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## Snam Announces Partnership with De Nora Conference Call

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MODERATORS: MARCO ALVERA, CHIEF EXECUTIVE OFFICER  
ALESSANDRA PASINI, CHIEF FINANCIAL OFFICER

OPERATOR: Good morning. This is the Chorus Call conference operator. Welcome and thank you for joining the SNAM Announces Partnership with De Nora Conference Call. After the presentation, there will be an opportunity to ask questions.

At this time, I would like to turn the conference over to Mr. Marco Alvera, CEO of SNAM. Please go ahead, sir.

MARCO ALVERA: Thank you. Good morning, ladies and gentlemen, and welcome to our conference call on the acquisition of a strategic stake in De Nora, the global innovator of sustainable clean energy and water treatment technologies.

This transaction is complementary to Snam's broader strategy on hydrogen, as you know, and as we will detail further in our strategy presentation next week. We have been a leading proponent of the importance of clean hydrogen and de-carbonization. We are very committed to this because we believe that hydrogen is the only option to decarbonize hard to abate sectors. Also hydrogen will provide a cost competitive way to transport and store renewable energy, and because the cost of green hydrogen are coming down rapidly. Governments worldwide have also come to this view, and the race is on to introduce hydrogen strategies in many countries, not only in Europe.



In Italy, over the weekend, hydrogen guidelines were announced including €10 billion of investments for 5 gigawatts of electrolyzer capacity by 2030. This policy support will enable significant investments in the hydrogen value chain with the EU estimating investments up to €0.5 trillion by 2050 and BNF looking at €11 trillion for hydrogen worldwide by 2050.

In this context, Snam is ahead of the curve, with a strategy that is focused on ensuring the readiness of our assets, to deliver hydrogen and low carbon gases, and at the same time fostering the development of the overall value chain. The De Nora investment supports this ambition because its technology is strategically positioned in nodal points of the value chain both upstream and downstream of our infrastructure. We believe that this will enhance the value of our key infrastructure assets as well as offering our shareholders exposure to an attractive world market.

We pursue this opportunity in a highly competitive environment for 3 reasons. First, we acquired a strategic stake in a one-of-a-kind asset that has significant growth potential and upside at a compelling valuation. Second, we formed a partnership with a global leader in key hydrogen technology. Third, we see an opportunity to transfer a stake in the De Nora investment as a seed asset for a new energy transition platform.

The growth comes from De Nora's leading position in 2 key sustainability trends, water treatment and green hydrogen. While our key strategic focus is on green hydrogen, the water segment itself is fast growing and very attractive, and also has some synergies with Snam's business. De Nora's edge in green hydrogen technologies will enhance Snam's industrial strategy on hydrogen development. It is not just an equity investment, but a partnership to enhance opportunities for both companies along the value chain. For instance, we could even consider establishing operating ventures with De Nora on specific projects.



I will now handover to Alessandra, who will take us through some more details of the transaction and on the company itself.

ALESSANDRA PASINI: Thank you, Marco, and good morning, everybody. The transaction involves the acquisition of around 33% of De Nora from Blackstone, which is exiting the investment after more than 3 years, owing to its investment horizon and the mandate of this specific tactical opportunities fund. Snam will have 3 seats on De Nora's Board, 2 of which will be filled by Marco and myself and will be represented on the newly established strategic and technical scientific committees on hydrogen.

Snam investment will be approximately €0.4 billion valuing the whole group at €1.2 billion, implying an easy EBITDA multiple on 2020 expected EBITDA or slightly more than 13 times which is at the low end of the valuation of comparable companies, and especially compelling given the company's rapid growth trajectory with an EBITDA CAGR of over 8% over the last 3 years.

The De Nora family third generation on from Oronzio, the company legendary founder is the other key shareholder and owns the remaining 67% of the Group. The company is managed by a well respected team that we know well, and that we've been having business discussion with even prior to this opportunity arising. Indeed, part of the reason why we were keen to acquire the stake and De Nora keen to have us in their shoulder base was because we have a common vision on the importance of hydrogen, the role the company should play in this mega trend, and of the potential for De Nora to express its full value in the public market at the appropriate time.

