Cerved Group

"Full Year 2019 Results Conference Call"

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OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Cerved Group Full Year 2019 Results Conference Call. After the presentation, there will be an opportunity to ask questions.

At this time, I would like to turn the conference over to Mr. Pietro Masera, IR of Cerved. Please go ahead, sir.

PIETRO MASERA: Hello, everyone. Thanks very much for joining the call today. Pietro Masera speaking, Head of IR and Structured Finance for Cerved Group. I am here with Andrea Mignanelli, CEO, Giovanni Sartor as well as Gianandrea De Bernardis, our Executive Vice Chairman, who will also provide initial comments on the coronavirus situation. Obviously, we are also going to cover the results up to 31st of December, but at this point I leave the word to Gianandrea.

GIANANDREA DE BERNARDIS: Thank you, Pietro. And also by the way thank you also from my side for participating in today's conference call. My presence today on the call is meant to provide you an update on the coronavirus situation, given that I'm constantly involved with the management team in our effort to cope with this very well known emergency unfortunately. And then I'll leave the floor to the rest of the management as usual to comment on 2019 actual results, and also to go more in depth on the current situation.

First of all, there is a complete dedicated section in this presentation specifically on the coronavirus with a clear assessment of the impact on the business and on the contingency plan that we are putting in place.

But let me focus on Slide #3 which has the key messages in order to reassure everybody that we have taken all actions that are necessary, and that we are very well equipped to face this situation, which I definitely define as a storm. First, we had a very resilient business model, as you very well know, and as we have shown in the past as well. And our services are mission critical for most of our clients and in particular, large banks or large corporations.

We have performed very well in prior recessions, as you can recall, and on this topic remember that Italy had a very deep and long recession from 2009 up to 2013. The business and financial situation is under control, and with very limited risk, that's my view from my standpoint. And in particular, in terms of liquidity covenants and financing, we are in specific stress tests on this element in the past few days, and the results were very reassuring. The outcome is that even assuming severe impacts, the company remains healthy, financially sound and profitable, and this is very important as a starting point.

We took immediate actions to ensure business continuity and to preserve the health of employees which were our first objectives, from the very beginning of the crisis. We have established as well dedicated committees to manage all impacts arising from the coronavirus crisis in the company. Cerved analytics are obviously a key ingredient to assess counterparty risks and economic impact, and this really explains our resilient business model and these are key information and data for our customers nearly [ph] in this tough situation.

The only thing that we are not able to manage is the impact of coronavirus on the disposal of the credit management business. We had to interrupt the negotiation with Intrum when we were almost at the end you know was one step away to finalize the deal, but at the same time, we've got to consider that this business as you very well know, could be a bit cyclical in the short term. But on the positive side, we can say that in this very tough situation, the credit management could have also [indiscernible] in the mid long term considering that typically it has anti cyclical components considering that there will be for sure an increase in NPL stock and then receivables in the next future, considering the macro trend and the macro situation.

So to summarize my message, I won't be long here, before leaving the word to the management team, I can say that, first, the situation is obviously very critical, very tough, overall. We are continuously evaluating and estimating the possible outcomes and impact for the company. Fortunately, our business is resilient as we have shown in, you know, at similar situation in the past. We also already launched a serious and very detailed contingency plan on the company and on our business, so we can guarantee business continuity through an almost complete adoption of smart working in all the areas of the company. Our stress test shows that the company remains healthy, financially stable and profitable without any liquidity issue. I think these points are at this stage very important, that's why I wanted to reassure you that you know this has been the outcome of our analysis, and we are managing this on a daily basis with all the management team involved.

So many thanks for your attention. I am done and now I'll hand it to Andrea, our CEO, for further details. Thank you.

ANDREA MIGNANELLI: Thanks, Gianandrea. Clearly, a difficult situation, but as we say we are doing everything to deal with it in the best possible manner. Let me go back to the presentation and spend a few minutes on Page 4 to discuss and comment on the financial results for full year 2019. Clearly, very happy about another record year last year, both in terms of revenues and adjusted EBITDA. Revenues were up 13.7% of which 7.9% organic, probably one of our best years ever, adjusted EBITDA were up 11.3% of which 6.8% organic and operating cash flow contracted by 1.2% maybe due to the solid growth in Q4 and we are recovering already in January and February this year. Adjusted net income increased by another 3.6% on a reported basis, but if we exclude the Patent Box then growth was 12.3%.

Leverage continuously decreasing, 2.3 times last 12 months pro forma adjusted EBITDA.

Now let's go to dividends. Based on the high level of uncertainty regarding the coronavirus outbreak, for which it's currently impossible to predict whether the impact will be V-shaped, U-shaped, how long it's going to last, the Board of Directors has taken a prudent approach not to let's say, to not pay any dividends related to the financial year 2019.

As you will see from the rest of the presentation, we are very confident about our financial condition and liquidity and coverage, as also Gianandrea just remarked. So not pay dividends should not viewed as a sign of weakness, rather we are acting prudently and with the objective of preserving liquidity and financial flexibility.

