doBank S.p.A

"First Half 2018 Results Conference Call"

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OPERATOR: Good morning. This is the Chorus Call conference operator. Welcome and thank you for joining the doBank First Half 2018 Results Conference Call. After the presentation, there will be an opportunity to ask questions.

At this time, I would like to turn the conference over to Mr. Fabio Ruffini, Investor Relator of doBank. Please go ahead, sir.

FABIO RUFFINI: Yes, good morning, everyone. Thank you for joining our conference call on the first half 2018 results. Also attending the call from the management team of doBank are, Mr. Andrea Mangoni, CEO of the Group, Ms. Manuela Franchi, CFO and Mr. Fabio Balbinot, Chief Servicing Officer. Andrea will begin by introducing the financial results, the company's recent achievements and then providing updates on the main commercial and strategic developments. Manuela will continue by providing more detail on the financial results as compared with last year, and Fabio will be available with the rest of the team during the Q&A session which will follow. Andrea, over to you.

ANDREA MANGONI: Thank you, Fabio. So the first 6 months of the year saw us involved in important operational and strategic project planting the seed of future growth, while marking a positive progression in operating profit. This makes us confident to reach the targets we shared with the market during the Business Plan presentation on June '19.

I would highlight significant progression in EBITDA margin from 29% to 32% and EBITDA increase by 13%. This is even more significant because it was achieved in a context of stable revenues, showing our ability to control costs. An operating cash flow of €34 million sustained by an improvement in net working capital, a trend which will continue, and a net cash position of €30 million after dividend payment of €31

million and a second tranche of the investment in the Italian Recovery Fund, a cash out of €13 million.

Our top line was flat in the first 6 months of the year, in line with collections which do not include the full effect of our recently won new contracts, more than €12 billion currently in ramp up phase. The trend in collections is consistent with our yearly target for 2018 to reach collection of at least €2 billion.

As you know, we vary the timing of cash bonus payments [to asset managers] based on the pipeline of new portfolios and specific teams' objectives, thus creating some variability of collections quarter-on-quarter. Collections for first half 2018 compare unfavorably with the previous year for this reason.

Last year first half was particularly strong due to the different timing of bonus payments. In fact 48% of total 2017 collection were done in the first half of the year as compared with 40% on average in the previous 2 years. We are confident to see a pickup in collection in the second half. This is shown by the month of July, which was closed on a positive note in line with expectation.

Finally, on the top line, I would highlight the growing revenues from base and performance fee, a slight improvement in average fees and material growth in ancillaries and other revenues now at more than 10% of Group total.

Just over a month ago, we shared with the market a clear path to a stronger, more diversified and more profitable doBank, our Business Plan 2018-2020. We are focused on execution and are happy with the progress

so far, while we actively monitor the M&A market with renewed confidence and significant potential firepower.

We are also very glad to have entered the Greek servicing market with such a unique mandate by the 4 systemic banks. Market potential is significant and the first contract gives us an edge which we expect to deploy in further growth opportunities.

Turning to the Italian market, there is evidence of continued opportunities for servicing, which make us optimistic. In particular, we made material progress on additional €3 billion of mandates already secured in line with our guidance of €3 billion to €5 billion and respecting our pricing standard. It's important to highlight that the pricing terms we are seeing in the market are in line with our expectations.

Moving to the UTP asset class, our proposition to the Italian banks is gaining traction. Also as I am sure you are aware, we moved forward to the second phase of the BAMI [BancoBPM] transaction. We are delighted to have made progress and will follow the process very carefully.

In short, we are focused on execution and continue to see a positive market environment.

Let us now move to Page 2 for a brief operational update. On the onboarding front, our systems are responding well to the challenge of managing significant new mandates which, as planned, are at different level of the process.

The most significant new portfolio, MPS, has more recently started the active loan management phase and will show its potential in the P&L based on the typical collection curves. Over the past few months, we have

also been working on fine-tuning the best possible operational framework with our Greek partners, the four systemic banks.

We drew on our experience to design an innovative mandate, first of its kind in Greece, which overcomes some structural challenges of dealing with one of the most complex sides of credit management, shared credit exposure of several banks to the same corporate.

We were proud to see our skills and track record recognized by the banks, proof that our 18 years of experience cannot be easily replicated by newcomers. Another pillar of the Business Plan, the UTP proposition of doBank again quite innovative is making process with key stakeholders and we have been reinforcing our team to service this high potential asset class.

