

A Work Project, presented as part of the requirements for the Award of a Master's Degree in Finance from the
NOVA – School of Business and Economics.

**TOWARDS THE ENERGY TRANSITION:
Strong HV Orders Intake Driving Prysmian's Destiny**

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Abstract

This report is part of the Prysmian SpA Report and has the aim of valuing our company at 31/12/2022. Our forecast approach is based on the analysis of the single Business Units – Energy, Projects and Telecom – and our findings carried by a Discounted Cash-Flow model led our estimations to a target share price of € 48.12. Hence, it would make the shareholders to benefit of a premium of 50.6% as we are confident that the company will exploit growth opportunities from the Energy Transition and the 5G and Fiber Optic Deployments. Therefore, our recommendation is to **BUY** Prysmian SpA.

Keywords

Power Cables

Energy Transition

Fiber Optic Deployment

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This report is part of the Prysmian SpA Report (annexed) and should be read as an integral part of it.

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1 Company Overview



Prysmian SpA, founded in 1879 in Italy and headquartered in Milan, is a global leader in the supply of cables for the Energy and Telecommunications Industries. Therefore, the group is involved in the development, design, manufacturing, installation and supply of a wide range of cables, and operates through three different Business Units: Energy, Projects and Telecom, which currently accounts for 72%, 14% and 14% of the company's total sales, respectively.

The **Energy** operating segment is considered as the Prysmian's cash cow and is composed by two major areas depending on both the end-customer and the product type: 1) Energy & Infrastructure (E&I), which is further split in Trade & Installers, Power Distribution and Overhead, and 2) Industrial & Network Components (I&NC), including Specialties, OEM & Renewables, Elevator, Automotive and Network Component. Historically, this business unit has been the one with less intrinsic risk and, therefore, with lower margins and more stable results, as it mainly relies on macroeconomic factors and trends. However - as analysed in the following paragraphs - we expect a positive and increasing impact of renewables for the Energy business unit in the mid-term.

The **Projects** operating segment is focused on the design, production and customisation of High Voltage and Extra High Voltage cabling systems for both terrestrial and submarine applications, and it mainly concerns the Prysmian's involvement in Interconnections and Offshore Wind farm global projects. This business unit is the most profitable of the company, and we expect it to be one of the key catalysts of the company's growth in the next decade - with a 6.96% CAGR - as the market is expected to roughly triplicate the pipeline of HV projects driven by the green shift.

The **Telecom** operating segment's product portfolio includes optical fibre, optical cables, connectivity components and accessories, Optical Ground Wire and copper cables. Over the past few years, Prysmian and its European counterparts have struggled to keep this business competitive and profitable due to the pricing pressure from Chinese players. However, we are confident that the recent result of the anti-dumping case (OFC-Case AD669) will lead to a better pricing, and therefore we expect a positive turnaround of Prysmian's Telecom returns, which will see as growth catalysts for the upcoming decade the digitalization process and the 5G deployment.

1.1 Business Model

Prysmian SpA operates through a **multi-brand architecture** made by three levels. While on the first level there is Prysmian Group, which is the corporate brand, on the second one there are the company's commercial brands: Prysmian, Draka and General Cable. Then, there is the third and final level, which includes a diverse array of product brands that cater to a wide range of markets and applications.

The **group's strategy** is highly focused on speed and adaption to respond quickly to market trends while maintaining an efficient operational structure, and we believe that this type of business architecture enables the company to efficiently reach its main goal.

- 1.1.1 General Cable Acquisition

■ Projects
■ Telecom
■ Energy & Infrastructure
■ Industrial & Network Components
■ Other

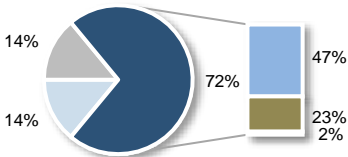


Figure 1: Sales' Split by BU;
Source: Company's Report

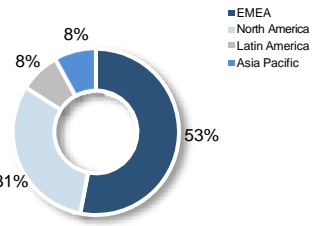


Figure 2: Sales' Split by Geography; Source: Company's Report

Prysmian - which currently operates in over 50 countries with 104 plants spread globally - has included several strategic acquisitions in its business model, enabling the group to smartly diversify its operations by both product mix and geographic area. The most important ones are undoubtedly the **Draka and General Cable's acquisitions**, finalised in 2011 and 2018, respectively, and particularly the latter is still expected to generate further advantages for the upcoming years.

Hence, Prysmian in 2017 has entered into a merger agreement to acquire 100% of the General Cable's outstanding shares, and the main strategic rationale behind the operation was Prysmian's goal to **expand its business in North America**, as the target company was an American global player in the development, design, manufacture and distribution of copper, aluminium, fibre optic wire and cable products. As a result, the company's sales' portion deriving from North America effectively faced a shift since 2018, growing from 15% to more the 31% (as of December 2020).

Therefore, thanks to the **expected synergies**, in addition to the high geographical complementarity achieved through the combination of the two companies, we are confident that the General Cable's strategic acquisition will continue to contribute to the company's value creation for the upcoming years. Hence, we believe that Prysmian will exploit advantages from it, gaining further market share in North America - mainly driven by new Projects wins - as the company has already announced a capex expansion plan in the American territory.

▪ 1.1.2 ESG and Climate Change Ambition

As Prysmian is a **key player for the Energy Transition**, its strategy is founded on a strong ESG identity and is enhanced by both short and long-term targets.

Therefore, for the shorter term, the group is focused on different ESG goals, as: 1) targeting a further increase in the amount of revenues from low carbon enabling products to 50%, in addition to ensuring that 85% (vs 84% in 2020) of product families are covered by the carbon footprint measurement; 2) reducing greenhouse emissions by 3% by 2022 while increasing the ratio of waste recycling; 3) targeting a further increase in the number of female executives, to strengthen the Employee Engagement Index and Leadership Impact Index.

On the other hand, on a longer-term perspective, it is clear the Prysmian's commitment to achieve goals favourable to Climate Change. In particular, the company has announced a net zero target between 2035 and 2040 for Scope 1&3 emissions by 2050. In addition, the group has laid out further interim targets, coherent with the long-term ones, that expect a 46% reduction of emissions of Scope 1&2 and a 14% emissions reduction on Scope 3 by 2030. As a consequence, we believe that the company's long term sustainable strategy as a further and significant support to the future stock's performance.

1.2 Ownership Structure

Prysmian's shares are traded publicly in the Italian Stock Exchange since 2007 (and have been included in the FTSE MIB Index in the same year), resulting from the sale of 46% of the shares held by the Goldman Sachs Group – which at that time had the control of the company – at a price of € 15 per share, reaching a market cap of € 2.7 bn. Thereafter, the investment bank gradually reduced its interest in the company by placing the remaining 54% of the ordinary shares within March 2010.

Nowadays, the ownership structure of the company is fairly distributed, with no single institution or individual holding a controlling stake. Therefore - with about 268 mln ordinary

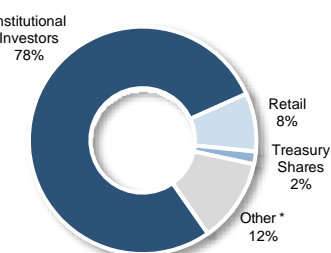


Figure 3: Ownership Structure by type; Source: Company's Report

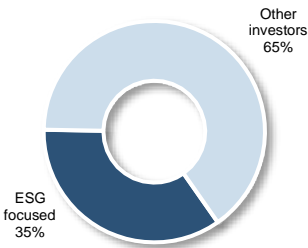


Figure 4: ESG Institutional Investors; Source: Company's Report

shares valued € 0.10 each – Prysmian’s majority stake is hold by different institutional investors, followed by retail and non-institutional investors, as well as a small portion of Treasury shares.

Additionally, consequently the higher commitment of the company to reach sustainable goals, it is possible to notice a significant growing interest from ESG investors, whose weight today accounts for roughly the 35% of Prysmian’s shareholders’ structure (vs. 13% in 2019).

Conclusively, we believe that both the institutional and the ESG investors weights in the company’s ownership structure are a very positive sign that is further contributing and will continue to contribute to the increase in the shareholder’s value.

1.3 Stock Performance

Prysmian - that currently has a market capitalisation of € 8,606 bn – faced an overall increasing stock performance over the last ten years, following almost the same path of the FTSE.MIB Index. It is possible to recognize different drivers of the company’s historical stock performance, as the General Cable Acquisition announcement in 2017, the COVID19 impact, as well as big projects wins (namely, the German Corridors or the SOO Green projects). Hence, after the sharp pandemic’s crash, 2021 has proven strong positive signs for a fast recovery, further leading to the Prysmian’s highest historical closing level of more than € 35 per share as of November 2021.

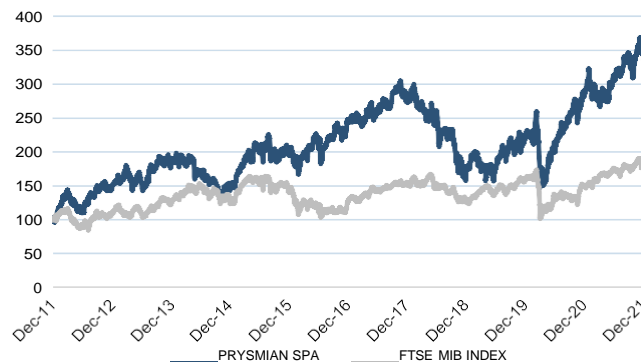


Figure 5: Prysmian’s 10 years stock performance; Source: Bloomberg

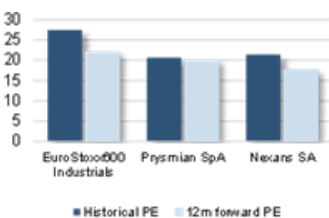


Figure 6: 12m fwd PE vs Cap. Goods; Source: Bloomberg, Analysts’ estimates

In addition, **historically cable makers have traded at discount** considering the EuroStoxx600 Capital Goods & Services Index as benchmark. In particular, over the past 10 years, on a 12-month forward P/E multiple, Prysmian and Nexans – that are the key cables players - has traded at a 25% and 22% discount, respectively, mainly due to lower margins and organic growth when compared to the Industrial sector’s average. However, nowadays, Prysmian and Nexans are performing a 20.06x and a 17.61x, respectively, 12-month P/E vs the 22x multiple of the SXNP Index. Therefore, Prysmian - even more than Nexans - is recently showing results that are more in line with the industry, and this means that the market, that historically undervalued cable companies, is starting to give sign of its reliability to the firm, mainly due to improved growth and margin outlook. Thus, we are confident that the Energy transition impact on cable companies will repay them with further and **significant premiums** in the future.

2 Energy Business

The Energy Business Unit, which is the majority portion of the company’s total sales, is

organised in two macro areas: Energy & Infrastructure and Industrial & Network Components. The first area involves High and Medium Voltage solutions for the connection of industrial as well as civilian buildings to primary distribution grids, in addition to low voltage cable systems for power distribution for both residential and commercial buildings. On the other side, the latter area of the Energy operating segment rather provides specific solutions for industrial applications, including a range of cables serving the automotive, the aerospace, the Oil & Gas, the airport and the elevator industries as well as for the always growing renewable energy market, mainly including solution for onshore wind turbines and for the solar energy. Therefore, while most of the solutions the company provides through the Energy operating segment are likely to be stable among the years, we expect the green shift towards the renewables to be a significant additional growth driver, as solar PV and onshore wind turbine are expected to be on the frontline for the energy transition.

2.1 Market Overview

2.1.1 Long Term Drivers

After the markets crash due to Covid-19 during 2020, the global economy - even though with struggles caused by the continue spread of new pandemic variants - has **already started its recovery** towards an expansionary cycle path. Hence, although 2021 has faced a slower than expected growth, advanced economies are likely to return on their pre-pandemic trends from 2022 onwards, expecting a moderate but continuous growth over the medium-term (according to the *IMF World Economic Outlook*).

Therefore, the worldwide economy has already started to focus on new strategies for the post-pandemic era, and goals and challenges for the medium and long-terms have become increasingly clear. Hence - besides the eventual additional healthcare spending in order to be able to face a future worse than expected disease environment, in addition to challenges involving the reduction of inequalities - policymakers nowadays are mostly called to accelerate a significant **green investment push** in order to facilitate the transition to a cleaner economy on a macroeconomic level.

However, the pandemic - alongside the output contraction - **led commodity prices to experience a sharp increase** from 2020 onwards (*Figure 7*), mainly driven by metals and energy commodities. In particular, the upwards pressure on metal prices has been supported by the recovery in global manufacturing, combined with the improved prospects for infrastructure investments in advanced economies towards the energy transition. Therefore, it means that the expectations of a further higher demand to support renewables energy have a significant impact on metal prices, particularly for copper and aluminium (*Table 1 in Appendix*), that alongside lead, are the major Prysmian's product portfolio components.

As a result, we believe that the global output future trends in addition to the energy transition will be the **key catalysts** for Prysmian's Energy Business, as we are confident that it will be one of the key players enabling the process, through its solutions for both **Solar PV and onshore wind turbines**.

According to the IEA - despite the rising pressure commodity prices and in manufacturing costs - renewables are expected to grow at an accelerate path, with annual renewable electricity capacity additions of 305 GW (on average) in the upcoming five years, and with Solar PV driving the shift. In particular, while hydropower generation is expected to decline, utility-scale Solar PV seem to be the preferred solution for most of the countries worldwide, as adding new

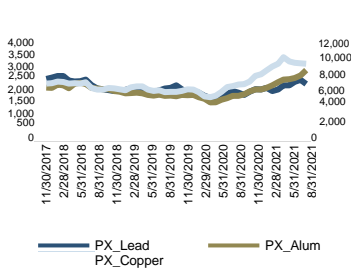


Figure 7: Metal prices;
Source: Bloomberg

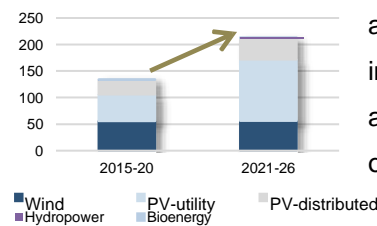


Figure 8: US renewables capacity additions (GW);
Source: IEA

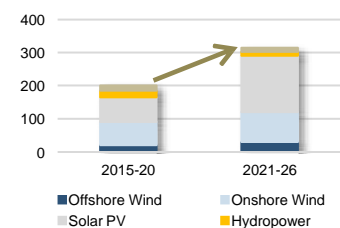


Figure 9: Europe renewables capacity additions (GW);
Source: IEA

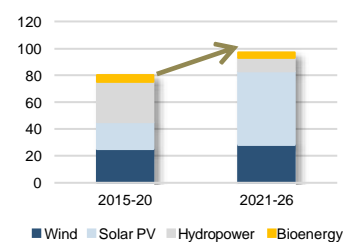


Figure 10: Latin America renewables capacity additions (GW);
Source: IEA

electricity capacity is less costly compared to other renewable sources. Overall, it is possible to notice that annual renewable additions are more significant in Europe and Asia Pacific (*Figure 9* and *Figure 11*), supported by stronger policy initiatives and the deployment of both commercial and residential projects.

Therefore, we are confident that Prysmian will benefit during the upcoming years from the post-pandemic trends, and we expect the Energy margins **to grow at a positive CAGR of 1.99%**, exploiting the worldwide renewables' shift. Furthermore, considering a higher additional capacity in Asia Pacific for both Solar PV and Wind turbines, we believe Prysmian will be able to gain further market share in that region through its Energy solutions, while maintaining quite stable its competitive positioning in Europe, North America and Latin America for this specific segment.

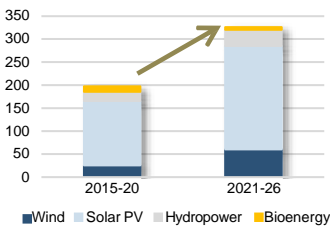


Figure 11: Asia Pacific renewables capacity additions (GW); Source: IEA

2.1.2 Investment Plans

Government investment plans in this sector are a necessary catalyst in order to foster the energy transition and reach net zero emissions by 2050. In a recent study conducted by the IEA, it was found that to reach net zero emissions by 2050 the energy sector will require an increase of \$1.1 trillion in investments relative to the announced pledges scenario, while other sectors (i.e., buildings, industry and transport) will require an increase of \$0.5 trillion in investments. In the past, investments in these sectors have come majorly from private finances (~2/3), while the remaining came from state-owned enterprises and Public Finance Institutions. In Europe, for example, the European Commission has established the NGEU fund and the European Fund for Strategic Investments to provide capital to private companies. A similar path is being followed also in the US, where they recently signed the Bipartisan Infrastructure Deal (\$1.2 trillion) aimed at renovating old infrastructures, improving connectivity and increase urbanisation. As previously noted, even though current governments have started to take actions to reach net zero emissions, the current rate at which they are providing capital is not enough. Therefore, it will also be important to create an environment in which companies have access to low-cost finance.

