



H1 2020 Results and Strategic Update

TRANSCRIPT

Investor Call held in Milan, 25 September 2020, h8:00am CET

Carla Alberto Guglielminotti: Good Morning ladies and gentlemen, thank you for being with us today. I'm very pleased to welcome you to the investor call on the ENGIE EPS First Half 2020 results and related strategic updates.

I'm joined here with Andrea Rossi our CFO together with Giuseppe Artizzu our executive director, Global Energy Markets and Development.

I will start with a few key observations on our numbers and Giuseppe will then provide you with an update about our business, but eventually I will move to the strategic updates on the ENGIE's Group decision to assess strategic options for ENGIE EPS, including the possible divestment of its stakes in the company. Following the presentation that, as usual, you can download from the popup appearing on the homepage of our website, Giuseppe and I, as well as Andrea, would be very happy to take any question you may have.

So very quickly, on the presentation, I'm on page #3.

You see our H1 2020 figures, a clear growth path, 89% growth in terms of revenues even if our H1 revenues would be historically telling of our end of the year results, but in absolute terms obviously marginal.

In terms of gross margin, we see a 13% decrease compared to the same period last year.

In reality, compared to the end of the year, the 13% reduction in gross margin, in reality it is absolutely in line with the results, the 2019 full year results.

In terms of EBTIDA we had a 31% lower EBITDA but for a series of reasons that are mainly related to the gross margin.

I mean, the gross margin is tremendously driven by the major project we had in our top line, which is the project in Mexico, brought by ENGIE, which accounts for more than 51% of the first half of 2020 revenues, in those kind of projects the commodity content is higher and therefore the margin physiologically decrease.

From the net income perspective we are in line with last year, big news is from the pipeline and project backlog perspective because we booked a 130% growth in terms of pipeline while a 30% decrease in backlog, but we will clearly see in the next couple of slides the rationale behind it.

If we, if we go to page #4, we see the traditional breakdown between regional installation and by product line, we can see the impact of the Mexican project if we look to the revenue in terms of regional installation, balanced sharing between Giga Storage and the Industrial Solutions. While in terms of backlog there is a clear 50:50 share, 49:43 let me say between Europe and Africa, and Industrial Solutions and Giga Storage.

I'm on page #5.

From the pipeline perspective, that's the largest, the biggest difference compared to last year, but more importantly because we show clearly that out of the more than 800 million pipeline we currently have, 130M\$ are represented essentially by three projects that we labelled as contracts secured, so that's the biggest difference compared to all the other results we published.

We are talking about the Solar-plus-Storage project, 300MWh in the United States in Guam, we're talking about the 240MWh power project in Hawaii and the new contract we get was a contract in New England, for 50MWh that increased materially our pipeline of contract secured, bringing the amount of contracts secured to approximately 600MWh.

So if we compare to any other energy storage player in terms of target, in terms of deployment and so on we are between certainly the top 10 worldwide, if not within the top 5 of all the technology players active in this space.

Then on page #6 we have some details of the personnel cost which is essentially in line, we see an increasing in personnel cost, an increase just of numbers of total employees, operating expenses are in line with our budget, with the natural physiological growth of people and the operating expenses which are already ready to scale up to deploy eventually 600MWh in the next couple of years, so that's a natural physiological growth of our staff, which is an event obviously marginal compared to the growth we will have in terms of top line.

Page #7 we have our R&D investments, we clearly see also the impact of the V2G project, that we recently announced, and finally on page #8, we have a representation of the next financial position, so we drew down other current lines in order to sustain the working capital.

Then, business updates, Giuseppe the floor is yours.

00:07:16

Giuseppe Artizzu: Thank you Carlalberto.

For those of you, who have been following us over the last 18 - 24 months have seen how our market positioning matured.

Now we are solidly positioned on three industry verticals, first one is Industrial Solutions where we suddenly centralized energy solutions for our clients, second one Giga Storage, that is the utility-scale system located on the wholesale part of the electrical system with large substation, large solar system, large conventional power plants and the e-mobility platform where we are at the juncture between the e-mobility and the electric vehicle revolution and the need to interface that with the demand of the grid.

