Cerved Group S.p.A.

"Results as of 30th September 2018 - Conference Call"

Monday, October 29, 2018, 18:00 CET

MODERATORS: GIANANDREA DE BERNARDIS, CHIEF EXECUTIVE OFFICER

GIOVANNI SARTOR, CHIEF FINANCIAL OFFICER

ANDREA MIGNANELLI, CHIEF EXECUTIVE OFFICER, CERVED CREDIT MANAGEMENT GROUP

PIETRO MASERA, HEAD OF CORPORATE DEVELOPMENT AND INVESTOR RELATIONS

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Cerved Group Results to the [ph] 1st of September 2018 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, Head of Corporate Development and Investor Relations. Please go ahead, sir.

PIETRO MASERA: Hi, thank you very much. Thanks everyone for joining the call today. I am Pietro Masera speaking, Head of M&A and IR for the Cerved Group. And I am here with Gianandrea De Bernardis, CEO, Giovanni Sartor, CFO and also Andrea Mignanelli, who heads the Cerved Credit Management Division. The purpose of the call today is to provide you with an update of Cerved's results up to 30th September 2018.

And at this point, I'll leave the word to Gianandrea De Bernardis.

GIANANDREA DE BERNARDIS: Okay, thank you very much Pietro. Good afternoon everyone and welcome again to our conference call. Very happy to be back on board with the CEO role after over two years and even if as you can imagine, it was a bit unexpected. And before starting, I wish best of luck to Marco for his new adventure. But now, let's concentrate on the business which obviously is most important.

So before entering into the executive summary, I would like you to reiterate service, key investment pillars which as many of you recall are very consistent with what we have said at the time of the IPO. There were actually resiliency, growth and cash flow, and I will also take the opportunity to dispel recent concerns which had been emerging.

So first talking about resiliency, this business is resilient, because enjoys an ideal mix of pro-cyclical, anti-cyclical, and a-cyclical elements in the three different divisions and also within them. So we are not excessively concerned with the current political situation, as far as, Cerved is concerned, and it starts to identify direct negative impact on the company. Actually this consideration will be a bit different as individuals, but obviously this is not the context.

We are also not too concerned with the change of CEO, obviously not because of any valuation on myself, but the…this continuity is not expected to materially impact the business. Negative sentiment on Italy is actually leading to less competition in certain areas, but the NPL servicing and M&A and this is for us positive overall.

The second pillar is growth, because we have grown revenue and EBITDA consistently over the last decade, we see no reason for this to change in the future, and this growth is in line with what we told you in our Investor Day Strategic outlook until 2020, which we are confirming now, which by the way is substantially identical to the outlook that we published in 2016, and I presented to you.

So corporate credit info is on the verge of implementing a step change project which would unify credit info and credit collection products and services, and will only create competitive advantage, but also drive growth in the medium term and we would talk about this later in the presentation.

And finally, I also want to dispel any concern that are the credit management division becoming escrowed in a few years. Andrea Mignanelli that is here with us today will reaffirm this shortly, giving you visibility of the already contracted future inflows.

The third pillar is the cash flow, because we as you very well know have almost 50% margins and limited CAPEX and return interest expenses in this business. So we produce large amount of cash which we can give back to investors or reinvest in the business. The leverage is currently about 2.7 times EBITDA, so we have a lot of optionality and flexibility going forward, and in fact we are proceeding with you know, the buyback and to date we have acquired about 13 [ph] million of our shares. M&A also is very busy as usual, and we can finance large deals exclusively with debt facilities and cash.

At this point after…I am sorry this is long, but I think it was necessary introduction. I will start with the executive summary on Page #3. First, macro highlights. We view with some concern that Italian government approached over the budget law is not proceeding in a proactive manner with Brussels.

Our concern is more for the country, as I was saying in the market than for Cerved itself as I just stated. And so, also as I just reminded fortunately that Cerved trajectory has little or no co-relation with the Italian macro and political situation. And we will return to this point later in the presentation.

