RATING COMMUNICATION

Cerved Rating Agency S.p.A. upgrades

E.S.TR.A. S.p.A. public rating

to **A3.1**

Prato (PO) – Via Ugo Panziera, 16

Cerved Rating Agency on 03 June 2021 has upgraded E.S.TR.A. S.p.A. rating from B1.1 to A3.1

Date of first issuance of the rating: 24 December 2013

E.S.TR.A. S.p.A. Energia Servizi Territorio Ambiente (ESTRA, The Group) was founded in 2010 following a process of aggregation of three public energy services companies with a long-standing presence in gas distribution in Tuscany: Consiag S.p.A., Intesa S.p.A. and Coingas S.p.A. respectively located in Prato, Siena and Arezzo. In December 2017 Viva Servizi S.p.A. (formerly Multiservizi S.p.A.) entered into E.S.TR.A's share capital with a 10% stake.

Key rating factors

The rating upgrade to A3.1 reflects the improvement in profit performances in FY20, despite a significant drop in the Group turnover, together with a reduction in the net debt, resulting in a largely sustainable leverage and a balanced asset structure at December 2020. For the FY21, considering the ongoing business diversification strategy, the Agency estimates the consolidation of profits, while maintaining a well-balanced financial profile.

Significant improvement in operating margins in FY20 – In 2020 ESTRA Group economic trend was significantly affected by the impact deriving from Covid-19 pandemic on the energy sector, with a strong downward trend in commodity prices and a drop in energy consumption, especially in the lockdown periods. As a result, despite substantially stable economic results for the minor SBUs, in FY20 the Group recorded a sharp decline in operating revenues to 760.6 mln (-22.8% YoY), entirely determined by the SBU Gas and EE sale (-223.6 mln compared to FY19). This SBU, despite the expansion of the residential customer base in the Electric Energy segment, was negatively affected by the mild seasonal temperatures and by lower sales of gas to the PSV (exceptionally high in FY19). On the other hand, in terms of business profitability, ESTRA recorded a significant improvement in the adjusted EBITDA margin, from 7.6% in FY19 to 12.2% in FY20, despite the higher incidence of the fixed costs. This relevant increase, as well as benefitting from the savings in operating costs (i.e. lower marketing and staff costs due to smart working), was driven by the significant rise in the gross margin of the SBU Gas and EE sale to over 14.0% (compared to 9.0% in FY19), due to the growing incidence of the residential customers with respect to the business/wholesale segments, procurement efficiency and significant reduction of PSV sales. With a pre-tax profit of 32.1 mln (compared to 27.8 mln in FY19), ESTRA closed FY20 with a consolidated net profit of 70.3 mln, due to the positive tax effect of 49.0 mln, resulting from revaluation and fiscal realignment of the Group company assets.

Declining Net debt with a significant improvement in the financial leverage – The adequate operating cash flows generated by the ESTRA Group in FY20, amounting to 76.5 mln euro (69.6 mln in FY19), largely covered the requirements related to operating CAPEX, amounting to 46.5 mln euro (91.3 mln in FY19), determining a reduction in the adjusted Net

Debt to 301.9 mln euro at 31/12/2020 (316.6 mln euro at 31/12/2019). The improvement of Group financial balance, in addition to the Net Debt reduction, also resulted from the increase in the Net Equity, due primarily to revaluation and realignment of the company assets (Law no. 126 of 13th October 2020), as shown by the main leverage ratios adj Net Debt /Net Equity and adj Net Debt /adj EBITDA, equal to 0.8x and 3.2x respectively (1.0x and 4.2x at 31/12/2019).

Consolidation of the economical-financial performances in FY21 with further business diversification – For the FY21 the Agency estimates an organic growth in the core business turnover with a consolidation of the current operating margins, other than possible upsides deriving from the superbonus in energy efficiency activity. Regarding the sectorial context, the Group will not be affected in terms of margins by the strong upward trend in commodity prices characterizing the first half of FY21, given the stringent hedging risk policies implemented by the management since 2019. In line with the strategies of recent years, a further business diversification in the Environment BU is also expected both through M&A operations and investments in plants. From a financial perspective the Agency estimates an adj Net Debt in line with the current year, considering the stability of the expected cash flows mainly arising from regulated activities and the lower Working Capital requirements, thus maintaining a well-balanced Group financial profile.

Rating sensitivities

- In the short term the Agency forecasts the confirmation of the current rating class as a positive scenario.
- The public rating of E.S.TR.A. S.p.A. could be downgraded in light of: (i) significant worsening of the profitability and economic results; (ii) negative operating cash flows; (iii) further growth in Net Debt with a consequent deterioration of capital and financial structure (adj Net Debt/Adj EBITDA > 4,0x, adj Net Debt/PN > 1,0x).

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

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