ISSUER RATING

BBB-

Long-term Rating

Outlook: Stable

First rating date: 25/04/2023

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Rating Action and rationale

- EthiFinance Ratings assigns for the first time a "BBB-" rating with a Stable outlook to Grupo Squirrel Media.
- The company presents an adequate economic-financial structure, highlighting the favourable evolution of its business, results, operating cash generation and maintenance of a balanced financial profile. However, it is in a stage of expansion, both organically and inorganically, having increased leverage levels in recent years, all as a result of the investment policy and M&A operations carried out. In this sense, a continuation and further progress in the consolidation of this growth is important to favour an improvement in its positioning and scale in the market (more limited in relation to other large players) as well as the operational and geographical diversification of its income.
- In line with our new methodology, the Media and Entertainment sector presents a medium-low risk in terms of ESG (heatmap sector between 2 and 2.9) given its impact on the environment. This valuation results in a sectoral analysis that is not affected by this factor. On the other hand, the company's ESG policies are considered neutral (the company's ESG score between 1 and 4), resulting in a rating that is not impacted by these factors.
- Although complete financial projections (balance sheet, income statement and cash flow) have been prepared and analysed for the period 2023-2024, these are not reflected in the report at the request of the company.

Issuer description

Squirrel Media is a technology group located within the Media and Entertainment sector that focuses its activity on four main business sectors: **i) Advertising**, with two agencies mainly that carry out, among other activities, marketing strategies for large clients as well as media advertising, **ii) Content**, with the production and distribution of audio-visual content that is also acquired from large independent production companies for subsequent use in different windows (Cinemas, DVD, VOD or TV), **iii) Media**, where it is observed that it has several free-to-air television channels (third private free-to-air TV operator in Spain) as well as on pay platforms, and **iv) Technology (TMT),** highlighting broadcasting services, retransmission of live events, two teleports and Technological support to the group. Since 2020, with the integration that the group had in Vértice 360º (reverse merger by which total control remained in the hands of Squirrel), a new approach to the business model is being carried out, developing an expansion strategy that is favourable to a more operationally and geographically diversified activity. The group had an average workforce of 177 employees in 2022, having achieved sales and EBITDA of €80MM and €13.5MM respectively, with an NFD/EBITDA ratio in controlled securities of 2.4x (+1.1x compared to 2021). During 2022, the group's share fell 36.2%, placing the market capitalisation at €210.1MM at the end of the year.

Fundamentals

Business Profile

Industry Risk Assesment

- **Highly competitive sector that reflects positive growth prospects for the coming years.** The entertainment and media industry is characterised, in general terms, by presenting low entry barriers (we highlight the necessary knowledge of the market, as well as the importance of the company's reputation and brand for greater business scalability) that lead towards a fragmented market with strong competition. In addition, this sector usually presents positive operating returns with more controlled volatility in times of stress or crisis, with favourable growth rates being estimated for the coming years, which in the case of Spain could reach

€36,000MM by 2026 ($CAGR_{22-26}$ of 5.1%).

On the other hand, given the role and importance it represents, we highlight the plan defined by the Government of Spain for the period 2021-2025 with a planned investment that could reach €1,600MM and that would focus on placing the country in the largest audio-visual Hub in Europe, an aspect that could also strengthen and boost the income of the industry.

- **In line with our new methodology, the Media and Entertainment sector presents a medium-low risk in terms of ESG (heatmap sector between 2 and 2.9) given its impact on the environment.** ESG trends are structural and there are associated business opportunities, however further adaptation is still needed to achieve financial or social benefits from them. On the contrary, low dependencies or negative impacts of ESG factors on stakeholders are expected. This valuation results in a sectoral analysis that is not affected by this factor.

Company's competitive positioning

- **Group that is strengthening its position in the market in recent years supported by its expansion strategy.** The company is immersed in a process of organic and inorganic growth that is strengthening its role in the market and industry as a reference player, with a highly scalable, multi-product and multi-territorial business model. We highlight, as the most significant acquisitions in the last year, the incorporation in January 2022 of Net TV and Veralia Distribución de Cine in the media and content divisions respectively, as well as the last one announced in December 2022 of Grupo Ganga also in the contents sector. With the full integration and consolidation of these new companies, Squirrel will reinforce its scale in the market (more limited at the moment) and will obtain operational synergies that will favour its business.

- **Somewhat more limited operational and geographical diversification that is recently improving with the strategy developed.** Although the advertising sector continues to be Squirrel's main source of income (45.3% at the end of 2022), the M&A operations carried out are improving the group's operational and geographical diversification, with a greater weight achieved for the media segment (34.9% of total income in 2022) and greater growth expected for content after the heavy investment that the company is making with the acquisition of new releases for its exploitation. In addition, although at a geographical level, Spain and Italy are the main markets of the group, 59% and 29% respectively of total income for the first half of 2022 (latest data available), greater diversification by country both in Europe and LATAM is expected given the greatest coverage that their titles or premieres will have at a geographical level (until 2021 they were only shown in Spain and Andorra, from 2023 a reach of more than 30 countries is expected).

  On the other hand, it should be noted that although the company continues to present a high concentration of clients at the end of the first half of 2022 (top 5 and top 10 represent 48.9% and 68.5% respectively), since the impact of the Covid-19 had over its activity, mainly the advertising sector, a portfolio diversification strategy is being carried out that is already reflected in this first half (the top 5 improve by +9.6pp in concentration compared to the end of 2021).

Governance

- **Concentrated shareholding with a management team that has extensive experience in the sector.** At the end of the first half of 2022, Pablo Pereiro is the main shareholder of Squirrel with a 91.97% stake. Despite the fact that concentration on decision-making could pose a risk, we highlight the high level of involvement and long-term permanence of the main shareholder. In addition, although the group's financial capacity to support the group is valued moderately, this is mitigated by the fact that Grupo Squirrel is a listed company (being able to resort to new capital increases on the market, as happened in 2022). Likewise, its main shareholder, board of directors and management of the group stand out for the solid experience reflected (more than 15/20 years on average), being an important aspect to promote the expansion strategy that it is currently developing. In addition, we consider that derived from this expansion policy, a greater reinforcement in the management structure could be necessary in the short/medium term for a better consolidation of the same. Additionally, this growth is being achieved under a conservative financial policy, carrying out M&A operations financed with own funds or an equitable mix between own and financial resources (50%-50%).

- **Neutral ESG policy**. Based on the ESG data analysed and once the methodology has been applied, EthiFinance Ratings values Grupo Squirrel Media's ESG policies as neutral (the company's ESG score between 1 and 4). As a result, the company's rating is not affected by this driver. However, we consider it necessary for the Grupo Squirrel Media to go further and define ESG policies, in accordance with the size it is reaching, since the assessment given in this aspect could be adjusted due to the mandatory nature of a greater definition and transparency at the ESG level.

Financial Profile

Cash-flow and leverage

- **Growing evolution of billing and positive margins generated with the business, driven by the new dimension reached by the group.** Squirrel is presenting a favourable trend for its income in recent years (€80MM in 2022 with a $CAGR_{20\text{-}22}$ of 57.9%) together with a notable increase in EBITDA (€13.5MM in 2022 with a $CAGR_{20\text{-}22}$ of 121.7%), which are being strengthened by the complete integration of all the company's business sectors (reverse merger carried out with Vértice 360º in 2020), as well as by the new corporate acquisitions that are being made. Although in the last year the evolution of its income in the advertising and content sectors continued to be impacted by the uncertainty generated by the pandemic and the war between Russia and Ukraine (the companies postponed their advertising investments for the second half of 2022 and especially 2023), it is highlighted that even so during the year, the company has mitigated this effect due to the inorganic growth achieved. Under this point, the incorporation of Net TV (acquired with an employee and without outsourcing) stands out for its greater push in figures, which boosted operating margins that stood at 16.8% for 2022 (+6.2pp YoY). Moreover, solid and adequate progress is being observed in the generation of a positive EBT in recent years that reached €10.8MM in 2022 (+100.8% vs 2021).

  For 2023 and future years, the group estimates a further journey and increase in income, profits and margins, all of this reinforced by the growth forecast for its four business lines, where the content sector stands out (with the investment already materialised years back).

