doBank S.p.A

"First Quarter 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 Quarter 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 Ms. Manuela Franchi, Investor Relator of doBank. Please go ahead madam.

MANUELA FRANCHI: Good morning everyone, and thank you for joining our conference call on the first quarter 2018 results. Attending this call from the management team of the Bank, Mr. Andrea Mangoni, CEO of the Group, Mr. Fabio Balbinot, CFO of the Group, and myself from the Investor Relations team. Andrea will begin by introducing our financial results, the company's recent achievements and an update on the main developments in the market. Fabio will continue by providing more details on the financial results for this quarter, as compared with the first quarter of last year, and as usual we will close with a Q&A on the session. Over to you Andrea.

ANDREA MANGONI: Thank you Manuela. So the first quarter of the year was characterized by an intense operational activity, which did not prevent us from recording double-digit improvements in EBITDA and net income, and a net cash flow generation of nearly €10 million. It means over 96% EBITDA conversion rate. DoBank has shown strong execution in the last quarter, which bodes well for the rest of the year, so we are positive.

Gross collection stood at about €370 million in line with our expectation, which took into account expected seasonality. This figure is a 5% decline compared with the first quarter of 2017, but must be viewed in context of the GBV trend we experienced. In fact excluding the recently on-boarded portfolios, not yet reflected in collections, we collected 5% less on a 9% lower GBV, implying a better organic performance.

Collections in absolute terms will pick up significantly in the rest of the year as the new portfolios enter the active management and collection phase. Gross revenues were up 2% reaching €46 million with nearly stable service in revenues and growing ancillary and other revenues.

EBITDA increased by 12% despite the almost flat top line and on the back of a continued focus on cost reduction and the operational leverage in our business model. EBITDA margin was up by 2 percentage points from 22% to 24%. Net income was up by 23% and the company net cash position improved by a further €10 million as compared with year-end 2017. We shall pay a dividend of €0.394 per share with the highest dividend yield in this sector.

As mentioned, over the past few months we were busy onboarding several NPL portfolios for a total GBV in excess of €12 million. Our IT systems and management platform responded well to the challenge. The onboarding process started between February and March and the portfolios will fully contribute to revenues and earnings progressively from the second quarter.

April marked the opening of the Group's first international branch in Athens, Greece. The local NPL servicing market is developing fast and doBank's expertise and track record in Italy make the bank itself an ideal partner to local banks and NPL investors. The ambition is to become one of the leading NPL servicers in Greece and the market has the potential to be one of the future growth pillars of the Group.

Turning to the Italian NPL market, we currently witness an active pipeline of small and mid size servicing opportunity coming mostly from banks,

through GACS schemes, and portfolio investors. We are currently working on several GACS projects and are involved in a few competitive processes on which we will be able to update the market as soon as they materialize.

On this front, we stay selective, and continue to favor the mandates which allow us to deploy our rating leverage at best returns. In the meantime we are focused on execution and cost control. We are strengthening the balance sheet through organic cash flow generation, providing substantial shareholder remuneration via dividends and scouting the market for accretive M&A and co-investment opportunities. In short, the Italian and European servicing market continue to be well oriented with plenty of opportunities for doBank, but we have started actively to review also other markets. We executed the targets set at the IPO time and look forward to presenting the new three-year business plan in June.

Let's turn now to Page 4 for the financial result of the quarter. Briefly I would like to point out the strong growth in earnings, plus 12% EBITDA and plus 23% net income, achieved with low revenue growth at plus 2%. This is an example of how resilient our business model can be. In a quarter that does not reflect the full potential of the recent contract awards, still in early ramp up phase, we booked higher base and indemnity fees on top of an organic improvement in performance fees and more ancillary revenues. This helped us achieve a better revenue and profitability trend as compared with collections.

On Page 5 we provide a brief update on the ongoing work we are doing on the recently awarded new portfolios. The different work streams of the onboarding process are progressing in line with expectations, with REV, Berenice and other minor portfolios, where onboarding started earlier, at a

more advanced development stage. While we complete the activities to fully take on the positions in our system, active portfolio management has started and will progressively materialize in collection and profitability. These large awards reinforce our track record as an independent servicer in the Italian market, able to swiftly manage massive transactions which, via operating leverage, will be accretive to our profitability.

