Cerved Group SpA

"Q3 2021 Results Conference Call"

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MODERATORS: ANDREA MIGNANELLI, CHIEF EXECUTIVE OFFICER
EMANUELE BONA, CHIEF FINANCIAL OFFICER

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Cerved Group Q3 2021 Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone.

At this time, I would like to turn the conference over to Mr. Andrea Mignanelli, Chief Executive Officer of Cerved. Please go ahead, sir.

ANDREA MIGNANELLI: Thank you very much all for joining this call today. This is Andrea Mignanelli, CEO, and with me there is Emanuele Bona, CFO. The purpose of this call is to provide you with an update on Cerved results to 30th September 2021.

So as an introductory comment, I would say that year-to-date results to September are satisfactory on a consolidated basis, and Cerved is returning to the growth trajectory as indicated in our guidance in 2023. Data Intelligence, ahead of plan and the Credit Management division behind schedule.

Now let me take you through the key messages in the executive summary on Slide #4. The situation in Italy is picking up very well, thanks to a series of factors, namely vaccination rates are among the highest worldwide, and consumer confidence and industrial output and exports are all registering solid indicators, and also as you may know, Italy has secured [indiscernible] as part of the next generation EU plan.

So all this has led to an upward revision of expectation on the rebound of the channel economy. However some elements of uncertainty remain, first of all linked to the risk of a fourth wave of the pandemic, which is already manifesting itself in the Northern European countries, and from an economic point of view to the tensions on raw materials due to the shortage of certain goods and the rising prices, which could slow down the recovery in the next few months.

Now, as mentioned a second ago, set of results on a consolidated basis. Revenues grew by 3.1% on an organic basis with the Data Intelligence perimeter already ahead of 2019 result. Adjusted EBITDA grew at an even higher rate of 3.6% on an organic basis, and once again the Data Intelligence perimeter is well above pre-COVID levels.

Operating cash flow jumped 20% consistently with what we reported for H1, reflecting the gradual normalization of DSO in '21 compared to the 2020 which witnessed a deterioration of networking capital. Adjusted net income grew by 10.5%, mainly thanks to the underlying growth in EBITDA and the lower amortization.

And finally leverage further improved to 2.5 times compared to 2.9 times the year end, thanks to solid cash generation and an improvement in networking capital, due to strong collection of receivables.

Let me now give you a quick heads-up on shareholder meetings and the tender offer, although these aspects are not covered within the scope of this presentation, and we will not comment on them during the course of the Q&A at the end of the call. So if you have any queries on this, please contact our Investor Relations department on ir@cerved.com.

We have 2 Shareholder Meetings on the agenda, the first for the 25th of November to appoint a new Board of Directors to modify the minimal number of Directors in the by law, and following the request submitted by the shareholders, Maven Investment Partners and Berry Street Capital, to integrate the agenda with the proposal of distribution to the shareholders of an extraordinary dividend of €0.5 for each outstanding share. And the second Shareholder Meeting will be on February 11th, 2022 to approve the merger of Cerved Group into Castor Bidco.

Regarding the tender offer, as we indicated in the presentation, Castor Bidco reached a stake of 78.9% at the end of the tender offer on September 9th, which has subsequently increased to 89.2% as of 28th of October. All the relevant documentation is available on our website, either in the governance or in the investor relations tabs, as appropriate.

Now, let me move to Slide 8, which provides our customary view of our results in the first 9 months, broken down by business unit. But before getting into the 3 key divisions, let me spend a few minutes on the Data Intelligence business, which includes Risk Intelligence and Marketing Intelligence, and which is our core business.

In a nutshell, we have already overcome the impact of the pandemic, which took a toll on our 2020 results. This is very satisfactory results, which I am keen on highlighting and which we'll look into further. As backup, please also refer to Slide 19, which has all the divisional figures from 2019 to 2021 broken down by division and between Data Intelligence and Credit Management. This is very useful to compare our current rating with pre-pandemic levels.

Risk Intelligence is our largest division and we have already seen with H1 results, this division has continued to bounce back from a very tough 2020. The division grew by 6.2% in revenues termed [ph] year-to-date and is already up 2% compared to 2019.

Let's now look at each of the financial institutions and corporate segments in more detail. Financial institutions are once again continuing to degrade [ph] and this is on top of 2020, which grew nicely compared to 2019 and despite the pandemic, this segment grew by 5.1% in the first 9 months, and this is a combination of 3 key factors, which we already indicated with the H1 result presentation.

So first is the core business information and analytics segment continue to register a positive growth rate, which is comforting given that they did not contract during the pandemic? Another area, which is continued to perform very well is Subsidized Finance, in particular services to our banking system cope with a liquidity decree to boost liquidity and new lending, especially to SME. Ratings are also doing quite well, recall that this is a very distinctive offering we have and we have the largest rating agency in Europe by number of ratings clearly focus on the SME sector.

