

FINANCIAL ANALYSIS SUMMARY 2024



Mercury Projects Finance p.l.c.

9 August 2024

Prepared by Calamatta Cuschieri
Investment Services Limited



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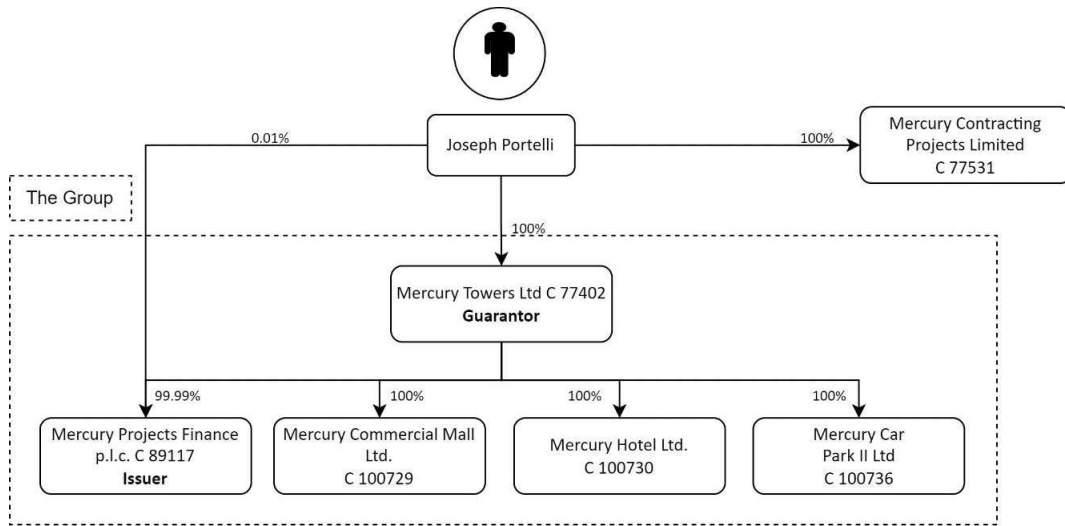
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Part 1 Information about the Group

1.1 The Group’s Key Activities and Structure

The Group structure is as follows:



The “Group” of companies (or the “Mercury Group”) comprises Mercury Projects Finance p.l.c. (the “Issuer”), Mercury Towers Ltd, acting as the Guarantor of the outstanding bonds of the Issuer, Mercury Car Park II Ltd, Mercury Hotel Ltd., and Mercury Commercial Mall Ltd.

The key activities of the Group consist of the development and operation of a mixed-use project (the “Project”) that *inter alia* involves the development of a 34-floor tower (including serviced apartments), a 5-star luxury hotel spanning over the podium area, retail and commercial spaces spanning across the entire project, a commercial mall, a rooftop bar, as well as an underlying car park. As at the date of this Analysis, the commercial mall and a number of commercial outlets are in operation (since November 2023).

The Issuer, with company registration number C 89117, is a public limited liability company registered in Malta on 16 January 2019. The Issuer is, except for one share that is directly held by Mr Joseph Portelli, a wholly-owned subsidiary of Mercury Towers Ltd, which is the parent company of the Group. The Issuer, which was set up and established to act as a finance vehicle has, as at the date hereof, an authorised share capital of €500,000 divided into 500,000 ordinary shares of €1 each and has an issued share

capital of €250,000 divided into 250,000 ordinary shares of €1 each, all fully paid up.

The Guarantor, Mercury Towers Ltd (“MTL”), is a private limited liability company incorporated and registered in Malta on 28 September 2016, with company registration number C 77402. The Guarantor owns land in St. Julian’s for the purpose of completing the Project in question. The Guarantor, has as at the date hereof an authorised share capital of €20,500,000 divided into 20,500,000 ordinary shares of €1 each and an issued share capital of €15,000,000 divided into 15,000,000 ordinary shares of €1 each, all fully paid up. Mr Joseph Portelli is the sole shareholder of the Guarantor.

Mercury Car Park II Ltd owns the car park underlying the entire development as further detailed in section 1.4 below.

Mercury Hotel Ltd. (“MHL”), a wholly owned subsidiary of MTL, owns and will operate the hotel, as explained in more detail in section 1.4 of this Analysis.

Mercury Commercial Mall Ltd., also a subsidiary of MTL, is the proprietor and operator of the commercial mall. The retail outlets were rented to third parties in shell form internally whilst the common areas of the mall and the outlets’ exterior (where applicable) were fully finished.



Finally, Mercury Contracting Projects Limited (“MCPL”), albeit not part of the Group, is fully owned by Mr Joseph Portelli and is trusted with carrying out the development and the finishing of the Project.

1.2 Directors and Key Employees

Board of Directors - Issuer

As of the date of this Analysis, the board of directors of the Issuer is composed as follows:

| Name | Office Designation |
|--------------------|------------------------------------|
| Mr Joseph Portelli | Chairman and Executive Director |
| Mr Stephen Muscat | Independent Non-executive Director |
| Mr Mario Vella | Independent Non-executive Director |
| Mr Peter Portelli | Independent Non-executive Director |

The business address of all of the directors is the registered office of the Issuer. Dr Joseph Saliba is the company secretary of the Issuer.

Board of Directors - Guarantor

As of the date of this Analysis, the board of directors of the Guarantor is composed as follows:

| Name | Office Designation |
|----------------------|--------------------|
| Mr Joseph Portelli | Executive Director |
| Ms Chloe Portelli* | Executive Director |
| Mr Tristen Portelli* | Executive Director |

*Ms Chloe Portelli and Mr Tristen Portelli were appointed as directors on 14 June 2024

The business address of the directors of the Guarantor is the registered office of the Issuer. Dr Ian Stafrace is the company secretary of the Guarantor.

The board of directors of the Guarantor will be supported by the new management team appointed in 2023 to oversee the Group companies’ day-to-day management and will be responsible for the general executive management, sales and business development, as well as for eventual hotel operations.

Management team members are:

| Name | Office Designation |
|-------------------|-------------------------|
| Mr Marcel Bonnici | Chief Executive Officer |
| Mr Neal Debono | Chief Operating Officer |
| Mr Keith Fabri | Chief Financial Officer |

As of the date of this Analysis, the Issuer does not have any employees of its own, whereas the Guarantor has 24 full-time employees (2022: 2).

1.3 Major Assets owned by the Group

As a special purpose vehicle set up to act as the financing company for the Project, the Issuer does not have any substantial assets other than the loans receivable from the Guarantor. The major assets of the Group are the underlying land and building on which the Project is being constructed.

The Guarantor owns land in St. Julian’s measuring *circa* 9,648m², which it acquired on a freehold title over two phases. 7,701.8m² of said land was acquired in two stages, in December 2016 and June 2017, for a total price of *circa* €24.3m. A plot of land measuring 1,964m² was then acquired in August 2021 for €14m.

The land, the constructed portion of the Project, and the airspace have been classified as “*property, plant, and equipment*”, “*investment property*” and “*inventory*” in the financial statements of the Group.

- *Property, plant, and equipment (“PPE”)*: €143.2m, as at 31 December 2023 (2022: €27.6m) consisting of property which will be retained by the Group to be used in the supply of services (operated as a hotel and car park). Further explanation on the value of PPE in sub-section 2.5. of this Analysis.
- *Investment property*: €80.6m, as at 31 December 2023 (2022: €68.1m) which comprises the retained property which will be leased out to third parties. As of 31 December 2023, this consisted of serviced apartments on Level 31 of Mercury Tower, the Twist, Mercury House, the Pavilion, the Commercial Mall, and the rooftop bar on Level 33.
- *Inventory*: €2.1m as at 31 December 2023 (2022: €15.2m) includes the Group’s inventory which consists of the various serviced apartments available for sale.

As at the date of this Analysis, elements of the Project are finished and available for use.

1.4 Operational Developments

The Group was set up in view and for the purpose of, and will principally operate by reference to, the Project. The ultimate beneficial owner of the Group, Mr Joseph Portelli, has a long trading history in the acquisition, development, management, and operation of real estate developments, including hotels, residential, office, retail property, and entertainment projects.



The most recent developments of the Group are described hereunder:

Mercury Project

The development and finishing of the Project are carried out by MCPL, a related party that is wholly owned by Mr Joseph Portelli. This is governed through a contract of works agreement entered into between MCPL and MTL in 2016.

To date, the Commercial Mall and the car park are finished and in operation, while the Mercury Tower, the Peripheral Block, the Mercury Hotel and the Pavilion are in the finishing stage. Installation of the glass fibre reinforced concrete façade, glass balustrades, and aluminium apertures of the Mercury Tower and Peripheral Block are now in their advanced stages. Mercury House, a listed building, is being fully restored. Management confirmed that the handing over of the apartments within the Mercury Tower commenced in Q1 2023, with only a few remaining.

The Commercial elements on the lower ground floor are in operation while the ones in Level 11 and Level 33 are in the finishing stages and are expected to be operational by the end of 2024.