With respect to the share buybacks, for the AGM this year on the 20th of May, we are also asking shareholders for approval to confirm the authorization to purchase own shares up to a limit of 10% of the shares for the next 18 months and this is higher than the current level of 5%, also with a wider range of motivation for conducting the buyback. So this will allow us with more flexibility to do the buyback and to use the shares for purposes such as M&A and such purposes. Subsequently to the AGM, the Board will then reassess the situation and whether the right conditions materialize to continue and execute the buyback strategy.

Moving on to the last slide on the first page of the Executive Summary. As you have seen from our press release this Saturday, we have interrupted exclusive negotiation with Intrum, for the envisaged disposal of the Credit Management. This was, as Gianandrea said before, was clearly due to the outbreak of the coronavirus crisis. Please don't ask me whether we can resume negotiations on when and how, because this is unforeseeable at the moment and it will largely depend also on the strategy of Intrum or other potential interested parties that we may meet in the future months.

Moving on the second slide of the Executive Summary on Slide 5, again we have…we have AGM scheduled for the 26th…27th of April and we had to postpone it to the 20th of May. This is entirely due to the impact of the coronavirus crisis, because the AGM requires a lot of physical presence, and given the current lockdown in Northern Italy it was really, really difficult for us to keep up the date, and so we had to postpone it for safety reasons. A couple of items now regarding business and strategy. As I anticipated in our Q3 call, Cerved has adopted a new corporate purpose which lies on the institutional nature of the company and on its unique set of competitive advantage, typically data and technology. This has allowed us to formulate the following corporate purpose, which is to assist Italian system to protect itself from risk and grow in a sustainable manner. We truly believe this is our mission and especially in this very moment during the crisis, we can tell how central is Cerved in talking to the institutions, providing guidance, data, information, and we hope to make our part in helping the government to, let's say address properly with a number of these actions the company systems in Italy and the industrial systems in Italy.

Now this new purpose will be reflected in Cerved's revised divisional reporting starting from Q1, 2020 with 2 divisions, as I mentioned in the past, Risk Management and Growth Services.

A quick comment for analysts and investors. This new divisional reporting will…is largely consistent with our current reporting between credit info and marketing solution, so will be easy for you to reconcile data over time.

And finally, clearly the Credit Management Division does not have any changes to [indiscernible]. So, it will be easy to understand the numbers going forward and to reconcile with the past.

Now, in respect to guidance for the period 2018-2020, it was clearly drafted before the outbreak, and therefore, this will have an impact which is impossible to define at this stage. So, our entire management team is assessing a wide range of scenarios to determine the impact of the crisis, but we need to see how the situation unfolds, before we review our medium to long-term guidance. So, for the time being, we are suspending the 2018-2020 financial outlook. The impact to our results in 2020, and most importantly, our medium term forecast will be disclosed within the next...so within the context of our third Investor Day. At this point, we'll be taking some time in the second half of the year. So, for the meanwhile, please refrain from asking me too many questions on our expected results for 2020 and beyond will look like, because we're working out on it, but we don't have an answer yet.

In closing the executive summary, as final note on ESG, we have undertaken a massive effort to improve our commitment to this area as well to represent in a significantly better manner. A positive aspect will emerge in drafting our new sustainability report or non-financial reporting as referred to in Italy. It’s that our current approach to certain areas, in particular social and governance is very standard [ph] and robust, and certainly it’s much better than has been depicted in the documents, which had been published in the past. So, the new sustainability report will be published in early April together with the rest of the material related to the AGM.

Let's now move into the COVID-19 section of the presentation, for which Gianandrea has already touched at the beginning of the call. So, if you go to Page 9, you have a glimpse on how Cerved did in prior recessions, which you see is the actual data on how we performed in ‘20…in 2009, 2012 and 2013, when Italy was facing a very deep and long recession, we did a lot better than the underlying economy, and we almost grew. So, negative GDP growth, positive growth of Cerved in revenues and EBITDA.

Now…today it’s a totally different situation, clearly. And so, I'm not saying that this we will also expect to grow in 2020 despite this scenario, the crisis, but we do have a very resilient business model. As soon as practical, we’ll provide the market with an updated view and our forecast for the future.

If you go to the next page, I’d like to spend a couple of minutes describing what we actually did. So, immediately at the outbreak, we set up a war room, which is composed by myself and Gianandrea, the Executive Chairman. We are in clearly daily contact on every possible business issue that we need to face. And this war room also encompass the CFO, the General Counsel and the IR.

