Deleveraging and liquidity strategies
Constructiones el Condor

by
Diego Armando Serna Correa

Thesis Presented as a Partial Requirement to Obtain the Degree of

Master of Financial Administration

Adviser

Gustavo Alberto Sánchez Ribeiro

UNIVERSIDAD EAFIT

Medellín, August 2021

Acknowledgments

Special thanks are due to Alejandro Correa, financial manager of Construcciones el Cóndor, for his invaluable support and for allowing me to document this enriching experience, full of learning, emotion, and growth.

Contents

List of Tables

List of Figures

Abstract

Study of different alternatives to carry out financing and deleveraging operations in the Colombian market for Construcciones el Cóndor. one of the biggest multinational construction companies in the country. This to comply with the payment of the maturities of the corporate bonds issued as of 2020. At the same time, the study seeks to optimize the firm´s capital structure based on high demand for resources inherent to the business, represented as equity contributions, which are resources required to funding some infrastructure projects under the public-private partnerships scheme, retentions in guarantee of construction works, and backups required to cover several risks associated with the construction business.

Through an analysis of different alternatives, such as refinancing, bond issues with or without collateral, and the sale of assets, we determine the best actions to take in terms of time and cost, enabling continuity of the business in the medium term.

Keywords: capital structure, infrastructure, leverage, M&A, refinancing.

Abstract

Estudio de diferentes alternativas para realizar operaciones de financiación y desapalancamiento en el mercado colombiano, esto con el fin de dar cumplimiento al pago de los vencimientos de los bonos corporativos que tiene emitidos al corte de 2020 Construcciones el Condor S.A. A su vez se busca optimizar su estructura de capital en función de la alta demanda de recursos inherente al negocio, representada en obligaciones de aportes de Equity, retenciones en garantía de obras de construcción y respaldos exigidos por contratos de construcción, que para el segmento de Obras Civiles se dan a precio cerrado y fecha cierta.

A través del análisis de diferentes alternativas tales como: refinanciación, emisiones de bonos con o sin garantía, venta de activos, entre otros, se pretende concluir cuál sería la decisión más recomendada a tomar en cuanto a tiempo y costo, permitiendo, además, la continuidad del negocio en el mediano plazo.

Palabras Clave: apalancamiento, refinanciación, M&A, Infraestructura, estructura de capital.

Synopsis

Construcciones el Cóndor is a company with 42 years of technical experience in megaprojects, in concessions investment, and in infrastructure projects financing. It is vertically integrated and has access to the local and international capital market, the latter through its participation in infrastructure projects, such as Pacifico 3 and Ruta al Mar.

Fourth-generation projects (4G) began in Colombia in 2014, comprising a road infrastructure program that included the construction and operation of 30 projects for a total of 1,370 km of dual carriageways, 141 tunnels, and 1,300 viaducts, with an investment of more than COP 50 billion (ANI, 2018). Faced with this, construction companies in Colombia had significant increases in their investment in machinery and operational capacity, to comply with the country's demands in the face of this ambitious plan.

According to the Superintendency of Companies, in 2017 the industry grew 66.86% in turnover, financed mainly by debt, which increased 32.11% year over year (Base Complete Financial Statements 2019, 2019). However, the economic slowdown and complex legal conditions involved in contracting, such as the Odebrecht scandal in 2016, affected the confidence of financiers in the sector and the dynamics of construction in the country, generating early cancellations of contracts, high restrictions on international financing, and loss of support to the sector of some of the most important banks in Colombia (Bloomberg, 2018).

As a result, the average turnover of construction companies fell 20.8% in 2019 because it was not feasible to maintain the award of projects and the current ones did not advance, mostly due to lack of funding. Indebtedness grew by an additional 3.43%, leaving average leverage indicators of between four and five times EBITDA at the end of 2019 (Base Complete Financial Statements 2019, 2019). In the case of Cóndor, the net debt-to-EBITDA indicator closed at 4.4 times for that year and in 2020 it was 6.6 times. This variation was due not only to the increase in the debt stock but also to the decrease in economic activity that affected the company's EBITDA, in addition to the effects generated by COVID-19.

Under this scenario and considering that, as projects begin the operation stage, they are sold as part of the company’s strategy, it is necessary to look for alternatives that enable the optimization of leverage levels while closing these sales processes. This occurs while the firm maintains optimal cash levels, so that it can continue to develop its corporate purpose normally, fulfilling its obligations and actively participating in the construction of infrastructure in Colombia.

Definitions

The definitions will be focused on the context of the case.

Backlog: inventory of construction projects awarded to a construction company and that generates future operating income.

Bullet: type of amortization of a loan, in which the principal is paid at maturity.

Cash Sweep: economic condition of a loan that requires the priority use of the free cash of the project to prepay the capital, before it can be used for other purposes, for instance, to distribute dividends.

Base Case: financial model in Excel that evaluates the viability of a project and contains the initial premises that the partners and funders considered at the time of financial closing. It is used for lenders to project and audit the capacity to pay.

Consortium: type of Colombian temporary association permitted under Law 80 in 1993 and used for the execution of construction contracts.

Concession Contract: A public contract that details the conditions under which the state gives a private company a public asset to improve, operate, and maintain over the life of the contractual agreement. With the conclusion of this contract, the private entity acquires rights and obligations depending on the agreed risk distribution.

Core: the main line of business of a company.

Covenant: restriction imposed by a lender to mitigate the risk of nonpayment of the project. It is usually expressly stated in a financing contract and may be presented as one or more obligations.

Evergreen Credits: Rotating credits that allow the borrower to request new disbursements as the available capital is returned.

DR (Revenue Difference): A DR is a mechanism used by the state to compensate for differences in collection in projects in which commercial or income risk is shared. This mechanism was created in the fourth generation of concessions.

DSCR (Debt Service Coverage Ratio): coverage index of debt service. A value of 1 indicates that cash flow covers 100% of debt service for a given period of time. A value greater than 1 denotes the flow slack that can be used to cover potential future risks or stress scenarios when the size of debt is determined.

State entity: according to the RAE (Real Academia Española), a "body of state public law with its own legal personality and assets, to which the organization and administration of a public service is entrusted under a decentralization regime." Considering the business focus of Construcciones el Cóndor, the Ministry of Transport, the National Infrastructure Agency (ANI) and the National Institute of Roads (INVIAS) are the main state entities with which it has some kind of relationship.

Loan to Value (LTV): Indicates how much the market value of an asset covers the liability that finances it. A 1x LTV means that the market value of the asset equals 100% of the liability used for its financing.

Toll: A physical location where the users of the road pay a fee. In order for the concession to exercise its function of toll collection, a resolution is needed to authorize the collection and determine its conditions.

Collection: resources collected through the tolls. These resources are stored in a trust until their subsequent release through retribution.

Retegarantía: a percentage of the turnover of the consortium that is retained as a guarantee in case of noncompliance, usually 5% of the monthly turnover, which is returned at the end of the project.

Retribution: in the final generations of concessions (fourth and fifth), the accumulated collection in the trust during the construction stage and restricted to the use of the private entity, which is released after the works of the unidades funcionales (UF) are completed and delivered.

Sponsors: equity contributors to the project, usually the concession partners.

SPV (Special Purpose Vehicle): investment vehicle required by Colombian law for the execution of a concession contract. To create this vehicle and limit the liability of the partners, a limited public company is established. The shareholders are the sponsors of the project to prorate the contributions of equity to be made.

Part I. Case

1. Context

Alejandro Correa was the CFO of Construcciones el Cóndor and a member of the second generation of one of the founders of the company. He had been with the company for 15 years and had seen it grow exponentially, as the dynamics of the sector allowed. The period between 2014 and 2019 was a good time for the country's confidence, reflected in an increase in the international investment grade credit rating. With this new potential for low-cost financing, the company took the opportunity to grow and participate in infrastructure projects, which further accelerated its growth.

Because of the impact of COVID-19 in 2020 and 2021 and the dynamics of the construction industry in general, the company faced a decline in its EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) levels, which pushed up its leverage. Additionally, as it approached the end of construction of its current projects, it had accumulated high volumes of retention of warranty (percentage of total revenues by project detained to cover construction risks. It is paid to the constructor at the end of the works), which limited its cash in the short term. This led to a review of different alternatives for meeting its obligations and reducing its leverage.

In April 2021, the company faced the challenge of meeting the maturity of corporate debt bonds, with payment dates in June and September of that year, which had been scheduled for the expected time that work was to be completed and the retention of warranty collected. However, because of the abovementioned events, the work experienced construction delays, extending the retention of warranty payment date. This was in addition to the fact that the increase in leverage recorded in March led to a reduction in the company's rating (from A- to BBB+ in Colombia according to Fitch Ratings), as well as market difficulties due to the public disorder generated by an unpopular tax reformed announced during April and a difficult macroeconomic environment due to COVID-19, which also led to shortages in projects.

The challenge was, then, to find a way to properly service the bond maturity, while devising an optimal strategy in asset sales and deleveraging, which would allow the company to finance its operation normally, improve its financial indicators, and bid on infrastructure projects in the country, thus increasing its backlog and, consequently, generating its EBITDA.

