# Cerved Group S.P.A.

## "First Quarter 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 Group First Quarter 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 Structured Finance and Investor Relations. Please go ahead, sir.

PIETRO MASERA: Thank you. Hello, everyone, thank you very much for joining the call today. It's Pietro Masera speaking, and I am here with Andrea Mignanelli, our CEO and Emanuele Bona, CFO. The purpose of today's call is to provide you with an update on Cerved's first quarter results to March 2021, and at this point, I'll leave the word to Andrea Mignanelli.

ANDREA MIGNANELLI: Thank you, Pietro, and hello, everybody. Let's go on Page 2, the Executive Summary. In summary, I'll start the slide with the Q1 results we showed this strong improvement in our largest core business areas which is Risk Intelligence which is now bouncing back from a very tough 2020, with very strong growth rate for both the corporate and the banking segments.

Marketing Intelligence shows a minor decline, albeit largely due to a lower number of MBS projects with completion in Q1 2021 compared to Q1 last year. MBS, our advisory firm is however working full steam and all consultants are very busy and we expect a strong year.

Credit Management is still suffering from dynamics related to the pandemic as we saw in Q1 last year. Results in this division reflect a timeline versus the external context.

Looking more into detail at Q1 results on Slide #3…#2 sorry, we have revenues grew almost 2% both on a reported basis and organically although with different trends within the 3 business units. We will look in more detail in the next few pages.

Adjusted EBITDA was basically flat, once again with different trends within the business unit. Operating cash flow jumped plus 51% reflecting the gathered normalization of DSO in ’21 compared to 2020 which witnessed a deterioration of the net working capital.

Adjusted net income declined marginally by minus 1.9% not too meaningful for earning this year, in the year, and leveraged improved from 2.9 times year end to 2.7 times, thanks to solid cash generation and improvement in net working capital situation due to strong collection of receivables.

In the following pages, we will look at each of these variables on a divisional basis. A few other aspects are highlighted in the Executive Summary, Macro and COVID-19. The situation is finally getting better again, after having deteriorated starting from October last year, fingers crossed and between vaccination and the European recovery plan, things will really begin to get better for Italy, which suffered tremendously from the COVID-19 outbreak, and we expect that this will also have a positive effect for Cerved.

Investor Day, I would say that as you know we made a tremendous effort in preparing the Investor Day which we presented on March 26th and also with a strategy and the targets are clear for investors and analysts. I would say that Q1 results are pretty much in line with our expectations, although it's been very early days just one quarter out of 3 years. In any event, so far so good and we are focusing on delivering the Q2 results now.

Let's move to the next page. This page is a brief note of the voluntary tender offer similarly to our approach in the Investor day; today's presentation focuses exclusively on the Q1 results. We will not be taking any questions regarding the tender offer. I do however remind the markets that the Board is currently evaluating and assessing the offer and its relevant terms and conditions. The Board will provide the market with a statement and it will be published before the beginning of the tender period, and such statement will provide all the information useful for shareholders to probably evaluate the offer.

Let's go now to Page 5, the macro highlights. On Slide #5, we have updates on some of the tables where we normally provide macro data, and the situation has significantly improved since Q3 last year. However, the Italian economy lost about 9% of GDP in 2020, and returning to pre-COVID GDP levels will probably take place sometime in 2023. And we saw early growth prospects are around 3.14% to 4% for each '21 and '22. So unfortunately, still a lot of companies in difficulty and this does not help anybody and not certainly a business like Cerved.

Moving to Page 7, we see a snapshot of the divisional results for Q1. Risk Intelligence, as I indicated earlier, is effectively bouncing back from a very tough 2020. Frankly, we have never seen the division growing double-digit and a portion of this growth is compensating for what we lost in 2020. In fact Q1 2020 contracted by 7.4%, with the initial impact of the pandemic. But nevertheless, results are very positive and let's now look at each of the financial institutions and corporate segments in more detail. Financial institutions are once again continuing to do great and frankly better than expected.  This segment grew by an excellent 15% and this is a combination of 2 key factors.

