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„AUTO UNION“ AD	
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APRIL 2021

CREDTI RATING	Review	Review
Date of Rating Committee:	**27.03.2020**	**29.03.2021**
Date of Publication:	**01.04.2020**	**01.04.2021**
Long-term Rating:	**BB+**	**BB+**
Outlook:	**in development**	**stable**
Short-term Rating :	**B**	**B**
Long-term National-scale Rating:	**BBB+ (BG)**	**BBB+ (BG)**
Outlook:	**in development**	**stable**
Short-term National-scale Rating:	**A-2 (BG)**	**A-2 (BG)**

****Notes:***
1) To become familiar with the full rating history,please, see the chart at the bottom of the document;
2) Prior to the present publication the credit rating and rating outlook was disclosed to the rated entity. Following that disclosure amendments in the credit rating and rating outlook have not been executed;
3) In last 2 years, the BCRA – Credit Rating Agency AD has not provided ancillary services to the rated entity or to a related third party.

*„**BCRA – Credit Rating Agency“ AD (BCRA)** is the third qualified rating agency in the EU, registered under Regulation (EC) No. 1060/2009 of the European Parliament and the Council. The credit ratings, assigned by BCRA, are recognized throughout the EU and are fully equal to the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other limitations.*

At a session of the Rating Committee of BCRA, held on **March 9, 2021**, a report of the review of the credit rating of **Auto Union AD** has been discussed. The session was run by D.Sc. (Econ.) Kiril Grigorov, in his capacity as a Chairman of the Rating Committee. Following a discussion on changes in the factors affecting the rating during the review period, the members of the Rating Committee **took the following decision**:

The BCRA affirms the assigned credit ratings to Auto Union AD:

- Long-term credit rating: **BB+**, short-term credit rating: **B** ;
- Long-term National-scale rating: **BBB+ (BG)**, Short-term National-scale rating: **A-2 (BG)**;

and changes the outlook from “in development” to “stable”,

appraising the preserved stable financial condition of the company during the crisis related to the pandemic of COVID-19 emergence (from which the sector is more affected).

BCRA expects the emergency to continue to adversely affect some of the companies' operations in the group but also considers the opportunities to be sufficiently supported by the holding structure to which it belongs and which BCRA does not expect to be seriously affected.

***The officially adopted by BCRA Methodology for assigning a Corporate credit rating has been applied**: (https://www.bcra-bg.com/files/Holding_Methodology_2016_en.pdf)*

The users of the rating can find information on the meaning of each rating category, including definitions of default in the published Global rating scale on the BCRA's website: *(https://www.bcra-bg.com/files/global_scale_en.pdf)*

The report has been prepared and the rating - assigned, based on information made available by the rated company, Bulgarian National Bank, National Statistical Institute, BCRA' database, consultants and other public information sources.

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Operating environment

The state of emergency caused by the ongoing COVID-19 pandemic and the emergency measures taken to limit the infection significantly increases the levels of risk for all actors in the economy.

Sovereign Risk

The emergence of the worldwide COVID-19 pandemic and addressing the issue turned into one of the main priorities in Bulgaria as well as in all its political and economic partners. Due to the unprecedented crisis, the country is in an emergency epidemic situation since the 13th of May 2020, and the government took a number of legislative measures to curb the negative economic impact.

Preliminary data for 2020 point to a decline in Bulgaria's GDP of 4.2% after an increase of 3.7% achieved in 2019. A slowdown has been observed in the dynamics of household consumption, lending, the external sector indicators, as well as in inflation processes. In 2020, the unemployment rate rose to 5.1% (from 4.2% a year earlier).

Bulgaria has entered the current crisis with a stable fiscal position and a low government debt level. According to preliminary data from the Ministry of Finance, the projected Consolidated Fiscal Program balance of BGN 3.5 billion deficit was met in 2020 (3% of the projected GDP) after the government has financed fiscal aid to the sectors most affected by the crisis. General government debt rose to 24.7% of GDP by September 2020 due to financial needs arising from the anti-crisis fiscal measures and the decline in GDP but remained low in comparative terms.

