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O Operator

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S Speaker (S1,S2,S3 to S8)

O Good morning, ladies and gentlemen, and welcome to the Encavis AG conference call regarding the consolidated financial statements 2022. At this time, all participants have been placed on a listen-only mode. The floor will be opened for questions following the presentation. Let me now turn the floor over to your host, Mr. Christoph Husmann, please go ahead.

CH Ladies and gentlemen, good morning and warm welcome to our 2022 fiscal year conference call, including our call on the Guidance 2023e and our Accelerated Growth Strategy 2027. My name is Christoph Husmann and I'm here to host you together with my colleague Mario Schirru, our CIO and COO. Ladies and gentlemen, we had in the last year, a pretty diverse year regarding the energy production. We were a pretty much 4% in [01:00] total energy production in our existing portfolio above previous very bad year 2021, but in total, we were just on plan and on our expectation only slightly below. So, the weather of last year was quite good, very good compared to the year 2021, but in total, there is an improvement by 14% of additional kilowatt-hour production specifically, and mostly out of solar and some part out of wind as well.

Ladies and gentlemen, here you do see the split of the energy production of plus 14% in our total portfolio as well as of 4% of our existing portfolio. The 4% represent the better meteorological conditions and the 14% are including our capacity increase. The total [02:00] 3.1 terawatt-hours, which we produced in our own portfolio, led to revenue of 462 million euros. I refer to the 462 million euros because these are the commercially relevant revenue, the net revenue, because they were shown in our accounts by additional 25 million euros, only because these are the revenue which were skimmed away on EBITDA level by the government within Europe. So, this is only technically shown. Commercially, the 463 million are relevant and they are comparable to the previous year. So here we do see an increase of 39%, and this is exceeding the 14% due to our extraordinarily high prices we have seen in the past year. [03:00] That increase of the net revenue goes along with the increase of EBITDA, EBIT, and cash flow of almost the same extent.

The margins based on the net revenue are stable with the 76% EBITDA margin and a 43% EBIT margin. In total, we generated earnings per share of 60-euro cents exceeding our fiscal year 2021 EPS by 25%. Ladies and gentlemen, we not only exceeded the previous year, 2021, but our raised guidance as well. Our raised guidance of more than 420 million euros were revenue, which did not include the revenue which were skimmed away by European law later. [04:00] The reason for that is although we already had such skimming in Italy and Spain during the first quarters of last year, that was accounted for as reduced revenue and therefore, these revenue were already met. And so, we enjoyed in the fourth quarter due to the wind and solar performance, as well as the high prices and substantial increase of the revenue, but an additional one of 25 million euros due to that change in accounting regulation.

So again, if we then compare these figures, we are substantially above our raised guidance in any of such figures. Let's have a look into the segmentation report. If we are going to understand these segmentation reports, we have to have in mind that [05:00] in solar, in two big of our solar countries, specifically Italy and Spain, we had such price caps in place during the full course of the year. While we had these price caps implemented in December in Germany only in wind, the impact here in Germany in wind is pretty low. Although all these circumstances, it is that solar parks still represent the vast majority of our revenue of almost 70% while in wind, they present 25%. We have only slight movements specifically in PV services where we fully consolidated time-wise, the Stern acquisition, which we acquired in October last year. [06:00]

Let's talk more of these respective segments. With an increase of the revenue in solar parks of 100 million euros, and within this we have 23.5 million euros of price caps. If we deduct them, it is above almost 80 million euros of increase, that is two third based on high prices and one third based on new acquisitions, which we did and connected to the grid during the course of last year. That increase alleged to an increase of the EBITDA by 58 million euros, and if we deduct the price caps, then we do see, again, the 80% EBITDA margin, which we have enjoyed in the past. But we utilized the high prices in [07:00] the past year because they just provided revamping investments in German solar, which led to additional expenses of 6.4 million euros and therefore lowering the EBITDA likewise.

In addition to that, we have seen in the past year, not only high electricity prices, but with increasing inflation, an increase of the interest environment, and therefore we had to do an impairment test of some of our solar parks, which are considered, and which are in reality low risk investments. And here an increase of the risk-free interest rate has a relatively strong impact on the discount factor in the impairment test, and this resulted in extraordinary depreciation of 41.1 million euros, both the investment into such revamping as well [08:00] as the extraordinary depreciation, our base for better results in the future because the revamping leads to better revenue and an extraordinary depreciation is only an anticipation of later depreciation, which will not happen again in the future anymore. In the wind segment, we have an increase of our revenue of 45 million euros, 14 million euros due to slightly better weather conditions. So, the weather in 2021 specifically the wind performance was pretty bad in 2021 and now improved in 2022. And here we enjoyed the high price levels. There was no price keeping in place despite December in Germany, and so therefore it is fully reflected in these figures.

But in wind, [09:00] the business, as we pointed out in earlier years is slightly different in that respect that some of the cost in the wind business are in relation to the revenue, and so therefore, with the higher prices, we had some cost increases and therefore not all of the revenue increase is reflected in the EBITDA. In addition to that, please have in mind that the 2021 EBITDA had a positive impact from the disposal of our Austrian portfolio by 5.4 million euros. In the PV segment, we see an increase of the revenue, now it's three times higher than in the past, and there's by far more to come, as we will see later in the Guidance 2023 with a full acquisition of Stern. With this acquisition, we want to improve our technical ability to improve our own maintenance [10:00] of our own parks and offer services to the market, which are not influenced by prices in the power market. So, this has a very positive effect on the Group's revenue and P&L. The asset management increased its strength in the past year again, so for many consecutive years, asset management improved revenue as well as results and the margins, this year they were very successful in consulting asset management and financial services they offered to their clients and therefore increased their margins.

