeting in which also approved our business plan. As far as EBITDA is concerned, our estimates give us a forecast for 2024 which is above EUR1.55 billion. A very positive result, we feel. Also given where we started in 2023. With the best growth in our history plus EUR200 million compared to the previous year. And also considering the fact that within these results, we also included EUR100 million for the most part linked to the super-ecobonus, which as you know expired in late 2023 and which therefore could not contribute to 2024. Now the results we looked over together on quarter-by-quarter basis show that our organic growth was such. And he was able to completely offset the expiry of that contribution of the super-ecobonus. So much so in fact, that at the end of the year we have a growth which is over EUR50 million more compared to the previous year. Therefore, we fully offset the lack of the super-ecobonus contribution. Now these results are also exceed the expectations of the consensus. Regarding the forecast for our results. We also did very well from the financial standpoint, our growth is up above 1.5% and our financial results are in line with last year. They're below 2.6X in terms of the leverage and they're also below expectations. Now where do these results stem from? Well, in fact, they prove our Group's ability to be very efficient when it comes to execution. And therefore these numbers also prove the soundness, the strength of the targets that we had given ourselves in the previous business plan. Now moving on to the contents of a business plan itself, we want to confirm our strategy. Last year strategy was based on three pillars. The first is to create shared value. And you may remember that these three pillars are value creation with a focus on the profitability of our businesses and with a good financial flexibility. We also want to be sustainable. We want to create sustainable value, a value that can lead to economic benefits. But also positive results in terms of reaching the UN sustainability targets. We want to enhance resilience. That is one of the characteristics we have in a very broad sense, in other words our business portfolio and the way we manage each business can allow us to have low impacts from external macro events and therefore that is certainly one of the main themes behind the development of this business plan.

Now let's start focusing on some of the outputs of the business plan. And let's try to understand the way in which we've developed our strategic leverage. Now you may remember the previous business plan had measured value creation by measuring the difference between the sectors WAC and the ROI spread at 370 basis points. With this business plan, we expect to reach 400 basis points at the end of the business plan period, which means that we're improving compared to the previous business plan and we have an average TSR over the period equal to 11% with a balance growth stemming from the growth in earnings and also in terms of the average real, the dividend per share yield, which as we'll be seeing later will improve as well when it comes to sustainability we focus are investments by identifying on 4 main areas namely decarbonization, circular economy, resilience and innovation.

We have a very strong focus on everything which brings value by being sustainable. Now, 96% of our investments are in line with EU taxonomy. What that means is that we have seen an increase in our EBITDA which also offers sustainability benefits and therefore shared value, goes from 62% to 66% in terms of its penetration and the business plan. Now moving on to the way we manage risk and the approach we have to managing risk. From this slide, you'll notice that our approach is based on managing a multi-utility and multi-business portfolio, a portfolio we're continuing to develop in a balanced way, but it's also brought about by the way we manage each and every business. Even the ones which aren't protected by tariff schemes vis a vis the macros, with a very strong attention to external impacts. We're not seeing impacts from inflation, from interest rates. As you saw during the energy crisis, we don't see impacts stemming from the change in energy prices.

As far as climate change is concerned, even in the territories we operate in, in recent years we've had to deal with a very significant climate events without ever stopping the service we offer to our customers and without ever damaging excessively our plans. When it comes to economic cyclicality, (Technical Difficulty) due to the way in which we manage our business and given the competitive advantage we have in our businesses, we see a very negligible impact on our businesses. As you know, we also operate in very fragmented markets, which are -- which is the opportunity rather than a risk for us because as you know, over the years we have consolidated plenty of companies in our growth process. When it comes to ESG and E.U. regulations, even here it's more of an opportunity than a risk since we were one of the frontrunners in considering ESG as a business model and we're not benefiting from that approach, which has very deep roots in our past. Now moving on more specifically to some figures regarding EBITDA and let's begin by looking at some of its details. And this slide, we're referring to 2023 without the contribution of the Super eco bonus, which has expired. We're already offsetting that expiry difference no longer part of our references and what we see is a structural growth worth EUR475 million with a CAGR worth 7%.