- **Controlled levels of leverage.** Squirrel's debt figures have been increasing in recent years, reaching its maximum peak at the end of 2022, with a figure of €36.5MM (+340.7% compared to the end of 2020). All of this is due to the organic and inorganic growth plan that the group is developing, carrying out M&A operations that are either carried out with own funds or through an equitable mix between own and financial capital. In any case, despite the increase in its NFD/EBITDA ratio of 2.4x (+1.8x compared to the end of 2020), the company maintains values considered controlled. Thus, from EthiFinance Ratings we favourably assess its presented financial policy and structure, although it will be important to maintain it given the growth and/or new M&A opportunities that may arise. Additionally, it maintains a high interest coverage (16.8x), reflecting its more than adequate capacity to meet the interest on the debt with the operating income generated. However, the current context of rising interest rates, the disposition of a significant part of its financial debt at variable rates, as well as its increase, has caused an adjustment in this coverage ratio (-36x vs 2020) that should be checked in future exercises.

- **Business model that generates operating cash.** The company is presenting an upward trend in the Funds From Operations (FFO) generated, which stood at €11.1MM and the $CAGR_{20\text{-}22}$ being 109.9%. All this is motivated by the organic and inorganic growth that the group is achieving, and which places the values of the FFO/NFD ratio at adequate values (34.7% for 2022). However, a reduction in recent years has been reflected (-140.7pp vs. 2020), a longer run in the levels of operating cash generated by the group in the coming years being important, which will allow it to face the demanding maturities presented by the group in its financial debt (€13.5MM and €15.4MM for 2023 and 2024 respectively, representing 87.2% of total financial obligations).

Solvency

- **Positive solvency supported by its high levels of capitalisation.** Although the increase in financial debt is being proportionally greater than the increase in the group's net worth, Squirrel maintains solid and appropriate values for the relationship between the equity and the TFD, amounting to 145.3% (-184.6pp vs 2020). Thus, the last capital increase carried out in June 2022 for €10MM together with a self-financing policy (capitalisation of the profits achieved and without forecasting the distribution of dividends as in recent years), lead to a strong equity structure.
- **Significant weight of intangible assets within the company whose unforeseen deterioration could penalise its net worth.** The group's intangible assets made up mainly of the audio-visual rights of the acquired titles, as well as the goodwill derived from the corporate acquisitions carried out and which represent a weight of 62% within the total investment in 2022. This aspect, although it does not represent a mitigating fact in its structure at present, is considered that the existence of potential impairments that may arise with the expansion policy carried out, could limit its own capital figures. In any case, this situation is observed at a general level throughout the entertainment and media sector, with various mergers and acquisitions being a shared risk.

Modifiers

ESG Factors

- **The group does not present any controversy.** Our controversy assessment determines that there are no news or events that constitute a real problem that point to a weakness in Grupo Squirrel Media's operations or organisation and that require follow-up.

Liquidity

- **There is no liquidity risk.** At the end of 2022, the group presents a favourable cash position (€4.6MM) and a growing generation of operating funds with the activity (€11.1MM) that are improving their liquidity levels in recent years. Regarding the group's main obligations, it has some demanding financial commitments (mainly bank loan maturities, as well as deferred payments mainly for the purchase of Net TV and Grupo BF) and lower maintenance capex (focused on the content sector for the set-up of new releases). In any case, the assessment of the liquidity ratio is positive (1x/2x range).

Country Risk

- **It has not been determined that there is a conditioning country risk and that therefore it has a negative impact on the rating.** Squirrel concentrates most of its business in Spain and Italy (around 88% of its income for 2021 and for the end of the first half 2022), with the rest mainly spread across other European countries and LATAM.

Main financial figures

Main financial figures. Thousands of €.	2020	2021	2022 [1]	22vs21
Turnover	32,088	69,698	80,005	14.8%
EBITDA	2,742	7,436	13,480	81.3%
EBITDA Mg.	8.5%	10.7%	16.8%	6.2pp
EBIT	1,581	5,507	11,470	108.3%
EBIT Mg.	4.9%	7.9%	14.3%	6.4pp
EBT	1,469	5,382	10,808	100.8%
Total Assets	55,161	64,275	117,016	82.1%
Equity	27,292	30,476	52,974	73.8%
Total Financial Debt	8,274	12,687	36,467	187.4%
Net Financial Debt	1,434	9,367	31,890	240.5%
Equity/TFD	329.9%	240.2%	145.3%	-94.9pp
NFD/EBITDA	0.5x	1.3x	2.4x	1.1x
Funds From Operations	2,515	8,140	11,076	36.1%
FFO/NFD	175.4%	86.9%	34.7%	-52.2pp
EBITDA/Interest	52.7x	33.0x	16.8x	-16.3x

[1] Latest consolidated and published financial statements for 2022 but without audit.

Rating Sensitivity

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

- **Positive factors (↑).**

  Improvement in ratios such as NFD/EBITDA and FFO/NFD with values less than 2x and greater than 40% respectively. Improvement or maintenance of the current figures for the interest coverage and Equity/TFD ratios. Expand the financial debt maturity schedule with longer commitments over time (currently payments are concentrated in 2023 and 2024). In general, compliance with the economic-financial projections analysed. Definition and greater scope of ESG policies.

- **Negative factors (↓).**

  Significant breach of the economic-financial projections analysed with worsening ratios such as NFD/EBITDA (>3x), FFO/NFD (<30%), interest coverage (<10x) and Equity/TFD below 100%. Absence of broader and more far-reaching ESG policies on the part of the group. Worsening of liquidity levels with higher payment obligations (debt and capex) in relation to operating cash and available cash (<1x).

Regulatory information

Sources of information

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

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

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

Additional information

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

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  For 2023 and future years, the group estimates a further journey and increase in income, profits and margins, all of this reinforced by the growth forecast for its four business lines, where the content sector stands out (with the investment already materialised years back).

- **Controlled levels of leverage.** Squirrel's debt figures have been increasing in recent years, reaching its maximum peak at the end of 2022, with a figure of €36.5MM (+340.7% compared to the end of 2020). All of this is due to the organic and inorganic growth plan that the group is developing, carrying out M&A operations that are either carried out with own funds or through an equitable mix between own and financial capital. In any case, despite the increase in its NFD/EBITDA ratio of 2.4x (+1.8x compared to the end of 2020), the company maintains values considered controlled. Thus, from EthiFinance Ratings we favourably assess its presented financial policy and structure, although it will be important to maintain it given the growth and/or new M&A opportunities that may arise. Additionally, it maintains a high interest coverage (16.8x), reflecting its more than adequate capacity to meet the interest on the debt with the operating income generated. However, the current context of rising interest rates, the disposition of a significant part of its financial debt at variable rates, as well as its increase, has caused an adjustment in this coverage ratio (-36x vs 2020) that should be checked in future exercises.

- **Business model that generates operating cash.** The company is presenting an upward trend in the Funds From Operations (FFO) generated, which stood at €11.1MM and the $CAGR_{20\text{-}22}$ being 109.9%. All this is motivated by the organic and inorganic growth that the group is achieving, and which places the values of the FFO/NFD ratio at adequate values (34.7% for 2022). However, a reduction in recent years has been reflected (-140.7pp vs. 2020), a longer run in the levels of operating cash generated by the group in the coming years being important, which will allow it to face the demanding maturities presented by the group in its financial debt (€13.5MM and €15.4MM for 2023 and 2024 respectively, representing 87.2% of total financial obligations).

Solvency

- **Positive solvency supported by its high levels of capitalisation.** Although the increase in financial debt is being proportionally greater than the increase in the group's net worth, Squirrel maintains solid and appropriate values for the relationship between the equity and the TFD, amounting to 145.3% (-184.6pp vs 2020). Thus, the last capital increase carried out in June 2022 for €10MM together with a self-financing policy (capitalisation of the profits achieved and without forecasting the distribution of dividends as in recent years), lead to a strong equity structure.
- **Significant weight of intangible assets within the company whose unforeseen deterioration could penalise its net worth.** The group's intangible assets made up mainly of the audio-visual rights of the acquired titles, as well as the goodwill derived from the corporate acquisitions carried out and which represent a weight of 62% within the total investment in 2022. This aspect, although it does not represent a mitigating fact in its structure at present, is considered that the existence of potential impairments that may arise with the expansion policy carried out, could limit its own capital figures. In any case, this situation is observed at a general level throughout the entertainment and media sector, with various mergers and acquisitions being a shared risk.

