

open fiber

**VALUATION UNDER DIFFERENT
FINANCIAL MODEL SCENARIOS**

Dr. Kristina Teroganesova

Roma, 28 settembre 2020

Safe Harbor

Information herewithin discussed, except historical and factual information, may represent forward-looking statements. This includes statements about certain companies' plans, beliefs, estimates and expectations. These statements are based on current estimates and projections, which involve certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Important factors that may affect these forward-looking statements include, but are not limited to: changes in circumstances or events that may affect ability to implement what therein discussed due to changes in overall economy, changes in competition in the market, changes due to industry consolidation, advances in telecommunication and computer technologies, involving internet structure, regulatory issues, involving internet neutrality rules, changes to access and pricing of network and service elements, changes in the value of investment, averse change in the ratings afforded, pending and future litigations, acquisition/divestitures of properties and/or licenses, conditions included in service contracts with the State or private partners, changes in customer growth rates, average monthly service revenue per unit, churn rates, and any mix of above conditions, or similar ones.

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Agenda

- Main assumptions: Scenarios
- Main assumptions: Valuation
- Financial Model «Competition»
 - Base case
 - Upside case
 - Downside case
- Financial Model «Co-Investment»
 - Base case
 - Upside case
 - Downside case
- Final remarks

Main assumptions: Scenarios

- Competition model (no agreements with TIM):
 - Need for investing in Cluster A&B to cover 56% of territory within 2025 to catch up with FiberCop plans, not to lose clients (especially Vodafone and WindTre);
 - Need for continuing investments in Clusters C&D not to lose the State concession, however with reduced pace as the committed investment plan is considered unfeasible;
 - Linear increase of customers migration to fiber up to 2030.
- Co-investment model (agreement with TIM):
 - Co-investment in Cluster A&B with FiberCop in line with Article 76 of the European Communications Code;
 - Same assumptions as per the above Competition model for investment profile in Cluster C&D and for customer migration profile.

Main assumptions: Valuation

Valuation is based on “3-Statement Model” and DCF method:

- “3-Statement-Model” implies building Balance Sheet, Income Statement and Cash Flow Statement for entire period of evaluation (2020-2030). The Statements are based on historical data assumptions, scenario’s assumptions and comparable market analysis for some indicators. With some information unavailable, the current debt and equity structure is held unaltered: only available debt schedule (Balance Sheet, 2019) is considered for the period of evaluation and equity issuance in 2020. Some additional improvements are made for the future (such as components for Working Capital);
- The “3-Statement-Model”, in particular Cash Flow Statement, allows to have a full vision of real needs the company is going to face under different scenarios. Further decisions can be taken accordingly (debt restructuring, cash inflow etc.);
- DCF is based on Free Cash Flow to the Firm (FCFF) discounted at Cost of Capital (WACC). WACC is revised and all single components are redefined (Cost of Equity, Beta, Risk Free Rate and Cost of Debt) and are congruent to the actual business model, market and sector indicators (WACC at 3,8%);
- Exit Terminal Value is chosen to be an average of the indicators provided by benchmarking and it is coherent with both business and market environment. It is determined based on EV/EBITDA Exit Multiple. Other methods are tested and excluded (Growth Perpetuity) as the results tend to be inconsistent. (Exit EV/EBITDA at 7,3x);

Main assumptions: Valuation cont'd

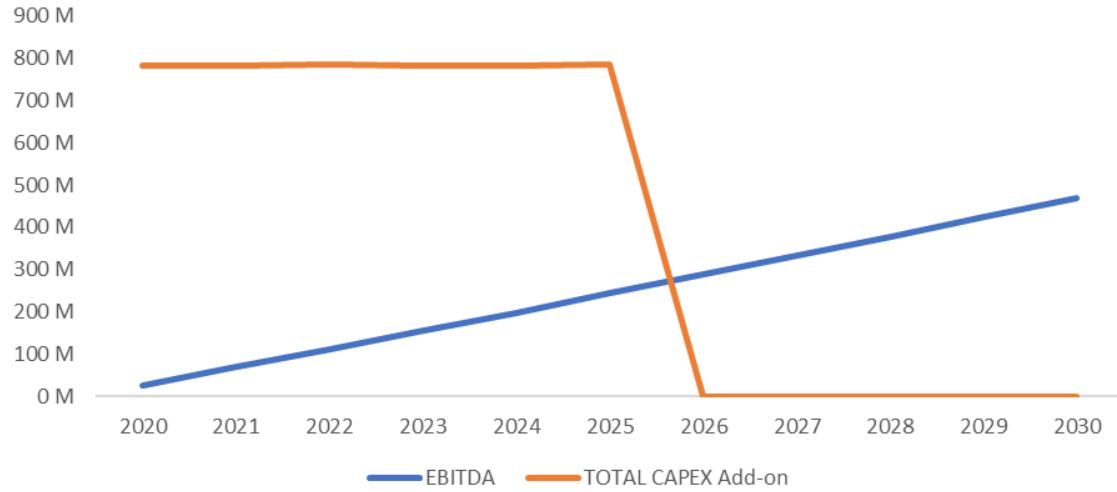
- For each scenario NPV (Enterprise Value) is derived which is then adjusted for Cash and Debt for the year to arrive at Equity Value.
- Rolling NPV and Equity value are derived to see how firm value and equity value vary at different stages of valuation period;
- Since all assumptions are variable, sensitivity analysis is performed to show how Enterprise Value changes in relation to Discount Rate (WACC) and Exit Multiple for Terminal Value;
- All assumptions can be revised and adjusted if/when more information is available;
- Valuation does not take into account a real purpose, that is if it is being merged or taken by other business etc. The firm is valued as a stand-alone continuing business. The decisions can be made accordingly, and the valuation can be adjusted;
- The model is dynamic, and each scenario is incorporated into each model and appropriate links are created for input and output data. Each scenario can be selected, and the results are visualized in a structured manner.

Financial Model «Competition»: Base Case

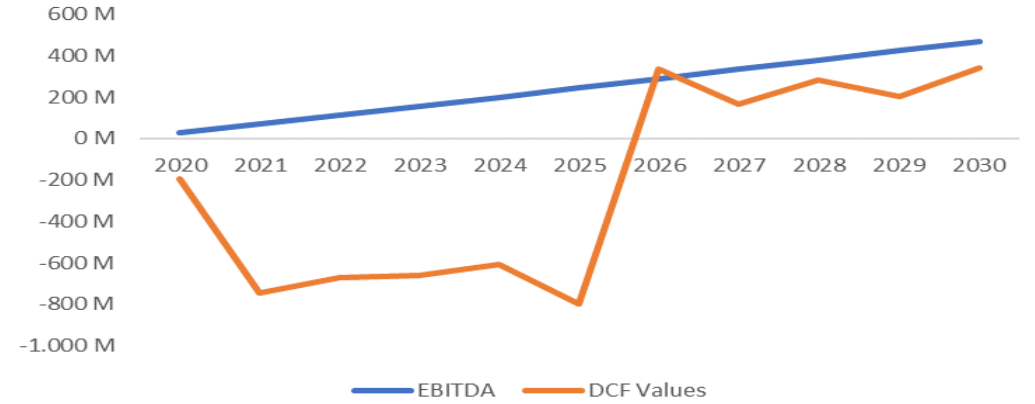
Costo FTTH (C,D) 350 euro



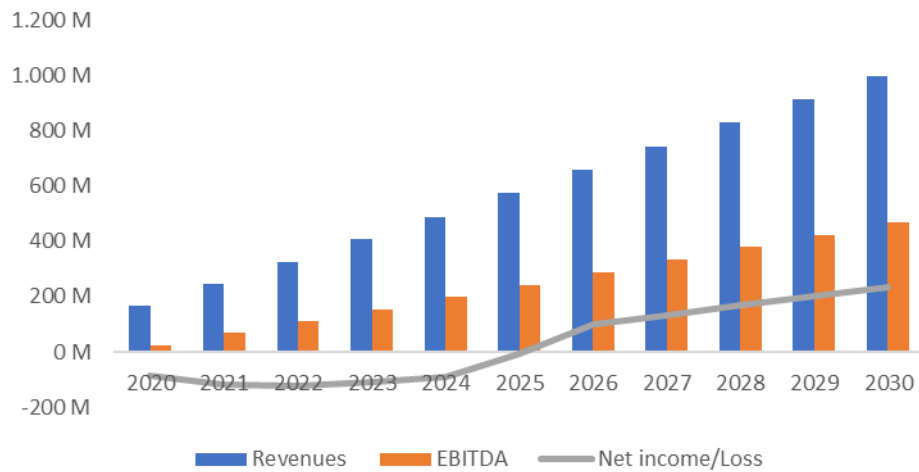
EBITDA/CAPEX Add-on



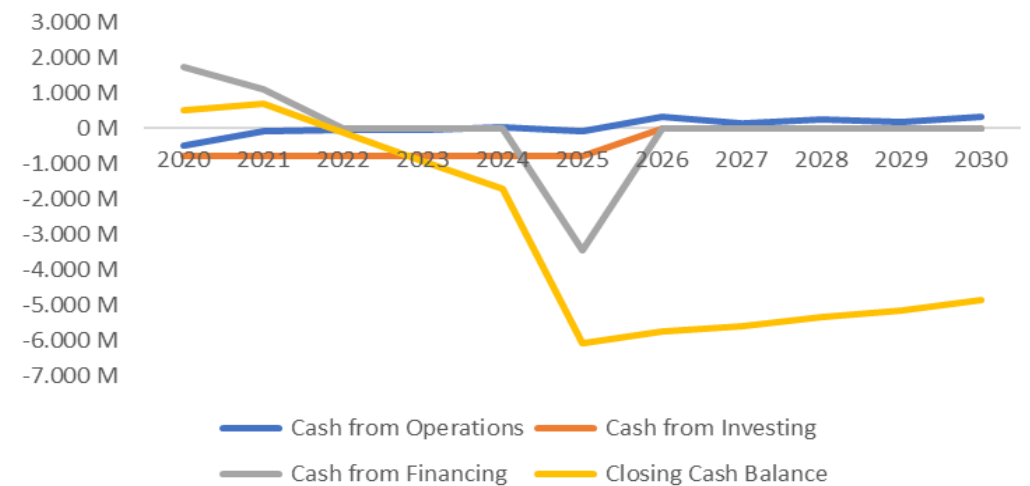
EBITDA/DFC Values



Revenues/EBITDA/Net Profit (Loss)



