

Industrie De Nora S p A

"Full Year 2023 Results and Mid-Term View Conference Call"

"Q&A"

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 MASSIMILIANO MOI, CHIEF FINANCIAL OFFICER
 CHIARA LOCATI, HEAD OF INVESTOR RELATIONS & ESG

OPERATOR: This is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone, to remove yourself from the question queue, please press "*" and "2." Please pickup the receiver when asking questions. If anyone who has a question may press "*" and "1" at this time.

The first question is from Michele Della Vigna from Goldman Sachs. Please go ahead.

MICHELE DELLA VIGNA: Thank you very much. Thank you for the presentation. And, you know, the margins in the business remain very impressive, but I wanted to delve a bit more in an area where we've seen a downward revision of previous expectations. If we look at the energy transition, you know, the target had been retired for a long time, but the targets used to be around €500 million, and at the moment, it looks like with your guidance for 2025, we would be around €200. Clearly, there has been a complete change in the speed of the market development, especially in the US, with the delay of the IRA implementation. But I was wondering, how conservative do you think you've been in your new guidance? Do you think there could be upside to it if projects start to move in the US? And what would be the signs that perhaps the market is starting again to go back to a more substantial speed than what we've in the last 12 months? Thank you.

PAOLO DELLACHÀ: Thank you, Michele. I think that in terms of capacity, we have been growing, we will grow always a little bit in advance to be ready, to be qualified, to welcome, of course, a growing demand like we expect. So, on that side, production-wise, we can face it. But we believe that our projections are pretty much realistic, based on what you just said, based on the fact that...it's a fact that this market is growing...is growing

considerably, and he see us playing a fantastic leadership role, but is growing at a lower speed than what we originally foresaw. So, we had to adapt our projections based on a realistic growth speed, despite the fact that we, together with our joint venture, Thyssenkrupp Nucera, are winning most of the projects that are again entering into final investment decision. But nevertheless, we have to recognize that the speed is a lower speed than what we originally thought.

MASSIMILIANO MOI: Let me add that, now we know pretty well the market. If you look at our pipeline, we are the market. We are definitely the world champion and the winner, and we know everything, which is moving out there. We believe that the pipeline is extremely strong, but we know that it takes time to move into FID and then into our backlog, and even when it enters into our backlog, it takes time to be manufactured and invoiced. So, we are extremely confident that this growth and this huge pipeline will materialize in terms of revenues, but we don't want to push in terms of expectation on timing. It will happen, it will be strong. It will be us, but in the proper timeline.

MICHELE DELLA VIGNA: Thank you.

OPERATOR: The next question is from Jacqueline Li with Bank of America. Please go ahead.

JACQUELINE LI: Hi, good afternoon, everyone, and thank you for taking my questions. I'll ask 2 if I may, and I'll go one at a time. So, looking at your Business Plan, you expect 40% average annual revenue growth over '23 to '26 for energy transition that implies roughly €280 million of revenue in that division by 2026. How much of your energy transition revenue by 2026, do you think will come through Thyssenkrupp Nucera, and how much of it do you think will relate to third parties? Thank you.

PAOLO DELLACHÀ: We expect the majority coming from Nucera. Being Nucera the winner of most of the significant projects in terms of size worldwide, of course, we believe that the majority will be coming from them.

MASSIMILIANO MOI: And let me stress this to me, is not a risk factor. It's absolutely an opportunity. Looking at who is generating the pipeline, who is winning the project, who is executing the project today. This is Nucera, Nucera, Nucera, of course, we are happy...we'll be happy to work with anybody else as long as they will bring a real project and real business. But in this moment, one of our major strength, not risk, is our JV and strong partnership with Nucera. And let me say vice versa.

JACQUELINE LI: Okay. Thank you. Next question, continuing on your Business Plan, you've cited adjusted EBITDA margin expectations of 18% to 19% at the group level. Could you maybe talk about the factors impacting each of the divisions? What's driving that overall 18% to 19%? Thank you.

