Credit Rating Agency

A NRSRO Rating*

Total Play

Total Play Telecomunicaciones, S.A. de C.V.

HR BB- (G)

Corporates
May 4, 2022

Ratings

Total Play	HR BB- (G)
Senior Notes	HR BB- (G)
Outlook	Stable

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Rule 17g-7 Information Disclosure Form

The Rating Action Commentary (RAC) associated with this disclosure form is an integral part of the form.

1. Symbol, Number, or Score in the Rating Scale used by HR Ratings as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:

Entity/Instrument	Rating Action	Rating Type	Rating Code
Total Play	Affirmed	Long Term	HR BB- (G) / Stable Outlook
Senior Notes	Affirmed	Long Term	HR BB- (G) / Stable Outlook

2. Version of the Procedure or Methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:

The rating assigned by HR Ratings to the entity is based in accordance with the following methodologies established by the rating agency:

- Corporate Debt Credit Risk Evaluation, August 2021
  https://www.hrratings.com/docs/metodologia/Corporate_Debt_Credit_Risk_Evaluation_(August_2021).pdf
- General Methodological Criteria, January 2022
  https://www.hrratings.com/docs/metodologia/General_Methodological_Criteria_January_2022.pdf

3. Main assumptions and principles used in constructing the procedures and methodologies to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:

This methodology describes the process that HR Ratings uses to evaluate the ability and willingness of corporate entities to pay their debt obligations. This process consists of two elements: the first element refers to a quantitative analysis, which initially determines the credit rating through the historical analysis of the entity and the projection of a Base Scenario and a Stress Scenario, weighting the main metrics of indebtedness identified by HR Ratings; the second element includes a qualitative analysis based on environmental, social, and corporate governance (ESG) factors. The quantitative element of this methodology consists of three sections that describe different rating processes that in general terms are similar, but that include different concepts and weights associated with these concepts. The first process refers to a quantitative evaluation of the corporate entities, the second to the assets that focus on real estate investments and, lastly, a third process that shows how to rate structured debt issues that have pledge a specific source of revenue to service the debt and that said revenue is dependent on the issuer's operations. All these processes have the following similarities:

- They are developed based on historical information, a Base Scenario, and a Stress Scenario in which the corporate entity's financial information is projected.
- Financial metrics are developed under each scenario for the historical and projected years.
- Each metric, under each scenario, is weighted over the years to generate a unique intertemporal value.
- An integer value between 1 (lowest) and 19 (highest) is assigned to each metric based on its intertemporal value.
- These integer values are averaged based on the different metrics in each process and a result is obtained for the Base Scenario and another for the Stress Scenario.
- Based on the averages per scenario, the result of the quantitative evaluation is obtained.
- In turn, the qualitative analysis of HR Ratings allows to subtract or add up to three notches to the credit rating based on ESG factors. This evaluation focuses on identifying the credit risk that these factors could give rise to; therefore, it is important to clarify that, to a certain extent, their impact could already be included in the quantitative analysis. The ESG evaluation also recognizes that each factor being analyzed involves different risks depending on the economic activity and line of business of the corporate entity, an issue that the methodology considers in its analysis.

To include the ESG risk, HR Ratings uses a system to assign one of the three different labels: Superior, Average or Limited. A Superior label indicates that the corporate entity, compared to other participants in its industry, shows limited exposure to a common risk, or that its mechanisms for mitigating the risk are above the market

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standard. The Average label refers to moderate exposure or the existence of mechanisms that could partially mitigate the risk identified for a specific industry. In general, this label suggests that long-term risks have been identified or that there could be moderate impacts on the credit quality in the short term and that the corporate entity being rated is not able to fully mitigate the risks. Lastly, the Limited label means that the corporate entity, compared to other participants in its industry, is exposed to a larger extent to risks or lacks adequate mitigation mechanisms; therefore, the corporate entity's risks could have an impact in the short term.

4. Potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- HR Ratings does not validate, guarantee or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information.
- Ratings and/or opinions assigned by HR Ratings are based on an analysis of the creditworthiness of an entity, issue or issuer, and do not necessarily imply a statistical likelihood of default.
- The credit ratings do not opine on the liquidity of the issuer´s securities or stock.
- The credit ratings do not consider the possible loss severity on an obligation default.
- The credit ratings are not an opinion of the market value of any issuer´s securities or stock, or the possibility that this value suffer a deterioration.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

The Analysis Committee noted no material limitations on the reliability, accuracy and quality on the data relied on in determining the credit rating.

