

# **Industrie De Nora S.p.A.**

**"Nine Months 2023 Financial Results Conference Call"**

**"Q&A"**

**Wednesday, November 08, 2023, 16:00 PM CET**

**MODERATORS:** PAOLO DELLACHÀ, CHIEF EXECUTIVE OFFICER  
MASSIMILIANO MOI, CHIEF FINANCIAL OFFICER

OPERATOR: Thank you. 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 pick-up the receiver when asking questions. Anyone who has a question may press "\*" and "1" at this time.

The first question is from Matteo Bonizzoni with Kepler Cheuvreux. Please go ahead.

MATTEO BONIZZONI: Thank you and good evening. I have 2 questions, first one is related to the guidance for 2023. Maybe I was misled by the press release because in the press release you said profitability confirmed. Now, it is clear that percentage wise it's confirmed 18%, 19%, but the new EBITDA guidance range is €153 million to €165 [ph] million if I have done the correct calculations. So, can you confirm that? I think it's confirmed now from the slide of the call?

The second question is with regards...so in the press release you are anticipating that previous targets for '25 or the transition are now challenging to be met. We are reconverting that in the press release. My question is, can you elaborate on the key reasons...the reason yes why, compared to, let's say 12, 18 months ago, the pipeline...neither in the site there are a lot of projects or they are sort of coming to a final investment decision, and so how backlog is proving more difficult than anticipated? Thanks.

MASSIMILIANO MOI: Yes, first of all the guidelines. The numbers are the following, so we confirm the margin performance as for previous guidelines, of course, in terms of absolute number with a gap in the top line, we have a proportional gap in the absolute term of EBITDA that you can easily calculate. What is relevant, I think, is that the resilience of our business model allow us even in a scenario that is penalising us for foreign exchange rate and the lower than expected market evolution. We are

capable of maintaining the profitability level in terms of incidence on our sales. So I think this is the way of reading the new guidelines.

With regard to the pipeline, the pipeline is growing, so it's just a matter of time. Hydrogen is a marathon, it will take longer than anybody was expecting, but we have a growing pipeline. We have longer execution time of our projects, we have longer time for granting subsidies from governments and legislators. We have longer time of conversion of announced project into FID. We have longer time of gestations of these project even when they enter in FID, we have longer than expected timing for the permitting of renewable energies that of course, drive the evolution of green hydrogen, and these are the reason while on the one side, we are witnessing more and more growing pipeline, on the other we see that the timing is expanding.

MATTEO BONIZZONI: Clear, thank you.

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

ISACCO BRAMBILLA: Hi, good afternoon everybody. Thanks for taking my questions. I have 3, one for each business unit. Starting from Electrode Technologies, during 2022 this segment top line is also benefited significantly from price increases on top of volume growth, which kind of a pricing dynamics are you seeing so far this year now that inflation is easing on mainly raw material?

Second question is on what technologies are some of the main players in the pools industry, gave confident messages about the upcoming end of the destocking cycle. You anticipated in the press release, a return to growth as well in 2024. On a qualitative basis, is it fair to assume that the growth trajectory next year may be linear or should we expect this to be somehow backend loaded in the second half of the year?

Last question is on energy transition. I appreciate timing for translating capacity transformation agreements into orders and delivery is not under your control. But given current visibility, it's hard to assume that orders collected from H2 Green Steel, North American projects, and further [ph] may start to contribute to energy transition results already next year? Thanks.

PAOLO DELLACHÀ: Okay. So the first question was on the electrodes. Yes, the price effect on the electrode business this year has been slightly more moderate because there has been quite flattish, slightly lower cost of raw materials. So basically, what we have been enjoying so far has been purely volume increase effect.

MASSIMILIANO MOI: In fact, here, going back to the numbers, the impact is foreign exchange on electrodes. This is because the foreign exchange impact is basically on yen and renminbi, so, it's our Asian operation. And therefore, if you consider it...if you look at electrode performance, the growth in volume is 4.6%. So, positive volume evolution, stable in terms of pricing, but negatively impacted by FX.

Then on pools for 2024, the...all that we hear from our customers, the larger players in the market, is a recovery trend in 2024. They declare that the destocking with the end of 2023 is substantially over. So, we are following what they say, we expect a moderate upside already visible in the first half of the year with the pool season in summertime.

