

Industrie De Nora S.p.A.

"Q&A"

Thursday, March 23, 2023, 15:00 CET

MODERATORS: PAOLO DELLACHÀ, CHIEF EXECUTIVE OFFICER

OPERATOR: Thank you. This is the Chorus Call conference operator. We will now begin the question and answer session.

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

MATTEO BONIZZONI: Thank you. Good afternoon. I have some questions. The first one is related to the energy transition division. So you have basically cut your sales indication for 2015 by around 20%, from €650 million, and €750 million to a range €500 million, to €600 million. If I have understood correctly, this cut comes mainly from lower assumption on noble metal price and the new technological solution, which you are adopting. Can you confirm that this cut is not related to a lower gigawatt backlog assumption for the end 2024 or basically the year before 2025? This is the first question.

The second question is just to make calculation on your revenue evolution in energy transition. Can you confirm that to get to your target in terms of revenues, we should assume that your backlog in terms of gigawatt at the end of 2024, should basically triple compared to the...or more than triple compared to the level, which we had at the end of 2022, which was 2.2 gigawatt. So we should get, in other words, to roundabout 70-gigawatt of backlog energy transition at the end of 2024, in order to meet your revenue or target?

The third question is, can you clarify the reason for this very large improvement in the profitability in energy transition with the lower revenue? So you were previously expecting 10% plus, you are now expecting 16%, 17%, which is well above, why that despite you have lower revenues?

And the last question is as regards CAPEX. If I remember correctly, in the IPO you indicated €300 million accumulated CAPEX in 4 years, '22...'22 to '25. Now, the CAPEX in 2022 was pretty low, €46 million, if I'm correct. But you have increased significantly the CAPEX in the remaining 3 years to €330 million. Can you elaborate on that? Thanks.

MATTEO LODRINI: Thank you, Matteo. I will respond together with Paolo to your questions. First question, if I recall correctly, we confirm our target '25 and the reason that we already explained, because of the change in the assumption of noble metals and the introduction of a new coating solution, which improve the efficiency and utilization of the coating itself. And that's providing the reason of the new target of €500 up to €600 million in term of revenues.

For the gigabit. Paolo, will...

PAOLO DELLACHÀ: Yes. Hi, Matteo. For the backlog, actually, it is not so linear. So we cannot simply say that we should end up by 2024 increasing the backlog, because already now there are projects in negotiations that are expected to be produced in 2024 and 2025. So the evolution of the backlog depends not just in absolute terms of this linear growth, but depends on what is the expected delivery schedule for each project related to our scope of supply.

And the third question was about?

CHIARA LOCATI: The transition.

PAOLO DELLACHÀ: Okay. Well, Matteo, first of all the upgrade of our expectation in the energy transition, EBITDA margin is based on the evidence of our cost structure and profitability that even in '22 and I will underline the Quarter 4, which was particularly positive, but which give us strong confidence that will continue. We have upgrade, our target is achievable and we can also

confirm our target of EBITDA margin for '23, which even strengthening our view on the profitability of energy transition, which I think, it's a uniqueness in the market of energy transition as far as we know.

For CAPEX, I would like to recap the difference between the CAPEX that we gave during IPO last year, with a new CAPEX plan for the plan '23-'25. As you remember, last year, we gave €300 million of CAPEX out of which €160 were dedicated to energy transition. In the year 2022, we did not invest the full expected amount of CAPEX. At the end of the year, we invested €38 million of CAPEX. And today, we provide a new guidance for CAPEX '23-'25, of about €330 million. So the difference between the previous plan, which was €300 million, and the new plan, which is €370 million, is about €70 million roughly of difference. I just...first of all, to remind that this additional €70 million is almost fully backed up by the IPCEI grant, which is expected to be just above €60 million, so on a cash basis, this increase in CAPEX is almost neutral.

But now going back to the difference between the previous plan and the current plan, the great majority of the difference reside in the Gigafactory cost in CAPEX that we plan, because this was in the previous plan I expect it to be much less in terms of scope. In the Gigafactory new investment, we also include the land, the building, the infrastructure, and we take advantage of this new facility to also rationalize all the industrial manufacturing setup in Italy. And that is the reason...that explains the great majority of this €70 million. Also, we have to consider that we have planned to invest €9 million...almost €10 million in solar panel, which were not part of the previous CAPEX plan.