The core business information and rating and analytics segments, which account for about 80% of total revenues, continue to register a positive growth rate, which is comforting, even they did not contract during the pandemic.  Recall that this is a very resilient business, given how mission-critical it's for banks.  The situation is looking quite good, and although we see some headwinds from bank consolidation, we also see some positive impacts from product innovation and up-selling.

The other area, which is doing very well is subsidized finance, which is services to help the banking system cope with the liquidity decree, to boost liquidity and new lending to SMEs.  As we saw in the macro overview, there are been some €150 billion of public guarantees and Cerved has worked out about €6 billion.  We did take a cautious view that this revenue stream would have declined a bit in 2021, but for now, we are doing better than expected.  Recall that most contracts are multi-year and then there continues to be a lot of new guarantees and loans, which are being issued.

Last but not least, the real estate segment was fairly flattish compared to last year.  As we've been occurring for the last few years, the results are a combination of growth within appraisal and a decline within repo which is the land registry checks and cadastral [ph] information.  As a positive point, the Italian banking system is now fairly healthy and has a lot of liquidity, and this is sustaining the volume of mortgages being issued and this provides a good tailwind to us.

Let's now a look into corporate.  Corporates also doing quite well and really bouncing back, growing by 8.8% in Q1, also in the case…in this case, recovering from a very difficult 2020. The overall growth was of almost 9% is quite reassuring, even though it's fair to say that comparing Q1 2020 with Q1 2021 is not easy. January and February '20 were not impacted in any way by COVID, whereas in '21, we were in the midst of the second lockdown, and on the other hand, March '20 witnessed tremendous uncertainty, whereas March '21, we began to see light at the end of the tunnel. So it's a bit asymmetric as a comparison.

If I recall that the pandemic has had a dramatic impact on the Italian economy and the large number of our corporates are not spending as much as they used to do in the past. And we said back in Q3, whereas banks are doing fairly well because they are a part of the solution to the COVID crisis, unfortunately corporates are mostly victims. And may…and many required the emergency government loans.

Now let's take a quick look at how the different client segments performed. Top clients did very well, and this is attributable to those clients having decided to resume with other projects, which have been set aside or postponed during 2020. Please also recall that on average, larger clients were less impacted by the pandemic. Medium and small clients are reacting less favorably, probably because they were much more impacted by COVID emergency and because it will take more time for the economy as a whole to recover.

March was, however, a very strong month and we also expect the segments to bounce back within the course of 2021. Sale of points is very strong year-to-date, registering growth of 15% compared to last year and this is positive because all the sold points will be transformed into revenue during the course of the next 12 months.

With respect to EBITDA for the Risk Intelligence division, the growth was 10.7%, which is pretty much in line with revenues. Although we grew a lot in Business Information both in banks and corporates, this type of product typically has a lot of operating leverage. EBITDA did not outperform due to a higher cost base, given that, we are investing more in people and services to cope with an expected rebound in '21.

More specifically, we have some higher fixed costs in early '21 with the following…within the following key areas, HR, in order to foster retention and incentive management and key staff. Approximately €1 million for accumulated holidays because of 2020 lockdown, employees have taken less holidays. The launch of new business lines and services, and finally, the reinforcement of IT and software to foster productivity such as the implementation of SAP and Workday, you know that this cost have been front loaded in order to meet the objective in the 3-year Business Plan that we presented in our Investor Day.

Now, let's look into marketing intelligence. Here with some…somehow disappointing revenue, which declined by 2.6%. But this is a bit of a temporary issue, due to the MBS, the advisory, which will recover in the rest of the year, but an amazing growth of EBITDA, which followed by 37%. And this also helped by a favorable comparison to last year.

Now let's look a bit better into the various elements. Revenues grew very strong in digital marketing, PayClick and ProWeb consulting and in sales intelligence such as Atoka. And we're…and we're very, you know, fairly stable in market intelligence, which is the legacy and the newly launched Market Intelligence platform. And this is comforting and in line with expectations. Some of this revenue are in fact related to projects, which were delayed in 2020, due to the pandemic. Also recall that the PayClick business declined in 2020, because we had to revise the product offering, in order to ensure full compliance with privacy and GDPR legislation. And this is impacting the financial results last year.