Finishing works on the Mercury Hotel are currently in progress. Management confirmed that construction works were completed and finishing works are in progress. The handing over of commercial elements commenced in Q1 2023. All commercial spaces within the commercial mall were handed over to their respective tenants. Management confirmed that the Commercial Mall opened its doors to the public in Q4 2023, as scheduled, with the Mercury Hotel opening rescheduled to summer 2024, when the entire project is expected to be inaugurated.

Mercury Tower

The Mercury Tower (the “**Tower**”) is a 34-storey building above ground level, and also includes 6 storeys underground, four of which are designated as parking spaces. The gross floor area of the units within the tower (excluding parking spaces) is 20,591m². The Tower consists of 291 branded serviced apartments the majority of which were sold to third parties (279 apartments), with the remaining 12 apartments retained by the Guarantor. As at the date of this Analysis, all apartments have been sold and the deed of transfer has been signed.

Apart from the serviced apartments, the Mercury Tower also includes:

- A commercial area at level 11 (the Twist), which incorporates an outdoor pool, is a unique and versatile event space and has been rented out to third parties to be operated as a restaurant;
- A rooftop bar at level 33 (entrance on level 32); a viewing gallery which will be accessible to guests and patrons alike, also rented out to third parties;
- Three levels of commercial space (level B01 to level 1) will form part of the commercial offering and are connected to other commercial parts of the development. The outlets in level B01 were operational in November 2023;
- Office space situated on level 2 and
- Levels 10, 12, and (part of) level 32 of the Mercury Tower shall include plant rooms and storage facilities.

Peripheral Block

The peripheral residential block is an adjacent 9-storey block and includes a total of 170 serviced apartments across seven levels (levels 2 to 8). The serviced apartments have an average net internal area of *circa* 60m². As of the date of this Analysis, 155 apartments have been sold and 13 were under a promise of sale agreement, while 2 remain available for sale.

Management confirmed that finishing works on the Peripheral Block are almost completed following delays in the installation of the façade and other works. The delays were caused by workers being sent back to Turkey to assist their families after the devastating earthquake that hit the region.

Three levels of commercial space (levels B01 to level 1) of the peripheral residential block forms part of the Commercial Mall. The peripheral block also houses 2 outdoor pools for hotel guests and residents.

Hotel

Another branch of the Project comprises a 20-storey 5-star branded hotel, consisting of 140 rooms (the “**Hotel**”). Its accommodation capacity will extend by virtue of the serviced apartments whose owners sign up for a hotel accommodation pooling arrangement.



The Hotel is owned and will be operated by MHL through a hotel management agreement with the internationally renowned hotel chain Meliá, in particular with Meliá Hotels International S.A. (as manager) and Prodigios Interactivos S.A. (as provider). Following advice from the operator, the operations are expected to commence by summer 2024.

Commercial Outlets

The Project will also comprise a mix of retail and catering outlets, distributed on levels B01, the ground floor, and level 1 of the tower, podium, and in the peripheral building. The commercial outlets will consist of a number of shops with a total floor area exceeding 12,348m². The commercial shopping mall and entertainment arena will mainly be located over four floors across Mercury House, Mercury Tower, the Hotel, and the Peripheral Block (underlying Mercury Suites).

The commercial mall also includes the Flying Theatre and Museum of Illusions, both of which are situated within the Mercury House. The entertainment arena, known as Planet Play started operating in Q1 2024.

Ancillary components

The Project also includes a number of ancillary components.

- The Mercury House, a restored 19th century building intended to comprise an element of food and beverage activity. It will also comprise part of the planned Mercury Experience (described hereunder)
- The Mercury Experience, an attraction with audio-visual presentations of various historical eras and/or points of interest in Malta, and ending in the admission to the flying theatre, which will be a type of entertainment-themed simulator ride, consisting of rigged-seats and virtual reality/projection to create the illusion of flight.
- The Pavilion, a stand-alone building situated next to Mercury House intended to be operated by an anchor tenant as a flagship store.
- The rooftop bar and viewing gallery located in the uppermost two floors of the Tower, offering a 360° view from what is so far the highest building in Malta, accessible to guests and patrons alike.

Car Park

The Project also comprises a sub-structure car park, underneath all the sites spanning from levels B07 to B03. The

car park now includes a total of 638 car spaces. None of the 638 car spaces will be sold and will be used as a public car park to complement the commercial offering.

Management noted that, out of the aforementioned 638 car spaces, 28 are owned by a third-party.

1.5 Conflict in Ukraine

Management confirmed that, following thorough assessment of the Group's operations, it was noted that there is minimal reliance on the Russian/Ukrainian region for supplies of construction materials, and the Group was not impacted by sanctions on Russian nationals. The only consequences relate to shipping delays referred to in the prior sub-sections above.

1.6 Listed Debt Securities of the Issuer

Mercury Projects Finance p.l.c. currently has the following outstanding debt securities:

| | ISIN | €m |
|---|--------------|------|
| 3.75% Mercury Projects Finance plc Secured € 2027 | MT0002191204 | 11.5 |
| 4.25% Mercury Projects Finance plc Secured € 2031 | MT0002191212 | 11.0 |
| 4.3% Mercury Project Finance plc Secured € 2032 | MT0002191220 | 50.0 |

1.7 Use of Proceeds

The proceeds from the proposed €20.0m bond Issue (the "Bond Issue") as identified in the prospectus dated 25 July 2024 published by the Issuer (the "Prospectus"), will be used by the Issuer to provide a loan facility to the Guarantor, to be used as provided below (the "Issuer-Guarantor Loan 2024").

In turn, the Issuer-Guarantor Loan 2024 will be used by the Guarantor for the following purposes, in the amounts and order of priority set out below:

- (i) approximately, €5.0m will be used to re-finance the outstanding Relevant BOV Loan due by the Guarantor to Bank of Valletta p.l.c., which loan was originally principally utilised to finance part of the completion and finishing costs of the Project;
- (ii) approximately, €7.75m will be used to finance the remaining development (completion and finishing) costs of the Project; and
- (iii) the amount of €7.25m together with any residual amounts not utilised for the the previous points (i) and (ii) in this subsection, shall be utilised for general corporate funding purposes of the Group, including the expenses of the Bond Issue which are expected to amount to *circa*. €750k and which were agreed to be borne by the Guarantor.



Part 2 Historical Performance and Forecasts

The Issuer's historical financial information for the three years ending 31 December 2021, 2022 and 2023, as set out in the audited financial statements of the Issuer may be found in sub-sections 2.1. to 2.3. of this Analysis. These sub-sections also include the projected performance of the Issuer for the periods ending 31 December 2024 and 31 December 2025. Moreover, the Group's historical financial information for the three years ending 31 December 2021, 2022 and 2023, together with the Group's projected performance for the periods ending 31 December 2024 and 31 December 2025 are set out in sub-sections 2.4. to section 2.6.

The projected financial statements detailed below relate to events in the future and are based on assumptions which the Company believes to be reasonable. Consequently, the actual outcome may be adversely affected by unforeseen situations and the variation between forecast and actual results may be material.

2.1 Issuer's Income Statement

| Income Statement for the year ended 31 December | 2021A | 2022A | 2023A | 2024F | 2025P |
|---|------------|------------|------------|------------|------------|
| | €000s | €000s | €000s | €000s | €000s |
| Finance income | 1,121 | 2,730 | 3,371 | 3,622 | 4,356 |
| Finance costs | (899) | (2,377) | (3,049) | (3,280) | (4,024) |
| Net finance income | 222 | 353 | 322 | 343 | 332 |
| Administrative expenses | (79) | (160) | (195) | (193) | (197) |
| Profit before taxation | 143 | 193 | 127 | 150 | 135 |
| Taxation | (74) | (120) | (44) | (52) | (47) |
| Profit after taxation | 69 | 73 | 83 | 97 | 88 |

Given its role as the finance vehicle of the Group, the Issuer generates income from the differential in interest rates between the coupon on its listed bonds and the interest income charged to the Guarantor on the funds advanced.

Finance income and finance costs both increased from FY2022 to FY2023, as the latter was the first full financial interest period of the bonds issued during 2022. These are expected to increase further as from FY2024 following additional interest incurred on additional financing.

Administrative expenses have also increased from FY2022 following an increase in directors' fees and listing fees. These expenses are assumed to remain stable.

In terms of taxation, the Issuer reported a lower tax charge than in the previous year following a change in tax calculation wherein all expenses were deemed to be deductible.

Profit for the year increased slightly, in line with the changes mentioned herein.