In our headquarters, you see for the first-time consolidation effect in the revenue, this is due specifically to the full acquisition and full consolidation of Stern because now we have more and more [11:00] services performed by Stern. To our Group, these were external costs in the past and for Stern, they were external revenue by the full consolidation, they have to be deducted here. The operating EBITDA increased due to, well, the temporary increase of number of board members. So, these figures will be lower in 2023 and to the severance package of Mr. Paskert who left us on the 31st of last year. In addition to that, we had some cost for the further digitalization of our portfolio. If we have a look into the balance sheet, there is nothing really and the only one point, which I think is remarkable but nothing really challenging. We see that the equity, although we are very profitable in the year 2022, is decreasing [12:00] by 109 million euros.

Although the net effect from the profit, retained profits and minus the dividend is a positive of 45 million euros, it is that there is a negative impact from hedge reserves. As a matter of fact, in these turbulent times of last year with increasing interest rates, we had a positive effect under IFRS in the valuation of our swap contracts, which are totally connected with credit contracts. So we had a positive impact because due to the high interest rates, there was a positive net present value because banks have to cover higher interest costs so that we come down to the agreed low fixed interest rates. And the same way, but other way won't happen to our financial PPA contracts. Financial PPA contracts are considered to [13:00] be derivatives under IFRS and such contracts with these skyrocketing very high-power prices mean that if we sell the electricity to the market, the agreed PPA price, which is for us fixed over the whole lifetime of this PPA, have to be paid from us to the off-takers, to these partners or PPA partners.

Due to the high expected power prices, this is always a payment from us to the PPA off-takers, and therefore the net present value of such PPAs increased from plus 8 million euros in the past year to minus 156 million euros this year. And that swing in the PPAs is reflected in the equity and is accounted for as debt. Now, over the whole lifetime of these [14:00] PPAs, this comes down to a zero in all cases, and there is no other impact from outside that this could change. It is only a question in which year this might happen. So therefore, we will see an increase of the equity by 156 million euros out of that effect alone in the coming years. These PPAs have a remaining duration of eight years. This is not linear, alone in the first year, we expect to recover by over 100 million euros from such contracts.

Beginning of the year, we placed a green bonded loan in the market. We expected cash in of 50 million euros from that, and were stunned by a very positive demand from the market so that we could increase the green bonded loan to 210 million euros. The very important message [15:00] I would like to send to you is that all these green bonds and loans and the hybrid convertible, all of them have fixed interest rates over the whole lifetime of these contracts, which have an average remaining duration of three, five, seven, 12.5, 15, and 20 years respectively, and all of them have fixed interest rates over the whole lifetime. So the current turbulences in the current environment does not have any operational impact on our interest payments. And the same applies to the non-recourse financing, which in average has a duration of 12 years left.

MS Ladies and gentlemen, last year, we have committed to deliver the strongest annual growth in capacity additions in the history of our Company. We are proud to confirm that we have achieved [16:00] our goals with a total acquisition of 500 or 498 megawatts. Out of these 498 megawatts, 247 have been acquired as operational projects, which means that they are already feeding energy into the grid. 251 megawatts have been acquired as ready-to-build projects and will be already in construction or will be connected to the grid within the next 12 to 18 months.

CH Ladies and gentlemen, let's turn now to the assumptions of the Guidance 2023e. Well, as usual, ladies and gentlemen, we base our guidance on standard weather assumptions. So it is the case that the sun shines like usual, the wind blows like usual. Well, this is something honestly said, which is beyond our control. We try to improve our management in any respect, but this is something which we cannot and won't. [17:00] And in addition to that, we have to respect the electricity price curve, what we have seen recently, most recently, and there was, as we will discuss on the next chart, a slump in electricity prices for the future. We see currently, again, a field which is beyond our control, that there is some revenue skimming going on in Europe, specifically in Spain and Italy, which is skimming which will last at minimum until the end of 2023.

In Germany, the Minister for Economics and Climate Protection, Mr. Habeck, announced that due to the low power prices, he will expect that the power price of the revenue skimming will end at the end of June 2023. And we assume in our guidance that the current interest level will stay unchanged, honestly said, due to the turbulent markets, which we currently do see, I think any [18:00] direction of development would be possible, so therefore we take that conservative assumption. If we have a look then into the power plants, then we see that for all technologies in all countries, we do expect lower electricity prices for 2023 compared to previous year. This chart shows you the day-ahead capture market prices for different technologies. These are the prices which all our potential customers, which will mean negotiate PPAs with us, and that will certainly have an impact of what we will negotiate.

So therefore, in our assumptions for 2023, we take into consideration for the few open positions we have, which are currently accounting for approximately 9% of our forecasted revenue to be an open position, [19:00] and we will further close some of the open position based on the offers we get for short term hedges, but such price developments will have an impact on the opportunities which we have in power prices, which are exceeding German feed-in-tariff and Dutch feed-in-tariff. So we do see in all markets a decline of the electricity prices between 21 and 54% in all these respective markets. But all of these prices are still on the level which are exceeding the prices which we have seen previous years. If we then have in mind that power prices are decreasing in that two-digit extent, then we see and expect revenue, which on a cost basis were declined by 6% on net basis by 5% [20:00] only. The gross revenue in 2022 had included some revenue coming of 25 million euros, coming down to net revenue of 462 million. In this, we had high power prices, which are now expected to be lower, having an impact of approximately 62 million euros. We compensate for that by the growth of the asset management by the full year effect of the third-party revenue Stern and by acquisitions, which we did in the past, which will be connected to the grid and contribute revenue this year. As again, it is based on the portfolio which we currently do have in our hands.

New acquisitions of this year are not included in this revenue, so the net guidance of net revenue guidance for this [21:00] year will be 440 million euros. In our accounts, you most likely will see also the 460 million euros because again, we have to show the price caps specifically imposed in Spain and Italy and in the first half-year of Germany in the revenues as well. If we have a look on the different figures of our guidance, then we see first of all, this decline by 5% in the net revenue, and this certainly has an impact on EBITDA and EBIT. The EBITDA shrinks not by five, but by 11%. The reason for that, please have in mind that we now have a higher portion of Stern Energy's revenue in our total revenue, but they do come along as we will see in the segmentation report, with a much lower EBITDA margin because this is a service business and not [22:00] a capital-intensive business, which usually have high EBITDA margins, service business have lower EBITDA margins.

