



# Investor Day

## Fit to Win 3 year Plan

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London, September 22<sup>nd</sup>, 2016

**coface**

# Today's agenda



- 1** Start 10:30 am  
**Introduction: Fit to Win 3 year plan - Xavier Durand**
- 2** 11:00 am  
**Economic outlook - Julien Marcilly**
- 3** 11:20 am  
**Strengthen information & risk management - Nicolas de Buttet**
- 4** 11:40 am  
**Improve operational efficiency & client service - Carine Pichon**
- 5** 12:00 am  
**Q & A session 1 - followed by lunch**
- 5** 1:30 pm  
**Differentiated growth strategies - Thibault Surer** ▶
  - 5.1 Latin America – Case study**  
Bart Pattyn
  - 5.2 Germany – Case study**  
Thibault Surer
  - 5.3 Italy – Case study**  
Ernesto de Martinis
- 6** 2:35 pm  
**Financial targets & capital - Carine Pichon**
- 3:00 pm**  
**Q & A session 2**



1

**Introduction**  
Xavier Durand  
CEO

# 8 intense months preparing in depth transformation of Coface

## Addressed issues

- **Emerging risk performance**
- **Client defiance versus risk actions**
- **State Guarantees “limbo”**
- **Mature market volume challenge**
- **Reserving & guidance**

## Ran diagnosis

- Met **>100 clients, >100 brokers, >50% employees** base
- Met **investors**, and conducted **deep-dive** perception analysis
- Performed **full scale strategic review**

## Defined strategy

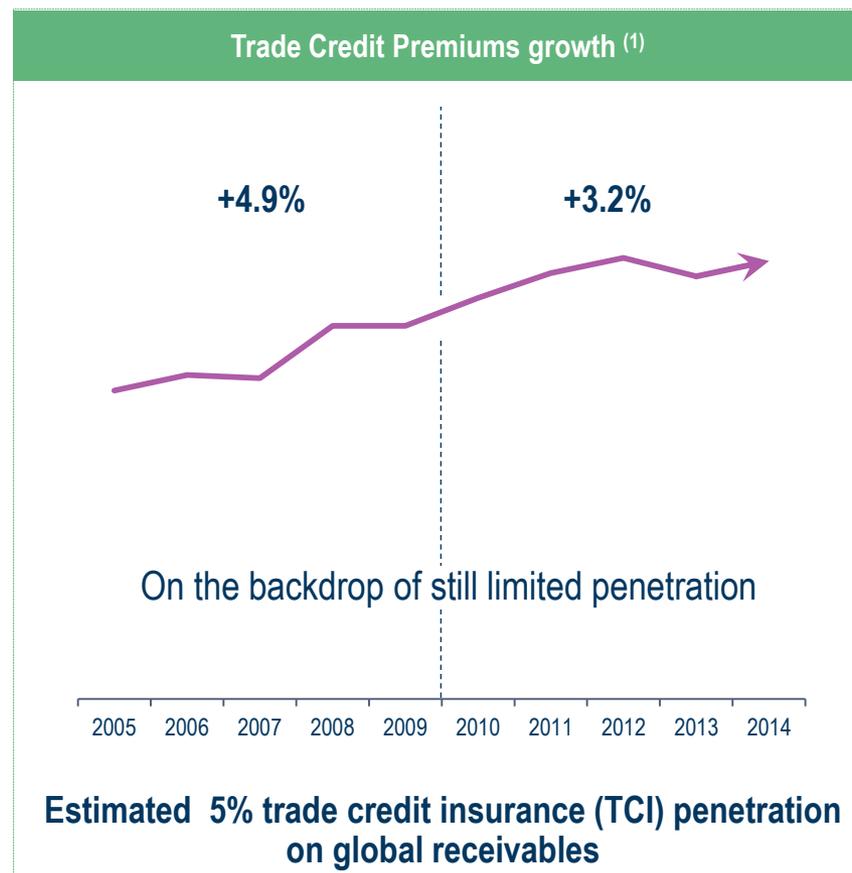
- **Shared vision**
- **Bottom-up in 31 countries**, all key functions
- **Top-down targets** to meet market expectations
- **Fully shared & owned** throughout organization

## Launched initiatives

- **Upgrade** key leadership positions
- Drive **risk actions**
- Adjust **growth / price targets**
- **Start workstreams**
- Drive **cultural change**

# Trade credit insurance is an attractive industry

## Continued historic growth

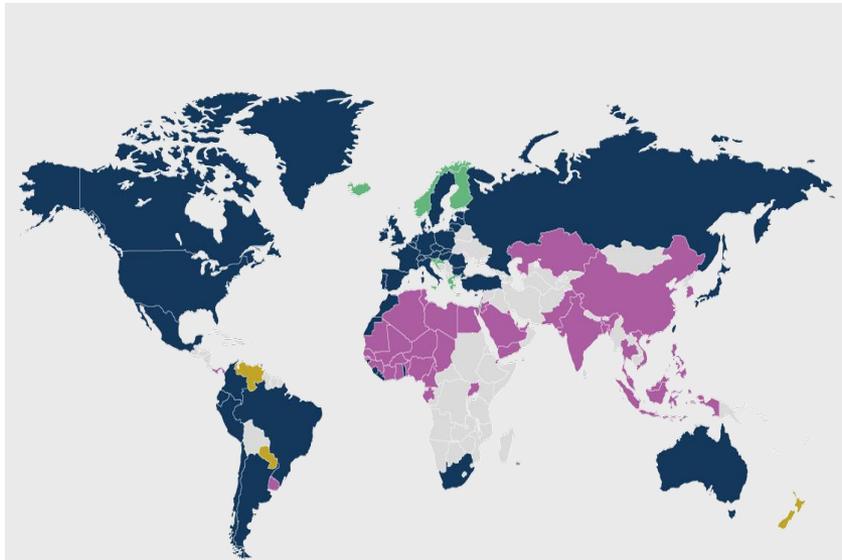


## Strong structural positives

- **Ability to maintain returns through the cycle**
  - Cancellable coverage is bulk of business
  - Less exposed to financial markets volatility
- **Limited # of global competitors**
  - Local ECAs, specialty insurers
  - 3 truly Global players
- **“Sticky” client relationships**
  - Driven by service, systems integration and trust
- **Significant barriers to entry**
  - Risk expertise and database, IT infrastructure, global franchise & presence for export service, capital

# Coface can leverage strong historic capabilities

## Unparalleled global presence & network



**Coface Global credit insurance offer**  
Available in 100 countries

Direct offer

Partners

Freedom  
of service

Off shore

## Strong expertise



**70 years of experience through key cycles**

**Integrated systems and infrastructure**

- Data management
- Risk
- Collections

**Strong client base**

- ~50,000 companies in 100 countries\*
- ~90% retention rate

**Good franchise & reputation**

- 96% Trusted company\*\*
- 98% Key player in credit insurance\*\*
- 89% Close to its client\*\*

# But the environment for Coface has evolved

## Slower, more bifurcated growth

- 
- **Lower growth & price pressure** in mature markets
  - **Non profitable** Emerging Market growth

- 
- **Single digit** Emerging Market growth

## Increased market risk volatility

- **Economic & Financial** in Emerging markets
- **Political risk** in Mature Markets

- **Low claims** in Mature Markets
- **Case for credit insurance** remains strong

## Impact of technology

- **Progressive commoditization** of information
- **Investment race** in technology
- **Potential facilitation** of new entrants

- Opportunity for **enhanced service & cost**
- Potential **distribution game** change
- Opens up **new data sourcing space**

## Loss of State Guarantees business

- **Contribution shortfall** (€30m)
- **Scale reduction**

- Clarifies company **mission & status**

# In this environment, Coface needs significant change

## Key issues

- **Aggressive expansion** in Emerging Markets
  - Under estimated volatility
  - Untested teams and infrastructure
- **Loss of State Guarantees business**
- **Mature markets** momentum
- **Organization & structure**



Deteriorated performance in risk,  
costs & growth

## Actions

- **Adapt growth strategy** to market realities
- **Continue investment** in risk & information infrastructure
- Address **cost base and offset margin** loss in '18
- Renew focus on **client service, partnership & innovation**
- **Upgrade & better align** organization



Bring business back in line  
with industry in '19

# Vision: to be the most agile, global trade credit partner in the industry

Financial institutions

Large corporates

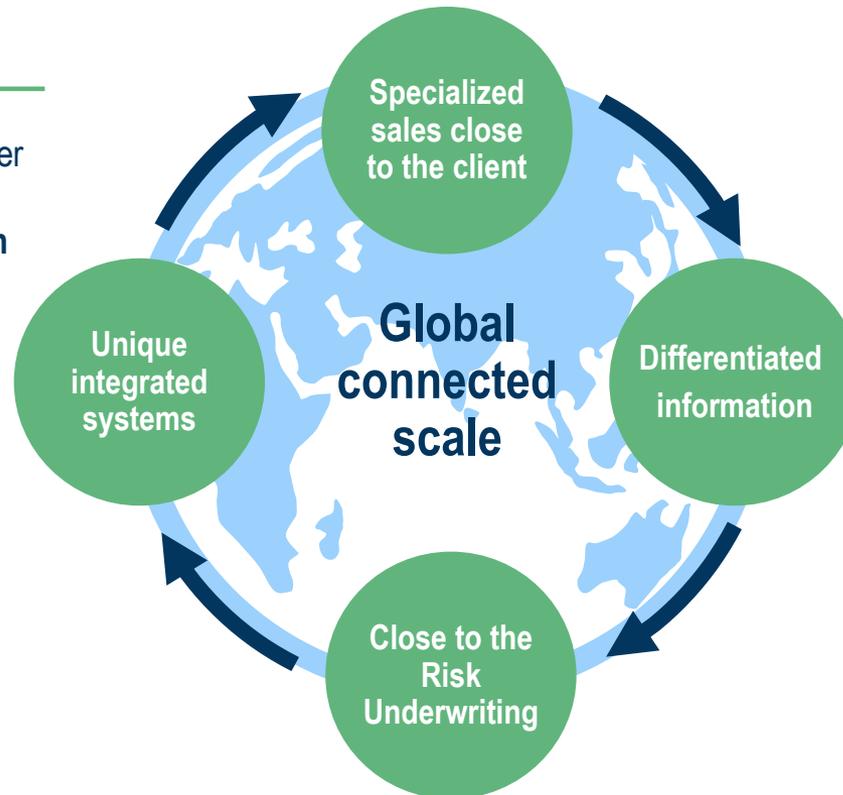
Mid-market

SMEs

Partners retail bankers – B2B2B

## Clear ambition

- **Most global** credit insurer
- **Best Credit Information** in industry
- **Specialized offer** by segment
- **Quality servicing, innovative** in select places



## Fit to Win principles

- Prioritize **value creation** over “growth for growth”
- Maintain **strong financial position**

# Strategic plan around 2 pillars and 3 priorities

## Ambition

1

Position Coface as the most agile, global trade credit partner in the industry

## And...

2

Steer business towards more efficient capital model

## Transformation

A

Strengthen Risk Management & Information

*Bring infrastructure into coherence with risk reality*

B

Improve Operational Efficiency & Client Service

*Enhance back office and system capabilities for client benefit*

C

Implement Differentiated Growth Strategies

*Capture value from our Global presence*

## Benefits

▶ Return to normalized loss ratio over the cycle

▶ Adjust cost structure to market realities

▶ Drive profitable growth over the long-term

~83% combined ratio over the cycle

# 1A Strengthen information & risk management



## Invest in information quality & data tools

- Enhance data purchasing policy
- Invest in data enhancement staff in key markets
- Complete close to the risk organization model



## Reinforce UW processes in higher risk segments

- Align commercial & risk underwriting (UW) in key sectors
- Further differentiate exposure guidelines according to each market risk volatility
- Increase industry sector granularity
- Align economic research and risk UW segmentation



## Upgrade & enhance risk talent & resources

- Upgrade leadership (e.g.: Asia, risk management, specialty lines)
- Create centralized senior experts support team
- Reinforce information teams in specific countries
- Systematize key underwriting training and career path

**While adjusting growth ambitions to reality of each market risk**

# 1B Fit to Win will utilize State Guarantees gain to invest in efficiency while enhancing client service levels

## Actions

- 1 Drive sourcing & real estate utilization
- 2 Leverage centers of excellence
- 3 Simplify and automate processes
- 4 Streamline organization



## Utilize €70m State Guarantees gain to



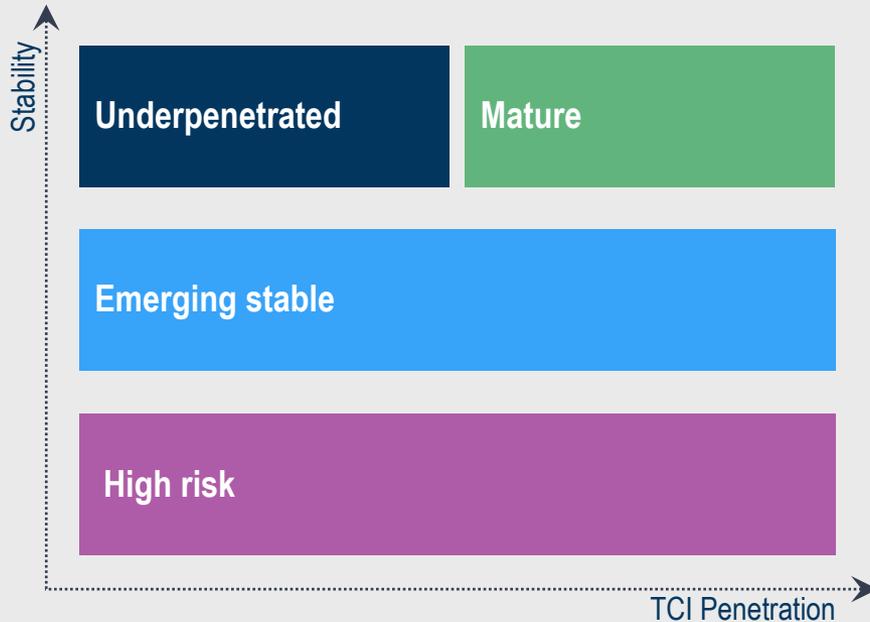
Invest in technologies and process transformation (€35m)



Drive people change & skills upgrade through voluntary actions (€35m)

# 1C Driving differentiated growth strategies by market

## Geographical vision



## Strategy

-  Drive sales efficiency & innovate to differentiate
-  Invest in distribution
-  Seek scale through safe growth
-  Stabilize risk and demonstrate ability to make returns before growing

# 1C Differentiate value proposition for key segments

	<b>Segment needs</b>		<b>Strategy</b>
<b>Large corporates</b>	<ul style="list-style-type: none"><li>• BS and P&amp;L optimization</li><li>• Credit process management and hedging</li><li>• Project protection</li></ul>	▶	<ul style="list-style-type: none"><li>• Increase quality of service, retention &amp; selection</li></ul>
<b>Mid-market</b>	<ul style="list-style-type: none"><li>• Credit process management</li><li>• Foreign/oversea access and support</li></ul>	▶	<ul style="list-style-type: none"><li>• Adapt offer and develop distribution (agents, direct sales force)</li></ul>
<b>SMEs</b>	<ul style="list-style-type: none"><li>• Payment protection</li></ul>	▶	<ul style="list-style-type: none"><li>• Develop simple product to be distributed with partners</li></ul>
<b>Financial institutions</b>	<ul style="list-style-type: none"><li>• Capacity provision and aggregation</li><li>• Credit enhancement</li></ul>	▶	<ul style="list-style-type: none"><li>• Invest in dedicated team &amp; offering</li></ul>