1.1 History of Construcciones el Cóndor

Construcciones El Cóndor has 42 years of experience in building road infrastructure in Colombia, participating as an investor in public-private partnerships. It has been characterized by responsible engineering, mitigating environmental impacts, and using technology, innovation, technical capacity, and best practices in its work. It has 3,500 employees, and its share of the Colombian market is about 2%.

Its core business is the construction of roads, tunnels, dams, viaducts, mining, open pit exploitation, transportation of earth and rocks, and public transit systems. It also invests in highway, concessions, public utility concessions, airport concessions, energy generation projects, and companies involved in infrastructure and mining concessions, which were sold after they became operational, adding value for shareholders and enabling the financing of new projects. Over its history, Construcciones El Cóndor had gradually integrated vertically, starting with the design and structuring of projects, through the extraction, transport, compaction, and processing of materials, to the completion and operation of highways. This enabled the company to increase its returns along the value chain and yield a higher EBITDA than its peers.

Over the past ten years, Construcciones El Cóndor built 3,833 km/lanes of roads, with the Vía de las Américas project being the largest, with 1,289 km/lanes. The second-largest project was the Concession Ruta al Mar or Antioquia Bolivar (RAM), with approximately 1,000 km/lanes, . The company specialized in an important area considering Colombia's topography, as it has experience in the construction of tunnels, with completion of about 62.9 linear km. Finally, El Cóndor obtained financing for these works of nearly USD 2 billion.

The financial capacity of Construcciones el Cóndor was demonstrated by its pioneering project financing, negotiated with national and international financiers, across multiple tranches and types of currency. However, its technical capacity was based on its fleet of 1,324 construction machines, 75% of which had been in use for less than ten years. Finally, the company had achieved acknowledgment of its operational capacity, having received awards such Great place to work (2008) and Great Culture to Innovate and International Finance Corporation. Additionally, it issued shares on the Colombian stock market, floating 20% of its shares and was recognized as an issuer with the best practices in the market by obtaining the IR (Investor Relations) seal of the Colombian Stock Exchange.

As part of its long-term expansion strategy and anticipating that the construction market would continue to demand high levels of capital, in 2017 the company began an alliance with ISA Intercolombia, one of the most important infrastructure and electricity transmission companies in the country, forming Interconexiones Viales, a company headquartered in Chile that would serve as a vehicle for participating in infrastructure projects in countries such as Colombia and Peru. This alliance enabled the company to move forward with its participation in road concessions, obtaining 100% of the work awarded and contributing only 35% of the required equity.

Based on its capabilities, the company offered as much as USD 280 MM annually in construction services, potentially generating an average EBITDA margin of 18%.

1.2 Road infrastructure contract types in Colombia

Summary of infrastructure contract types

Public-private partnerships (PPPs)	PPPs are mechanisms that link public resources and private resources through a contract between a state entity and a private entity, which distribute the risks and benefits, in addition to the rights and obligations inherent in the development of a project. PPPs are defined by Law 1508 in 2012[1] and covers projects with an investment amount of more than 6,000 colombian minimum salaries and a maximum implementation period of 30 years, including extensions. Depending on its origin, a PPP can be classified as public or private initiative.
Public initiative PPPs	Public initiative PPPs are defined by the state entities. The structure and the source of payment are the responsibility of the state and always involve public resources.
Private initiative PPPs	Private initiative PPPs are defined by a private entity through a structuring process involving a public entity as the recipient of the proposal and the Ministries of Finance, Planning, and Transport as validators of the structure. According to Law 1508 of 2012, these projects cannot involve public contributions, so the distribution of risks is tilted toward private entities..
Public Works	According to Article 32 in Law 80 in 1993[2], *"Public works are construction contracts concluded by state*

[1] Ley 1508 de 2012. Por la cuial se establece el régimen jurídico de las Asociaciones Público Privadas, se dictan normas orgánicas de presupuesto y se dictan otras dosposiciiones. 10 de enero de 2012. DO. N 48308.

[2] Ley 80 de 1993. Por la cual se expide el Estatuto General de Contratación de la Administración Pública. 28 de Octubre de 1993. DO. N 41094.

	entities for the construction, maintenance, installation, and, in general, performance of any other material work on real estate, regardless of the method of execution and payment."
Concession contracts	According to Article 32 in Law 80 in 1993, concession contracts are *"concluded by state entities for the purpose of granting to a person called a concessionaire the operation, organization, or management, in whole or in part, of a public service, or the construction, total or partial exploitation, or conservation of a work or good intended for public service or use, as well as all those activities necessary for the proper operation of the work or service at the risk of the concessionaire and under the supervision and control of the granting entity, in exchange for remuneration that may consist of rights, tariffs, fees, valuation, or in the participation granted to it in the exploitation of the good, in a periodic amount, single or percentage and, in general, in any other form of consideration that the parties agree*." According to Article 2 in Law 1508 in 2012, concessions are included within PPP´s."

2. Project Finance and Concession Financing in Colombia

Project finance is a widely used modality for public infrastructure. Among the most relevant characteristics of this type of financing is the fact that it allows high levels of leverage, enabling a capital structure of up to 90% debt and 10% equity. Another advantage of this type of financing is that the debt is structured over the long term, with concessionary terms in general of 30 years for road concessions, and is supported by future cash flows of the project that are generally stable. In addition, the creation of an SPV (special purpose vehicle) is mandatory. Knowledge and experience that are needed for managing the asset are the responsibility of the SPV and its collaborators, allowing financiers to have peace of mind about the business when advancing to the operational phase (O&M), in which the debt is serviced with the generation of cash flow from the collection of tolls.

Because of the conditions mentioned earlier, it has been traditional for 4G projects to be financed this way, but given the high level of debt it incurs, the financiers demand guarantees to protect their investment, so they use strict and robust contracts, in addition to requiring covenants to safeguard liquidity.

One of the most frequent indicators used to evaluate liquidity in this type of financing is the DSCR (debt service coverage ratio), which tends to be lower in projects that share the risk of traffic with the state (public initiative) than in projects that transfer 100% of the traffic risk to the private entity (private initiative). Public initiatives enjoy liquidity injections called “DR´s” that enable cash flow to be adjusted to stress scenarios , offsetting any shortfall in income generation, while the private initiatives must ensure there will always be enough cash to service the debt when the DSCR is higher.

In conclusion, the project financing technique allows a firm to balance the economic burdens (return vs cost of debt vs capital costs vs cost of guarantees) and risk in financing a project, such that, by exposing it to stress scenarios, the debt serviced is guaranteed to cover the project, limiting dependence on equity contributions from partners.

3. 4G Program in Colombia (Forth Generation of infrastructure projects in Colombia)

The 4G (fourth-generation) infrastructure program proposed the construction and operation of better roads in Colombia, through the rehabilitation and construction of 7,000 km of track, 1,370 double carriageways, 141 tunnels, and 1,300 viaducts. In all, the program covered 30 projects, with an estimated investment of COP 50 billion. The benefits of the program included a reduction in travel time between ports and production centers of 30% and a reduction in vehicle operation costs of 20%. Additionally, the program was expected to affect 24 departments and generate 118,000 new jobs during the construction peak, reducing the unemployment rate by approximately one percentage point, as well as contributing about COP 8.3 billion to these departments in economic benefits. At the environmental level, reductions in carbon dioxide emissions valued at COP 15 billion were expected.

The bid was tendered and awarded in 2014 and 2015. In 2016, most of the construction stages were initiated, with the goal of completion by 2020-2021. Unfortunately, as of December 2018, the outlook was not encouraging: of the 30 projects, only 10 were achieving their targeted progress, 10 were trying to obtain funding, which prevented them from efficiently advancing their work, and 10 were suspended or being renegotiated. By this time, Construcciones el Cóndor had financed three of the four projects.

4. 5G Program (Fifht Generation of infrastructure projects in Colombia)

The fifth generation of road concessions is in the process of being structure and will be divided into two waves, with investment anticipated to be about COP 49.62 billion. Table 1 lists the projects in the first wave.

Table 1: First wave of 5G projects

Highways	**CAPEX**
Private Initiative ALO Sur	COP 0.70 T
Accesos Norte II	COP 1.32 T
Accesos Cali-Palmira	COP 1.22 T
Buga-Loboguerrero	COP 1.44 T
Loboguerrero-Buenaventura	COP 0.99 T
Puerto Salgar-Barrancabermeja	COP 2.07 T
Barrancabermeja-San Roque	COP 1.70 T
Santuario-Caño Alegre	COP 3.10 T
Airports	
IP Aeropuertos de Suroccidente	COP 1.42 T

IP Aeropuerto de Cartagena	COP 0.44 T
IP Aeropuerto Bayunca en C/tg	COP 2.83 T
IP Aeropuerto de San Andrés	COP 0.3 T
Navigability and rail	
Río Magdalena	COP 0.45 T
Canal del Dique	COP 2.13 T
Dorada-Chiriguana	COP 1.59 T
Total	**COP 21.85 T**

Table 2 lists the projects in the second wave.