All of this is based on two main pillars. The traditional ones, organic growth on the one hand, which is the activity that we generate most of our contribution from. And to that, of course, we have to add M&A which contributes with roughly EUR100 million, and this amount is in fact the average of what we're able to achieve over the five year period, that is the value we tend to include in our growth plan. And therefore, in a very fragmented market, this is what we expect to achieve. Each and every week of course, we look over plenty of files, many are scrapped, some we focus on. And as we conclude M&A transactions every year. Now by building this growth, we can obviously consider the opportunities from the market. And we can choose even to -- choose to ignore the last resort market tenders, which as you know, happen every year. In our business plan, we tend to include only the things which are visible and since these last resort market tenders have happened every two years, we decided to ignore them for the time being. This is a conservative approach, of course.

Certainly, we wouldn't be able to achieve the results we had in 2023. We had the energy prices back then and we had many customers who had lost their suppliers. And therefore we saw a very high growth in volumes and broader margins compared to what we had seen traditionally in that business, which brings us to a EUR1.7 billion target at the end of the business plan period. And as far as EBIT is concerned, we're expecting a further growth. And we'll be seeing in a few slides that our target is to continue to increase the profitability of our business. And of course, when it comes to measuring ROI, our goal is to focus while we go down the lines with a more intense growth. And we'll see that in a more intense way and the EBIT CAGR will be seeing the major benefits we'll be seeing also including less provisions compared to the past. That is also the result of energy prices which are lower compared to the ones we've seen in recent years. And this of course, allows us to have a broader growth and broader strength, broader solidity as far as EBITDA is concerned.

This year, we decided to add a slide because as you saw yesterday we signed an agreement regarding an M&A transaction, a consolidation transaction into multi utility business. iMac is a miniature Hera. Basically they are located on the border with the Modena province and we went up from a 25% stake that we already had in the company to a 41% stake.

Now the important thing to note is that in this phase we are taking over the industrial management of the company. The meaning of this is that given the fact that we operate in neighboring territories and that we have the same business portfolio, we'll be able to obtain the maximum level of synergies with management control and with consolidation of the company. This isn't a form of growth that we paid for in cash. There was no cash out. This is a transaction that was agreed upon with an asset swap. We gave them 45% of a company. We're setting up a joint venture that we're setting up that will include all of the water assets in the modern province. This transaction will allow us to obtain synergies of course, we'll be able to rationalize the water network between the network managed by iMac and the network that we manage in the province. And therefore there will be plenty of space to obtain synergies compared to the traditional ones we have in management and in cost cutting activities. Now how did we evaluate the two companies or the iMac evaluation was worth seven times multiple and the evaluation of the assets and the company that joint venture we're setting up was made at 1.2x Rab.

Since this is a an entity that will deal with the water service exclusively, let's have a look at the iMac numbers. There are 2023 EBITDA is worth some EUR60 million with a target in its standalone plan to 2028 worth EUR77 million, which can be developed through the development of a portfolio which is more regulated than ours, roughly 50% of their contribution comes from networks, 20% from waste and 30% from the energy business. With a financial position at the end of 2023 worth EUR210 million. Some of the parameters and industrial KPI's that can give you an idea. The rapid networks is EUR210 million. the waste volume was managed or equal to 200,000 tonnes and 230,000 customers are the ones managed by (Inaudible) Gas, which is the IMAC supply company. We do not include IMAC's figures in the business plan. We have kept the EUR100 million EBITDA target as far as M&A is concerned. Obviously, this transaction gives us a very good visibility upfront of our very positive M&A levels. Let's move on to the structured growth with the business by business breakdown.

Our goal is to have a balanced portfolio. At the end of the business plan period, you'll see that all businesses contribute to EBITDA by one-third. And the growth we're seeing in this business plan is also very balanced, both in terms of network and waste and energy. The main driver -- the main growth drivers are very straightforward also in terms of their impact. When it comes to networks, the RAB enhancement linked to the investment plan will be seen shortly is one of the drivers indeed, the WACC increase is other one of the drivers, and this growth, of course, refers to 2023 year-end figures with a major growth, which also gave us -- already goes visibility in the upcoming years. As far as waste is concerned, in this business, we want to expand our assets, our industrial assets. We are leaders, and we want to further strengthen our leadership. And at the same time, we also want to develop the market by leveraging on our competitive advantages.