# Enhancing management framework

## From

**1** Replicate successful Western Europe organization everywhere around the globe

**2** Centralized decision making

**3** Norm-based planning

**4** Standard bonus schemes

**5** Siloed functional goals



## To

**1** Build tailored infrastructure in each market, prove capacity to handle risk, then invest to grow

**2** Strong functional matrix for enhanced controllership

**3** Market-driven planning

**4** Ambitious yet realistic goals & objectives, aligned with Fit to Win KPIs

**5** Integrated functional goals, e.g.:

- UW & growth
- Economic research & risk
- Risk & audit frameworks

**While upgrading leadership and skills**

# Driving a cultural transformation to support execution



## Client focus

- **Client satisfaction at the center:** offers, service levels & flexibility
- **Connected to the market:** macro-eco, competition moves
- Strong, durable relationships with brokers & partners



## Collaboration

- Cross-functional
- Cross-markets
- Transparency

## Courage & accountability



- **Bottom line accountability** requiring to balance growth versus risk
- **Transparent delegation** and reporting
- **Empowered local teams**, participative strategy & budget processes

## Expertise



- **Functional:** UW, risk, sales, systems, process
- **Industry:** Geographies, industry sectors
- Leadership, people management

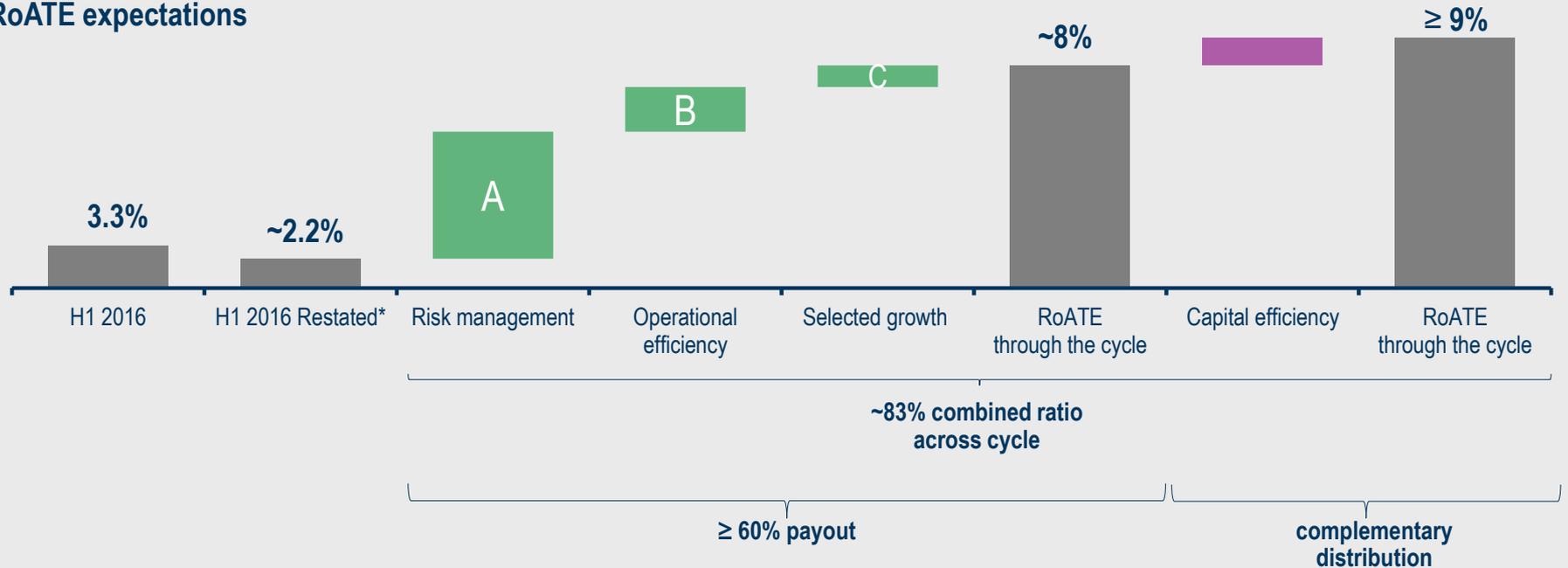
- Strong internal support: 50% of employees responded to internal survey, 400 people volunteered to champion

# Clear financial ambitions supported by aligned incentives

**1** Position Coface as the most agile, global trade credit partner in the industry

**2** Steer business towards more efficient capital model

## RoATE expectations



\* Excluding State Guarantees management activity

# Wrap-up: Fit to Win '16 to '19 will transform Coface

- Become the **most agile trade credit** partner in the industry
  - Reinforce risk management
  - Drive **operational efficiency & client service**
  - Drive **differentiated growth strategies**
- **Optimize** capital
- **Enhance** management structure & execution
- Drive **cultural change**
- **Deliver  $\geq 9\%$  RoATE** through the cycle





2

## **Economic outlook**

Julien Marcilly

*Chief Economist*

# Economic Research: a unique expertise at the service of Coface and its clients

## Externally

Contribute to marketing policy, brand awareness and image



**Economic expertise** supporting Coface clients with important information and risk decision making



**Strong flow of economic publications and events**

## Internally

Contribute to economic intelligence and risk management



**Support risk underwriting policy and decision making** thanks to a coordinated set of process and tools

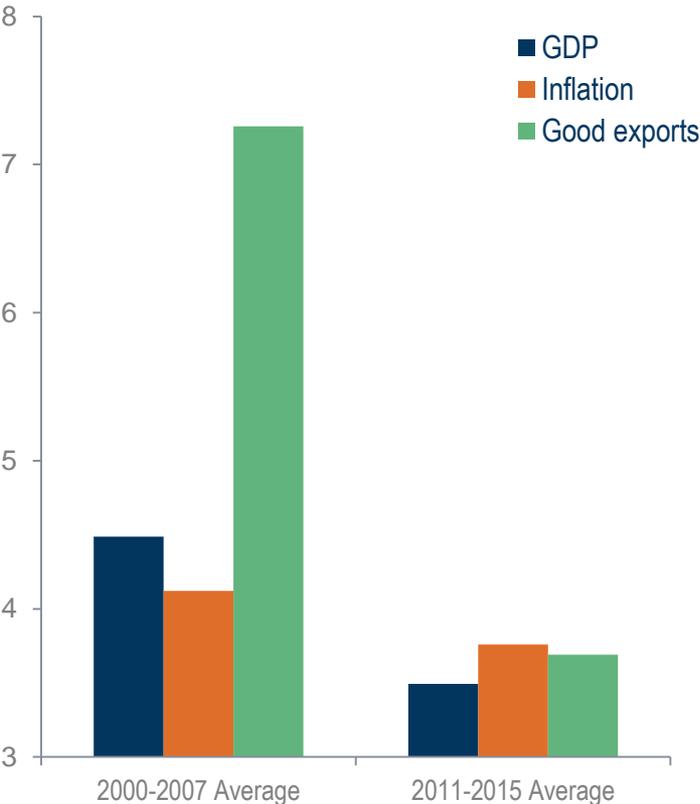


Closed loop, integrated process:

- **Anticipate changes** in economic and risk outlook
- Take into account **Coface payment experience**

# Challenging global environment with lower growth, lower inflation and higher debt

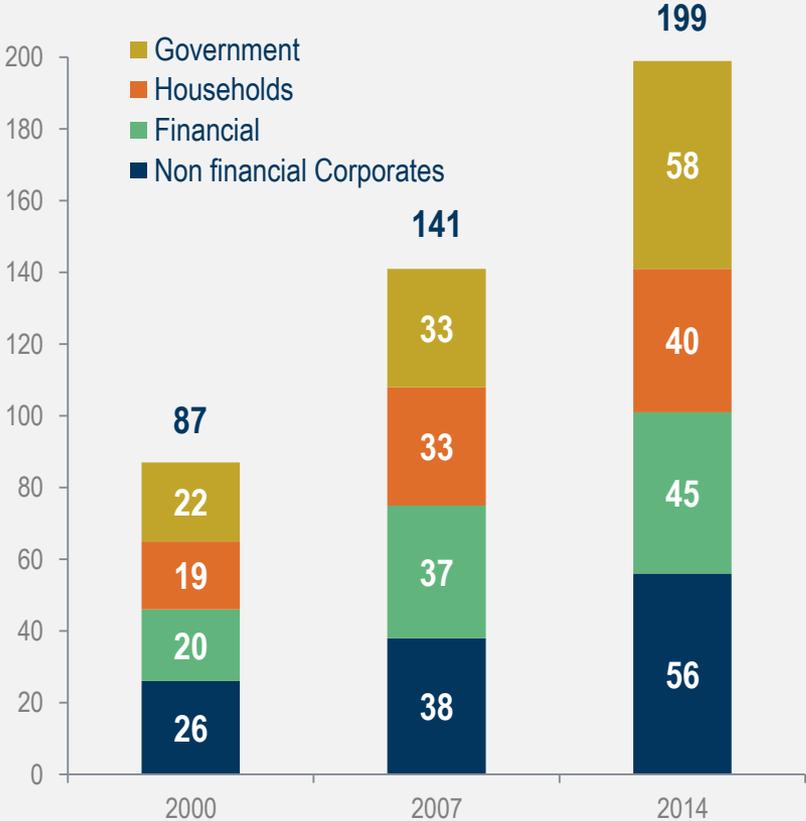
World: GDP, inflation and trade (yoy growth in %)



Sources: Coface, IMF



Global debt by type (USD trillion)



Sources: Coface, IMF, BIS, McKinsey

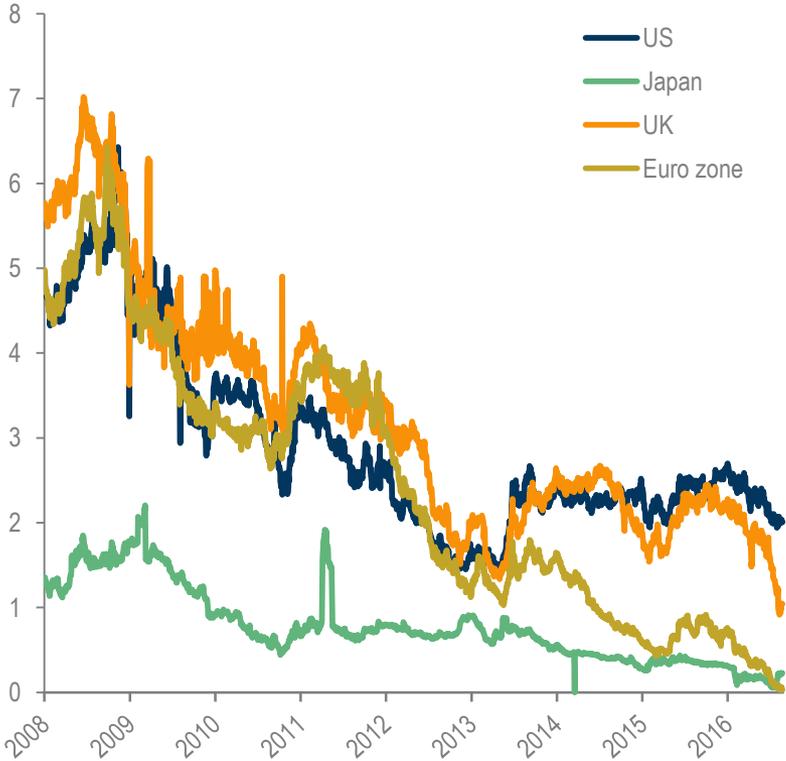
# Advanced economies: lower interest rates mitigate corporate credit risk

## Business insolvencies: % growth between June 2014 and June 2016



Sources: National Statistical Offices

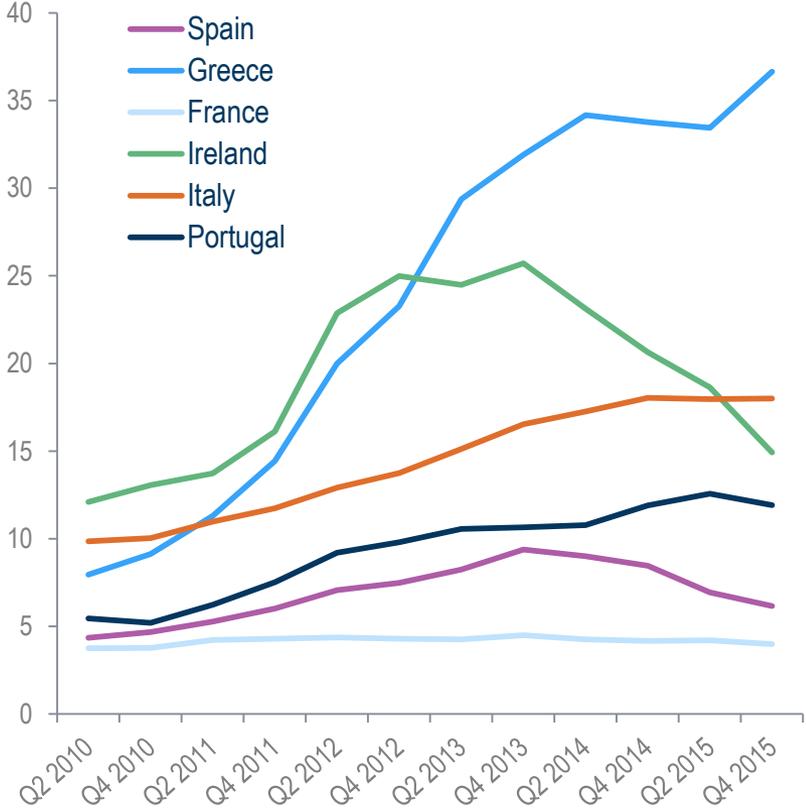
## Benchmark corporate bond yield (5-year AA, %)



Source: Datastream

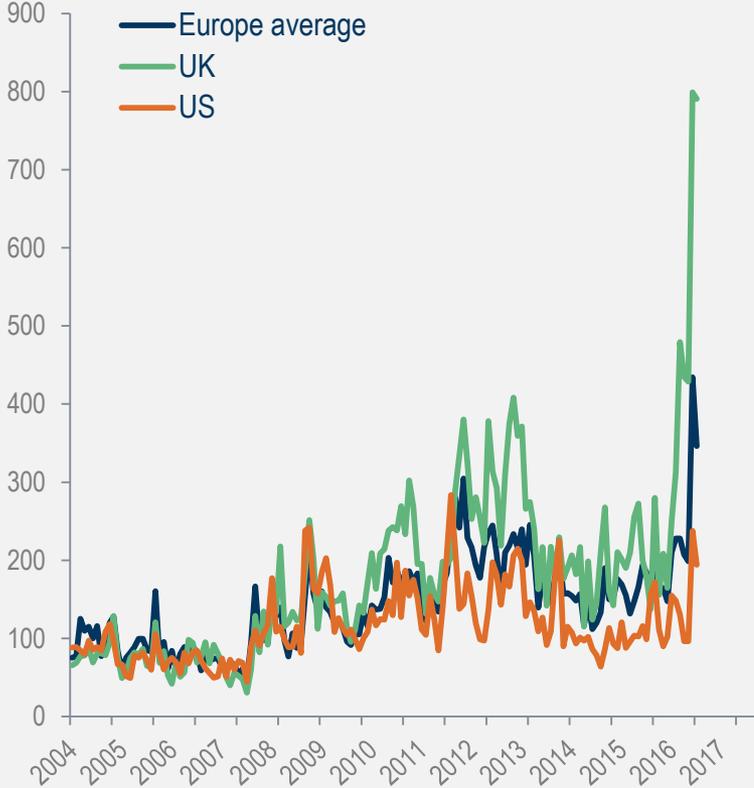
# But advanced economies still have to deal with the legacy of global financial crisis