So, if I see the business position from outside at this crucial juncture, I see a company that is a platform across the three megatrends that are shaping the energy transition.



In the Giga Storage business, of course, ENGIE has been the anchor client that allowed us to move one order of magnitude in size of our contracts and that model can be replicated with any third-party developer the moment ENGIE eventually decided to let us out of the group.

So this is a proven model, this is not something that is customized on ENGIE. So, we work with global developers to participate in large Giga Storage centers to deliver the best solution at the minimum CAPEX and minimum OPEX. Moving over to the next slide, we do that with an open architecture technology platform.

So we have one technology platform that is the HyESS, and we articulate that into an open architecture, where we can optimally mix: (1) the sites of the storage capacity of the system within our Store product line, and (2) how quickly and how responsively, the energy can be delivered in and out of the storage capacity through our Convert and Connect product family, the intelligence governing this process in our Control family (3), and the definition of this platform for interfacing the batteries of electric vehicles in their charging and discharging process with the grid through our Move family (4).

This is the open architecture concept that we have developed over the years, and that continues to be our winning proposition in the market.

Moving over to Slide #12, over the last 12 - 18 months we have gradually focused our resources on Giga Storage, but because of a matter of resources versus demand from the market, but we have never left our decentralized energy solutions behind.

A couple of updates on this front, and by the way, our Industrial energy solutions continues to support our origination and conversion effort, and a couple of updates on this front.

The first one is we are about to complete the first Microgrid in the U.S., we expect the commissioning over the next couple of months, that is in California and by the way there may be a doubling up of that one, you know that California is extremely challenged from a security supply perspective due to fire events that have seriously started challenge the reliability of the grid.

This has triggered a cascading need for reliability, and Microgrids are likely seen as an answer to that.

In addition, the lifting of travel restrictions into East Africa is allowing us to get to commissioning our phase 1 Comoros project, which would unlock the way forward for the phase two.

Instead, on the Giga Storage front, Carlalberto already anticipated that we secured the third large project in U.S., this is in mainland U.S., in New England.

We don't want to give more details from a geographic perspective because there are a few sensitive aspects, but it is a 50MWh project in New England for a stand-alone storage facility that would be located within two existing solar plants.

In parallel we are continuing our tendering activity across most jurisdictions, that go from the APAC region and in particular in Australia, in the Sub-Indian continent, in South Africa, and those opportunities that are probably arising in Europe and in particular the clusters of tenders in Italy that is due later this year.

I think this is the snapshot.

So whoever looks at us, looks at the platform and looks at credentials across the three verticals that shape the energy transition and looks at a visible portfolio of projects with a high degree of security that could be the basis for a significant scale up of things.

Carlalberto up to you.

00:13:03

Carlalberto Guglielminotti: Thank you very much, giving the timeframe and more importantly, the long list of investors connected today, that I really thank, I would suggest to jump immediately at page #17 of the presentation, will essentially summarized the key contents from the strategic perspective we have mentioned in our press release.

So, first of all, if we look, we all know that on Wednesday night has been issued by ENGIE a press release stating that the ENGIE Group has decided to assess strategic options for ENGIE EPS, including the possible divestment of its stakes in the company.

They were saying that ENGIE will continue to actively develop battery storage globally in combination with renewables and then they were believing that combining technologies essentially in supporting their customers towards a neutral carbon transition.

I mean, I will try to go through the lines of the announcement and then try to answer in advance to a series of questions that we received in the last few hours. First question I received was: is that a change in the ENGIE strategy?

The answer is no, I mean, ENGIE strategy was and will remain to actively contribute to a carbon neutral transition, so the renewable development would continue and remain an essential pillar of the strategy and then ENGIE was aware, is aware, and absolutely acknowledge today the potential of the storage space.

However, the most important aspects to be outlined is that this is from the ENGIE perspective.

But the most important question I received is that, from ENGIE perspective, their choice has been to position independently from suppliers, system integrators or equipment manufacturers and rather set up case by case partnership based on project specific.

So, they made a strategic review of ENGIE EPS and in line with this primary choice to position independently from any kind of suppliers or industrial player, they have taken this decision.

