



FINANCIAL ANALYSIS REPORT

PRESENTED BY

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Company Profile and Business Description

Hera S.p.A., founded in 2002 in Bologna, is one of Italy's leading multi-utility companies. Operating across North-Eastern Italy, it provides integrated services in energy, water, and environmental management. In 2023, Hera reported €14.9 billion in revenue and employed nearly 10,000 people. The company sold 10.7 billion cubic meters of gas, 14,500 GWh of electricity, and distributed 283 million cubic meters of water to 3.6 million customers. It managed 7.7 million tons of waste, achieving a 72% separate collection rate. Additional services include district heating, public lighting, and telecommunications. Growth has been driven by a balanced multi-utility model and nearly 40 strategic mergers and acquisitions.

Industry Overview: The Italian Multiutility Sector

The Italian multiutility sector has experienced a meaningful transformation, converting from state-controlled enterprises to a dynamic and competitive market. Companies in this sector now provide integrated services across energy distribution, water management, and waste treatment, leveraging regulatory reforms and technological advancements to drive both efficiency and innovation. Sustainability is a key driver of change, with national and European initiatives urging for cleaner energy and resource optimization. As a result, multiutilities are increasingly investing in smart infrastructure, circular economy models, and digital solutions to improve the operational effectiveness. These trends not only boost service quality, but also provide companies with competitive advantages in an evolving market.

Competitive Positioning

Hera S.p.A. stands out in the Italian multi-utility sector for its diversified service portfolio and strategic growth. Operating mainly in Northern and Central Italy, it leads in waste management, ranks second in water invoicing, and holds a strong position in energy and gas sales. This diversification helps to mitigate the sector-specific risks and boosts operational synergies.

Key competitors include:

- **A2A:** Focused on Northern Italy, with a core business in electricity generation, higher profitability and strong investments in renewables.
- **Iren:** Active in Piedmont, Liguria, and Emilia-Romagna, with a focus on energy and gas. Hera shows greater profitability and financial stability, while Iren is more aggressive in renewable investments.
- **Edison:** Primarily engaged in electricity and gas, with international operations and a focus on renewables as well as carbon neutrality by 2040.
- **Veolia (France):** A global leader in water, waste and energy services, with much larger scale and strong green investments.

In this competitive landscape, Hera's focus on digitalization, sustainability and a steady geographic expansion are essential to support its long-term positioning and growth.

Company Strategy: Integrated Growth and Sustainability

Hera's long-term strategy is based on three interconnected pillars that reinforce its market position:

- **Industrial Growth** – Hera pursues market leadership through organic growth and strategic acquisitions, with targeted investments in infrastructure and digital technologies to boost efficiency and service quality.

- Risk Management – The company ensures financial and operational stability by maintaining a strong balance sheet, diversifying services, and adopting solid compliance practices, enhancing resilience in a regulated market.
- Circular Economy & Sustainability – Sustainability is central to Hera's model, with a strong focus on resource efficiency, waste recovery, and renewable energy. This approach strengthens stakeholder value and positions Hera as a leader in sustainable innovation.

ESG Profile

Hera Group demonstrates a strong commitment to ESG principles, integrating **sustainability** across its operations. The company has significantly reduced its environmental footprint, achieving a 14% reduction in greenhouse gas emissions from 2019 to 2023 as part of the Hera Net Zero project. In the same period, it produced 8.5 million cubic meters of biomethane and advanced its hydrogen and photovoltaic projects. Energy efficiency also remains a priority, with a 7.9% reduction in consumption since 2013, while 17.6% of the electricity sold in 2023 came from renewable sources. Waste management efforts resulted in an 80.6% material and energy recovery rate, and the company recycled 79.2 thousand tonnes of plastics.

On the **social** front, Hera invested over €2 billion in local communities in 2023, supporting regional economic and social initiatives. Employee well-being is a core focus, with policies improving work-life balance and fostering inclusivity. The percentage of women in senior management rose from 16.4% in 2014 to 35% in 2023, while training hours remained consistently high.

Governance practices at Hera Group emphasize transparency, ethical standards, and strong oversight. In 2023, the Board of Directors unanimously approved financial and sustainability reports, underscoring the company's commitment to responsible management. For the fourth consecutive year, Hera was included in the Dow Jones Sustainability Indices, affirming its leadership in ESG performance among global multi-utilities. Governance indicators remain stable, with a strong score of 86.72, reflecting a well-structured and accountable corporate framework. The company has also been proactive in ensuring supply chain compliance with evolving ESG regulations. Hera Group's comprehensive ESG strategy positions it as a leader in sustainable development, creating long-term value for stakeholders.

