Cerved Group

"Nine Months 2020 Results Conference Call"

Tuesday, November 10, 2020, 17:30 CET

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OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Cerved Group Nine Months 2020 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. Pietro Masera, Head of Structured Finance and Investor Relations. Please go ahead, sir.

PIETRO MASERA: Thank you. Good evening, everyone thanks for joining the call this evening. As mentioned, this is Pietro Masera speaking, and I am here with Andrea Mignanelli, CEO and Emanuele Bona, who has been CFO since the first of August. Purpose of the call is to provide you with an update on Cerved's 9 months results to 30th September, so at this point I will leave the word to Andrea Mignanelli.

ANDREA MIGNANELLI: Thanks, Pietro. In summary, I am satisfied with the Q3 results. We showed a strong improvement versus Q2 in particular in the risk management division, and this is in line with our long term characteristic of resilience. But before I will speak on these results, I'd like to talk about the current COVID situation and the uncertainties it's generating with respect to the impact on the economy, and therefore also on our future performance.

Italy registered a remarkable improvement of the COVID situation during the summer and leading into September, and please recall that Italy was the first country to be hit in Europe, and implemented a very drastic lockdown. By September, the situation appeared to be fairly under control with very limited new infections and mortality rates. However, starting from October the situation began to rapidly deteriorate and since late

October, a number of the countries in Europe including Italy have decided to implement restrictions, fortunately not as rigid as the lockdown we saw from March to May, but still a series of measures which have a material impact on business activity. Based on this COVID related uncertainty, we have taken 2 important decisions with regard to 2020 guidance and the forthcoming Investor Day. Let me kick off with guidance on 2020 results that we have decided to provide to the markets.

I'd like to highlight that our capability of being able to provide guidance at this moment of time reflects 2 key aspects, #1, the highly quality and resilience of Cerved business operations, and 2, the Board's recognition of the importance of providing comfort and visibility on our results to the financial community. So the guidance we are providing relates to revenues and adjusted EBITDA and the values of €480 million and €200 million are roughly in line with the current analyst consensus. So please appreciate that not only we are providing guidance, but we are also providing fairly challenging on the objectives. Clearly the consensus does not contemplate the current second wave of COVID and related restrictions.

The 2020 guidance is our current best projection for results, and we may come out a little bit worse or a little bit better, reason for which we indicate an approximate figure. Please also note that such guidance does not incorporate exceptional or catastrophic events but rather a reasonable deterioration of the general situation in Q4 2020. Finally, the guidance is not for the consolidate…it's…sorry the guidance is for the consolidated results of the Group, and we are not providing specific guidance for the 3 business units nor for other variables, such as net earnings and net debt.

With respect to the Investor Day, we took the sensible decision to host it early next year. You recall that in announcing our full year results, we suspended guidance and indicated that the Investor Day would have been hosted with the year end at 2020. COVID has unfortunately taken a turn for the worst, and the impact on us and the economy is quite unpredictable, so we thought that it would be more credible for us to provide medium to long-term guidance, once the shape of the post COVID trajectory is clear, and this also means understanding when it will bottom out and when we'll return to a stable growth trajectory. Having said this point, we are now scheduling the Investor Day as soon as practicable in H1 2021, and by as soon as practicable, I mean as soon as the COVID situation stabilizes and we can make solid projection for the medium term, also, on the back of final 2020 figures and on the 2021 budget.

Having hopefully provided comfort to the markets on our near term results for 2020, let me now focus on the 9 months results on Slide #3, which we just published in this afternoon. As a first comment, and we…as we highlighted in the executive summary, please appreciate that the data base related business perimeter, risk management and growth services actually grew in Q3. I believe that this is the most important statement which illustrates the high quality and resilience of our core business.

Regarding the consolidated Group results year-to-date to September 30, we can say that revenues declined only 2.6% on a reported basis, or 7.6% on an organic basis. Adjusted EBITDA declined more at 10.5% due to a high operating leverage and to a mixed effect within credit management in particular, which was translated into minus 13.1% on an organic basis. Operating cash flow declined by 16.1% and this is due to higher DSO from clients due to the COVID situation. Adjusted net income declined by 9.4% and this is after having deducted for minority interest. Leverage remained in the area of 2.7 times EBITDA and recall that this is calculated on LTM EBITDA including M&A for the last 12 months.