2.1.3 Competitive Positioning

The power cables market is **highly concentrated** in less than a dozen large global players, namely: Hitachi, Sumitomo Electric, Belden, Leoni, Furukawa, Prysmian, Nexans, Southwire, and NKT. Most of these companies operate in more than one industry, for example Sumitomo and Nexans, that offer cable solutions and other complementary products for both the telecommunications and energy industries. In terms of product portfolio and firm size, Hitachi is the largest producer, in addition to the superior product offering as they offer the most complete portfolio of complementary products. Furthermore, we found that in the Asia Pacific region Hitachi is currently the undisputed leader, followed by Sumitomo, Furukawa and other smaller players. Also, with the low levels of investments from occidental companies like Prysmian and Nexans in the Asia Pacific region, we do not expect any drastic change in the balance of powers in the coming years. On the other hand, we found that **both in Europe and the USA Prysmian is highly present** and decisive to increase its presence to meet future market opportunities through infrastructure investments. Moreover, we found that Prysmian is **among the top three players** in this market and that they will be able to exercise their large customer base and innovative product portfolio to capture a larger share of the market in the coming years.

Through our analysis of the market, the products offered by each of the major market players (*Table 2 in Appendix*) and the applications that these products have on other industries we came to believe that Prysmian is very well positioned in the power cables industry thanks to the **vast innovative commercial and speciality products offered**. The company is closely comparable to Nexans in terms of product offering and business model, with a few differences in terms of industries covered. Moreover, we found the company to be the **undisputed leader in Europe**, where it mainly competes with Nexans, NKT and Leoni. In the Americas, we found the company to be one of the top players, where it mainly competes with Belden and Southwire. On the other hand, in the Asia Pacific region the company's presence is not so strong, with the market being dominated by large players like Sumitomo, Furukawa, Hitachi and Hengtong, that enjoy a large local presence and economies of scale. Finally, we believe that thanks to the fact that the company offers one of the most innovative product portfolios on the market and the many years of research and experience that the company has accumulated in this sector, and which has made them **resilient and able to find market opportunities**, they will continue to remain competitive over the years ahead.

3 Projects Business

The Projects Operating Segment is the **most profitable** power cable business for the company – as well as for the others power cable competitors – and we are confident it will be the **key catalyst for Prysmian's future growth**, driven by the current strong Projects wins and the high expectations concerning the future demand for both Offshore Wind and Interconnectors Projects. Hence, since we believe the company is nowadays the **leader among the competition**, owning about the 30% of the HV market share and having the stronger orders intakes, we based our valuation model on a detailed analysis of both the current Prysmian's backlog and the expected global projects pipeline.

3.1 Market Overview

The High Voltage cables market – as previously mentioned - is mainly driven by **Offshore Wind** as well as the increasing need for **Interconnections** in order to maximize the benefits of renewable resources and strengthen the power grid. Therefore, the market - which in the period 2015-2019 was worth about € 2.4 bn - is expected to face a robust **growth at a low double digit CAGR during the next decade**, including both Offshore Wind and Interconnections projects until 2030.

In particular, according to both the company itself beliefs and our estimates, we expect the market to triplicate its Projects volume to € 7.2 bn considering the decade period 2020-2030 with a more significant shift driven by the higher Interconnectors' profitability, which therefore we expect to weight for about the 60% of the overall Pipeline balance.

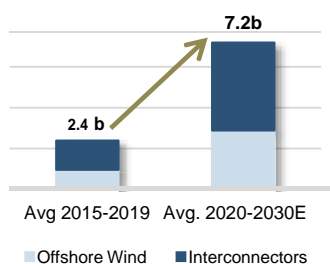


Figure 12: HV Market Outlook;
Source: Company's Report

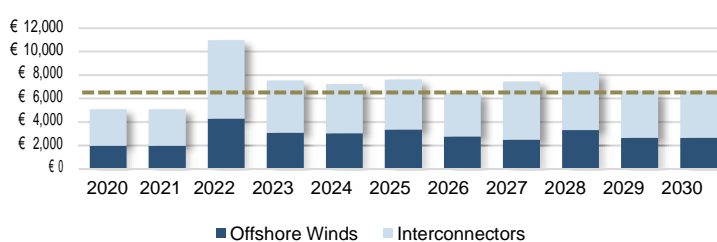


Figure 13: HV Expected Future Outlook (in € M); Source: Analysts' estimates

Hence, in the following analysis of both the long-term drivers and the company's competitive

positioning, we expect Prysmian to act as the key player and beneficiary among the other competitors, exploiting these extremely favourable market (expected) conditions.

3.1.1 Long Term Drivers

With the signing of the Paris Agreement and the net-zero gas emissions' target by 2050, we see the Energy Transition - which lead to the use of renewable sources rather than conventional power generation - as the most significant driver for High Voltage power cables' demand. Furthermore, countries want to prevent blackouts through investments in Interconnections that could allow electricity imports from neighbouring countries. As a result, alongside the Energy Transition, we believe that energy security will be another key future driver.

Direct Demand from connecting renewable energy with the grid

While with conventional power generation electricity is produced close to the load centres, renewables resources are often located far away (offshore rather than onshore). Consequently, the renewables shift lead to high transmission requirement with existing transmission capacity unable to handle the flow of power.

Among different renewable resources, Offshore Winds Projects - which pipeline of key orders is summarized in *Appendix* - require specialized subsea cables to bring power to the shore and, for this reason, they are the most HV cable intensive.

| Installation date | Project | AC / DC | Country | Capacity (MW) |
|-------------------|-------------------|---------|-------------|---------------|
| 2024-2025 | Empire Wind 1 | AC | US | 816 |
| 2025-2026 | Empire Wind 2 | AC | US | 1,260 |
| 2026-2027 | Beacon Wind 1 | DC | US | 1,230 |
| 2023 | South Fork Wind | AC | US | 132 |
| 2024 | Sunrise Wind | DC | US | 880 |
| 2023-2024 | Revolution Wind | AC | US | 704 |
| 2026 | Mayflower | AC | US | 1,600 |
| 2027 | Mayflower 2 | DC | US | 2,000 |
| 2025 | CVOW | AC | US | 2,600 |
| 2026 | Borwin 6 | DC | Germany | 900 |
| 2027-2028 | Ijmuiden Ver | DC | Netherlands | 2,000 |
| 2023 | Seagreen 1A | AC | UK | 360 |
| 2023-2024 | Moray West | AC | UK | 860 |
| 2024-2025 | East Anglia 1N | AC | UK | 860 |
| 2025-2026 | East Anglia 2 | AC | UK | 860 |
| 2024-2025 | East Anglia 3 | DC | UK | 1,320 |
| 2025 | Dieppe Le Tréport | AC | France | 496 |
| 2026 | Dunkirk | AC | France | 600 |
| 2026 | Balyk 2/3 | AC | Poland | 1,440 |

Figure 14: Offshore Winds in Pipeline; Source: Nexans Presentations

Indirect Demand from renewable deployment through Interconnectors

In addition, the growing renewable capacity is boosting the demand for Interconnectors, through which power cables connects one region or country to one other. As a result, this may allow efficient use of intermittent renewable resources - minimizing curtailments - and to bring down greenhouse gas emissions from the power generation sector.

Furthermore, Interconnectors are typically more profitable than Offshore Wind Projects since the former require more complex cables design and which installation may take place at greater depths than the latter - that are rather located into shallow waters.

| Fully Commissioned | Project | Countries | Capacity (MW) |
|--------------------|--|------------------------|---------------|
| 2022 | Andalucia-Ceuta | Spain/Spain | 100 |
| 2022 | Isola d'Elba-Toscana/Continente | Italy/Italy | 160 |
| 2023 | Naxos-Santorini | Greece - Greece | 200 |
| 2025 | EuroAsia Interconnector | Cyprus-Israel | 2,000 |
| 2025 | AQUIND Interconnector | United Kingdom-France | 2,000 |
| 2025 | Gridlink | United Kingdom-France | 1,400 |
| 2025 | Tyrrhenian Links Ph1 | Italy/Italy | 1,000 |
| 2025 | Balearic Islands: Spain/Mallorca Second Link | Spain/Spain | 1,000 |
| 2026 | Harmony Link | Poland/Lithuania | 700 |
| 2026 | NeuConnect | United Kingdom-Germany | 1,400 |
| 2027 | Celtic Interconnector | Ireland/France | 700 |
| 2027 | Tyrrhenian Links Ph2 | Italy/Italy | 1,000 |
| 2027 | Biscay Gulf | France/Spain | 2,000 |
| 2027 | Dodecanese Interconnection Phase A: Corinifos (2024) - Kos | Greece-Greece | 900 |
| 2027 | Eastern HVDC Link (E2DC Torness - Hawthorn Pit) | United Kingdom | 2,000 |
| 2028 | Marinus Link | Australia/Australia | 1,500 |
| 2028 | Canary Islands: Gran Canaria - Fuerteventura | Spain/Spain | 200 |

Figure 15: Interconnections in Pipeline; Source: Nexans Presentation

Oil & Gas Industry Demand

Another driver of HV power cables demand is electrifying subsea oil & gas platform, given an increased focus on carbon emission for exploration and the production of oil & gas. Previously, burning unprocessed oil & gas at the rig to generate electricity was the most common way to meet power requirements. However, nowadays big oil & gas hubs offshore are increasingly looking to bring electricity from onshore grids to reduce their carbon footprint during the production of hydrocarbons.

3.1.2 Transmission Investment Plans

The European Network of Transmission System Operators - the ENTSO-E - represents 42 electricity TSOs from 35 countries across Europe and it has the goal of developing the most suitable responses to the challenge of a changing power system while maintaining security of supply.

The results of the latest study from ENTSO-E, published in August 2021, show the high economic interest of investing in the grid to support the Energy Transition. As a result, they set the goal to build about 35GW of cross border transmission capacity reinforcements by 2025 in addition to the 2020 grid. Furthermore, the study reports that another 50GW would be cost efficient between 2025 and 2030 needing investments of €17 bn in the European transmission grid, minimizing the curtailment of renewable resources and improving the reliability of the system by reducing risk of blackouts.



Figure 16: Needs for capacity increases in the 2030 horizon; Source: ENTSO-E

On top of the growing Offshore Wind Projects demand in Europe there is the EU Offshore Wind renewable strategy, promoted by the European Commission.

The EU aims for at least 60GW of Offshore Wind and at least 1GW of ocean energy by 2030, with the potential to reach 300GW in offshore wind and 40GW in ocean energy by 2050. The EU sees investment needs of up to € 800 bn to meet its 2050 offshore renewable energy targets, of which 2/3 will go towards grid and other non-turbine infrastructure, and cable companies will be a key beneficiary. The strategy sets out how the EU will scale up the offshore wind market, which also highlights several existing challenges and bottlenecks that need to be

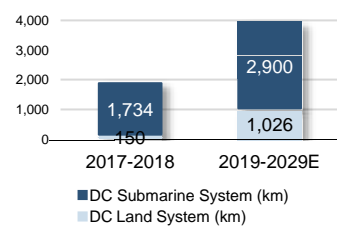


Figure 17: HVDC 2019-2029 Demand; Source: EuropaCable

addressed to accelerate offshore deployment.

Annual investment in onshore and offshore grid in Europe over the past 10 years amounted to € 30 bn but needs to increase to above € 60 bn in the coming decade and then increase further thereafter.

In light of these considerations and studies, we expect the HVDC land and submarine cables demand to boost significantly in the upcoming decade in Europe (Figure 17), leading the High Voltage cables players as the key beneficiaries.

American Scenario

US power markets are different to those in Europe. Indeed, rather than a single grid, the country has multiple wide-area synchronous grids. North America is comprised of three major alternating current (AC) power grids or, commonly speaking, Interconnections, which are the Eastern Interconnection, the Western Interconnection and The Texas Interconnection.

The three major components of the US power system (WI, EI and ERCOT) operate almost independently of each other and very little electricity is transferred among the Interconnections due to limited transfer capacity.

The President Biden Infrastructure Plan - which is a key catalyst to boost transmission investments - proposed to invest \$ 100 bn towards grid modernization. The proposal supports the overarching goal of reaching 100% carbon-free power by 2035. Under the plan, President Biden set the goal of creating a targeted investment tax credit to incentivize the buildout of at least 20GW of high voltage power lines. As a result, during this current year many big High Voltage American projects have already been announced. The SOO Green for example – which has recently been entirely awarded to Prysmian – is one of the most important Projects in the US pipeline. Hence, with 2,100 MW 525kV HVDC transmission and a contract worth \$ 900 M, it will link the Midwest Independent System Operator (which serves in central US) to the eastern PJM Interconnection, connecting two of the largest market in the North America. While grid connections can choose overhead wires, which leads to a significantly lower revenue opportunity for cable companies, this is generally not possible in Offshore Wind. As a result, Offshore Wind is expected to be the largest driver also for growth in the US HV market. The development of Offshore Wind started during President Trump's administration but the progress, particularly at the federal level, was very slow. The Biden administration has provided a significant boost to the Offshore Wind market, with the US setting a target – which is almost zero at the present - of 30GW capacity by 2030.

3.1.3 Competitive Positioning

The **HV Industry is highly concentrated**, with both Asian and European competitors but currently no American players. While most of them provides only HVAC solutions, the Europeans Nexans and NKT are the ones - alongside Prysmian - supplying both HVAC and HVDC subsea and land cables with more than 320kV power. For this reason, these three companies - which together account for the majority portion of the HV cables market - are considered the key global players for the growing Offshore Wind and Interconnectors driven HV Industry.

Prysmian

Prysmian **shows evidence of its competitive advantage** with respect to Nexans and NKT, for its considerable worldwide Projects awards, that currently accounts for **more than € 6 bn in orders backlog** (Figure 19), including the SOO Green HVDC Underground Link, which is

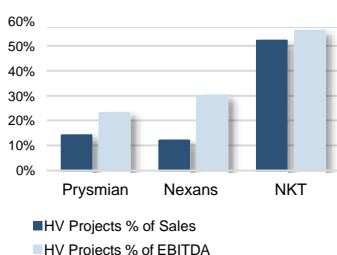


Figure 18: HV Companies' Sales and EBITDA shares; Source: Companies' Reports, Analysts' estimates

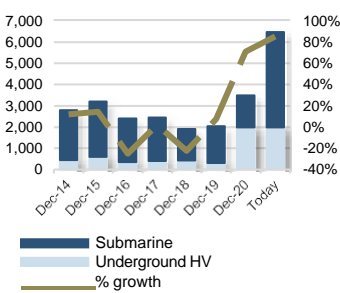


Figure 19: Prysmian's Backlog; Source: Company's Report, Analysts' estimates



the biggest single project ever awarded to the company worthing roughly \$ 900 M, as well as the recent awarded € 1.7 bn contract for the Tyrrhenian Link, the Domion Energy Group offshore wind (~ \$ 630 M) and the Vineyard offshore wind farm (~ \$ 200 M) Projects.

It is possible to notice that during the current year 2021 Prysmian faced a boost in the worldwide Projects awards, with an 85% growth compared to the previous year. For this reason, we believe that **2022 will be one of the most profitable years** during the next decade, and in addition we expect the company to gain further market share in the upcoming years, confirming its leadership thanks to the increasing reliability of global customers.

Nexans

The High Voltage & Projects Operating Segment of Nexans accounts for the 12% of the group's total sales of € 5.7 bn and for about the 30% of the EBITDA share as of FY2020. Nexans has a current **HV backlog of € 1.5 bn** and it is the company - among the key HV players - that has confirmed a lower reliability level so far and, consequently, **higher downside risks exposure** related to delays in Projects. However, the French company has recently signed a framework agreement with Ørsted - a multinational power company - in which it is set that the latter is supposed to buy export cables for all American Projects from Nexans' US plant until 2027.

Furthermore, Nexans - that currently has production plants for HV subsea cables in Halden (Norway) and Charleston (USA) – is currently working on capacity expansions of both the owned plants, particularly in the American one.

Thus, we expect this combination of events not to be random, and it means that Nexans' strategy is **highly focused on the US** increasing HV cables demand, exploiting the full potential of the Charleston plant.

Therefore, we believe that the progress of Ørsted's US Offshore Wind Projects - which include six big projects - together with the American market focused strategy are going to be crucial for the upcoming decade and they may be a threat for the current Prysmian's absolute leadership in US.

NKT

NKT operates in the High Voltage market through the Solutions Business Unit and – among the other key HV cables manufacturers - it is the one with the highest exposure on its operating results. Hence, the Danish company - that currently has an orders **backlog of about € 3 bn** generates more than the 50% and about the 65% of Sales and EBITDA from the High Voltage Industry, respectively

NKT – contrarily to its closest competitors – seems to be more focused on the European power cable Industry. Thus, the company currently has production plants in Karlskrona (Sweden) and Cologne (Germany), and - following the German Corridors Project award last year - it set a € 150 mn capex plan to increase the future capacity of its existing plants. Therefore, it seems that NKT is not currently interested in entering and exploiting the US High Voltage market and upcoming opportunities - as Prysmian and Nexans are willing to do - at least in the near term. However, the company's backlog provides a **good visibility for growth**, and we expect the capacity expansion plans to further drive it, particularly in the European market.

