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TJ	Dr Thomas Junghanns - Berenberg
TS	Teresa Schinwald – Raiffeisen Bank International
EW	Elisabeth Weisenhorn – Portikus Investment

O Good morning, ladies and gentlemen, and welcome to the Encavis conference call regarding the interim report for the second quarter/six months 2023. At this time, all participants have been placed on a listen only mode. The floor will be open for questions following the presentation. Let me now turn the floor over to your host, Dr Christoph Husmann.

CH Good morning, ladies and gentlemen. Warm welcome to our Encavis Q2 conference call. I'm Christoph Husmann and I will host you in this call together with my colleagues Mario Schirru (CIO/COO) and Joerg Peters, Head of Corporate Communications and Investor Relations, and both of them will be available for your questions as well. Yesterday evening, we released our Q2 figures, which show stable revenue and stable earnings per share in the first half 2023, although there were some negative meteorological effects and bigger price effects compared to [01:00] the first half of 2022. And this shows the resilience of the Encavis business model, that in these turbulent times can realise stable revenue and stable earnings per share. Ladies and gentlemen, before we go into the specifics of the figures, I would like to give you some highlights on what we have done in the meantime since our last call for Q1 2023.

Well, as you might know, we suggested to the Annual Shareholders Meeting to waive the dividend to foster our planned growth. As you might know, we are seeing an outstanding growth of the renewables ahead of us, and this has to be financed, and the waiving of the dividend was therefore necessary for us boosting our available cash and financial resources twice. Firstly, the not realised cash [02:00] outflow enables us to invest and by not paying out the dividend, we keep up our equity, and this as an important covenant for the banks and helps us to raise more debt on corporate level. This suggestion with these arguments was supported by the Annual General Meeting (AGM) with the overwhelming majority of 99.3%. In the following Supervisory Board meeting after the AGM, the independent member, Dr Rolf Martin Schmitz was elected to be the new Chairman of the Supervisory Board. Dr Manfred Krueper, our long-lasting Chairman stepped down and became Deputy Chairman of the Supervisory Board.

And the committees were elected in a new composition. Now, both committees, the personal and nominating committee as well as the audit and ESG committee, both are [03:00] headed by independent members of the Supervisory Board. It is Dr Rolf Martin Schmitz heading the personal and nominating committee, and Isabella Pfaller heading the audit and ESG committee. And in both committees were either the majority or half-by-half now elected independent members of the Supervisory Board. Recently Scope Ratings reaffirmed the Encavis AG investment grade issuer rating, triple B minus, and the outlook was stated again, to be positive. This reflects the sustained robust liquidity and diversified exposure to external funding channels we have at Encavis.

In the meantime, we implemented the first measures to realise our Accelerated Growth Strategy 2027. Recently, we announced our first cooperation with equity partners, which we announced in March that we would go for that. [04:00] Encavis and the Freiburg-based energy supply company badenova create together as partners a new entity which is intending to buy 500 megawatts (MW) of electricity generation capacity in Germany from Renewable Energies. And for that purpose, more than 200 million euros should be invested (of each partner) by 2027.

What is of importance to us here is that the common entity, the Encavis Energieversorger I GmbH, is owned 51% by Encavis and Encavis is in the industrial lead of this entity, and 49% by Kommunale Energiewende GmbH, which is a subsidiary of badenova. But all local municipal utilities and regional energy suppliers and [05:00] municipalities as well are invited to join badenova in this Kommunale Energiewende GmbH to increase the volume of cash to be invested, the volume of megawatts within that entity. And this is of importance to Encavis. Firstly, it gives us the opportunity to have better direct access to these local municipalities, which is important for getting all these approvals and getting local contact to potential PPA off-takers. And it is meaningful because in the past, these local utilities had usually close contact to the big utilities, and now they're intending to have better relationships to Encavis to realise their growth in the renewables.