2.2 Issuer's Statement of Financial Position

| Statement of Financial Position as at 31 December | 2021A | 2022A | 2023A | 2024F | 2025P |
|---|---------------|---------------|---------------|---------------|---------------|
| | €000s | €000s | €000s | €000s | €000s |
| Assets | | | | | |
| Non-current assets | | | | | |
| Loans and receivables | 22,444 | 72,444 | 72,444 | 92,444 | 92,444 |
| Total non-current assets | 22,444 | 72,444 | 72,444 | 92,444 | 92,444 |
| Current assets | | | | | |
| Other receivables | 1,211 | 2,522 | 2,565 | 2,932 | 2,932 |
| Tax recoverable | - | - | 29 | - | - |
| Cash and cash equivalents | 33 | 366 | 235 | 221 | 308 |
| Total current assets | 1,244 | 2,888 | 2,829 | 3,152 | 3,240 |
| Total assets | 23,688 | 75,332 | 75,273 | 95,597 | 95,684 |
| Equity and liabilities | | | | | |
| Capital and reserves | | | | | |
| Share capital | 250 | 250 | 250 | 250 | 250 |
| Retained earnings | 170 | 243 | 325 | 423 | 510 |
| Total equity | 420 | 493 | 575 | 673 | 760 |
| Non-current liabilities | | | | | |
| Interest bearing borrowings | 22,500 | 72,500 | 72,500 | 92,500 | 92,500 |
| Total non-current liabilities | 22,500 | 72,500 | 72,500 | 92,500 | 92,500 |
| Current liabilities | | | | | |
| Other payables | 703 | 2,294 | 2,198 | 2,424 | 2,424 |
| Current tax liability | 65 | 45 | - | - | - |
| Total current liabilities | 768 | 2,339 | 2,198 | 2,424 | 2,424 |
| Total liabilities | 23,268 | 74,839 | 74,698 | 94,924 | 94,924 |
| Total equity and liabilities | 23,688 | 75,332 | 75,273 | 95,597 | 95,597 |

The Issuer's assets are mostly made up of loans advanced to the Guarantor, in line with the sole function of the Issuer. As at 31 December 2023, these loans represented *circa* 96% of total assets. The value of these loans increased by €50m in FY2022 following the issue of bonds by the Issuer, proceeds of which were all loaned out to the Guarantor. There were no changes in these loans during FY2023. Looking forward into FY2024 and FY2025, the Issuer is forecasting an increase of €20m in loans to the Guarantor following additional financing facilities expected to be taken up during the year.

Current assets are mainly made up of accrued interest on the aforementioned loans, and cash and cash equivalents. These remained stable during FY2023, with only a slight decrease in cash and cash equivalents, as broken down in sub-section 2.3. below. Accrued interest is expected to increase slightly

in FY2024 following the aforementioned expected increase in debt.

Total equity in FY2023 amounted to €575k. This consists of the Issuer's share capital of €250k and retained earnings of €325k. Total equity is expected to increase slightly in FY2024 and FY2025 following slight projected increases in retained earnings.

The non-current liabilities of the Issuer are its listed securities, as listed in sub-section 1.6. of this Analysis. These were unchanged from FY2022 to FY2023, and are expected to increase by €20.0m due to the expected additional financing facilities. The only other liabilities of the Issuer are the outstanding interest commitments, which are expected to increase slightly in FY2024 due to the expected financing.



2.3 Issuer's Statement of Cash Flows

| Statement of Cash Flows for the years ended 31 December | 2021A | 2022A | 2023A | 2024F | 2025P |
|---|--------------|-----------------|--------------|-----------------|------------|
| | €000s | €000s | €000s | €000s | €000s |
| Cash flows from operating activities | | | | | |
| Profit before tax | 143 | 192 | 127 | 150 | 135 |
| <i>Adjustments:</i> | | | | | |
| Movement in finance income | - | (1,608) | - | (367) | - |
| Movement in finance expense | - | 1,478 | - | 256 | - |
| Movement in other receivables | - | (10) | - | 29 | - |
| Movement in other payables | (5) | 14 | 2 | (30) | - |
| Taxes paid | (83) | (139) | (119) | (52) | (47) |
| Net cash generated from / (used in) operating activities | 55 | (73) | 10 | (14) | 88 |
| Cash flows from investing activities | | | | | |
| Loans advanced to related parties | - | (50,000) | - | (20,000) | - |
| Net cash generated used in investing activities | - | (50,000) | - | (20,000) | - |
| Cash flows from financing activities | | | | | |
| Proceeds from Bond Issue | - | 50,000 | - | 20,000 | - |
| Movement on parent company account | (164) | 406 | (141) | - | - |
| Net cash generated from / (used in) financing activities | (164) | 50,406 | (141) | 20,000 | - |
| Net movements in cash and cash equivalents | (109) | 333 | (131) | (14) | 88 |
| Opening cash and cash equivalents | 142 | 33 | 366 | 235 | 221 |
| Closing cash and cash equivalents | 33 | 366 | 235 | 221 | 308 |

The Issuer's main cash movements, other than that of raising and repaying debt instruments, is to advance loans to the Guarantor against an annual interest charge ranging between 4.50% and 5.25% *per annum*.

There were no major cash movements from operating activities during FY2023, and management is not expecting any in the coming two financial years.

The Issuer did not register any major cash flows from investing or financing activities during FY2023, but is forecasting to loan out €20.0m to the Guarantor during FY2024 through proceeds from the bond.

The Issuer ended the year under review with a cash balance of €235k, and is projecting similar end of year cash balances in FY2024 and FY2025.



2.4 Group's Income Statement

| Income Statement for the year ended 31 December | FY2021A | FY2022A | FY2023A | FY2024F | FY2025P |
|---|----------------|---------------|---------------|----------------|---------------|
| | €000s | €000s | €000s | €000s | €000s |
| Revenue | 4,934 | 37,804 | 24,807 | 29,158 | 33,332 |
| Cost of sales | (3,913) | (29,041) | (18,696) | (12,025) | (9,871) |
| Gross profit | 1,021 | 8,763 | 6,111 | 17,133 | 23,461 |
| Other income / (expenditure) | - | 27 | (478) | 555 | 363 |
| Total operating costs | (707) | (2,506) | (2,379) | (6,302) | (6,250) |
| EBITDA | 314 | 6,284 | 3,254 | 11,386 | 17,574 |
| Depreciation | - | (10) | (1,238) | (4,736) | (4,803) |
| EBIT | 314 | 6,274 | 2,016 | 6,650 | 12,771 |
| Net finance costs | (899) | (2,386) | (3,462) | (8,228) | (8,473) |
| Gain on transfer of asset under construction | - | 6,657 | - | - | - |
| Revaluation of investment property | (4,797) | - | 13,140 | - | - |
| Profit / (loss) before tax | (5,382) | 10,545 | 11,694 | (1,578) | 4,298 |
| Taxation | (393) | (1,871) | (5,957) | 4,118 | (1,292) |
| Profit / (loss) after tax | (5,775) | 8,674 | 5,737 | 2,540 | 3,006 |

| Ratio Analysis | 2021A | 2022A | 2023A | 2024F | 2025P |
|--|---------|--------|--------|-------|-------|
| <i>Profitability</i> | | | | | |
| Growth in Total Revenue (YoY Revenue Growth) | -75.1% | 666.2% | -34.4% | 17.5% | 14.3% |
| Gross Profit Margin (Gross Profit / Revenue) | 20.7% | 23.2% | 24.6% | 58.8% | 70.4% |
| EBITDA Margin (EBITDA / Revenue) | 6.4% | 16.6% | 13.1% | 39.0% | 52.7% |
| Operating (EBIT) Margin (EBIT / Revenue) | 6.4% | 16.6% | 8.1% | 22.8% | 38.3% |
| Net Margin (Profit after taxation / Revenue) | -117.0% | 22.9% | 23.1% | 8.7% | 9.0% |
| Return on Common Equity (Profit after taxation / Average Equity) | -19.6% | 24.1% | 9.9% | 3.1% | 3.2% |
| Return on Assets (Profit after taxation / Average Assets) | -6.0% | 5.9% | 2.6% | 0.9% | 1.0% |

During FY2023, the Group generated €24.8m in revenue (FY22: €37.8m). Up to FY2022, the Group's sole revenue stream was the sale of property. The inventory levels of said property are expectedly decreasing year-on-year, with management expecting to have sold all remaining apartments by FY2024.

Starting from FY2023, the Group is generating revenue from the operation and rental of the newly-opened commercial areas, including the car park, as explained in section 1.4. of this Analysis. The aforementioned operations commenced in November 2023, so this revenue stream is expected to increase substantially going forward.

Another revenue stream is expected as from FY2024 following the planned official opening of the Mercury Hotel in summer of 2024¹.

After accounting for cost of sales of €18.7m, the Group reported a gross profit of *circa* €6.1m during FY2023, with gross profit margin increasing slightly from 23.2% to 24.6%. Gross profit margin is expected to more than double in FY2024 following the forecasted increase in revenue as previously explained, as well as the fact that the new revenue streams attract a lower cost of operation than that of property development for resale. As the operation of the Group transitions from sale of property to commercial and hospitality operations, the gross profit margin of the operation is forecast to increase significantly.

Operating costs, which primarily consist of wages and salaries, professional fees, bank charges, insurance, audit fees, and other fees which cannot be capitalised as part of the Project, stood at *circa* €2.4m in FY2023. These costs were relatively unchanged from the previous year. Looking forward to FY2024, following the full year of operation of the commercial area as well as approximately half a year of hotel

¹ In 2024 the Group is undergoing a transitional phase. As from FY2025, revenue generation will shift from property sales to commercial and hospitality operations. This is expected to result in enhanced profits.