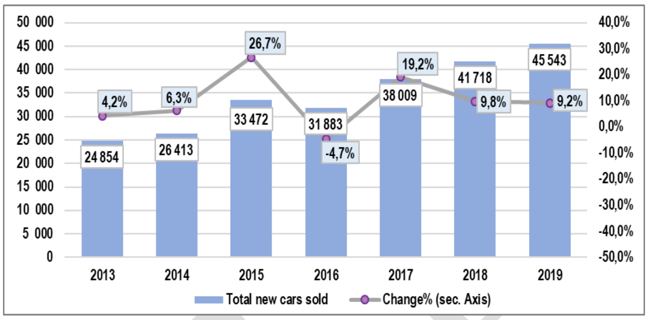
The development of economic processes in the country is analysed in detail by *BCRA - Credit Rating Agency.* A Rating Rationale of the Sovereign Rating assigned by BCRA to the Republic of Bulgaria is available at our official website:
https://www.bcra-bg.com/files/rating_republic_of_bulgaria_oct_2020_en.pdf

Development of the market of new motor vehicles

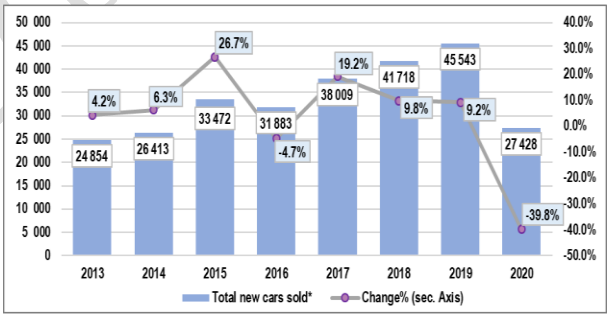
The sector is one of those that could be relatively adversely affected by the COVID-19 pandemic and the expected global crisis and is dependent on the purchasing power of the citizens and the business investments.

After the decelerating growth of newly registered road vehicles in the period 2017-2019, in 2020, the growth trend has ended and is marked by the sharp decline of the registered new road vehicles of 34.7% on annual basis.

Sales of new passenger cars and light commercial vehicles in Bulgaria 2013-2019



The **revenues** generated by the major part of the companies[1] operating in *subsector trade with new vehicles up to 3.5 tonnes*[2] retained the upward trend in 2019 as well, by the minimal rate of 1.1% (following 8.5% in 2018, a record high value for the last five years of the analysed period). The analysis of the preliminary reported data for 2020 shows the expected shrinkage of the revenues in a relatively wide range (20-70%) by car brands and average levels of decline ranging from 30% to 40%. In the first half of 2021, no significant sales progress can be expected either.



BCRA forecasts that the **net profit** for 2020 is to decrease significantly, forming a negative trend in the last two years (2019-2020), after a significant decline in 2019 (-26.6%), when seven out of the 22 companies (three in 2018) reported losses from operations, amounting to a total of BGN 4,278 thousand and exceeding by more than three times the total loss in 2018.

[1] Includes 22 companies operating in the segment, for which public information is available (as of 31.12.2019), including almost all authorized dealers of new cars in the country.
[2] Passenger cars and light commercial vehicles, excluding: товарни (cat.N2 and N3), busses (cat.M2 и M3), trailers / semi-trailers (cat.O) and motorcycles (cat. L).

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The **main factor that impedes the growth** of the sector remains the low purchasing power of Bulgarian households. Corporate clients account for a high and dominating share.

The Bulgarian car fleet remains extremely obsolete, with a continuing increase of the share of cars above 20 years old (reaching 43.6% at the beginning of 2021, following 40.6% at 02.01.2020 and 37.0 % two years earlier - as of January 8, 2018), and accounts for the largest share in the fleet. One should note, the registered decrease in the volume of the smallest group of cars - up to 5 years old (a share of 5.9% at the beginning of 2021, following 6.1% at the beginning of 2020 and 5.3% at 08.01.2018). The analysis of these changes in the structure takes into account the continued preservation of a relatively high number of deregistered vehicles. In the past year, their number reached 436 thousand (530 thousand in 2019), affected by the legislative changes entered into force in 2017, which provide for mandatory deregistration (ex officio) of vehicles lacking valid Third Party Liability insurance. The number of vehicles written off in 2020 (a total of 241 thousand, compared to 302 thousand a year earlier) continues to significantly exceed the total number of registered (a decrease of over 20% on an annual basis in the total number of vehicles registered in the country in 2020 (new and second-hand).

The top five **car brands** in the market remain unchanged in the last five years (2016-2020), Dacia, Renault, Skoda, Toyota and Volkswagen, each brand continues to record rising shares in total sales, respectively. In the last year (2020), the number of registered cars Dacia (unchanged leader in the ranking in the last five years) decreased by one third (-33.2%). The reported rate of decline for Volkswagen (-35.9%) and Toyota (-30.8%) is similar. Slightly lower in relative terms is the decrease of brand Skoda (-25.5%), and the lowest is Renault (-16.7%).

