

GRUPO VISABEIRA, S.A.

ARC Ratings, S.A. (ARC Ratings) has affirmed the “BBB-” rating, with Stable outlook, assigned to the long-term issuer financial commitments and the “A-3” rating assigned to the short-term issuer and issue financial commitments of Grupo Visabeira, S.A. (‘Grupo Visabeira’ or the ‘Group’).

ISSUER	ISSUE	AMOUNT	RATING CLASS	RATING	OUTLOOK
Grupo Visabeira, S.A.	-	-	Corporate Long-Term Issuer	BBB-	Stable
Grupo Visabeira, S.A.	-	-	Corporate Short-Term Issuer	A-3	-
Grupo Visabeira, S.A.	Commercial Paper	Up to EUR 21.8 million	Corporate Short-Term Issue	A-3	-

Rating Date	28 September 2022
Initial Rating	29 August 2014
Last Review	28 March 2022
Next Review Date	28 March 2023
Criteria Applied	ARC Ratings’ Non-Financial Corporate Entities Rating Methodology

This rating action is based on the continued increase of the Group’s cash flow generation, the continuation of the implementation of its growth strategy focused on its main business area in developed markets (European and USA markets), the improvement of its leverage as expected and the strengthen of its financial structure, benefiting from the cash injection by Goldman Sachs (with the Group reaffirming its commitment to continue to maintain a net financial debt/EBITDA ratio below 3.0 times). Although the Group is taking measures to mitigate the impact of the increase of costs on its profitability, the evolution and length of the Ukraine/Russia conflict, as well as how restrictive the monetary policy will have to become to curb inflation, and consequent negative impact on the global economy, raises concerns about potential specific impact on the Group. ARC will monitor closely the Group’s performance and its financial structure.

The rating was assigned by ARC Ratings, S.A. and endorsed by ARC Ratings (UK) Limited in accordance with Statutory Instrument 2019 n° 266 - The Credit Rating Agencies (Amendment etc.) (EU Exit).

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Analytical Contacts



ISABEL FERNANDES
Senior Corporate Analyst
Lead Analyst
isabel.fernandes@arcratings.com



VÍTOR FIGUEIREDO
Sector Head – Special Projects
Back-Up Analyst
vitor.figueiredo@arcratings.com



CARLOS LEITÃO
Senior Corporate Analyst,
Panel Chairperson
carlos.leitao@arcratings.com

ISSUER PROFILE

Grupo Visabeira is the holding company of a group that provides services to telecoms and energy infrastructure operators, as its main activity, and which also includes activities in the Industry business area and in the Tourism business.

In 2021 and year to date 2022 the Group maintained its strategy of growth by organic growth and targeted acquisitions of providers of services to telecoms and energy infrastructure operators, mainly operating in European markets, to reinforce its main business area. The Group is taking advantage of the favourable investment environment in the telecommunication and energy sectors in developed markets (with strong investments in the installation of fibre optic networks, 5G technology, as well as in the expansion of energy networks to support the development of renewable energies and reduce the dependency on Russian gas and oil).

The closing on 12 May 2022 of the investment agreement with Goldman Sachs, which invested EUR 200 million in growth capital in exchange for a 21.86% minority equity stake on Constructel Visabeira S.A. (the Group's sub-holding for the provision of services to telecoms and energy infrastructure operators), will allow the acceleration of the Group's growth strategy in its main business area, while it strengthens its financial structure.

GRUPO VISABEIRA'S KEY RATING DRIVERS:

- Proven resilience in cash flow generation – The Group's EBITDA increased by 17.9% in 2021 and 22.9% in the first half of 2022 (1H 2022) year-on-year, even in an environment still marked by the Covid-19 pandemic. All the business areas recorded EBITDA increase in these periods – maintaining the trend in the case of the main business line (Telecoms, Energy, Technology and Construction) and starting a recovery in the case of the Industry and Tourism business areas.
- Expected acceleration of its growth fuelled by the entry of an institutional investor in its main business area – The Group expects an increase in its turnover (by 29.3%, compared with the 2021 figure) and EBITDA (by 18.5%) in 2022, with the main contribution coming from its main business area. Continued growth is expected in the following years based on pluriannual contracts.
- Focus on Western European countries and diversification to USA – The Group intends to continue to expand its activity in Western European Countries, and to diversify to USA, both markets with significant potential for growth in its main business area. This focus will tend to reduce in the medium term the weight of the operations in Africa, which poses the greatest operational and financial risk, improving the Group's risk profile.

THE KEY CONSTRAINTS ON GRUPO VISABEIRA'S CREDIT RATINGS ARE:

- Indebtedness – The net financial debt/EBITDA ratio improved to 3.8 times in 2021, still high leverage, but the agreement with Goldman Sachs, coupled with the continued EBITDA increase, allowed to improve the Group's leverage to 2.9 times in July 2022, a moderate to high level. In addition, its coverage of net interest costs by EBITDA improved to 4.4 times in 2021 and 4.5 times in the 1H 2022, a comfortable level. The Group is committed to maintain its leverage below 3.0 times in 2022 and in the coming years.
- Foreign exchange and political risks from African operations – The Group maintains a significant exposure to foreign exchange risk from African operations, but the Group's strategy of refocus on the main business area in developed markets should lead to a reduction of the relative weight of this exposure.
- Increased economic uncertainty – The significant spike in inflation related with supply chain issues, the very accommodative monetary policy (both related with the Covid-19 pandemic) and the Ukraine/Russia conflict and the related measures to contain the inflation had a significant impact on the current economic performance and increase the uncertainty for the future. The Group has been taking measures to mitigate this impact on its business, but the uncertainty regarding the evolution and length of the conflict, as well as how restrictive the monetary policy will have to become to curb inflation, and the consequent negative impact on the global economy raises concerns about its potential impact in the Group's business and profitability.

