

# **Cerved S.p.A**

**“First Half 2018 Results Conference Call”**

**Monday, July 30, 2018, 18:00 CET**

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OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Cerved Group First Half 2018 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, Investor Relator. Please go ahead, sir.

PIETRO MASERA: Good afternoon and thank you very much for joining our call today. Pietro Masera speaking, Head of M&A and IR and Marco Nespolo, CEO and Giovanni Sartor, CFO. Today's call is to focus on Cerved's H1 results for the 30<sup>th</sup> of June 2018. Given that we just had the Investor Day a few days ago, sorry, about a month ago, I'll be fairly brief. Also because I think the results are pretty much in line with our expectations and ideally as per the markets, obviously however, we are available for the Q&A session at the end of the call.

At this point, I will leave it to Marco Nespolo, CEO.

MARCO NESPOLO: Thanks, Pietro and good afternoon, everyone, and welcome again to our conference call for the first half results. And as usual, I will start with the executive summary which you find on Page 3. On the macro highlight, the gradual improvement on Italian macro is continuing despite a few research [indiscernible] and rating agencies, slightly reduced GDP estimates due to uncertainty and on government sections and in particular structural reforms.

On the other hand, as we always remind and as we clearly stated during the Investor Day, Cerved trajectory has little or no correlation with Italian macro nor political situation.

As far as results, we are clearly in line with the expectations with H1 characterized by the acceleration in revenues and EBITDA growth, underpinned by the evolution of Credit Management division. Revenue growth was 12.3% of which 9.9% organic, by far the highest in our history. Adjusted EBITDA growth was also 11.9%, of which 9.6% organic and once again the highest in Cerved's history.

And note that when we refer to organic growth, in 2018 we do include overall growth net of a) the recently Banca Popolare di Bari platform and b) the economics from new NPLs from Monte dei Paschi managed by Juliet platform.

On the operating cash flow, growth was 2.6% lagging the EBITDA growth mainly due to the working capital impacts which Giovanni will cover later. Adjusted net income increased by 11.8% despite higher cost coming from taxation and the accruals from the long term incentive plan.

Leverage grew from 2.6 times in Q1 to 2.7 times in Q2 on a pro forma basis for the last 12 months including M&A and that's despite having paid €52 millions in dividend and a further €64 million related to the Juliet transaction and the progressive buyout of minorities around the Group. So even after all that, we are still well below our 3 times leverage target.

A few other points, which I wish to discuss upfront here, first is the buyback. Today, the Board of Directors approved the implementation of a buyback program amounting to a maximum of €30 million to be executed over the next six months. They would have a limited impact on our leverage which we estimate around additional 0.15 times last 12 month EBITDA at year end 2018.

Second is M&A, we closed now 3 of the 4 small deals which we announced on the 25<sup>th</sup> of June during our Investor Day, in particular SpazioDati, Bauciweb and the joint venture with LaScala law firm in the legal services, only the closing for Pro Web consulting into the digital marketing remains outstanding and we expect to complete that in the first half of September.

And again on M&A, as we stated during Investor Day, we stepped up our strategic intentions here and we continue to have an interesting pipeline and we do hope to close a few more deals ahead of the end of the year.

Now just a quick look at Page 4. As you can see, H1 2018 growth rate for both revenues and EBITDA are well above our recent history, and the rest of the year should continue to benefit from the full impact of all the large newly onboarded and deals on the Credit Management side.

Moving to Page 5, again on macro highlights very quickly, the overall picture is in line with the recent past with moderate recovery and not providing [indiscernible] material tail wind, but looking at a few specific variables like the number of bankruptcies and default rates, the decline is quite interesting which confirms overall the positive trend.

But let's now move to Page 7, where you have a snapshot of our divisional results before then drilling deeper on each business unit. The Credit Information shows total revenue and EBITDA growth of 3% and 1.5% respectively for H1, so fairly consistent with the recent past. Financial institution segment continues to grow above 2% despite impacts of bank consolidation and large contract renewals and the corporate segment picked up in Q2 after a flattish Q1.