So this partially will be recovered then in the EBIT and then they will have a very nice contribution to our bottom line. The reason for that is that they don't have depreciations and don't have interest rates, meaningful interest rates. In total, we can therefore compensate for all of these price reductions on level of the earnings per share. And although the whole market suffered from the decline of power prices, indifference to many of our competitors, we are not reducing the earnings per share, which were driven in the past year by high power prices. But we are confident that we can compensate for that shortfall of the power prices, and that shows you the resilience of our business model. [23:00] In our segmentation report, we would see that although power prices will decline in solar, it is that solar will be the strongest segment in our Group with 63%.

The wind farms still number two, and now the PV services increasing by the full-year effect of Stern again, and now almost quadrupling the revenue now up to 10% of the whole Group. It is not only the full-year effect of Stern driving up the revenue, but the growth, strong growth of Stern itself. Stern is, as you might know, a very strong partner who is covering in many European countries, all owned AM services on solar farms, and has two third external customers. So although the growth [24:00] of PV service is strong, the consolidation effect on the other side is just doubling. This is the external services we ask from them, but so therefore the external growth is much higher and our asset management, which becomes stronger and stronger on a very steady state, will increase their revenue next year as well. The revenue is recovering, specifically in solar, they are stable.

Although there is a price decline, they will stay on a very high level and the operating margin is improving because the extraordinary depreciations, which we had to accept in 2022 are not again the case now. While the wind farms will have reduced margins coming back to the very high level, they already had in the past but leaving the extraordinary [25:00] high level we have seen previously. The PV services and asset management by nature do have lower returns, specifically the PV services. If we do compare then the forecast with the guidance, then we have to say, then we can see that the revenue of which we announced for 2023 are pretty much in line with the expectation or average expectation of our analysts. The same applies to the earnings per share, which are slightly above the average expectation of our analysts. The EBITDA and EBIT are not so close, specifically not the EBITDA, and I guess that reason is that the margin of Stern was slightly overestimated, the expectation of that was too high. [26:00]

MS Ladies and gentlemen, having already achieved both of these targets we had set ourselves for 2025, we started looking of cause at our future goals. Together with our leadership team, Christoph and I spent a lot of time identifying what is still needed for renewables to play an even bigger role in our energy mix. One thing that dominated our discussion is the sense of urgency. Climate change is happening. We all have to act and we have to act now. But before we start looking into the future, let's spend a couple of minutes on looking backward. The features that have made us so successful are the ones on which we want to build our future strategy, and these are our buy and hold business model, the strong execution and the focus that we have kept over the past years, the risk aware culture that still dominates our business. [27:00] All of that will be present again, will be built on these core capabilities and this core beliefs. The success of the past is for us only the beginning of what is coming.

As I said before, we have all understood that deployment of new capacity is key in order to allow us to achieve our goals. Policy makers have increasingly increased the goals for the years to come, and this is for us a huge opportunity that we want to leverage upon. Interestingly, we have learned from many conversations with different companies that the desire, the wish to play an active role in the transition is huge. The point is that many of them don't really have a solution, don't know how to play this role, and this is how we want to position Encavis. [28:00] And while we were investigating all of these opportunities, we increasingly understood that this potential is gigantic and this strengthens our commitment to go the further steps.

CH To make it very clear and to avoid any misunderstanding, what we present to you is not a new strategy, but an adjustment of our, as we think, very successful approach, which we have done and had in the future and the past. We continue to stand with our disciplined and selective investments. And so therefore, just to avoid any misunderstanding, I would like to point out that our wind and solar parks are the core of our business to generate Renewable Energy, and therefore we stick to our buy and hold strategy. [29:00] In the current environment, we see high earnings and cash returns being possible and being offered to us. And this from our point of view to strengthen our approach to invest heavily is value enhancing for our shareholders.

Although we have to pay more for the capacity itself due to inflation because the components are increasing and power prices are higher still, it is that the absolute returns are increasing, and we further believe that this is possible with long-term power purchase agreements of ten years duration and more because this will keep our risk low. And we are not so much exposed to power price fluctuations, which we see in the market now for more than one year. We observe in the market [30:00] that the internal rate of returns, which are possible, are increasingly much stronger than the minimum return requirements which we have. The minimum return requirements are driven up by the interest rate increase. And therefore, what we demand for today's project is substantially higher than we expected from projects in the previous years. And it is that the IRRs, which are currently possible, are increasing even stronger. The reason for that is that we see that some frustrated financial investors who accepted risks in the past, we never would've accepted, failed, therefore are somewhat demotivated.

So therefore, it is that we see very positive development for future work. But to state one thing, many [31:00] of such parts which we acquired in the past on lower return expectations, in the meantime, enjoy much higher returns because in the meantime, although we bought them under the expectation of lower energy prices, now we are able to sign PPAs, which are exceeding our early expectations by far and driving up the IRRs even of existing parks. Now, what do we do in the future? Something which we did sometimes in the past will be done in future more systematically. When we acquire our parks, we will, in addition, take into account the needs of our clients. And why is that the case and why is that necessary?

Look, to explain it, before the background of the changing power markets, [32:00] in the past, the markets were dominated by big utilities having conventional power plants, and these big utilities, the conventional power plants, gas, oil, nuclear, and that is a huge advantage of such power plants, could by humankind reduce the power production depending on the demand of the market. So the centre was, what is the demand of the market and how does the centralized system react to that? This demand was easy to forecast, and then you could easily drive up your power plants or drive down some other plants. But the future, we will have a more decentralized, more granular market. On the producer side, you will see several smaller and some even family owned or citizen owned, [33:00] small single parks or bigger producers like the utilities or someone in the middle of that like us who have an awful lot of smaller parks. We manage currently more than 300 parks Europe-wide, and this decentralized system will feed the energy into the grid but depending on the solar performance or wind performance.

