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Conference Call Transcript
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Conference Call regarding KKR & Viessmann Group
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MS	Mario Schirru, Encavis
JP	Jörg Peters, Encavis
TJ	Dr Thomas Junghanns, Berenberg
MT	Martin Tessier, Stifel
JB	Jan Bauer, Warburg Research
AZ	Anis Zgaya, ODDO BHF
FW	Frank Wellendorf, VM Vermögens-Management
ME	Marc Evans, JP Morgan

CH Hello and, well, I think, I can still say good morning to you on this sunny day. Welcome to our conference call, this time not really on the figures of our company, which you are usually used to have such a call, but this morning, we have signed an Investment Agreement with KKR.

And the purpose of that is that we further want to accelerate the growth of Encavis, and we would like to do that with that support of that partner. As a matter of fact, and as a result out of that Investment Agreement, KKR announces a takeover.

We will guide you through the presentation, and for legal reasons, we will keep very closely to the charts. And so we will do that like ping-pong. Please, Mario, go ahead.

MS Thank you, Christoph. We will start by going through the transactions highlights. So Encavis AG and the BidCo, a holding company controlled by investment funds, vehicles and accounts advised and managed by KKR and its affiliates, entered into an Investment Agreement as of today.

KKR will be investing from its Core Infrastructure strategy. And the strategic investment vehicle of the company, of family company Viessmann, will invest as a shareholder in a KKR-led consortium in Encavis.

The investor will currently launch a voluntary public takeover, offering all shareholders of Encavis a cash consideration of €17.50 per share. The Abacon Capital GmbH and our existing shareholders have signed binding agreements to sell and partly roll over to the investor a total amount of around 31% of Encavis AG shares and are fully supportive of the takeover offer.

The Management Board and the Supervisory Board of Encavis, which have approved the execution of the Investment Agreement today, expressly support the Offer. The Management Board and Supervisory Board of Encavis intend to recommend acceptance of the Offer to Encavis' shareholders.

CH As a matter of fact, we believe that we will benefit from that contemplated transaction. As a matter of fact, as you might know, we have currently a target for 2027 to boost our connected-to-the-grid capacities to 5.8 GW from currently 2.2 GW.

With that strategic partnership with KKR, this allows us to accelerate the growth in all the segments of our group, and the ambition is to reach 7 GW of installed capacity by year end 2027 or even to exceed it. And there is a commitment in place of KKR to continue the growth thereafter and support it.

This is done by removing funding constraints which we have as a public ownership owned company. And we benefit from KKR's support, which will strengthen Encavis to fulfil our growth aspiration. As a matter of fact, we will look here, for that purpose, on our current technologies but on others like batteries and other technologies as well.

MS For the ones of you who don't know, KKR is a leading strategic and financial partner, with extensive experience in renewables and in the energy transition in general. KKR has 20 years of track record in the DACH region and has already invested over €15 billion of long-term equity in over 30 companies.

The company, KKR, has extensive experience in investing and managing energy transition businesses and has access to resources throughout the value chain. Furthermore, as already pointed out, KKR has been an active investor in renewable energy globally and has a significant track record of investing and generating value in platforms similar to Encavis.

KKR will be investing from its Core Infrastructure strategy, and its approach, as well, the approach of Viessmann, is based on long-term value creation. The aim, the goal here is to work, leveraging [00:04:50 inaudible ?] operational improvements and to generate growth. For Encavis, this makes KKR, together with Viessmann, a strong partner for the future.

CH The current Offer, which represents a significant premia and accelerates the realisation of shareholder value. The Offer, which was announced today, is €17.50 per share and which brings forward the realisation of value. This Offer offers to shareholders a significant premium to undisturbed share price of €11.35 on 5 March, 2024, the premium here is 54%, and to the undisturbed three-month volume-weighted average price of 33%, it was on 5 March €13.17, and to the undisturbed six-month volume-weighted average price of 34%, on 5 March, this was €13.01.

In total, the offer implies an equity value of €2.8 billion and an enterprise value of €4.7 billion. And if we were to put that into relation to the next 12 month EBITDA, which we will have a look on, on later pages, this is a multiple of 15.8 times EBITDA.

MS The Offer provisions are customary and include the receipt of official approvals regarding foreign investment clearances, merger clearances and other control proceedings. The minimum acceptance threshold has been set at 54.285%, and as said before, the Offer conditions are customary.