Table 2: Second-wave 5G projects

Project	Type	Estimated CAPEX
Terminación Ruta del Sol 1	Private without resources	COP 1.30 T
Calarca-La Paila	Private without resources	COP 0.99 T
Popayan–Pasto	Public with resources	COP 4.5 T
Zipaquirá-Barbosa	Public with resources	COP 3.2 T
Barbosa–Bucaramanga	Public with resources	COP 2.9 T
Ocaña–Cúcuta	Public with resources	COP 1.7 T
Duitama-Pamplona	Public with resources	COP 1.1 T
Sogamoso-Aguazul	Public with resources	COP 1.7 T
San Roque-Cuestecitas	Public with resources	COP 0.4 T
Sistema Aeroportuario de Bogotá-SAB 2050	Private without resources	COP 9.4 T
IP Dragado de Buenaventura	Private without resources	COP 0.58 T
	Total	**27,77 Bn**

5. Compromiso por Colombia Program

In December 2020, through the Economic and Social Policy Council (CONPES), the government approved the financing of 22 public works projects that are part of the Compromiso por Colombia program. Through INVÍAS, public tenders will be opened for the awarding of these projects, allocating COP 9.2 billion for their development.

The program includes the construction of 1,260 km of roads and consists of the following projects:

1. Ruta Libertadora (Belén-Socha-Sácama-La Cabuya-Paz de Ariporo)

2. Transversal de Boyacá (Puerto Boyacá-Otanche-Chiquinquirá)
3. Duitama-Charalá-San Gil
4. Vado Hondo-Labranzagrande-Yopal
5. Ruta de Los Comuneros (Zipaquirá-Barbosa-Bucaramanga)
6. Vía de La Soberanía (La Lejía-Saravena)
7. Conexión Pacifico-Orinoquía (Puente Arimena-Viento; Juriepe-Puerto Carreño)
8. Troncal de la Orinoquía (San José-Calamar-El Retorno)
9. Transversal de La Macarena (Mesetas-La Uribe)
10. Túnel Guillermo Gaviria Echeverri y vías de acceso
11. Variante San Francisco-Mocoa
12. Santa Lucía-Moñitos
13. Conexión Troncal Central del Norte (Curos-Málaga)
14. Conexión Alta Guajira (Uribia-Puerto Bolivar-Estrella)
15. Corredor del Paletará
16. Neiva-San Vicente del Caguán
17. San Vicente del Caguán-Puerto Rico-Florencia
18. Anillo del Macizo Colombiano (La Lupa-Bolivar-La Vega-La Sierra-Rosas)
19. Conexión Ciénaga-Barranquilla
20. Transversal del Catatumbo (Tibú-El Tarra-Convención)
21. Conexión integral Puente Yatí-Variante Magangué
22. Transversal del Cusiana

These projects are in addition to the Concluir y Concluir government program, whose investment exceeds COP 2 billion and includes 27 infrastructure projects in the Pacific region, the Eje cafetero region, the Eastern Plains (Llanos orientales), and the south of the country. In total, the program includes public works projects for about COP 11.5 billion.

One of the most important advantages of participating in this program is that the awarded projects allow the state to make advances of 50% of the resources allocated to each project, which considerably facilitates its execution.

6. Investments in Concessions

Construcciones el Cóndor currently has participation in five concessions, two of them of public initiative and three of private initiatives. Table 3 lists the participation of Construcciones el Cóncor un 4G projects.

Project	Concessionaire	Share	Capex as of 12/31/2020 (COP 000)	UF	% Progress 15/04/2021
Autopista Conexión Pacifico 2	Concesión La Pintada	21.15%	1,506,678	5	99.31%
Autopista Conexión Pacifico 3	Concesión Pacifico Tres	48.00%	2,078,050	5	87.47%
IP-Antioquia-Bolivar	Concesión Ruta al Mar	50.00%	1,528,239	8	75.66%
IP-Malla vial del Meta	Concesión Vial de los Llanos	11.00%	1,334,892	9	0.00%
IP-Vías del Nus	Concesión Vías del Nus-Vinus	21.11%	1,275,232	6	90.60%
		Total	**7,723,091**		

Table 3: Cóndor's participation in 4G projects

Public initiative projects such as Pacifico 2 and Pacifico 3 have guaranteed income, that is, with a reduction in traffic and therefore in the revenue, the state compensates for the lower income received through mechanisms known as “DRs” , which, every five years, compensate for income that was not received, based on the initial projections that the ANI (Agencia Nacional de Infraestructura) uses to set the anticipated levels of traffic. Projects that are private initiatives (IP) do not have guaranteed income, so any decline in revenue from reduced traffic is not covered, and the sponsors of the project assume 100% of the risk.

Investments in concessions by Construciones el Cóndor follow its investment thesis: investing in concessions that are located in the important freight corridors or on the outskirts of the main cities. In this way, it is not affected by traffic from tourism, which is much more correlated with economic growth and is more susceptible than cargo traffic to impacts caused by events such as COVID-19.

Figure 1 exhibits Geographic location of projects

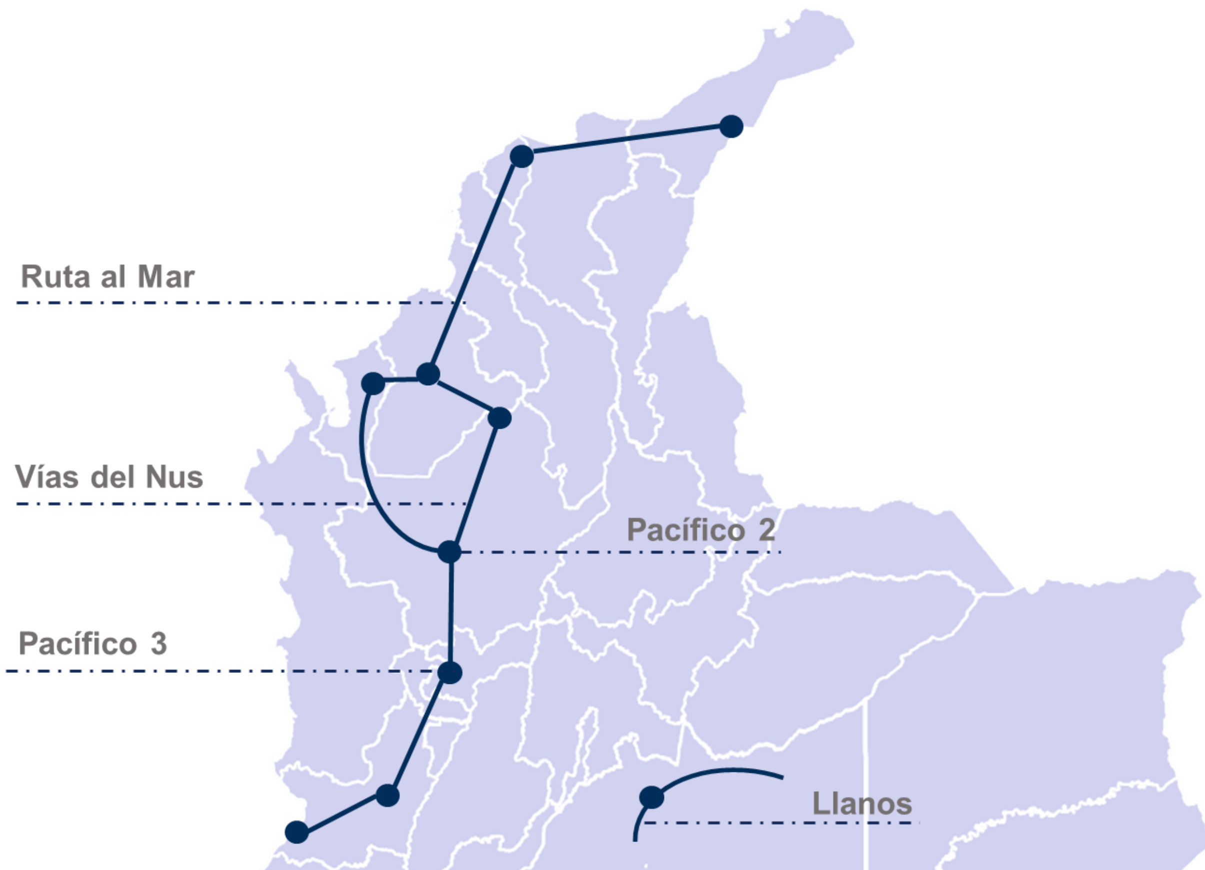

Figure 1: Geographic location of projects
Source: Construcciones el Cóndor.

7. EPC Contract for Construction Projects

The construction of a project is carried out through an EPC (engineering, procurement, and construction) contract and can be executed by a single construction company or through a consortium. It incorporates the best practices in the market, based on the SilverBook *Conditions of Contracting for Turnkey Projects* of the FIDIC (Fédération Internationale des Ingénieurs Conseils). This enables it to align the expectations of the funders and the sponsors when they fund construction using project finance.

Each project has different stages of implementation. At the beginning, the profitability of a project is low because it is in the preconstruction stage, which covers everything related to studies, designs, permits, and so forth. Because it the EPC contractor has not yet obtained the right of way, nor does it have financial closure or environmental licenses, at this stage, a project is generally financed by the capital of the partners.