New car dealers operate in conditions of **vast competition** in a relatively small market, with decelerating trade margins and a relatively moderate risk of entry of new competitors. The latter remains dependent on the trade policies of car manufacturers and their major dealers, along with the ability of local dealers to meet high service quality and requirements. The global mergers of individual brands also have an impact, which subsequently reconfigures the dealer network. In 2021, such as the merger of FCA (Fiat-Chrysler Automobiles) and PSA (Peugeot S.A.).

The average **sales margin** of the companies in the subsector declined by above 3 pp. in 2019, reaching 7.4% (10.6% in 2018) and continues to retain the downward trend of the last five fiscal years (2015-2019), which reflects the presence of very strong competition in the sector.

In 2019, total **liabilities** in the sector declined (the current ones by 15.9%) at a pace that outstrips the decline of assets (12.1% the current). Hence, the **liquidity** of the subsector improves, where the current reaches 1.48 at the end of 2019 (1.39 a year earlier и 1.09 at the end of 2017), while the immediate liquidity rises to 0.80 at the end of 2019 (0.70 at the end of 2018).

The stable leasing sector and the banking system, both offering low-interest rates of their products and the general pick up of the Bulgarian economy are having **a positive impact** on the sector.

Auto Union AD

Auto Union AD (Auto Union) is a holding company, pooling the investments of the Eurohold Bulgaria AD in the motor vehicle sector. The company is registered in the Republic of Bulgaria and operates according to the Bulgarian Legislation. Through its affiliates, Auto Union offers eight car brands in the Bulgarian market (and one of them on the Macedonian and Kosovo), which makes it a company possessing the richest portfolio of car brands in Bulgaria.

In the period of review, no changes occurred in the share **capital** of the company since the last increase in 2012. Eurohold Bulgaria AD There are no changes in the **shareholding structure** in which the majority owner is Eurohold Bulgaria AD with a share of 99.99% (as of 31.12.2018).

The **participation** in subsidiaries as of December 31, 2020, is presented in the chart below:

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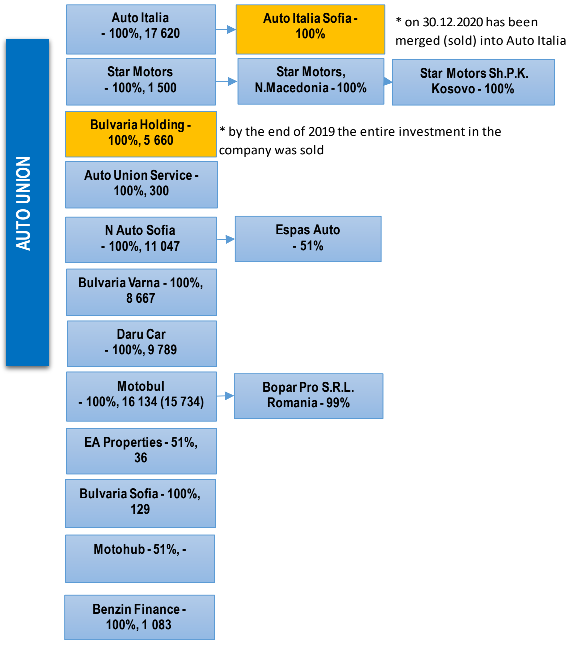

The changes in the investments include:

- a capital raise of Motobul EAD by BGN 400 thousand to BGN 2 000 thousand (BD Resolution on 18.06.2020), after shortly before that (Resolution of the BD on 01.06.2020) decreased the capital from BGN 3 million to BGN 2 million via reduction of the nominal value of shares. Thus, for the period of review, the total value of the investment increased to BGN 16,134 thousand as of 31.12.2020 (BGN 15,734 thousand as of the end of 2019);
- merger (repurchase of shares) of Auto Italia – Sofia EOOD into the sole owner Auto Italia EAD. The first company is established at the beginning of 2019 to operate as a dealer of FIAT, Maserati and Alpha Romeo in the city of Sofia, while the owner becomes an importer of the brands in Bulgaria. To optimize costs, the management of Auto Union decided to merge the two activities into one company.

There are no changes in the management bodies of the company. The persons, managing the Board of Directors, as of 31.12.2020 are:

- Kiril Ivanov Boshov - Chairman;
- Milen Assenov Hristov – Deputy Chairman, joined the BD at the end of 2018, following the withdrawal of the Chairman - Assen Milkov Hristov.;
- Assen Emanuilov Assenov – member and CEO.