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operating costs, this is expected to increase substantially. This are expected to remain stable in FY2025.

In line with the explained decrease in revenue, EBITDA decreased from €6.3m in FY2022 to €3.3m in FY2023. This, however, is expected to increase exponentially following the forecast increase in revenue and lower cost of sales outweighing the increase in operating costs.

Up to FY2021, the Group did not incur any depreciation due to the nature of its assets, being property developed for sale and investment property not yet available for use. Following the development of assets for rental or eventual operation, the Group started reporting a trivial amount of depreciation relative to its asset base. As from FY2024, depreciation is expected to be higher due to the higher value of the assets for rental and operation.

Financing costs amounted to €3.5m in FY2023. These figures reflect the interest paid on the Issuer's bonds. These increased in FY2023 as it was the first full interest period for the Issuer's bond issued in FY2022. As explained in sub-section 2.2. of this Analysis, management is expecting to

take out additional financing of €20.0m, which would expectedly increase finance costs. Management noted that other interest currently being incurred by the Group is at present being capitalised, given that the Project is still under construction.

The Group reported a gain of €13.1m being the revaluation of investment property following the completion of the commercial areas (specifically the Commercial Mall and the Car Park) towards the end of FY2023.

The majority of the tax charge refers to the deferred tax charge on the revaluation of property. The income tax credit forecast for FY2024 arises from tax credits for which the Group will become eligible on commencement of operations of the hotel, after which the Group expects to incur a tax expense of *circa* €1.3m in FY2025.

The Group reported a profit after tax of €5.8m for FY2023, as result of the aforementioned changes in revenue, costs, and one-off income from the revaluation of investment property.



2.4.1 Group's Variance Analysis

| Income Statement | 2023F | 2023A | Variance |
|---|---------------|---------------|----------------|
| | €000s | €000s | €000s |
| Revenue | 35,860 | 24,807 | (11,053) |
| Cost of sales | (23,734) | (18,696) | 5,038 |
| Gross profit | 12,126 | 6,111 | (6,015) |
| Other income / (expenditure) | - | (478) | (478) |
| Total operating costs | (3,438) | (2,409) | 1,029 |
| EBITDA | 8,688 | 3,224 | (5,464) |
| Depreciation and amortisation | (62) | (1,208) | (1,146) |
| EBIT | 8,626 | 2,016 | (6,610) |
| Net finance costs | (3,892) | (3,462) | 430 |
| Revaluation of investment property | - | 13,140 | 13,140 |
| Profit before taxation | 4,734 | 11,694 | 6,960 |
| Taxation | (3,314) | (5,957) | (2,643) |
| Profit after taxation | 1,420 | 5,737 | 4,317 |

Revenue and gross profit for FY2023 were lower than expected following delays in the signing of property deeds, which resulted in more units remaining in stock as at end of year. As stated in sub-section 2.4. above, these units are expected to be sold by end of FY2024.

The Group reported other expenditure of €478k in FY2023, which was not previously forecast. It also reported operating costs of €1.0m less than expected. Management explained that the aforementioned €478k other expenditure were part of the projected operating costs but were reported as other expenses at the end of the year. The remaining decrease in operating costs is attributable to delays in the recruitment of members of management.

Mainly as a result of the delay in the signing of property deeds, the Group reported an EBITDA of €3.2m for FY2023 when compared to the forecasted €8.7m.

Depreciation for FY2023 was substantially higher than previously projected, as the Group has accounted for a full year's depreciation on the car park and commercial mall following their commencement of operation in Q4 2023.

With regard to finance costs, the Group reported an amount slightly less than previously forecast, with management attributing this to higher interest rates assumed for the FY2023 forecasts.

The Group revalued its investment property during FY2023. This is explained in further detail in sub-section 2.5. below. This revaluation had not been forecast.

Taxation for the year was substantially higher than forecast. This was a result of the increase in deferred tax asset charged on the revaluation gain.

The Group therefore reported a favourable variance of €4.3m in profit after tax.



2.5 Group's Statement of Financial Position

| Statement of Financial Position as at 31 December | 2021A | 2022A | 2023A | 2024F | 2025P |
|---|----------------|----------------|----------------|----------------|----------------|
| | €000s | €000s | €000s | €000s | €000s |
| Assets | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 13,660 | 27,567 | 143,187 | 202,542 | 198,102 |
| Intangible assets | - | - | 270 | 240 | 210 |
| Investment property | 58,415 | 68,066 | 80,595 | 71,278 | 71,278 |
| Investment in subsidiaries | 4 | - | - | - | - |
| Investment in associate | 2 | 2 | 2 | 2 | 2 |
| Other receivables | - | - | 252 | 252 | - |
| Restricted cash | 20 | 20 | 20 | 21 | 20 |
| Deferred tax asset | - | - | - | 5,221 | 5,398 |
| Total non-current assets | 72,101 | 95,655 | 224,326 | 279,555 | 275,010 |
| Current assets | | | | | |
| Inventories | 23,974 | 15,157 | 2,081 | - | - |
| Trade and other receivables | 16,155 | 47,624 | 39,413 | 6,380 | 3,854 |
| Tax recoverable | - | - | 31 | - | - |
| Cash and cash equivalents | 814 | 21,001 | 3,702 | 1,777 | 11,675 |
| Total current assets | 40,943 | 83,782 | 45,227 | 8,157 | 15,529 |
| Total assets | 113,044 | 179,437 | 269,553 | 287,712 | 290,538 |
| Equity and liabilities | | | | | |
| Capital and reserves | | | | | |
| Share capital | 10,500 | 10,500 | 15,000 | 21,000 | 33,000 |
| Revaluation reserve | 6,124 | - | 35,838 | 35,838 | 35,838 |
| Investment property reserve | 18,182 | 16,985 | 26,106 | 26,106 | 26,106 |
| Retained earnings | (160) | 9,711 | 1,828 | 4,368 | 7,374 |
| Total equity | 34,646 | 37,196 | 78,772 | 87,312 | 102,318 |
| Non-current liabilities | | | | | |
| Borrowings | 28,908 | 38,889 | 73,450 | 67,304 | 59,111 |
| Bonds payable | 22,500 | 72,500 | 72,500 | 92,500 | 92,500 |
| Deferred tax liability | 3,806 | 2,638 | 14,120 | 14,120 | 14,120 |
| Total non-current liabilities | 55,214 | 114,027 | 160,070 | 169,002 | 165,731 |
| Current liabilities | | | | | |
| Borrowings | 9,589 | 4,394 | 13,223 | 13,638 | 8,193 |
| Trade and other payables | 13,530 | 23,775 | 17,488 | 12,815 | 12,828 |
| Taxation payable | 65 | 45 | - | 23 | 1,468 |
| Total current liabilities | 23,184 | 28,214 | 30,711 | 26,478 | 22,489 |
| Total liabilities | 78,398 | 142,241 | 190,781 | 200,399 | 188,220 |
| Total equity & liabilities | 113,044 | 179,437 | 269,553 | 287,712 | 290,538 |



| Ratio Analysis | 2021A | 2022A | 2023A | 2024F | 2025P |
|--|--------|--------|--------|--------|--------|
| <i>Financial Strength</i> | | | | | |
| Gearing 1 (Net Debt / Net Debt and Total Equity) | 63.5% | 71.8% | 66.4% | 66.3% | 59.1% |
| Gearing 2 (Total Liabilities / Total Assets) | 69.4% | 79.3% | 70.8% | 69.7% | 64.8% |
| Gearing 3 (Net Debt / Total Equity) | 173.7% | 254.8% | 197.4% | 196.6% | 144.8% |
| Net Debt / EBITDA | 191.7x | 15.1x | 47.8x | 15.1x | 8.4x |
| Current Ratio (Current Assets / Current Liabilities) | 1.8x | 3.0x | 1.5x | 0.3x | 0.7x |
| Quick Ratio (Current Assets - Inventory / Current Liabilities) | 0.7x | 2.4x | 1.4x | 0.3x | 0.7x |
| Interest Coverage (EBITDA / Cash interest paid) | 0.3x | 2.6x | 1.1x | 3.8x | 4.4x |

The Group's assets are principally PPE, investment property, inventories, trade and other receivables and cash and cash equivalents. As at 31 December 2023, the Group's total assets stood at €269.6m (FY2022: €179.4m).

As at 31 December 2023, the Group's PPE amounted to €143.2m, representing *circa* 53% of total assets. PPE of the Group includes the cost of the airspace of the Mercury Project, along with the construction and development of the components that will be operated by the Group. PPE increased greatly from the €27.6m reported as at 31 December 2022, mainly due to the increase in value following developments within the Project. This was higher than what the Group previously forecast following the revaluation on the Commercial Mall and Car Park, with the former being reclassified from investment property to PPE during the year. The value of the Group's PPE is expected to increase further in FY2024 given the completion of the Project. Looking forward, the Group does not expect any changes in its PPE other than the relevant depreciation.