In the following pages, we will look at each of these variables on a divisional basis. But let's talk on the macro highlights for a second on Page 5. Here we provide a few macro highlights to put things into context with an extra focus on the COVID impacts regarding third party data. GDP fell minus 5.5% in Q1 and minus 13% in Q2 but then rebounded plus 16% in Q3. Overall leading think tanks see full year GDP falling anywhere minus 10% for 2020, and this is consistent with our forecast from the minus 9% to minus 10.5% contraction of Italian corporate revenues in 2020.

Industrial production plummeted in April 259 but then rebounded in May to 84 currently stands at 105, which is roughly in line with pre-COVID levels. Guaranteed loans reached a total value of €73.4 billion at the end of September because in our H1 presentation, we had made reference to €55 billion in mid July and this is positive because it helps companies quench their utility needs. The good thing is, we have forecast between €72 billion and €105 billion between soft and hard COVID scenario. Now with the second wave of lockdown, I would say that we have a single scenario which is in line with the hard scenario.

Finally, regarding the Cerved Group score, the same consideration applies i.e. the current second lockdown lies within the odd, so the forecast on this score will not change.

As you can see, we have a lot of proprietary data around COVID-19 phenomenon, and this is helping us to generate new sources of revenues with the…both the bank segment and corporate clients. By the way, we just had [indiscernible] Italia on the 3rd of November, and I invite you to check out our website in the note section, there is a fantastic amount of data on Italian SME's and on the back of COVID, and this data is used by most institutional players in Italy and it’s available for you as well, of course.

I now move to Slide #7 for the business review which provides our customer a view of the results in the quarter broken down by business units. Risk management first, as we saw earlier, this division grew by 1.3% in Q3, thanks to a strong contribution from the financial institution bringing the year-to-date result to minus 3.9%.

Let’s now look at each of the financial institution and corporate segments in more detail. Financial institutions are continuing to do great, and frankly better than expected. We always knew that the business information segment is extremely resilient given that its mission critical for the banks and we have a lot of long-term and flexi contracts. But what’s new in this crisis is that the banking system is actually a part of the solution and not part of the problem as in the great financial crisis 10 years ago.

So the clear application here is the services we are providing with respect to subsidized finance, i.e. services to help the banking system cope with the liquidity decree to boost liquidity and new lending. As of the end of September, the government has made about €73 billion of guarantees on loans and neither the government nor the banks were equipped with this tsunami. So we were able to quickly position ourselves as suppliers. Year-to-date we have generated more than €8 million in revenues for this product and expect double-digit by year end.

On the other hand, the real estate segments remain well below last year, particularly with respect to appraisals which suffered a lot during the lockdown. But Q3 clearly saw results improve quite a bit, and this is a consequence of the European Central Bank continuing to provide liquidity to all banks at attractive terms, which then can be employed for mortgages. So we continue to exploit the situation to improve in Q4 and thereafter although a new lockdown could slow things down.

Finally, the business information and rating analytics segment were both comparably higher than last year, both in terms of year-to-date, as well as, in terms of Q3. As mentioned earlier, this is thanks to the mission critical nature of the services coupled with flat fee agreements.

Corporates were instead much more directly impacted by the lockdown, and, in fact, we saw revenues declined by 17.3% in Q2. And by the same token, the results quickly bounced back in Q3, with the decline be much lower at minus 6.1%. Now, differently from banking clients, which are part of the solution to the COVID crisis unfortunately, corporates are just a victim and many have required emergency funding from the government under the liquidity decree.

Top and medium clients for which ad-hoc projects are cost of source of revenues are quickly improving from the lockdown, which had led to a number of postponements. These clients are typically quite sophisticated from an IT standpoint, they were able to adapt quickly to the new COVID environment and in particular, smart-working.

SME clients instead were much more impacted by the COVID emergency and were less able to transition towards smart-working solutions. So these companies are also generating more fragile from a financial perspective, which makes the reduction in business volumes more painful. This has led to an overall lower consumption of our services, and as well…also higher DSOs. On a positive note, our year-to-date decline in the sale of prepaid points stands only at minus 5%, which is better than declining revenues.

On a positive note, we did quite well in selling the COVID impact assessment product, which provides corporate and assessment of the impact of the COVID crisis to the credit quality of their clients and suppliers.

Revenues year-to-date, approximately €4 million a lot of which generated prior to the summer. With respect to EBITDA for the risk management division, the client stands at minus 9.3% year-to-date. And this is understandably worse than minus 3.9% decline in revenues, given Cerved's very high operating leverage.