KEY TIPPING POINTS

Positive Turning Points

The triggers that could prompt a rating upgrade or an improvement of outlook would include:

- Higher and more stable (with a greater contribution from developed markets) recurrent EBITDA than currently forecast.
- A reduction in net debt/EBITDA ratio to a long-term lower level.

Negative Turning Points

Triggers that could prompt a rating downgrade or a deterioration of outlook would include:

- Less favourable conditions to develop activity in Europe and USA, namely related to the increased economic uncertainty.
- The significant deterioration in the cash generation capacity and transferability in Angola and in Mozambique if not offset by the expected increase from the other countries.

CASH FLOW GENERATION CAPACITY

On 20 and 22 September 2022, ARC Ratings had conference calls with senior management of Grupo Visabeira to discuss the Group's performance, the debt evolution and its strategy. All relevant information is included in this report.

GRUPO VISABEIRA'S OPERATIONAL PERFORMANCE

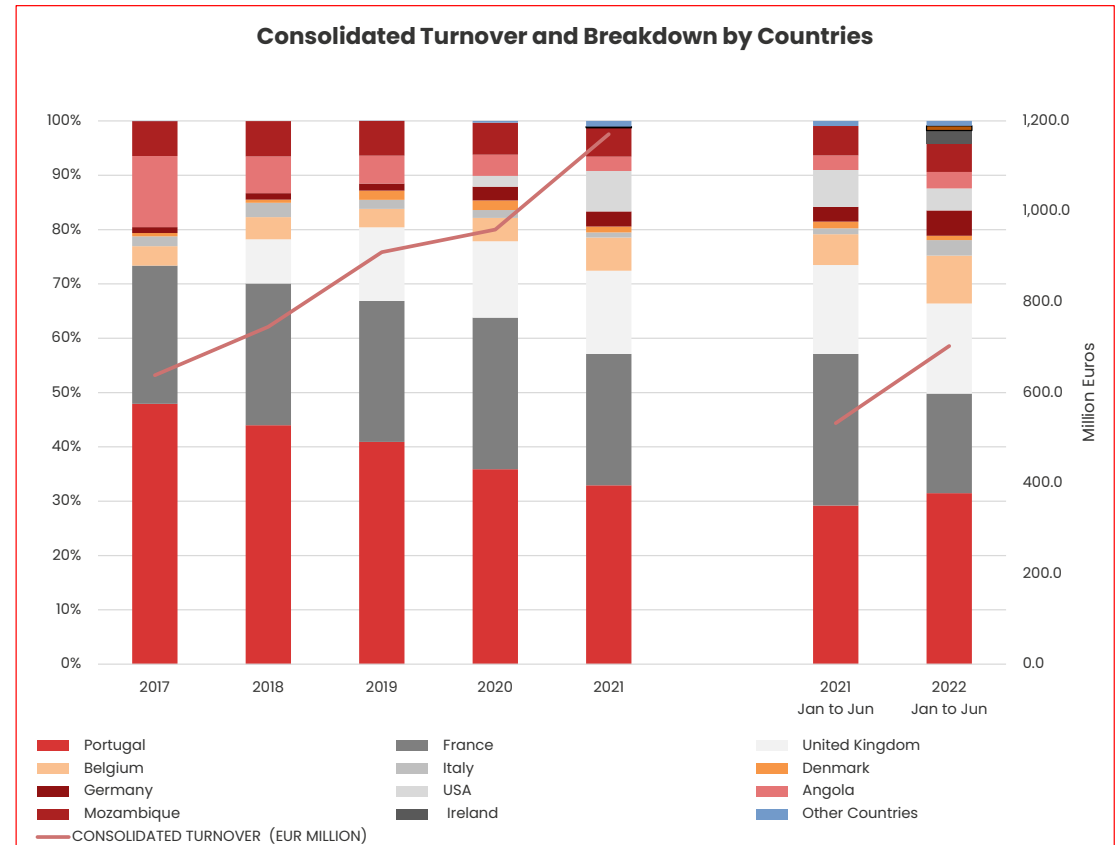
In 2021 the Group's turnover and profitability continued to be affected by the Covid-19 pandemic. However, even in these unfavourable circumstances, its turnover increased by 21.9%, to EUR 1.171 million in 2021. In the 1H 2022 the turnover increased 31.9%, to EUR 702.5 million, mainly thanks to organic growth (including the recovery from the bottom in the areas most affected by Covid in the previous years) in addition to strategic acquisitions.

