Cerved Group SpA

"First Half 2020 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 First Half 2020 Results Conference Call. As a reminder all participants are listen-only mode. After the presentation there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone.

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

PIETRO MASERA: Hi, thank you very much. Thanks, everyone, for joining the call today. As mentioned, it's Pietro Masera, and I'm here with Andrea Mignanelli CEO, Giovanni Sartor, CFO, as well as Emanuele Bona, who will be taking over the role of CFO starting from the 1st of August. Purpose of today's call is to provide you with an update on Cerved's H1 results until 30th of June 2020.

And at this point, I'll leave the word to Andrea Mignanelli.

ANDREA MIGNANELLI: Thank you, Pietro. Before I kick off with the Q1 results, I'd like to take a few minutes with regards to Giovanni Sartor and Emanuele Bona. Firstly, I'd like to thank Giovanni for his great work and dedication to Cerved since 2009. He took on the role of being the first CFO of the new Cerved, which emerged under the ownership of Bain Capital and…which we kick-off with the merger of Lince. So Giovanni has really seen it all. He's an integral part of our success story. Thank you very much. We hope that you enjoy the next stage of your career.

GIOVANNI SARTOR: Thank you so much.

ANDREA MIGNANELLI: And I'd like also now to briefly introduce EMANUELE BONA, who was previously CFO at Banca Farmafactoring, which actually shares the number of similarities with Cerved in terms of private equity ownership and resilient business model, hopefully for you guys as well.

Emanuele has a great CV, having worked with the best firms in consulting, banking and private equity. We are quite enthusiastic to have him on-board. Today, his participation is mainly to formally introduce him to our investors and analysts. So any tough questions you raise today will be addressed by Giovanni. In any event, if any of you wish to get in touch, please send myself or Pietro an email, we can arrange an introduction to Emanuele.

So now, Emanuele, up to you for an introduction.

EMANUELE BONA: Thank you, Andrea, and good afternoon, everybody. I'm not going to take your time now, but I'm very excited to be here. And I am looking forward to working with all of you in the near future. Thank you.

ANDREA MIGNANELLI: Well, thank you. Thank you. So let me now focus on the H1 results on Slide #3, which we just published this afternoon. The consolidated result show a decline, both in revenues and EBITDA and this reflects the full lockdown of the Italian economy from early March to the end of May, so impacting more than half of the first semester.

Frankly, I think that the business held up quite well. This has been a one of a kind shock on the economy and on the business and it's really not comparable to prior downturns. I confess that during the toughest moments of the lockdown, I saw that things could have gotten worst. Remember that Italy had one of the toughest and longest lockdowns globally and that the Italian economy is more fragile than others.

However, we confirm our resiliency and many portions of our business held up quite well, even during the lockdown. And we began to recover at the end of May when the lockdown measures were eased. The bank's risk management segment actually grew, as well as, growth services. Thanks to the consolidation of MBS Consulting, whereas the Credit Management division suffered the most.

In summary, the headline of the financial results are the following. Revenues declined only by 2.6% on a reported basis or 8.6% on an organic basis.

Adjusted EBITDA declined more…10.5% due to our high operating leverage, which translates into minus 14.1% on an organic basis. Operating cash flow was actually extremely resilient, declined by only 2.8%, in part reflecting a recovery from last year in January and February.

Adjusted net income declined by 10.9% after deducting minority interest and leverage increased a bit to 2.7 times EBITDA. Recall that this is calculated on last 12 months EBITDA, including M&A for the last 12 months.

Let's now look into the other key messages we are giving to the market on the business. COVID-19, as we worked on the presentation, as you can see, Cerved demonstrated its resiliency during the lockdown, particularly on Q1…on Q2, and the current situation warrants for an improvement in H2 in Italy, although further lockdowns cannot be ruled out and the long term impact on the company and the economy are still difficult to predict.

I think that this statement is extremely clear, also considering that we are currently suspending our guidance. But clearly happy to answer any questions you may have during the Q&A session.