Management managed to be quite effective in cutting variable costs in particularly field agent commission and the production costs associated to real estate services, as well as, the discretionary costs, but not enough to completely compensate for the decline in revenues. But please do know that Q3, the EBITDA was basically stable compared to last year.

Let's look at the next business unit, growth services as a great headline results with revenues increasing 43%, EBITDA 100%. And these are largely attributable to the first time consolidation of the MBS consulting which you would recall was acquired in August '19.

I will however, like to provide some more details into the single segments of growth services, because almost all are growing on an organic basis exceptionally for the digital marketing segment. MBS consulting is doing very well with double-digit growth. And this is quite relevant because it accounts for about 40% of the total revenues of the business unit. The lockdown initially created some more delays and difficulties in signing new contracts, but this was quickly overcome.

Legacy marketing solution accounts for almost 25% of revenues and includes marketing services which derived from our database, such as sector studies, lead generation et cetera. We are achieving organic growth, which is great results considering the market with the gradual replacement of marketing plus services with Atoka. We also have a specific service line for Atoka, which is doing very well. This is a fantastic product. It's growing very rapidly. Thanks to successful cross-selling efforts by the sales forces of both the corporate and financial institution segments or risk management.

Digital marketing is the only segment which has declined compared to last year, and all of the decline is within PayClick. Whereas ProWeb consulting is in a positive territory. PayClick is migrating towards privacy and GDPR compliant products and services and this is impacting 2020 results.

Finally, credit management is the division which suffered the most particularly in Q2 where with headline revenues falling by 25% and this was largely anticipated, both due to the lockdown and to the early termination of the MPS servicing agreement.

On a positive note, this BU has bounced back improving to minus 13% in Q3, still away from positive territory, but the improvement is quite encouraging. As we had indicated in H1 results presentation, a significant portion of the decline is attributable to the early termination of the MPS contract, excluding such content on an organic basis year-to-date, revenues would have fallen single-digit, and year-to-date EBITDA would have fallen low double-digit.

Let's now look into the segments we show how all are growing in 2020 on an organic basis exceptional only for the banks NPLs. Banking NPLs are the biggest segment within the credit management view, with a bit less than 60% of revenues and the results here were significantly impacted by MPS. As indicated earlier, net of discontinued contract revenues would have fallen single-digit.

And important comment regarding average collection rates, on a year-to-date basis and excluding MPS agreement which had been particularly fresh, and which had particularly fresh NPLs with high collection rates, 2020 is approximately 2.6% as a collection rate, I mean, lower than 2019, which was about 3%, but almost in line with 2018 results which was approximately 2.7%. This is quite important, because despite the impact of COVID on closures, collection rates are not dramatically worse than the past. Actually, if we look at Q3, 2020 alone, it was exactly in line with 2019 at 2.7%.

Credit collection corporate and legal together represent 25% of revenues and are both growing on an organic basis, the business of collecting corporate receivables and understandably been positively affected by the increase in DSO, and a lot of companies urgently need to be paid. Wage [ph] is also growing organically, and we are very satisfied with this acquisition whereas clearly operations and performing are declining as we have not signed any new clients in the recent past.

Looking beyond 2020, please recall that a piece of positive news is that we expect the crisis to create a wave of new NPL in the longer term. So as we have as anticipating in our H1 call, a recent study from PwC reports the consensus effect from 60 to 100 billion new NPEs in the next 18 months. And we have a similar analysis which confirmed this amount. Considering the impact of the second lockdown this figure may actually increase.

In the interest of time, I will skip Slides 8, 9 and 10 which provides a lot more detail on each of the business units, but we have already indicated the key drivers and happy to answer questions you may have on the Q&A session.

Let me now hand it over to Emanuele from the financial section. Thank you.

EMANUELE BONA: Good afternoon, and thanks, Andrea. So I recommend that we move on to Slide 13, where we can take a brief look at the income statement. As Andrea highlighted in the executive summary, revenues were down about 3%, EBITDA about 10%, due to our operating leverage, and adjusted net profit after minorities by 9%.

Let me dwell into some other aspects of the income statement which are worth you've mentioned. Consolidated revenues include €1.5 million from the sale of our historical headquarters in Turin. This has created €1.5 million of revenues and adjusted EBITDA.

