



T R A N S C R I P T

Conference Call Transcript

First half results 2014: Analyst Call

Event Date/Time: Paris, July 29th 2014 / 06:00PM CET

Operator (Audio begins in progress)

Ladies and gentlemen, welcome to the Coface 2014 first half results conference call. I am now handing over to Mr. Jean-Marc PILLU, CEO of Coface. Sir, please go ahead.

Jean-Marc PILLU, CEO, Coface

Thank you. Good evening everybody. It is my pleasure to welcome you to this conference call on Coface's H1 financial results. This is our first call since our IPO one month ago. I will make some general comments on these results, and then I will give the floor to Carine PICHON, our group CFO, for more detailed comments and explanations.

Firstly, I am very happy to present to you with results which are in line with our guidance in all respects. Please refer to page 3 of the slide-pack: if you look at the top line, you will see that we have posted growth in total turnover of 1.8%, with growth in premiums of 1.7%. This is in line with our guidance, which you may remember was in the range of 1.5 to 2.5%. This is a good evolution compared to last year. As a reminder, the figures for 2013 were -1.6% and -0.9%. We are now on track to grow our top line.

An additional comment, which you probably saw in the recent press release, is that I have nominated Nicolas GARCIA as group commercial director. Nicolas reports to me and is a member of the management board and the executive committee. Nicolas will assume full responsibility for what I like to call 'the commercial factory', that is to say, the implementation and the strengthening of local commercial organizations and development all over the world. He will do so in close collaboration with Patrice LUSCAN, who you all know already. Patrice will focus more on innovation, products, partnerships and the opening of new countries. I am pretty sure that with Nicolas and Patrice, we will do a great job on our future top line development. These are my overall comments on turnover.

If we look at the net combined ratio, here again there is a nice evolution compared to last year, with a combined ratio of 77.8%, decreasing by 4.8 points as compared to H1 2013. This is, especially, thanks to the loss ratio, which decreased by 5.3 points, but also due to an early-stabilized cost ratio. Carine will show you that we totally control our expenses and we have even been able to decrease them slightly, at current exchange rates. These two items are the main contributors to the current operating income, excluding restated items, of 109 million euros (an increase of 24%) and to net income, also excluding restated items, which grew by just over 40% compared to the previous year. Here again, we are in line with the double-digit average yearly growth target for the next 3 years.

So, globally, we consider these as good results. I now give the floor to Carine for further detailed comments.

Carine PICHON, Chief Financial Officer, Coface

Thank you, Jean-Marc, and good evening everybody. So I will now go into the details of our P&L figures.

Let's start with slide number 4 which shows the main components of our commercial performance. This is, in fact, the basis of the 1.7% growth in our earned premiums for the first six months of the year. New production continues to grow. This amounted to 90 million euros for the first six months of the year, which is growth of 14% compared to last year (which already showed an increase compared to the first half of 2012). We are also continuing to retain our clients. The retention rate, which measures our capacity to retain clients, remains at a high level - at 92.3% for this semester. This is not only an improvement on the first half of 2013, but also on the two previous years.

Another component of our turnover evolution is the price effect. As you know, when we are in the upper part of a cycle (as is the case) we benefit from a loss ratio point of view. We will come back to this. We know that we have to give back some of the premium to our clients as they are also aware that the loss ratio is improving. However, we are maintaining the decline in price, which you can see is at -0.8% for the first half of 2014. This decline, in any case, is more than compensated for by the volume effect from our clients, which is 1.7% for H1 2014, compared to 0.9% for the first half of 2013. So these are the main components, overall 'green', which were the basis for the 1.7% growth in our earned premiums.

If we now look at slide number 5, you will see that total turnover increased even more than the growth from premiums, by 1.8%. Here we have made a specific focus on fees. Fees are a non-risk component of our revenues, as they represent complementary revenues from our clients. The ratio of fees over gross earned premiums amounted to 12.4% for this semester, which is 0.2 points better than for the first half of 2013. What does this mean? It means that fees grew at a higher pace than our earned premiums, which is good in terms of profitability. So this covers the growth split per component.

