

EONGY Earnings Call Transcript

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Quarter: 3

Iris Eveleigh: Hello, everyone, and welcome to our 9 months 2025 results call. Thank you for taking the time to join us today. I am here with our CFO, Nadia Jakobi, who will give you an update on our financials. As with every occasion, we will leave enough room at the end for your questions. With that, over to you, Nadia.

Nadia Jakobi: Thank you, Iris, and a warm welcome to all of you from my side as well. Before I turn to our financials, I would like first to touch upon the latest regulatory developments in Germany. The German regulator has announced the start of the final consultation process concerning the framework concept with a committee of representatives from regional regulatory authorities. Compared to its draft proposals published in the summer, the regulator has introduced amendments to certain items, most of which affect smaller network operators. The main aspect for us is that the regulator intends to maintain the 7-year average approach for determining the cost of debt on the existing asset base without annual adjustments. This fails to consider that maturing debt must be refinanced at current market rates. The proposed higher weighting of years with higher investment is a step in the right direction, but it does not solve the problem as the average would still be below current market rates. Consequently, the current draft of the framework does not fairly reflect grid operators' financing cost. Allowing for an annual adjustment would have ensured a more appropriate reflection of actual market developments for both customers and grid operators. The proposals are still in draft format, and so far, we have only seen a brief BNetzA release. However, the regulator has indicated that the current version is close to final and plans to keep its year-end target for finalizing the framework and the methodology on capital returns and efficiency benchmarking. However, the final values for return on capital will only be determined much later in the process between 2026 and 2028 as was the case for former regulatory periods. Given the status and recent announcement of the regulator, specifically for the cost of debt treatment, the uncertainties regarding RP5 are greater than we had expected by now. We would have expected to be able to narrow down the ranges for capital remuneration further. As we have always said, ultimately, the RP5 proposals as a whole must be sufficiently attractive to promote investments. In his latest announcement, the regulator stated that the new Nest proposals will increase the revenue cap by 1.4% or EUR 1.3 billion for power DSOs during the next regulatory period. The regulator must now move from words to actions as we do not see the necessary increase of the regulators' returns so far in the publications. In view of the enormous investment needed for a successful energy transition, we, however, remain confident that the final result will deliver the outcome needed. But we would have expected to have more clarity already at this first stage of the process to invest further investments in detail. We will continue to advocate for an internationally competitive market-based regulatory framework that supports a successful energy transition in Germany. At the same time, we remain committed to our value creation promise and will only invest provided regulatory returns create value for our shareholders. I'm sure we will continue this topic in our Q&A, but let me now turn to our financial results for the first 9 months. There are 3 key messages I want to highlight. First, in the first 9 months of the year, we achieved an adjusted EBITDA of EUR 7.4 billion and an adjusted net income of EUR 2.3 billion. This represents a year-over-year increase of 10% and 4%, respectively. Based on our full year guidance, that means that we have achieved roughly 76% of our adjusted EBITDA and 78% of adjusted net income at group level. Second, our investment-driven earnings growth and strong operational