Regarding adjusted net profit, we focus mainly on the result after minority interest, because the profits attributable to minorities have fallen significantly since early 2020, when we purchased a residual 50% of Juliet.

Due to COVID current and future performance is obviously impaired. And this leads to a lower provision of the…for the long term incentive plan. And that figure was €5.6 million last year, and now only €2.1 million in 2020. Please note, that the Board of Director has eased the vesting requirements for the tranche of performance shares which vests at the end of 2020, otherwise vesting would have been zero, which would have had a very adverse impact on retention and commitment of key managers.

No relevant changes versus H1 in terms of recurring and non-recurring impacts on purchase price allocation and impairments and financing fees. And finally, with respect to taxation, the provision for 2020 does not yet include any benefits from the patent box; discussions with local tax authority are underway.

If we now move on to Slide 14, we have shown a customary breakdown of net working capital, you can see immediately that, net working capital is increased to 23.2% of revenues, pro-forma reflecting acquisitions on an last 12 months basis. Corresponding value last June was 19.5% and last September 12.8%.

The increase, as you might expect is almost entirely attributable to the worsening of the DSOs due to COVID. Receivables in fact, have increased by €44.5 million versus last year. And this is almost entirely due to the impact of the COVID crisis on our client base, which clearly leads to a higher DSO as an effect of the financial difficulties and uncertainty, as well as, longer timeframe for issuing invoices. So it's a bit of a mix of effects.

The increase in H1 was of a similar amount, although about €15 million was attributable to the change in perimeter, which, however, is no longer relevant based on Q3 figures. At this point in time, it's unclear how long it will take for the situation to normalize, as it largely depends on gradual returning to pre-COVID dynamics. What we can, however, say is that given the relatively solid credit quality of Cerved clients, it would appear that a number of clients are in fact deciding not to pay or to pay late in order to preserve cash, which implicitly means that not all clients are truly in a situation of financial difficulty.

Having said that, we have updated the information, which is fed in the algorithm about doubtful accounts, and in fact, as you can see from the P&L, the provision for the first 9 months of 2020 amounted to €6.4 million, which compares to €4.1 million last year. This clearly reflects a higher risk due to the aging of the overdue receivables.

If we move on to Page 15 now, you can see the operating cash flow, as pointed out in the executive summary, has declined by 16%. You can see that most of the deterioration is due to higher cash flow from net working capital as expected from the previous slide. You can also see that the operating cash flow benefited from lower level of VAT compared to last year. This is really only a time effect. This was due to…this is lies within cash outflows related to other changes in assets liability. As I said, this is a timing effect and this delay should be recovered during the course of Q4.

If you move on to Page 16, financial indebtedness, the net debt has decreased significantly versus the end of H1. The leverage at the end of September was 2.7 times EBITDA, roughly in line with CET1, basically on LTM EBITDA, which on a pro-forma basis also includes the full P&L impact of close deals. We have discussed refinancing…recent refinancing in our previous calls, Q1 and H1 calls. So I don't think we need to go further into that.

So I hand it back to Andrea for an update on the COVID-19 emergency. Meanwhile, please note, the liquidity is clearly not an issue. We have a cash balance of €44 million. And as you might remember, we have an undrawn revolving credit facility of €150 million, according to the latest refinancing.

ANDREA MIGNANELLI: Thanks, Emanuele. Slide #18 provides some more color on the underlying macro situation. And Slide 19 and 20 illustrates how the business units are being impacted, and how we are acting to protect the bottom line. Another detail, which I'm pleased to provide more color on in the Q&A section.

So I think we have covered the entire presentation. So I thank you for your attention, and we can now open the Q&A session.

Q&A

OPERATOR: Thank you. 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 Andrea Lisi of Equita. Please go ahead.

ANDREA LISI: Yeah. Hi. Thank you. Thank you for the color. Several question from my side. The first one is on DSO, we have seen that there was an increase in DSO, just I want to ask you, what do you expect for the last quarter of the year also considering the new measures that have been introduced, and you have put in place some strategies, some way to recover faster DSO?

My second question is, if you can give some color, even from a qualitative standpoint, on the way in which the new measure will impact on the 3 divisions. So the risk management, the growth services, and obviously the credit management, in particular, when in this moment, I'm a bit surprised, observing the fact that the digital services were down in a world that is moving more to digital than to physical channels. And so, if you can explain a bit more on that?

And the last is, I think, that you will provide more…much more for on the Investor Day, but if you can provide us some update on the strategy for the credit management? Thank you.