And Encavis acquired already two Italian solar parks of 93 megawatts, [06:00] Montalto di Castro, and Montefiascone. Both of them increase, now, the total Italian portfolio, which we have by 260 megawatts, and they're intending to have a generation capacity of around 154 gigawatt-hours. In both cases, we want to sign long-term power purchase agreements (PPA) with a pay-as-produced structure. In addition to that we extended the existing PPA with Allego, which is supplying electrical vehicle drivers with Renewable Energies via loading stations. We had (already) a 10-years pay-as-produced PPA with them, with Groß Behnitz (25 MW). This was extended to Borrentin, a 105 MW solar park in Mecklenburg-Vorpommern. [07:00] As we pointed out, we are further revamping, and repowering our parks, and now we finalised the exchange of PV modules at our German solar park Roitzsch, and by that, and I show you a photo of that, we could extend the capacity of that park by 41% from 12.6 MW to 17.8 MW.

The Asset Management was active in the meantime as well. Two solar parks "Saturn" and "Dagon" in the Encavis infrastructure fund II were connected to the grid, and that increases their portfolio by 45 MW.

Ladies and gentlemen, now let's come to the details, to the figures. As I pointed out already, it was a meteorological-wise, pretty weak first [08:00] half year. You see that here in the second line, the energy production in gigawatts of our existing portfolio. That means that portfolio, which we already owned in the first half of last year, dropped by 103 gigawatt-hours from 1.7 terawatt-hours to 1.6 terawatt-hours, this is a drop by 6%. That was mostly driven by wind with minus 8% but supported by PV as well with minus 5%. In total, we lost 19 million euros of revenue due to those bad meteorological conditions.

Please have in mind that the first half of 2022 was a half year with extraordinarily good weather conditions. Compared to our plan, we just lose 7.6 million euros of revenue. So, we are not as far away from our plan regarding [09:00] meteorological expectations. That total shortfall in our existing portfolio by 6% was more than overcompensated by our new additions to the portfolio.

With our wind farm in Lithuania, our PV parks in the Netherlands, in Denmark, and these ones which we acquired together with Stern, when we fully consolidated Stern, we could increase our production facilities in that way that in total, the energy output rose from 1.7 terawatt-hours to 1.73 (plus 40 gigawatt-hours). So, in total, it was more than 140 gigawatt-hours, which we added to our portfolio.

All of that led to stable revenue. So, the net revenue after all these skimming mechanisms, which we have in some European countries, [10:00] after 226.4 million in the first half of last year, is at 226.3 million this year. So, what we lose on price and volume is compensated either by the new additions or by our full consolidation of Stern. These are good news, but therefore, as we already announced with our guidance and with the first quarter, the EBITDA reacts with a drop by 19 million euros (minus 11%). Here, we have to take two things into consideration. Firstly, we have compared to previous first half year, 19 million euros loss of revenue meteorological-wise, and in addition to that, we compensate that shortfall in the revenue by the full consolidation of Stern, which like [11:00] usual in that service business, has a lower EBITDA margin. And therefore, due to technical reasons, we have a drop in EBITDA margin from 75% i, the first half 2022 to the 67% in the first half of 2023. Please have in mind that the (operating) asset segments like PV and wind still have EBITDA margins of 75% or higher. The EBIT was reduced by 16.3 million euros (minus 15%). Here we have the lack of volume as I stated earlier.

Now, what looks to be at the first glance surprisingly is that the earnings per share is pretty stable at 31 eurocents compared to 33 (eurocents) last year, although we had a shortfall of 16.3 [12:00] million in EBIT. But on interest level, we see that the interest expenses are decreasing, although we are growing and although current financing is more expensive than in the past. So why is that? As you know, our business model is focused on mitigating risks. So, therefore we signed swap agreements with banks on securing interest against wide rising interest rates, and they came in with a very positive development in this case, having in mind that we have such higher interest rates and we had bigger cash payments and regular will have, which compensate higher interest expenses, and this lowers the interest expenses (in total). Therefore, we have an improvement in [13:00] the interest expenses that flattens the development of the EBT and since the very high profitability we have seen last year in the respective parks, which led to higher tax payments now with the normalised income of the parks, tax payments are decreasing as well, and that compensates the formerly mentioned shortfall in other figures. Therefore, we have a stable EPS.

