

Industrie De Nora S p A

"First Quarter 2024 Financial Results Conference Call"

"Q&A"

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MODERATORS: **PAOLO DELLACHÀ, CHIEF EXECUTIVE OFFICER**
MASSIMILIANO MOI, CHIEF FINANCIAL OFFICER
CHIARA LOCATI, HEAD OF INVESTOR RELATIONS & ESG

OPERATOR:

Thank you. This is the Chorus Call operator. We will now begin the question and answer session. Anyone who wishes to ask a question, my press "*" and "1" on their telephone. To remove yourself from the question queue, please press "*" and "2." Please pick up the receiver while asking questions. Anyone who has a question, may press "*" and "1" at this time.

The first question is from Matteo Bonizzoni of Kepler.

MATTEO BONIZZONI: Thank you. Good afternoon. The first question relates the recent auction on the green hydrogen in Europe, in which 7 projects were selected for total capacity, which can be estimated at around 1.5 gigawatts. There is another auction also probably by the end of the year scheduled. So, the question is, do you have a view on how it could affect your pipeline in Europe and the timing of the final investment decision related to these projects. Just to provide a little bit more color, given that you are industry experts, let's say?

The second question is related to the energy transition business, because in Q1, I would say that, at least compared to my estimate, the EBITDA in the core business was pretty okay, so in Electrode Technologies and also in those I would say in Water but in the other division. So, in the energy transition division, both revenues and margin were poorer than expected for reason that you have highlighted by the way in the call. So, there is no guidance for the full year in general, but I would like to have more color on what are your expectations as regards, I mean, ballpark indication for the revenues or range if you want, or sensitivities if you want, for the energy transition, both for revenues and for EBITDA.

And can you please confirm that the costs for the Gigafactory are excluded from your 18%, 19% EBITDA guidance at consolidated level, because it

seems that in Q1 you were including some costs in the adjusted EBITDA. And also how much these costs were in Q1 and how much they should be in the full year?

And then last question, Q2, you said growth year-on-year or quarter-on-quarter? Thanks.

PAOLO DELLACHÀ: Okay, I'll answer the first and the other ones, I'll leave it to Mass. Yes, the auction has been very well received, meaning I mean, in that 7 projects has been won. I think there were 130 applicants. The second wave, which is going to be much higher to achieve from €700 plus million to €3 billion is going to happen soon. So, it's a very positive sign. I can simply confirm that some of those projects are in our pipeline. Meaning that, of course, we were involved, especially our JV was involved in those projects early stage. Of course they have...there are no projects that are going to happen tomorrow, but they have of course a journey to make to get to the final stage. But yes, that's a very positive sign together with many others happening in every country of Europe, like Germany, with the decarbonization of the steel, and other initiatives that are really pushing into the direction of decarbonization on one side, but also on the utilization of green hydrogen as molecule to implement the decarbonization.

Last but not least, the G7. You have been seen also the result of G7, where they've been, let's say progressing very well, I would say much better than the COP28 in Dubai, where at least they have decided that the coal has to be phased out from power generation progressively, that the renewable electricity has to be at least triple...between triple and 6 times within 2030. So, these are all enablers of the decarbonization and the introduction...progressive introduction of green hydrogen into the market.

MASSIMILIANO MOI: Okay. For ETR [ph], the situation in terms of EBITDA is first of all excluding the Gigafactory. So, when we gave 18%, 19%, it was excluding Gigafactory. The data that you see in Q1, the 19% which is in the high range instead is including the Gigafactory.

In terms of revenues for the remaining part of the year in energy transition, at the moment, the production plan and the delivery plan is confirmed if project will not have a delay in the coming months.

And in terms of EBITDA, we expect still a high incidence of R&D. There is the impact of Gigafactory and there are still some scale-up cost for the capacity expansions and these will most likely bring the EBITDA in the single-digit territory, which is aligned to our plan.

With regards to Q2 growth, its year-on-year. So in this term is the concept of accelerator that we explained during the presentation of the plan. It's an accelerated growth year-on-year, quarter-by-quarter in 2024. So you've seen the negative year-on-year for Q1, Q2 is in positive, Q3 and Q4 positive with further acceleration.

MATTEO BONIZZONI: Thank you.

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

ISACCO BRAMBILLA: Hi, good afternoon everybody. Thanks for taking my questions. I have 3. The first 2 are on Electrode Technologies. So first, can you help us reconcile your comment on acceleration from the second quarter with a backlog figure for Electrode Technologies again down at the end of the first quarter compared to the end of 2023?

Second question on Electrode Technologies is on margins, could you give us a bit more colors on the drivers of the strong performance in margin, even in spite of weak volumes? And maybe provide an update on the potential pressure you mentioned during March conference call from Chinese competitors, if I'm not wrong.