Investment property, which represents *circa* 30% of total assets, was reported at €80.6m in FY2023 (FY2022: €68.1m). Investment property is made up of the cost of the airspace of the Mercury Project, along with its construction and development of the components that will be leased out to, and operated by third parties. The increase in the value of investment property was due to further developments of the aforementioned components. It is expected that, during FY2024, there will be a shift of assets from investment property to PPE. Specifically, the Flying Theatre and the Museum of Illusions, being part of the commercial mall as explained in sub-section 1.4., will be accounted for as investment property as from FY2024. The Group is not forecasting any depreciation on its investment property, as this will be tested for impairment accordingly.

Other non-current assets include intangible assets and other receivables, with the former being amortised licence fees and the latter being a tax incentive granted to Mercury Hotel Ltd.

The current assets of the Group are mainly its inventories, trade and other receivables, and cash and cash equivalents (the latter will be explained in sub-section 2.6. below).

Inventories, which are the apartments within the Mercury Tower for sale, decreased year-on-year, with management expecting the last 22 units to be sold during FY2024. The value of inventories at the end of FY2023 was approximately €2.1m, and this is expected to be nil by the end of FY2024 and thereafter.

Trade and other receivables amounted to €39.4m as at the end of FY2023. These represent advances by the Group to Mercury Contracting Projects Limited (a related company) for contracting works to be done during the year under review, as well as deferred bond issue costs amortised over the term of the Issuer's bonds. This was expected to be substantially higher, with management attributing this to a contractor balance previously assumed to be set off against a contractor credit balance. Given the projected completion of the Project, trade and other receivables are forecast to decline by end of FY2024. As from FY2025, the Group projects that the majority of sales will not involve credit terms and, therefore, it is projecting a decrease in trade receivable balances..

As at 31 December 2023, the Group's share capital amounted to €15.0m. The increase from €10.5m reported at the end of FY2022 is due to an interim dividend of €4.5m which was capitalised accordingly. This is expected to be higher by the end of FY2024 and FY2025 due to planned capital injections of €6.0m and €12m, respectively.

As explained previously in this sub-section, the Group's PPE increased following the construction and development of components to be operated internally. The post-completion increase in value has, in turn, increased the Group's revaluation reserve. The Group's investment property reserve increased for the same reason but for components to be operated by third parties. The Group's projections did not assume such increases. The Group does not expect anticipate any further increases in the value of PPE.



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The liabilities of the Group mainly consist of financial debt, trade and other payables, and deferred tax liabilities. Financial debt is made up of the Issuer's €72.5m bonds currently on the market, and total borrowings amounting to €85.7m, made up of bank loans and a temporary overdraft. The aforementioned bank borrowings were higher than previously projected, with management attributing this to an additional bank facility obtained to cover new investments in operations within the Mercury Project. As mentioned in section 1.7 of this Analysis, a temporary €5.0m banking facility will be repaid using the proceeds from the proposed €20.0m bond issue during FY2024. The Group is expecting its borrowings to steadily decrease going forward.

Deferred tax liability at the end of FY2023 was reported at €14.1m. This was substantially higher than both FY2022 levels as well as what the Group previously projected for FY2023. Management explained that this is directly related to the previously-mentioned revaluations on PPE and investment property.

Trade and other payables amounted to €17.5m as at end of FY2023. This shows a decrease of circa €6.3m from the FY2022 equivalent, with the major contributor to said decrease being the settlement of dues to contractors throughout the year. Going forward, trade and other payables are expected to decrease further to €12.8m, made up mostly of €9.1m due to related contractor incurred for the continuing development of the Project.

Despite the increase in borrowings as explained in this subsection, the increase in equity following revaluations has decreased the Group's gearing to 66.4% (FY2022: 71.8%). This is expected to increase slightly by the end of FY2024, mainly due to the taking up of the €20.0m additional financing facilities which (slightly offset by the projected increase in share capital). The Group expects to meet all its financing obligations through a combination of capital injections and profits generated from operations.



2.6 Group's Statement of Cash Flows

| Statement of Cash Flows for the year ended 31 December | FY2021A | FY2022A | FY2023A | FY2024F | FY2025P |
|---|-----------------|-----------------|-----------------|-----------------|----------------|
| | €000s | €000s | €000s | €000s | €000s |
| Cash flows from operating activities | | | | | |
| Operating profit / (loss) before working capital movements | 289 | 6,285 | 3,254 | 11,386 | 17,574 |
| <i>Adjustments:</i> | | | | | |
| Movement in inventory | (15,056) | 8,818 | 13,076 | 7,097 | - |
| Movement in trade and other receivables | (8,794) | (31,465) | 8,211 | 6,696 | 2,595 |
| Movement in trade and other payables | 4,506 | 9,311 | (7,363) | (1,608) | 13 |
| Contract liability | 101 | 932 | 1,076 | - | - |
| Tax paid | (331) | (2,525) | (2,019) | (1,081) | (23) |
| Net cash generated from / (used in) operating activities | (19,285) | (8,644) | 16,235 | 22,491 | 20,159 |
| Cash flows from investing activities | | | | | |
| Acquisition of investment property | - | - | (25,921) | - | - |
| Investment in property | (17,667) | (23,569) | (46,990) | (36,363) | (333) |
| Acquisition of subsidiary | (4) | - | - | - | - |
| Acquisition of intangible assets | - | - | (300) | - | - |
| Net cash generated from / (used in) investing activities | (17,671) | (23,569) | (73,211) | (36,363) | (333) |
| Cash flows from financing activities | | | | | |
| Issue of share capital | 10,000 | - | 4,500 | 6,000 | 12,000 |
| Repayment of bank borrowings | (10,406) | (5,195) | - | (15,811) | (13,638) |
| Movements in borrowings | 38,497 | 9,980 | 43,390 | 10,080 | - |
| Movements from loans from related parties | - | - | (252) | - | - |
| Dividends paid | - | - | (4,500) | - | - |
| Interest paid | (899) | (2,377) | (3,049) | (3,024) | (4,024) |
| Bank interest paid | - | (8) | (413) | (4,798) | (4,266) |
| Net proceeds of bond | - | 50,000 | - | 19,500 | - |
| Net cash generated from / (used in) financing activities | 37,192 | 52,400 | 39,676 | 11,947 | (9,928) |
| Net movements in cash and cash equivalents | 236 | 20,187 | (17,300) | (1,925) | 9,898 |
| Cash and cash equivalents at start of year | 578 | 814 | 21,001 | 3,702 | 1,777 |
| Cash and cash equivalents at end of year | 814 | 21,001 | 3,701 | 1,777 | 11,675 |

| Ratio Analysis | 2021A | 2022A | 2023A | 2024F | 2025P |
|--|----------|----------|----------|----------|--------|
| Cash Flow | €000s | €000s | €000s | €000s | €000s |
| Free Cash Flow (Net cash from operations + interest - Capex) | (36,053) | (29,836) | (53,627) | (10,848) | 23,850 |

The Group reported *circa* €3.3m profit before tax for FY2023. After adjusting for working capital movements, non-cash items and the payment of tax, the Group reported an inflow from operating activities of €16.2m.

This inflow was mainly a result of a decrease in inventories following sale of apartments throughout the year under review, as well as a decrease in trade and other receivables, particularly when compared to the substantial increase

between FY2022 and FY2023. This was partially offset by a decrease in trade and other payables.. These movements in working capital are explained in sub-section 2.5. above.

Investing activities of the Group resulted in an outflow of €73.2m. As explained throughout this Analysis, the development of components within the Project was ongoing throughout the majority of FY2023, requiring a substantial amount of cash. Management explained that the cash



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outflows for investing activities were higher than previously forecast mainly due to the fact that certain areas within the Project were relocated to PPE following the decision to operate internally, as well as a higher level of cash payments in order to complete components of the Project in a timely manner following delays. This was partially offset by less outflows for the acquisition of property, as the works on PPE were slower than was anticipated. Management is expecting to use less cash in investing activities during FY2024 given the advanced status of the developments within the Project, with minor investments expected in FY2025.

The Group reported an inflow from financing activities of €39.7m in FY2023. The major financing activity affecting year-end cash was the movement in borrowings following

additional financing facilities taken up by the Group throughout the year under review. Looking forward to FY2024 and FY2025, the Group is forecasting inflows from the bond proceeds and two capital injections, which will be used primarily to finalise the Project and to repay bank borrowings.

The Group had a net cash outflow of €17.3m during FY2023 which, after taking into consideration the cash balance of €21.0m at the beginning of FY2023, resulted in a year-end balance of €3.7m. As previously explained in this subsection, the most substantial cash outflows during the year were for investing activities.



Part 3 Key Market and Competitor Data

3.1 General Market Conditions

The Issuer is subject to general market and economic risks that may have a significant impact on its current and future property developments and their timely completion within budget. These include factors such as the health of the local property market, inflation and fluctuations in interest rates, exchange rates, property prices, and rental rates. In the event that general economic conditions and property market conditions experience a downturn, which is not contemplated in the Issuer's planning during development, this shall have an adverse impact on the financial condition of the Issuer and may therefore affect the ability of the Issuer to meet its obligations under the Bonds.