And also, there is an expansion of the headquarter that in 2022 we didn't foresee, and we put in the new CAPEX plan. So those are the main

contributors for the additional CAPEX plan that we provided with the new guidance.

MATTEO BONIZZONI: Thank you.

PAOLO DELLACHÀ: Welcome.

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

MICHELE DELLA VIGNA: Thank you very much, Matteo and Paolo, and congratulations on the strong EBITDA margins. There were really 2 questions which are partially related that I wanted to ask you, mostly related to volumes. My first question is, could you give us an idea of what an upside, a blue sky scenario could mean in terms of volumes for your energy transition business, i.e. by 2025, if the market evolves much quicker and to a larger scale than what you're currently expecting, given your production capabilities, how much larger could your energy transition be in terms of volumes and revenues?

And then the second question, I was wondering if you could help us think about utilization in your plans. So out of your two gigawatt equivalent in 2022, is there a way to get an idea of how much your utilization was and what you are assuming in 2025 in terms of broader utilization out of the six gigawatt that you're targeting? Thank you.

PAOLO DELLACHA: Michele, thank you for the questions. For the first question, you have to imagine that we have always started since the beginning in anticipating the demand. That's the only way we have been able to satisfy this kind of requests, even in this large amount. So our journey in increasing the production capacity is continuing. Every year, we have a detailed plan for every company we have in the world of an increase of capacity dedicated

mainly to the energy transition. And that's something that is happening every day. So 2023, we'll see a progressive increase. In 2024, we will have already quite an impressive increase that will also continue in 2025 and beyond because of course, there are activities that will not be finished by 2025 that will put us in the condition to continuously grow our capacity also in the years beyond.

So there is the limit to some extent, right? So we have declared that we will exceed the six gigawatt of capacity by 2025. That is what is our plans and it's involving our Japanese factories, China, Europe, with also including the Greenfield Gigafactory for Italy, of course, Germany that has been the starting point in our energy transition roadmap, and of course, last but not least, the United States. So that's what we can answer in terms of what is the limit. The limit will be our capacity. So we will be able to satisfy up to that level. And of course, that gives us already a very strong position when dealing with the current projects and customers because they know that we can deliver within the expected time.

The second question is the utilization. The utilization, we have a unique advantage, Michele, which is the fact that by growing our capacity, that capacity is not necessarily fully dedicated to the energy transition. There is versatility in our production facilities. There is versatility in our production technologies. So when we deal with electrodes, we can do many kinds of electrodes also related to different segments and different configurations within the same segment, same with the manufacturing processes that we have in place. So the utilization in 2022 has been very high because we've been going through a ramp-up, and that's why we had...we saw a very impressive increase of revenues in the last months of 2022, which was coherent with our ramp-up of production. So, we envisage also a very good saturation level for 2023 with the current backlog that we are executing.

MICHELE DELLA VIGNA: Thank you.

PAOLO DELLACHA: You're welcome.

OPERATOR: The next question is from Chris Leonard of Credit Suisse.

CHRIS LEONARD: Hi, guys, thank you for taking the questions. If I can stay on the energy transition segment and just think about your pathway to getting rid of radium [ph] content in the electrolyzer by 2027 obviously, at the moment that's helping reduce the average price, alongside noble group metals getting cheaper to maybe 95 million per gigawatts. So how far through are you on that journey of reducing radium, if you have a percentage or similar that will be helpful?

And then stepping away, the second question, can you just speak about the water technology segments and what sort of opportunity you think there is on the water system side outside of swimming pools to...look to improve margins here, given that you have a very good backlog I believe in that division. So that will be helpful if you could describe the situation there going into 2023?