MBS, however, dropped in the first quarter of ‘21, this is mainly due to lower concentration of mandates, which closed in ‘21 compared to 2020. As I said earlier, we're however quite confident for the year given that the backlog is very solid and all the consultants are working full steam at maximum capacity. So we expect a good recovery during the rest of the year.

On a much more positive note, the jump in EBITDA was largely attributable to the digital marketing segment, which you may recall had been hit last year, mainly with respect to PayClick together with lower credit risk provision for ‘21 versus 2020. So this year, I think we are getting a lot better and the jump in EBITDA and digital marketing more than compensates for the client in MBS.

Let's finally look at the credit management business unit. This division is continuing to suffer the most. Although, we remarked that the comparison with period…in Q1, 2020 must take into account 2 major effects.

First, the impact of MPS, Monte dei Paschi di Siena contract, March 2020 had the termination of the MPS project with the return to the staff to the bank. So revenues from MPS amounted to €2.6 million in Q1, ‘20, and then disappeared from that date onwards. So excluding the impact of this contract, the credit manager would have declined only "8%" compared to 12% on a reported basis. But the reason is the following long tail of court activities Q1, 2020 was the last quarter of a growing trend in performance benefiting of the result of real estate auctions performed in 2019 and liquidated by tribunals in the following quarters. Q1 2020 in fact, we were only 5% both in terms of revenues and EBITDA.

Now, the reason for the current lower collection trend in the banking NPL is the impact of the suspension of most real estate auctions, and the block of primary residence foreclosures since the beginning of COVID-19 emergency. So court activities have only apparently returned to normal after the peak of the pandemic. But they will not start to generate new cash flow, as long as, real estate auctions return to 2019 levels from some quarters continuously. So the rest of the business was however quite positive with legal and Greece growing double-digit as corporate collection fairly stable.

In terms of EBITDA, the result is due to the cost base not being able to match the declining revenue, so EBITDA declined by 35% compared to revenue declining 12%.

Now, in the following pages, I got the division analysis, which in the interest of time, I will skip, as they provide a lot more detail on each of the business units. But I've already indicated the key drivers. I am happy to answer to questions you may have in the Q&A session.

Let me now hand it over to Emanuele for the financial section.

EMANUELE BONA: Yes, thank you, Andrea and good afternoon, everyone. This is Emanuele Bona. So moving on to Slide 13, the income statement…well, as Andrea mentioned, the differences in this Q1, 2021 compared to first quarter of 2020 are actually fairly minor in terms of revenues EBITDA and adjusted net income, as well as, with respect to the other key ordinary ingredients of the income statement.

Maybe just a quick comment on taxation. We're still waiting for the tax authorities to contact us to agree terms for the renewal of the patent box incentives. Timing is fairly normal, it takes a long time to be contacted. But, as far as, we understand tax authorities are running a bit late versus normal timing due to the COVID pandemic. So we might have to wait a bit longer to be contacted.

Moving on to Page 14, customary breakdown of net working capital, situation is finally improving. The net working capital as a percentage of revenues…the last 12 months revenue is still increasing a minor increase reaching 27.4% of revenues compared to 26.5%, but that is mainly due to still un-favorable comparison LTM revenues versus last year. But the good news is that the underlying DSO are improving particularly within the risk intelligence division. And in that division DSOs are almost back at pre pandemic levels, which is very good news.

The other thing I would like you to notice is the level of payables that has decreased by €12 million sorry. This is in fact due to lower CAPEX and variable expenses, because, as you know, we have very limited capability of lengthening payment terms. So this is mainly due to a reduction in expenses.

In general, I would say that current trends are following what we have indicated in our guidance as a reminder to you, we projected the level of cash conversion would reach 75% to 80% of EBITDA by 2023.

Moving on to Page 15, the operating cash flow based on the improvements that I just mentioned in terms of working capital, you can see that the operating cash flow of the first quarter jumped by 51%. So a big jump versus same period last year. Last year with so significant cash outflows. Hence this year looks a lot better considering stable level of EBITDA versus last year, coupled with a much more limited cash outflow for working capital and other items.