On Page 3, we provide a bit more granularity on the Greek mandate signed this past week. It has been a long and very competitive process involving more than 30 international players including our main peers. A significant portfolio, €1.8 billion [GBV], highly secured corporate loans with €6 million average ticket much larger than our current average ticket of about €130,000.

I would like to draw your attention on two features of this contract. The first one is data, that the backbone of our work. This mandate, right after on-boarding, will allow us to have the most complete database of the market on the portfolio, because we will have access to data from the four banks, something quite unique. This information will build on the knowledge of our experienced local asset managers and feed our business planning and loan management work.

The second one is the attractive risk reward profile. The first phase of the mandate will have a cost coverage provision whereby doBank will limit its expenses to startup costs about €0.5 million this year. This drastically limits our downside. Then we will transition to a fee matrix of base and performance fees much like what we have in Italy. The future of the market and specifics of our mandate point to the direction of a structural profitable credit serving market in Greece with a potential to doBank which is a multiple of this first deal.

On Slide 4, our view of the market opportunity ahead of us; the Italian NPL market currently features mostly mid-sized GACS opportunities and complex transactions involving servicing platforms with guaranteed future flows. We intend to continue leading this market, especially in areas where competitive pressure is structurally lower, large, corporate, secured portfolios.

Despite our unchanged strategy of staying selective to create value and to protect profitability, we are happy to be able to say that we made progress on about €3 billion of additional new mandates. They relate to three different opportunities with national and local banking institutions on GACS schemes. Importantly, the pricing terms of these mandates are in line with our expectations.

In UTP, major Italian banks are finding our solution to manage common exposure quite innovative and in line with their needs to be more proactive while avoiding significant credit sales in the short terms. We are confident to be able to lead this growing servicing opportunity.

Finally, for Greece, the mandate which we signed is only part of our growth story, global investors are looking at the market and we are eager to work with them and with other opportunities by the local banks. The

common exposures portfolio reinforces our offer and will accredit us even more with potential clients.

Next Page 5, a few words on how the first half result fit into our medium term Business Plan. While we are trying to reinforce our leadership in Italy, contiguous market opportunities have already started to materialize and we are capturing them with an innovative approach, much different from the competition.

Cost control remains an obsession at doBank, sustained by IT investments which will free up precious resources and empower our asset manager to decide quickly and based on superior data. The inherent organic cash flow generation of the business will soon be fully unlocked by a new corporate structure, whereby the Group is expected to no longer be subject to banking capital requirements. This will dramatically increase our M&A firepower to the benefit of shareholders value creation.

With this, I now leave the floor to Manuela to describe more in detail the quarterly results.

MANUELA FRANCHI: Thank you, Andrea. The main results of the first half of 2018 as compared with the previous year were first a 9% growth in GDV, up €86.8 billion from €76.7 billion at the end of 2017 and €79.5 billion at the end of the first half 2017, reinforcing our market leadership. This figure clearly does not include the recently awarded mandate in Greece, which is also not included in our targets of €3 billion to €5 billion which focuses on NPL servicing in Italy.

Gross collection at about €880 million are stable year-on-year as they don't fully reflect the newly awarded servicing contracts which were completely onboarded only by the end of last quarter. As I will detail later

on, last year seasonality of collection was significantly different from the recent historical trend due to timing of cash bonuses for asset managers.

Cash bonuses can vary from one quarter to the other based on the onboarding of new portfolios and specific collection targets, and they create some short-term variability and make like-for-like comparison less meaningful. That's why we focus on full year collection targets.

As a consequence, gross revenues are stable at €105 million as compared with last year. Gross revenues benefit from higher base fee and performance fee and improvement in average fee, growth in ancillary and were impacted by lower portfolio sales indemnities.

EBITDA at 34 million euro registered an increase of 13% versus last year largely because of meaningful reduction in our cost base. Growing EBITDA margin at 32%, up from 29% in H1 2017 are a very good result for us.

Net income was up 7% to €21 million a lower growth than EBITDA due to an increase in tax provision, DTA fees which were not present in 2017 due to new taxation which has to impact P&L and balance sheet. The amount of taxes was the same. High cash generation is confirmed with operating cash flow conversion at 95%, better than last year, last quarter, and net cash position €30 million despite the dividend payment and investments.

Let us now go more in details into the drivers of such trends. On Page 8, we show how asset under management have trended from the €76.7 billion at the end of 2017 to the current €87 billon, an increase of around €10 billion or more than 13%. GBV growth is due to new contracts for more than €12 billion coming from MPS REV and Berenice deals.

