



H1 2020 Earnings Presentation

July 30, 2020

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Today's Presenters



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Agenda



1

Key Highlights

2

Business and COVID-19 Update

3

Financial Review

4

Conclusions

5

Annex

1 H1 & Q2'20- Key Highlights

1

- Transaction Volumes of €947.2MM in H1'20 (€4,280MM LTM) driving revenues to €83.4MM (€258.4MM LTM) and Adjusted EBITDA to €20.6MM (€90.0MM LTM)

2

- Q2'20 activity/business performance completely affected by COVID-19. €442.5MM total volumes in Q2'20, a reduction of 48% vs 2019, as previously announced, due to the very low activity in April and May'20

3

- Some recovery indicators seen in June'20, post State of Alarm, with higher commercial activity in REOs Retail compared to previous months. Very low activity in Debt Servicing and Land & Commercial REOs still

4

- Strong and solid free cash flow generation of €41.4MM in H1'20 (€74.1MM LTM) maintaining a strong cash conversion through the crisis. Cash position of €90.5MM as of June 30th 2020

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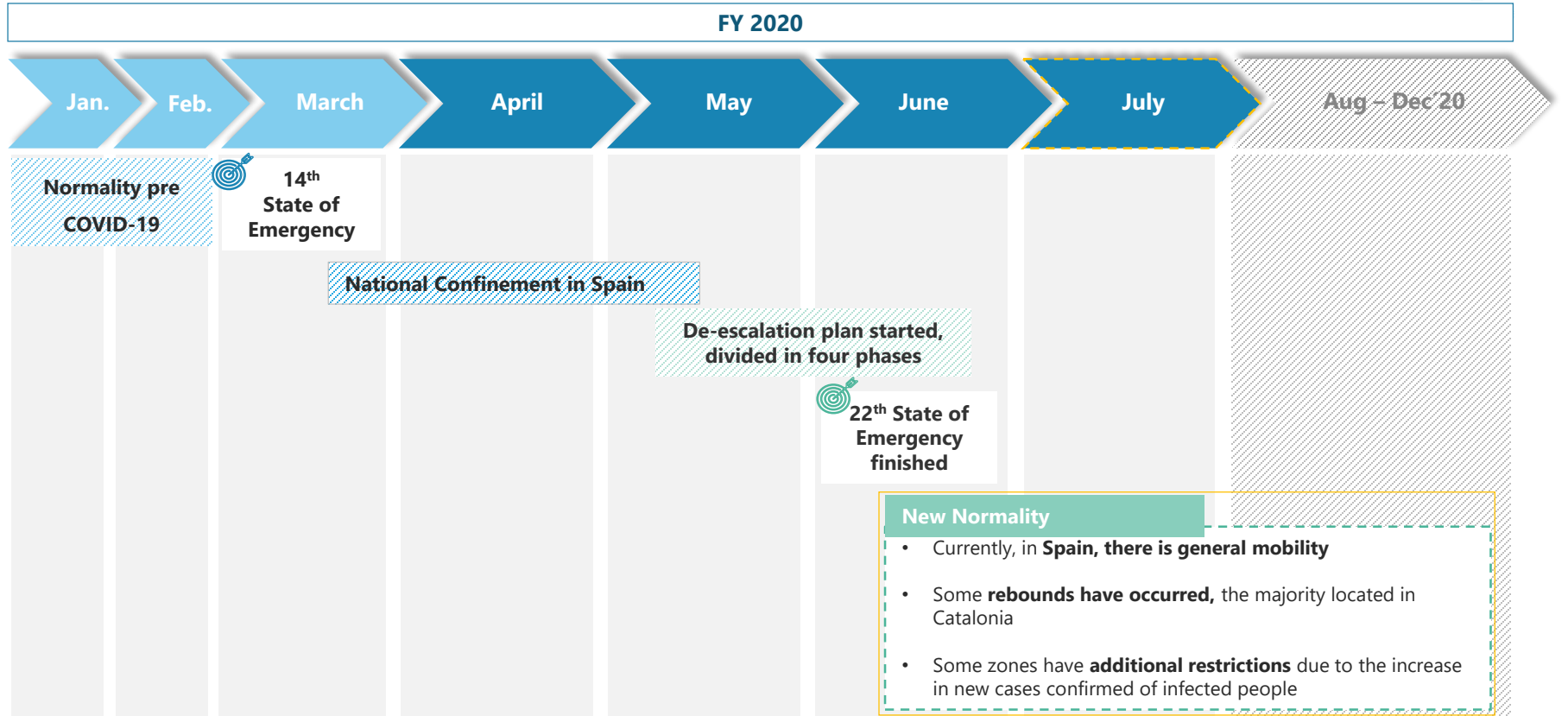
- Very uncertain and challenging context in the upcoming months. Continue focused on the COVID-19 contingency plan to mitigate top-line impact, and full focus on service delivery to our clients



