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VALUATION UNDER DIFFERENT FINANCIAL MODEL SCENARIOS

Rome, 5 October 2021

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.

Investors are encouraged to consider these and other risks and uncertainties that are discussed in the document, and references addressed in it.

Krupter will not be in any way responsible for any actions taken based on statements contained in the present report, and undertake no obligation to publicly update these forward-looking statements to reflect subsequent events or circumstances.

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

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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 loose clients (especially Vodafone and WindTre);
  - Need for continuing investments in Clusters C&D not to loose the State concession, however with reduced pace as the committed investment plan is considered unfeasible;
  - Linear increase of customers migration to fiber up to 2030/2031.
- 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.

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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 (2021-2031). 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, 2019/2020), shareholders loans in 2019/2020 and possible closing of the share purchase are considered for the period of evaluation. 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.)
- The Model does not take into account different accounting policies for item reclassification which may impact net income
- Cash Flow 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 3,72%)

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Main assumptions: Valuation cont'd

- 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 6,07x);
- 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.

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

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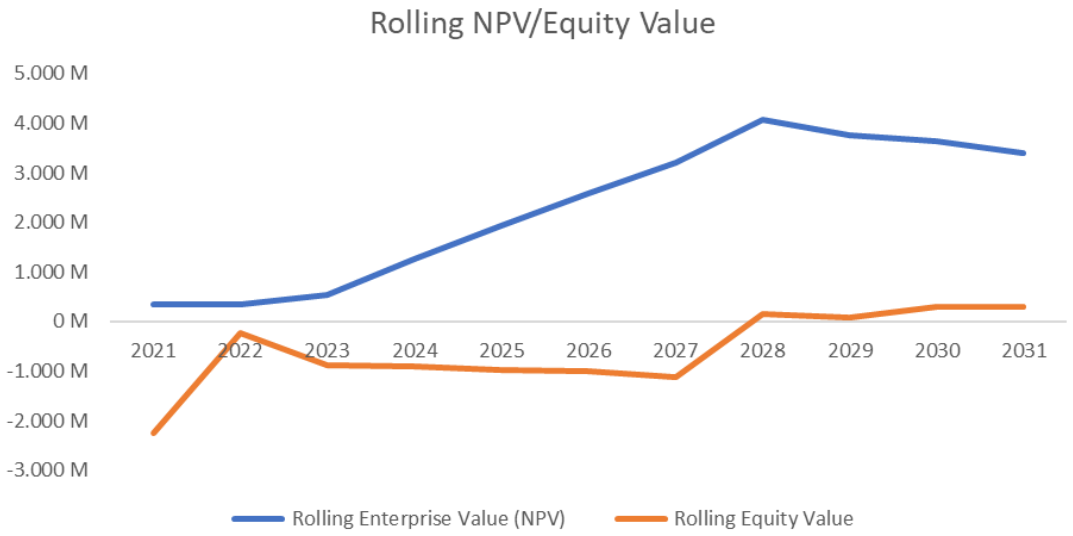

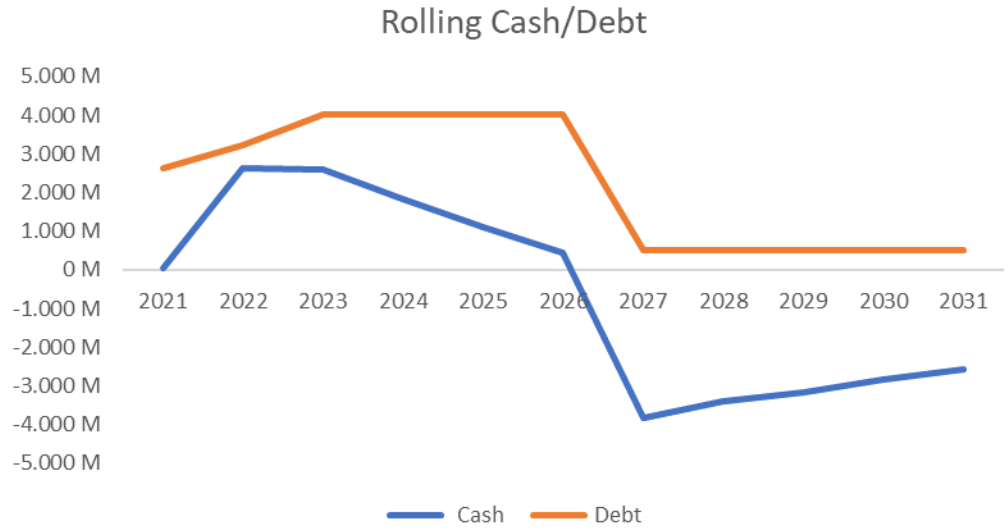

(Euro, Millions)

Enterprise Value (NPV)	**355 M**	**IRR**	**5,61%**
Plus: Cash	33 M		
Less: Debt	2.631 M		
Equity Value	**- 2.243 M**		

Enterprise Value as on 31/10/2021
Cash and Debt as on 31/12/2020

Enterprise value					
	Discount rate				
Exit Multiple	3,0%	3,4%	3,7%	4,1%	4,4%
5,0x	141.391	73.436	8.492	-53.569	-112.870
5,5x	327.569	253.122	181.934	113.866	48.786
6,1x	513.747	432.808	355.376	281.301	210.442
6,6x	699.925	612.494	528.818	448.736	372.098
7,1x	886.104	792.180	702.259	616.171	533.753

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

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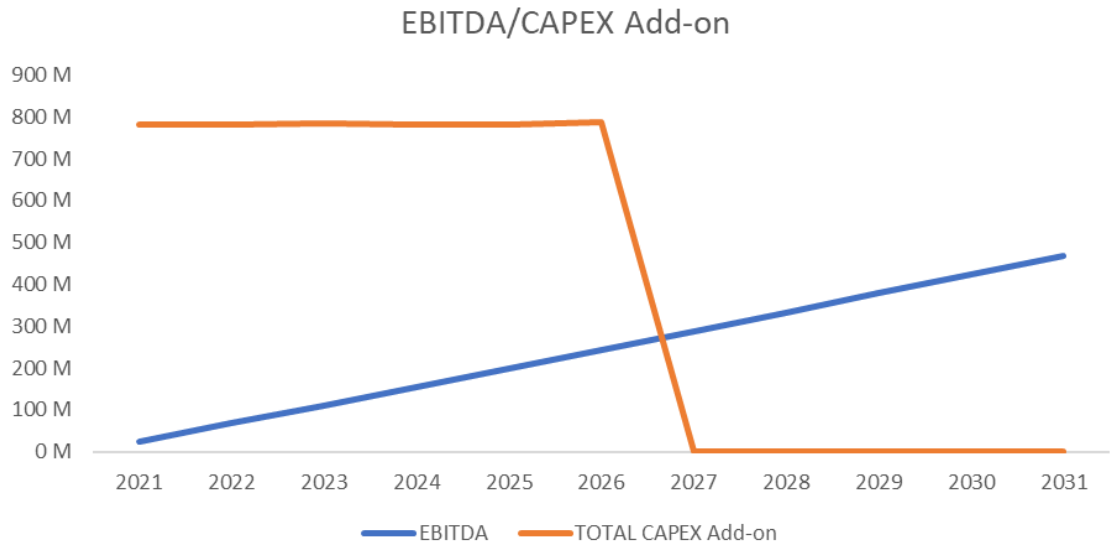