Refinancing, we had already announced the refinancing in our Q1 call. However, I just wanted to also indicate that we successfully entered into an interest swap agreement on all the new debt. The final result is that we block the EURIBOR at minus 8 bps for the next 5 years, and this negative spread is then added to the applicable margin. So in turn, it depends on leverage.

We are assuming constant leverage, and the current debt package costs less than the prior ones, despite having extended maturity. And recall also that we increased the RCF from €100 million to €150 million, and we maintain the event of default leverage covenant at 4.5 times EBITDA. So in summary, very safe package with plenty of flexibility for M&A or other investments.

Last but not least, financial outlook. With our F1…full year results we suspended our guidance due to the uncertainty of the impact of COVID-19 on business and society, the economy and our future results. So the situation has not changed since the Q1 results, hence our guidance remains suspended.

As already mentioned in our Q1 call, we are, however, expecting to hold our third 'Investor Day' in the latter part of the year. Hopefully, by then, the situation will have normalized, and it will be possible to provide investors with medium to long term forecast for the business.

Now, let me move to Slide 5 to put things into context, I give you some flavor of, let's say, macro highlights. Regarding third-party data, GDP, as you can see on the top left of the page, fell 5.4% in Q1. Q2 will be much worse. And leading think tanks see this full year GDP falling anywhere between minus 8% and 12%.

Industrial production plummeted [ph] in April and May, but has since rebounded, even though we remain still below the pre-COVID levels. And guaranteed loans exceeded 800,000 requests for about €55 billion of new lending. This is clearly related to government initiatives, and you will see this generating new business opportunity for us later in the document.

Regarding our proprietary data on the bottom side of the page; revenue trends for Italian companies show a double-digit decline in 2020 and then a strong recovery in 2021, but 2021 will still be a few percentage points below 2019 levels.

Liquidity shortage, we estimate that Italian companies will have a total shortage, which may well exceed €100 billion in 2020 under a second wave scenario. A very high amount, but well below the government initiatives, which have a nominal value of €400 billion in total.

And when it comes to COVID-19 impacts, this is the output of our model, which estimates how the Cerved Group score changes for all Italian companies based on our proprietary database. So in the chart we have provided on the bottom right of the page, you see the ratings in pre-COVID scenario and as well and how they change in a soft and a hard scenario. You can see clearly there is an increase in the number of risky companies in this scenario. It's almost doubling under the COVID hard scenario from 10% to 20%.

As you can see, we have a lot of proprietary data around the COVID-19 phenomenon. This is helping us to generate new source of revenues, packaging this data in a number of products, both for corporates and banks.

Now let's move to Page 7 of this business review, which provides our customary view of the results of the quarter broken down by business units. Risk Management shows diversified impact from the COVID emergency, where the financial institutions segment actually managed to grow, whereas corporates suffered from the lock down.

Financial institutions, frankly, did better than expected. We always knew that the business information segment is extremely resilient, given that its mission critical for the banks and that we have a lot of long term and flat fee contracts. However, we are concerned about the decline in the real estate segment, as I mentioned to you over the previous call, given that a lot of the appraisal business is contingent on individual requesting mortgages.

The good and unexpected news was on the liquidity decree approved by the Italian government, led to…which led to a boost in new lending. So up to mid-July, there were about 860,000 requests for €55 billion, as I said before.

So clearly, neither the government nor the banks were equipped to deal with the tsunami of new filing, and we were able to quickly position ourselves as a supplier. And this led to an upside, which more than compensated for the decline in real estate. So in very rough terms, the extra revenues from the liquidity decree compensated for the lower real estate revenues.

Corporates were instead much more directly impacted by the lockdown, which made it difficult to visit corporate clients, and which in turn, negatively impacted both the sales of new points, as well as, the consumption of existing points. We have tried to readapt quickly, switching to our go-to-market from physical visits to online visits, but also launching a host of new COVID-19 related products. Still, we suffered a decline in revenues.

Since the end of May, the situation has been gradually improving, but we still have a way to go. As anticipated earlier, we did manage to sell the new COVID-related products to customers. Our COVID impact assessment product, which provides corporates an assessment on the impact of the COVID crisis to their credit quality of the clients, generated about €4 million revenue so far.

