BB

ISSUER RATING

Long-term Rating

Outlook: Positive

First rating date: 14/12/2021
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Contacts

Associate
Mariella Giuliana Pajuelo Liberati
mariella.pajuelo@ethifinance.com

Chief Rating Officer
Guillermo Cruz Martínez
guillermo.cruz@ethifinance.com

Rating Action and rationale

- Ethifinance affirms Arquimea Group S.A. rating at “BB” rating changing its outlook from stable to positive.
- The rating assigned is mainly based on the financial projections provided by Arquimea, which include significant growth in revenue and EBITDA based on a strategic plan with an associated execution risk in which EthiFinance Ratings has limited visibility. The growth is supported by debt as the planned acquisitions will be made 100% with borrowed funds. Therefore, the assigned rating is conditioned on compliance with projections, with any significant deviation, mainly in terms of turnover, EBITDA, profitability, financial debt, and equity, leading to a revision of the assigned rating.
- The Group's ESG analysis has not had a material impact on the rating as it stands at an adequate level.

Issuer description

Arquimea develops technology-based activities operating in various sectors such as aerospace, biotechnology, fintech, industrial and agrotechnology. The Group, of family origin, was founded in 2005 by Diego Fernández Infante, its current president. At FYE march 2022, consolidated turnover was €116.0M with an EBITDA* of €16.8M, registering an NFD/EBITDA* ratio of 0.5x.

(*) Adjusted EBITDA includes the impairment related to R&D&I tax lease that is applied in the financial results showed in the annual accounts as it is a recurring effect associated with the turnover of these tax lease.

Fundamentals

Business Profile

Industry Risk Assesment

- **The Group operates in the technology sector through the development of several lines of business that have technological development as a common base.** The Group develops various activities that have in common a high level of integrated technology. It designs, manufactures and/or distributes products with a high degree of specialisation, mainly for the Aerospace, Defence and Security (ADS), which means operating in a market with high entry barriers, where the number of players is low, and margins are high. At the same time, due to the degree of specialisation, it is not possible to apply economies of scale given that the manufacture of products is, for the most part, by means of short series. The degree of technological obsolescence is not considered high at ADS given the long testing periods required for each new part. In the rest of the areas, technological obsolescence is high, and it is necessary to invest in R&D&I and in new products and services to mitigate the appearance of competitors and technological evolution.

- **Innovative sectors with positive prospects.** The space economy grew by 9% in 2021, the highest rate since 2014. The global satellite data services market is expected to grow at a rate of 26.6% and CAGR of 22.8% until 2026. The Fintech and Agro-technology sectors also have positive perspectives, regarding the first, one the main driver will be projects related to the ‘cloud’, while for the agro-technology sector a growth in turnover of around 21% is expected globally over the next few years.

- **Significant potential ESG impact risk.** The sector is considered to have a relevant ESG potential impact, which stems from the need for companies to transition to new practices in the medium term. Inaction in this regard could impact the stability and profitability level of the sector in the short to medium term.

Company’s competitive positioning

- **Highly diversified activity in terms of business lines. Concentration of turnover in the domestic market, with internationalisation expected in the coming years.** The Group's activity is diversified in terms of business lines, with the ADS, Fintech, Medical Services and Agrotechnology areas standing out. In terms of geographical diversification, the Group concentrates all its activity in the domestic market, as the products it exports to markets such as the USA, Canada, Mexico, Latin America, China, Japan, South Korea and Thailand, among others, are sold through Spanish sales offices and distributors. However, they maintain subsidiaries in Germany, the USA and Malaysia in order to increase activity in these countries, mainly in the American market, due to its greater opportunity for growth in the technology sector, an aspect that is also included in the Group's business plan.

- **Overall favourable competitive position.** Arquimea Group has a favourable competitive position in Europe, particularly in the ADS sector. While the Group has excelled in the development of technological patronage, the emergence of new competitors may compromise its leadership.

- **ESG scoring with no material impact on the Group's financial profile.** The Group's ESG analysis has not had a material impact on the rating as it is at an adequate level.

Governance

- **Family-owned company.** Arquimea Group’s chairman Diego Fernández Infante is the majority shareholder through Arquimea Enterprises S.L. (75% of shares). The rest of the percentage is family owned as well.

- **The Group does not have a Board of Directors, although it maintains an Advisory Board.** The fact of having an Advisory Board gives more flexibility in decision-making since, unlike the Board of Directors, it is a consultative body whose recommendations are not binding. However, the fact that it is not supervised by a Board of Directors could lead to less control over long-term objectives.