Later, during the construction stage, the project requires capital-intensive investment (capex) for the development of the work plan and then moves to a stage in which it maximizes its returns through activities of higher value generation, such as the application of mixed asphalt. The construction stage is developed in tranches called *unidades funcionales* (UF).

After all the UF are delivered, the operation and maintenance (O&M) stage begins, in which the concession is responsible for managing the resources from the tolls installed throughout the project, in addition to performing maintenance on the tracks. At this point, the profitability of the construction company declines again, because it generates income only from the performance of routine maintenance and major maintenance, meaning repairs and building of the roads, which are carried out with lower frequency. It is important to take this into account because the generation of EBITDA will depend on the stage of the projects in which Construcciones el Cóndor is participating.

Given this financing scheme,a stream of payments is made once the project is generating revenues, paying the most senior debt first (banks and bonds), then servicing subordinate debt (equity contributions from sponsors at a particular interest rate; credit from the National Development Finance or a multilateral bank), then paying other contractual financing obligation, and lastly distributing dividends to the sponsors.

Some 4G contracts have strict clauses regarding the stream of payments in order to protect creditors. In Pacific 3, if the project is generating large cash ratios, even if the stream of payments has already been made, it is necessary to execute a cash sweep with the senior debt, paying it in order to limit the potential for extracting dividends in the short term.

Construcciones el Cóndor currently is a member of the following consortia for the execution of EPC contracts:

- **Ruta al Mar o IP-Antioquia-Bolivar**: it has 100% of the EPC contract (COP 1.3 billion).
- **Pacifico 2:** it has a 50% stake in the Farallones Consortium, and the value of the EPC contract is about COP 1.3 billion.
- **Pacifico 3:** it has a 48% stake in the Pacific 3 Construction Consortium, and the EPC contract is about COP 1.49 billion.
- **Vía del Nus or Vinus:** it has a 21.15% stake in the Francisco Javier Cisneros Consortium, and the EPC contract is about COP 1,028 Trillion.
- **Malla vial del Meta or Llanos:** it has an 11% stake in the Llanos APP Consortium. It is still in the process of financial closure, and therefore the EPC is not signed.

7.1 Profitability and Liquidity of the Construction Company

Developing infrastructure in Colombia is capital intensive, therefore, demand for liquidity is high. In addition, concession contracts require a series of guarantees and counter-guarantees, in addition to the funding of reserves, which implies an accumulation of resources in case they are needed at any time. Finally, because the concessions are financed through project finance, it is not efficient to request advances for the builder, because liquidity guarantees require a very high cost for the capital used at the first request (unlike public works projects, which received advances of between 30% and 50%).

These conditions mean that until the UF are delivered and the guarantees are released, the liquidity of the company is under significant pressure based on equity contributions, use of working capital quotas, guarantee quotas, and policy quotas; so, much of the project's profit is trapped in the retegarantía.

At the same time, investments in concessions are businesses that, because of the coverage of risks for public entities, do not generate very high returns in the short term. However, it is possible to achieve margins similar to those of the construction business to the extent that these assets are divested, because potential buyers recognize significant premiums for the reduction of construction risk after the work is completed.

8. Macroeconomic Environment

From the first quarter of 2015, the share of the gross domestic product from construction began to show signs of slowing down, going from a *rally* of double digit quarterly-annual growth throughout 2013 and 2014, to a 1.47% annual decline in 3Q15, marked mainly by the fall in the buildings segment, which fell 3.92% in that period. It was precisely this segment that continued pushing construction in Colombia down, falling 11.6% in 3Q17 and finally decreacing 5.37% in 2Q18. For this period, the civil works segment decreased 4.19% and the construction GDP decreased by 4.37%.

In addition to the slow dynamics already created by the civil works segment, in 2017 the Odebrech scandal[3] unfolded, which led the Ruta del Sol II project to be canceled early. Because of this situation, the state did not return the resources invested to the local banks, causing them to avoid this type of financing, and that affected financial closure for many of the 4G projects. This generated a 20.8% drop in the backlog of construction companies during the period 2018-2019.

Additionally, according to the IPOC (DANE's Civil Works Production Indicator), the construction of civil works fell 26% at the end of 2020 compared to 2019, mainly because of the crises generated by La Niña and COVID-19.

Year	2020	2021E	2022E	2023E	2024E	2025E
GDP (% YoY)	-6.8%	4.7%	3.5%	3.6%	3.4%	3.2%
Unemployment (year average)	18.4%	16.5%	15.3%	14.1%	13.0%	12.0%
CPI (% YoY)	1.6%	2.4%	3.0%	3.5%	3.7%	3.1%
Interest rate (year-end)	1.8%	2.0%	3.3%	4.0%	4.5%	4.8%
DTF 90 Days (year-end)	1.93%	2.29%	3.16%	4.05%	4.63%	5.14%
IBR Overnight (%E.A.)	2%	2%	3%	4%	4%	5%
USD/COP (year average)	3,691	3,550	3,530	3,570	3,640	3,730
Nominal Devaluation (year average)	12.5%	-3.8%	-0.6%	1.1%	2.0%	2.5%
Average oil price (Brent, USD per barrel)	43.20	58.00	63.00	64.00	63.00	63.00

Table 4: Macroeconomic Projections
Source: Bancolombia, projected macroeconomic table (March 2021).

8.2 COVID-19 Impact

Because of the health crisis created by COVID-19, on March 11, 2020, the World Health Organization declared a pandemic and recommended that various urgent actions be taken to

[3] Odebrech scandal is about several bribes paid by the senior Management of Odebrech (one of the highest construcion companies in LATAM) to politicians in many countries in exchange of projects awards. Many construction contracts as Ruta del Sol II were canceled early and lenders couln´t get it back their investments until after many years.

mitigate the spread of the virus. Along the same lines, in Resolution 385 of March 12, 2020, the Colombian government declared a health emergency throughout the country until May 30 of that year. A state of economic, social and ecological emergency was declared in Decree 417 of March 17, 2020. This measure was extended until June 6 by Decree 637 of May 6, 2020. On March 22, 2020, Decree 457 was issued, which ordered mandatory quarantine from March 25 to April 13, 2020. Then, Resolution 844 of May 26, 2020, subsequently extended the health emergency measure until August 31, 2020.

Decree 482, issued on March 26, ordered the suspension of toll collection, but at the same time allowed the works to continue and the construction sector to resume operation. Decree 531 of April 8, 2020, allowed the movement of people necessary for transport infrastructure and public works to restart.

The preventive isolation measures suspended works plans in most road infrastructure projects, suspending contractual obligations and inititating negotiations with the ANI to address the revenue shortfalls as quickly as possible and thus maintain the confidence of the banks. Resolution 618 of May 31, 2020, reactivated the suspended obligations in the infrastructure contracts, allowing the partial reactivation of 43 projects. The collection of tolls was resumed as of June 1, 2020, by Decree 768 of May 30, 2020. In all, the exceedion of the toll rate occurred between March 25 and May 31 (67 days).

During this period, the concessionaires assumed the costs and fixed costs of the operation and maintenance of the projects, in addition to the fact that idle administrative and personnel costs were generated. This added to the cost overruns from the implementation of biosecurity protocols. In addition, compliance with the obligations associated with the construction contracts was rescheduled. The cost of these effects was estimated by the company's management at around COP 31,000 million.

8.3 Sovereign Rating Reduction and Social Tensions, Overall Impact on Infrastructure

The country was in the crosshairs of rating agencies in terms of its economic growth prospects, its fiscal trajectory, and its external finances, so there was a high probability that its investment rating would soon be downgraded. According to Fitch Ratings, a downgrade of Colombia's sovereign debt would have two effects on infrastructure projects tied to it: first, concessions with guaranteed income from the state would be exposed to greater counterparty risk and, second, projects tied to regional economic performance would be affected by a weakening in the country's overall legal and economic environment.

In the case of Pacific 3 (BBB- with a negative outlook) and Ruta al Mar (BB+), a downgrade in the country's rating could trigger a deterioration in the project's rating, as it is tied to the credit quality of its largest guarantor, the state. However, it is also possible that the impact on Colombia's rating will not affect the project's rating because of the progress in the project work.

In addition, the economic impact of the pandemic, the increase in the unemployment rate, and the government measures[4] to counteract the effects of the economic slowdown had worsened relations between the population and the government, generating tension regarding the location, collection, and increase in toll rates across the country. Riots broke out during marches in April that significantly reduced the Pacifico 3 tolls collected, but, according to

[4] During April and May of 2021, Colombian government tried to implement a fiscal reform to continue supplying subsidies to most affected people by COVID-19. This reform aimed to increase many of family basket goods, causing several protests along the country.

the concession contract, any reduction in revenue from tolls due to certain circumstances would be compensated by the ANI.

8.4 Competitive Environment

The civil works construction sector in Colombia is very fragmented. According to the Superintendency of Companies, just over 40 companies were dedicated to this kind of work, and the most representative were Odinsa, Conconcreto, Mincivil, Colpatria, Sacyr (Spanish firm), and Construcciones el Cóndor.