Cash Flow

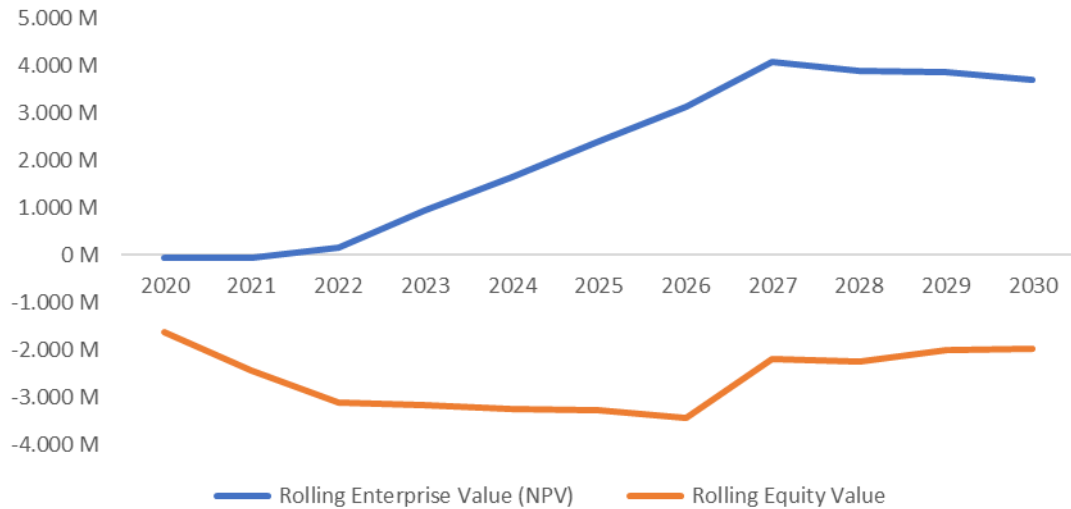


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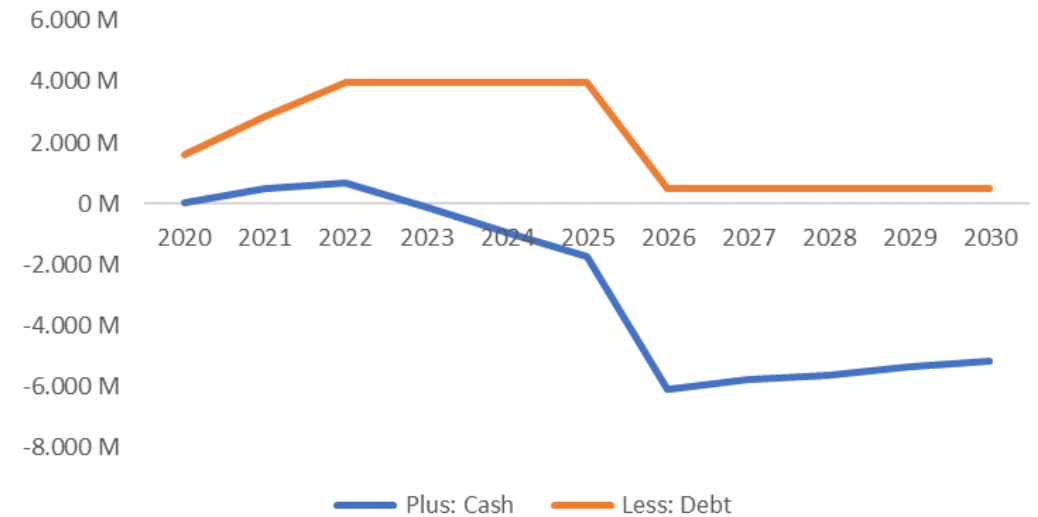
Financial Model «Competition»: Base Case
 Costo FTTH (C,D) 350 euro



Rolling NPV/Equity Value



Rolling Cash/Debt



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<i>(Euro, Millions)</i>			
Enterprise Value (NPV)	- 58 M	IRR unlevered	3,50%
Plus: Cash	38 M		
Less: Debt	1.645 M		
Equity Value	- 1.665 M		

Enterprise Value as on 31/10/2020
 Cash and Debt as on 31/12/2019

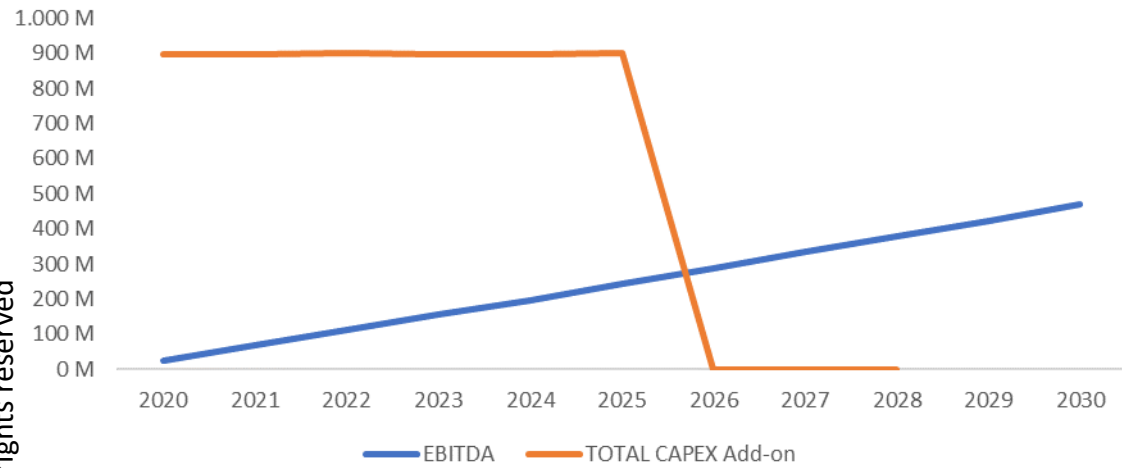
Exit Multiple	Enterprise value				
	Discount rate				
	3%	3,4%	3,8%	4,1%	4,5%
6,0x	-310.501	-390.150	-456.233	-519.106	-578.913
6,6x	-94.702	-183.497	-257.236	-327.458	-394.318
7,3x	121.098	23.157	-58.240	-135.809	-209.724
7,9x	336.897	229.810	140.757	55.839	-25.129
8,6x	552.696	436.464	339.754	247.487	159.465

Financial Model «Competition»: Base Case

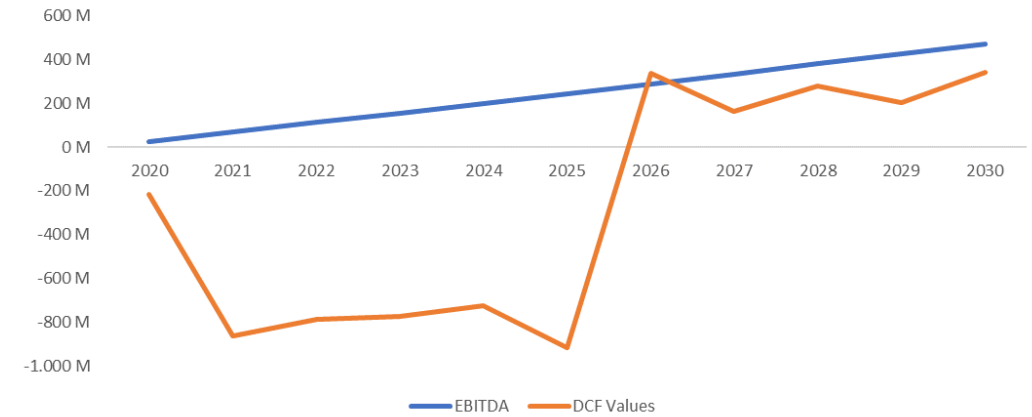
Variazione costo FTTH (C,D) 550 euro



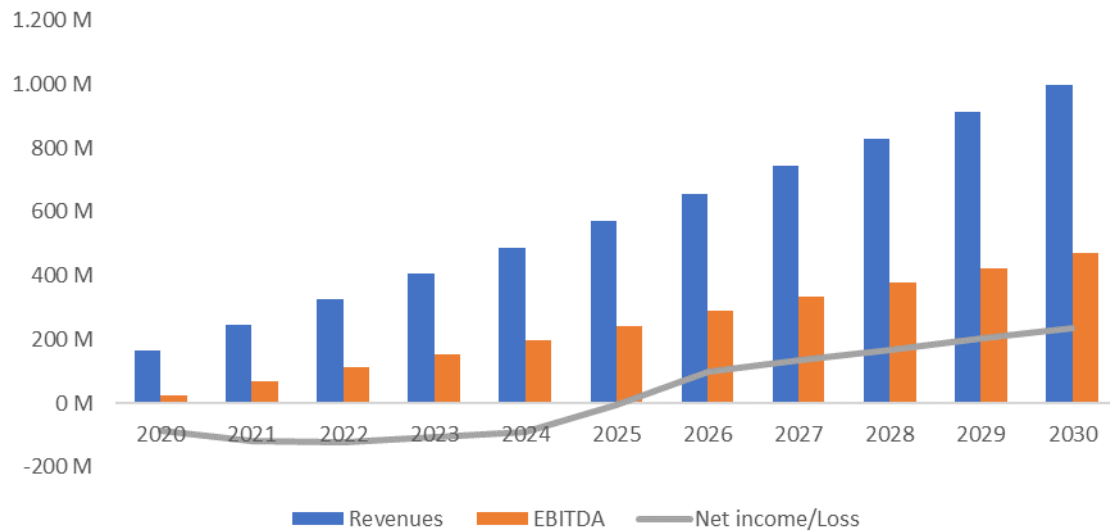
EBITDA/CAPEX Add-on



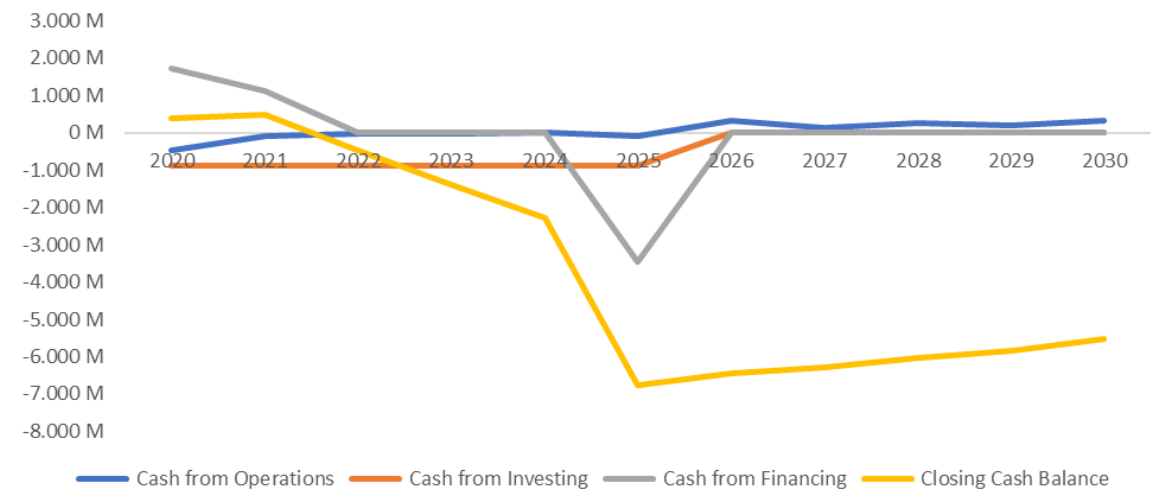
EBITDA/DCF Values



Revenues/EBITDA/Net Income (Loss)