And then, we established 3 dedicated senior team committees. The first one was the Crisis Emergency. And this committee was established at the very beginning to protect people and ensure business continuity. The second, we call it Crisis Response, because immediately after putting in safety people and company, we started to think how to protect liquidity, top line and optimize the cost base and the CAPEX structure. And now we're also launching this New Normal Senior Team because we are facing the fact that probably, this crisis is going to change the way we work and the way we serve clients. And this could also create some opportunities, because one effect of the crisis is that we are digitalized in Italy. So many, many companies, many, many people are learning how to work remotely, are working, are learning how to work through day is now working. And so maybe also the habits and the way of working of our clients will change in the future creating opportunities for company like us who provide digital service.

Now, going to the very important issue of people safety and business continuity on Page 11. We are happy to say that, so far, only one of our employees had contracted the virus without any consequence. It's safe, totally safe now. We have adopted very stringent protocols to even stricter than what the government policies were in terms of closing all non-critical offices, limiting access to employees, sanitizing all the offices with…very frequently and protecting the employees that are coming to work.

Also, in addition to that, we purchased a supplementary health insurance for all our employees to prevent them from illness due to coronavirus. Now, in terms of business continuity, I'm very glad to say that in a couple of weeks, we were able to move 99% of our workforce into smart work, and that is more than 2,000 employees all in Italy. And we have less than 20 people on a daily basis, physically present in the premises just to maintain and in dealing with local you know, day-to-day emergency or day-to-day practical needs. So, that's a very good achievement. And it's been an excellent, let's say, test for business continuity, also considering that that our productivity levels are just in line as they were before the crisis and no material problems with clients has occurred so far. So, no customers complaints or anything, also we are focusing on our critical suppliers just to make sure that they are in the same condition, but fortunately our main suppliers are large IT and telecom providers and large…and the central Infocom [ph] which the provider of data for the Chamber of Commerce. So, also from a supply chain standpoint, they are safe.

Now only one update, because Sunday night, there's has been a new ruling by the government defining a very limited number of companies that were allowed to be to stay open. And technically, we are not within this list, but we are actually operating, we are fully operative, because we…as I said before, we are 99% in smart working #1. And second, also, we applied one element of this new ruling, where if you are in a critical process of the banking system and insurance business, then you are allowed to work. So, given these two elements, we are safe, totally open, totally functioning.

Crisis response cash preservation on Page 12. This is I guess, it's one of your key questions, it's are you safe from a financial standpoint? As Gianandrea said very clearly before, yes, we are from a, you know, from a financing facilities as you can see on the left hand side of the page, we have 2 facilities expiring in January 2021, for €260 million and the remaining expiring in '22 and '23. But, we are already discussing with banks and we are at a good level of negotiation or renegotiating our financial structure in total. We also drawn a revolving facility that we were allowed to do so, and we cashed that yesterday. So we have…we are very safe in terms of cash.

And on the other side, if you look at the…on the right hand side of the page, we show the cash generation in 2019. Of course, I cannot give you visibility on 2020, but in 2019, we were able to generate operating cash flow of €158 million, which goes in addition to…so our cash balance that was at €86 million in December, and it's more than that today, given the fact that we draw a €100 million of revolving facility on top of it. So, we don't see any financial risk related to liquidity. Bear in mind, that our triggers on the facility are at leverage 4.5 times EBITDA and we running…we are currently running at 2.3, so a large margin on that as well.

In terms of cash crisis response, we put a table on Page 13 just to let you know, that we are working heavily and daily, both on the top line you know, protection and on the cost and CAPEX optimization. In terms of top line, this, I guess, is one of the key questions you may have as well. How viable are our revenues? So, on the credit information, which is say about 60% of our revenue pool, we got a lot of contracts that are kind of safe because on the banking…from the banking system, we have about €140 million in total revenues out of which €100 million is related to data and that is mostly on a flat fee or with minimum guaranteed contract, so it's about 70% fixed [ph] and 30% variable. But also the variable component is only due to monitoring our portfolios. And as you can imagine, currently banks do want to monitor their credit portfolios, so we don't…we're not too worried about that.

The other part at €40 million, there are no big data, it's more like real estate services, such as Cadastral surveys and real estate appraisals that was cleared until the first week in March, and then the last 10 days, we observed a clear slowdown in demand, because obviously for the…with a lockdown and there are no new mortgages issued at this stage, branches are closed, and people don't buy a house today, right. So clearly, this is…but it affects, as I say, €40 million out of €140 million in total revenue on the banking side.

On the corporate side, it's actually pretty much the reverse meaning that probably 30 to 40…30% to 35% of revenues are secured by large contracts. And the remaining part is variable and due to consumption and consumption may be slowdown in the future due to the lockdown.

So I wanted to give you a glance of how variable are our fees because I guess it's a crucial question. In credit management, we all see an immediate slowdown because the collection, especially in banking portfolios come from actions that were taken in the past, in the last few months, and so for the time being, it's been okay. Clearly, if we have a slowdown in court's activity, we may see an impact later on in the year. But on the other hand, we are also, as Gianandrea pointed out before, we also could see a spike in new non-performing loans or soft-performing loans, and so more need for services. Also is just about to come out in Italy a ruling for giving a tax advantage to banks for selling NPL portfolios, like it was a done a few years ago, during the financial crisis, and this could spark a new wave of portfolio sales. And we aim to play a role, as we always did in the past.