The volatility on the side of the production will be high, but will not be controlled by humankind, but by nature. On the other side, there are a lot of smaller off-takers than in the past. In the past, the markets were dominated on the off-takers side by municipal distribution networks who acquired the electricity and then sold it to their customers. But due to the high volatility of energy prices, they are more and more quitting such contracts with the industrial off-takers. Now, the industrial [34:00] off-takers are in the market directly to buy green electricity, but have now to cope with the challenges of that volatile energy production. So they need someone who helps them either to do demand-side management, to regulate their own demand depending on the power price curves, or to cover a shortfall in energy production so that the company can open further.

MS In general, we have identified four different groups of potential clients that we want to serve. As Christoph pointed out, the biggest one, probably the most obvious one is the one which comprises companies with high energy demand. As already described, these companies have experienced unprecedented volatility and unprecedented increases in power prices. These companies very often don't know how to supply, how to source and how to procure the energy that they need. And we believe that there is enough, there's a lot of space for us to develop holistic [35:00] energy concepts to serve their specific needs. These solutions will of cause include storage systems, potentially rooftop PVs on their premises. And eventually, as Christoph pointed out, the market management systems.

We also have identified that real estate investors are under strong pressure to make best use of their roofs. Very often, it's already imposed on a regulatory site that they build PV plants on the roofs. And this is something that doesn't belong to their core business. Here we believe that there is an interesting opportunity for us to install our plants on their roofs. Of course, we're talking here mainly about CNI rooftops, but also bigger residential [36:00] buildings. Moreover, we of cause still have a strong focus on serving institutional investors. This is something we have done successfully in the past through our Encavis Asset Management company and team in Neubiberg. Here we see still a strong demand for green investments, for Renewable Energy investments, and of cause want to speed up and do more in the segment as well. And last but not least, we do experience, we do see an increasing number of players who have a strong interest in investing into Renewable Energy plants, but they don't want to consolidate the debt, which is typical for project financing structures. And here we believe that there is a strong potential to cooperate with them and to build out our portfolio.

In general, when we [37:00] are going to source our projects, we'll be even more focused than in the past, our strong focus, of cause, remains in Europe. We will be playing only in Europe because we see markets that are growing at a rate which gives enough space for all of us to thrive. The countries where we want to extend our offering, where we want to offer all the service that we have described in the previous slides are our core markets, Germany, Italy, Spain, the Netherlands, and Denmark, where we do see a strong increase or strong deployments of capacities to be expected and where we have already a strong network that we can use to improve our services, our offering. Then there are additional countries where we have already a footprint where we believe that there could be interesting opportunities, but we will be not sourcing them as actively as in our core markets. These countries are Great Britain, Sweden, and Finland. [38:00] Ultimately there will be definitely some additional countries where we might be presented with very interesting opportunistic growth opportunities. Here we will be more selective than in the past because we want to keep the new team that we have very focused on executing in the countries where we see the highest potential.

CH Putting all that together, we expect to grow our Company from signed capacities of 2.5 gigawatts, which we have currently in our hands to eight gigawatts in 2027, or our connected to the grid capacities of 2.1 gigawatts, which we currently do have in our old parks, to 5.8 gigawatts. With that growth by 5.5 gigawatts, which looks to be quite challenging, it is that this is just the growth with [39:00] the market. So according to the different expert opinions and the political will, the expert opinions are hugely by the way, lower expectations than these ones. What the politicians are expecting to do, it is that we only grow with the market here and keep our market share. This growth of in total 5.5 gigawatts in signed capacities won't be done in a linear way. As you have seen in the recent years, we are increasing the capacities we are acquiring year-on-year, so we do expect for this year signed capacities of approximately 600 megawatts, 20% up compared to previous years.

In total, therefore we expect to reach this year with signed capacities of 3.1 gigawatts, which is pretty close already [40:00] to that goal of 2025 with 3.4 gigawatts then originally. For that, the total growth, we need investment transaction volume of 3.9 billion euros. We'll come back to that later, how we are going to finance that. But in a nutshell, it will be growing the holding level, it will be refinancing of existing parks. There will be minority share sales, some, but only not too often. And we will have financing or equity partners on subholding level, which are managing with us. And this was the fourth column in what Mario told you. These partners were willing to enter into the renewables market, but do not have the knowledge in place. This growth of our capacity will result in an accelerated growth [41:00] of all key figures.

First of all, the revenue we forecast to increase from 440 million net revenue in 2023. That means without the price caps, it will grow to 800 million euros in 2027, leaving behind our old goal of >> Fast Forward 2025 of 440 million euros. The operating EBITDA likewise will increase from expected 2023 figure, 310 million euros to 520 million euros. This won't be the 75% you have seen in the past due to the strong increase of our service business. But our two asset heavy segments, solar and wind, will further keep up the EBITDA margin of above 75%. This increase of the EBITDA [42:00] will by far exceed our forecasted growth for 2025 of 330 million euros. Likewise, the operating cash flow will increase from 280 million euros to 450 million euros. There was no such goal for >> Fast Forward 2025.

Therefore, I cannot tell you that we will not leave that behind us. In the past we forecasted for the earnings per share, and by that we were only one of the very few companies doing that in the market. But honestly said, we have to see that in these turbulent markets, which we have seen in 2022, there are so many factors beyond our control, which are very difficult to forecast as what the situation in 2027 might be. We will forecast as an alternative to that the cash flow per share, and that [43:00] will from the 2023 figure of 1.7 euros per share increase to 2.6 euros in 2027 due to these growth plans. Now, how will the financing go on? Well, the 4 billion euros, which are there for the acquisition of purchase of project rights of cumulated 5.5 gigawatts, as well as the construction of 3.7 gigawatts of such capacities will be financed by 60% out of non-recourse project financing amounting to 2.4 billion euros.

