

## RATING ACTION:

### ARC RATINGS AFFIRMS GRUPO VISABEIRA'S RATINGS

Lisbon, 28 September 2022 - ARC Ratings, S.A. has affirmed the final long-term issuer public rating of "BBB-", with Stable outlook, assigned to Grupo Visabeira, S.A. (Grupo Visabeira) and the "A-3" public short-term issuer and issue ratings

ISSUER	ISSUE	RATING CLASS	RATING	OUTLOOK	NEXT REVIEW DATE
Grupo Visabeira, S.A	-	Corporate Long-Term Issuer	BBB-	Stable	28 March 2023
Grupo Visabeira, S.A	-	Corporate Short-Term Issuer	A-3	-	28 March 2023
Grupo Visabeira, S.A	Commercial Paper up to EUR 21.8 million	Corporate Short-Term Issue	A-3	-	28 March 2023

This 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.

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## 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.

## RATING RATIONALE

Grupo Visabeira's key rating drivers are the following:

- 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.

## RECENT DEVELOPMENTS AND OUTLOOK

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.

The Group's EBITDA increased by 17.9% in 2021 (11.8% without the non-recurrent items related to goodwill from acquisitions and support received in the Covid-19 context) to achieve the historical maximum of EUR 183.1 million. In the 1H 2022 its EBITDA reached 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).

The Group carried out EUR 78.0 million in operational investments in 2021 (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 (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. At same time, the Group reinforced its strategic acquisitions by c. EUR 31.1 million in financial investment.

#### GRUPO VISABEIRA'S - FINANCIALS AND RATIOS (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
NET PROFIT	50,094	51,420	51,639	22,003	37,962	19,602	25,266	68,200
EBITDA Margin (%)	19.3%	19.0%	18.1%	16.2%	15.6%	14.5%	13.5%	14.3%
Coverage of Net Interest Costs by EBITDA + Dividends (x)	2.8	3.7	3.6	3.5	4.4	3.8	4.5	5.2
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 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.

Notes: Figures rounded. (n.av) = Not available. (F) = Forecasts. (\*) 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 & Asociados. Interim periods unaudited figures.

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

The Group's gross debt slightly increased in 2021 and decreased by 5.8% in the 1H 2022 to EUR 780.0 million (and to EUR 777.0 million in July 2022). 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) leading to a decrease of its net debt by 14.4% in the 1H 2022, to EUR 596.6 million (EUR 598 million in July 2022). Therefore, the Group's net financial debt / EBITDA ratio improved to 3.0 times in the 1H 2022 (from 3.8 times in 2021) and to 2.9 times in July 2022.

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, benefiting from positive impacts from the foreign exchange differences and the entry of Goldman Sachs in the equity of its main sub-holding.

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, which points to EUR 217.0 million EBITDA and EUR 601.0 million net debt. The Group is committed to improve its net financial debt / EBITDA ratio to less than 3.0 times by December 2022, a target that was reached in July 2022 (2.9 times). It also intends to improve the maturity of its financial debt, reducing the percentage of short-term debt in total debt, being on ongoing negotiations.

The Group's performance is sensitive to a set of operational, exchange rate and transfer risks and 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.

## **RELATED CRITERIA AND RESEARCH**

ARC Ratings' Non-Financial Corporate Entities Rating Methodology.

Grupo Visabeira Rating Review Report.

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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This Review Report should be read together with initial Rating Report and with the subsequent Review reports.

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