In waste, we will continue looking at M&A opportunities besides what iMAC already contributes to that growth. In energy, we have a EUR177 million growth based on 3 main axes. The first is recovering the shaping costs, which had added costs in 2023 by reducing the group's margins. And this recovery is an optimization of costs, which is something that we have already achieved in 2024. Then we also have a focus on commercial development and the full -- taking full advantage of our STG customers, but there are other also other things as we'll be seeing later. So we'll continue to grow the balanced portfolio, and that is one of the reasons behind our constant growth track record for the past 20 years.

Now let's move on to 4 slides that give us a flavor of our capital allocation strategy investments. Why do we have 4 slides? Well, because when we want you to find how much to invest and what to invest in, we worked by taking three main goals into account. The first target was to continue having a balance growth in our business portfolio. The second target was to continue having profitability. And in fact, we wanted to increase the profitability of our business portfolio in an integrated way. Third reason was to continue having a good level of financial flexibility so as to be able to take advantage of any possible market opportunities, both for a organic growth and for M&A. We decided to have a net investment plan which don't consider the contributions we receive externally from the recovery plan or from other institutions and that accounts through EUR4.6 billion. That also includes. EUR500 million contributions. And there's also a value that we have embedded in the figures that we're presenting to you because all of the initiatives that are financed by external contributions. Whatever they are used on the free market, they offer a full contribution, whereas on the regulated market, they offer a contribution in terms of efficiency and operations.

Now let's see the way in which these EUR4.6 billion are going to be allocated in our investment plan. EUR2.2 billion less than 50% will be focused on the maintenance of our infrastructure, whereas EUR2.4 billion will be focused on development. And in order to maintain this portfolio balance, we allocated 60% of our development to the regulated business because. 60% is roughly the amount of our invested capital, which refers to those businesses and therefore more specifically EUR1.3 billion to networks. and then a part goes to the waste collection service. The other significant portion of the CapEx is dedicated to the development of market businesses. And that includes liberalized part of waste and energy. The next slide gives us a flavor of where our financial resources come from and how they'll be allocated. That gives us an idea of how we'll be managing our portfolio mix.

Now let's begin from the more general numbers. After having paid for the maintenance investments, we have an overall free cash flow for the three businesses worth EUR3 billion. EUR2.4 billion will be devoted to development and the remaining part will be financing most of the dividends will be distributing. As for the -- how do we manage the business policies? Well in the waste business, they lead to EUR900 million in terms of free cash flow for the business plan period EUR700 million were allocated to the development, but in reality, if we consider that this is where most of the M&A comes in. From the financial standpoint, we also have to consider the debt included stemming from M&A, which means that we reinvest 100% of the cash generated through waste energy. Energy is a capital intensive business, it generates a major part of our overall free cash flow, roughly 50% of it, but since it's a capital intensive business. Even when it comes to development, it has a lower investment requirement. Therefore, if we don't consider the development investments, we have EUR1 billion which we used mostly to speed up our growth in the networks business. In fact, if we move on to networks, we'll see how this business area will generate a EUR700 million free cash flow. But to this area of business, we've allocated EUR1.3 billion for development. Therefore, the fact that we have a multi-business integrated portfolio allows us to grow more quickly even in regulated businesses compared to the free cash flow that it would generate independently. And this of course as we'll be seeing will lead to a 36% growth in RAB compared to the beginning of the business plan.