That means that the share which will be covered by own resources for the financing, is therefore 1.5 billion euros. We are already in negotiation of minority share holdings on subholding levels with investors, and therefore we expect [44:00] over the five years that at least 0.2 billion euros will be provided by them equity-wise to these subholding structures for further growth. The remaining 1.3 billion euros have to be financed over the course of the next five years. This is around 260 million euros per year. They will be financed by operating cash flow, which is increasing over the years by the refinancing of existing products, by minority sales and by corporate debt. Well, we have to see that the structure of our balance sheet will be sound. And now you will see what I pointed out to you with the discussion of our 2022 balance sheet, that there will be a relief to the balance sheet but firstly by the repayment of [45:00] 150 million euros of SPV debt on SPV level, which we pay back every year, and the grant strengthening of the Group equity by the release of the currently very high hedging reserves of 156 million euros.

So, although we will increase the debt of the Group in total, the equity ratio over the whole time after 2027 will maintain the equity ratio of above 24%. Now, regarding the financing, please have in mind that in 2023, we already placed a green bonded loan of 210 million euros in the market and we still have the revolving credit facility, half of it in place. So the first 260 million euros of 2023 should be financed. But to foster the future accelerated growth plan, [46:00] we need all the funds which we have in the Group. In these turbulent times, we prefer, first of all, to keep all cash in the Group for investment purposes. We believe that we by that, do the best for our shareholders since we give them the best opportunity to participate on the high and increasing IRRs, which we see in the market. We announced that already last year, that there will be a change and reconciliation of our future dividend policy by deciding year-on-year on the success and on the growth perspective we see ahead of us and on the conditions in the capital market. And if we follow these criteria, we have to see that with REpower EU and the strong growth plans, with war in Ukraine and with the desire of the societies and the people in Europe to become independent [47:00] from Russian energy resources, it is needed to invest heavily into the renewables, and we want to keep up with our market share. From our point of view, it doesn't make sense to pay a dividend and then to issue new shares to finance that.

Ladies and gentlemen, therefore, I would like to summarize our Accelerated Growth Plan for 2027. We want to increase our capacity from 2.1 gigawatts to 5.8 gigawatts of the capacities connected to the grid, leaving our >> Fast Forward 2025 far behind us. Then we want to increase the capacities which are ready-to-build from 2.5 to 8.0 gigawatts, again, far more than we ever planned for 2025 in our >> Fast Forward plan. And we want to increase the revenue, [48:00] which are 2023 already on the 2025 level, then up to 800 million euros in 2027, and we'll increase the EBITDA accordingly to 520 million euros. Again, on the level of the asset segments, PV and wind, we will maintain the 75% EBITDA margin. In addition to that, we offer you now an additional key figure, the cash flow per share, which we want to increase from the 1.70 euros in the coming year to 2.60 in 2027, and we'll keep up our solid equity ratio of more than 24%, likewise to our former plan. Ladies and gentlemen, thank you very much for the audience. Thank you very much for listening. And then Mario Schirru or myself will be available for your questions. [49:00]

O Ladies and gentlemen, if you would like to ask a question now, please press nine and the star key on your telephone keypad. In case you wish to cancel your question, press nine and the star key again. Please press nine and the star key now to state your question. And the first question comes from Anis Zgaya, please go ahead.

S1 Thank you very much for taking the question. Good morning, everyone. So, my first question is on the 156 million euros hedge reserves, could you please come back to this and to the decrease in equity related to financial PPAs because I'm not sure I got the point. And [50:00] my second question is for Stern business. And I'm not sure if the figures you shown are including internal sales or excluding internal sales for this segment. And my third question is on PV EBITDA margin. And I would like to know why you are expecting a decrease in margin for the PV business for the coming years. Thank you.

CH Yeah, thank you very much. And for these questions, let's start first with the hedge reserves. Honestly said, these hedge reserves are not the best idea of IFRS, but we have to account for them. Why aren't they a good idea? Because what we signed [51:00] there is a PPA with a fixed price. It is not a physical PPA where we deliver the electricity, but that is more or less market standard. It is a financial PPA, that means we have, like in an interest rate swap with a bank, an agreement that the price is fixed, so then we sell the electricity in the market and every excessive price which we receive, the difference price to the PPA price, we have to pay to the off-taker. But if the price falls below the financial PPA price, then he has to recover the difference. So he has to pay us for the difference.

So, in the end, we earn in revenue and in cash flow only the fixed electricity price. We don't see anything else. But in the equity we have to account for [52:00] the future value of that contract.

Although on the very last day it is zero because on negative values which we have accounted for in the meantime have to be recovered in a positive way. And all positive values have to be deducted then to a zero. Again, it is over the lifetime of the contract that we sometimes have positive values in our equity and sometimes negative values. Usually if there is a steady development in the market, like we have seen in the previous years, the effect from that hedge accounting is so low that it was neglectable. But in the turbulent times of last year, we had that the power prices increased and therefore all the price fixing agreements, which we have over the lifetime are below the prices which are [53:00] expected and therefore the negative value of all these payments, which we have to do later to these off-takers have to be accounted for in equity. But everyone knows that we owe them the money, but that we get the money at the same time from the market.

So therefore, from my point of view, it is not logic, but it has to be accounted for. So there is a decline in the equity, but it is of no relevance because within the course of the next eight years, the 156 million euros will come up again and we will come back to more than 1.066 billion euros of equity. So, it's just an accounting issue, but I wanted to highlight that because otherwise, you would have asked why is the equity shrinking?

In the segmentation report, we have shown you [54:00] Stern, and with Stern we have shown you the external revenue in the segment PV. And here you see for due to the full consolidation, the full external revenue of 45 million euros of Stern, but approximately one fourth out of that is internal revenue. And that's the reason why the right column, headquarters consolidation, you see in the revenue minus 10. And this minus 10 are more or less the internal revenue they have with the solar segment. The EBITDA margin in 2023 in solar is well, pretty much stable. It is adjusted from 75% to 74%. And the reason is that the [55:00] excessive prices, which we enjoyed in the not hedged small positions in Spain, for instance, and in the feed-in tariffs in Germany and the Netherlands where the current electricity prices exceeded the feed-in tariffs, they are somewhat reduced and therefore we have lower revenue. Since in the solar segment the costs are usually not related to the revenue, but they are fixed. It is that the EBITDA margin slightly shrinks, but the EBIT margin improves.

