Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

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Policolor Group

Background

RC2 has a 40.0% shareholding in Policolor, the parent company of the Policolor Group ("Policolor" or the "Group"), which operates along the following business lines: coatings, resins and specialty chemicals. The Romanian company Policolor SA and its 100%-owned Bulgarian subsidiary Orgachim AD produce and sell coatings, primarily in Romania and Bulgaria. The Group also includes Orgachim Resins, a producer of resins, and Ruse Chemicals, a producer of anhydrides, both being located in Bulgaria.

Group Financial results and operations

(EUR '000)	2022A*	2023A**	2024B	3M 2023	3M 2024	3M 2024B
Group Consolidated Income statement						
Sales revenues	85,593	71,205	77,710	15,758	15,403	14,987
sales growth year-on-year	*7.8%*	*-16.8%*	*-9.2%*	*-17.9%*	*-2.2%*	*-4.9%*
Other operating revenues	-	145	-	32	57	-
Total operating revenues	85,593	71,350	77,710	15,790	15,461	14,987
Gross margin	20,531	31,143	25,695	4,205	4,419	4,516
Gross margin %	*24.0%*	*43.6%*	*33.1%*	*26.6%*	*28.6%*	*30.1%*
Other operating expenses	(20,483)	(29,277)	(22,518)	(5,240)	(5,262)	(5,472)
Operating profit	48	1,866	3,177	(1,035)	(843)	(955)
Operating margin	*0.1%*	*2.6%*	*4.1%*	*-6.6%*	*-5.5%*	*-6.4%*
EBITDA	2,810	3,792	6,350	(465)	(286)	(266)
EBITDA margin	*3.3%*	*5.3%*	*8.2%*	*-2.9%*	*-1.8%*	*-1.8%*
Nonrecurring items / Extraordinar	-	-	-	(122)	-	-
Financial Profit/(Loss)	(383)	(1,384)	(1,484)	(334)	(217)	(360)
Profit before tax	(335)	482	1,693	(1,492)	(1,060)	(1,315)
Income tax	(183)	-	-	-	-	-
Profit after tax	(518)	482	1,693	(1,492)	(1,060)	(1,315)
avg exchange rate (RON/EUR)	*4.91*	*4.97*	*4.97*	*4.93*	*4.97*	*4.97*

*Note: * IFRS audited, IFRS ** unaudited*

During the first quarter, the Policolor Group recorded sales of € 15.4m, 2.2% below the previous year but 2.8% above budget.

The Coatings division achieved sales of € 9.7m, 6.3% below the € 10.3m registered in 2023 but 1.2% above budget, and a gross margin of € 3.7m, a 9.1% improvement on the prior year's € 3.4m and 5.4% above the budgeted € 3.5m. In percentage terms, the gross margin over the first quarter reached 38.5%, 5.4 percentage points above the same quarter of 2023 result and 1.5 percentage points above budget.

Including inter-company sales, the Resins division generated sales of € 5.0m, 21.0% below the prior year and 8.4% below budget, owing to weaker demand across Europe. Nevertheless, the division achieved a gross margin of 19.2%, a 3.2 percentage points improvement on the same period of 2023, albeit slightly below the budgeted 22.2%.

Over the first quarter of 2024 the anhydrides division generated sales of € 1.9m, more than double the result of the same period the prior year. More than 80% of sales were to third parties. On the other hand, management was forced to stop production in April due to a shortage of raw materials, and is unlikely to resume production before the autumn, which will make it impossible for the anhydrides division to meet its budget targets for the year.

The total Group consolidated gross margin was 28.6% over the first quarter, 2.0 percentage points higher than the first quarter of 2023 result, but still below the budget target of 30.1%.

The first quarter of the year is typically a weak quarter for the Group, as coatings sales tend to grow in the warmer months. Overall, the Policolor Group achieved negative EBITDA of € -0.29m, which is a 39% improvement on the € -0.47m achieved in the first quarter of 2023, and only slightly below budget, whilst the net loss was € -1.1m, a 29% improvement on the prior year result and a 19% improvement on the budget.

Telecredit

Background

Telecredit IFN S.A. ("Telecredit" or the "Company") is a Romanian Non-Banking Financial Institution ("IFN") whose main activity is providing factoring, discounting, and microloans to small and medium-sized companies ("SMEs"). RC2 owns an 85% shareholding, with the balance of 15% being owned by the Company's CEO, Elisa Rusu.