Modifiers

ESG Factors

- **The group does not present any controversy.** Our controversy assessment determines that there are no news or events that constitute a real problem that point to a weakness in Grupo Squirrel Media's operations or organisation and that require follow-up.

Liquidity

- **There is no liquidity risk.** At the end of 2022, the group presents a favourable cash position (€4.6MM) and a growing generation of operating funds with the activity (€11.1MM) that are improving their liquidity levels in recent years. Regarding the group's main obligations, it has some demanding financial commitments (mainly bank loan maturities, as well as deferred payments mainly for the purchase of Net TV and Grupo BF) and lower maintenance capex (focused on the content sector for the set-up of new releases). In any case, the assessment of the liquidity ratio is positive (1x/2x range).

Country Risk

- **It has not been determined that there is a conditioning country risk and that therefore it has a negative impact on the rating.** Squirrel concentrates most of its business in Spain and Italy (around 88% of its income for 2021 and for the end of the first half 2022), with the rest mainly spread across other European countries and LATAM.

Main financial figures

Main financial figures. Thousands of €.	2020	2021	2022 [1]	22vs21
Turnover	32,088	69,698	80,005	14.8%
EBITDA	2,742	7,436	13,480	81.3%
EBITDA Mg.	8.5%	10.7%	16.8%	6.2pp
EBIT	1,581	5,507	11,470	108.3%
EBIT Mg.	4.9%	7.9%	14.3%	6.4pp
EBT	1,469	5,382	10,808	100.8%
Total Assets	55,161	64,275	117,016	82.1%
Equity	27,292	30,476	52,974	73.8%
Total Financial Debt	8,274	12,687	36,467	187.4%
Net Financial Debt	1,434	9,367	31,890	240.5%
Equity/TFD	329.9%	240.2%	145.3%	-94.9pp
NFD/EBITDA	0.5x	1.3x	2.4x	1.1x
Funds From Operations	2,515	8,140	11,076	36.1%
FFO/NFD	175.4%	86.9%	34.7%	-52.2pp
EBITDA/Interest	52.7x	33.0x	16.8x	-16.3x

[1] Latest consolidated and published financial statements for 2022 but without audit.

Rating Sensitivity

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

- **Positive factors (↑).**

  Improvement in ratios such as NFD/EBITDA and FFO/NFD with values less than 2x and greater than 40% respectively. Improvement or maintenance of the current figures for the interest coverage and Equity/TFD ratios. Expand the financial debt maturity schedule with longer commitments over time (currently payments are concentrated in 2023 and 2024). In general, compliance with the economic-financial projections analysed. Definition and greater scope of ESG policies.

- **Negative factors (↓).**

  Significant breach of the economic-financial projections analysed with worsening ratios such as NFD/EBITDA (>3x), FFO/NFD (<30%), interest coverage (<10x) and Equity/TFD below 100%. Absence of broader and more far-reaching ESG policies on the part of the group. Worsening of liquidity levels with higher payment obligations (debt and capex) in relation to operating cash and available cash (<1x).

1. Company profile

1.1 Business and scope of activity

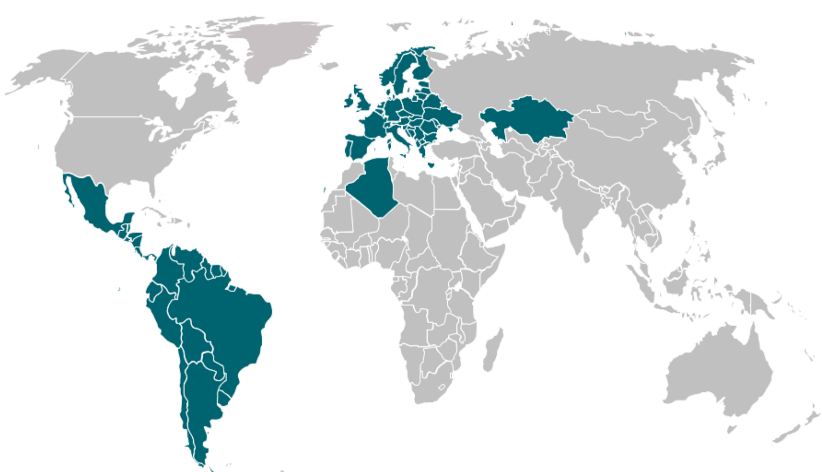
Squirrel Media is a technological group that is framed within the media and entertainment sector. It is characterised by being an independent communication company that emerged in 2012 through the creation of BOM (Best Option Media), this being the advertising agency that gives rise to the group. Later in 2020, due to its impact on its structure and activity, we highlight the integration that was carried out between Vértice 360º and Squirrel (reverse merger with what was its main shareholder), through which Squirrel diversified its business lines, currently having four segments of activity directly related to each other:

- **Advertising**. It is positioned as the main income-generating area for the company. This segment could be divided into two interconnected activities led by two subsidiaries of the group: i) Best Option Media (BOM), an advertising agency that carries out the marketing strategy, consulting and campaign design process for international clients at a global level, indicating by their portfolio those that are in or have the potential to carry out an expansion phase (both in offline and online media), and ii) Squirrel Global Media, an international advertising buying agency that complements the previous activity of the advertising agency with the management and promotion in the media (national and international TV channels, radios or DOOH advertising circuits, among others).
- **Contents**. It focuses on the production and distribution of audio-visual content through the prior development or acquisition of audio-visual rights from big players or independent production companies for their subsequent exploitation and monetisation in cinemas, on-demand platforms or pay and open TV, among other channels. The exploitation window of these rights generally covers between 15 and 25 years on average, normally generating recurring and positive rates of return for the titles acquired and distributed, these being correlated with the greater or lesser success thereof.
- **Media**. It has several free-to-air channels, specifically 4 (BOM Cine, BOM Channel, and the Paramount and Disney Channel licences) that make it the third private free-to-air TV operator in Spain, as well as global payment platforms with channels such as Nautical Channel, Horse TV and Cine Moda. In addition, it has a radio station, the advertising content service for Telefónica's screens exposed to the public (agreement reached in March 2021 to manage projects based on Digital Out Of Home advertising) and is a licensee of five regional free-to-air DTT television licenses. (Madrid, Andalusia, Valencia, Galicia and Murcia).
- **Technology (TMT).** It offers broadcasting services, retransmission of live events (with a fleet of mobile production and transmission units), teleports, audio-visuals, consulting, and is also a technological support unit for the group. It has two teleports located in Milan and Rome, as well as a Hub in Madrid. The main company of this business unit is M-Three Satcom (created in 2004 and incorporated into the group in 2019).

Track-record Squirrel Media Group

2006	Foundation of the company Vértice 360º
2012	Creation of Best Option Media (BOM) -- Squirrel
2014	Bankruptcy of Vértice 360º
2016	Squirrel acquires 25% stake in Vértice 360º
2017	Creation of Squirrel Global Media
2018	Squirrel increases stake to 54.49% in Vértice 360º
2019	Start of Squirrel Media integration with Vértice (90.37%)
2020	Increase Squirrel stake in Vértice (94.09%) and full integration.
2021	Tactic Acquisition (75%)
2022 - 2023	Acquisition of 75% NET TV, 100% Veralia, 51% BF Distribution, 100% Comercial de Contenidos Audiovisuales 2007, 64% Canal Deporte TV and 51% Grupo Ganga.