Finally on Marketing Solution, this is only 6% of our revenues and it's honestly tougher in this area, because market is in a crisis situation, people tend to save money on this kind of services. But it's again, as I say, it's only 6% of total revenues.

In terms of cost and CAPEX contingency initiatives, yes, it's true, as you know that on the data business we have a pretty much a fixed cost base, but there are still a number of variable costs that we can manage. And also, we will act on our labor costs. We had a very high number of expected hiring due to the expected growth in business, which we will freeze clearly at this stage. And also we'll make sure to that we leverage all our available stock on the vacation day to consume these vacation days and therefore limit our labor costs. I think our people, it’s very cautious about the difficult situation, so everybody's playing his role to try to keep costs down, all other costs are under control. And especially on the CAPEX structure, we are revising on a daily basis all the projects we are currently working on to make sure we only keep doing the ones that are structural and we postpone the one that can be postponed without harming a possible rebalance of the activity when things will go better.

Now done with this, with the crisis response, let me still spend a few minutes on commenting on the results by division. And as you see on Page 15, we got numbers of revenues and adjusted EBITDA for the 3 divisions. I guess, you know, these numbers right now because you're already seeing our results when we published a month ago more or less. So the key comment is that, at the end of the day, there are top line where it was, with a 4.1% growth, this is largely due to a rebound in the last quarter. And as promised during the year, I'm very glad we managed to do that. We also were helped by the acquisition of the consulting firm MBS, which is doing very well and is integrating very well with Cerved. Also financial institution did a nice rebound ending up in a positive territory at 1.7%.

And Marketing Solution was kind of awkward, as I say, kind of a strange year with a limited growth compared to our expectations, especially very, very limited growth in EBITDA. We've commented this several times during the quarterly calls. You know the story, we were doing very well on a couple of business, but we were doing poorly on PayClick. I guess, we now understand the situation. We set a new management team around it and we fixed the problem, so we are positive for 2020, despite the crisis, of course.

And finally, Credit Management is still doing very well, very organic, a lot of extra collection coming from the Juliet portfolio and therefore they now have the EBITDA plus the addition of a couple of interesting business, one in Greece and one in Italy, a couple of M&A that did help. So then we have a couple of other pages on Credit Information where we’ve split more deeply the results in terms of revenues, EBITDA. But I think there is not much to add in terms of the details. As you can read the presentation and we probably commented many of the drivers in the past calls already.

So, I will hand it over to Giovanni Sartor, our CFO, to dive into that financial review.

GIOVANNI SARTOR: Okay. Good afternoon and thanks, Andrea. So moving on to Slide 21,let's take a brief look to the income statement. So as we highlighted in the executive summary, the adjusted net profit increased by 12.3% versus last year, if we exclude the impact of the Patent Box tax shield. This is a fair adjustment and because last year the total benefits were €10.4 million or which €7.2 million related to prior years. Also, the provision for the long-term incentive plan significantly increases from €5.5 million to €9.5 million, otherwise gross and net income would have been closer to the growth in the adjusted EBITDA.

We then have a significant amount of one-off item, mainly related to the early termination of the servicing contract with Monte dei Paschi as well as, to layoff and personal optimization initiatives and to the M&A costs.

Finally, you know that in 2019, we had a significant amount of minority interest. This will decline considerably, given that we now own 100% of the Juliet, platform, but clearly we still have some minority in the MBS consulting and ProWeb companies.

Slide 22 provides our customized breakdown of the net working capital. As you can immediately see, net working capital increased to 12…18.5% of revenues, adjusted to reflect the 2019 acquisition on a full-year basis. But there is a significant increase compared to last year, and this is due to 2 main factors. Firstly, the acceleration in revenue growth in Q4 in both the

Credit Information and Credit Management division, some of…this is already coming down and in fact, the collection in January and February were higher than last year. Second, the higher working capital intensiveness for the targets we acquired, in particular MBS and EuroLegal Services. As you can see from this slide, we have also provided a relevant working capital contribution, which is equal to €26.6 million.

Skipping on to Slide 23, the operating cash flow were therefore hit by the increase in net working capital and other assets and liabilities and this has resulted in an increase of 1.2% versus the prior year even despite the lower amount of CAPEX.

In detail, as regard the other assets and liability…liabilities, we had an estimated CAPEX in 2018 and 2019, due to the postponement of €6 million VAT payments in January 2019, instead of December '18. Therefore, on a like-for-like basis, adjusting this effect, the increase of the OCF would have been 6.5% instead.

Going back to the operating working capital impact. Frankly, the EBITDA exceeded our expectation, but as I just indicated, collection in January, February, and the first days of March are very strong, so some of the operating cash flow will be shifted from 2019 to 2020.

