RATING COMMUNICATION

Cerved Rating Agency S.p.A. affirms at

A3.1

the public rating assigned to "**"Renco Group S.p.A. 4,75% 2017-2023"**

Issued by **Renco Group S.p.A. (Tax ID: 13250670158)** – Strada del Montefeltro, 51 – Pesaro (PU) - Italy

Cerved Rating Agency on 27/09/2023 has confirmed the public rating A3.1 assigned to the bond named "Renco Group S.p.A. 4,75% 2017-2023", ISIN: IT0005305468, admitted to trading on the ExtraMOT PRO Professional Segment, organised and managed by Borsa Italiana S.p.A.

Date of the first issuance of the rating: 23/11/2017

The confirmation reflects the Issuer's rating, updated by Cerved Rating Agency on 27/09/2023.

Issuer's key rating factors

Positive economic performances in FY22 and 1Q23 - The Group recorded an increase in the Value of Production (VoP) in FY22 from €334.3 to €444.0 million (+32.8% YoY), driven by the positive performance of all BUs, in particular Buildings (+ €70.4m) and Energy (+ €39.3m). The growth of the Buildings BU was led by the advancement of the numerous orders acquired as part of the 'Superbonus 110' on the large condominium market (located in Sicily, Umbria and Marche), as well as by the new Waterline Kazakhstan order with a contract value of approx. €200m (completion expected in 2023). The VoP of the Energy BU was positively impacted by the consolidation of Armpower (€46m in FY22 vs €4m in FY21) and by the advancement of the Eolico Salinella, Barge Albania and Cassiopea (ENI) orders, which managed to offset the drop in production of the Compression Station Everdrup order. Lastly, it should also be noted, the capital gain generated by the sale of Hotel Yerevan (€9.8m), which contributed positively to the results of the Asset Management BU. The adjusted EBITDA margin is mainly in line with FY21 (approx. 10%), thanks to the positive contribution of the Energy and Asset Management BUs, which managed to offset the profitability reduction of the Services and Buildings BUs. Despite the higher financial income deriving from tax receivables, the financial result in FY22 was impacted by the increase in financial debt (of which €7.6m related to Armpower) and the negative balance of exchange gains/losses of €61k (positive for €8.4m in FY21). The Group registered a net profit of €9.1m in FY22 (€7.7m in FY21), which benefited from approx. €6m of Deferred Tax Assets (DTA), a temporary effect deriving from Armpower's consolidation (financial statements in USD vs tax statements in DRAM). The results achieved in 1Q23 confirm the significant increase in VoP to €108.6m (€56.3m in 1Q22) driven by the 'Superbonus 110' orders in the Buildings BU (+ €43.7m) and stable margins of around 10%.

Overall balanced financial structure - In FY22, the Net Working Capital (NWC) was impacted by: (i) the different orders mix in the Buildings BU, more oriented towards the 'Superbonus 110' characterised by generally longer collection times and faster DPOs due to the greater use of subcontracts; (ii) the significant advances from clients received on the orders in the Energy BU (Italy and Denmark); (iii) insurance receivables (+ €7.6m) deriving from the recognition of loss of earnings and the shutdown of the Yerevan power plant. CapEx for the period amounted to approx. €18m (mainly related to the purchase of land, buildings and industrial equipment used for construction activities), while financial investments amounted to around €7m (mainly attributable to the establishment of Excelerate Renco FPB - Barge Albania contract). The adjusted Net Financial Position (adj NFP) as at 31/12/2022 was mainly in line with the previous year and equal to €216.8m (€218.6m at 31/12/2021) with improved leverage ratios. It should be noted the issuance of two new bonds in 2022, both in private placement: (i) 'Renco Group SpA 5% 2022 - 2026' amounting to €5m, 5% annual fixed rate and amortising repayment (maturity on 30/07/2026); (ii) 'Renco Group SpA 6.375% 2022 - 2028' amounting to €15m, an annual fixed rate of 6.375% and amortising repayment (maturity 30/09/2028), in addition to new loans for a total amount of €70m. The YTD results show a physiological increase in NFP as at 31/03/2023 linked to the advancement of the 'Superbonus 110' works (completion expected in 2023). The reabsorption of the NFP and a further improvement of leverage ratios is expected as at 31/12/2023.

2023 forecast and expected results in FY24 - The Group estimates for FY23 a VoP of approx. €570m thanks to the backlog as of September 2023 amounting to €2,761m (backlog/VoP, respectively, equal to 97% in FY23 and 77% in FY24), and a stable EBITDA margin of 10%. The strong development of the 'Superbonus 110' contracts over the last two years has boosted the Group's visibility on the Buildings sector in the Italian market with positive impacts on the awarding of new contracts with significant contract values (e.g. UNIMI). Management intends to continue the strengthening strategy of the Energy BU, historically the Group's core business, with a greater focus on projects relating to photovoltaic and wind power. For FY24, the Group estimates double-digit growth in VoP and an improvement in margins thanks to the onset of new and more profitable orders. From a financial standpoint, the completion of the 'Superbonus 110' works and the Waterline Kazakhstan contract will generate a benefit on working capital. At the same time, considering the significant CapEx linked to the Pemba Bulk Terminal project, the NFP is expected to increase but with improved leverage ratios compared to the previous year.

Rating sensitivities

- The achievement of the Issuer's BP targets for FY23-24 will lead to the maintenance of the current rating class assigned to the bond.
- The deterioration of Issuer's performance might lead to a downgrade of the rating assigned to the bond.

The applied methodology is published on Cerved Rating Agency's website: www.ratingagency.cerved.com

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