6. Use of third party due diligence services as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

HR Ratings did not use third party due diligence services for the rating.

7. Use of servicer or remittance reports to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

HR Ratings did not use Servicer or Remittance Reports.

8. Description of types of data about any obligor, issue, security or money market instrument relied upon for determining credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7

Among the main information used for the rating is:

- Quarterly internal financial statements (from March 2016 to September 2021)
- Annual Third Party Audited financial statements made by Mazars Auditores. (from 2016 to 2020)
- Total Play projections and its main assumptions.
- Senior Notes Term Sheet

9. Overall assessment of quality of information available and considered in determining credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

The quality of the information provided by the entity is considered to be consistent with the quality observed in ratings that use a similar methodology.

10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

The rating was solicited by the entity or issuer, or on its behalf, and therefore, HR Ratings has received the corresponding fees for the rating services provided from such entity or issuer. The following information can be found on our website at www.hrratings.com: (i) The internal procedures for the monitoring and surveillance of our ratings and the periodicity with which they are formally updated(ii) the criteria used by HR Ratings for the withdrawal or suspension of the maintenance of a rating, (iii) the procedure and process of voting on our Analysis Committee, and (iv) the rating scales and their definitions.

The rating and/or opinions assigned are issued on behalf of HR Ratings, not of its management or technical staff, and do not constitute an investment recommendation to buy, sell, or hold any instrument nor to perform any business, investment or other operation. The assigned ratings and/or opinions issued may be subject to updates at any time, in accordance with HR Ratings' methodologies.

11. Explanation or measure of potential volatility to the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule17g-7

1. Factors that are reasonably likely to lead to a change in the credit rating:

   - **Operating pressures**. If the Company faces operating pressures implementing its growth strategy, and as a consequence, the FCF generation is pressured, so that average DSCR levels present levels below 1.1, the rating could be downgraded.
   - **Debt increase**. If the Company's debt significantly increases the following years, and if this is reflected in Years of Payment of Net Debt to FCF over 8.7, the rating could be negatively impacted.
   - **Interest rate increase.** Due to the indebtedness levels of the Company, if interest rates increase, Company's debt service could be pressured.
   - **Government clients.** Given that, aporoximately 30% of the "Corporate Segment" are Government clients, in case of a cur spending in Government budget, Company's revenues could be impacted.
   - **Expansion process complications:** If the Company is able to achieve its expansion strategy through higher operating efficiencies, FCF generation could be higher than expected. The rating could benefit if DSCR and Years of Payment of Net Debt to FCF metrics strengthen through the forecasted period.

2. The magnitude of the change that could occur under different market conditions determined by HR Ratings to be relevant to the rating:

   - **Competitive Landscape:** Highly Competitive Industry. Since the industry in which the Company operates is highly competed by big players such as America Movil and Televisa, Company's market share could be impacted if this big players decide to begin a war price. If the Company is not able to adjust to a highly competitive environment and to offer a differentiated service, and increase their incomer as we estimate, the expected revenue levels could be impacted and lead to a lower rating.
   - **Mexico sovereign rating**: A deterioration in Mexico's sovereign rating could result in a downgrade of Total Play's global rating.

12. Historical performance and expected probability of default and expected loss in event of default as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

For historical performance of each rating listed in the disclosure form, click on the link in the ratings table presented on Page 1.

Our credit ratings need to be understood as rankings of the relative creditworthiness of different entities or credits. Creditworthiness takes into consideration both the ability and willingness to meet debt obligations in the manner prescribed in the relevant documentation. Default refers to the noncompliance of previously agreed obligations. As our ratings measure relative creditworthiness they do not necessarily reflect any specific statistical probability of default. In order to make more valid rankings of creditworthiness our different methodologies will apply stress case scenarios to complement our base case analysis.