Credit Management jumped by 45% in terms of revenues and 83% in terms of EBITDA, clearly this reflects the Banca Popolare di Bari transaction which was already fully visible in Q1, but also the impact of the NPLs from Juliet and the [indiscernible] and the underlying organic growth of all the existing portfolios, ancillary segments as well as the – business.

Marketing solutions was disappointing, PayClick was flattish, in the end legacy business actually did slightly decline. A large portion of the gap comes from specific delays which we will cover later and we do expect the situation to improve during the second part of the year. So on a consolidated basis, growth was 12.3% on revenues of which 9.9% organic and 11.9% on an adjusted EBITDA of which 9.6% of the organic.

So let's now look into the single business unit starting from Credit Information, which you find on Slide #8. Financial Institutions, as I said did grow by a good 2.4% in the first half that clearly confirms once again our ability to manage contrary new ones [ph] to minimize impacts from bank consolidation and to more than offset those impact through continued cross-selling and up-selling, as well as, market share gain on real estate.

After the softer Q1, corporate segment grew by a strong 6.3% in Q2 bringing year-to-date organic growth to 3.5%. While we do expect this trend to continue in the second half of the year although with some fluctuations between quarters driven by one calendarization of the large projects, and we have [indiscernible] them in 2 asymmetric impacts of new accounting principles across the...between the different quarters.

Regarding EBITDA, the 1.5% growth in H1 compared to the 3% growth in the top line does lead to the...I would say largely anticipated slight

margin dilution due to some continuing mix impact coupled with the telefact [ph] of the upgrade in central functions.

Credit Management, and I am now on Slide 9, delivered a very strong growth, both on the top line 44.6% and on EBITDA over 82% growth with continuing acceleration as we complete the onboarding of the new large portfolios and as we start working on Monte Paschi future...so-called future flows after having closed the Juliet transaction in mid May. But let me articulate a bit more on our top line and EBITDA performance in H1 on Credit Management.

On revenues, I would just make three points, first, the onboarding of some new €25 billion of asset under management is progressing well so far in terms of staffing, operational setup and collections performance, despite of course, it's early phase and several steps still need to be made. These new portfolios are driving significant top line growth and we have increasing impact in coming quarters as we get fully up to speed.

Second point, we continue to see good performance also on prior year portfolios. Thanks to positive collection trends which we think are driven by a combination of positive micro continuous operational improvement on our end and some benefits from recent reforms.

The third point is all other segments are growing well into double-digit territory, despite significant re-scoping of remarketing activities which alone impacted H1 top line growth by approximately 8%. So despite that the growth that we posted is very high and thanks to the impact of Barclays deal on performing loans which we stabilized in H1 as that was completed in June last year. Also increasing cross-selling on legal services which will benefit from the new portfolios, and we leverage the

joint venture with LaScala law firm and also a very good trajectory on the corporate and SME receivables segment.

On EBITDA, I would just point out the good margin up lift from 25.7% [ph] in H1, 2017 to 32.5% in H1, 2018 is mainly driven by the significant mixed shift from the lower margin remarketing business to the higher margin NPL servicing business. And again, we expect to continue to benefit from the shift in the coming quarters and beyond given our asset profile and again the recent industrial partnerships.

And as a final, but very relevant note, we do continue to gain new portfolios. We just announced a new GACS deal with Banco Desio which is about €1 billion of asset under management coming our way. And that's additional good news again highlighting our capabilities in terms of generating new business with a wide variety of customers.

I would now move to Page #10, which summarizes our results in marketing solutions. Year-to-date, the business has seen a slight 3% decline, mainly due to the underperformance in Q2 that's clearly below our target, both on PayClick business, which was flattish in H1 and on Legacy business which actually declined versus first half last year.

We do see the gap largely coming from delays in some larger projects both on PayClick and on Legacy business, and we do expect some acceleration in coming quarters in light of the good momentum we do see in order intake. Actually, we expected that in Q2 already, as I said during the last call that actually did not materialize yet but we do forecast stronger Q3 and Q4.

And with this, we have done with the business units and I can now hand it over to Giovanni for the financial review.