In the operating cash flow, we have a drop by 46.8 million, which is 29% below previous year. And there are two things we have to have in mind. Firstly, the first half of last year was an extraordinary successful half year cash-wise because the fourth quarter of 2021 had already seen high energy prices and therefore all that cash came in in the first quarter (2022). [14:00] Secondly, it is that in these days now, we have to pay out the taxes, which were accounted last year for the high profitability, having in mind the unusually high energy prices of last year. Taxes have to be paid out this year now. This was fully reflected in our guidance, but compared now half year to half year, it looks like a higher reduction, but that is temporarily as it is already reflected in the guidance.

Ladies and gentlemen, if we then compare our Q2 figures and the half-year figures with the consensus of our analysts, then we see that we exceed the revenue, the EBIT expectations, as well as the earnings per share expectations. Only [15:00] in EBITDA, we are pretty much on that level and only in our cash flow due most likely to these tax payments which have to be done these days, there is a shortfall of 6 million in the quarter.

If we have a look then into the segmentation report, we see story-wise pretty similar to what we have seen in the years 2021 and before. Only in the outstanding year 2022, the figures looked somewhat different, and now we have to compare us with these extraordinary high figures of these days. So, we have revenue in the solar segment, which is reduced by 9 million euros. The portion of the solar parks, the solar contribution on the revenue line is dropping from 72% to 68%. That reason is not [16:00] the reduced power price level, but it is the full consolidation of Stern in the PV segment, boosting their revenue there by 10 times. The margins are in the solar and wind farm business now going back from 79% to 76% in solar, from 82% in wind farms to 75%. Please have in mind that the operating EBITDA margin in previous year was driven by the high power prices. The EBITDA margin in the PV service business, which was, as we explained to you due to accounting reasons, disappointing in the first quarter, now came back to the guided 18%, and now all these accounting issues from the first consolidation are cleaned up. In the Asset Management business [17:00] we have a drop in the EBITDA margin that is temporary, we will discuss that on a later page.

Now let's have a look into the solar segment. In the solar segment, we have new park additions contributing almost 5 million euros. These are the PV parks in the Netherlands, in Denmark, and these ones which we acquired together with Stern, and we have 14 million euros loss of revenue in the existing parks, 50% of that volume-wise, 50% of that pricewise. And that is reflected in the EBITDA as well. In the wind business, we have a pretty similar situation like in solar with the Lithuanian acquisition, we have 3.3 million additional revenue and then a loss of [18:00] almost 12 million euros in price and volume. Here, the price effect is higher than the volume effect. In Stern Energy, as you know, we have the first full consolidation of Stern in our figures boosting our revenue here. Stern is a specialised operator, which offers technical services for the management, maintenance and construction of PV systems, and they are currently managing 520 parks with a total capacity of 1.4 GW and this in Italy, Germany, the UK, and the Netherlands, and now the newest branch in France.

This company is very successfully realising the strategy which we defined when we took them over. The reason (of success) is that they started in Italy and then we handed them over our capacities in Germany, [19:00] providing them with a platform on which basis they started to grow and attract other customers. The same happens then in the UK, then in the Netherlands, and now we handed them over our French portfolio. They do it extremely well, and already they had numerous customers asking them now since they have a French subsidiary to take over their portfolios as well. In total, two third of their portfolio are not from Encavis, but from other customers. So, the strategy works out well here. The 18% EBITDA margin as forecasted is now realised, and so they are contributing very well to our P&L and to the earnings per share.

In the Asset Management business, we have a growth of almost 1 million euros in revenue, which is based on higher ongoing remuneration from significant [20:00] increased assets under management (AuM). But at the same time, they had two cost positions. Usually, we should expect a 14% EBITDA margin, (compared to the) 1 million euro EBITDA – there is a shortfall of 0.8 million, but which has to be seen as temporary. The reason for that is that firstly, they had start-up costs of 300,000 euros for the cooperation with badenova, which is managed by the Asset Management business. And for their future growth, they do not need capital, but personnel. They had to hire additional personnel, and this created additional costs of 500,000 euros. But, with the ongoing growth this year, we are confident that they will reach their guidance as well.

In the headquarters (HQ), we have growth of the negative revenue. Negative revenue means [21:00] this is the consolidation of the internal business of Stern with our Company, which is approximately one third of their revenue because one third of their portfolio is from us. And so therefore the same applies to the EBITDA in the EBIDTA of the 6.3 million, approximately 2 million are negative consolidation from Stern and 4.7 million euros are costs from the HQ, which is more or less on the same level like the first half of last year.