The strategic goals of the company are not changed. They aim at:

- Adequate profitability of equity;
- Major holding associates being recognized as leaders in the region;
- Reliable and diversified client base.

During the review period, the company's management was significantly affected by the COVID-19's effects on operations. The main risk for the company is the expected decrease in sales, and in response to the effects, measures have been taken to optimize and reduce costs and increase the efficiency of activities, optimize the credit exposure and inventories (including centralization of supplies). A review and update of the model for calculation of the expected credit losses from exposures to customers (increased amount of losses in case of default and respectively the amount of expected loss from loans) have been performed. The management considers the deterioration in the credit quality of the counterparties but also expects a relatively rapid recovery of the economic development (end of 2021 and beginning of 2022) to the average levels before the beginning of the pandemic.

Each sub-holding company is certified according to international standards for quality management ISO 9001:2008 and is separately responsible for meeting the requirements of manufacturers related to the conditions of equipment, training of personnel and work standards. Regular training is provided to mechanics and car dealers. The companies use an integrated management information system. Budgeting and ongoing control and analysis rules are introduced in all of them.

In the period of review, the operating activity of the companies in the group is marked by:

- maintained the upward trend of **sales revenues** in 2019, with a relatively slight increase of 2.5% (significantly lower than reported in previous years - 14.7% in 2018 and 18.7% in 2017), which positive trend ended in 2020, with a **significant decrease of 29.4%** (BGN 64.7 million in absolute value), reflecting the effects of the pandemic crisis;

- **preserved market position,** market share of 12.0% in 2019 and 12.2% in 2020;

- **deteriorated financial results** report all subsidiaries, the leaders in the group are better positioned, namely, Espace Auto, N Auto Sofia and Star Motors;

- In the period of review, the upward trend of **sales growth** remains (in values by 15% and by number of cars - 14 %);

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The **individual retailers** in the Group keep the competitive advantage of being incorporated in the holding. Thus, they have been provided with efficient operations, integrated technical services, jointly negotiable supplies, exchange of personnel and management. The strong synergy within the holding structure with the leasing company "Eurolease Auto" EAD and the insurance company "Euroins Insurance Group" AD, provides opportunities for more attractive sales offers to clients.

In the individual accounts, for 2020, Auto Union AD reports an increase in operating expenses (by 40.2%) and financial expenses (by 16.1%), which are not covered by the increase of sales revenues (25.2%) and together with the retained unchanged financial revenues, lead to a negative net financial result - a loss of BGN 498 thousand (significantly higher than the loss in 2019, amounting to BGN 63 thousand, following a profit in 2018 of BGN 544 thousand). The increase of costs for external services, together with increased personnel costs and increased interest expenses hurt the financial result for 2020. During the year, the value of dividends received decreased, but the amount of interest income on loans provided by the company increased significantly.

Equity is decreasing as a result of the negative financial results formed both in 2019 and 2020.

Following the decrease of total **assets** by 6.5% in 2019, in 2020, they increased by 11.4% (or by BGN 8.2 million), reaching BGN 80.8 million at the end of the year (the highest absolute value for the last ten years). The main increase is due to the settlement relations in the Group, which led to significantly increased receivables from related parties on loans, together with an increased amount of obligations on loans to related parties. The structure remains dominated by the value of investments (over 90%), and the rest is mainly from receivables from related parties (in the Eurohold group).

In **Liability**, apart from the changes of the result from intra-group estimates, an increase is observed in the amount of attracted external funding (from banks), which is offset by the reductions of the payables to suppliers and other payables.

The values of the key financial indicators are satisfactory, where those for leverage (total and financial) are practically unchanged, while those for liquidity are improved. The amount of income is completely sufficient to cover the obligations under the debenture loan serviced by the company and its bank credit exposure.

In the consolidated accounts, the main tendencies in the financial performance of Auto Union are considered before and after the COVID crisis and could be summarized as follows:

- A preserved upward trend of **revenues** from main operations (constant number since 2012), with an annual increase of 8.1% (9.3% in 2018) is followed by a significant decrease in 2020 of 31.8% annually. It is mainly due to the decreased sales revenues (by 32.1%). The significant reduction in other revenues (36.7%) is affected by the lack of positive results from operations with financial assets;
- The consolidated net financial result for 2019 is a **rising profit** at the amount of BGN 5 283 thousand (BGN 3 438 for the previous year), followed by a **decrease in the result for 2020**, a net profit at the amount of BGN 1 532 thousand (preliminary data).
- In 2019 and 2020, the group formed a significantly higher amount of liabilities under **financial leasing and trade financing**, formed almost entirely by the liabilities on the rights to use assets arising from the application of the new IFRS 16 under lease agreements. Further that, the liabilities on received trade loans (including financial leasing) decreased by 40.6% on an annual basis at the end of 2020. The value of **bank loans** decreased in 2019 (by 21.3% on an annual basis) but increased in the next year – by 33.3% on an annual basis. Following the increase of liabilities on **bond issues** by 118.1%, in 2018 (as a result of a new bond loan issued in the middle of the year through Motobul EAD), during the review period, their amount gradually decreased to BGN 14.9 million at the end of 2020 (slightly lower than BGN 6 million mature at the end of 2022, and the rest – in June 2028).
- During the review period, receivables from related parties continue to exceed liabilities, thus retaining the role of the rated company as a creditor of its majority owner Eurohold Bulgaria;
- The reduced inventories, together with the reduction of fixed assets and trade receivables resulted in a **reported total decrease of the assets** by a significant rate of 10.9% on annual basis for 2020. The receivables from related parties are reversing, forming an increase.

The increased bank payables are fully offset by a decrease in trade payables and as a result, the leverage indicators decreased at the end of 2019 and 2020, compared to their level at the end of 2018. For the period, the **total leverage** witnesses a slight decrease (to 0.86 at the end of 2020, compared to

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0.90 at the end of 2018). However, these values continue to significantly exceed the levels of the competitors in the reference group. At the end of 2020, the value of loans and bond loans exceeds almost three times the equity.

Current liquidity has been declining slightly over the last two years (2019-2020), and immediate liquidity continues to improve.

A decrease in the leverage, improvement in sales and financial results, capital increase, improvement in the credit exposure conditions would have an impact to upgrade the rating. Changes in the opposite direction would lead to a downgrade in the rating.

The main financial indicators related to the evaluation of the activity in the last five years are shown on a consolidated basis in the table below:

Main Financial Indicators

Indicator	*2020**	*2019*	*2018*	*2017*	*2016*	*2015*
Assets	128 262	144 008	141 503	136 395	118 207	113 549
Total revenues	173 504	253 879	234 818	214 715	177 351	163 124
Net financial result	**1 532**	**5 283**	**3 438**	**258**	**-842**	**899**
Net sales revenues	172 747	253 376	234 318	214 285	177 060	160 735
Total revenues from operations	168 318	244 735	227 676	211 226	175 671	159 949
Financial result from operations	**4 429**	**8 641**	**6 642**	**3 059**	**1 389**	**786**
Financial revenues	757	503	500	430	291	2 389
Financial costs	3 277	3 551	3 301	2 888	2 182	2 143
Net result from financial operations	**-2 520**	**-3 048**	**-2 801**	**-2 458**	**-1 891**	**246**
EBIT	4 581	8 470	6 384	3 002	1 259	2 629
EBITDA	11 166	15 199	9 205	5 508	3 784	5 169
EBITDA / interest payments	**4.18**	**5.28**	**3.62**	**2.29**	**2.15**	**3.24**
Net profitability of sales revenues	0.89%	2.09%	1.47%	0.12%	-	0.33%
Return on equity	11.6%	36.9%	32.2%	1.4%	-	4.3%
Leverage	0.86	0.87	0.90	0.84	0.81	0.80
Financial leverage	2.75	2.17	3.38	1.30	0.96	1.55
Solvency	0.12	0.11	0.08	0.16	0.20	0.23
Current liquidity	0.94	0.97	1.00	1.00	0.85	0.86
Immediate liquidity	0.59	0.46	0.34	0.31	0.31	0.36

** preliminary data for 2020*

Rating History:

CREDIT RATING	**Initial Rating**	**Review**	**Review**	**Review**
Date of Rating Committee:	**13.02.2017**	**29.03.2018**	**28.03.2019**	**27.03.2020**
Date of Publication:	**17.02.2017**	**30.03.2018**	**29.03.2019**	**01.04.2020**
Long-term Rating :	**BB+**	**BB+**	**BB+**	**BB+**
Outlook :	**stable**	**stable**	**stable**	**in development**
Short-term Rating :	**B**	**B**	**B**	**B**
Long-term National-scale Rating:	**BBB+ (BG)**	**BBB+ (BG)**	**BBB+ (BG)**	**BBB+ (BG)**
Outlook :	**stable**	**stable**	**stable**	**in development**
Short-term National-scale Rating:	**A-2 (BG)**	**A-2 (BG)**	**A-2 (BG)**	**A-2 (BG)**