GIOVANNI SARTOR: Good afternoon everybody and thanks Marco. I will now skip to Page 12, which provides an overview of the income statement with 2016 and 2017 which are not restated, then the restated full year 2017, and finally H 1 '17 2018 prepared under the new IFRS standards.

For completeness in the appendices we have provided all the underlying data splitting out quarterly performance of the group, and the main divisions under the new IFRS together with the unadjusted figures, just a couple of areas to focus upon.

First, the accrual for the LTIP is clearly increasing and from an initial €0.9 million in Q1 we made a further accrual of €2.3 million in Q2 taking the total to €3.2 million. Difficult to say our [indiscernible] costs will be for the year, because the portion is also dependent upon our share price, but I would expect at least €6 million.

As I said, in the Q1 call taxation in 2017 was particularly benign, thanks to a number of tax breaks and utilization of prior losses, but these benefits have now eroded and we are moving towards a normal statutory tax rate which is around 28%. Nevertheless, the adjusted net income grew by almost 12% from the first half of the year reaching €52.8 million.

Slide 13; provide our customized breakdown of the net working capital. As you can immediately see and focusing more on Q1, net working capital as a percentage of revenues was 9%, and this is clearly based on the new IFRS figures. Unfortunately we can't [ph] provide a corresponding 2017 H1 figures, which do the required stating [ph] 2016 market revenue, which are not available. In any event, the underlying trends are discussed in the presentation. Receivable grew, thanks to the underlying growth of the business and in particular in the Credit Management division also payable



grew, reflecting the underlying growth of the business and continued optimization of payment terms with suppliers.

Deferred revenues decline due to the consumption of prepaid points being higher than the sales of the new points, but we do recall that the significant portion of corporate revenues are towards large clients, who do not use the prepared point system.

On Slide 14, you can see that operating cash flow returned to growth in F1 by 2.6%, thanks to a positive performance, which reverse the decline in Q1; this is clearly due to the affect that we just discussed in the prior page. And once again, please recall the absorption of working capital, which refinance the significant growth of the Credit Management business in the rest of the year.

Last but not least, I'm moving to Slide 15, financial investments in Q2 were 2.7 times of EBITDA based on the LTM EBITDA, which on a pro forma based also includes the full P&L impact of closed deals.

The recent increases in nets are however, this is easily explained. The net debts at the end of 2017, this includes the €18 million spent for the Bari platform acquisition. We then distributed €52 million of dividends in Q2 and we also spent about €50 million for the NPS platform. And finally, also about €40 million to buy out minorities mainly in the Credit Management division. So overall, we continue to enjoy a strong financial situation, which is expected to improve during the year, so we still have ample of space to bank acquisition.

And as Marco indicated earlier, our Board of Directors has approved the €30 million buyback in the next 6 months, starting from the 3rd of September.

At this point, we have completed the presentation. So we can now start the Q&A session.

## Q&A

OPERATOR: Excuse me; this is a Chorus Call conference operator. We will now begin the question and answer session. The first question is from Simonetta Chiriotti with Mediobanca. Please go ahead.

SIMONETTA CHIRIOTTI: Yes, good evening, a few questions from my side. The first one is on the tax rate, Mr. Sartor, mentioned the fact that the tax rate has increased, but if I look at the tax rate on the Q3 profits, it decreased, so if you could comment more on this first point? And the second question is on the definition of like-for-like growth in Credit Management, I did not catch the perimeter on which you calculate the growth, the like-for-like growth, so if you could say it again? Thank you.

MARCO NESPOLO: Sure, Simonetta. And I will take the second one and then I will leave it to Giovanni for the details on the tax rate. Like-for-like growth, as I mentioned, is everything...like-for-like growth...organic growth is everything excluding let's say the extraordinary deals, so we consider nonorganic deals where we do buy something, which happened with Bari where we did buy the platform from Bari and it was the case for the Monte dei Paschi just as far the Juliet transaction is concerned. So the...what we called the future flows from Monte dei Paschi, which were the €4.5 billion, we started taking care of in mid-May and the result of €2 billion from Bari, which we started working on in January. So out of our debt, that's something, we never paid any price for any platform and we consider that organic.

