Cerved Group S.P.A.

"First Half 2021 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 First Half 2021 Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone.

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

PIETRO MASERA: Thank you very much, and thanks, everyone, for joining the call today. The purpose of the call is to provide you with an update on Cerved's first half results to 30 June 2021, and at this point I'll leave the word to Andrea Mignanelli, CEO. Thanks.

ANDREA MIGNANELLI: Thanks, Pietro, hello, everybody. So as an introductory comment, Q2 was a good quarter, and H1 results are quite positive across the board. Cerved is returning to its normal growth trajectory as expected in our guidance to 2023 [ph] we give you back in March.

Let me take you through the key messages in the Executive Summary on Slide #4, macro. So the situation in Italy is picking up pretty well, thanks to a series of factors. Vaccination rates are quite high, with more than 50% of the population being fully vaccinated. Consumer confidence, industrial output and experts [ph] are all registering solid indicators. Italy has secured €225 billion starting from 2021 as part of the next generation EU plan. And last but not least. Mario Draghi is confirming his capabilities and skills since he took on the role of Italian Prime Minister.

Now focusing on growth prospects for Italy, GDP is expected to grow around 5% in 2021, and this figure has recently been revised upwards in

Italy to return to pre pandemic GDP levels at the end of 2022, and with further growth expected in '23. Clearly, this is a positive tailwind for Cerved, and we are in fact already seeing a positive impact on our results.

So let's now, look at the financial results for H1. As mentioned a second ago, solid set of results. Revenues grew 5% on a reported basis, and mutually entirely organically, with the Data Intelligence parameter ahead of 2019 results, which were not yet impacted by the COVID-19 pandemic. Adjusted EBITDA grew at even a higher rate of 6%, again almost entirely organically and once again the Data Intelligence parameter is above pre-COVID levels.

Operating cash flow jumped 11%, consistently we reported Q1 reflecting the gradual normalization of DSO in 2021, compared to 2020 which witnesses a deterioration of net working capital, as you may recall. Adjusted net income grew by 12.7%, thanks to the underlying growth in EBITDA, and leverage further improved from 2.9 times at year end to 2.7 times, thanks to solid cash generation, and an improvement in net working capital due to strong collection of receivables.

Let me now move to Slide 4, sorry 8, which provides our customary review of our results in the quarters, broken down by business units. Before getting into the 3 key divisions, let me spend a few minutes on the Data Intelligence businesses, which includes Risk Intelligence and Marketing Intelligence, and which is our core business. In this respect, please also refer to Slide 19 which has all the divisional figures from 2019 to 2021, broken down by division and between Data Intelligence and Credit Management. This is very useful to compare our current trading to pre-pandemic levels.

Data Intelligence revenues for H1 2021 were €178 million, which is 10.7% higher than in 2019, and please note that we are ahead of 2019 [ph] results, if we include M&A deals that were not yet in our perimeter, in particular MBS, the advisory firm. By the same token, EBITDA in H1 '21 was €86.4 million, which is 7.8% higher than we reported figures in 2019.

As with revenues, '21 is ahead of 2019 even if we prepare pro forma figures including net contribution of M&A deals. So this is to say that with respect to our core business which is Data Intelligence, we have already overcome the impact of the pandemic, which took a toll on our 2020 results. This is good results which I am keen on highlighting, and which we look into further as we analyze the results of the Risk and Marketing Intelligence divisions.

Now, starting with Risk Intelligence, this is our largest division, and we have had already seen the…with the Q1 results. This division is effectively bouncing back from a very tough 2020. The division grew 9% in H1 '21 and is already up 2% compared to H1 2019.

Let's now look at each of the financial institution and corporate segments in more detail. The financial institutions are once again continuing to do well, and this is on top of 2020 which grew nicely compared to 2019, and despite the pandemic. This segment grew by 8% in Q2, and please recall that it grew 15% in Q1, and this is a combination of 3 key factors.

The core business information analytic segment which accounts for about 80% of total revenues continue to register a positive growth rate, which is comforting even though they did not contract during the pandemic. Consequently, the message regarding H1 results is consistent with what we said in Q1 results call. The situation is looking quite good, and although we see some headwind from bank consolidation, we also see some positive impact from product innovation and up-selling.

