RATING COMMUNICATION

Cerved Rating Agency S.p.A. upgrades to

B1.1

the public rating assigned to **I.CO.P. S.p.A. Benefit Corporation**

Basiliano (UD) – Via Silvio Pellico 2 – Italia

Cerved Rating Agency on 19/02/2021 has upgrade the I.CO.P. S.p.A. Benefit Corporation public rating from B1.2 to B1.1

Date of first issuance of the rating: 28/11/2016

I.CO.P. S.p.A. Benefit Corporation, established in 1920, is now head of the eponymous group (below "I.CO.P." or "the Group") specializing in the sector of construction, foundations and special engineering works. The company belongs to the third generation of the PETRUCCO family. In 2020 the Share Capital was increased (from 11 to 25 million Euro) partly by conversion of reserves to Equity and partly (3 million Euro) by the introduction of new liquid funds by the shareholder FRIULIA S.p.A. Today the latter holds 20% of the share package, after the recent share ownership reorganization which saw the entry of the holding company CIFRE S.r.l. and designed, among other things, to initiate a process of generational transition within the founding family, without distorting the existing governance structure.

Key rating factors

The rating upgrade reflects the consolidated positioning of the Group within its reference sector and the dimensional and business growth highlighted in recent years. In line with the management forecasts, FY 2020, despite an inevitable drop in the Value of Production attributable to the impact of Covid-19, was characterized by a definite improvement in margins and simultaneous slight decrease in Net Debt, with a consequent improvement in sustainability indexes. The outlook for the results over the next three years is positive; during this period business development will hinge not only on the usual core activities but also and above all on progress of the Trieste Logistics Platform project.

Good positioning within the reference sector – Within a sector context characterized by aggregation processes, I.CO.P. differentiates itself from the big players due to its strong focus on particular niche segments, a factor that guarantees it good visibility both on the home market (52% of VoP 2020) and at international level (with particular focus on France and above all the Scandinavian countries) where it operates both through legal entities and permanent organizations. The Group business comprises four separate lines of activity: "Special Foundations" (accounting for 38% of VoP in 2020), "Microtunneling" (41%), "General Enterprise" (5%) and "Maritime Works" (16%), the latter predicted to expand significantly over the next few years, focusing essentially on development of the "Trieste Logistics Platform" (PLT) project.

Adequate governance – While maintaining the characteristics of a family business, over the years I.CO.P. has adopted a structured and effective governance model, relying on an efficient management with good knowledge of the reference market. The Group has always paid particular attention to the theme of innovation and sustainability of its business (ESG factors), with reference both to the social aspect and environmental impact, factors which contributed to attainment, in 2020, of legal recognition as a "Benefit Corporation".

Marked growth of 2020 margins - The impact of Covid-19 in 2020 interrupted the track record of ongoing business growth that has characterized I.CO.P. for several years now (CAGR 23% in the four-year period 2016-2019), with a Value of Production (108.1 million Euro) showing a drop of approximately 29% based on the pre-closing values available. Despite this, after the reduction that occurred in 2019, a significant recovery emerges in terms of margins, with an EBITDA margin standing at 15.3% (+6.7 p.p. YoY).

Trend towards improvement in debt sustainability indexes – Despite an absorption of cash by the working capital, the management of which was impacted by the commercial operations with the subsidiaries, in 2020 the Group was able to generate positive cash flows with its core business (Net Operating Cash Flow just below 9 million Euro), guaranteeing fairly good self-financing of the capex put in place (although below the average of the previous FYs) but also a marginal reabsorption of the Net Debt. Net of the liquidity (doubled to 26.5 million Euro) the Net Debt shows a reduction to 41.2 million Euro (44.5 million Euro at the end of 2019), with sustainability indexes significantly improving, namely Net Debt/Net Equity=1.2x (1.7x at the end of 2019) and Net Debt/EBITDA=2.5x (3.4x at the end of 2019). I.CO.P. did not make use of moratoria during the FY, while the recourse to guaranteed loans (SACE), as established by the post Covid-19 government decrees, allowed the debt duration to be extended with more favourable interest rates.

Growth strategies and expected results – The growth strategies outlined by the Industrial Plan see I.CO.P. committed over the next few years to the project of creation of the logistics platform within the port hub of Trieste, with potentially important business returns. In June 2020 the "Programme Agreement" was signed, defining the new project development steps, and in January 2021 the German company HAMBURGER HAFEN UND LOGISTIK AG (HHLA) entered the Trieste logistics platform, with a majority share; this company is an important international logistics operator guaranteeing availability of the financial resources designed to support the project and the experience necessary for correct business development. Regarding 2021, in the presence of a significant growth in the VoP (+57% YoY), the budget indicates a substantial maintenance of margins (EBITDA margin≈15.5%), an objective judged by Cerved Rating Agency to be achievable despite business volumes that could prove to be lower than those forecast (as of today the backlog covers approximately 65% of the VoP target), also in relation to the protracted public health emergency ongoing. A worsening in the Net Debt (≈57 million Euro) is expected in relation to a growth in the working capital and important capex, but these dynamics are accompanied by a simultaneous increase in equity and by an improved capacity to generate cash flows. A reabsorption of the Net Debt can be hypothesized as from 2022.

RATING SENSITIVITIES

- In the short term, full achievement of the Plan objectives concerning maintenance of the margins and an appropriate financial equilibrium will ensure that the current rating class is maintained.
- The rating could be downgraded in the case of: *(i)* deterioration of the margins achieved (EBITDA margin <13%) and the capacity to generate cash flows; *(ii)* significant deterioration in the financial structure (Net Debt/Net Equity>1.5x and/or Net Debt/EBITDA>3.4x); *(iii)* poor capacity to absorb any impacts connected with the unfavourable trend of the macro-economic variables and/or sudden changes in the sector dynamics.

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

Lead Analyst: Tiziano Caimi – tiziano.caimi@cerved.com

Rating Committee Vice Chairperson: Elena Saporiti – elena.saporiti@cerved.com