Malta Economic Update²

The Bank's Business Conditions Index indicates that in June 2024, annual growth in business activity declined, and remained below around its historical average estimated since January 2000. The European Commission confidence surveys show that sentiment in Malta increased slightly in June, but remained below its long-term average, estimated since November 2002. Sentiment mostly improved among consumers.

Additional data show that in month-on-month terms, price expectations increased across all sectors, bar the construction sector and among consumers. The largest increases were in the retail sector and in industry. In June, the European Commission's employment expectations indicator for Malta rose but remained below its long-term average. The Commission's Economic Uncertainty Indicator (EUI) for Malta decreased compared with May, indicating lower uncertainty, especially in the services and construction sectors.

In May, industrial and services production rose at a slower pace on a year-on-year basis, while retail trade contracted slightly. The unemployment rate increased to 3.2% in May from 3.1% in April and stood above that of 3.1% in May 2023. Commercial building permits in May were lower than a month earlier and were also lower compared to a year earlier. On the other hand, residential building permits increased on both a monthly and an annual basis. In June, the number of residential promise-of-sale agreements and final deeds of sale fell on a year earlier.

² Central Bank of Malta – Economic Update 7/2024

The annual inflation rate based on the Harmonised Index of Consumer Prices (HICP) stood at 2.2% in June, slightly down from 2.3% in the previous month, and below the euro area average by 0.3 percentage points. HICP, excluding energy and food in Malta also remained below the euro area average. Inflation based on the Retail Price Index (RPI) eased to 1.3% from 1.5% in May.

In May, Maltese resident's deposits increased above their level a year ago, driven by balances belonging to households. By contrast, deposits held by non-financial corporations and financial intermediaries decreased. Meanwhile, credit to Maltese residents also increased in annual terms, reflecting higher lending to both the government sector and other sectors.

In May, the Consolidated Fund recorded a deficit, in contrast to the surplus recorded a year earlier. Timing issues contributed to a surge in government expenditure. Overall, the Consolidated Fund deficit between January and May dropped to €7.1 million, from €103.5 million in the same period a year earlier.

Economic projections³

According to the Bank's latest forecasts, Malta's gross domestic product (GDP) is expected to grow by 4.3% in 2024. Growth is then projected to ease to 3.5% in both 2025 and 2026. This implies a marginally downward revision in 2024 and 2025, when compared to the Bank's previous projections, while for 2026 the outlook is revised upwards.

In 2023, growth was primarily driven by net exports, while domestic demand is envisaged to be the main driver of growth in 2024. Private consumption growth continues at a brisk pace, and private investment, is expected to gradually recover. Net exports are also projected to contribute positively, driven mainly by services exports. Growth in 2025 and 2026 is expected to continue to be led by domestic demand.

Employment growth is set to moderate, albeit from high rates, in the projection horizon, while the average wage is expected to grow at a faster rate in 2024, partly in response to the pronounced inflation in the recent past and a tight labour market.

³ Central Bank of Malta – Outlook for the Maltese economy – 2024 - 2026



Annual inflation based on the Harmonised Index of Consumer Prices is projected to drop significantly, from 5.6% in 2023 to 2.4% in 2024, before reaching 1.9% by 2026. Compared to previous projections, inflation has been revised down by 0.5 percentage point in 2024, largely reflecting the unexpected rapid drop experienced in the initial months of the year. The general government deficit-to-GDP ratio is set to decline to 4.1% in 2024, and to narrow further over the rest of the forecast horizon, to stand at 3.1% by 2026.

The general government debt-to-GDP ratio is set to increase throughout the forecast horizon, reaching 54.3% by 2026. When compared with the previous projection round, the projected deficit ratio is higher, while the debt ratio is broadly unchanged.

Risks to activity are broadly balanced over the projection horizon. Downside risks largely emanate from possibly adverse trade effects related to ongoing geopolitical tensions. On the other hand, the labour market could exhibit even stronger dynamics than envisaged in this projection round, both in terms of employment and wages. This could then result in stronger private consumption growth.

Risks to inflation are balanced over the project horizon. Upside risks to inflation could stem from extreme weather events and effects of geopolitical developments. Other upside risks to headline inflation include the potential impact of measures to combat climate change. Furthermore, wage pressures could be stronger than envisaged in the baseline. On the downside, imported inflation could fall more rapidly than expected, while services inflation could normalise more quickly than envisaged in this projection round.

On the fiscal side, risks are tilted to the downside (deficit-increasing). These mainly reflect the likelihood of slippages in current expenditure, including higher-than-expected outlays on energy support measures if commodity prices are higher than envisaged. They also reflect the likelihood of additional increases in pensions and public sector wages in the outer years of the forecast horizon. Should these risks materialise, they are set to be partly offset by the likelihood of additional fiscal consolidation efforts to comply with the EU's fiscal rules.

Hospitality Sector

The tourism sector in Malta

Comparison between the data of 2022 and 2023 provides valuable insights into the trajectory of the local tourism industry over the span of a single year, reflecting the pace and direction of recovery following the disruptions caused by the pandemic.

Inbound tourist arrivals experienced a notable surge from 2,287k in 2022 to 2,976k in 2023, marking an impressive increase of 30.1%. This significant uptick underscores the industry's robust recovery momentum and highlights the successful implementation of strategic initiatives aimed at rejuvenating tourism demand and stimulating visitor traffic.

Correspondingly, the metric of tourist guest nights witnessed a substantial growth, escalating from 16,600k in 2022 to 20,424k in 2023, reflecting a noteworthy increase of 21.9%. This surge in guest nights not only indicates a resurgence in tourist engagement but also underscores the sustained interest and participation in the local tourism offerings, contributing to the overall vibrancy of the sector. However, amidst the recovery, there was a notable decline in the average length of stay, dropping from 7.3 days in 2022 to 6.8 days in 2023, representing a significant decrease of 6.8%. This decline may raise concerns regarding visitor engagement and expenditure patterns, necessitating a deeper examination into the underlying factors driving this trend and potential strategies to address it.

On the economic front, tourist expenditure exhibited a remarkable increase from €2,013m in 2022 to €2,671m in 2023, depicting a substantial surge of 32.7%. This surge in spending reflects the revitalization of tourism-related economic activities and underscores the sector's pivotal role in driving economic growth and employment.

Furthermore, the metric of tourist expenditure per capita demonstrated a modest increase, rising from €880 in 2022 to €898 in 2023, representing a marginal increment of 2.0%. While this increase reflects improved spending capacity and propensity among tourists, further analysis is required to discern the underlying factors influencing spending behaviour and patterns. The trends are also summarised in the following table, illustrating the number of tourist arrivals over the last four years:



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| Category ⁴ | 2020 | 2021 | 2022 | 2023 | 2022 vs. 2023 |
|-----------------------------|-------|-------|--------|--------|---------------------|
| Inbound tourists* | 659 | 968 | 2,287 | 2,976 | 30.1% |
| Tourist guest nights* | 5,227 | 8,390 | 16,600 | 20,424 | 21.9% |
| Avg. length /stay | 7.9 | 8.7 | 7.3 | 6.8 | (6.8)% |
| Tourist expenditure** | 455 | 871 | 2,013 | 2,671 | 32.7% |
| Tourist exp. per capita (€) | 691 | 899 | 880 | 898 | 2.0% |

*in thousands

**in € millions

January – June 2024⁵

Inbound tourists for June 2024 were estimated at 350,910 an increase of 19.2% when compared to the corresponding month in 2023. Total nights spent, on the other hand, amounted to 2,301,614, whilst total expenditure almost reached €333.7m.

The largest share of guest nights (85.7%) was spent in rented accommodation establishments. Inbound tourists for half of 2024 amounted to 1,590,867, while total nights spent surpassed 9.4m. Total tourism expenditure for the period January-June 2024 was estimated at €1.3bn, while expenditure per capita stood at €812.

⁴ National Statistics Office, Malta - Tourism

⁵ National Statistics Office, Malta NR 144/2024



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3.2 Comparative Analysis

The purpose of the table below compares the debt issuance of the Group to other debt instruments. Additionally, we believe that there is no direct comparable company related to the Issuer and as such we included a variety of issuers with different maturities.

More importantly, we have included different issuers with similar maturity to the Issuer. One must note that given the material differences in profiles and industries, the risks associated with the Group's business and that of other issuers is therefore different.