2. Business and COVID-19 Update

2

COVID 19 - Spain Overview



REOs Business

Residential Assets

- **Increase of commercial activity** in June as a result of **accumulated demand** in the confinement months. Unclear yet as to real pick-up going forward.
- Some **offers cancellations** although **pipeline is maintained** at pre-COVID levels due to new leads
- **Impact on prices**, with buyers attempting to receive **discounts** from pre-COVID prices. Different approaches from sellers
- **Delays in formalizing offers** due to **lack/delays of financing** from banks and **delays in decision making from buyers** due to **uncertainty around the macro situation**. Banks are **more selective** with the type of client and valuation of assets
- Sales in **Cataluña and Valencia impacted by** the regional regulation (**right of first refusal**)

Land & WIP Assets

- **Lower activity in land transactions**; the **proposals** received pre-COVID are either **cancelled** or have been **postponed** because of:
 - **Lack of financing in developer loans**, activity stopped until September
 - The recovery will depend on macro scenario in September
- The **new pipeline implies**:
 - **Lower prices** as a result of the negative outlook in the prices of residential assets
 - Longer/deferred payment terms

Commercial Assets

- **Most impacted by COVID-19**. Closing of commercial shops, renegotiation of prices of tenants with landlords, reduction in office spaces due to remote working, etc., **lowers demand**
- Many **offers** received before COVID-19 are **postponed** and **very low new origination**
- **Lack/delay of financing** for the buyers
- Investors require **higher investment yields** which implies **lower purchase prices**

Activity in **Q4'20 will depend on the consolidation of the macro situation in Spain** (employment data, economic & pandemic evolution) which will determine the **type of recovery curve** post COVID-19 ("V", "L" or "W")

Debt Servicing

Debt Recovery (REDs)

- **Lower activity in REDs cash collections volumes** as a result of:
 - **Uncertainty** around the macro situation
 - **Investors/Buyers** are taking the approach to “**wait and see**”, with delays in decision making. Possible delays of larger transactions to end of the year and H1’2021
 - **Lack/delays of financing for buyers.** Banks are focused on ICO transactions and very selective in their lending
 - **Lower prices** expected from buyers, with sellers not willing to transact
 - Some **recovery in short sales activity** (debt recovery through the sale of the collateral) focused on residential assets
- Continue with the **moratorium on mortgage and rental payments**
- The **new NPLs will depend on the moratorium timing** and the **regulation** from Central Banks and the Governments.