When we talk of figures, we want to give you an insight into the development of our Scope 1, 2, and 3 emissions. We calculated them for 2022. This is our most recent figure, and the total corporate carbon footprint was reduced. In Scope 1, [22:00] we have an increase of our emissions and that has a more technical reason. The weak point is that in 2020 and 2021, we had Corona and therefore a very reduced use of our company vehicles. And so, (could everyone please go mute? I hear noises. Thank you very much.) And so, we have an increase here, but these are just the company vehicles. But in Scope 2, we have a decrease by 94% of our emissions. This is for instance, the using of green electricity for our offices. And 99% of our emissions are Scope 3 emissions, which are the emissions of our supply chain and other indirect emissions of our partners. Here we have a reduction of 31%, but this is honestly said only a [23:00] technical reason. We didn't have too many construction sites last year, and therefore this was reduced by 31% due to a reduced number of construction sites.

In total, we plan out until 2025 to have the Scope 1 and 2 emissions to be halved. Until 2030. we want to be carbon neutral. This shall be done by exchanging all company vehicles and to have only fully electrified vehicles until 2030, and that we want to use only green electricity to operate our offices, wind and solar power plants. And this will keep our emissions down.

But we want to be fully climate neutral by 2040 in Scope 3 as well. And for that, we have to cut our emissions here by 95%. [24:00] In order to reduce these Scope 3 emissions, which currently amount for 99% of Encavis' total emissions, we are working with suppliers and business partners along the entire value chain to find solutions that will help to achieve the goal of carbon neutrality by 2040. Measures include lifecycle analysis to identify the main sources of emissions, substitution of fossil fuels in production, wherever possible, increased use of recycled materials from circular economy and increased use of low emission transport. We will certainly review that effectiveness and target achievements throughout the time and will improve if necessary.

Now, let's have a look into the guidance 2023. When we released our guidance in March, we told you that that is based on standard weather assumptions. Well, that was pretty weak in the first half. On current interest levels that they should be [25:00] unchanged. Honestly, it's an up and down on the long-term end of 10 years interest rates. That the revenue skimming will be waived in Germany. This is the fact, and in Spain and Italy will stay in place, which is a fact as well, and that the power price curves were still stable at this level of 20th of March 2023.

Well, you might recall this chart from our March presentation, but honestly said the red figures changed somewhat. In total, it is that the energy prices, which were expected to decrease by 40% compared to previous year, in fact dropped by 60% compared to previous year. The worst example is Spain PV. Here we expected a drop in electricity prices [26:00] by 21%. In fact, they dropped by 51%. The best country is Italy PV. Here we expected a drop of the electricity prices by 54%. In fact, they dropped by 64%. So, we see a very harsh drop in power prices, but please have in mind that the business model of Encavis is to have most of the revenue long-term price fixed. And as we pointed out with our guidance that the planned revenue, more than 91% of these planned revenue in March were fixed during the course of the year. This still applies, and so therefore, such a drop in electricity prices harms us, but only to a limited extent. And only in these positions, which were merchant in March, and were not in the meantime [27:00] locked in pricewise.

Therefore, although we have this price drop, we confirm our guidance of 440 million euros of revenue, more than 310 million euros of EBITDA, 185 million euros of EBIT, 280 million euros of cash flow and 60 eurocents earnings per share (EPS). But this is still based on the assumption of stable interest rates and standard weather conditions for the second half of 2023. To say it very bluntly, and you know, that we are direct in the communication, we had some buffers in our guidance. They were somewhat eaten up by the meteorological shortfall of the first half. So as if the weather is on standard level in the second half, we are absolutely sure that we will reach our guidance, but that dependence on the [28:00] forecast or the weather forecast is typical for our business because we are renewables.

If we have a look into the roadmap of our acquisitions in 2023, then we invested into 93 MW of the parks Montalto di Castro, and Montefiascone as I pointed out already. We already have 175 MW of projects, which will be announced soon. So, 268 MW in total are secured. So, that means we need approximately 330 MW to go to reach our 600 MW goal. Currently, we are in negotiation and discussion of 400 MW, so much more than expected, so we can allow us a shortfall of cancelled projects of 85 MW because [29:00] we are planning to have 32 MW of battery acquisitions this year to reach our 600 MW goal. So, it's not only that we confirm our P&L guidance, but our growth target as well.