PAOLO DELLACHÀ: To pick up. To complete on the pool side, the really only effect that has contributed to this normalization has been destocking. So all the other fundamentals are absolutely there. So, we are the market leaders with an impressive market share. There is a continuous growing business in this salt pools with this automatic chlorination. There is a very good ratio of conversion. There are new geographies that are picking up compared to the traditional ones. So inevitably, once this destocking is finished and considering that it has been announced in August 2022, we

are beyond more than 1 year of the destocking process by our customers, by the end of it, of course, the market will go back again to the growth trajectory that we originally foresaw in our Business Plan.

MASSIMILIANO MOI: And the third part, regarding energy transition and the timing, H2 Green Steel timing transformation from secured order to backlog should not take much longer. TK Nucera is...and we together with them are working on a daily basis to transform that also into an order for De Nora. For the America...North America for Texas project, it's going to take a little bit longer, but also there we're not far away from hopefully seeing it into our backlog. Again, I want to stress that this is you know, not a sprint, is a marathon. So the pipeline is there, the backlog, the secured orders, and the pipeline is there, strong and growing. We and everybody have to take the proper time to transform that into orders and revenues.

ISACCO BRAMBILLA: Well, clear. Many thanks.

OPERATOR: The next question is from Michele Della Vigna with Goldman Sachs. Please go ahead.

MICHELE DELLA VIGNA: Thank you. And congratulations on what is an on-going strong delivery on margins. I wanted to delve a little bit more on the revenue outlook for the energy transition businesses. So first of all, if I look back to the expectations one year ago of the market, there was a lot of enthusiasm about the potential for large projects to move forward in the US, given how generous the IRA incentives are. But since then, because of the delays in the implementation and clarifications, we've seen those projects being pushed back. They will probably still happen, but as you were saying before, they will take longer. If we think that about a third of the expected electrolyzer orders maybe were coming from the US at the time, and that we could be in a situation where very little of that materializes before 2026. Would it be fair to assume that we could perhaps curtail about 25%, 30% of the previous guidance in 2025, given the shifts and the delays from the US orders?

And then the second part of my question is related to the orders that don't come from Nucera in your green hydrogen business. And I was wondering, what shall we assume there? Would something around 20% be fair for the next couple of years? Thank you.

MASSIMILIANO MOI: Okay. For the outlook to 2025, for us, it's a little bit too soon to say what could be the number? We really have to understand this lower acceleration of the market, how it would impact. But for sure, for 2024, we see another relevant growth that is already partially secured in our backlog, for which we have a clear deadline, for which we have capacity. And therefore, this is under our control. We will execute, and you will see in 2024, a strong growth on top of the €100 million that we do this year.

For 2025 and 2026, we are starting now working on our Business Plan. What we can tell is that we continue...intend to continue developing our capacity, and that, for the time being, the 6 gigawatt of capacity that were originally planned for 2025, we are thinking to reach them one year later, in 2026. This does not mean that this would be the pace of the market. We want to stay ahead of the market. And make sure that when big projects comes in, we are ready and we have the capacity. But this at least is an indication that you can work on for the market evolution and how 2025 and 2026 target will get back at the beginning of next year with our new Business Plan.

PAOLO DELLACHÀ: Yes, we have a total alignment with our JV in terms of scheduling. As you know, we are a very specific part of the supply chain of each of these projects. So we expect a significant growth in 2024, basically almost already secured. We expect also another significant growth in 2025 based on the current backlog and the evolution of the projects that we have. In finalization, of course, as Mass said, it's a bit too early to think about what is going to be the end result by 2025 or 2026, but we

will work on that in the next months. And we'll, of course, we'll share it with the market.

MICHELE DELLA VIGNA: Thank you. Any comment on the percentage of revenues in energy transition that would come from other customers than Nucera?

PAOLO DELLACHÀ: Yes, as you might remember, in 2022, there was already a 30% of the revenues in energy transition coming from others. Then 2023, the percentage from Nucera would be much higher because to be honest they secured most of the projects in the...awarded the entry into FID, so it would be much, much higher. And the expectation of having fuel sales, electrolyzers and other kind of revenue streams in the energy transition is absolutely still there in terms of diversification, but we still expect Nucera to be the major component of our revenues in the next years. Thanks to the fact that they won most of the projects in the market.

MICHELE DELLA VIGNA: Thank you.

OPERATOR: The next question is from Joan Churton [ph] with Societe Generale. Please go ahead.