And then the last question, when you look at the electrode technology segments, you've given it a nice margin guidance for the market out to 2025, 24% to 26%, EBITDA margin. How many more years of sort of electrode upgrades do you think you'll see, as you change from the diaphragm technology into membrane? And you noted, there had been some progress in 2022. So, just wondering if that's helping...if that continues in '23 and '24 and if that's helping the margin guidance, any color you could give there, that will be helpful? Thank you.

PAOLO DELLACHA: Can you repeat the first question, please?

CHRIS LEONARD: Yes, the first question is only the elect [ph] the radium content within the electrolyzer's. So by 2027, you're trying to phase that out, obviously that is currently...that new technology that you're developing that has been helping reduce the price to your customers, I just wondered how far through you are on that development journey to completely get rid of it?

PAOLO DELLACHA: Well, I think we made impressive developments, thanks to our research and development colleagues, we have already achieved...we are launching new coatings that have a significant lower content of radium in their formulations performing even better. So the research, the technology roadmap for this is fully ongoing. We already achieved a great satisfaction and great results. And that's why we had to of course adjust the expected revenues coming from that part at least. And the journey will continue. So we are very confident that we will get to our target in the next years. The other questions I think, Matteo will answer.

MATTEO LODRINI: Yes. Chris, I will take over the question about WT system and by the way, I thank you for it because it's an important focus. WTS is showing the highest backlog in the history of the company since De Nora, and that is clearly a very supporting element for the growth that we expect in '23. In terms of profitability, I must say that at the EBITDA level is where in the WT system we see more leverage on the EBITDA margin, because of the benefit that we can achieve by growing organically, keeping our organization that is already well established broadly across all continents. And, these will give us a net benefit in terms of EBITDA impact leveraging on the fixed cost. So in an environment where the pool business has slowed down in the last quarter, WTS is clearly the business that in '23 we expect to see more growth and more profit.

CHRIS LEONARD: And then the last question on electrode, yes, on the margin durability?

MATTEO LODRINI: Yes, you see in the margins, we decided to raise the guidance '25 for 2 reasons. First of all, do not forget that in the electrode business we have a very strong position in term of market share. And the shift in technology, as you said from diaphragm to membrane is not the reason of the increase in our profitability guidance.

The reasons are, first of all the weight of product line, which we see more profits to come. And secondly result that we have been achieving in term of profit in '22 for the electrode, we believe that this will continue despite the fact that some product mix like in 2023 will slightly change the profitability but overall it's where De Nora is leader and where De Nora can gain traction in term of profitability also because of efficiency in the supply chain. So, we have the 2 effects, the product line with more profitability and the expected efficiency gain across the supply chain in the manufacturing, which will give us great confidence in maintaining high level of profitability. Do not forget that this year, we are posting 26% of EBITDA margin and we gave the guidance to be between 24% and 26%. So, it's a proven fact that we can do that.

CHRIS LEONARD: And sorry, just to clarify the product line, does that refer to the mix of different products shipping or is that your...

MATTEO LODRINI: No, that refer to the mix. For example, I want to be more precise. For example, we see a growth in the specialty, in the electrode winning where we expect to see very good margins in electronic as well and the combination of that will allow us to be very confident that we can reiterate our guidance on that range.

CHRIS LEONARD: Perfect. Thank you.

MATTEO LODRINI: Welcome.

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

ISACCO BRAMBILLA: Hi, good afternoon, everybody, a couple of questions from my side. The first one is a clarification on Slide 24 and your representation of the energy transition pipeline. Is it fair to assume that the order such as the latest one announced by ThyssenKrupp for the extension of the one with Unigel or the production capacity reservation for an undisclosed client announced in February are falling into the hot deals piece of your pipeline in energy transition.

And second question is on CAPEX. Can you give us a sense of the, say, trajectory of CAPEX? Is it going to be particularly frontloaded into the next couple of years in group level? I mean or should we assume another all linear distribution over the next 3 years.

PAOLO DELLACHA: Okay. I can answer the first one. The...yes, the answer is, yes. These projects that by the way, they have been already announced or semi-announced, they are part of the hot deals. Of course, in the hot deals, there are names and surnames of projects that are...that have been quoted and they are already under deep discussion or even negotiation. And thus we will see announcements in the near future of these projects. That will of course give us confidence that our backlog will continuously grow in short-terms.

