

doBank S.p.A.

"Nine Months 2018 Results Conference Call"

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OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the doBank Nine Months 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: Thank you. Good afternoon everyone. Thank you for joining our conference call on doBank's financial results as of the end of September 2018.

Attending this call from the management team of doBank, Mr. Andrea Mangoni, Chief Executive Officer of the group, Ms. Manuela Franchi, Chief Financial Officer and Mr. Fabio Balbinot, Chief Servicing Officer.

Andrea, will begin by reviewing the main financial results, the current market opportunities and the pillars of our Business Plan, Manuela will continue with more detail on the financial results, and Fabio will be available with the rest of the team during the Q&A session which will follow.

Over to you Andrea.

ANDREA MANGONI: Thank you, Fabio. The results so far in 2018 marked further progress towards the achievement of our mid-term Business Plan. Revenues are up at double-digit rates with improving collection volumes and collection rates.

EBITDA is up three times as much, plus 30% or plus 5 points as a percentage of the revenues, from 29% to 34%. Free cash flow generation at more than €38 million, and we continue to win new mandates confirming our #1 market share in Italy and improving the group long-term cash flow profile. In fact, we have already achieved the low end of the 2018 guidance to add additional €3 billion to €5 billion of new NPL mandates in Italy. We are also happy to confirm that pricing terms are in line with our expectations.

The third quarter of the year shows a meaningful acceleration in collections that is consistent with our guidance, the on-boarding timing and the collection curves of the recently on-boarded portfolios. The new NPL mandates we manage are beginning to show their impact in the P&L and to improve the average vintage of our asset under management, providing support to collections, which is organic in nature and which will continue. This is a key feature of our business model, to rely on long-term predictable cash flow, something that makes doBank different from other financial companies and therefore more resilient through macro cycles.

Since the IPO we have attracted new clients as an independent servicer, diversified from banking NPLs, into investors NPLs, now 71% of our GBV, improved the average length of our contracts, more than 90% of which are long-term, entered a very promising early-cycle market in Greece with a unique systemic contract. We are also pleased to have reached an agreement with Co-operative Banking Group Iccrea, for the management of combined €2.4 billion of NPLs, mostly through GACS.

Finally, just a quick comment on the Group reorganization, which will allow us to use the full capacity of our balance sheet in 2019 for M&A growth. The first step has just received regulatory clearance, so by year

end we will focus special servicing activities in doBank, and the master servicing activities in Italfondario, improving the specialization of our operating companies and creating opportunities for further efficiencies and synergies.

Let us now move to Page 2, for a brief update on the NPL pipeline. Regulatory pressure and asset quality targets continue to be supportive for NPL services. As we said in the past, the current market scenario is characterized by a number of medium-sized transactions. They involve both Tier 1 and Tier 2 banking Groups. Some of them involve the sale of NPL platforms, this is quite natural when a bank decides to sell most of its exposure and future NPL flows.

A conservative estimate puts the current opportunity in Italy at more than €30 billion with doBank active in several processes, assisting investors in due diligence or negotiating management mandates directly with the originating bank, both for NPLs and UTPs. So far, we see no signs of slowdown in the transaction pipeline and continued investor interest.

Following the more than €130 billion transactions, mostly in the primary market over the past couple of years, we also believe that there will be a wave of secondary market deals, perhaps an opportunity that today is underappreciated.

On Slide 3, the opportunity in the medium term for servicers. The Italian NPL servicing market is worth more than €240 billion. We intend to continue leading this market, especially where competitive pressure is lower, so large, corporate, secured portfolios. We intend to be selective and to focus on the most accretive mandates where to deploy operating leverage. As of today, we have achieved the lower end-of the 2018

guidance of additional €3 billion to €5 billion of new GBV, at attractive pricing terms.

In UTP, where we already manage about €2 billion, we are counting to see interest by major Italian banks while taking part in investors due diligence for portfolio acquisitions. We expect to be able to update the market with positive news on this front by the first half of 2019, in line with our plan.

For Greece, we are proceeding according to plan, with business planning phase ongoing and collections expected to begin in January. We are happy about the way the platform is performing and about the team we are building, something appreciated by our new clients, the 4 systemic banks. Beside the first €1.8 billion mandate, we are actively pursuing new business from banks and investors and are currently taking part in several due diligence processes assisting investor bids.

On Page 4, few words on our track record in managing the macro cycle both up and down. By design, our business model has counter-cyclical features, mostly driven by the new inflows and by the ongoing work we do on our IT system and internal processes to improve the way we collect across the cycle. An additional level of comfort, here, should be given by the fact that we always assume cautious macro when we plan for the medium and long term.