Now, if we take a look from a geographical perspective, as seen on page 6, we have split the world into 7 regions. As a general comment, a common feature for all 7 regions where we underwrite policies is that we have good client retention rates. This is supported by the fact that our commercial strategy, in all our regions, includes offering more services to our clients.

Looking at the figures per region in more detail, in the first half, we achieved strong performance in emerging countries, and also in North America. For the Mediterranean and Africa region and the Latin American region, we posted, at a minimum, growth of 5.2%, with up to 11% in North America and 8% in Latin America. Another comment, mainly on the other regions, is that we are undergoing commercial reorganization. This was discussed during the IPO process and mainly concerns Germany and France. You can see that for Northern Europe we posted a slight increase and for Western Europe, a decrease. An additional comment on this slide relates to factoring, which has contributed to growth during the first six months in Germany and in Poland, the two countries where we operate this activity. These are my comments on the evolution in turnover.

If we now look at the loss ratio on slide number 7, the gross loss ratio before reinsurance is still under control. We posted 48% for this semester, which is an improvement compared to the past. This is a controlled loss ratio. What is interesting on this slide, is the split of this loss ratio between the loss ratio for the current year (as a reminder, this is the loss ratio for all the policies we had to subscribe to since the beginning of the year) and the release of provisions.

The runoff effect comes from the reassessment of the previous periods. You can see that for the first six months of 2014, the 48% becomes 45.7% because we exclude claims handling expenses. This 45.7% is split as 72.7% for the loss ratio of the current year and 27% for the positive runoff. So if we try to compare this with what happened in the past, you can see that by comparison to the end of March 2014, in terms of loss ratio for the current year, we show an improvement of 0.3%. Also, you may remember that we have guidance on the loss ratio for the current year that should be lower than the loss ratio for 2013. As you can see, it was 72.6%, so we are in line with our guidance in that respect. In fact, by the end of the year, it will be lower than the 72.6%.

Now, moving on from the loss ratio, let's look at the costs on page 8, which were mentioned during Jean-Marc's introduction. Global overheads amounted to 341 million euros, a decrease of 1.9% and an even greater decrease of 3.2% if we look at internal costs alone. We need to take into account the fact that last year we had some costs due to the relocation of our head offices from La Défense to Bois-Colombes. So restated for this effect, and at constant FX and Group structure basis, our costs grew by 1.3%. This is lower than the growth in earned premiums which was 1.7%, so costs are evolving at a slower pace than premiums. This is in line with the global guidance we gave you for this year and also for the years to come.

Generally speaking, if we look at the gross combined ratio evolution on page 9, you will see that we posted a gross combined ratio of 76.9%, of which 29% is cost ratio and 48% is loss ratio. This is a decrease of 5.6% compared to the first half of 2013. It is not only better for this period, but also better when compared to the full years 2012 and 2013. This is mainly due to an improvement in loss ratio and stabilization in terms of cost ratio. So there is a general improvement before reinsurance.

If we now look at the reinsurance results, on page 10, what we have done is to remind you of the retention rate (in other words the ratio between our net earned premiums and gross earned premiums). As you can see, this retention has increased. This is no surprise as, as you may remember, we decided to decrease cession from 25% down to 20% for the quota share treaty, with the global reinsurance treaty that we have. This means that we retain more margins, which was our aim. You can see this in net earned premiums over gross earned premiums. In addition to retaining more margin, we have also been able to increase the commissions we receive from our reinsurers. Our reinsurance commission over ceded premiums is 35.3% for the first half of 2014, compared to 34.8% for H1 2013. So there is an improvement in reinsurance commission, thanks to the fact that we have been able to prove that we are good at monitoring our risks.

As for reinsurance results, the cost of reinsurance is 36 million euros, as you can see in the lower part of the chart. It is clearly higher than 29 - not because of the reinsurance conditions that I just explained, but rather because the loss ratio has improved. When the loss ratio improves, you automatically have a higher cost of reinsurance, but globally better reinsurance conditions.