In wind, it is a different story. Here we have some open positions in total, as I pointed out in 2023, approximately, not currently, 9% of the total revenue, but here [56:00] we see price effects as well. And since there were no price caps in wind farms last year, but some this year which have some effect, and the costs are mainly fixed, the EBITDA margin is shrinking. On Group level, there's a third effect, and this is the addition of PV services and the growing revenue they contribute to the Group and since they as a service business has a lower EBITDA margin than our solar and wind farms, it is technically on average that the Group EBITDA margin is shrinking. But again, in solar and wind in total it is on the 75% level.

S1 Thank you. Thank you very much. It's very clear. So last question is if I may, are you announcing today that you are entering the decentralized [57:00] energy business focusing on CNI?

CH Well, first of all, we are already with all our 300 parks, more or less in a decentralized energy production for many years. These are, how Mario pointed out, these are strategic initiatives. It is not something which will be reflected in the 2023 figures already. It is something which will grow. It is that we already are in the asset management business here. We are very active. We are in very progress negotiations regarding minority share holdings in subholdings to foster our further growth. For the CNI rooftop here it is that we do see that this is a very attractive market, having in mind that out of 41 gigawatts of solar additions in the past years, [58:00] 24 gigawatts were rooftop. So obviously it is an interesting market and we look into that, but we see currently some challenges which we have to cope first. We are not blindly going into rooftop because rooftop is a very granular business and creates an awful lot of operations and maintenance cost.

But we believe, and we are currently in negotiations on that, we have an idea to degranularize it. And this is something we are working on. And as soon as we got that done, we will step into CNI. Fourthly, in the industrial approach, Mario pointed out, we are already in negotiations with three companies, which just only by mentioning that idea that we could directly go into business with industrial off-takers and help them out in that energy transition [59:00] phase by just mentioning it in three spots, we got three responses and immediately negotiations on such contracts. So we see that there is a huge group of companies confronted with the challenges out of this volatile electricity market, and the demand is huge and they all want to participate in the energy transition. Unfortunately, they don't know how, and this is something where we want to help them out. It is not sufficient from our point of view just to offer them an asset or PPA that doesn't really help them, but more consulting around that and that offers us more pricing flexibility.

S1 Okay. Thank you very much for your clearance.

CH Welcome.

O And the next question comes from Martin Tessier. Please go ahead.

S2 Good morning. Thank you for the presentation. So I have a question on the pipeline. [01:00:00] So you increase your portfolio target to 8.0 gigawatts by 2027. But unless time is taken, there is no information on your current pipeline. And I was just trying to triangulate the numbers based on the average success probability of a development project that you communicate in your last factbook. And this means that your pipeline would have to massively increase to around 10.0 gigawatts today in order to reach the 8.0 gigawatts by 2027. So could you please provide us with some colour on your current pipeline and how you see it evolving in the medium term? Thank you.

CH Yes. Sure. The point here is that the pipeline that we show on our factbook only relates, or only is given by our strategic development partnerships. We still do see [01:01:00] a lot of opportunities to buy assets on the market, and actually these are the projects that usually are connected to the grid first because our strategic development partnerships, as we have seen, yield their products or yield their plan always sort of in a timeframe of 12 to 18 months at least. So it's a combination. You have to add to that partner that we show all the opportunities that we see on the market, which is still substantial.

S2 Okay. Thank you for this insight. And maybe a further question from me. So if we assume that you will invest more in parks which are already connected to the grid, so this means that these will be more expensive. So is it the main reason for the fact that on your unit CAPEX it goes up from [01:02:00] 750 thousand euro per megawatt to 1 million and 250k per megawatt. Because if we divide 3.9 billion euros investment by 3.1 gigawatts, this is 1.25. So, is it the main reason why your unit CAPEX goes up by close to 70%? Thank you.

CH Yes, the price that you have calculated is the average of wind and solar projects. And as we know, wind are more expensive because the yield is quite as high as from solar projects. So I think yes, there is an implied relationship between wind and solar that we want to keep constant. And the numbers that you have produced are the ones that are in our business plan.

S2 Okay. Thank you. **[01:03:00]**

O Okay. So at the moment, there seem to be no further questions. If you would like to state another question, please press nine and the star key on your telephone keypad. And we have another question. It comes from Jan Bauer. Please go ahead.

S3 Hello. Good morning. I hope you can hear me. Thank you for taking the question. First of all, I wanted to ask, in my perception, the PPA market is going to zero pretty much after the introduction of the power price cap mechanism, could you elaborate a little bit on how it evolves now in Q1 '23 and whether you are able to sign new, especially long-term PPAs, whilst cap mechanisms are still active?

MS Yes, that's a fair point. We have seen that the market has loaned down in the sense that everyone has been waiting for **[01:04:00]** new regulations to become clearer. In general, we see a very strong demand from PPA off-takers because, and especially from medium and smaller enterprises, because these guys have realized that energy is not given. They have to really start looking at how they can secure their energy supply. I cannot disclose the name, but I can anticipate that for all the projects that we have, that are now in the ready-to-build status, we are in negotiations with important companies with very good ratings. And additionally, to the negotiations that are already ongoing, we see, we have been approached by potential off-takers with a total demand of one terawatt-hour per annum in Germany. And the same sort of a similar demand in Italy **[01:05:00]** and also in Spain. We see without really actively looking, we have just been invited to tenders with a total capacity of 650 gigawatt-hours. So again, demand is as strong as ever. And to be honest, the prices are still very interesting. This is something that it also surprised us somehow. We are by far, I would say, we have not disclosed the prices of our old PPAs in Spain, but we are significantly above these figures, significantly above these figures.

S3 Okay, thank you.

S3 One question to Dr. Husmann regarding the company level debt, especially the promissory notes you are using to finance projects. So in my understanding, those promissory notes have a maximum term of, I think it was 15 or 20 years. So **[01:06:00]** compared to the depreciation time for the underlying assets, there should be an open leg of about five to ten years. Do you see any risk of interest rate changes just in case you have to repay those promissory notes? We finance them now on pretty much higher rates, but on the underlying assets, you are not as much moving head room to keep the IRRs stable.

