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 29/09/2022 has confirmed the public rating A3.1 to the bond named "Renco Group S.p.A. 4,75% 2017-2023", ISIN: IT0005305468, issued in private placement.

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

The confirmation reflects the Issuer's rating, updated by the Cerved Rating Agency on 29/09/2022.

Issuer's key rating factors

Positive economic results in FY21 that benefitted from the portfolio mix – The consolidated results achieved in FY21 show a Value of Production (VoP) up to €329.9m (+1.6% YoY), mainly driven by the Buildings business line (BL) (+28.3% YoY). In 2021, significant activities related to "Superbonus 110%" were carried out for approx. €37.0m in terms of VoP. The positive trend recorded on the abovementioned BL allowed to offset the decrease in VoP of the following BLs: (i) Asset Management, impacted by the reduction in overnight stays related to fiduciary isolation (from which it had benefitted in FY20); (ii) Energy, reflecting the completion of the "Power Plant Yerevan" project (completed in 2021), only partially offset by the "Everdrupp" project related to the construction of a gas compression plant (contract value of more than €70m). The adjusted EBITDA margin, amounting to 10.3%, remains in line with FY20, thanks to the positive contribution from industrial activities, which balanced the reduction of profitability in the Asset Management BL. Despite the geopolitical conflicts which adversely impacted some projects, this result confirms Renco's ability to cope with variable market conditions.

Overall balanced financial structure but impacted by the investment plan – In FY21, the cash absorption by Net Working Capital (NWC) amounted to €20.3m, mainly due to: (i) the increase in trade receivables related to the "Superbonus 110%" initiatives, generally characterised by longer collection terms compared to EPC and Services projects; (ii) lower advance payments recorded due to the termination of the Power Plant Yerevan and Accademia GdF di Bergamo projects. The NWC cash absorption, combined with high CapEx amount of €39.0m (primarily related to the purchase of land, buildings and industrial equipment used for construction activities) and equity investments for €15.2m (mainly attributable to the increase in share capital of Armpower Cjsc), required a greater use of new financing. Consequently, the adjusted consolidated Net Financial Position (adj. NFP) as at 31/12/2021 increased to €134.9m (€93.7m as at 31/12/2020) with an adj. NFP / Equity *ratio* and adj. NFP / adj. EBITDA ratio of 0.8x and 4.0x respectively (0.6x and 2.8x as at 31/12/2020), which despite the increase, show a generally balanced financial structure. Lastly, it should be noted that the first two tranches of the bond "*Renco Group S.p.A. 4.75% 2017-2023*" amounting to €11.6m have been reimbursed in 2021.

Future outlook – The backlog acquired highlights the Group's greater focus on green projects primarily regarding: (i) increasing building energy efficiency; (ii) wind farms and photovoltaic plants. Despite the unfavourable macro-sector dynamics, the Group's commitment in gas industry persists, since it's considered strategic in the global energy transition process. Also in this context, Renco managed to leverage its competitive advantage benefitting from a long-established presence in specific countries of the MENA area (Middle East, North Africa). Management estimates a VoP growth in FY22 up to €420.6m, relying on a backlog as of September 2022 amounting to €1,058m (backlog/VoP coverage of 70% in FY22 and 96% in FY23 respectively), while EBITDA margin is expected to decrease (approx. 9.0%). This result will mainly be influenced by: (i) the delay of some projects in Mozambique due to external factors, expected to recover from FY23; (ii) the acquisition of a project in the Services BL with an agreed lower profitability compared to track record but considered strategic for the business. The major focus on Buildings BL projects in 2022 will trigger a higher financial need (typical of such activities), with an increase in the expected NFP as at 31/12/2022. However, Cerved Rating Agency believes the high level of capitalisation that has historically characterized the Group will enable the maintenance of a fully sustainable leverage to equity ratio below 1.0x.

Rating sensitivities

- The achievement of the Issuer's BP targets for FY22 will lead to the maintenance of the current rating class assigned to bond.
- The deterioration of the 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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Cerved Rating Agency has assigned the rating in compliance with Regulation CE1060/2009 and following modifications and integrations; it is an opinion on the creditworthiness of the rated entity and it summarizes the reliability or the insolvency probability of the entity.
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The issued rating is subject to an on-going monitoring until its withdrawal. The rating has been solicited by the rated entity, or a related third party, which has participated to the process providing the analytical team with the requested information. The information used for the analysis includes available public information and proprietary information obtained from sources deemed reliable by Cerved Rating Agency. As per applicable Regulation the rating was disclosed to the rated entity before being issued to review factual errors.