On slide number 11, in terms of improvement on the net combined ratio, the net combined ratio is 77.8% compared to 82.6% for H1 2013. So there is improvement with the loss ratio I described earlier and stabilization in terms of net combined ratio. This improvement of net combined ratio - I am just coming back to this - is the basis of the underlying growth in the operational results we have posted.

On top of this, we need to add investment income, which you will see on slide number 12. What is interesting on this slide is if we look at the two figures on the bottom right of the chart.

The first one is the accounting yield on the average investment portfolio, which is 1.8% and, maybe even more relevant from an economic point of view, the economic yield on the average investment portfolio. What is the difference? It is the fact that we have integrated into it unrealized gains on our investment portfolio. This figure is 2.4%, so it is better than the 0 we posted in H1 2013 – or even for the full year. This is the result of the full centralization of our asset portfolio that we carried out progressively last year.

Finally, on slide number 13, you can see that the return on average tangible equity is 10%, which is better than the 8.4% which was posted in 2013, 8.6% in 2012 and even the 5.3% in 2011. This improvement comes partly from a basis effect. What you can see are changes in equity because we distributed a share premium in Q2 2014 and there was an improvement in our net result. As I reminded you at the beginning of the presentation, we have an increase in our net result of over 40% compared to last year.

So these are my main comments on the presentation. I now give the floor over to the Q&A session.

Operator

Thank you, madam. Ladies and gentlemen, if you wish to ask a question, please press 0 and 1 on your telephone keypad.

We have a first question from Maciej WASILEWICZ of Morgan Stanley. Sir, please go ahead.

Maciej WASILEWICZ, Morgan Stanley

Hi, I have 3 questions, if I may. Number 1 is on the US growth. Would you mind explaining which type of activity grew the most, or what type of business was growing so rapidly there? Because, obviously, 10% growth is quite strong in local currency terms. Number 2, I have noticed (but obviously we haven't had a lot of time to look at the results) that the net loss ratio fell a bit less than the gross loss ratio. I was wondering if you could unpack why, because I imagine that your treaties with your reinsurers should be getting more favourable terms than in the past. Maybe there is a reserve release impact in there because you had to share some of that. So, could explain that? And finally, on reserve releases - reserve releases were a bit higher in H1 this year than they were in H1 last year. This looks to me, on the very surface level, to explain the majority of the downward shift in the loss ratio, so I was just wondering how much you could explain? My understanding is that your reserve releases should fall over time but your overall combined ratio should stay where it is. Maybe this is wrong, so could you just unpack that a little bit for me, please? Thank you.

Carine PICHON, Chief Financial Officer, Coface

OK. I will start maybe on the US growth, if you agree. You are right, we posted a significant growth this semester. Maybe you are referring to the fact that you are surprised because it was not the case in Q1 2014 and because it was more or less stable. You may remember that for US and Canada globally, we decided to implement more agents and to increase the sales force in this region. We decided to do this last year and now we are seeing the effect. However I should also mention that last year, on Q1 2013, we had a negative basis effect because we posted a positive runoff from the activity of this region. This is the reason why, when we compare Q1 2014 with Q1 2013, we don't yet see the growth because of this positive effect. So this basis effect has a lower effect now, which is why you can see the 11% growth based

on commercial performance and our new strategy of recruiting more agents in this region. This is for the US growth. Just maybe on the reserves release, because I am not sure I correctly captured the second question, the reason why we have higher a reserves release compared to the first six months of 2013 is because the loss ratio situation is improving. You may remember that we expected to have a better loss ratio in the two main regions we mentioned before - the Mediterranean and Africa region (with Italy specifically) and Latin America. In fact, we continued to post improving loss ratios in these two regions, which is also a reason why we have higher reserve releases. It comes mainly from the fact that we have a better situation there. I should also maybe mention that we have very good loss ratio results in Western Europe, of around 38-39%. Northern Europe is also improving, so it is the global situation in these regions which explains this level of reserve releases.