On the left side of the slide, you can appreciate our investor portfolio track record, which has generally outperformed the Business Plan. A key point here is that we are subject to stringent collection KPIs in up and down macro cycles and we never breach them resulting in contract losses.

On the right side of the slide, we display a real case of a long-dated portfolio which during recession times performed in line with what we should expect in a typical collection curve. It's a closed portfolio we have been managing for more than 12 years, so without the benefits of new inflows. As you can see, the behavior is consistent with expectations despite the links with GDP growth, real estate prices and private wealth. It would have been even better with new inflows, typically rising in a recession.

Finally, a few words on how the results fit into our medium term Business Plan. We are reinforcing our leadership in Italy, winning the new business while starting to capture benefits from early cycle developments in Greece and in the UTP asset class. Cost control remains key, sustained by IT investments, which free-up resources and empower asset managers to decide based on superior data.

Starting from our high organic cash flow generation, the new Group structure will allow us to use debt capacity up to three times net debt to EBITDA in 2019, providing new growth drivers to the benefit of shareholder value creation.

So with this, I now leave the floor to Manuela.

MANUELA FRANCHI: Thank you, Andrea. On Slide 7, we highlight the main results of the first 9 months of 2018 as compared with the previous year, a 6% growth in GBV, up to €83.5 billion from €76.7 billion at the end of 2017, reinforcing our market leadership. With the recently awarded mandate in Greece, these figures would be higher by €1.8 billion to €85.3 billion. We prefer to show them separately as we report them for our Business Plan targets.

Gross collections at more than €1.3 billion, growing 8% year-on-year on the back of a stronger Q3, which was expected, in line with on-boarding phasing. As I will detail later on, last year seasonality of collections and the initial benefits of the new mandates explain such strong and concentrated growth.

Gross revenue stood at €162 million, up 11%. Gross revenues benefit from both the performance and base fees in a context of stable average fees plus growth in ancillaries and portfolio sales indemnities.

EBITDA at €54 million, plus 30% versus last year, is a combination of both strong top line growth but moreover a significant cost control measure which includes also €800,000 of start-up costs for Greece and UTP business in line with the guidance. Growing EBITDA margin by 5 percentage points up to 34% from the previous 29% in the first months of 2017 are a good achievement for us.

Net income is up 29% to €55 million in line with EBITDA growth and supported by just around €1 million gain from the sale of the 45% stake in BCC GeCre. High cash flow generation is confirmed with operating cash flow conversion of 94% and the net cash position at €38 million despite the dividend payments and investments.

Let's us now go more in details about such trends and the key drivers. On Page 8, we show assets under management which trended from €76.7 billion to the current €84 billion, an increase €7 billion or nearly €9 billion including the Greek mandate. In these numbers, we haven't included yet the vast majority of the new pipeline which we have signed but not on-boarded.

GBV growth is linked to new contracts for more than €12 billion coming from MPS, REV, Berenice, as well as other minor contracts. And inflows from flow agreements in place with current clients for about €1 billion, while are reduced by write-off to collection for €2.1 billion, portfolio sold by clients for €2.8 billion for which we received an indemnity and collection for €1.3 billion. These figures as highlighted do not include also the deals we are working for new pipeline obviously.

On Page 9, we provide the key stats on our portfolio composition, which are not significantly different from what you are used to seeing. Investor clients are now at 71% of GBV compared to 40% at the IPO time, more than €16 billion linked to clients other than UniCredit, Fortress, FINO, Intesa. As compared with the end of 2017, our average security level and loan size are both higher, positive trends in relation to the profitability of the business.

We manage the largest portfolio in Italy, much larger even than the main Italian banks. It is fair proxy for the overall market, highly secured and characterized by medium to large average sized tickets.

Let's now move to Page 10. Understanding the seasonality of our business and how that can vary from one year to the other is key to interpret our results. Collections are concentrated around peak times for the Italian court system, especially in the last quarter and also the variable compensation scheme skewed results towards the end of the year.

Anyhow, we have achieved in this part of the year significant results compared to the full year and therefore the last part this year will represent...a smaller proposition compared to 2017.

On the ancillary side, we continue with our objective to go beyond our targets of IPO and in line with the new objective of a higher penetration of our client base. In the first 9 months of 2018, we had a 31% growth in revenue with the new contracts, with new clients in relation to the on-boarded portfolio, data remediation contracts with non-captive clients, due diligence revenue in the context of the GACS processes we were involved in, and co-investment [revenues] from the current investments.

This revenue line includes also the cost reimbursements of the running costs of our operation in Greece of around €1.5 million. And in line with the agreement with the 4 systemic banks, we will transition to a new framework in 2019 where we move out from the cost coverage model to a commission scheme at the end of on-boarding and Business Plan process.