CH First of all, thank you very much for the questions. So we have a mixture of different instruments with different durations. And in total it is we have a look at specific repayment dates, does not mean that the amortization is, and so therefore the refinancing need is far too high. So therefore, please have in mind that now the operating cash flow is squeezing tremendously. Maybe Jörg can go the [01:07:00] previous page, page 32 again, you see that the operating cash flow over the next years will increase dramatically and not only gives us room for financing of new investments, but of amortization of debt, which we have taken up in previous time. So, the big first repayments will happen in 2028 now with the 210 million euros Schuldscheindarlehen, which we currently took up. And so therefore I think there's much time to go. And currently in the environment, I would not expect an increase of interest rates, but to keep it stable or even to lower it, please have in mind what turbulences you have seen in the banking market, depending on the harsh increase of interest rates in recent days.

S2 Okay, thank you. And one last question about this year. [01:08:00] So last year we have seen that the acquisitions largely came in on by backend loaded in Q4. Do you expect a similar development in this year?

CH It depends. On the projects that come from the development partnerships, we expect something to be already announced on short notice. On the projects we acquire on the market, yes, we unfortunately always realize that this activity is very backend loaded. Don't ask me why. As a matter of fact, we hope we are pushing to anticipate a couple of closings, but when you negotiate, you are not alone. Also, your counterpart has to be willing to transact. And so, yes, let's see. But this feature is somehow typical in our business. And when we mark, coming back to an earlier question on the average cost per megawatt so [01:09:00] that there is no misunderstanding in the room, the 3.9 billion euros of transaction volume, which we have shown you in this chart here, corresponds to the 5.5 gigawatts for the project rights as well as for the construction. So therefore, it is an average cost of 700,000 euros per megawatt, which is in line what we have seen in the past. There is an increase of cost of components on the one-hand-side, but on the other-hand-side, a pressure on the developers to become more efficient. And so therefore we see these targets going on in the future.

O And the next question comes from Thomas Junghanns. Please go ahead.

S4 Good morning. Also from my side, I have a question to the 2.4 GW, which is mentioned on [01:10:00] slide 31, I don't understand at this point. Do I understand it right, that the new investors which you attract will become minority shareholders in new projects, or how does it work actually?

CH No. The 2,478 (megawatts), which we see here are the already signed parks in total, that includes ready-to-build status projects of around 350 (megawatts), and 2,122 (megawatts) out of them are already operational. So out of capacities which we announced at the past of 2,478 (megawatts), 2,122 (megawatts) are already connected to the grid and the remaining 356 megawatts, I hope I counted it correctly, now are under construction. So now over the timeline, we see an increase of all these figures. In 2027, we want to have in total announced [01:11:00] 8.0 gigawatts of capacities, which are at least ready-to-build, out of them, 5.8 (gigawatts) are operational. That doesn't tell you anything on the ownership of the parks. All of them are fully consolidated, fully under control by us. But as we stated then two pages later, we will have in future more minority shareholders on the subholding level where we hold then 51% of the equity and the minority shareholders 49%. And by this, these minority shareholders contribute 200 million euros, and we then 202 or 203 million to have the majority. And then together we will buy huge and construct huge parks, which we mentioned on page 31, some of them. It will only be a minor extent. It is not that this will be the [01:12:00] majority of our business. It is one contribution to the whole growth plan.

S4 Okay, perfect. With regard to the CNI rooftop business, do I get it right that you will equipe the companies with solar panels and then they will lease these solar panels and the PPA contracts are concluded with you? Or how does it work?

CH No, the plan is, the modules will be owned by us. We will be leasing their roof eventually and paying them a rent. In general, as you pointed out, it will be with the first companies we are talking to, it's going to be a mix, as you correctly pointed out, between sort of a rooftop onsite installation, which delivers part of the power that they need in combination with the long-term PPA, which ultimately fulfils all their needs. Because very often the roofs [01:13:00] are not enough to produce enough energy as these companies consume. But we will be the asset owners in both case. We'll be running the ground mounted plants, we'll be running and operating and owning the rooftop plants. They will get the energy.

S4 Perfect. Got it. Thanks a lot.

O And the next question comes from Leonie Weigner, please go ahead.

S5 Thank you. Looking at the dividend, I'm not sure if I overheard, so if yes, please excuse, but are you planning to retain earnings in the coming years or are you planning to pay a dividend again?

CH Thank you very, very much for that question. We did not say anything on that, so you didn't overhear it. As a matter of fact, we announced last year that we won't announce a dividend strategy for the future. So this is a statement clearly [01:14:00] for this year and no statement for the future. It depends a lot on the magnitude of growth we see ahead of us. And, as long as there are these unprecedented growth plans and needs, which we have in Europe, offering us a great opportunity, we don't want to say any of our shareholders, "Sorry, we couldn't participate because we paid you out a dividend." And on the other hand, in these turbulent markets, we do not want to go to the market during these turbulent markets for an equity increase, diluting the position of our shareholders for paying them out a dividend, which diluted already their price. And therefore, I think it is the best for our shareholders since we see fantastic opportunities and great returns ahead of us, to give them the opportunity to participate directly with the cash in these investments, which hopefully then will be reflected in an increasing share price. Therefore, we think that this year it is in the [01:15:00] best interest of our shareholders, and then we will decide next year on the situation, which we will have then.

S5 Thank you.

O Okay. So at the moment, there seem to be no further questions. I will leave the line open for a couple more seconds. Nine, star for your question. And we have another question. It comes from Michael Sznajer. Please go ahead.

S6 Thank you for the call. I just wanted to follow up on that dividend question. I think, is it a possibility that the board will review this decision to cut the dividend to zero this year in light of the fact that you have a very long track record of paying a dividend? There are a lot of shareholders who care about a dividend and can only [01:16:00] invest in companies that pay a dividend. And so, by getting it to zero, even if I understand your rationale of not wanting to dilute, especially at the current share price, you are basically alienating a part of your shareholding by not paying any dividend. So, considering a dividend in kind or partially in kind, partially in cash, is that something that the board would reconsider?

