Transcript - Cox acquires Iberdrola Mexico

Date : August 1st, 2025

[Speaker 2]

Good morning everyone, my name is Nacho Moreno, I'm CEO of Grupo Cox. As you saw yesterday in the webpage of the CNMV, we announced what I think it's a transformational acquisition for the company and one that we're extremely proud of and we thought it would be good to get in front of you guys and go through a brief presentation of what have we acquired and answer as many questions as you deem appropriate to ask. We will be switching between Spanish and English but for those which are not Spanish speakers don't you worry because you will have a translation in the webcast as soon as this is over.

So with no further delay I will hand it over to Mr. Enrique Riquelme.

[Speaker 1]

Iberdrola Mexico, 100%, has assets of 2.6 Gb of combined cycle projects, which is key in this transaction, because of the power. The power in Mexico, unlike other markets, and the price that this power brings, which generates the assets of gas, allows us to be a relevant actor with another part of the purchase, which is the supply of qualified users. Apart from those projects of those 1.4 Gb of gas, we have another part of renewables, solar and wind, which in the near future we will also validate with storage. This means that 100% of this generation of our own plants, more energy purchases to third parties, through the supply of qualified users. The supply of qualified users is a fundamental and critical part of this operation, which at the moment has a market share of more than 25%. A market that is 25% throughout the country works as follows.

Large demand customers of more than 1 MW in Mexico can migrate to be free customers. Customers of less than 1 MW are within the distribution of the CFE itself of the State. Those customers of greater demand or greater energy consumption in the country can migrate to be those free customers.

It is an operation where Cox, before this acquisition of Iberdrola México, also with its own supplier of qualified users, we have been operating for many years, both in generation and in energy supply. It is a business that we know and operate very well, with great talent and for many years. That said, the importance, unlike the markets Iberdrola México has 25% of the market.

It is the group with the largest percentage of size, as well as the CFE and its supplier of qualified users. Today, this with more than 500 Iberdrola México customers, a large part of the majority investment grade, a majority with a dollarised flow, also allows us to buy a platform, first, with many barriers of entry, by generation, by power, that is why that generation is also important, that is to enter the combined cycle, renewables, atomised by several parts of the country, and above all because the market is still huge.

Only 20% of customers throughout the country that can be free customers, and large consumers have gone to free customers. And that means, in our case with the supplier, more than 20 teras of energy sold, which we sell with our own generation, which is part of the sales that we do through the supplier, and other long-term purchase contracts that we have with other generators to sell energy to our customers in the long term. Within the operation, in addition to the current generation plus the supplier of qualified users, which is the leader in the country, and apart from seeing the growth, there is still five times more potential growth possible for those large customers.

In addition, the country grows with an energy demand growing at 4%. This included with a portfolio of almost 12,000 new megawatts, that added to what COGS had also been developing historically, where we have operated in Mexico since 2012-13, allows us to have one of the largest portfolios of projects for the future. To date in the country, mature projects, diversified in type of technology and geographical area.

This transaction, added to the characteristics of the market, those entry barriers, make that in recent years, the rotation of customers, unlike in other markets, at a global level, that the rotation of suppliers is high, in this case the rotation is less than 2%. Where there are contracts with long-term investment grade clients, on an average of the 8-year portfolio. Where, in turn, we have the coverages with the own generation, plus long-term closed generation with other generators.

We will also invest this ourselves in an investment plan that we will very comfortable with the new regulation, where it has all the sense in the world, a new energy regulation, where it gives stability and certainty of the future to the country. Where we are very comfortable with an investment plan that we will also announce on September 25, in the investor day future, where we can give much more detail. If you agree, we go to page 6, where there is part of this information that I have been commenting, in terms of generation, Iberdrola-Mexico, with 2.6 Gb currently, added to the pipeline, so much that it had by itself COX, as the one that comes within this operation, we have, and as we inform the authorities, I had the opportunity, personally this week, to inform the authorities in Mexico, the Secretary of Energy, other secretaries, and the President herself, two days ago, of this transaction and, above all, of our growth plan in the country in the next 5 years.

Part of this plan will be growth in new generation, between 3 and 4 Gb, diversified in different types of generation, both renewable, mainly with storage. And a new combined cycle plant that we would like to invest or even co-invest with the CFE within its new programme. As within this presentation, as we saw, Iberdrola, the supplier, has a very large market share.