- **The Group's business strategy is very dynamic, based on participation in new technology-based businesses. By offering highly specialised and novel products, new business opportunities may suffer from a certain temporariness.** Although the Group maintains a strong growth trajectory, it should be noted that its business strategy is based on taking advantage of technology-based businesses, where the know-how and experience acquired can be reused and can impact the evolution of the business lines. On the other hand, as it is a very specialised and innovative product and service, new business opportunities may be limited in time, with it being necessary to develop new projects to give continuity to the business.

- **ESG policy.** The analysis of ESG policies and information is considered favourable in comparison with the sector benchmark.

- **Controversies.** No controversies were identified.

Financial Profile

Cash-flow and leverage

- **The Group is in a consolidation and growth process, both organic and inorganic, estimating an increase in both turnover and EBITDA.** The Group is currently in the process of acquisition of two companies (in USA and Spain), which will be financed without the contribution of equity. In addition, organic growth is focused, especially in the ADS and Medical Services areas. According to the projections provided by Arquimea, this process will cause the turnover to increase from €116M at FYE march 2022 to €151M at FYE march 2026 ($\text{CAGR}_{\text{FYEmarch22-25}}$: +8.1%,), growth supported by an increase in debt. EBITDA, it is expected to reach €30M at FYE march 2026 (€16.8M at FYE march 2022) with an EBITDA margin of 19.4%, all subject to the evolution of the Group's business plan.

- **Reduced financial leverage in terms of NFD/EBITDA, standing at 0.5x in FYE march 2022. The ratio will reach a peak in FYE march 2023 of 2.8x a result of the Group's growth plan.** The Group maintained a low level of NFD/EBITDA, reaching 0.5x. Although an increase in gross financial debt of €24M is planned for the acquisition of companies (acquisitions financed 100% through these new debt issues), with the aim of fostering growth, the Group estimates not to exceed a leverage of 2.8x, which is considered healthy.
- **Given the activity carried out by the Group, the cash flow suffers from a certain volatility that has been mitigated by the integration of new activities.** The Group manufactures and distributes highly specialised products, which are manufactured in short series or on demand, making cash generation volatile. However, the development of other activities such as the R&D&I tax lease or the Covid Alliance, which have maintained a stable cash flow generation, have mitigated this situation.

Solvency

- **High financial autonomy.** The Group's financial autonomy measured as the ratio of equity to total financial debt was 105% which is considered high. In accordance with Arquimea's estimates, the ratio will reach 85% in FYE march 2023, nevertheless it is still considered adequate.

Liquidity

- **Adequate liquidity position.** The Group has an adequate refinancing profile, although their capacity may depend on market conditions. Arquimea shows an adequate position to face its debt amortization and investment requirements supported on their generation (FFO) and long-term oriented debt.

Main financial figures and extra financial figures

Main financial figures. Thousands of €	March-20	March-21	March-22	22vs21
Turnover	36.500	72.044	115.989	61,00%
Adjusted EBITDA*	8.722	15.276	16.754	9,7%
Adjusted EBITDA Margin*	23,90%	21,20%	14,44%	-0,3pp
EBT	9.576	12.544	13.455	7,3%
Total Assets	44.450	57.641	100.049	73,6%
Equity	18.647	28.245	40.593	43,7%
Total Financial Debt (TFD)	12.504	17.029	38.526	126,2%
Net Financial Debt (NFD)	8.091	7.978	8.561	7,3%
Equity/TFD	149.1%	165.9%	105.4%	-0,4x
NFD/Adjusted EBITDA	0,93x	0,52x	0,51x	0,0pp
Funds From Operations (FFO)	9.631	14.628	16.679	14,0%
FFO/NFD	119,0%	183,4%	194,8%	6,3%
Adjusted EBITDA*/Financial expenses	44,95x	27,85x	24,91x	-0,1pp

(*) Adjusted EBITDA includes the impairment related to R&D&I tax lease that is applied in the financial results showed in the annual accounts as it is a recurring effect associated with the turnover of these tax lease.

Rating Sensitivity

Factors that may (individually or collectively) impact the rating:

- **Positive factors (↑).**

  Achievement of the projections provided, increase in profitability, reduction of financial debt, stability in the cash flows generated.

- **Negative factors (↓).**

  Changes in the regulation of R&D&I tax leases, significant increase in financial debt, failure to achieve the growth plan as planned, worsening profitability.

- **Carbon price sensitivity.**

  No material impact.

Regulatory information

Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

- Annual Audit Reports.
- Corporate Website.
- Information published in the Official Bulletins.
- Rating book provided by the Company.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies, and in accordance with the Corporate Rating Methodology and Outlook Methodology that can be consulted on https://www.ethifinance.com/en/ratings/methodologies and according to the Long-term Corporate Rating scale available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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