## Europe: non performing loans (as a % of total)



Sources: ECB, National Central Banks

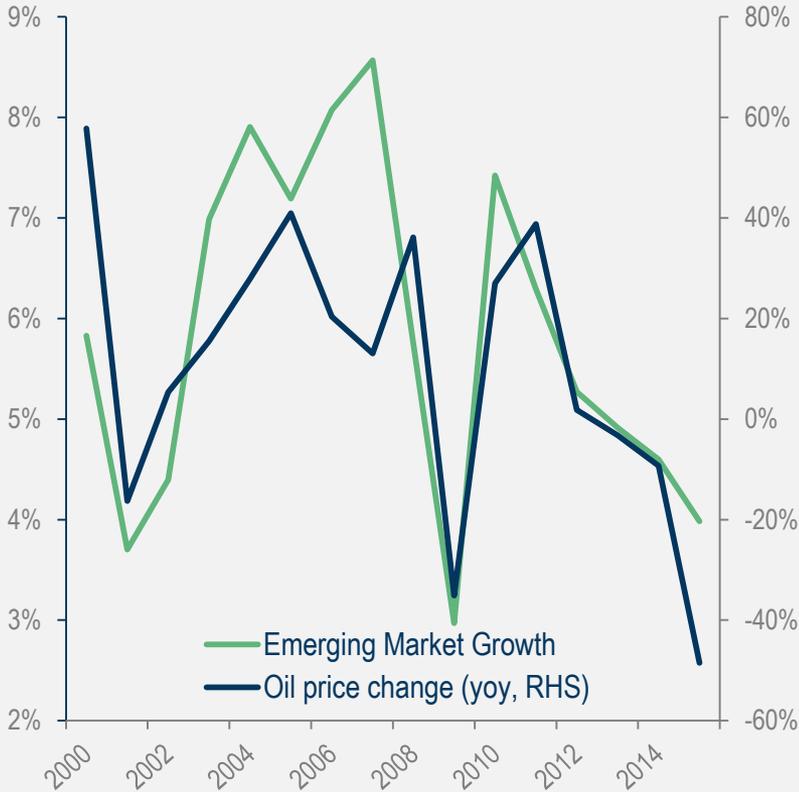
## Political uncertainty index



Source: EPU

# Emerging Markets: the adjustment process is not over, especially at the “micro” level

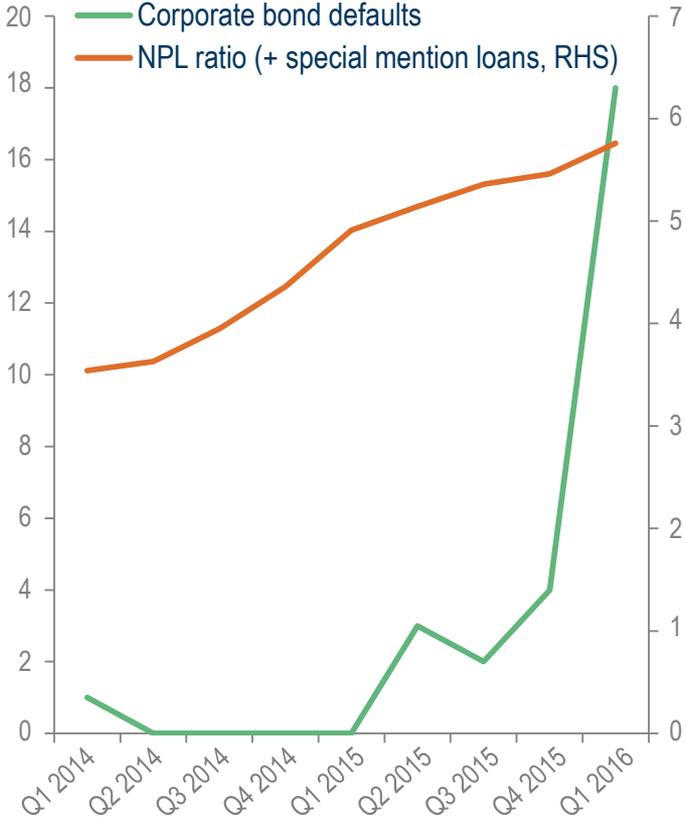
## Emerging market GDP growth and oil price



Sources: Coface, IMF



## China: corporate Bond Defaults and NPL



Source: Bloomberg and NBS

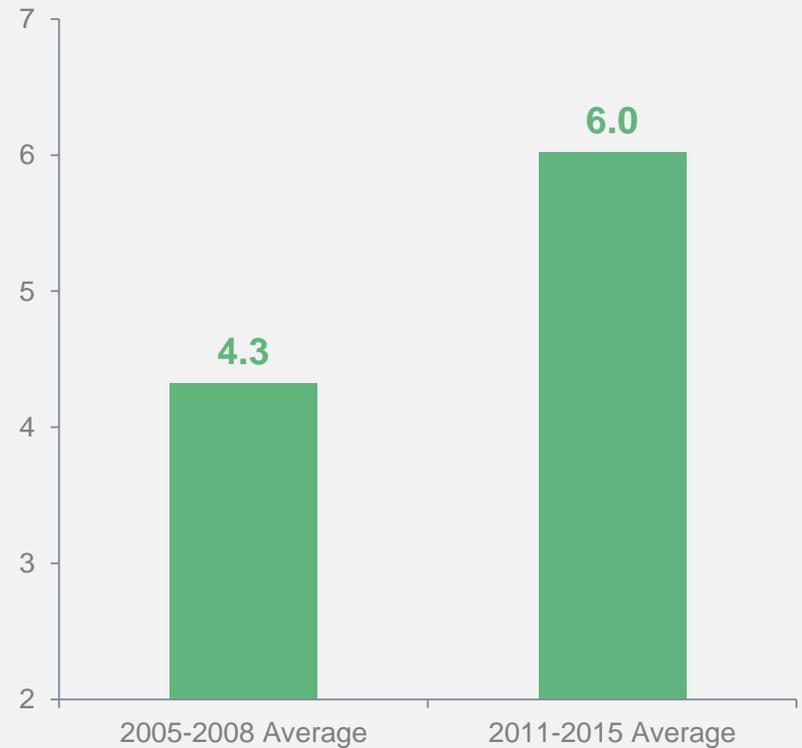
# Emerging Markets: differentiation is essential...

## GDP growth: gap between Emerging Markets and Advanced Economies (%)



Sources: Coface, IMF

## Standard deviation of GDP growth in Emerging Markets (152 countries)



Sources: Coface, IMF

# ...on a country by country basis

World: expected GDP growth and Current account balance by country (as a % of GDP)



Sources: Coface, IMF

# ...and on a sector by sector basis

SECTOR RISK ASSESSMENT						
SECTOR	WESTERN EUROPE	EMERGING ASIA	NORTH AMERICA	LATIN AMERICA	CENTRAL EUROPE	MIDDLE EAST + TURKEY
Agrofood	Medium risk	Medium risk	Medium risk	High risk	Medium risk	Medium risk → High risk
Automotive	Medium risk ↗ Low risk	Medium risk	Medium risk	High risk	Medium risk ↗ Low risk	Medium risk → High risk
Chemical	Medium risk	High risk	Low risk	High risk	Medium risk	High risk
Construction	High risk ↗ Low risk	High risk → Very high risk	Medium risk	Very high risk	Medium risk	High risk
Energy	High risk	High risk	Very high risk	Very high risk	High risk	High risk
ICT*	Medium risk ↗ Low risk	High risk	Medium risk	Medium risk	Low risk	Medium risk
Metals	Very high risk ↗ High risk	Very high risk	High risk	Very high risk	High risk	Very high risk
Paper-wood	High risk	Medium risk	Medium risk	High risk ↗ Medium risk	Medium risk	Medium risk
Pharmaceuticals	Medium risk	Low risk	Medium risk ↗ Low risk	Medium risk	Medium risk	Low risk
Retails	Medium risk	Medium risk	Medium risk	High risk	Medium risk	Medium risk → High risk
Textile-clothing	High risk	High risk	Low risk → Medium risk	High risk	Medium risk	Medium risk → High risk
Transportation	Medium risk	Medium risk	Low risk	High risk	High risk	Medium risk

EMERGING ASIA	
CHINA	INDIA
Medium risk	High risk
Medium risk	Medium risk
High risk	High risk
Very high risk	High risk
High risk	High risk
Very high risk	Very high risk
Medium risk	Medium risk
Low risk	Low risk
Medium risk	Medium risk
High risk	High risk
Medium risk	Medium risk

\* Information and Communications technologies

Sources: Coface

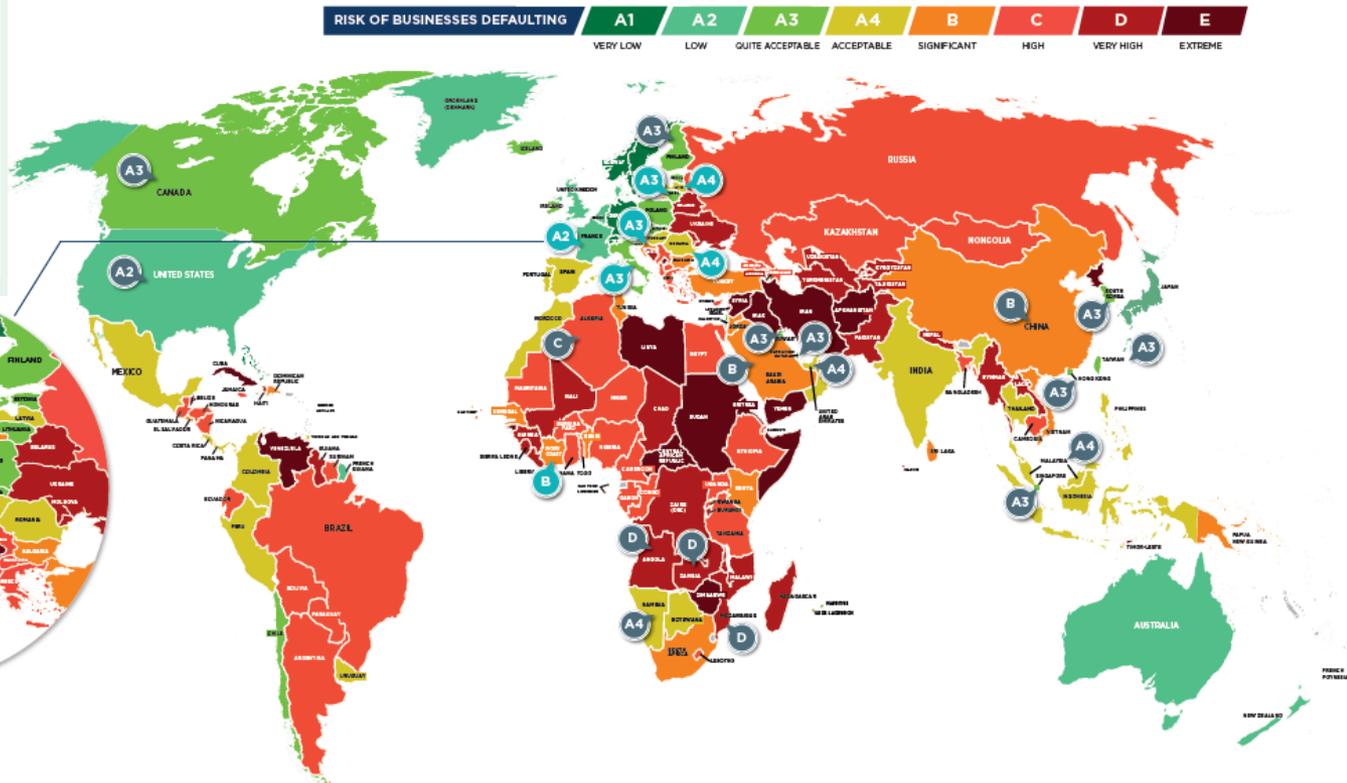
- Low risk
- Medium risk
- High risk
- Very high risk
- ↗
 The risk has improved
- ↘
 The risk has deteriorated

# Fit To Win has to deal with all time high country risk

## 160 countries under the magnifying glass

A unique methodology

- **Macroeconomic expertise** in assessing country risk
- **Comprehension of the business environment**
- **Microeconomic data** collected over 70 years of payment experience





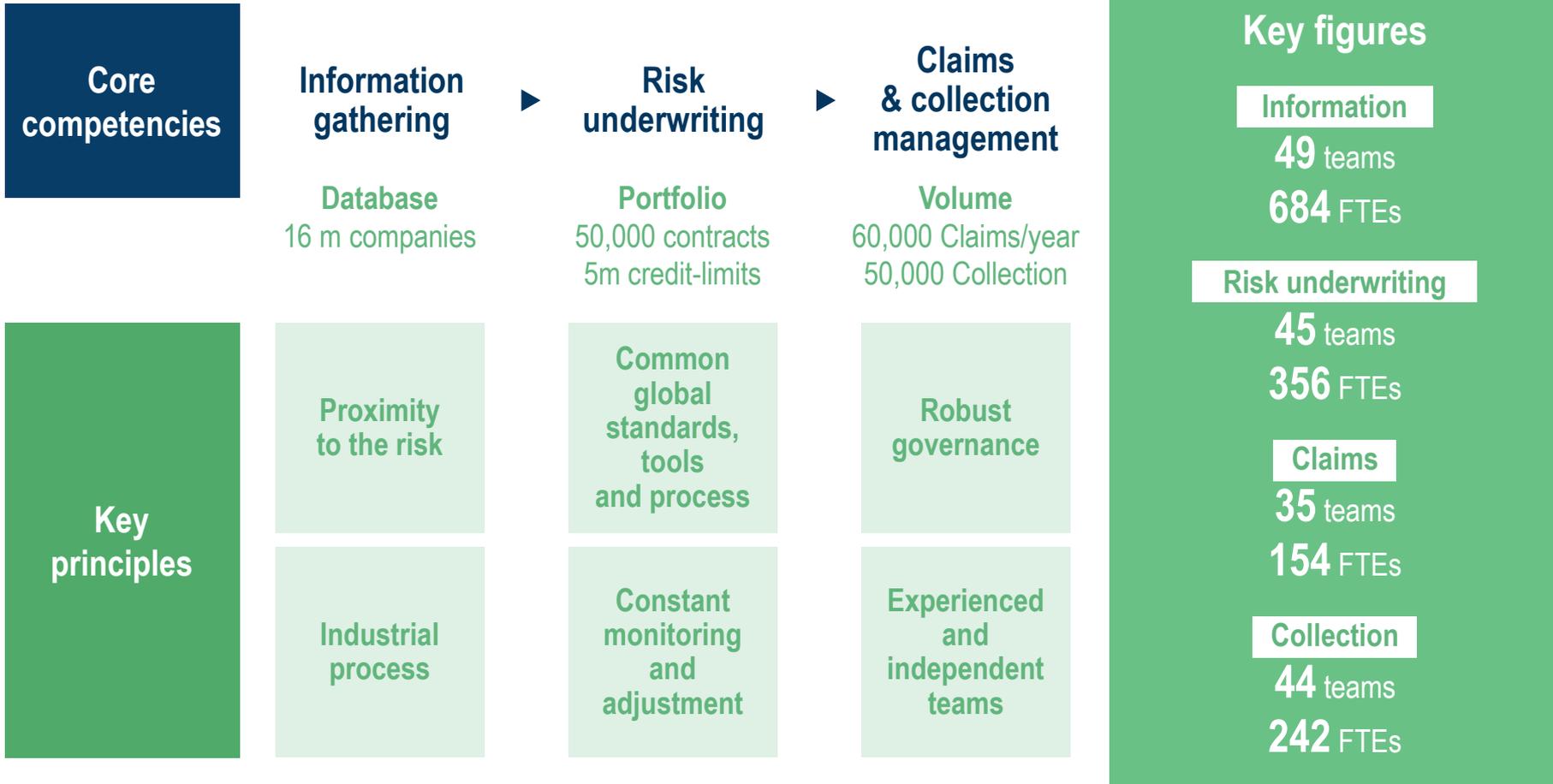
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## **Strengthen information & risk management**