execution remain the key driver of our sustainable growth. Our planned investments have developed well with a year-over-year increase of 8% at group level. The main share comes from our Energy Networks business. This shows that our long-term procurement strategy, including our highly skilled workforce, enables us to successfully execute our networks investment plan. And third, based on our 9 months economic net debt outturn, we expect our debt factor to come in at around 4.5x economic net debt to adjusted EBITDA for the full year 2025. Our balance sheet continues to provide a strong foundation for our investment plans. Let us now move on to the details of our 9 months year-over-year adjusted EBITDA development. The increase in EBITDA was largely driven by our Energy Networks business, reflecting accelerated investments in our regulated asset base across our regions. We continue to see a substantial contribution to our earnings growth coming from value-neutral timing effects. In Germany, the positive timing effects were driven by increased volumes and lower redispatch expenses, primarily during the first half of this year. In Southeastern Europe, we continue to see additional network loss recoveries and volume effects. We don't expect significant impacts from value-neutral timing effect in Q4 2025. Turning now to our Energy Infrastructure Solutions business. EBITDA growth was driven by higher volumes due to normalized operations and weather compared to last year. On top, we saw business growth from new projects coming online and increased smart metering installations in the U.K. Our Energy Retail business delivered in line with our expectations. The usual operational year-over-year development in Germany is masked by phasing effects from true-ups for volume and price assumptions and by restructuring provisions in connection with our efficiency programs. However, the decline is partially balanced by temporary price effects from earlier this year. As already communicated in our H1 call, the earnings development in the U.K. continued as anticipated and is already fully reflected in our guidance. In our U.K. B2C customer segment, we continue to see customers switching from SVT tariffs to fixed-term tariffs. In our U.K. B2B business, contracts from previous years continued to roll off. Our 9 months 2025 adjusted net income came in at around EUR 2.3 billion. The conversion of the operational growth into the bottom line came in as expected. We observed slightly higher depreciation costs, driven by increased digital investments with shorter useful lives. Interest costs rose due to the higher coupons compared to maturing debt as well as higher debt levels relative to prior years. In addition, the positive value-neutral timing effects mainly came from our Southeastern Europe network business, which has a higher minority interest. Let us now move on to our economic net debt development. The execution of our investment program remains strong. In our Energy Networks business, we saw a 15% increase in year-over-year investments. Our group CapEx fill rate now stands at around 60%, which is in line with our typical 9 months level. Our economic net debt improved by roughly EUR 2 billion in the third quarter. The main driver was a strong seasonal operational cash flow. In addition, there was a positive structural effect of around EUR 700 million coming from the deconsolidation of one of our regional utilities participation in Germany NEW AG at the end of September 2025. In the third quarter, we also benefited from a tailwind in pension obligations, which decreased by a mid-triple-digit million euro amount, mainly due to the rising interest rates between the end of Q2 and Q3. We have also continued to streamline our portfolio as part of our discretionary EUR 2 billion disposal program. Most recently, we announced that we have signed an agreement to divest our Gas Networks business in Czechia. This step enables us to continue pursuing our ambitious growth and investment goals. In summary, our robust E&D trajectory continues to support our confidence in maintaining strong balance sheet flexibility to finance our ongoing investment program. At year-end, we expect our debt factor to come in at around 4.5x economic net debt to adjusted EBITDA based on the current interest rate environment. Finally, I would like to conclude today's presentation with my key takeaways and outlook. First, we have delivered strong 9 months group results and are well on track with our investment ramp-up. Our strong balance sheet provides a solid foundation for continued organic growth. Second, on our outlook. Our 9-month performance supports our 2025 earnings expectations. In our Energy Networks segment, we continue to expect to reach the upper end of the guidance range, driven by value-neutral timing effects. This also positions us at the upper end of our group EBITDA guidance range for the full year 2025. For our adjusted net income, we still expect to land comfortably within our guidance range. With that, we fully confirm our full year 2025 guidance and 2028 outlook, including our dividend policy. With that, back to you, Iris, for the Q&A.;

Iris Eveleigh: Thank you, Nadia. And with that, we will start our Q&A session. [Operator Instructions] And we will start today's call with a question from Harry Wyburd from Exane.

Harry Wyburd: So I'll keep my regulation too. So firstly, can I just dig into some of the comments you made on regulation. So noted on the point on cost of debt allowances and your disappointment with that, but you also mentioned that you're confident you will achieve in the end, an agreement that works for you. And you also mentioned you are confident that you are -- or more confident that you'll get the consultation documents by the end of this year. Can you just tell us what a good outcome would look like in those documents you're expecting by the end of the year? It sounds like you're less optimistic about cost of debt allowances. What else could offset that potentially? And what is your latest thinking on where you think operating cost allowances will come out because a few of your criticisms of the regulation were centered on cost allowances. And then the second one is on consensus for next year. Given that next year, you will no longer be reporting timing effects in your headline earnings. Are you comfortable with the current consensus for next year, which I think stands at around EUR 1.08. If you could give us a flavor of how you're feeling on that, that would be very useful.