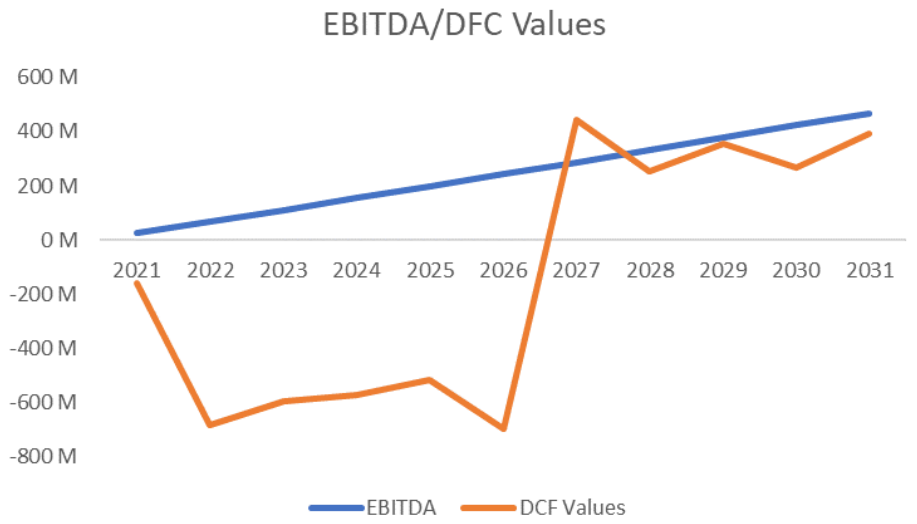

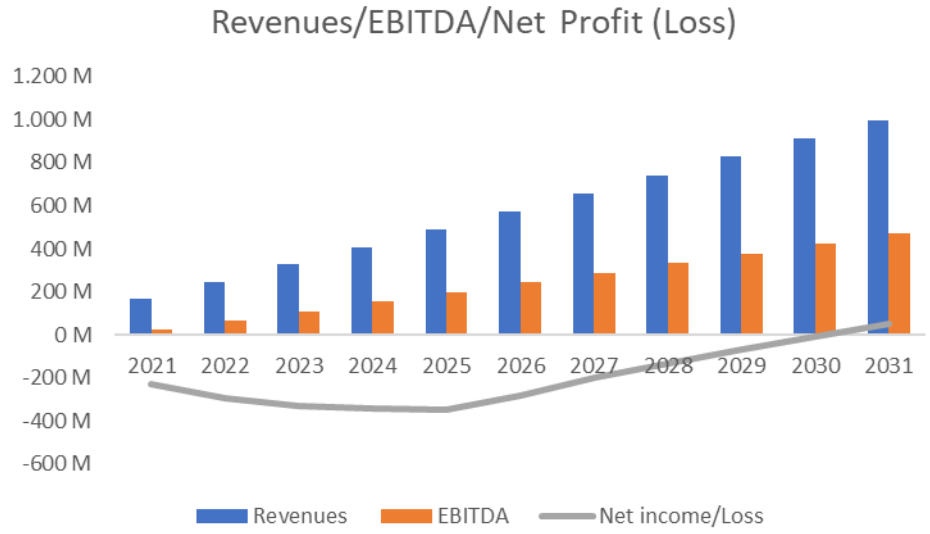

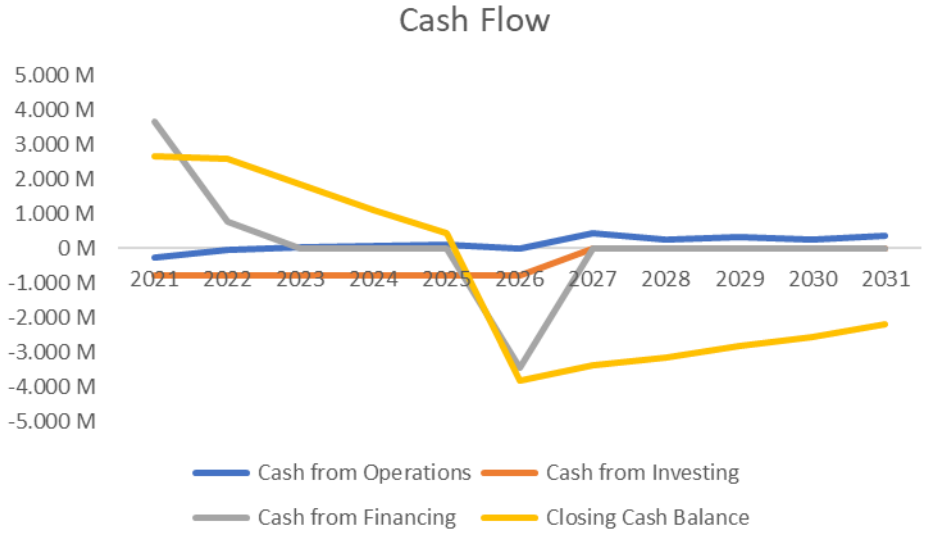

Financial Model «Competition»: Base Case
Costo FTTH (C,D) 550 euro

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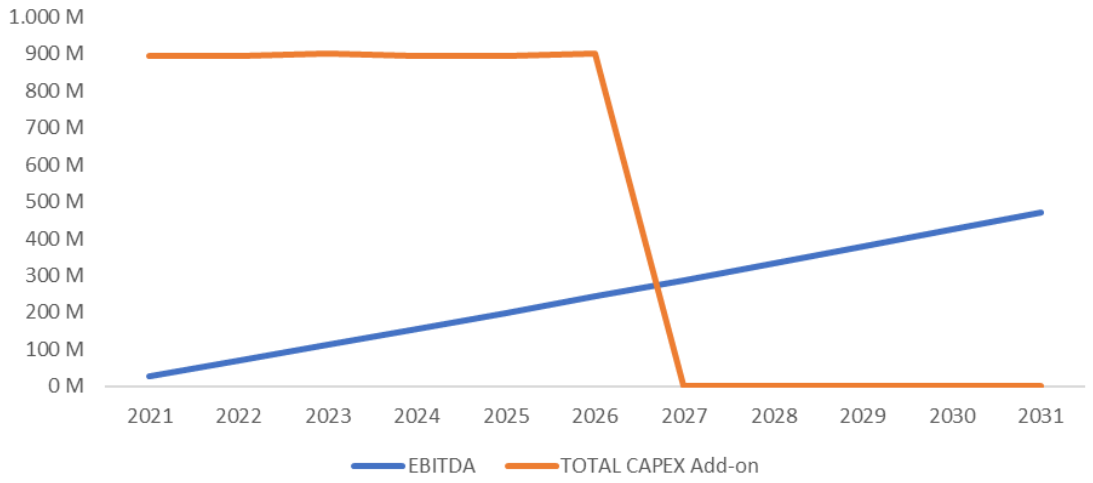
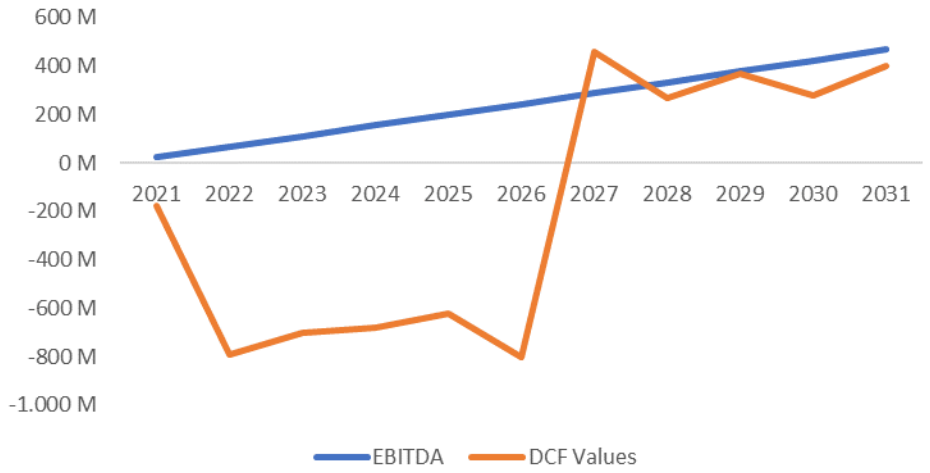
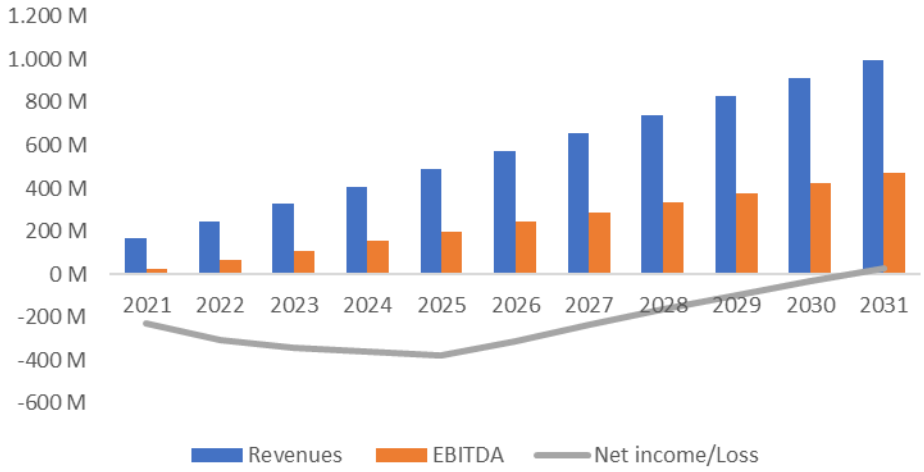
EBITDA/CAPEX Add-on



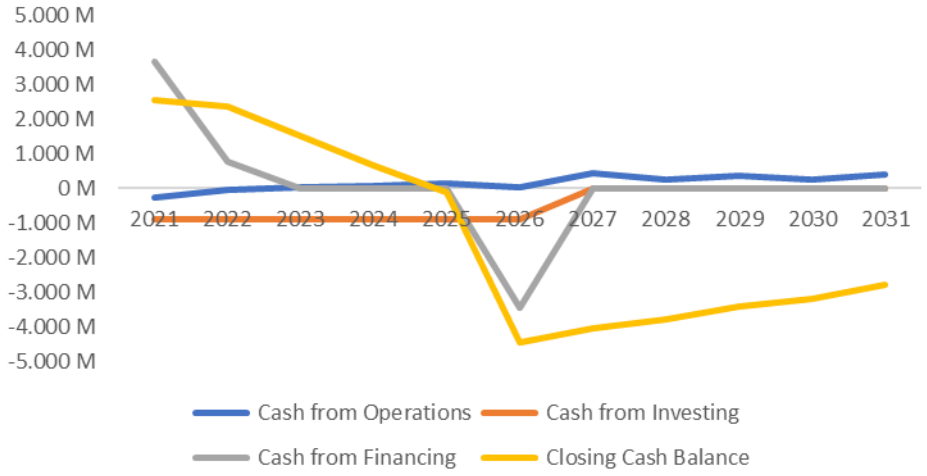
EBITDA/DFC Values



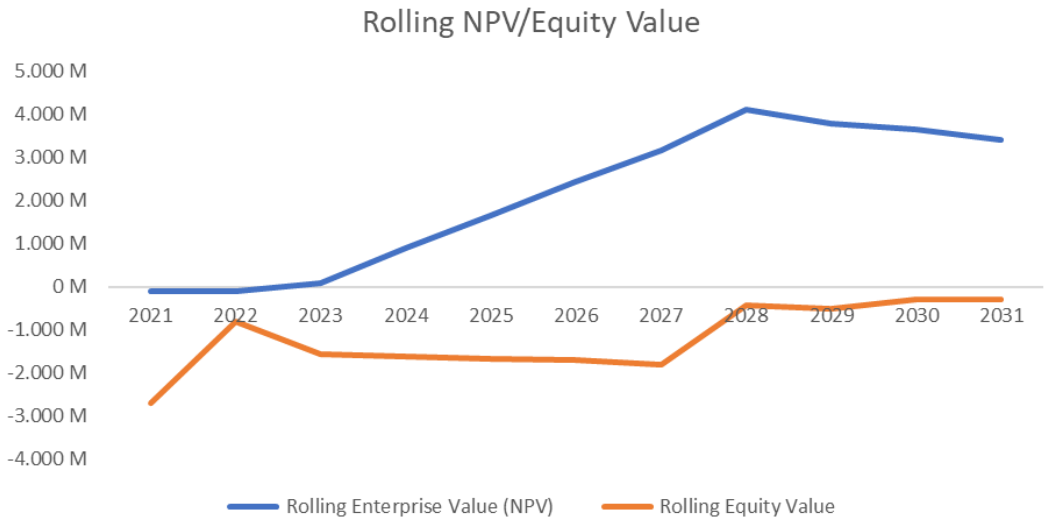
Revenues/EBITDA/Net Profit (Loss)