Last but not least, the Real Estate segment is slightly below last year, has just been occurring for the last few years real estate is [indiscernible] on one end appraisals have been a gross story since last…since at least 2014, whereas on the other hand, cadastral surveys, which includes land registry checks and cadastral information has been declining.

Now, let's look into Corporate Segment, which has also been doing quite well and really continue to bounce back growing by 7.2%, following the plus 9.8% in H1. The current growth rates are satisfactory, but we are still behind 2019 level, so it will take some more time to fully recover from the impact of the pandemic in 2020.

A quick comment on client segmentation, as we indicate in H1 call, the SME client base was very much more impacted by the pandemic than our large key accounts, which are much larger and better equipped to ride through the adverse market condition.

With respect to the EBITDA to the Risk Intelligence Division, the growth was 8.8% to September '21, compared to the 9…to the growth of 9.8% we reported in H1 result.

Couple of comments here, good to see that the 9 months…in the 9 months the EBITDA growth was higher than the revenue growth, which proves that the operating leverage is finally working in our favor again. Recall that in Q1 the situation was different EBITDA did not outperform due to a higher cost base and we were investing more in people and services to cope with an expected rebound in 2021. So with respect to the comparison with 9 months in 2019 results in 9 months 2021 and the Risk Intelligence are only 1.2% lower. But given the trend, we are experiencing, we expect to exceed 2019 levels fairly shortly.

Now, looking at Marketing Intelligence also a lot of good news. Things are really bouncing back quickly and we are very satisfied with this result. 9 months in 2021 is well above 2020 levels plus 14.2% in terms of revenues and an incredible plus 49% in EBITDA terms. And please note that these results are entirely organic, and even if we were to look at the pro forma 2019 figures, the 2021 will still be higher.

Let's now look at revenues and EBITDA a bit more closely. Revenue growth was 14.2% above last year and was very strong in all divisions, including also MBS, our advisory firm, which was slightly below 2020 H1 results. As we said in H1 results, we are quite confident for the year, given that the backlog of projects is very solid and all consultants are working full steam. So we expect a good recovery in the rest of the year.

EBITDA growth was much higher at 49.8% that this is largely attributable to the Digital Marketing segment, which you may recall had been hit last year, mainly PayClick with many high risk provision for the year. So this year things are getting a lot better and the jump in EBITDA and Digital Marketing more than compensated for the client MBS. Going forward, we expect to continue to see positive results, as MBS to return to growth territory with respect to EBITDA growth.

Credit Management is a division, which is continued to suffer the most and are slightly below the H1 result. So revenues declined by 6.1% in 9 months and EBITDA declined by 22.9% in 9 months. It has been a very hard year for the NPL related activities in general, which account for almost half of our total revenue in the division. So the impact of the moratoriums [indiscernible] flow of new defaults to historical low and consequently, the amount of NPEs on bank balance sheets is actually contracting.

The Italian Banking Association declared in May that there has been…there were only €18 billion of net NPLs on bank balance sheet. The markets expect the new volumes, which emerge as an effect of COVID-19 crisis will materialize in the beginning of 2022 and then narrowly [ph]…approximate…estimate approximately €80 billion of new gross NPL in the year after the moratorium.

With respect to the servicing market, 2021 has been characterized by limiting new volumes of NPLs, both in terms of disposal and outsourcing contracts by banks, as well as, by lower recovery rates due to the suspension of activities of the judiciary, courts and to actions taken to protect bank clients, for instance, the suspension of auctions on homes.

Lastly, the performance on the Credit Management Division has been impacted by €1 million of low revenue to the loss of a special servicing contracts due to the sale of the underlying portfolio by the owner of this portfolio.

Please also recall that our revenues will still suffer from the loss of the NPS contract whether this contract had higher margin and the rest of the division and termination [ph] also has been impacted on overall margin.

So the rest of the business was however quite positive, especially with Legal and Greece growing double-digit, a corporate collection showing a minor contraction.

In terms of EBITDA, the results is due to the cost base not being able to match the decline in revenues, as well as, the less favorable business mix with regard to Corporate Collection units with a growing rate of the utilities versus new consumer finance. So EBITDA declines to almost 23% compared to revenue declined by 6%.

In the interest of time, I will skip Slides 9, 10 and 11, which provide a lot more detail on each of the business units, but I've already indicated the key drivers. I'm happy to answer questions you may have in the Q&A session.

Let me now hand you over to Emanuele for the financial section.