Last question is more a kind of a high-level one. We have recently seen announcements of gigawatt scale projects by some of your peers in energy transition. Are you observing any change in attitude of customers in your discussions that may suggest an acceleration in order collection in this segment?

PAOLO DELLACHÀ: Mass you answer the first 2, and I'll answer the last one, please.

MASSIMILIANO MOI: Sure. Okay, first of all, acceleration in energy...in Electrodes is year-on-year, so it embeds the fact that, relatively speaking, Q2 '23 was not as strong as it was Q1 and we are maintaining and slightly accelerating quarter-on-quarter in 2024. So the combined effect is a real acceleration year-on-year. And it's already embedded, of course, in our backlog and in our projects that are under execution.

With regard to the margin, it's driven by positive price effect. In fact, during Q1, we had a negative impact in terms of volume, but a positive impact in terms of price and margin. So, in this moment, we can confirm that we are still a strong power price company and leading position in Electrodes and therefore we command price premium and increase in our performance.

CHIARA LOCATI: Competition in China is not...

MASSIMILIANO MOI: If the point was competition in China...in this moment competition in China is not penalizing our performance. So far, so good.

PAOLO DELLACHÀ: The third point about announcement of our peers. If you...Isacco, if you refer to the 3 gigawatt MOU that has been announced by Black Power in Australia, is that what you mean mainly?

ISACCO BRAMBILLA: Yes, this one and also [indiscernible].

PAOLO DELLACHÀ: As you can notice by yourself, these are not projects. These are MOUs, LOIs that require...either will never happen, and there's a lot of advertisement by both parties to say that, or in case they enter into a more serious phase, it will require quite a number of years. So we are not that kind of players, nor is Nucera, to announce the MOUs that will bring nothing short-term. So, Nucera what we do is either we announce a project that we signed or we announced a capacity reservation that has been signed or an award like we announced in Australia recently with Nucera or an award of the project that now is entering into a more detailed kind of activities to get to the final contract. So I would not...unfortunately, I would say it doesn't...this is not a sign of a huge transformation happening nowadays. Australia has announced something like 20 gigawatt of projects, but we are...all of them are quite in the early stage apart the one that we have been awarded recently in Tasmania.

ISACCO BRAMBILLA: Very clear. Many thanks.

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

CHRIS LEONARD: Hi guys, hopefully you can hear me, Chris Leonard from UBS.

PAOLO DELLACHÀ: Hi, Chris.

CHRIS LEONARD: Hey, guys. Maybe 3 quick questions if I can. So the first one looking at Electrode and Water and the good margin in Q1, obviously you just said some of that was due to pricing power that you've managed to command? But looking at the full year 2024 given that electronic should be returning in the second half, and equally pools for Water should also be rebounding from Q2 onwards year-on-year, you know, what type of level should be anticipating for the margin for both divisions on Electrode and Water because, you know, Q1 was incredibly strong versus our estimates. So I am just trying to get a gauge for where we might land at full year given you don't give guidance at the moment?

Second question is just on the buyback. Obviously, that looks like it's completed, you have an upside option there. I think that maybe expires in June, perhaps, I just wanted to get clarity if you're going to look to continue that given that, you know, the price of the shares at the moment are lower than the average price you executed on the first portion of the buyback of €43 million.

And then last question, the potential delays you spoke to for green hydrogen, just trying to think which projects might be at risk today, you commented the Neom project in Saudi Arabia was expecting to have a steady drumbeat of orders and that was going well. So with the potential delays, maybe relate to H2 Green steel or potentially US projects that aren't yet within the backlog, just trying to get some color on where you see risk in the green hydrogen revenue for the year? Thank you.

PAOLO DELLACHÀ: Alright. So Mass, you take the first 2 and I'll take the last one.

MASSIMILIANO MOI: Yes. With regard to evolution of margins in Electrodes, with the recovery in electronics, and the growth in full in the second part of the year. The

outlook is positive in Electrodes, we will maintain high and stable marginality. And in pools, we will have an a growing marginality into the segment itself. And for a mix effect in the overall Water division.

In terms of buyback, we have decided in this moment not to exercise the option for the second tranche of the buyback program. But our shareholder assembly has confirmed the possibility to activate another buyback program at discretion of the board.

PAOLO DELLACHÀ: Okay, yes...

CHRIS LEONARD: Should I just follow up on the margin erosion.

PAOLO DELLACHÀ: Yes, sure. Go ahead.

CHRIS LEONARD: Yes, so Electrode saying maintaining high and stable you know, for the Electrode division we are just seeing 27%. So are we anticipating a similar margin level maybe to 2023, which was about 25% for the Electrodes division? Would that be your kind of assessment of where we're landing for the full year at this point given electronics is coming back?