In terms of EBITDA, we see a decline a bit more than revenues due to the high operating leverage. The risk management clearly has a lot of fixed costs. Although, we have been quite effective in cutting variable costs, when applicable, such as field agents, commission and real estate costs as well as any other discretionary costs we could manage.

Now, let's look into growth services. Here, we have a great headline results with revenues increasing 71%, and EBITDA 103%, although absolute numbers are still quite small. And this is largely attributable to the first time consolidation of MBS Consulting, which you recall we acquired in August '19. The results were positive also on a pro forma basis with organic growth of MBS Consulting, the artificial intelligence segment with Atoka and also with the legacy Marketing Solutions activities.

Last but not least, Credit Management. This was the division which has suffered the most, particularly in Q2 with headline revenues falling by 25%. And this was largely anticipated, both due to the lockdown and also due to the early termination of the MPS servicing agreement, as we told you almost a year ago. It was July '19 when this occurred.

Now regarding MPS, the early termination of our contracts to service future NPL was announced last July, say with the impact we expected to hit in early 2020. This effectively took place in the second quarter of 2020, after MPS took back about €5 billion of NPLs at the end of last year. Now the impact of the termination is quite material, recall that last year, we indicated about €7 million, €8 million of EBITDA on a yearly basis, hence revenue a bit below €20 million.

Consequently, if we exclude the MPS early termination, the pro forma results actually show a minor decline compared to the reported result. So that's why we say that on a like-for-like basis, excluding MPS, revenues would have declined low single-digits and EBITDA would have declined low double-digits.

Now, let's focus on the…about 60% of business, which is related to the collection of NPLs and which is largely dependent upon the Italian court system, which unfortunately shut down from early March until May. The good news here is that June was actually quite a strong month, let's say, roughly in line with the normal pre-COVID performance. And that also July is doing fairly well adjusting for seasonality. July is typically weaker than June.

Overall, the situation is evolving in a positive manner. Even though we have...we expect a negative impact on collection rates in the short term, we also expect the crisis to create a wave of new NPL in the longer term.

A recent study from PwC reports that consensus expect about €60 billion to €100 billion of new NPEs in the next 18 months. Cerved is doing its own analysis with the Italian Banking Association and as soon as we have estimates, we'll publish them as usual.

Now, finally let me close the section on the Credit Management with the other 40% of the business, which is receivable, performing assets and Greece. All the businesses did quite well and in particular, the receivables segments and Greece. The receivables segment, in particular, is benefiting from the bulk of unpaid receivables. And as we mentioned a number of times in the past, there is an important cross-selling synergy between the risk management, which is about...which has about 50,000 SME clients and the Credit Management, which has only less than 2,000 clients.

Now, let's go to Page 8, 9 and 10 for the division analysis. And you can read through them for the...in the interest of time, I'll skip through. And I'll be happy to take questions on some of these pages, if you want to, at the end of the call.

And I also hand it over to Giovanni for the financial section.

GIOVANNI SARTOR: Good afternoon, and thanks, Andrea. Moving on to Slide 13, let's take a brief look at the income statement. As we highlighted in the executive summary, the adjusted net profit decreased by 14% [ph] versus last year, which equates to 11% after minorities, given that we have been consolidating 100% of the Juliet platform since February.

Other points worthy of mention are; first, the negative adjustment in order to reduce the valuation of the long term incentive plan, given that it's now less likely to reach the vesting targets. The nonrecurring financing fees which includes about €8 million of upfront management fees, roughly 1%

of the nominal amount of the debt, coupled with about €6.5 million for the negative mark-to-market of the old IRS agreement, which was terminated.

Finally, the reduction on the purchase price allocation value for PayClick and Marketing Solutions, but vice versa, we evaluated the call option for MBS and ProWeb Consulting giving a profit.

Slide 17, provides our customary breakdown on the net working capital. As you can immediately see, net working capital increased by...increased to 19.5% of revenues pro forma, reflecting acquisition on the LTM basis. These values reflects 2 main factors.

