

Project Italy

Towards the birth of a national champion branded Salini Impregilo-CDP

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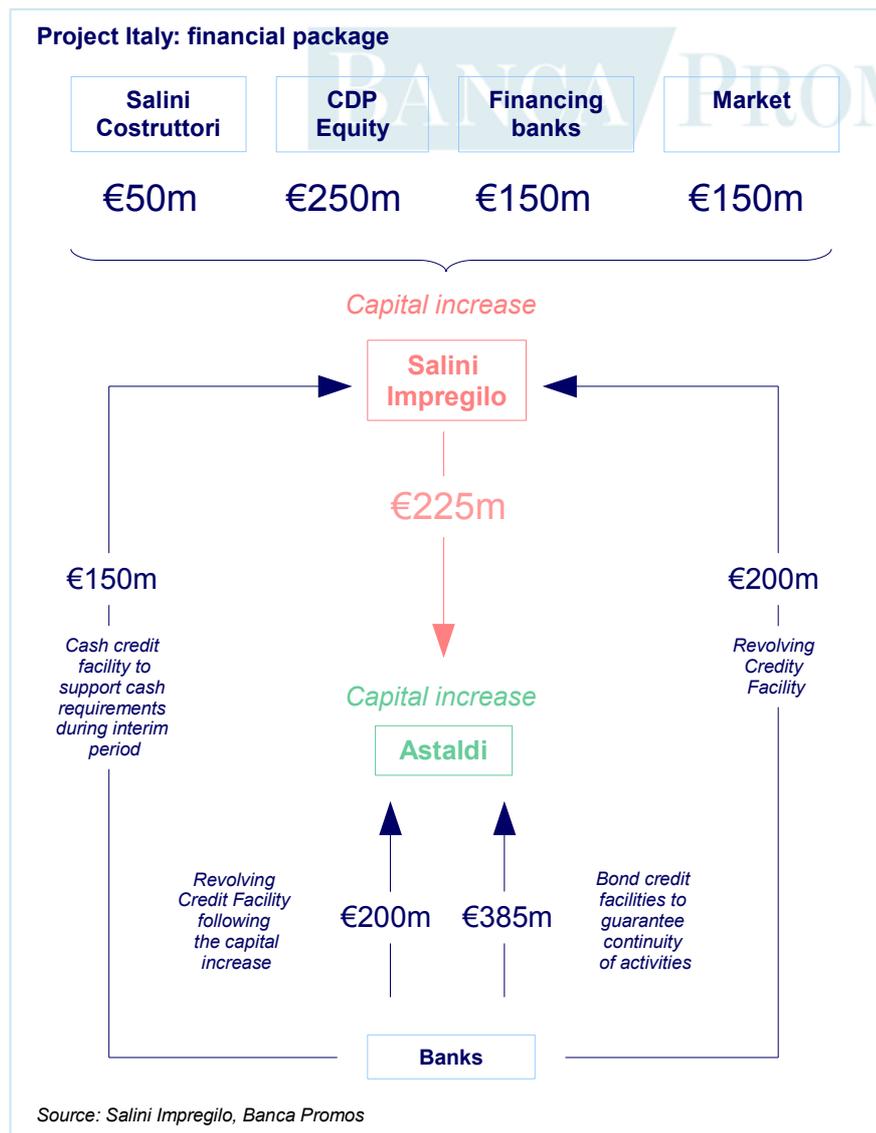
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"Destruction leads to a very rough road but it also breeds creation"

Red Hot Chili Peppers, Californication (2000)

The crisis of Astaldi, which began in November 2017, has turned into the opportunity to strategically consolidate and revive the entire Italian construction sector through a coordinated and system-wide intervention by Salini Impregilo, Cassa Depositi e Prestiti (CDP) and some commercial banks.

The operation, which in its first stage entails two capital increases (for Salini Impregilo and for Astaldi) and the granting of credit lines for just under €1bn, could subsequently be expanded to other troubled Italian builders.



Key steps

November 8, 2017

Two days after announcing the postponement of its BoD on 3Q17 results, Astaldi shares collapse by 17%.