Equity profile and financial analysis

As of 31 December 2023, HERA had a market capitalization of approximately €4.43 billion, with shares trading around €3.70 and a target price estimate of €4.21 for 2026, implying a potential upside of ~14% over three years. Its float is substantial, with ~1.48 billion shares outstanding, a positive factor for liquidity.

While the company faced a temporary revenue decline between 2023 and 2024 (-13%), its overall financial outlook remains positive:

- Revenues are forecasted to grow from €12.89bn in 2024 to €13.41bn in 2026. This reflects the company's resilience amidst a sector slowdown.
- EBITDA is expected to rise from €1.36bn in 2023 to €1.68bn in 2026, indicating improved operational efficiency and cash generation.
- EBIT is projected to increase from €834m to €866.7m, showing stable core business performance.
- Earnings per Share (EPS) are forecasted to grow from €0.28 in 2023 to €0.33 in 2026, which enhances the appeal for long-term investors.
- Dividend per Share (DPS) are set to increase from €0.14 in 2023 to €0.16 in 2026, translating into a dividend yield above 3.7% annually, an attractive return for income-focused investors.

From a valuation standpoint:

- HERA trades at an EV/EBITDA multiple of 6.34x for 2026E, slightly below the sector average of 6.5x.
- The EV/EBIT ratio is estimated around 12.26 (2026E), again below the sector average of 13.23.

Outlook

HERA's consistent EBITDA growth and rising dividends indicate a defensive and stable investment profile. The combination of capital gains potential (estimated at 9.4% over 3Y) and an attractive dividend yield of ~3.8% results in a total projected return of 19.1% over a 3-year horizon, aligning with market and internal expectations of a steady value creation.

The Dividend Payout Ratio is expected to rise from 40% in 2023 to 49% in 2026, signalling management's confidence in HERA's future performance.

Investment case

HERA represents a compelling investment opportunity, especially for investors seeking stable income with low risk. Key strengths include:

- Visibility and predictability of future cash flows and returns, expected to remain stable.
- Attractive and improving dividend profile: DPS grows from €0.14 in 2023 to €0.16 in 2026, with payout rising from 40% to 49%.
- Compared to its industry counterparts, HERA trades at a discount on an EV/EBITDA basis, indicating an attractive valuation opportunity.
- Healthy balance sheet, with net debt/EBITDA declining from 2.9x in 2023 to 2.6x in 2024, and a conservative net debt/equity ratio (~1.05), meaning that the company is not overly reliant on debt.
- Disciplined CapEx, projected to reach €926m by 2026, aimed at supporting the company's operational growth and ensuring recurring dividends payment.
- Bull Case Scenario (+5%): if HERA achieves an EBITDA of €1.67bn, thanks to improved efficiency and a favorable economic environment, its equity value could rise to €7.8bn, representing a 18% upside from the base scenario.

Investment risk

While HERA offers a defensive and stable investment profile, some risk factors remain:

- Revenue Contraction and Growth Valuation Impact

HERA shows a negative revenue CAGR of -3.45% (2023–2026), slightly below A2A (-3.23%) and IREN (-0.85%), and significantly under Veolia's +1.16%. This contraction could pressure valuation multiples such as EV/Sales. However, it reflects a sector-wide post-crisis normalization rather than business breakdown.

- EBIT Margin Differential and EV/EBIT Multiples

HERA's EBIT margin remains structurally below peers, reaching 6.46% by 2026 vs. IREN (8.89%) and Veolia (7.13%). This lower profitability inflates EV/EBIT multiples (12.26x in 2026). However, the margin gap is typical of asset-intensive, regulated activities such as water and waste.

- CapEx Intensity and Free Cash Flow Compression

CapEx grows significantly from €243m (2023) to €926m (2026), which shrinks FCF from €1.33bn to €184.6m. This could limit near-term distributable cash flow.

- Sensitivity to cost and regulatory pressures (Bear Case Scenario -5%)

If EBITDA falls to €1.51bn due to rising costs or tighter regulations, the equity value could decrease by 21%, indicating a degree of sensitivity to external profitability pressures.