Financial Results and operations

(EUR '000)	2022*	2023A**	2024B	3M 2023	3M 2024	3M 2024B
Income Statement						
Interest revenues from SMEs lending, of which:	1,625	1,973	2,513	371	688	481
Factoring and Discounting	1,606	1,889	2,266	362	666	456
Microloans	19	84	247	10	22	25
Total operating expenses:	(999)	(1,078)	(1,363)	(212)	(277)	(233)
Provisions, of which:	27	(36)	(197)	21	(33)	6
Pay day lending	32	63	-	14	-	-
SMEs lending	(5)	(99)	(197)	7	(33)	6
Other Operating expenses	(1,027)	(1,042)	(1,167)	(233)	(244)	(239)
Operating profit before depreciation and interest expenses	626	896	1,150	159	411	247
Depreciation	(97)	(109)	(79)	(27)	(28)	(27)
Operating profit before interest expenses (EBIT)	529	787	1,071	132	384	221
EBIT margin, %	*32.6%*	*39.9%*	*42.6%*	*35.5%*	*55.7%*	*45.9%*
Profit after tax	174	357	569	66	230	132
net margin %	*10.7%*	*18.1%*	*22.7%*	*23.0%*	*33.4%*	*27.4%*
Avg exchange rate (RON/EUR)	*4.92*	*4.97*	*4.97*	*4.93*	*4.97*	*4.97*

*Note: * RAS audited, ** IFRS audited*

In the first quarter of 2024, Telecredit achieved total interest revenues of €0.69m, a 86,0% increase compared to the same period in 2023, and 43.7% above budget. Revenue growth was driven by a steady increase in the number of clients, longer average maturities, and larger volumes with existing clients. Total operating expenses were slightly higher than budgeted.

The Operating profit before depreciation and interest expense reached € 0.41m, 159% higher than the result over the first quarter of 2023, and 67.6% above the budget target of € 0.25m. Telecredit realised an Operating profit before interest of € 0.38m, 191% higher than the first quarter of 2023 and 70% above budget.

The value of the net financing book at the end of March 2024 was € 7.1m, 9.5% higher than at the end of December. The structure of the book consisted of € 5.2m of factoring and discounting advances, € 1.7m of pre-financings, and € 0.3m of microloans.

The non-performing loan (NPL) rate (defined as the balance of receivables accelerated or over 90 days overdue, divided by the gross book value of the portfolio) was 5.1% at the end of March, slightly down from 5.2% at the end of 2023, helped by the recovery of some outstanding NPLs and the growth in the value of the portfolio.

At the end of the first quarter, total debt amounted to € 5.7m, down from € 6.1m at the end of 2023.

Following the finalization of the 2023 audit, the above table now reflects the 2023 audited results.

Mamaia Resort Hotels

Background

Mamaia Resort Hotels SRL (the "Company") is the owner and operator of the ZENITH – Conference & Spa Hotel (the "Hotel") in Mamaia, Romania's premium seaside resort next to the city of Constanta. RC2 owns 63% of the Company, with the remaining 37% being owned by a Romanian private individual.

Financial results and operations

(EUR '000)	2022A*	2023A*	2024B	3M 2023	3M 2024	3M 2024B
Total Operating Revenues, of which:	**3,932**	**2,896**	**3,314**	**250**	**264**	**237**
Accommodation revenues	2,433	1,524	1,778	126	93	95
Food & beverage revenues	1,347	1,282	1,423	105	158	120
Other operating revenues	152	89	113	20	13	23
Total Operating Expenses	(3,394)	(3,379)	(3,076)	(323)	(249)	(193)
Operating Profit	**538**	**(483)**	**238**	**(73)**	**15**	**44**
Operating margin, %	*13.7%*	*-16.7%*	*7.2%*	*-29.0%*	*5.6%*	*18.4%*
EBITDA	**657**	**(358)**	**392**	**(316)**	**(202)**	**(222)**
EBITDA margin, %	*16.7%*	*-10.1%*	*11.8%*	*-126.2%*	*-76.5%*	*-93.8%*
Profit after Tax	**370**	**(678)**	**87**	**(396)**	**(283)**	**(253)**
Net margin, %	*9.4%*	*-23.4%*	*2.6%*	*-158.2%*	*-107.3%*	*-106.7%*
Operational KPIs						
Occupancy rates	*49%*	*27%*	*36%*	*13%*	*11%*	*9%*
Average net tariff per room	*51.2*	*58.4*	*59.2*	*40.4*	*37.4*	*46.2*
avg exchange rate (RON/EUR)	*4.92*	*4.97*	*4.97*	*4.93*	*4.97*	*4.97*

*Note: * RAS, audited*

The Hotel generated total operating revenues of € 0.26m over the first quarter, 11.2% above budget and a 5.3% improvement on the first quarter of the prior year. During the off-season first quarter, the occupancy rate was 11%, 2 percentage points lower than the same period of the prior year, but 2% above budget.

The primary driver behind the increase in operating revenues was the Food and Beverage department which generated revenues of € 0.16m, € 0.04m higher than over the same period of the prior year, while accommodation revenues were on budget. Total operating expenses were 28% above budget, but 23% below the same quarter of the prior year, as management has managed to better calibrate the use of labour during the low season months.

Overall, the Hotel registered an EBITDA loss of € 0.2m over the first quarter, which is a slight improvement on the budget target, and 36% better than the same quarter of 2023.