**Nicolas de Buttet**

*Information, Risk Underwriting and Claims Director*

# Coface has a solid risk prevention infrastructure



# But increased losses in Emerging Markets highlighted need for continued investment

## Strong increase in claims in 2015...

Asia + Latam average monthly claim amount



## Impacting group gross loss ratio in 2016



- First impacted EM domestic policies, then export from mature markets
- Several key emerging countries facing simultaneous crisis is a new phenomenon

# Past 'One size fits all' approach shows limitations

	Efficient organization in Mature Markets...	...not sufficient in Emerging Markets
Information	<ul style="list-style-type: none"> <li>• <b>Standardized &amp; available</b> information</li> <li>• <b>Reliable and monitored</b> information</li> </ul>	<ul style="list-style-type: none"> <li>• Unstable information <b>supply chains</b></li> <li>• Uneven information <b>quality &amp; reliability</b></li> </ul>
Underwriting processes	<ul style="list-style-type: none"> <li>• Rules based on homogeneous market practices</li> <li>• <b>Longstanding partnerships</b> with clients</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Varied set</b> of business practices</li> <li>• TCI purchased more as a commodity</li> </ul>
Collection	<ul style="list-style-type: none"> <li>• Predictable legal systems enabling strong and fast actions</li> <li>• <b>Shorter payment</b> terms</li> </ul>	<ul style="list-style-type: none"> <li>• Less predictable &amp; effective legal systems</li> <li>• <b>Longer payment terms</b> and claims notification period</li> </ul>
People	<ul style="list-style-type: none"> <li>• Teams and top managers proven through <b>multiple cycles</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>More recent industry</b> with teams yet unproven through major cycle reversals</li> </ul>

# First set of actions implemented in the last months

		Achievements
Information	Adjusted country ratings	<ul style="list-style-type: none"> <li>Aligned Economic research &amp; risk UW ranking methodology                             <ul style="list-style-type: none"> <li>Improves coherence of communications with customers</li> <li>Improves consistency of risk evaluation over time</li> </ul> </li> </ul>
Underwriting processes	Reviewed portfolio exposures	<ul style="list-style-type: none"> <li>Steel, commodities, construction</li> <li>Emerging Markets</li> <li>Traders</li> <li>Single risk</li> </ul> <p>54% EM Exposure reduction from 01/15 to 06/16</p> <p>Resulting in -20% claims from 2015 to 2016</p>
	Updated commercial and risk underwriting rules	<ul style="list-style-type: none"> <li>New commercial UW rules for commodity traders</li> <li>Decentralized decision allowing 50% more HQ time for controls and focus on sensitive sectors</li> </ul>
	Changed reserving policy	<ul style="list-style-type: none"> <li>Reflect increased average cost of claims</li> </ul>
People	Rebuilt 2016 bonus scheme	<ul style="list-style-type: none"> <li>Country region manager bonuses aligned with group loss metrics</li> </ul>

# Strengthen information & risk management



## Invest in information quality & data tools

- Enhance data purchasing policy
- Invest in data enhancement staff in key markets
- Complete close to the risk organization model



## Reinforce UW processes in higher risk segments

- Align commercial & risk underwriting (UW) in key sectors
- Further differentiate exposure guidelines according to each market risk volatility
- Increase industry sector granularity
- Align economic research and risk UW segmentation



## Upgrade & enhance risk talent & resources

- Upgrade leadership (e.g.: Asia, risk management, specialty lines)
- Create centralized senior experts support team
- Reinforce information teams in specific countries
- Systematize key underwriting training and career path

**While adjusting growth ambitions to reality of each market risk**

# Fit to Win: Invest in information quality & data tools



## Actions

Revisit Data  
purchasing  
policy

Invest  
in information  
enhancement  
in key markets

## Investment

- Enhance information sources in 18 countries, mainly on emerging countries
- Examples: China, Mexico, Turkey...



- Add 25 FTE in 19 countries
  - +10% of total Enhanced Information Center (EIC) FTEs
  - +33% of emerging markets EIC FTEs
- More corporate contacts depending on
  - Information availability
  - Level of risk
  - Level of exposure→ Targeting mid market

## Objectives

- Increase reliability by signing up new sources
- Increase monitoring rhythm in emerging markets

- Keep driving direct contacts with debtors

Number of direct contacts



# Fit to Win: Reinforce UW processes in higher risk segments



	Guidelines	Objectives
Develop more granular risk approach	<ul style="list-style-type: none"><li>Evolve exposure monitoring system from 10 to 150 segments Before : 10 segments (Debtor Risk Assessment : DRA) Now : 150 segments (5 country levels, 38 sectors)</li></ul>	▶ Increase reduction / expansion action accuracy & efficiency
Increase differentiation by client/sector	<ul style="list-style-type: none"><li><b>Adjust policy commercial &amp; risk terms</b> to sector risk</li><li><b>Further differentiate risk appetite</b> by client type</li><li><b>Adjust portfolio monitoring</b> rhythm and intensity to risk level</li></ul>	▶ Find right balance between price, terms and risk
Better connect the organization	<ul style="list-style-type: none"><li><b>Align risk &amp; commercial underwriting</b> strategy and management</li><li><b>Reinforce relationship</b> between economic research and risk <b>underwriting</b></li></ul>	▶ All stakeholders focused on same profitability metrics

# Fit to Win: Upgrade & enhance risk talent & resources in key areas



	<b>Actions</b>	<b>Objectives</b>
<b>Reinforce teams &amp; leadership</b>	<ul style="list-style-type: none"><li>• <b>Create new senior expert teams based in HQ</b> to support country UW &amp; collection teams (+6 FTEs)</li><li>• Add <b>25 FTEs</b> focused on information enhancement</li><li>• <b>Continue to reinforce leadership</b> : increase new hire selection on risk experience</li></ul>	<ul style="list-style-type: none"><li>• Enhanced risk management</li><li>• Monitor and support regional teams</li><li>• Increase direct debtor contacts</li></ul>
<b>Train teams</b>	<ul style="list-style-type: none"><li>• <b>Create risk underwriting school</b><ul style="list-style-type: none"><li>– From 5 to 20 e-learning sessions</li><li>– For all 350 underwriters located in 46 locations</li></ul></li><li>• <b>Create commercial school</b><ul style="list-style-type: none"><li>– From 10 to 22 e-learning sessions</li><li>– For 1,000 commercial people located in 66 locations</li></ul></li></ul>	<ul style="list-style-type: none"><li>▶ Boost risk &amp; commercial underwriting expertise</li></ul>

# In summary, we are building a stronger, more tailored risk infrastructure to match market risk realities

## Fit to Win aims at returning to normalized loss ratio over the cycle

- **Capitalize on our expertise** and draw on our strengths to consolidate Coface organization
- Move from “One size fits all” to **tailored organizations in emerging markets**
- **Invest in information** quality where necessary
- **Reinforce and align commercial & risk UW** to ensure improved profitability & customer satisfaction
- **Empower local teams and align incentives**





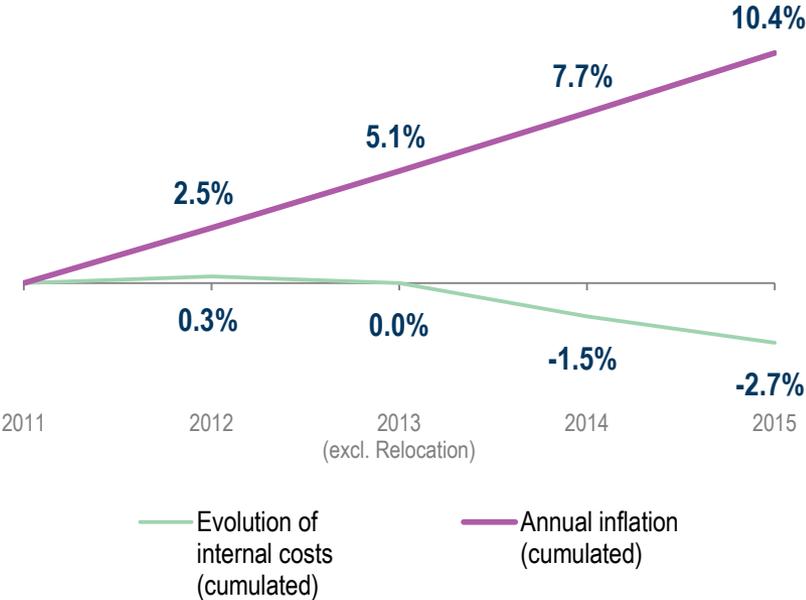
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## **Improve operational efficiency & client service**

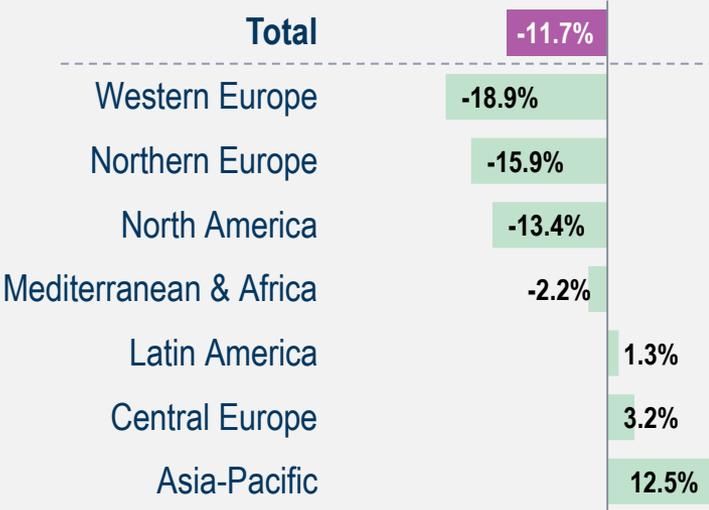
**Carine Pichon**  
*CFO*

# Coface has demonstrated good internal costs control

## Evolution of internal costs vs. inflation



## Evolution of staff (2011-2015)



# Environment requires both continued efficiency gains and stronger focus on client service

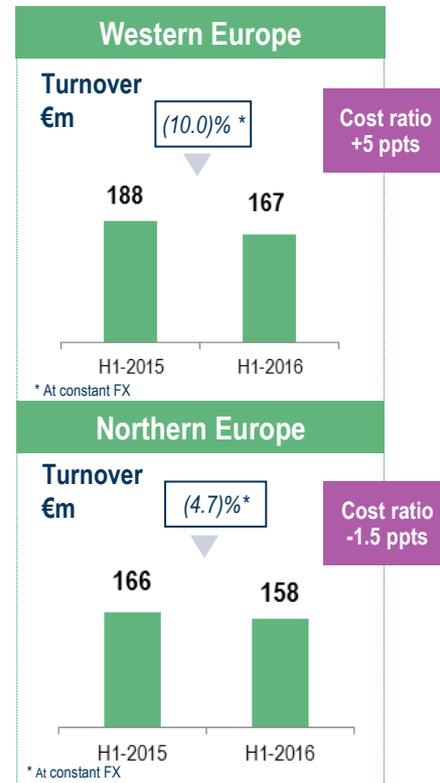
## State Guarantees activity transfer

- **€30m** shortfall<sup>1</sup> in margin & costs
- **Scale reduction**

## Slowing & bifurcated growth



## Revenue challenge in mature markets



## New technologies opportunity

- Differentiate in **ability to access corporate financial information & data**
- Enhance **underwriting capability**
- Enhance **client experience**
- **Drive cost savings**

# 1B Fit to Win will utilize State Guarantees gain to invest in efficiency while enhancing client service levels

## Actions

- 1 Drive sourcing & real estate utilization
- 2 Leverage centers of excellence
- 3 Simplify and automate processes
- 4 Streamline organization



## Utilize €70m State Guarantees gain to



Invest in technologies and process transformation (€35m)



Drive people change & skills upgrade through voluntary actions (€35m)

# 1 Drive sourcing and real estate utilization



## Built integrated global procurement organization

Team now sized for global management of the function:

- **8 purchasing specialists** at Group procurement Department
- **International network** of purchasing correspondents

## Initiatives

### Aggregate purchasing of key expenses

- Reduce number of vendors
- Leverage scale

### Align spending policies

- Travels
- Cars
- Data/Phone

### Drive consistent purchase process

- Systematic benchmark
- '4 eyes principle'
- Consistent RFP process

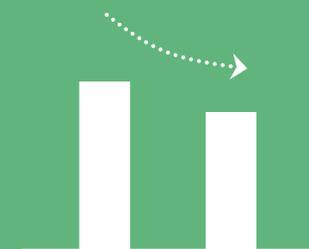
### Rationalize Real Estate (RE) Policy

- Optimize density / m<sup>2</sup> per FTE
- 134 sites in total
- Systematic review of rental prices

## Key goal

Purchasing & RE Cost base

(5)%\*



\* incl. inflation



## Opportunity to in-source and offshore IT contractors to Romania

- **Scope:** key development and test functions, on a large application scope

## Complete roll out of “close to the risk model” to France and Germany

- Fully devolve **debtor underwriting to local markets** as in rest of world
- **Partly reallocate to centralized senior experts support teams** to drive coaching and capacity intervention for “hot spots”

## Evaluate further leveraging Centers of Excellence

- **Key functions**
- **Leveraging existing infrastructures**



# 3 Simplify and automate processes

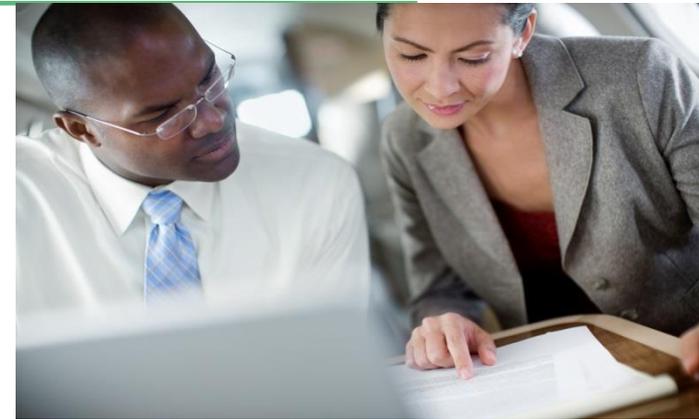
Productivity through tools enhancement



## 3-year journey to:

### Drive a Lean process management culture

- **Create central Lean** management team
- **Support** with dedicated local correspondents
- **Streamline key processes to eliminate waste**, lead time and focus on value-add functions and client service
- **Free-up time and resources** for client critical missions



### Standardize IT applications on business critical processes

- **Reduce complexity and obsolescence risk** (eg. contract management, accounting, invoicing, ...)
- **Ensure connectivity** between systems across the enterprise and with clients