Another area which is doing very well is subsidized finance, which means services to help the banking system cope with the liquidity decree to boost liquidity and new lending. To-date, the euro…about €185 billion on public guarantees and Cerved has work on almost €8 billion. We took a cautious view that this revenue stream would have declined a bit in 2021. But for now we're doing quite well in H1 well above last year. We're confident here because our growth derived both from new contracts, as well as, from existing contracts which are typically multiyear and therefore expected to generate revenues from the medium to long term.

Ratings are also doing quite well. We call that business a very distinctive offering we have and we are the largest rating agency in Europe by number of ratings clearly focused on SMEs. We did very well in both the bank and corporate segments, we show the versatility of the products and services. We're also stepping up our efforts in ESG ratings which are…which have a very bright future.

Last but not least, the real estate segment is back to a growth trajectory compared to last year even though we are still behind 2019 results. As has been occurring in the last few years real estate is a tale of 2 stories. On one end appraisals have been a growth story says that [indiscernible], whereas on the other hand, Depo [ph] which includes land registry checks and cadastral information have been declining. With respect to the Appraisal segment, it was hit by the pandemic but it's now bouncing back even the Italian banking system is healthy and has a lot of liquidity and this is sustained in the volume mortgages been issued and this provides a good tailwind for us.

Now let's look at corporate which…they're also doing quite well and bouncing back growing by 9.8% for H1 following the 8.8% in Q1. The current growth rates are satisfactory, but we're still behind the H1 2019 levels, so it will take some more time to fully recover from the impact on the pandemic in 2020.

And looking at this figure, please note that it's difficult to compare then based on how they were impacted by the pandemic last year, low impact in January and February, but a very strong impact from March to May and things improved in June. Whereas 2021 started-off quite weak due to the second lockdown and things began to really improve only in April.

Another aspect to keep in mind is the client segmentation. Our SME client base was much more impacting by the pandemic than our large key accounts, which are much charger [ph] and better equipped to ride through adverse market conditions.

So let's take a quick look at how different clients segments performed. Top clients are continuing to do well, and this is driving a lot of the growth in the corporate segment. Not only the positive impact for clients who decided to receiving those [ph] projects, which has been set aside or postponed during 2020. But there is also underlying growth in the consumption of data within this client segments.

Medium SME clients are reacting less favorably. And this is consistent with what we said with respect to the Q1 results. We believe that this is because they very much…they were very much more impacted by the COVID emergency and because it will take more time for the economy as a whole to recover. As we however saw with the macro data, the context is favorable. And we expect the positive macro results to assist the client segment during the course of 2021.

[Indiscernible] points is strong…very strong year-to-date as of June we were registering growth of 7% compared to last year consistently through all the client categories. This is positive because all the [indiscernible] points will be transformed into revenues during the course of the next 12 months.

With respect to EBITDA for the risk intelligence division, the grow was 9.8% in H1, which follows a very positive 10.7% that we are registering for Q1. A couple of comments here. Good to see that in H1 the EBITDA growth was higher than the revenue growth which proves that the operating leverage is finally working in our favor again. Recall that in Q1 the situation was different EBITDA did not perform due to a higher cost base as we were investing more in people and services to cope with an expected rebound in '21. And with respect to the comparison with H1 2019 results in H1 2020 the risk intelligence are only 0.6% lower. But given the trend that we are experiencing, we expect to exceed 2019 levels fairly shortly.

Now, let's move into the next business unit Market Intelligence. Also has a lot of good news here things are really bouncing back quickly. In H1 2021 is well above 2019 levels plus 81% in terms of revenues and over 200% in EBITDA, a lot of the GAAP is due to the MBS acquisition which was not in our perimeter in 2019. But even looking at pro forma figures '21 will be higher than 2019.

Let's now look at revenues EBITDA a bit more closely. Revenue growth was plus 5.8% compared to last year and was very strong in all divisions except for MBS. Health digital marketing PayClick and Pro Web consulting, Sales Intelligence, Atoka [ph] and Marketing Intelligence the legacy and newly launched Market Intelligence platform.

MBS began the year with sluggish results. But as we said with the Q1 presentation, this is due to lower concentration of mandates which closed in ‘21 compared to 2020. As I said earlier, we are quite confident for the year given that the backlog is very solid and all the consultants are working full steam, so we expect a good recovery in the rest of the year.

EBITDA grow was much higher at 47% and this is largely attributable to the digital marketing segment, which you may recall had been hit last year, mainly PayClick with high credit risk provision. This year things are getting a lot better and the jump in EBITDA digital marketing model compensates for decline in MBS. Going forward, we expect to continue to see positive results and as MBS returns into growth territory.