It should be highlighted the turnover increase in the Group's main business area by 25.1% in 2021 and 30.0% in the 1H 2022, because of the Group's refocus strategy in its main business area and in developed markets, taking advantage of the reinforcement of investment of the main European telecom operators. Nonetheless, all its business areas recorded recovery and consequent increase of turnover in these two periods under analysis (by 6.7% and 32.7% respectively in the Industry sector and by 17.1% and 203.9% in the Tourism sector, which was the most penalized by the pandemic).

Thanks to the appreciation of the local currencies in Angola and Mozambique, the exchange rate impact from the Group's African operations in its turnover was marginally negative in 2021 (at EUR -0.2 million, versus EUR -30.9 million in 2020) and positive in the 1H 2022 (at EUR 12.3 million, contrasting with the EUR -6.4 million in the 1H 2021).

In these periods, the main evolutions of the Group's turnover per countries, as per the chart below, were:

- **Decrease of the Portuguese contribution** – this contribution that came mainly from its main business area, Industry and Tourism sectors decreased to 32.9% of total turnover in 2021 and to 31.5% in the 1H 2022 (from 35.9% in 2020). This trend reflects the implementation of the Group's internationalisation strategy, while the turnover from the Portuguese activity rose by 11.8% and 42.1% respectively;
- **The French market remains the Group's second market** – accounting for 24.2% of total turnover in 2021 and 18.3% in the 1H 2022 (mainly concentrated in the Group's main business area). There was a decrease of contribution from 27.9% in 2020 and 27.9% in 1H 2021, because of the strong overall growth of the Group, fuelled by other markets where the Group has entered more recently, in addition with a temporary decrease in the 1H 2022 due to some operational adjustments related to the implementation of a new multi-annual contract. The annual target for 2022 seems to be achievable;
- **The United Kingdom (UK) consolidated its position as the Group's third market** – focused on the Group's main business area, this contribution increased to 15.3% of the total turnover in 2021 and to 16.6% in the 1H 2022 (from 14.0% in 2020 and 16.4% in the 1H 2021). The cash flow from this market is subject to exchange risk. However, this risk had no significant materialization in 2021 and in the 1H 2022, with the relative stability of the average exchange rate between GBP and Euro in these periods and the impact of the natural hedge of having turnover and operational costs in the same currency;
- **Increasing importance from the Belgian market** – accounting for 6.1% of the total turnover in 2021 and for 8.8% in the 1H 2022 (versus 4.3% and 5.7% in the comparable previous periods);



- **Increasing contribution from the other European markets** – the contribution of other European markets (again, focused on the Group’s main business area) that accounted for 4.8% of total turnover in 2021 increased to 10.7% in the 1H 2022 (against 6.0% in 2020 and 5.9% in 1H 2021). The main contributions in the 1H 2022 come from Germany (4.6%), Italy (2.8%), Ireland (2.4%) and Denmark (0.8%). This increase is reflective of organic growth and acquisitions carried out in the 1H 2022;
- **Increasing diversification to the United States of America (USA) market** – materializing the Group’s strategy of geographical diversification in its main business area, the USA accounted for 7.4% in 2021, an exceptional year, compared with 2.0% in 2020 only related to the last quarter of the year. This contribution decreased to 4.1% in the 1H 2022, compared with 6.8% in the 1H 2021, because of the delay in the announcement of significant governmental incentives to increase the use of renewable energies (done only in August) and some issues in the supply chain of equipment’s, partially solved. The Group’s cash flow from this market is also subject to foreign exchange risk – based on average exchange rate, there was a small depreciation of the USD versus the Euro in 2021 and an appreciation in the 1H 2022 (of 11%); and
- **Historical contribution from African markets** – accounting for 8.1% of the total turnover in 2021 and to 9.3% in the 1H 2022 (versus 9.8% and 8.1% in the comparable previous periods). The majority of turnover came from the main business area as a telecom operator. This contribution has been significantly impacted by exchange rate effect, which was negative in previous periods and became positive in 1H 2022 (as mentioned above). The main impact comes from the activity in Angola and Mozambique. Based on average exchange rate, the Angolan Kwanza devalued 8.5% versus the Euro in 2021 (after a 37.4% devaluation in 2020) and significantly appreciated by 55.2% in the 1H 2022 (year-on-year). The appreciation of the Mozambican Metical versus the Euro started in 2021, with 4.4% (contrasting with a devaluation of 13.0% in 2020) and continued in the 1H 2022, with an appreciation of 14.9%.