Another one of our goals is to increase the profitability of our portfolio. You remember that our strategic development access focuses on creating value and therefore from the industrial standpoint, measuring this value creation is linked to ROI and it's spread with WACC. ROI moves from 8.7% to 9.5% with an 80 basis point growth and it is supported both by the mix of the invested capital in each business, but it also stands for the growth and profitability that we developed within the businesses, especially when it comes to networks or waste collection. We have a return -- a regulatory return, which is growing. And when it comes to waste treatment, we have a major growth and profitability which is linked to the two policies that Orazio will be explaining, which refer to the growth of our asset portfolio and the growth of our commercial portfolio by leveraging on our characteristics and our competitive advantage in terms of the assets we have and in terms of our offers on the circular economy energy supply, typically it has a 20% profitability. It's decreasing slightly. Despite the fact that we did not consider the last resort markets here and this reduction is also linked to a normalization effect in terms of margins also vis a vis some of the elements that we were beginning with, the other important element in this slide is that not only are we increasing ROI, but we're also including the net invested capital by EUR2 billion from EUR7.7 billion to EUR9.7 billion and therefore the space to create value lies in the ROI difference and the fact that we added a further EUR2 billion of invested capital to a 9.5% ROI.

And with this last slide, we move on to our capital allocation choices, which show where we stand in terms of our leverage at the end of the business plan will stand at 2.8x which gives us a further potential growth in terms of leverage we can use compared to our historic numbers. It's plus 0.5 which gives us the possibility of further growing to have a sizable financial flexibility which we can then be used for any potential opportunities linked both to external growth with the goal of obviously having a growth that can be integrated with our businesses and which could lead to synergies in terms of costs and further development. And we also have to make sure that we're focused on our core businesses. The territories neighboring ours or with a focus on organic growth elements, because in this business plan we have inserted projects that have already been authorized and therefore if further authorizations are received, we can look into them with our leverage.

In a nutshell, we've seen our strategic paths, we've seen the evolution of our EBITDA and how we will choose to allocate our investments. And now we'll look at the effects on the bottom line. First of all, let's begin by EPS. Earnings per share have a 6% figure. They are they have improved compared to the ones in the previous business plan which proves that the target we had of bringing the highest possible level of value to the bottom line and to improve it compared to the previous business plan is more than obvious from this slide. 2024 is a year that we are ending in a very positive way, both from the economic standpoint and from the financial standpoint. And along with an improvement of the earnings we'll be making in the next few years made it very easy for us to offer a guidance to our Board of Directors as far as dividends are concerned. And we expect to increase our -- the dividend we'll be paying in June this year by 7% compared to what we offered in 2024. This is the growth that we apply to the entire years of the business plan. We've increased the floor all the way up to EUR0.17 in 2028.

With this drill-down approach, let's now go into the growth drivers, beginning with energy. We are now stably the third largest player on the Italian market. We have 4.7 million users, customers, and we have excellent feedback from our customers once we acquire them. Last year, we were awarded 7 largest, as you may remember, in the STG sector. Now the main asset in this sector is, of course, the evolution of our customer base. On the left-hand side of the slide here, you have an idea of our track record. We moved from 700,000 customers to 3.5 million customers in 2022. And we're now up to 4.7 million customers in September 2024, with an increase in customers, the effect of which was the increase of our market share. Now in a market in which a number of customers are stable, and the fact that we are especially large growth in our customer base, allowed us to move up from a 1% market share to 8%. And our position that we have consolidated our presence as the third player on the market.

Now, what were the competitive advantages of strategic leverage that allowed us to achieve these levels? Well, the churn rate we have is lower compared to the market average. That was certainly one of the elements which allowed us to increase our customer base and to achieve a major level of value creation. Because most of our commercial growth turns into a growth in customer base, not offsetting those customers who left us to move to other players. Now what are the recipes that allowed us to get here? Well, first of all, the multi-business management of customers. When it comes to energy, of course, Gas and electricity but in territories in which we have all four businesses, we can offer them all four services. And this has an advantage for CRM and for billing. It's also an advantage for customers and it gives us a competitive advantage.

Now, in our growth, we have always focused on a growth that could intensify our presence on our local territories instead of achieving small market shares in the broader territory. And this has allowed us to be very efficient in our commercial development, but it's also allowed us to benefit from the local relationship we have and the local presence we have. And we intensify our efforts. We have a physical presence, we have physical shops and we also have an approach to the local institutions which allow us to be credited to operate in that territory. The choice we made of being very local -- very locally oriented, has to also be considered with the scale we've achieved, which allows us to be very competitive in terms of cost. And very efficient in terms of the services we offer our customers. In terms of the CRM we offer, we have a network made-up of over 200 physical shops, and we also have digital shops, and customers have a very high perception when it comes to the quality of the service we offer. In fact, it's difficult to exceed what we already achieved. I've already mentioned that we have a strong local penetration. These are the main drivers, the main drivers that have allowed us to grow.