Last but not least, and moving to Slide 24, the financial indebtedness as of 31st December 2019 was 2.3 times the EBITDA, based on the LTM EBITDA, which on a pro forma basis, also includes the full impact of closed deals and clearly all is based on IFRS 16.

Please note also that we recently acquired a 50.1% stake in Quaestio Cerved Credit Management, i.e., the holding company of Juliet, and therefore, this increased net debt by about €43 million.

We have already discussed the increases in covenants for financial facilities. So I thank you for your attention. At this point, we have completed the presentation. So let's 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. The first question is from Rajesh Kumar of HSBC. Please go ahead.

RAJESH KUMAR: Well, good afternoon, gents. Thanks for taking the questions. Three, if I may. First, could you remind us what your financial covenants are and what flexibility do you have with the banks in terms of what are the types of recent discussions you've had with them? Second, can you…basically, can you give us the rate of monthly cash burn you would expect in the first half of the year? Just in terms of the cash on the balance sheet and the cash inflows, how much of the revolver you think you would have to withdraw by first half? And third, on the disposal of the Credit Management business, is that a discussion you wish to revisit at a future date? Or for now, you have taken a strategic decision that stays within the Group?

ANDREA MIGNANELLI: Pietro, do you want to take question #1 and 2, and I'll take the question #3, please.

PIETRO MASERA: Yes, sure. Hi, Rajesh, well, look, on the financial situation, the covenants are at 4.5 times EBITDA, okay? That's an event of default. But obviously, it's really far away. I mean, if we, by any chance, trigger that sort of covenant, I think that we're all going to have a lot of other problems. So it's really quite remote, okay? So we have to basically double the debt with the current EBITDA or vice versa. So that's not enough.

Regarding the other point on what we're doing with the banks, what we're currently studying is either to extend the earliest maturities, so the ones in January 2021, okay, so the revolving credit facility and the Term Loan A. Or alternatively…and this is obviously going to depend on conditions to refinance the whole debt package. But I'd sort of wait a second. Let us work on that. Obviously, it's not an ideal market to do this type of transaction, but it's something we're studying quite carefully.

And maybe on the last thing, on the cash burn, I don't think we can give you right now a forecast on the cash burn, which I don't think we honestly expect. But we just said in the presentation that we're currently sitting on €150 million of cash, okay? And we've fully drawn down the revolving credit facility. I'd say, on a very prudential basis, okay, just to avoid, for example, banks running out of liquidity or anything similar, which is also fairly remote, but we're currently sitting on a lot of cash. Some of it, as we indicated in the presentation, goes for M&A or taxes, okay? None of it will go for dividends or buybacks, at least for the next few months. So let's say that under any scenario, I think that we're extremely comfortable on the liquidity side. Andrea, sorry, back to you.

ANDREA MIGNANELLI: Yes. On Credit Management, as we discussed a few times during the last 6 months, we were working on alternatives to extract the maximum possible value from the Credit Management division. And for a long time, we faced 2 very different alternatives, one was to sell the division to a buyer like Intrum, and the alternative was to merge it with another player to make a larger group, possibly expanding into other geographies as well. So at the time, I can only say that one that was looking like the best possible alternative is stopped for reasons that you can't understand. And that does not mean that we will not pursue them in the future or that we cannot think that the alternative becomes a better alternative.

The situation is very liquid. The company, fortunately, is doing very well. So we are not in a rush at all. And given the uncertainty, it would not be wise for us to rush into…to do something, so we will assess what is the best possible alternative. I guess that we will require a few months to let the dust settle and understand how we're going to go and see also that the market of the NPL management itself, how it's going to go, because there are not many players there, and each one is affected by the crisis in a different way. So we are keeping our eyes open, and we are flexible, as usual, but very, very cautious on taking the best possible decision.

RAJESH KUMAR: Understood. Thank you.

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

ANDREAS MARKOU: Hi, everyone. Thanks very much for the presentation, which was very clear, I have to say. Maybe, again, just 2 questions. So the first one is on Credit Management, just following up from the discussion earlier, just hypothetically speaking, let's take a scenario where at least for the next year, you cannot do anything with that division, which means you cannot sell it or merging…merge it with someone else. So effectively, you have to keep it. I mean, what…how does that change the entire strategy of the Group? I mean, given that the past 6 months or so, we've seen you very focused on growing the Credit Information segment. So does that mean that you'll spend more time in resources on Credit Management in trying to boost it potentially or maybe yourselves becoming more aggressive in Greece? I mean, we know that there is not a firm there still for sale so far. So given that according to press, you did participate in the Eurobank sale, even though, again, according to press, you did not go to the final stage. Does this potentially mean that you might be interested in doing something in Greece or even other geographies? I mean, how does the situation with the Credit Management division change your strategy overall for the next year or so?

And then the second question is on buybacks. I mean, it's quite obvious that we won't see anything happening for the next few months, but I'm just wondering if we might get a bit of a positive surprise by year-end on that.