Now let’s look at our third division, business unit, Credit Management. This is the division, which is continuing to suffer the most. But as you can see, there was a step change in the results between Q1 and Q2 in ‘21 as compared to 2020, whereas Q1 showed a significant decrease versus 2020, Q2 ‘21 actually grew 9% in terms of revenues and 13.5% in terms of EBITDA.

Now, therefore, the H1 results in ’21, as compared to H1 2020 showed revenues declined by 2.4% and EBITDA by 16%, which is much lower decline than what we saw in Q1. The improvement is also due to easier comps, even the Q2 2020 was hit particularly hard by the pandemic. It's been hard year for the MBS related activity, which accounts for almost of our total revenues in the division. The impact in the moratoria [indiscernible] new default to historical lows and consequently the amount of NPEs on bank balance sheet is actually contracting. And Italian Banking Association declared in May that there were only €18 billion net NPLs on banks' balance sheets.

Now the market expected new volumes which emerges, an effect of the COVID-19 crisis will materialize at the end of ‘21 and analyst estimates approximately €80 billion new gross NPLs in the year after the moratorium.

So with respect to the servicing market, ‘21 is being characterized by limiting new volumes of NPLs, both in terms of disposal and outsourcing controlled [ph] by banks as well as by lower recovery rate due to the suspension of activities on the judiciary and to action taken to protect bank clients, for instance, suspension of options [indiscernible].

Please also recall that our revenue still suffer from the loss of the NPS contract. So revenues from the NPS amounted to €3.1 million in H1 2020, and then disappear from the date onwards. Not that this contract has a higher margins than the rest of the division, hence the termination has also an impact on overall margins.

Now the rest of the business was, however, quite positive with legal and Greece growing double-digit and the corporate collection fairly stable. In terms of EBITDA, the result is due to the cost base not being able to match the decline in revenues as well as the less favorable business mix with regard to the corporate collection unit, which with the growing weight of utility and versus the SME and consumer finance. So EBITDA declined by 60% compared to revenues decline by 2.4%.

Now in the interest of time, I will keep Slide 9, 10, and 11, which provides a lot more detail on each of the business units, but I've already indicated the key drivers. So I’ll let it to answer your question you may have in the in the Q&A session.

Now let me hand you over to Emanuele for the financial section.

EMANUELE BONA: Good afternoon. Thanks, Andrea. So if we move on to Page 13, you can see the full P&L, Andrea has commented most aspects. Let me point your attention on a couple of points. The P&L shows €12 million…€12.3 million provision for performance share plan, actually, €2.3 million of that amount is recurring, and the residual €10 million is actually due to the acceleration in the vesting of the rights, which were granted to management as a consequence of the announcement of the tender offer. That amount has been treated as non-recurring, and in fact, it has been adjusted for in the adjusted net income.

The other point I want to make is that we exercised the option of realigning some in tax and accounted…the accounting and tax values of some of our intangibles, namely the customer base and the brand, which in exchange for payment of an upfront tax of €7 million, €2 of which have been already paid in June, will determine a nice reduction in our tax rate for the next 18 years.

If we move on to Page 14, the page shows our customer breakdown of net working capital, situation is actually finally improving. As a percentage of revenue, net working capital is still quite high at 26.6%, but the figure is lower than 27.4%, which was the figure at the end of March 2021. As indicated in the first quarter presentation, the DSOs of the Data Intelligence business have been trending down quite significantly and have now returned to pre-pandemic levels, whereas Credit Management division still have room for improvement. Additional initiatives are in place to continue squeezing the working capital in the future.

Moving on to Page 15, the operating cash flow has been increasing, as Andreas said, by over 11% versus first-half of 2020. This is due to finally cash inflows from net working capital changes, which reverses the trend that we observed in 2020, which actually was showing cash outflows, and capital expenditure substantially stable versus last year. As you can see, the cash conversion is consistent with the guidance that we gave in our Investor Day, where we said that cash conversion would reach around 75% to 80% of EBITDA over the plan horizon.

Moving on to Page 16. This page shows the financial indebtedness, you can see that the net financial position at the end of June was €559 million. This represents €29 million deleveraging versus the end of 2020, the leverage ratio is 2.7, which is in line with what the Q1 results were showing. And this is in spite of a couple of significant cash outflows in Q2, one is about €50 million relating to the buyback, and the other one a more recurring one, €25 million relating to buyback of minorities…minority stakes in some of our controlled companies and some M&A.