What distinguishes Prysmian among its main competitors is that it is clear the Group willingness to keep its leadership with a clear **focus on increasing its global presence in**



the market. As a result, even though – contrarily to its peers – Prysmian has not disclosed specific details concerning its capacity expansion plan, it has recently announced € 100 bn in investments over the next few years to increase its North America plant’s production capacity. Consequently, if on the one hand it is not possible to exclude some profitability pressure caused by Nexans and NKT action plans, on the other one we believe **Prysmian will reinforce even more its leading position** in the HV market due to both the company’s strong backlog and its US well-oriented strategy. Furthermore, despite the growing market, we believe that the competitive landscape will not face any radical change during the next decade due to high entry barriers, particularly for the HVDC cables Industry. Hence, we expect that for a new entrant it would take 4 or 5 years of investment before it would be able to compete for High Voltage projects, in addition to other 2 or 4 years before completion. As a result, we believe that in the near term we will not see any new supplier to emerge in the HVDC market. However, the other HVAC competitors may qualify for higher power HVDC cables since it would take approximately 2 years to take full qualification (*Figure 20*).

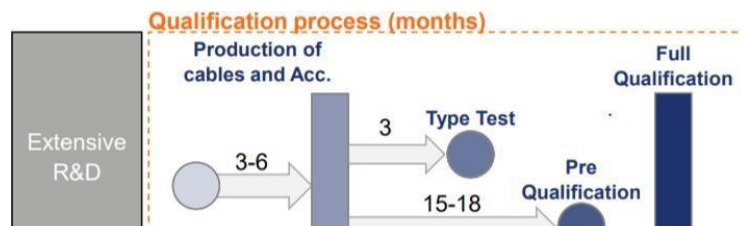


Figure 20: Qualification period from completion of a factory;
Source: NKT’s Report

Nonetheless, we believe that this is not going to be a real threat for Prysmian – and in general for the other affirmed HV key manufacturers Nexans and NKT - as we expect for new players to acquire a consistent market share to be much troubled, particularly in a reality in which the American and European Authorities seek the best players to satisfy their demand to reach the Plans’ goals.

On the other side, delays in projects are very common in this Industry and represent a significant challenge for the HV cables makers. However, if delays may affect Nexans with strong pressures due to its backlog – which currently is a bit poor compared to the peers - NKT and Prysmian seem quite well covered from this downside risk with robust orders backlog in the near term. Therefore, we have sufficient evidence to believe that Prysmian not only will confirm its worldwide leadership for HV Projects wins but will also further benefit from its significant competitive advantage when compared to Nexans and NKT, as **we expect the company to be increasingly preferred among the others** due to both its advanced technologies and its distinctive experience.

Appendix

PRYSMIAN SPA

INDUSTRIALS

STUDENT: SILVIA LA BARBERA

COMPANY REPORT

16 DECEMBER 2021

44932@novasbe.pt

Towards the Energy Transition

Strong HV Orders intake driving Prysmian's Destiny

- Following our estimates and valuation deriving from a DCF model, our recommendation at 31.12.2022 is to **BUY** Prysmian SpA with a **target price** of € 42.77 and a 30.19% shareholders' potential premium compared to the current share price of € 32.85, considering expected dividends of € 0.42 and no share buybacks.
- Key catalysts for Prysmian's growth are the **Energy Transition** and the **Fibre Optic deployment** post the COVID19 pandemic. For these reasons, we are confident that the company will generate robust and sustainable growing cash flows during the next decade.
- We expect the recent HV orders wins (~ € 6 bn backlog) to reinforce the company's **leadership** in the market, with the **Projects segment** driving the company's future, gaining ~45% market share and growing at a 6.96% CAGR to 2030.
- Target's price potential downside deviations are related to both **company specific** and **sector generic risks**. We believe that the most relevant threats are linked to: 1) the General Cable acquisition in 2017, which may not be value creating and may not capture cost synergies; 2) delays in HV projects; 3) higher competition in the Telecom business from Asian players.

Company description

Prysmian is an Italian leader operating in the energy and telecom power cables systems worldwide. With almost 140 years' experience, 104 plants and about 28,000 employees, it provides HV and EHV solutions for both terrestrial and submarine applications, as well as MV and LV cables for the construction and infrastructure sectors, and a wide range of systems for the telecommunications industry, mainly including optical fibres.

Recommendation: BUY

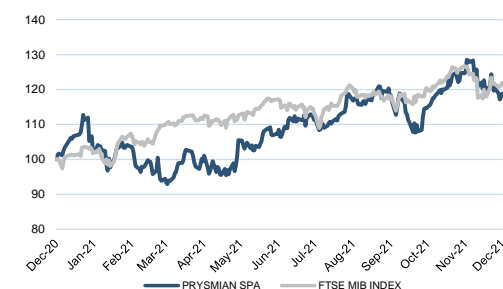
Price Target FY22: 42.77 €

Price (as of 25-Feb-22) 32.85 €

Source: Bloomberg

| | |
|------------------------|-------------|
| 52-week range (€) | 25.12-35.55 |
| Market Cap (€ m) | 8.592 |
| Outstanding Shares (m) | 268.14 |

Source: Bloomberg



Source: Bloomberg

| (Values in € millions) | 2020 | 2021E | 2022F |
|------------------------|--------|--------|--------|
| Sales | 10,085 | 11,099 | 13,040 |
| EBITDA | 847 | 882 | 1,036 |
| EBITDA Margin (%) | 8.4% | 7.9% | 7.9% |
| EBIT | 454 | 545 | 650 |
| ROIC | 6.45% | 8.81% | 10.10% |

Source: Annual Report 2020, Analysts' estimates

THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES BY SILVIA LA BARBERA, A MASTER'S IN FINANCE STUDENT OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A MERE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL. (PLEASE REFER TO THE DISCLOSURES AND DISCLAIMERS AT END OF THE DOCUMENT)

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Company Overview



Prysmian SpA, founded in 1879 in Italy and headquartered in Milan, is a global leader in the supply of cables for the Energy and Telecommunications Industries. Therefore, the group is involved in the development, design, manufacturing, installation and supply of a wide range of cables, and operates through three different Business Units: Energy, Projects and Telecom, which currently accounts for 72%, 14% and 14% of the company's total sales, respectively.

The **Energy** operating segment is considered as the Prysmian's cash cow and is composed by two major areas depending on both the end-customer and the product type: 1) Energy & Infrastructure (E&I), which is further split in Trade & Installers, Power Distribution and Overhead, and 2) Industrial & Network Components (I&NC), including Specialties, OEM & Renewables, Elevator, Automotive and Network Component. Historically, this business unit has been the one with less intrinsic risk and, therefore, with lower margins and more stable results, as it mainly relies on macroeconomic factors and trends. However - as analysed in the following paragraphs - we expect a positive and increasing impact of renewables for the Energy business unit in the mid-term.

The **Projects** operating segment is focused on the design, production and customisation of High Voltage and Extra High Voltage cabling systems for both terrestrial and submarine applications, and it mainly concerns the Prysmian's involvement in Interconnections and Offshore Wind farm global projects. This business unit is the most profitable of the company, and we expect it to be one of the key catalysts of the company's growth in the next decade - with a 6.96% CAGR - as the market is expected to roughly triplicate the pipeline of HV projects driven by the green shift.

The **Telecom** operating segment's product portfolio includes optical fibre, optical cables, connectivity components and accessories, Optical Ground Wire and copper cables. Over the past few years, Prysmian and its European counterparts have struggled to keep this business competitive and profitable due to the pricing pressure from Chinese players. However, we are confident that the recent result of the anti-dumping case (OFC-Case AD669) will lead to a better pricing, and therefore we expect a positive turnaround of Prysmian's Telecom returns, which will see as growth catalysts for the upcoming decade the digitalization process and the 5G deployment.

Business Model

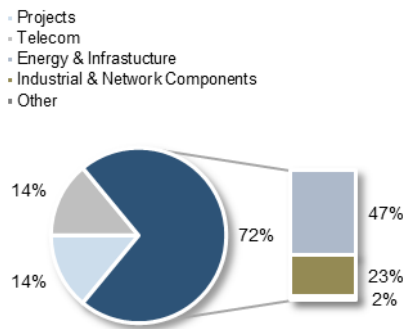


Figure 1: Sales' Split by BU;
Source: Company's Report

Prysmian SpA operates through a **multi-brand architecture** made by three levels. While on the first level there is Prysmian Group, which is the corporate brand, on the second one there are the company’s commercial brands: Prysmian, Draka and General Cable. Then, there is the third and final level, which includes a diverse array of product brands that cater to a wide range of markets and applications.

The **group’s strategy** is highly focused on speed and adaption to respond quickly to market trends while maintaining an efficient operational structure, and we believe that this type of business architecture enables the company to efficiently reach its main goal.

▪ **General Cable Acquisition**

Prysmian - which currently operates in over 50 countries with 104 plants spread globally - has included several strategic acquisitions in its business model, enabling the group to smartly diversify its operations by both product mix and geographic area. The most important ones are undoubtedly the **Draka and General Cable’s acquisitions**, finalised in 2011 and 2018, respectively, and particularly the latter is still expected to generate further advantages for the upcoming years. Hence, Prysmian in 2017 has entered into a merger agreement to acquire 100% of General Cable’s outstanding shares, and the main strategic rationale behind the operation was Prysmian’s goal to **expand its business in North America**, as the target company was an American global player in the development, design, manufacture and distribution of copper, aluminium, fibre optic wire and cable products. As a result, the company’s sales’ portion deriving from North America effectively faced a shift since 2018, growing from 15% to more the 31% (as of December 2020).

Therefore, thanks to the **expected synergies**, in addition to the high geographical complementarity achieved through the combination of the two companies, we are confident that the General Cable’s strategic acquisition will continue to contribute to the company’s value creation for the upcoming years. Hence, we believe that Prysmian will exploit advantages from it, gaining further market share in North America - mainly driven by new Projects wins - as the company has already announced a capex expansion plan in the American territory.

▪ **ESG and Climate Change Ambition**

As Prysmian is a **key player in the Energy Transition**, its strategy is founded on a strong ESG identity and is enhanced by both short and long-term targets.

Therefore, for the shorter term, the group is focused on different ESG goals, as: 1) targeting a further increase in the amount of revenues from low carbon

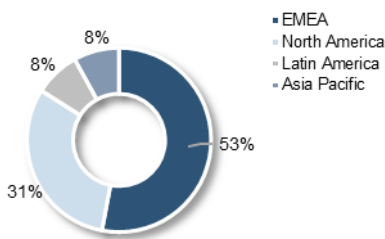


Figure 2: Sales by Geography;
Source: Company’s Report

enabling products to 50%, in addition to ensuring that 85% (vs 84% in 2020) of product families are covered by the carbon footprint measurement; 2) reducing greenhouse emissions by 3% by 2022 while increasing the ratio of waste recycling; 3) targeting a further increase in the number of female executives, to strengthen the Employee Engagement Index and Leadership Impact Index.

On the other hand, on a longer-term perspective, it is clear the Prysmian’s commitment to achieve goals favourable to Climate Change. In particular, the company has announced a net zero target between 2035 and 2040 for Scope 1&3 emissions by 2050. In addition, the group has laid out further interim targets, coherent with the long-term ones, that expect a 46% reduction of emissions of Scope 1&2 and a 14% emissions reduction on Scope 3 by 2030.

As a result, we believe that the company’s long term sustainable strategy as a further and significant support to the future stock’s performance.

Ownership Structure

Prysmian’s shares are traded publicly in the Italian Stock Exchange since 2007 (and have been included in the FTSE MIB Index in the same year), resulting from the sale of 46% of the shares held by the Goldman Sachs Group - which at that time had the control of the company - at a price of € 15 per share, reaching a market cap of € 2.7 bn. Thereafter, the investment bank gradually reduced its interest in the company by placing the remaining 54% of the ordinary shares within March 2010.

Nowadays, the ownership structure of the company is fairly distributed, with no single institution or individual holding a controlling stake. Therefore - with about 268 M ordinary shares valued € 0.10 each – Prysmian’s majority stake is hold by different institutional investors, followed by retail and non-institutional investors, as well as a small portion of Treasury shares.

Additionally, the higher commitment of the company to reach sustainable goals, it is possible to notice a significant growing interest from ESG investors, whose weight today accounts for roughly the 35% of Prysmian’s shareholders’ structure (vs. 13% in 2019).

Conclusively, we believe that both the institutional and the ESG investors weights in the company’s ownership structure are a very positive sign that is further contributing and will continue to contribute to the increase in the shareholder’s value.

Stock Performance

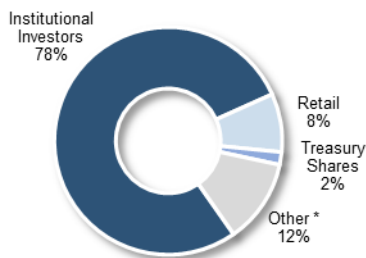


Figure 2: Ownership Structure by type; Source: Company’s Report

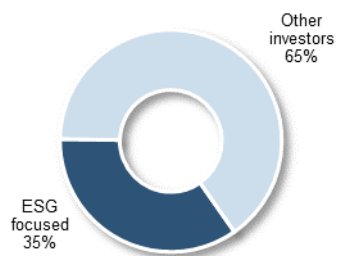


Figure 4: ESG Institutional Investors; Source: Company’s Report

Prysmian - that currently has a market capitalisation of € 8,606 bn – faced an overall increasing stock performance over the last ten years, following almost the same path of the FTSE.MIB Index. It is possible to recognize different drivers of the company’s historical stock performance, as the General Cable Acquisition announcement in 2017, the Covid19 impact, as well as big projects wins (namely, the German Corridors or the SOO Green projects). In particular, after the sharp pandemic’s crash, 2021 has proven strong positive signs for a fast recovery, further leading to the Prysmian’s highest historical closing level of more than € 35 per share as of November 2021.

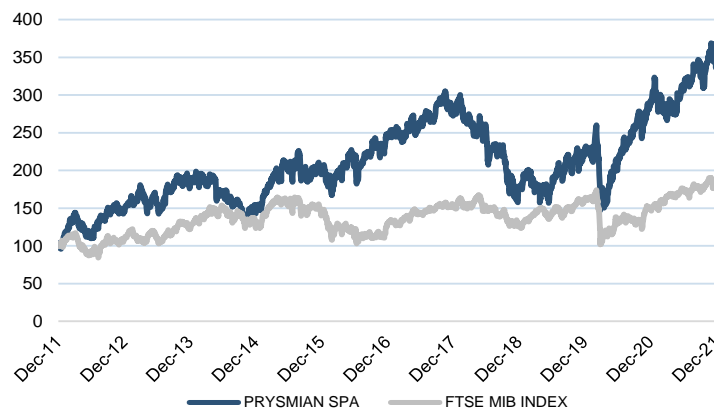


Figure 5: Prysmian's 10 years stock performance; Source: Bloomberg

In addition, **historically cable makers have traded at discount** considering the EuroStoxx600 Capital Goods & Services Index as benchmark. In particular, over the past 10 years, on a 12-month forward P/E multiple, Prysmian and Nexans – that are the key cables players - has traded at a 25% and 22% discount, respectively, mainly due to lower margins and organic growth when compared to the Industrial sector’s average. However, nowadays, Prysmian and Nexans are performing a 20.06x and a 17.61x, respectively, 12-month P/E vs the 22x multiple of the SXNP Index. Therefore, Prysmian - even more than Nexans - is recently showing results that are more in line with the industry, and this means that the market, that historically undervalued cable companies, is starting to give sign of its reliability to the firm, mainly due to improved growth and margin outlook. Thus, we are confident that the Energy transition impact on cable companies **will repay them with further and significant premiums** in the future.

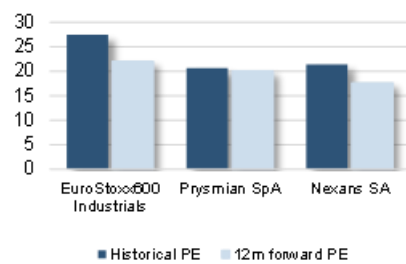


Figure 6: 12m fwd PE vs Cap. Goods; Source: Bloomberg, Analysts' estimates

Energy Business

The Energy Business Unit, which is the majority portion of the company’s total sales, is organised in two macro areas: Energy & Infrastructure and Industrial &

Network Components.

The first area involves High and Medium Voltage solutions for the connection of industrial as well as civilian buildings to primary distribution grids, in addition to low voltage cable systems for power distribution for both residential and commercial buildings. On the other side, the latter area of the Energy operating segment rather provides specific solutions for industrial applications, including a range of cables serving the automotive, the aerospace, the Oil & Gas, the airport and the elevator industries as well as for the always growing renewable energy market, mainly including solution for onshore wind turbines and for the solar energy.

Therefore, while most of the solutions the company provides through the Energy operating segment are likely to be stable among the years, we expect the green shift towards the renewables to be a significant additional growth driver, as solar PV and onshore wind turbine are expected to be on the frontline for the energy transition.