November 9, 2017

Astaldi announces that it is studying a capital increase of €200m. Consob initiates checks on the collapse of the previous day, which occurred before the market was informed of the transaction.

November 14, 2017

Astaldi impairs its exposure to Venezuela for €230m and reports losses of €88m in 9M17. The BoD decides on a €400m capital and financial reinforcement.

November 15, 2017

The price of Astaldi's 7.125%-2020 bond drops by 24.5% to 63 cents on the euro (EuroTLX). A week earlier the bond was priced at 101.

November 16, 2017

Moody's places Astaldi's B3 rating under review for a potential downgrade.

December 18, 2017

Trevifin's BoD chooses Sergio Iasi as Chief Restructuring Officer and starts the preparatory activities to strengthen the company's capital.

January 8, 2018

Condotte files a request for creditor protection to the Court of Rome.

January 19, 2018

With an investment of \$7.5m, SIMEST (CDP Group) acquires a 34% stake in the share capital of Astaldi Construction Corporation.

March 13, 2018

Duccio Astaldi resigns as Chairman of Condotte after the public prosecutor's office of Messina has accused him of corruption.

March 15, 2018

Astaldi closes FY17 with a loss of €101m and announces that the capital increase will be of €300m. The company plans to sell assets relating to the Third Bosphorus Bridge at the end of 1H18.

April 27, 2018

Astaldi's General Meeting approves the FY17 financial statements. Chairman, Paolo Astaldi, states that the BoD will assess the capital increase by May 15 and then carry out the operation by the summer.

Preface

On Friday November 3, 2017, **the shares of Astaldi**, the second largest Italian construction company, recorded what chartists define as a 'golden cross', a raw but clear signal of the start of a long-term uptrend. Less than a week later, **on November 8**, the shares of the Rome-based builder **closed the trading session with a 17% slump**.

These are the first steps of the long and tortuous story that has led, 21 months later, **to the birth of so-called Project Italy**, the plan to relaunch the Italian construction sector which will involve Salini Impregilo, Cassa Depositi e Prestiti (CDP) and some of the major banks in the country.

If it is true that Astaldi's 'default' should be attributed to the risky ventures of the company in Venezuela and Turkey, it is also well known that **the entire Italian construction industry** (which represents 8% of GDP and has over 1m employees) **is trapped in a decade-long slump**. **Due to the economic crisis and the decline in public spending on infrastructure**, the value of blocked public works in the country is approximately equal to €36bn (about 1/4 of which in Piedmont) and more than 120,000 small and medium-sized firms have been forced to close, resulting in the loss of about 600,000 jobs.

In addition to Astaldi, **the crisis of the sector has hit** other top Italian builders, such as **Condotte, Trevi, CMC Ravenna and GLF**, some of which could become part of Project Italy in order to make it a system-wide operation. CDP already controls 16.86% of Trevi while Salini Impregilo has recently acquired a 63.5% stake in Cossi from Condotte, as well as Seli Overseas and GLF Construction from GLF.

The simple sum of Salini Impregilo and Astaldi – which therefore does not take into account the fact that some branches of Astaldi will be sold – would generate a group with slightly less than €8bn of turnover and over €60bn of orders. **According to Salini's own estimates, the acquisition of Astaldi will lead to the birth of a group that, in 2021, will have an order backlog of €40bn and revenues of €9bn**. The expansion of the project to other Italian builders would bring the group's backlog to €62bn and its turnover to €14bn (in 2021).

May 9, 2018

Astaldi confirms the existence of advanced negotiations with potential new shareholders, after press rumors had anticipated the entry of Japan's IHI into its capital.

May 16, 2018

IHI agrees to participate in the recapitalization of Astaldi but may pull out if Astaldi is unable to raise at least €185m by the end of the year from the sale of its stake in the concession on the Third Bosphorus Bridge.

May 16, 2018

Astaldi approves the 2018-2022 plan. In addition to the capital increase, Astaldi wants to refinance its credit lines (€350m) and the bond (€750m) and sell assets for €790m.

May 17, 2018

Condotte asks the Court of Rome for a 60-day delay for the presentation of the restructuring plan.

May 22, 2018

Astaldi repays a bilateral line with Banco do Brasil. The day before the ISDA had been asked to assess whether a failure-to-pay credit event had occurred such as to trigger the CDSs on the company's debt.