The first regards a different perimeter, given that last year H1 results didn't include neither MBS Consulting nor Euro Legal Services, and both companies have a relevant amount of working capital. Clearly, this increase was already reflected in prior year and first quarter. In fact, Q1 2020 net working capital was 21% of the LTM revenues, which is not dissimilar for the 19.5% in Q2.

The other aspect, regards the impact of the COVID crisis on our client base which is evidentially leading to a higher DSO as an effect of the financial difficulties and uncertainty, as well as, a longer time frame for issuing invoices.

Most of the delay regard the SME client base, which typically has more difficulties in accessing capital during financial crisis. This situation is evolving. In the next few months, we'll be able to understand if and when we can recover this extra layer of working capital, although it depends on the shape of the recovery and the state of the economy at that time.

Keeping on to Slide 15, the operating cash flow was actually quite resilient with a decline of only 2.8%, also because we benefited from particularly high collection level in January and February and this was due to the high level of revenues in H2 2019, which converted into cash in the first month of this year.

But as you can see, the OCF also benefited from the lower level of CAPEX and also from less cash outflow related to other changes in assets and liabilities, mainly due to timing differences regarding VAT.

Last but not least, and moving to Slide 16, financial indebtedness, as of June 30, 2020 was 2.7 times the EBITDA compared to 2.4 at the end of the Q1 based on the LTM EBITDA with...which on a pro forma basis also includes the full P&L impact of the closed deals. We already discussed the refinancing.

So I now hand it back to Andrea for an update on the COVID-19 emergency.

ANDREA MIGNANELLI: Thank you, Giovanni. Slides 18 and 19 show some more color on the underlying macro situation, and Slides 22 and 23 provide a lot of color into how Cerved has organized itself with respect to the COVID-19 emergency. How the business units are being impacted and how we are acting to protect the bottom line.

So let me briefly move through each of these slides. On Slide 18, we show how Italy as...was an early mover in terms of getting hit by the coronavirus, the COVID-19 virus, but has also been quite successful in containing the epidemic. Now, fingers crossed, if things stay this way, the probability of a second wave will remain very low. We also show how

Italy has rebounded quite quickly based on Bloomberg's activity index, which contemplates a variety of economic indicators.

On Slide 19, we provide some additional data on bank lending and NPEs, nonperforming exposures. The chart on the left shows the development of banks lending to corporate and the spike in the last few months, thanks to the liquidity decree, which has a nominal firepower for about €400 billion. We also provide some additional data on NPEs and quote activity, and in particular, we cite the PwC research whereby consensus estimate some €60 billion to €100 billion of new NPEs in the next 18 months.

Now, Slide 21 to 23, are essentially an update on what we presented with the Q1 call. And the actions we are taking and the impacts on the business are aligned to what we already briefly discussed so far on this call.

So I think, we are covered with the entire presentation now. Thank you very much for your attention, and I leave it to the Q&A session.

Q&A

OPERATOR: Excuse me. This is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*"and "1"on their touchtone telephone, to remove 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 Jewel Varughese of HSBC. Please go ahead.

JEWEL VARUGHESE: Hi, good afternoon gents. Jewel Varughese from HSBC on behalf of Rajesh Kumar. Thanks for taking our questions. So 3 from us; do you still think that the new products targeting customers and growth would be realistic in 2021 and/or would it be more realistic towards...or would it be possible in the second half of 2020? Further on this, how much more investment do you think would be required for it to be commercialized? And the third from us would be, could you give us a bit of color on the capital allocation for Credit Management business? Is the disposal still under consideration? Thank you.

ANDREA MIGNANELLI: Yes. You're welcome. So can you just go...repeat the number...the first question, because I...did you ask about when we'll be issuing the guidance…the Investment Day...

JEWEL VARUGHESE: No. It's about...do you still think that the products targeting customers and growth would be realistic in 2021 or do you think that it can happen even in the later part of this year…new products.

ANDREA MIGNANELLI: Let's say that we decided overall in the company to control our running cost as much as possible, especially labor costs. But we kept CAPEX going and investment going, because we believe that the nature of our business is such that we will actually come out of the crisis fairly well, given the fact that we provide data and metrics and scoring to the entire system in Italy to manage growth and manage risk. So we think it's important that we keep investing and that's why the investment policy has not changed.