The commitments of the bidders is, first of all, full support of the company's long-term growth strategy, and we have already elaborated on that. There are no intentions to effect any changes to the management or to employees for operational reasons.

The headquarters in Hamburg, and I may also add, yes, our locations in Munich, Baden in particular, will be maintained. Undertaking not to enter a denomination or profit-loss transfer agreement for these two years has also been agreed, and there is the commitment to backstop all debt of Encavis Group that might or is subject to CoC provisions.

The next steps is as following. We expect closing for Q4 2024, and there, the goal is to pursue a potential delisting of the company, of Encavis, some time following the closing of the offer.

CH To give all shareholders the same basis of information for a good decision, we released today our preliminary result, fiscal year 2023, so that all shareholders have the same knowledge. And as we did in the past, we fulfilled our guidance. All our P&L figures are on guidance or above.

So we do not go so much into the details, because I think there should be some information left for then the release of our Annual Report. But we publish today net operating revenues of €449 million, compared to a guidance of €440 million, which is 2% plus, and that before the background of harshly dropping power prices. The EBITDA is shown as €319 million, €9 million more than in our guidance, which is a plus of 3%. And the operating EBIT is €194 million, which is 5% more than our guided €185 million.

In the operating cash flow, it looks to be a deviation compared to the guidance of €280 million, but as a matter of fact, that is there for accounting reasons. The cash which came in was either shown in a different other bucket than in the operating cash flow but is there, or there was a delay due to impact of delayed tax repayments and compensation payments from guarantors and insurance companies. Some of these payments were delayed to Q1 and are already cashed in, and some are expected for the next days, and others will come in during fiscal year 2024. That is more a technical issue.

And then we release, to give you full transparency, our guidance already today. Our guidance is, as usual, based on the existing portfolio, the recent significant drop in electricity prices in the markets and an anticipation of standard weather conditions. These figures do not include any costs related to the project of this Investment Agreement with KKR, Viessmann and Abacon Capital.

The operating revenues are expected to increase to €460 million, which is 2% up, and that based on much lower power prices than we have seen in previous year. The reason for that is that revenue shortfall due to lower prices is overcompensated by our growth as well as by the growth of the service segments we do have. And please have in mind that, again, more than 95% of our revenues are long-term price-fixed.

The operating EBITDA is expected to reach €300 million. There are no one-offs in there. It is just standard EBITDA out of our production services. Why is then there a reduction in the EBITDA while there is an increase in revenues? As I pointed out, some of the compensation of the drop in prices, which is €1 drop in price and revenues is a €1 drop in price and EBITDA as well, because there are no variable costs attached to that. This shortfall of revenues is overcompensated by the increase of new projects, which come along with additional cost, and by revenue increase by the service segments, which have a lower margin.

Therefore, that is the explanation of slightly reduced operating EBITDA by, at the same time, slightly increasing revenues. As a matter of fact, this goes along with our forecast of our Accelerated Growth Strategy 2027, where we already forecasted on the group level a deterioration of the EBITDA margin due to the bigger impact of the service business. Therefore, Mario and myself, we remain confident that we will reach our Accelerated Growth Strategy 2027, despite the current uncertain market environment.

MS So with that, in order to leave some time for the Q&A, we can repeat or we can point out again that we believe the Offer is attractive, that the premium of 54% to the undisturbed spot share price, of 32% to the three-month VWAP, and the 34% on the six-month weighted volume average price is attractive.

We believe that the accelerated growth and the business position can be strengthened by this transaction. We see the advantages of an improved access to funding capacities and particularly access to equity. And we believe that there is an excellent strategic fit with KKR, a leading strategic and financial partner with extensive experience, and Viessmann as a leading investor into the energy transition. And I would also add Abacon Capital, which has been supporting growth of the company over the last years. And that's what we would like to, yes, make clear.

O As a reminder, if you wish to register for a question, please click on the Q&A button on the left side of your screen, and then raise your hand. If you're connected via phone, please press "star" followed by "one". We have a question coming from Dr. Thomas Junghanns, Berenberg. Please go ahead.

TJ Yes, good morning. I have two questions. The first question is, have talks also been had with other potential buyers? And the second question is, are the shareholders agreement to submit the bids fully binding, or are there any competing bid clauses incorporated?