Cash Flow

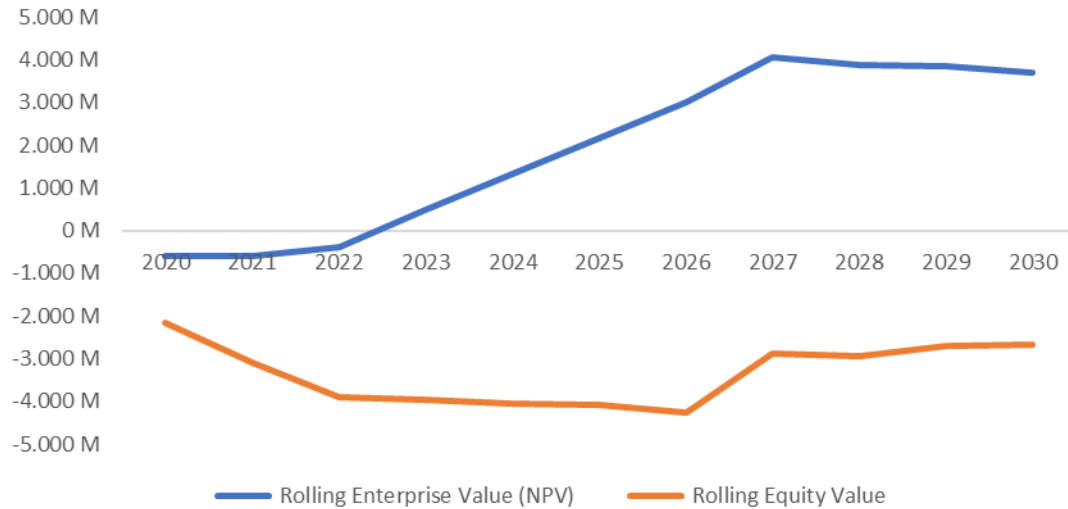


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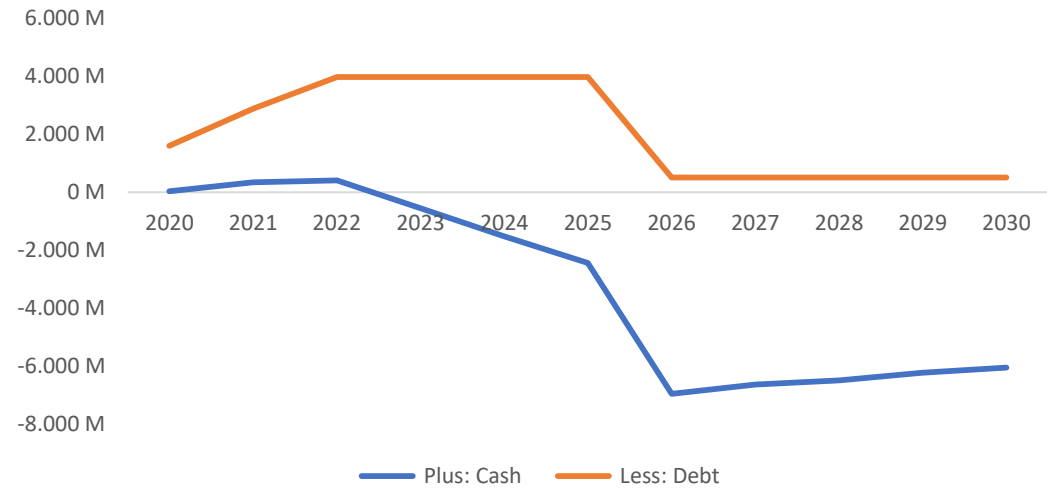
Financial Model «Competition»: Base Case
 Variazione costo FTTH (C,D) 550 euro



Rolling NPV/Equity Value



Rolling Cash/Debt



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(Euro, Millions)

Enterprise Value (NPV)	- 589 M	IRR unlevered	1,41%
Plus: Cash	38 M		
Less: Debt	1.645 M		
Equity Value	- 2.195 M		

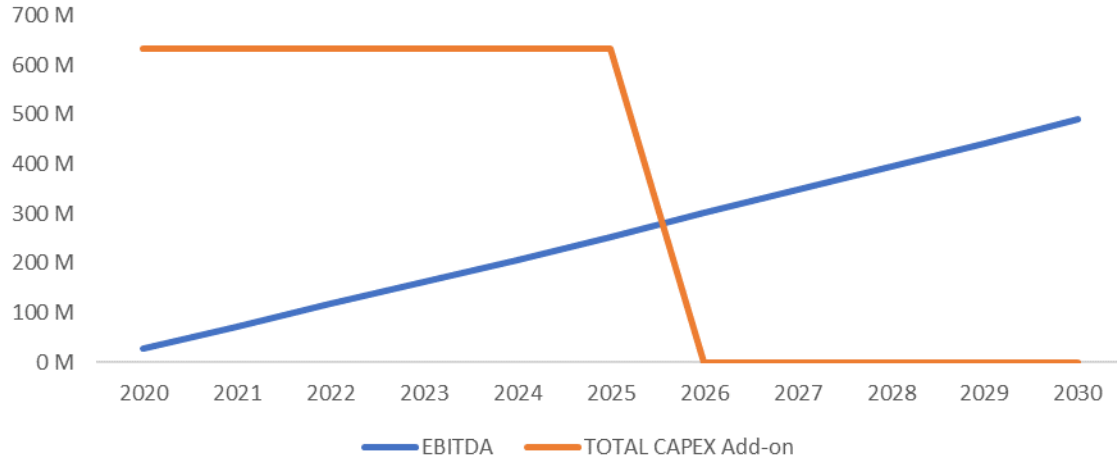
Enterprise Value as on 31/10/2020

Cash and Debt as on 31/12/2019

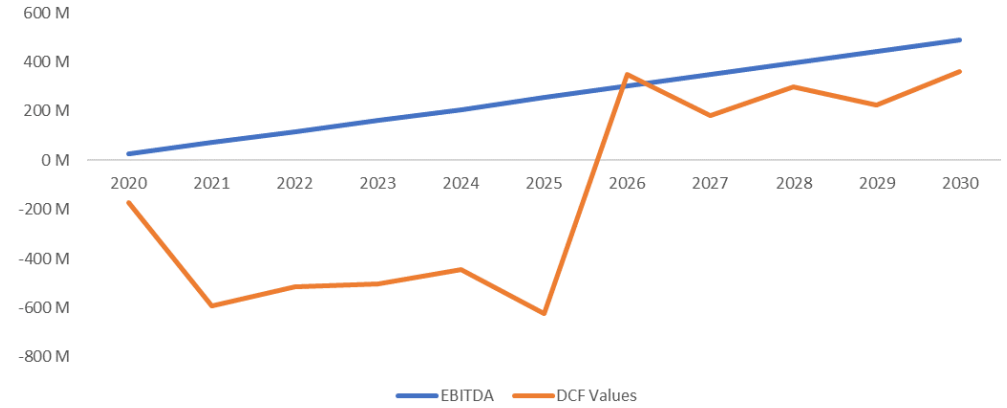
Enterprise value

Exit Multiple	Discount rate				
	3%	3,4%	3,8%	4,1%	4,5%
6,0x	-852.497	-925.870	-986.554	-1.044.114	-1.098.692
6,6x	-636.698	-719.216	-787.558	-852.466	-914.097
7,3x	-420.899	-512.563	-588.561	-660.818	-729.503
7,9x	-205.100	-305.909	-389.564	-469.169	-544.908
8,6x	10.699	-99.256	-190.567	-277.521	-360.314