The Hotel's net debt increased slightly from € 2.0m to € 2.1m over the quarter, as it increased its borrowings to prepare the hotel for the high season, including by making a number of cosmetic improvements to the public areas and a floor of its *Jupiter* wing.

Following the finalization of the 2023 audit, the above table now reflects the 2023 audited results.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	0.1%	Mar-24	0.3%	Mar-24
Inflation (y-o-y)	6.6%	Mar-24	3.0%	Mar-24
Ind. prod. growth (y-o-y)	3.5%	Mar-24	-3.2%	Mar-24
Trade balance (EUR bn)	-6.7	Mar-24	-1.3	Mar-24
y-o-y change	*+52%*		*+46%*	
FDI (EUR bn)	2.1	Mar-24	0.4	Mar-24
y-o-y change	*-5%*		*-82%*	
Budget balance/GDP	-2.1%	Mar-24	1.0%	Mar-24
Total external debt/GDP	54.8%	Mar-24	43.9%	Feb-24
Public sector debt/GDP	57.6%	Feb-24	20.6%	Mar-24
Loans-to-deposits	66.4%	Mar-24	76.1%	Mar-24

Commentary

Romania

In the first quarter of 2024, Romanian GDP experienced real growth of only 0.1%, the first sign of weakening growth since the end of the pandemic. The Romanian government is still targeting 3.4% GDP growth for 2024, the EBRD is estimating 3.2%, whilst the European Commission's 2.9% growth forecast is more conservative. The sector most strongly driving the underperformance in GDP growth was construction, which fell by 7% year-on-year. Eurostat reported that Romanian industrial production grew by 3.5% year-on-year over the first quarter. With real salary growth exceeding the rate of inflation, retail consumption increased by 6% compared to the prior year, helping bring the GDP evolution slightly into positive territory.

The annual inflation rate increased briefly in January to 7.41%, reverting to its December value of 6.61% by the end of March. The National Bank of Romania has maintained the benchmark interest rate unchanged at 7%. Analysts had generally estimated that the first rate decrease would occur by the spring, but the Bank has given guidance that suggests it is not in a hurry to drop rates, as it is forecasting a decline in annual inflation to only 4.9% by the end of 2024, and to 3.5% by the end of 2025. Consumer energy prices increased by 3.3% year-on- year, breaking a 12-month trend that saw a decline in prices.

The Romanian Leu suffered a modest 0.1% depreciation against the euro over the quarter, reaching an exchange rate of 4.9695 at the end of March.

Romania's trade deficit increased from € -4.4bn over the first quarter of 2023, to € -6.7bn during the same period of 2024, driven by an increase in consumer spending and lower output from the IT sector. Foreign direct investment was € 2.1bn, 5% below the € 2.3bn recorded over the first quarter of 2023 and was almost entirely made up of equity investments.

By the end of March, the Romanian budget deficit amounted to approximately € 7.3bn according to the Ministry of Finance, or 2.1% of GDP, a 58% increase compared to the € 4.6bn deficit registered at the end of the first quarter of 2023. Budgetary receipts increased by 16% over the first quarter, reaching € 26.5bn. Meanwhile, total budgetary expenses grew by 22.7% in euro terms, reaching € 33.8bn. Government interest expenses increased from € 1.5bn over the first quarter of 2023 to € 1.8bn, an increase of nearly 20%. The average yield on 10-year Romanian Government bonds fell from 7.38% at the end of March 2023 to 6.62% at the end of March 2024.

Romania's total external debt amounted to € 177bn at the end of March, equal to approximately 54.8% of GDP, which represents a 15% year-on-year increase. Public debt has also continued to grow, having reached € 186.9bn, or 57.6% of GDP, at the end of March, up 13.1% compared to € 165.2 bn at the end of March 2023.

Bulgaria

Bulgaria's GDP growth also slowed down, from 2.3% over the first quarter of 2023, to only 0.3% over the same period in 2024. The European Commission estimates that Bulgaria's GDP will grow by 1.9% in 2024.

Bulgaria's annual inflation rate continued its steady decline from 4.7% in December 2023, to only 3.0% in March 2024.

By the end of March, Bulgaria registered a budget surplus of 1.0% of GDP, which is estimated to reach € 101.3bn by the end of the year. Public sector debt remained stable at 20.6% of GDP. Bulgaria's trade deficit increased slightly from € 0.9bn over the first quarter of 2023, to € 1.3bn over the same period in 2024, with exports declining by 10.4%, and imports by 2.8%. Over the first quarter of 2024, the current account balance was a negative € 133.9 million, or -0.1% of GDP, compared to a € 481.1 million deficit at the end of the first quarter of 2023.

Total external debt amounted to 43.9% of GDP at the end of March, down from 50.0% at the end of March 2023. The loans-to-deposits ratio increased from 69.1% in March 2023, to 76.1% in March 2024.

FDI inflows amounted to only € 0.4bn over the first quarter of 2024, more or less equally divided between equity and debt instruments, compared to € 1.9bn over the first quarter of 2023.

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