RATING COMMUNICATION

Cerved Rating Agency S.p.A. downgrades

TREVI – Finanziaria Industriale S.p.A. public rating

to **B2.1**

CESENA (FC) – Via Larga, 201 – Italy

Cerved Rating Agency on 08/06/2017 has downgraded TREVI – Finanziaria Industriale S.p.A. rating from B1.1 to B2.1

Date of first issuance of the rating: 15/06/2014

TREVI – Finanziaria Industriale (the Trevi Group, the Group), listed on the Milan stock exchange since 1999, is an international leader in the field of soil engineering.

Key rating factors

- ***Business model and market positioning***

The Group's Special Foundations Division provides specialised services (special foundations, tunnel excavation, soil consolidation) via the Trevi Division (Trevi S.p.A. and its subsidiaries) and it produces and sells machinery and equipment for special foundations through the Soilmec Division. In the Oil&Gas Division, the Group operates in the oilfield services sector via the Drillmec Division, which manufactures and sells onshore and offshore custom rigs, and via the Petreven Division, which operates in onshore drilling sector with a market share of around 10% in South America, with only a marginal presence in Venezuela. In the Oil&Gas Division, the Group operates in a niche segment and has a shorter history and is smaller than its competitors. In the Foundations Division, on the other hand, it carries out infrastructure projects of primary importance and, given its consolidated experience, is one of the main players at international level.

- ***Key financial results***

The Value of Production (VoP) of the Group in 2016 amounted to 1.15 billion euro, a 16.0% decrease compared to 2015, linked to the reduction in the business activities of the Oil & Gas Division. The EBITDA reached 75.7 million euro (8.9 million euro in 2015), with an EBITDA margin of 6.6% (0.7% in 2015). In the two-year period 2015-2016 the Group generated losses for the year of 115.2 and 86.4 million euro respectively. At 31/12/2016 the Net Financial Position (financial debt net of cash and cash equivalents and treasury shares) was 440.7 million euro (Net financial debt, financial debt net of cash and cash equivalents, was 440.9 million euro) with Net debt/EBITDA, EBITDA Interest Coverage and Net debt/Equity ratios of 5.8x, 2.8x and 0.9x respectively. By 12th April 2017, the date of the approval of the financial statements, the Group had received waiver agreements from the banks and the bondholders due to the Net debt/EBITDA parameter (together with EBITDA Interest Coverage for the bond) not being met at 31/12/2016. In addition, the bond financial covenants compliance process at the next valuation dates was modified, which will give the Group greater room for manoeuvre aimed at normalization of the trend in the Oil&Gas business. The first quarter 2017 results highlight a VoP of 234.4 million euro, a decrease of 18.1%, with an EBITDA margin of 5.0% (12.5% in the first quarter 2016) and a net financial debt of 544.0 million euro (533.5 million at 31/03/2016). A further shrinkage in volumes in the Oil&Gas business in 2017 is predicted, due mainly to the cancellation of the contract in Bolivia with the company YPFB and the stability in the Foundations Division, supported by a backlog which at 31/12/2016 amounted to 665 million euro (in the last three years the mean coverage of the backlog at 31/12 on the revenues of the following year was approximately 70%). The EBITDA margin will be influenced by the different mix of orders at geographical level and type of service offered, in addition to the ongoing implementation of initiatives aimed at reducing overheads and personnel costs. On 19/05/2017 the TREVI Group submitted to the financing banks a request for a standstill agreement, in order to enable the Group to focus on the development of its strategic plan aimed foremost at the reorganization of the Oil & Gas business.

- ***Liquidity***

In 2016 the net operating cash flow was negative for 9.3 million euro (positive for 9.0 million euro in 2015). The net operating cash flow in 2017 will be influenced by cancellation of the Drillmec order and by the increase in financial expenses, partially offset by improved management of the working capital. The large-scale investments made in the financial years up to 2015 will enable the Group to remain competitive despite the reduced investments in 2017.

Key risk factors

- **Market risk**

The Trevi Group is exposed to geopolitical risks and subject to macroeconomic, fiscal and legislative framework risks of the countries in which it operates. Prior assessment of these risks during the acquisition of a new order is accompanied by the Group policy of concentrating its business mainly in countries where international insurance cover is guaranteed or bilateral agreements with the Italian government exist. The recovery of oil prices in the first months of 2017 (compared to the 2016 average) has not been fully accompanied by an increase in investments in exploration and production by the upstream companies; in addition, there are newbuild rigs on the market which continue to stay stacked.

- **Operational risk**

Given the nature and complexity of the business carried out, the Group has stipulated adequate insurance policies. The strengthening of the management team, with the entry of the Central Director and the CFO, in addition to other managerial figures, is designed to introduce market best practices and favour the reorganization of the Group.

- **Financial risk**

The exchange rate risk is partially mitigated by the compensation between costs and revenues in the same currency. The liquidity risk is managed by maintaining a buffer of available liquidity (211.6 million euro at 31/03/2017) and the presence of headroom on the short-term lines. The negative performance of the Oil&Gas Division has significantly increased the liquidity risk, a situation aligned with the dynamics of the firms in the oilfield services sector which has seen an increasing trend in negotiations for debt refinancing and rescheduling.

Rating assumptions

- Reduction of consolidated revenues in 2017, mainly due to the negative trend in the Oil&Gas Division
- Acquisition of new orders in the Foundations Division and stability in the results of Petreven
- Reorganization of the Group favoured by entry of the new managerial figures
- Definition of the debt rescheduling agreement with the main financial institutions

Rating sensitivities

- Failure to reach an agreement with the main financing banks will result in the rating being downgraded.
- The positive outcome of the negotiation with the main financing banks could result in the rating being confirmed.

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

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