Second nine month results continue to show organic growth rates, by far the highest in Cerved's history, both in terms of revenues and adjusted EBITDA. Thanks mainly to the evolution of Credit Management Division that is driving our growth. In the first nine months this year, revenue growth was 12.1%, of which 9% organic by far the highest so far, and also adjusted EBITDA growth was in a 10.1% of which 6.8% organic, once again the highest in our history.

Note that, when I referred to organic growth in 2018, I referred to all of our growth net off, the recently acquired Banca Popolare di Bari platform, and also the economics from the future flow of NPLs from the acquired Juliet platform.

Moving to operating cash flow, it grew by 8.9% recovering from a less favorable situation showed in the first semester, while the adjusted net income increased by 5.3%, despite higher cost rising from taxation and the accruals from the long term incentive plan, and we covered this during our last call on H1.

Leverage remains stable at 2.7 times EBITDA in Q3 on a pro forma basis for the last 12 months obviously, including M&A, so we are still well below our three times EBITDA target and this level also include €5 million cash out for the buyback program at the end of September. When it referred to the €30 million it was till now…so till the end of September it was €5 million cash out for the buyback.

Third a few other point, which I wish to discuss upfront. First, the buyback that was approved by the Board of Directors in the context of H1 results and, you know, as I said previously as of 30th of September we have acquired shares for a value of 5 million increased to 30 million as of last Friday. I remind you that the maximum amount that we are allowed to spend is 30 million, and we expect to terminate the program by next January or February next year, and Giovanni anyway will touch this again in the presentation further on.

Second is M&A, we have closed the acquisition of a 60% stake in Pro Web Consulting on October the 18th, and I really think this is a great company which will fall under the perimeter of the Marketing Solution Division and this is actually digital marketing. Again, on M&A, we continue to have an interesting pipeline and we hope to close a few more deals ahead of the end of this year.

Okay, so moving to Page 4, after this brief introduction of the nine months results, it's now I think important to talk about the changes in the management and about the strategic outlook in the short and medium time. With reference to Marco, I confirm that he has accepted an offer as CEO in a buyout company…so the best company as already anticipated to you in our last call of, you know, October the 10th. So I would wish to Marco the best, thanks for the excellent work done in the last few years also on behalf of the Board of Directors and of our Company in general.

We reference to myself, I've been CEO of this company from 2009 to May 2016 and the Board of Directors has conferred to me all the powers attributed to Marco Nespolo before on October the 10th. Anyway the current Board of Director will terminate in April with the approval of the financial statements 2018, and Cerved shareholders will vote upon a new Board of Directors. The current Board of Directors had given mandate to an external consultant to identify and select a slate of suitable candidates for the Board…for the future Board and such list will also include the CEO.

So moving on Cerved financial target, full year 2018 target EBITDA at this stage is expected to be pretty much in line or potentially slightly below consensus, but this depends on Q4 as you can see there is a bit of seasonality this year as clearly anticipated in the previous call, mainly of the corporate segments, so Q4 remains for us an important quarter for reaching our full year target.

On the other hand, I once again confirm that we expect no change to our Industrial Plan approved by the Board of Directors in June this year and to the Investor Day strategic outlook as per presentation of June the 25^{th}. That was substantially in line also as we already said with the 2016 Investors Day.

Moving to Page 5, I just want to confirm one of the three pillars of Cerved investor case the resiliency. As you can see since 2008 we have grown more than the Italian economy and with a very good performance in terms of revenue and EBITDA compared to the trend in GDP.

Moving to next page, just a quick look, as you can see nine months 2018 growth rates for revenues and EBITDA are well above our recent history and the rest of the year should to continue to benefit from the full impact of the newly on-boarded portfolio. So it's a great result compared to also to the previous trend.

Moving to Page 7, on macro highlights, you can see the general situation was gradually but steadily improving in the Italian economy as of today. I would say our proprietary data was showing as low but very positive impact on SMEs in terms of payments, default rates, bankruptcies so on and so forth.

So here I just want to highlight that in a considering beyond certainty related to actions of the new government expectations for Italy are worsening and that is obviously reflecting in the major rating agencies outlook for the country. It will be really interesting to monitor this data in the next few months, you know, also how the next steps on the budget law which is been rejected by European Commission will have an effect on and also our analysis and proprietary data.