MASSIMILIANO MOI: Well, we expect a slight adjustment in ET due to potentially higher price pressure from competition, particularly in the Chinese market, but still remaining at a very interesting level. We expect stable EBITDA in water technology systems. We expect stable EBITDA in pools, and in energy transition, we know it's going to be stable by our definition because we keep investing extremely high amount in R&D in order to maintain and increase our competitive advantage in terms of performance in electrode technology. So, honestly, we could squeeze out more than that 18%, 19%, but we decided not to do so, because we want to keep investing in ETR and also in ET for our future growth.

JACQUELINE LI: Okay. Thank you very much.

OPERATOR: The next question is from Matteo Bonizzoni with Kepler Cheuvreux. Please go ahead.

MATTEO BONIZZONI: Thank you and good evening. I have 3 questions. The first one relates more specifically the outlook for 2024. If we look at your backlog at the end of the year, it was down 12% at consolidated level. Electrodes were down 15%, water minus 23% and energy transition including the order from H2 Green Steel still up 5%. It seems that this backlog evolution is not a good proxy for your revenue evolution because you are expecting revenues in 2024 slightly up. Can you little bit help us understanding the difference between the 2 trends, between backlogs and revenues expected for this year. And then I would like to know for the EBITDA for 2024, is it fair to assume that compared to €171 million of last year could be, let's say, flattish or maybe slightly down.

Second question is as regard the outlook for energy transition. If we do the calculation for 2026, you now expect revenues in the region of €280 million. Can you little bit also in this case to help us understanding the evolution of the revenues in this division for 2024 and for the next 2years?

And last question is as regards the margin. You are pointing to a range between 18%, 19%, which compared to 20% in 2023 so slight erosion. As regards the one-off cost, related to the Gigafactory, my question is, which should account for additional 1%, 2% of margin pressure, but is outside the adjusted EBITDA. Can you help us understand a little bit more the nature of this cost and the phasing of this extra cost in the 3 years?
Thanks.

MASSIMILIANO MOI: Okay. Starting from backlog and revenues, as already explained, after the reduction of backlog in 2023, due to the execution of new product, not fully compensated by new order intake, we have seen already that on EPR,

on Green Hydrogen, now we have backlog that is record high. So this is clearly strength to our 40% CAGR over the 3 year period 2023-2026.

In terms of water, as I already also commented, we have already regained some backlog. Thanks to good order intake in January and February and this increasing trend is going on. Not all of this new backlog though is transforming into revenues in 2024, and this is the reason why having given the high single-digit CAGR, we also say that there is going to be an acceleration where the growth in 2024 is going to be lower than the 2025 and 2026 figure.

In terms of EPR, as already commented your second question, you can take the guidance of the 40% CAGR with the same concept of acceleration but on that we know pretty much what's going to be the 2024, because we have already the full capacity scheduled for the year. So it's a reliable forecast.

In terms of EBITDA and the impact on EBITDA from the Gigafactory, the Gigafactory is based on what then are also the eligible costs for the IPCA [ph] program that are mainly R&D cost and pre-industrial phase for the small size electrolyzers that will be one of the key products to be developed and then manufactured in the new Gigafactory. So, it's basically OPEX of R&D and OPEX of the pre-development phase of this new product line.

MATTEO BONIZZONI: Okay. Sorry Massimiliano, there was only one question left as regards 2024 EBITDA consolidated level. Is it fair to assume flattish or slightly down or maybe around flattish? Thanks.

MASSIMILIANO MOI: Sorry, flat in respect to what?

MATTEO BONIZZONI: Consolidated EBITDA for 2024?

MASSIMILIANO MOI: Well, also in in 2024, there will be the impact of the Gigafactory on the one side. And the other one is going to be the higher competitive pressure that we expect on electrodes business. So, on that we have been pretty realistic in terms of...if we need to slightly lower pricing in ET, we will be willing to do so.

MATTEO BONIZZONI: Okay, thank you.

OPERATOR: The next question is Isacco Brambilla with Mediobanca. Please go ahead.