Moving on to Slide 6, a quick review of the market opportunity in the Italian NPL and UTP market. Starting form NPL servicing, we expect the Italian market to stay well above the €200 billion mark in the medium-term sustained by more outsourcing by banks, as demonstrated by the Intesa transaction, and more involvement of financial investor buying portfolios.

In the short term, we observe that regulatory pressure and the approaching possible expiry of the GACS scheme are leading several banking groups to press ahead with securitizations of portfolios, enriching the pipeline of servicing mandates for players, like doBank, offering top servicing ratings and a credible track record. Additionally, we see clear signs that the market is ready for a more structured approach of unlikely-to-pay exposures, clustered by the European regulator together with NPLs as non-performing exposure.

doBank is already one of the largest, if not the largest servicer of UTP in the Italian market managing about €1.8 billion UTP exposure. We are developing our internal capabilities to be ready to take advantage of the market opportunity. We expect this asset class to provide a medium term growth opportunity to doBank and we will expand more on the subject during our three-year business plan presentation in June.

Next, a few words on the Greek market. We are proud to have already setup local operations with a talented team of more than 15 professional actively pursuing servicing opportunities. The Greek credit servicing market has only recently begun to grow, since the local banking system has challenging NPE reduction targets of more than €40 billion in two years, which will be met through a combination of active asset management and portfolio sales. In a market with no clear incumbent, our knowledge of the restructuring and liquidation process in Italy, featuring a similarly complex framework, is already providing an appealing future to prospect client.

Lastly, I would like to go back to the strategic pillar of our IPO plan. The Italian NPL servicing market grew in line with expectations and we were able to secure new servicing contracts with deal sizes that even went beyond our assumptions. The Group has improved its organic ability to collect, kept the cost base lean and developed the ancillary business with new clients.

The upcoming three-year business plan will build on our strengths since the Italian NPL servicing market still provides plenty of room for growth. On top of these, however, we see potential in adjacent markets and products, which will lay out a solid medium term growth path for the Group beginning from Greece, Unlikely-to-Pay market and the option to use our balance sheet strength to grow via M&A.

So I will now leave the floor to Fabio to describe more in detail the quarterly results.

FABIO BALBINOT: Thank you Andrea and good morning to everybody. The main results of Quarter 1, 2018 as compared with the previous year were a significant

growth in gross book value up to €87.5 billion from the €76.7 billion at year end 2017 and €82.5 billion in Q1, 2017. Gross collection at about €370 million, lower than Q1 2017 as they do not fully reflect the newly awarded servicing contacts, as explained by Andrea. Gross revenue at €46 million growing by 2% and EBITDA at €11 million plus 12% versus last year.

Growing EBITDA margin at 24%, up from the 22% in Q1 2017 and a high cash generation with an operating cash flow conversion of 96%. The Gross Book Value figure reinforces our position as the leader in the Italian market for both special and master servicing and builds our future cash flow profile adding more long-term contracts, which, as a reminder, generate about 90% of our revenues.

In the quarter, not yet supported by the new mandates, the business was able to improve EBITDA margin by 2-percentage points and generate nearly €10 million of net cash flow, showing its resiliency.

Let us now go in more detail into the drivers of such trends. On Page 11, we show how Gross Book Value had strengthened from €76.7 billion at the end of 2017 to the current value of €87.5 billion, an increase of nearly €11 billion or about 14%.

Gross book value growth is due to new contracts for more than €12 billion, mainly coming from MPS, REV and Berenice contracts, and inflows from existing clients for about €0.3 billion, while the reduction is driven by write-offs associated with collection for about €0.9 billion. Portfolio sold by clients for €0.3 billion, for which we were paid an indemnity fee, as it is typical for our contracts and collections for €0.4 billion.

On Page 12, the main statistics which define our Gross Book Value show a continued improvement, in particular for what concerns client diversification.

Investor clients are now 69% of our gross book value, as compared with 40% at IPO time, with more than €16 billion linked to clients other than UniCredit, Fortress, FINO, and Intesa.

We also experienced a slight uptick in the average security level and in the loan size, both slightly up from year end 2017. Both factors are positive in relation to the profitability of our business. Our portfolio, given its size, continued to be a proxy for the overall Italian market: highly secured, and characterized by large average size.

Our business is historically seasonal with collection concentrated around year-end and before the summer holidays, as you see at Page 13. In light of this and based on our planning assumption, collections for the first quarter 2018 were in line with expectation and will pick-up progressively during the year. We confirm our target to significantly improve collections in 2018 as compared with last year.