SIMONETTA CHIRIOTTI: And which is the level of assets under management at the end of the quarter?

GIOVANNI SARTOR: The asset under manager are currently between €51 billion and €52 billion including all the recent gains and of course, the net of collection, write-offs et cetera, so it's between €51 billion and €52 billion.

SIMONETTA CHIRIOTTI: Thank you.

GIOVANNI SARTOR: Now coming to tax, a fact that is mentioned, and the principle fact that affected the supposed current taxes, so the taxes that we are going to pay, so we have two facts, major facts. The first is with the 2017, we finished what was the interest in excess to the cap [ph] that we were getting prior years, so now we have finished that tax shield let me say.

And the second one is related to the depreciation of the database coming from the goodwill [ph] allocation of 2013, so that we made at the time, the step up, and so we have the possibility to deduct the part of the goodwill allocated to databases, so that advantage finished with quarter one of 2017, so now we are paying absolutely the tax rate...the full tax rate because we do not have any other deduction for the current tax.

For giving you an example, last year, we in the profit and loss we had €14 [ph] million current taxes provisions, while this year we are provisioning €18 [ph] million of current taxes, so that is the reason for the issue I mentioned that we increased the current tax to be paid.

SIMONETTA CHIRIOTTI: Thank you.

OPERATOR: The next question is from Andrea Lisi with Equita. Please go ahead.

ANDREA LISI: Hi, thank you for the presentation. I want to ask you just one question. It is about non-recurring items in the P&L 3.9, it is same as last year. Is it possible to have more color on this figure? Thank you.

MARCO NESPOLO: Yes, that's...maybe Giovanni can get some more details. I...that's on my side with some M&A related activities of €2.2 million. M&A related activities on deals' that we...of course, we didn't complete necessarily. So it's all included with deal that we did complete and deal that we did not. As, you know, we do run several [indiscernible] sometime we do aboard or we don't win the deals, #1.

#2 is the 1.5 million of layoff and optimization of personal, so we constantly focus on operating excellence which brings to continuous, let's say optimizations here and there on our personal structure. So even in the first half of this year there were like action we took so that that happens to be same as last year in total, but that's the 2 key major banks, Giovanni if you want to add anything

GIOVANNI SARTOR: Just last year, what we told was the same that the reasons...was the opposite, so we had 1.3 million for M&A activity and €2.5 million for layoff.

ANDREA LISI: Okay. Thank you very much.

MARCO NESPOLO: You're welcome.

OPERATOR: The next question is from Joel Varghese [ph] with HSBC. Please go ahead.

RAJESH KUMAR: Hi, gents, my apologize its Rajesh Kumar, not Joel [ph]. Just...I am trying to understand the organic growth figures in the corporate segment.

Could you take us through the difference between the run rate growth of sales deferred revenues and the revenue figures, I mean, what are the...is there a bridge we need to understand which led to an acceleration in the corporate segment or was it just a matter of pick-up in consumption? Second, would be, when we look at full year consensus numbers. Are you comfortable with where the market expectations are, if not, where do you think people are more or less optimistic?

MARCO NESPOLO: Yes, hi, Rajesh. So on the first question, I think, I got two sub questions. One is the definition of organic growth, and actually on the corporate segment for Credit Information, there is no...there is nothing else than organic growth. So we didn't have any recent M&A views requiring the kind of different, let's say, reporting then to in organic and non-organic. So the 3.5 year-to-date and the 6.3 in Q2 as the almost flattish Q1 were all fully organic figures.

In terms of the trajectory which was second part of your question if I am not wrong, and if you are asking about all the underlying drivers, we do...we did see acceleration in Q2 mainly driven by, yes, some pickup in consumptions after like a little software...clearly software consumptions in Q1, driven by the ramp up of our...the gradual ramp-up but good ramp-up of our recently launched Cerved Credit Suite and specific, let's say, actions on that front in terms of cross selling and up selling, and also a good continued good performance in large accounts which was where we were, let's say, lagging behind in Q1, mainly. Plus, as I quickly touched upon during the presentation earlier, the new accounting principles, especially as it comes to comparing last year results are still making, let's say, at the trajectory a little more bumpy there usually, so the softer is Q1, the strong Q2. We will see more of that actually in Q3 and Q4 in terms of actual quarter's trajectory being, again a little bit bumpier than usual. So the acceleration between zero and 6.3% is a mix of, again sort of

calendarization versus delays and a little asymmetric impacts of the switch towards the new accounting principles, and again we do expect that to continue.