MASSIMILIANO MOI: Yes, it's going to remain high and slightly better than our plan.

CHRIS LEONARD: Okay, great. Thanks. And the same is true for Water as a whole division given its 16.5% margin and last year, Water was about 14%.

MASSIMILIANO MOI: Yes, correct.

CHRIS LEONARD: Okay. Thank you.

PAOLO DELLACHÀ: Okay, now going to the projects in execution and the possible delays. Neom, you have also seen their announcements...spontaneous announcement. Neom is running very well. We are at full speed there every day we produce and then batch-by-batch we deliver. So Neom is not in discussion. Absolutely right now in terms of production scheduling.

H2 Green Steel there is still there is a project finalized finished in terms of contractor and already part of our backlog. We still have to receive the final production scheduling. So that means that we still have to trigger exactly in, which week of the year we are allowed to start producing, that's what could generate potential delays. If this so-called notice to proceed, doesn't arrive soon, which is by the way expected any day now. Then there are...talking only about large projects, that there is better feel and that has been finalized. So, it will enter our production scheduling of course not for this year and maybe not even for the next year considering the timeline of this Greenfield project.

And then there is the large project in the US which is expected again any date for the capacity reservation to move into final contract which is of course expected to trigger somehow in 2025 in terms of production scheduling. So, you can imagine that being part...De Nora being part of a very specific and complex supply chain process, we are for the large projects...we are of course very much depending on the production scheduling on each of these jobs overlapping and integrating with each other to make the full fiscal year in the plan. So, there is the level of potential little changes that we might expect if these projects are coming to a certain delay.

On the other hand, we have to...we don't have to forget that this is also...there is also a reverse side of the same coin which is for De Nora repeat production, profitable business with lower level of risk and at the

same time of course it will trigger an incredible after sales and maintenance process once the install base has been created. But in this specific moment, we have to count on the scheduling that our customers are transferring to us based on execution of these jobs.

CHRIS LEONARD: That's very clear. Thank you for the answer.

OPERATOR: The next question is from Constantin Hesse with Jefferies.

CONSTANTIN HESSE: Thank you very much for taking my questions. I have a couple left only. Just a quick one on the share buyback program. If perhaps you could share with us what kind of needs to happen for you to potentially consider doing the second tranche? Is there any kind of performance within the Electrodes business or even the Water business that you'd want to see before potentially considering it again or is it more of an issue around CAPEX?

And the second question is what gives you the confidence that you are going to see a recovery in electronics in the second half? If we look at some of the data, especially around consumer electronics, it's actually pretty underwhelming in terms of the recovery. So, just wondering what kind of confidence levels you have around the recovery for the second half there? Thanks.

PAOLO DELLACHÀ: Okay. You take the first, I take the second Mass.

MASSIMILIANO MOI: Okay. For...with regards to the buyback, now there is no specific intention to do it. You know that as for the first tranche, the purpose was for potential M&A and for internal rewarding systems. We believe that we have more than needed particularly for the second. If in case, some potential M&A could materialize, maybe we'll decide to restart the

project. I think it's good to have the option for the time being that we don't foresee to use it in the short period in the foreseeable future.

CONSTANTIN HESSE: Thank you.

PAOLO DELLACHÀ: Okay. Regarding electronics. Well you know in 2023 electronics has been leaving something not so different from the pool business, even though it is a totally different space and segment, right? So, there have been a destocking process taking place, that together with some geopolitical issues and some re-shoring [ph] of some activities from Asia to other countries, for sure has created some instability in the market. What we can say today based on the demand of our customers and our continuous relationship with them is that the PCB market in particular because of the artificial intelligence, because of a number of initiatives that are picking up in the market, is expected to pick up again to grow in demand and thus far to have somehow reflected in our plan for the second part of the year.

CONSTANTIN HESSE: Thank you very much.

OPERATOR: Ms. Locati, gentlemen there are no more questions registered at this time. Sorry, just we have just another follow-up from Chris Leonard of UBS.

CHRIS LEONARD: Hey guys just following up on electronics. From memory, the replacement cycle for you guys is about 2 years on the Electrodes you installed in the market. I am just wondering if growth you saw in 2020 into 2022, if that's going to come in as well for replacement following this destocking wave [multiple speakers]

PAOLO DELLACHÀ: No, absolutely on copper foil for lithium batteries for example that's absolutely part of our expectations, yes. You said it very correctly.

CHRIS LEONARD: Okay. Thanks guys.

OPERATOR: There are no more questions registered at this time.

PAOLO DELLACHÀ: Alright.

CHIARA LOCATI: So, thank you very much to all.

PAOLO DELLACHÀ: Thank you.

MASSIMILIANO MOI: Thank you.

CHIARA LOCATI: And for any kind of information and questions...IR department if you need.