As customary, we have discussed this transaction with the agencies, who appreciate the sensible and disciplined approach on technology related to the energy transition and de-carbonization that a transaction like this offer. Whilst rating metrics remain comfortably within our self imposed threshold, rating agencies appreciate the fact that De Nora still represents a seed asset



for a new investment platform. As a result, Snam will retain exposure to R&D in a key space such as hydrogen which will play a growing role in our infrastructure while limiting its capital deployment and protecting the low risk profile of both its businesses and financial structure. Even assuming De Nora to remain within Snam's perimeter, rating metrics would remain comfortably within the threshold set by the rating agency.

For those who do not know the company, here are some highlights. De Nora is recognized as a leading company on electrode and water technology. In electrodes, De Nora is the largest provider of both electrodes themselves and of coating for electro chemical processes serving among others chlorine and caustic soda markets. Its experience, supply chain and unmatched technology in electrodes give it an edge in the fast growing green hydrogen market. As well as producing electrodes, De Nora has a joint venture with ThyssenKrupp called TKUCE, which co develops, assembles and installs electrolyzer. It also has the right to appoint CTO to the JV. De Nora also works with operators in the fuel cell segment, including AFC Energy. In water, De Nora has leading technologies with a focus on disinfection and filtration for municipal and industrial use.

Overall, its position in the market, which is over 50% in some segments and it's strong aftermarket sales make it very resilient business, growing EBITDA by circa 20% in 2020 over last year, despite the global downturn is another example of the resilience of this business, which still retains very attractive, upside potential. De Nora's success is built on its technological leadership. It has 3 R&D centers and 12 manufacturing sites employing approximately 1,600 people.

I will now pass it back to Marco to continue the discussion. Thank you.

MARCO ALVERÀ: Thank you, Ale. Let's now take a closer look at De Nora's hydrogen business, and why the company is so well-placed to capture the upside from the growth of this market? First, its product and key area of expertise, the



electrode is the engine of the electrolyzers and contributes and determines its overall performance. Making good electrodes means being good at the coating, the mix of metals, which are often precious, which are inked on top of the road and determine its cost and efficiency. De Nora's coating is the best in the world for alkaline electrodes. This competence cannot be easily replicated, as it requires deep and focused electrochemical expertise.

De Nora has a large team purely focused on this with around 20 people. The De Nora technology that powers the electrolyzer products sold by the JV with Thyssen is a top performer in the market for current density, lifetime, and reliability. And thanks to the Chlor-Alkali production capacity and experience. The JV can offer reliable performance guarantees to customers and scale-up production in the short and mid-term. This helps explain why the De Nora Thyssen JV has been preselected to supply Neon, the world's biggest green hydrogen project and why De Nora supplies many of the leading players in the alkaline electrolyzer market.

Alkaline electrolyzers are actually complementary to PEM electrolyzers, such as those manufactured by ITM, the UK Group in which we've invested recently and signed a commercial agreement with. Alkaline electrolysis have the advantage in terms of costs and proven performance, while PEM can be compacted in less space and have a greater flexibility, in terms of ramping production up and down quickly.

This makes alkaline better suited for large scale base load applications, which are expected to account around 60% of the electrolyzer market. And PEM is better positioned to serve the transport sector and to offer flexibility services to the grid. There are actually potential synergies between the 2 technologies.

The acquisition of the stake will allow Snam to benefit from De Nora's exposure to the fast growing electrolyzer market. Given the recent policy announcements, we expect over 40 gigawatts of capacity in Europe alone



by 2030, which implies sales of €20 billion to €40 billion for electrolyzer companies in the next decade.

At the same time, the ability to leverage De Nora's technology, on top of ITMs, means that our hydrogen team is now better positioned to gain access to new hydrogen infrastructure projects. Being able to feel the best competencies in the upstream segment is a key differentiator, especially in this phase of the market, where each major project is a first of its kind, and needs to be specially designed.

Snam and De Nora will also have the opportunity to leverage each other's competencies and position along the value chain to create additional opportunities from both companies.

We expect De Nora's water business to also grow significantly, and we're interested to see whether access to the technology and to projects that De Nora is involved in, could provide further optionality for Snam in the form of opportunities to cross-sell the competencies that we've accumulated in the management of our gas infrastructure.

The investment in De Nora has strong industrial and financial rationale. And we're happy to invest with the long term horizon. However, we expect to confer a part of our stake in a new investment platform that we're planning to launch in 2021, enabling us to maintain the strategic benefits of the partnership, and as Ale mentioned, contain our overall financial exposure.

