

RATING COMMUNICATION

Cerved Rating Agency S.p.A. downgrades to

B1.1

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

Prato (PO) – Via Ugo Panziera, 16

Cerved Rating Agency on 19 November 2022 downgraded E.S.TR.A. S.p.A. rating from A3.1 to B1.1

Date of first issuance of the rating: 24 December 2013

The downgrade of the rating is determined by: (i) the expected reduction in the operating cash flows in FY22B, as a consequence of credit risk deterioration and higher Virtual Trading Purchases (VTP) purchases in the last two months of the year; (ii) volatility and uncertainty in energy industry, with an expected worsening in the financial structure as well as in the leverage ratios, as observed in 1H22 results. Nevertheless, Cerved Rating Agency foresees a still sustainable financial structure, thanks to business diversification.

1H22 management accounts highlight growing consolidated revenues amounting to €956m (€467m in 1H21), mainly driven by “Gas and Electric Sales” SBU, that benefited from an upward trend in commodities pricing. Adj EBITDA (including accruals to the bad debt provision for €9m) is equal to €56m, slightly lower than 1H21 (€59m including accruals to the bad debt provision for €6m), mainly due to the decrease in gas and power volumes, especially with reference to *Business & Wholesale* segment (also affected by a drop in Consip customers). Net Working Capital (NWC) worsening was driven by a longer cash flow cycle (greater VTP purchases and trade receivables instalment plans), an increase in tax receivables connected with energy efficiency activities (approximately €20m) as well as by the methodology applied for the allocation of gas volumes between redelivery points without remote metering. Such elements determined an increase in Net Financial Position as at Jun22 (€336m vs €240m at Dec21) and a consequent worsening in leverage ratios NFP / EBITDA LTM adj equal to 3.5x (2.4x Dec21) and NFP / Equity equal to 0.8x (0.6x Dec21).

For FY22 Cerved Rating Agency forecasts a consolidated VoP of approximately €1.5b (€1.1b in FY21), whose growth will be still driven by gas and power rising rates, and a consolidated adj EBITDA ranging from €90m to €95m (€98m in FY21), that will be impacted by higher accruals to the bad debt provision and by shrinking volumes, though counterbalanced by a further enhancement in gas profitability (already observed in 1H22 management accounts) connected to a better customer portfolio mix. Specifically, the Management did not renew contracts in place with wholesalers and substantially reduced the business segment (mostly characterized by a fixed rate offer), in order to mitigate credit risk. Further initiatives include the shift to variable rate offers upon the expiration of the contract terms, as well as the signing of addendum related to fixed/ semi-fixed rates offers (not expired yet) to settle excess volumes at the market values.

In order to finance CapEx plan and operating financial needs, in 3Q22 ESTRA raised new funding through: (i) subscription of a pool loan of €155m, already disbursed for €105m (amortizing, 12 months grace period and due date in August 2027); (ii) issuance of a senior unsecured bond for €70m subscribed by USA institutional investors (bullet, due date in September 2029). Additionally, with the purpose to support NWC needs, the Group is currently trying to raise additional financing.

On the basis of (i) higher VTP purchases (with a consequent decrease in DPO) in Nov-Dec22; (ii) uncertainty regarding gas rates trend and volatility; (iii) lower expected cash-in due to a higher credit risk and to the recourse to installment plans, Cerved Rating Agency foresees an increase in NWC between Dec21 and Dec22 (+€69m in the period Dec21-Jun22), that

will lead to a reduction in operating cash flows. NWC evolution will result in an increase in NFP at Dec22, with an expected worsening in leverage ratios NFP / EBITDA adj and NFP / Equity that will range between 3.4x-4.4x and 0.7x-0.9x.

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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