June 8, 2018

The CRO of Trevifin signs an exclusive agreement with Bain Capital for a possible debt restructuring transaction.

June 28, 2018

Astaldi's General Meeting approves the €300m capital increase. Chairman, Paolo Astaldi, defines as "advanced" the negotiations on the sale of the €350m stake of the Third Bosphorus Bridge.

July 2, 2018

Cerved Rating Agency lowers the rating of Trevi Finanziaria Industriale to C2.1.

July 16, 2018

The Board of Condotte rejects Attestor Capital's offer to rescue the company.

July 27, 2018

Bain Capital presents a binding offer for Trevi's capital strengthening operation. The company suspends interest payments on the €50m 5.25%-2019 minibond.

August 6, 2018

Matteo Ugetti, Giovanni Bruno and Alberto Dello Strologo are chosen as extraordinary commissioners of Condotte pursuant to the Marzano Law.

August 30, 2018

The Turkish crisis delays the binding offers for the Third Bosphorus Bridge but Astaldi states that it has not received requests to operate pursuant to Art. 67 of RD 267/1942 governing bankruptcy.

Italy: blocked public works



Source: Italy's Ministry of Economy and Finance

The project

The creation of a global player with over 45,000 employees will require the implementation of a complex financial package structured in **three pillars**.

1) Capital increase

Salini Impregilo will benefit from a €600m capital increase by Salini Costruttori (€50m), CDP Equity (€250m), financing banks (€150m) and the market (€150m). The banks participating in the capital increase will be Intesa Sanpaolo, UniCredit and Banco BPM. The tranche reserved for the market will be guaranteed by an underwriting agreement which will involve Bank of America Merrill Lynch and Citigroup.

As for Astaldi, Salini Impregilo will intervene with a capital increase of €225m (65% of the share capital after the increase) "partly dedicated to the payment of secured and supersenior debt holders, and partly supporting the continuity plan".

The transaction also provides for "the partial settlement of unsecured creditors both in the form of shares (which will benefit from continuity of the EPC business) **and other participatory financial instruments** (which will benefit from proceeds of the sale of non-core asset)".

Non-core assets include "the concessions arm that includes **the third Bosphorus bridge project**, the Gebze-Orhangazi-Izmi highway, the Etlik integrated health campus in Turkey, the Santiago airport, the Felix Bulnes hospital in Chile, **the Venezuelan credit** and the real estate related to the headquarters in Rome".

2) Credit lines

Salini Impregilo and Astaldi will benefit from the following finance:

- **Extension of debt maturities** that **Salini Impregilo** has towards some financial institutions **for €170m**.
- **Cash credit facility for a maximum of €200m for Salini Impregilo** which would be aimed at supporting Astaldi's cash requirements during the interim period ahead of the court's final approval.
- **Revolving credit facility for €200m for Salini Impregilo** to cover the company's financial needs to implement Project Italy.
- **Supersenior bonding credit facility of €384m** to be granted to **Astaldi** instrumental to the continuity of Astaldi's corporate activities and the implementation of the new creditor protection plan.
- **Supersenior cash credit facility of €200m** to be granted to **Astaldi** to refinance the Astaldi's interim finances granted ahead of the court's final approval and to support Astaldi's ordinary corporate activities.

Among the credit institutions involved in Project Italy mentioned by Salini Impregilo in a press release on July 16, there are not only Intesa Sanpaolo, UniCredit, and Banco BPM but also BNL-BNP Paribas, Monte dei Paschi di Siena, Illimity and SACE.

3) Governance

The bylaws of Salini Impregilo will be amended to redesign the governance of the company. **The BoD will consist of 15 directors**, the majority of whom will be independent. **Five directors will be chosen by CDP Equity (including the independent Chairman**, who will be appointed with the prior approval of Salini Costruttori). **A new Strategic Committee will work alongside the Board** in implementing Project Italy until its completion.

September 3, 2018

S&P lowers Astaldi's long-term rating to CCC- from CCC.

September 7, 2018

Fitch cuts Astaldi's rating to CCC- from B.