Market Overview

- Long Term Drivers

After the markets crash due to Covid-19 during 2020, the global economy - even though with struggles caused by the continue spread of new pandemic variants - has **already started its recovery** towards an expansionary cycle path. Hence, although 2021 has faced a slower than expected growth, advanced economies are likely to return on their pre-pandemic trends from 2022 onwards, expecting a moderate but continuous growth over the medium-term (according to the *IMF World Economic Outlook*).

Therefore, the worldwide economy has already started to focus on new strategies for the post-pandemic era, and goals and challenges for the medium and long-terms have become increasingly clear. Hence - besides the eventual additional healthcare spending in order to be able to face a future worse than expected disease environment, in addition to challenges involving the reduction of inequalities - policymakers nowadays are mostly called to accelerate a significant **green investment push** in order to facilitate the transition to a cleaner economy on a macroeconomic level.

However, the pandemic – alongside the output contraction – led **commodity prices to experience a sharp increase** from 2020 onwards (*Figure 7*), mainly driven by metals and energy commodities. In particular, the upwards pressure on metal prices has been supported by the recovery in global manufacturing, combined with the improved prospects for infrastructure investments in advanced economies towards the energy transition. Therefore, it means that the

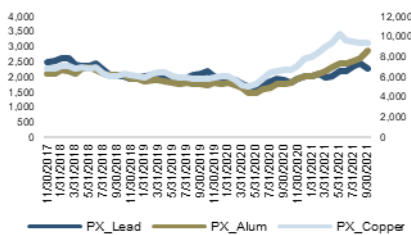


Figure 7: Metal prices; Source: Bloomberg

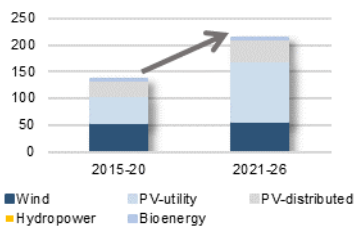


Figure 8: US renewables capacity additions (GW); Source: IEA

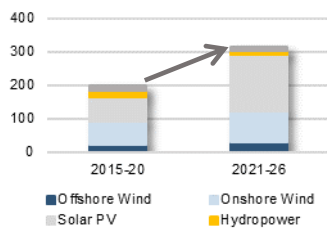


Figure 9: Europe renewables capacity additions (GW); Source: IEA

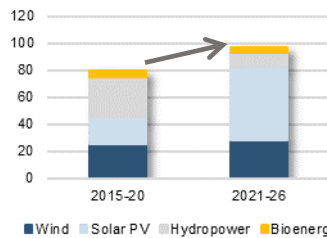


Figure 10: Latin America renewables capacity additions (GW); Source: IEA

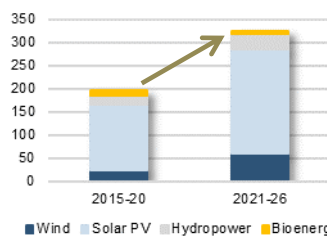


Figure 11: Asia Pacific renewables capacity additions (GW); Source: IEA

expectations of a further higher demand to support renewables energy have a significant impact on metal prices, particularly for copper and aluminium (*Table 1 in Appendix*), that alongside lead, are the major Prysmian’s product portfolio components.

As a result, we believe that the global output future trends in addition to the energy transition will be the **key catalysts** for Prysmian’s Energy Business, as we are confident that it will be one of the key players enabling the process, through its solutions for both **Solar PV and onshore wind turbines**.

According to the IEA - despite the rising pressure commodity prices and in manufacturing costs - renewables are expected to grow at an accelerate path, with annual renewable electricity capacity additions of 305 GW (on average) in the upcoming five years, and with Solar PV driving the shift. In particular, while hydropower generation is expected to decline, utility-scale Solar PV seem to be the preferred solution for most of the countries worldwide, as adding new electricity capacity is less costly compared to other renewable sources. Overall, it is possible to notice that annual renewable additions are more significant in Europe and Asia Pacific (*Figure 9 and Figure 11*), supported by stronger policy initiatives and the deployment of both commercial and residential projects.

Therefore, we are confident that Prysmian will benefit during the upcoming years from the post-pandemic trends, and we expect the Energy margins **to grow at a positive CAGR of 1.99%**, exploiting the worldwide renewables’ shift. Furthermore, considering a higher additional capacity in Asia Pacific for both Solar PV and Wind turbines, we believe Prysmian will be able to gain further market share in that region through its Energy solutions, while maintaining quite stable its competitive positioning in Europe, North America and Latin America for this specific segment.

▪ **Investment Plans**

Government investment plans in this sector are a necessary catalyst in order to foster the energy transition and reach net zero emissions by 2050. In a recent study conducted by the IEA, it was found that to reach net zero emissions by 2050 the energy sector will require an increase of \$1.1 trillion in investments relative to the announced pledges scenario, while other sectors (i.e., buildings, industry and transport) will require an increase of \$0.5 trillion in investments. In the past, investments in these sectors have come majorly from private finances (~2/3), while the remaining came from state-owned enterprises and Public Finance Institutions. In Europe, for example, the European Commission has established the NGEU fund and the European Fund for Strategic Investments to provide capital to private companies. A similar path is being followed also in the US, where they recently signed the Bipartisan Infrastructure Deal (\$1.2 trillion)

aimed at renovating old infrastructures, improving connectivity and increase urbanisation. As previously noted, even though current governments have started to take actions to reach net zero emissions, the current rate at which they are providing capital is not enough. Therefore, it will also be important to create an environment in which companies have access to low-cost finance.

- **Competitive Positioning**

The power cables market is **highly concentrated** in less than a dozen large global players, namely: Hitachi, Sumitomo Electric, Belden, Leoni, Furukawa, Prysmian, Nexans, Southwire, and NKT. Most of these companies operate in more than one industry, for example Sumitomo and Nexans, that offer cable solutions and other complementary products for both the telecommunications and energy industries. In terms of product portfolio and firm size, Hitachi is the largest producer, in addition to the superior product offering as they offer the most complete portfolio of complementary products. Furthermore, we found that in the Asia Pacific region Hitachi is currently the undisputed leader, followed by Sumitomo, Furukawa and other smaller players. Also, with the low levels of investments from occidental companies like Prysmian and Nexans in the Asia Pacific region, we do not expect any drastic change in the balance of powers in the coming years. On the other hand, we found that **both in Europe and the USA Prysmian is highly present** and decisive to increase its presence to meet future market opportunities through infrastructure investments. Moreover, we found that Prysmian is **among the top three players** in this markets and that they will be able to exercise their large customer base and innovative product portfolio to capture a larger share of the market in the coming years.

Through our analysis of the market, the products offered by each of the major market players (*Table 2 in Appendix*) and the applications that these products have on other industries we came to believe that Prysmian is very well positioned in the power cables industry thanks to the **vast innovative commercial and speciality products offered**. The company is closely comparable to Nexans in terms of product offering and business model, with a few differences in terms of industries covered. Moreover, we found the company to be the **undisputed leader in Europe**, where it mainly competes with Nexans, NKT and Leoni. In the Americas, we found the company to be one of the top players, where it mainly competes with Belden and Southwire. On the other hand, in the Asia Pacific region the company's presence is not so strong, with the market being dominated by large players like Sumitomo, Furukawa, Hitachi and Hengtong, that enjoy a large local presence and economies of scale.

Finally, we believe that thanks to the fact that the company offers one of the most innovative product portfolios on the market and the many years of research and

experience that the company has accumulated in this sector, and which has made them **resilient and able to find market opportunities**, they will continue to remain competitive over the years ahead.

Projects Business

The Projects Operating Segment is the **most profitable** power cable business for the company – as well as for the others power cable competitors – and we are confident it will be the **key catalyst for Prysmian’s future growth**, driven by the current strong Projects wins and the high expectations concerning the future demand for both Offshore Wind and Interconnectors Projects. Hence, since we believe the company is nowadays the **leader among the competition**, owning about the 30% of the HV market share and having the stronger orders intakes, we based our valuation model on a detailed analysis of both the current Prysmian’s backlog and the expected global projects pipeline.

Market Overview

Therefore, the market - which in the period 2015-2019 was worth about € 2.4 bn - is expected to face a robust growth at a low double digit CAGR during the next decade, and we are confident it will reach an average of € 7.2 bn in orders per year, including both Offshore Wind and Interconnections projects until 2030. High Voltage cables market – as previously mentioned - is mainly driven by **Offshore Wind** as well as the increasing need for **Interconnections** in order to maximize the benefits of renewable resources and strengthen the power grid. Therefore, the market - which in the period 2015-2019 was worth about € 2.4 bn - is expected to face a robust **growth at a low double digit CAGR during the next decade**, including both Offshore Wind and Interconnections projects until 2030. In particular, according to both the company itself beliefs and our estimates, we expect the market to triplicate its Projects volume to € 7.2 bn considering the decade period 2020-2030 with a more significant shift driven by the higher Interconnectors’ profitability, which therefore we expect to weight for about the 60% of the overall Pipeline balance. Hence, in the following analysis of both the long-term drivers and the company’s competitive positioning, we expect Prysmian to act as the key player and beneficiary among the other competitors, exploiting

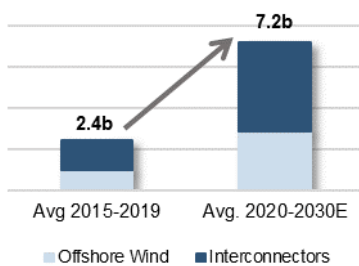


Figure 12: HV Market Outlook;
Source: Company’s Report

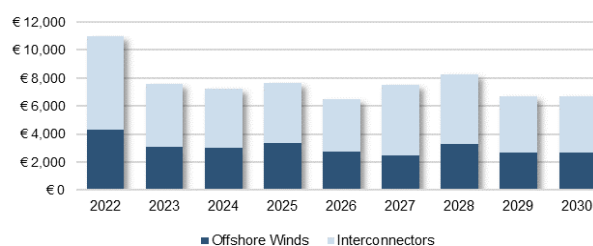


Figure 13: HV Expected Future Outlook (in € M); Source: Analysts’ estimates

these extremely favourable market (expected) conditions.

- Long Term Drivers

With the signing of the Paris Agreement and the net-zero gas emissions' target by 2050, we see the Energy Transition - which lead to the use of renewable sources rather than conventional power generation - as the most significant driver for High Voltage power cables' demand. Furthermore, countries want to prevent blackouts through investments in Interconnections that could allow electricity imports from neighbouring countries. As a result, alongside the Energy Transition, we believe that energy security will be another key future driver.

Direct Demand from connecting renewable energy with the grid

While with conventional power generation electricity is produced close to the load centres, renewables resources are often located far away (offshore rather than onshore). Consequently, the renewables shift lead to high transmission requirement with existing transmission capacity unable to handle the flow of power.

Among different renewable resources, Offshore Winds Projects - which pipeline of key orders is summarized in *Figure 14* - require specialized subsea cables to bring power to the shore and, for this reason, they are the most HV cable intensive.

| Installation date | Project | AC / DC | Country | Capacity (MW) |
|-------------------|-------------------|---------|-------------|---------------|
| 2024-2025 | Empire Wind 1 | AC | US | 816 |
| 2025-2026 | Empire Wind 2 | AC | US | 1,260 |
| 2026-2027 | Beacon Wind 1 | DC | US | 1,230 |
| 2023 | South Fork Wind | AC | US | 132 |
| 2024 | Sunrise Wind | DC | US | 880 |
| 2023-2024 | Revolution Wind | AC | US | 704 |
| 2026 | Mayflower | AC | US | 1,600 |
| 2027 | Mayflower 2 | DC | US | 2,000 |
| 2025 | CVOW | AC | US | 2,600 |
| 2026 | Borwin 6 | DC | Germany | 900 |
| 2027-2028 | Ijmuiden Ver | DC | Netherlands | 2,000 |
| 2023 | Seagreen 1A | AC | UK | 360 |
| 2023-2024 | Moray West | AC | UK | 860 |
| 2024-2025 | East Anglia 1N | AC | UK | 860 |
| 2025-2026 | East Anglia 2 | AC | UK | 860 |
| 2024-2025 | East Anglia 3 | DC | UK | 1,320 |
| 2025 | Dieppe Le Tréport | AC | France | 496 |
| 2026 | Dunkirk | AC | France | 600 |
| 2026 | Baltyk 2/3 | AC | Poland | 1,440 |

Figure 14: Offshore Winds in Pipeline; Source: Nexans Presentations

Indirect Demand from renewable deployment through Interconnectors

In addition, the growing renewable capacity is boosting the demand for Interconnectors, through which power cables connects one region or country to one other. As a result, this may allow efficient use of intermittent renewable resources - minimizing curtailments - and to bring down greenhouse gas emissions from the power generation sector.

Furthermore, Interconnectors are typically more profitable than Offshore Wind Projects since the former require more complex cables design and which installation may take place at greater depths than the latter - that are rather located into shallow waters.

| Fully Commissioned | Project | Countries | Capacity (MW) |
|--------------------|--|------------------------|---------------|
| 2022 | Andalucia-Ceuta | Spain-Spain | 100 |
| 2022 | Isola d'Elba-Toscana/Continente | Italy-Italy | 160 |
| 2023 | Naxos-Santorini | Greece - Greece | 200 |
| 2025 | EuroAsia Interconnector | Cyprus-Israel | 2,000 |
| 2025 | AQUIND Interconnector | United Kingdom-France | 2,000 |
| 2025 | Gridlink | United Kingdom-France | 1,400 |
| 2025 | Tyrrhenian Links Ph1 | Italy-Italy | 1,000 |
| 2025 | Balearic Islands: Spain-Mallorca Second Link | Spain-Spain | 1,000 |
| 2026 | Harmony Link | Poland-Lithuania | 700 |
| 2026 | NeuConnect | United Kingdom-Germany | 1,400 |
| 2027 | Celtic Interconnector | Ireland-France | 700 |
| 2027 | Tyrrhenian Links Ph2 | Italy-Italy | 1,000 |
| 2027 | Biscay Gulf | France-Spain | 2,000 |
| 2027 | Dodecanese Interconnection Phase A: Corinthos (2024) - Kos | Greece-Greece | 900 |
| 2027 | Eastern HVDC Link (E2DC Torness - Hawthorn Pit) | United Kingdom | 2,000 |
| 2028 | Marinus Link | Australia-Australia | 1,500 |
| 2028 | Canary Islands: Gran Canaria - Fuerteventura | Spain-Spain | 200 |

Figure 15: Interconnections in Pipeline; Source: Nexans Presentation

Oil & Gas Industry Demand

Another driver of HV power cables demand is electrifying subsea oil & gas platform, given an increased focus on carbon emission for exploration and the production of oil & gas. Previously, burning unprocessed oil & gas at the rig to generate electricity was the most common way to meet power requirements. However, nowadays big oil & gas hubs offshore are increasingly looking to bring electricity from onshore grids to reduce their carbon footprint during the production of hydrocarbons.

- Transmission Investment Plans

European scenario

The European Network of Transmission System Operators - the ENTSO-E - represents 42 electricity TSOs from 35 countries across Europe and it has the goal of developing the most suitable responses to the challenge of a changing power system while maintaining security of supply.

The results of the latest study from ENTSO-E, published in August 2021, show the high economic interest of investing in the grid to support the Energy Transition. As a result, they set the goal to build about 35GW of cross border transmission capacity reinforcements by 2025 in addition to the 2020 grid. Furthermore, the study reports that another 50GW would be cost efficient between 2025 and 2030 needing investments of €17 bn in the European

transmission grid, minimizing the curtailment of renewable resources and improving the reliability of the system by reducing risk of blackouts.



Figure 16: Needs for capacity increases in the 2030 horizon; Source: ENTSO-E

On top of the growing Offshore Wind Projects demand in Europe there is the EU Offshore Wind renewable strategy, promoted by the European Commission.

The EU aims for at least 60GW of Offshore Wind and at least 1GW of ocean energy by 2030, with the potential to reach 300GW in offshore wind and 40GW in ocean energy by 2050. The EU sees investment needs of up to € 800 bn to meet its 2050 offshore renewable energy targets, of which 2/3 will go towards grid and other non-turbine infrastructure, and cable companies will be a key beneficiary. The strategy sets out how the EU will scale up the offshore wind market, which also highlights several existing challenges and bottlenecks that need to be addressed to accelerate offshore deployment.

Annual investment in onshore and offshore grid in Europe over the past 10 years amounted to € 30 bn but needs to increase to above € 60 bn in the coming decade and then increase further thereafter.

In light of these considerations and studies, we expect the HVDC land and submarine cables demand to boost significantly in the upcoming decade, leading the High Voltage cables players as the key beneficiaries.