Next page, Page #9, here you have a snapshot of our divisional results. Before then drilling deeper on each business unit. First, credit information, it shows that total revenues and EBITDA growth of 1.9% and 0.6% respectively for nine months are below our historical trend.

Financial institutions segment continues to grow above 2%, despite impact of bank consolidation and you know the large contract renewals we had at the end of last year. However, the corporate segment grows below 2% year-to-date which is below our full year target, but we focus on this point in a few slides where we are actually are doing a deep dive on this matter.

Marketing solutions continues to perform below also our expectation, both for PayClick and also the Legacy business. We expect to improve our performance in Q4, thanks to a strong level of order entry and also thanks to some changes in the organizational structure of Marketing Solutions, which will also benefits from the consolidation for Web Consulting starting from mid October, that is the company we just you know, closed a few days ago.

Credit management continues to grow at 46%-ish in terms of revenues and at a healthy 72%-ish in terms of EBITDA. Clearly this reflects not only the Banca Popolare di Bari and Juliet deals, according the first half of the year, if I remember correctly March and May respectively, but also the organic impact of the NPLs from Valentine and REV. And also the underlying organic growth of the existing portfolio on top of the ancillary segments and receivable business that are performing very well.

So on a consolidated basis for the whole company the growth was an healthy 12.1% of revenues of which 9% organic best ever and 10.1% on in an EBITDA of which 6.8% organic.

Okay, let's move to next page and you know, and let's look more in depth into each single business unit starting credit information. Financial institution segment grew by 2.3% and this clearly confirms once again our ability to manage contra renewals to minimize the impact from bank consolidation and to more than offset these impacts to continued cross-selling and up-selling.

While corporate segments performance is below our target for the year as a combination of two facts, on one hand the positive performance of the pure sales network and the positive contribution on new product launches. While on the other hand the project phasing delays for large accounts and the IFRS 15 bumpy impact on the different quarters.

Nevertheless, we expect clear improvement in Q4, that will allow us to reach a full year 2018 revenue growth in the low-mid single-digit range. So Q4, as I was saying before is very important for you know, making out the performance in the corporate segment.

I would also take the opportunity to confirm the launch of a new project as already anticipated to you during the Investor Day. I am talking about the project named Darwin 2 [ph] which involve the substantial integration of products and filed salesforce in order to better satisfy the Italian SMEs.

I don't want to go into much details here, regarding this project. I know that you had the chance to look at the project during the Investor Day, but I will always say that this project is expected to generate benefits in terms of revenues for all the three divisions, creating synergies between the different product lines and a greater focus on the customer segments in terms of size and industries.

Regarding EBITDA, the 0.6% growth in the nine months compared to the 1.9% growth in top line does lead to the largely anticipated slight margin dilution due to some continuing mix impact coupled with the tail effect of the upgrade in simple functions. My personal view here is that, you know, going forward there is space for recovering some margin in the credit information segments. We can talk about this later on.

Marketing solutions, next page, Page 11, here we have a summary of our results in marketing solutions and distribution has been quite flattish until now mainly due to the temporary delays in selected projects and despite growth in the backlog generated by the field sales.

As already said we expect an improvement in performance, thanks to a strong level of order entry that we have…already have today in our pocket, the organizational changes and the contribution of Proweb Consulting will actually start to have an impact from October/November.

I will now leave it Andrea that is CEO of Cerved Credit Management Group for an overview of his business. Please Andrea.

ANDREA MIGNANELLI: Thank you, Gianandrea. First of all, I'm happy to comment on the fact that the company successfully managed the largest-ever portfolio on-boarding of the Italian Market, more than €26 billion since January and we have not done yet for the year.

In terms of economics, as already anticipated, we are delivering strong growth both on revenues and EBITDA, 46% and 72% respectively. Most of the change in revenue is coming from organic growth, about 32% year-to-date, and the rest is attributable to the platform deals with Popolare di Bari and Monte dei Paschi di Siena that we call Juliet.

In terms of the other workout engine, the credit collection for SMEs is doing very well. Also Legal services are contributing positively. The only expected negative contribution is from remarketing, so our business of recovering and reselling tools and equipments for leasing companies because of our decision early in the year to limit our trading activity on tools and equipment, but the impact of margin is very limited on this.