September 10, 2018

Moody's reduces Astaldi's rating to Caa2 from Caa1 due to the company's increasing probability of default. The 7.125%-2020 bond trades at 45 cents on the euro (EuroTLX).

September 14, 2018

Trevifin communicates to Bain Capital the decision not to adhere to its offer.

September 18, 2018

Trevifin completes the procedure for signing a standstill agreement with a group of financing banks.

September 28, 2018

Astaldi's BoD resolves to submit to the Court of Rome a request for creditor protection. The company asks for the transfer of its shares from the STAR segment to the MTA segment of Borsa Italiana.

October 1, 2018

Fitch cuts Astaldi's rating to C from CCC. Consob prohibits short selling on the shares of the company.

October 2, 2018

S&P lowers Astaldi's rating from CCC- to D (default). According to rumors, a consortium led by China Merchants Group is negotiating to buy the stake in the Third Bosphorus Bridge.

October 3, 2018

Salini Impregilo announces that it is "closely following the developments involving companies in the construction sector [...] including the Astaldi Group".

October 5, 2018

ISDA's Determinations Committee certifies the occurrence of a 'bankruptcy credit event' on Astaldi. The Deputy Minister of Infrastructures, Edoardo Rixi, states that the government is following Astaldi's dossier.

October 8, 2018

The BoD of Trevifin approves the guidelines of the operation to increase its capital and to convert debt into financial instruments.

October 17, 2018

The Court of Rome accepts Astaldi's request for creditor protection. Sources close to CDP state that a role of the state lender in the rescue of Astaldi "is not currently being studied".

For and against

Banks and CDP

Banks exposed to Astaldi (including Intesa Sanpaolo, UniCredit, Banco BPM and BNL-BNP Paribas, among others) **have always been among the main supporters of the acquisition of Astaldi by Salini Impregilo.**

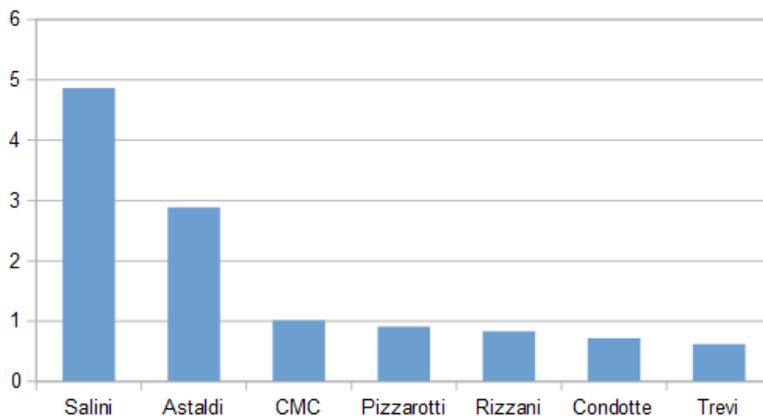
In October 2018, **the CEO of Intesa Sanpaolo, Carlo Messina**, stated that he looked favorably to all the processes that could strengthen, consolidate and stabilize the construction sector, a strategic engine of growth and GDP.

On the same side, in February 2019, **the CEO of Banco BPM, Giuseppe Castagna**, said he wanted the Italian infrastructure sector to be reinvigorated because "it is important for the country".

As for **CDP**, the state lender **has supported Astaldi for years in its international expansion, through its subsidiaries SACE and SIMEST** (the latter holds 34% of the capital of US-based Astaldi Construction Corporation). Prohibited by statute from saving individual ailing firms, CDP has finally agreed to join a system-wide intervention.