And I repeat, because this part is very, very important, only 20% of the Mexican market, of potential clients, are free clients. Therefore, those clients will migrate to free clients, and we have a growth potential of 5 times, maintaining the same market share, and not counting the growth of the country and the energy demand, which continues to grow at 4%. If you don't mind, before I give you the financial part, also within the water plan, on page 8, we have been working for a long time on the water part, on projects, mainly desalination, in the country, and where this allows us to focus with generation, as you know, in the desalination part, the biggest OPEX that it has is energy.

It is a large part of the cost of the cubic metre of desalinated water. This allows us to have, to be one of the great energy operators in the country, it allows us to give certainty to our investments in water in the country. Within the different projects that we have developed or are developing and seeing opportunities in the country, where we also had the opportunity to present the plan to the authorities, and we are working on it, and where we have made a commitment to reach up to 1.5 billion investment in water in the country, if required, within these projects. Of these projects, there are some projects with a greater maturity, and where we are going to focus on them, but without the energy part, we did not have the certainty to access the capacity, both the volume of energy that is needed for these plants, as well as the price and long-term of the same, and the quality of the same, with only one, we could not have renewables, and we need 24 hours, that this gives us this energy matrix that we are buying with the acquisition of Iberdrola México. If you agree, Nacho, we can go and then we go to the questions, whoever wants to comment on Mexico or any of the particularities of the operation.

[Speaker 2]

Thank you very much, President. So, switching back to English, as you will see in page 9, I started the presentation by emphasising that this is a transformational acquisition for the company, for Cox, it is one that brings forward our strategic plan and allows us to complete it three years ahead of 2028, when it was planned to be completed. It clearly falls within our strategy of water and energy, water and power, as the chairman has mentioned, it involves a lot of water investments.

So, if you look into slide 9, by any metric that you pick this one up, it clearly gets us into a transformational situation. So, from a revenue perspective, as soon as we consolidate and we close the transaction and consolidate it, we're going to be in the 3 billion euro range, with more than 700 million euros worth of EBDA and an operational or operating cash flow position, which is slightly south of 500, between 450 and 500 million. Clearly, those metrics are totally different from the ones we managed today, and gets us in a different league, if you allow me the expression.

Going into the calendar in page 10, as we stated in our relevant fact yesterday filed with the CNMB, this is a transaction that will be closed, has already been agreed and will be closed in Q4. Obviously, we depend upon the regulatory approvals, but given what my chairman has just commented, that this has been well cleared and agreed with the Mexican authorities, Mexican relevant authorities, in the past couple of days, we expected to close it either by the end of 2025 or Q1 2026. It is a transaction that's already been, as I said, signed and signed upon a full agreement in terms of price, which obviously counts with the backup of key financial institutions, of which that have provided the fire needed to finance the transaction, in terms of a bridge loan facility, which terms will be communicated in due course to the market and that will be taken out in the capital markets with a long-term capital market solution. Those banks are the likes of Citigroup, Bank of America, Santander, BBVA, Barclays and a couple of others. So with no further delay, if you allow me, more than happy to take questions.

I will read through those and answer them either in Spanish or in English as appropriate. So going into the first one, this comes from Oscar from Banco Santander, talking about the capital structure, 25-75 equity debt, how will the equity portion be financed, how much corporate debt, etc., etc. Well, first of all, allow me to tell you that, as my chairman mentioned, we're planning to hold a capital markets day, an investor day, end of September, beginning of October, likely end of September, in which we will provide you with all the details that you need.

Right now what we can answer, if you allow me, chairman, I will answer this one. This is going to be financed, first of all, through a new company, which is being created or has been created in order to fund this, on a 25-75 equity debt. Cox will own 100% of such new company, will inject equity into such new company, common equity, we will be alongside a couple of strategic investors which will be investing in NewCo through preferred equity, and such NewCo will use the assets in order to get long-term capital markets funding and raise the debt in order to pay for the entire acquisition.

Convertible bonds are certainly not in mind, and perpetual hybrids are not in mind. As I said, key thing is that this is totally non-recourse, ring-fenced acquisition. Cox will own 100%.

We have the pleasure of counting on two strategic partners that are investing through preferred securities, preferred equity instruments, and we've got the privilege of counting on a selected group of international top-tier banks that I've just mentioned that will help us not only with the bridge facility that is already commented and agreed, but also with the long-term capital markets instruments that will refinance such bridge facility.

Next question, when you talk about 20 terawatts supply, is it 100% of the output? Is it under PPAs? The duration of those PPAs?