REO Conversion

- **Courts opened since May** with ~70% of activity; activity increase expected in the upcoming months
- The **plan** established by the **Government in 4 phases** is on track and is expected to be finished in September’20

Amicable Solutions

- This activity was restored, with face to face meetings, visits and notaries fully opened
- Gradual recovery in DILs in the last month and expected to continue during July

Litigation Process

- Some delays in the litigation process due to the confinement weeks; expected to speed up in the following months
- H2’20 → we don’t foresee to have a stronger period as a result of the delays in auctions in Q2’20 which moves closing of certain transactions to 2021

The activity in **Q4’20 will depend on:**

- **Timing of moratoriums** approved by the Governments
- **Regulatory pressure** for Banks to continue **divesting in NPLs**
- **Access to financing** for the buyers



3. Financial Review

3

Key Financial Highlights – H1'20



**Assets Under Management
H1'20**

€33,759MM

Transaction Volumes H1'20

€947.2MM
LTM €4,280.3MM

RED Volumes H1'20

€103.0MM
LTM €959.1MM

REO Co Volumes H1'20

€280.5MM
LTM €864.3MM

REO Volumes H1'20

€563.7MM
LTM €2,456.9MM

Revenues

€83.4MM
LTM €258.4MM

Avg. Volume serv. fee 3.62%
Avg. Mgmt. fee 0.22%

Adjusted EBITDA¹

€20.6MM
LTM €90.0MM

EBITDA margin 25%
LTM EBITDA margin 35%

Free Cash Flow²

€41.4MM
LTM €74.1MM

Cash conversion 201%
LTM Cash conversion 82%

Net Debt

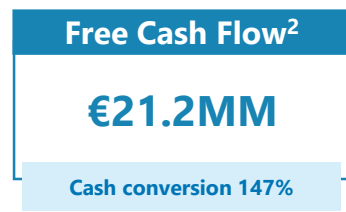
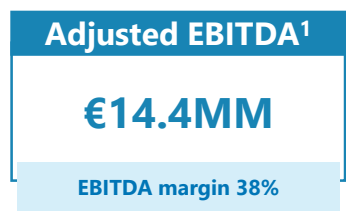
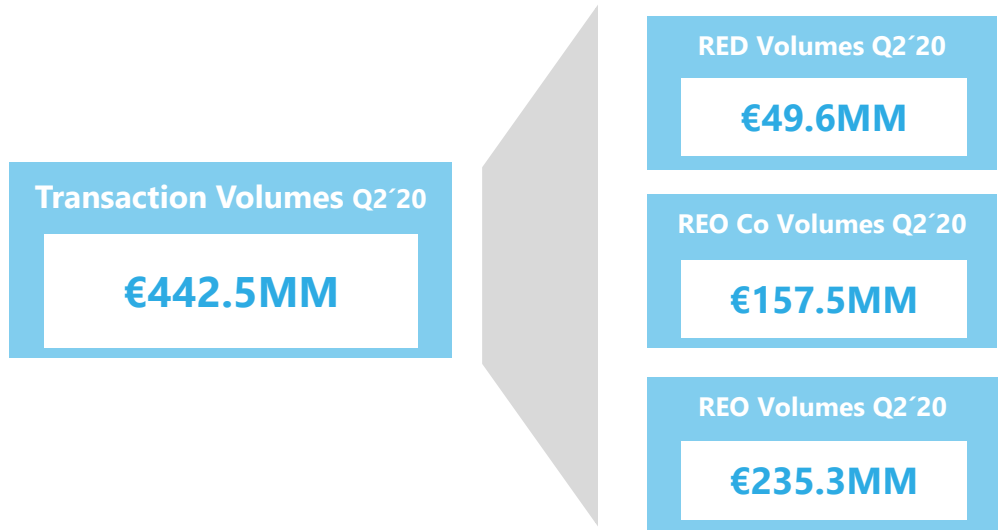
€386.1MM

Leverage ratio 4.3x

(1) Adjusted EBITDA is the sum of GAAP operating profit plus D&A, adding back €6.4MM of non recurring costs (restructuring labour process cost); (2) Free Cash Flow is defined as Adjusted EBITDA less capital expenditures and change in working capital