# 4 Streamline organisation



## Geographies



- Merge/simplify **Baltics entities**
- Merge/simplify **Adriatic entities**
- Simplify **West Africa**

## HQ Functions



- **Merge 3 project management teams** into one single team

## Social Structure



- **Selectively review/align social benefits policies** to market standards

## Drive productivity while ensuring skill & talent vitality



- **Reallocate resources** to higher value added work
- **Continue to hire in critical areas** to refresh skills & talent



### Prioritize

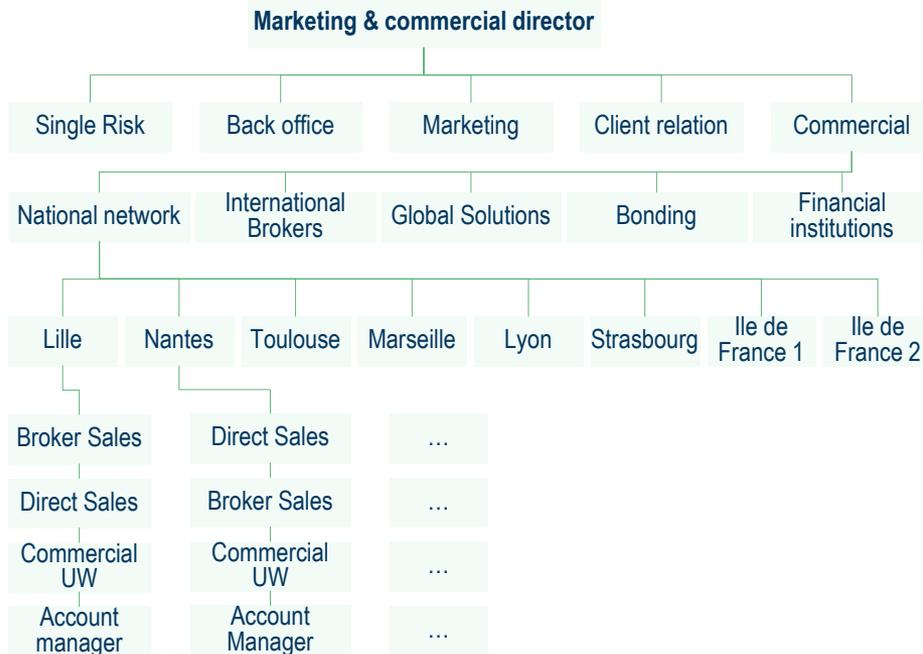
- Early retirement plan
- Voluntary leave
- Natural attrition

# France: streamline commercial organization

## Case study

From

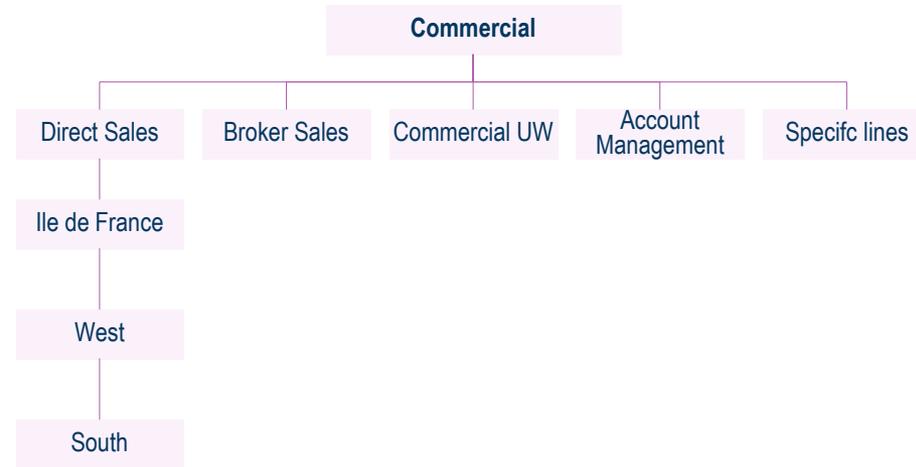
A geographies-based organization



- 8 geographies x 4 processes
- 6 layers

To

A function-based organization



- 3/ 4 geographies x 5 processes
- 4 layers

# Wrap-up

## Fit to Win aims at adjusting cost structure to market realities

- **A clear set of initiatives serving customer experience** and sustainable operational efficiency
- 4 different levers **to generate €30m savings** in '18
- **Clear governance** between Group and country projects teams
- **Continue dynamic out and in-flow policy** to reallocate and maintain talent & skills vitality
- **Prioritize voluntary leaves,** early retirement plans and natural attrition
- **Lay foundations** for digital transformation





**Q & A**



**L**unch



5

## **Differentiated growth strategies**

**Thibault Surer**

*Group Strategy & Business Development Director*

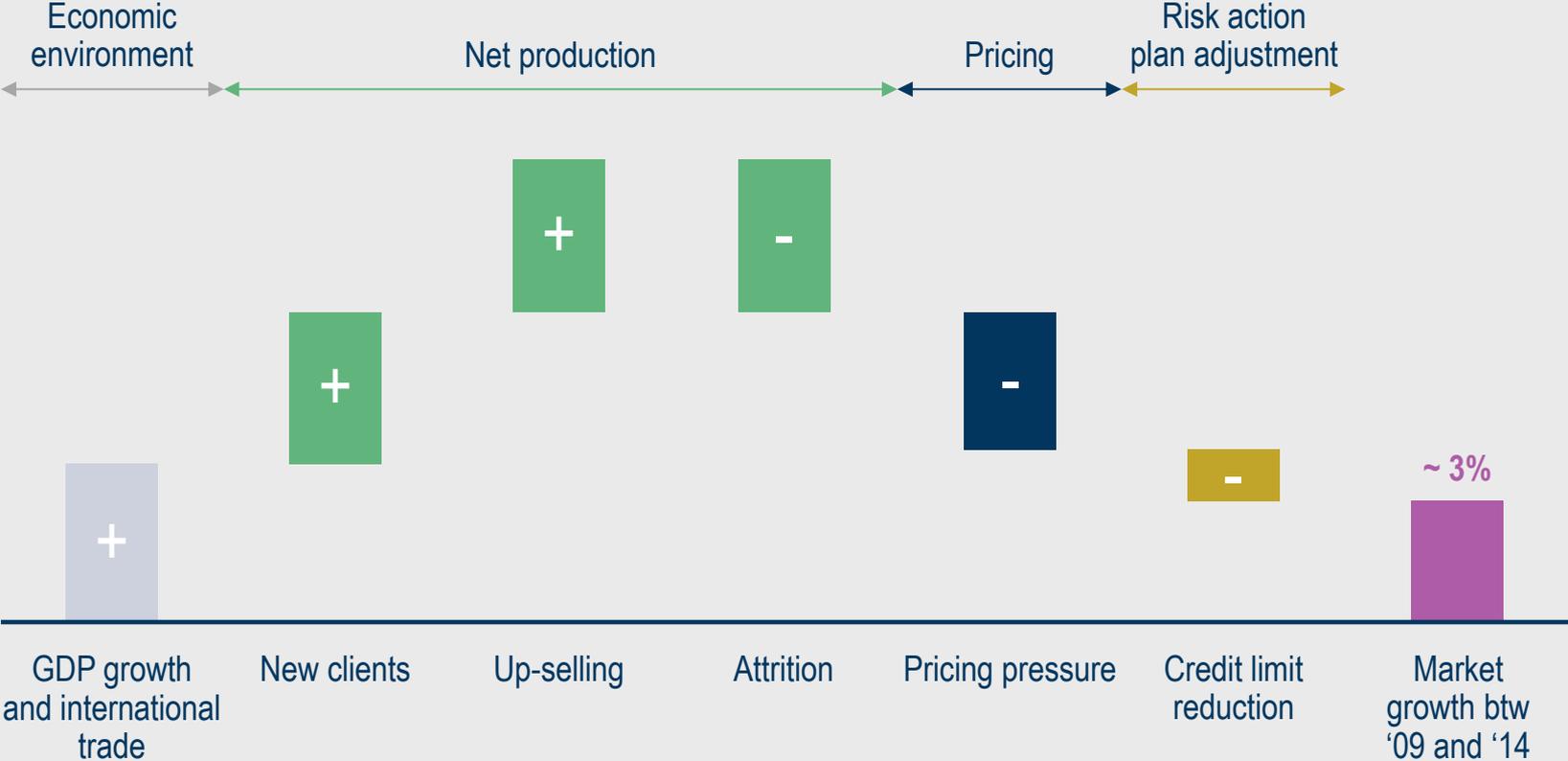
# Building our business through selective and profitable growth

- Differentiate commercial ambition and approach by geography
- Adapt product/service offering and delivery model to our 4 main client segments
- Maintain strong focus on retention of existing clients and distribution partners
- Promote local accountability to ensure rigorous commercial execution
- Progressively reverse attrition on mature markets and readjust ambition to reality of emerging markets

# Market growth driven by both economy and risk & commercial decision

**ILLUSTRATIVE**

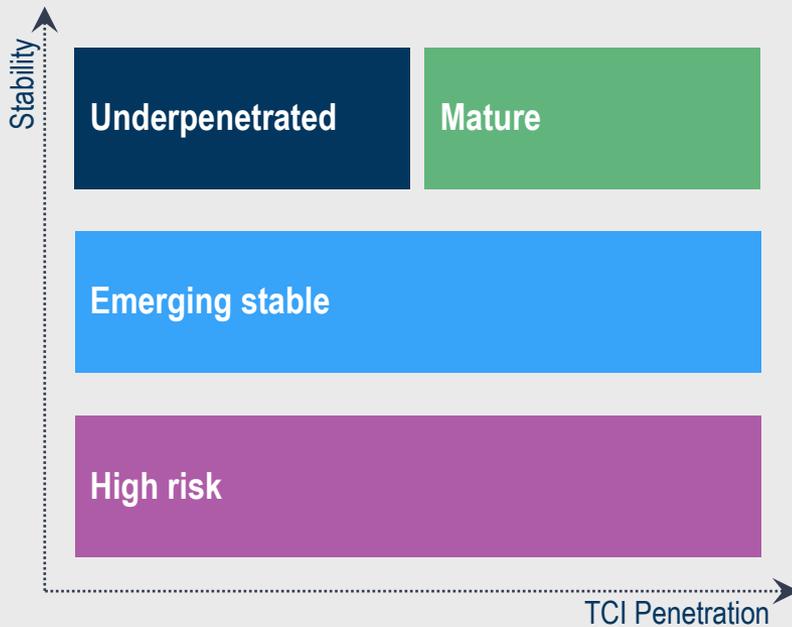
## Market growth drivers (in %)



**Importance of levers varies by geography**

# Differentiate growth strategy by geography

## Geographical vision



## Market features

## Strategy

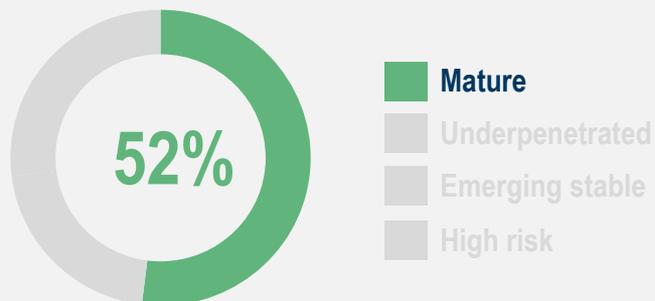
<ul style="list-style-type: none"> <li>• High market penetration</li> <li>• Most businesses equipped</li> <li>• Intense competition and pricing pressure</li> </ul>	<p>▶ <b>Drive sales efficiency &amp; innovate to differentiate</b></p>
<ul style="list-style-type: none"> <li>• Some market potential</li> <li>• Low product awareness and client equipment</li> <li>• Existence of substitute solutions</li> </ul>	<p>▶ <b>Invest in distribution</b></p>
<ul style="list-style-type: none"> <li>• Underlying economic growth</li> <li>• Information available</li> <li>• Presence of main competitors</li> <li>• Intermediate product penetration</li> </ul>	<p>▶ <b>Seek scale through safe growth</b></p>
<ul style="list-style-type: none"> <li>• Economic potential</li> <li>• Competitive environment</li> <li>• Volatility and lack of information</li> <li>• Limited product awareness</li> </ul>	<p>▶ <b>Stabilize risk and demonstrate ability to make returns before growing</b></p>

# Differentiate approach by segment

	Segment needs	Strategy
Large corporates	<ul style="list-style-type: none"> <li>• BS and P&amp;L optimization</li> <li>• Speed and tailor-made solutions</li> <li>• Timely program setup and consolidated reporting</li> </ul>	<ul style="list-style-type: none"> <li>• Invest in systems and processes</li> <li>• Centralize program information</li> <li>• Design tailor-made solutions</li> <li>• Account selection and pricing conditions</li> </ul>
Mid-market	<ul style="list-style-type: none"> <li>• Outsourced credit process management and debt collection</li> <li>• Foreign/overseas access and support</li> </ul>	<ul style="list-style-type: none"> <li>• Full range of products (including industry specific offering)</li> <li>• Improve client satisfaction through better communication</li> <li>• Select relevant distribution channels and drive mix</li> </ul>
SMEs	<ul style="list-style-type: none"> <li>• Payment protection through simple product and credit management process</li> </ul>	<ul style="list-style-type: none"> <li>• Leverage digital capabilities to offer 100% online end-to-end solution</li> </ul>
Financial institutions	<ul style="list-style-type: none"> <li>• Capacity provision, credit enhancement and RWA reduction</li> <li>• New fee-based revenues</li> </ul>	<ul style="list-style-type: none"> <li>• Complete range of receivable / payable finance and financial guarantee</li> <li>• Leverage bank networks to distribute simple product to SMEs</li> </ul>

# Drive sales efficiency and innovate to differentiate in mature markets

## Market share of total TCI (~€6 Bn)



## Examples

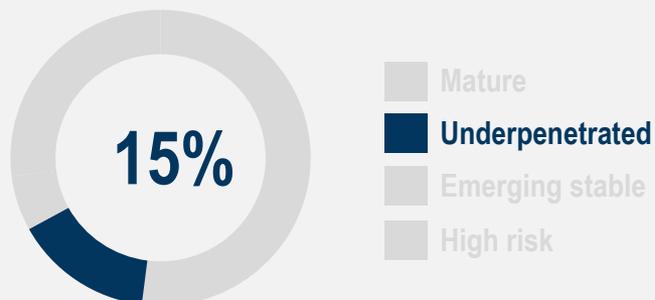


## Growth strategy

- **Increase client retention through enhanced credit process management**
  - Improve communication on risk and limit decisions
  - Provide access to key decision makers
  - Increase speed of policy issuance and enhance quality of invoicing
- **Drive sales efficiency**
  - Improve sales force management
  - Increase segmentation granularity and industry focus
  - Reorganize sales force by channel
- **Develop a specific product and distribution solution for SMEs**