Operational presence of the group in recent years

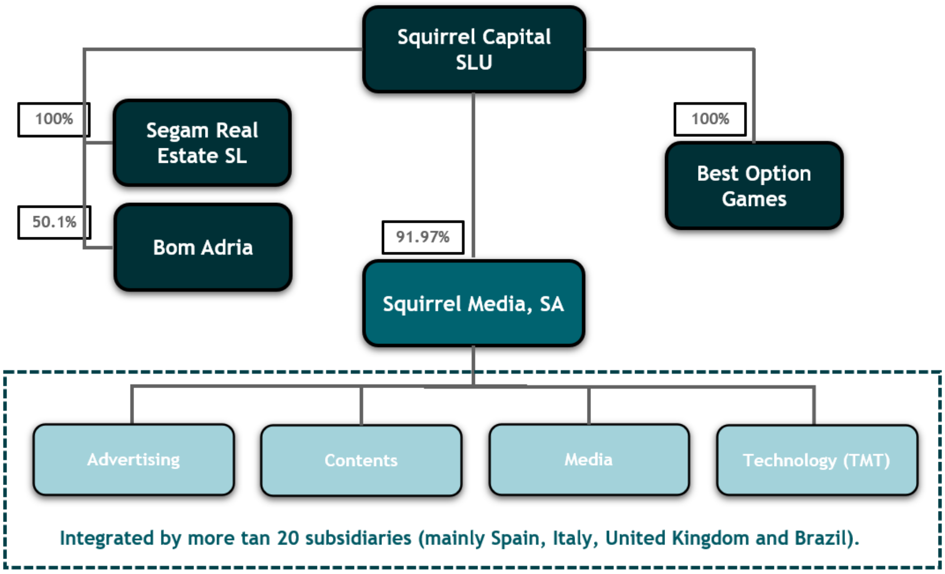


1.2 Corporate structure

The structure of the group has undergone significant changes in recent years. Thus, after the economic-financial problems presented by the previous property, Vértice 360º, which led it to file pre-bankruptcy at the end of 2013 to end up entering bankruptcy in April 2014, a restructuring process was carried out to the group. This process had its greatest reflection at the corporate level in the non-monetary capital increase agreed in July 2020 and, through which, a reverse merger was carried out where Squirrel Capital integrated into the group (through the listed Vértice 360º) its advertising, e-commerce, radio, television segments and other services that were valued for the same amount as the aforementioned increase (€220.5MM). In this way, the group became controlled by Squirrel with the respective change of company name (September 2021).

Within the Grupo Squirrel Media there are more than 20 subsidiary companies that are framed according to their activity under the four business lines presented.

Corporate structure

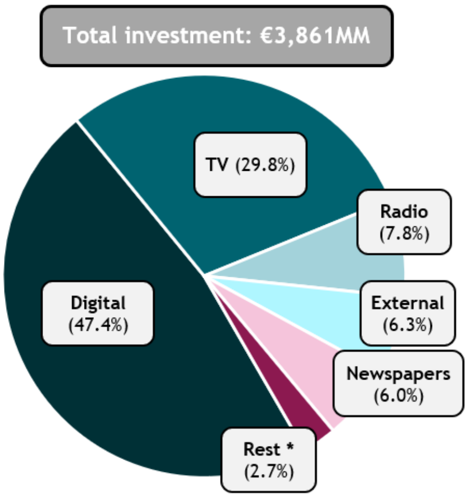


2. Qualitative analysis

2.1 Sector and competitive positioning

Grupo Squirrel Media is framed within the entertainment and media sector. This industry is characterised, among other factors, by: i) being highly competitive, with a large number of players in a highly fragmented market and where entry barriers are low (we highlight, within these, the know-how as well as the recognition and reputation necessary to promote the activity towards further consolidation), ii) in general terms, after previous analysis and study of the industry, positive and adequate levels of operating profitability are reflected with volatility (in times of crisis and greater stress) controlled and without excessive impact on their performance levels, iii) positive growth prospects for the coming years, estimating a $CAGR_{22\text{-}26}$ of 5.1% and 4.6% in Spain and worldwide respectively, and iv) favourable and positive evaluation of the sector at the ESG (Environmental, Social and Governance) level, since the impact of the activity carried out is null or very low at the level of environmental factors, although it is considered a greater responsibility of this with the public to which it is addressed (society), the quality of information or other ethical issues.

Distribution of advertising investment Spain, 9M2022.



* Includes advertising investment in cinemas and magazines, among other media.

Source: Infoadex.

In Spain, an investment in this sector is expected at €1,603MM for the period 2021-2025, all defined in the Government's plan to turn the country into the largest Audio-visual Hub in Europe, with a greater effort in the promotion and digitisation of audio-visual activities. For the moment, derived from this plan, we highlight the new regulation that emerged for the audio-visual market, the General Law of Audio-visual Communication (LGCA) approved in July 2022 (repealing the previous law of 2010) and that will regulate new agents and services of audio-visual communication, it will reinforce the protection of users (mainly minors) or a greater extension of the obligations to promote European audio-visual works, among other aspects.

Regarding the evolution of the sector worldwide, after the fall it experienced due to the impact of Covid-19 (income fell by around 2.3% in 2020), the growth trend recovered in 2021 (+10.4% YoY), estimating to continue during 2022 at 7.3%. The trajectory followed in Spain has been similar, where it is projected that income could be around €34,000MM in 2026 (compound annual growth of 5.1%).

At the level of advertising investment in Spain, after the 17.9% drop that was shown in 2020 due to the appearance of the pandemic, for 2021 there has been a relative recovery with growth of 7.8%. During the first nine months of 2022, investment continues to grow at more moderate rates of 2.8%. Depending on the medium, we highlight 'Digital' with the greatest weight (47.4%, €1,831MM) and an increase of 6% in these first three quarters of 2022. In addition, the 'Television' segment has occupied the second position in advertising spending (29.8%, €1,149MM), with a fall of 6.6%. The rest of the media have shown positive growth rates, highlighting 'Cinema' which, although it is not so relevant due to its amount in absolute terms, it is at a relative level with an increase of 145%.

Revenue forecast by segments in Spain. Millions of €.

	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	$CAGR_{21\text{-}26}$
TV advertising	2,049	1,667	1,862	1,784	1,792	1,797	1,799	1,800	-0.7%
Internet advertising	3,151	2,936	3,928	4,274	4,575	4,835	5,041	5,214	5.8%
External advertising	386	231	306	361	391	399	403	404	5.7%
OTT Video *	310	507	675	771	866	945	1,006	1,068	9.6%
Cinema	651	182	269	537	646	680	711	742	22.5%

* Includes 'Subscription Video on Demand' and 'Transactional Video on Demand'. Source: Entertainment and Media Outlook 2022-2026 Spain, PwC.

"Entertainment and media sector that presents low barriers to entry in general, high competition, positive levels of profitability and favorable growth prospects for the coming years."

After the impact that the main segments of the sector previously analysed presented in general terms in 2020, a growing demand is estimated for all groups, except television advertising, with a flat trend and where, a priori, it will be difficult to recover the levels of income prior to Covid-19. On the other hand, the marked increase in income for 'OTT Video' stands out, led by the boom and expansion of streaming platforms (Netflix, HBO, Disney+, Amazon Prime, etc.) in the number of subscribers, reflecting an Estimated CAGR of 19.3% for the period 2019-2026. The positive evolution of this segment during the pandemic has prompted greater investment in their own content by these platforms, although there is currently some uncertainty about the possibility that there are not enough subscriptions and income to sustain the capex undertaken.

Derived from the importance in the sector of obtaining greater scalability and growth of the activity as well as the strong existing competition, in 2021 the industry experienced important M&A transactions that are tending towards a greater concentration of the same (in total made operations for $142,000M), highlighting the acquisition of the MGM film studio by Amazon or the merger of Warner Media with Discovery, from which precisely in August 2022 the subsequent merger of HBO Max and Discovery+ into a single platform was announced (it will be operational by mid-2023).

From EthiFinance we consider in general terms that the evolution of the sector will be, a priori, positive for the coming years and will be conditioned by factors such as greater digitisation, adaptation to changes in consumer tastes, as well as new M&A operations as a strategy of transformation and greater competition in the market.

"Market positioning of the group that has been strengthened in recent years in its different areas under a strategy of organic and inorganic growth."

Although Grupo Squirrel Media has a somewhat more limited scale in the sector in terms of global income, it is presenting an improvement in its competitive position in recent years in the markets where it operates, derived from the expansion strategy it is carrying out in the present. In this way, and differentiating the four operating segments that the group presents, we highlight:

Geographical and operational distribution of turnover (2021). Thousands of €.