So, in this context, the real most important message we were looking for, that ENGIE confirmed, that we confirmed in our press release, is that the three projects, so: Guam, Hawaii and the new project in New England, for a total of 600MWh, is confirmed because those are considered projects that are mutually beneficial and therefore, we will reciprocally contribute to these projects, which are of a size that again position the company in a sort of top players list where just really few players in the world have that amount of energy storage under development and execution.

Then obviously we mentioned in our press release that future opportunities would be jointly developed when it's jointly beneficial and quite possibly becoming independent from each other.

I mean, the two companies have developed over the past couple of years a deep mutual understanding and trust and appreciation of the respective strengths.

So is since two years and a half that we work with business units, we created an intimacy with them and what I can consider a long lasting relationship irrespective of the number of shares that ENGIE has of EPS. So reality is that this new... new outlook, in reality, despite the first, let me say, hectic, if I may, market reaction yesterday is that EPS has many strengths to prosper even outside the ENGIE Group and even better than today, because we know that many projects, particularly the Giga Storage business segments of EPS, are structured with ENGIE as a developer, but reality that we all know, a question that I received several times in the last three years, is that ENGIE was a limitation for the EPS ability to sell our solution to other players that are also in competition with the ENGIE Group.

Then essentially this situation was also giving to us a tremendous benefit in terms of scale, I mean, in the last three years we have created a value from the industrial perspective and in terms of the size of the project that we now address. But again, the reality is that this situation was at the same time also preventing EPS to offer our services to a potentially much larger customer base in a booming market. And the situation, which is tremendously different from when we have been acquired by the ENGIE Group because the market now boomed and that in front of our very eyes.

So, reality is that in case of divestment by ENGIE, EPS will still collaborate on a case by case with ENGIE, exactly as we do, because it's not a new thing that we have never get a contract from ENGIE simply because we were part of the ENGIE Group, we all know that.

I mentioned several times publicly that the ENGIE decision to work with EPS was purely based on the decision of business units obviously.

Geographical business units was purely based on competitiveness, we were constantly put under competitive pressure, which is natural and healthy for us, and also for ENGIE, so we have been awarded by ENGIE, we have competed with all the other global players, we have demonstrated to ENGIE to be the most competitive player, and then eventually we get the contract from ENGIE.

This was the reality, so this situation, I'm absolutely confident and I received the absolute comfort from ENGIE on the fact that our situation, even if a divestment will occur, will continue exactly in the same direction, obviously on a case by case, so maybe a less structure way but, the reality is that we will at the same time be able to more easily propose our competencies and scope of business to a larger number of customers.

So that's...I see from this perspective an obvious opportunity in this turning page of our history.

So last few questions that I promised to answer publicly are that this strategic review made by ENGIE is expected to be completed within a reasonable timeframe. So, the sooner the better, let me say, because obviously we want to limit as much as possible the uncertainty period for the company, but even more importantly, for our employees.

And then last, last point, I saw a couple of articles in the press yesterday related to the link between the decision of ENGIE about our shares and the strategic review announced in July 2020.

First reaction is that this is totally outside of the scope of the strategic review initiated by ENGIE in July, but is the same thing, I mean, it is naturally in the life of a group like ENGIE to review its capital allocation regularly, to review the business model, so do we want a position with a vertical integration in technology? This was the belief of ENGIE when we have been acquired in 2018, now they will review the capital allocation, they're playing the market, and they've taken another decision, so they reviewed that, and this is what they have done with ENGIE EPS.

So, nothing related to our value, our competitiveness.

I mean, I think that our value and our competitiveness is demonstrating in the market.

So is demonstrated by the project we get and the project we commissioned.

We will continue with a very constructive approach to work with the business units, and let me say that the potential divestment of ENGIE will not touch in any manner the value we created in the last year and a half within and thanks to the ENGIE Group, but even more important for the benefit of all our shareholders.

So long story short, before leaving the floor to questions let me say that there is a huge difference between two years and a half ago and today, the first difference is that meanwhile we installed and commissioned all over the world more systems, so we have a larger installed base.