American Scenario

US power markets are different to those in Europe. Indeed, rather than a single grid, the country has multiple wide-area synchronous grids. North America is

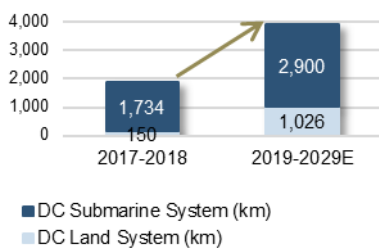


Figure 17: HVDC 2019-2029 Demand; Source: EuropaCable, Analysts' estimates

comprised of three major alternating current (AC) power grids or, commonly speaking, Interconnections, which are the Eastern Interconnection, the Western Interconnection and The Texas Interconnection.

The three major components of the US power system (WI, EI and ERCOT) operate almost independently of each other and very little electricity is transferred among the Interconnections due to limited transfer capacity.

The President Biden Infrastructure Plan - which is a key catalyst to boost transmission investments - propose to invest \$ 100 bn towards grid modernization. The proposal supports the overarching goal of reaching 100% carbon-free power by 2035. Under the plan, President Biden set the goal of creating a targeted investment tax credit to incentivize the buildout of at least 20GW of high voltage power lines.

As a result, during this current year many big High Voltage American projects have already been announced. The SOO Green for example – which has recently been entirely awarded to Prysmian – is one of the most important Projects in the US pipeline. Indeed, with 2,100MW 525kV HVDC transmission and a contract worth \$ 900 mn, it will link the Midwest Independent System Operator (which serves in central US) to the eastern PJM Interconnection, connecting two of the largest market in the North America.

While grid connections can choose overhead wires, which leads to a significantly lower revenue opportunity for cable companies, this is generally not possible in Offshore Wind. As a result, offshore wind is expected to be the largest driver also for growth in the US HV market. The development of Offshore Wind started during President Trump’s administration but the progress, particularly at the federal level, was very slow. The Biden administration has provided a significant boost to the offshore wind market, with the US setting a target – which is almost zero at the present - of 30GW capacity by 2030.

▪ **Competitive Positioning**

The **HV Industry is highly concentrated**, with both Asian and European competitors but currently no American players. While most of them provides only HVAC solutions, the Europeans Nexans and NKT are the ones - alongside Prysmian - supplying both HVAC and HVDC subsea and land cables with more than 320kV power. For this reason, these three companies - which together account for the majority portion of the HV cables market - are considered the key global players for the growing Offshore Wind and Interconnectors driven HV Industry.

Prysmian

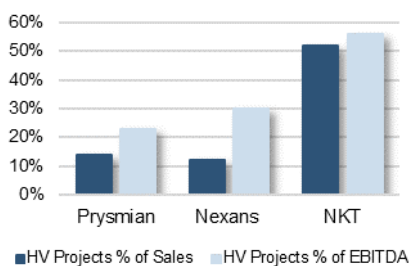


Figure 18: HV Companies’ Sales and EBITDA shares; Source: Companies’ Reports, Analysts’ estimates

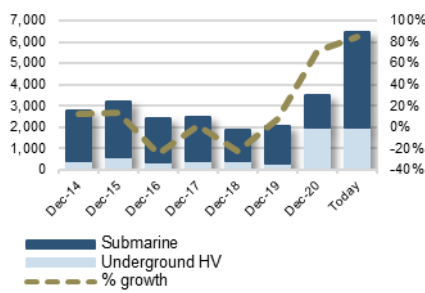


Figure 19: Prysmian's Backlog;
Source: Company's Report,
Analysts' estimates

Prysmian shows evidence of its competitive advantage with respect to Nexans and NKT, for its considerable worldwide Projects awards, that currently accounts for **more than € 6 bn in orders backlog** (Figure 19), including the SOO Green HVDC Underground Link, which is the biggest single project ever awarded to the company worthing roughly \$ 900 M, as well as the recent awarded € 1.7 bn contract for the Tyrrhenian Link, the Domion Energy Group offshore wind (~ \$ 630 M) and the Vineyard offshore wind farm (~ \$ 200 M) Projects.

It is possible to notice that during the current year 2021 Prysmian faced a boost in the worldwide Projects awards, with an 85% growth compared to the previous year. For this reason, we believe that **2022 will be one of the most profitable years** during the next decade, and in addition we expect the company to gain further market share in the upcoming years, confirming its leadership thanks to the increasing reliability of global customers.

Nexans

The High Voltage & Projects Operating Segment of Nexans accounts for the 12% of the group's total sales of € 5.7 bn and for about the 30% of the EBITDA share as of FY2020.

Nexans has a current **HV backlog of € 1.5 bn** and it is the company - among the key HV players - that has confirmed a lower reliability level so far and, consequently, **higher downside risks exposure** related to delays in Projects. However, the French company has recently signed a framework agreement with Ørsted - a multinational power company - in which it is set that the latter is supposed to buy export cables for all American Projects from Nexans' US plant through 2027.

Furthermore, Nexans - that currently has production plants for HV subsea cables in Halden (Norway) and Charleston (USA) – is currently working on capacity expansions of both the owned plants, particularly in the American one.

Thus, we expect this combination of events not to be random, and it means that Nexans' strategy is **highly focused on the US** increasing HV cables demand, exploiting the full potential of the Charleston plant.

Therefore, we believe that the progress of Ørsted's US Offshore Wind Projects - which include six big projects - together with the American market focused strategy are going to be crucial for the upcoming decade and they may be a threat for the current Prysmian's absolute leadership in US.

NKT

NKT operates in the High Voltage market through the Solutions Business Unit and – among the other key HV cables manufacturers - it is the one with the



highest exposure on its operating results. Hence, the Danish company - that currently has an orders **backlog of about € 3 bn** generates more than the 50% and about the 65% of Sales and EBITDA from the High Voltage Industry, respectively

NKT – contrarily to its closest competitors – seems to be more focused on the European power cable Industry. Thus, the company currently has production plants in Karlskrona (Sweden) and Cologne (Germany), and - following the German Corridors Project award last year - it set a € 150 mn capex plan to increase the future capacity of its existing plants.

Therefore, it seems that NKT is not currently interested in entering and exploiting the US High Voltage market and upcoming opportunities - as Prysmian and Nexans are willing to do - at least in the near term. However, the company's backlog provides a **good visibility for growth**, and we expect the capacity expansion plans to further drive it, particularly in the European market.

What distinguishes Prysmian among its main competitors is that it is clear the Group willingness to keep its leadership with a clear **focus on increasing its global presence in the market**. As a result, even though – contrarily to its peers – Prysmian has not disclosed specific details concerning its capacity expansion plan, it has recently announced € 100 bn in investments over the next few years to increase its North America plant's production capacity. Consequently, if on the one hand it is not possible to exclude some profitability pressure caused by Nexans and NKT action plans, on the other one we believe **Prysmian will reinforce even more its leading position** in the HV market due to both the company's strong backlog and its US well-oriented strategy. Furthermore, despite the growing market, we believe that the competitive landscape will not face any radical change during the next decade due to high entry barriers, particularly for the HVDC cables Industry. Hence, we expect that for a new entrant it would take 4 or 5 years of investment before it would be able to compete for High Voltage projects, in addition to other 2 or 4 years before completion. As a result, we believe that in the near term we will not see any new supplier to emerge in the HVDC market. However, the other HVAC competitors may qualify for higher power HVDC cables since it would take approximately 2 years to take full qualification, as shown in the (Figure 20).

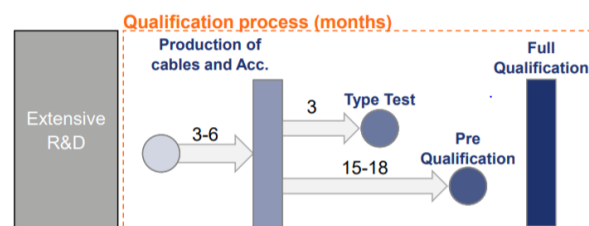


Figure 20: Qualification period from completion of a factory;
Source: NKT's Report

Nonetheless, we believe that this is not going to be a real threat for Prysmian – and in general for the other affirmed HV key manufacturers Nexans and NKT - as we expect for new players to acquire a consistent market share to be much troubled, particularly in a reality in which the American and European Authorities seek the best players to satisfy their demand to reach the Plans’ goals.

On the other side, delays in projects are very common in this Industry and represent a significant challenge for the HV cables makers. However, if delays may affect Nexans with strong pressures due to its backlog – which currently is a bit poor compared to the peers - NKT and Prysmian seem quite well covered from this downside risk with robust orders backlog in the near term. Therefore, we have sufficient evidence to believe that Prysmian not only will confirm its worldwide leadership for HV Projects wins but will also further benefit from its significant competitive advantage when compared to Nexans and NKT, as **we expect the company to be increasingly preferred among the others** due to both its advanced technologies and its distinctive experience.

Telecom Business

The Telecom operating segment accounted for 14% of total revenues in 2020, with EMEA and North America contributing the most to the revenue generation of this segment. Moreover, the telecom operating segment can be subdivided into three smaller units: **Telecom Solutions, MMS, and Fibre**, contributing 65%, 30%, and 5%, respectively.

The product portfolio of the telecom business includes a wide range of products, such as: optical fibre, optical cables, connectivity components and accessories, optical ground wire and copper cables. The wide range of complementary products offering allows the company to be able to service customers in all types of applications, ranging from solutions for the Oil & Gas industry to home connectivity.

The customer’s centred approach allowed the company to develop award-winning technologies within this space, such as the Scirocco HD product range, which is currently the world’s smallest diameter and highest fibre density for blown microduct cables. This means lower installation costs, raw materials usage (approx. 50% reduction in the volume of plastics) and more sustainable products. Another example is the recent experiment conducted in collaboration with NICT, which set a new record for the transmission speed over an optical fibre with standard dimensions (*Figure 22*). The record transmission speed, which stands

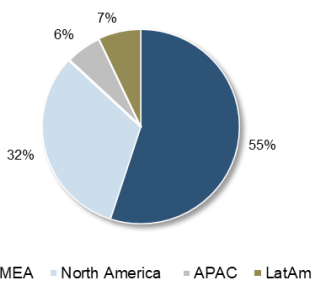


Figure 21: Telecom Split by Geography; Source: Analysts’ estimates

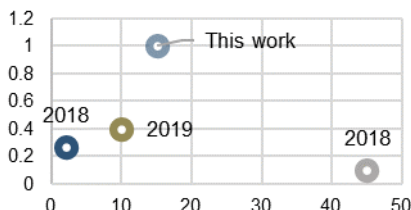


Figure 22: Data rate (petabit/s); Source: NICT

at 1 Petabit per second, increases previous data-rate records in standard-dimension fibres by 5.7 times (single-mode fibre), 2.5 times (few-mode fibre), and 1.7 times (multi-core fibre); which can simultaneously deliver 8K-TV broadcasting for 10 million people. Additionally, through its Eco cables initiative, the company is the first to roll out a Green Label within the cables industry, contributing to the objective of net-zero Scope 3.

Over the last three years, the company has struggled to maintain a consistent performance in this segment, as evidenced by the declining margins and volatile sales figures. The reasoning behind what happened in 2019/2020 is mainly attributable to: a contraction in the Chinese market, which alone accounts for more than 50% of the global total; excess capacity and rising inventory levels, driven by the lower demand in most geographical markets; pricing pressure, driven by Chinese multinationals importing cable products at lower prices and therefore making it harder for occidental companies to remain competitive; and the Covid-19 pandemic, which have driven down sales due to the inability to service customers. On the other hand, during the 9M of 2021, the company is showing signs of recovery (+15% 9Mo9M), mainly driven by the plans set out in the EU digital agenda for 2025, the continuing uptrend in the North American region and the resumed investments by telecom operators in the Latam region. Finally, we expect the positive uptrend to continue over the 2H of 2021 and onwards, given the strong market fundamentals and the competitive positioning of the company in this market.

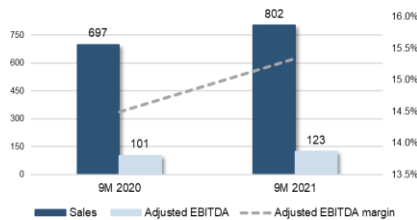


Figure 23: Operating performance;
Source: Company's Report

Market Overview

The Global Telecom market size is estimated to reach \$2.7 trillion in 2021, going from \$2.6 trillion in the previous year. The market size of this sector is expected to continue growing over the next 5 years, reaching a market size of approximately \$3.5 trillion in 2025, and implying a **CAGR of 6% over the projected period.**

The Telecom sector includes wireless telecommunication carriers, wired telecommunications carriers, communications hardware, and satellite & telecommunication resellers. Of the overall Telecom sector, Prysmian operates within the telecommunications hardware segment, and more specifically, within the Telecom cables market segment. The Telecom cables' segment is indirectly driven by the overall market, which is mainly driven by the digitalization process. Moreover, the market expects strong growth in this particular segment, which is expected to go from \$47.9 billion in 2021 to \$74.5 billion in 2028 (**CAGR of 6.53%**). Even if this market is indirectly driven by the overall Telecom market, there are some stronger drivers within this segment, such as: **Fiber Optic and**

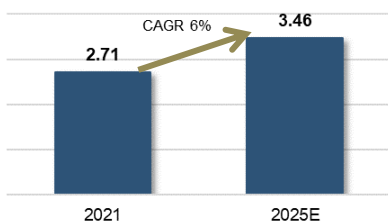


Figure 24: Telecom CAGR 2021-2025;
Source: Research & Markets

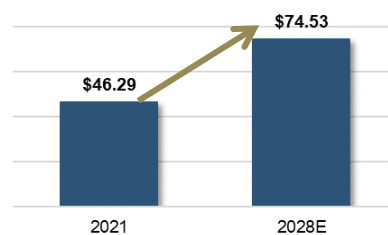


Figure 25: Telecom Cables CAGR 2021-2028;
Source: Research & Markets

5G deployment, and the upgrade of existing telecom infrastructure to support increased transmission speed and efficiency.

The International Telecommunications Union has conducted a study on the impact of broadband deployment on the global economy and considered the digitalization process as one of the potential contributors that could help the global economy to recover from the COVID-19 pandemic. Evidence from the study suggests that developed countries should adopt policies in favour of fixed broadband penetration as a key factor to foster economic growth. On the other hand, governments in emerging economies should prioritize mobile broadband infrastructure as the primary driver of digital divide reduction and economic development. Furthermore, given the large presence of the company in the US and Europe, the report will focus on developed economies. The study concluded that these countries should prioritize technologies which accelerate the digitalization of production. More specifically, it was demonstrated that ultra-broadband wireline technologies such as FTTP, DOCSIS 3.1, and 5G are critical infrastructure technologies that will allow **industrial digitalization**. The infrastructure required for the aforementioned broadband technologies includes Fiber Optic, coaxial cables and copper cables.

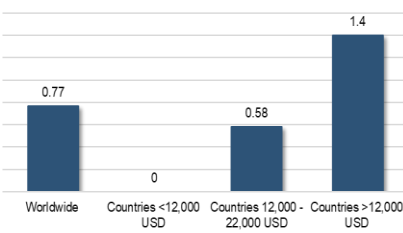


Figure 26: % GDP growth impact of an increase in 10% of fixed broadband penetration; Source: ITU

▪ Long Term Drivers

Broadband Coverage

According to the most recent data published by the OECD in 2020, mobile broadband is now covering almost 100% of the population with 3G and 4G technologies. On the other hand, fixed broadband connectivity is still low and estimated at about 33.16 subscriptions per 100 inhabitants. DSL and Cable are still the widely used and represent the majority of connections. Fibre, Satellite and Fixed wireless are still in their growth stages as telecom operators and governments push to reach 100% of the population with high-speed connectivity solutions at affordable costs. OECD member states' high speed fixed broadband connections are estimated to stand at 10.86% as of 2020, with Fibre being the preferred choice and representing more than 90% of high-speed connections. Moreover, it was found that Fiber connections as percentage of total fixed broadband stand at 30.56% and increased by almost 20% over the last two reporting periods. There are two important things to consider for this data: 1) that subscriptions are not equal to coverage, which we estimate it to be close to 100% for all OECD members; and 2) that a more accurate picture would have been given by household subscriptions, given that it is more meaningful for analysis purposes.

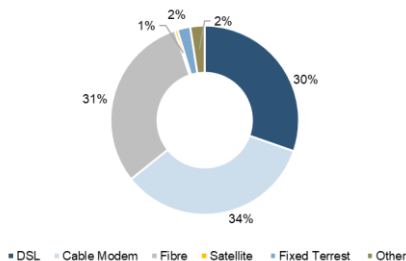


Figure 27: Fixed and Mobile Broadband subscriptions; Source: OECD

In Europe, which represents the primary market for the company, we found that

fixed broadband coverage at all speeds stands at approximately 98%, even though most of it comes from DSL and Cables. These technologies still represent a big percentage of the market (>50%) but are not able to support most of today’s trends, such as high-resolution broadcasting, gaming and Work From Home. A similar picture can be seen in the US, the secondary market of the company, in which 99% of the population have access to fixed broadband.