Nadia Jakobi: Harry, thanks for the questions. I think on the question on outlook 2026, we give the outlook for 2026 at our full year results for 2025. And I will now not give any glimpse into our 2026 numbers. But just, of course, we are, of course, following the consensus always very carefully. So coming to the first question. So first of all, the regulator has announced that he sees the draft as largely final, and he keeps the year-end time line for the framework for cost of capital and efficiency. Compared to the summer draft, the regulator added amendments and improvements, but those were mainly affecting the smaller DSOs. You might have seen that the simplified that -- also the DSO and the simplified procedure can now get the OpEx factor. For us, as you highlighted, the key negative point that we have seen so far that the 7-year average without dynamic adjustment is still kept. And honestly, also the weighted average that has now been introduced is not helping that much because we have been also ramping up our investments faster than the industry because we got our ducks in the row on supply chain at a faster pace to enable the energy transition. And as you know, we are sort of connecting 80% of all onshore wind, for example. That's why we have been ramping up far faster than some of the smaller competitors. So the latest statement on this cost of debt rather confirms a bit of unease that we have highlighted in our H1 call. But we, of course, continue to advocate for competitive and market-based regulatory framework. So I don't see that there will be now massive changes compared on this cost of debt discussion until the end of the year. But of course, the overall regulatory package must be attractive enough to encourage further investments. So if you ask me, the problem is, at this point in time, we only have seen the press statements of the regulator. In the press statements, the regulator has clearly articulated that he sees that the revenues will structurally increase by 1.4%. But however, we haven't seen that now in the publications. And also, we don't have the final draft in our hands. That's why it's now very difficult for me to sort of point you to the 1, 2, 3 positives in the publications, which might come until the end of the year because I currently don't have more information than is publicly available. On operating cost allowance, maybe just one word. Of course, operating cost allowances, that was always clear that everything that is -- in regard to efficiency benchmarking and operating cost allowances, that was always clear that this will only come at a later point in time in the regulatory period.

Iris Eveleigh: We move then on to the next question. The next question comes from Deepa from Bernstein.

Deepa Venkateswaran: So I think my question is actually continuing on the theme of regulation, but maybe a bit more specific, Nadia, based on your best understanding from your regulatory team. So the new period starts in 2029. So are we talking about like a weighted average cost of debt from -- averaging period from '21 to '28. That number is calculated. It's then fixed and just applied for all the -- I think it's going to be only one RAB, right? So for the opening RAB, new investments, et cetera? Or is there at least going to be some level of dynamism for the new CapEx that's added on from 2029 onwards? So that's my first question. Second question is a bit related. Obviously, when you will be presenting your full year results in '26, you're going to give us guidance for '26, but there's also an expectation that maybe you will roll your plan forward and give us some updates on CapEx. So my

question really is, do you think you and the Board will have enough certainty about the investment conditions by Feb '26 that will allow you to make a decision on whether to keep the CapEx numbers as they are or use some of that headroom in your balance sheet? Yes. So those are the two questions.

Nadia Jakobi: So Deepa, you're touching upon some very relevant points. So we -- so first of all, to clarify the second part of your first question, it is very clear from the current proposals that for the new investments that start from 2027, there will be this dynamic adjustment in the cost of debt that we already have in this fourth regulatory period. So that's something which is continued and it's also then working that we get our actual financing cost reimbursed. Then when it comes to the currently existing asset base, like you highlighted, it is a 7-year average, and this is then fixed and not dynamically annually adjusted for the maturing debt. And what we don't know at this point in time is what years are part of the time series. And that is, of course, very relevant because, as you know, at the beginning of the '20s, we still had this very low interest rate years, and it is very fundamental, which years are being part of this 7-year average. And that is something we don't know, and it is also not clear if we know at the end of the year. And this also applies, for example, for the risk-free rate that is for the new investments as part of the cost of equity determination. We also don't know which years will be included in that calculation and some of the other elements that are part of the cost of equity for sort of the new investments. So that then also leads me to the second part of your question. As we highlighted, we would have expected to have more clarity around the methodology at this point in time to be able to narrow down the corridor of potential outcomes. I think that is what I've been also saying the last couple of quarters that the methodology and that methodology, of course, includes also what kind of years are included, et cetera, would help us to narrow down the corridor of potential outcomes. And what I know right now, that has become less likely at this point in time. So when it now comes to what we will do in our full year, the regulator has clearly articulated and signaled that we will have higher revenues, but we haven't seen it yet. So that's why we will first now wait for the proposals to come. Currently, that's a closed shop exercise within the regulatory authorities and the regional authorities. And once we have now then assessed the final proposals, we will then make up our base case, and we will update you accordingly. But for now, it's too early to comment on our full year communication.

