# doBank S.p.A.

## "Preliminary Full Year 2017 Results Conference Call"

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MANUELA FRANCHI, HEAD, INVESTOR RELATIONS

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the doBank Preliminary Full Year 2017 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 Ms. Manuela Franchi of doBank. Please go ahead madam.

MANUELA FRANCHI: Good afternoon to everyone. Thank you for joining our conference call, summarizing the preliminary 2017 results. Attending this call from the management team of doBank, are Mr. Andrea Mangoni, CEO of the Group, Mr. Fabio Balbinot, CFO and myself Head of Investor Relation.

Andrea, will begin by introducing the key highlights of our financial results, a brief description of the recent achievements and an update on the key transaction currently in the market. He will also share our current expectations for 2018. Fabio, will continue by zooming into the financial results for 2017, vis-à-vis our pro forma 2016. The remaining time will be devoted to your Q&A.

Over to Andrea.

ANDREA MANGONI: Thank you, Manuela. So we are very satisfied with our 2017 financial result, which paint a very positive picture for the Group and a good entry point for 2018.

Gross collections reached more than €1.8 billion, in line with our guidance, up 3% from 2016 despite a 5% lower GBV. This means, we

collected more on organic basis, a trend that will continue in the future to which we will add new flows.

Revenue increased by 3% to a gross figure of €213 million. EBITDA increased by 9% or three time faster than the top line. Thanks to further initiative on costs and exploitation of our operating leverage. As a consequence, EBITDA margin was up by 2 percentage point from 31% to 33%.

Net income was up by 11% and our ability to generate cash stayed very strong. The management of doBank proposed a dividend distribution of 70% payout ratio above our policy of at least 65. In absolute terms, it means more or less €31 million.

Over the past weeks, we reached three significant agreements which are already keeping us busy in terms of on-boarding.
The BMPS, REV and Berenice awards, a combined GBV in excess of €11 billion, confirmed our expectations and affirm doBank as the undisputed leader in the Italian NPL servicing market. These portfolios will allow us to take advantage of our operating leverage, which will benefit profitability.

In the forth quarter of 2017, the FINO securitization was successfully syndicated in the market and rated. We act as exclusive Master and Special Servicer on this transaction, the largest Italian securitization to date, therefore achieving the status of larger Master Servicer in the Italian market to date.

2017, was a very dynamic year for the Italian NPL market, and we expect 2018 to prove just as important. Banks' NPL strategies are becoming

more and more proactive with ambitious target involving loan portfolios and servicing platform sales.

We also see more opportunity coming from Tier 2 banking groups and keep on exploring contiguous market opportunities, both geographically and by product. With all this in mind, we expect to continue to grow collections significantly into 2018 and to continue to expand our margins.

Our main financial results are shown on Page 4. I would like to quickly comment on the collections, growing despite a lower average GBV. We collected about 2.4% of our assets under management, a significant improvement from the 2.1% in 2016, it means plus three percentage point versus minus five percentage point in the average GBV we have under management. We are particularly proud on this achievement, collecting more from the existing portfolio is one of our key value generation drivers and precisely what makes our offering attractive to clients, banks and investors alike.

Let us now move to the Operating Cost line, which increased by only 1% in 2017. We reduced real estate and general expenses to offset higher personnel cost. During the year we reinforced the management team and worked to attract and retain talent, without significantly increasing the cost base of the Group.

In Page 5, we recap the main recent contract wins. The awarded amounts are in line with our expectations, and we are on track to on-board the portfolios by the end of the quarter.

The Berenice and REV portfolios are actually on track to be on-boarded in February, ahead of schedule. We are unique in the market for the ability to manage projects of this scale and on-board large portfolios in a short

period of time with very low operational risk; if we compare it to our assets under management, the new contract wins, although very large in absolute terms at more than 11 billion euro, represent only about 15% of total.
Our operational model allows us to add these portfolios with no significant impact on our fixed cost base and a positive impact on margins.

Slide 6 shows the current competitive scenario in the Italian NPL servicing market, the largest in Europe as reported by PWC in the latest market survey.

We lead the sector both for Special Servicing and Master Servicer mandates and expected market to continue to offer significant growth opportunities. There is a clear case for banks to rely on independent servicers for their non-performing exposures.

Should banks decide to sell portfolios to financial investors, these portfolios will be managed by independent servicers, as investors do not have internal workout units.
Both of these trends should support the market in the future. We believe there is room for the third-party servicing market to grow above 200 billion euro in size.