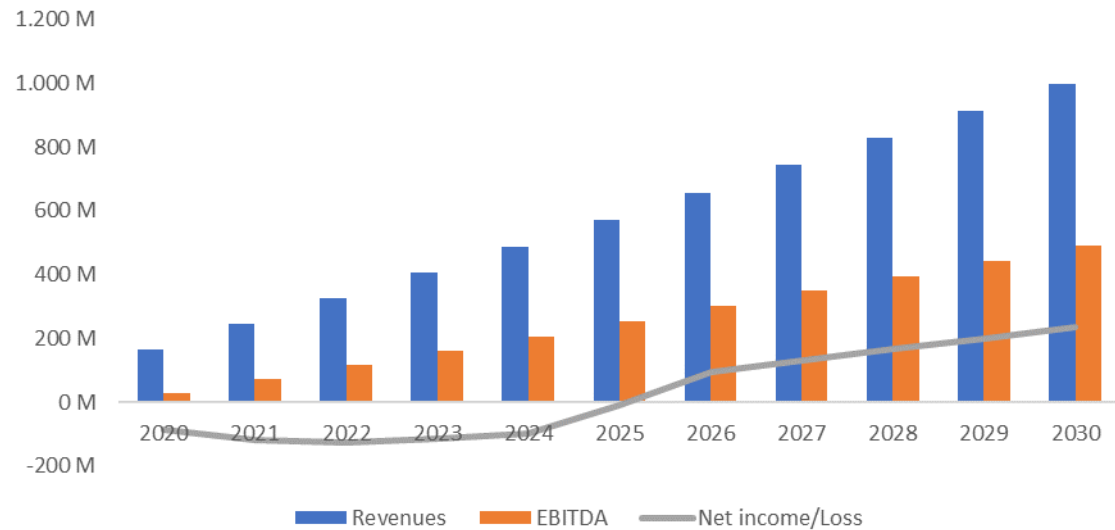
EBITDA/CAPEX Add-on



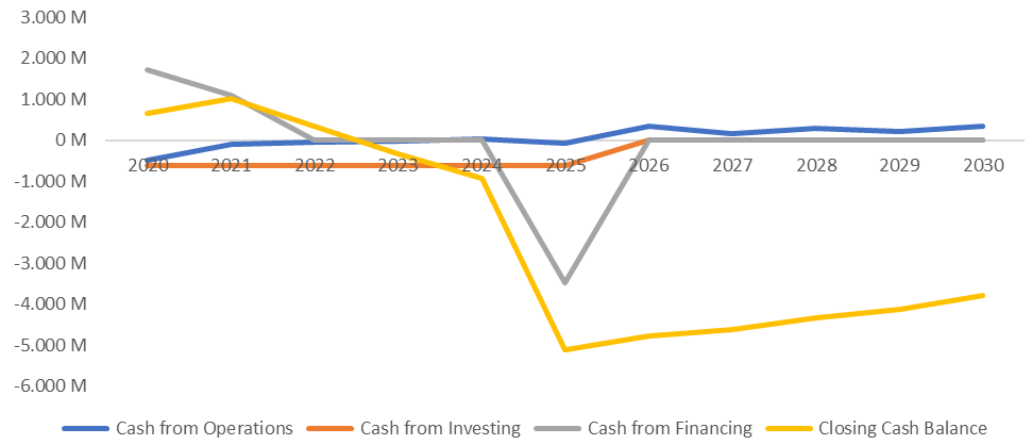
EBITDA/DCF Values



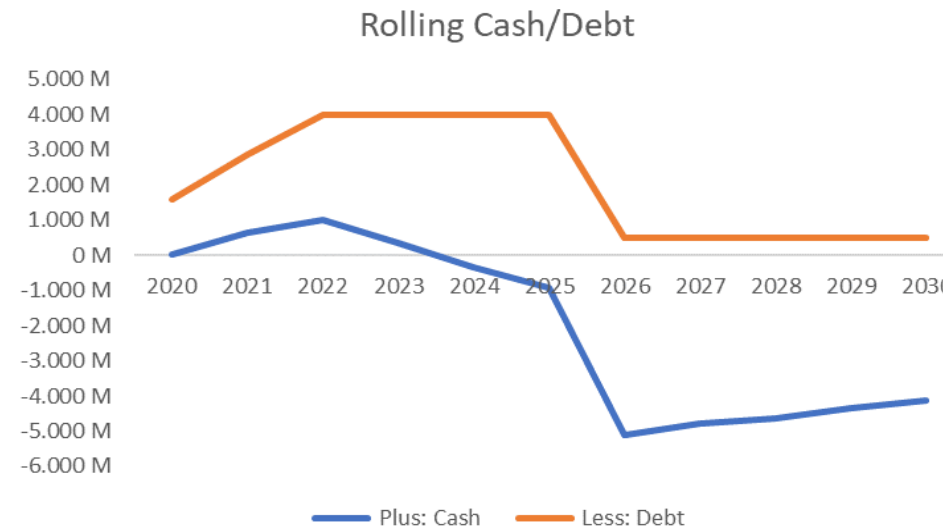
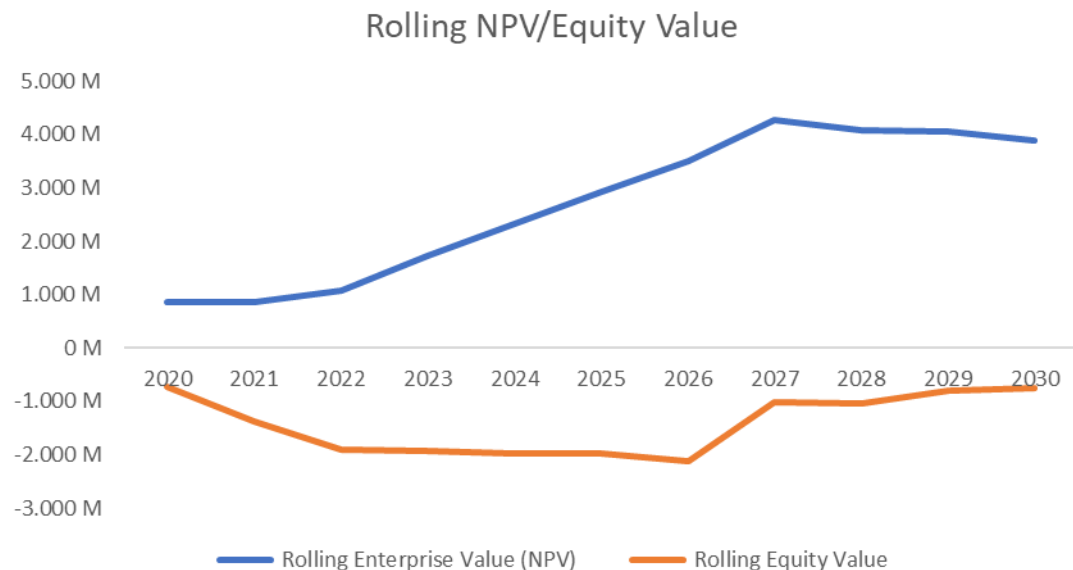
Revenues/EBITDA/Net Income (Loss)



Cash Flow



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(Euro, Millions)

Enterprise Value (NPV)	850 M	IRR unlevered	7,88%
Plus: Cash	38 M		
Less: Debt	1.645 M		
Equity Value	- 756 M		

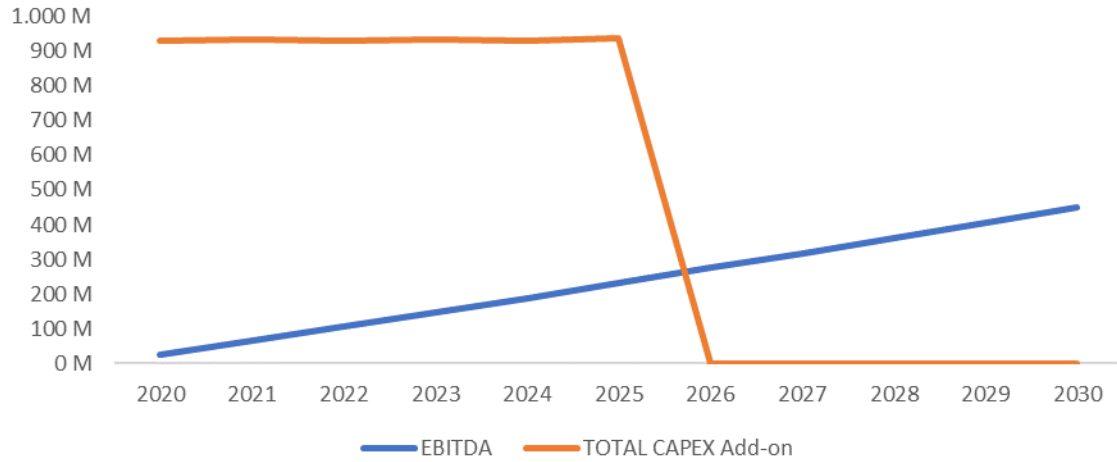
Enterprise Value as on 31/10/2020
Cash and Debt as on 31/12/2019

Exit Multiple	Enterprise value				
	Discount rate				
	3%	3,4%	3,8%	4,1%	4,5%
6,0x	608.485	513.720	434.761	359.327	287.264
6,6x	833.823	729.508	642.554	559.446	480.017
7,3x	1.059.161	945.296	850.346	759.566	672.771
7,9x	1.284.499	1.161.084	1.058.139	959.685	865.525
8,6x	1.509.836	1.376.872	1.265.932	1.159.804	1.058.278

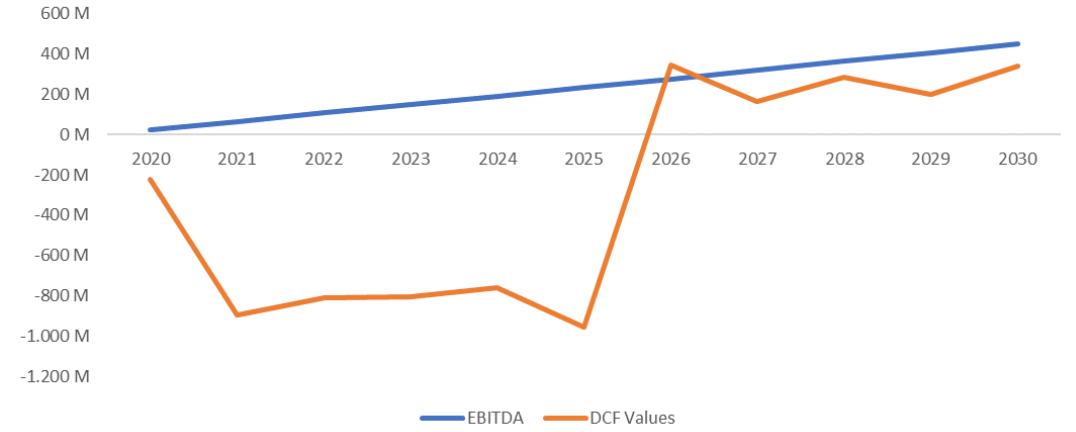
Financial Model «Competition»: Downside Case