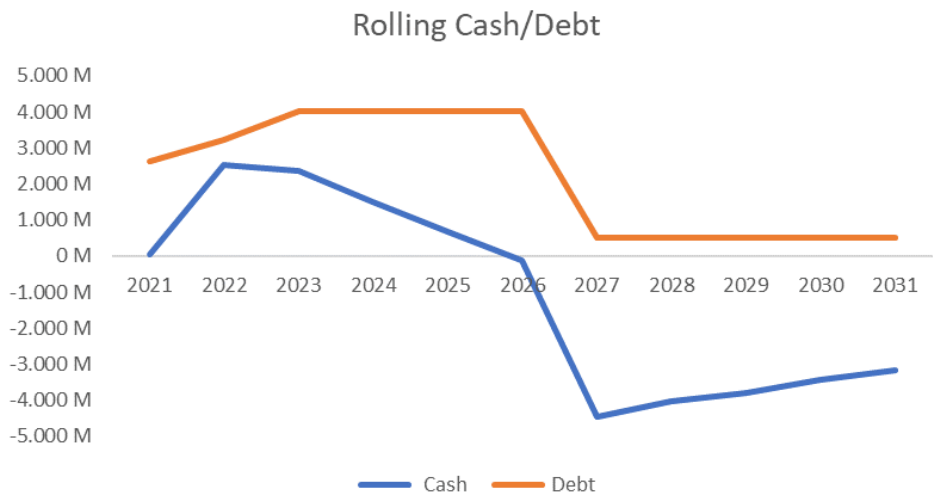


Cash Flow



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





(Euro, Millions)

Enterprise Value (NPV)	- 100 M	IRR	3,23%
Plus: Cash	33 M		
Less: Debt	2.631 M		
Equity Value	- 2.698 M		

Enterprise Value as on 31/10/2021
Cash and Debt as on 31/12/2020

Enterprise value					
	Discount rate				
Exit Multiple	3,0%	3,4%	3,7%	4,1%	4,4%
5,0x	-321.816	-385.780	-446.780	-504.942	-560.391
5,5x	-135.637	-206.094	-273.338	-337.508	-398.735
6,1x	50.541	-26.408	-99.896	-170.073	-237.079
6,6x	236.719	153.278	73.546	-2.638	-75.423
7,1x	422.897	332.964	246.987	164.797	86.233

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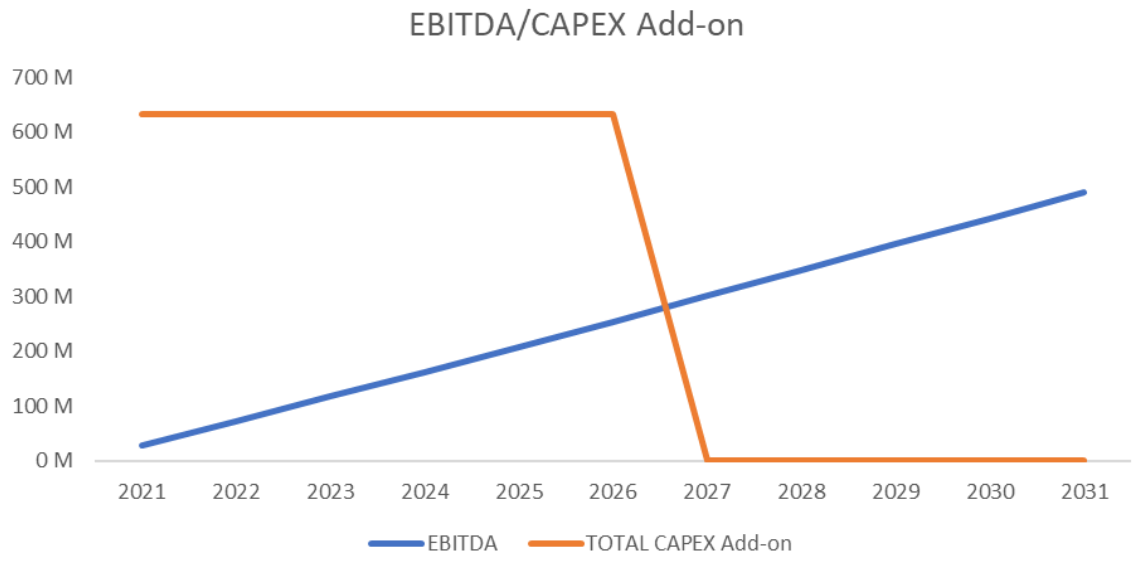
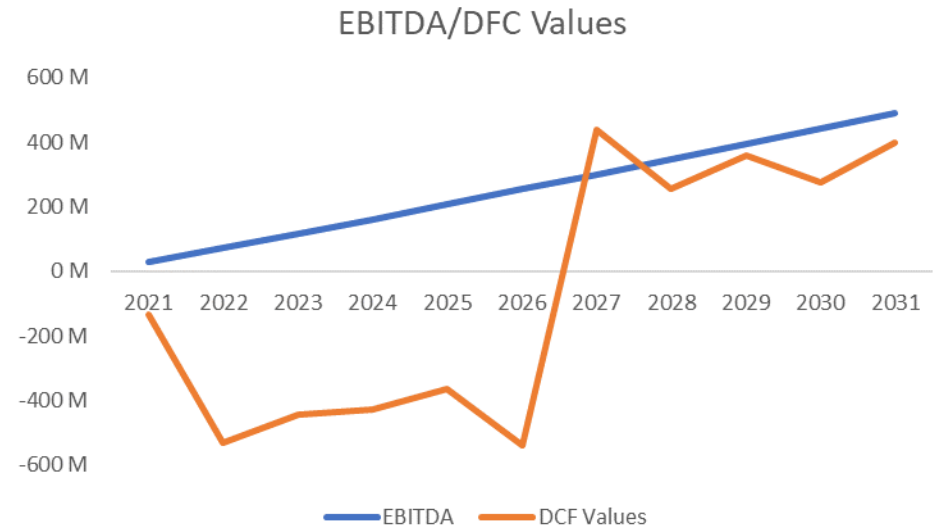
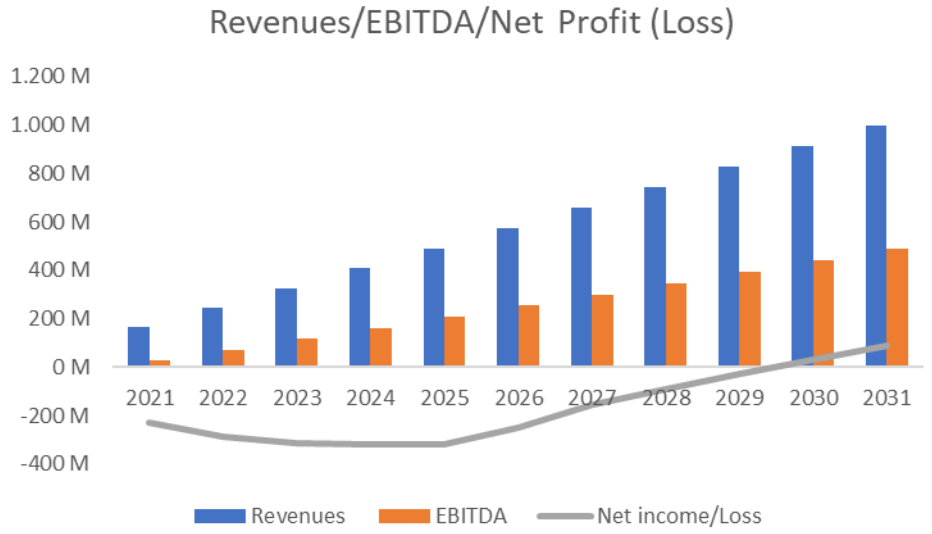
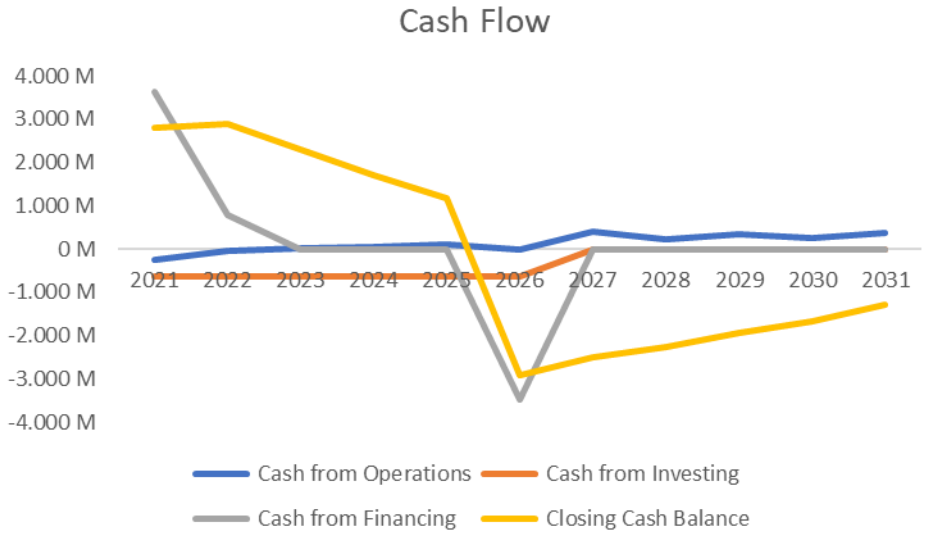
Financial Model «Competition»: Upside Case