Now the other element that we can see on this slide is our EBITDA story. The red line you can see on the graph, the growth of EBITDA was mainly linked to the growth of our customer base. You'll see that there is a very strong correlation between the two curves on the graph, and this correlation is entirely independent from the price track. Our EBITDA moves with the customer increase and is not impacted by price fluctuation. Based on all these, based on our competitive advantage and the industrial relations we've set up, let's see what we have in mind for the business plan. On July 1st, as I was saying, we added a further 1 million customers in SDG went up from 3.8 million customers to 4.7 million customers overnight. That was the effect of the tender we were awarded. And it also means that the focus over the next few years as we're seeing at the business plan is a focus on managing this major growth. We want to replace those customers who will naturally choose another supplier during the SDG market, but we also want to offset the last resort market who will be looking for an adequate commercial development.

Furthermore, in our 4.5 million customer target, we've also included the 200 customers that will be receiving mid year with the closure of the iMac transaction, therefore, we'll continue to leverage on our competitive advantage so that we can consolidate our customer base over the next few years. Now let's see the effects of the strategy on margins. If you look at the EBITDA, the structural growth we saw earlier with EUR177 million. And it allows us to more than offset the expiry of the last resort markets which we did not include in the 2028 figures. To be conservative, this is a growth which is supported by 5 axes. One of the most significant contributions comes from the recovery and shaping costs, therefore, in 2023, price fluctuation led to a growth and shaping costs. And therefore, with the same price paid for the customers, our margins were reduced. Now this volatility has decreased. But what we did especially was we implemented a more risk adverse policy also in terms of shaping costs and therefore even were a similar phenomenon to repeat itself, we would have a lower impact and therefore this this part of our margin recovery is a major portion of the growth we want to achieve. We also have a part, which is linked to commercial activities. We have to be able to profit from our growth in STG. We have to be able to manage our commercial activities, which allow us to offset STG customers leaving us, which gives us another piece of our structural growth. Then we have value-added services. In 2022 and 2023, we had a strong growth in VASs, but that was a context in which the Super Eco bonus made it easier to offer these services. Now that the Super Eco bonuses expired, what we are left with is our customers' strong desire to decarbonize their consumption and to reduce energy costs by reducing consumption. And this leads us to all of the proposals, all the offers we have and that we won't want to further enhance for the business plan in all segments from the retail sector to major corporations, the condominiums and the public administration. And we want to work both on public lighting and on efficiency and building management.

And as far as companies are concerned, we want to become a partner with them. We want to be the energy partner for these customers. We want to be the ones who manage energy in their production sites so that companies can focus on their core business, leaving it up to us to focus on our core business with long-term partnerships with them. When it comes to generation, we are continuing in our growth in renewables, especially in the photovoltaic sector. And we're doing this very carefully. We are focusing on origination, which means that we want to hold on to the entire value of the value chain. And we also want to continue improving the relations with our customers. We want to work on consumption centers. We want to make sure that this production is offered to our proximity customers so that we can protect them from price volatility when you are exposed to market prices, especially in (Inaudible), which will have an increasing amount of renewables, and therefore, the hours in which these prices are set, lower levels can be larger and with the more negative impact. And therefore, we want to stabilize the profitability of this activity.

In a nutshell, therefore, this growth is supported by different levers, which can give us a significant contribution, and which show that, compared to 2023, we've had an increase in our customer base by 700,000, which is one of the drivers, which contributes to our organic development.