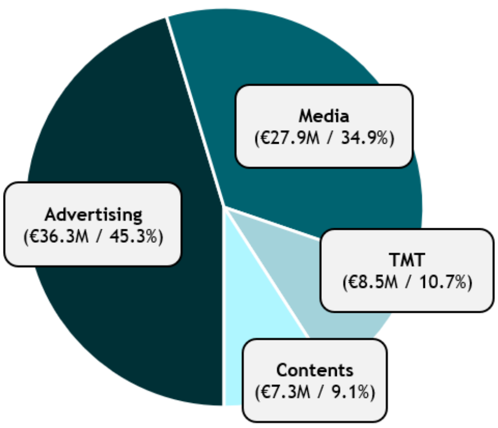
Market/Segment	Advertising		Contents		Media		TMT	
	Amount	Weight	Amount	Weight	Amount	Weight	Amount	Weight
Spain	27,622	52.9%	4,671	80.4%	2,004	65.6%	2,158	25.2%
Europe	20,445	39.1%	1,131	19.5%	1,052	34.4%	6,421	74.8%
Rest *	4,189	8.0%	5	0.1%	-	-	-	-
Total	**52,255**	**100.0%**	**5,807**	**100.0%**	**3,056**	**100.0%**	**8,579**	**100.0%**

* Includes countries such as Mexico, Brazil, the United Kingdom, Colombia or Chile, among others.

- **Advertising.** Despite the drop in activity in this segment due to the impact of Covid-19 (some sectors were more conditioned, such as travel) and the war between Russia and Ukraine (investment in advertising by large companies in the first half of 2022), this line continues to be Squirrel's main source of income (75% in 2021 and 45.3% during 2022). It has a good position in the market and a positive reputation that is positioned as the main driver for attracting new customers, more focused on the digital segment.

  In relation to the distribution of the business at a geographical level, although Spain is the main market (52.9% of the total income of this segment), the contribution of Europe (led by Italy) as well as other countries (Mexico, Brazil, United Kingdom, etc.) has to be noted.

Operational diversification (2022)



- **Contents.** Although until 2021, the production and purchase for distribution of content (mainly films) was aimed at Spain and Andorra, the group is undergoing a strong expansion process towards Italy, Portugal and Latam (already covering up to 33 Spanish-speaking countries, Portuguese and Italian), all through the creation of new companies, joint ventures or even through M&A operations where we note their importance from the end of 2021 to the present:
  - Acquisition of Tactic Sports & Entertainment (75% in November 2021), positioned as a Spanish audio-visual production company specialised in sports content and leader in the nautical sector.
  - Acquisition of Veralia Distribución de Cine (100% in January 2022), with which it expands its presence in the generation and distribution of content through the film catalogue incorporated with this company (mainly Spain, Portugal, Italy and LATAM).
  - Acquisition of BF Distribution (51% in April 2022, having completed the final closing of the operation in March 2023), considered the main film distribution group in LATAM (with more than 1,200 titles released) and with a presence in the United States.
  - Acquisition of Comercial de Contenidos Audiovisuales 2007 (100% in October 2022), focused on the creation, production and distribution in Spain and abroad of audio-visual content.
  - Acquisition of Grupo Ganga (51% in December 2022, although the final closing of the operation is pending during the first half of 2023), a Spanish audio-visual

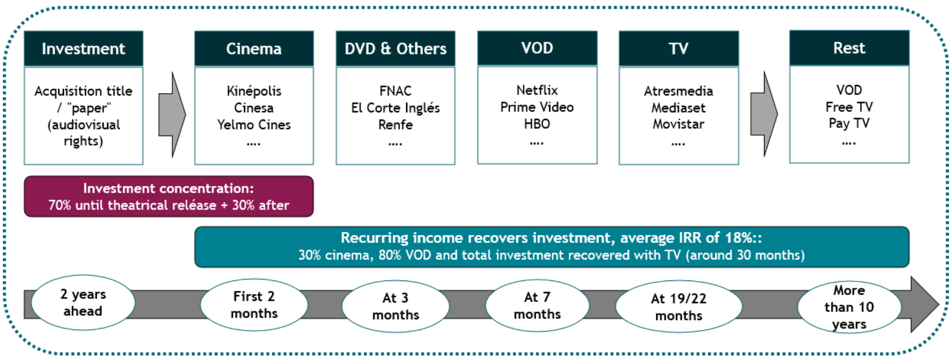
production company that has a wide catalogue of content and with different formats such as fiction, entertainment, documentaries or advertising.

Therefore, Squirrel Media is making a strong commitment to increase its activity in this area, mainly with premium or blockbuster films, being a reference player in the market and maintaining a solid strategic position as a content distribution company for the main international producers (Millennium, Lionsgate, FilmNation, Columbia Pictures, Warner Bros., etc.) towards all exploitation windows such as VOD platforms (Prime video, Netflix, Disney+, HBO Max, etc.). This is valued positively by EthiFinance, since the group maintains a high reputation and trust with these important players in the sector, considering it an important barrier to entry in the market, an aspect that would also reflect stability and a greater possibility of scalability in its activity, as they reach new content acquisition agreements in countries where they operate and even new markets (taking advantage of the favourable track-record they are acquiring).

"Recurring and scalable business model that is tending towards greater diversification in recent years, an important aspect to favour greater stability of the activity."

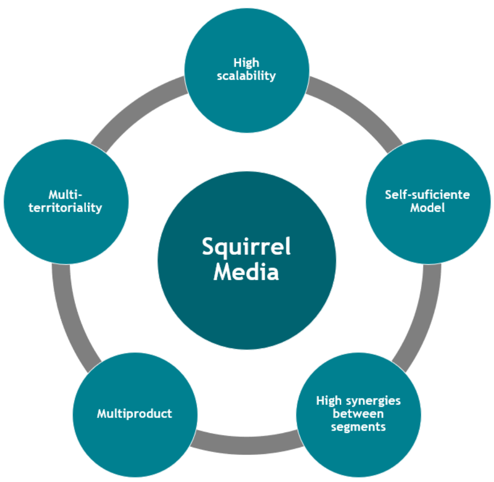
On the other hand, it is convenient to detail the general scheme of a content distribution model, since although the investment is concentrated initially with the acquisition of the audio-visual rights of the content itself, all this capex is subsequently monetised in different windows that range from the cinema release (it carries the rest of the promotion and advertising costs of the films) as well as the income obtained by other media such as DVD, VOD or TV, allowing to obtain positive and high rates of return that will be linked to success and demand that the title be released and exploited.

Content distribution model



This segment accounts for 9.1% of the income generated at the end of 2022, with greater growth being estimated from 2023 due to the strong investment that Squirrel is making in new content (it will have its greatest impact from the current year onwards). In this sense, during 2022, 8 technical premieres have been made in Spanish theatres, with the company committing another 44 premieres for the period 2023-2025 (acquiring the exploitation rights not only for Spain but also for Italy, Portugal, Andorra and all the Latin American countries).

Business model characteristics



- **Media.** A segment that is also currently experiencing an expansion stage, becoming the third private operator of free-to-air television in Spain (behind Mediaset and AtresMedia). As the group grows with new free-to-air DTT regional licences and new channels, the market share (audience) increases and consequently the group's income through advertising. Between 2021 and 2022, we highlight the following M&A agreements/operations:
    - Agreement with Movistar + in April 2021 for the distribution of three of its main channels (BOM Cine, Horse TV and Nautical Channel).
    - Acquisition of NET TV (75% in January 2022), which has licences for two national DTT channels: Paramount and Disney Channel (with long-term contracts and prospects for future continuity).
    - Acquisition of Canal Deporte TV (64% in October 2022), focused on the production, programming and broadcast of the digital television channel CanalDeporte (it is an OTT).

Although this line of business represented 4.4% in 2021, with the acquisition of NET TV (this company generated a turnover of €23.6MM and EBITDA of €5.8MM in 2021), this area is reinforced, as it is visualised in the weight of income for the end of 2022 (34.9%).