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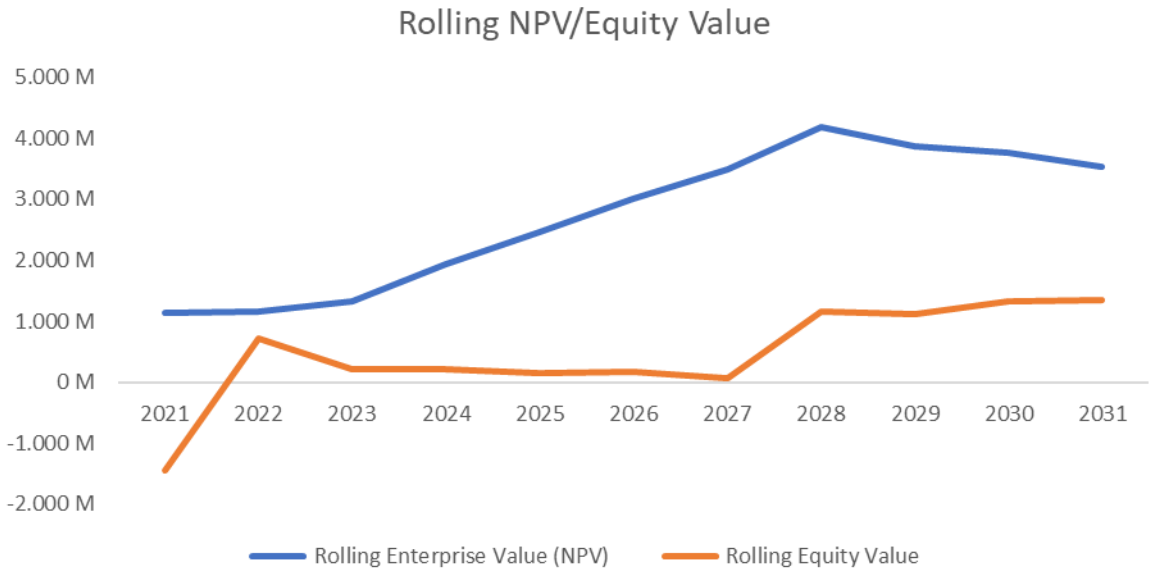
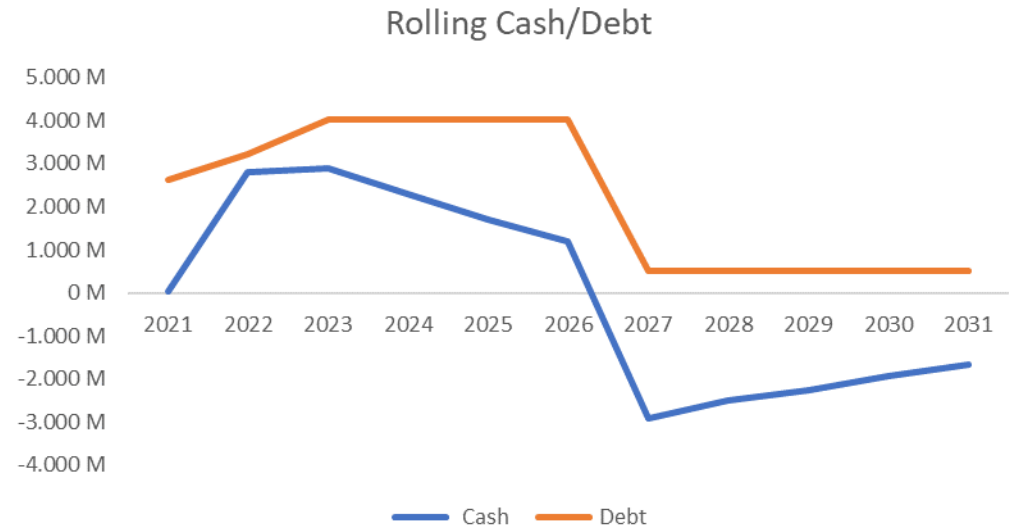
Financial Model «Competition»: Upside Case





(Euro, Millions)

Enterprise Value (NPV)	**1.143 M**	**IRR**	**10,66%**
Plus: Cash	33 M		
Less: Debt	2.631 M		
Equity Value	**- 1.455 M**		

Enterprise Value as on 31/10/2021

Enterprise value					
Exit Multiple	Discount rate				
	3,0%	3,4%	3,7%	4,1%	4,4%
5,0x	934.970	856.572	781.423	709.386	640.332
5,5x	1.129.377	1.044.200	962.531	884.222	809.133
6,1x	1.323.784	1.231.829	1.143.639	1.059.057	977.934
6,6x	1.518.192	1.419.457	1.324.747	1.233.893	1.146.736
7,1x	1.712.599	1.607.085	1.505.855	1.408.729	1.315.537

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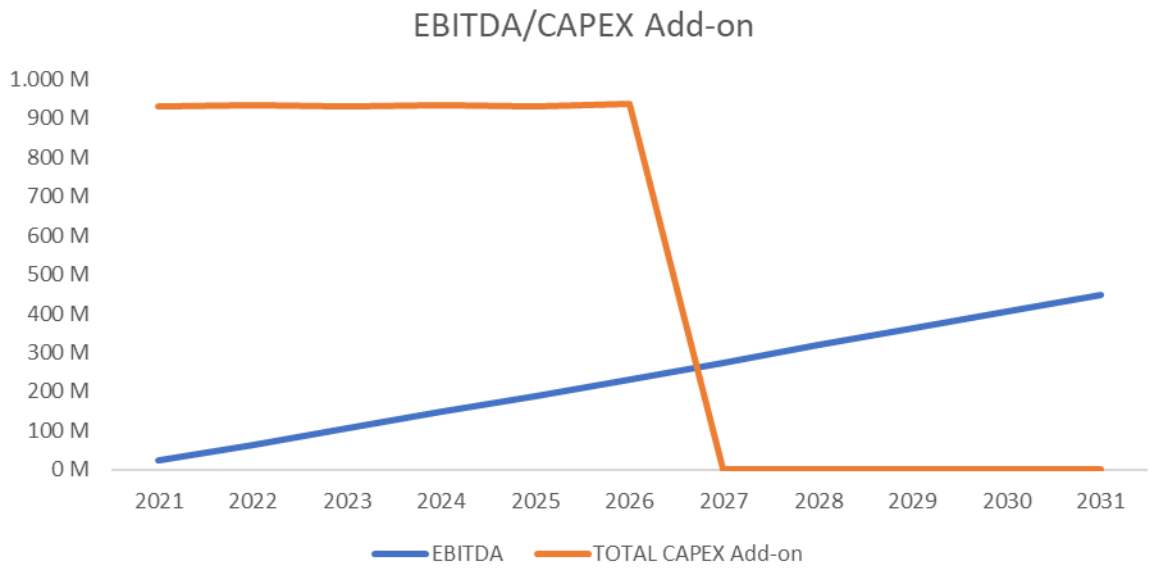
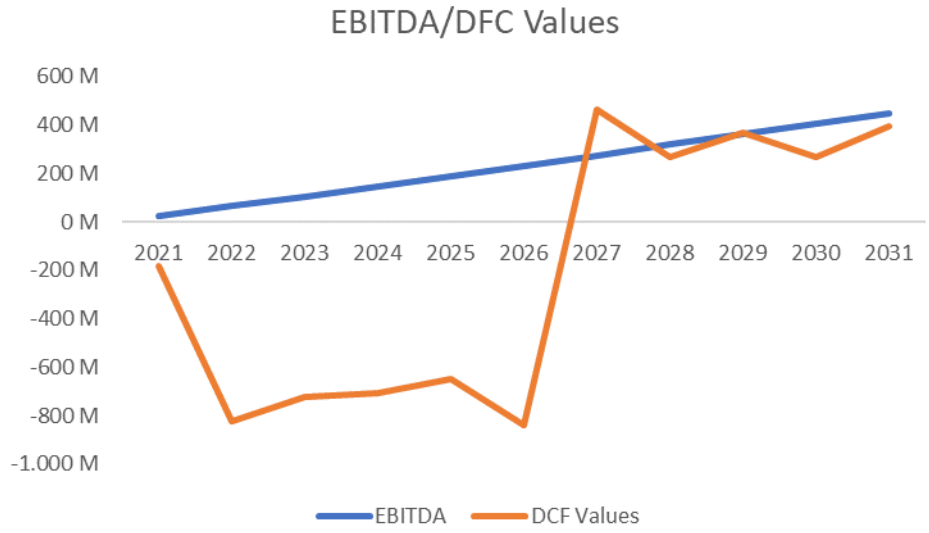
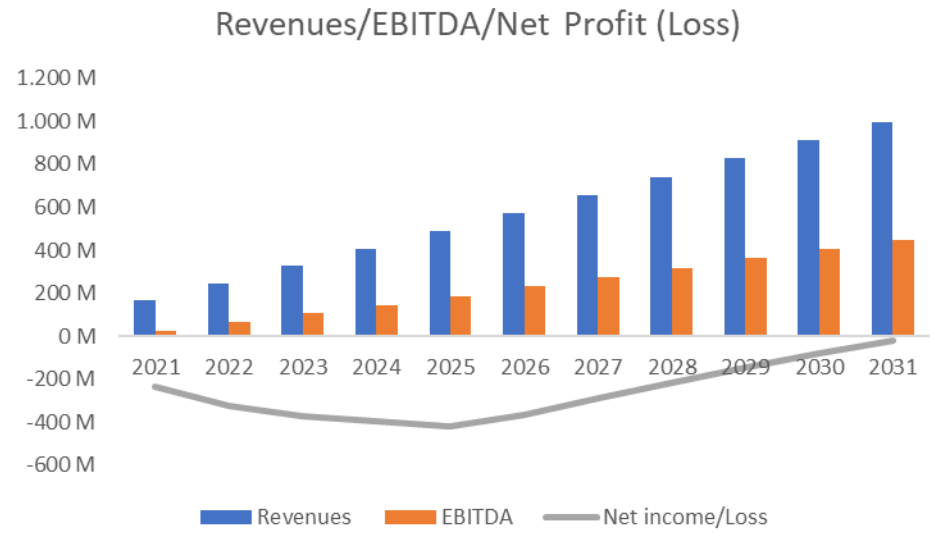
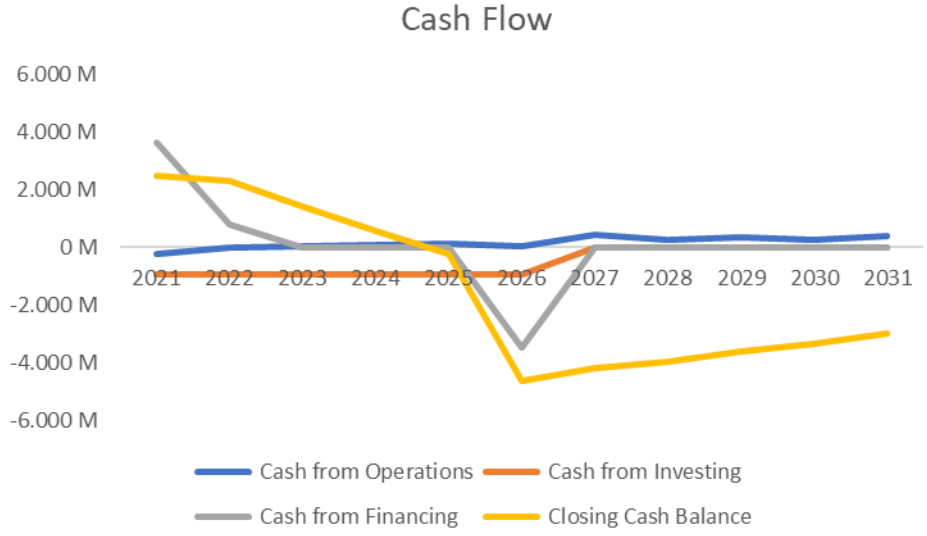
Financial Model «Competition»: Downside Case