Profitability is doing very well. We have more favorable mix towards the banking loans management, which typically has higher margins than the rest of the service lines. And we have been very disciplined in managing the cost of on-boarding so many assets and people. Obviously, a bit of operating leverage helps on this.

Now, if you want to move to the next page, Page 13, as you can see the trend of assets under management growth is quite impressive. What I would like to stress is our large and diversified client base. In the charts, of course, we mentioned only the most significant transaction, but I want to stress the fact that we have more than 1,600 clients, banks, funds…investment funds, consumer finance, and leasing companies, utilities, large corporates, many, many, many SMEs, and public administration as well. So in addition, we are about to sign a very large multi-bank transaction in excess of €1 billion in the next few days, so the pipeline is very robust.

In particular, regarding the Banking Loan business, we are a bit short in revenues, but fully on-track on EBITDA. In particular, revenues are a bit slow due to a combination of factors, but core business is doing better than expected on the existing portfolios, and the forward flow [ph] contracts with MPS is its lagging a bit behind, this is due to a late start of the contracts, almost 2 months compared to March when it was expected, and what I would say a normal ramp-up in operations.

Bear in mind that we had to reallocate thousands of files on thousands of loan managers coming from different…from the bank itself and from the market. We have to open 7 locations and migrate operating policies across different IT systems, so a bit of delay is kind of normal, I would say. I am confident to see a relevant improvement in Q4 and then to go at full force on this contract in 2019.

With this, we have done on this business unit, and I'll leave it to Giovanni Sartor, the CFO, for the sectional financials.

GIOVANNI SARTOR: Thanks, Andrea. Now skip to Page 15, which provides an overview of the income statement prepared under the new IFRS standard as usual. For completeness, in the appendices, we have provided the all the underlined data splitting out quarterly performance of the Group and the main division under the new IFRS together with the unadjusted figures.

Just a couple of areas to focus upon. First, the accrual on the LTIP continued to increase. In Q3, we started accounting the third wave, so that I would expect the total accrual for 2018 will be about €8 million. The final amount will depend upon our share price and 2018 results.

The second one is the adjusted net income that grew by almost 5%, reaching €72 million despite the important LTIP accrual that I have just mentioned.

On Page 16, we have the net working capital according to our customized breakdown. As you can immediately see, I am focusing on September year-to-date, the net working capital as a percentage of revenues was 8.6% and this is clearly based on the new IFRS principles. Unfortunately, we can't provide the corresponding 2017, 9 months figures, which would require restating 2016 revenues, which are not available so far.

In any event, the underlying trends are discussed in the presentation. Receivables grew thanks to the underlying growth in the business, in particular to the Credit Management division, also payable growth, reflecting the underlying growth of the business and continuing optimization of payment terms with suppliers.

Deferred revenues declined due to two facts, the first is the consumption of prepaid points being higher than the sales of the new points. And the second one is a release of a credit management multi-year contract prepaid.

Page 17, we have the operating cash flow that was excellent as mentioned by Gianandrea in Q3, 28% plus than last year, bringing the year-to-date increase versus 2017 at 8.9% to be compared with an EBITDA increase of 10%. This happened despite the current build up of invoices to be issued following the significant ramp-up of the Credit Management division.

It would be very important for us to effectively issue and collect these invoices before 31st of December; otherwise 2018 cash flow will be negatively impacted, but of course, clearly, positively impacting 2019 cash flow.

Page 18, we have the financial investments. As of September, it was year-to-date; it was at two-point times than the EBITDA based on the LTM EBITDA, which on pro forma basis also includes the full profit and loss impact of the closed deals during the year.

The recent increase in net debts, however, is literally explained. Beside the fact already presented in H1 results in Q3, we paid €19 million income taxes; we finalized the purchase of an additional 26% stake in SpazioDati. We acquired Cerved La Scala and we invested almost €5 million in the buyback program. This last continuous schedule and we plan to spend about €30 million by January 2019. So overall, we continue to enjoy a strong financial situation, which is expected to improve during the year, of course, the net of the buyback program and unless we will finalize additional acquisition. At this point, I have completed my presentation.