So this concludes our presentation. We now open the floor to questions. Please note that we will take questions on quarterly results, and not on the tender offer.

Q&A

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

The first question is from Andreas Markou with Berenberg. Please go ahead.

ANDREAS MARKOU: Hi, everyone. Thanks very much for the presentation and taking my questions. I have a few; I'll take them one-by-one. The first one is on results versus full year consensus of EBITDA €219 million. Are you still comfortable with this full year number?

ANDREA MIGNANELLI: Yes, I think we're on the right track. So with me…we gave the markets our guidance 3 months ago. We are on track, so don't see why? Yes, we are comfortable.

ANDREAS MARKOU: Okay, Great. Let's go to Risk Intelligence, the financial institutions division. So if I compare revenue and EBITDA margin quarter-on-quarter, so if I compare versus Q1 '21, I see a little bit of softness. And you mentioned the headwind earlier from bank consolidation, is that the main reason or is anything else going on?

ANDREA MIGNANELLI: No, but I wouldn't…bank consolidation in this…in the last recent period was mainly…there is a name, right, it's Intesa, UBI on one side and then most recently Crédit Agricole with Creval. And I wouldn't say that these 2 things impacted materially, in the short-term. So no, I don't think consolidation is actually…will actually explain the softness, but rather just the normal course of business. And then, and I wouldn't be too worried because it's not that soft, so to speak, but again, apart from this is my opinion, in general terms, it's not the banking consolidation driving this.

ANDREAS MARKOU: Okay. Great. Then if we go on prepaid [ph] points, so these were up 15% in Q1, but then for H1 7%. Can you [technical difficulty] on the trends for Q2, please?

PIETRO MASERA: Hi, Andreas. It's Pietro. Now look, I think the trend is…unfortunately, it's a bit impacted by how the pandemic hit us last year. So I wouldn't read too much into that also because it is more maybe reflecting the medium size clients and the SME as opposed to larger clients which are doing better. So at least for now, I wouldn't read too much into that, but in general terms…in general terms it is the number which is fairly close to what the revenues are doing. So at least that for now, I think it is reasonable but don't read much into it.

ANDREAS MARKOU: Okay. So because it's a big difference quarter-on-quarter that's why I am asking?

PIETRO MASERA: Yes, but the whole point is that effectively…it depends how the pandemic hit us and hit us in different ways in different quarters. So it is something which will probably be disqualified [ph] but like some other variables as well, not only in our business but also if you look at inflation or other areas.

ANDREAS MARKOU: Okay. And then if you move on to credit management, obviously, this remains the division which is kind of lagging. Now, if we look at margins here, and think of margins for the next couple of quarters, especially Q4 which is a seasonally strong quarter, you obviously lost, you know, the big contract there with MBS, but still what kind of margins would you be expecting for this division the next couple of quarters? Do you expect to reach north of 30% in Q4 or do you still expect softness?

ANDREA MIGNANELLI: Well, I would say, you know, the normal margin level for this business it's in the range of 30%. In the past, we were able to overcome this number due to very large and profitable contract. Now, I think we are returning a little bit to normality. This H1 is a 26% which has you know, which is, as you say quite soft compared to our standard in the past. I would expect Q4 to improve because typically this is most profitable quarter. So on a yearly basis, I will expect you, to stay in the range of the 28% to 30% EBITDA margin overall…over the year, not in the quarter.

ANDREAS MARKOU: Okay. And maybe just thinking a little bit more generally on the future of this division given that it is kind of noncore. What's the incentive for you guys actually invest in this division and get a lean cost structure?

ANDREA MIGNANELLI: Yes. We always try to maintain a very lean cost structure. Of course, when you lose few tens of millions of revenues, it is difficult to adjust immediately. So we took a number of actions during this year that will play out also at run rate in next…you know, with another cost saving next year, and we are also thinking of another set of action that we will implement in the last part of the year to reposition our cost base. These actions will not have you know, a material impact in 2021 if we do it in…if we do it in our…do at the end of the year, but they will actually have a nice impact in the cost structure next year.

ANDREAS MARKOU: Okay, great. You said you are not taking any questions related to the tender offer, right?

ANDREA MIGNANELLI: Correct.

ANDREAS MARKOU: Okay. Fair enough. Thanks very much. That's all from me. Thank you.

PIETRO MASERA: Thank you. Andreas, on the tender offer, obviously, you can write to us but we don't think it is appropriate now during the call. So obviously, happy to do our job as Investor Relations but we prefer direct contact.