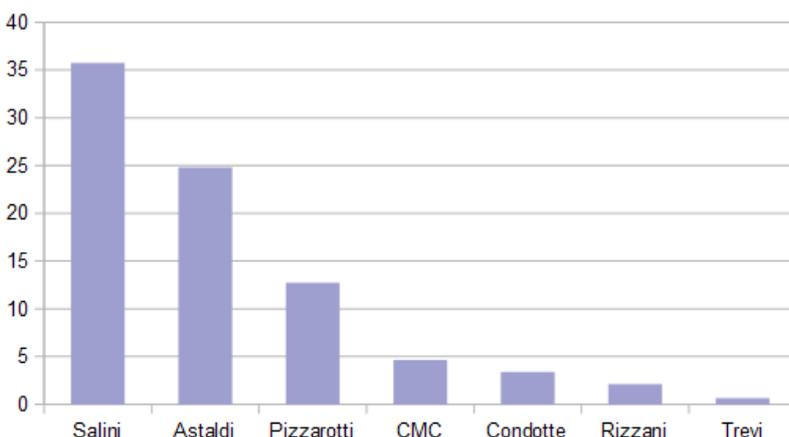
Also Giuseppe Guzzetti, Chairman of ACRI (which represents Italian foundations of banking origin and savings banks), **has expressed a positive opinion on the project** when, in April 2019, he claimed that CDP can accompany this kind of initiatives as long as they are sound and verified (banking foundations are shareholders of CDP at 15.93%).

Revenues (€bn)



Source: Bloomberg (last available data)

Backlog (€bn)



Source: Company earnings (last available data)

October 19, 2018

The Director of IHI Infrastructure Systems, Koichi Tokuda, tells Il Sole 24 Ore he has met Paolo Astaldi and confirms that their talks continue.

November 15, 2018

Salini Impregilo provides Astaldi with a preliminary non-binding expression of interest concerning activities connected to the construction sector.

November 16, 2018

S&P states that the non-binding offer for Astaldi could have a negative impact on Salini Impregilo's debt and rating.

November 29, 2018

Astaldi's CDS auction evaluates the company's bonds at 30.875% of their face value.

December 4, 2018

Trevifin accepts the offer of MEIL Group for the acquisition of its Oil&Gas sector.

December 11, 2018

Salini Impregilo's CFO, Massimo Ferrari, says Salini will be joined by other Italian and financial players in the bid to rescue Astaldi.

December 12, 2018

The European Commission approves Italy's request for the granting of a state guarantee of €190m to Condotte.

December 13, 2018

Salini Impregilo's 1.75%-2024 bond closes at a record low of 63.38 cents on the euro on EuroTLX.

December 18, 2018

The Court of Rome grants Astaldi an extension to February 14 of the deadline for the presentation of the proposal of composition with creditors.

December 19, 2018

Trevifin approves the 2018-2022 consolidated business plan.

January 9, 2019

Astaldi is authorized by the Court of Rome to sign a €75m bridge loan with Fortress. Astaldi's 7.125%-2020 bond returns to 30 cents on the euro.

January 24, 2019

The Deputy Minister of Infrastructures, Edoardo Rixi, says he hopes for a CDP intervention to rescue Astaldi.

January 28, 2019

Salini Impregilo's CFO, Massimo Ferrari, says that, given CDP's ties with Astaldi through SACE and SIMEST, he believes there may be a system-wide interest.

January 29, 2019

Ilimity's CEO, Corrado Passera, confirms the bank's interest in at least some parts of Condotte.

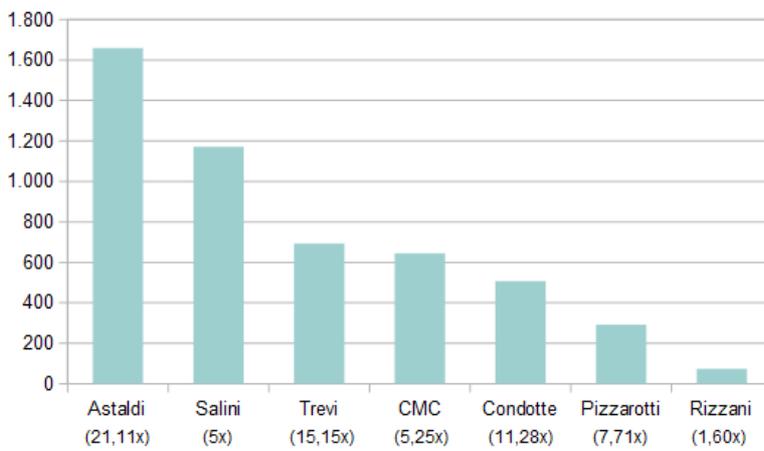
Rating agencies

According to S&P, Project Italy is an initiative that brings opportunities and risks for Salini Impregilo. If on the one hand it would determine an increase in size which is crucial in the international competitive environment, on the other it would increase the group's exposure to Italy, a market that "historically suffers from significant project delays, overdue payments, and weak profitability".