The knowhow and the value of the company, from the intellectual property perspective, from the innovation perspective, from the unique play perspective is the same.

I considered that what we have done meanwhile in e-mobility was something unique that nobody was expecting two years ago, so I'm confident, and that also from the intellectual property and knowhow perspective we are expanding materially our positioning in the market, but even more importantly, our set of competencies.

But the real key data in terms of difference between 2018 and today is that we secured 600MWh for the next couple of years; 130 million of revenues in the next couple of years; 800 million pipeline of projects.

We have a clear visibility, Covid aside obviously, because we cannot predict the future from the pandemic perspective, but Covid aside, clear visibility because of those contracts on our 2022 guidance, in the last few weeks we also increased our number of secured contracts to 130 million, with new contracts for additional 50MWh. That two years ago was fifty times the larger systems that ever gets from this company.

So, today is considered the marginal increase in the pipeline of our secured projects, two years ago was five times the larger system we ever installed, ok? So that's the value creation we made in two years.

We have a tremendous more solid organization.



We are playing with a mature industrial play today, that started officially with the Long Term Strategic Plan which we launched last year and thanks to the announcement made by ENGIE yesterday, I have to say that the confidence of the management, the motivation and with no doubts the commitment of the management team to extend our role beyond the ENGIE Group, leaving now the floor for collaboration with more players, give us a level of motivation and confidence that is unbelievable.

That's the reason why we expect a long list of potential industrial and financial partners to this company with no doubts.

And then to conclude, I have just to say thank you very much to the ENGIE Group, because thanks to ENGIE we have changed a lot, we are more mature, more solid, more industrially oriented, and now there is a book of opportunities in front of us that is unbelievable and we really thank the ENGIE Group to have given us this opportunity, which in the history of the company is, no doubt, after the ENGIE acquisition two years ago, the largest opportunity.

We have a bright future ahead of us, that this company has never had.

That's my conclusion. And then, with that let's now take your questions, and all together with my team we are ready to answer to any questions you may have, thank you.

Q&A Session

00:28:47

Operator: We will now begin the question and answer session, to ask a question you may press "*" then "1." on your telephone keypad, to withdraw your question please press "*" then "2."

00:29:01

Operator: The first question is from Jean-Michel Belanger - Société Générale

00:29:05

Jean-Michel Belanger - Société Générale: Yeah, hi, good morning. This is Jean-Michel Belanger from Société Général.

Would you say that the change in ownership could be a matter of days or weeks or months?

That's my first question.

The second one would be, well, if there is a change in ownership, we can reasonably guess that the new majority shareholder will have to do a bid of 100% of share capital. Is it correct?

00:29:42

Carla Alberto Guglielminotti: Thank you very much for your question Jean-Michel, on the timeframe, as I was saying, the sooner the better.

Obviously, certainly not days, not even weeks, for one simple reason: we have managed together with ENGIE the situation in a very, very professional way, meaning that once decision was taken, we immediately communicated it to the markets, means that no process has been initiated.

So, by definition, any kind of a divestment and strategic review, because, again, this is a strategic review and eventually may end with a divestment, but divestment is not sure, obviously. Ok?

So meanwhile, the ENGIE Group has officially declared that will continue to support not only commercially with the projects already secured and the development of projects we have together, but even more importantly, also financially.

So obviously, the sooner the better but having we managed this situation in a very professional way, I can say very simply that there is no, I'm not aware of any bank appointed for this potential deal, ok? To simplify the equation. So, meaning that obviously a reasonable timeframe would be months.

We will start working today in shorting as much as possible this timeframe. We are very confident that this timeframe might be shortened and simply because we expect a long list of potential partners out of the door, ok?

But the timeframe will not be days or weeks, ok?

That's the first reaction. I didn't get your second question, apologies for that, Jean-Michel. Can you please repeat it?

00:31:43

Jean-Michel Belanger - Société Générale: Yeah. Well, the second question was, if there is a change in ownership, then the new reference shareholder would have to do a bid on 100% of the share capital.