Iris Eveleigh: With that, we get to the next question, which comes from Peter Bisztyga from BofA.

Peter Bisztyga: So sorry to kind of labor the point on regulation. But what I'm sort of hearing is that the cost of debt aspect isn't adequate and it's probably not going to change very much. You've been sort of clear that you want 8% plus ROE. And if you look at the methodology to date, I don't think there's a chance that you're going to get anywhere near that. Dispatch costs are still included in the efficiency benchmarking. So there's a whole list of stuff that you've been quite explicit about the fact that you don't like. And the revenue increase, the sort of 1%, whatever it is, just isn't very much in the grand scheme of things. So how can this get anywhere near to being a sort of sufficient overall package based on what you have said are your kind of minimum requirements? So that's my main question. And then maybe just one -- just on a slightly different topic. Your customer numbers in Germany and the U.K. In Germany, you sort of lost quite a few in the first half, but it seems to have now stabilized. And in the U.K., you're sort of losing a few -- 100,000 or so customers this quarter despite, I think, sort of quite aggressive pricing. So I just wondered if you could comment on what dynamics you're seeing in those 2 retail markets, please?

Nadia Jakobi: Yes. So let me start with the first part of the question. So maybe starting with the last comment. The revenue increase of 1.4% is only the structural elements, which would lead to this 1.4%. All the market-related elements, i.e., sort of higher interest rates, both affecting sort of cost of debt and cost of equity and of course, all the increase about sort of more investments, that is not included in this 1.4%. But it is just sort of structurally making it more attractive that is included in that. Second part, the determination of the new regulatory period, which starts in 2029 has always had like 4 years. So '25, '26, '27, '28. So what we are now saying in this first part, what we see up in 2025 and what we would have hoped for to get clarity in this first year and the one-off of the next regulatory period, this is disappointing from what we have known right now. But of course, we will have 3 more years with all the individual determinations to come. And with all the investment needs actually building up, we are still confident that the regulator will see the need for investment and will also then improve on that. To highlight one topic you have now set around cost of debt, we discussed that. As a positive, which is

currently not clarified at all is the OpEx factor. This has been just laid out without making it any more concrete, which should clearly be a positive. You mentioned the redispach cost. We haven't so far seen anything and also no communication on how the efficiency framework and the benchmarking is going to work. And there, we also still see clearly the potential for improvements. However, so far, we haven't seen it in any of the publications. And so -- as I said in my speech, the regulator now just after he had his words that there will be structural improvements, we will also now see that is actually the actions are also coming. And customer numbers. So customer numbers, yes. So I think we covered the drop in customer numbers in the first half of the year. And we highlighted in the last call that we are targeting around 47 million customers for our overall customer base, and that is absolutely unchanged. We are pursuing value over volume strategy. So clearly, it's not only the customer numbers, but also the value per customer is what is relevant for us. So we are absolutely sort of keeping to our guidance for the energy retail business for 2025 with a target range of EUR 1.6 billion to EUR 1.8 billion, and that is fully confirmed. And we have been also saying, I think if you remember, as part of our Q1 call that some of the customer acquisition campaigns will be rather tilted to the back end of the year and some of that, you are also now seeing in the market.

Iris Eveleigh: With that, we go on to Piotr from Citi.