Fitch too, in cutting Salini's rating to BB on July 10, has mentioned "the uncertainties and execution risk that the Astaldi acquisition brings to Salini's financial and business profile".

For its part, Salini Impregilo has repeatedly asserted that it would have assessed an intervention on Astaldi only if it was consistent with its own targets of financial discipline, that is, to be structured without any impact on the group's debt and cash structure.

Net debt (€m; as a ratio of EBITDA)



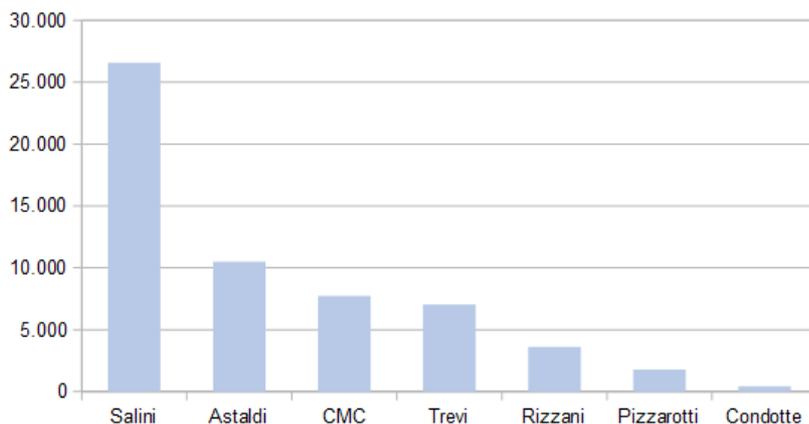
Source: Bloomberg (last available data)

The Italian government

In the last year and a half, the representatives of the Italian government have expressed relatively few statements about the Astaldi dossier, supposedly in order to allow CDP (controlled at 82.77% by the Ministry of Economy and Finance) to 'speak' and act directly on the issue.

Among the interventions of the government – in addition to the launch of a decree to unblock public works in the country (Decreto Sblocca Cantieri) – it should be noted the convocation of a technical meeting to address the problem of the subcontractor companies of the Quadrilatero project (about 40 firms from Marche and Umbria with receivables up to €60m towards Astaldi).

Employees



Source: Bloomberg (last available data)

February 1, 2019

Fitch cuts Astaldi's long-term rating to RD (Restricted Default) from C. Immediately afterwards, the agency withdraws all its ratings on the company.

February 12, 2019

Astaldi receives the €75m three-year loan from Fortress. Its quarterly coupon is equal to Euribor plus a spread of 11.25% in the first year and 14.25% in the following two years.

February 14, 2019

Salini Impregilo presents an offer for Astaldi subject to the contribution of long-term co-investors. The plan is inserted by Astaldi in the proposal of composition with creditors filed with the Court of Rome.

February 14, 2019

Sources close to the Astaldi dossier say that CDP could consider an intervention in the context of a system-wide operation.

March 21, 2019

S&P cuts Salini Impregilo's rating to BB- from BB. The negative outlook is also affected by the "short-term financial burden related to the potential acquisition of Astaldi".

April 3, 2019

Salini Impregilo asks for time until May 20 to present the final plan for the rescue of Astaldi. The company announces the closing of the acquisition of the majority of Cossi Costruzioni.

April 23, 2019

The Minister of Economic Development, Luigi Di Maio, signs a decree authorizing the sale of the assets of Condotte.

May 2, 2019

The meeting of the bondholders of the Trevifin 5.25%-2019 notes approves some changes to its prospectus, including an extension in maturity to 2024 and a reduction in coupon to 2%.

May 21, 2019

Salini Impregilo extends the deadline for the final offer on Astaldi to July 15. Astaldi and Ic Yatirim Holding resume negotiations for the sale of the concession of the Third Bosphorus Bridge to a consortium led by China Merchants Group.

May 31, 2019

Astaldi's BoD appoints Paolo Amato as Chief Restructuring Officer.

