Milano, 17 ottobre 2022 – Tim rende noto che in data 14 ottobre u.s. l'agenzia di rating S&P Global Ratings ha modificato il giudizio di rating da livello BB- outlook negative a livello B+ outlook negative.

Allegato il giudizio dell'agenzia di rating

Research Update:

Telecom Italia SpA Downgraded To 'B+' On Weaker Macro Environment And Large Upcoming Maturities; Outlook Negative

October 14, 2022

Rating Action Overview

- Our visibility on Telecom Italia (TIM)'s plan to turnaround and deleverage from 2023 has reduced because the macroeconomic environment has worsened and we continue to expect challenging conditions in the fiercely competitive domestic market will affect earnings and cash flows.
- TIM must address large debt maturities over the next 24 months amid rising interest rates and constrained debt markets, while engaging in massive capital expenditure (capex), executing its large restructuring plan, and preparing for its structural separation.
- Despite slightly better-than-expected operating performance during second-quarter 2022, we continue to forecast large negative reported free operating cash flow (FOCF) after leases in 2022 and 2023 and high adjusted leverage of about 5.0x or above.
- Therefore, we lowered our long-term rating on TIM to 'B+' from 'BB-'.
- The negative outlook reflects that we could lower our rating to 'B' if the company's EBITDA decline does not materially slow, reported FOCF after leases is more negative than currently planned, or liquidity deteriorates.

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Rating Action Rationale

Visibility on TIM's operating turnaround and planned deleveraging from 2023 have reduced. Since we downgraded TIM to 'BB-/Negative' in March 2022, the macroeconomic environment has worsened. We believe slower GDP growth, booming inflation and energy costs, and increasing unemployment could hit TIM's retail and business-to-business operations as demand elasticity from customers with lower-than-average discretionary incomes contracts, or because enterprises scale back or delay their project spending. Moreover, we believe rising interest rates and jittery debt markets are currently an additional hurdle considering the €8 billion of maturities the company has over the next 24 months.

TIM has adequate liquidity over the next 12 months but heavy maturities of about €8 billion over the next 24 months. We believe TIM has sufficient available cash and undrawn facilities to cover its liquidity uses over the next 24 months from June 30, 2022. However, it faces €8 billion of debt maturing over the next 24 months in a rising interest rate environment with more challenging debt markets. In our view, upcoming maturities will test TIM's ability to proactively tap the debt markets to maintain an adequate liquidity buffer and keep its cost of debt in check. We are mindful that the company will face the compounding effects of fierce competition, rising energy and interest expenses, sizeable capex to roll out its fiber network (albeit partly offset by about €2 billion of cash grants as part of Italy's national recovery and resilience plan over 2024 and 2027), and completion of a massive organic restructuring plan.

Negative reported FOCF after leases and high adjusted leverage in 2022 and 2023 continue to weigh on the rating. In our base case for TIM, we continue to expect S&P Global Ratings-adjusted debt to EBITDA will stay elevated at about 5.2x in 2022 and 5.0x in 2023, with substantial negative FOCF (after leases). In line with management's slightly revised guidance at the second-quarter earnings release, we now forecast a high-single-digit organic EBITDA decline in 2022 (from low-double-digit in our previous base case). Italy remains a competitive market, which will weigh on TIM's domestic revenue and EBITDA, alongside higher-than-expected costs associated with football broadcasting, the launch of some digital companies (fueling revenue growth, but at a lower margin than the more traditional telecommunications activities), and the corporate reorganization and restructuring that are further pressuring Italian operations and earnings. We note early signs of cooling competition, with all players having increased prices for some consumer offerings during second- and third-quarter 2022. That said, while TIM's subscriber contraction, churn rate, and average revenue per user (ARPU) improved during second-quarter 2022, we have yet to see if this will translate into a more structural shift alleviating competitive pressure. Capex to sales will remain elevated in 2022 at 26%-27% and there will be one-off cash outflows associated with the acquisition of Oi Mobile in Brazil (about €1.2 billion) and 5G spectrum in Italy and Brazil (about €2.2 billion). This will weigh on TIM's adjusted leverage in 2022, which we forecast at about 5.2x, with negative reported FOCF of about €675 million. In 2023, a planned EBITDA recovery--although still below 2021 levels--combined with lessening capex intensity toward 24%-26% of sales, should translate into still-negative but improving reported FOCF after leases of about €275 million, and still-high but strengthening adjusted leverage toward 5.0x.