Finally, last but not least from me, Page 16, financial indebtedness. You can see that the leverage ratio at the end of March has decreased to 2.7 times EBITDA, it was 2.9 at the end of 2020, mainly due to a solid level of cash collection, which allowed the net debt to fall from €588 million at the end of last year to €544 million at the end of March 2021.

And just a final note regarding the buyback, which we have just announced today. As indicated in the press release, the maximum amount we expect to spend is about €16 million and clearly then this will have to be considered in the cash outflows for the forthcoming quarters. I will now hand it on to Pietro Masera for the ESG topic. Thank you.

PIETRO MASERA: Okay. Thanks Emanuele. So we added a couple of slides, it's Slides 18 and 19, which provide a bit more color on our continuing commitment to sustainability and ESG. As you've appreciated the 2020 Stability Report that we just published contains 9 quantitative targets in ESG matters that will account for 15% to 20% of top management bonuses in 2020. This is I'd say a big event for us, for the whole management team, and we're confident that it will help Cerved to further improve its ESG ratings, which I'm very proud to say have improved quite significantly in the last year and a half.

At this point, I think the presentation is over. So I'll hand it back to the operator for the opening of the Q&A session. Thank you.

Q&A

OPERATOR: Thank you. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their 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 Markou Andreas of Berenberg. Please go ahead.

ANDREAS MARKOU: Hi, everyone. Thanks very much for the presentation and taking my questions. I have a few, I'll start with the first one, so you said that Q1 overall was kind of in line with your expectations. Maybe just in financial institutions, it was a bit better than expected. Are you comfortable with consensus with EBITDA of €218 million for FY '21, or you think that's too ambitious as things stand today? That's the first question.

ANDREA MIGNANELLI: I think it's, of course it's the consensus. And…but I think it's something that is in our radar screen. Yes, I don't think there are some issues.

ANDREAS MARKOU: Sorry, so you're comfortable with that?

ANDREA MIGNANELLI: Yes, yes.

ANDREAS MARKOU: Yes. Okay, great. Now on Credit Management, obviously, this quarter is seasonally slow in general, and it seems that it was probably a bit softer, if you compare to your expectations. Maybe if you can compare that and also just looking back, is there anything you could have done better this quarter. For example, have you not tried enough to do extrajudicial collections?

ANDREA MIGNANELLI: Yes, we experienced a situation like this already twice in our history, because that's not the first one, let's say a credit crunch so to speak. Although in the past crisis as you know, very well we're not quite the same as this one because this is way more like, let's say, distributed across all sectors of the economy. But I would say that it’s pretty normal to suffer at the beginning of the crisis and during the crisis. Normally, we observed in the past is that there was sort of a time lag between the rebound of the economy and the increase of our collection rates. And this lag used to be between 12, 18 months in the past.

So now, we are just at the beginning of the recovery, maybe not yet started…fully started just at the beginning of the recovery. So as I…I think I already mentioned in our previous call during 2020, I always said that 2021 have been still quite a tough year with the business doing much better in the future when you have more assets to manage and rebounding the economy and in rebounding collection rates.

So I am not too surprised and actually it’s consistent with this comment the fact that most of the problems actually and the entire negative performance is concentrated on the banking NPL servicing where the other area collection, SME collection, legal services, real estate services, master serving are actually doing better than last year.

ANDREAS MARKOU: Okay. So if we have to think of the rest of the year, rest was pre-pandemic, where would you see collections versus pre-pandemic for the entire year? Would it be 78% for example?

ANDREA MIGNANELLI: Yes, probably something like this will be lower. The full 2021, I expect to be lower than pre-pandemic rates and about 20% to 30% discount compared to a non-pandemic year is a fair assumption.

ANDREAS MARKOU: Okay. And then maybe on the subsidized finance business, can you give us the number of how much it was in terms of revenue and EBITDA for the quarter?

ANDREA MIGNANELLI: Emanuele, do you have numbers in front of you.

EMANUELE BONA: But I am not sure we disclosed…gave that level of disclosure.