MATTEO LODRINI: For the CAPEX evolution, as I said before, we have a lower than stated CAPEX in '22 which is a carry-over in '23. So, please do expect that in '23 there will be a significant concentration of CAPEX and I would say beyond €100 million, that is what we can say, and then for the remaining couple of

years with a turn to the average that we declared during the IPO which was more equal weight for the 4 years.

ISACCO BRAMBILLA: Okay. Many thanks.

PAOLO DELLACHA: Welcome.

OPERATOR: The next question is from Marianne Bulot of Bank of America. Please go ahead.

MARIANNE BULOT: Yes, thank you for taking my question. Good afternoon. First, if I can just start on what you seeing on the hydrogen sales in terms of technology. [Technical difficulty] expectation of technology, differences between AWE in term have changed over the last couple of months or are you still seeing a dominant for AWE?

PAOLO DELLACHA: The line is quite disturbed. I am not sure to have understood every word, but I'd try, correct me, if I didn't understand in full your question. We don't only believe that alkaline water electrolysis is the winning technology, but also there are recent market studies that are also showing that the market share of this technology compared to all the others including PEM is continuously growing, because you have to also combine the fact that the market is moving to larger and larger size of projects. The larger the project is then highest or I would say the only chance is for alkaline water electrolysis to be able to execute this kind of project. So the market share is expected to grow and that's why also studies related to De Nora itself are showing that our market shares are going to be really very high.

MARIANNE BULOT: Okay. This is [technical difficulty] offering solutions for the PEM market?

PAOLO DELLACHA: We don't really understand. There is a bad line. Can you say it again, please?

MARIANNE BULOT: Sorry. Apologies for that. Do you still intend to enter the [indiscernible]?

PAOLO DELLACHA: I didn't understand the question. I am sorry.

OPERATOR: If you can pick up the receiver.

MARIANNE BULOT: Sorry. Let me just try to go outside. Is it better now?

PAOLO DELLACHA: Probably yes.

MARIANNE BULOT: Okay. Sorry, apologies for that. Do you still intend to enter the PEM market with some of your components and solutions?

PAOLO DELLACHA: Yes. Well, you know, technology-wise, we are very agnostic. So we pursue a very high diversification of our research and development activities. So if we see opportunities to develop specific components that could help to some extent this technology, we will do, absolutely at research and development level for sure.

MARIANNE BULOT: Okay. But it's not something that you are planning to put in market in the next coming years?

PAOLO DELLACHA: No, no. Absolutely, no.

MARIANNE BULOT: Okay. Thank you very much.

OPERATOR: The next question is a follow-up from Chris Leonard of Credit Suisse.

CHRIS LEONARD: Hi guys. Just coming back and again on the water division and looking at the margin into 2023, I am just wondering how you guys think about the evolution there looking at Q3 and Q4, EBITDA margins in 2022. I am thinking, you know, can you sustain those, to get above them with the potential destocking back on the swimming pool side. Just if you can give some color there that would be very helpful.

And second question on the...Matteo just mentioned on the CAPEX side, sort of a €100 million maybe in 2023. How do we think about the growth coming in from the Italian government at €63 million that offsets this and obviously what we say is, so I just wondered if you can give us a timeframe on how you expect that to come into the cash firstly? Thank you.

MATTEO LODRINI: Sure Chris. First of all, let me give you some color on the profitability of the WT. My direction for the profitability 2023 is to be close to 2021 level because 2022 was very much inflated by noble metal effect staycation. So in the pool business, we already explained many times, not only the exceptional growth but also the very high profitability that specially we enjoyed in the Quarter 1, Quarter 2 2022, were not sustainable in our opinion.

It is an important to underline that we don't see any structural change in the profitability of the 2 segment of the water division. Of course, given the fact that we expect in 2023 the WT system division to grow because of the backlog and the pool business declined in volume because of the slowdown that we already recorded in Quarter 3, Quarter 4, the overall profitability in 2023 of the WT division will reduce. But 2021 level and I am referring to the percentage level, is what we should consider to be a more sustainable level for WT vision looking forward.