Additionally, this quarter's comparison base was particularly challenging, since Q1 2017 collections were particularly high at 21% of total collection for the year versus 16% in 2016 and 17% in 2015.

Moving to the collection rate described on the bottom line right hand chart of Page 13, on a rolling 12-month basis it stood at 2.4%, flat between year-end 2017 and the end of first quarter 2018 when adjusted for the newly on-boarded portfolios.

On to Slide 14, our focus on Ancillary & Other revenues, which stood at 9% of total gross revenues of the first quarter, up from less than 8% a year ago.

During the quarter, we recorded a 23% growth in revenues, linked to several factors. The full effect of business information, real estate, and judicial management contracts with FINO, and of the legal services contract with UniCredit. New contracts with new clients in relation to onboarded portfolios. Due diligence revenues in the context of GACS processes, co-investment revenues from Romeo SPV and Mercuzio Securitisation. In addition, we improved our product offering for IBIS on the data remediation and data quality front, expected to yield results in the coming quarters.

Moving to Page 15, I would like to briefly comment on the items that make up our revenue and help explain the divergent trend between collection and revenues in the quarter. Lower collections had a direct impact on collections in absolute terms, mitigated by a slight uptick in average fees. In line with a growing Gross Book Value under management, base fees were slightly up as were indemnity fees linked to portfolio sales by clients. These factors resulted in servicing revenues being up 1% during the quarter. Besides the positive trend in ancillary and other revenues already discussed, I would like to mention the reduction in outsourcing fees, now at 8% of Gross Revenues, down from 9% last year.

Turning to expenses on page 16, our effort to limit costs resulted in a stable cost base in Q1 2018 as compared with the previous year. Higher HR expenses were anticipated and offset by a reduction in other cost lines, especially IT with more process internalization, and real estate. HR is

confirmed as the main component of our cost base accounting for 71% of total out of this figure about 11% is variable costs.

Finally, I would like to explain that quarterly expenses include certain set up costs for our Greek branch.

At €82.4 million, net working capital as of March 2018 improved significantly from €93.1 million of the previous period, helped by the ongoing client shift from banks to investors. This is a structural trend, so we expect to continue to benefit from the fact that investors tend to pay faster due to SPV level waterfall mechanism. The slight increase in net working capital from year-end 2017 is largely dependent on the seasonality of the business, which features more volatile commission payments during the year as compared with costs, which tend to be more stable.

Despite a slight cash absorption from the net working capital, in the first quarter 2018 doBank generated nearly 10 million in net cash flow, improving the company's net cash position from €38.6 million to €48.3 million. The cash flow statement has been added for the first time to the annexes of this presentation. This means, we turned 88% of the quarterly EBITDA into cash.

Lastly, on Page 18 doBank capital ratio paint a very healthy picture, with high capital metrics and no leverage. The CET 1 ratio stands at 27%, already including the effect of the €31.5 million dividend distribution, further improving from year-end 2017 and giving us financial flexibility to grow the business through co-investments and M&A with an excess of €80 million of capital. The composition of our risk-weighted assets is stable with operational risk representing more than 60% of the total €540

million of risk-weighted assets, and with that I turn to Andrea for the conclusion.

ANDREA MANGONI: Thank you Fabio. Just a few more words from my side. The first quarter of the year marked a positive start to 2018, it confirmed the resiliency of doBank and our strong execution in a quarter with no meaningful impact from the new portfolios under management. This makes us even more confident to be able to growth in a profitable way. We are currently working on a mid-term business plan, which will provide insight into how we see the business developing into the year 2020 and we hope to see you in London on June 19.

We will describe a continuing growth trajectory in the Italian core business as well as other contiguous market opportunities both by product and by market, coupled with operational enhancements aimed at creating more value for shareholders. Now we are available for your questions.

Q&A

OPERATOR: Excuse me; this is the 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 couple of questions, if that's okay. The first one is on consolidation. I've seen some very significant consolidation in the sector in the last month or so. If we could hear your thoughts on this particular aspect of consolidation. Do you see this in any way as a competitive threat and do you have any concerns over assets that you manage for Intesa at this point; you have indemnification fee as protection but just in terms of how we should think about the GBV going

forward as that transaction goes through. The second question, I think recalling what you said to us during your IPO process, you said that you had no plans to expand outside of Italy and you had no plans to look outside of the "Sofferenze" asset class. I think now with obviously your news today about your Greek expansion plan and you are now starting to manage assets outside of the "Sofferenze" classification. Not necessarily a criticism, I'm just curious to hear your thoughts as to why you maybe changed your minds on these two aspects of your strategy? Thank you very much.