3

Key Financial Highlights – Focus on Q2'20

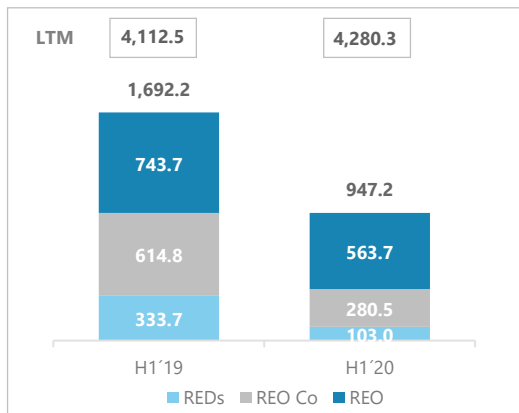


(1) Adjusted EBITDA is the sum of GAAP operating profit plus D&A; (2) Free Cash Flow is defined as Adjusted EBITDA less capital expenditures and change in working capital

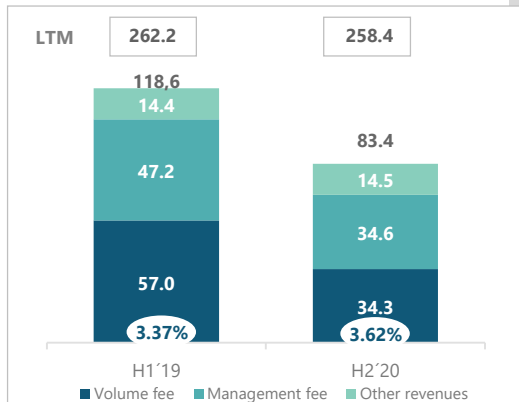
3 Transaction Volumes and Revenue Performance



Transaction Volumes (€MM)



Revenues (€MM)



REDs Volumes

- **Lower recoveries** a result of COVID-19 situation in H1'20
- Impact from **Sareb's reduced scope** in new contract and **strategy focused on REO Conversion**

REO Co Volumes

- Decrease in REO Co volumes mainly **impacted** by the **COVID-19 situation** since March'20, with courts temporarily closed
- **Lower recoveries in Sareb** mainly due to **litigation process** management (foreclosures), which have been **excluded in the new contract**

REO Volumes

- Performance **impacted by COVID-19 across all clients**, which has been partially **offset by a positive contribution** from new portfolios
- **Slight recovery in June'20** vs previous months. However, **June** has been **impacted by three larger portfolio-type sales**, representing 23% over total monthly volumes

% volume servicing fee increase to 3.62% due to the weight increase in REOs and the decrease in REO Co, which have contractually lower % volume fee

Management fee decreases due to the **new Sareb contract** and the natural evolution of the perimeters; partially **offset by contribution from new portfolios**

Other revenues remains stable as a result of good performance in **ancillary services** offered to our clients which **partially offset lower onboarding** fees and the activity in **Advisory division**

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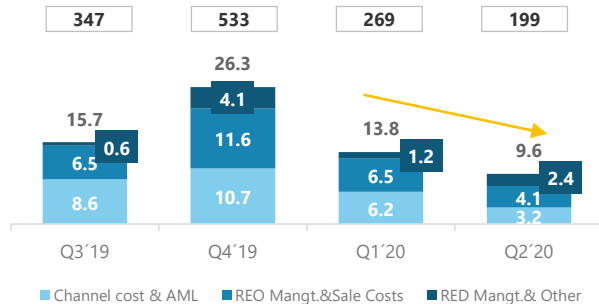
Focus on Costs



Operating Expenses

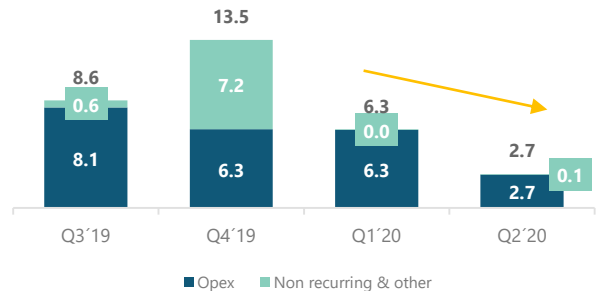
Direct Cost (€MM)