EMANUELE BONA: Thank you for the question. This is Emanuele Bona; I will take the first part about DSOs. Yes, indeed, DSOs have deteriorated in the last quarter. On average, they have lengthened by about 30 days…30-35 days. As discussed, this is due to a mix of credit deterioration for smaller clients, but for a vast part to cash strategies put in place by some of our large customers, who are on purpose delaying payments.

What do we expect for the rest of the year? It's a bit of a guess. Certainly, we don't expect DSOs to improve. The customers that we serve for the moment are still operating based on the current measures on…for the vast majority. So we will see how they will perform on payment terms. Certainly, we do not expect an improvement for the last quarter of the year.

In terms of measures that we're putting in place, where we have a dedicated team that looks at credit exposure, it reports to me, who they are involved on a daily basis on monitoring positions of all customers throughout the group. I personally have a weekly call with the team where we go through all of the most complicated positions.

For what concerns the large customers, which as we discussed are in a cheeky way delaying their payments to preserve cash? We have involved in the discussion our area managers, so that the leaders of the sales team, they are made aware of the…of the issues with some of their accounts and they personally call the CFOs and treasurers and their reference people at those accounts to make sure that they get the right push at every level of the of their organization to pay us.

For the most complicated situations, we are using the services of the corporate credit collection team, which is, as you know, part of our credit management. So they are engaged in helping us for the most complicated situations, particularly for the SMEs.

And finally, the last thing that we are doing, I am reviewing with my people the credit collection policy to make sure that it is appropriate and tight enough for the evolving situation. So I think we have good measures in place. Again, I don't expect DSOs to improve in the last quarter of the year, but we think that liquidity is under control. As I mentioned, we still have €44 million of cash, plus €150 million RCF, which is currently undrawn. I leave it to Andrea for the other 2 questions.

ANDREA MIGNANELLI: Yes. Thank you. Regarding the impact of COVID on the 3 division, I will say the following. On Risk Management, we feel pretty comfortable with the financial institution segment, because it's pretty stable, has been doing well so far, so we don't see any major risks there. Regarding Corporate, it's actually different because we are not factoring a second dramatic lockdown as it was in March and May, but we do expect consumptions to go down, with many small businesses, less active than in a normal situation. So we…in our guidance we forecast a slowdown in consumption, but not a stop.

For…I would say that for Growth Services, things are doing well in general, so we are not to worry there. I take your point on the Digital Services, and we do believe that the macro trend of our digital service line is actually very positive. 2020 was a bit of a tough year because there have been like a lot of changes in the last let's say 12, 18 months on regulation over GDPR compliance and so forth, so we have to do some homework to be totally compliant to this new regulation and this is why we had a bit of a slowdown, but the needs…the services are appreciated by the client. And so, we are positive, looking at the future.

And in Credit Management, let's say that a potential impact on the last quarter would be mainly on the banking sector, on banking NPL. We do not foresee at the moment another stop of operation from courts, that's not envisaged yet, and that we hope it's not going to happen. And this was a very, very bad impact in Q2 and early Q3, as you may recall, but the other part of the business credit corporate collection, receivable collection and legal service, we are not too worried for the last part of the year. So this is an overview of the 3 business units, and I hopefully I also got the answer about your second question on digital services.

ANDREA LISI: Thank you.

OPERATOR: The next question is from Andreas Markou of Berenberg. Please go ahead.

ANDREAS MARKOU: Hi, there. Thanks very much for the presentation and for taking my questions. The first one is a bit of clarification on your assumptions regarding performance of credit management for Q4. So I understand you're not assuming a total stop in collections, but are you forecasting a significant slowdown given the new measures, what exactly are your assumptions here?

ANDREA MIGNANELLI: Yes, well. We as you may know, Q4 normally it's a very big year, a big…very important quarter in this business. And so, we do not expect Q4 '19 to be…so Q4 '20 to be like, Q4 '19, clearly. So we have our pretty neat…pretty detailed business plan portfolio by portfolio made bottom up, on the number of cases we expect close by year-end. So we do not expect delays in disclosing [ph]…in this closing due to the courts. We may expect some delays and so we took a little bit of caution in collection deriving from extra judicial agreements with the debtors, because the overall liquidity squeeze now may affect collections as well, less so for judicial collections, but it's actually impacting extrajudicial collections. So we have a cautious forecast, which does not imply freeze, inactivity.