EMANUELE BONA: Good afternoon. Thanks, Andrea. So moving on to Slide 13. Let's take a brief look at the income statement. 2 key aspects, which impact the results to September and which we have already illustrated in the last presentation when we presented H1 results.

The first one is the performance share plans. The tender offer has led to an acceleration of the rights, which were granted to management. So the cost you see in the P&L is partially recurring and largely non-recurring and hence most of this cost is one-off and is adjusted for in the adjusted net income.

Second point is the realignment of tax base of intangibles. You might recall that this was a very positive transaction for Cerved, because tax authorities are allowing us to pay roughly €7 million up front in order for our intangibles to be tax deductible over the residual lives and this leads to an NPV of approximately €50 million of reduced taxes over the next 18 years. This is also adjusted for in the calculation of the adjusted net income.

Please bear in mind that the regulation is potentially changing on this in Italy. A recent draft Budget Decree Law published a couple of weeks ago is challenging this rule, but we will see the final results of the discussion around the law by the end of the year. So at this point in time, I'm just informing that there might be regulatory changes around that, but at this point in time, the numbers remain the same.

Slide 14 provides our customary breakdown of networking capital. As you can see, the situation keeps improving, net working capital as a percentage of revenue is now at 20.8% is still relatively high number, but it's significantly lower than where it was at the end of H1. The number at the time was 26.6.

As we indicated in the H1 results, the underlying DSO are continually improving. And particularly within the Data Intelligence Division, we have already returned to pre-pandemic levels. I would say that the current trends are following what we indicated in our guidance as you might recall what we said is that we were projecting that cash conversion would reach a level of 75% to 80% of EBITDA by 2023.

Skipping on to Page 15, shows you…Page 15 shows you the operating cash flow. As you can see, the operating cash flow increased by 20% versus the same period of 2020. This is mainly due to the improvements that I've just mentioned, in terms of working capital. Last year, working capital showed significant cash outflow, whereas this year, we can see a cash inflow. This coupled with a solid level of EBITDA and a stable CAPEX allows this very positive results versus 2020.

And finally, last but not least, the financial indebtedness on Page 16. As you can see, the leverage ratio at the end of Q3 was 2.5 times EBITDA last 12 months. This is mainly due to what we just commented on cash generation. As you might recall, the leverage was 2.7 times EBITDA at the end of June, and it was at 2.9 times at the end of last year.

So I think we've covered the entire presentation. Thank you for your attention. And I believe that we can now open the Q&A session.

Q&A

OPERATOR: Excuse me. This is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question, may press "*" and "1" on their touchtone telephone. To remove your question, please press "*" and "2." Please pick up the receiver when asking questions.

The first question comes from a Manuel Blanco of Maven [ph] Securities. Please go ahead.

MANUEL BLANCO: Thank you. Good afternoon. Yes, I have a question with regards to the propose EGM in particular the one on the 11th of February. And just noting the fact that several Directors including the Chairman were opposed to the way that EGM was called. So can you please elaborate on the rationale for rushing that decision to call EGM? Thank you.

ANDREA MIGNANELLI: Hey, Manuel. As we explained at the beginning, we will not comment on issues related to the tender offer. The explanation of the Board of Directors are duly listed in our website as part of their procedure. So please refer to that note. Thanks.

MANUEL BLANCO: Okay. Thank you.

OPERATOR: As a reminder, if you wish to register for a question, please press "*" and "1" on your touchtone telephone. For any further questions, please press "*" and "1" on your telephone. Gentlemen, at this time, there are no questions registered.

Excuse me; we do have a question from Mr. Yunus Olcer of Berry Street Capital. Please go ahead.

YUNUS OLCER: Hi, hello. Thank you very much for taking my question. Just I have a quick question, I mean, given the business seems to be back at pre-COVID levels. Can you give more…a bit more guidance in regards to your cash conversion and a bit more clarity on that? Thank you very much.

ANDREA MIGNANELLI: Emanuele, can you take that, please?

EMANUELE BONA: Yes. Listen, the guidance around cash conversion that we mentioned during the Investor Day at the end of March was that we were targeting a 75% to 80% conversion of EBITDA. So the operating cash flow generation…that's the target for operating cash flow generation and within the plan. So that's the guidance that we have given and we're not updating it at this point in time. But it's the ratio of operating working capital divided by adjusted EBITDA. That's what we call cash conversion.

YUNUS OLCER: That's helpful. I just wanted to know if you had like any more…an updated view on it since March to today.

EMANUELE BONA: Not at this point. We will confirm in the guidance.

YUNUS OLCER: Thank you very much.

OPERATOR: Mr. Mignanelli, there are no questions registered at this time.

ANDREA MIGNANELLI: Well, then thank you everybody on the call and for your attention. And speak to you very soon. Thanks. Have a good weekend. Bye-bye.