Piotr Dzieciolowski: I have two questions, please. So the first one on this EUR 5 billion to EUR 10 billion extra CapEx headroom that you previously discussed. So assuming the German regulator doesn't provide you the required package, is it possible that you redirect this potentially into other markets? Essentially, what I'm trying to get is, shall we think about this EUR 5 billion to EUR 10 billion that is more likely or not that it will come and be spent somewhere within your structure into different regions? So that's question number one. And the second question I have on the supply margins outlook into the next year. What is the procurement prices of a commodity component doing on your books? Is it -- should the customers expect declining prices or flat prices? And what that -- does it have any implication on the supply margin you can generate?

Nadia Jakobi: Yes. So on this EUR 5 billion to EUR 10 billion headroom that we have. And I think if you remember, Leo, I think, gave some highlights about where we're investing in our international networks business in the H1 call. And there is very clearly also a need to grow in other regions because particularly also in some of the other regions we are operating in, we see a higher economic growth than we actually see in Germany. And there's quite a lot of connection requests also for industrial customers. I would just point you to some of the examples that Leo has given as part of his speech in H1. So there is clearly the need for growth also in our international and European businesses. Second point, in Germany, there is this clear investment need. We're also already -- at this moment, our demands and needs for investment by far exceed what we can actually include in our plan. And that's why we are saying, as I already highlighted to the question of Peter, that we say because the investment needs are there that eventually we will get a good framework in Germany. So I guess, as you indicated, this EUR 5 billion to EUR 10 billion in headroom clearly earmarked for organic growth in our business. Second question was regarding the supply margins. Yes, procurement strategy is, of course, more commercially sensitive topic that I will not now share with the whole investor community. I guess, what you know that some of the prices in the U.K., the procurement strategy can be very easily followed by the price cap regulation. So I would point you to that. And in Germany, except from the commodity element, you, of course, know that we have seen quite some reductions in network grid fees with the subsidization of the German government of the TSO grid fees by EUR 6.5 billion, which will now also feed through into the tariffs and the same applies to the cancellation of some gas levy. But I guess that would be what I can sort of share with you on this point. So clearly, some elements where affordability concerns -- where we will see that some of the affordability concern will be dampened, particularly in our biggest market, largest market, Germany.

Iris Eveleigh: And then we have another question from Louis Boujard from ODDO.

Louis Boujard: Maybe two on my side. Maybe the first one would be regarding the timing actually for the new investment plan that you expected. We understand that indeed, the debt factor is not at the level that you wanted, that there is some uncertainty still in the OpEx and in the framework that is currently under discussion. What does that mean if you're not able by February to update and to increase your CapEx plan? Does that mean that it's going to be over? Or does it mean that eventually

there is other milestones that you could foresee in the future in the next quarters after February on which we could rely on in order to have a better visibility and better grip regarding the potential upside into the CapEx plan? And also as a side comment on this question, do you, at the same time, see potential for additional investments in digitalization, smart meters, et cetera, that would enable you eventually to grab additional returns on the networks without relying too much into the regulatory framework? That would be -- sorry, the first question, a bit long. Second one would be much shorter. On the Retail segment, our EBITDA declined by 18% on the 9 months. Well, we know that there is some normalization effect, but could you eventually elaborate on a geographical standpoint, what would be and if any corrective measures might be needed in certain geographies on which eventually the drop is a bit larger than what you could have anticipated previously?

Nadia Jakobi: Okay. So let me come first to your first question. So additional smart meter investments is always a good idea. So particularly, we are investing in smart meters in the U.K. and Germany. And I think we have been the ones who've been always fulfilling their targets. In Germany, we have reached a 20% increase. But of course, smart meter investments is something which we can do, but is not, of course, in any size equivalent to the RAB investments that we do. When it comes to the timing, I would need to say that we don't want to speculate now. We have so far only got sort of what was uploaded onto the website of BNetzA and one interview of Handelsblatt of Mr. Muller. We have this clear announcement that we will see increases or improvements to the regulatory on top of the market-driven improvements. And that's why I don't want to speculate now what we will do. We will first make up our mind what we will do for the full year 2025 announcements. So when it comes to the Q2, so the retail business, yes, you're right. As I've been highlighting, we are sort of EUR 300 million below last year in 9 months. We achieved EUR 1.4 billion, and we are sort of following the normal seasonal pattern and are on track for our full year guidance. Q3 stand-alone EBITDA was EUR 120 million. That was down from last year. That was mainly due to phasing. We actually put in some cost provisions for restructuring and some normalization effects across the markets. So we have been really seeing only now some shifts between Q3 and Q4. Overall, the H2 results are very much in line with what we have been also seeing in former H2s because you need to bear in mind that H1 usually is the stronger of the 2 halves of the year for us. Yes. I think particularly Germany is a bit hard to interpret because last year, we had the positive true-ups from the reconciliation between actual and planned consumption in Q3. Now we will rather see some true-ups in Q4. And we are really managing also the overall -- we are managing the results in the retail business on a full year basis and not so much on a quarter-by-quarter basis.