ANDREAS MARKOU: Okay. That's helpful. And the second question is a bit more general on the credit management division. So it looks like you're not in the race for buying Sepal in Greece. And you mentioned in the previous calls that you're looking for a potential partner for this division, who will be…who will take the balance sheet risk and buy NPLs and then you will service them. Do we have any updates on how this thought is going? Will you be able to announce something anytime soon about having a potential partner or no major updates in this division?

ANDREA MIGNANELLI: Now, as you can imagine, this will be like a strategic relevant piece of news, so I cannot anticipate anything in this respect. We are working because, in general terms, it will make sense to have such an agreement, but we do not have any active conversation at the moment. So I cannot comment on this.

ANDREAS MARKOU: Okay. Thank you very much.

ANDREA MIGNANELLI: You are welcome.

OPERATOR: The next question comes from Philip Hawkins of 2RCapital Investment Management. Please, go ahead, sir.

PHILIP HAWKINS: Good evening. Thank you for the presentation and thank you for taking my questions. The first questions on the credit information bank side. First of all, can you maybe give an update on the pricing pressure subject, so has there been any evolution, or have you seen a high degree of pricing pressure given the current circumstances from the banking side? And also, I seem to remember that in the last call, you spoke about perhaps establishing long-term agreements with banks regarding business products…business process outsourcing. I wanted to see if there has been any development there yet, or perhaps it's too early.

And second question is on the credit management. I just want to see how do you foresee sort of this anticipated new wave of NPLs developing. So, when they expect this wave to onset, and specifically from which economic sectors do you see the most contributing to a new wave of NPLs. Thank you.

ANDREA MIGNANELLI: Yes. Well regarding pricing pressure, we don't see much of it, honestly, especially because as I say, in this period of crisis, banks actually reach out to us and to other providers to support them in a very tough situation. As you can imagine, when this is the situation, clearly they're very cost conscious, but I wouldn't call price pressure. It's more a game of providing the right service at the right time with the right quality to the client. So, the game there is to be leading edge in terms of quality and technology and data, rather than just be the cheapest on the market.

So, I know margins are still very good. There is a little bit of deterioration on margins, not due to price pressure, but rather to mix. Because we are offering new services, and many new services, especially for instance in the growth services business, they are provided with human beings, they are not pure data, and therefore they're by definition a lower margin, and so the changing mix reduces the overall margin, but it's accretive in terms of total EBITDA.

In terms of providing BPO processes to banks, let's say that the current situation has frozen many conversations at banks level, which are more in a survival mode than in a new business mode at the moment. But I hope that with the things stabilizing sometime in 2021, many of these conversations can be taken forward. So, so far, no major news, otherwise, we would have mentioned.

Regarding credit management, the new wave of NPLs, well, that depends a little bit on the regulators because as you may know, they may postpone a little bit the impact of new regulations on NPL formation and so forth. So I would expect things to start…let's say that in general terms there is a lead time or a lead time…sorry between…of the 12-18 months before…between the crisis and the NPL surge, and so probably, if the crisis extend well into 2021, I would expect that the majority of the new wave will arise in 2022, okay. So the market being, you know…and then you will start to see a positive impact on revenues from 2023 onwards. So that will be in my mind more the dynamic of this sector.

PHILIP HAWKINS: Thank you.

OPERATOR: The next question is from Simonetta Chiriotti of Mediobanca. Please go ahead, madam.

SIMONETTA CHIRIOTTI: Hi, good evening, everybody. I have a couple of questions. The first is related to your last answer and regards to the possible role of AMCO in the management of the new wave of NPLs. If you could comment on this, some of your competitors in credit management have been quite vocal in commenting negatively the role of AMCO…the possible role of AMCO, so it would interesting to hear your thoughts on this subject. And my second question is on dividends and acquisitions. You have commented during the presentation that Cerved's liquidity position is solid, so which are your thoughts in terms of possibility of distributing dividends and for closing acquisition in the current tough context. Thank you.

ANDREA MIGNANELLI: Yes, let's say on AMCO, as you…given the fact that we are not buyers of portfolios, we see AMCO less of a trap than many other players in the market. We have a good relationship with them. We work with them. We do hope that being good servicer of good quality could be like make us a good partner for them in the long run, especially if AMCO would become even more central to the leverage strategy of country. Now, the big question is whether the…will Italy and Europe in general will go towards this, you know, localized bad bank approach country-by-country where definitely AMCO could play a role where that probably is the ideal entity to do so. And in that case, that could create a situation like Sarabin Spain where there is a central buyer of NPL and then there are servicer working for them. So we had a disposal so to speak. We don't see them as a immediate threat to us and that's it. So…but regarding to the second question on dividend and financial position, I leave it to our CFO, Emanuele.