CH As a matter of fact, in the past, we were sometimes approached by different, other parties. And to our understanding, it is that, first of all, we cannot speak for our big shareholders, but as you might understand, whenever someone would approach us, they would certainly firstly talk to the pool. Therefore, we don't know how many happened there, but we heard that they had some other talks as well to third parties.

To our understanding, it is that they have a binding agreement. So Abacon Capital and other existing shareholders have signed binding agreements to sell and partly roll over Encavis shares and support the takeover offer, and are planning to partially reinvest their proceeds, resulting in a minority shareholding. I hope that that answers your questions.

TJ Definitely. Thanks.

O Our next question comes from the line of Martin Tessier, Stifel. Please go ahead. Mr Tessier, your line is open. You may ask your question.

CH Obviously, there's a technical issue.

O Mr Tessier, your line is now unmuted. You may ask your question. I'm sorry. We will move to the next verbal question, which comes from the line of Mr Bauer. Mr Tessier, if you have a question, you may write it also via text. Thank you. Mr Bauer from Warburg Research, your line is now open.

JB Oh, thank you. Can you hear me?

CH Yes, we can.

JB Oh, perfect. Thanks for the presentation. I'm still trying to get my head around the given guidance for 2024. So from my understanding, last year, you had some, let's call it, adverse weather effects for your existing portfolio but also connected new assets to the grid and also expect, in 2024, to connect further assets to the grid. And also, the biggest growth in the service segment, with the full consolidation of Stern Energy, was also in 2023.

So I'm not really getting why you guide for increasing revenues, because on the like-for-like basis, your operating portfolio should, on standard weather conditions, trigger a little bit of higher revenues and also EBITDA, and for the same time guide for lower EBITDA, because as you said, when you've fixed 95% of your prices, the price decline should not really affect EBITDA generation that much.

CH Well, on this point, I do not agree with you, although I like your analysis usually. But here, I do not agree with you. The reason is that still in the previous year, 2023, we had specifically at the beginning of the year a very positive impact from pricing. And that is not there anymore. And unfortunately, a price effect has a 100% EBITDA margin effect. So whatever is missed in the revenues is, one-on-one, missed in the EBITDA as well.

And even if these are not significant numbers, it is left and lost in the EBITDA, and so that even with 100% compensation by new projects, this does not really help here, because with the increase of revenues by new projects, you come along usually in the asset business with a 75% EBITDA margin. So you still lose 25% of EBITDA compared to €1 of price-rise higher revenues.

And secondly, if you replace the revenues by growth in the service segment, you have somewhat between a 10% and 20% EBITDA margin, which is considerably lower than the 75% margin in an asset business or a 100% margin of additional price effect. Therefore, this is pure mathematics, and there is nothing else between it.

JB Okay, thank you. Then you may allow me for a follow-up question. Historically, your EBITDA margin involved the wind segment and the PV segment, has been usually well above 80%. So if you take that into account, I would say that your EBITDA guidance should be seen as a lower end of what's possible. Or is it already including major additions to the portfolio and so on?

CH There are some big additions to the portfolio in the year 2024. But the biggest chunk of new additions will happen in 2025. But here is already some addition. But please, let's assure you, the asset segments, solar and wind, still have, as always, higher than 75% EBITDA margins. This applies to the segments, and this applies to the new additions.

JB Okay. Thank you very much.

MS Yes. In addition to that, please be aware that the new connections will happen towards the end of the year. So their contribution will be low in terms of revenue, especially because it's solar parks, so Q4 quite weak. On the EBITDA effect, all the other costs are already in place, so there will be also this effect to be considered this year.

JB Thank you.

CH Welcome.

O Our next question comes from the line of Anis Zgaya, ODDO BHF. Please go ahead.

AZ Yes, thank you. Good morning. Good morning, all. Good morning, Dr. Husmann. So I have two questions, if I may, first one on the timetable or the schedule. What is the expected timetable for the start of the Offer? And my second question is on… what if KKR fails to reach this 54% threshold? What happens? Thank you.

CH Okay. Thank you very much. So let's start with the second question first. What we will do when we won't reach it? Hopefully, the investors will reach it, because we are confident that this is the right step for our company. And therefore, we hope that they reach it. But having in mind that 31% of shareholdings of the pool are already turned in via the vocal or the binding agreement, this should be doable.