GIANANDREA DE BERNARDIS: Okay. Thanks Giovanni…thanks to Giovanni. And so before leaving it to Q&A, I would like to conclude our presentation by saying that the overall numbers of Q3 year-to-date are confirming a very strong growth, overall. There are clearly areas that required our intervention and the management commitment going forward. But we are here confirming our targets and putting out all our efforts on reaching them. So, thank you very much for your attention and let's open the Q&A session, please.

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 Simona Sarli with Bank of America. Please go ahead.

SIMONA SARLI: Yes, good evening, gentlemen and thank you very much for taking my questions. First of all, a couple of them on the Credit Management division, could you please provide an update on the future pipeline of NPLs expected come to the market in the next 12 months? Also at the beginning of the call, you mentioned that given the current situation in Italy, you see less competition on the Italian servicing market, can you maybe explain which services have been less aggressive or maybe less active on the Italian markets? And certainly, it's a question on you M&A pipeline. Can you give an update and also during the previous conference calls my understanding was that you were evaluating a couple of slightly larger deals in Italy, and that potentially they could have been announced before year-end, so if it is still the case? Thanks.

GIANANDREA DE BERNARDIS: Okay. Thank you, Simona. For the first question, I will leave it Andrea. We are very happy he is here, so I think he can give you more details.

ANDREA MIGNANELLI: Yes, sure. In terms of growth, first I would like to point out that obviously the sale of NPL from banks is one engine of growth for us, but it is not the only one. I just want to be very clear in this. We obviously rely a lot on banking NPLs and the fact that we grew so much in this area it speaks for itself, but also we believe that our future growth will come from the opportunity in the SME business, and as Gianandrea explained we are in the process of merging our sales network just to give you a sense. Currently, we are serving about 1,500 SMEs and the full potential of this market once we merge the revenue…the sales network is about 15,000 clients so there is a huge potential there.

Also beside the two workout engines, banking loans and SME collection, we have two ancillary services which are very important to us, legal services and real estate management. In legal service, we have made a joint venture with LaScala and we created the largest legal servicing platform in Italy with a you know, total revenues in excess of €30 million at the moment, but we are tapping an opportunity, where I see a market with consolidated revenues for about €300 million, which currently are very fragmented into thousands and thousands of small lawyers [ph]. So that's a very interesting area for us, as well as, real estate. As you all, Italy is an asset based lending country, about 80% of collection comes from the management of real estate so being active in the management of the underlying collateral is crucial for us, and this is another area that I see very favorable in the future.

Last but not least, I would mention to other possible areas of growth for us, one is the public administration; we serve it currently very marginally. We have only, you know, about 10-15 clients in the public administration. I think we can do much better than that, and also as I mentioned before, we are working to expand our reach in Greece and Romania where we are have a presence.

Having said that, going back to your specific question on asset. Currently, if you make a simple estimate and you assume that Italy wants to reach the very same NPL ratio of the average of European country which is a bit low than 4%, Italian banks will need to offload another €97 billion of assets. So I am not sure that the bank…Italian banks can afford to reach that NPL ratio in the near future but anywhere between that number…the current number which is about 10%, and the future number which is 4% will be somewhere between zero and €97 billion of assets. So a huge amount, and this is not counting the UTPs which as, you know, it is the next big thing in the market.

Currently, we are managing 2 billion of our unlikely-to-pay assets across six different clients. So we are already there. It is just a matter of helping the bank to start the process of selling and outsourcing the management of this very complex asset class, but we are already there with a €2 billion of assets out of our €52 billion in total.

Now, going back to the last part of your question which is how complex is the market. I would say that there are two markets, one is for banking loans management and one is for SME credit collection. For banking loan, and we are the only player playing in both markets. In terms of the baking loan sector, there are two big guys us and DoBank, and then there are another four players which have consolidated the value small players in the past Banca IFIS, Prelios, Tersia [ph], which is the joint venture between Intesa and Intrum and GACS.