EMANUELE BONA: And it's a tough question because clearly, it will…a lot will depend on how the year will close. So there is not much we can comment at this point in time. Clearly, we have ample liquidity, and I'd like to confirm that but we have no major M&A in sight and nor we can comment anything at this point in time on dividends, I am afraid Simonetta.

SIMONETTA CHIRIOTTI: Okay. So if you can reach your guidance for the year, you didn't like…not possible in case you made the comment how the payout could…

EMANUELE BONA: No, no, it's not something we can comment on.

SIMONETTA CHIRIOTTI: Okay.

OPERATOR: The next question is from Jewel Varughese of HSBC. Please go ahead.

JEWEL VARUGHESE: Thank you for taking the question. So there are 3 from my side. First is how do you see the sales momentum in corporate segment and how does it compare with the revenue growth. Second is what is the bad debt provision as a proportion of revenues and how has it changed year-over-year? The third one is in which all segments have you seen sequential stabilization and improvement and where all do you see weaknesses? Thank you.

ANDREA MIGNANELLI: Okay. I will take the first one. I will leave the second to Emanuele and I am afraid I didn't get the last one. Could you just repeat question ±3, please?

JEWEL VARUGHESE: Sure, which all segments have you seen sequential stabilization and improvements and which segment do you see sequential weakness. Is it clear?

ANDREA MIGNANELLI: Yes, thank you. Corporate, as we know with some highlights we gave here in the presentation is that large corporates is actually doing alright. I mean large corporate do have needs…sophisticated needs and they require sophisticated solutions for their needs, so we are doing fine with our advisory services to deal with them in terms of anti-churn policies, re-pricing strategy and client web presence optimization and so forth. So on large corporates, we don't feel way too much. On SMEs, sales in Q3 were good. You know, the point, the sales of prepaid points was only minus 5% compared to last year. So it was decent, but of course, we have 10,000 clients distributed over the territory and they are impacted by, you know, in a different way by the crisis.

Fortunately, the kind of clients we do have which are mainly B2B clients are less impact…are not positioned in the most dangerous sectors such as hotels, restaurants and transportation, so and so on, and retail. So they are more like providing B2B services. So as long as the economy does not collapse or completely locks down, we believe we can still serve them.

We are also thinking of new ways to do so in a more productive way by enhancing our go-to market model and you know in order to be able to reach more of them in a bit more sophisticated way which was not possible until a year ago but now, with all the digitalization happening, it is more likely to happen in the future. So we…you know, we still believe the corporate segment has a very good potential for us by increasing share of wallet on our top clients by adding new services on one side and on the other side increasing the number of clients, we serve in the small to medium segment. On your second question, there is Emanuele here.

EMANUELE BONA: Yes, I understand the second question was on risk provisions. The amount of provisions that we took in the first 9 months of the year amounted to €6.4 million which compares to €4.1 million for the first 9 months of 2019. This is mainly driven by aging of our credits. So basically, we have age brackets as you can imagine, and an algorithm, which basically determines the provisions that we ought to take based on the positioning of our portfolio at any point in time on these aging brackets. There are…it's mainly an effect of delays, there are no major impaired positions that we are concerned of. So again, it is a situation which is very contingent in this scenario in which as I discussed, not only small customers, but also large customers are extending their payment terms, either due to some difficulties, for the main part…for the SMEs, or for cash preservation tactics, which mainly refers to our large customers. Hope, I answer your question.

ANDREA MIGNANELLI: And finally, regarding weaknesses, I believe that no surprises in the future compared to what's happening now, meaning that in the risk management side, probably the weakest service line is real estate, because currently, we are performing services for the mortgage industry and mortgages are slowing down. And if, I look at the future, probably the number of transactions we lower a little bit in the future that's what I think as expected especially on the residential market. So yes, I don't see this has been like a growth engine for the future, for sure, unless, we add new services to the current real estate activity. So far, what we do is mainly up…real estate appraisals, and real estate [indiscernible] surveys. But, I believe that there is room for expansion into more data driven services, thereby providing large owners of real estate portfolios with data regarding, you know, risk…environmental risk and geological risk, and, you know, quick valuation, location, assessment, and so forth. So there are a number of things, we can do more that we are not, you know, monetizing now, yet.