ISACCO BRAMBILLA: Good afternoon, everybody 3 questions from my side. First one is a clarification on 2024 guidance. Is it fair to assume that your statement indicates the pace of growth for this year slower than the rest of plan applies also for energy transition? So we should assume it growing less than 40% year-over-year, this year?

Second question is on the backlog for energy transition. Would be quite helpful to have an idea of the deadlines attached to the €200 million backlog you are indicating for energy transition. I appreciate you cannot be 100% granular but any sort of color would be helpful?

Last question is on networking capital, this year delivery has been even higher than planned, I would say 30% was probably the target of 2025? Could you share some medium...some say new medium-term targets for networking capital or sales say by 2025? Thanks.

MASSIMILIANO MOI: Okay. For networking capital, we are not disclosing intermediate points in the plan. It will depend also on the schedule of our CAPEX of the €290 million, when we will deploy.

In terms of guidance for 2024. The idea of taking the CAGR with the acceleration is true across the business line with the lower impact on the ETR. So, ETR is not...the inclination of the acceleration in ETR is going to be slower, lower than in the other business line.

OPERATOR: The next question is from Chris Leonard with UBS. Please go ahead.

CHRIS LEONARD: Hi guys. I hope you can hear me. Thank you for taking the question. Just looking at the CAPEX guidance out to 2026, I believe that, in terms of installations of electrolyzer capacity or electrode capacity, we're now less than we were previously, sort of 4.5 gigawatts by 2026. And just to get clarity on whether or not you've changed pricing for CAPEX per gigawatt, I think previously you were looking at about €50 million, it looks, per gigawatt, it looks a lot higher now. So if you just double check on my assumptions for that, please?

And on the second questions, looking out to the revenue guidance for 2026 as well, around €280 million, just looking at the TK Nucera, pipeline at about 11 gigawatts are speaking to potentially being signed by 2025 out of the active pipeline of 16. I'm just wondering if you have any expectations on that hot deals pipeline you have at the moment. At 2.4 gigawatts, and how much you think it can be converted over the next 12 to 18 months when we look at that TK Nucera figure at about 11 of an active pipeline that they have up at 19 and how guys have 16. Thanks.

MASSIMILIANO MOI: Okay, in terms of let me say alignment between TK Nucera's pipeline and ours, the answer is yes, it's aligned you know that there is not a rigid correlation at single point in time because of several reasons they work and they function at a percentage of completion while we do at manufacturing and delivering and voicing. So this can create some time

difference, but the 2 pipeline are constantly and perfectly aligned over time. And I can confirm that over the Business Plan period the largest revenues for us will remain Nucera, and therefore, this alignment is absolutely confirmed.

Sorry, the first question was...I'm not sure I got the first question. Can you repeat it please?

CHRIS LEONARD: First question is just on CAPEX per gigawatt. When you look at your Gigafactory's being maybe historically €50 million and where we are now?

MASSIMILIANO MOI: Well, yes, we forecast a slight increase in the cost in the CAPEX per gigawatt, it's not dramatic, but it's there. Let's say that now we also have rapid good experience in expanding our capacity, which is based not only on the hydrogen specific new capacity, our capacity is extremely flexible and so also our experience in ET is helping us containing the inflation on the CAPEX per gigawatt. But yes, the effect is clearly there.

CHRIS LEONARD: Thank you. And just one last one, if I can. Speak about, noble method prices and content coming down and you guys buy about €0.05 in 2021. Has there been any change on your electrolyzer pricing or electrode pricing up to TK Nucera, just looking at the revenue guidance, perhaps to 2026 are we still going at about €95 million per gigawatts or perhaps €100 million per gigawatts or has that reduced? Thanks.

MASSIMILIANO MOI: We are considering now a €90 million per gigawatt.

CHRIS LEONARD: Okay, brilliant. Thank you for that.

OPERATOR: Gentlemen, there are no more questions registered at this time.

PAOLO DELLACHÀ: Thank you very much, everybody.

MASSIMILIANO MOI: Thank you. Bye-bye.