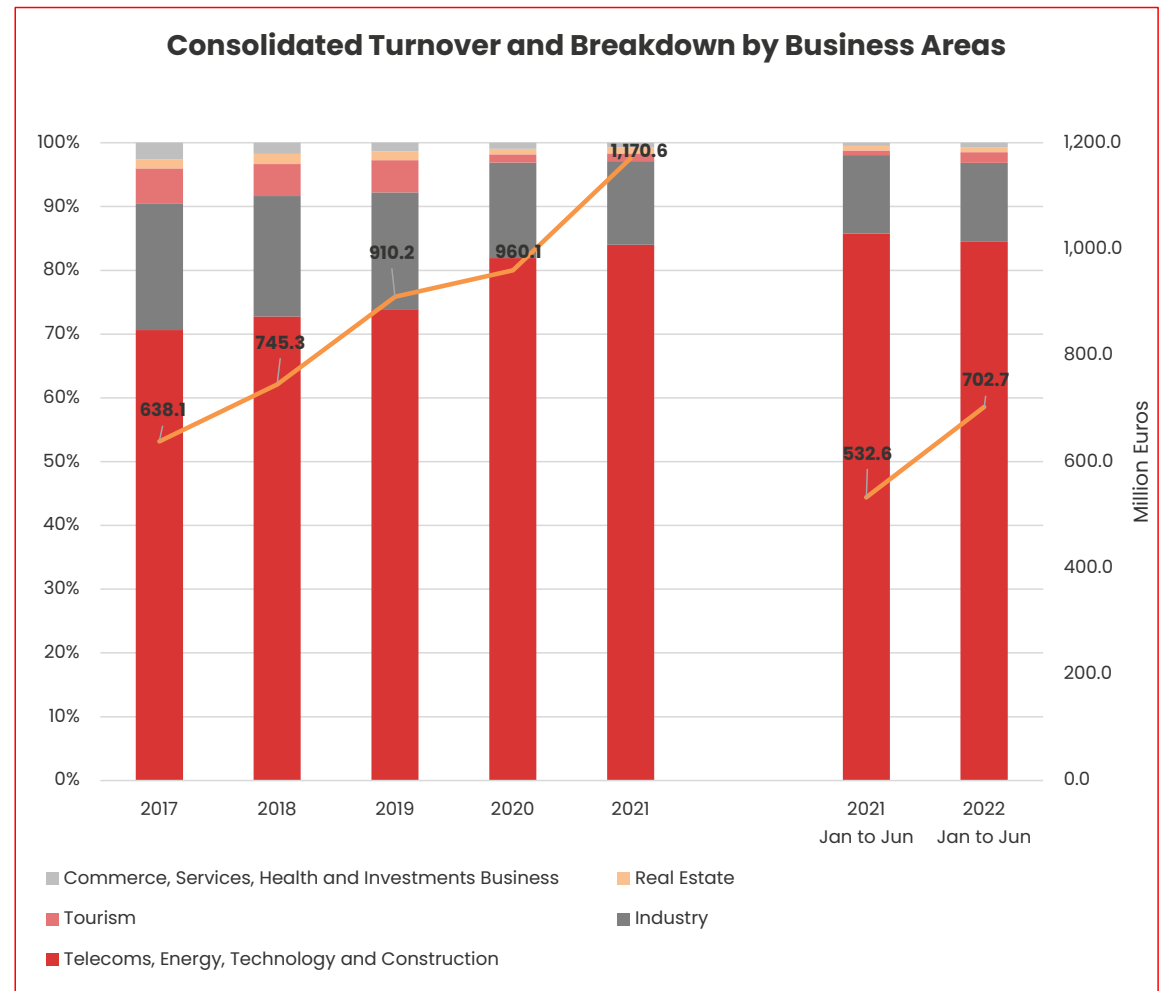
Due to the implementation of the Group’s focus strategy in its main business area (Telecoms, Energy, Technology and Construction), and despite the recovery in other business areas that were more negatively impacted by the Covid-19, its contribution to total turnover increased to 84.0% in 2021 and to 84.5% in the 1H 2022 (compared with 81.9% and 85.8% in 2020 and in the 1H 2021 respectively). Notwithstanding the increase of EBITDA from its main business area, its contribution for the total EBITDA somewhat decreased to 81.5% in 2021 and 80.8% in the 1H 2022 (from 83.5% and 86.6% in 2020 and in the 1H 2020, respectively).

The industry area began a recovery in turnover in 2021, with a 6.7% increase, a recovery that accelerated in the 1H 2022 by 32.7%. These evolutions translated into a reduction to 13.1% of the contribution of this area to the Group’s turnover in 2021 (versus 13.9% in 2020) and a recovery to 12.4% in the 1H 2022 (from 11.8% in the 1H 2021). It is important to note that this business area was significantly impacted by the Covid pandemic and is now the business area most impacted by the very significant energy and raw materials price increases that characterise 2022. These shocks, in spite of all the measures the Group has been implementing to mitigate its negative impacts, led to EBITDA margins significantly below the historical averages, although still close to 16.0% in 2021 and above 14% in 1H2022. With these evolutions the contribution for total EBITDA remained above 13.0% in both periods, consistently the second source of the Group’s cash flow.

The Tourism business area was the most negatively impacted by Covid-19, in particular in 2020. The turnover recovery started in 2021 (17.1%) and accelerated in the 1H 2022 (203.9%). This significant increase in the 1H 2022 and the fact that the summer months were already above the pre-Covid 19 pandemic level, give some comfort and indicate that the Group's perspectives for 2022 may be surpassed, benefiting from the post-Covid normalization and from the added attractiveness that Portugal's geographic position relative to the conflict area provides. Its contribution for the total EBITDA slightly decreased in 2021 to 1.2% and increased to 1.7% in the 1H 2022 (from 1.3% and 0.7% in 2020 and the 1H 2021, respectively). The Mozambican tourism is also recording good performance.