Now, out of these six guys, the true market players are only the top four, so DoBank, Cerved, Banca IFIS and Prelios which DoBank and Cerved being two or three times larger than the others, and we are the only independent servicer which are not an investment shareholder and investor as a shareholder which make us very independent, and this is why we manage to be involved in so many banking platform transaction in the past. Actually, we are did seven transactions out of ten in the last few years.

GIANANDREA DE BERNARDIS: Thank you…thank you Andrea. Moving to the second question, M&A pipeline before leaving it to Pietro, I just want to say that obviously here we cannot comment to march on our pipeline, and obviously, we have some deals going on, but you know, we cannot give you name or size or what we are doing currently. Please, Pietro if you want to specify more on this.

PIETRO MASERA: Yes, but maybe a couple of considerations are as we said in the Investor Day, we do want to you know, focus more on larger transactions also because, you know, small or big deal takes same effort, but it makes more sense if and where possible to be do larger transaction. And the second point is that, even if we were to do larger transaction, the assumption for the financing is that in any case the deals would be entirely funded by debt facilities and that in any case we would expect stay within, let's say, close three times leverage ratio. So I think that's pretty much all we can say on the M&A side for now.

SIMONA SARLI: Thank you. Question on Greece and Romania for the NPL market. Is there a chance probably like to provide a little bit more color where we stand in these markets, if you have already started winning the first contract? Thanks.

ANDREA MIGNANELLI: Yes, in Romania, we are actually present with a company with about 250 people on site. This Company was created to serve mostly Italian clients, but it is actually currently now serving also local clients. And I think it is a very interesting opportunity because Romania is a small country NPL wise but has a very dynamic economy. And so, it is interesting for us. Also as a base to expand in two other services, such as, real estate services and support.

Now, Greece, it is obviously much larger opportunity. We set up…we physically set up our company, Cerved Credit Management, Greece, and we are now in the process of starting the Company and winning the first contract. We have nothing started yet, but we are physically present and commercially very active. I personally spend at least once or twice a month a trip to Athens to work on it. And we are looking around also for potential acquisition in order to beef up our presence there in the country.

GIANANDREA DE BERNARDIS: Yes, please remember that Greece was one of the country we identified you know, when we presented our you know, plan for the coming years at the Investor Day. And also I just want to remind you that they have a very huge amount of NPLs, you know, €100 billion so compared to the €200 billion in Italy [ph]. So it is a very large market. There is less competition and the game is still going on, and there would be a lot of chances to get large portfolios over there. So we are looking with a lot of interest to Greece.

SIMONA SARLI: Thank you.

GIANANDREA DE BERNARDIS: You’re welcome.

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

RAJESH KUMAR: Hi, good afternoon, gents. Can you give us some color on what's going on, on the corporate side of the business especially on the difference between the growth in the sales volume and revenues? Clearly the revenue recognition has been faster than the sales point. So, what's driving that and when do you see a bit of reversal in that one. And if there is the IFRS change which is effecting that we should be aware of while we are modeling that bit. You definitely provided with quite a lot of color on the growth potential in the Credit Management division's outlook pointing out how big the legal market is, how big the real estate market is. Would it be fair to say that the near term opportunity is larger on leveraging your scale on the 50 billion AUM on the medium term opportunity is more skewed towards Greece or is it both near term?

GIANANDREA DE BERNARDIS: Okay, Rajesh. Let's answer to your first question. Yes, there is a difference in terms of performance of the sales force network for small and medium customers and the performance that we experienced in the first 3 quarter on top customers. Let's talk about 2 of them. In small and medium, the company is performing in line with the best with you know roughly speaking 5% growth in this segment and with, you know, sales and the revenues that if you remember are related to consumptions that pretty much in line with each other. So, I mean, its business is as usual, its performing, you know, well. And you know, we are not worried about it.

Top customers, there are two facts, the first one is that, we are already knew from the very beginning that the quarter's were going to be a little bit bumpy. And I know that also you had the chance to talk about this in these previous calls, there you have Q1 and also H1 calls. We knew when we have done the restatement of 2017 that Q1 and Q3 were going to be weak, because of the accounting method for some products that we have. One example is, Payline. And that Q4 was going to be pretty strong. And this is one reason. The second reason is that we had some, you know, time shift, some phasing of top customer contracts that were supposed to be in the third quarter that moved to the fourth quarter. And that's it, and that's why the Q3 was that weaker and those are the two reasons.