# Invest in distribution and new client acquisition in underpenetrated markets

## Market share of total TCI (~€6 Bn)



## Example

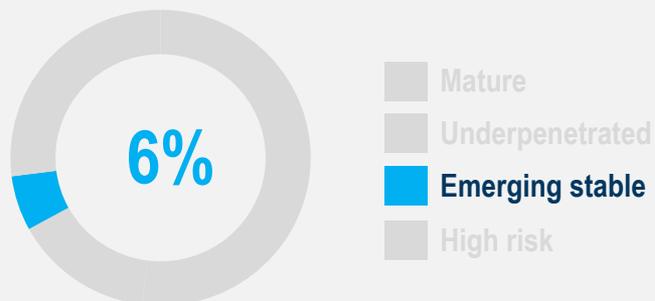


## Growth strategy

- **Drive distribution mix to improve market coverage**
  - Strengthen direct sales force focusing on SMEs and mid-market
  - Develop activity with brokers to improve penetration of upper mid-market and large accounts
- **Build critical mass and expertise through industry focused commercial approach**
- **Penetrate Financial Institutions with specialized team**

# Seek scale through safe growth in emerging stable markets

## Market share of total TCI (~€6 Bn)



## Example

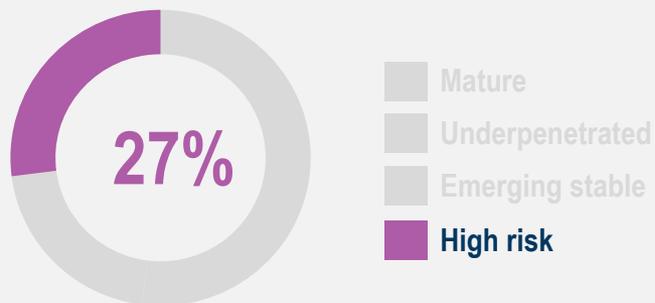


## Growth strategy

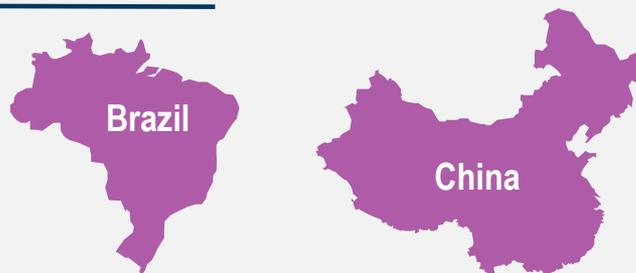
- **Progressively “industrialize” commercial practices**
  - Leverage critical mass to improve distribution effectiveness (e.g., account management organization)
  - Invest selectively and retain sales talents
  - Keep on investing in expertise and information
- **Target new clients segments** (Financial institutions, large accounts) **or new distribution channels** (partnerships)

# Stabilize risk and demonstrate ability to make returns before growing in high risk markets

## Market share of total TCI (~€6 Bn)



## Examples



## Growth strategy

- Improve risk underwriting capabilities before growing
- Define selective “target zone” to improve profitability and reduce volatility through expertise
  - Select countries / industries
  - Export vs import vs domestic
- Invest in information and monitoring
- Focus on serving global accounts

# Invest in a dedicated, specialist financial institutions team

## Positive environment

---

- **Growing market**
  - Evolution of product mix towards receivable finance solutions (e.g., Factoring)
- **Favorable market and regulatory trends**
  - Increased regulation putting pressure on RWA consumption
  - Low interest rates driving banks to seek alternative revenues
- **Emergence of new players**
  - Fintech (funding, supply chain solution providers)

## Growth strategy

---

- **Capitalize on Coface experience**
  - Large product range in receivable, payable, financial guarantee, debt collection and information services
  - Successful experiences of distribution partnerships
- **Reinforce FI commercial team**
  - Create central team to support local teams (Banking, legal & risk expertise)
  - Strengthen the existing local team with both insurance and banking skills



# Innovate to differentiate



## Products & services

### Fund dynamic innovation funnel and “Lab”

- Feed and manage project funnel
- Enable low cost reactive testing
- Foster environment for joined contribution: marketing experts, local managers, risk specialists



## Information

### Experiment “big data” approach to enhance business model

- Access non conventional information (web crawling)
- Process information leveraging new data processing technologies

**Develop our service revenue with an information offer**



## Distribution

### Leverage Digital

- Fully “web-enable” products & services
- Partner with Fintechs (receivable financing platform) to tap into new clients and leverage digital channels



5.1

Differentiated growth strategies

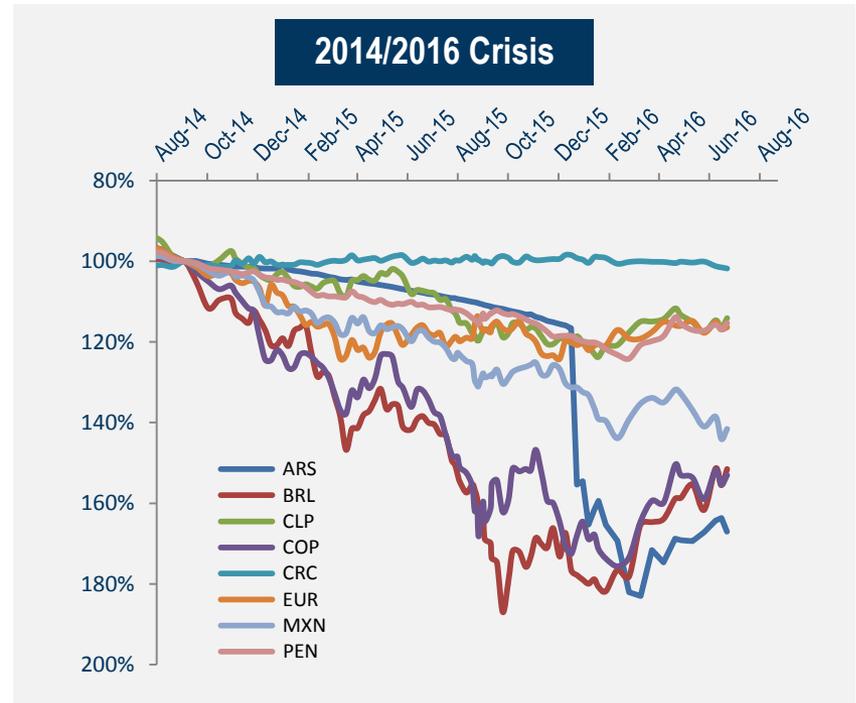
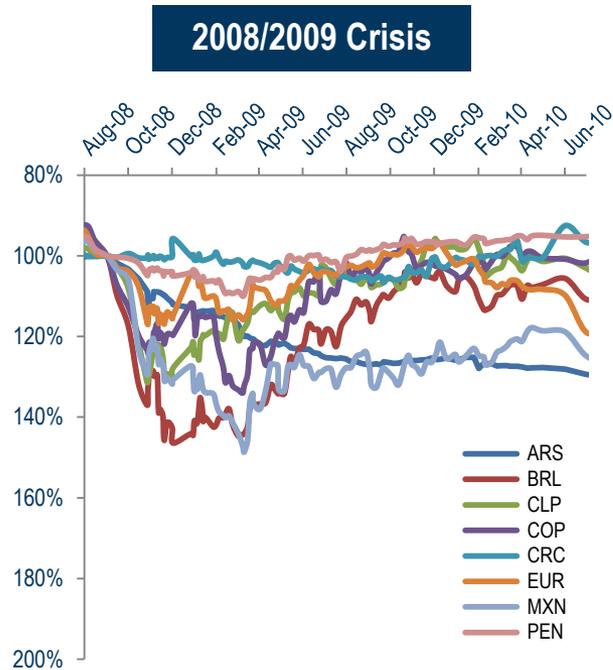
## Latin America - Case study

Bart Pattyn

*Regional CEO*

# Current crisis in Latin America is more severe than in 2008/2009

## Latam currencies experienced a sharper decline vs USD



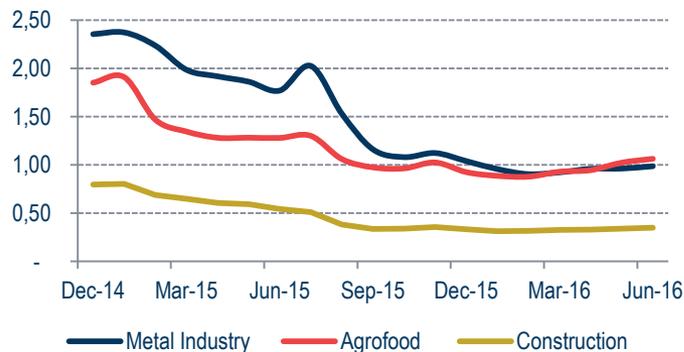
- High level of payment incidents across all countries
- Specific sectors severely impacted:
  - Agricultural
  - Construction
  - Consumer

# 10 action plans have been implemented since end of 2014 showing positive results on loss ratio

## Actions taken

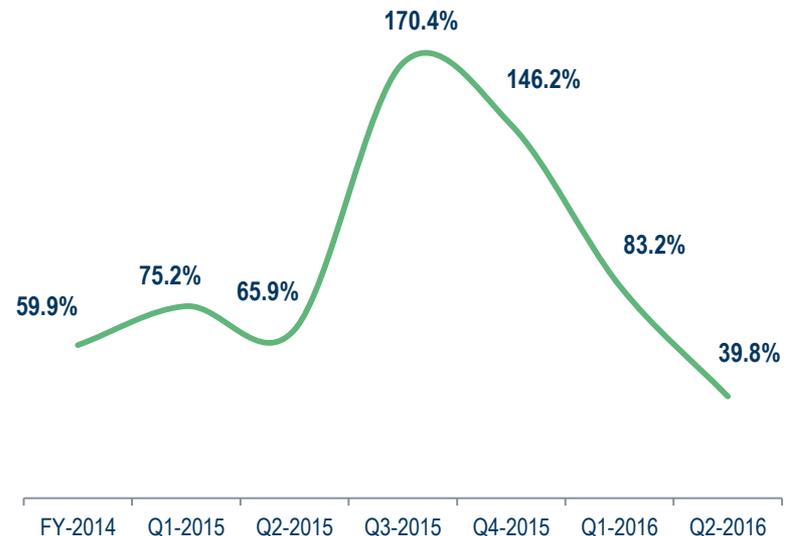
- Review of Debtor Risk Assessment
- Launch of specific prevention plans
  - Sector specific
  - Country specific

**Brazil : evolution of the exposure – targeted sectors<sup>1</sup>**



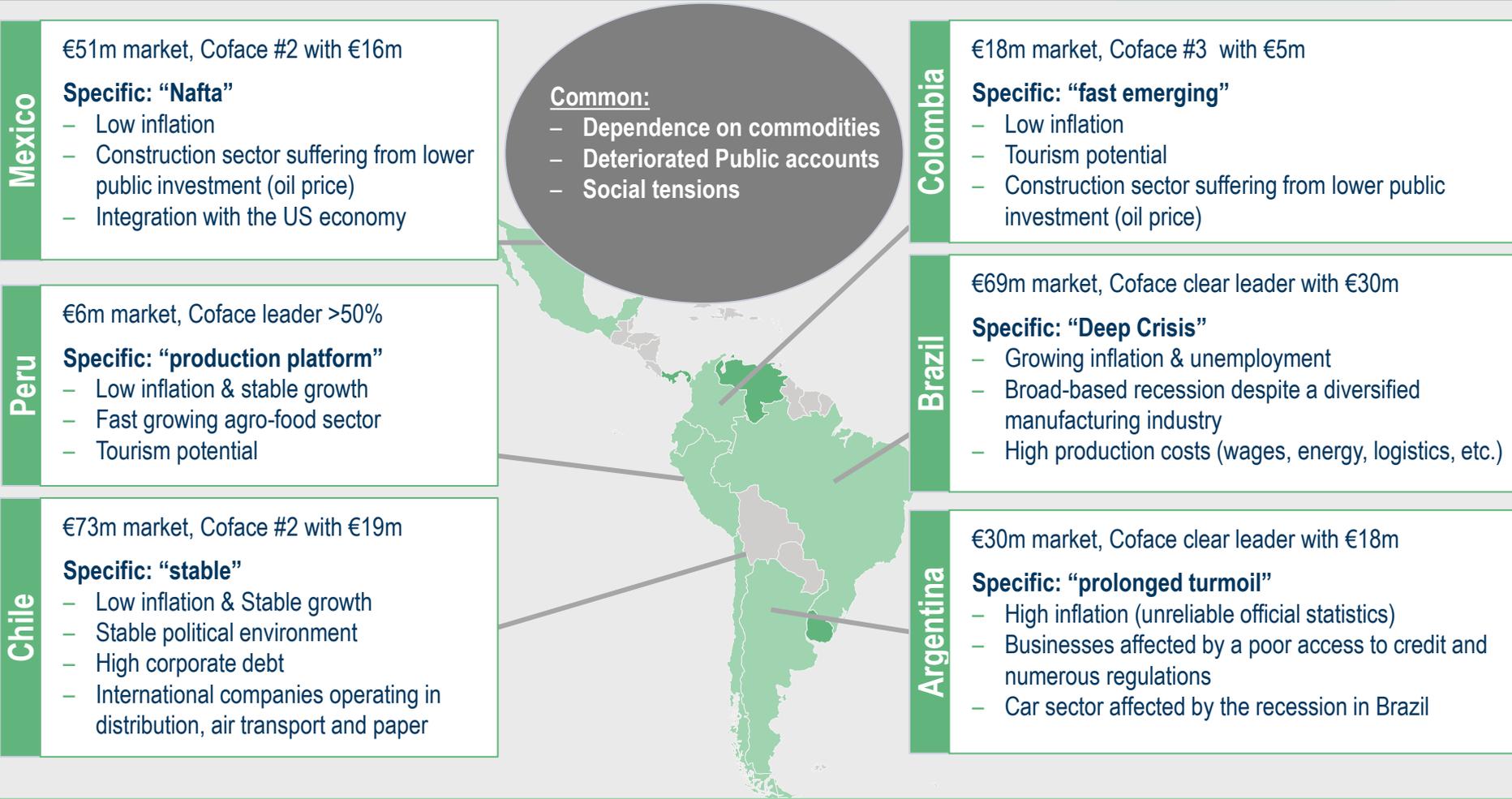
## Results: Re-balancing our business

**LatAm Accounting Loss Ratio<sup>2</sup>**



# Fit to Win in Latin America

## “One size fits all” not adapted to market realities



Differentiated growth strategy to support profitability

# Each country has a specific priority

Peru

- Small Trade Credit insurance market
- Cost-efficient and good quality information production capability for 18 countries

### Actions:

- Build Latam information production factory:
  - Add resources ( +11 FTE i.e. 20% staff)
  - Specialize teams by sector
  - Monitoring & alerts

Invest

Brazil

- Pricing of brazilian risk did not reflect the reality in the prolonged downturn
- 137% industry loss ratio in 2015

### Actions:

- Invest in information enhancement (6 ⇒ 8 staff)
- Increase number of underwriters (5 ⇒ 7 staff)
- Re-price selectively to reflect real risks
- Cut exposures in high risk segments
- Service Global Accounts as a priority

Manage risks

Chile

- Open economy vulnerable to external shocks
- Mature, highly competitive environment
- Brokers resistant to risk adjustments

### Actions:

- Active communication with brokers on the changing realities
- Precise, surgical “one-go” risk adjustments.