On the second question, on the consensus, we do remain confident about getting there. We actually are in line with that, even despite the delays in the execution of the Juliet deal, for example, which is not immaterial, and so, we do remain confident to substantially get there.

On the nuances, I think an area of another challenge again given all of what I just said might be the top line on the corporate side for Credit Information and therefore the EBITDA for the Credit Information as a whole. Again despite, we do see strong H2 and we also do see banks behaving positively. So if I need to put like a minor caveat that where it comes from. On the other hand, again, we are running ahead of the curve on Credit Management. Again, if you see where we are and you consider that we actually did lose...did lose like a month and a half on Juliet compared to where we were in the forecast for the year. So again, the second month of the year is very relevant; we have now a huge platform of Asset under Management that need to squeeze out. So a lot of again, execution still to be made, so again we keep [indiscernible] but we do remain confident in getting there as promised.

RAJESH KUMAR: Thank you very much. That's very comprehensive. Just I know there are no follow-up transcripts on this call. So just to be sure, what you are saying about the Credit Management corporate debt [ph] is that, the Q2 pickup was because how you are recognizing the revenue on consumption which is slightly more nuanced than the IFRS 15, if I'm not mistaken. And then, Q3 Q4 again gets a bit of comps plus basically a headwind from how the consumption progressive, is that a fair understanding of what you

just said or am I reading too much into what you are saying about Q3 and Q4?

GIOVANNI SARTOR: I'm not sure I got 100% of your comments. But if you talk about consumptions, you are right like there were quarters last year, that were particularly strong and that's also impacting in terms of comps, the trajectory this year.

RAJESH KUMAR: Yes.

GIOVANNI SARTOR: But even more or so I would say and that's what I mostly thought of when talking about bumpiness, it's the real impact of the new accounting principles and how they translate into again the calendarization of our revenue recognition versus our typical selling process. So in terms of the impacts for last year, the restatement was very different between the different quarters and in Q3, we have a higher bar in terms of impact of the switch to the new accounting principles actually making last year stronger while Q4 will be easier because last year the mix of the things that were impacted by the new accounting principles where it was very strong. So all the rest being same, past Q3, easier Q4 and we do expect without being able to get too much in details now, but that is reflected in our current forecast for the year.

So I would expect a softer Q3 compared to where we are now and a significantly strong Q4, of course, if we do well of what we are currently planning. So again that's what I meant by bumpiness, all of that should bring us to the trajectory we always had but again compared to the consensus that we see, which is very tight on the EBITDA and we are getting there on the top line especially for the corporate side is a little bit of a conservative ones that I will give here without having the consensus in mind completely. And again, that's the other way around for Credit

Management, which has so far half the way into the year is actually the underlying drivers are even better than we expected and that's why we've been able to...again to more than offset the delays in Juliet, so far.

RAJESH KUMAR: Understood. Now, that's very clear and comprehensive. Thank you.

GIOVANNI SARTOR: You're welcome.

OPERATOR: The next question is a follow-up from Simonetta Chiriotti with Mediobanca. Please go ahead.

SIMONETTA CHIRIOTTI: Yes, thank you. Could you recap for how long the various contracts have contributed in the first half, so Popolare di Bari for six months, but the [indiscernible] related to Quaestio and Monte dei Paschi, how long they have been included in the results? Thank you.