ANDREAS MARKOU: Okay. Sure. Thank you.

OPERATOR: As a reminder, if you wish to register for a question, please press "*" and "1" on your telephone.

The next question is from [indiscernible] with Cerved. Please go ahead.

RAJESH KUMAR: Hi, this is Rajesh Kumar from HSBC. Thanks in general for registering me. The link was not working in our systems. Just looking at the growth profile in your risk intelligence in the first half. You are getting more of the growth from consulting type of services which are lower margin or are you getting more growth from the traditional business intelligence data. So just thinking about margins in the medium term for that division, what consideration should we put through?

The second question is around you know, last year obviously we had quite a lot of disruptions. How much of growth in the first half was, you know catch up on second, what could not be done in 2020? And how do you see most stable run rate in the second half to be? What order of step down you would expect because of that and the comps obviously.

ANDREA MIGNANELLI: Okay. In terms of margins, I think we are holding on quite nicely for 2 reasons. One is because the mix is up in the Risk Intelligence business unit, especially in the banking division which is the one that grew nicely in the last…compared to last year and compared to 2 years ago. It's because that, yes, we did a good job at selling business information coupled of analytics. And when you sell analytics together with business information, you maintain a good margin. And this is reflected in our numbers, also we have been very, very disciplined of costs, we started a couple of years ago trying to minimize people intake and only using, you know, the natural turnover to rejuvenate our workforce and up-skill our workforce. So we maintain a pretty flat labor cost and we actually managed to increase revenues. So, this is keeping our margins well above

50% in the Risk Intelligence division and honestly speaking, I think it's pretty good.

And in terms of the bounce back, you know, I don't think there has been like a bounce back effect because of the things not done last year versus things to be done this year. I think especially in the large corporate and in the banking division, clients has been reaching out to us to solve complex issues mostly in terms of better understanding of the client base, better understanding of the risks within the client portfolios, and also more and more they are using our data not only for risk management and credit risks management purposes, but also for anti-money laundering and compliance issues which are now still quite small low in terms of total size, but growing nicely in terms of relative size.

RAJESH KUMAR: And that's very clear. Thank you very much.

ANDREA MIGNANELLI: You are welcome.

OPERATOR: For any further questions please press "*" and "1" on your telephone. The next question is from Andrea Lisi with Equita. Please go ahead.

ANDREA LISI: Hi, thank you. Just a follow-up on the performance of revenues of the financial institutional segment in the Risk Intelligence business in the queue, just comprising it year-on-year if I my calculations are correct, I see, a minus 10%, is this due entirely to the fact that second quarter last year was…benefitted a lot from the subsidized finance and these contributions are bit slowing down in this quarter or is there something else? Thank you.

ANDREA MIGNANELLI: Sorry, Andrea just I was checking what you are saying because just give me a second to look at couple of things and react, okay.

ANDREA LISI: Yes.

ANDREA MIGNANELLI: Yes, well, and probably which you are analyzing is the Q1, 21 results were with the financial institutions Risk Intelligence been at €35.2 million versus Q2, 21 being at €33.7 million.

ANDREA LISI: Sorry?

ANDREA MIGNANELLI: You know, is that what you are referring to?

ANDREA LISI: Well, I…it's my data.

ANDREA MIGNANELLI: On Page 19, where you can see all the division by quarter compared to last year and compare to '19.

ANDREA LISI: One moment. Okay. Let me check it. I have €33.3 million financial institution, okay, and in 2021 it's €33.7 million, well…or maybe I have made a wrong number in the…for the first quarter because I have at €39 million, but maybe, I was wrong on that, sorry.

ANDREA MIGNANELLI: Well, because I see a pretty nice trajectory there, pretty robust and consistent delivery of results on banking. So, this is one of the areas where we are honestly satisfied because, you may recall that the banking Risk Intelligence division was actually declining since from 2017 to 2019 and now it's actually picking up. And so, everything that is a plus, you know, ahead of it, it's good for us, giving us a very, very strong competitive position and the facts that the market is very stable. So, you know…

ANDREA LISI: Okay. Thank you very much.

ANDREA MIGNANELLI: Yes.

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

PIETRO MASERA: Okay. Well, then thanks very much, everyone who participated. Obviously if you have any follow-up of questions, please feel free to contact us, as usual. Thank you very much. Have a good evening. Bye-bye.

ANDREA MIGNANELLI: Bye-bye.