And the second question maybe concerned the loss ratio before and after reinsurance. The loss ratio before reinsurance for H1 2014 is 48% and 50.9% after reinsurance. I would say we have a structural effect based on the fact that the net loss ratio is always higher than the gross loss ratio, because, as you know, we have an excess policy in terms of reinsurance and fortunately it has never been used. It means that we have never had a loss which led to the need to have reinsurance to pay for it. We pay a premium for this excess of loss coverage, so there is a negative basis effect in this respect. The good news is that as long as we don't have any loss to give back to the reinsurance, we will systematically have a loss ratio after reinsurance that is higher than our gross loss ratio - meaning loss ratio before reinsurance.

Maciej WASILEWICZ, Morgan Stanley

Sorry, that wasn't what I meant to ask, I will ask my question fully. What I meant to ask is that your loss ratio fell 5.6 percentage points in the gross loss ratio, and in the net loss ratio it fell 4.8 percentage points, but I would have thought that actually the net loss ratio might fall faster than the gross loss ratio because I imagined that the terms of the treaties that you have with the reinsurers, at this point in the cycle, might be improving. So I thought you might be able to recapture some of the economics on that.

Carine PICHON, Chief Financial Officer, Coface

OK, I understand. The main point is the fact that, as I said before, we have decreased our cession rates. But until now, we benefited from some releases of the previous year with higher cession rates, so we continue to give more in proportion to our reinsurance in terms of reserve. This effect will disappear in time, when we will fully have 20% of loss that we will cede to our reinsurers. So it is more of a time lag effect.

Maciej WASILEWICZ, Morgan Stanley

That makes sense, thank you.

Operator

Thank you. We have a next question from Benoit PETRARQUE of Kepler Cheuvreux. Sir, please go ahead.

Benoit PETRARQUE, Kepler Cheuvreux

Yes, good afternoon. Benoît PETRARQUE from Kepler Cheuvreux. A couple of questions on

my side. The first one is on the economic capital. Is there any relevant update for us in the second quarter? I am especially curious to know how the required capital has moved during the quarter. Also, could you just come back on your possible plan to upgrade a little bit the models, which could potentially lead to better capital ratios over time? Then, you discussed the fees, which were up versus last year. Could you come back on the reason why fees are up like this? I would assume that collection fees are actually getting lower because you have fewer collections, but referring back they were improving. So I was wondering if you could expand a little bit on that. The third one is more on the macro side. What do you see in Q3 and Q4? And what have you seen so far in the third quarter in terms of claims development and the number of claims received? Do you actually see things improving from the second quarter? And just maybe a last question on M&A. I think the Spanish state has committed itself to sell its stake in CESCE. I was wondering how you view this transaction, and whether you will be actually looking at that. Thank you.

Carine PICHON, Chief Financial Officer, Coface

OK. On the economic capital, there is nothing new since we met a month or two ago. We plan to disclose information in that respect on an annual basis, so we will discuss this in February. So no, there is no specific news on our economic capital.

As to the question on fees, it does not specifically concern collection. Over the last one or two years, our plan has been to have a systematic increase in fees in terms of tariffs. We have implemented this in all of our countries and we are strictly controlling this. This is the main reason why you can see that the fees are increasing. It is because we have implemented this policy and that is the result you see today.

On the macro side now, you will remember that we posted our forecast around the beginning of June, a week after we posted our macro forecast outlook for the year. This hasn't changed much compared to what we discussed then. We can see a slight improvement in the global economy, but it is slight and progressive in a positive sense. So there is nothing special to be mentioned at this stage. For the M&A, maybe Jean-Marc will answer.

Jean-Marc PILLU, CEO, Coface

Yes, thank you, Carine. I am taking the floor for CESCE and will answer your question more generally. You will remember that during the IPO, I said that our growth model for development was organic growth. Nevertheless, we will look at any opportunities if they are offered to us. The CESCE case has been a long lasting one, because it began over a year ago. We are looking at it, but we are looking at it in the same way as we look at all other deals - always with the same constraint of value creation on the bottom line. So I have nothing special to add to the answers I gave on the subject one month ago.

Operator

Thank you. We have a question from François BOISSIN of Exane BNP Paribas. Sir, please go ahead.