Let's move now to the analysis of gross to net revenue; base fee was slightly up, in line with growth of GBV, but most of the growth came from performance fees due to the higher collected amount on stable average fees. We already mentioned the strong growth in ancillary and other revenues and also recorded growth in indemnities from portfolios sold by our clients, a protection included in all of our contracts. A final note on outsourcing fees, growing year-over-year mostly because of the components related to ancillary products, which are obviously growing.

Outsourcing fees from NPLs servicing are stable as a percentage of gross revenue and we expect this ratio to progressively go down by 2020, in line with our business plan targets, since we reduce the outsourced volumes and continue to focus on large loans. The other components of the bottom line results are obviously cost initiatives, which are driving the performance in EBITDA growth. HR expenses were up as anticipated due

to the strengthening of the top management and the full time impact of the post IPO variable compensation scheme.

We will not record in 2018 the extraordinary potential cost related to layoff, but the impact will be shifted to 2019 due to the ongoing union negotiations. This doesn't mean that there are difficulties in negotiation, it's just the timing it takes to...for this processes to complete. The change in HR cost was almost completely offset by a reduction in other cost lines, especially IT with more process internalization. DoBank operating leverage is clear from these numbers and our efforts to improve the efficiency are unchanged.

Finally, I would like to point out that the operating cost include a part of the setup cost for Greece and UTPs, where we clearly stated and we wanted to give you an indication, so that you can calculate both these exceptional from what is ongoing and for the first nine months is around €800,000. The result of this is the higher EBITDA margin, up to 34%.

On Page 14, the key highlights on net working capital and net financial position, at €83 million net working capital improved from €84 million of the previous period despite revenue growing double digits. This positive trend is mostly driven by the shift to investors, which we always said improves working capital because of the waterfall payment mechanism. The net cash position grew to €38 million despite having paid, €31 million in dividends and the second tranche of our investment in the Italian recovery fund.

Free cash flow generation was strong at €38 million, in line with the recent past. Our ability to generate cash and the new corporate structure will allow us to use balance sheet for further M&A. Discussions with potential

debt financing partners demonstrate also strong appetite for our credit even in this current market condition. And we are confident to be able to deploy it to the benefit of shareholder value.

This concludes our introduction and we are now 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 Andreas Markou with Berenberg. Please go ahead.

ANDREAS MARKOU: Hello, everyone, many congratulations on the results and thank you for taking my questions. So I have a couple, the first one is related to your collection rate in what would be a negative microeconomics scenario. So, if we go back to Slide 4 and think of the data you have shown us here in terms of a collection rate, what would you say is representative collection rate or range for a negative microeconomics scenario for Italy going forward. That's the first one. The second one is, if you can actually give us numbers for the indemnity fee for the 9 months of 2017 and then the 9 months 2018 that would be helpful. And the third, if you can give us some update on M&A and that's most specifically for Banco BPM, but also a bit more general outside Italy, what you are looking at? Thank you.

FABIO RUFFINI: Thanks, Andreas. I will take the first...the first question. With this set of results, we wanted to acknowledge and provide some more granularity on this front. Obviously, our business model is not completely insulated from macro, but we believe there are quite a few counter cyclical and defensive elements. We tried to show our track record which is quite long on one of

the most long dated portfolios, which didn't have new flows, and I think this provides comfort that you know, up and down the cycles we never breached our contractual agreement.

So having said that, we plan conservatively for macro and we are confident and actually reiterating our targets in terms of collection rates in the current environment which is not more negative, let's say than our basic assumption for dobank. Unfortunately, we cannot get more specific on this front.

ANDREAS MARKOU: Okay.

MANUELA FRANCHI: On your second question Andreas regarding the average fee, if I'm not mistaken you asked. Our base fee over the total GBV is identical to last year. The percentage of performance fee on the nine months is in line with the last year, you know, we have an average 8%, and it is consistent with the average for the nine months of 2018. Also in the new mandate, we are achieving similar levels.

I take also the last question on M&A, as you rightly pointed out, we are in an important phase for the Banca Popolare di Milano offer which were binding offers due this month and also there are processes ongoing in other of the countries, we highlighted as our areas of interest, which is Southern Europe, and the countries we have always indicated also in the Business Plan presentation. So basically Greece, Spain, Portugal and the like.

ANDREAS MARKOU: Okay.

MANUELA FRANCHI: We monitor them continuously, obviously, we cannot point out to which processes we are more focusing on, but many things are happening in the space.