The Group's EBITDA increased by 17.9% in 2021 (11.8% without the non-recurrent items related to badwill from acquisitions and support received in the Covid-19 context) to achieve the historical maximum of EUR 183.1 million. We should note that this increase was reached in an unfavourable environment still marked by the Covid-19 pandemic. The negative exchange rate impact from African operations was modest at EUR -0.6 million (contrasting with the EUR -10.2 million in 2020). In the 1H 2022 the Group's EBITDA continued its strong growth trend, reaching EUR 95.1 million, 22.9% higher than the 1H 2021 figure, partially

explained by a positive exchange rate impact from African operations (EUR 5.4 million, compared with EUR -2.9 million in the 1H 2021). The biggest contribution for the EBITDA increases in both periods come from the development of the Group's main business area and the recovery in the Industry area (more significant in the 1H2022). The tourism business area, despite continuing to be the most negatively impacted by the pandemic in 2021, gave a positive and increasing contribution for the group's EBITDA.



Because of the Group refocus in its main business area, characterized by a lower EBITDA margin than the other Group's business areas, its EBITDA margin reduced to 15.6% in 2021 (or 14.3% before non-recurrent items), compared with 16.2% (or to 15.6% before non-recurrent items) in 2020, and to 13.5% in the 1H 2022 (from 14.5% in the 1H 2021).

GRUPO VISABEIRA'S - FINANCIALS AND RATIOS I/II (THOUSAND EUROS)

	2017	2018	2019	2020	2021	2021 Jan to Jun	2022 Jan to Jun	2022 (F)
TURNOVER	638,131	745,300	910,079	959,927	1,170,398	532,468	702,475	1,512,800
EBITDA	123,444	141,775	165,119	155,286	183,062	77,418	95,113	217,000
EBIT	81,849	95,419	107,312	81,702	100,192	39,490	45,756	134,300
FINANCIAL RESULT	(21,568)	(48,424)	(59,377)	(56,148)	(34,046)	(13,361)	(12,615)	(41,600)
NON-CURRENT RESULTS	(498)	14,734	12,012	16,846	356	0	0	0
NET PROFIT	50,094	51,420	51,639	22,003	37,962	19,602	25,266	46,500
OPERATING CASH FLOW (OCF)	128,345	136,264	149,684	175,948	n.av.	n.av.	n.av.	n.av.
CASH FLOW	82,836	90,116	92,137	122,148	n.av.	n.av.	n.av.	n.av.
FREE CASH FLOW	90,843	2,318	(4,133)	22,604	n.av.	n.av.	n.av.	n.av.
EBITDA Margin (%)	19.3%	19.0%	18.1%	16.2%	15.6%	14.5%	13.5%	15.4%
Net Return on Turnover (%)	8.5%	6.6%	6.1%	2.1%	3.8%	4.3%	5.3%	4.1%
Payout Ratio (%)	127%	39%	174%	215%	0%	0,0%	0,0%	0%
Coverage of Interest Costs by EBITDA + Dividends (x)	2.3	3.3	3.3	3.4	3.9	3.7	4.1	n.d.
Coverage of Net Interest Costs by EBITDA + Dividends (x)	2.8	3.7	3.6	3.5	4.4	3.8	4.5	4.2
Coverage of Interest Costs and FX differences, by EBITDA + Dividends (x)	1.9	2.2	2.6	2.7	4.7	5.4	6.5	n.d.
Coverage of Net Interest Costs and FX dif. by EBITDA + Dividends (x)	2.2	2.4	2.8	2.8	5.4	5.8	7.5	5.3

Notes: Figures rounded. (F) = Forecasts. (n.av.) = Not available. Accounts prepared under IFRS. Adjusted by ARC Ratings for analysis purposes. 2017 to 2021 Accounts certified by Ernst & Young Audit & Associados. Interim periods and estimates unaudited figures.

Sources: GRUPO VISABEIRA's Annual Reports and additional information. GRUPO VISABEIRA's Budget for 2022 prepared in January 2022.

INTEREST COSTS AND COVERAGE RATIO

The Group's Financial Result (i.e. the difference between financial gains and financial costs) significantly improved to EUR -36.0 million in 2021, from EUR -56.1 million in 2020. In the 1H 2022 there was a small improvement to EUR -12.6 million, from EUR -13.4 million in the 1H 2021. The evolution of interest expenses and other financial costs and the exchange rate differences in these periods is shown in the table on right. The net exchange rate differences were crucial for the significant improvement in financial results in 2021 and were mainly generated in African markets from importations from European countries (while in UK and US markets it is less relevant as the revenues and costs are denominated in the same currency). Interest expenses slightly increased in 2021, in a context of stabilization of debt, while in the 1H 2022 rose by 9.4%, mainly because of other financial costs.

The coverage of net interest costs by EBITDA improved to 4.4 times in 2021, from 3.5 times in 2020, a comfortable level. In the 1H 2022 this coverage was 4.5 times, improving from 3.8 times in the 1H 2021. For analysis purposes, if the exchange rate differences were considered, the coverage of net interest costs and exchange rate differences by EBITDA would be of 5.4 times (almost doubling from 2.8 times in 2021) and of 7.5 times in the 1H2022 (versus 5.8 times in the 1H2021) thanks to net exchange rate differences of EUR 7.5 million in 2021 (of which EUR 6.9 million in the 1H2021) and EUR 8.5 million in the 1H 2022 (contrasting with negative values in the previous periods).

NET PROFIT

The Group net profit (including minority interests) increased in 2021, to EUR 38.0 million, from EUR 22.0 million in 2020 - despite still below the pre-Covid level -, thanks to the EBITDA improvement and the positive net exchange rate differences. In the 1H 2022 its net profit improved to EUR 25.3 million, against EUR 19.6 million in the 1H 2021.