Main Driver: REO volumes, ex portfolios



- **Direct cost decreased by 30%** QoQs mainly due to **lower activity** in REO volumes (ex portfolios) which implies a **reduction in channel cost**

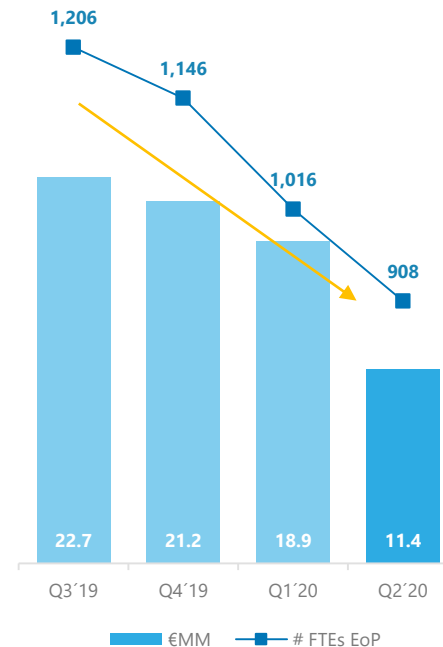
Opex (€MM)



- **Strong cost reduction measures** implemented as part of **COVID-19 contingency plan.**
- **Decrease in opex of 57% QoQs** due to lower IT opex, professional services and travel expenses

Personnel Cost¹

Evolution (€MM)



Q2'19 was the quarter of integration of Divarian employees. Decrease of ~300 FTEs since Q2'19 as a result of:

- **Returns** of some employees to BBVA former employer
- **Natural rotation**, voluntary leaves
- **Restructuring process** completed in April'20

Q2'20 impacted by elimination of accrual of variable compensation for H1'20 due to COVID-19

Run rate average personnel fixed cost could be ~€4.5MM/month

3

Free Cash Flow and Net Debt



Free Cash Flow of €74MM LTM, with strong cash conversion of 82% ending June '20 with a strong liquidity position of €90.5MM

Free Cash Flow¹

Highlights

- **FCF of €41.4MM in H1'20** with an exceptional **cash conversion >200%**
- **On an LTM basis, FCF of €74.1MM** with a **strong cash conversion of 82%**
- **Strong collections in Q2, reducing accounts receivable by €69MM** since year-end, resulting in a **positive working capital of +€30MM in H1'20**

(€ MM)

	LTM H1'19	LTM H1'20
Adjusted EBITDA²	104.1	90.0
Capital expenditures	-14.6	-15.9
Change in working capital	-30.9	0.0
Free Cash Flow¹	120.4	74.1
Cash conversion	116%	82%

Cash & Net Debt Position

Highlights

- **Strong liquidity position of €90.5MM** due to significant **FCF generation in the period**
- **RCF partial repayment of €10.5MM** in **May'20**, maintaining amount **drawn of €3.9MM**
- **Leverage ratio of 4.3x** at the end of June'20

(€ MM)

	FY 2019	H1'20
Total gross debt	471.5	476.6
Cash on Balance Sheet	64.3	90.5
Total net debt	407.2	386.1
Adjusted EBITDA LTM²	105.7	90.0
Leverage Ratio	3.8x	4.3x

(1) Free Cash Flow is defined as Adjusted EBITDA less capital expenditures and change in working capital. (2) Adjusted EBITDA LTM is the sum of GAAP operating profit plus D&A, adding back €8.9MM of non recurring costs (€6.4MM restructuring cost in 2020 and €2.4MM of M&A expenses in 2019)



4. Conclusion

H1'20

Q1'20

Q2'20

- **Performance affected by COVID-19** situation, volumes has decreased by 48% in Q2'20
- **COVID-19 contingency plan** focused mostly on cost reduction measures
- **Strong cash position of €90.5MM** to face this crisis without liquidity needs in the short term