François BOISSIN, Exane BNP Paribas

Yes, good afternoon. A few questions, please. First, on the net earned premiums side, you have given targets in terms of total revenue growth. What would be your target in terms of net

earned premium growth over the period, first for this year and the coming two years? The second question is, with a constant net ratio, will you disclose current year and previous year net loss ratios, which could be useful? And then, you mentioned the fact that the pricing of reinsurance is actually going down. Do you expect further price decreases for you guys?

Carine PICHON, Chief Financial Officer, Coface

It is true that we didn't disclose net earned premiums in terms of targets. We have gross revenue and the only thing we say is that our reinsurance cession rate has decreased and the effect of the change to 20% is coming progressively. As you know, in one year of premiums, the part coming from 2014 is lower in Q1, a little higher in Q2 and so on. That is all we can say on net earned premiums.

As for the net loss ratio, we are not disclosing the split between the reserve release and the loss ratio for the current year. To be honest, the way we monitor the loss ratio is clearly before reinsurance. Reinsurance is something to protect our shareholders' equity at the end of the day, so that is the reason why we do not look at it (in fact even internally we do not look at it). This is why we give guidance on this ratio, which is for us the most relevant.

On your last question concerning reinsurance, we will see how prices will evolve. We will begin discussions in Monte-Carlo, in September, with our main reinsurers. When the loss ratio improves we have better prices, but that will come from the discussions with them and the capacity of the market; we will do our best in that respect.

Operator

Thank you. We have a question from Michael HUTTNER, of JP Morgan. Sir, please go ahead.

Michael HUTTNER, JP Morgan

Thank you very much. These are number questions because I can't see the slides. So, first of all, what is the tax rate in the first half? The second question, what is the number of shares now? And the third question, what are the one-offs in the first half and particularly the IPO cost? The last question is, why is the net combined ratio worse in the first half than it was in the first quarter? First quarter, from memory was 77.3. I didn't write it down but I think you said it was 77.8 in the first half. So these are my questions, thank you.

Carine PICHON, Chief Financial Officer, Coface

In terms of tax rate and your first question, we have the same tax rate as for Q1 2014, which was 30.5%. Having the same tax rate is good news, because it was far better than last year, which was 35%. So 30.5% for Q1 and 30.5% for Q2 –globally, the same tax rate.

I think one of your questions, if I understood it well Michael, was on IPO costs and one-off / non-recurring costs. In terms of non-recurring costs which are not in the cost ratio, I can give you the details, but if you have a look at notice 19 in the financial accounts you will see the precise split. We have global non-recurring costs, net also of some positive ones, of 6.5 million euros. These are mainly costs which are directly linked to the stock market listing. This is the main cost we have in non-recurring costs, so it is not in the operating result.

On the third question, you are right. Our net combined ratio was 77.3% at the end of March

and 77.8% at the end of the first half of the year. The main reason for this is nothing to do with the loss ratio, because the loss ratio has improved. It is because of the cost ratio. In cost ratio was 25% in Q1 2014, and 26.9% for the six months. The explanation for this is that, in value terms, our expenses are good. Even if you compare the value of expenses between Q1 and Q2, we have an improvement in Q2 which was 170 million euros, compared to 171 million euros in Q1. So it is not a question of global expenses. The main reason is due to the seasonality of fees. As you may remember, in the calculation of our net cost ratio we take all expenses and we deduct additional revenues, such as fees. We have fees from last year which are invoiced more in the first quarter than in the second quarter. So we have a lower volume of fees in Q2 compared to Q1. That was the case last year, and that is the main reason why the net cost ratio has, in fact, increased.

Michael HUTTNER, JP Morgan

And what is the number of shares, please? Because I see two different numbers, one in the prospectus and another on Bloomberg.

Carine PICHON, Chief Financial Officer, Coface

Let me check. In the appendix of the document, you have the number of shares which is 156,831,307. It is on the last page of the appendixes.

Michael HUTTNER, JP Morgan

Yes. So then there is a mistake on Bloomberg, which says 157.2.