- **Technology (TMT).** Finally, this segment, which in addition to offering its services to media companies, among others, supports the entire group, maintains a stable income figure at the end of 2021 and 2022, representing around 11% of Squirrel's business.

Overall, we find ourselves before a business model that is considered self-sufficient, where there are numerous synergies between the four operating segments of the group, where we could highlight, among others: i) the advertising of its television channels can be managed by its own advertising segment, ii) the acquired content can be subsequently exploited on their own television channels, which in turn, depending on the market share or audience they are achieving, will increase their advertising income, and iii) all the technological support of their activity in its different lines is carried out in-house. All these aspects are valued positively by EthiFinance since, faced with a scenario of greater stress in the industry, the group could mitigate them to some extent with the consistent, recurring and highly scalable business that it presents. In addition, the existence of a multi-product and multi-territorial activity reinforces the group's position in the market.

Customer diversification 2021 and 1H2022. Thousands of €.	
Magnitudes	Amount
Sales 2021	**69,698**
% Top 5	58.5%
% Top 10	70.1%
% Top 15	75.8%
Sales 1H2022	**37,058**
% Top 5	48.9%
% Top 10	68.5%
% Top 15	76.7%

On the other hand, we also point out that the company is exposed to certain risks in its activity. On the content side, the monetisation of purchased titles depends on the acceptance they have in the market upon their release, so changes in public tastes and trends could affect this aspect. On the other hand, the advertising segment is considered a more cyclical activity, to the extent that, in scenarios of greater stress in the economy, this business could present a greater impact as is being reflected in 2021 and 2022. In addition, Squirrel presents a notable concentration of clients, the top 5 represented 58.5% at the end of 2021, which despite the improvement shown in the first half of 2022, (48.9%; -9.6pp), further progress would be important in the coming months/years. Thus, we point out the diversification strategy that the group began after the impact of Covid-19, mainly in its advertising sector, where most of its clients were concentrated in sectors such as travel or entertainment that were most affected by the pandemic and having expanded its activity with large clients in the automotive or fashion sectors, among others. This is valued favourably by the Rating Agency, although a greater journey is required in future years.

2.2 Shareholder, management and financial policy

As previously described (subsection "1.2 Business Structure"), the shareholding structure has undergone changes in recent years as a result of the restructuring process reflected in the previous ownership and name of this group (Vértice 360º). Since 2018, Squirrel Capital has become the majority shareholder of the group, reaching a 91.97% stake at the end of the first half of 2022. This company is a family office controlled by Pablo Pereiro, which is therefore the main shareholder of the Grupo Squirrel Media. The rest of the shareholders correspond to the free float of the company, being listed on the continuous market.

Board of directors *	
Name	Position
Pablo Pereiro Lage	Chairman & CEO
María José Pereiro Lage	Proprietary Director
Paula Eliz Santos	Proprietary Director
Uriel González-Montes Álvarez	Proprietary Director
Hipólito Álvarez Fernández	Proprietary Director
Javier Calvo Salve	Proprietary director, coordinator and secretary

* Following the death of Julián Martínez Samaniego in November 2022 (Vice Chairman and Proprietary Director), the appointment of a new member to the Board of Directors is pending, to be appointed at the next AGM.

In addition to being the main shareholder, Pablo Pereiro, is also the Chairman of the Board of Directors and CEO of the group, where it is worth noting his wide and extensive experience in the Media sector (+20 years), reflected in a high know-how and market knowledge. He has a high involvement and commitment in the definition, development and monitoring of the group's strategy, aspects that favour the implementation and achievement of Squirrel's strategic objectives. However, the fact that its majority shareholder concentrates most of the capital means that the extra financial muscle to support the company could be conditioned and limited, an aspect that is mitigated by the fact that Grupo Squirrel is a listed company, where it is noted the last capital increase carried out in June 2022. In it, the group had adequate acceptance in raising funds in the market, with a large number of investors interested and participating in the aforementioned capital increase (family offices, SICAV, HNWI, investment funds, etc.). In addition, for the medium term, the group could increase the free float, as a consequence of the higher expected inorganic growth and the entry of new shareholders.

In general, the group's Board of Directors is made up of seven members (the appointment of a new member to replace Julián Martínez Samaniego is pending) with an extensive track record in different aspects (financial, legal, audio-visual management, etc.) who are reflected in the more than 20 years of average experience presented. In addition, we point out the existence of up to four independent directors, an aspect that favours the diversity of decision-making within the company. In relation to management, we also mention the extensive experience shown in management positions in each of Squirrel's business lines, being in general more than 15/20 years, an aspect that should have a positive impact on the development and execution of the group strategy. However, we consider that, derived from the strong growth developed by the group in recent years, a greater reinforcement of its management structure could be necessary in the near future to adapt it to the larger size that the company is reaching.

As for the main drivers in the Squirrel Media business, they are mainly focused on the commitment to developing a growth strategy, both organic and inorganic, highlighting for the latter the various M&A operations carried out in recent years and that is estimated, a priori, to continue. Thus, we point out the latest recently announced acquisitions (more detail in subsection "*2.1. Sector and competitive positioning*"), and which improve its positioning in the market. During 2023, the company could continue with the acquisition policy as long as there are opportunities to integrate companies that add value to the group and have synergies with the different segments of activity that they develop. Thus, it is worth mentioning that the contents sector will be Squirrel's main bet to continue growing inorganically (both in current countries and in the Anglo-Saxon market), also mentioning the 'Media' line where they will focus their efforts on making the investments made up to now more consistent and the possibility of taking advantage of additional purchase opportunities. In addition, although the 'Advertising' segment could present some opportunity, the characteristics of these acquisitions with very high prices, it implies carrying out a riskier strategy in this regard, limiting M&A operations in the short term.

"Shareholding concentration that could be diluted in the near future through new capital increases that support the group's strong growth and that could place the free float at a percentage of more than 25%."

All this growth in recent years is taking place under a conservative financing policy, acquiring companies directly with own funds (such as the last one carried out by Grupo Ganga in December 2022) and/or through a mix (half own resources and the rest bank financing). This aspect reflects a balanced financing structure (although with an increase in debt levels in recent years), which is expected to be maintained in the coming years under the growth strategy defined by Squirrel. At the ESG level, the company has a limited scope in this aspect (also derived from the size presented), one of the objectives for the coming years being a greater definition of ESG practices also in line with the new dimension that the group is reaching with the developed growth.

Recently, in March 2023, the group has presented its new business plan that includes important growth rates (without considering inorganic operations) due to the boost that all its business lines will have, a priori, highlighting 'Contents' that after the investment of €45MM in the last four years, it will present a significant increase in income in 2023 and 2024 (favoured by the internationalisation of the business in more than 30 countries).

3. Quantitative analysis

3.1 Results and profitability

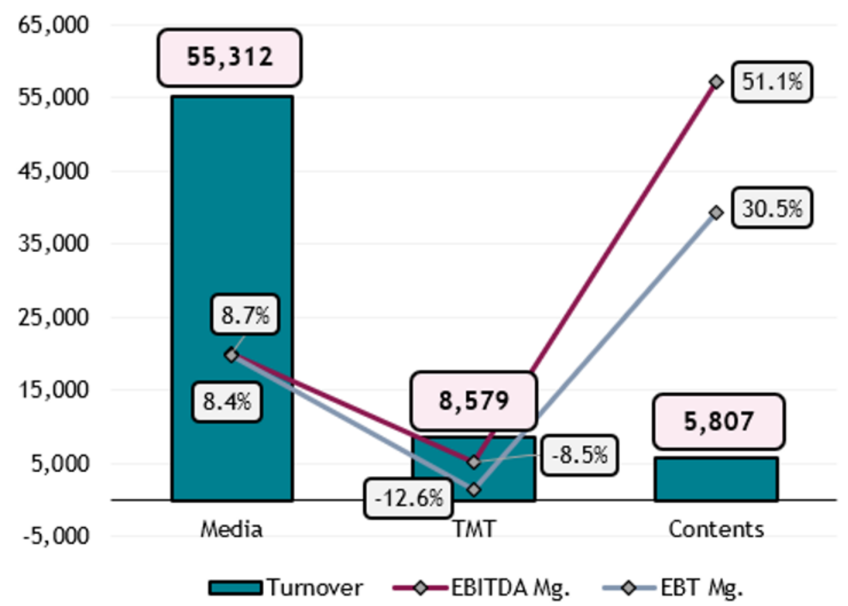
Profitability. Thousands of €.			
	2020	2021	2022 [1]
Turnover	32,088	69,698	80,005
Gross Mg.	29.8%	21.1%	28.1%
EBITDA	2,742	7,436	13,480
EBITDA Mg.	8.5%	10.7%	16.8%
EBIT	1,581	5,507	11,470
EBIT Mg.	4.9%	7.9%	14.3%
Financ. Expenses	-52	-225	-804
EBT	1,469	5,382	10,808

[1] Latest consolidated and published financial statements for 2022 but without audit.