Ladies and gentlemen, thank you very much for listening, and now we are available for your questions.

O Thank you very much. Ladies and gentlemen, if you would like to ask a question, please press 9, followed by the star key on your telephone keypad. If you wish to withdraw your question, please press 9, followed by star key again, please press 9 and star key now to state your question. So, we have the first question, it comes from Martin Tessier, Stifel.

MT Yes, sir. [30:00] Good morning. Thank you for the presentation. One question on Lithuania. So, you indicate that it's 17% of the power production of the wind segment and also 3.3 million of revenues, so 7%. So, this indicates a selling price of 32 euros per megawatt-hour only. Could you provide us with more clarity on the expected selling price of the asset for the remaining of the year and also for the future years? And second question on badenova. Can we expect first acquisitions from this new structure to be realised in 2023? Thank you.

MS Hello. Yes, this is Mario Schirru, I will answer the first question regarding Lithuania. The point here is that we have sold the production of the [31:00] power plant under a long-term PPA with a stable and fixed price for the next years. So, the revenue that will be generated by this asset are more or less independent on the evolution of the power prices, given that the price is fixed. So, we have to just look out or hope that the meteorological conditions will be stable as they have been so far, and that they will stay this way also until the end of the year.

CH And Martin, regarding your question on badenova, this was just implemented, that corporation, and now we have to wait for the legal approval of the cartel bureaus that we are allowed to have that joint entity. Well, here again, today usually [32:00] some delays if you have something to do with the state. And as soon as that happens, we can start right-off to acquire some entities. As a

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matter of fact, whether this will happen already this year or in the beginning of the next year, I don't know, but we are intending to have soon the first project here.

MT Okay, thank you.

CH Thanks.

O The next question comes from Thomas Junghanns from Berenberg.

TJ Good morning, gentlemen, I have four questions. Maybe we can go one by one. My first question with respect to the Italian solar parks, which were acquired by Encavis. So, they are ready to build status, and my question is: When do you expect the parks to be connected to the grid?

MS The plants will be operational, (exactly) one will be operational in 2024, [33:00] in September, more or less. The other one, hopefully a little bit earlier. Here, we still have to wait for Terna, which is the high transition network operator to confirm the construction of a sub-station that will be necessary to be fed in to feed-in the power. We are not alone in that area, so we are working on a temporary solution with other power producers. Again, this is something that we have to discuss with Terna. Anyway, both will be operational throughout the year in 2024, the first one, hopefully a little bit earlier, the second one in September, October.

TJ Okay, got it. Perfect, thanks. Yeah, you mentioned that you plan to increase your capacities by 600 MW in 2023, and I saw also in your presentation that you have 400 MW late stage projects, which will be realised in 2023. [34:00] So my question is, with respect to 2023, how much of the capacities will be in total connected to the grid and are already connected to grid so far?

MS Yep. This also is important to highlight that when we guide you through our acquisitions, we typically present the projects only which are ready to build, which does not mean that they will be operational very shortly. As we have pointed out several times during the last year, we have seen that it is much more attractive for us to build our plants on our own, meaning that we then can negotiate the PPA, we can negotiate the financing agreement. Of course, the whole procurement can be done with us. So, long story short: Out of the 400 MW that we are negotiating, a couple of them, I think 150 MW are [35:00] currently being constructed, meaning that we could take them over as fully operational or close to fully operational. The other ones are still ready to build projects, meaning that we will then have to trigger the EPC tendering and manage the whole construction cycle. This will lead to the plants becoming operational in 2024.

TJ Okay, thanks. This helps a lot. My third question with respect to the current interest rates. What is the current cost of debt for newly started projects?

CH It starts, honestly said, depending on which jurisdiction you are in. So, we have usually approximately 150 basis points or more margin, which we have to pay on the current long-term interest rate. And so, it is sometimes with a four, sometimes with a [36:00] five in front of the comma or the dot.