A review of the main financial results of competitors as of 2019 indicates that, between 2016 and 2018, the construction companies all increased their revenue because of the development of 4G projects; however, at the end of 2019, average turnover registered a decline of 20.8%. Between 2016 and 2019, average debt grew a little over 337% (from COP 18 billion to COP 63 billion), mainly because of the need to cover the working capital requirements for the construction of the 4G roads and the increase in the leasing of construction equipment

In terms of leverage indicators, in 2016 the industry had 2.2x net debt over EBITDA, and as of 2019 it had 3.4x because of sectoral dynamics. That year, Construcciones el Cóndor had 4.2x net debt, and by the end of 2020, it had 7x, surpassing that of its closest competitors, such as Odinsa (6.2x), Conconcreto (5.6x), and Meco (2.2x), according to Superintendency of Companies.

9. Financials

It was clear to the CFO of Construcciones el Cóndor that, in addition to internal and external factors, the normal cycle of the construction business led the company to high leverage levels, because between 2020 and 2021, the completion of previous projects coincided with the start of new projects. In addition, on January 25, 2021, Fitch Rating downgraded Cóndor Constructions from A- to BBB+ (col) with a negative outlook, also reducing the rating of the ordinary bond and commercial paper issuance and placement program (PEC) to BBB+ (Col). Fitch warned about the concentration of bond maturities in 2021 and the weakening of cash generation from having lower EBITDA, which pushed leverage upward and made it difficult to obtain financing.

A downgrade would generate noise in the market at a time when it was vital to have conversations with banks, rating agencies, the Colombian Stock Market, business partners, suppliers, and others. In addition, the liquidity pressure faced by the company were due not only to the approach of bond servicing but also the company's fixed costs and expenses, the payment of dividends to the partners, the demand for equity pending from the projects, and the need to continue making progress in the work in order to release the capital trapped in guarantees and concessions.

	2016	2017	2018	2019	2020	2021
Operating cash flow to fixed expenses	3.4	6.5	3.9	3.2	2.1	2.0
Operating EBITDAR/Interest paid in cash	1.4	2.5	2.9	3.5	2.7	3.0
Operating EBITDA/Interest paid in cash	1.4	2.5	2.9	3.5	2.7	3.0
Adjusted total debt/Operating EBITDAR	7.5	4.8	4.3	4.1	3.4	3.6
Net adjusted total debt/Operating EBITDAR	5.2	4.6	4.0	3.9	3.2	3.4
Adjusted debt to operating cash flow	3.1	1.8	3.3	4.4	4.4	5.4
Net adjusted debt to operating cash flow	2.1	1.7	3.1	4.2	4.1	5.1

Table 5: Fitch indicators

After reviewing the company's financial projections in a conservative scenario, COP 52,000 MM EBITDA generation was expected for 2021, COP 82,000 MM for 2022, and COP 104,000 MM for 2023. The most critical years for the company were 2021 and 2022, due to the cash pressures faced by the financial department, which had to look for all possible alternatives to find an optimal solution in terms of time and cost.

The impact on EBITDA was also explained by the dynamics of the concession investment business and the development of the EPC contract. As mentioned above, when a project begins, the profitability rates are very low because it is in the preconstruction stage; later, during the construction stage, the profitability indicators are higher because of greater execution of the work.

The delays in the project completion date (PCD) also affected profitability. Because an EPC contract has a closed price, the fixed costs and the effect of inflation absorb the profit margin during delays. Since 2015, when most works were started as 4G projects, the PCDs of all projects were delayed because of the impact of COVID-19. Figure 2 shows the EBITDA margin of the company considering all these variables.

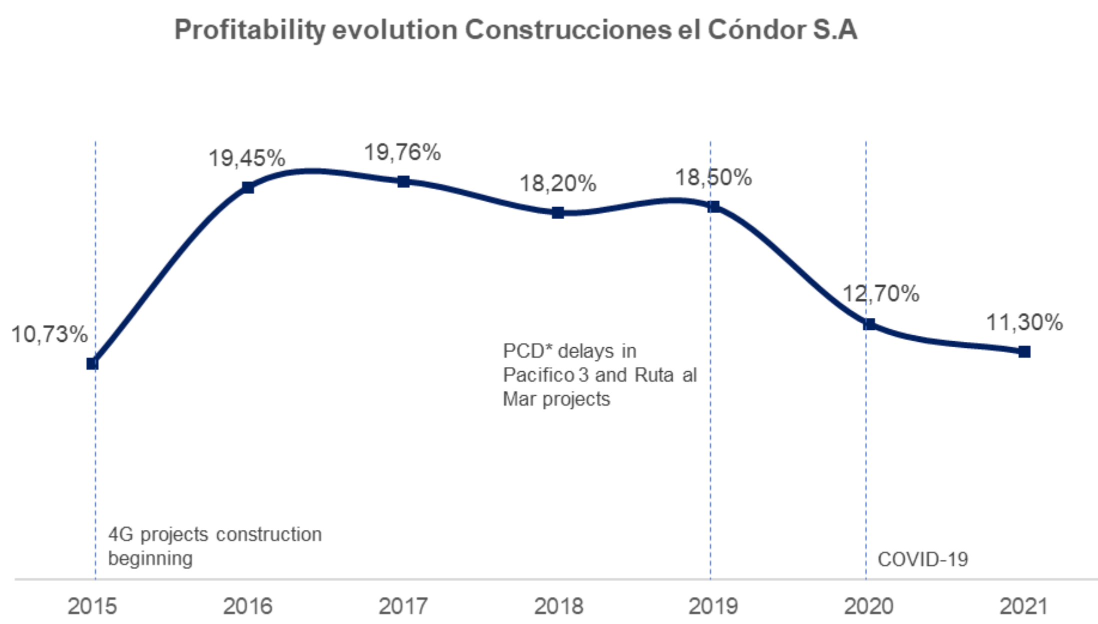

Figure 2: Evolution of profitability
Percentages represent the EBITDA margin.

9.2 Relevant Milestones

By April 2021, Alejandro Correa was completing the sale of Cóndor's stake in Pacifico 2, a project that was set to go into operation in June 2021. The transaction would be for COP 151,000 MM, and the counterparty was the British investment fund John Laing. These resources were intended to relieve the pressure on the cashier and pay evergreen credits for working capital.

At the end of March 2021, Construcciones el Cóndor had won the INVÍAS tender to construct the El Toyo Tunnel, which had a 50% advance and was supposed to be completed in 37 months. The contract was awarded for COP 418,252 MM.

This milestone would have a positive impact on the backlog of the company and its cash, because, as a public works project in the Commitment for Colombia program, it had received an advance and more profitable contracts than the EPC at closed prices.

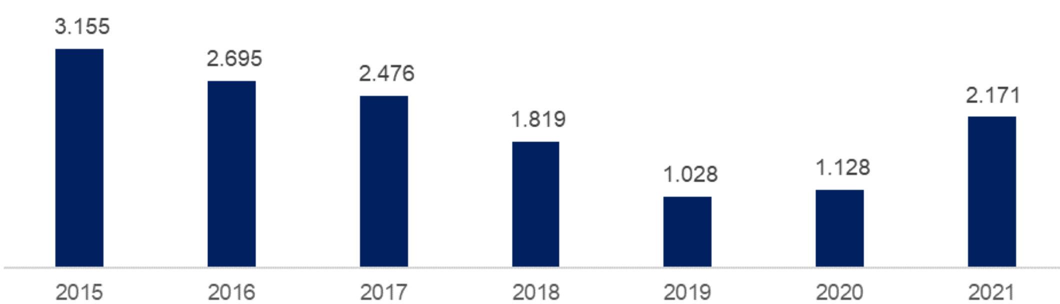

Figure 3: Evolution of backlog (COP billion)
Source: Construcciones el Cóndor, 2.7 years of backlogs, including awards for 2021.