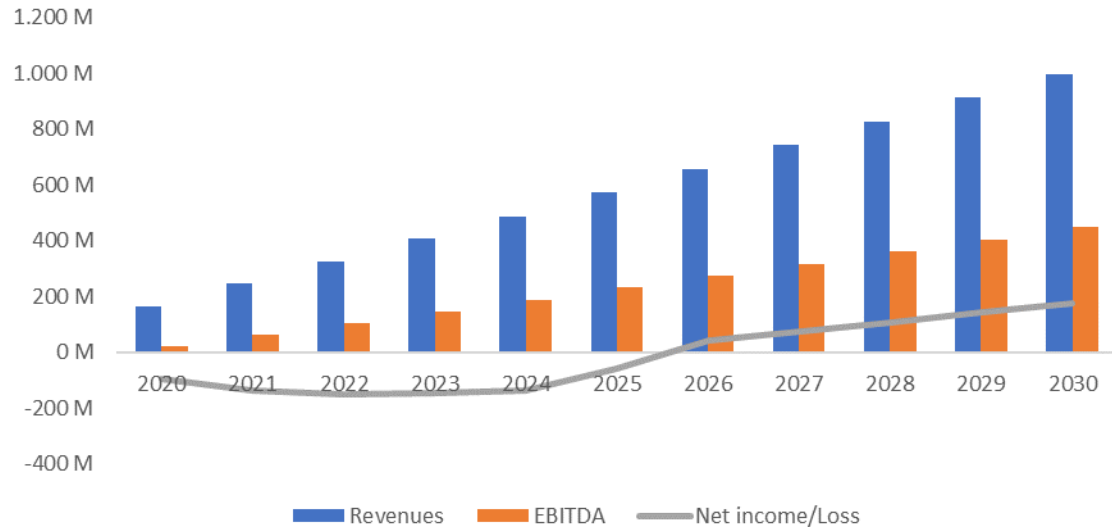
EBITDA/CAPEX Add-on



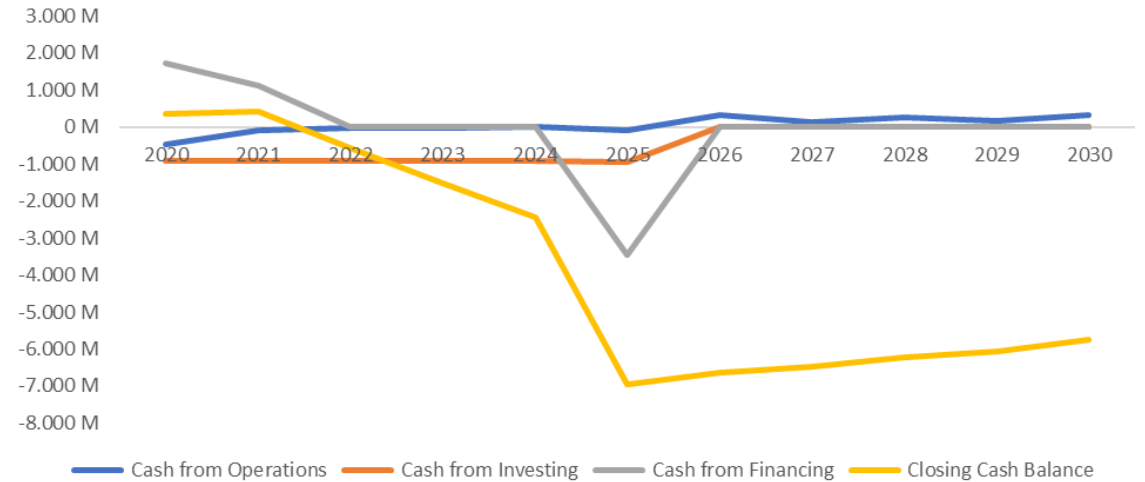
EBITDA/DCF Values



Revenues/EBITDA/Net Income (Loss)

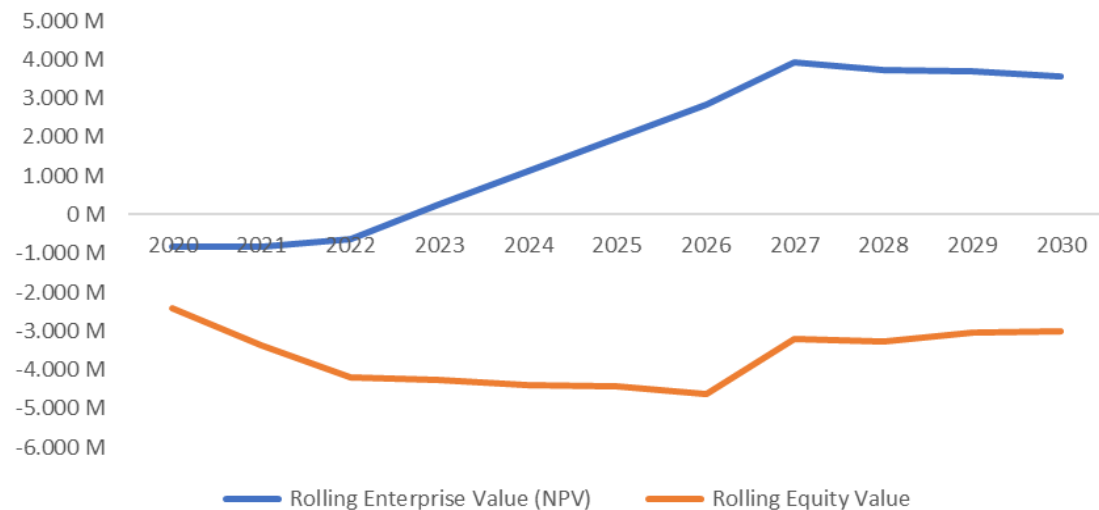


Cash Flow

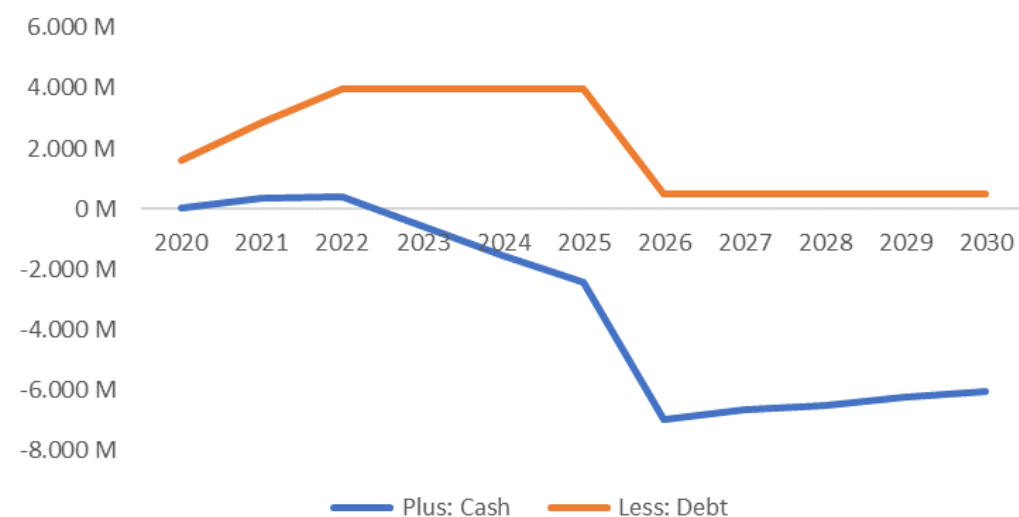


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Rolling NPV/Equity Value



Rolling Cash/Debt



(Euro, Millions)

Enterprise Value (NPV)	- 837 M	IRR unlevered	0,43%
Plus: Cash	38 M		
Less: Debt	1.645 M		
Equity Value	- 2.444 M		

Enterprise Value as on 31/10/2020
Cash and Debt as on 31/12/2019

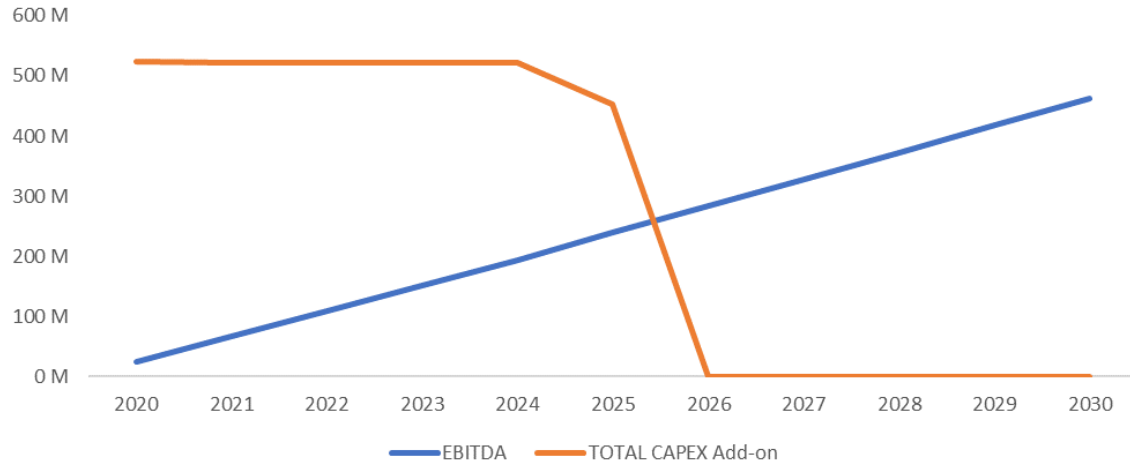
Enterprise value

Exit Multiple	Discount rate				
	3%	3,4%	3,8%	4,1%	4,5%
6,0x	-1.094.244	-1.161.947	-1.217.845	-1.270.775	-1.320.871
6,6x	-887.983	-964.428	-1.027.644	-1.087.597	-1.144.436
7,3x	-681.722	-766.908	-837.443	-904.420	-968.001
7,9x	-475.462	-569.389	-647.242	-721.243	-791.566
8,6x	-269.201	-371.870	-457.041	-538.065	-615.131

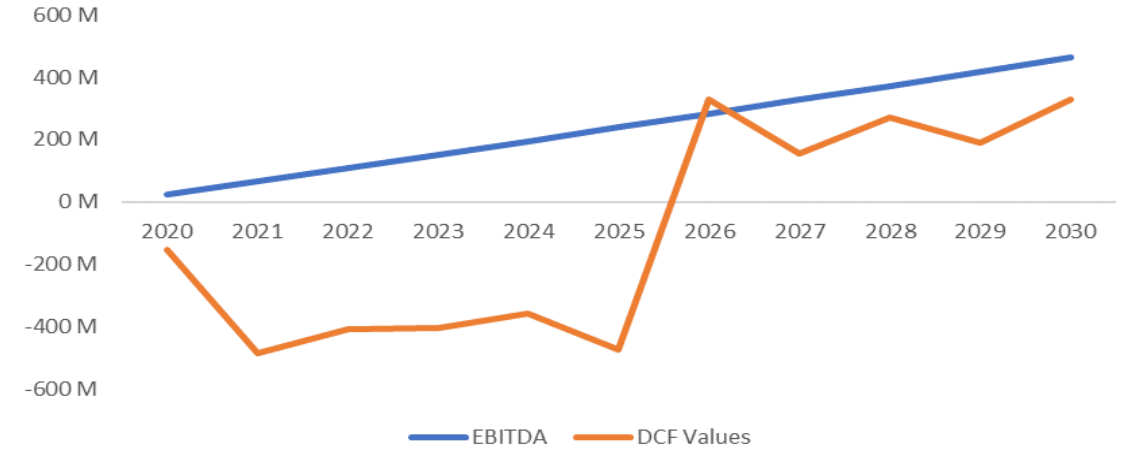
Financial Model «Co-investment»: Base Case