Drive profitability

Argentina

- Lasting economic and political crisis
- High “Real” inflation & devaluation
- Compounded by rest of Latam impacts since 2015

### Actions:

- Rebalance domestic vs. export
- Focus on cost control
- Tight risk monitoring

Control costs

Investment in infrastructure & better alignment of risk and commercial strategy



5.2

Differentiated growth strategies

## Germany - Case study

Thibault Surer

*Group Strategy & Business Development Director*

# Germany: a mature market environment with strong price pressure

## Market background:

- **Strong economy:** GDP growth (1.8%), low inflation and low level of insolvencies
- **Large credit insurance market :** €800M premium, but decreased by approx. 2.9 % in last 3 years.
- **Coface:** 20% market share in credit insurance; full range of products/services (also including: information, debt collection)



## Forces at work and implications:

- **Increasing requirements from large accounts:** industry-specific solutions, growing share of self-insurance
  - **Fierce competition:** between credit insurers and between brokers
- Substantial pressure on price



# Commercial transformation program launched in 2014

## 3 Key levers



### ■ Reorganize sales force:

- Stop agent structure because of poor performance
- Decentralize commercial teams into 11 regions (except for large accounts)
- Segment sales force and introduce a “hunter – farmer” organization
- Change sales force compensation scheme towards more individual, performance-based bonuses

### ■ Adapt product offering and services per segment:

- Strengthen penetration of the mid-market segment (Mittelstand)
- Increase penetration of “Financial Institutions” market
- Develop a sectorial approach (e.g., energy, electrical equipment, “Industrie 4.0” ie “Smart Factories”)
- Codify client service and relationship management; differentiate it according to client size & premium level

### ■ Rebalance distribution towards brokerage:

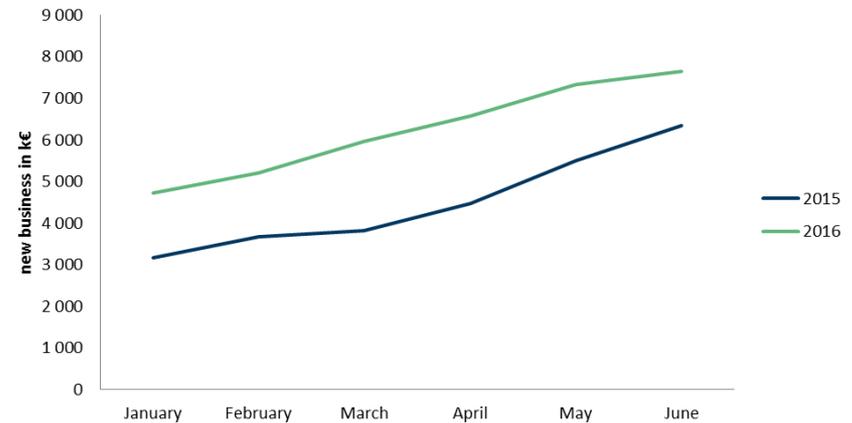
- Reposition top 15 brokers as preferred partners and fully integrate them into Coface’s commercial value chain & processes
- Align broker commissions with service definition and contribution along the value chain

# This program has already generated visible results

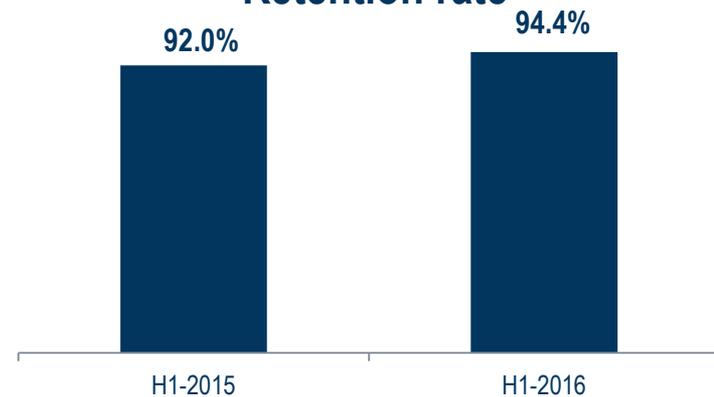
## Results

- Increased sales force productivity by 30% in 2015
- New business production for H1-2016: +20% vs H1-2015
- Retention rate grew by 2ppts (from 92% as of H1-2015 to 94.4% as of H1-2016)

### New Business Germany H1 2015 / H1 2016



### Retention rate



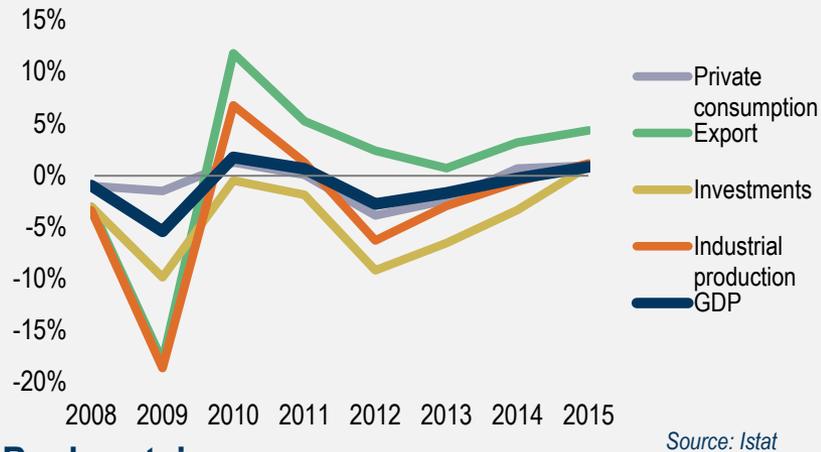


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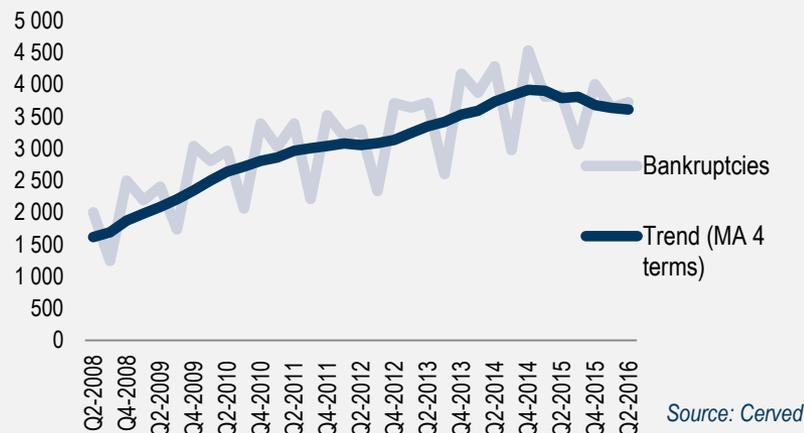
Differentiated growth strategies  
**Italy - Case study**  
Ernesto de Martinis  
*Country Manager*

# Italy: a difficult environment with positive trends

## Macroeconomic indicators



## Bankruptcies



## Comments

- Strong recession with decline in GDP level and industrial production
- Trend of bankruptcies is improving, but figures still above pre-crisis levels
- Export is the only positive indicator (proximity export)
- Coface is #2 with ~28% market share

# Strategy focused on both risk management and distribution

## Risk Management

### Ambition

By becoming the most accurate information company on the market

### How

By redefining the information gathering and risk assessment chain

### What

- Reliable data gathering (including field analysts)
- More sophisticated risk assessment algorithms
- More specialized risk underwriting team

## Distribution

### Ambition

To become the preferred company for tied agents in the market

### How

By re-orienting the company capabilities around agents

### What

- New agencies and young talents
- Improved proximity and client service
- Enhanced retention and repricing capability

# Bank networks: new channel for Small / extra small segments

Segment	Turnover Range	#Targets	Penetration Rate	Channel
Large / Extra large	>50 M€	1.200	+++	International Brokers
Medium	10-50 M€	10.000	++	Agents
Small	2 -10 M€	84.000	+	Agents and banking networks
Extra small	<2 M€	63.000	+	Banking networks

158,200 targets out of 5 million companies

## Coface strategy in Italy

### Large / extra large segments

- Single entry point
- Integrated communication with sales, risk & claims

### Medium / small segments

- Open new agencies in areas with business potential
- Strengthen existing agencies by hiring additional sales and customer service staff

### Small / extra small segments

- Enter partnerships with banks with nationwide networks
- Design “low cost” commercial and technical support (leveraging the agent’s presence when relevant)

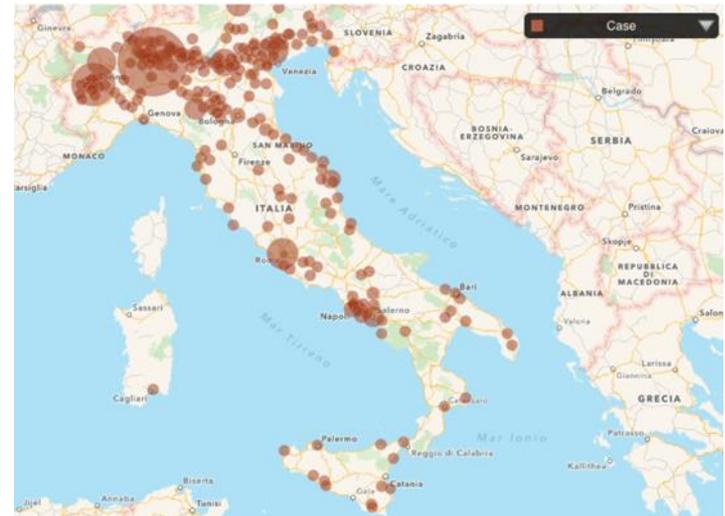
New

# Focus on bank partnerships

Strategy implemented since **April 2016** for 3 banks: new channel as intermediary

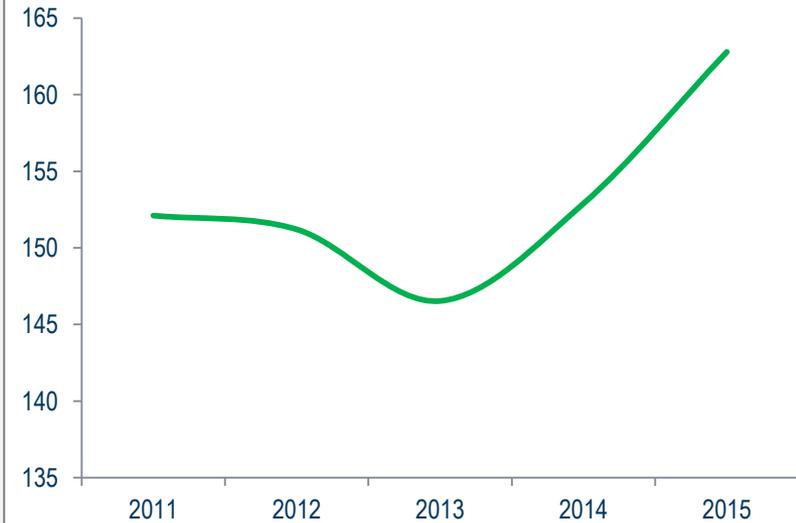


- +130 contracts signed
- +1,6 M€ premiums
- +90% S and XS business target

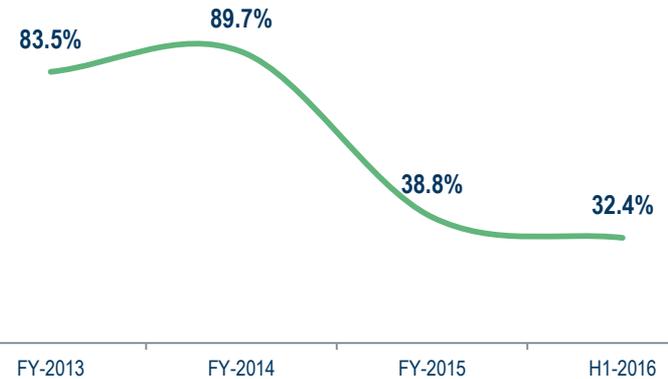


# Positive results along several dimensions

Gross written premium (€m):  
positive growth



Loss ratio:  
under control



Coface Italy's success brought by focusing on risk management and distribution, provides clear evidence & support to key elements of the « Fit to Win » strategy, which includes :

- 1) Investment in data quality & tools to bring greater accuracy in risk management
- 2) Distribution via partners with nationwide networks to more effectively reach the SME segment

# Wrap-up

## Fit to Win aims at driving profitable growth over the long term

- **Our growth ambition is realistic and supported by existing assets and skills**
- **Reversing attrition is an ambitious goal, as we are facing significant headwinds:**
  - Price pressure in developed countries
  - Need to be more selective in emerging markets to reduce our cost of risks
- **What will we do differently?**
  - Be more selective regarding resource allocation
  - Differentiate approach by geography and client segments
  - Empower local teams to reinforce our agility and reactivity





6

## Financial targets and capital

Carine Pichon  
*CFO*

# Fit to Win addresses Coface financial challenges

## Our financial challenges

Deteriorating economics

Increasing net loss ratio



€30m shortfall, after transfer of State Guarantees

Turnover decline (-3.4% in H1 2016), driven by:

- Effects of risk action plans in EM
- Price erosion (-2% over the last 3 years)
- Client activity slow down

Structurally high capital intensity

## Fit to Win transformation drivers

1

Position Coface as the most agile, global trade credit partner in the industry

A

Strengthen Risk Management & Information

B

Improve Operational Efficiency & Client Service  
*Offset shortfall in 2018*

C

Implement Differentiated Growth Strategies

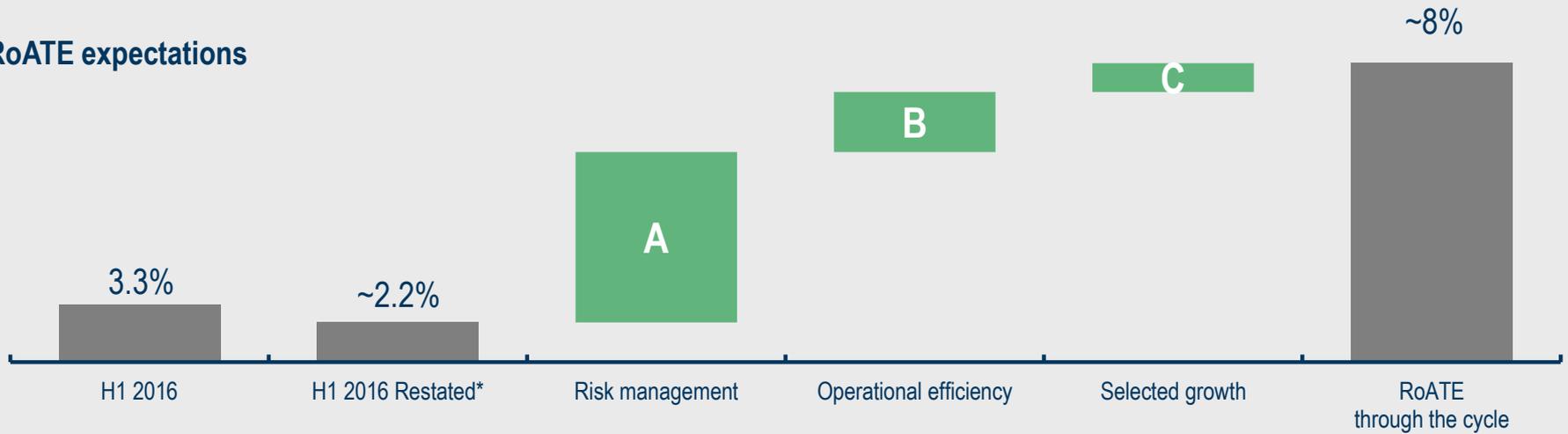
2

Steer business towards more efficient capital model

# ...with ambitious yet realistic targets

1 Position Coface as the most agile, global trade credit partner in the industry

## RoATE expectations



\* Excluding State guarantees management activity

# Effects of Fit to win will materialize gradually

1 Position Coface as the most agile, global trade credit partner in the industry

## Fit to Win transformation drivers

## Expected timeline impact

**A** Strengthen Risk Management & Information



- Expect full pay-off after 2 years



**B** Improve Operational Efficiency & Client Service



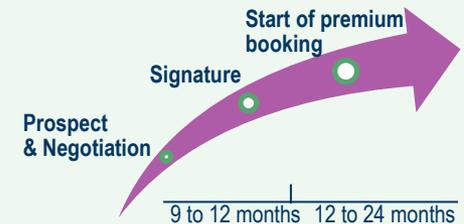
- Re-invest €70m gain on State Guarantees transfer
- Offset State Guarantees shortfall in '18