Did I answer to your question?

CHRIS LEONARD: Yes. That's clear. And maybe as a quick follow-on, is there any view on what you guys would see on the swimming pool side in terms of central volume and price and for the revenue outlook in the swimming pool business within water?

MATTEO LODRINI: Yes, very good question as well and I think you because it's important to say. We are already declaring...comment many times that the majority of the growth, organic growth that we experienced in 2022 was driven by price. I think we gave also the reference that 75% was price, 25% was in volume. I am not referring in pools of course. And you consider the prices effect will no longer be viable for 2023 because the noble metals is slowing down and consolidating, which by the way is positive for our procurement but in terms of growth that's clearly a sign there will not be again for 2023. And the market has been slowing down in Quarter 3 and Quarter 4, so we expected the business to maintain a slowdown in the course of 2023, at least in the short-term.

So, overall, it's a business where we consider overall to be resilient because of the larger presence of aftermarket and because the opportunity that we believe we have for expand the business outside US in the new geographical area, which is Europe, which are South American and then recently Asia. So, we believe that, in the course of the next couple of years, pools will continue to show good momentum if you consider the trend line starting from '21, so please consider...and that's the way we want to review [ph] the '22, as an exceptional year that should be normalized in terms of growth.

CHRIS LEONARD: Okay, thank you.

OPERATOR: The next question is a follow-up from...

MATTEO LODRINI: There was another question about CAPEX, which I don't remember. Okay, it's '23. As I said, because of the carryover from '22, we expect to see a major ramp-up in our CAPEX also, because we have to increase our capacity that's important because of the demand? So it's CAPEX to build additional capacity, that's important to underline. IPCEI funding, we expect to come at the late stage of our Business Plan, the great majority at least.

CHRIS LEONARD: Okay, thank you.

OPERATOR: The next question is a follow-up from Matteo Bonizzoni of Kepler Cheuvreux.

MATTEO BONIZZONI Yes, thank you. A quick follow-up. In your IPO you disclose the target to expand and diversify your customers base in an energy transition business compared to the current one in which we have more than 90% of the backlog is generated by [indiscernible] so basically, your go-to-market for now and the EPC contractor [indiscernible] any progress or development in this direction? Thanks.

PAOLO DELLACHA: Yes, there are many progresses that of course, we cannot disclose. But yes, there are progresses, and there are many players that are discussing with us for specific supplies for their needs. Of course, we have to be very clear here that the majority is becoming from Nucera because Nucera is the one that is taking the majority of the project. So what, what we will do in the future is to observe and to be ready to serve whoever is in need, but of course that depends, so who is going to be the winner of the projects going on?

MATTEO BONIZZONI Okay, thank you.

OPERATOR: As a reminder, if you wish to register for a question, please press "*" and "1" on your telephone. Once again, if you wish to ask a question, please

press "*" and "1" on your telephone. The next question is a follow-up from Chris Leonardo of Credit Suisse. Please go ahead.

CHRIS LEONARDO: Hi, guys. Sorry, guys. Last question from my side, but on the news flow from SNAM discussing their potential holding in the business 25% stake, do you guys have any visibility or on your side on potential decisions or timings, as I guess it could be very helpful for the free float in the market that is 20% currently to see that increased? But equally maybe it is investors' minds, having that situation sort of overhanging the stock currently, so any view on timing or potential decisions would be very helpful? Thanks.

PAOLO DELLACHA: Well, this is a shareholder issue, as you can imagine. So, we are conscious of the needs to increase our free float, but it is in the hands of the shareholder. So, I'm sorry to say that we cannot answer that.

CHRIS LEONARDO: Yes, thank you. Thanks for the answer.

PAOLO DELLACHA: Thank you.

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

PAOLO DELLACHA: Alright. So thank you very much. We hope we're being clear enough to explain our numbers and our projections and our guidance. And of course, feel free to contact us for any further questions you might have. Thank you very much, everybody.

OPERATOR: Ladies and gentleman, thank you for joining the conference, it's now over. You may disconnect your telephones. Thank you.