TJ Okay, perfect. And my last question is with respect to the electricity prices. So, you mentioned in your report that you have calculated or included, incorporated this drop in electricity prices. But on the other hand, you also mentioned at the end of your presentation that you assumed a drop off 40%, but the electricity prices in average dropped by 60%. So maybe this is a little bit contra dictional, or do I have misunderstood here something?

CH So, first of all, in our guidance, we look into the future of the power price development, but then we have a discount usually for weather shortfall as well as for price shortfalls in that part of the revenue which are not price fixed. [37:00] And that in total turns out to be a fair adjustment so far. And that's the reason why we still can keep up to our guidance.

TJ Okay, thanks. I will go back in the queue. Thanks.

O Well, thank you very much. Right now, we have no questions, so if you want to state a question, please press 9, followed by the star key. So, Dr Husmann there are no more questions. Ah, there come some questions right now. Okay, we will take them. Next question is from [37:044] Teresa Schinwald, Raiffeisen Bank.

TS Thank you. Good morning. Could you give us also an update on the current development of the EPC costs of new installations? [38:00] What has been happening in the past three months?

MS Yep. Happy to provide you a couple of insights. So, we have seen that the prices have stabilised again. We actually see a significant drop in module prices. They are cheaper than ever and every time we get a new quote, we are surprised by how cheap they have gone. On the inverters, we do see a stable situation with supply staying at the good level. What we continue to experience is long lead times in the delivery of high voltage components. And this is painful, I mean a painful thing because we of course need to have also transforming stations and transformers in place or available to construct the plants. We have for the plants that we have already [39:00] acquired, and we have presented to you the two in Italy, already placed the orders a couple of weeks ago. So, we expect them to be available when we will need them. But in general, this is something that we have to monitor very closely. So, in a nutshell, stable prices for all the components, very cheap prices for modules. The only thing to look at carefully are the delivery times for high voltage components.

TS And could you maybe also add a view on the wind equipments as there seems to have been some stabilisation or even increases in prices as the manufacturers reported?

CH Yes. On the wind space, as you might know, we are a little bit more distant from the procurement exercise, because we buy the whole package basically, the plants [40:00] with the turbine supply agreements already included and negotiated by the developer when we acquire the project. So, we don't really handle that process. And our partners do complain a little bit about the tight situation. It is something that we factor in quite brutally when we place our orders. Basically, when we place our offers for the projects and for the wind farm that we are going to acquire, we will have the supply of the turbines that we believe, and the developer believes more suitable for the site. And so again, we don't really see a lot of these struggles.

S1 Awesome. Thank you very much.

O Next question comes from Elisabeth Weisenhorn (40:55), Portikus Investment.

EW Yes. Hello. Good morning. [41:00] I would just like to know, what is the future return profile of the business?

MS Could you elaborate a little bit more on the question? What do you mean by future return profile?

EW Actually when the electricity prices go down, the interest rates go up. Modules come down, but in wind energy probably prices go up also. So, what's left for you?

MS Yes, that's a good question and, and I understand where you're coming from. I think it's very important to highlight and to guide you a little bit through the value chain of the whole industry. We see that or we have seen in the past years that developers have made [42:00] important returns on their projects because there was a scarcity of projects being offered to the market and a high demand of projects by investors like Encavis and competitors. Now we are seeing that this is changing, and if you look basically at the structure of the costs of our projects, you will see that the development fee, so what we pay out to the developer for the projects being brought to the finish line and being ready to build is going down and is creating, basically we are reducing the inefficiency that we had over the past years in the industry, meaning that through the calibration of the power price, we can accommodate for all the factors that you have just mentioned.

So, when we look at our business models, we see returns that are increased or that are going up compared to the returns that we have seen in the past years. Although [43:00] some components and some prices really didn't play in the favour of the, I would say, of the industry somehow. And this is very important. We don't really look into all the details. I mean, of course we do manage them, but we overall define a price that we are willing to pay for a certain project and calibrate this price on the base of return expectations. Our return expectations are going up despite prices going down, despite interest rates going up, because the development fee, what is paid out for the projects being developed is going down significantly.

EW Thank you.

O All right. Now we have no more questions.

CH Okay, then. Thank you very much to all of you for listening. Thank you very much for [44:00] supporting us and we'll stay in contact and see you next time. Thank you very much, and please stay safe and healthy. Goodbye.