What we did? We did a very thorough assessment of our capital budget to make sure that the priority of our investments were adapted to the current situation. But we did not materially lower our investment budget on all products. So we expect products…new products to come live at the same...with the same path that we forecast before. Actually, as a matter of fact, I'm very glad that I can say that in a few days for instance, during the early days of the crisis in early March and April, we were able to produce new reports for...as I...which I mentioned during the con call, COVID impact assessment, which has hit the market in less than 3 weeks and was very, very useful and you know, we were able to sell quite a few of them because a number of clients wanted to buy these products to get enough self-assessment of how they were doing compared to their peers, their sectors and their industry.

In terms of capital allocation for Credit Management, as I said before, we always have these 2 possible pathways on Credit Management, which was you know, one way was the potential sale or the other way was...keep investing in the company in order to grow it to a point where we can potentially spin it off. And given the fact that I do not believe there is an option now for us to sell it for cash. We rather keep investing, as we always did in the past, to keep growing possibly at the same pace we did in the past, maybe not as much as we did in the past, but still at a very good pace. So that the company can grow and benefit also from the current situation, which has changed quite significantly compared to 3 months ago. So we are fully committed to our Credit Management division, as we've always been in the past.

JEWEL VARUGHESE: Okay, that’s helpful. Thank you.

ANDREA MIGNANELLI: You're welcome.

OPERATOR: The next question is from Philip Hawkins [ph] of 2R Capital Investments Management. Please go ahead.

PHILIP HAWKINS: Good afternoon. Thank you for the presentation, and thank you for taking my questions. I've got two questions. First of all, on the patent box, I just wanted to see if you can provide us with some information on whether the application has been approved? And if it has, what sort of...to what extent would you expect the benefit...tax benefit in the next 5 years? And secondly, I'd like to know for the activities of the Credit Management business, to what extent do you think you'll be able to catch up on the missed credit collection activities in the lockdown in the coming months? Thank you.

ANDREA MIGNANELLI: Yes, on patent box, I leave it to Giovanni.

GIOVANNI SARTOR: We applied for the second wave of patent box last December. We are now waiting the tax authority to call us in order to review the file. According to our consultant, there is no risk at all that the patent box wouldn't be approved. So we wait, you know that the official offices in Italy, the public offices in Italy has been closed down for months during the lockdown and probably they have some delays about that. But we are rather confident that also the second wave will be approved soon, and it will last for the next 5 years.

ANDREA MIGNANELLI: Regarding the Credit Management, we had 2 very tough months in April and May, as I say, due to the fact that courts were closed in Italy and in June, as soon as they opened up, things went well. Now, it's a fact that collections are linked to liquidity and GDP. So the fact that we expect a fall in GDP in the next year will definitely impact on collections of the banking loans. But still, remember that our P&L, it's made for about 60% of banking NPL collection and for 40% other businesses, such as receivable collections, which have a quite different dynamic compared to bank NPLs and other businesses, which are actually paid on, let's say, activity based, such as asset management, legal service, credit operations and real estate. So yes, I still think 2020 is going to be pretty tough for us and for the industry on Credit Management, possibly 2021 showing some improvements.

PHILIP HAWKINS: Thank you.

ANDREA MIGNANELLI: You're welcome.

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

ANDREAS MARKOU: Hi, everyone. Thanks very much for taking my questions, and congratulation on good set of results. I have two questions. The first one is on the Credit Management division, which seems to be a popular question today. So maybe you can comment a little bit on strategy, how you would view a potential merger with another player in Italy? And I understand you're looking at a couple of things in Greece, if you can say anything on that?

And the second question is a bit more on the outlook, not just for FY '20, but for FY '21 as well. So some of your more kind of cyclical exposed businesses like MBS or the Marketing division and the Real Estate division, we haven't seen a big impact in Q2, but how are the next couple of quarters looking for you for these businesses? And also regarding the sale of point in the Claim Information Corporate segment? Thank you.