GRUPO VISABEIRA'S - FINANCIAL RESULT BREAKDOWN

	2018	2019	2020	2021	2021 Jan to Jun	2022 Jan to Jun
Financial Gains other than Exchange Rate Differences	15,449	3,778	1,791	4,904	921	2,096
Interests Expenses and Other Financial Costs	(43,019)	(50,068)	(45,693)	(46,486)	(21,181)	(23,177)
Net Exchange Rate Differences	(20,855)	(13,087)	(12,246)	7,537	6,898	8,466
FINANCIAL RESULT	(48,424)	(59,377)	(56,148)	(34,046)	(13,361)	(12,615)

Notes: Figures rounded. Accounts prepared under IFRS. Adjusted by ARC Ratings for analysis purposes.

Sources: GRUPO VISABEIRA's Annual Reports and additional information.

FINANCIAL POLICY

ASSETS AND LIABILITIES

The Group's assets increased by 11.0% in 2021, to EUR 2,051.5 million. Both non-current assets and current assets increased. Thus, the non-current assets continued to account for circa 69.0% of total assets. We should highlight the increase of tangible assets, by 22.6%, to EUR 694.3 million, thanks to the investment carried out and the positive impact of the appreciation of the Angolan Kwanza and the Mozambican Metical. In addition, there was an increase of goodwill related to the strategic acquisitions, to EUR 163.2 million, which is being subject to impairment tests. No impairment was recorded in 2021. The investment properties are recorded at its fair value based on third-party valuations, reaching EUR 297.3 million, without any significant change in fair value.

Regarding the current assets, we should note the increase of accounts receivables, by 32.0%, to EUR 175.0 million related to the turnover increase. Thus, the percentage of account receivables with allowances decreased to 8.1% in 2021, from 9.6% in 2020. In opposite, cash and cash equivalents, exceptionally high in 2020 in a context of uncertainty regarding Covid-19, decreased by 15.5%, to EUR 130.9 million, still at a considerable level.

In the 1H 2022 the Group's assets increased by 16.6%, to EUR 2,391.1 million, mainly reflecting increases of goodwill from the acquisitions, to EUR 212.4 million, of inventories, accounts receivables (as well as assets associated with customers' contracts) related to the expansion of activity, in addition to the reinforcement of cash and cash equivalents.

The Group carried out EUR 78.0 million in operational investments in 2021 (a 16.4% increase compared with EUR 67.0 million in 2020) to expand its main activity, as well as the Tourism and Industry sectors. Strategic acquisitions led to c. EUR 10 million financial investment in 2021 (moderating versus the c. EUR 41 million in 2020), while the inflow from its divestment strategy was EUR 1.8 million. In the 1H 2022 the operational investment carried out was EUR 25.6 million, principally in its main business area and in the Tourism sector. In this period the Group reinforced its strategic acquisitions in its main business area in European countries (UK, Ireland, Germany and Italy), by c. EUR 31.1 million in financial investment, which reinforced its portfolio of pluriannual contracts.

Year to date 2022, in the context of increasing prices, the Group contracted EUR 12.2 million of new credit lines to support the treasury of its subsidiaries in the Industry sector (EUR 4.7 million of which in the 1H 2022).

GRUPO VISABEIRA'S - FINANCIALS AND RATIOS II/II (THOUSAND EUROS)

	2017	2018	2019	2020	2021	2021 Jan to Jun	2022 Jan to Jun	2022 (F)
TOTAL ASSETS	1,576,970	1,694,897	1,938,236	1,847,503	2,051,479	1,915,982	2,391,052	n.av.
NET WORKING CAPITAL (NWC)	(69,671)	(89,118)	(70,236)	(54,898)	(74,732)	(27,799)	79,213	n.av.
NET WORKING CAP. REQUIREMENTS (NWCR)	124,730	115,851	127,983	118,609	158,808	165,732	223,513	n.av.
NET CASH POSITION (NCP)	(194,401)	(204,969)	(198,219)	(173,507)	(233,539)	(193,531)	(144,299)	n.av.
FINANCIAL DEBT	657,277	706,860	821,040	825,478	827,970	826,570	780,024	745,000
NET FINANCIAL DEBT	611,259	665,789	751,224	670,641	697,074	716,991	596,649	601,000
Net Financial Debt / (EBITDA + Dividends) (x) (*)	4.8	4.7	4.5	4.3	3.8	4.3	3.0	2.8
Equity (Incl. Minor. Int.) / Assets (%)	24.1%	23.1%	25.7%	20.5%	24.3%	22.0%	33.1%	n.av.
NET GEARING (Net Debt to Equity and Minority Interests) (x)	1.6	1.7	1.5	1.8	1.4	1.7	0.8	n.av.
Financial Debt Struc. (S.T. Finan. Debt as a % of Total Financial Debt)	19.1%	17.9%	16.9%	24.3%	27.0%	22.7%	29.1%	n.av.
Short-Term Debt Coverage by Cash and Undrawn Facilities (%)	36.6%	32.4%	50.3%	77.2%	58.5%	58.5%	80.7%	n.av.
Net Floating Rate Debt (%)	99.5%	92.0%	86.1%	85.3%	86.1%	86.2%	84.5%	n.av.
Current Assets Ratio (%)	85.8%	83.5%	87.2%	91.3%	89.4%	95.7%	110.3%	n.av.
Acid Test Ratio (%)	59.8%	63.0%	67.0%	73.1%	70.6%	75.1%	90.0%	n.av.