MANUELA FRANCHI: Hi Owen. Andrea will answer to your question on the consolidation in the market.

ANDREA MANGONI: Hi Owen. I think the market will consolidate, but not in the short run, not yet, not yet because we are seeing in still new entrant in the market. The Intesa transaction is the best example and the market is still growing, so it's not the time for aggressive consolidation process. In the near future, the consolidation process itself can start but in our case the consolidation is not our priority. We are not a buyer of our main competitors in Italy because first of all we won leverage of our operational platform. We have an important room to exploit in terms of available capacity and secondly because in my opinion the acquisition price and the financial structure supporting the acquisitions are quite, quite aggressive. So just to recap, consolidation in my opinion itself not a matter for today in the Italian services market. And it's not our priority. Now, I will leave the floor to Fabio to answer your second question.

FABIO BALBINOT: Hi Owen, on Intesa, we are restricted but we can say that first the portfolio that will be sold is a small one compared to the total portfolio that we manage and we have the usual protection we have always described.

Second, on the focus, first of all we still…have been and will be focused on the Italian NPL which represents the vast majority of our revenues and where we see still a huge opportunity of both organic and nonorganic growth. At the same time though we have had a chance to exploit a couple of opportunities one is the Greek opportunities, the second one is the UTP that are not focusing our effort but that were a good opportunity to improve our business especially in the future.

OWEN JONES: Okay. Thank you very much.

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

GURJIT KAMBO: Morning. It's Gurjit from JP Morgan also just a couple of questions. Firstly, in terms of your outlook statement as you know it's quite an encouraging outlook for the development in gross book value, you know can you just give us some sort of thoughts the confidence around there, you know is there a pipeline you can see. That's the first question and then the second one is just around the EBITDA margin outlook for the rest of the year. I know Q1 is seasonally weaker but would you expect the leverage still to be present year-on-year so FY '18 versus '17 despite I guess the expansion to new markets like Greece.

ANDREA MANGONI: On the first question, we will update you on the situation on the market and our pipeline and our forecast for year end during the presentation of our business plan set for June '19 in London. On the EBITDA margin, the first quarter result is because of the seasonality of our top line dynamic. For the year end, we foresee an EBITDA margin well above 30% in the region of 33%.

MANUELA FRANCHI: Just to clarify, 33% was the last year results. We expect to do better than that.

GURJIT KAMBO: Okay. And just one follow up question, what is the outlook in terms of pricing, in terms of on the servicing side, do you see pressure on fees from customers?

FABIO BALBINOT: Yes, on the new mandates, we see an increased level of competition and so pressure on fees. That said, we are and we have been in the recent months very selective in accepting these opportunities because our goal is to improve profitability and not to increase revenues. That said, this quarter had a small increase in the average collection fee so it means the total contract on the asset that we currently manage are performing well also in terms of average fee which is very important.

ANDREA MANGONI: And we currently see quite aggressive price competition for the small portfolios, but as Fabio said we want to be selective but we are selective because in our case financial discipline is key and small portfolios are not our target. Again, I don't foresee a relevant threat for doBank in terms of growth and profitability from the price war underway for the smaller portfolios.

GURJIT KAMBO: Thank you very much.

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

ANDREAS MARKOU: Hi everyone. Thank you for the presentation and for taking my questions, so two of them. First one is you mentioned in your Slide about your target of increasing collections on your existing portfolios. Can you give us

some examples of what steps you are taking…what actions you are taking towards this goal?

And second question obviously, this quarter you have had a good performance in terms of cost management. Can you give us a bit of flavour as to where we may see more cost reduction possibilities going forward? Thank you.

FABIO BALBINOT: Andreas, so action in terms of doing…improved collection, actually we are still in the process of improving our collection machine. Some of the investments we have done last year are deploying their effect this year and we have seen some of those results in Q1, consider that the 12 billion onboarding put a lot of pressure on all the organization and despite that the quarter was a very stable quarter. And we see still possibility to improve our operations. On the cost reduction, I would say two trends; one is HR where we don't expect a reduction in the cost at least this year. While on all the other costs we are still in the process of reducing them, Q1 was an example, and the trend is still continuing.