ANDREA MIGNANELLI: Yes. Okay. Claim Management, as I stated sometimes in the past, our strategy...If we go through the path of growing the company, we have 2 main strategic goals. One is to evolve our model, so far has proven to be very effective, the fact that we were an independent service platform. I think in the future, given the context of the Italian competitive landscape would be a good idea for us to be equipped with some sort of funding also to buy NPLs, definitely not with our balance sheet, but possibly raising money from third parties to be able to buy NPLs. So everything that will help us to reach this goal could be interesting for us in terms of joint venture or merger or anything else. So that's definitely something we are looking at.

And the second one, international expansion as well, I think it's a...I think, is a strategic goal for us. We already have a presence…a minor presence in Greece and Romania. And we know the country, especially Greece, which has a very large amount of NPLs. So we definitely want to grow there. There are transactions on the way in Greece, and we'll be active on the market as we should be. And I can't say, obviously, at this stage, more than that.

In terms of the more cyclical businesses, I believe that, yes, we do have some businesses which are quite cyclical, although they do not account for such a huge amount of our total revenues. But definitely, real estate services is the one that may suffer…if the real estate market effectively declines, which it's not clear it's going to happen to be honest. It's very difficult to predict the evolution of the crisis in a country like Italy, because of the magnitude of this crisis, but there could be...there is a certain line of thinking where the real estate market, it becomes sort of a safe haven for investments and for families. And so, may not decline as much as in other situations. And so real estate may suffer, but not as much as you could predict by looking at the GDP slowdown.

Regarding consulting, we're not worried, because our consulting firm, MBS, is doing very well. Actually is growing still in 2020 compared to 2019, not as much as we would have liked, but it is in a positive turf and because it's not very big. It's quite sophisticated you know, high touch kind of consulting that is not dramatically affected by downturn, actually quite the opposite because they do high quality work, high value-based services, analytics and strategy work. They typically tend to work even in negative situation like this one. So I'm not too worried about, let's say, the so-called cyclical business that we have in our portfolio, given size and specific conditions.

ANDREAS MARKOU: Okay. That's helpful. Maybe you can comment a little bit on the sale of points for the corporate division in credit information?

ANDREA MIGNANELLI: Yes. I'll leave it to Pietro.

PIETRO MASERA: Yes, Andreas. Yes, the sale of…okay, as you know you're a very careful follower of the business. As you know, it's always difficult to balance the sale on one hand, the sale of points and on the other hand, the consumption of points. It's 2 curves which at times cross each other. Let's say, what happened then, and as you saw in terms of revenues, so the consumption of points it was actually minus 12% for the half year with the worst Q2. Interestingly, the sale of points actually held up fairly well. So for the first 6 months of the year, so the sale of prepaid points actually declined for the half year by about 8 percentage points. So it's a bit better than revenues. And that's, I think, a good news in terms of generation of revenues in the future because as we all know, the points have 1 year validity.

ANDREAS MARKOU: Okay. Thank you very much.

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

SIMONETTA CHIRIOTTI: Hi. Hello, everybody. A couple of questions from my side, the first is regarding…well, products that are offsetting the decline of other business lines. So this is happening in risk management with the products of...related to the Fondo di Garanzia that is replacing real estate or credit collection which is offsetting the decline in NPL management, which...the question is about the margins of this product. Could you guide us a bit on how this...the profitability of this new product compare with the old product?

And the second question regarding the Credit Management. World press recently reported of various deals in Italy, should we expect a recovery of assets under management in the second half of the year? Do you expect to be involved in some of the deals that have been highlighted by the press recently? Thank you.

ANDREA MIGNANELLI: Yes, regarding products, I think the 2 main products, which actually re-bounced or actually were created in...due to the...during the downturn…during the lockdown, sorry…where this impact...COVID impact assessment for about €4 million revenues sold to corporate clients. And here, the profitability margin, it's quite high and it's credit information business. So online with the other data business.