Last year, during our business plan presentation, we had announced that we had acquired 1 million customers. We had explained the model to you. And now let me just tell you where we stand one year down the line and actually 6 months and which we've been managing this portfolio. You may remember that we had chosen to acquire these customers by offering tariff discounts, which will lead to a monthly cost to serve without any upfront payments. Typically, you pay your commercial structures an M&A. You pay upfront when you buy a company or their customers. In this case, we want to leave part of our margin to the customers with the awareness that beginning in -- on the 1st of April 2027, all these customers would automatically move to free-market offers with new services and new activities and with margin levels that would be consistent with these new offers and our evaluation of the stage was that this was going to be an investment. It would be consistent with our sector's ROI. And these were the bidding hypotheses we made. What we discovered over these first 6 months is that things are even better than expected. Because what we're seeing is that the customers are much more loyal than we thought they would be. As the relationship we've set up with these customers over the past 6 months is one, which leads them to being very satisfied with our service, with excellent quality, with no problems in terms of receiving their billings with terms of CRM. We checked with them to verify their data and therefore, in just a matter of months, the awareness in our new customer base is better than we expected.

And these customers are better payers than what we expected. And even in terms of their interest vis-a-vis different offers or new services, we're seeing that the returns are much better than expected. and even the slight rebound in energy prices we're seeing today. Many of these customers to ask for fixed price rates or a mix of fixed and variable prices to protect themselves. So things are better than what we were forecasting and what we had embedded in our bidding forecast. Let me give you the give the floor to Orazio, who will be giving us an update on waste and networks.

Orazio Iacono {BIO 22805001 <GO>}

Thank you, Cristian, and good afternoon. Let me begin with our certainties, the business plan was drafted by building on the certainties we have when it comes to waste we are the Italian market leaders. We have a very large and diversified number of plants. Which allows us to deal with any kind of customer. And with any kind of waste. What this means is that we have a very strong presence on the market and we are capable of solving any problem our customers may have. And in fact, we don't wait for them to come to our door, we go out and search for them. This is a very strong commercial appeal we have. It has supported us over the years and it will continue supporting our growth in the future. It's something which gives us plenty of room to further operate on the market. Secondly, you surely remember that the Italian market is an interesting market. It's a closed market. It's marked by under capacity when it comes to waste treatment, especially in terms of the low number of waste energies, but even landfills which are needed to close the loop.

Therefore the assets we have and our commercial abilities when it comes to customer. And our ability to relate to international partners because we always have to remember that this is a competitive market. All of this makes us very attractive competitively and it gives us an advantage. And thanks to our competitive advantage, we were also able to develop our leadership when it comes to plastic recycling. Which is another sector we are leaders in. We offer the top of the line products. We are leaders in recovering. This is a market which is constantly expanding as we're seeing from the mega trends which are supported by international regulatory framework which continues to evolve towards a market characterized by recovery and by recycling. In January this year, the Single Use Plastic Directive came into force. And that requires having 25% recycled plastic and beverage packaging beginning in 2025.

Another thing I'd like to mention is that we operate in a fragmented and we are the market leaders. There are plenty of other smaller players, which means that step by step we can acquire a new company which gives us plenty of room to further expand. These are our foundations, therefore, and if we move on to the following page, what we're seeing is that we have a plan with a very visible targets with an EBITDA growth worth of 7%, which is supported by a further increase in our market share. The volume is treated grow at a 5% rate, which means that we are expanding our market share. You'll notice that volumes are up will be going up 5%. CAGR will be going up 7% and our development is supported by other axes as well. These include efficiency, services, waste management -- the global waste management approach we have which is linked to an increasing demand for circular economy models. Now this structural growth allows us to offset the non-recurring opportunities we had seen in 2023, opportunities which were linked to the energy crisis which we were easily able to reabsorb during the business plan years without ever interrupting the growth in our profitability.

Now all of this growth and profitability is supported by major amount of development CapEx EUR700 million. And it's was we are reinvesting all of the financial resources we generated as you heard from the Chairman, we are using all of the financial resources generated in the waste business and we're reinvesting it back into the business. This is a way of finance import our organic growth and our external growth, but that's not it. We also want to grow through partnerships. These are partnerships that we describe as being resilient because they are not exposed to market fluctuations. Some time ago we had mentioned the partnership we had with Fincantieri. And we signed the deal a few days ago. We set up a NewCo which will be led by Hera. This too will allow us to manage waste in a sustainable way. And we truly are the only ones who can offer this kind of a service. Because not only do we manage urban waste, but we also manage industrial based. Let's move on to the focus of this business on the following page. All of this is, of course, supported by a very strong competitive advantage. As you can see, we have a very broad market where we can serve.