ANDREA MIGNANELLI: Yes, I'll take the first one, and I leave the buyback to Pietro. So the first one, the question is very clear. And I have to say, I have to be honest with you. Given the fact that we were very close to final agreement with Intrum, we were ready to meet you or into an Investor Day to pitch you the new strategy for the Group, which was obviously clearly focused on credit…on, I mean, risk management and growth services. Now we need to take…to acknowledge the fact that, well, as we say, probably, we'll keep working with Credit Management for at least a few months ahead, but this is not a problem because the company has always been very well-performing and self-sustaining company with its CEO, management team and so forth. And that they clearly, never stopped working on growth projects and strategy and everything else because they're a €200 million company. And so even in a situation where there was an interest by somebody else in the company, they were clearly working very hard to do well.

And so, we'll keep working together as we always been in the last 10 years. So I don't see this as throwing [ph] resources from the other part of the business. I just simply see that we keep working. Then maybe what I can say is that in the future, we had a very sort of unbalanced growth trajectory where we have the core Cerved business producing moderate growth and…but a lot of cash and resiliency and the Credit Management growing at incredible rates, like 20%, 30% year-on-year. Now looking at future, I'd like to balance and rebalance this 2 part of the company having like both growing at very interesting and appropriate growth rates, which over time, given the fact that Credit Management is maturing as a business, will tend to go into a more like normal kind of growth rate. And so the 2 companies can absolutely…they are not even 2 companies. They are divisions of the same company, and we'll keep prospering together under the same roof as we always been in the past.

Looking at our opportunities outside Italy, yes, clearly, we have to look at these opportunities. We are in good shape to do so because we have a presence [ph] in Greece with a local company with more than 100 people working there, and good management team. We know the country by now. So definitely, we'll keep our eyes open when opportunity arises in Greece. Pietro, do you want to comment on buyback?

PIETRO MASERA: Well, sure. Yes, Andreas, that was a point that to took a bit of time at the Board level. Now for the short-term, okay, the decision was taken to not buy any shares, but mainly, I'd say, for a technical reason, because based on what the shareholders resolved last year, so for the purposes for the buyback, okay, and based on recent regulation, we had fairly limited margin to do a buyback because otherwise, we could have had issues with the safe harbor, okay? And in any case, even had we done a buyback with that authorization, the maximum amount would have been about only 3 million shares, okay, until basically the date for the next AGM in May. So given that the amount was small and given that we're focusing on liquidity, we thought, okay, let's leave alone the buyback until May.

Now in May, when the shareholders have called to resolve on the new buyback authorization, as you see from the press release, that authorization will increase the maximum amount of shares from what we've historically done, which is 5% of shares to 10% of shares, okay, which is a very large amount, okay? And alongside that, what we've also done is that we've expanded the range of motivation based on which we can also buy the shares, so for example, for liquidity or for [indiscernible] excess liquidity. So the first liquidity [ph] was [indiscernible] for the shares; the second is to use cash; or to optimize the capital structure; or [indiscernible] shareholders in ways alternative to dividends. So having said that, fingers crossed, and I don't expect any issues for the new resolution to be approved at the next AGM, and then it will be up to the management and the Board, obviously, deciding on if and how much buyback to do based on how the markets evolve.

ANDREAS MARKOU: Okay. Thank you very much.

OPERATOR: The next question is from Andrea Lisi of Equita. Please go ahead. Excuse me, the line of Andrea Lisi withdrew. The next question is from Thibault Decré from 2R Capital Investment Management. Please go ahead.

THIBAULT DECRÉ: Thank you. Good afternoon, everyone. Thank you very much for taking my question. I just had a question on profitability. So you mentioned some cost initiatives as a crisis response to the coronavirus situation. Now a large part of your cost structure is fixed. I wanted to understand if you have flexibility on this fixed cost in order to mitigate the adverse effect of operating leverage on your margins? Or maybe putting it more simply, how would the decline in your top line translating to a further decline in operating profit? Thank you.

ANDREA MIGNANELLI: Yes. As I said before, I tried to depict the fact that we have different areas with different drivers for revenues and for costs. So our…let's say, business…in the data business, which is the business with the highest margin and the more fixed cost is also the more resilient business, fortunately. We may suffer a bit more on business which are more variable, but also with larger variable costs. Having said that, clearly, if you lose…if you had a significant impact on the top line, you may…we will have an impact on margin as well.

Our stress test tells us that if we lose, let's say, €100 in revenues, we lose about 70% of it in margin. That's more or less roughly speaking the…so we have a slightly higher burn of margin that we will have on revenues, of course. So given the fact that we have a 50% marginality at the moment, we'll suffer a little bit on margin. Having said that, the magnitude of the impact we expect is not much to affect our profitability, by any means, so we'll remain profitable, largely profitable and also largely liquid. So it's early to say whether this impact is…how big is going to be the impact, but we are still…we are still in a very good shape compared to the €236 million EBITDA we produced in 2019.