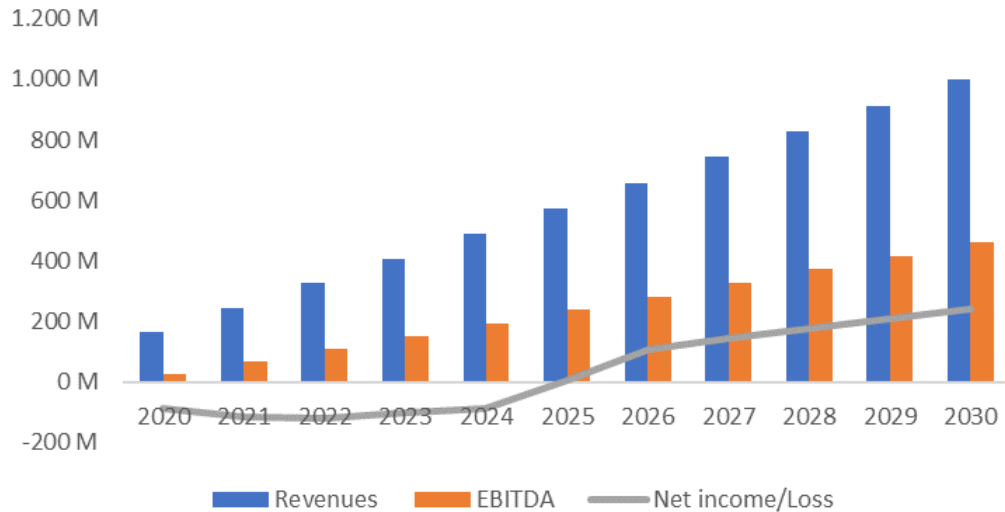
EBITDA/CAPEX Add-on



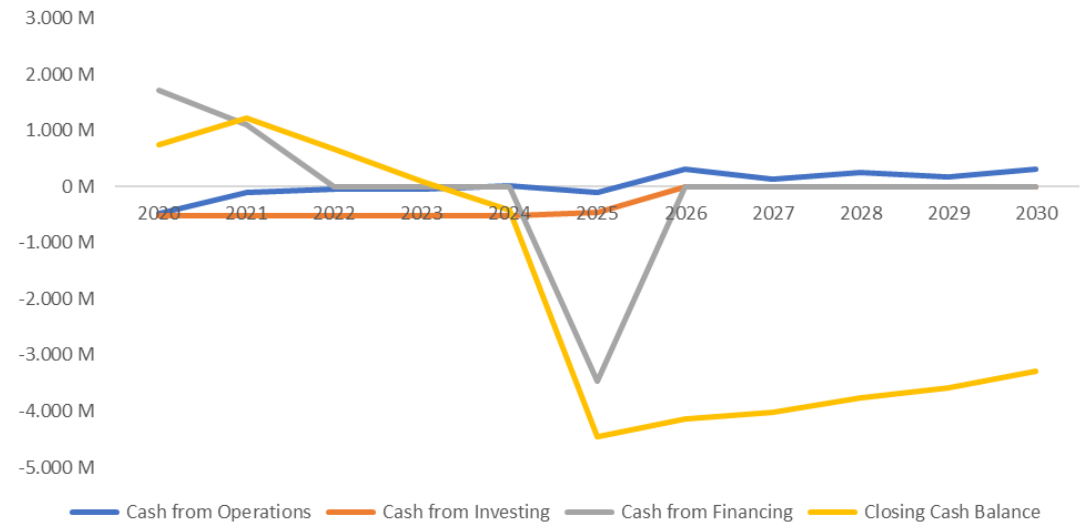
EBITDA/DCF Values



Revenues/EBITDA/Net Profit (Loss)

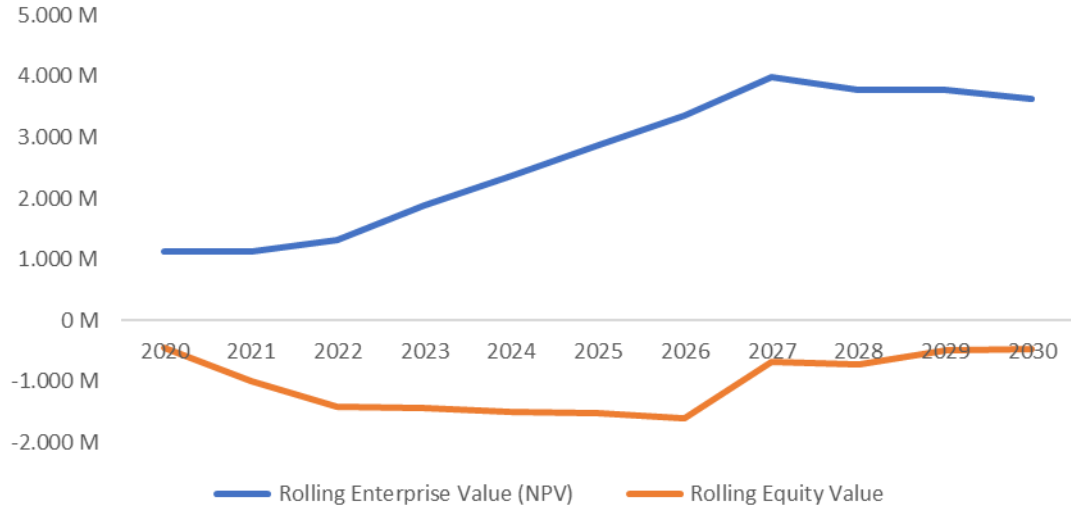


Cash Flow

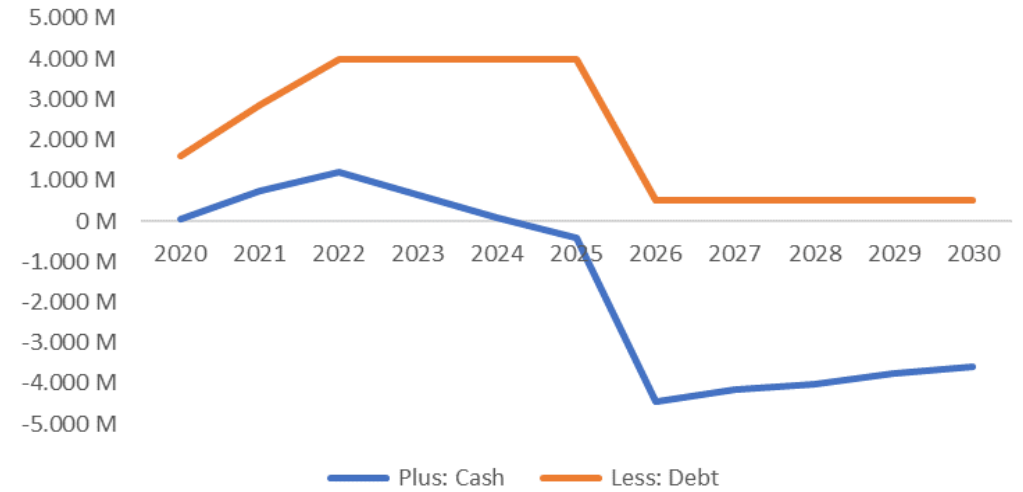


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Rolling NPV/Equity Value



Rolling Cash/Debt



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	<i>(Euro, Millions)</i>	
Enterprise Value (NPV)	1.118 M	IRR unlevered 10,02%
Plus: Cash	38 M	
Less: Debt	1.645 M	
Equity Value	- 489 M	

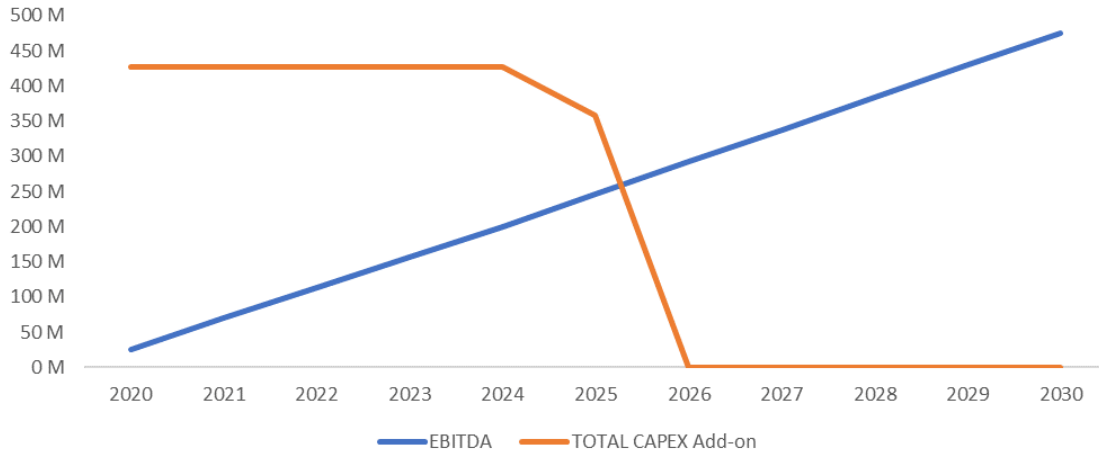
Enterprise Value as on 31/10/2020
Cash and Debt as on 31/12/2019

Exit Multiple	Enterprise value				
	Discount rate				
	3%	3,4%	3,8%	4,1%	4,5%
6,0x	895.755	803.426	726.395	652.709	582.222
6,6x	1.108.167	1.006.836	922.268	841.349	763.919
7,3x	1.320.579	1.210.246	1.118.141	1.029.989	945.616
7,9x	1.532.991	1.413.656	1.314.015	1.218.629	1.127.313
8,6x	1.745.403	1.617.066	1.509.888	1.407.269	1.309.010

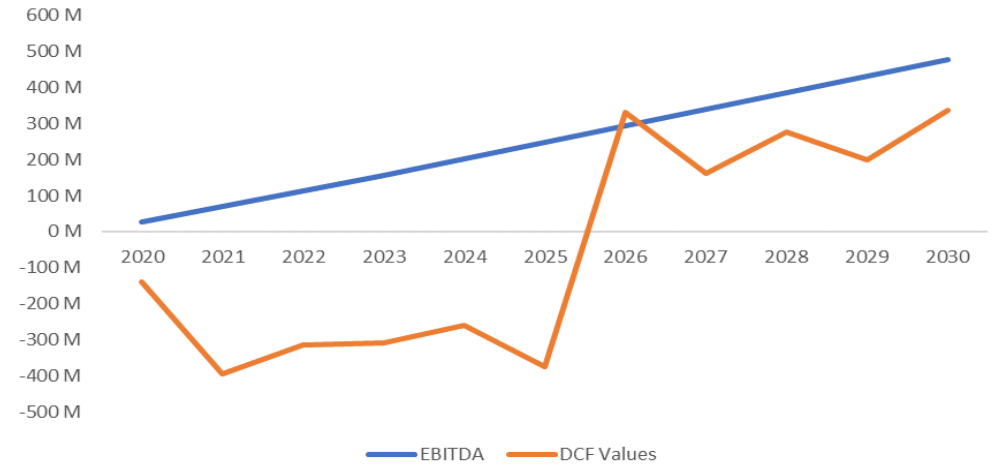
Financial Model «Co-investment»: Upside Case