In terms of average speed connectivity (>=100Mbps), we found that Europe is better positioned when compared to the US, with 73% of the population being covered by Fiber Optic and FWA (vs. 53% in the US). Over the past three years average speed broadband penetration has been higher in the US as the race for the digital divide intensifies between countries. Moreover, Europe is also ahead of the US for very high speed fixed broadband connections (>=1000Mbps) as approximately 47% of the population have access to fixed broadband which is currently able to serve most of today’s needs (vs. 26% in the US). Finally, we found that 39% of the European population and 45% of the American population have now access to FTTH/FTTP, with connection speeds of up to 100 Mbps. In respect to 5G coverage, the European Commission estimate it cover approximately 15% of households as of 2020. More than 50 cities are now connected to 5G networks in Europe, with numbers rising year-over-year as the Commission and Member States have identified 5G as a key area for investment for the Facility (NGEU). The same situation exists in the United States, where 5G networks have almost completely covered the East and West Coasts. On the other hand, central states such as Kansas, Nebraska, and Wyoming continue to have limited to non-existent 5G coverage.

▪ Investment Plans

We identified investment plans as one of the major, if not most important, long term driver for the industry and the company’s growth prospects. As we saw before, broadband coverage is very high in most geographies but subscription rates are much lower given the high costs of high speed broadband connectivity. As governments subsidise telecom operators and make infrastructure investments to increase high speed broadband coverage at lower costs we should experience a shift from low cost/speed alternatives to superior technologies like FTTH, DOCSIS 3.1 and 5G.

Governmental

In Europe, the EU established the Next Generation EU fund, which aims to provide financial assistance to all EU members in order to accelerate economic recovery and build the infrastructure necessary for a more sustainable, digital, and resilient economy. The NGEU, also referred to as the Facility, consists of €385.8

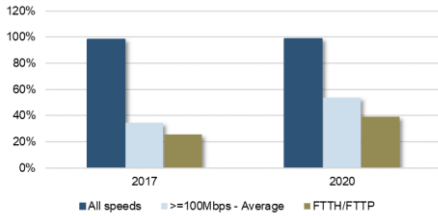


Figure 28: Fixed Broadband subscriptions (% population);
Source: European Commission

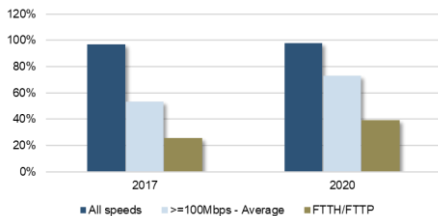


Figure 29: Fixed Broadband subscriptions (% population);
Source: FCC

billion in loans and €338 billion in grants made available to support reforms and investments undertaken by Member States. Each Member State needs to submit a plan to the EU and each plan needs to include a minimum of 37% of expenditures for climate investments and reforms, and a minimum of 20% of expenditures to foster the digital transition. Moreover, Europe has set digital targets for 2030, most of which indirectly imply higher broadband speeds and therefore an update to the current broadband infrastructure. In addition, the EU aims to reach 100% of the population with 1000Mbps fixed broadband and 5G.

In North America, the US president has just signed the \$1 trillion infrastructure bill into law, which allocates \$65 billion for the upgrade of the nation's broadband infrastructure (cables, fiber optics and other permanent infrastructure), improve internet services in rural areas and provide low-cost affordable internet across the US. As outlined in the infrastructure bill, access to affordable, reliable, high-speed broadband is essential to full participation in modern life and to keep the US competitive over the years ahead. As found by BroadbandNow in their most recent Q3 report, a company which provides independent research on broadband in the US, 89 percent of Americans had access to low-priced wired broadband, even though the speed at which the broadband network runs is currently unsuitable for working from home and other trends that are emerging. Another study conducted by the Fiber Broadband Association found that Fiber broadband is now available to approximately 30% of households across the US.

Telecom Operators

In the US, AT&T is currently the biggest telecom operator and is experiencing high growth in revenues coming from fiber-based broadband subscriptions. In one of their most recent interviews, the company's CEO said to be considering increasing its target to reach more than 30 million residential and business locations by 2025. In addition, we found that the company has also been looking for more sustainable infrastructures and decrease their carbon footprint dramatically. We believe that thanks to Prysmian's partnership with the company and their innovative and sustainable product portfolio the company will be able to benefit from AT&T's expansion plan. The same is true for Verizon, which is currently the second biggest telecom operator in the US and that have already awarded Prysmian a \$300 million contract for the development of a fiber network.

In Europe, we found that the telecom operator's market is more fragmented between local players like BT in the UK and TIM in Italy. The former, for example, has made clear plans to reach 25 million homes and businesses with fast broadband fibre by the end of 2026. Currently, BT is looking for strategic partners for this initiative as they need approximately \$21 billion to make it happen. In the

past, the company has already collaborated with all of these companies and we believe that they will continue to do so in the future given the strong positioning of the company. Finally, it is also important to consider that the aforementioned telecom operators possess and are investing in 5G, which require high volumes of fiber optic and other optical connectivity components.

- **Competitive Positioning**

Major Players

Through our analysis of the market, we found that CommScope, Corning, Sumitomo, Fujikura, Furukawa, Belden and Prysmian are the main market leaders globally. In Europe, Prysmian competes majorly with Nexans, Leoni and other smaller players. We found the company to be better positioned in respect to other market participants thanks to their major product offering. In the US, on the other hand, Prysmian is somewhat lagging behind of the major players in the market, namely CommScope, Corning and Belden, which hold the largest market share and have well established and dated relationships with telecom operators and other industries. In the Asia Pacific region, the company has a small presence when compared to market leaders like Sumitomo, Fujikura, Furukawa and Hengtong, which offer a complete product portfolio at competitive prices. Currently, we found Prysmian to hold a 3.4% of the market share in this particular segment, being positioned 4th after CommScope, Hengtong and Sumitomo.

Product Portfolio Comparison

According to our analysis of the company's product offering, Prysmian is well-positioned in the telecom market with a diverse portfolio of innovative telecom products. Prysmian, CommScope, Sumitomo, and Fujikura are currently the market leaders in this sector, offering a broad range of comparable products (Table in *Appendix*). Prysmian's product portfolio is one of the most innovative in the industry, and it is structured to reach a broad range of customers. Additionally, it demonstrates a strong commitment to customer needs and market trends, such as increased speed and cost savings for the former; and 5G, fiber optic deployment, and IoT for the latter.

Valuation

Methodology

In order to build a reliable Prysmian's revenue forecast, we decided to analyse the Energy, the Projects and the Telecom Business Units separately, performing

different methods and, thus, combining both top-down and bottom-up approaches.

▪ Revenue Forecast

In order to forecast the **Energy** revenues of the company we started by estimating the global market size of the power cables market. As power cables are mainly made of copper or aluminium due to their conductivity properties, we believe it is reasonable to use global copper and aluminium consumption as a starting point to estimate the size of the market. As observable on the left side, we found that global copper consumption stood at 24,987,000 Mt in 2020, while global Aluminium consumption stood at 64,807,000 Mt. In respect to the future, the Minerals Council of Australia expects Copper Consumption to grow at a CAGR of 2.4% over the next 10 years, while expects almost twice that growth in Aluminium Consumption (4.1%). Moreover, data from the ICSG and World Bureau of Metal Statistics show that as of 2020, 63% of global copper consumption, and 12% of global aluminium consumption came from the Wire and Cables market. At this point we had to estimate two important data to continue the estimation of the power cables market, the Kg/per meter of cable factor and the average global price of power cables per meter. In respect to the former, we calculated it by taking the average weight per meter of >1000 power cables on the market from companies like Prysmian, Nexans and Sumitomo. We found the factor to stand at approximately 0.25 Kj per meter of cable. In respect to the latter, we estimated it by taking the average price per meter of >1000 power cables from the same companies and we found it to stand at approximately €23.8 per meter of cable. Furthermore, we also assumed that 5% of copper and aluminium consumption in the power cables sector is lost during the manufacturing process and that the penetration rate was the same in the past as suggested by ICSG. As a result, we found that the market was worth approx. €139.7B in 2020, and we expect it to reach €140.5B by the end of 2021.

As of 2020, we found that the company held a market share of ~5.2%, which is also the same as the average market share over the last three years. As of 2017, the company's market share was only 3.9% and grew at a CAGR ~10% over the last three years, mostly thanks to General Cable's acquisition and the competitive product portfolio of the company.

Through our analysis of the market performed in the first part of the report and our belief about the future of the company we made the following assumptions. Firstly, we assumed a 2% growth in the penetration rate of copper-based power cables and 1% for aluminium-based power cables as the energy transition plays a key role in future copper and aluminium consumption. Secondly, we assumed that the company would hold a market share of 5.9% from 2021 to 2025 as we do

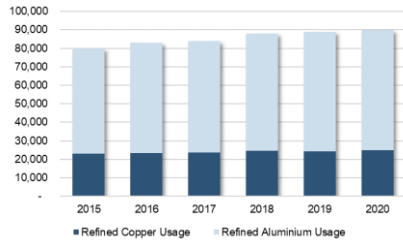


Figure 30: Global copper consumption; Source: WBMS

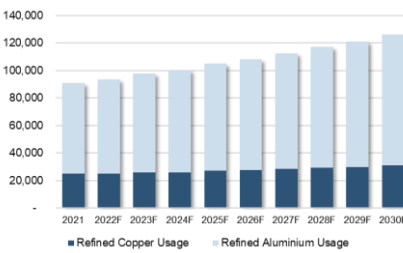


Figure 31: Consumption forecast; Source: Minerals Council of Australia

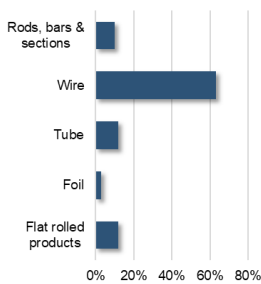


Figure 32: Copper consumption by end-use; Source: ICSG

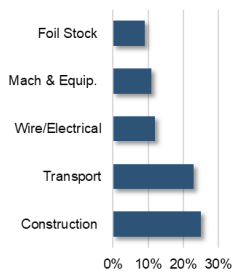


Figure 33: Aluminium consumption by end-use; Source: ICSG

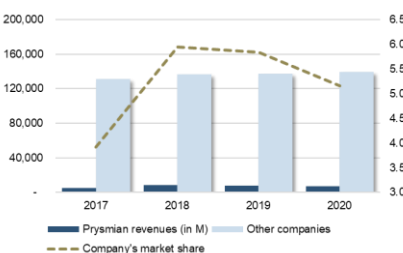


Figure 34: Prysmian's market share evolution; Source: Analyst's estimates

not see any new entrants nor existing players challenging the company’s position in the market. In respect to the second part of the forecasting period, from 2026 to 2030, we assumed that the market share will start decreasing by 0.1% decrements due to the possibility of seeing new entrants coming in and challenging existing players in the sector, as well as existing players that may grow organically/M&A. Through these assumptions we found that the company is able to grow its revenues at a CAGR of 1.99% over the forecasting period, which is also in line with what the IR teams told us during the call. By 2025, the company is expected to generate €9.12B in revenues and growing at a CAGR of 2.85%. By 2030, we expect revenues to reach €9.7B, which represents a ~20% increase from 2021.

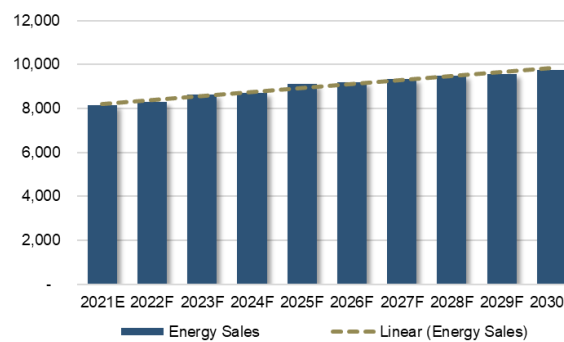


Figure 35: Energy Sales’ forecast; Source: Analyst’s estimates

Concerning the **Projects Business Unit**, we based our forecast model on **three main pillars**: 1) Prysmian’s awarded HV projects from 2019 onwards, 2) the global confirmed pipeline, comprising both Offshore Wind and Interconnectors’ projects, and 3) additional expected global projects estimates in order to reach the expected market volume of € 7.2 bn on average in the period 2020-2030.

Hence, we firstly analysed the company’s projects’ wins, estimating the timeline depending on both the confirmed amounts awarded and the announcement date. Therefore, assuming that typically HV global projects take one or two years before the labours begin and considering from two to five years period for completion, we then estimated the broken-down values per year for each Prysmian’s awarded projects. Afterwards, we performed a comprehensive analysis of the global upcoming Offshore Wind farms and Interconnections in pipeline. Regarding the Offshore Winds, considering the total capacity for each project in MegaWatt (MW), we estimated their values assuming € 300 M of total compensation per each GigaWatt (GW) needed, as 1GW of offshore wind typically requires the transmission cable (submarine and/or land) and interarray cables’ productions, in addition to their installation. On the other side, for the Interconnections, we estimated the value of the projects in pipeline depending on the length (in km) of the link and expecting € 1 M award per each km.

Conclusively, as we are confident the global HV market will reach on average €

7.2 bn, we estimated the missing part related to ‘Other Projects’, assuming that in the upcoming decade about the 60% of the Projects will consist of Interconnectors and the remaining part of Offshore Winds.

Our results provide strong evidence that **Prysmian currently owns the 30% of the market share**, and considering its significant competitive advantage compared to the other key players, we are confident it will be able to gain the 45% within 2030. Hence, in conclusion of our analysis and valuation, we expect the revenues share related to the Projects Business to **grow at a 6.96% CAGR**.

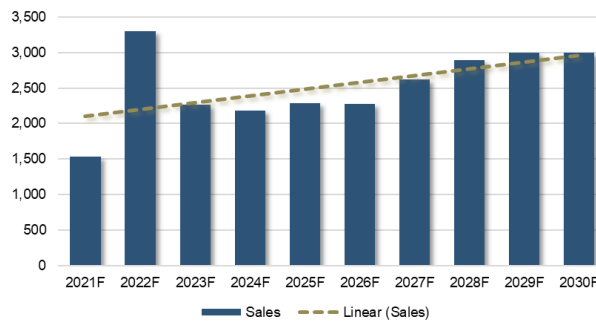


Figure 36: Projects Sales’ forecast; Source: Analyst’s estimates

Finally, in order to estimate the **Telecom** Business Unit, we started by analysing broadband deployment data from both the FCC and the European Commission as we believe that broadband deployment is one of the main drivers of the company’s Business Unit. As the European and the US governments have set clear plans for broadband deployment and are also more transparent than Asian and South American countries, we only considered former data as the latter two did not provide enough data for an accurate forecast. As a consequence, we divided the revenue of the business unit both by product mix (Telecom & MMS vs. Fiber Optic) and by geography (EMEA, NA vs. Other geographies). For EMEA and North America we assumed that Europe and USA are a good proxy for the rest of the countries. Moreover, we saw that over the last three years broadband deployment for low speed grew at a CAGR of 1.2% in the USA, and at 4.2% in Europe. Regarding the Fiber Optic deployment, we saw that it grew at a CAGR of 13.7% in the USA, and 15% in Europe. Furthermore, even though both government’s plans are to reach 100% fast connectivity fixed broadband by 2025, we assumed that they would continue to grow at the historical CAGR of the past three years, with the USA reaching ~90% coverage by 2025 and Europe by 2026. We made these assumptions as we saw that in the case of ADSL deployment in the past, it took longer to reach rural areas also because it is highly dependent on prices which are currently still high. Therefore, we assumed that the company’s revenues will grow at the same rate as Fiber and non-Fiber deployment in the USA and Europe, while assumed that in other countries the company will grow revenues at the population growth rate of 1.1%. Concerning

the second forecasting period (2025-2030), we assumed slower growth (1.1%) as it will mainly include maintenance costs.

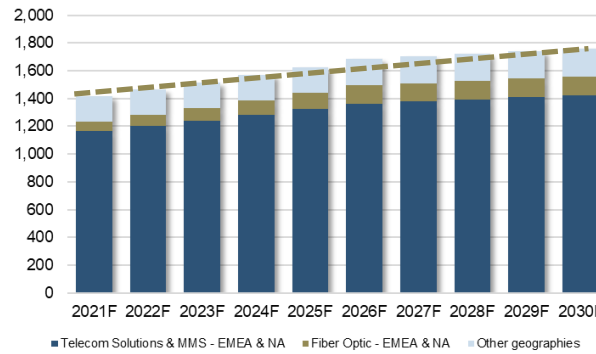


Figure 37: Telecom Sales' forecast; Source: Analyst's estimates

▪ Operating Performance and Margins

As it regards the operating margins of the company and their respective forecasting we performed an historical, as well as future oriented, analysis of each business unit to see how the margins have behaved historically and how they could potentially be in the future given available information. In general, adjusted EBITDA margins have averaged at ~8.5% over the last 5 years, with a decrease of ~15% following General Cables' acquisition. The acquisition of General Cable was a big challenge for the company and represented the biggest acquisition made by the company in their history, but this was not the only reason why margins have decreased over the last few years. Firstly, in the energy sector, the company was challenged by the rising pricing pressure put by its Asian counterparts but still managed to improve its margins by 1% following General Cable's acquisition. Secondly, the Projects segment was strongly challenged following GC's acquisition because of higher project costs and the difficulty to integrate General Cable for the execution of certain projects. Finally, the Telecom segment has experienced a strong improvement in margins following GC's acquisition (+16%) as General Cable product portfolio included a variety of products with higher margins. In respect to the future, we believe that the next years will be challenging for the company given the current macroeconomic conditions and increasing cost of raw materials.