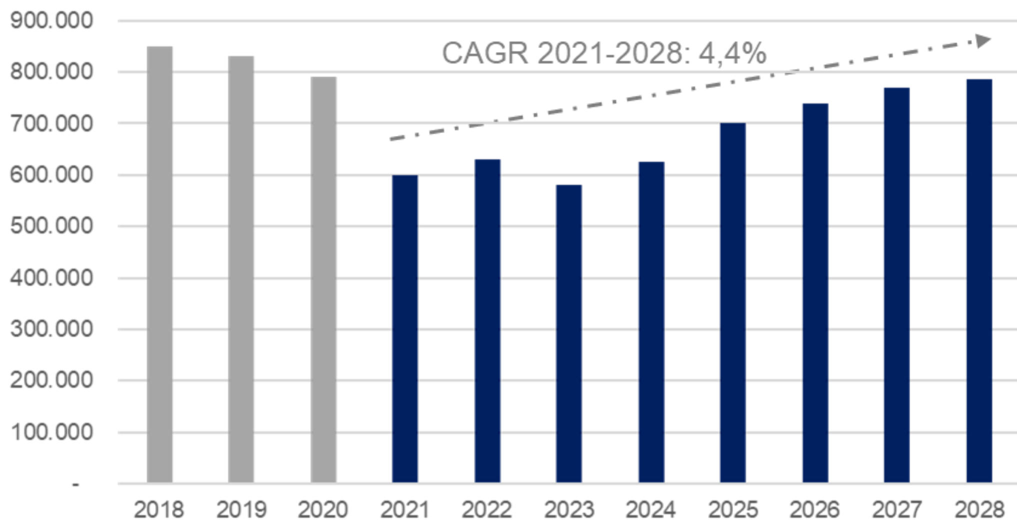

Figure 4: Construction revenue (COP MM)

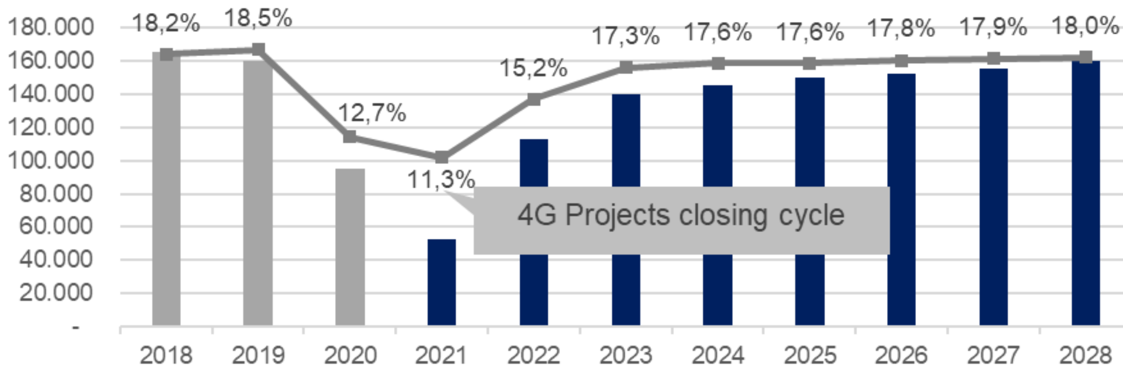

Figure 5: Construction EBITDA (COP MM) and EBITDA margin (%)
Note: The actual figures are confidential, so we use very approximate values.

With respect to future releases of resources, it is expected that after the works are 100% completed, COP 38,000 MM of the Vía de las Américas concession and COP 50,000 of Ruta Al Mar Retegarantía will be released as working capital.

10. Indebtedness

Construcciones el Cóndor needed to progressively increase its debt to cope with the projects in which it participated. To finance machinery and transport equipment, it took on debt of

COP 123,000 MM. However, the loan to value of this operation ratio was 2.5x, reflecting that this obligation was backed by assets of significant value in the market.

To accumulate the working capital required for construction operations, the company acquired COP 210,000 MM in Evergreen credit. Finally, the investment in concessions required COP 345,000 MM, which was also financed with debt and bond issues in the Colombian and foreign capital markets.

At the end of 2020, the debt of the firm was COP 682,984 MM, distributed as follows:

Lenders	**Rate**	**Maturity**	**Type**	**Amount (COP 000) As of Dec 2020**
Bank A	IBR + 3,1%	04/2/2021	Bullet	16.666.667
Bank A	IBR + 3,3%	10/19/2021	Bullet	55.916.133
Bank A	IBR + 3,1%	04/15/2021	Bullet	6.666.667
Bank B	DTF + 1%	02/10/2021	Monthly	460.666
Bank B	DTF + 1,5%	02/10/2021	Monthly	305.871
Bank B	IBR + 3,5%	03/9/2021	Bullet	3.000.000
Bank B	IBR + 4,8%	04/29/2022	Bullet	19.996.310
Bank B	IBR + 4,8%	01/29/2023	Bullet	19.996.078
Bank B	IBR + 4,8%	03/29/2022	Bullet	5.992.419
Bank C	IBR + 5,30%	03/15/2021	Bullet	13.000.000
Bank D	IBR + 1,8%	01/14/2022	Bullet	49.885.967
Bank E	IBR + 3,35%	11/18/2022	Bullet	50.000.000
			Total	**241.886.777**
Corporate Bonds	**Rate**	**Maturity**	**Type**	**Amount (COP 000) As of Dec 2020**
First issuance	9,80%	09/5/2021	Bullet	81.500.000
Second issuance	9,30%	06/10/2021	Bullet	200.000.000
Third issuance	9,80%	03/11/2022	Bullet	36.500.000
			Total Bonds	**318.000.000**
Leasing	**Rate**	**Maturity**	**Type**	**Amount (COP 000) As of Dec 2020**
Leasing	From IBR + 2,88% to IBR + 3,45%	60 months	Monthly/ Biannual	123.097.086
			Total leasing	**123.097.086**

Table 6: Indebtedness

The average life of debt was 10.05 months, and the average life of leasing was 39 months. Banks lend for a maximum of two years, therefore, the premise that short-term assets are financed with short-term liabilities is not met, because of the dynamics of the business as such.

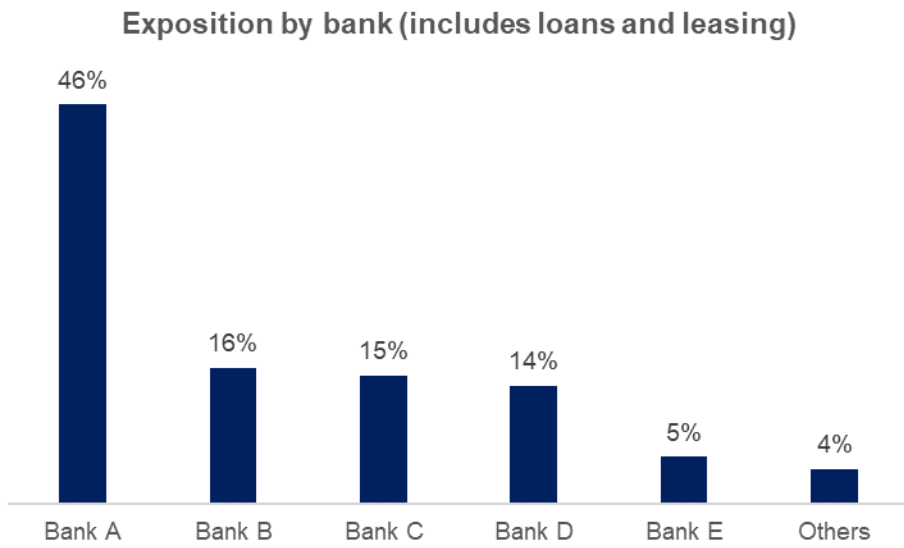

Figure 6: Local bank exposure for credit and leasing

10.2 Maturity of Corporate Debt Bonds

It was expected that in June 2021 the maturity of corporate bonds would total COP 203,762 MM, in September it would total COP 85,262 MM, and the maturity of a loan with Bank D and another with Bank A would total COP 59,678 MM, for a total in 2021 of COP 348,702 MM in cash requirements. At the end of this year, with COP 52,749 MM of estimated EBITDA, the net debt-to-EBITDA ratio would be 12.7x.

Item	2021	2022	2023	2024	2025
Net debt/EBITDA	12,7x	5,7x	4,7x	4,3x	4x

Table 7: Cóndor financial indicators

11. Financing Alternatives Analyzed

11.1 Debt Swap

The debt-swap operation was implemented through the issuance of a bond purchased by current holders without spending any money, receiving a premium via a higher nominal as compensation for the transaction. This type of operation might take about four months from its authorization to the closing, so the firm already faced a major challenge in terms of deadlines.

In addition, the ratings agencies continued to punish the company for its leverage levels, even though it had taken on no more debt, and there were substantive reasons for the decrease in EBITDA. At that time, Cóndor's corporate bonds continued to trade at a premium, which increased the cost of a potential swap because it had to reflect that additional value when the old bonds were exchanged for new ones.

Grupo Argos recently carried out a debt swap of corporate bonds, a pioneering operation in Colombia that basically consisted of buying back the bonds that were due, exchanging them for new bonds at a lower interest rate (CPI + 3.5% vs IPC + 2.65%) and with a maturity of 36 months, which would optimize the company's cash flow and increase the average life of the debt to 5.7 years.

11.2 Debt Swap with Guaranteed Issues

For a company with a AAA rating (col) such as Grupo Argos, it was not difficult for its investors to accept the debt exchange. However, the situation of Construcciones el Cóndor was not very similar because if the risk rating were reduced, the Colombian stock market, due to its small size, did not have the necessary volume of liquidity to be able to find an acceptable basis for marking an efficient price for companies with a BBB+ rating.

In addition, the impact of the recent downgrade would make investors feel uneasy about pricing, because, owing to a negative outlook, they were forced to use the reference price of companies with a rating lower than BBB+, thus discounting the risk of a potential further downgrade. For this reason, the potential for making the exchange with a guaranteed bond was evaluated. Although it required an additional premium for the issuer of the guarantee, if it obtained a rating closer to AA- or A-, it could access volumes that would made the price more efficient. Among the options of potential issuers of such collateral were:

▪ Bancoldex, a multilateral bank focused on the development of companies and with a AAA+ rating, would be interested in guaranteeing COP 45,000 MM in potential issuance, with a covenant that this guaranteed value would equal 40% of the total issuance—that is, a new issuance of bonds covered by only COP 112,500 MM could be made, partially solving the problem. The biggest challenge in this operation was that, to close the negotiation, Bancoldex required a cash counter-guarantee for the same value that it would guarantee, so it was necessary to deposit COP 45,000 MM in a trust to have the Bancoldex seal in the new issue and retain it until maturity.