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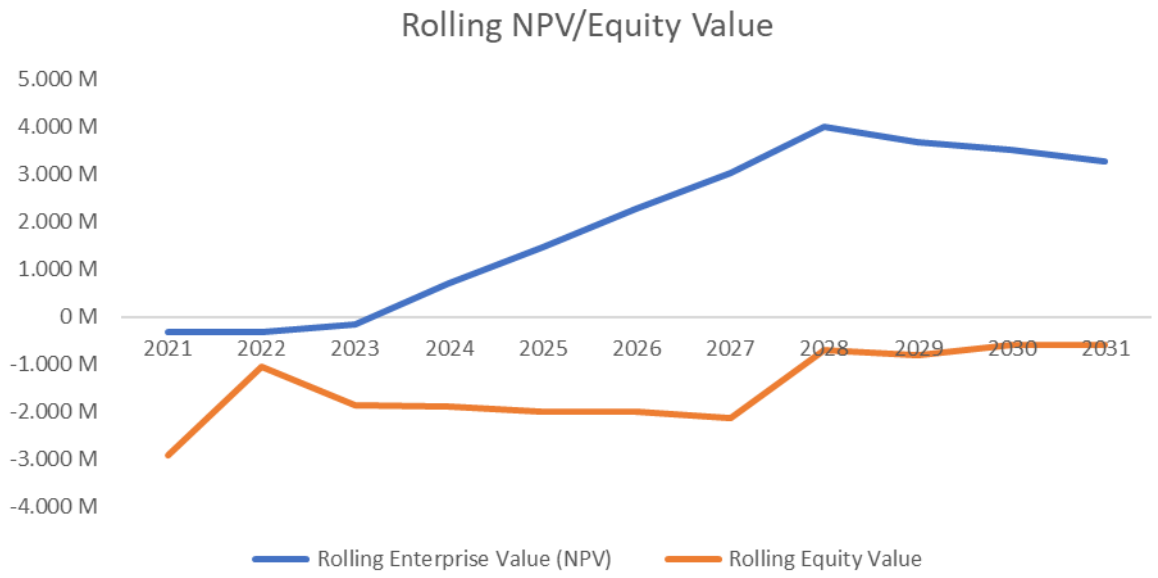
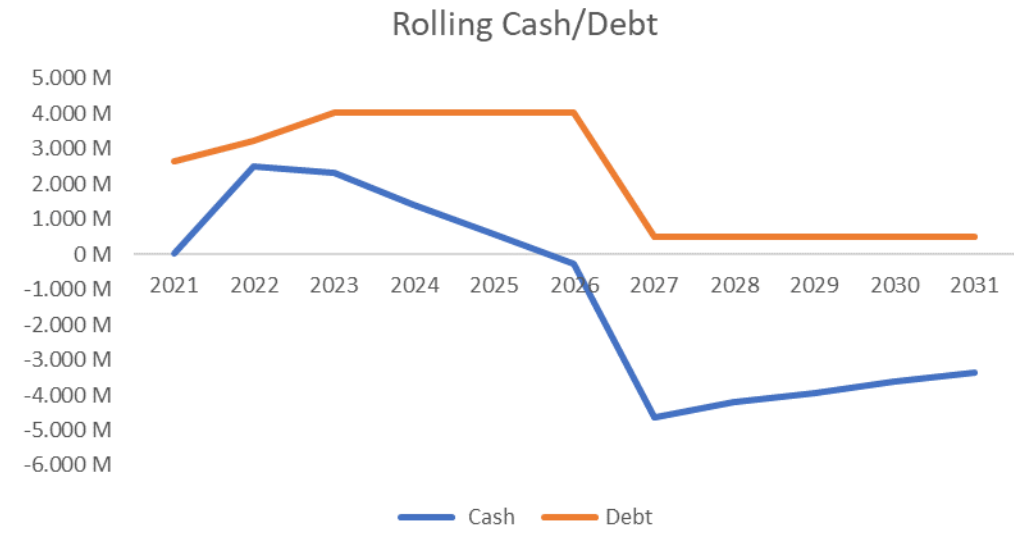
Financial Model «Competition»: Downside Case





(Euro, Millions)

Enterprise Value (NPV)	- 323 M	IRR	2,16%
Plus: Cash	33 M		
Less: Debt	2.631 M		
Equity Value	- 2.921 M		

Enterprise Value as on 31/10/2021
Cash and Debt as on 31/12/2020

Enterprise value					
	Discount rate				
Exit Multiple	3,0%	3,4%	3,7%	4,1%	4,4%
5,0x	-537.966	-597.695	-654.591	-708.776	-760.368
5,5x	-360.018	-425.951	-488.815	-548.742	-605.858
6,1x	-182.069	-254.208	-323.040	-388.708	-451.347
6,6x	-4.120	-82.464	-157.264	-228.673	-296.837
7,1x	173.829	89.280	8.511	-68.639	-142.326

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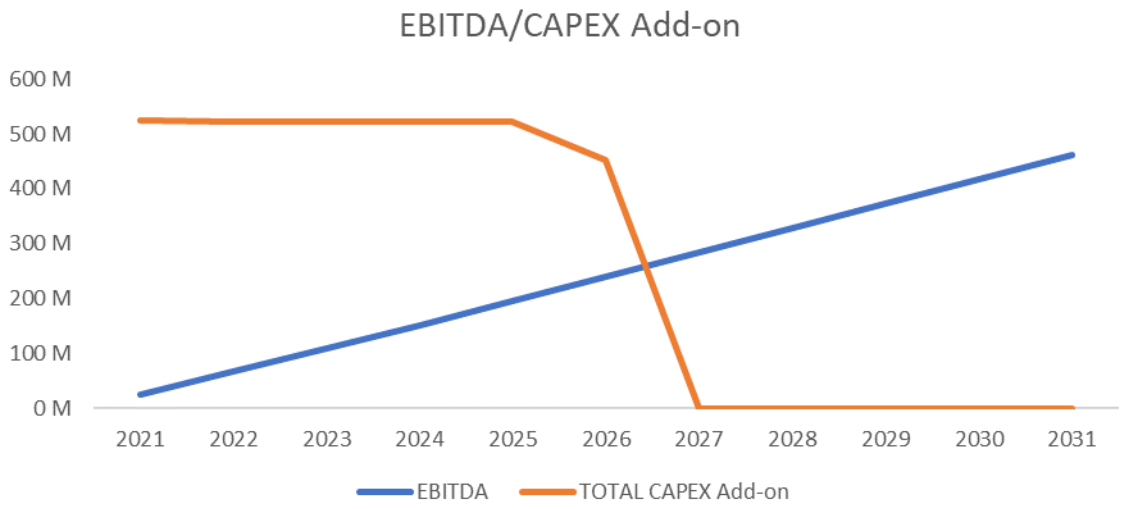
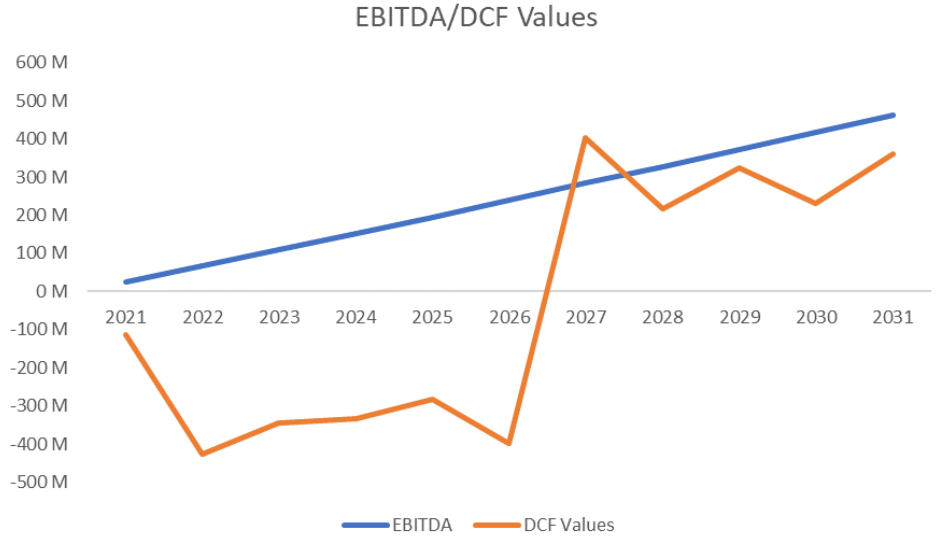
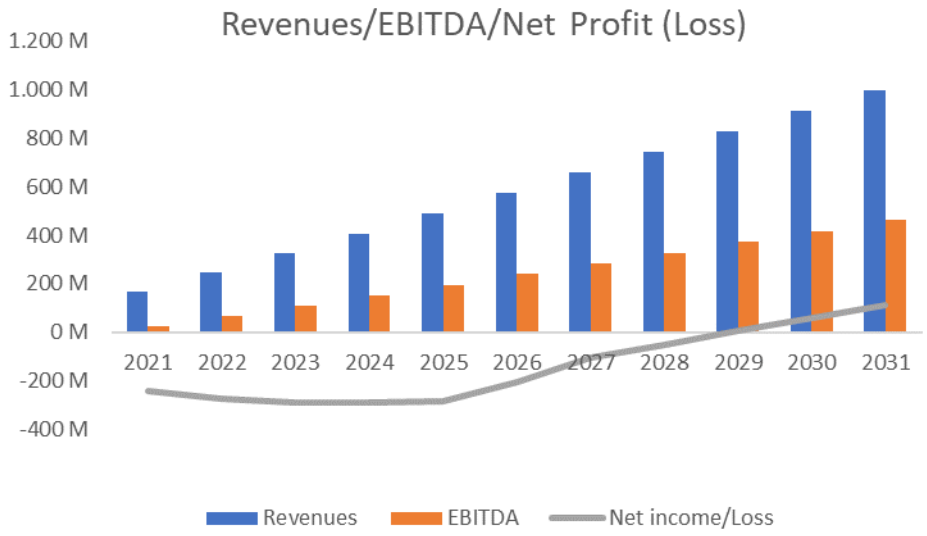
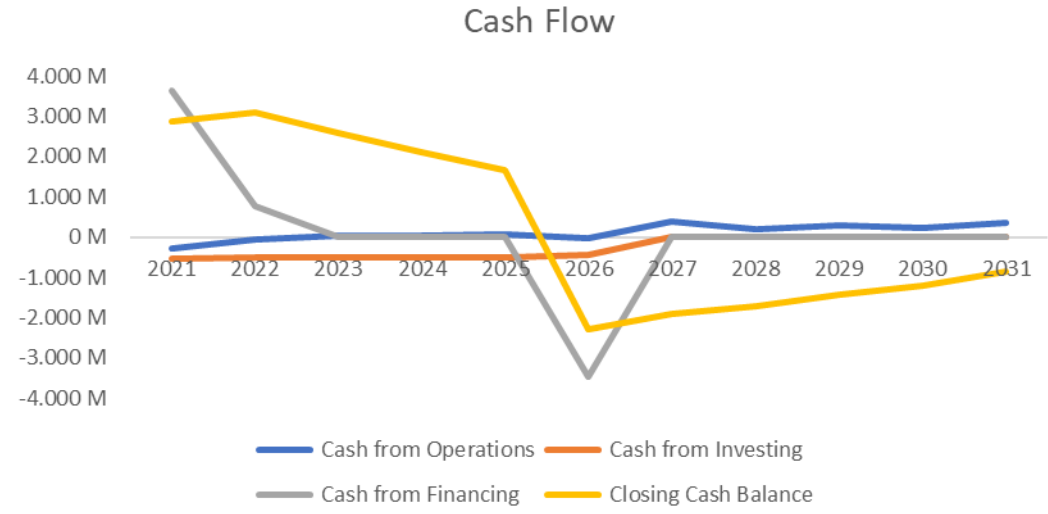
Financial Model «Co-investment»: Base Case