The next slide is about the servicing pipeline in the market. Recently, we saw some large transactions coming to close. We expect more to come in 2018 as pressure mounts on banking group to be more proactive on NPLs.

ECB new guidelines regarding NPL provisioning are likely to increase the level of disposals and or outsourcing by banks which will lead to a larger reference market possibly including also more outsourcing of UTP servicing.

Small and medium banks are becoming more active, reaching their ambitious targets might include the search for partnerships involving their internal workout units as well.

Finally, I would like to go back to our strategic pillars. Three clear growth driver for the Group. First, Adding more servicing, either through sale of portfolios to investors that require a servicer to collect or through higher outsourcing of banks.
Second, increasing collections and efficiency on the loans we service, which we see as the organic growth of our business and dependent only on our ability to deliver and finally, growing our ancillary services business.
We have delivered on the 2017 target for these three pillars.

When looking at 2018, we aim to grow our GBV adding more mandates beyond what are already announced, significantly grow collections and continue expanding the Group's EBITDA and EBITDA margin.

We plan to present our Business Plan for the period 2018-2020, once the new Board of Director will be in place and by the end of the first half of the year.

I now leave the floor to Fabio to describe more in detail the 2017 results.

FABIO BALBINOT: Thank you Andrea and good afternoon to everybodyAs mentioned, 2017 results are in line with what had been anticipated at the IPO time in terms of collection growth, new contracts on ancillary activities and cost control. The main result of 2017 as compared with pro forma 2016 figures were gross collection at €1.84 billion growing 3% on a lower average gross book value.

Gross revenue at €213 million growing plus 3% versus last year. EBITDA at €70 million plus 9% versus last year. Expanding EBITDA margin at 33% up from 31% of 2016. High cash conversion due to limited CAPEX and the use of tax asset that remains a key value item in our balance sheet. Let's go in more detail into the key drivers of such trends.

In Page 11, we show the gross book value as trended from €80.9 billion at the end of 2016 to €76.7 billion at the end of 2017. The gross book value increase is due to new contracts for €3 billion and inflows from flow agreements in place for €1.7 billion, while reduction is driven by write-offs associated to collection for about €3.7 billion.

Portfolio sold by clients for €3.4 billion for which we were paid an indemnity fee as it is normal for our business and collection for €1.8 billion. Adjusting these figures for the recent contract wins, we mentioned today will bring the gross book value to nearly €88 billion.

We now manage a bigger portfolio, but also a more diversified one as shown in Page 12. In fact, looking at our portfolio by client, we note a much higher diversification today as compared with the IPO time.

Investors now represent 68% of our gross book value pro forma for the recent awards up from 40% at the time of the IPO with more than €18 billion linked to clients other than UniCredit, Fortress, FINO and Intesa.

Regarding revenues split between banks and investors, investor revenues increased to 19%, and we expect they should go up to about 40% by the end of the current year. The other key features of the portfolio are largely unchanged. We manage our highly secured large average sized portfolio, a proxy for the overall Italian market. All in all, we closed 2017 with a bigger more diversified and stable portfolio.

Our business is historically seasonal due to trending course activity and reward mechanism, the fourth quarter is historically the most important with between one-third and 40% of the yearly collection and even more softer profitability.

2017 seasonality was less pronounced that in the recent past also due to the lower average gross book value in the second part of the year, as compared to 2016. Despite this, we increased our yearly collection to the €1.8 billion.

Our collection rate for the year significantly improved at 2.4% versus 2.1% in 2016 continuing the positive trend since 2015. Overall, we are collecting more on a gross book value which is lower by 5% or 4.2 billion versus last year, in line with the second pillar of our strategy: increase effectiveness and efficiency.

The third pillar of our growth strategy are ancillary and other services, as well as, co-investment, described on Page 14. We have taken a series of initiatives to increase penetration of ancillary with current captive clients, as well as, to push commercial effort with non-captive these initiatives have started to materializing into revenues in the fourth quarter of 2017.

The FINO project allow us to be exclusive on the entire portfolio for two years at pre-defined prices, volumes and budgets for commercial information, real estate services and legal services.

Judicial support has signed a contract with UniCredit to provide legal services to the portfolio managed by doBank, and has just started to generate revenues in Q4 2017. Overall, we expect a stable growth in revenues for ancillary services in 2018.

I would like to briefly comment on the composition of our revenues described at Page 15. Collection growth was in line with revenue growth. The reduction in base fee was expected and in line with the lower gross book value managed. It is also more than compensated by the higher collection fee.