June 6, 2019

Salini Impregilo joins ANCE, Italy's national builders' association.

June 19, 2019

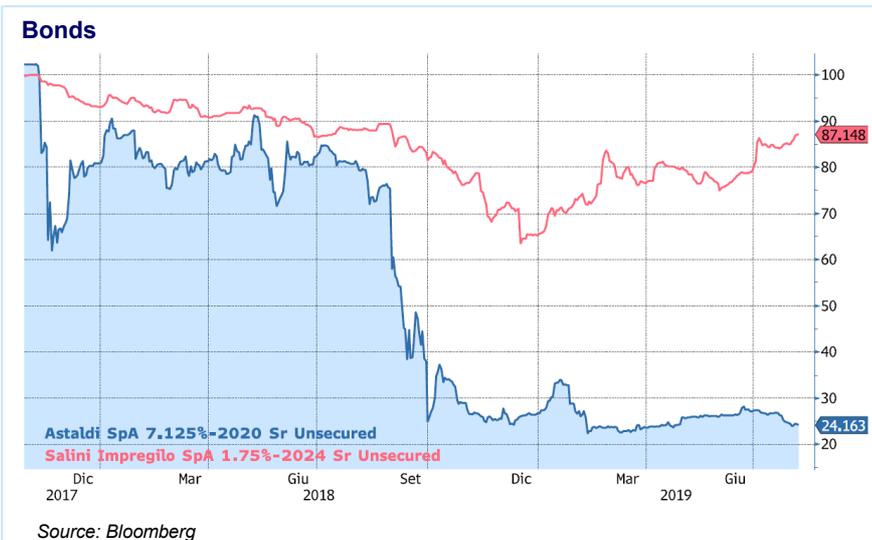
Astaldi submits to the Court of Rome an updated version of the proposal of composition with creditors.

Bondholders

Astaldi's Bondholders Committee represents approximately €60m of retail investors out of €890m of bonds issued by the Rome-based constructor (€750m Sr Unsecured Notes due in 2020 and €140m Equity Linked Notes due in 2024).

On February 4, 2019, the Committee **said it was "certainly more favorable to a plan** based on the recapitalization and the relaunch of the company together **with a strong foreign partner (IHI)** in an international industrial context" highlighting that "the system-wide project [with Salini Impregilo] seems to have a greater complexity of realization and, above all, a less winning industrial rationale".

The holders of the two bonds – whose identification process has been initiated by Astaldi last June – will likely receive only a partial repayment within the creditor protection process, with assignment to them of shares and participating financial instruments.



July 4, 2019

The Minister of Infrastructures and Transport, Danilo Toninelli, says he is looking "carefully" at Project Italy.

July 10, 2019

Fitch cuts the rating of Salini Impregilo to BB from BB+. "The negative outlook reflects the uncertainties and execution risk that the Astaldi acquisition brings to Salini's financial and business profile".

July 15, 2019

Salini Impregilo receives non-binding comfort letters from the financial partners involved in Project Italy and presents a new offer for Astaldi.

July 17, 2019

Trevifin's BoD approves the agreements relating to the financial maneuver and the capital strengthening.

July 19, 2019

Trevi Holding SE files an appeal with the Court of Bologna for irregularities made by the directors and auditors of Trevifin.

August 2, 2019

Salini Impregilo signs the investment agreements with CDP Equity and with the financing banks. Project Italy is born.

Source: ANSA, Il Sole 24 Ore, Banca Promos

Builders' associations

One of the most critical voices against Project Italy has turned out to be that of ANCE (Italy's national builders' association), which Salini Impregilo decided to re-join on June 6.

In a press release dated July 10, **ANCE stated that "Project Italy does not guarantee the protection of the entire entrepreneurial system"** and its Chairman, Gabriele Buia, declared that "if the public hand only intervenes for some players, then it will alter the rules of competition".

A similar opinion has been expressed by **Avisiano Pellegrini, Chairman of Confapi Aniem (Italy's national union of the firms of the building sector)**, who **said he was** in favor of Salini's rescue of Astaldi but **against the intervention of CDP** that "risks wiping out the competition of many other healthy companies".