From forward flow agreements in place which provided an addition of €700 million of new flows where reduction are driven by write offs associated to collection of around €1.4 billion. Portfolio sold by clients for €0.4 billion lower than last year bringing to lower indemnity fees, and resulting in a lower contribution of this component in the revenue, and collections for around €900 million. By the end of the year, we will add at least €3 billion awarded mandates, if not more. As you know, we are aiming for an additional 5 in total.

On Page 9, the main figures underlying our GBV growth, shows a continued improvement especially in terms of client diversification. Investor clients are now at 69% of GBV compared to 40% one year ago. Linked to new clients apart from UniCredit, Fortress, FINO and Intesa. We also experienced a slight growth in the average security level and loan size from the end of last year, which are all positive trends in relation to profitability of the business.

Our portfolio, given its size, is much larger even than the main Italian banks and it is a fair proxy of the overall market. It is highly secured and characterized by medium to large average corporate loan size.

Let's now move to Page 10. Our business is seasonal with collections concentrated around peak times for the Italian court system and internal variable compensation schemes, which are an important tool which we review continuously and improve. This is also in the case when we have significant new portfolio in the pipeline or specific targets for asset managers.

As you can see this on the Page, the seasonality was much higher in the first half of the year as compared with the previous two years. 48% of

total collection by June versus average of 40% were achieved in 2017, and make ’17 not comparable to the normal trend. We have shared a clear collection targets for 2018 at least €2 billion. Based on these figures, 2018 collection at the end of June would be around 44% of the yearly total target, so much less than the last year 48% and above the average of the last three years. Therefore, we are confident that we will hit the targets and achieve the €2 billion for year end.

Moving to the collection rate described at the bottom right hand part of the page. We have confirmed 2.4% average collection rate in line with the previous quarter and in line with the 2017 figure.

Internal efficiency and technological enhancement together with the current market expectations will translate in an improvement of collection rate in line with the Business Plan targets of 2.6% by 2020.

On to the Slide 11, we have a focus on ancillary and other revenues. Ahead of our IPO Business Plan this revenue component stands now at more than 10% of Group revenue, which is the same target we were planning to achieve by the end of 2019, so we are much ahead of our expectation.

In the first half of the year, we recorded a 14% growth in revenue due to the complete impact of business information and real estate and judicial management, new contract with FINO, and for legal services with UniCredit. New contracts with new clients are related to the onboarded portfolios, due diligence revenue in the context of the GACS procedures and co-investment revenue from the past investments.

In addition, we also recently closed 2 data remediation contracts also thanks to product innovation and software innovation. And we are

particularly proud because they are non-captive portfolios, which will support future revenue growth for the next few years.

On Slide 12, we are focused on the items that make up our revenue. In line with the growing GBV under management, base fee was slightly up from the average 5 basis points on the GBV managed, as well performance fees from the average 8% of total collection, due to slight improvement in the portfolio mix. Also new contracts committed for 2018 are in line with our budget pricing estimate if not better.
Besides, I already mentioned the growth in ancillary and other revenues, I would highlight the reduction in indemnities from portfolios sold by our clients. This component brought us to flat revenue in the first half of the year and is entirely linked to the lower volume of portfolio sold which we face as a result of the strategy of our clients.

As a reminder, portfolio indemnities are an important protection to our business model and are built in all of our contracts. This factor, because of its nature, is subject to variability from one quarter to other, but tends to be fairly stable in longer time spans; without indemnity fees, the revenue would be higher by 2.5%.

A final note on our outsourcing fees, this was stable year-on-year as percentage of gross revenue at 10%. However, we need to focus on the fact that we have changed the classification of the outsourcing fees for ancillary services from the SG&A cost to the outsourcing fee line given that they are linked to the evolution of the business, so we think it was more appropriate to do so, given that all the outsourcing fees are linked to the business. These costs were previously included in the operating costs and show a growth year-on-year in line with revenue growth of ancillary revenue.

If we extract this impact from the outsourcing fees, the NPL outsourcing fees would go down showing also a more efficient management of our external network. This reclassification has no impact on the EBITDA margin, which is calculated on the gross revenue.

On to expenses on Page 15, our push to cut costs yielded a lower cost base in the first half of 2018 as compared with previous year. Higher HR expenses were anticipated and more than compensated by a reduction in other costs, especially IT with more process internalization. Some of the IT cost reduction is related to extraordinary IT projects in the first half of 2017, which will be counterbalanced by similar extraordinary projects in the second half of '18, which we described in the Business Plan presentation. Despite this, our efforts to improve efficiency are unchanged. This holds true also for real estate cost, which are stable in the first half, but are expected to be down on a full-year basis. Finally, I would like to highlight that operating expenses include a part of the set up costs of our Greek branch.