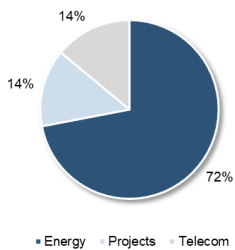


Figure 38: Sales' split 2020; Source: Company's Report

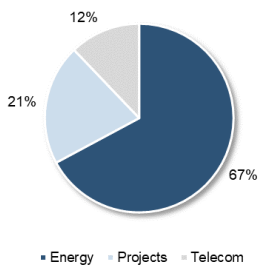


Figure 39: Sales' split 2030; Source: Analysts' estimates

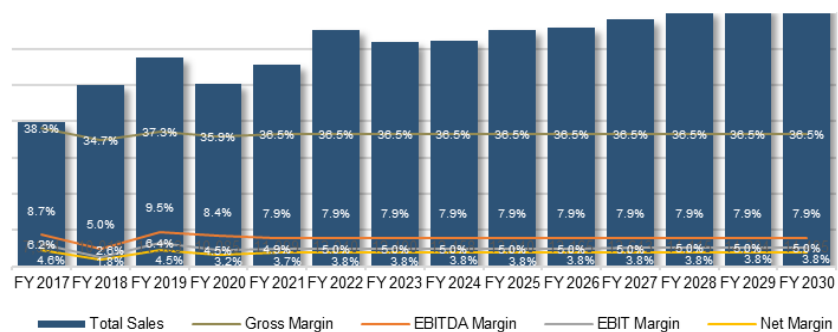


Figure 40: Operating Margins' evolution; Source: Company's Report, Analysts' estimates

Moreover, we compared the margins of the company with other market players and Prysmian among the best performers in terms of operational efficiency. CommScope is currently the company with the highest margins in the sector, but this is explainable through the fact that they mostly operate within the telecom segment, which has higher margins on average. Therefore, given the historical adjusted EBITDA margin of ~8.5% and the current macroeconomic condition we believe it is reasonable to assume that the company's EBITDA margin will average at ~8%.

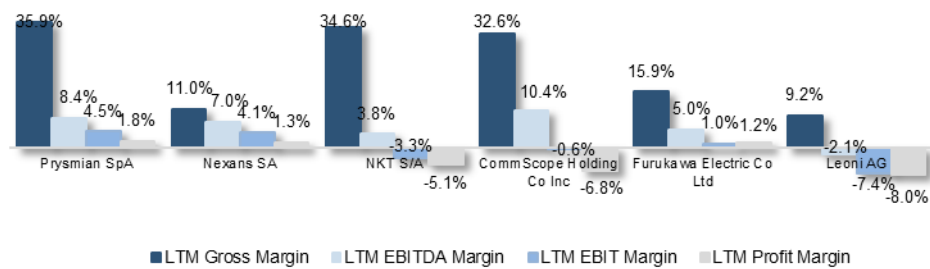


Figure 41: Operating Margins' vs Peers 2020; Source: Companies' Reports

Working Capital Management

To better understand the Prysmian's Working Capital Management and, thus, its liquidity and operational performance, we performed a breakdown of the **Cash Conversion Cycle**, analysing the **Days of Inventory Outstanding** ("DIO"), the **Days of Sales Outstanding** ("DSO") as well as the **Accounts Payable Turnover Days** ("APTD").

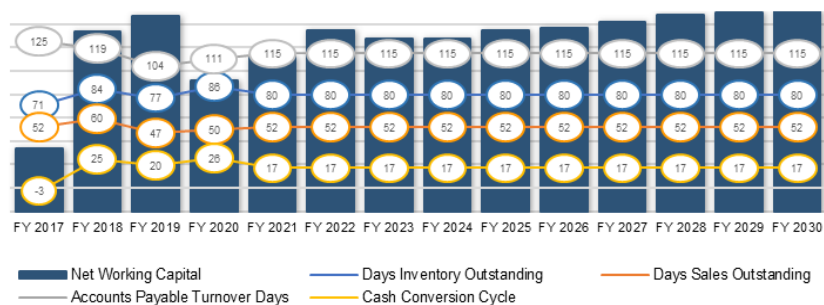


Figure 42: Net Working Capital evolution; Source: Company's Report, Analysts' estimates

In the FY 2017, Prysmian's Cash Conversion Cycle had a negative value of -3 days, which therefore means that it took for the company longer to pay back its suppliers than it took to sell its inventory and collect money. However, it is possible to notice that throughout the years 2018 to 2020, the company needed instead an average of 24 days to convert its investment in inventory and other short-term resources into cash. Therefore, overall, Prysmian - which compared to the comps set shows a **much lower Cash Conversion Cycle** - seems highly efficient in its cash flow management. As regards the DIO, Prysmian - even though remains close to the peers' average value of 68 days – shows slightly

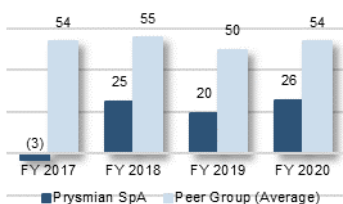


Figure 43: Cash Conversion Cycle

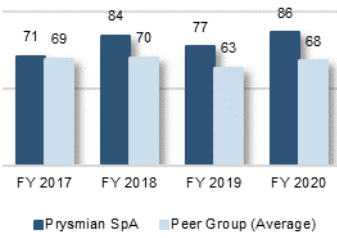


Figure 44: DIO

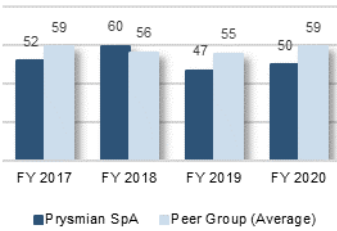


Figure 45: DSO

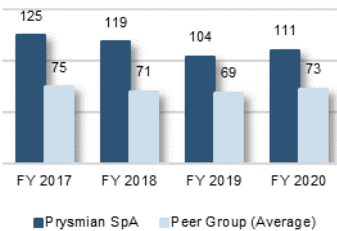


Figure 46: APTD

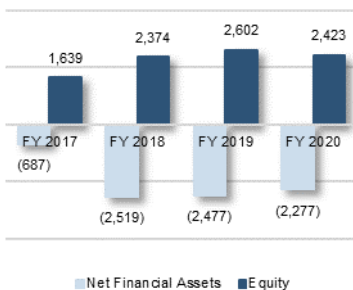


Figure 47: Capital Structure

higher number of days it holds its inventory before selling it. Thus, the company may be slightly more **sensitive to higher pressure on liquidity**, resulting in a potential needing on external sources. However, we still believe it still is a sustainable result which should not imply any trouble in the firms' cash management. Furthermore, Prysmian seems quite **efficient in collecting money from its clients**. Therefore, the company takes an average DSO of 52, that is slightly lower than the Competitors average, meaning that Prysmian is better in minimizing the customers' payment risk with no pressure on the firm's liquidity. On the other hand, it is possible to notice a clear ability of the company in managing the number of days in which it pays off its suppliers for short-term debt. Therefore, there is evidence that Prysmian - with an average APTD of 115 days – is much more **efficient at paying its suppliers** than its main competitors, which rather show an average of 72.

Conclusively, we believe that Prysmian **will keep its ability in managing its cash flows efficiently**. For this reason, we forecasted the main Net Working Capital items – for instance, the Inventories, the Trade Receivables, and the Trade Payable – linking them to the historical average of DIO, DSO and APTD, respectively.

▪ Capital Structure

Looking at the Prysmian's net debt and equity's book values, it is possible to observe that while on the FY 2017 the firm relied on more equity financing rather than debt, from the FY 2018 it showed a change in its capital structure, preferring a balanced distribution among both equity and debt financing. The reason behind this movements in the D/E ratio was probably the General Cable's acquisition in 2017, which led Prysmian to raise both its equity and the debt obligations. However, we are confident that our company set its target D/E over the last years and that it will not change any further significant change in its capital structure.

Discounted Cash-Flow

For valuation purposes of our target company Prysmian, we decided to perform a Discounted Cash-Flow method discounting the company's cash flows with its appropriate WACC, as we believe that the company will not make any significant change in its capital structure.

▪ Cost of Capital

Cost of Equity

In order to calculate the Cost of Equity we used the Capital Asset Pricing Model. Therefore, we firstly estimated the Betas both of Prysmian and of the

Comparables, running different regressions using the historical closing prices (weekly) of the last 3 years against the Index we chose as proxy of the market, which is the EuroStoxx600.

The rationale behind our estimations of the Betas also for the Comps is to offset the bias and the effect of idiosyncratic shocks of our Prysmian's coefficient using the median Beta of the market rather than the specific company's value. Thus, we are confident that our Beta estimation, derived from the median among the Peers of 0.998 (vs 1.011 Prysmian's Beta), is a good proxy to use on our forecasts, further considering a very low level of standard errors on our regressions output. Consequently, we firstly un-levered the Beta using the median from the Comps also for the D/E ratio - which is 25.84% - implying a result of 0.942, and then we re-levered it using the Prysmian's target D/E ratio of 25.84%, reaching a Beta for our Cost of Equity calculation of 0.998 – which is anyway very close to the Prysmian's regression coefficient.

While for the risk-free rate we expect the fairest proxy to be the yield of the 10-year German Government Bond - which currently equals to -0.38% - as it regards the Market Risk Premium, we believe that the 5.5% resulting from the *KPMG Equity Market Risk Premium* research study is a good estimation for our valuation purposes. Conclusively, we are confident that the **5.10% Cost of Equity** resulting from the CAPM is the fairest estimation to use for our Weighted Average Cost of Capital.

Cost of Debt

As it concerns the Prysmian's Cost of Debt, we believe that the fairest proxy is the return for Prysmian's debtholders resulting from a long-term bond issued by the company itself on the 04/09/2015 with semestrial coupons and with maturity on the 11/04/2022. Therefore, we firstly performed the Yield to Maturity - which corresponds to a value of 2.76% - and then we made the proper adjustments for the 1-year Probability of Default and for the Loan Recovery – based on Moody's report - that for a company with Prysmian's features have values of 0.03% and 53.90%. As a result, we are confident that Prysmian's effective **Cost of Debt is 2.76%**.

Weighted Average Cost of Capital

Considering a marginal tax rate of 24% - that we expect to not change during the upcoming years - and a constant capital structure with the Equity-to-Enterprise value and the net Debt-to-Enterprise value ratios of 79.46% and 20.54%, respectively, we expect the appropriate Prysmian's **Weighted Average Cost of Capital** for our DCF model to be **4.49%**.

- Terminal Value and DCF Result

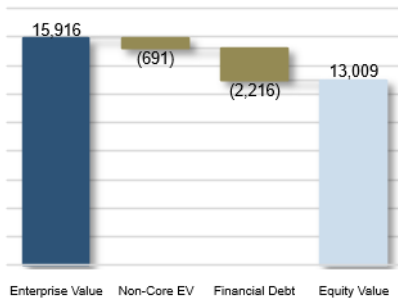


Figure 48: Equity Bridge;
Source: Analysts' estimates

In order to forecast the Prysmian's Terminal Value, we firstly went through the estimation of the perpetual growth rate, which is the rate at which we expect our target company to grow on perpetuity.

Therefore, we performed it considering the combination of the 13% Reinvestment Rate (RR) and of the 11.43% Operating Return on New Invested Capital (RONIC). As a result, our estimates led to a terminal growth rate of 1.45%, which we expect to be the right growth rate to discount our Terminal Value on a (growing) perpetuity. Therefore, we expect Prysmian's discounted Terminal Value to be € 12,585 M, that combined with the discounted Operating Free Cash Flow of € 2,986 M, implies an **Enterprise Value of € 15,570 M**. In conclusion, as of December 2022, we believe the Non-Operating Enterprise Value and the Net Debt will have values of € 691 M and of € 1,977, respectively. Hence, we are confident that **Prysmian's Equity Value at the end of 2022 will be of € 12,903 M**, and considering about 268 M of outstanding shares, we expect the **target share price to reach € 42.77**, leading to a significant premium of 30.19% for the shareholders.

Relative valuation

In order to better understand Prysmian's market value and positioning compared to the Wires & Cables Industry, we additionally performed a relative valuation approach, **selecting ten different peers** competing with our target company for both Energy (including Energy Projects) and Telecom solutions, worldwide. Hence, we identified the competitive set comprising companies we expect to have **the same opportunities, growth prospects and associated risks** within the industry.

As cable companies are capital intensive, and therefore rely on significant infrastructure investments, we believe that P/E multiples are not appropriate for our valuation purposes, due to their systematic sensitivity to capital structure and to earnings volatility. Thus, considering these misleading features of P/E ratios, we are confident that enterprise-value multiples are preferable to perform our relative valuation, since they are less susceptible to changes in capital structure and consequently provide a better picture of the companies' financial performance. Hence, we analysed **EV/Sales, EV/EBITDA and EV/EBIT**, and the results confirm us that Prysmian's stock is still undervalued compared to the peers in terms of EV multiples, and therefore we expect the market to reward the cable manufacturer in the near term.

However, among these multiples, we believe that the most reliable for Prysmian's market value is EV/EBITDA, since capital intensive industries such as the cable industry highlight the EBITDA as the main KPI and as it normalizes for



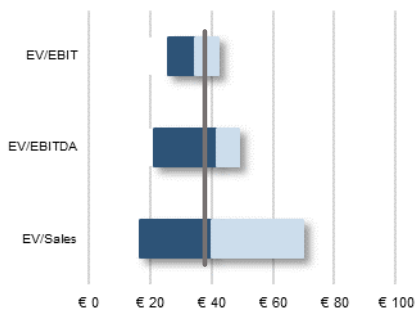


Figure 49: Multiples' Football Field; Source: Bloomberg, Analysts' estimates

differences in capital structure, taxation and in capital expenditures accounting, allowing a more accurate comparison among Prysmian and the peers, and reducing misleading biases.

Therefore, considering the median of the sector of 15.74x (vs. the 13.13x of Prysmian), the EV/EBITDA ratio implies a **share price of € 41.69**, representing a 26% premium compared to the current company's share price.

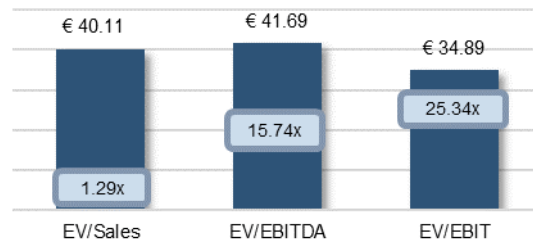


Figure 50: Median Multiples and implied share price; Source: Bloomberg, Analysts' estimates

Appendix

| Metal | Energy Transition Usage | | | | Production (2020, \$ bn) |
|------------|-------------------------|---------|---------|----------|--------------------------|
| | Renewable | Network | Battery | Hydrogen | |
| Copper | ✓ | ✓ | ✓ | | 123 |
| Aluminium | | ✓ | | ✓ | 107 |
| Nickel | ✓ | | ✓ | ✓ | 28 |
| Zinc | ✓ | | | | 28 |
| Lead | ✓ | | ✓ | ✓ | 26 |
| Silver | ✓ | | | | 13 |
| Manganese | ✓ | | ✓ | ✓ | 25 |
| Chromium | ✓ | | | | 19 |
| Silicon | ✓ | | | | 14 |
| Molybdenum | ✓ | | | ✓ | 5 |
| Cobalt | | | ✓ | | 4.1 |
| Lithium | | | ✓ | | 1.8 |
| Vanadium | | | ✓ | | 1.3 |
| Graphite | | | ✓ | | 1.3 |

Table 1: Energy Transition Metal Usage; Source: IMF World Macroeconomic Outlook

| | Prysmian | Nexans | Leoni |
|-----------------------|---|--|--|
| Overview | World leader in the power and telecom cables' systems industry, offering solutions for energy, telecom and other sectors | One of the major global players, offering solutions for energy, telecom and other sectors | Global provider of products and services for the energy and data management in the automotive sector and other industries |
| Industry focus | Strong focus on the renewables sector, interconnectors and other growth industries | Strong focus on power generation, transmission and distribution, especially for the renewables' sector | Strong focus on the automobile industry, especially electromobility, autonomous driving and connectivity |
| New products | Dynamic wireless power transfer; the Leonardo Da Vinci, awarded as the best support vessel of the year; and the Eco Cable, the first green label in the cable industry | Transforming assets with ecodesign, following Prysmian's initiative; "Digital Twin", asset management systems and supply chain services | Medium cross-section cables; Highly flame retardant cables, and Antimicrobial cables |
| Applications | Power Generation & Transmission, Power Distribution & Grids, Crane, Renewables, Marine, Military & Defence, Mining, Nuclear, Oil & Gas, Mobility, Building & other infrastructure, Railways & Rolling Stock, Elevators, Aerospace | Power Generation & Transmission, Power Distribution & Grids, Airport, Aerospace & Defence, Automation, Automotive, Healthcare, Mining, Ships, Nuclear, Oil & Gas, Railways & Rolling Stock, Renewable energy, Building, Ports and E-mobility | Automotive, healthcare, Machineries, Marine, Oil & Gas, Mining, Chemicals, Railways & Rolling Stock, Automation and Appliances |