Chairman, I'll hand it over to you. What are the projects identified? How and when is the awarding process?

Chairman, you want to take this one? Let's move on to a related question to this one. Are any of the renewable gas plants nearby those water projects or will be contract for differences?

[Speaker 1]

Mexico has different prices. Almost 3,000 prices in different nodes and subnodes. There are some small peninsular areas where there is a transmission network in some areas of the country that are congested by the high energy demand that the country continues to live and the industrialisation of it.

Therefore, unlike a market, for example, in different areas of Europe, which is mainly a single market, the importance of the Iberdrola-Mexico platform with an atomised generation in several parts of the country allows us to give that certainty of energy, quality in terms of time and price. This releases a large part of the risks that we had in the development of our water plants in the country.

[Speaker 2]

Thank you very much. Another one, which is something to do with Cox Energy in Mexico. I think this was answered at the results presentation.

We said, as we mentioned, there's another window of opportunity for exchange in September. And by then, we will decide upon every alternative that we have. But there's nothing fixed and closed for the time being.

So moving on to somebody else. Good morning, thank you for your presentation. Can you please provide more colour on how you calculate the six and a half adjusted EV bidder and in terms of what's the level of a bidder that you're considering?

If you allow me, Chairman, that's quite straightforward. We're considering 570 million or around 570 million dollars worth of a bidder. And we're not taking into consideration any potential improvement, no synergy that we will sure be providing to the company once we are fully in operation.

Moving on to George Guimaraes. Operatively speaking, of course. The Service Co-Division.

From now on, the risk of the company will be closely related to Mexico. What are its relations with the local government? Will there be any risk that Cox will have the same risk in the following years?

Chairman, I think this is for you.

[Speaker 1]

Yes, Nacho. As you can understand, it's a great strategic operation. It's a tremendous opportunity for Cox.

And Cox has been operating in Mexico since 2012. We have been operating in the same business since 2013 and 2014. Development and supply, exactly the same business.

Obviously, with different sizes. But we have been operating in the same business in the country for more than a decade. And where is a market?

Probably the market that we know best of the almost 30 or something more than 30 countries where the company operates today. Therefore, within our plan, which we will tell you much more about in September's investor, is to concentrate the efforts and capital of the company only in strategic markets. This means, obviously, that we will continue to reduce the markets where we operate and concentrate in markets where we really create value.

And growth markets, markets that we know very well beyond the fundamentals, which in this case, Derargo is the country at a global level that has the right fundamentals for us. And within that investment plan, of course, we are very aligned and very confident in the stability and in the Mexico plan and the new energy regulatory framework, which is a framework that has all the sense in the world and is fair for the entire chain of operators. I had the opportunity, as I mentioned before this week, to be with the authorities, with the relevant secretaries, of course, the energy secretary, and of course, I also had the opportunity to explain the whole project and comment on the opportunity with the president.

And we are aligned in the investment plan, we are aligned in the Mexico plan, and we are aligned both to continue investing in the country, as we have said publicly, in water projects and in new generation projects. We want not only to maintain this leadership of this platform that Iberdrola has, with a great work of many years, but we are also aligned for the growth of it.

[Speaker 2]

Thank you, president. Just to finish with George Gimaraes, will the assets be ring-fenced? How much equity will be owned by Cox?

Is Cox considering a capital increase to finance the deal? As I said, the acquisition structure will be through a new core, so the assets will be ring-fenced. In that new core, Cox will own 100% of such new core.

Again, very important, we will own common equity, but we will be alongside two key international partners that will be injecting preferred equity. And no, as I said at our results presentation a couple of days ago, we're not taking into consideration a capital increase, certainly not at these prices, and it's not on the table. So moving on to Fernando Lafuente, will you be considering asset disposals to help finance the deal?

Straight answer, no. No, we will not be considering any asset disposal to finance the deal. The financial deal is extremely well-structured with a top-tier group of banks, and all we have to do is execute it.

What's the potential for cost-cutting in the country? Fernando let us get into the situation, but they don't think, I mean, it's a fantastic company. We're not considering any cost-cutting.

Is investment in water, will it be through new core or through Cox? President, investment in water, through Mexico or through Cox?

[Speaker 1]

Investment in strategic countries, and we will give the clearest structure in the investor day, will always be through the geography, but separated as asset core. Therefore, the projects in the new plan, where there are two perfectly clear parts within the group, one part is the division of services, where it operates, and where the part of EP and the part of operations and maintenance services have a separate structure and financing, and without the resource of the rest of the group. Therefore, the investment in water and energy assets will be in Mexico, in the geography, in San Yuco, always with a structure of debt without resource in the long term, and we expect to have the strategic markets where we invest, separated perfectly and with separate structures of the services.