The evolution of Grupo Squirrel Media's business has experienced a notable rise in recent years as a result of the transformation and integration process with Vértice 360º, through which the new group currently has four complementary business lines with clear synergies between them (advertising, content, media and technology). As a consequence of this, in July 2020, the advertising activity was incorporated (the company's main income-generating area), an aspect that significantly boosted its turnover to figures of €80MM1MM ($CAGR_{20-22}$ of 57.9%). Regarding the operating income generated, the trend has also been very positive in recent years, also favoured by all the inorganic growth that the group is developing (more detail in subsection "*2.1 Sector and competitive positioning*"), which have boosted EBITDA to figures of €13.5MM in 2022 (+81.3% YoY) and on which a further increase is expected in 2023 (data close to €27MM is projected).

By operating segment for the last closed and audited year 2021, although negative results and margins are observed in the 'Technology (TMT)' area, also given the support activity for the rest of the group's divisions, the rest of the lines such as 'Media' (including advertising and the media) and 'Content' obtained positive operating margins (8.7% and 51.1% respectively) and EBT (8.4% and 30.5% respectively), being especially high for the 'Content' aspect, which is one of the group's main commitments to continue growing in the coming years (as will be reflected, a priori, in 2023 with an increase in scheduled film releases not only in Spain and Andorra, but also in Italy, Portugal and LATAM).

Breakdown of turnover and results by operating segment (2021). Thousands of €. *



* "Media" incorporates the segment 'Advertising'. These figures do not include structural expenses.

"Activity that presents positive operating and final margins in recent years, and may be reinforced in future years with the organic and inorganic growth that the group is developing."

Regarding the financial burden, the company is characterised by maintaining controlled levels of indebtedness that favour low levels of financial expenses, an aspect that, on the one hand, allows it to present interest coverage at adequate levels, although with a notable reduction last year (16.8x in 2022; -16.3x YoY), and on the other, maintaining positive final results, with an EBT of €10.8MM (+100.8% YoY). However, it should be noted that the information has not been available to carry out a pro forma analysis in the historical years (2019-2021), and it is not possible to adjust these variations with a like for like analysis for some segments, such as advertising mainly (it was incorporated into the consolidated perimeter in July 2020).

During 2022, the evolution of the business has been somewhat uneven depending on the operating segment analysed, standing out for its greater weight or variation:

- **Advertising.** Income fell by 30.6% in the year impacted by the current context of uncertainty (problems with transportation, supplies and the war between Russia and

Ukraine) that caused a delay in the investments of clients who postponed them until the last part of 2022 and 2023.

- **Contents.** Although this division was also conditioned by the pandemic (cinema box offices in Spain are in the recovery phase), this last year there have been 8 premieres in Spanish theatres which, together with the inorganic growth achieved, have boosted income by 25.4 % compared to 2021. In addition, it will be throughout 2023 and the coming years when a greater number of premieres will be made in more countries (44 currently committed for the period 2023-2025) that should boost this sector in the medium/long term placing it as the main engine of the group (it is expected to go from incomes of €7.3MM in 2022 to €38.1MM and €84.2MM in 2023 and 2024 respectively, maintaining high margins).
- **Media.** A strong increase in revenues is shown (+813.6% vs. 2021) mainly reinforced by the acquisition of Net TV at the end of January 2022, which consolidates almost the entire year and favours greater business generation and results.

"Advertising segment that has been impacted by the context of uncertainty in the environment, although it has been offset by the increase in income, mainly at an inorganic level, in the media and content area during 2022. Strong growth is expected for 2023 and 2024 with a greater push from the content area."

Additionally, we highlight the favourable trajectory that the group's margins are following in recent years, with positive EBITDA and EBIT margins amounting to 16.8% and 14.3% in 2022 (+8.3pp and +9.4pp YoY) respectively. It is worth mentioning that this improvement in the company's efficiency and greater optimisation of results and margins is also being reinforced by the policy and management carried out in corporate acquisitions, such as the one carried out with Net TV and Veralia Distribución, free of employees and no outsourcing, given Squirrel Media's optimal staffing structure. This aspect makes it possible to further boost the performance generated in the group, being valued positively by EthiFinance Ratings. In addition, for 2023 and 2024 (as projected in their business plan), strong growth in revenue and EBITDA (in three digits) is shown, supported by the current situation of its different segments with contracts already formalised and growth prospects with its customers.

3.2 Asset structure and indebtedness

At the end of 2022 (data recently published but without audit), Grupo Squirrel Media had a more concentrated asset structure in the long term (67.4% of total investment), with a greater importance of intangible assets (92.3% within the non-current assets) and which is mainly due to two factors: i) the weight represented by the company's audio-visual rights for all the titles it is acquiring and which are increasing in the last year (more than 40 that will be marketed in more than 30 countries) given the role that the group has in the industry (a necessary player for large production companies, platforms and TV channels), and ii) goodwill of the companies acquired by the M&A policy that is being developed, highlighting in the first half of 2022, the contribution of the additions of Net TV and Veralia de Distribución de Cine (+€19.5MM jointly). This high level of intangible assets means that any significant deterioration in their value could significantly erode the group's capitalisation levels, being a shared risk in the industry, in general, which is tending towards concentration with the performance of various M&A operations.

The company presents a clear growth trend in the composition of its assets, having grown by 112.1% in 2022 compared to 2020, all favoured by the expansion and growth plan that is being carried out.

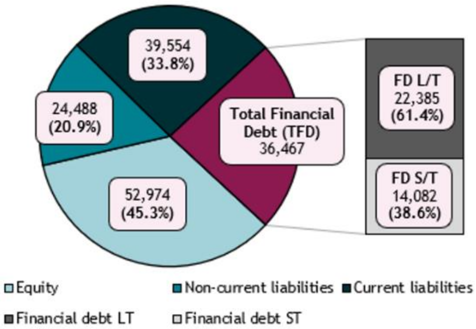
"Business plan that is developing a growth stage for the group under a balanced financing policy, with a mix of own and financial resources. All this allows the company to currently maintain controlled debt levels."

Indebtedness. Thousands of €.

	2020	2021	2022 [1]	22vs20
Total Assets	55,161	64,275	117,016	112.1%
Non-current assets	24,691	37,130	78,847	219.3%
Current assets	30,470	27,145	38,169	25.3%
Working capital needs	-1,321	-347	-634	52.0%
Equity	27,292	30,476	52,974	94.1%
Total Financial Debt	8,274	12,687	36,467	340.7%
Net Financial Debt	1,434	9,367	31,890	2123.8%
Equity/TFD	329.9%	240.2%	145.3%	-184.6pp
NFD/EBITDA	0.5x	1.3x	2.4x	1.8x
EBITDA/Interest	52.7x	33.0x	16.8x	-36.0x

[1] Latest consolidated and published financial statements for 2022 but without audit.

Breakdown of funding sources (2022). Thousands of €.