H2'20

Q3'20

Q4'20

- Very **uncertain and challenging context** in the upcoming months. **Evolution of the pandemic** in Spain and any **potential new restrictions** and **security measures** taken by the Government will impact the outlook for Q3-Q4'20
- We **expect** to have a **gradual recovery during Q3'20**, with **September** being an **inflection point**. **The month of September** could represent **>45% of volumes** of the quarter, thus being critical to the evolution of the quarter
- **Q3'19 was impacted by a portfolio sale of €1.2BN**. Excluding this transaction, Q3'20 vs Q3'19 could represent a **decrease** in volumes **>35-40% vs 2019, if things evolve positively**



5. Annex

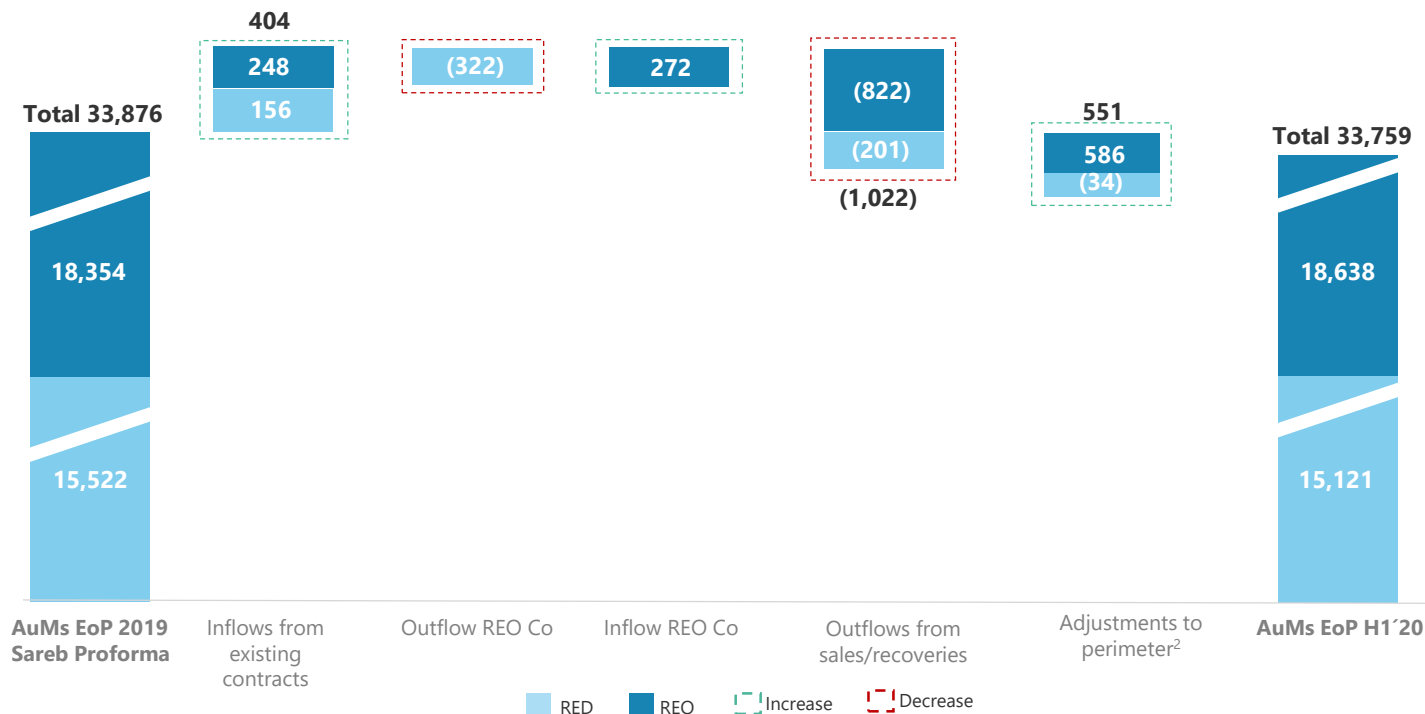
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Assets Under Management



Asset under Management evolution (GBV¹)

(€ MM)





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