We are still targeting, you know, an important Q4 and that's why we think that any way at the end of the year, the overall performance could be, you know, in line with our targets and that's why I think it would be close to let's say low, mid single-digit. Moving to Credit Management and I leave it again to Andrea.

ANDREA MIGNANELLI: Yes, yes. I will try to speak to your framework, you asked how can we sort of allocate growth drivers between short-term and medium term? With a bit of a simplification, what I would say is that, in the short-term obviously there is the organic growth that we always deliver in the past by capturing opportunities in the market, especially in the banking loans. There is this big I think change in the credit collection business where I am very eager to work on as soon as our two networks would be put together and obviously performance, because once you see some 52 billion of assets, as you can understand, 1% in extra performance has a dramatic impact on revenues and EBITDA. So, our main focus from now on will be what we call data driven Credit Management. Bear in mind that the last year we bought…this year we brought 26 billion and we hired about 500 loans managers from the market. So, definitely there is room for improvement in performance, that's what is the short-term.

Now, medium term, I agree with you the relative growth of ancillary services, especially legal service and real estate, not all only that, we are also the only servicer in Italy working on performing loans and we do this for Barclays and we do it for another couple of banks. And with this growth of potential attacker banks in the future, I believe that we will need somebody able to manage also their performing asset they will underwrite. And also, the international expansion into Greece and Romania will be driver for the medium terms. And you see that, let's not forget that we are in several joint ventures with banks and so we have a very nice forward flow…several forward flow agreements with banks, which will keep boosting and pumping assets into the portfolios even without chasing new sites.

RAJESH KUMAR: Understood. Very helpful and detailed answer, thanks for that. Just on following on the point on the phasing between Q3 and Q4, you currently provided why that has shifted, consensus EBITDA on Reuters seems to be 212 million pounds, how comfortable you are with that? And Andrea, can you give us some color on how the JV structure makes you more confident on EBITDA than on…do you think you will be a bit lighter on revenues, but you will hit that a bit also. Is there a JV structure impact within that?

GIANANDREA DE BERNARDIS: Now, actually, what I said before that at this stage, we think that, you know, in terms of EBITDA we will be in line or, you know, slightly below the consensus. And I said also that it really depends on Q4 and it depends obviously on the mix. We have a lot of…you know, this business has a lot of fixed costs. So, if the performance in Q4 is good, you know, in the corporate segments or also in the other segments, you know the EBITDA margin will increase rapidly and, you know, our focus is in that direction. So, that's why we are confirming the numbers.

RAJESH KUMAR: Okay. So, you will be in line or slightly below consensus and that's what you are confirming?

GIANANDREA DE BERNARDIS: Yes.

RAJESH KUMAR: Okay. Thanks.

GIANANDREA DE BERNARDIS: This is what actually we brought in the presentation as well.

RAJESH KUMAR: Okay. Thank you.

GIANANDREA DE BERNARDIS: Good, Rajesh thanks.

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

ANDREAS MARKOU: Hi, everyone. Thank you very much for taking my questions and for the presentation today. Actually, most of my questions have been answered, but I will post two different ones. So first one, you mentioned about the potential margin on the Credit Information side, can you elaborate on that? And second, on the M&A front, according to press reports multiples for several M&A targets have been going up. What kind of multiples would you be willing to pay and how prohibitive do you think the current competitive environment for M&A targets is for you to conduct M&A. Thank you.

GIANANDREA DE BERNARDIS: Sorry, Andreas, I think…can you repeat the first question, please?

ANDREAS MARKOU: Yes, so on…you mentioned about the potential margin improvement room on the credit information site. If you can elaborate on that, yes?

GIANANDREA DE BERNARDIS: Sure, okay. Going back to what I was answering to Rajesh, obviously, if we have…we continue to grow and collect the information for corporate as we are expecting for Q4, this will enhance margin, and this is the first point.

Second point, we already started some you know, cost cutting activity that we will continue in 2019. We have...we will have some important investments, you know, in order to reduce our overheads and to do some reorganization [ph] to reduce some cost.