Regarding the next steps and how the process will evolve, now the BidCo published its intention to launch a voluntary public takeover Offer to acquire all Encavis shares today, the Offer document, which is currently being prepared, will be published in accordance with the provisions of the German Security Acquisition and Takeover Act, the so-called Wertpapiererwerbs- und Übernahmegesetz, WpÜG, following approval by the BaFin.

Encavis' Management Board and Supervisory Board intend to support the Offer in a joint reasoned opinion to be published pursuant to section 27 of the German Securities Acquisition and Takeover Act, as they currently consider the transaction to be in the best interest of the company, its shareholders, employees and other stakeholders, subject to the review of the published Offer document and subject to the fiduciary duties of the members of the Management Board as well as the Supervisory Board.

So when that closes, is done, then the process will start. And this relies more on the speed of the BaFin.

AZ Thank you. Thank you very much.

CH You're welcome.

O As a reminder, if you wish to ask a question, you may click the Q&A button on the left side of your screen, and then raise your hand, or press "star" followed by "one" on your touchtone telephone. We have a question coming from the line of Frank Wellendorf, VM Vermögens-Management. Bitte schön.

FW Yes, good morning, everybody. The tender limit of 45.28 ((54.28 is meant)) is very uneven. It's due to the convertibles. But why is that? Could you explain that, please?

CH Yes, certainly. As you might be aware, Mr Wellendorf, the convertible owners do have always the right to convert, whether it makes commercially sense or not. So due to that takeover offer, with the closing, the conversion price will be reduced to somewhat above €18. And so with the current conversion price of €17.50, it would not commercially make sense to convert. But you never know.

Therefore, to be on the safe side and to ensure that there won't be an issue if, for instance, the investors have 51% and then a hedge fund decides to intervene and then to convert just to reduce the number of shares below 50%, it is that uneven number which is the goal to reach 54.285%, I think, of today's share numbers, because that ensures that even if all convertible holders would convert, that more than 50% plus one share are reached.

FW Okay. Fine. The second question I have is, could you tell us how the management is involved in the deal? You have bought some shares in the past. And therefore, are you part of the deal already?

CH So first of all, I can absolutely assure you, as soon as we got first information of that process, we stopped acquisition of shares. So we never do insider deals. Secondly, we're involved in the process for now several months, because during that due diligence, we certainly had opened up some books, because we considered this deal to be in the best interest of our shareholders, our employees of the company and so on.

We are involved in that process, as we signed today, convinced that this is a very good move for the company, the Investment Agreement. But with our shares, we are not involved. But we agreed to turn in our shares to this deal, because if we recommend it to our shareholders, I think it is logic that we turn in our shares as well. But it is only agreed, and there is no obligation. But we will do so.

FW Okay. Thank you very much.

CH You're welcome.

O The next question is from the line of Mr. Tessier with Stifel. Mr. Tessier, your line is still muted. We cannot hear you. I suggest, gentlemen, since we have no more questions on the verbal side, I will hand the word to Mr. Peters to read out the questions from the… So the written questions.

CH Jörg, we don't hear you.

JP I see no written questions, so there are none in here.

CH Okay.

O I see, though, about four written questions.

CH Okay. Why don't you read them out and show us?

O No problem at all. I will start, if it's fine with Mr. Tessier, since he registered twice for questions. You indicate…

JP There's another gentleman, Mr. Evans from JP Morgan, in the phone line.

O Okay. Then we'll stick to the verbal questions first. Mr. Evans from JP Morgan, your line is now open.

ME Morning. Can you hear me?

CH Yes.

ME Thanks for taking the questions. I had three around the convertible, please. The first one is why wasn't a bid for the convertible alongside the shares published in the announcement this morning?

The second one is I don't understand your press release. So it states around an €18 adjusted conversion price, but then you expect the transaction to close in Q4. How did you calculate that €18 adjusted conversion price?

And the last one is you mentioned why you don't expect people to convert. But what actually makes you think that? Because if the bond remains outstanding, it's a perp with deferrable coupons. So it may not be as clear-cut as the conversion value just being below par. Thanks.

CH Okay. Thank you very much for the questions. So first of all, at my age, to remember three questions is quite difficult. I hope I don't forget any. So let's start with the calculation of the conversion price. In such a case of a takeover, the conversion price is reduced in a formula, which you can read out in the prospectus of that convertible, depending on the remaining duration of that convertible, which is now cut off with reaching a 30% plus one threshold.