Regarding growth services, I see all service lines been on a good trajectory. There, I believe that the risk could be a long stagnation in the market. But, if instead, we have a bounce back sooner or later, so maybe not in Q1, '21, as we hoped about maybe later on in '21. Then I see all our service lines in…within the growth services to be fully aligned to help clients to grow, and to look for new clients to understand the market, and to reach the client with digital means. So I'm pretty positive there.

And regarding credit management, I think I've been clear before, when I said that the true risk it is always slow down in collection in the banking

NPL sector. In this case, normally, slowdown during the crisis do not represent a loss of value for good, but rather a postponement of collection that you don't do now and you may do tomorrow. Again, unless something major happens, but as we don't envisage like a crisis, then this collections sooner or later will come. At the moment the market is pretty much flat, so there are not a lot of transactions as you can imagine, given the situation. Banks and buyers are pretty much sitting and waiting, what's going on. And so, no many…no major portfolio is moving one way or the other. So no risk to lose a major contract, but also difficult to get a new one, because there is a bit of stagnation in the market.

JEWEL VARUGHESE: Thank you.

EMANUELE BONA: You're welcome.

OPERATOR: The next question is from Rajesh Kumar of HSBC. Please go ahead.

RAJESH KUMAR: Hi, good afternoon, gents. Apologies, my line is a bit poor today. Just on…if you think of the vaccine news yesterday, and let's imagine that we are in a situation 2 quarters from now. The world is looking like a better place. What sort of areas would you think of deploying more capital or focus to drive future growth?

EMANUELE BONA: Yes, we believe that the growth service is the area where we have a very interesting potential, because it's a highly fragmented market, very large and growing fast. And our position is actually very minor, because all in all, we have less than…we know, roughly 1% of market share of this total spending in Italy of the services. Whether on the risk management we have a much larger position, and more dominant position. So in risk management, the name of the game for us will be to expand our services from the current…mostly credit, risk management into other kinds of risks. But, if the world becomes a better place as you are envisaging or hoping as we all do, then I believe that there will be a boost in the need for marketing services at large. In this respect, providing clients the ability to understand the sectors they operate, understand the market they operate, the competitive landscape, potential clients, and serve these clients and reach these clients with new tools, advertising, web, web advertising, mailing, and so forth. I think definitely, it's a great opportunity we need to serve.

RAJESH KUMAR: Understood. Thank you very much.

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 touchtone telephone. We have a follow-up question for Mr. Andreas Markou of Berenberg. Please go ahead, sir.

ANDREAS MARKOU: Can you please remind us about major contracts in the credit information, financial institutions division, that are up for renewal in Q4 this year, and also next year? Thank you.

EMANUELE BONA: Yes, there is mainly one large contract with the large bank in Italy, which I would say it's fairly under control. And that accounts for let's say probably less than 10% of our total book of contracts. So that's the maximum I can tell you.

And then, in general terms last for next year, we have roughly a rotation time of less than 3 years, more or less, so every year we renegotiate about 20% to 30% of our book. But, so far, renegotiation went fairly well, because in the last couple of years…3 years, we're able to sit on the table of the negotiation with banks adding way more services than in the past. So rather than being a full like price negotiation on the same amount of data we were using. We can actually see it, discussing many other services especially in...on the commercial side of the business. So we use to talk to the risk management and to the Chief Lending Officer in the past only. And now, finally, in the last year, we managed to establish a relationship also with the Chief Commercial Officers on many banks, providing growth services, not only risk management. So as you can imagine, having more assets allows you to sit on a negotiation table with more levers to pull.

ANDREAS MARKOU: Okay. Thank you very much.

OPERATOR: Gentlemen, at this time, there are no questions registered. Would you like to make some closing remarks, Mr. Mignanelli, perhaps your phone is on mute, sir.

ANDREA MIGNANELLI: Yes.

OPERATOR: Okay.

ANDREA MIGNANELLI: Sorry, say it again.

OPERATOR: No, I am not sure, if you'd like to make any closing remarks. There are no more questions.

ANDREA MIGNANELLI: No, I am sorry. No, thank you. Thank you. No, I thank everybody for the attention and time. And I have a chat…have a chance to speak with many of you in the next few days. So thank you very much for your attention.