# Q1 2020 Earnings Presentation

May 21, 2020

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# Today´s Presenters

**Enrique Dancausa**

CEO

**Bárbara Zubiría**

CFO

# Agenda

# 1 Q1´20- Key Highlights

1. Transaction Volumes of €504MM (€4,683MM LTM) driving revenues to €45.2MM (€279.1MM LTM) and Adjusted EBITDA to €6.2MM (€92.5MM LTM).

2. Strong free cash flow generation of €20.2MM (€88.8MM LTM) with exceptional cash conversion in Q1'20, resulting in a cash position of €89.3MM at the end of the quarter. Strong liquidity position to face near-term challenges.

3. Assets under management of €34BN at the end of Q1´20, already adjusted by reduced Sareb perimeter under new contract.

4. Q1´20 activity and business performance affected by COVID-19. April and May also expected to be very weak. Some potential recovery signals may start June due to the "de-escalation plan" carried out by the Spanish Government. The context is very challenging, and the outlook for 2020 very uncertain.

5. COVID19 contingency plan focused mostly on cost reduction measures to mitigate top-line impact, as well as ensuring all employees are fully operational remotely and asset management activities are carried out for clients

6. Labour restructuring process completed on April 30th, with a net reduction > 200FTEs and restructuring cost of €6.4MM. This will imply a structural personnel cost reduction >€10MM annualized

# 2. Business and COVID-19 Update

# 2 COVID 19 - Spain Overview

**Current Spanish Situation**

- Spain continues in **a State of Emergency (initially extended until 07th June) progressing in the de-escalation plan** established by the Government divided by 3 phases, depending on health progress of each province/island, and with a duration of almost **2 months** (end of June):

| Phase 0 | Phase 1 | Phase 2 | Phase 3 |
|---|---|---|---|
| • **People** can go out into the streets to **walk/exercise** according to an established schedule<br>• Certain **commercial establishments can open** with prior appointment<br>• Restricted cultural activities | • **Retail stores and restaurants may open** under strict safety conditions (limited capacity)<br>• **Mobility** in the same **province**. Travel to second residence<br>• Group **meetings of 10 people** maximum | • **Opening of commercial centres** with no common zones; hotel's with common zones<br>• Cinemas, theatres, conference centers will open with a limited capacity<br>• **Public transport** at 100% capacity | • **General mobility will be made more flexible** |

# 2 COVID-19 - Impact in Haya (I)

## Debt Servicing

### Confinement weeks (End of March & April-May)

#### Debt Recovery (REDs)

- **Lower activity** due to the situation and the decision of some clients to hold off on **communication with the debtors** in these moments

#### REO Conversion

| | |
|---|---|
| **Amicable Solutions** | • Limitation to have face to face meetings and visits to the debtors<br>• Lower activity in notaries, with only urgent transactions allowed |
| **Litigation Process** | • Closed Courts<br>• New claims could not be presented<br>• Auctions have been suspended temporarily<br>• Judicial evictions suspended |

### New normality (De-escalation plan)

- **Courts have been opened** but with **minimum services** (preference to claims related to COVID-19); “**back to normality”** (situation before State of Emergency) will not happen until **September´20** (Government plan divided by 4 phases)
- **Moratorium (discount of deferral) on mortgage and rental payments** for vulnerable collectives have been approved by the Government

## REO Sales & Management

### Confinement weeks (End of March & April-May)

#### REO Sales & Management

- **Significant drop in commercial activity**; COVID-19 has resulted in **loss of leads, offers and sales** (some have been postponed)
- **Notaries** with **minimum services** have been unable to close transactions (only urgent transactions could be signed during the State of Emergency)
- **Opportunities** existing before COVID19 are **now being reassessed**. Potential **drop in demand** and **impact on real estate prices**.
- Focus on **stock management activities** to improve the opportunities for sale once commercial activity is recovered

### New normality (De-escalation plan)

- De-escalation plan allows **visits to assets with clients**. Some regions that have moved to Phase 1 can have greater mobility
- Some **Regional Governments** (Catalonia) could impose **restrictions** affecting **institutional funds asset owners**