**C** Implement Differentiated Growth Strategies



- Progressive as per business cycle



# Keep a resilient and secure yield of the investment portfolio in a low interest rate environment

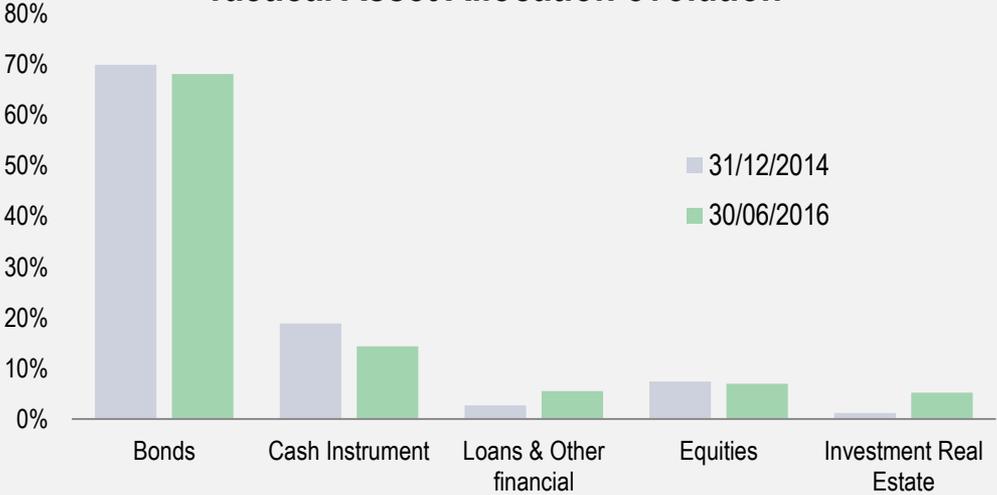
**Monitoring our risk : Key priority**

Average rating of Bond Portfolio	A
Modified duration of Bond Portfolio	3.4 years
SCR Market	10% of Investment Portfolio with significant diversification effect
ALM exposure (country and corporates)	constantly monitored

**Low sensitivity to market shock**

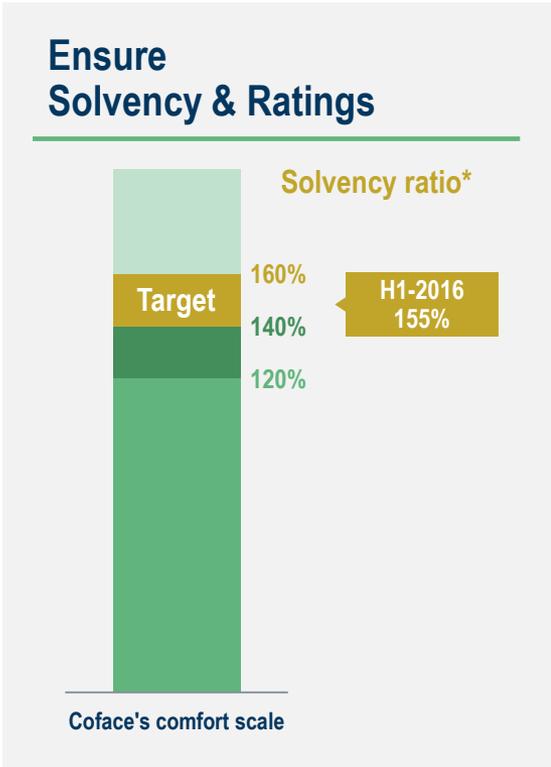


**Tactical Asset Allocation evolution**



- **Very liquid portfolio**
- **Low yield environment is challenging**
- **Research for compelling risk / return profile in this uncertain financial environment**

# Coface has 2 key capital management goals



- Fitch AA- stable outlook
- Moody's A2 stable outlook

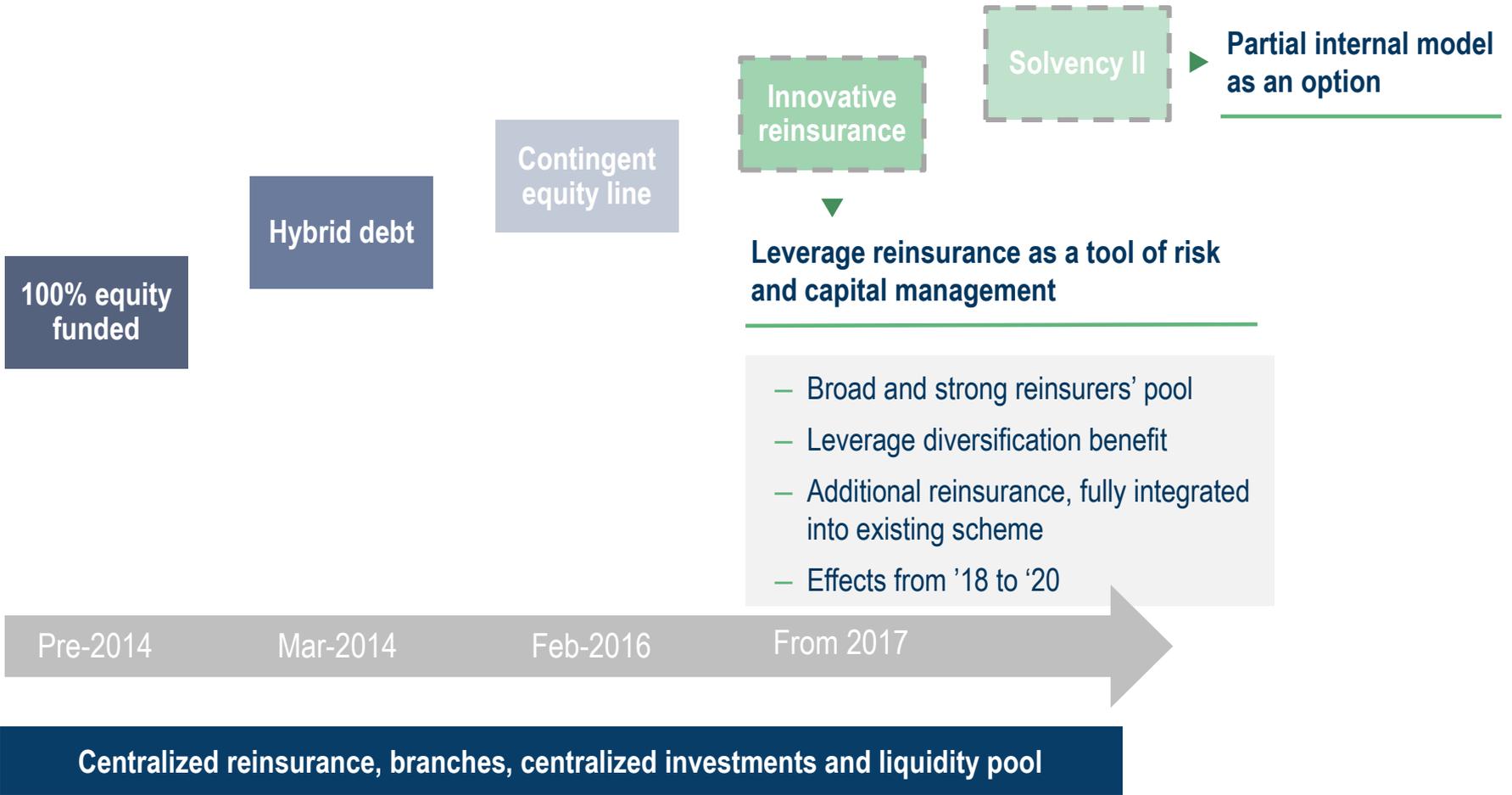


- Market realities
- Credit insurance cycle opportunities

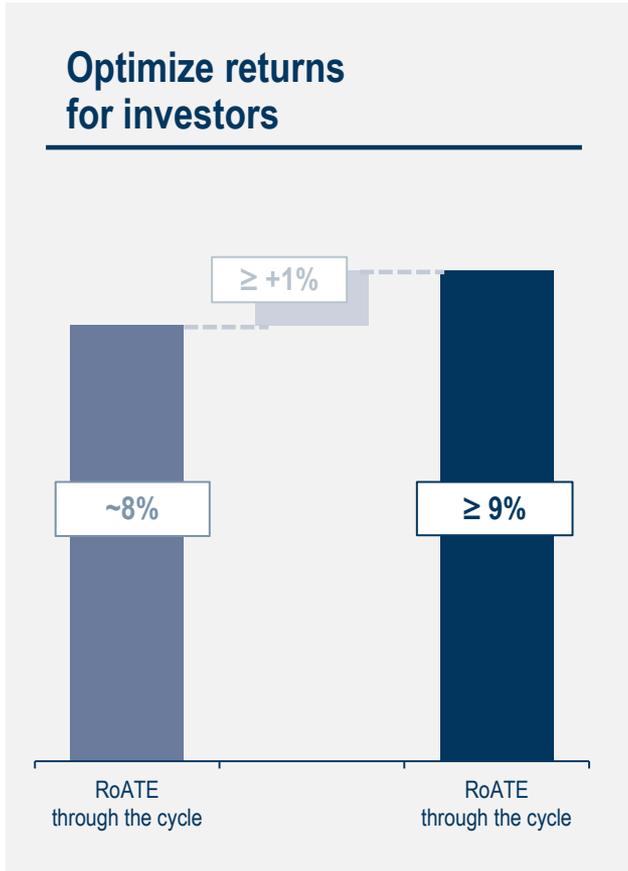
(\*) Note: Coface's interpretation of Solvency II. See Interim Financial Report (First-Half 2016) for the calculation. The above comfort scale is based on the solvency ratio calculated under standard SII formula and its sensitivities. It is for indicative purposes and gives a general guideline which shall be fine-tuned depending on the comprehensive analysis of the actual situation and on the forecasts.

# Coface will continue to optimize capital structure

2 Steer business towards more efficient capital model



# Capital management will further improve returns for shareholders



### Attractive dividend policy

- ≥ 60% pay-out share
- Normalized earnings

### Special dividends or buyback to address excess capital

- Capacity to further improve RoATE by more than 100bp through capital management
- Final impact will depend on market conditions

Confirmed 2016 guidance :

- Loss ratio of 63% to 66%
- 60% payout policy + 0.06 € exceptional dividend per share

# Wrap up

## Fit to Win aims at reviving Coface's financial performance with ambitious yet realistic targets

- RoATE: more than **9% across the cycle**, after capital optimization
- Combined ratio: **~83% across the cycle**
  - Progressive return to normalized loss ratio over the cycle, in line with industry
  - €30m savings in 2018
- **≥ 60% dividend policy** on normalized earnings
- Solvency ratio in **upper end of 140%-160%** target range and minimum single-A rating
- Underlying growth scenario: progressive development, **0 to 3% CAGR ex. FX**





**Q & A**

# Wrap-up: Fit to Win '16 to '19 will transform Coface

- Become the **most agile global trade credit** partner in the industry
  - Reinforce risk management
  - Drive **operational efficiency & client service**
  - Drive **differentiated growth strategies**
- **Optimize** capital
- **Enhance** governance & execution
- Drive **cultural change**
- **Deliver  $\geq 9\%$  RoATE** through the cycle





# Appendix

# Key Figures

## H1-2016

Income statement items - in €m	2015				2016				%	%
	Q1	H1	9M	FY	Q1	H1	9M	FY	H1-2016 vs. H1-2015	like-for-like <sup>1</sup>
<b>Consolidated revenues</b>	<b>389.6</b>	<b>760.3</b>	<b>1,126.3</b>	<b>1,489.5</b>	<b>365.0</b>	<b>716.7</b>			<b>(5.7)%</b>	<b>(3.4)%</b>
of which gross earned premiums	306.9	603.0	894.1	1,185.9	288.5	<b>565.7</b>			(6.2)%	(3.4)%
Underwriting income after reinsurance	49.7	77.6	116.0	143.4	26.5	<b>28.9</b>			(62.7)%	
Investment income net of expenses	13.0	28.2	40.5	53.1	10.8	<b>24.6</b>			(12.8)%	
Operating income	60.5	102.6	152.5	192.3	36.3	51.8			(49.6)%	
<b>Operating income</b> excluding restated items <sup>2</sup>	<b>58.0</b>	<b>95.5</b>	<b>142.7</b>	<b>181.2</b>	<b>38.2</b>	<b>50.1</b>			<b>(47.5)%</b>	<b>(46.3)%</b>
Net result (group share)	<b>40.3</b>	<b>66.1</b>	<b>98.3</b>	<b>126.2</b>	<b>22.3</b>	<b>25.6</b>			(61.3)%	(59.4)%
<b>Net result (group share)</b> excluding restated items <sup>2</sup>	<b>41.8</b>	<b>68.3</b>	<b>101.1</b>	<b>131.6</b>	<b>26.9</b>	<b>30.5</b>			<b>(55.4)%</b>	<b>(54.1)%</b>

Key ratios - in %								%
								H1-2016 vs. H1-2015
Loss ratio net of reinsurance	49.8%	52.0%	52.5%	52.5%	55.0%	60.8%		+8.8 pts.
Cost ratio net of reinsurance	27.7%	29.8%	29.3%	30.5%	32.0%	31.4%		+1.6 pts.
<b>Combined ratio net of reinsurance</b>	<b>77.5%</b>	<b>81.9%</b>	<b>81.8%</b>	<b>83.1%</b>	<b>87.0%</b>	<b>92.2%</b>		<b>+10.4 pts.</b>

Balance sheet items - in €m	31/12/2015		30/06/2016		Var.
					H1-2016 vs. FY-2015
<b>Total Equity</b>	1,767.0		1,740.4		<b>(1.5)%</b>

# Important legal information

## IMPORTANT NOTICE:

This presentation has been prepared exclusively for the purpose of the disclosure of Coface Group's new strategic plan "Fit to Win 2016-2019", released on September 22<sup>nd</sup>, 2016. This presentation includes only summary information and does not purport to be comprehensive. The Coface Group takes no responsibility for the use of these materials by any person.

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Participants should complete this information with the Interim Financial Report (First-Half 2016) and the Registration Document for the year 2015. The Registration Document for 2015 was registered by the *Autorité des marchés financiers* ("AMF") on April 13<sup>th</sup>, 2016 under the No. R.16-020. These documents all together present a detailed description of the Coface Group, its business, strategy, financial condition, results of operations and risk factors.

This presentation contains certain forward-looking statements. Such forward looking statements in this presentation are for illustrative purposes only. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. The forward-looking statements are based on Coface Group's current beliefs, assumptions and expectations of its future performance, taking into account all information currently available. The Coface Group is under no obligation and does not undertake to provide updates of these forward-looking statements and information to reflect events that occur or circumstances that arise after the date of this document.

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This presentation contains certain information that has not been prepared in accordance with International Financial Reporting Standards ("IFRS"). This information has important limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our results as reported under IFRS. For regulated information on Alternative Performance Measures (APM), please refer to the Interim Financial Report (First-Half 2016).

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