Iris Eveleigh: And with that, we come already to our last question for today, which comes from Ahmed from Jefferies.

Ahmed Farman: Nadia, it sounds like from your comments that there is still quite a bit of a gap on key parameters, regulatory parameters between E.ON's position and whatever visibility that you get from the regulator. But then you've also referenced that you think in the end, you sort of feel that there will be the 2 sites will sort of come together. Could you just talk a little bit about the process? So if we get the consultation documents by year-end, and there is still a substantial gap between E.ON's position and what it sees as a regulatory proposal, what recourse measures do you have? Are you able to challenge it? Is there a way to sort of take it to an appeal? And how long could that process be? So I just want to understand a little bit more how do we -- what could be the process from there onwards? That's my number one question. And sorry, my second question is, could you give us some sense of how significant the changes could be to the cost outperformance methodology? Because my understanding is that is quite an important element in terms of when we think about sort of the German regulation.

Nadia Jakobi: So Ahmed, as I highlighted earlier, at this point in time, we have only sort of the announcements from the regulator about the draft proposals that has been sent to the final consultation of the committee of regional regulators. And we don't have that yet. So for us, sort of the first step would be that we assess these publications once we have made them available. And then once we have fully analyzed that, we will assess our options. And as always, we also assess potential legal options that we have. But we will, of course, only do that once we have the information in place. And as the regulator has highlighted, they deem that these drafts are largely final and that they will keep the year-end time line for the framework. So we are pretty sure that we will have them in the next couple of weeks. The final decisions on the cost of debt and cost of equity are expected between 2026 and 2028,

as I highlighted, and the efficiency values for RP5 power will be defined in 2028. So you're right. To summarize it again, you're right regarding the gap to our position versus the regulator. But keep in mind, it's now the framework and determination will only happen over the next 2 to 3 years. Yes.

Ahmed Farman: Very clear.

Nadia Jakobi: And then the second question, when it comes to outperformance, it is an incentive regulation that we have and it's a potential for outperformance. I highlighted it earlier, and there's now a new element that is also coming in. So we have got the benchmarking and sort of the efficiency values that we get is also very clearly determining what kind of outperformance that we have. That is something which we will all know at a very later point in the process. Then the OpEx adjustment factor, we cannot really tell. I guess, on the OpEx adjustment factor, I would hope that we get some more clarification in 2026. There was a bit more push down the line. Sort of even -- currently, we don't even know what the methodology about that is. But okay, what the OpEx factor will actually mean for us, we would also only know at the back end before we actually get into the regulatory period. I guess that's all I can say on the outperformance right now. Of course, there's always a link between outperformance, OpEx factor and all the other return elements. And as we say, for us, the overall package regarding all elements is actually what counts. In this regulatory period that we are currently in, we managed to achieve a value creation spread of 150 to 200 basis points over all our Energy Networks businesses. And also our German business is living up to this value creation spread. And that's, of course, our ambition that -- and our goal to also achieve this value creation spread in the future.

Iris Eveleigh: And with that, we come to the end of our 9 months results call. Thank you very much, everyone. And if there are any follow-up questions or you would like to go into more details on the one or the other point, the IR team is happy to take your questions later. Thank you very much for dialing in and speak soon. Bye-bye, everyone.

Nadia Jakobi: Bye-bye. Thank you.