Carine PICHON, Chief Financial Officer, Coface

OK. Thank you, Michael, we will check.

Operator

Thank you. We have no further questions for the moment. Ladies and gentlemen, I would like to remind you that if you wish to ask a question, please press 0 and 1 on your telephone keypad.

We have a question from François BOISSIN, of Exane BNP Paribas. Sir, please go ahead.

François BOISSIN, Exane BNP Paribas

Yes, two follow-up questions, please. The first one is on the tax rate of 30.5%. Can you explain what is driving the decline and basically if this level is sustainable going forward? And the second item, on the seasonality of fees that you just described. Is this something that you expect to see going forward as well, or is this just kind of specific to 2013 and 14? Thank you.

Carine PICHON, Chief Financial Officer, Coface

OK. To explain the tax rate of 30.5%, last year we had 35% which, as I just said, was because we included tax audits in some countries and some non-recurring tax expenses. That is for the comparison with the first half of this year. We didn't give guidance, François, on the tax rate.



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What I can just remind you of is that in the guidance we did give you, in the return on average tangible equity above 12% for 2016, we did not include any tax optimization. This is just to repeat what we said one month ago.

François BOISSIN, Exane BNP Paribas

And just on that, does this mean that there is a bit of margin for the tax improvement going forward?

Carine PICHON, Chief Financial Officer, Coface

To be honest, I prefer to be prudent. We are looking at some schemes that could impact the tax rate, but I prefer to be prudent in this respect. I would tend to say that it could only be good news, but it is too early to tell you what this tax improvement could be.

Concerning the seasonality of fees, all I can tell you is that we saw this in 2012, in 2013 and in 2014. You know, it depends, because fees are based on the volume of limits and so on, and there are several parameters. That is what we have seen over the last three years, but it is difficult to say if it will continue.

Operator

Thank you. We have no further questions for the moment.

Jean-Marc PILLU, CEO, Coface

If we don't have further questions, maybe it is time for the conclusion.

Thank you everybody, for having participated in this year's second quarter call. There are no more questions but I am sure that we will hear from you again in the coming weeks or months, and at the latest on the 29th of October for our Q3 results call. I wish you enjoyable holidays, if any, and have a good evening.

Bye, bye, everybody.

Operator

Ladies and gentlemen, this concludes the conference call. Thank you all for attending. You may now disconnect.

(End of Conference Call)



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CONTACTS

MEDIA

Maria KRELLENSTEIN
T. +33 (0)1 49 02 16 29
maria.krellenstein@coface.com

Laura PANHARD
T. +33 (0)1 49 02 23 31
laura.panhard@coface.com

ANALYSTS / INVESTORS

Nicolas ANDRIOPOULOS
Cécile COMBEAU

T. +33 (0)1 49 02 22 94
investors@coface.com

2014 FINANCIAL CALENDAR

October 29th, 2014: publication of the 3rd quarter 2014 results

FINANCIAL INFORMATION

The present press release and the full regulated information concerning COFACE SA are available on the Group's website <http://www.coface.com/Investors>

About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export. In 2013, the Group, supported by its 4,440 staff, posted a consolidated turnover of €1.440 billion. Present directly or indirectly in 98 countries, it secures transactions of over 37,000 companies in more than 200 countries. Each quarter, Coface publishes its assessments of country risk for 160 countries, based on its unique knowledge of companies' payment behaviour and on the expertise of its 350 underwriters located close to clients and their debtors.

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Readers should read the respectively H1 2014 Financial Report and complete this information with the Prospectus relating to the initial public offering ("IPO") of the Company. The Prospectus was approved by the Autorité des marchés financiers ("AMF") on June 13th, 2014 under the No. 14-293, and it consists of: (i) a Base Document registered under the No. I.14-029 dated of May 6th, 2014 (only this document exists in English); (ii) a Securities Note registered under the No. 14-293 dated of June 13th, 2014; and, (iii) a summary of the prospectus (included in the Securities Note). The Prospectus presents a detailed description of the Coface Group, its business, strategy, financial condition, results of operations and risk factors.

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