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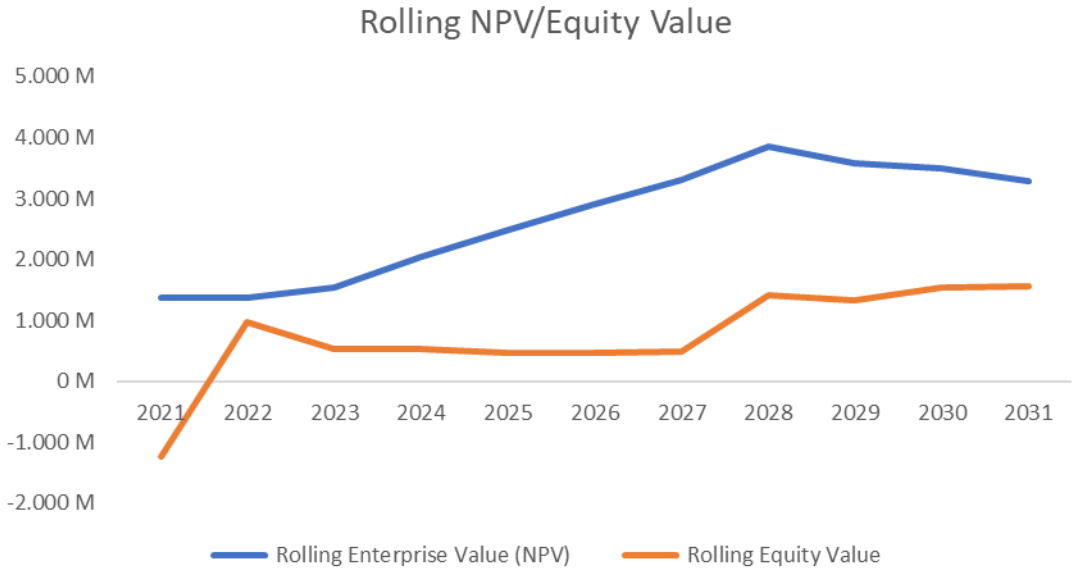
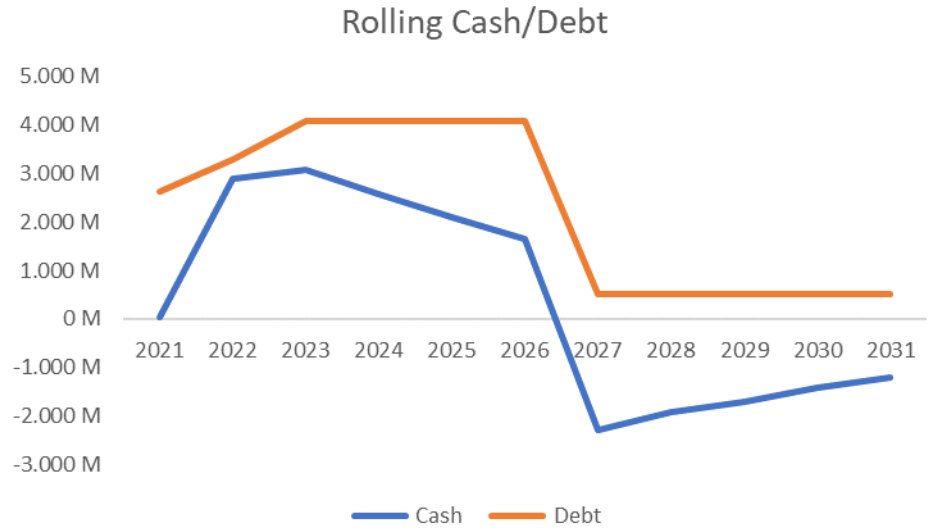
Financial Model «Co-investment»: Base Case





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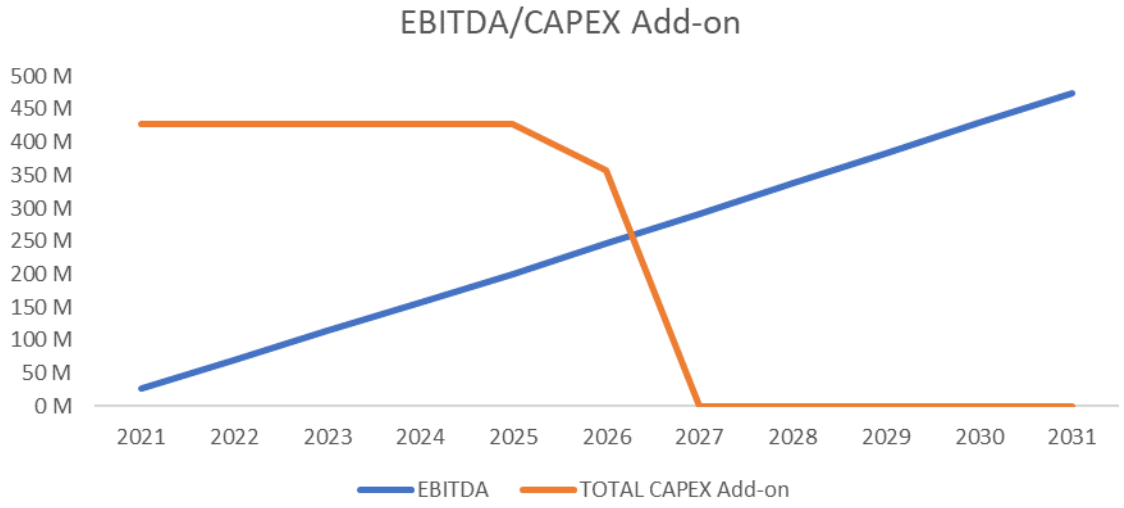
(Euro, Millions)

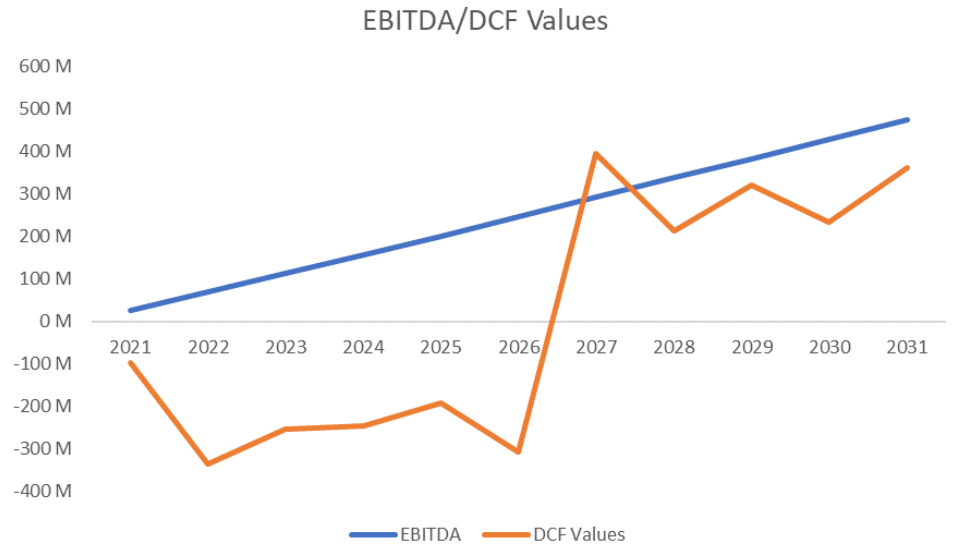
Enterprise Value (NPV)	1.365 M	IRR	13,41%
Plus: Cash	33 M		
Less: Debt	2.631 M		
Equity Value	- 1.233 M		