ANALYST: Good afternoon everyone, thank you for taking my questions. I would like to come back on to the point just made earlier on the energy transition business. You have a unique position in the value chain as you explained. Is that possible to provide a bit more color on the green hydrogen market outlook globally. Where is the disappointing acceleration in growth coming from? Would you say that it's...would you say that you are more surprised by the extent of the weakness in your joint venture in Nucera or is that basically more outside of the joint venture that you have seen the slower growth? So that would be the first question.

The second question will be related to the capacity expansion plan and you have just explained that you are now targeting 6 gigawatt for 2026, I think stance. Is it possible to explain whether this is essentially related to slowdown in the pace of the ramp up at the Italian GIGAFACTORY?

PAOLO DELLACHÀ: Let me answer the second one and then Mass can go back to the first one that's Moi you already touched earlier. The growth of our capacity...production capacity inevitably will follow and will adapt to the market base, considering anyway and keeping in mind that you deal with production capacity factories, you always have to play in advance. You need to be earlier at least 1.5 to 2 years to the real demand coming, because you need to build your factory to qualify the products, to test and qualify all supply chain around you. So this space that we are keeping will adapt slightly to the evolution of the demand but we are still convinced that we need to play in advance and that's why we are foreseeing right now 6 gigawatt by 2026.

This is a combination of multiple factory capacity starting from Germany, going to China to Japan to United States, and of course including the GIGAFACTORY that is under process in Italy. So that is not only related to that, absolutely not. It is a combination, is a...the sum up of individual capacity that we are building around the world to be able...to be interchangeable one to the other, which is giving us an additional flexibility, and to be able to serve the demand where there will be the highest concentration of this demand worldwide. The GIGAFACTORY in particular, which is the first and only greenfield expansion we are having right now as it started. We have completed the demolition of all the industrial facilities that we acquired, and now we are down to ground zero, meaning that we have the greenfield ready for the build-up and the construction of the new facility, which is in the middle of now of the all the bureaucratic permitting and documentation. So we are supposed to start the new construction pretty soon within the end of the year.



MASSIMILIANO MOI: Yes. And with regard to hydrogen in our positioning, key numbers. We have developed in 2 years a new-co, a company within the company that makes €100 million. It's profitable already. We have double-digit EBITDA, we have realized 1.3 gigawatt. We have the technology. We are investing 10% of revenues in R&D. We have the best go-to-market partnership with TK Nucera. This is the reason why we believe that we can be one of the World Champions in the green hydrogen marathon.

Then the timing will be driven by the speed of the incentives coming from governments and regulators from the speed of permitting with regard to the renewable energy necessary for green hydrogen, to the speed of the startup that each project represents. This is a newborn industry. So, we have a 2 year-old baby. If we ask ourselves every quarter, does he or she have the driver license? Not yet. But it's walking. It's starting to learn to run. It will arrive also at the driver license, but it's going to take time. Regardless of that...regardless of the timing we are already one of the big worldwide companies there and we are enjoying growing and profit for all the foreseeable future, irrespective of the market speed. We are ready in case to accelerate our production capacity build, we will stay above the demand and this is a strategic decision for us, but in any case and regardless of that, whatever growth you will see in hydrogen is going to be profitable, is going to be sustainable, is going to be long-term.

ANALYST: Thank you, very much.

OPERATOR: For any further questions, please press "\*" and "1" on your telephone. The next question is a follow-up from Isacco Brambilla with Mediobanca. Please go ahead.

ISACCO BRAMBILLA: Hi, just a quick follow-up from my side on the capital allocation strategy. You mentioned a couple of times during the presentation possibility to pursue M&A. Just wondering if you can give us a bit more color on strategic priorities in this sense by segment division or geography?

PAOLO DELLACHÀ: No, there are not specific priorities, meaning that we are always looking continuously and constantly into the whole segment that we serve in terms of M&A. As you know, we already completed one M&A transaction this year in Germany and we have, I would say, an interesting pipeline of opportunities that we are pursuing. We are looking at, and hopefully, we will be able to announce something in the next month. So for the time being, we cannot reveal anything more, but we are looking at opportunities in the electrode business, in the water business, and in the hydrogen space.

ISACCO BRAMBILLA: Okay. Thanks.

PAOLO DELLACHÀ: You're welcome.

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

PAOLO DELLACHÀ: Thank you very much.

MASSIMILIANO MOI: Thanks, everybody.