Table 2: Energy Product Portfolio vs Peers; Source: Companies' Reports

| | Prysmian | CommScope | Sumitomo |
|-------------------------------|---|--|--|
| Overview | Market leader in Europe, wide range of product offering for all types of applications | Market leader in USA, complete product offering for home connectivity, telecom operators, monitoring and more | Market leader in Asia, focused product offering for home connectivity, monitoring and mobility |
| Main products | Optical fibres, copper cables, coaxial cables, high density fiber optic cables, accessories & tools, optical connectivity products | Optical fibres, copper cables, coaxial cables, antennas, high density fiber optic cables, modems, optical connectivity products, Set Tops, Wi-fi extenders, fiber panels & cassettes, networking systems | Optical fibres, fusion splicers, high density fiber optic cables, Set Tops, fiber panels & cassettes and optical connectivity products |
| Fiber Optic products | Single and multi mode optical fiber, aerial optical cables, underground optical cables, fiber optic systems, drop a& riser optical cables, special optical cables, ribbon optical cables, Tubes and Core Rods, specialties fibres | Single and multi mode optical fiber (currently market leaders), underground and aerial optical cables, high density fiber optic cables and fiber optic systems | Single mode optical fiber, fiber ribbons, high density fiber optic cables and fiber optic systems |
| Network type solutions | Telecom, Multimedia and Enterprise | Telecom, Multimedia, Enterprise, Cell Sites and In-building cellular | Telecom, Multimedia (data centers) and Enterprise |
| Applications | Smart homes, mobility, speciality industries, monitoring, FTTx, 5G, mobile connectivity, broadband networks and data centers | 5G, mobile connectivity, mobility, surveillance, IoT, FTTx, broadband networks, data centers, smart homes | mobility, monitoring, FTTx |

Table 3: Telecom Product Portfolio vs Peers; Source: Companies' Reports

| WACC | Cost of equity | | | | | |
|-------|----------------|-------|-------|-------|-------|--|
| | 0.45% | 0.95% | 1.45% | 1.95% | 2.45% | |
| 1.76% | 4.10% | 4.60% | 5.10% | 5.60% | 6.10% | |
| 2.26% | 3.32% | 3.67% | 4.03% | 4.39% | 4.75% | |
| 2.76% | 3.42% | 3.78% | 4.14% | 4.50% | 4.85% | |
| 3.26% | 3.53% | 3.89% | 4.25% | 4.60% | 4.96% | |
| 3.76% | 3.64% | 4.00% | 4.36% | 4.71% | 5.07% | |
| | 3.75% | 4.11% | 4.46% | 4.82% | 5.18% | |

| Share Price | Perpetual growth rate | | | | | |
|-------------|-----------------------|-------|-------|-------|-------|--|
| | 0.45% | 0.95% | 1.45% | 1.95% | 2.45% | |
| 3.25% | 51.8 | 63.1 | 80.5 | 111.5 | 181.2 | |
| 3.75% | 42.4 | 49.9 | 60.8 | 77.7 | 107.6 | |
| 4.25% | 35.4 | 40.8 | 48.1 | 58.6 | 74.9 | |
| 5.25% | 25.9 | 28.9 | 32.8 | 37.8 | 44.7 | |
| 6.25% | 19.6 | 21.6 | 23.9 | 26.7 | 30.4 | |

| Enterprise Value | Perpetual growth rate | | | | | |
|------------------|-----------------------|----------|----------|----------|----------|--|
| | 0.45% | 0.95% | 1.45% | 1.95% | 2.45% | |
| 3.25% | 16,565.5 | 19,576.1 | 24,261.6 | 32,558.0 | 51,256.5 | |
| 3.75% | 14,030.7 | 16,058.6 | 18,969.1 | 23,498.7 | 31,519.3 | |
| 4.25% | 12,165.1 | 13,609.5 | 15,570.3 | 18,384.5 | 22,764.3 | |
| 5.25% | 9,604.5 | 10,425.1 | 11,461.8 | 12,812.8 | 14,646.9 | |
| 6.25% | 7,931.2 | 8,446.8 | 9,069.9 | 9,837.9 | 10,808.2 | |

| Terminal Value | Perpetual growth rate | | | | | |
|----------------|-----------------------|----------|----------|----------|----------|--|
| | 0.45% | 0.95% | 1.45% | 1.95% | 2.45% | |
| 3.25% | 17,379.8 | 21,267.3 | 27,317.5 | 38,030.5 | 62,175.4 | |
| 3.75% | 14,744.5 | 17,466.3 | 21,372.6 | 27,452.2 | 38,217.0 | |
| 4.25% | 12,803.2 | 14,817.9 | 17,552.8 | 21,478.0 | 27,586.8 | |
| 5.25% | 10,134.5 | 11,369.9 | 12,930.7 | 14,964.7 | 17,725.8 | |
| 6.25% | 8,386.5 | 9,223.7 | 10,235.4 | 11,482.6 | 13,058.1 | |

Table 4: Sensitivity Analysis; Source: Analysts' estimates

Financial Statements

Forecasted Consolidated Income Statement (in M of €)

| | FY 2017 | FY 2018 | FY 2019 | FY 2020 | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Core Business | | | | | | | | | | | | | | |
| Total Sales | 7,961 | 10,019 | 11,503 | 10,085 | 11,099 | 13,040 | 12,400 | 12,458 | 13,040 | 13,165 | 13,643 | 14,115 | 14,304 | 14,495 |
| Cost of Sales | (4,912) | (6,542) | (7,218) | (6,464) | (7,043) | (8,275) | (7,869) | (7,906) | (8,275) | (8,355) | (8,658) | (8,958) | (9,077) | (9,199) |
| Gross Profit | 3,049 | 3,477 | 4,285 | 3,621 | 4,055 | 4,765 | 4,531 | 4,552 | 4,765 | 4,811 | 4,985 | 5,158 | 5,227 | 5,297 |
| Personnel costs | (952) | (1,144) | (1,370) | (1,270) | (1,328) | (1,561) | (1,484) | (1,491) | (1,561) | (1,576) | (1,633) | (1,690) | (1,712) | (1,735) |
| Fair value change in metal derivatives | 12 | (48) | 15 | (4) | - | - | - | - | - | - | - | - | - | - |
| Other expenses | (1,419) | (1,788) | (1,835) | (1,500) | (1,845) | (2,168) | (2,061) | (2,071) | (2,168) | (2,189) | (2,268) | (2,347) | (2,378) | (2,410) |
| R&D | (73) | (98) | (96) | (90) | (101) | (118) | (112) | (113) | (118) | (119) | (124) | (128) | (130) | (131) |
| Project execution | (740) | (913) | (946) | (759) | (948) | (1,114) | (1,059) | (1,064) | (1,114) | (1,124) | (1,165) | (1,205) | (1,221) | (1,238) |
| Other | (606) | (777) | (793) | (651) | (797) | (936) | (890) | (894) | (936) | (945) | (979) | (1,013) | (1,027) | (1,041) |
| EBITDA | 690 | 497 | 1,095 | 847 | 882 | 1,036 | 985 | 990 | 1,036 | 1,046 | 1,084 | 1,122 | 1,137 | 1,152 |
| Depreciation & Amortisation | (199) | (232) | (354) | (393) | (337) | (386) | (370) | (371) | (386) | (389) | (401) | (413) | (418) | (422) |
| Depreciation | (153) | (173) | (285) | (323) | (259) | (304) | (289) | (290) | (304) | (307) | (318) | (329) | (333) | (338) |
| Amortisation | (46) | (59) | (69) | (70) | (79) | (82) | (81) | (81) | (82) | (82) | (83) | (84) | (84) | (84) |
| Operating Profit before taxes (EBIT) | 491 | 265 | 741 | 454 | 545 | 650 | 615 | 619 | 650 | 657 | 683 | 709 | 719 | 729 |
| Taxes | (128) | (83) | (219) | (126) | (131) | (156) | (148) | (148) | (156) | (158) | (164) | (170) | (173) | (175) |
| Core Operating Result After Taxes | 363 | 182 | 522 | 328 | 414 | 494 | 468 | 470 | 494 | 499 | 519 | 539 | 546 | 554 |
| Non Core Business | | | | | | | | | | | | | | |
| Other income | 81 | 139 | 96 | 99 | 99 | 99 | 99 | 99 | 99 | 99 | 99 | 99 | 99 | 99 |
| Share of net profit/(loss) of equity-accounted companies | 42 | 59 | 24 | 18 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 | 24 |
| Other expenses | (190) | (249) | (292) | (218) | (237) | (237) | (237) | (237) | (237) | (237) | (237) | (237) | (237) | (237) |
| Non Core Operating Result Before Taxes | (67) | (51) | (172) | (101) | (114) | (114) | (114) | (114) | (114) | (114) | (114) | (114) | (114) | (114) |
| Taxes | 16 | 12 | 41 | 24 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 |
| OCI | (149) | (19) | 47 | (322) | (134) | (158) | (150) | (151) | (158) | (159) | (165) | (171) | (173) | (176) |
| Non Core Operating Result After Taxes | (200) | (58) | (84) | (399) | (221) | (245) | (237) | (238) | (245) | (246) | (252) | (258) | (260) | (262) |
| Net Financial Income | | | | | | | | | | | | | | |
| Finance income | 250 | 302 | 369 | 468 | 423 | 497 | 472 | 475 | 497 | 501 | 520 | 538 | 545 | 552 |
| Finance costs | (349) | (414) | (494) | (569) | (514) | (514) | (514) | (514) | (514) | (514) | (514) | (514) | (514) | (514) |
| Tax Shield | 24 | 27 | 30 | 24 | 22 | 4 | 10 | 10 | 4 | 3 | (1) | (6) | (7) | (9) |
| Net Financial Result | (75) | (85) | (95) | (77) | (70) | (14) | (32) | (30) | (14) | (10) | 4 | 18 | 23 | 29 |
| Total Comprehensive Income | | | | | | | | | | | | | | |
| Total Comprehensive Income | 88 | 39 | 343 | (148) | 123 | 236 | 199 | 202 | 236 | 243 | 271 | 298 | 309 | 320 |

**Forecasted Balance
Sheet (in M of €)**

| | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 | FY 2030 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Core Business | | | | | | | | | | | | | | |
| Operating Cash | 239 | 301 | 345 | 303 | 333 | 391 | 372 | 374 | 391 | 395 | 409 | 423 | 429 | 435 |
| Trade Receivables | 1,131 | 1,635 | 1,475 | 1,374 | 1,581 | 1,857 | 1,766 | 1,774 | 1,857 | 1,875 | 1,943 | 2,010 | 2,037 | 2,065 |
| Other Receivables | 419 | 667 | 816 | 492 | 663 | 779 | 741 | 744 | 779 | 786 | 815 | 843 | 854 | 866 |
| Inventories | 954 | 1,511 | 1,523 | 1,531 | 1,537 | 1,806 | 1,717 | 1,726 | 1,806 | 1,823 | 1,890 | 1,955 | 1,981 | 2,008 |
| Total Current Operating Assets | 2,743 | 4,114 | 4,159 | 3,700 | 4,114 | 4,833 | 4,596 | 4,618 | 4,834 | 4,880 | 5,057 | 5,232 | 5,302 | 5,373 |
| Property, Plant & Equipment | 1,646 | 2,629 | 2,804 | 2,648 | 2,707 | 3,180 | 3,024 | 3,038 | 3,180 | 3,211 | 3,327 | 3,442 | 3,488 | 3,535 |
| Goodwill | 438 | 1,571 | 1,590 | 1,508 | 1,508 | 1,508 | 1,508 | 1,508 | 1,508 | 1,508 | 1,508 | 1,508 | 1,508 | 1,508 |
| Other Intangible Assets | 297 | 591 | 564 | 489 | 494 | 580 | 551 | 554 | 580 | 585 | 607 | 628 | 636 | 645 |
| Other Receivables | 18 | 33 | 38 | 30 | 33 | 39 | 37 | 37 | 39 | 39 | 40 | 42 | 42 | 43 |
| Total Non-Current Operating Assets | 2,399 | 4,824 | 4,996 | 4,675 | 4,741 | 5,306 | 5,120 | 5,137 | 5,307 | 5,343 | 5,482 | 5,620 | 5,675 | 5,730 |
| Trade Payables | (1,686) | (2,132) | (2,062) | (1,958) | (2,215) | (2,602) | (2,474) | (2,486) | (2,602) | (2,627) | (2,722) | (2,817) | (2,854) | (2,892) |
| Other Current Payables | (692) | (953) | (969) | (995) | (1,013) | (1,190) | (1,131) | (1,137) | (1,190) | (1,201) | (1,245) | (1,288) | (1,305) | (1,322) |
| Other Non Current Payables | (8) | (12) | (11) | (6) | (10) | (12) | (12) | (12) | (12) | (12) | (13) | (13) | (13) | (14) |
| Current Tax Payables | (18) | (32) | (51) | (25) | (34) | (40) | (38) | (39) | (40) | (41) | (42) | (44) | (44) | (45) |
| Total Operating Liabilities | (2,404) | (3,129) | (3,093) | (2,984) | (3,272) | (3,844) | (3,656) | (3,673) | (3,844) | (3,881) | (4,022) | (4,161) | (4,217) | (4,273) |
| Total Core Invested Capital | 2,738 | 5,809 | 6,062 | 5,391 | 5,583 | 6,296 | 6,061 | 6,082 | 6,296 | 6,342 | 6,517 | 6,691 | 6,760 | 6,830 |
| Non Core Business | | | | | | | | | | | | | | |
| Assets held for sale | - | 3 | 27 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Equity-accounted investments | 217 | 294 | 314 | 312 | 312 | 312 | 312 | 312 | 312 | 312 | 312 | 312 | 312 | 312 |
| Other investments at fair value through other comprehensive income | 12 | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 13 |
| Derivatives | 59 | 21 | 40 | 126 | 126 | 126 | 126 | 126 | 126 | 126 | 126 | 126 | 126 | 126 |
| Deferred tax assets | 149 | 190 | 170 | 207 | 207 | 207 | 207 | 207 | 207 | 207 | 207 | 207 | 207 | 207 |
| Total Non Operating Assets | 437 | 521 | 564 | 660 | 660 | 660 | 660 | 660 | 660 | 660 | 660 | 660 | 660 | 660 |
| Liabilities held for sale | - | - | (10) | - | - | - | - | - | - | - | - | - | - | - |
| Provisions for risks and charges | (354) | (686) | (777) | (591) | (591) | (591) | (591) | (591) | (591) | (591) | (591) | (591) | (591) | (591) |
| Employee benefit obligations | (355) | (463) | (494) | (506) | (506) | (506) | (506) | (506) | (506) | (506) | (506) | (506) | (506) | (506) |
| Deferred tax liabilities | (103) | (238) | (213) | (195) | (195) | (195) | (195) | (195) | (195) | (195) | (195) | (195) | (195) | (195) |
| Derivatives | (37) | (50) | (53) | (59) | (59) | (59) | (59) | (59) | (59) | (59) | (59) | (59) | (59) | (59) |
| Total Non Operating Liabilities | (849) | (1,437) | (1,547) | (1,351) | (1,351) | (1,351) | (1,351) | (1,351) | (1,351) | (1,351) | (1,351) | (1,351) | (1,351) | (1,351) |
| Total Non Core Invested Capital | (412) | (916) | (983) | (691) | (691) | (691) | (691) | (691) | (691) | (691) | (691) | (691) | (691) | (691) |
| Financial Assets | | | | | | | | | | | | | | |
| Excess of Cash | 1,096 | 700 | 725 | 860 | 988 | 1,160 | 1,103 | 1,109 | 1,160 | 1,172 | 1,214 | 1,256 | 1,273 | 1,290 |
| Financial assets at fair value through profit or loss | 40 | 25 | 27 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 |
| Financial assets at fair value through other comprehensive income | 11 | 10 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 |
| Financial assets at amortized cost | 2 | 5 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Financial Debt | (1,836) | (3,259) | (3,244) | (3,172) | (3,172) | (3,172) | (3,172) | (3,172) | (3,172) | (3,172) | (3,172) | (3,172) | (3,172) | (3,172) |
| Net Financial Assets | (687) | (2,519) | (2,477) | (2,277) | (2,149) | (1,977) | (2,034) | (2,028) | (1,977) | (1,965) | (1,923) | (1,881) | (1,864) | (1,847) |
| Total Equity | 1,639 | 2,374 | 2,602 | 2,423 | 2,743 | 3,628 | 3,336 | 3,363 | 3,628 | 3,685 | 3,903 | 4,119 | 4,205 | 4,292 |

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| | |
|-------------|---|
| Buy | Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period. |
| Hold | Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period. |
| Sell | Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period. |

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