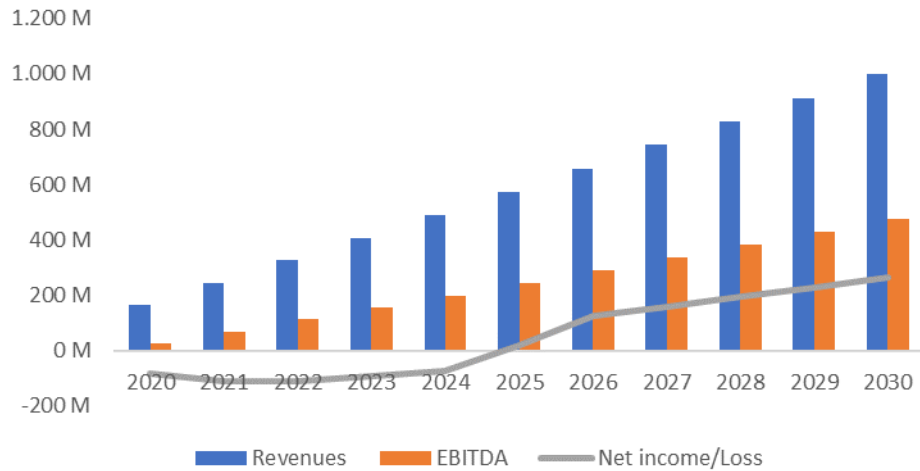
EBITDA/CAPEX Add-on



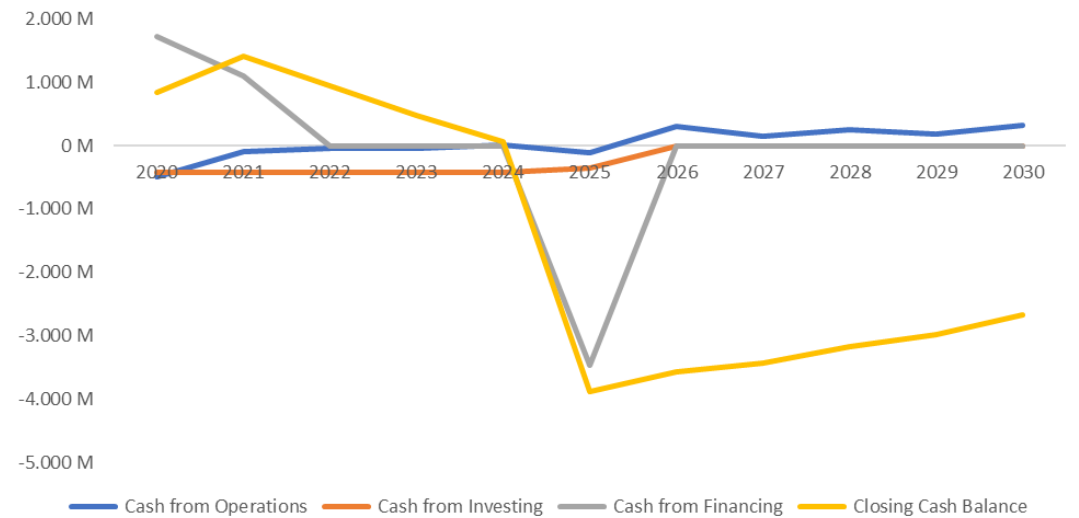
EBITDA/DCF Values



Revenues/EBITDA/Net Profit (Loss)



Cash Flow

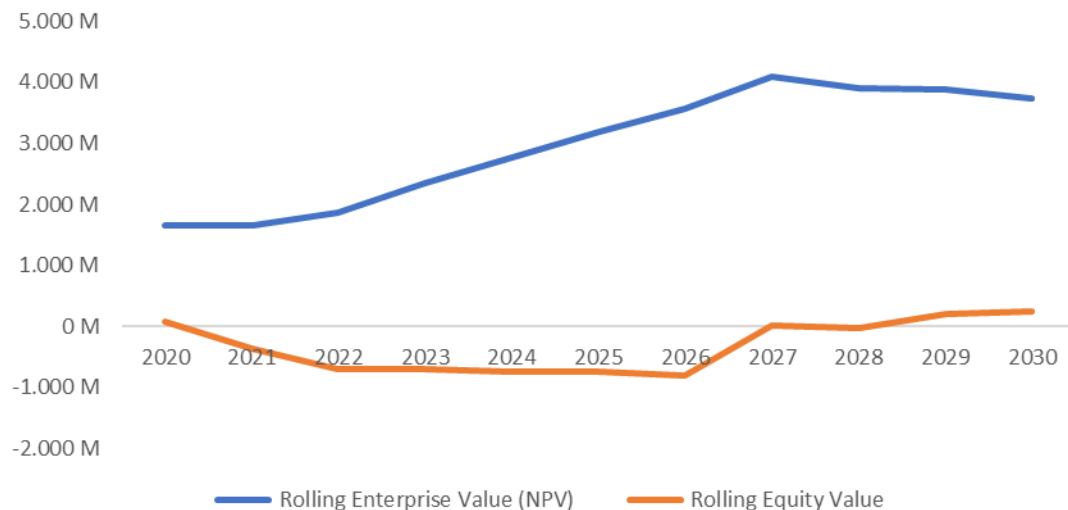


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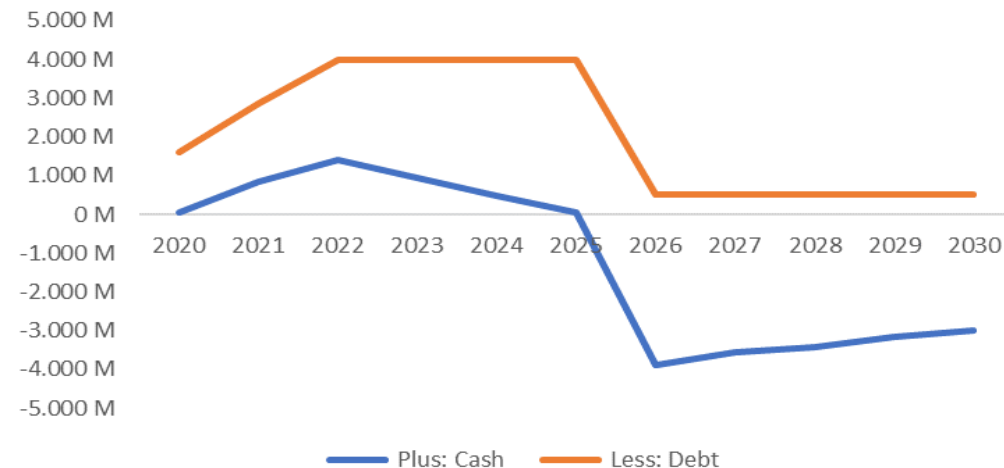
Financial Model «Co-investment»: Upside Case



Rolling NPV/Equity Value



Rolling Cash/Debt



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	(Euro, Millions)	
Enterprise Value (NPV)	1.651 M	IRR unlevered 14,04%
Plus: Cash	38 M	
Less: Debt	1.645 M	
Equity Value	44 M	

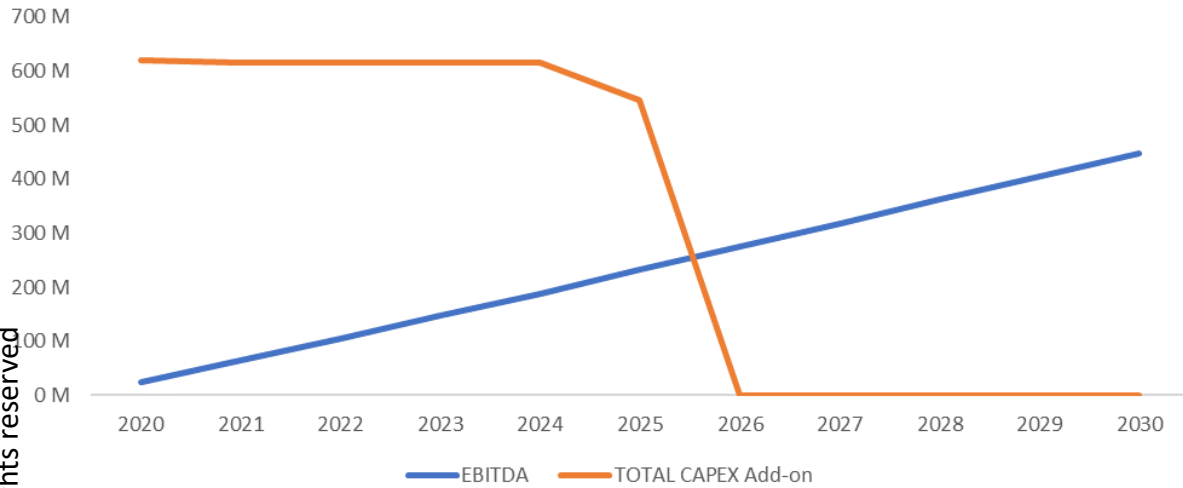
Enterprise Value as on 31/10/2020
Cash and Debt as on 31/12/2019

Exit Multiple	Enterprise value				
	Discount rate				
	3%	3,4%	3,8%	4,1%	4,5%
6,0x	1.433.219	1.332.307	1.247.962	1.167.140	1.089.689
6,6x	1.651.783	1.541.607	1.449.507	1.361.243	1.276.648
7,3x	1.870.346	1.750.908	1.651.053	1.555.346	1.463.606
7,9x	2.088.909	1.960.208	1.852.599	1.749.449	1.650.565
8,6x	2.307.472	2.169.509	2.054.145	1.943.552	1.837.524