As you can see from the graph on the left hand side, we have a 10% market share with plenty of room to grow. And we can grow through a number of different approaches. We can, certainly, make or build our plans, but we could also take over companies through M&A since the market is very fragmented. There are over 200 small companies operating in the market. And this approach is the same one we've had over the years. And our track record proves that we can achieve this kind of growth and we'll continue doing so. Second item is recovery recycling. We've tried something a little different here. We compete with major players, but we have a competitive advantage given our ability to offer very diversified solutions, which means that we have a strong market share, roughly 20%, but again, there's plenty of room to grow. We have a competitive advantage and plenty of uncharted territory that we can explore, including rigid plastics or low density PE new food. And more recently, we also started operating in carbon fiber regeneration. And we began focusing on this market niche very recently, and it's certainly something that we want to continue to expand.

All this is possible because -- when it comes to this expansion, we are guaranteed by urea regulation, which requires 25% of recycled PET and beverage containers beginning this year 25% where as the previous figure was 11% and of course, from this point of view, we want to be the front runners as far as these mega trends are concerned. We've invested, and we will continue to invest and on the slide, you can see some of our plants. We have the Nevada plant, for example, where we'll be doubling our size. The third topic is refers to another great experience to the ACR company, which we made the acquisition of in 2023, which is doing wonderfully well. This transaction allowed us to add another offer to our business portfolio. We have more than 10% market share here with a huge upside here. We have mapped over 13,000 sites, which have to be remedied in Italy and plenty of a national recovery fund resources have been allocated. So this is a very interesting and swift market and these activities will have to be completed by 2027. And I also wish to mention the Brazilian partnerships that we have already signed. You can see some of them here on the screen. We have Enrewindagree thesis and Edison. These are resilient partnerships because they aren't subject to market fluctuation. And in this -- with these partnerships, we'll be looking at remediation and treatment.

And as we mentioned at the Fincantieri partnership, let me just say that this is a screen we want to continue expanding because there is a major level of value that we can achieve. Therefore, we want to continue focusing on oil and gas along with other markets such as Agri-food, home care and pharmaceuticals. With these competitive advantages in mind (Inaudible) fragmented and attractive market. Our strategy is clear, we want to expand our market share. And that's why we will support this growth by reinvesting all of our cash flow, almost EUR1 billion in M&A and with the organic development of our plans by creating value with an attractive return on the invested capital, which is equal to 14% in the unregulated businesses. Let's move on to networks now. Even here. Let me give you an idea of what our ID is. We are a major industrial player with a robust investment plan. We are very healthy when it comes to our infrastructure. And as far as quality goes, we are the market leaders, especially when it comes to water quality. We have been certified as being the water market leaders, as certified by the National Authority last year. We have developed new technologies that can allow us to increase our ability to extract efficiencies. We have a very solid and high quality infrastructure. And therefore our business plan is focusing on a major development of our infrastructure. We want to continue developing. We want to go up to EUR4.5 billion RAB in 2028 with a very solid CapEx plan. And this development plan will allow us to improve our investments in infrastructure, making them more sustainable.

With more resilient infrastructure. That can deal with all the transitions we face, beginning with the energy transition. This will also lead to a greater economic efficiency and we have a reliable regulator with a very good track record, which means that this business is very protected. And I'd like to remind you of the fact that the National Authority reviewed the WAC increasing at 2023. This is the business which is protected from all economic macros and from climate change. We are resilient. We have proven to be resilient, as Chairman was saying earlier, even during the most recent extreme weather events.

What are our targets? Moving on to the following slide. For margins, are we looking at margins are increasing very much. With a EUR155 million plus, That bringing us up to EUR621 million with a 6% CAGR. This is a growth supported not just by a major growth in CapEx with a EUR1.3 billion in development CapEx, but it's also supported by the authorities' WAC review, which is up compared to 2023. We have set some very visible targets all of the businesses will contribute to the organic growth of margins as you can see on the chart on the left hand side. This growth will be supported by a major amount of CapEx which are entirely recognized in the Rab without any caps as far as tariffs are concerned. So we can then increase the margins of this business and to all that, we also have to mention external growth because this year as Christian was saying, thanks to the iMac agreement, we already have a very high visibility, 50% of their businesses and networks and therefore with that agreement we will enrich our presence of the business and on the right hand side of the page you already have a figure which refers to the how much iMac is worth? But besides the growth in WAC we also have efficiency which will be improving our results. We have a track record which supports that.