Selected European builders

	Country	Revenues	Mkt Cap	S&P	Moody's	Fitch
Vinci	FR	€44.2bn	€56.2bn	A-	A3	A-
Bouygues	FR	€35.6bn	€11.9bn	A-	A3	WD
ACS	SP	€36.7bn	€10.7bn	BBB	n/r	n/r
Salini Impregilo	IT	€4.9bn	€875.7m	BB-	n/r	BB
OHL	SP	€2.9bn	€295.9m	n/r	Caa1	B+
Astaldi	IT	€2.9bn	€67.1m	D	Ca	WD

Source: Bloomberg

Salini Impregilo has replied to these fears by pointing out that the new company will focus on large projects with a value of over €250m, that is, outside the typical scope of small and medium Italian builders.

Labor unions

Definitely favorable to an active role of banks and CDP in relaunching the construction sector, **Italy's main labor unions CGIL, CISL and UIL**, in a joint statement on May 10, declared that this is the only way to guarantee the survival of tens of thousands of jobs.

A month later, **the Secretary General of CGIL, Maurizio Landini, declared that a public intervention on Project Italy "is a condition for doing industrial policy**, as well as bringing together larger groups that are able to compete internationally".

FOCUS: The Trevi Group and Project Italy

Trevi's difficulties have emerged about three years after the entry into its capital of Cassa Depositi e Prestiti (in 2014, through CDP Equity and FSI Investimenti). The group – specialized in the fields of soil engineering and drilling – **has a strong strategic value**, as proved, in 2016, by the deployment of an Italian military contingent to protect the works of maintenance of the Mosul dam (Iraq), entrusted to the Cesena-based builder.

The Trevi Group is currently dealing with a complex recapitalization and debt restructuring transaction that will involve CDP, financing banks and the US-based fund Polaris. The parent company, Trevifin, has recently started the sale process of its Oil&Gas division to India's MEIL and has prepared the key steps of the financial strengthening maneuver:

- A **capital increase of €130m** guaranteed for €77.4m **by FSI Investimenti and Polaris** and for €52.6m by the financial lenders through a debt to equity swap;
- A **capital increase reserved to the financial lenders**, indivisible for €10.6m and **for a maximum amount of €63.1m**, to be subscribed through a debt to equity swap;
- A **capital increase of €20m** (dedicated to the issuance of loyalty warrants), the provision of a **bank loan of €41m** and the granting of new **bonding facilities for a maximum amount of €200m.**

However, **the relaunch of the group is slowed down by the Trevisani family**, which currently controls about 32% of Milan-listed Trevifin (through Trevi Holding SE) but **which would be strongly diluted by the maneuver**, not having the means to participate in the capital increase. Accordingly, Trevisani's holding has filed an appeal with the Court of Bologna "for irregularities made by the directors and auditors" of Trevifin "with a request for the appointment of a judicial administrator".

The simultaneous involvement of CDP in the rescues of both Trevi and Astaldi has led some observers to speculate about a potential union of the two operations. However, the already advanced status of Trevi's transaction would make – at least for now – the stand-alone solution as a priority over the involvement in Project Italy.

Conclusions

Project Italy is an ambitious but complex initiative and **many difficulties could hinder its accomplishment.**

The support of the Italian government, through Cassa Depositi e Prestiti, can quickly turn from strength to weakness. **The crisis of the government led by the League and the 5 Star Movement**, and the resulting political uncertainty, **has already raised among investors the fear of potential slowdowns in the timeline of the Project.**

Moreover, foreign concerns can arise in addition to domestic worries. **The defeat in the primary elections of Argentina's President Mauricio Macri has had severe spillovers** on all the assets linked to the South American country and, among these, also **on the shares of Salini Impregilo.**

However, a spokesman for the company has pointed out that **the value of Salini's contracts in Argentina (€230m) accounts for less than 1% of the group's total backlog**, adding that most of the payments are in EUR and USD and the share in ARS (Argentine Peso) is limited to covering costs on site.

The capital increase of Salini Impregilo planned for 4Q19 – which will be offered to the market for 1/4 of the total €600m – will therefore be a key step to verify how much trust is actually placed by investors in the success of Project Italy.



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