ANDREA MIGNANELLI: Pietro…

PIETRO MASERA: Yes, maybe, I think EBITDA…I think we will keep ourselves but if I look at the revenues volume, you have of course that revenues in…

EMANUELE BONA: Revenues were around…one second, last year was about €12 million and this year, it is doing quite well, also because last year was very low.

PIETRO MASERA: So last year first were north of €3 million.

ANDREAS MARKOU: North of €3 million, okay. Okay. That's helpful. And then maybe final from me on your kind of the cash flow and how you see net debt evolving through the year, so obviously, you have seen some improvement in your working capital versus Q4. I guess when do you expect more or less to go back to levels of pre-pandemic in terms of your DSO, which you think that might happen for example in Q3 or do you think it will be more towards the end of the year. And you know, just in general, on your cash flow dynamics, on your CAPEX thoughts, and if we square all that with a share buyback as well.

ANDREA MIGNANELLI: Let me take one question at a time. So in terms of DSOs, as I mentioned, the DSOs for the Data Intelligence business are already pretty much at the pre-pandemic levels. So there was a significant improvement. There is still a bit of improved…space for improvement on Credit Management. It might take a bit longer but I would say I expect DSOs then pretty much to go back to pre-pandemic levels within…probably in the second half of the year.

And in terms of CAPEX, I don't think there is much more than we can say versus what we said in the…during the Investor Day. We expect…hold on a second, let me grab those slides. So we expect CAPEX for the next 3 years to be roughly around the same percentage of revenues that we spent in the past. So you can probably prefer to do the math but nothing has changed versus what we declared a month ago.

And your last question, yes, I mean we have strong cash generation. As you know, we are not distributing a dividend, so the possible €60 million expenditure for the share buyback is not going to be…not going to have a significant impact on the net debt. We expect net debt to continue reducing throughout the year. If we exclude extraordinary transaction, but in general we expect net income to continue reducing…net debt to continue reducing.

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

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

ANDREA LISI: Hi, thank you for the call. My main question is on the NPL business. We saw banking decreasing lower the loan loss provision over the quarter. We are observing that, it is really likely that moratoria in Italy will be extended. So, just to understand which are…how changed is your expectation in terms of evolution of the NPL flows in the market in the next year. So my impression is that, maybe the amount of NPEs flowing in the market will be significantly lower than what initially expected and projected.

The second question is on the digital marketing, you said that it was stronger. If I remember well, it was a weaker point…weakness in the division over the…in the last couple of years or it had some issues. Just wondering to understand how…what actions did you take on that front to make the results better or if it was simply assured in demand, because of corporates starting to sell more on digital side. Thank you.

ANDREA MIGNANELLI: Yes, on the NPL side, I would say that when we made our Industrial Plan, you know, it was a month ago…in a couple of months ago. So I think we definitely took into account all the barriers, let's say, dynamics that we observe on the market. So I would say that the current…the current expectation, the current guidance is still valid, of course, and takes into account the real dynamic of the market, not what we expected the year ago, because we did it recently with most updated macro data.

And regarding the second part of your question, the digital, I would say the following. In the past the division was very small, and so, you remember a couple of years ago we had very erratic performances, sometimes revenues were up and EBITDA was down, and I know it was kind of, you know, a bit not very coherent with the rest of the business, but because the size of the business itself was very small. And so, small events could impact on the business. In the last year, we finally got significant critical mass with more than €60 million revenues on a yearly basis, and we change, you know, a year and a half ago we changed the organization of the group with the divisional approach. So now we have head of digital…of the marketing intelligence business units. So, we have proper service lines with the leaders of each service line. And so, thinks are well organized, and we set up a network of agents…sales agents dedicated to this business unit, which is about 25 to 30 people now. And therefore, you know, everything is coming coherently into the design of a proper business unit, and we observe good results. So I think it's a matter of values organizational elements coming together with a good market and a very good quality of our services and products.

ANDREA LISI: Thank you very much.

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

PIETRO MASERA: Okay. Thank you. Then I guess we are done. Thanks everyone and obviously if anybody has any further questions, you can contact me at the chat with the email or at my phone number. Thank you very much.

ANDREA MIGNANELLI: Thank you, all. Thank you. Goodbye.