This new investment platform will be focused on projects and companies operating in the energy transition, with the focus on hydrogen benefiting from the growing levels of interest in the segment and the lack of specific investment platforms in the market.

The investment management professionals for this platform have been identified, and Snam plans to be an anchor investor in this platform. The



launch of this vehicle will enable us to enhance our exposure to energy transition companies, assets, or projects through a limited and ring-fenced investment and maintain operational focus on our core business.

So to sum up, this new partnership and energy transition investment platform will provide Snam investors with exposure to fast growing markets and strengthen the company's own energy transition strategy. As we will see next week at our Strategy Presentation, our growth is based on the opportunities afforded by our existing infrastructure assets. And we're looking...and we're working to capture additional upside from the energy transition super-cycle.

Thank you very much for your attention. And with Ale, we're now pleased to take any questions.

#### Q&A

**OPERATOR:** Excuse me. This is the Chorus Call conference operator. We will now begin the question and answer session. The first question is from Javier Suarez with Mediobanca. Please go ahead, sir.

**JAVIER SUAREZ:** Hi. Good morning. And thank you for the presentation. 3 questions from my side and the first one is on the Snam role in the hydrogen opportunity. Obviously, the company has been very active during the last few years on this opportunity and has been starting to take stakes in different companies through the value chain. So I wanted to, if you can explain us, how do you see Snam's role through that value change evolving. That would be the first question because obviously there is part of the business that is likely to be regulated and part of the business that is going to be not regulated. And I just wanted to have a clarification on how do you see Snam role on that opportunity?



The second question is related to the announcement of this platform of investment into the energy transition. I think that you have mentioned that you intend to limit and reinvent your exposure to this investment. You can help us to understand how you are planning to limit and ring fence that exposure. The third question is on the...probably next week, we are going to have more information on that, but if you can give us some color on the total size of that investment plan? How do you see the total equity investment that a company like Snam can put in this one? Many thanks.

MARCO ALVERÀ: Okay, thank you. Thank you, Javier. The first 2 questions are tied. So our focus and we'll talk about this extensively next week, but our focus remains on our core assets and we see a lot of potential to continue to grow throughout [ph] as we've discussed in the past, and hydrogen really allows for that growth to continue.

The stake in ITM is a very small stake, what's important with ITM is really the commercial agreement, De Nora is something different, because of size, it's a one-of-a-kind, opportunity, and the platform is really a way to say, these types of investments are better suited for a dedicated platform with a dedicated management that invests in these businesses for financial gain.

As Snam, we want to retain the synergies that we talked about; we want to retain the exposure to the technology, at a time when we see really the bottleneck of being on the manufacturing side and on the technology side between what some of the stated policies ambitions are and where the market will be able to develop.

In terms of investments amount, the investment amount would be smaller than the De Nora investment for Snam in the platform. For order of magnitude, just take half of the investment amount that we're talking about today, as our commitment as a seed investment. So that's the type of capital and that's a type of ring fencing. So, a platform that allows us to remain very focused and disciplined on the investments that the management team



makes with some of our seed capital, and at the same time remain very focused on our, let's say regulated or contracted business as we've done until now.

OPERATOR: The next question is from Alberto Gandolfi with Goldman Sachs. Please go ahead.

ALBERTO GANDOLFI: Good morning. Thanks for taking the time to go through this and taking my questions. It's 2...less 3 questions from me, please. The first one is a little bit of a slightly different angle to a question just asked, so I was trying to understand more of your master plan and I know you can elaborate next week, but I'm trying to understand here, are you really trying to become just an incubator of technology, so that you can accelerate the creation of a hydrogen ecosystem. And what's your exit strategy at some stage you'll get out, that's the piece what Iberdrola did with Gamesa 20 years ago to create the wind industry, or are you also trying to open up a whole new business line in hydrogen for Snam, which might include at some stage going down the line of producing even hydrogen yourself, so that's the first one.

And the second question is, I think you said in the slide that 60% of the revenues of De Nora are electrodes. Is that entirely for hydrogen, just to make sure I understand, and as a tag along on this question, are you taking a view on alkaline versus PEM here, just because your PEM investment was €33 million and your alkaline was €400 million, or is it just opportunistic, so we shouldn't read too much into it? De Nora was available with the bigger stake and that's why you just spent more?