2

# COVID-19 - Impact in Haya (II)

## Q2´20 Activity and Volumes Performance

- Volumes **have significantly dropped in April** and we expect to have **lower volumes during the 2nd quarter** as a result of the COVID-19 situation
- **April** is expected to close with ~**€80MM in Volumes,** with minimal REDs volumes of ~€10MM, REO Co. of ~€40MM and REOs of ~€30MM
- **May** also started **very slow**. We expect a **gradual pick-up in June** but still significantly lower than Q2' 2019

**Q2´20** could reach a **decrease in volumes of >50%** vs Q2´19

**Gradual recovery from June-December** will depend on the **evolution of the pandemic**, the effects of the **de-escalation plan**, and the overall impact of this health crisis on the **Spanish economy** over the upcoming months

**To mitigate this impact**

### Cost Reduction measures

- **Reduction of direct costs** (cost directly related to a transaction) at the same level of reduction in volumes
- **Savings in opex and reduction in structural expenses**: IT opex, marketing expenses, rentals/office spaces, externalized professional services, travel etc…
- **Personnel expenses**:
  - **Restructuring** labour process **finished in April**
  - **Decision not to execute temporary reduction measures** (ERTE) for now. Focus on **client service delivery** and readjustment of teams after >200 FTE leaves

### Strong liquidity position

- **Strong liquidity position of €89.3MM** as of March´20 (including RCF drawn)
- **RCF drawn (€14MM)** at the end of March **has been partially repaid in May** (no liquidity buffer needed so far)
- **Strong collections** to date. **Payments to suppliers maintained** as regular

### Management fee

- **Management fee** in contracts (except Sareb) to cover for part of fixed costs to ensure service delivery of SLA
- **Fully focused on all stock-related activities, commercial ramp up preparation,** and full service delivery for the clients

# 2 COVID-19 - Servicing Sector

## COVID-19 Short term Impact

### Deterioration of NPA recoveries

- **Slowdown** in **real estate sector**
- **Decrease in housing price** due to the crisis
- **Pricing** adjustments (buyers vs sellers market)
- **Slowdown of recoveries** as a result of:
  - **Reduced** activity from **banks** (reputational risk)
  - **Reduced** activity in **legal and judicial systems** (Courts have been closed)

## COVID-19 Mid/Long term Impact

### Potential new NPL Inflows

- As consequence of COVID-19 crisis **we expected an increase in NPL volumes** in the mid term after several years of decline
- The inflows will **depend on:**
  - **Duration** of the crisis
  - Results of **loss mitigation** policies
  - **Default** ratios, **bankruptcies** process

### Portfolio Sales

- Potential reduction of **secondary portfolios sales depending on the incentives** to sell **NPLs** from **banks** to debt purchasers
- **Opportunity for those servicers** with **proprietary IT and larger scale** to be the servicers of new asset owners

# 3. Financial Review

# 3 Key Financial Highlights – Q1´20

**Assets Under Management Q1´20**
€34,127MM

**Transaction Volumes Q1´20**
€504.2MM
LTM €4,682.5MM

**RED Volumes Q1´20**
€53.4MM
LTM €1,049.7MM

**REO Co Volumes Q1´20**
€123.0MM
LTM €991.9MM

**REO Volumes Q1´20**
€327.8MM
LTM €2,640.9MM

**Revenues**
€45.2MM
LTM €279.1MM
Avg. Volume serv. fee 3.85%
Avg. Mgmt. fee 0.25%

**Adjusted EBITDA[1]**
€6.2MM
LTM €92.5MM
EBITDA margin 14%
LTM EBITDA margin 33%

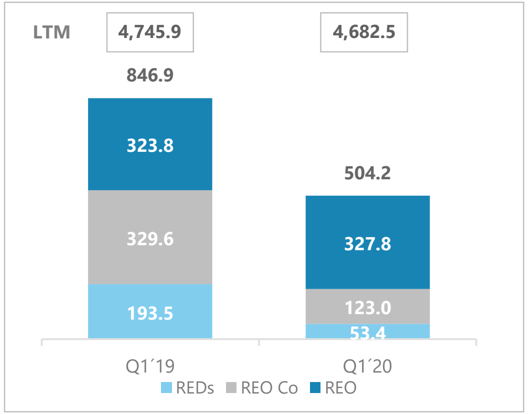
**Free Cash Flow[2]**
€20.2MM
LTM €88.8MM
Cash conversion 325%
LTM Cash conversion 96%