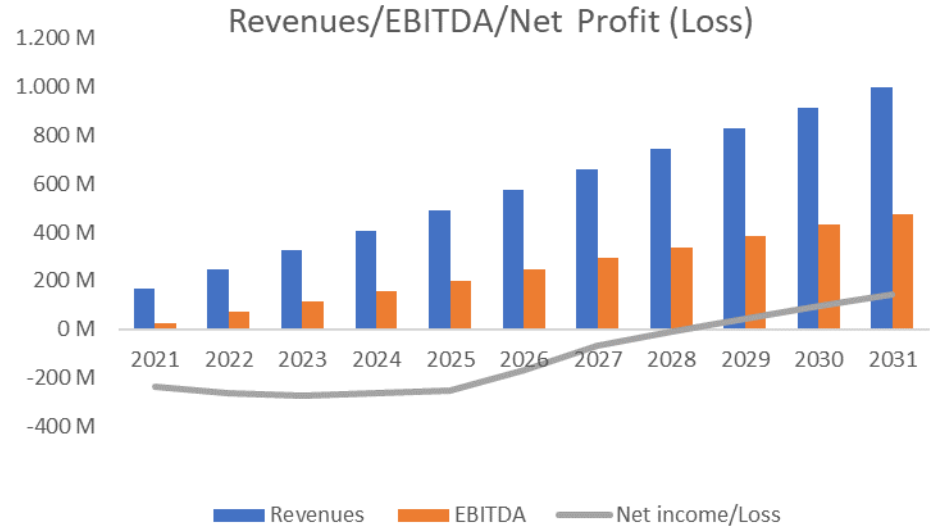
Enterprise Value as on 31/10/2021
Cash and Debt as on 31/12/2020

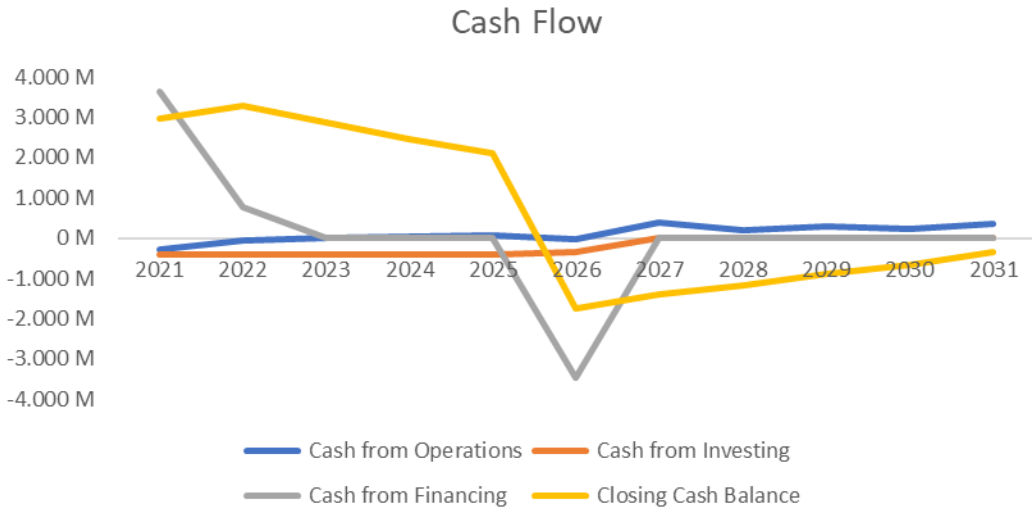
Enterprise value					
	Discount rate				
Exit Multiple	3,0%	3,4%	3,7%	4,1%	4,4%
5,0x	1.172.617	1.096.763	1.023.974	954.121	887.085
5,5x	1.355.873	1.273.629	1.194.693	1.118.928	1.046.203
6,1x	1.539.129	1.450.495	1.365.413	1.283.735	1.205.322
6,6x	1.722.385	1.627.360	1.536.132	1.448.542	1.364.440
7,1x	1.905.641	1.804.226	1.706.851	1.613.349	1.523.559

Financial Model «Co-investment»: Upside Case









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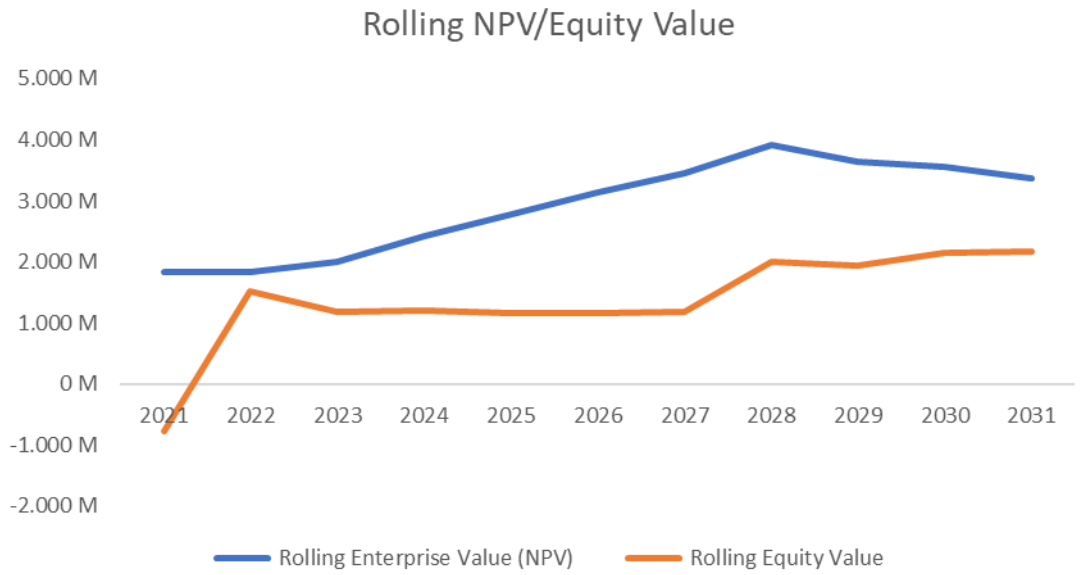
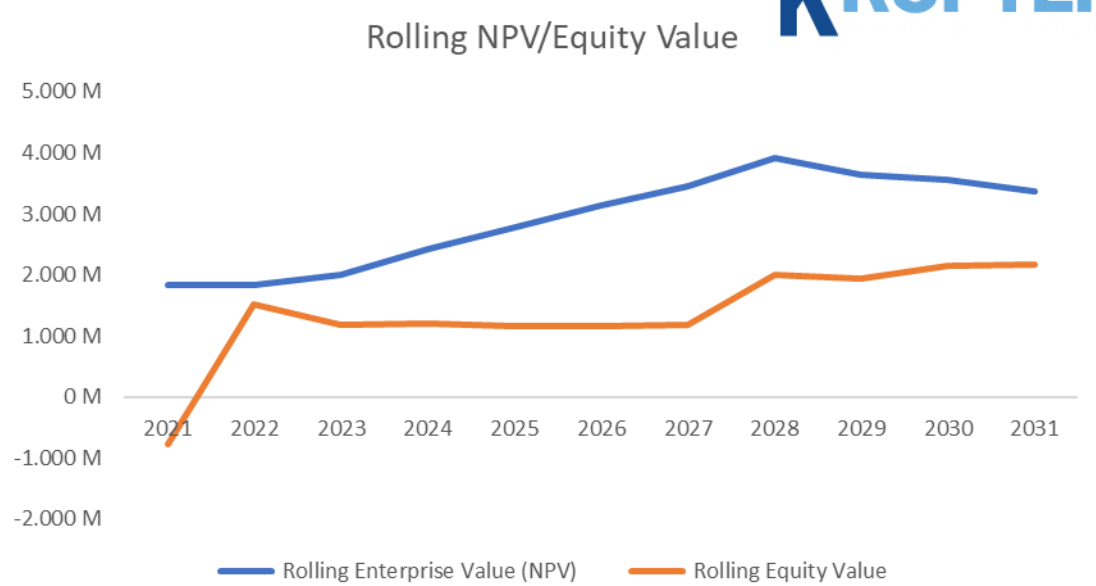
Financial Model «Co-investment»: Upside Case




Rolling NPV/Equity Value
5.000 M
4.000 M
3.000 M
2.000 M
1.000 M
0 M
-1.000 M
-2.000 M
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
Rolling Enterprise Value (NPV)
Rolling Equity Value

(Euro, Millions)

Enterprise Value (NPV)	1.828 M	IRR	18,39%
Plus: Cash	33 M		
Less: Debt	2.631 M		
Equity Value	- 770 M		

Enterprise Value as on 31/10/2021
Cash and Debt as on 31/12/2020

Enterprise value					
	Discount rate				
Exit Multiple	3,0%	3,4%	3,7%	4,1%	4,4%
5,0x	1.637.337	1.555.561	1.476.982	1.401.468	1.328.895
5,5x	1.825.900	1.737.549	1.652.645	1.571.048	1.492.622
6,1x	2.014.463	1.919.536	1.828.308	1.740.627	1.656.348
6,6x	2.203.025	2.101.524	2.003.972	1.910.207	1.820.075
7,1x	2.391.588	2.283.511	2.179.635	2.079.786	1.983.801