[Speaker 2]

Thank you, President. Manuel Campos asks, how do we plan to manage risk-to-currency?

[Speaker 1]

The operation itself, in most global markets, I say most, not all, but the vast majority, and in this case it is mainly linked to the dollar or euro. In this case, both the acquisition and the purchase is in dollars, the financing is in dollars, and the sales to our clients, mainly in a direct or indirect way, is dollar. Therefore, it is an operation, regardless of the country being in pesos.

Our operation is mainly in dollars, both in debt and in income.

[Speaker 2]

Thank you, President. An additional question. Do you plan to pursue additional M&A in the short term?

I think the chairman was, or has been quite clear, the strategy of the company is to focus in those regions where we're going to be incumbent, in those strategic countries and regions where we will be incumbent. Certainly, there is no M&A strategy in the short term. This is transformational enough for the company, and we have to digest it and properly digest it.

I think what this gives us is the opportunity to enter into an asset rotation programme, vis-à-vis those regions or countries that may not be considered, or could not be considered as strategic in the near future. It gives us enough size in order to enter into such a rotation programme, and that is what we will be doing. So, it's focus on one hand, and that focus obviously comes alongside some disposals in those regions that will no longer be strategic or not be strategic.

Another question coming from Miguel Medina. Wilcox, debt at Iberdrola, Mexico. Wilcox have to refinance debt at Iberdrola, Mexico.

What's the cost? There is no debt at Iberdrola, Mexico. So, that was an easy answer.

There's no debt. The capital structure is extremely clean. It's a debt-free asset.

And I don't think... Ah, sorry. There's another one.

Cox is going to make a contribution to NewCo, which will be Common Equity, and we count on the participation, through Private Equity instruments, of two strategic partners. We will give numerical details, which obviously we have had to give to the banks that have financed us, that are financing our acquisition, and obviously we have had to give to Iberdrola, but we want to have the opportunity to give those numerical details physically in our Capital Markets Day at the end of September, as the President has said. Of course, we are not going to go into dilution and we are not going to expand capital.

And I think... And just to finish, as the Chairman was pointing out, two additional comments to that question, to the previous question. This transaction does not, repeat, does not involve any further debt at corporate level.

So we're still committed and in compliance with our net debt to BDA target of less than one time. And that's written in stone. That's a key thing.

And second, the cost of the preferred equity instruments that are coming alongside ours, our common equity at NUCCO level is high single digits. We're not paying double digits for that preferred equity. Another question.

So if a BDA is at 570, can you clarify the adjustments? If I clarify everything, you're not coming to my Capital Markets Day, and I need you to come to my Capital Markets Day. So please come by.

We will offer good drinks and we'll clarify all the numbers and all the adjustments. I think that's it. So, Chairman, if you want to close the webcast.

[Speaker 1]

This is a huge step for the company. It allows us to go to another, well, to play perfectly another volume, to be able to invest in a strategic water market. It allows us to be able to move forward in a structure where this opportunity to buy Iberdrola Mexico at the moment with a structure without a holding resource.

Therefore, in terms of debt, I think that, without a doubt, it is the transformational operation for the group, where we had a plan that we announced last November 15 to reach the end of 2028 with an estimate of around 3 billion in sales and 700 million in EBITDA. We commented that this operation was going to be, at the end of 2028, approximately 80% of the EBITDA that came from recurring EBITDA. And at this time, we also maintained that the corporate debt was going to be below an EBITDA ABC.

And a few months later, we are already at that point. We have completed, in terms of macro figures, we are well below once EBITDA with this debt transaction with the company. We are at more than 750 million in EBITDA, exceeding the forecast at the end of 2028 and also in sales.

And above all, we are already with an EBITDA dollar-euro, mainly recurring, long-term, and in markets with a lot of growth, entry barriers and being really incumbent. This will not allow a growth in water, in direct investment. It gives us certainty to be able to make those investments and it will not allow, as CEO Nacho Moreno has said, that we will count more on September 25, the Investor Day, in non-strategic markets, a plan of asset rotation to concentrate greater growth in strategic markets and continue to integrate in the entire value chain in strategic markets.

Therefore, thank you very much. Any consideration, the team is also fully available. I hope to see you on September 25.