A few more details on cash and net working capital on Page 14. At €77 million of net working capital as of June 2018, we show a significant improvement in the working capital management from €107 million of the previous period.

This also depends on the move from banks to investor [clients] and it is also down compared to the end of 2017. This is a structural trend, so we expect to continue to benefit from the fact that the investors trend tend to pay fees faster than banks due to SPV waterfall mechanisms.

The net cash provision stood at €30 million which is quite significant results after the €30 million dividend…€31 million dividend paid, and contribution to the Italian recovery fund for €13 million. This means, that

before these two items, we generated a €34 million of cash flow, so 100% of our EBITDA is converted into cash flow.

The indirect cash flow generating nature of the business coupled with the new corporate structure, currently pending regulatory approval will allow doBank to add new sources of growth to the benefit of shareholder value.

This page concludes our introduction and we are now available for your questions.

Q&A

OPERATOR: Excuse me; this is Chorus Call conference operator. We will now begin the question and answer session. The first question comes from Owen Jones with Citigroup. Please go ahead.

OWEN JONES: Hi, good morning. Thank you. I have a question about pricing…asset pricing. I think Andrea you mentioned pricing briefly in your prepared remarks. Just in terms of the macro risk, do you see any chance that a significant deterioration in pricing will start to impact your short-term pipeline? And then, I guess related to that, is there any update that you can give us as to the negotiations around the potential GACS extension as of September? Thank you.

FABIO BALBINOT: Hi, Owen, Fabio speaking. In terms of GACS…I will start from second question. In terms of GACS we expect the GACS will be renewed until March next year. The process is ongoing, and I think all market participants and the government expect this will be renewed.

On pricing and competition, look, there is certainly more competition than a year ago. We are facing it, but we are constantly focusing on increasing

margin and not increasing volumes. We are in a different position than most of our competitors, that needs to increase volumes to create synergies and economy of scale, at the opposite we are selective in our intake, and we are in a good position I would say so far to hit our yearly target in terms of volumes increase at the price we want, and that we are forecasting into this plan, which by the way are the level of pricing that will allow us to grant a long-term…medium, long-term growth in the business.

OWEN JONES: Okay. Thank you.

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

ANDREAS MARKOU: Hello everyone. Thank you very much for the presentation and for taking my questions. So I've got three of them, two of them are clarification questions. So I'll start with those…so just very quickly on the €3 million one-off cost that you mentioned in your plan in June. How much of that is in the numbers for H1, and how much do we actually expect for the rest of the year? And also on the staff redundancy, I understand there is a separate one-off cost coming in H2. How much more or less should we expect on that? Also on CAPEX, I understand we are also expecting €12 million of additional CAPEX in H2? And then, on your collection rate, so if I look at the underlying collection rate for these six months, it's been 2.4% versus 2.5% last year. So I understand that you mentioned the different incentive scheme last year and this year, but do you think that there is anything more that can be done to increase this collection rate apart from the investments in IT which will come over time? Thank you.

MANUELA FRANCHI: Hi, Andreas. So going back to your question, around the €3 million one off costs, in the June numbers we included around half a million for

Greece which we had anticipated and around…and less than an additional €0.5 million for the first-half of the other businesses. So in total less €1 million.

On one-off redundancy costs, there is none included in the first half of this year, and we are estimating for the second half based on the discussion with the unions. On the €12 million CAPEX in the second half as we said the main projects will focus in the second half of the year, so we expect to complete the plan in terms of investments that we had anticipated. And your last point, we continue obviously to improve the operating machine in terms of incentive scheme and technological enhancements which are the two main components we use to improve the collection rate. So it's not only technology, but as we said we module the incentive scheme products to the new portfolios and it is an important tool we continue to use.

ANDREAS MARKOU: Okay. Thank you very much. Just going back on the redundancy cost, I mean, can you give us maybe a range of how big that will be?

MANUELA FRANCHI: We cannot do that, because it really much depends on the discussion with the unions. But we cannot comment on it because it's confidential to the conversation with them. To give you an example though you can…you could take into consideration the number of people we have indicated, times a yearly cost, times a number of the years [of pay] you need to pay for the layoff, but we cannot provide further precise estimate at this stage.