**Net Debt**
€400.5MM
Leverage ratio 4.3x

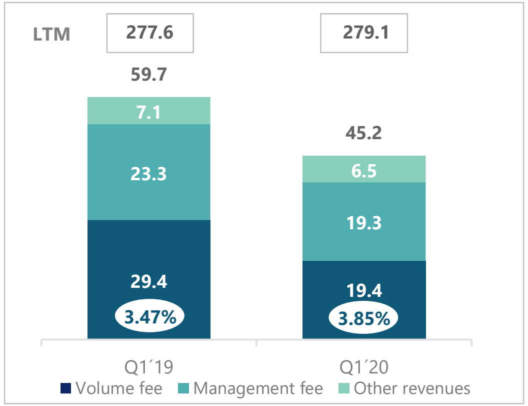
(1) Adjusted EBITDA is the sum of GAAP operating profit plus D&A, adding back €6.4MM of non recurring costs (restructuring labour process cost); (2) Free Cash Flow is defined as Adjusted EBITDA less capital expenditures and change in working capital

# 3 Transaction Volumes and Revenue Performance

**Transaction Volumes (€MM)**




**Revenues (€MM)**




### REDs Volumes

- **Lower recoveries in Sareb** as a result of the **new contract** (lower perimeter managed) and **new strategy focused on REO Conversion**
- **Lower activity** across other remaining **debt portfolios** in the quarter

### REO Co Volumes

- Decrease in REO Co volumes mainly **impacted** by the **COVID-19 situation** at the end of March´20
- **Lower recoveries in Sareb** mainly due to **litigation process** management (foreclosures), which have been **excluded in the new contract**

### REO Volumes

- **Stable performance in REOs** due to a **positive contribution** from new portfolios (**Divarian** and **Apple**), with no corresponding impact in Q1´19. Partially offset by lower volumes in rest of clients

**% volume servicing fee increase to 3.85% due** to the weight increase in REOs and the decrease in REO Co, which have contractually lower % volume fee

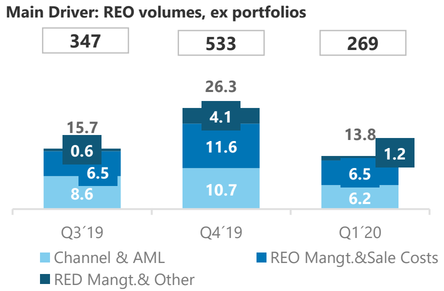
**Management fee decreases** due to the **new Sareb contract** and the natural evolution of the perimeters; partially **offset by contribution from new portfolios**

**Other revenues decreased** as a result of lower onboarding fees and lower performance in **Advisory division**

# 3 Focus on Costs

## Operating Expenses

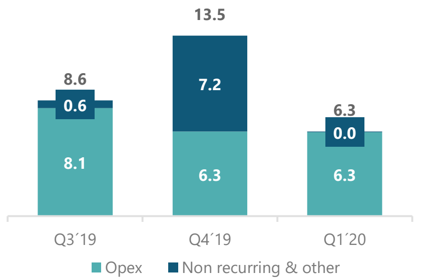
### Direct Cost (€MM)




**Direct cost are directly associated to the volume performance:**

- Higher REO vol. ex portfolios → higher channel costs and AML costs
- REO Asset management & sale costs → mainly cost of agencies → related to REO stock/sales
- RED asset management & other → mainly litigation costs related to Sareb REO Co & Cajamar debt recovery