We will improve the reduction of water leakages, we will be improving the way we treat polluted water, we want to continue to prepare our network so to deal with the hydrogen blends. We want to make sure that our networks will be able to use green gases what we are seeing some very positive news shortly as far as we're concerned. And the pilot here is efficiency, of course. We are always able to outperform the regulatory standards as proven by our track record as we've seen in recent years.

Let me conclude by a focus regarding the evolution of RAB for each business. We have growth not just in terms of investments and also given the iMac contribution with EUR240 million, therefore the a RAB we own will be worth EUR4.5 billion at the end of the business plan period. Moving up from the EUR3.3 billion we had in 2023, most of the RAB growth will happen at the water service within EUR800 million growth, up from EUR1.8 billion to EUR2.6 billion. This RAB is up due to the effect of the WAC, which in 2024 and 2025 will be equal to 6.1%. Whereas for the remaining business plan years, we have expected 40 bps less and therefore conservatively in water we're already seeing a -- we've already considered a reduction which the authority still hasn't decided on. Therefore we're simply dealing with the hypothesis that water will have the same effects we've seen in energy and gas, we went up from EUR1.1 billion to EUR1.4 billion RAB.

EUR1.4 billion is what we expect to achieve in 2028. This RAB is linked to 6.5% WAC in 2024 and 2025 and 5.9% of the remaining business plan years as a consequence of the review.

Let me conclude the mission of electricity. And here we expect to have a slight EUR300 million growth. Over EUR100 million from EUR400 million to EUR0.5 billion in 2028. This RAB is reunited 6% to 2024 and 5.6% for the remaining years of the business plan. So let me just conclude. This is the safe in our business portfolio. As you know, our networks are fully regulated and they contribute very much to growth in this business plan, giving a major level of visibility to all of the growth drivers. Also including the part relating to M&A. Thank you very much and let me give the floor over to our Chairman.

Cristian Fabbri {BIO 20821433 <GO>}

Thank you. We've reached the end of the presentation. Let me just conclude with a couple of remarks before I give you the floor. We begin with our forecast which shows the good position we're in both in terms of our economic growth and in terms of the low financial level. We also mentioned the news regarding IMAC. Which we had already explained the first few pages of the presentation. That transaction gives us good visibility regarding the M&A contribution and it's a contribution of course, which will not stop with IMAC. We also mentioned that our value creation strategy can be summed up with a 11% average PSR. And the we also showed the good performances we had in 2024 and in the growth of our business plan targets. Which will allow us to increase our dividend policy with an immediate effect and with a growth which will continue throughout the business plan until we can reach EUR0.17 per share in 2028. Keep them at the floor this is a guarantee when it comes to dividends. And we still have good financial flexibility, which is of course something that can allow us to look into further opportunities. Thank you and let me open up the floor for any questions you may have. I try to keep it short to leave you as much time as possible for some Q&A. I know that you were tired following the Syna presentation yesterday. Over to you.

Questions And Answers

Operator

Our first question is by Emanuele Oggioni, Kepler Cheuvreux .

Q - Emanuele Oggioni {BIO 20133627 <GO>}

Thank you, and good evening everybody. I have a few questions for you. There seems to be a slight echo. Let me begin with a question on the business plan and on the 400 basis points growth value creation, which is up compared to the previous business plan. We know that there's a lower return in regulated activities. One of the slides. I seem to understand that the main driver is waste, especially non-regulated waste. So have waste treatment with a return on invested capital, which goes up from 10% in 2023 to almost 14% 2028. I imagine that's the main driver, but I'll let you understand what pushed you to improve the value creation target? And what drivers, what projects are the ones with the most value compared to a year ago, compared to the previous business plans? My second question is on Slide 16. The growth of EBITDA you expect or the SGG service (Call Ends Abruptly)