ANDREAS MARKOU: Okay. Thank you very much, that's helpful. Yes. Thank you.

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

ANDREA LISI: Hi, thank you for the presentation. Just a question on Greece, I want to ask you which will be the time for the onboarding of the €1.8 billion NPLs and UTPs you have in Greece given that the number of position is only around 300 and the size of the position of the ticket is huge, average €6 million. And also, if it is possible to have a bit more visibility into the economics in terms of the performance, the level of performance fees and management fees are comparable to that we see in Italy or there is a level in the market that is really different from that in Italy? Thank you.

FABIO BALBINOT: Thank you, Andrea. In terms of timing for Greece, we will onboard the portfolio in the next 75 days from end of August, so by the November. And we will write the business plan for each position by year end. So, the management will start during the fall and would be fully operational between year-end and the first quarter of 2019, while we are already operational in Greece with more than 25 people on the ground and systems ready to go.

In terms of performance fee, look, the market is at the very beginning and it is peculiar compared to the Italian market because it's an NPE market where there is no distinction between NPL and UTP. So, the fee will be a mix between the fee that we apply in Italy for the NPL and the one for the UTP. Overall, we expect a profitability of the business, which is in line or accretive versus the current business.

ANDREA LISI: Okay. Thank you very much.

OPERATOR: The next question comes from with Gurjit Kambo with JP Morgan. Please go ahead.

GURJIT KAMBO: Hello, good morning, everybody. Thank you for the presentation. In terms of just 2 questions, one is around against the Greek market, it's not a

market I am I guess particularly family with. I just want to really understand from your perspective, you know, what does the competitive landscape looks like in Greece, are there lots of other servicers in Greece, are you seeing a lot of international servicing companies looking at Greek market. So, that just one question on how that market looks? Secondly, with the sort of article saying, you know, Banco BPM is looking at potentially selling from those…and also maybe a servicing platform in terms of the role, if doBank was to be successful in that, would it be in line with the previous strategy to really focus on the servicing part, would you actually perhaps getting more from acquisitions of loans?

FABIO BALBINOT: I will take the question on the Greece and Andrea will follow up BPM. In terms of market…of Greek market, it's a huge market with more than 90 billion of NPEs and it's a very early stage market, but aside of a couple of competitors there is very little serving infrastructure. And at the same time, all the 4 systemic bank have a strong need to meet very aggressive target that they have agreed with the SSM starting from 2018 and then increasing in 2019-2020 in terms of reduction of their exposure.

We are focusing on 2 elements, as the final strategy, the first one is a long-term contract and long-term partnership with the 4 banks. We have done this first portfolio and there are more than €20 billion in scope in terms of assets, of loans and associated with small and medium players in Greece with multiple exposure. So, there is more to come in that perspective. At the same time, you are right, there are also international investors active in Greece in order to take part into the deleveraging process and we are focusing on getting mandates from those investors. So, replicating the business that we have in Italy whereby we serve banks and investors so that we can have a stable and profitable business in Greece.

GURJIT KAMBO: Right, thank you.

ANDREA MANGONI: On the BPM transaction, the transaction is fully in line with our strategy because we are talking about a big chuck in terms of portfolio and the deal would be quite important because of the new flow contract, probably the last one in our market, I mean, in terms of size. If we will succeed in the BPM transaction, the impact will be on top of our current Business Plan both in terms of size, also in terms of growth and in terms of cash flow generation and profitability. I think we pay the right price for this platform will be important because in our case, the financial discipline is key, so the deal has to be accretive for our shareholders, but I think we are quite positive on this matter.

GURJIT KAMBO: Okay. Thank you very much.

OPERATOR: The next question comes from Myrto Charamis with [indiscernible]. Please go ahead.

MYRTO CHARAMIS: Yes, hello, guys, thank you. I just wanted to ask you if you have identified which are the factors of that operators, drivers for the share price volatility in the past 3 months. Thanks you.

FABIO RUFFINI: Yes, hi, thank you for the questions, its Fabio Ruffini. Now, let's say there are no operating drivers behind that, it's us quite the opposite, we have been updating the market with very strong sets of results and also provided more visibility on the medium term plan; you know better than we do thata lot of sort of external factors influenced the markets for the past few months, so we would you know, argue that's the main driver behind what we have seen happening to the stock price.

MYRTO CHARAMIS : Thank you.

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

FABIO RUFFINI: Okay, I understand there are no more questions and there are no more comments from our side. So, we would just like to thank you investors and analysts for participating. We wish you a good rest of the day. Thank you.

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