So as soon as an investor has 30% plus one share, then the conversion price can be exercised, and the conversion price has to be recalculated. And it is linearly reduced with the reduced duration of that conversion time you have. And so it is clear math. And so depending on the day you choose as a potential closing day, there is a different conversion price.

So if someone has the conversion rights for a certain number of shares, and you multiply it with the current share price, then you get less money than the nominal value. Therefore, I would consider it to be smarter then either to wait for the repayment of the nominal value or to get the interest payments. But this is certainly a commercial rationality which is up to every single investor.

The second question I didn't get. You meant that the convertible is mentioned in today's announcement but not further discussed because the discussion is complex and this will be discussed with bondholders then directly, and they will get an opportunity to consent to this offer or not.

And the third question was? Does anyone remember? Sorry. Could you please repeat the third question?

ME So just to clarify, under my understanding, under German law, a bid also needs to be made for the convertible bonds alongside the shares. So that was why I was surprised that it wasn't referenced in today's announcement. And then perhaps just to clarify, I agree with your calculation, but the key factor is the date that it triggers. I back out a date of around today to get an €18 conversion price. Does that make sense?

CH It could be. I didn't calculate for it, but it might be that it's something around that, yes.

ME Okay, thanks.

CH But as a matter of fact, today was just an announcement. The complexity of just an announcement is huge, and therefore, it goes directly to the shareholders. And I believe, with upcoming documentation, I think all the concerns you mentioned will be covered.

ME Okay. Thanks for your time.

MS There are another couple of questions. I would start with the first one. The question is, any detail on what debt and equity funding KKR has for the deal? Will the BidCo use a mix of equity and debt to finance the transaction, as customary in this situation?

The bidder is committed to structure any potential instrument in such a way that it would receive an implied investment grade rating. There will be some incremental debt on a holding level, which is supposed to be mainly used for the backstop provided to the company.

It is stipulated in the written agreement that the bidder intends to keep the leverage below 7.5 next 12 months EBITDA for the term of the investment agreement, and there will be sufficient headroom at closing. Further details will be disclosed through the offer document that you will receive soon. We have seen debt commitment, but for any further details on this, we kindly ask you to refer to KKR.

CH Another question which is asked. If the KKR deal does not go through, how much confidence do you have of achieving your original 2027 growth strategy? So we are absolutely confident to reach the 2027 strategy on ourselves, but that is not the issue of aligning here with KKR. The issue is that we want to increase our ambition from currently 5.8 GW to 7 GW in 2027 and grow after that further and beyond. And this is key.

Is KKR's offer a final offer? Is there scope for KKR to come back with a higher offer? Honestly said, please ask KKR.

How does the implied offer multiple of 15.8 times compare to a broader market transaction? I think it is a very good multiple. And if you compare it with recent transactions, I think it is generous to the upper end.

MS There's another question on the convertible, Christoph. How will you proceed with the convertible? You mentioned a backstop for all the debt, but will you call the convertible or pay a 5% higher interest rate?

CH Let's see. So honestly said, this is something to be discussed. Then another question is, you indicated that you will benefit from better financing conditions potentially with KKR versus public ownership today. But you managed to refinance Spanish debt recently. Is there any other significant refinancing potential, or does it mostly relate to new financing for new parks?

Well, I think in the current market environment, it is not an issue to get good project financing. But project financing covers sometimes 40-50% or maybe 55% of the whole transaction volume of such a park. The challenge is to finance the equity ticket which we pay for such parks.

And here, we see that we have limited headroom currently, since we grew much faster last year than anticipated. We added last year 33% more of gigawatt hours to our future power production per year than we have planned. And this costs a lot of money. And we therefore have to take into consideration, as a publicly listed company, balance sheet relations and stuff like that.

So when we bundle our power together with KKR, Viessmann and Abacon, being private will remove the funding constraints of our publicly listed business model, and we will benefit therefore from KKR's support. I think these were the written questions. Are there any verbal questions left?

O Not so far, sir. But I remind participants, if they want to ask a question, they may click on the Q&A button, and then raise your hand on the left-hand side of the screen, or press "star" followed by "one" if they're connected via phone. No further questions so far, so I hand back to you for any closing remarks.

CH Ladies and gentlemen, then thank you very much for dialling in. Thank you very much for accompanying our company for so many years, and hopefully we'll manage together that new phase. And thank you very much. Goodbye.

MS Thank you. Bye-bye.