### Opex (€MM)



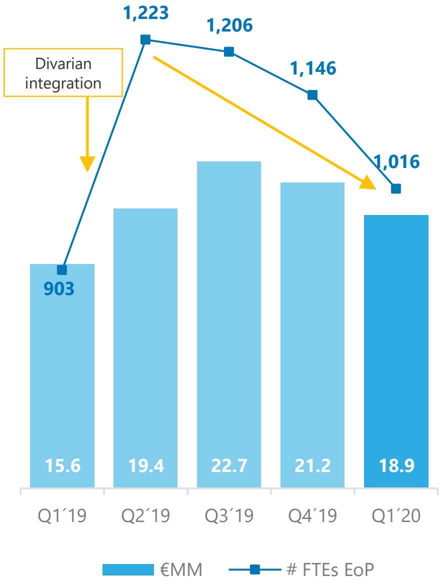

**Opex** includes: IT, Marketing & Contact Center, externalized professional services, travel, general expenses, rentals, maintenance etc...

Opex has **decreased since Q3´19. Future savings** come up with current COVID-19 **contingency plan** mostly focus on **opex reduction**

**Non recurring & other** includes: M&A costs, provisions related to potential claims/risks, and one off costs incurred at the end of 2019 in relation to the integration of Divarian

## Personnel Cost[1]

### Evolution (€MM)




- **Divarian integration of 345 FTEs** starting June 1, 2019 impacting the **increase in LTM personnel** cost
- **Decrease in FTEs since Q3'19**
- **>200 FTE net reduction** since Jan.1, 2020 reaching **942 FTEs at the end of April** due to the **restructuring process completed** (136 leaves), returns of some employees to BBVA, and other voluntary leaves
- Net **reduction of >200 FTEs** which will imply a structural personnel **cost reduction >€10MM annualized**

(1) Personnel cost in Q1´20 excludes €6.4MM of non recurring costs (restructuring labour process cost);

# 3 Free Cash Flow and Net Debt

Free Cash Flow of €89MM LTM, with strong cash conversion of 96%. Strong liquidity position of €89.3MM in March´20

## Free Cash Flow[1]

**Highlights**

- **FCF of €88.8MM in LTM Q1´20 with a cash conversion of 96%**
- **FCF increased** from **€2.8MM** to **€20.2MM** in Q1´20
- **Strong collections** in Q1´20, **reducing** the accounts **receivable** by **€30MM** in March´20

| (€ MM) | LTM Q1´19 | LTM Q1´20 |
|---|---|---|
| **Adjusted EBITDA[2]** | **127.7** | **92.5** |
| Capital expenditures | -13.3 | -13.2 |
| Change in working capital | -9.2 | 9.5 |
| **Free Cash Flow[1]** | **105.2** | **88.8** |
| ***Cash conversion*** | ***82%*** | ***96%*** |

## Net Debt Position

**Highlights**

- **Leverage ratio** of **4.3x** at the end of March´20
- **Strong liquidity position of €89.3MM** due to significant **FCF generation** in **Q1´20 (+€20MM)**
- **RCF fully drawn (€14.4MM)** in **March**. Partial **repayment (€10.5MM)** in **May**. Will reassess as situation progresses.

| (€ MM) | FY 2019 | Q1´20 |
|---|---|---|
| **Total gross debt** | **471.5** | **489.8** |
| Cash on Balance Sheet | 64.3 | 89.3 |
| **Total net debt** | **407.2** | **400.5** |
| **Adjusted EBITDA LTM[2]** | **105.7** | **92.5** |
| **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 €10MM of non recurring costs (€6.4MM restructuring cost in 2020 and €3.6MM of M&A expenses in 2019)

# 4. Conclusion

# 4 Conclusion

## 2020

**Q1´20**

**Q1´20 performance has been affected** by the COVID-19 **crisis** started in **early March**

**Q2´20**

**Q2´20 volumes and business activity** could reach a **decrease in volumes of >50%** vs Q2´19

**Q3´20**

**Q4´20**

**COVID-19 situation** makes it **impossible** to **predict** the shape of the **recovery curve** in the next two quarters due to the **uncertainty** of the effect of the pandemic in the Spanish economy and servicing sector