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13. Assumptions made by HR Ratings in determining announced credit ratings and examples of how assumptions impact the rating as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

1. Assumptions made in the ratings process that, without accounting for any other factor, would have the greatest impact on the credit rating if proven false or inaccurate:

- Senior Notes issuance. Total Play is seeking to issue Unsecured Senior Notes in the international financial markets for a total amount of up to US$600m with a seven years maturity. It is estimated that, approximately 50% of the resources obtained with this issuance will be used for refinancing existing debt and the remaining 50% will be used to cover its CAPEX needs.
- Expansion Process. Due to the fact that the Company is carrying out its expansion process, we estimate that the continuous growth shown up to date will remain the next years, with a revenue CAGR 2020 – 2024 of 25.4%, reaching levels of P$48,321m by 2024. Additionally, we project that the CAPEX needed to fulfill this process will be funded mostly with additional debt.
- Free Cash Flow Generation. We expect that in the following years, the Company will stabilize its working capital, that, combined with the projected expansion, will result in a positive FCF generation trend.
- In our scenarios the Company does not generate excess cash flow, therefore there are not debt prepayments.
- Regarding maintenance capex, we are considering 100% of depreciation figures.
- There is not expected dividends payments in the following years

2. Analysis, using specific examples, of how each of the assumptions identified in the preceding paragraph impacts the credit rating:

- If our estimates of 2020-2024 revenue CAGR are lower than 25.4%, it could result in a lower rating.
- Regarding our EBITDA estimates if there is a lower CAGR than 40.5% for the period of 2020-2024 and an average EBITDA margin after SAC of lower than 39.4%, it could result in a lower rating.
- Regarding FCF generation cumulative difference higher than 42.6% between the baseline scenario and stress scenario, could result in a lower rating.
- In case the Company incurs in more debt given higher pressures in operating results, the main metrics could be impacted and lead to a lower rating.
- If the Company is able to generate higher operating results, it could be able to generate an Excess Cash Flow. The rating could be benefitted if the DSCR and Payment years metrics improve due to a better FCF generation.
- If the Company make dividend payments, the cash levels could be diminished and DSCR with cash levels will be impacted.

14. <u>Representations, warranties and enforcement mechanisms available to investors as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7</u>

The reporting of representations, warranties, and enforcement mechanisms does not apply to any of the credit ratings listed in this disclosure form.

Credit Rating Attestation

I, Heinz Cederborg, Corporates / ABS Director have the responsibility for this rating action and, to the best of my knowledge:

- No part of the credit rating was influenced by any other business activities;
- The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated; and
- The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument

Mexico City, May 4, 2022

/s/ Heinz Cederborg, Corporates / ABS Director
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The rating was solicited by the entity or issuer, or on its behalf, and therefore, HR Ratings has received the corresponding fees for the rating services provided. The following information can be found on our website at www.hrratings.com: (i) The internal procedures for the monitoring and surveillance of our ratings and the periodicity with which they are formally updated, (ii) the criteria used by HR Ratings for the withdrawal or suspension of the maintenance of a rating, and (iii) the procedure and process of voting on our Analysis Committee.

The ratings and/or opinions of HR Ratings de México S.A. de C.V. (HR Ratings) are opinions regarding the credit quality and/or the asset management capacity, or relative to the performance of the tasks aimed at the fulfillment of the corporate purpose, by issuing companies and other entities or sectors, and are based on exclusively in the characteristics of the entity, issue and/or operation, regardless of any business activity between HR Ratings and the entity or issuer. The ratings and/or opinions granted are issued on behalf of HR Ratings and not of its management or technical personnel and do not constitute recommendations to buy, sell or maintain any instrument, or to carry out any type of business, investment or operation, and may be subject to updates at any time, in accordance with the HR Ratings classification methodologies, in terms of the provisions of article 7, section II and/or III, as appropriate, of the "General provisions applicable to the issuers of securities and other participants in the stock market".

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Ratings and/or opinions assigned by HR Ratings are based on an analysis of the creditworthiness of an entity, issue or issuer, and do not necessarily imply a statistical likelihood of default, HR Ratings defines as the inability or unwillingness to satisfy the contractually stipulated payment terms of an obligation, such that creditors and/or bondholders are forced to take action in order to recover their investment or to restructure the debt due to a situation of stress faced by the debtor. Without disregard to the aforementioned point, in order to validate our ratings, our methodologies consider stress scenarios as a complement to the analysis derived from a base case scenario. The rating fee that HR Ratings receives from issuers generally ranges from US$1,000 to US$1,000,000 (or the foreign currency equivalent) per issue. In some instances, HR Ratings will rate all or some of the issues of a particular issuer for an annual fee. It is estimated that the annual fees range from US$5,000 to US$2,000,000 (or the foreign currency equivalent).

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