• The Fondo Nacional de Garantías (FNG) was another entity that could serve as a guarantor. It offered to guarantee up to 70% of potential funding. To obtain the guarantee, Cóndor had to pay fees for attorneys, advisersabout COP 550 MM, which did not guarantee that the Fund would grant the guarantee. In addition, the credit study was quite extensive and strenuous at the operational level, and due to the FNG's investment manuals, over the term of the guarantee, the payment of dividends to the partners and the investment of capital to the projects were prohibited—two vital conditions for the company to be able to operate and maintain a high volume of equity.

The market could demand an interest rate close to 7%, and the bonds could be repurchased at a price of 102.62856 as of April 2021, generating a significant premium in the price that indicated in the P&L as a loss at the time the swap operation is carried out.

11.3 Sale of Assets

At the same time, the investments owned by Cóndor were very attractive to international infrastructure funds because they were 4G concessions. Some of them had guaranteed income from the state and had international investment grade (BBB-) ratings. In addition, the projects were assets whose income was linked to inflation, so they could offer the buyer a natural cover against inflationary pressures related to the pandemic. Furthermore, because they have a yield close to 11% and consider the coverage granted to these projects by the national government, they would be similar to investing in Treasury bonds at minimal risk, with a higher yield.

The stake in Pacifico 2 was purchased by the British investment fund Jhon Laing for COP 151,000 in early 2021, and the resources were used mostly to pay down long-term debt. The most important lesson learned during the process was related to the sensitivity of the price of the asset, due to the company's lack of mobility when it tried to stop the deterioration of the rating, demonstrating that, to maximize the price of the assets, it was necessary to have no pressures parallel to the sale.

The stakes in Vinus, Ruta al Mar, and Pacifico 3 remained attractive to other investors; however, these M&A processes could take up to a year to materialize.

11.4 Financing against Concession Dividends

Moreover, the future dividends generated by this type of concessions were quite attractive, so they could be considered collateral for potential loans. As dividends, they would be subordinated to senior debt, so an eventuality such as COVID-19 or something similar, a reduction in traffic, legal problems for any of the partners, and so forth, could affect the generation of cash in the future and generate a possible default. The concessions in operation guaranteed the company dividends for the next 25 years, and they grew exponentially after the debt no longer needed to be serviced (See Annex 1).

11.5 Payment of Bond Maturities through Credit

Another alternative to evaluate is application for a loan to pay the maturities of the 2021 corporate bonds. This option is affected by current leverage levels and Cóndor's ability to generate EBITDA in the short term. Currently, banks do not finance this type of company for more than two years, however, a potential guarantee, such as the dividends of a project or the sale of the project, could serve to establish a potential negotiation.

12. Company Continuity Strategy and Decisions to Be Made

For Construcciones el Cóndor, 2021 was a challenging year because of the economic dynamics of the country due to the impacts of COVID-19, the capital requirements of the business model and the concessions in which it was participating, in addition to a challenging competitive environment.

In 2020, the company's strategy revolved around billing close to COP 1 billion annually, but, given the circumstances and market dynamics, it was necessary to revise this value. In addition, it was important to assess how efficient it would be to replace capital market obligations with bank debt, bearing in mind that a rating from Fitch, which had a very rigid and standard methodology for the market, is not necessary when a firm goes public. Finally, it was necessary to review which projects were reaching a stage of maturity in such a way that it would be attractive to sell them in the market.

The management team, especially the CFO, had to find the most optimal strategy in time and cost that would allow it to: (1) meet the maturities of bonds and credits of 2021 and early 2022, (2) maintain payment of dividends to its shareholders (COP 35,000 MM per year), (3) guarantee the development of the activities of the construction company and its participation in new tenders, (4) improve the structural debt of the company to improve its rating and enable convergence in the leverage indicators to the industry average (4x), and (5) maximize shareholder value through asset sales.

13. Final Decision

After reviewing all the available option, a syndicated bridge loan was negotiated with Banks A and E for COP 340,000 MM, in which Bank A had a stake of 85% and Bank E held the remaining 15%. This would be bullet credit, backed by the sale of Pacific 3, and would have a tenure of 24 months.

Another variable addressed was the uncertainty of being unable to control the confidence of third parties in the company, due to the rigid and general vision of the rating agency and how this could affect the financing of working capital at the end of 2021. To fix it, a bridge loan would be used to pay the maturities of the bonds to end reliance on the methodology of the rating agency.

In addition, two parallel processes were initiated: (1) a sale of assets that were coming into operation, with a term to sell of 24 months, and (2) long-term bank financing on concession dividends. The second option sought to gain additional time of more than 24 months, whereas the first option sought to maximize shareholder value through controlled asset sales.

14. Annexes

Annex 1: Balance Sheet

BALANCE SHEET	2020	2019
ASSETS		
Cash and cash equivalents	5,473,377	31,465,221
Current investments	57,241	43,938,769
Commercial accounts receivable and other accounts receivable	339,321,090	529,252,735
Accounts receivable, related parties	406,872,968	390,406,876
Asset for current taxes	14,533,895	4,373,870
Inventory	55,663,445	55,701,638
Prepaid expenses	12,644,236	3,647,958
Non-current assets maintained for sale	46,031,525	2,530,363
CURRENT ASSET	**880,597,779**	**1,061,317,430**
Investments in financial instruments	947,224	947.224
Investments in associated and joint businesses	131,900.832	142,532,902
Investments in subsidiaries	25,597,555	26,891,083
Commercial accounts receivable and other accounts receivable	4,928,988	2,678,923
Accounts receivable, related parties	695,520,329	575,104,918
Prepaid expenses	19,352	31,848
Intangible assets other than capital gain	4,862,892	4,862,892
Assets for deferred taxes	10,985,759	14,409,982
Property, plant, and equipment	382,315,385	409,559,291
Investment properties	5,587,324	5,735,876
NON-CURRENT ASSETS	**1,262,665,640**	**1,182,754,939**
TOTAL ASSETS	**2,143,263,419**	**2,244,072,369**
LIABILITIES		
Financial obligations	385,046,442	179,323,311
Commercial financing companies	45,609,843	42,378,237
Commercial accounts receivable and other accounts receivable	157,961,469	199,545,300
Accounts payable with current related parties	21,370.093	1,983,853
Current taxes	1,132,581	5,375,286
Labor obligations	9,998,530	13,308,504
Other liabilities	24,066,761	30,731,881
Prepayments and advances received	20,496.191	39,702,130
Prepaid revenues received	15,370,423	43,315,534
CURRENT LIABILITY	**681,052,332**	**555,664,036**
Financial obligations	194,370,774	360,258,667

Commercial financing companies	97,050,718	131,379,220
Commercial accounts payable and accounts payable	450,221	1,041,757
Accounts payable with non-current related parties	0	12,441,878
Prepayments and advances received	8,560,464	20,500,750
Liabilities for deferred taxes	73,302,732	80,540,344
NON-CURRENT LIABILITY	**373,734,908**	**606,162,616**
TOTAL LIABILITY	**1,054,787,240**	**1,161,826,652**
EQUITY		
Stock capital	15,701,606	15,701,606
Premium in share placement	159,711,695	159,711,695
Reserves	776,045.241	718,587,481
Results for the period	31,440,615	73,103,484
Retained earnings	22,869,370	34,518,301
Other integral result	82,707,652	80,623,149
TOTAL ASSETS	**1,088,476,179**	**1,082,245,717**
TOTAL ASSETS AND LIABILITIES	**2,143,263,419**	**2,244,072,369**

Annex 2 - P&L

REVENUES FROM NORMAL ACTIVITIES	2020	2019
Sales of goods	7,235,600	4,103,950
Services provided	787,759,706	870,694,076
TOTAL REVENUES FROM NORMAL ACTIVITIES	**794,995,306**	**874,798,026**
Operating costs	-717,826,478	(720,257,695)
GROSS PROFIT	**77,168,828**	**154,540,331**
Administrative expenses	-28,036,228	(32,589,310)
Other revenues	16,076,917	6,013,434
Other expenses	-1,112,907	(5,014,486)
Other gains or losses	-614,170	40,605,697
OPERATING PROFIT	**63,482,440**	**163,555,665**
Financial revenue	49,448,589	55,833,270
Financial expenses	-71,388,917	(78,586,650)
Net participation in results of subsidiary, associated, and joint businesses	5,824,135	(20,962,712)
PROFIT BEFORE TAXES	**47,366,247**	**119,839,573**
Income tax	-15,925,632	(46,736,089)
NET PROFIT FOR THE PERIOD	**31,440,615**	**73,103,484**
Net profit per share	54,74	127,28