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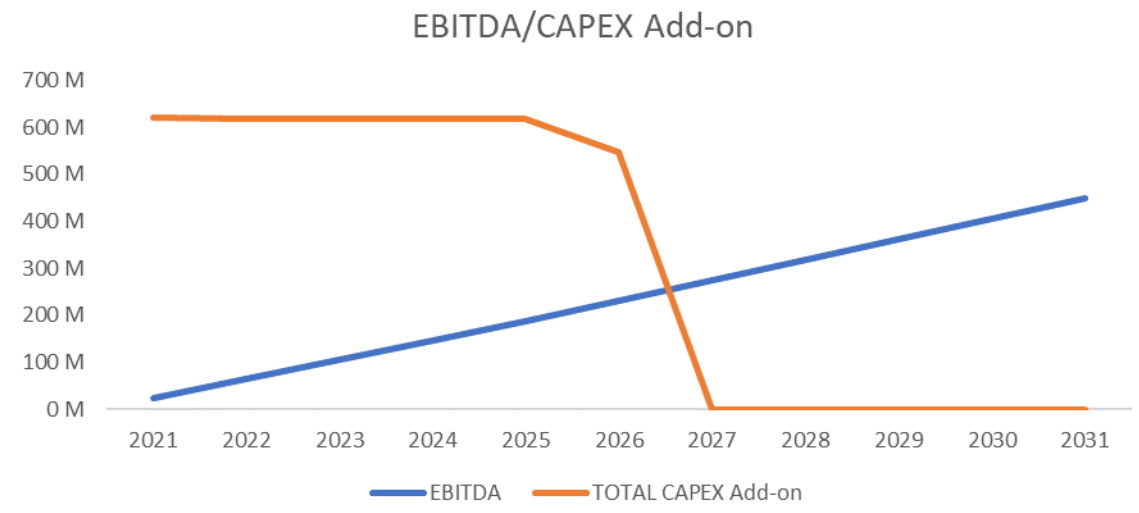
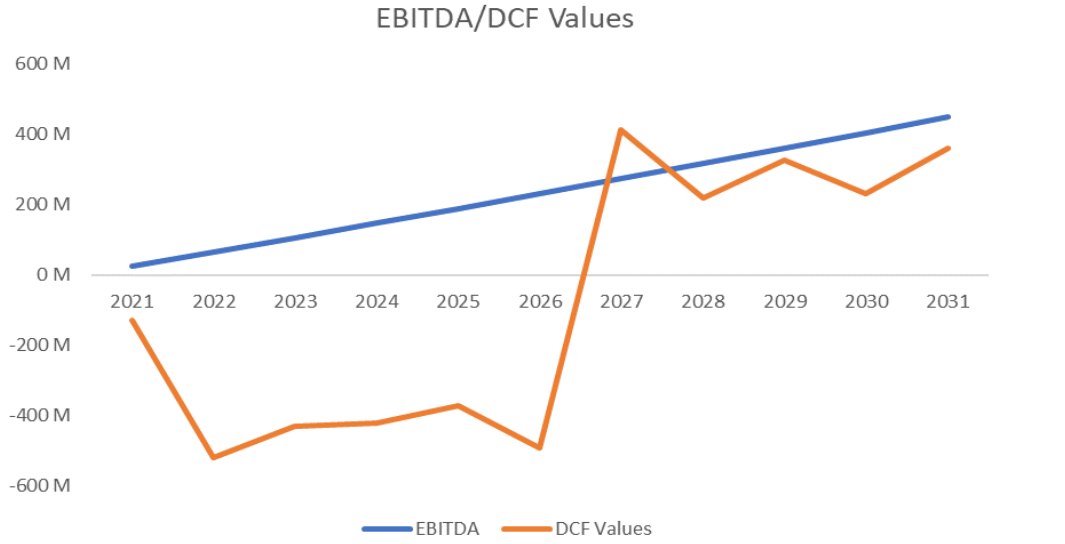
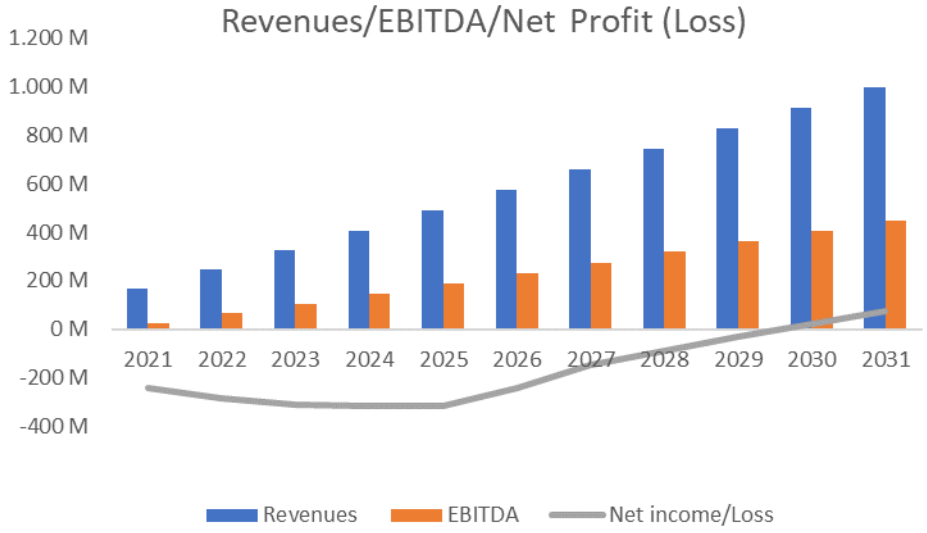
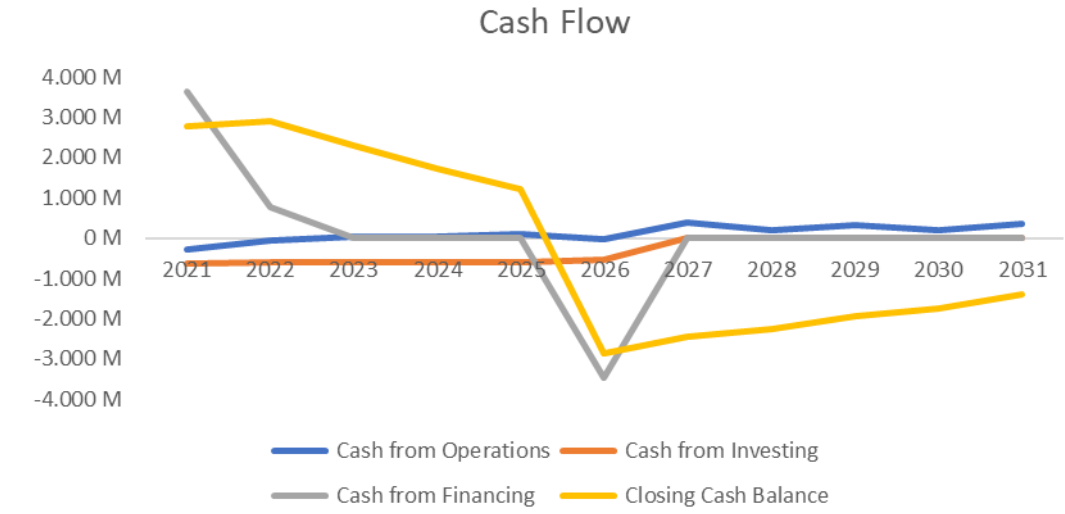
Financial Model «Co-investment»: Downside Case









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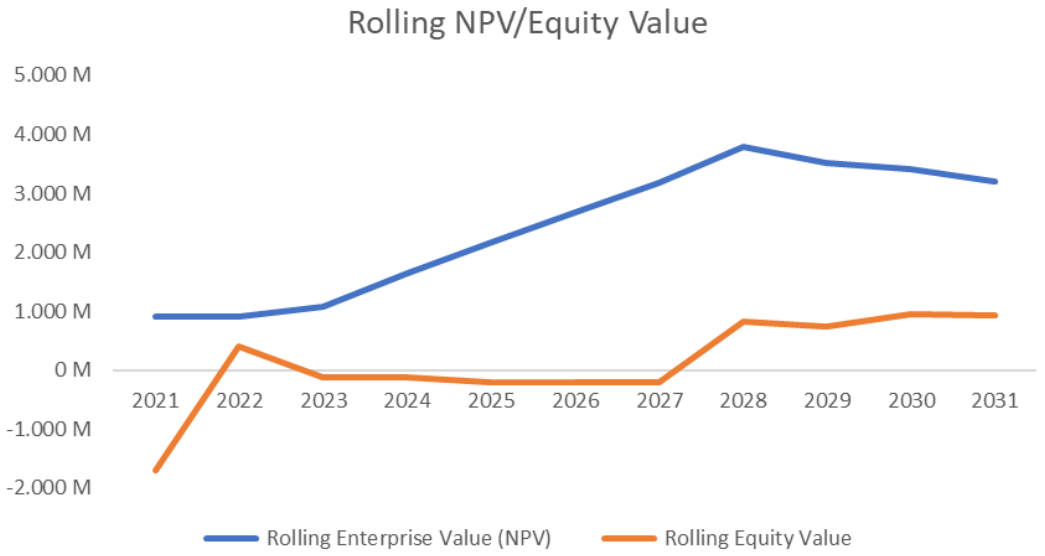
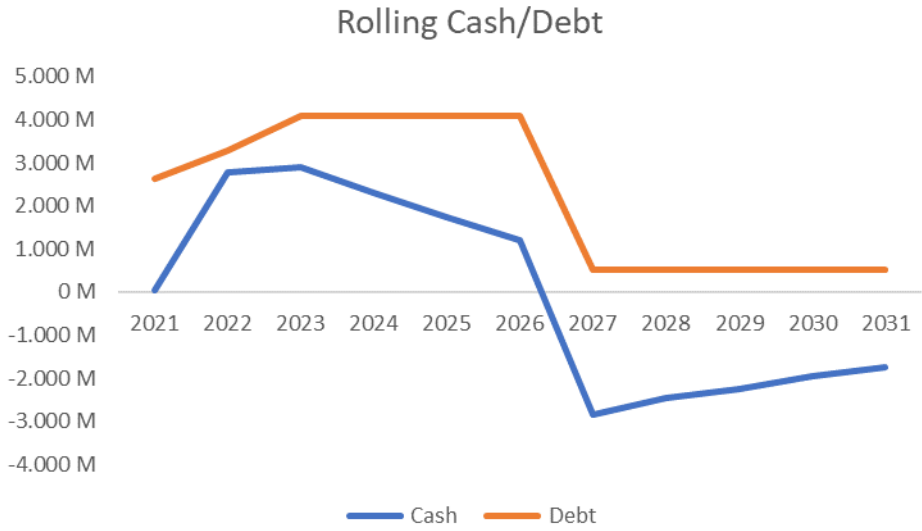
Financial Model «Co-investment»: Downside Case





(Euro, Millions)

Enterprise Value (NPV)	903 M	IRR	9,52%
Plus: Cash	33 M		
Less: Debt	2.631 M		
Equity Value	- 1.695 M		

Enterprise Value as on 31/10/2021
Cash and Debt as on 31/12/2020

Enterprise value					
	Discount rate				
Exit Multiple	3,0%	3,4%	3,7%	4,1%	4,4%
5,0x	708.542	638.590	571.570	507.360	445.841
5,5x	886.559	810.399	737.409	667.455	600.410
6,1x	1.064.575	982.208	903.247	827.550	754.980
6,6x	1.242.591	1.154.017	1.069.085	987.644	909.549
7,1x	1.420.608	1.325.826	1.234.924	1.147.739	1.064.118

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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 2019/2020, debt obligations taken in 2018 and partially implied, are to be repaid in one-time solution at this date, all being equal;
- The assumption of equity sale of 40% of shares for 2.65 mld euro and some additional capital raising stated in the Statements is considered. However, 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 (***Best Case range: 1.1 M<=EV=>1.8 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	355 M	5,6%	Base Case	1.365 M	13,4%
Base Case (FTTH C,D) 2	- 100 M	3,2%			
Upside Case (*)	**1.143 M**	**10,7%**	**Upside Case (*)**	**1.828 M**	**18,4%**
Downside Case	- 323 M	2,2%	Downside Case	903 M	9,5%

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

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