ANDREAS MARKOU: Okay. And can I go back to the second question on the indemnity fees. Is it possible to get an absolute number in terms of how many million it was last year and this year?

MANUELA FRANCHI: Yes, it's...last year was around €7 million and this year it's around €11 million.

ANDREAS MARKOU: Okay, so are you may be seeing higher flow, higher sales of NPLs from your AUM?

MANUELA FRANCHI: Not, just because...taking into account that last year one important sale from one of our clients was UniCredit, but portfolio was shifted to us, which was the Fino portfolio. So overall, we didn't take the indemnity for that, but in terms of absolute amount of how much clients are selling, they are selling in a similar way. There is also a context of concentration in quarters. So you have to look to the annual figures. So we don't expect the total to be very much different on an annual basis.

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

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

GURJIT KAMBO: Hi, there. Good afternoon. Just a couple of questions. Firstly, the collection rate improved to 2.5, I believe versus 2.3 last year. And I think you said if you exclude some of the new contracts, it's around 2.3. And you are sort of sticking with the guidance to around 2.6. I am just trying

to understand the trajectory between now and 2020. You know how that will move or how we should expect that to move. So that's the first question? And then the second one is, within the ancillary revenues, I believe there is a €1.5 million of sort of one-off cost which are relating to the Greece business. That is...so is this one-off or is this is something which you would expect to come back again in Q4 and in 2019?

FABIO BALBINOT: Okay. Hi, Fabio speaking. I'll take the first question. Look the improvement in the collection rate is as expected due to the startup of the new portfolio that was on-boarded in the first-half of the year. So they are almost €12 billion that we have been granted. And in terms of going forward, we expect a mildly growing rate, stable to mildly growing collection rate. Since the effect, the benefit effect of this new portfolio collection has just started during Q3, we expect that it will go on during Q4 and next year for the full year.

MANUELA FRANCHI: On the Greek question, I will explain a little bit better on my side how the contract in 2018 was. We have revenue, we have cost which are fully reimbursed by the banks, so we report on the other revenue, the revenue we are reimbursed for, so the €1.5 million and on the cost side, spread all over the cost items, the corresponding costs we face, so for a similar amount.

When we think about the one-off cost, they are on top to what is reimbursed and we said in the plan that everything is reimbursed in terms of running cost, and then we have set up costs which we face ourselves and we estimate it to be €500,000. They were actually below that number, so when we said €800,000 it is because it includes also UTP set up, so overall, UTP plus Greece is €800,000 while only Greece, the target was €500,000 and its number that is today below that.

GURJIT KAMBO: Okay. That's great. That's helpful. Thank you very much.

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

ANDREA LISI: Hi, thank you for the presentation. I want to ask you if you can provide us more color on the fee structure in Greece. We know that in Greece, it is difficult to talk...to distinguish between NPL and UTPs and if you can provide us which is the average fee, how does it work and also if the contract that you are also looking at provide a similar fee structure to the one you already on-boarded. Thank you.

FABIO BALBINOT: Thank you for the question, Andrea. Look, as we have mentioned probably in the past, Greece is the early stage market, so it's very different from Italy that is not a not standard market approach for UTP and NPL management. So this is the reason why we started up the deal with the 4 banks, 4 systemic banks with the cost coverage. And we are discussing with them, we started discussion with them to move to a variable scheme. This variable scheme you can assume it will generate the same returns that we have and in some way it will reflect the experience of the Italian business, so if you consider the fee scheme and the margin that we do in Italy, we expect to replicate them in Greece as well.

ANDREA LISI: Okay. Thank you very much.

OPERATOR: The next question is from Myrto Charamis of Liberum. Please go ahead.

ANALYST: Yes, hello guys. Thank you for the presentation. I just wanted to get your comment on the market and the price...the price in the market and whether you think there is anything you can do to support the price and

perhaps educating investors around what's going on right now with the price in the market and politics perhaps. Thank you.

FABIO RUFFINI: Hi, thank you. I think we mentioned it in the previous call. We are focusing on our fundamentals. We are executing the plan. I think if you would look at us right now versus roughly a year ago, you will argue that our company is more diversified, has a more clear medium term growth path and that is showing in the numbers that we are starting to print, especially with this quarter showing that. So I think we are deploying the right levers, communication -wise, we have been pretty active actually. We focus on how we are different from some of the other financial companies that have radically different fundamentals. Today, we try to give more data for as much as possible about how we believe we have significant defensive features. So I think from our front, you know, this is the game plan and we don't think it will change.

ANALYST: Great. Thank you.

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

FABIO RUFFINI: Thank you. Thank you then for joining the call. And have a good rest of the day. Bye-bye.

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