The average fee is also slightly higher due to a different collection mix, the contribution of ancillary and other is stable at about 8%. Outsourcing fees representing the fee paid to external collectors for the Out-of-Court Settlements are stable at around 8%.

Moving to Page 16, operating expenses were about stable year-on-year despite growing collection. Cost control is one of our main objectives and we were able to reduce real estate and general expenses to balance more HR cost in line with the plan.

HR expenses were linked to the strengthening of the management team that joined over the year as well as the introduction of an IPO incentive scheme since July.
IT expenses were impacted by one-off costs related to the migration to the internal platform, some of which have been postponed to 2018.
We expect cost savings in SG&A and real estate to be structural.

Moving to Page 17, Working capital reflects the trend in payments for Banks and Investors clients. The portfolio shift towards the latter is a net positive to us, as investors tend to pay faster due to SPV-level waterfall mechanisms.

Overall, our net working capital slightly improved year-on-year to €78,3m from €79,3m at the end of 2016. We will continue working to improve NWC going forward.

Finally, doBank benefits from a net cash position of €37m as of year-end 2017, up from €29.5 a year ago.

On Page 18, doBank's capital position is confirmed as very strong, owing to high capital metrics and no leverage.
Even after the €30m investment commitment made to Atlante II, the CET1 ratio stands at 26%.
As for our excess capital, using the most demanding SREP requirement, it stands at more than 80 million euro, giving us a lot of financial flexibility to support the growth of the business through M&A and co-investment.
With this, I leave it to Andrea for the conclusions.

ANDREA MANGONI: Thank you, Fabio. As a final comment, I would like to stress that we are very committed to continue growing the business profitably and to take advantage of the unique market opportunity ahead of us.

More specifically, for 2018, we are confident to be able to expand our GBV, beyond what already announced and on track to be on-boarded by March, working on business development in Italy and abroad to confirm our leadership position, to significantly grow collections and to make use of the operating leverage to the benefit of EBITDA and EBITDA margin, increasing our dividend payment.

As mentioned, in the next few months we plan to release an updated 3-years Business Plan which will include all the new initiatives we are working on and updated targets for the business.
Thank you for your attention and we are now available for questions.

Q&A

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

The first question comes from Luigi Tramontana with Banca Akros. Please go ahead.

LUIGI TRAMONTANA: Yes, good afternoon. And thanks a lot for the presentation. Congratulations for your results. I was particularly impressed by the capital position which further improved notwithstanding the €30 million investment in the former Atlante II. So my question is, considering this as very strong capital situation might you consider to increase the remuneration for your…for the shareholders or rather look for new co-investment initiatives? The second question is on the competition. The situation in the sector; we have seen that Intesa Sanpaolo is negotiating possible sale of the NPL servicing platform to a major European competitor? Do you think that this may put at risk your growth strategy or do you rather think that this is confirming just the fact that banks are considering the outsourcing of their portfolios, and therefore there will be more opportunities for everyone in the market, many thanks?

ANDREA MANGONI: So on the first question our capital position. I think, we can either increase our investment and accelerate our dividend policy, because again our situation is cash generative. This cash generation of the company, it is

strong and we can consider some M&A that the acceleration in our dividend policy will be one of the key drivers in our new business plan.

On the increasing competition in the market and referring to the Intesa transactions, we are positive, because we think, first of all, the new company resulting from the Intesa transaction will not be a competitor of doBank for the big portfolios, because having Intesa into the share capital of the Company at 49% it will be difficult for the major Italian banks to consider the JV between Intesa and Intrum as an option.

The Intesa transaction in our case is important, because paradoxically it's coherent with our equity story, because the Intesa transaction at the end demonstrate that banks need to outsource the management of the NPL to increase the performance of the internal workout, despite the position of Intesa before, the earlier position of the bank was in favor on the internal solution and against any kind of outsourcing.

So no threat in our case in terms of competition from the Intesa transaction, and I think the transaction is important because confirm our strategy in terms of outsourcing increasing.

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

ANDREA LISI: Hi, thank you for the presentation. I want to ask you a short question about the 1.7 inflows from existing clients. Can you tell us, what is the proportion coming from UniCredit? Thank you.

FABIO BALBINOT: Well, it is the majority of the number, but as you probably know we have other flow agreement with other banks, like smaller banks, like Credit

Agricole et cetera. So you see the total figure, of course, due to the size UniCredit represent the vast majority.

ANDREA LISI: Okay. Thank you.

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

MANUELA FRANCHI: Thank you very much for your time, and we look forward to hearing from you at the next conference.

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