Annex 3 - Other comprehensive income

	2020	2019
NET PROFIT FOR THE PERIOD	**31,440,615**	**73,103,484**
OTHER INTEGRAL RESULTS		
Items that will not be reclassified after the period results:		
Gains (losses) from valuations in investments and property, plant, and equipment	-11,003,102	-12,979,165
Effect of tax on gains	2,733,906	3,921,676
Gains (losses) for employee benefit plans	(5,562)	(20,819)
Items that will be reclassified after the period results:		
Gains (losses) from exchange differences from investment conversion overseas	(4,651,122)	535,294
Participation in associated and joint businesses	14,292,319	(10,966,209)
Effect of tax on gains	718,062	1,203,196
OTHER INTEGRAL RESULTS FOR THE PERIOD	**2,084,502**	**(18,306,028)**
TOTAL INTEGRAL[5] RESULTS FOR THE PERIOD	**33,525,117**	**54,797,457**

Annex 4 - Cash flow

OPERATING ACTIVITIES	**2020**	**2019**
Profit for the period	31,440,615	73,103,484
Items not affecting cash:		
Depreciation and impairment of property, plant, and equipment	31,631,698	33,312,580
Depletion mining and quarrying	558,517	1.499,750
Amortization	4,669,445	4,236,811
Provision costs, accounts receivable, investments, contingencies	-7,850,327	12,253,697
Exchange difference (net)	114,407	28,514
Recovery from reimbursement of costs and expenses	-3,035,470	-3,523,283
Net losses (gains) on sale of property, plant, and equipment	614,271	225,888
Losses (gains) from the disposal of investments in subsidiary, associated, and joint businesses	-101	-40,693,606
Net participation in the losses (gains) of subsidiary, associated, and joint businesses	-5,824,135	20,962,712
Income tax	15,925,632	46,736,089
CASH GENERATED IN OPERATION	**68,247,487**	**148,142,636**
CHANGE IN OPERATING ITEMS		

[5] In this case, Integral results include accounts which doesn´t represent cash movements and that could be materialized on P&L if assets related to them are sold.

Plus: increased liabilities and decreased operating assets	**55,333,293**	**58,453,907**
Decrease in commercial accounts receivable and other accounts	50,485,991	42,013,660
Decrease in assets for deferred taxes	3,424,223	12,127,826
Decrease in inventory	38,193	0
Increase in labor obligations	0	1,498,412
Increase in other liabilities	1,384,886	2,814,009
Minus: increased assets and decreased operating liabilities	**145,804,733**	**220,542,126**
Increase in inventory	0	490,413
Increase in prepaid expenses	13,641,912	2,587,749
Increase in current tax assets	10,160,025	2,816,351
Decrease in accounts payable	32,195,537	105,082,997
Decrease in tax payments	20,168,337	51,846,046
Decrease in deferred tax liability	7,237,612	8,013,757
Decrease in labor obligations	3,309,974	0
Decrease in revenues received in advance	27,945,111	28,486,988
Decrease in prepayments and advances received	31,146,225	21,217,825
NET CASH FOR OPERATING ACTIVITIES	**-22,223,953**	**-13,945,583**
CASH FLOWS IN INVESTMENT ACTIVITIES		
Plus: decrease in investment activities	**54,456,315**	**62,696,824**
Intangible assets other than capital gains	0	15,542,727
Investment	54,307,763	46,481,925
Investment property	148,552	672,172
Minus: increases in investment activities	**49,073,058**	**36,926,447**
Non-current assets maintained for sale	43,501,163	1,651,190
Intangible assets other than capital gains	11,315	0
Property, plant, and equipment	5,560,581	35,275,257
NET CASH FOR INVESTMENT ACTIVITIES	**5,383,258**	**25,770,377**
NET CASH FOR FINANCING ACTIVITIES		
Plus: increase for financing activities	**18,143,507**	**43,329,238**
Financial obligations	8,738,341	29,310,200
Increase in reserves	0	792,149
Increase in retained earnings	0	13,226,889
Other integral result	7,023,595	0
Surplus for revaluation and deferred taxes	2,381,572	0
Minus: decreases in financing activities	**27,294,656**	**48,460,234**
Dividends declared	15,645,725	30,154,206
Decrease other integral result	0	6,200,629
Decrease in surplus for revaluation	0	12,105,399
Decrease in retained earnings	11,648,931	0
NET CASH FOR FINANCING ACTIVITIES	**-9,151,148**	**-5,130,996**
Cash increase-decrease	-25,991,844	6,693,799

Cash beginning the period	31,465,221	24,771,422
CASH AND CASH EQUIVALENTS	**5,473,377**	**31,465,221**

Part II. Teaching notes

15. General Objective

Find an appropriate financing strategy that allows the company to reach the moment of sale of its assets without cash pressures, so that it can gradually reduce its leverage levels, allowing it to meet its short-term obligations and continue with the normal operation of the business.

17.1 Specific Objectives

- Identify other potential alternatives for both debt optimization and deleveraging in the short and medium term, raising attractive suggestions for the company.

- Analyze pros and cons in each of the available alternatives, considering the macroeconomic environment and the impact of each decision on the company's long-term finances.

- Demonstrate why the decision taken extends benefits to the company, giving priority to the immediate liquidity needs posed by the new projects awarded.

16. Teaching Plan

This case is aimed at graduate students with a focus on corporate finance and investment banking.

18.1 Discussion

The following are some of the questions the student should ask:

1. What options does Alejandro have?

2. Should it seek more debt through banks?

3. Do you have arguments to convince local banks that the company can with more debt?

4. Would I do better to do a debt swap for 2021 bond maturities?

5. Is the counter-guarantee demanded by Bancoldex financially viable, considering that "the most expensive money is the one that is not obtained"?

6. Should Construcciones el Cóndor increase its backlog through new road concessions? What other kind of contract would be more convenient?

7. Is it time to sell assets, such as Pacific 3, Ruta al Mar, or Vinus?

18.2 Case Presentation

90 minutes. Based on the answers to the above questions, students should prepare a presentation aimed at potential problem solvers (banks, investment banking, international investors). In this presentation, they must include general context, current company conditions, and the arguments that support the decision taken. It must be a maximum of 20 slides.

It is suggested that the case analysis time be one week.

References

Agencia Nacional de Infraestructura. (2020). Proyectos en Estructuración. Available at https://www.ani.gov.co/sites/default/files/201210_estructuraciones_ani_5g_-_diciembre_de_2020.pdf.

Diario La República. (2021). Construcciones El Cóndor gana licitación de Invías para construir obras del Túnel del Toyo. Available at https://www.larepublica.co/empresas/construcciones-el-condor-gana-licitacion-de-invias-para-construir-obras-del-tunel-del-toyo-3146728/.

Fitch Ratings. (2020). Fitch Afirma Calificación de Grupo Argos en 'AAA(col)'; Perspectiva Estable. Available at https://www.fitchratings.com/research/es/corporate-finance/fitch-afirma-calificacion-de-grupo-argos-en-aaa-col-perspectiva-estable-23-06-2020

Fitch Ratings. (2021). Fitch Baja Calificación de Construcciones El Cóndor a ‘BBB+(col)’; Perspectiva Continúa Negativa. Available at https://www.fitchratings.com/research/es/corporate-finance/fitch-downgrades-construcciones-el-condors-rating-to-bbb-col-negative-outlook-25-01-2021/.

Fitch Ratings. (2021). What Investors Want to Know: Cross-Sector Implications If Colombia Is Downgraded. Available at https://www.fitchratings.com/research/us-public-finance/what-investors-want-to-know-cross-sector-implications-if-colombia-is-downgraded-a-downgrade-to-high-yield-would-affect-some-corporate-bank-infrastructure-ratings-24-02-2021

Grupo Argos. (2020). Grupo Argos realizó el primer intercambio de deuda privada en el mercado de valores colombiano. Available at https://www.grupoargos.com/es-co/media/noticias/grupo-argos-realiz%C3%B3-el-primer-intercambio-de-deuda-privada-en-el-mercado-de-valores-colombiano/.

Hayes, Adam. (2021). Project Finance. Available at https://www.investopedia.com/terms/p/projectfinance.asp.

Invías. (2020). Gobierno Nacional sigue transformando la infraestructura vial del país: Conpes aprueba financiación de 22 proyectos de Compromiso por Colombia. Available at https://www.mintransporte.gov.co/publicaciones/9229/gobierno-nacional-sigue-transformando-la-infraestructura-vial-del-pais-conpes-aprueba-financiacion-de-22-proyectos-de-compromiso-por-colombia/.

Ministerio de Transporte. (2020). Gobierno anuncia la contratación de 27 proyectos del programa concluir y concluir para la reactivación de las regiones de Compromiso por Colombia. Available at https://www.ani.gov.co/proyectos-5g-en-etapa-de-estructuracion/.

Oficina Asesora de Comunicaciones. (2018). Con el programa vías 4g, Colombia se pone al día en materia de infraestructura. Available at https://www.ani.gov.co/con-el-programa-vias-4g-colombia-se-pone-al-dia-en-materia-de-infraestructura/.

Oficina Asesora de Comunicaciones. (2020). Proyectos 5g en etapa de estructuración. Available at https://www.ani.gov.co/proyectos-5g-en-etapa-de-estructuracion/.