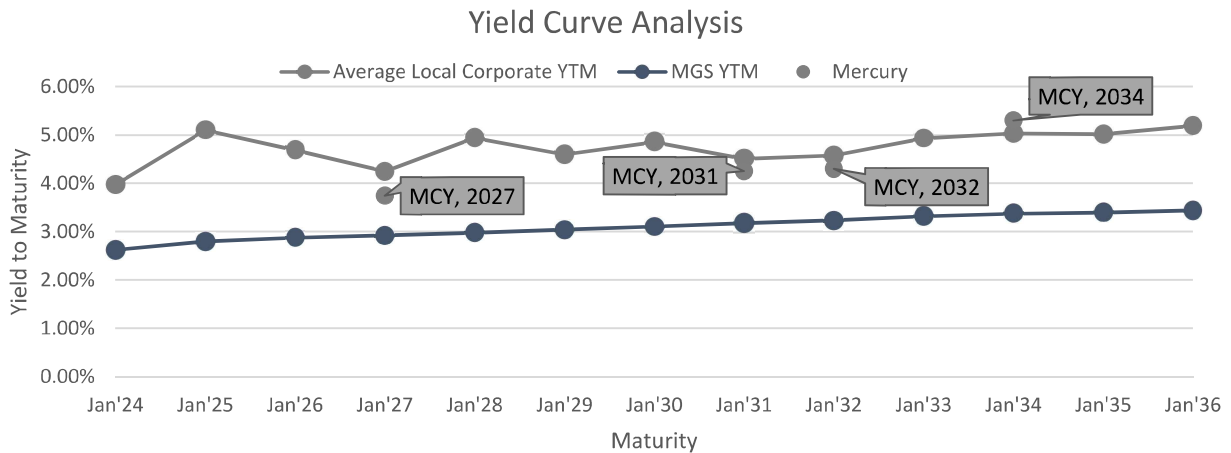
| Security | Nom Value €000's | Yield to Maturity (%) | Interest coverage (EBITDA) (times) | Total Assets (€millions) | Total Equity (€millions) | Total Liabilities / Total Assets (%) | Net Debt / and Total Equity (%) | Net Debt / EBITDA (times) | Current Ratio (times) | Return on Common Equity (%) | Net Margin (%) | Revenue Growth (YOY) (%) |
|--|---------------------|--------------------------|--|-----------------------------|-----------------------------|--|---------------------------------------|---------------------------------|--------------------------|--------------------------------|-------------------|--------------------------------|
| 4.35% Hudson Malta plc Unsecured € 2026 | 12,000 | 4.34% | 7.7x | 78.3 | 12.9 | 83.6% | 76.4% | 8.1x | 1.2x | 0.9% | 0.2% | 8.9% |
| 4.25% CPHCL Finance plc Unsecured € 2026 | 40,000 | 3.92% | 1.6x | 1,913.3 | 891.9 | 53.4% | 42.3% | 10.1x | 1.1x | -1.3% | -3.4% | 20.9% |
| 4% MIDJ plc Secured € 2026 | 50,000 | 4.00% | (.5)x | 236.3 | 74.7 | 68.4% | 40.8% | (46.9)x | 3.2x | -1.7% | -37.3% | 19.2% |
| 4% International Hotel Investments plc Secured € 2026 | 55,000 | 3.46% | 1.7x | 1,768.3 | 836.3 | 52.7% | 42.1% | 9.5x | 1.0x | -1.4% | -3.9% | 20.8% |
| 3.9% Plaza Centres plc Unsecured € 2026 | 5,150 | 4.71% | 7.2x | 37.0 | 27.2 | 26.4% | 14.6% | 2.2x | 1.2x | 4.1% | 35.9% | 7.7% |
| 3.75% Premier Capital plc Unsecured € 2026 | 65,000 | 4.21% | 20.4x | 425.1 | 103.0 | 75.8% | 65.1% | 2.3x | 0.8x | 40.0% | 6.3% | 21.0% |
| 4% International Hotel Investments plc Unsecured € 2026 | 60,000 | 4.13% | 1.7x | 1,768.3 | 836.3 | 52.7% | 42.1% | 9.5x | 1.0x | -1.4% | -3.9% | 20.8% |
| 3.25% AX Group plc Unsec Bds 2026 Series I | 15,000 | 4.20% | 1.8x | 474.0 | 243.5 | 48.6% | 39.4% | 20.9x | 0.9x | -1.6% | -7.7% | 30.3% |
| 3.9% Gap Group plc Secured € 2024-2026 | 15,944 | 3.89% | 36.6x | 98.6 | 36.1 | 63.4% | 54.8% | 3.4x | 2.3x | 31.1% | 22.7% | 45.0% |
| 4% Hill Finance Company plc Unsecured € 2027 | 50,000 | 4.96% | 4.4x | 1,030.8 | 242.9 | 76.4% | 68.2% | 4.2x | 0.7x | 24.0% | 5.5% | 26.1% |
| 3.75% Mercury Projects Finance plc Secured € 2027 | 11,500 | 3.74% | 0.6x | 269.6 | 78.8 | 70.8% | 66.4% | 48.2x | 1.5x | 9.9% | 23.1% | -34.4% |
| 4% Eden France plc Unsecured € 2027 | 40,000 | 3.99% | 5.7x | 223.3 | 136.7 | 38.8% | 27.1% | 4.3x | 0.2x | 2.8% | 8.4% | 36.6% |
| 5.25% Mediterranean Investments Holding plc Unsecured € 2027 | 30,000 | 4.50% | 5.2x | 309.1 | 205.9 | 33.4% | 20.4% | 2.7x | 1.1x | 6.2% | 45.8% | 9.8% |
| 4.4% Central Business Centres plc Unsecured € 2027 SL17 T1 | 6,000 | 4.40% | 1.1x | 65.7 | 23.8 | 63.7% | 59.2% | 24.9x | 0.7x | 0.2% | 2.2% | -1.8% |
| 3.75% Tumas Investments plc Unsecured € 2027 | 25,000 | 4.31% | 7.2x | 240.7 | 146.9 | 39.0% | 22.5% | 2.1x | 1.8x | 6.6% | 18.1% | 20.0% |
| 4% Stivala Group Finance plc Secured € 2027 | 45,000 | 4.34% | 27.0x | 469.7 | 328.5 | 30.1% | 22.9% | 1.5x | 1.2x | 21.0% | 208.5% | 14.5% |
| 4.75% Best Deal Properties Holding Plc Secured € 2025-2027 | 15,000 | 5.08% | 90.9x | 34.3 | 8.9 | 74.1% | 69.2% | 5.8x | 3.2x | 12.5% | 7.7% | 4.6% |
| 4.75% Gap Group plc Secured € 2025 - 2027 | 23,000 | 4.51% | 36.6x | 98.6 | 36.1 | 63.4% | 54.8% | 3.4x | 2.3x | 31.1% | 22.7% | 45.0% |
| 3.85% Hill Finance Company plc Unsecured € 2028 | 40,000 | 4.41% | 4.4x | 1,030.8 | 242.9 | 76.4% | 68.2% | 4.2x | 0.7x | 24.0% | 5.5% | 26.1% |
| 4% Exalco Finance plc Secured € 2028 (xdl) | 15,000 | 4.00% | 4.4x | 77.8 | 52.9 | 32.1% | 21.1% | 3.9x | 0.7x | 4.0% | 40.9% | 3.5% |
| 4.15% Phoenixia Finance Company plc Unsecured € 2023-2028 | 5,711 | 4.15% | 2.6x | 128.1 | 47.0 | 63.3% | 59.0% | 11.9x | 0.3x | 0.7% | 1.6% | 29.9% |
| 5.75% Best Deal Properties Holding plc Secured € 2027-2029 | 15,000 | 4.77% | 90.9x | 34.3 | 8.9 | 74.1% | 69.2% | 5.8x | 3.2x | 12.5% | 7.7% | 4.6% |
| 4% SP Finance plc Secured € 2029 | 12,000 | 4.00% | 2.2x | 43.3 | 17.9 | 58.6% | 51.2% | 9.3x | 0.5x | -0.7% | -1.3% | 0.0% |
| 3.75% TUM Finance plc Secured € 2029 | 20,000 | 4.56% | 4.1x | 75.1 | 41.4 | 44.9% | 37.3% | 7.9x | 1.6x | 4.1% | 46.1% | -1.4% |
| 3.65% Stivala Group Finance plc Secured € 2029 | 15,000 | 3.85% | 27.0x | 469.7 | 328.5 | 30.1% | 22.9% | 1.5x | 1.2x | 21.0% | 208.5% | 14.5% |