MARCO ALVERÀ: Okay, great. Thanks, Alberto. So indeed, we'll talk more about this next week, but to give you some of the highlights, I think we're not looking at production of hydrogen itself. If there were a situation, and it's not something that we're currently envisaging, but if there were a situation down the line where we're invited to invest in electrolyzer infrastructure, either as a regulated investment, or as a contracted investment, where we don't take



the commodity exposure, and let's remember that all these investments require significant policy support, so, we may look at that investment. In terms of ecosystem, we are certainly looking at technologies from R&D point of view as we've shown with our Contursi experiment and we're doing R&D work. We're collaborating with most, if not every of the other TSOs across Europe to try to have as much as we can in open-source to technology. We don't envisage creating a whole ecosystem that we can then spin-off, and we look at these opportunities on a standalone basis.

Certainly, we haven't made a bet of one technology versus the other as I tried to show with our slide earlier, we actually think that these are different technologies that will suit different applications. PEM is small and flexible, so you should think of PEM for trucks, where you need refilling stations which has...it also has a lot more ability to scale up and down, but it's more expensive. So something like neon where you are in the desert base load large scale, it will be outlined, something like refueling infrastructure, maybe with a dedicated electrolyzer will be PEM. And there's actually quite some synergies, as I mentioned between the 2 technologies, so we think they will take, we mentioned 60% electrolyzer will be out of line for the PEM, really don't know it could be 50-50, but there will be huge, huge market for both. Now, 60% is electrodes, but only a small...a relatively small part of that today is hydrogen, and that's because hydrogen...electrolyzers don't really exist as a market. They are all very niche markets. We visited, I think most if not all of the current manufacturing capabilities and there is still a long way to go. ITM in fact is, at the forefront building what we think is the most advanced giga factory, but there is still a lot of scaling up to be done on the manufacturing side. And so, the...we are really investing in almost a steady state EBITDA as Ale said with significant upside potential on the current business model of De Nora and hydrogen is really something to come in terms of contribution to EBITDA.

OPERATOR: The next question is from Enrico Bartoli with Stifel. Please go ahead, sir.



ENRICO BARTOLI: Alright. Good morning. First...I have 3 as well. First of all, regarding Slide 8, you show this expected profile for installation of electrolyzers during the next years. Can you give us, say, your hint on, what you expect in terms of growth from De Nora considering this kind of profile of 38% per year that was achieved in the past years?

And second one is related to the possible synergies that you could have on, let's say, the downstream part of the hydrogen value chain. You signed several MoUs also in this part recently. If you can elaborate what this acquisition could help in order to develop or also that part of the chain.

And the third one is on economies of scale. If within De Nora, there were some significant reduction in terms of cost, production of the electrodes. You mentioned that now hydrogen is just a small part of the business, but what also you expect in terms of plant and production cost over the next year? Thank you.

MARCO ALVERA: Great. Thanks. So the historical growth is very impressive for De Nora. That's really based on its wide portfolio of activities. And so, the hydrogen is really something that comes on top of what is a strong performance. We will talk about precise...more specific numbers when we talk about our plan. Downstream, the model for electrolyzers, I think will be a model where we have electrolyzers upstream plugged directly into large renewable projects whether it is North Sea wind, whether it is Southern Europe or Middle East like Neon Solar. And so you have big installations of electrolyzers there.

Then we will have electrolyzers around consumption clusters, around districts where you have significant installations of electrolyzers to fuel hydrogen valleys or hydrogen districts. Then you will have smaller electrolyzers downstream for instance I mentioned the refueling infrastructure or specific applications and this may be connected to the electricity grid or again to smaller scale dedicated infrastructure. Then I mentioned there were synergies between PEM and alkaline, and there are



also synergies between electrolyzers and fuel cells indeed De Nora has also some work it does on the fuel cells. So the...moving to...so there are opportunities both upstream and downstream, and some of the cathode [ph] protection is also an opportunity in our, kind of, existing pipeline business.