Notes: Figures rounded. (F) = Forecasts. (n.av.) = Not available. (*) For the interim periods it was considered the last twelve months. Accounts prepared under IFRS. Adjusted by ARC Ratings for analysis purposes. 2017 to 2021 Accounts certified by Ernst & Young Audit & Associados. Interim periods and estimates unaudited figures.

Sources: GRUPO VISABEIRA's Annual Reports and additional information. GRUPO VISABEIRA's Budget for 2022 prepared in January 2022.

FINANCING, COVERAGE OF DEBT BY EBITDA, LIQUIDITY, AND INTEREST RISK

The evolution of the Group's gross and net debt in 2021 and in the January-July 2022 period was the following:

- **Group's gross debt decrease** – after a small increase in 2021 (by 0.3%, equivalent to EUR 2.5 million), its gross debt decreased by 5.8% in the 1H 2022 to EUR 780.0 million (and to EUR 777.0 million in July 2022);
- **Diversification of its sources of funding** – namely issuing higher debt value on the Spanish Alternative Fixed-Income Market (at fixed interest rate, although at short-term);
- **Stable debt denomination currency** – most of its financial debt is contracted in Euros (c. 97% in June 2022);
- **Interest rate risk** – most of its financial debt is contracted at indexed rates (essentially EURIBOR), with the most notable exception being EUR 103.8 million bond loans. The Group does not have hedging instruments to mitigate the interest rate risk on its debt at indexed rates. Therefore, the Group incurs in interest rate risk, a risk particularly heightened in the current context of central bank's interest rates hikes as a measure to try to control the high levels of inflation. Considering the value of debt at the end of July 2022, an increase of 1.0 percentage point in interest rates produces a EUR 6.7 million additional annual interest expense;
- **Debt maturity profile** – At the end of July 2022, most of the Group's gross debt had maturing dates in the remaining period of 2022 (15.6% of total), in 2023 (25.5%) and in 2024 (33.2%). However, EUR 81.0 million of the debt maturing by the end of 2023 has a revolving nature, including secured current accounts, overdrafts and debt placed with institutional investors. Taken into consideration the existing high level of cash and cash equivalents, even disconsidering c. EUR 20.0 million of cash equivalents from African subsidiaries (a prudent step given it may be subject to transfer restrictions), in ARC Ratings' view the Group faces no current liquidity pressures nor are these expected in the coming years given the Group ongoing negotiations to refinance debt;
- **Increase of cash and cash equivalents** – The investment agreement with Goldman Sachs boosted the Group's cash and cash equivalents, which was partially used to repay debt and other liabilities, finance strategic acquisitions and finance working capital requirements from the increase of activity. Thus, its cash and cash equivalents increased to EUR 183.4 million in June 2022 (EUR 177 million in July 2022), from EUR 130.9 million in 2021;
- **Group's net financial debt decreased** – the evolution of cash and cash equivalents was crucial for its net financial debt value. Thus, following a modest 3.9% increase in 2021, it decreased by 14.4% in the 1H2022, to EUR 596.6 million (EUR 598 million in July 2022);
- **Improvement of the Net financial debt / EBITDA ratio** – this ratio improved to 3.8 times in 2021, from 4.3 times in 2020, to 3.0 times in the 1H 2022 and to 2.9 times in July 2022.

CAPITAL STRUCTURE

The Group's equity / assets ratio (including minority interests) improved to 24.3% in 2021, from 20.5% in 2020, and to 33.1% in the 1H 2022. In addition to the Group's net profit, the Group's equity was positively impacted by foreign exchange differences (EUR 40 million in 2021 and EUR 31.5 million in the 1H2022) and the positive impact from the entry of Goldman Sachs in the equity of its main sub-holding (net impact on equity of EUR 159.0 million).

The net gearing ratio improved to 1.4 times in December 2021 (from 1.8 times in December 2020) and even more significantly to 0.8 times in June 2022, reflecting the equity (including minority interests) increase and debt decrease.

FORECASTS

The 2022 Group's budget prepared in January 2022 (based on its 2021 estimates) analysed by ARC Ratings in the Press Release dated 28 March 2022 is still in force. While 2022 has brought increased uncertainty and challenges, the Group doesn't expect to materially deviate from these forecasts.