| | | | | | | | | | | | | |
|--|--------|--------------|--------|---------|-------|-------|-------|-------|------|-------|--------|--------|
| 3.8% Hill Finance Company plc Unsecured € 2029 (xd) | 80,000 | 4.50% | 4.4x | 1,030.8 | 242.9 | 76.4% | 68.2% | 4.2x | 0.7x | 24.0% | 5.5% | 26.1% |
| 3.75% AX Group plc Unsec Bds 2029 Series II | 10,000 | 3.75% | 1.8x | 474.0 | 243.5 | 48.6% | 39.4% | 20.9x | 0.9x | -1.6% | -7.7% | 30.3% |
| 4.25% Mercury Projects Finance plc Secured € 2031 | 11,000 | 4.33% | 0.6x | 269.6 | 78.8 | 70.8% | 66.4% | 48.2x | 1.5x | 9.9% | 23.1% | -34.4% |
| 3.65% Mizzi Organisation Finance plc Unsecured € 2028-2031 | 45,000 | 4.31% | 1.8x | 312.4 | 87.8 | 71.9% | 58.4% | 14.9x | 0.8x | -1.9% | -1.1% | 30.5% |
| 3.65% IHJ plc Unsecured € 2031 | 80,000 | 4.70% | 1.7x | 1,768.3 | 836.3 | 52.7% | 42.1% | 9.5x | 1.0x | -1.4% | -3.9% | 20.8% |
| 3.5% AX Real Estate plc Unsecured € 2032 | 40,000 | 4.29% | 1.8x | 474.0 | 243.5 | 48.6% | 39.4% | 20.9x | 0.9x | -1.6% | -7.7% | 30.3% |
| 4% Malta Properties Company Plc Sec € 2032 S1/22 T1 | 25,000 | 4.00% | (2.3)x | 99.1 | 56.4 | 43.1% | 33.1% | 8.1x | 2.6x | 3.7% | 41.1% | 22.8% |
| 4.85% JD Capital plc Secured € 2032 S1 T1 | 14,000 | 5.00% | 1.7x | 76.3 | 20.3 | 73.3% | 63.1% | 16.9x | 2.1x | 0.1% | 0.2% | 9.6% |
| 5% Von der Heyden Group Finance plc Unsecured € 2032 | 35,000 | 5.00% | 1.2x | 155.9 | 32.7 | 79.0% | 76.3% | 22.9x | 0.5x | -8.2% | -18.0% | 9.6% |
| 4.3% Mercury Projects Finance plc Secured € 2032 | 50,000 | 4.30% | 0.6x | 269.6 | 78.8 | 70.8% | 66.4% | 48.2x | 1.5x | 9.9% | 23.1% | -34.4% |
| 5.3% Mercury Projects Finance plc Secured € 2034 | 20,000 | 5.30% | 0.6x | 269.6 | 78.8 | 70.8% | 66.4% | 48.2x | 1.5x | 9.9% | 23.1% | -34.4% |
| Average* | | 4.32% | | | | | | | | | | |

Source: Latest available audited financial statements

Last closing price as at 08/08/2024

*Average figures do not capture the financial analysis of the issuer



Source: Malta Stock Exchange, Central Bank of Malta and Calamatta Cuschieri Estimates

The above graph illustrates the average yearly yield of all local issuers as well as the corresponding yield of MGSs (Y-axis) vs the maturity of both Issuers and MGSs (X-axis), in their respective industry, to which the spread premiums can be noted. The graph illustrates on a stand-alone basis, the Issuer's existing yields of its outstanding bonds.

As at 08 August 2024, the average spread over the Malta Government Stocks (MGS) for corporates with maturity range of 2-3 (2026-2027) years was 140 basis points. The 3.75% MCY PLC Secured Bonds 2027 is currently trading at a YTM of 374 basis points, meaning a spread of 82 basis points over the equivalent MGS. This means that this bond is trading at a discount of 57 basis points in comparison to the market.

As at 08 August 2024, the average spread over the Malta Government Stocks (MGS) for corporates with maturity range of 5-7 years was 123 basis points. The 4.25% MCY PLC Secured Bonds 2031 is currently trading at a YTM of 433 basis points, meaning a spread of 116 basis points over the

equivalent MGS. This means that this bond is trading at a discount of 7 basis points in comparison to the market.

Meanwhile, as at 08 August 2024, the 4.3% MCY PLC Secured Bonds 2032 is currently trading at a YTM of 430 basis points, meaning a spread of 106 basis points over the equivalent MGSs. This means that the bond is trading at a discount of 27 basis points in comparison to the market.

As at 08 August 2024, the average spread over the Malta Government Stocks (MGS) for comparable issuers with maturity range of 7-10 years is 132 basis points. The proposed Mercury Projects Finance p.l.c bond is being priced with a 5.3% coupon issued at par, meaning a spread of 198 basis points over the equivalent MGS, and therefore at a discount to the average on the market of 66 basis points.

It is pertinent to note that the above analysis is based on a maturity-matching basis and that the Issuer's industry is significantly different to the corporates identified and as such its risks also differ to that of other issuers.



Part 4 Glossary and Definitions

| <i>Income Statement</i> | |
|--------------------------------------|--|
| Revenue | Total revenue generated by the Group/Company from its principal business activities during the financial year. |
| Costs | Costs are expenses incurred by the Group/Company in the production of its revenue. |
| EBITDA | EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. It reflects the Group's/Company's earnings purely from operations. |
| EBIT (Operating Profit) | EBIT is an abbreviation for earnings before interest and tax. |
| Depreciation and Amortisation | An accounting charge to compensate for the decrease in the monetary value of an asset over time and the eventual cost to replace the asset once fully depreciated. |
| Net Finance Costs | The interest accrued on debt obligations less any interest earned on cash bank balances and from intra-group companies on any loan advances. |
| Profit After Taxation | The profit made by the Group/Company during the financial year net of any income taxes incurred. |

| <i>Profitability Ratios</i> | |
|--------------------------------|--|
| Growth in Revenue (YoY) | This represents the growth in revenue when compared with previous financial year. |
| Gross Profit Margin | Gross profit as a percentage of total revenue. |
| EBITDA Margin | EBITDA as a percentage of total revenue. |
| Operating (EBIT) Margin | Operating margin is the EBIT as a percentage of total revenue. |
| Net Margin | Net income expressed as a percentage of total revenue. |
| Return on Common Equity | Return on common equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing the net income by the average common equity (average equity of two years financial performance). |
| Return on Assets | Return on assets (ROA) is computed by dividing net income by average total assets (average assets of two years financial performance). |

| <i>Cash Flow Statement</i> | |
|--|--|
| Cash Flow from Operating Activities (CFO) | Cash generated from the principal revenue producing activities of the Group/Company less any interest incurred on debt. |
| Cash Flow from Investing Activities | Cash generated from the activities dealing with the acquisition and disposal of long-term assets and other investments of the Group/Company. |
| Cash Flow from Financing Activities | Cash generated from the activities that result in change in share capital and borrowings of the Group/Company. |
| Capex | Represents the capital expenditure incurred by the Group/Company in a financial year. |
| Free Cash Flows (FCF) | The amount of cash the Group/Company has after it has met its financial obligations. It is calculated by taking Cash Flow from Operating Activities less the Capex of the same financial year. |

| <i>Balance Sheet</i> | |
|---------------------------|--|
| Total Assets | What the Group/Company owns which can be further classified into Non-Current Assets and Current Assets. |
| Non-Current Assets | Assets, full value of which will not be realised within the forthcoming accounting year |
| Current Assets | Assets which are realisable within one year from the statement of financial position date. |
| Inventory | Inventory is the term for the goods available for sale and raw materials used to produce goods available for sale. |



| | |
|----------------------------------|---|
| Cash and Cash Equivalents | Cash and cash equivalents are Group/Company assets that are either cash or can be converted into cash immediately. |
| Total Equity | Total Equity is calculated as total assets less liabilities, representing the capital owned by the shareholders, retained earnings, and any reserves. |
| Total Liabilities | What the Group/Company owes which can be further classified into Non-Current Liabilities and Current Liabilities. |
| Non-Current Liabilities | Obligations which are due after more than one financial year. |
| Current Liabilities | Obligations which are due within one financial year. |
| Total Debt | All interest-bearing debt obligations inclusive of long and short-term debt. |
| Net Debt | Total debt of a Group/Company less any cash and cash equivalents. |

| | |
|--------------------------------------|---|
| Financial Strength Ratios | |
| Current Ratio | The Current ratio (also known as the Liquidity Ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares current assets to current liabilities. |
| Quick Ratio (Acid Test Ratio) | The quick ratio measures a Group's/Company's ability to meet its short-term obligations with its most liquid assets. It compares current assets (less inventory) to current liabilities. |
| Interest Coverage Ratio | The interest coverage ratio is calculated by dividing EBITDA of one period by cash interest paid of the same period. |
| Gearing Ratio | The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance total assets. |
| Gearing Ratio Level 1 | Is calculated by dividing Net Debt by Net Debt and Total Equity. |
| Gearing Ratio Level 2 | Is calculated by dividing Total Liabilities by Total Assets. |
| Gearing Ratio Level 3 | Is calculated by dividing Net Debt by Total Equity. |
| Net Debt / EBITDA | The Net Debt / EBITDA ratio measures the ability of the Group/Company to refinance its debt by looking at the EBITDA. |

| | |
|--------------------------------|---|
| Other Definitions | |
| Yield to Maturity (YTM) | YTM is the rate of return expected on a bond which is held till maturity. It is essentially the internal rate of return on a bond and it equates the present value of bond future cash flows to its current market price. |

Calamatta Cuschieri

Calamatta Cuschieri Investment Services Limited

Ewropa Business Centre, Triq Dun Karm, Birkirkara BKR 9034, Malta
www.cc.com.mt

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