00:31:58

Carla Alberto Guglielminotti: Yes. I mean, I think from the legal and regulatory perspective in the case in which one shareholder would replace, so let's assume, the situation will be to have a replacement of ENGIE by one shareholder.

So in this case, obviously, being more than 30%, the new shareholder has to launch a mandatory tender offer in which one shareholder will replace ENGIE.

There are obviously other scenarios, no idea on how much they are likely, but you know it can reach other 2 partners. We replace ENGIE below 30%, not sure unless they act in concert, they have to launch a mandatory tender offer, but irrespective of technicalities I will expect that, yes.

00:33:02

Jean-Michel Belanger - Société Générale: Ok, thanks Carlalberto.

00:33:08

Operator: Again, if you have a question, please press "*" then "1."

The next question is a follow up from Jean-Michel Belanger from Societé Générale

00:33:22

Jean-Michel Belanger - Société Générale: Ok, thanks, so I continue, two questions for you, the first one is, can we reasonably guess that you would be more in favor of industrial partner than financial partner? So that's the first question. The second one is whether at the end of June 2020 you got 17 or 18 million in net debt plus four or five million in negative equity. So we can reasonably guess that a capital increase would be possibly a solution in the coming months. Is it correct?

00:34:08

Carlalberto Guglielminotti: Thank you, Jean Michel, good, very good first question, so better an industrial player or a financial player. Given this current...I would have replied to this question, you know one year ago...one year ago I would have replied with no doubt exclusively industrial players, ok?

Today is different, today is different because, reality is that there are tenders everywhere for Solar-plus-Storage and storage systems.

Reality is that now we can easily play in the Giga, I'm just referring to the Giga Storage business, and likely the industrial solution one...in Giga Storage today the world is starting to standardize, standardize the project development, to standardize the bid, from some perspective also from the technology perspective and therefore is really similar, if not identical, to the solar, to renewables space that we were used to know until today also.

But this is also the reason why, obviously, an industrial player would be tremendously synergic with us, that is obvious, let's think to an EPC or to an IPP, but in reality today we have in terms of organization, in terms of business development, an approach that cannot prevent the possibility to partner with a financial player, a pure, where financial player stands for a pure IPP, ok? That will bid in large scale tender with a tariff that is wrapped by our technology and our EPC packages.

So why not? I cannot exclude a situation like that, on the 17 million net debt.

Yes, I mean, with 130 million contracts already secured, that clear visibility from 2021 and 2022, I think the bad we have is absolutely, let me say, is a sort of bridge to our breakeven that is now already written clearly in the figures we have.

On the negative equity perspective, this is slightly different because first of all, we do not have a negative equity at the statutory level. Not at all. We have a negative equity exclusively at the consolidated level.

Obviously, we all know that the consolidated level, that is the IFRS, the financial statements that are public, also the statutory are public but are those to which typically investors and stakeholders refer to.

So, from a reputational perspective, certainly it is not ideal to have a negative equity, even if there is no need from the technical perspective to carry out a capital increase. That's a matter of reputation.

Frankly speaking, it is necessary a capital increase in the coming months?

No, would this capital increase strengthen our solidity and credibility in the markets when we bid particularly with players outside the ENGIE Group?

Yes, certainly, but considering that we expect a list of partners around the corner, frankly speaking, I don't see the necessity to carry out a capital increase in the coming months, even more importantly, before the potential announcement of a new partner to further boost our story.

So, I would be surprised to see a capital increase because of that, because from the cash perspective, we are absolutely solid and cash is absolutely under control.

The ENGIE Group will continue to support the growth and also financially this company, until a potential transaction is closed. So, yes, reputationally wise is not ideal to begin with, to propose our technology to other players outside the ENGIE Group with a negative equity but this is a situation that will be solved in the coming months, ,and depending on the type of the new partner, financial or industrial, we will assess with the new partner the necessity to carry out the capital increase or not.

This is what I think.

00:39:28

Jean-Michel Belanger - Société Générale: Ok, thanks a lot Carlalberto. That's very clear.

00:41:13

Carlalberto Guglielminotti: Ok, well, thank you very much for attending this investor call. Thank you for your good questions, and we all wish you a great day, thank you very much.