THIBAULT DECRÉ: Okay. Thank you very much.

OPERATOR: The next question is from Andrea Lisi of Equita. Please go ahead, sir.

ANDREA LISI: Hi, Sorry for the line. I have a question on my side. If you can remind us how it's composed [ph], your client base in the Credit Information Corporate in terms of big corporate SMEs and micro and what is the percentage of revenues of this client? Then the second question is on MBS. I mean, that in this environment, several companies will postpone their project. And so what is your view on the advisory activity of MBS in the current environment?

And then another question is on CAPEX, which is the level of CAPEX, which cannot be compressed or tightened further? And the last question is on M&A, do you think that in the current environment, maybe not now, not immediately, but maybe if the situation normalizes, there could be some M&A opportunity and which is the business where are you most interested? Thank you.

ANDREA MIGNANELLI: Yes. On Corporate clients, the split is roughly the following: out of €150 million more or less, €160 million of revenues in the Corporate channel, we got about €60 million of large clients and €100 million of medium-sized clients, which are about, I would say, between 8,000 and 9,000 clients. I'd say very, very fragment throughout different sectors.

Now the dynamics is clearly different because large clients are open for work: large utilities, large corporates, large insurance companies and so forth. They're all open for business in a smart working way. So we don't see it like a major slowdown there. Actually, quite the opposite because they are facing the typical issues that everybody faces. So it's how much my demand is going to drop, what kind of risk do I have in my supply chain, how are my sectors affected by the crisis. So we actually get a lot of inquiries on how to help them to face the crisis.

In terms of medium-sized clients, we made…as you may have read in the press, we made a number of publications defining what is the risk by sector, and what is the likelihood of losing revenues by sector and the increase in the rate of default by sectors and so forth. So if we apply all these studies to our client base, fortunately, our client base is distributed a bit better than the average of Italy, and so we have underrepresented sectors that are more risky, such as tourism and restoration and stuff like that. So it's not totally safe. That is not…it's actually less risky than the average Italian company base.

In terms of MBS, it's a consulting firm. So as you can imagine, at the very beginning, they had almost virtually no impact from the crisis in the first couple of weeks because the teams were fully staffed. They were working remotely. They are smart guys, so they can work in a smart way and so forth. Now I have to say that in the last week, we were…we got a couple of calls from clients asking to postpone projects because they clearly see that it's better to wait for a couple of weeks, 2 weeks to see how it works and then keep working. They typically work for large insurance companies, large telecom companies as well. So we are not risking, let's say, to lose business, but we may have a drop in productivity for a few weeks. This is for sure. The company, they are…it's still open. So whatever we can do, working from home and working smart, they do it.

In terms of CAPEX, there is not…there is a bunch of CAPEX, as you know, that are related to the purchasing of data, we clearly, we kept away because our data ecosystem must be fed [ph] on a daily basis. So there's not much we can compress on the data part of our CAPEX allocation. There is…and this is about 50% of our CAPEX, and then the remaining 50% can be managed. We are running, just to give you a sense, roughly speaking, 400 projects of software development and functionality development. So we are doing a very, very analytical work to define which one of these projects can be postponed to a later date. But this, I guess, will affect probably a 20…roughly speaking, 20% of our total CAPEX base.

And finally, touching on M&A. As I always told you, we have a double approach on M&A, what we call, I would say, what we call bolt-on M&A. It's made of midsized small targets that we are constantly chasing, and we are just about to close the transaction, hopefully, in a couple of weeks, as well as larger targets. Clearly, now is not the time to look for large clients because the situation is a bit critical, but this doesn't mean that we stop discussing and chasing targets. This is a funny situation because market prices are down, but the sellers of the other companies do not expect to halve their prices by 50%, just exactly the very same way we would have done…we would not have done with Credit Management, right? So also targets out there do not simply just sell at half the price. But having said that, yes, M&A is a crucial strategy for us, and this is just like a bad period, we need to wait for it to pass and then moving ahead with a strong focus.

ANDREA LISI: Thank you very much.

OPERATOR: The next question is a follow-up from Rajesh Kumar of HSBC. Please go ahead.

RAJESH KUMAR: Hi, good afternoon, thanks for taking the questions again. Just the 4.5 times net debt to EBITDA, that is defined on IFRS 16 basis? Or is it for non-IFRS definition? And the second one is just on the trends in sales versus revenues. I mean, you obviously build up the sales through the year and then as the points get consumed, you'll get revenue. So assuming that the SMEs are not functioning, they won't be consuming the points. But are you seeing, basically, have you seen a complete stop of sales at the moment, which hopefully, you can review after the lockdown is over?

PIETRO MASERA: Rajesh, its Pietro. On the IFRS question, I have to say the agreements were struck in 2016, okay? So it's definitely IFRS. I think it looks probably back to the IFRS that we had at the time, which I think was before IFRS 15 or 16. Now I don't know how much that helps, but maybe we…I can check this for you if you want.