MARCO NESPOLO: Yes, sure Simonetta. See you are right, Bari started early January, so it's a full impact. Juliet specifically i.e. that the platform and the new...the so-called new NPLs started in mid-May, so only 1.5 months including all the kind of early setup, which of course is as productive. And on the bulk of the new portfolios like especially the Valentines, so the Quaestio portfolios as well as the Resolution Vehicle portfolios, that's roughly when we started to kind of work on those, it's between like mid-February and mid-March, really, roughly. So Q2 was conceptually full run rate, but again, its' a huge ramp up, so it's never up to speed in the very first phase. So that's why I said earlier that this acceleration, which happened even between Q2 and Q1 is expected to continue to and Q3, we will have more full impact of all those new portfolios.

SIMONETTA CHIRIOTTI: Okay. Thanks.



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

MICHELE BALDELLI: Good afternoon, everybody. Thanks for taking the questions. I have got a couple of them. The first one is about minorities because from the press release or presentation, I didn't see any line on the net profit line about minorities, if you can give us the number just to have some visibility about the Quaestio JV? And on the other side, I would like to understand a little bit the trends of the net working capital, if, let's say, the increase to be, let's say, most structural you think that by the end of the year you have, let's say, skipped the target that you disclosed at the Business Plan presentation? Thank you.

MARCO NESPOLO: So Michele, on the minorities, if you are talking about the portion of the net income which is owned by minorities in the first half that was a €1 million, if I am not wrong, Giovanni, right. So out of the 36.3ish, one where minorities which is largely, of course, the 50ish percent of Quaestio in the record [ph] that we created on purpose. And then, of course, the 4-5% of Credit Management, which is still outstanding mainly that there are few smaller stuff that's mainly there.

On the working capital, if I got your question right, the trend that you do see is reasonably structural for this year and why I say reasonably, just because again given the amount of changes and the quantum step in the growth is, of course, might change the picture easily even with the kind of small deviations in the working capital [indiscernible]. We are growing a lot on the Credit Management space, which, of course, especially in the ramp up phase of the new portfolios, it is not the most, let's say, working capital light type of business. And also, we do see a little mismatch between the consumptions in corporate segment, and the sale of pre-paid contracts, both because of the momentum in the order intake of prepaid

contracts on the SMEs and also because of the mix which as we discussed there are times it is a little bit heavier. Now, on the larger...in terms of the growth on the larger accounts which are not going with prepaid. So the working capital, let's say, the positive cash flow generation which comes from prepaid contracts on the SMEs front is a little less strong than the top line growth would imply as we also see reflected on the other way around on the deferred revenue. So that's also to be taken into account. So the two impacts combined, I think give us a reasonable comfort in saying that, that should be where we keep going in the second part of the year, again absent different or stronger deviations or impact.

MICHELE BALDELLI: Thank you very much.

MARCO NESPOLO: You're welcome.

OPERATOR: The next question is a follow-up from Simonetta Chiriotti with Mediobanca. Please go ahead.

SIMONETTA CHIRIOTTI: Yes, I have a question about the dividends policy and the buybacks, so you have started...announced today that the buyback is due to start the coming days. So how could these affect your dividend policy for the year? And related to this, if there is anything that you can share with us in terms of acquisitions? Thank you.

MARCO NESPOLO: Hi, Simonetta. In terms of dividend policy, well the buyback perfectly fits into the guidance we always gave i.e., if we go below three times leverage consistently we think about topping up the dividends with some share buybacks. And so, that's not going to change the dividend policy this year, there is no special dividend that we estimate for this year as...and that brings us to the second part of your question.

As we do have an interesting pipeline of M&A deals, of course, I can't go too much in details here. But we hope, as I said earlier to close a few ones, maybe one or two small ones, potentially something bigger as well in the pipeline. So if that all comes true, we will, of course, be totally consistent with the guidance by year end and earlier next year, so the next...let's say, phase of thinking around dividends will be in due course for that financial statements next year. So we don't expect anything more or different in between. And again, we opted to close as many M&A deals as possible out of our interesting pipeline. We are currently in a couple of processes as well. I mean, at least...

SIMONETTA CHIRIOTTI: Got you.

OPERATOR: Gentlemen, there are no more questions registered at this time.

MARCO NESPOLO: Okay. So I think we are done with the Q&A as well, so that the call can be closed. Thanks again for being with us again today and then talk to you soon.