Regarding instead the €5 million of extra...or new revenues we made on Fondo Centrale di Garanzia, so the state guarantee fund, there is a lower margin, it's more in the range of the…probably 30%-35% EBITDA margin because that is, let's say, a professional business with a lot of human touch, because it's creating files for the application to the Fondo Centrale di Garanzia. So it's a lower margin. That's why even if revenues...total revenues are only 2.6% down, the composition of the product mix has been different and therefore there is overall margin decrease.

In terms of Credit Management, yes, there is quite a lot going on. But in my experience, at the beginning of the crisis, things don't move too much because you know, investors are waiting for...to see how it goes and they typically like to wait for the dust to settle before making large investments and also banks and sellers are typically more focused on other contingent problems. So I don't expect a lot of volumes trading in the second half of the year. But I do expect that number to increase quite significantly in the next 18 to 24 months because of the new formation of NPEs and the more attention that investors and sellers will give to this asset class.

SIMONETTA CHIRIOTTI: Thank you.

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

ANDREA LISI: Hi, guys and thank you for the call. Several questions from my side; the first one is on the sale of points, you have provided some data on the first half. I want to ask you if you can...you have available the data as of June or as of the first evidence of July in terms of comparison versus the previous year in order to understand how the recovery in terms of sales of point is going on?

The second question is on the fact that you have said that the sales for the Fondo Centrale di Garanzia were able to offset the revenues coming from real estate. But obviously, what...I mean, that the revenues linked to the Fondo Centrale di Garanzia will expire soon or was something related to this quarter or maybe also the next? What...I would appreciate if you can comment on this. So if it is in some ways possible to convert these one-off revenues into something that could last longer.

Then a point is...I want to focus more is on the DSO. You have said that they increased, especially on the SMEs. And I want to ask you, what is your expectation of defaults of your customers, and so which could be the potential maximum impact that we can see? And yes…no, the last one was already answered. Thank you.

ANDREA MIGNANELLI: Yes, and on points, again...

PIETRO MASERA: Yes, the points Andrea, the sale of points in the first half of this year was minus 8% compared to last year, okay. And that's until the 30th of June. We don't have the July figures yet. And right now, it's, I guess, difficult to expect to see how things are going to perform. Even though it is fair to say that it should be better than that because remember that Q1 had March with full lockdown. And Q2 had April and May. So let's say, it makes sense to think that you know, things should be better in the second half of the year, but we can't really quantify this right now.

ANDREA MIGNANELLI: When it comes to the Fondo Centrale di Garanzia, so the state guarantee fund…yes, definitely, it was a boom due to the contingent situation. But I think this will last for quite a long time. There's been a huge wave of the small filing below €25,000 and now there is a surge in the...also in the filing for larger loans, above €25,000. Also, when you do the filing, then you typically sell as a product also the monitoring all the time of these files. So there would be sort of a long tail of revenues attached to this service. And I expect, to be honest, that the expertise we got in filing this activity will actually open up for potential opportunities with the same clients or filing other...or managing other type of files.

So it was a first-time for...quite the first time that many banks actually outsourced the filing of credits to somebody because it couldn't possibly cope with the amount. And once you do it once and it works, then you realize that you can actually do it again. So I cannot quantify because I don't know whether this facility would be extended for how long in the future or in other fashions in the future. But definitely, it opens up finally a new wave of services that we can offer to banks.

Now going to SME defaults in our client base. Fortunately, our exposure to SME clients...remember, we have about 10,000, 15,000 SME clients. Fortunately, by nature, our clients are less exposed to risky sectors...to the most risky sectors, because we do not serve clients in the…for instance, transportation or in tourist or in retail because they typically use less of our data. So let's say, overall, our client base is less risky than the country client base.

But let me turn it over to Giovanni to comment on our working capital and DSO on our SME clients.