We have not yet incorporated TIM's strategic separation plan in our forecasts. Our base case for TIM continues to focus on the current integrated group and does not factor in the strategic plan to separate its activities into a service company (ServiceCo), on which it would refocus, and a network company (NetCo), to be disposed of, with proceeds used to reduce ServiceCo debt. At this stage, we understand the plans remain tentative given only a memorandum of understanding was signed in May 2022 related to the TIM and Open Fiber network integration project and no binding offer has been received. Moreover, on Oct. 10, 2022, TIM communicated that CDP Equity, Macquarie, and Open Fiber have requested an extension of the initial timeline, also considering the new government's nomination will only be effective by the end of October. If such a plan goes ahead, TIM's final capital structure will depend on the financial parameters of the NetCo separation (including asset valuation, use of proceeds, and full deconsolidation or sale of minority interests) and the eventual sale of other assets, for instance, a minority stake in TIM's enterprise business. For more details see "Credit Impact Of Telecom Italia's Structural Separation Plan Still Unclear," published July 12, 2022, on RatingsDirect.

Outlook

The negative outlook reflects downside risks stemming from the combination of materially negative reported FOCF after leases in our 2022-2023 forecasts, still-challenging conditions in the domestic telecom market, heavy debt maturities, and a worsening macroeconomic environment. Operational, investment, and refinancing risks could further widen the company's FOCF deficit, potentially compromising its ability to deleverage.

Downside scenario

We could lower the rating if we forecast more negative reported FOCF after leases, a diminishing chance of sustainable EBITDA stabilization, or any emerging liquidity concerns. This could stem from a return to unsustainable mobile competition that depresses ARPU or causes a spike in customer attrition, or from longer-term fixed-line deterioration under wholesale pressure from Open Fiber and retail pressure from Iliad. We could also lower the rating if TIM is materially affected by tougher refinancing conditions and is unable to consistently maintain adequate liquidity.

Upside scenario

We could revise the outlook to stable if we expect FOCF to debt will strengthen toward 5% on a stronger-than-expected EBITDA rebound amid easing competition in the domestic market and continued strong performance from the Brazilian subsidiary. A stable outlook would also require the company to proactively address upcoming maturities with no difficulty in accessing the debt markets and a limited hit from rising interest rates on its interest burden, cash flow, and adjusted leverage. Furthermore, we would expect TIM to maintain S&P Global Ratings-adjusted debt to EBITDA of currently less than 5.5x.

Company Description

Telecom Italia (TIM) is the incumbent telecom operator in Italy and the market leader in voice and data services on fixed-line and mobile networks for retail and wholesale operators. At Dec. 31, 2021, the company had about 8.6 million fixed-line retail customers and about 30.5 million wireless customers in Italy. It also has operations in Brazil through its 66.7% stake in TIM Participações S.A. (TIM Brazil). For full-year 2021, Italy contributed about 82% and Brazil 18% to the group's revenue.

Our Base-Case Scenario

Assumptions

- Italian GDP expands 3.4% in 2022 and declines 0.1% in 2023. Brazilian GDP expands 2.5% in 2022 and 0.6% in 2023. Inflation of 7.8% in 2022 and 4.3% in 2023 for Italy and 9.6% in 2022 and 5.1% in 2023 for Brazil.
- The group's total reported revenue and service revenue--when fully consolidating FiberCop--declines 1%-2% year on year on a like-for-like basis in 2022, affected by intense

competition in the Italian fixed and mobile markets, a lower-than-expected contribution from the football streaming partnership with DAZN, and delays to the government's voucher scheme, although partly offset by an expanding contribution from the Brazilian unit.

- From 2023, 0%-2% revenue growth on increased broadband customers, in particular with ultra-broadband, assuming no major disruption from the recent entrance of a new fixed broadband player.
- Organic revenue growth of 5%-7% in Brazil in 2022 and 2023, mainly supported by the continuous recovery of the prepaid and postpaid segments, and fixed telephony services growth supported by TIM Live, since the company expects to add more high-speed connections, boosting the broadband business.
- A high-single-digit decrease in reported EBITDA (fully consolidating FiberCop) versus 2021 organic reported EBITDA of €6.2 billion. On an adjusted basis (pro-rata consolidating FiberCo, among other adjustments), we expect EBITDA margin will decline to 37%-38%, from about 40% in 2021. This is spurred by provisions related to the DAZN deal, football and digital company start-up costs, a sales mix change toward lower-margin nontelecom business, and continued intense competition pressuring margins. However, it will be partly offset by a high reported EBITDA margin of 48%-49% in Brazil. We expect the group's efficiency program will lead adjusted EBITDA margin to steadily recover toward 38%-39% in 2023.
- High capex of about €4 billion in 2022, then reducing to €3.9 billion in 2023. This reflects plans to further develop fiber (to the cabinet and home) networks in Italy, strengthen mobile ultra-broadband infrastructure, and develop 5G in Brazil. This also includes DAZN-related expenditure for the distribution of the Serie A championship.
- About €2.0 billion of cash grants to be received between 2024 and 2027, as part of Italy's national recovery and resilience plan, and as eligible capex is invested.
- Cash outflows of €1.18 billion related to the acquisition of Oi Mobile assets in Brazil in 2022.
- A cash outflow of €2.2 billion related to 5G frequencies in Italy and Brazil in 2022.
- Proceeds of about €1.5 billion related to the sale of a 41% stake in Daphne 3, which holds 30.2% of INWIT, to a consortium of investors led by Ardian in 2022.
- No dividends to shareholders.