GIOVANNI SARTOR: No, I confirm that. I confirm that, on an IFRS basis.

RAJESH KUMAR: Yes, okay. So yes, it sounds acceptable. Okay, cool.

ANDREA MIGNANELLI: Yes. And in terms of sales and revenues, let's say that we were doing pretty well. We did well in January and February, a good trajectory in line with our budget and better than last year. First week of March, we're still pretty good. We started to observe kind of a decline in the SME sector…in the consumption of points in the SME sector last week. And this week it’s starting, it’s a bit critical due to the fact of the lockdown effect, where about 65% of companies in Northern Italy have been locked down. So I have to say currently, it's tough.

On the other hand, I just give you a sense of how the world can change and with the following example. You know that we serve SME clients, we have a workforce of 250 agents on the territory. We used to drive to meet clients and so and once the crisis started, they started to convert physical visits with Skype calls. And we learned that if the companies are open, it's actually possible to do visits on Skype rather than on car. And so funny enough, our agents actually improved productivity from 2 visits a day to 5 days a day. So I'm not saying that it's an opportunity. I'm not trying to tell you that the crisis of the coronavirus is a tremendous opportunity. I'm just saying that it's going to change the way we work and our clients work. Because once they learn, they can be effectively served by a Cerved agent on Skype, rather than on physical premises, this could mean that we could really improve productivity in the future once the companies are back opening business, clearly, of course.

RAJESH KUMAR: Understood, noted. Thank you.

OPERATOR: Next question is from Michele Baldelli of Exane BNP Paribas. Please go ahead.

MICHELE BALDELLI: Hello, good evening to everybody. Thanks for taking my questions. I've got a couple of them. First one, I would like to have a sense check from you on the Credit Management division because you were referring to kind of, let's say, second part of the year tougher than the first one. I was wondering what product line and what, let's say, the segment of the various processes that are elaborated in the Credit Management are impacted now or later in the year and why, given that also tribunals, as far as I know, are mostly closed now already. And therefore, why there is this time lag? And then there is also another question about the, let's say, the trend of the, let's say, Credit Information in the first quarter. If you can give us some color, some more than what you just said.

ANDREA MIGNANELLI: Yes. On Credit Management, we should make a difference between banking clients and nonbanking clients. So for banking clients, where we manage banking loans more [indiscernible] corporate, secured loans and stuff like that, the driver it's…most of these loans are secured. So when we cash, it's because there has been a sale of an asset and we get the money from the tribunal. So the cash is still coming because of the effect of actions that have been taken in the past. And yes, you're right, courts are closed for the new procedures but at the same time, fortunately, the court system is actually moving a bit more heavily than in the past towards the digital. It's called the [foreign language] which is digital legal procedure. So something that was started a few years ago, the digital legal procedure is now heavily enforced by the tribunal just to at least not to stop completely the activity but to do as much as possible remotely.

Also some of procedures that were needed to be done physically now are allowed to be done non-physically, so it’s not like a 100% shutdown of the court system, fortunately, okay? Definitely it’s a slowdown, but not the shutdown, and that's why I say that. We don't see very strong impact in Q1 yet, but probably it's the shutdown of the courts is only a few weeks or a month or so will be absorbed during the year. If it's more than that, that could create a problem in the second part of the year.

This is for what is the banking loans. Then in terms of corporate receivables business, it's kind of a twofold situation. Some of our clients are actually suspending the activity, just not to be too harsh on customers. Some others actually are very worried about their receivables and therefore, they want to make even stronger actions than this. And they typically work with maybe 10 players of different size and magnitude. And we are one of the largest, and therefore, we are equipped to work with smart working. And some others, smaller players actually do not have the facility to do this remotely. And so they have to surrender…and to stop working. And so this is creating a couple of situation where large, large clients are actually devoting…giving us more volume than in the past due to the fact that we are one of the few shops open for business.

And in terms of physical activity, most of the work is done remotely already. So there is, in our business, there is only limited face-to-face relationship with a debtor. So to a certain extent, operating on the phone, operating via letters, it's still viable and it's still working. What we have to suspend in most cases is the visit of a field agent, but this…it's, let's say, over the €200 million of revenue that Credit Management is doing more or less, it's probably like 5% to 10% of the total volumes.

MICHELE BALDELLI: Thank you very much.

OPERATOR: Gentlemen, there are no more questions registered at this time. Back to you for any closing remarks you may have.

ANDREA MIGNANELLI: Yes, I want to thank you all for your interest and attention. I know it's a very critical situation for everybody, personally and professionally. I can assure we are working at 120% of our effort just to make sure the company is working safely and it's working productively. So we'll keep you very posted on what we do and what we achieved on a monthly basis as much as we can. Pietro Masera is always available for taking your calls and trying to give you as much color as possible. And I honestly wish this will last as short as possible, and we'll go back to normality as soon as we can. Thank you very much, and thank you for your support.