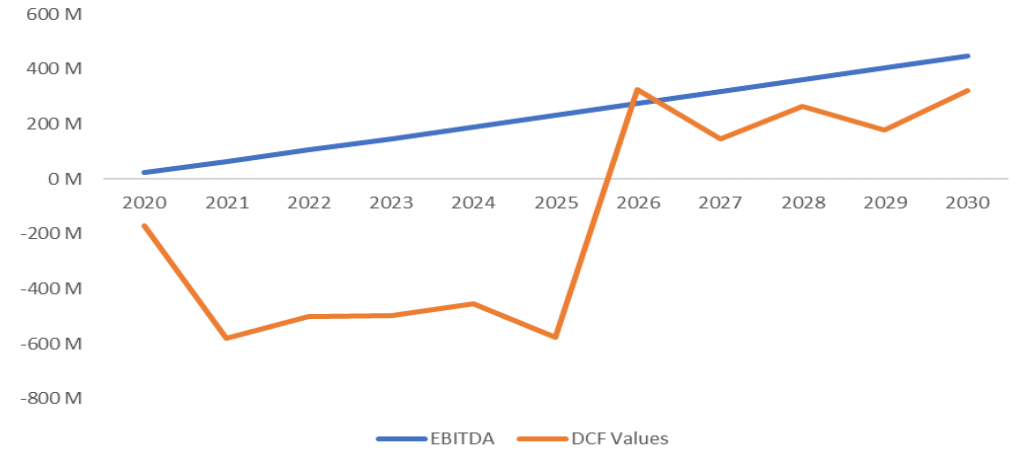
Financial Model «Co-investment»: Downside Case



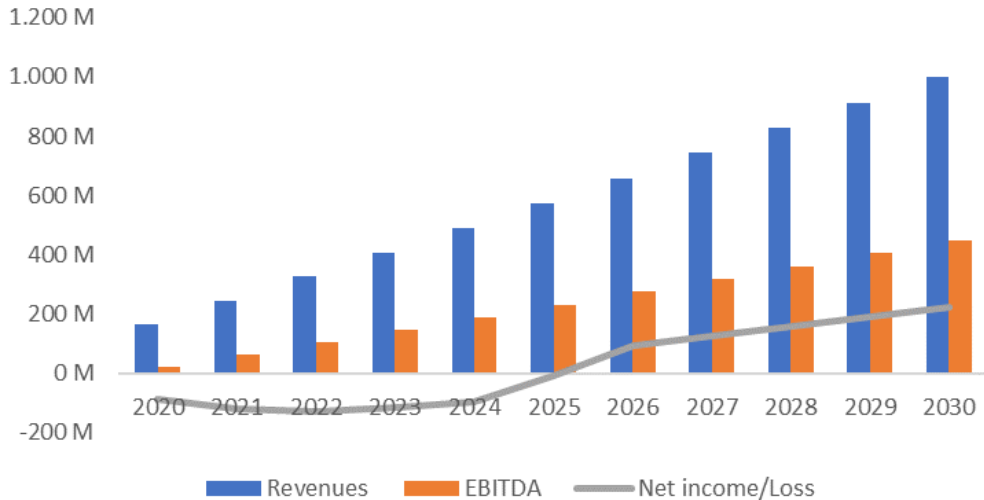
EBITDA/CAPEX Add-on



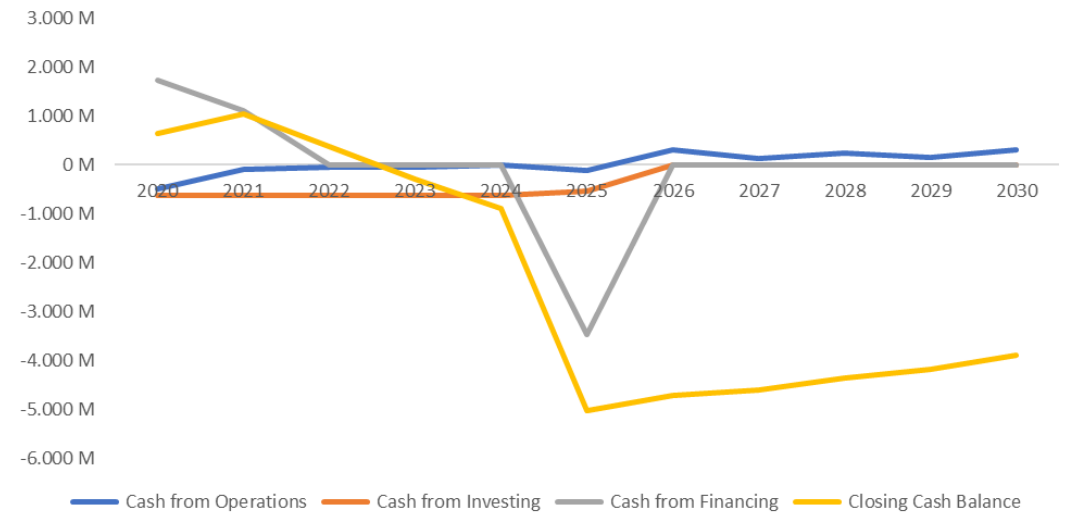
EBITDA/DCF Values



Revenues/EBITDA/Net Profit (Loss)

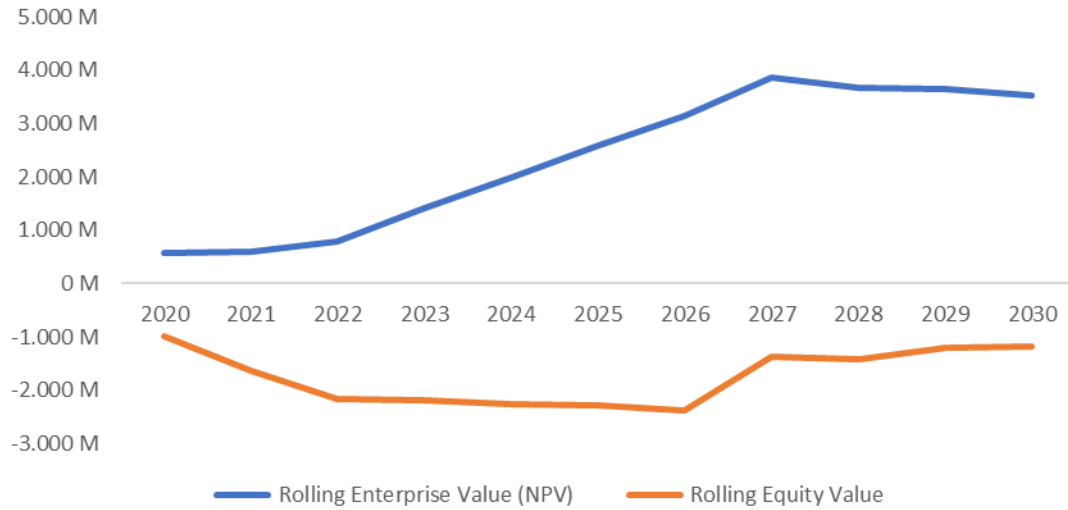


Cash Flow

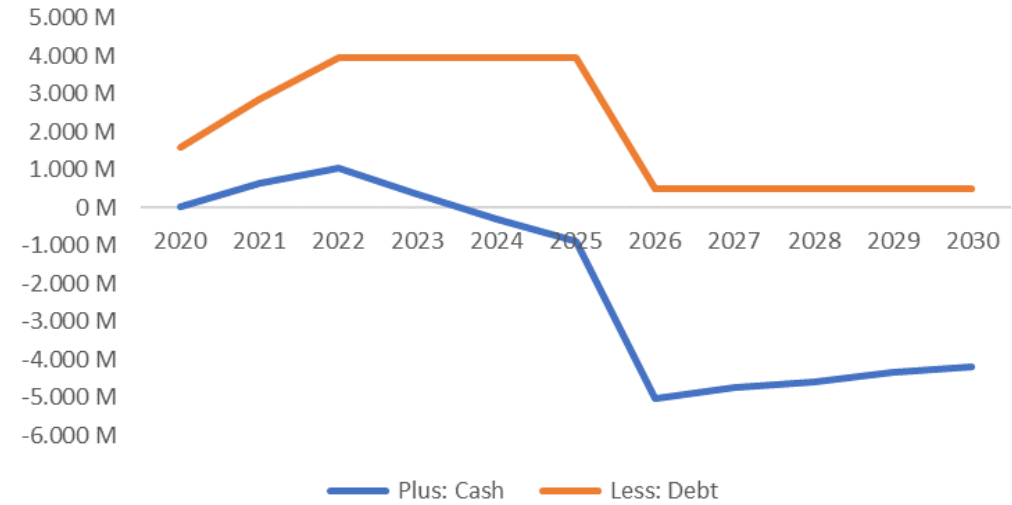


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Rolling NPV/Equity Value



Rolling Cash/Debt



(Euro, Millions)

Enterprise Value (NPV)	586 M	IRR unlevered	6,76%
Plus: Cash	38 M		
Less: Debt	1.645 M		
Equity Value	- 1.021 M		

Enterprise Value as on 31/10/2020

Cash and Debt as on 31/12/2019

Enterprise value

Exit Multiple	Discount rate				
	3%	3,4%	3,8%	4,1%	4,5%
6,0x	359.046	275.271	205.529	138.955	75.411
6,6x	565.385	472.866	395.802	322.202	251.913
7,3x	771.724	670.460	586.075	505.449	428.415
7,9x	978.063	868.054	776.349	688.696	604.917
8,6x	1.184.402	1.065.648	966.622	871.942	781.419

Final remarks: Valuation

All scenarios reveal a lack of cash, all being equal, and even if NPV is positive and IRR is quite high for some scenarios for this type of business there are still important issues to handle:

- Current debt and further debt obligations are to be revised to guarantee repayment;
- It is evident that cash from operations is not sufficient to face investments (CAPEX) and debt repayments;
- Every scenario is characterized by a “death” point in 2025 (it can be seen on Cash Flow Statement and Rolling Cash/Debt chart) where, as stated in the notes for the fiscal year 2019, debt obligations taken in 2018 and partially implied, are to be repaid in one-time solution at this date, all being equal;
- Some additional reflections should be taken on external sources (cash, equity and debt), or business transactions might be the case, like M&A, if the value added is worth raising financing;
- Enterprise values under different scenarios have wide ranges;
- Appropriate Discount rate and Exit Multiple can give various results, that is why Sensitivity Analysis should be considered for a different range of values;
- In general, under the valuation scenarios Enterprise Value does not exceed 2.000 M (**Base Case range: 850 M<=EV=>1.7 M**).
- Under the competition model value is sensibly less.

OPEN FIBER					
Euro, Millions					
Competition Model	Enterprise Value	IRR	Co-Investment Model	Enterprise Value	IRR
Base Case (FTTH C,D) 1	- 58 M	3,5%	Base Case	1.118 M	10,0%
Base Case (FTTH C,D) 2	- 589 M	1,4%			
Upside Case (*)	850 M	7,9%	Upside Case (*)	1.651 M	14,0%
Downside Case	- 837 M	0,4%	Downside Case	586 M	6,8%

(*) Best Case Scenario for Competition and Co-Investment Models