Key Metrics

Telecom Italia SpA--Key Metrics*

	--Fiscal year ended Dec. 31--				
Bil. €	**2020a**	**2021a**	**2022e**	**2023f**	**2024f**
Revenue	16	15.1	14.8-15.0	15.0-15.2	15.4-15.6
Revenue growth (%)	(12)	(6)	(2)-0	0-2	2-3
EBITDA	7.2	6	5.5-5.7	5.7-5.9	6.0-6.2
EBITDA margin (%)	44.9	39.8	37-38	38-39	39-40
Funds from operations (FFO)	6.1	4.5	3.8-4.0	4.1-4.3	4.5-4.7
Capital expenditure	3.5	3.6	3.4-3.6	3.2-3.4	3.1-3.3
Free operating cash flow (FOCF)	3.2	1.3	0.7-0.9	1.2-1.4	1.6-1.8

Telecom Italia SpA--Key Metrics* (cont.)

	--Fiscal year ended Dec. 31--				
Bil. €	2020a	2021a	2022e	2023f	2024f
Debt	30.4	27.8	29.3-29.5	29.2-29.4	28.2-28.4
Debt to EBITDA (x)	4.2	4.6	c. 5.2	c. 5.0	c. 4.6
FFO to debt (%)	20.1	16.4	13-14	14-15	15.5-16.5
FOCF to debt (%)	10.5	4.7	2-3	4-5	6-7

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Liquidity

We assess TIM's liquidity as adequate. This reflects our view that the group's sources of liquidity cover its uses by more than 1.2x over the next 12 months started July 1, 2022.

In our base-case forecast, we estimate TIM's liquidity sources at about €15 billion over the next 12 months. These include:

- Available cash balances of about €3.9 billion;
- Available undrawn bank lines of about €4.0 billion, maturing in May 2026;
- A credit financing line of about €2.0 billion, issued in September 2022 and maturing in 2028;
- Proceeds of €1.5 billion from the sale of part of TIM's indirect stake in INWIT; and
- Funds from operations of about €3.5 billion-€3.7 billion.

We estimate TIM's liquidity needs over the next 12 months at about €8.4 billion. These include:

- Debt maturities of about €2.3 billion over the next 12 months and €5.9 billion over the following 12 months;
- Annual capex requirements of roughly €4.0 billion; and
- Spectrum outflows of about €2.1 billion.

Issue Ratings--Recovery Analysis

Key analytical factors

- We lowered the issue rating on all the senior unsecured debt obligations to 'B+' from 'BB-', in line with the issuer credit rating. The '3' recovery rating is unchanged (50% indicative recovery prospects) supported by the limited amount of prior-ranking debt but constrained by the large amount of unsecured debt.
- In our hypothetical default scenario, we assume that increased competition in domestic fixed-line wholesale business and increased wireless competition will hamper TIM's earnings and profitability.
- We value TIM as a going concern considering its strong market position in Italy as the country's

incumbent telecom operator.

Simulated default assumptions

- Year of default: 2026
- Minimum capex (share of past three years' average sales): 6%
- Operational adjustment: 40% (reflecting additional minimal capex required to maintain the networks).
- EBITDA at emergence after recovery adjustments: €3.0 billion
- Implied enterprise value multiple: 6.0x
- Jurisdiction: Italy

Simplified waterfall

- Gross enterprise value at default: €18.2 billion
- Administrative costs: 5%
- Net value available to creditors: €17.3 billion
- Priority claims: €2.0 billion
- Senior unsecured debt claims: €30.4 billion*
- Recovery expectations: (rounded to nearest 5%): 50% (recovery rating: 3)

*All debt amounts include six months of prepetition interest.

Ratings Score Snapshot

Issuer Credit Rating	**B+/Negative/B**
Business risk:	Satisfactory
Country risk	Moderately high
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk:	Highly leveraged
Cash flow/leverage	Highly leveraged
Anchor	b+
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)

Issuer Credit Rating	B+/Negative/B
Comparable rating analysis	Neutral (no impact)

ESG credit indicators: E-2, S-3, G-3

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Downgraded

	To	From
Telecom Italia SpA		
Issuer Credit Rating	B+/Negative/B	BB-/Negative/B
Senior Unsecured	B+	BB-
Recovery Rating	3(50%)	3(50%)
Telecom Italia Capital S.A.		
Senior Unsecured	B+	BB-
Recovery Rating	3(50%)	3(50%)
Telecom Italia Finance S.A.		
Senior Unsecured	B+	BB-
Recovery Rating	3(50%)	3(50%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914