Taking into account, that the overheads grew a lot in the past few months due to compliance and due to governance, as well. So we are not planning to continue to grow this cost at this pace. Also, we have done a lot of investments in communication and branding you know, during the first nine months. We have a lot of you know, events and other initiatives that we are not planning to continue. So these are the main three areas, that are going to impact our margin going forward mainly in credit information.

ANDREAS MARKOU: Okay. And on the M&A effect?

GIANANDREA DE BERNARDIS: Yes, Andreas, I'll take the question on the M&A. Look, talking about multiples in general is very difficult. We need to look at it more on a specific deal basis. And obviously, you know, the higher the multiple, typically the higher the synergies that we can make, so optically you pay a high multiple but the substance is lower or typically if you pay a higher multiple, it's higher quality of growth. But having said that, regardless of the multiple for a second, the way we all look at M&A in terms of sustainability and return on capital is that, we calculated, let's say, sort of synthetic equity returns for the M&A targets that we buy, so whatever price we pay as a multiple, we assume that the first three times is debt which is in line with our current leverage or target leverage. And the residual price is equity, and then we run the numbers for the target, okay for full-year period. Let's say four to five-year period, we see pretty much then you know, the exit EBITDA, we typically apply the same multiples that we did for the acquisition within the debt-to-debt and we see the equity at exit and what we are always trying to target is an equity IRR, which is, let's say, at least in line with what a shareholders expect for that average shares, which is in rough terms say 6%-ish, profit growth for us an additional say 3%-ish dividend yield. So let's say, our Internal, let's say equity targets for M&A are always close for at least 10% that's the real hurdle and as you can understand, it's regardless of the amount that you pay.

ANDREAS MARKOU: Okay. Thank you. That's helpful. Thank you.

GIANANDREA DE BERNARDIS: Thank you Andreas.

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

SIMONETTA CHIRIOTTI: Yes. Good afternoon, a couple of questions on credit management. The first is about performance given the current macro political situation, the spread and so on, do you expect the positive performance in terms of collection in the various divisions to remain healthy or we could have an impact, for example, on small businesses? And the second question is on unlikely-to-pay, some players on the market say that the…those that are linked to a bank, so comp credit managers that can provide also or are in joint venture with somebody that can provide additional financing to the corporate are better placed to compete in these in this area. I would like a comment on this? Thank you.

GIANANDREA DE BERNARDIS: Sure, first on the macro. Obviously, it's very difficult to say honestly being…the only probable effect that we can depict on the current situation is that banks may need another round or some more capital increase, and this will lead to extraordinary situations. And in general, unfortunately, a bit cynically I would say that in the past that has created opportunity for us. So we are not too worried about that.

In terms of impact on collection, we all know that collections are driven by GDP growth and possibly you know, inflation and unemployment and I know the decrease in unemployment and increase in price and real-estate prices.

Now, I have to say that the macro hasn't helped that much in the last couple of years and three years. So there has been marginal improvements in the macro, but not such that we can fear the future. I would say that the positive effect of the reforms on the judicial network…judicial framework that happen in the last two or three years are actually now providing some benefits. So when I look at the future, I would say that there is more than I can do by improving my own performance that what I fear from the external macro.

In terms of UTPs, I know you are mentioning a common wisdom that is spreading on the market now that players related to a bank may be more effective in UTP. I currently don't see that, because we are effectively managing to be without being a bank. I believe that when you manage UTPs, there is a strong operational need in terms of capacity, tax knowledge, legal knowledge, operational knowledge and financial need. And the financial need is on a case-by-case basis because every situation in large UTPs required a special investment by somebody which may not be always the same guy. So the very same way we are managing €53 billion of NPLs without being an investor. I believe we will be able to manage UTPs without being a bank.

SIMONETTA CHIRIOTTI: Thank you, very clear.

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

GIANANDREA DE BERNARDIS: Okay. So thank you very much to all participants. I think in we are all done and we talk to you very soon at the end of the year for full-year 2018 number. Thank you.

COMPANY REPRESENTATIVE: Goodbye.

COMPANY REPRESENTATIVE: Bye-bye.