The main assumptions and expected evolutions for the Group in 2022 continue to be the following:

- **Increasing turnover and EBITDA** – the Group expects to reach EUR 1,512.8 million turnover and EUR 217.0 million EBITDA, before possible foreign exchange impact (which is not considered in the forecasts given its uncertainty) and the impact of the Russia/Ukraine conflict and subsequent impacts. This means an increase of 29.3% and of 30.0% (compared with the 2021 figures, non-recurrent items). Usually, the second half of the year performs better than the first half, due to better weather conditions. As an expected side effect of the refocus strategy, a decrease of its EBITDA margin is anticipated, to 14.3% (as occurred in the 1H 2022, to 13.5%);
- **High contribution from its main business area** – As a result of the Group's strategy of focus on telecommunications and energy network engineering services, it predicts to maintain a very high contribution from its main business area to total turnover (84.5%) and total EBITDA (79.8%), from 84.0% and 81.5% respectively in 2021. This business area is based on pluriannual contracts signed with major telecoms and energy infrastructures operators, benefiting from very low churn rate. Currently, EUR 3.4 billion worth of contracts have already been signed for the next four years, and an additional EUR 1.4 billion is under negotiation with the usual customers, thus with a significant probability of being successful. The Group also intends to continue to grow by strategic acquisitions in the remaining period of 2022 and following years;
- **Further recovery in the Industry area** – that led to forecasts of slight increase in its contribution to 13.5% of total EBITDA, compared with 13.3% achieved in 2021. In this business area the Group also benefits from pluriannual contracts that ensure part of expected turnover;
- **Significant recovery in the Tourism sector** – allowing to more than double the turnover and EBITDA reached in 2021. Thus, its contribution for total EBITDA is projected to increase to 3.7%, compared with 1.8% in 2021. In fact, this sector is benefiting from the increase of tourism in Portugal and Mozambique, both far of the European countries in conflict. In the January–July 2022 period the overnight stays in Portugal increased by 194% year-on-year, a huge recovery, although still 4.4% behind the same period in 2019;
- **Existing order book in other business areas** – On top of the order book for the main business area, the Group also had a EUR 400 million from other business sectors;

- **European markets as the main source of EBITDA** – 73.1% of total EBITDA is expected to be generated in European markets in 2022, while the contribution from African markets will be 20.4% (without considering possible foreign exchange impact), compared with 68.6% and 19.8% achieved in 2021 (with low foreign exchange rate impact). 6.6% of total EBITDA (versus 11.6% in 2021) is forecasted to be generated from the diversification for the USA market, with focus on telecommunications and energy network engineering services;
- **Some reduction of operational investment** – the Group forecasts operational investment of EUR 67 million, EUR 25.6 million of which was already carried out in the 1H 2022. Most of the investment is forecasted to reinforce its main business area (EUR 52 million) and its presence in Tourism area (EUR 10 million, mainly in Portugal);
- **Additional strategic acquisitions** – to reinforce its footprint in the European markets in its main business area, a financial investment of EUR 58 million was forecasted (of which EUR 31.1 million carried out in the 1H 2022);
- **Net financial debt** – the budget forecasts a 13.8% decrease of its net financial debt, compared with the 2021 figure, to EUR 601.0 million. Considering the value of debt in July 2022 (of EUR 598 million) and that usually the second half of the year performs better than the first half, this target seems achievable;
- **Improvement of its net financial debt/EBITDA ratio** – the Group is committed to improve to less than 3.0 times by December 2022, a target that was reached in July 2022 (2.9 times); and
- **Improvement of its debt maturity profile** – the Group intends to improve the maturity of its financial debt, reducing the percentage of short-term debt in total debt, being on ongoing negotiations.

It is worth to note that the impact of the Ukraine/Russia conflict was not considered in the Group's 2022 forecasts. It is having a cumulative impact on the already increasing inflation and leading to a steep inversion in the main central bank's monetary policy. This has heightened significantly the uncertainty in the global economy and particularly in Europe, the continent most directly affected by the conflict, slowed the economic growth and increased the probability of an economic recession. The measures that are being taken by the Group to mitigate the impacts of this deterioration lead us to expect that its performance and debt metrics should not be significantly different from the forecasted.

Globally, the Group's performance is sensitive to a set of operational, exchange rate and transfer risks and, as referred before, the Ukraine/Russia conflict added a significant layer of uncertainty on the evolution of the European economy. Other than that, the Covid-19 pandemic still can't be ruled out as a potentially negative factor. ARC will monitor closely the Group's performance and its financial structure.

ISSUANCE CONDITIONALITY

The issues being rated by ARC Ratings are the commercial paper issues placed or to be placed by Grupo Visabeira under a programme with maturity on 20 November 2022.

RELATED CRITERIA AND RESEARCH

ARC Ratings' Non-Financial Corporate Entities Rating Methodology

Grupo Visabeira Initial Rating Report (29 August 2014)

Grupo Visabeira Previous Press Release (28 March 2022)

PERIOD OF ANALYSIS AND INFORMATION ANALYSED

PERIOD OF ANALYSIS

Historic: 2017 to July 2022

Forecast: 2022

INFORMATION ANALYSED

Grupo Visabeira Reports and Audited Accounts – 2017 to 2021

Grupo Visabeira Interim Unaudited Accounts - 1H2021 and 1H2022

Financial Debt Details

Main Business Pipeline

Grupo Visabeira 2022 Budget

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CONTACT DETAILS

ARC Ratings (UK) Limited

30 Churchill Place, Canary Wharf
London E14 5RE - UNITED KINGDOM
+44 203 927 8600
arcratings_uk@arcratings.com

Sinead Bald
Business Development Officer
sinead.bald@arcratings.com

ARC Ratings, S.A.

Rua de São José. 35 – 1º B
1150-321 Lisbon - PORTUGAL
+351 21 304 11 10
arcratings_eu@arcratings.com



www.arcratings.com