MANUELA FRANCHI: Maybe one point to mention that it is quite an important project, we will discuss in more details in June, it's regarding obviously the platform migration which we had also mentioned as a project at the IPO time starting from '18, we have two platforms one the Italfondiario and the doBank platform, obviously by migrating into one single platform we think we will improve the performance of the IT base because it's not the only the sum of two, but it's actually the improvement from best of the two. This will allow asset managers to work better with more efficiencies and savings coming from that project. So, it's something we are working actively and we believe in good results from that initiative.

ANDREAS MARKOU: Okay. Thank you very much.

ANDREA MANGONI: So, all in all, we strongly believe that we can give you positive news both on the EBITDA margin side and in terms of organic growth for this year.

ANDREAS MARKOU: Great, thank you very much.

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

ANDREA LISI: Hi, thank you for the presentation. I want to ask a couple of questions from my side, the first one is looking at Slide 6, I assume that the graph showing the evolution of the NPL servicing markets significantly improved in terms of higher mass with respect to what was reported in the previous presentation. I want to ask if this about 30 billion increase is entirely related to the new platform ISP-Intrum or if there is also something new that they can represent the opportunity for you. The second question is about M&A, I know that you have an operating structure to deal with significantly huge amount of NPLs with respect to the amount you currently own, but I want to ask if you could be in the process of bidding for NPL platforms if they come in the market I think for example to the BAMI platform that when they say is that they have a…they cannot rule out that they will sell it. And the last question is on the UTP market, maybe you will provide more information on the…when you present the plan in June but I want to ask if the graph refers to the UTPs that are in the process of becoming NPL or if it also considered those UTPs that can come back to bonis? Thank you.

MANUELA FRANCHI: On the three questions, on the chart that you can see on page 6 on the left. I think the market estimates at the IPO time was around 200 billion in 2018, the analysis has been updated by third party consultants and it's

driven by the Intesa transaction that you know its an outsourcing of in total around 40 billion, so explains pretty much all the difference. In terms of M&A platforms coming to market, as we have mentioned in our previous call, we believe that there will be others on the back of the Intesa transaction but just because we all believed in this critical path of banks going to outsource more on the NPL side, more of them will come to market. We always look for M&A opportunities for peers and platforms because it's part of our core business. But, as Andrea mentioned obviously we are more stringent probably in terms of what we look out from these opportunities compared to others given that we have the operating machine to already with capacity to manage more business. So, we will definitely look to them to confirm if they come to market, but with a pretty much clear criteria on how we approach them.

Last on the…UTP, obviously we will dedicate a session in June, but the chart on the right represents the estimate of what will be managed by third party servicers in the future. So, it includes both what they think will eventually trend down to NPL as well as what could be restructured and go back to performing.

ANDREA LISI: Okay. Thank you.

MANUELA FRANCHI: IT is a bottom up analysis, actually, as far as I understand from consultants.

ANDREA LISI: Okay. Thank you very much.

OPERATOR: The next question comes from Anjli Shah with Aberdeen Standard Investments. Please go ahead.

ANJLI SHAH: Good morning. Just have a few quick questions about the Greek NPL servicing market, so first of all, what is the cost for setting up the Greek branch, can you quantify it? Also can you provide color on how the margins for the Greek NPL servicing business may differ from your Italian operations given that you're effectively building up from scratch there and making new hires etcetera. So, really the question I am trying to answer is, is this Greek operation dilutive to your margins. Thank you.

MANUELA FRANCHI: On the first question the estimates of the cost for the setup is around half a million. And in terms of margin we think that the overall margin of the group will improve obviously when you start operation, but that's typical of even, you know, the other contracts we have in Italy, the margin is lower than the overall group margin. But, we are talking about not a negative margin, actually a positive margin. So, it's actually a start-up which has profitability day one we believe.

ANJALI SHAH: Okay. Thank you.

OPERATOR: Gentlemen, there are no more questions registered at this time. Gentlemen, would you like to have any final comments to conclude the conference.

MANUELA FRANCHI: Yes, we just want to thank all of you analysts, investors and all the people who joining the call and we hope to see you again in June in London. And we will send you the details of the time and location very soon. Thank you very much.

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