Regarding the operational needs of funds (NOF) that are reflected in the business, Squirrel presents a controlled structure, without high demands in terms of this aspect. At the end of 2022, in general, the group presents an adequate distribution of its financing sources, showing a high weight for net worth (45.3%). This, together with controlled levels of financial indebtedness, favour the reflection of an Equity/TFD ratio in positive and adequate values (145.3%), although it has been reduced in recent years (-184.6pp compared to 2020) due mainly to the largest debt that the company has acquired to face the growth it is achieving. In any case, we are dealing with a company with a solid equity structure and which, moreover, has been trying to strengthen in recent years, highlighting the latest capital increase carried out in June 2022 for an amount of €10M. From EthiFinance Ratings, the financial policy that the group is adopting to undertake its expansion strategy with M&A operations is positively valued, since they are being financed entirely with own funds or with an equitable mix between own capital and financial debt, being an aspect that favours the maintenance of a balanced financial structure.

Focusing on Squirrel's financial debt, it is worth mentioning the increase that is being reflected in recent years, reaching its peak within the period analysed, by 2022, with a figure of €36.5MM (+340.7% vs. 2020). This increase is a reflection, as previously detailed, of the expansion and new additions of companies to the group for its main lines of business (highlighting 'Content' and 'Media'), for which, mainly, new bilateral loans with Caixa. It should be noted that the terms negotiated for their repayment are not too long in time (maximum maturity of the loans in 2025 and 2026), reflecting a high concentration in the repayment of these financial obligations for 2023 and 2024 (40.8% and 46. 4% respectively, with data referenced to January 2023, based on the total financial debt and excluding working capital lines).

As a whole, the group has historically presented, after the restructuring carried out due to the financial problems it had in the past, NFD/EBITDA ratios at positive and adequate values, although with the increase in financial debt that is being reflected in recent years, the ratio has increased to 2.4x (compared to 0.5x in 2020), figures that, even so, continue to be valued as controlled. However, at EthiFinance Ratings we believe that further progress in the generation and promotion of the group's results (as projected for 2023 and 2024) is necessary to maintain and consolidate its adequate economic-financial position in the coming years.

3.3 Cash generation and liquidity

After the reverse merger of Squirrel Media with Vértice 360°, there has been a change in the business model that is reflected in the group's own operating cash generation, becoming positive since 2020 and with a clear growing trend driven by the expansion and growth developed since then. Thus, we find ourselves before a group with a liquidity ratio that is valued positively and that is backed by the solid cash position presented (€4.6M) and the generation of operating funds with the activity, €11.1MM at the end of 2022. However, EthiFinance Ratings highlights the high financial commitments that Squirrel presents (banking, deferred payments mainly due to the acquisition of Net TV and Grupo BF, as well as a loan with the Catalan Institute of Finance) during 2023 and 2024, which together with the capex necessary to undertake the expansion process in which it finds itself, reflect a demanding payment schedule during these years.

Liquidity. Thousands of €.

	2020	2021	2022 [1]
Treasury position	6,840	3,320	4,577
Treasury position/CL	36.6%	14.3%	11.6%
Undrawn credit facilities	-	512	166
FFO/NFD	175.4%	86.9%	34.7%

[1] Latest consolidated and published financial statements for 2022 but without audit.

Regarding cash flow, as described above, the group has reflected a positive evolution in recent years for Funds From Operations (FFO) which reached the figure of €11.1MM in 2021, with a CAGR of 109.9%for the period 2020-2022. This trend is driven both by adequate cash generation, both organically (companies already present in the group) and inorganically (new acquisitions that are boosting these values, standing out for its higher figures, the latest from Net TV). Likewise, it is estimated that if the group continues with this favourable trajectory of the business, a greater recovery of its main operating segment (advertising) and the momentum that new acquisitions should have in the coming years (such as the recently announced Grupo Ganga to close it and integrate it definitely in the first half of 2023), should reinforce this upward trend in income and cash generation.

With all this, assessing the current situation at the end of 2022, the group presents an FFO/NFD ratio at adequate levels (34.7%), although we mention that the constant increase in Squirrel's financial debt has caused an adjustment in said figure for recent years (-140.7pp compared to 2020). In this sense, we believe that further progress in operating cash levels would be important and necessary in the coming years, with the objective that the new financial debt structure is in line with the performance generated by Squirrel with a greater size and dimension.

Regarding the company's working capital needs, although they were relatively controlled, in the last year a greater impact of -€2.9MM was reflected, as a result, among other things, of the application of resources for accounts receivable with customers. In line with FFO, operating cash flow (OCF) has also been improving in recent years, reaching €8.2MM in recent years and an increase is estimated from 2023 with the greatest boost from its business sectors.

"Favourable evolution in the generation of operating cash, although for the moment insufficient to meet the investment of the group given the expansion plan in which it finds itself, having to resort to new financing (banking and capital increase). Even so, positive liquidity levels supported by its high FFO generated and available cash."

Cash flow. Thousands of €.

	2020	2021	2022 [1]	22vs21
EBT	1,469	5,382	10,808	100.8%
+/- adjustments in results	1,234	2,976	2,200	-26.1%
+/- other operation cash flow	-188	-218	-1,932	-786.2%
Funds From Operations (FFO)	**2,515**	**8,140**	**11,076**	**36.1%**
+/- WK changes	2,298	50	-2,897	-5894.0%
Operational Cash Flow	**4,813**	**8,190**	**8,179**	**-0.1%**
Investment Cash Flow	-11,680	-13,104	-33,828	-158.2%
Free Cash Flow	**-6,867**	**-4,914**	**-25,649**	**-422.0%**
+/- changes in capital	6,077	0	10,000	-
Dividends	0	0	0	-
Cash flow Generated Internally	**-790**	**-4,914**	**-15,649**	**-218.5%**
Issuance of new debt	5,944	4,925	22,260	352.0%
Debt repayment	-1,004	-3,531	-5,354	-51.6%
Exchange rate effect	0	0	0	-
Net Cash Generated	**4,150**	**-3,520**	**1,257**	**135.7%**
Cash at the beginning of the period	2,690	6,840	3,320	-51.5%
Cash at the end of the period	**6,840**	**3,320**	**4,577**	**37.9%**

[1] Latest consolidated and published financial statements for 2022 but without audit.

Despite the above, Squirrel's free cash flow (FCF) has been negative in recent years (-€4.9MM in 2021 and -€25.6MM in 2022), conditioned by high investment (average €21.1MM for the 2020-2022 period) that is currently being carried out both in terms of new corporate acquisitions and the purchase of a more extensive catalogue of content with new releases. In the case of the new films that are being acquired, this brings with it a higher capex at the time of acquisition, but which is monetised, a priori, in the coming years through the different exploitation windows of the same (generating, if the demand is positive, IRR positive and high). Therefore, this investment policy is valued favourably by EthiFinance Ratings, since, in principle, it should boost Squirrel's business and results in the long term, as projected in its business plan presented to the market in March 2023.

Financial debt maturity schedule (January 2023). Thousands of €. *

Year	Amount	Weight
2023	13,548.6	40.8%
2024	15,410.8	46.4%
2025	3,172.5	9.5%
2026 and following	1,095.3	3.3%
Total	33,227.2	-

* Does not include working capital facilities since we assume they will be renewed at maturity. It does include, in addition to loan maturities with financial institutions, deferred payments for M&A operations and IFRS 16.

These negative figures have been offset in two ways: i) capital increase materialised at the beginning of June 2022 for €10M, and ii) issuance of new financial debt (€22.3MM). All this has allowed the closing of the year with a positive change in final cash of €1.3MM.

Lastly, regarding the financial debt maturity schedule, Grupo Squirrel Media has higher commitments in the short and medium term (€29MM maturing in the 2023-2024 period, representing 87.2% of total financial debt), figures that, although they could be met, a priori, with the economic structure that the company presents (cash and operating cash generation), are valued as very demanding, also derived from the expansion and investment stage in which it is currently. However, from 2023 a very significant growth in its income and profits is projected (the main engine being the content sector), which could further strengthen its economic-financial structure.

4. Credit Rating

Credit Rating	
Business Risk Profile	**BB**
Industry Risk Assessment	*BBB*
Competitive Positioning	*BB-*
Governance	*BB-*
Company's ESG	**No impact**
Financial Risk Profile	**A-**
Cash flow and leverage	*BBB+*
Solvency	*A-*
Anchor Rating	**BBB-**
Modifiers	*No impact*
Rating	**BBB-**

Regulatory information

Sources of information

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

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

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

Additional information

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

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