Regarding the costs, as the volumes scale up, there will always be opportunities to streamline also the costs of the stacks. This is really...there is a lot of depth in the research of the stacks. It is always a tradeoff between how precious the material is, and how expensive the product is, how long the product lasts and the performance of the product. So to optimize these 3 different variables, it requires thousands and thousands of R&D hours that companies like De Nora and ITM have and a few other places in the world have right now. So the opportunity for costs rationalization is more on what happens after De Nora which is a manufacturing itself.

We think of De Nora a little bit like Intel. It is like the core. It is like the chip, and then it gets assembled on the motherboard, in this case on the electrolyzer. That's where the industrialization will reap its biggest benefits. That's where the learning curve really still has to kick in because of volumes of electrolyzers now are very, very small.

ENRICO BARTOLI: Thank you.

MARCO ALVERA: Thanks.

OPERATOR: The next question is from Emanuele Oggioni with Banca Akros. Please go ahead.

EMANUELE OGGIONI: Hi, good afternoon, everyone. Thank you for taking my questions. I have one left at this point; it's on the water purification. So, you mentioned in the press release you intend to increase the exposure to mega trends not only in hydrogen for sure, also water treatment. So, my question is, are you planning to further invest also in water purification in the future, and if there



are synergies with the other non-regulated business in your portfolio for the water treatment? Thank you.

MARCO ALVERÀ: Okay, Emanuele. Thanks for the question. So, there is a lot of similarities in managing water pipes and gas pipes. So, as you know, as we have business unit called Snam Global Solutions that tries to sell our capabilities to other TSOs, to oil and gas companies, and potentially also to water companies. We are participating in public tender for example to help big municipal regional water company in Italy to detect water leaks which are very significant issue in Italy. And then, as you were probably mentioning our biomethane subsidiary could treat and work on synergy with water companies to generate energy out of some of the waste that's coming out of the water purification. So, we see this as a very attractive growth segment for De Nora in itself as an investor, as a financial investor in De Nora. But, then we see some of these technologies could also boost our offering when we approach companies to try to sell our capabilities and our services. Hope, I have answered your question.

OPERATOR: The next question is from Stefano Gamberini with Equita SIM. Please go ahead, sir.

STEFANO GAMBERINI: Good morning, everybody. 2 quick questions, if I may, the first regarding the capital allocation in the new platform for Snam [indiscernible]. If I understood correctly that you will reduce the current €400 million for investment in De Nora by the half. But, is this the total amount that you expect to invest in this platform or just this is your reference for this specific investor...investments in De Nora?

The second regarding what is the approach that you expect from the government on one side and the regulator on the other, about these 2...this new approach that you will have in Italy in general in order to meet...to be in my view as an enabler of the hydrogen economy we can say in the future in Italy? Many thanks.



MARCO ALVERÀ: Thank you, Stefano. So, I will start with the last question. The government and the regulator are quite informed. We are working as you may know on the recovery fund with several other companies. And as I mentioned, we think hydrogen would be such a significant market that you will need many, many companies also in Italy, many companies' best efforts to get the market going. So, there is the opportunity to work with other companies along the value chain. So, we don't see these 2 investments as having a specific impact on the national strategy. We think it's about alignment, and partnership and collaboration. And that's the same that is happening in other countries.

Certainly De Nora is an Italian jewel; it's one of these Italian global leaders in technologies. I can think of a handful of others historically that really have thousands and thousands of hours of research and several patents. And I think it's very attractive company to keep also in Italian hands and as Ale mentioned, it's the right time also to list it and have it become a significant technology player on its own.

Regarding our, regarding our platform, the platform we've discussed, we don't want to give a specific number because it a function of what the platform's management team decides to do next year. We're kind of now telling a story around the platform because we see the 2 as linked in a way because De Nora we think could be a very attractive seed asset on which to build this platform. So, €200 million could be both a range, don't take it as a target, and take it as just order of magnitude of what we commit as a seed investor to the fund. And De Nora as I mentioned could be a seed asset, the percentage of the stake that could be transferred would also be a function of the overall size of the platform, and it could be a function of the appetite of the management for having a portion, or a big portion or a smaller portion of that platform allocated to specific investment.

STEFANO GAMBERINI: Thank you. Many thanks.



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OPERATOR: Mr. Alvera, Ms. Pasini, there are no more questions registered at this time.

MARCO ALVERÀ: Okay. Thank you very much for your time today. And see you next week for our strategy presentation. Thanks.

ALESSANDRA PASINI: Thank you very much. Goodbye.