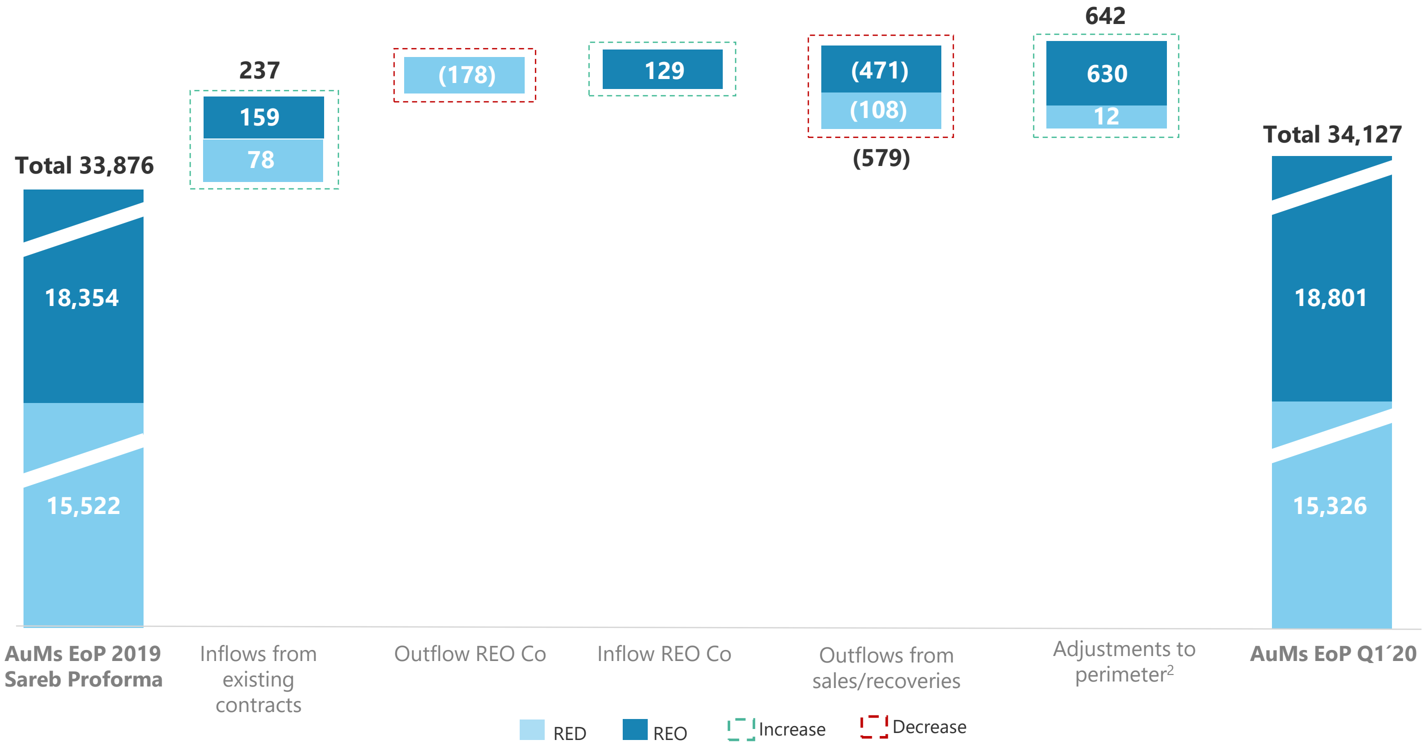
**We face the 2020 uncertainties generated by COVID-19 in Haya with a strong liquidly position while continuing our efforts to reduce structural costs to partially mitigate the impact this year**

# 5. Annex

# 5 Assets Under Management

## Asset under Management evolution (GBV[1])

(€ MM)




(1) BBVA, Divarian and Appel perimeters included at Appraisal Value; (2) Adjustment mainly in Sareb´s new contract final perimeter

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