GIOVANNI SARTOR: As regards the expectation of default, yes, we had...we provisioned at the end of June, €1.5 million more in terms of bad debt provision, you know, but so far, we have...what we have seen is length...a request from the customer of lengthening their receivables…the DSO. Finally, we have seen an increase in this request. And so, we agreed with the customers. So instead of having been paid at the due date, you know, we now grant to the customers to pay in several installments, 6 or 12 installments. This you know, so far, we have not seen an increase in bankruptcy of Chapter 11. So we are quite confident that the wave, you know, the layer of working capital, as I said before, could be recovered in the second part of the year. So we do not expect nothing dramatic...anything dramatic, absolutely. Even if you know, according to our accounting principle, we have a provision, as I said, an additional €1.5 million in terms of bad debt because the increase of DSO in the corporate segment. The other side…the bank sector didn't have any impact. So they continue to pay as they paid in the past.

ANDREA LISI: Thank you very much. A quick follow-up, if I may. Just a point on the consolidation in the banking business, I want to ask you if you can tell us approximately, which could be the impact on your business from the merger between Intesa and UBI?

PIETRO MASERA: Yes. Hi, Andrea, it's Pietro. This is a question which has been asked for a number of times by investors. Currently, the total amount of revenues between Cerved and UBI Banca is about €2.5 million, roughly, you can split it 3 ways. There's a bit of real estate, there's a bit of business information and there's also a bit of ratings. What we've seen in the past and that in mergers of this type, given client overlap or overlap of services, typically we might lose maybe 30% of total revenues. Even though what we observed much more recently...and 30% was an old proxy. What we've observed more recently is that when Veneto Banca and Banca Vicenza were merged into Intesa, there was more of a short term impact, but then after 1 or 2 years, we managed to return to the pre-merger levels because effectively, the merged banks were less sophisticated than Banca Intesa, and Banca Intesa actually has more expenditure for each branch. So let's say, there might be some reduction. If you want to exaggerate, it's a million of less revenues but we think that we should get back to positive territory after 1 or 2 years. So in any case not a big effect.

ANDREA LISI: Pietro, thank you.

OPERATOR: As a reminder if you wish to register for a question, please press "*" and "1" on your telephone. For any further questions, please press "*" and "1" on your telephone. The next question is from Michele Baldelli of Exane BNP Paribas. Please go ahead.

MICHELE BALDELLI: Good afternoon to everybody. I have one question and curiosity concerning the Credit Management division. When you speak about funding requirement, what kind of, let's say, funding requirements would you need to exploit this opportunity to stay in that business competitively? Would you look to buy all the NPLs or just participate with a minority stake with your partners when they buy NPLs? Can you a little bit elaborate on this, please?

ANDREA MIGNANELLI: Sure. Thank you for the question, because I want to make it very clear that we are not expecting to actually participate to investments with our balance sheet, but what I was saying is that in the past, we were acting as an independent servicing platform. Therefore, on a deal-by-deal basis we were paired with investors to help them in assessing and buying and then servicing portfolios. In the future, I believe that what could make it more effective for us, from a competitive standpoint, will be to have access to capital on a more regular basis that we could you know, deploy as an asset manager into portfolios. That will mean becoming able to manage third party money to invest in portfolios, not our own money. That's what I will say.

So I don't expect a financial investment from Cerved standpoint. But I do expect to strike an alliance or an agreement or a joint venture or merge or any kind of other possible structure, whereby we partner with an investor so that we can have more, like I'd say, natural and organic access to capital to buy NPLs.

MICHELE BALDELLI: And just as a follow-up on this, given that there is a new joiner from Banca Farmafactoring and Banca Farmafactoring expanded a little bit, let's say capability of getting funding. Would you consider anything with them as a possibility?

ANDREA MIGNANELLI: But...let me...since you had…give the chance to Emanuele to...

EMANUELE BONA: Banca Farmafactoring does not invest in NPLs, so they do it...

MICHELE BALDELLI: No, but I was just dreaming about it.

ANDREA MIGNANELLI: Would be…would be a primer for us and for them, so you know, complicate…too complicate.

MICHELE BALDELLI: Okay. Thank you.

ANDREA MIGNANELLI: You're welcome.

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

ANDREA MIGNANELLI: No, nothing special. Thank you all for your attention. As you know, our virtual door is always open. So anytime you want to ask, please reach out to Pietro or Emanuele or myself. So thank you again, and have a great summer, hopefully, and safe summer. We'll speak next, you know, after summer. Thank you very much.