CH Thank you very much for that question. Believe me, this is a decision that the Supervisory Board, together with the Executive Board did not take easily. We discussed it diligently. We discussed the scrip dividend, even the mandatory scrip dividend as an alternative, but honestly said, it would have worked like a shared split, but with one nasty difference, you would have to have paid a huge tax on that. [01:17:00] So therefore, it is, from our point of view, the best to go ahead with that direction. We do understand that this is for some investors a change, but we will believe that for the majority of the shareholders, it will be the best because we are a growth company and being a growth company specifically before the background of this unprecedented growth plans and needs, which we have in Europe, it is the best in the interest of our shareholders.

S6 Okay, thank you.

O The next question comes from Richard Alderman. Please go ahead.

S7 Hello. Thank you for taking my question. Can I just clarify so that I don't misunderstand what you are saying about the funding of the plan through the life of the plan. I understand [01:18:00] why you've cut the dividend to zero because you want to front-end load the opportunities to invest this year and next. And I guess cutting the dividend by 20% or so would only save 10 million euros. So it's either you either pay a dividend or you don't pay a dividend. That makes sense. But are you categorically ruling out the possibility of issuing equity? Particularly as you have discussed the volatile nature of the number of growth opportunities. And if you are, because this is how, if you don't pay a dividend say for the next one to three years, you can fund a much faster growth plan. Does your plan also avoid any issuance of any convertible bonds? That's the first question. And then the second question, have you in any way consulted any of your shareholders prior to the dividend decision? Because with relevance to the last question, I would agree there are a number of your shareholders that must have an issue [01:19:00] with being able to hold your shares with zero dividend going forward. So that must create quite a lot of volatility in your share price.

CH Thank you very much for the question. So, first of all, I cannot rule out anything in the world, but in this plan, there is no equity issue planned. I cannot rule out anything because I don't know what the circumstances in the market might be in the future. So therefore, I cannot rule out anything, but we do not have any plans for any equity issuance, period. That includes a new issuance of a convertible. This is not planned either. Regarding consulting shareholders, well, as a matter of fact, this is obviously relevant information and therefore we could not tell people beforehand that [01:20:00] we are intending to do, but what we did for one year in any virtual meeting, we discussed with any investor ahead of us that we are considering a new dividend approach, and that could be clearly zero or just a cut.

And as you pointed out correctly, a cut wouldn't have helped us – only 100% of full payment. That was the alternative we had in the past. And we used the corporate governance road show where we had the proxy voters and bigger funds being represented and tested it and explained them that the decision could be zero or at least a new dividend proposal. And the overall answer was, why do you pay a dividend at all? So therefore, yes, we did a sounding and we [01:21:00] asked investment banks for the analysis of our shareholdings. And yes, everyone forecasted for today some turbulence in the share price because there might be some reactions. But overall, by far overwhelming portion of our shareholders are seen to be growth or GARP investors and only a very small one-digit number of shareholders are considered to be yield investors.

S7 Okay, thank you very much.

O And the next question comes from Charles Swabey. Please go ahead.

S8 Hi there. Good morning, everyone. I was wondering if you could speak a bit more on the improving internal rate of returns. I was wondering if you could maybe quantify this and provide some sort of guidance on your return threshold such as a minimum IRR to WACC spread. And then as a second question, [01:22:00] in terms of in order to reach your 2027 growth targets do you feel you have enough strategic partners to reach your new target? And do you have a minimum amount of partners in mind? Thank you very much.

CH Yes. With regard to the first question, the increasing returns that we see on the market is relatively easy to explain. There is an increase in risk-free interest rates. So there are comparable asset classes that become somehow attractive when compared to the returns that renewals have been offering recently. So the requirements from investors are going up and at the same time, we see that a lot of investors, again, have turned to different asset classes or have reduced their commitment into renewables in order to wait and see if the situation becomes more stable. And so the demand [01:23:00] has gone down. The offering is good. We see an increase in projects being authorized. And so, for us, it is a huge opportunity to invest money at very good returns.

S8 And the partners?

CH The partners, yes, as I said before, we do have a good pipeline. We have the partners, and this is shown on our factbook on the website. We are constantly working and increasing the numbers of our partners. We are in many interesting discussions at the moment. So, we are very confident that we can increase these partnerships at the same time, as I just pointed out, we see a substantial deal flow from the market, from projects that are ready-to-build or close to, that are put on sale. [01:24:00] And so we expect the pipeline to be even bigger than in the past, to be honest.

S8 Very clear. Thank you for that.

O And the last question comes from Jan Bauer. Please go ahead.

S3 Thank you. Just a quick follow up on the financing side. So you said you think about getting minorities in the amount of 0.2 billion euros, so this is not a capital increase. This is again, a spinoff of minorities on SPV level for some parts as you did in the past. Is this right?

CH No, first of all, it is on subholding level. It is not on corporate level, but it is not necessarily a spinoff. It is like Mario pointed out, with investors who are keen to invest together with us on subholding level so that we would found [01:25:00] a subholding where we own 51% and they 49%, we are fully in control and manage the acquisition of new parks and then keep them, manage them, fully under control of us and they increase the capital to allow for these investments.

S3 All right, thank you.

CH You're welcome.

O Okay. There seem to be no further questions, so let me hand back over to your host for some closing remarks.

CH Thank you very much, ladies and gentlemen, for this wrap up of the very successful year 2022, for our Guidance 2023e, where the Company shows the resilience of its business model and for the Accelerated Growth Plan 2027, which is something that has to be managed, which has to be financed. And therefore, we think that [01:26:00] although it is painful for some investors, cutting the dividend is the right way forward. We hope that this then is justified with a very good growth in our capacities, in our figures convincing the market. Thank you very much and have a good day and I guess that we speak to one or the other in the next days. Thank you.