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Coface results 30 September 2019: Coface reports another strong quarter

- **Turnover reached €1,103m – up 5.6% at constant FX and perimeter; Q3-2019 up 3.8% y-o-y**
 - All regions continue to contribute to growth
 - New production is improving, retention remains high
 - Lower client activity growth reflects slowing global economy
- **Net loss ratio stable at 45.1% for 9M-2019; Net combined ratio improved by 2.3 ppts. at 76.8%**
 - Net loss ratio at 47.1% for Q3-2019, improved by 1.4 ppt., despite a riskier global economy
 - Net cost ratio improved by 2.3 ppts. at 31.7% for 9M-2019, compared to 34.0% for first 9 months of 2018, reflects continued cost controls and business growth
 - Net combined ratio of 78.1% for Q3-2019
- **Net income (group share) of €117.3m, of which €38.8m in Q3-2019**
 - 9M-2019 net profit up 19% y-o-y; Q3-2019 net profit up 27% vs Q3-2018 adjusted from €5m FX gain
- **Annualised RoATE¹ of 9.5%**
- **The execution of the Fit to Win plan continues**
 - Focus is on continuing execution in slowing environment
 - Awaiting regulatory response on Partial Internal Model
 - Preparing next plan actively

Unless otherwise stated, evolutions are expressed by comparison with the results as at 30 September 2018.

¹ RoATE = Return on average tangible equity

Xavier Durand, Coface's Chief Executive Officer, commented:

"Coface recorded yet another strong quarter despite an economic context that has continued to deteriorate in line with our expectations. Our strong performance illustrates the effectiveness of the transformation we have implemented within Coface over the past three years, which has notably resulted in the significant improvement of our risk management processes. Commercial momentum was positive this quarter, as new business is continuing to grow whereas our clients' activity is slowing down. We are maintaining our selective underwriting policy, which is now bearing fruit in a more volatile environment.

Three years into its implementation, all Fit to Win objectives are in the process of being achieved, or even exceeded. The Coface teams are now actively focused on building the next plan."

Key figures at 30 September 2019

The Board of Directors of COFACE SA examined the consolidated financial statements at 30 September 2019 at its meeting of 23 October 2019. The Audit Committee at its meeting on 21 October 2019 also previously reviewed them.

Income statement items in €m	9M-2018	9M-2019	%	% ex. FX*
Gross earned premiums	852.9	917.9	+7.6%	+6.7%
Services revenue	182.8	185.6	+1.5%	+0.8%
REVENUE	1,035.7	1,103.4	+6.5%	+5.6%
UNDERWRITING INCOME/LOSS AFTER REINSURANCE	122.8	145.7	+18.7%	+16.0%
Investment income, net of management expenses	42.5	28.4	(33.1)%	(25.4)%
CURRENT OPERATING INCOME	165.3	174.1	+5.4%	+5.4%
Other operating income / expenses	(1.8)	0.1	N.A	N.A
OPERATING INCOME	163.4	174.2	+6.6%	+5.5%
NET INCOME	98.2	117.3	+19.4%	+19.5%

Key ratios	9M-2018	9M-2019	%	% ex. FX*
Loss ratio net of reinsurance	45.0%	45.1%	+0.1	ppts.
Cost ratio net of reinsurance	34.0%	31.7%	(2.3)	ppts.
COMBINED RATIO NET OF REINSURANCE	79.0%	76.8%	(2.3)	ppts.

Balance sheet items in €m	9M-2018	9M-2019	%	% ex. FX*
Total Equity (group share)	1,806.2	1,888.7	+4.6%	

* Also excludes scope impact

1. Turnover

Coface recorded consolidated turnover of €1,103.4m for the first nine months of the year, up +5.6% at constant FX and perimeter compared to 30 September 2018. On a reported basis (at current FX and perimeter), turnover grew by +6.5%. This notably includes the contribution of Coface PKZ during Q3-2019.

Growth in the turnover of Coface's clients had a positive impact of +2.4% over the first nine months of the year. Although still positive, this growth marked a net deceleration in Q3-2019 (+0.3%) compared to previous quarters, in line with the global economic slowdown. Price decreases remain under control, at (1.1%), reflecting good commercial discipline and re-pricing of some specific contracts.

The client retention rate was high in most regions and reached a record high of 92.2% for the Group. New business rose by €6m compared to the first nine months of 2018, to reach a total of €96m. This reflects a policy of controlled underwriting and continued commercial efficiency.

Turnover from insurance activities (including bonding and Single Risk) rose by +6.7%, at constant FX and perimeter, compared to the first nine months of 2018 (up by +7.6% at current FX and perimeter). This was driven by previous growth in client activities and a high level of retention.

Revenues from other activities (factoring and services) grew by +1.5% compared to the first nine months of 2018, despite a slight fall in factoring revenues from Germany.

Total revenue - cumulated - in €m	9M-2018	9M-2019	%	% ex. FX*
Northern Europe	228.3	232.8	+2.0%	+2.0%
Western Europe	212.8	219.4	+3.1%	+2.9%
Central & Eastern Europe	100.8	110.1	+9.2%	+2.3%
Mediterranean & Africa	276.8	288.7	+4.3%	+4.9%
North America	94.4	102.7	+8.8%	+2.9%
Latin America	51.5	61.6	+19.8%	+32.4%
Asia Pacific	71.1	88.2	+24.0%	+18.1%
Total Group	1,035.7	1,103.4	+6.5%	+5.6%

In the Northern Europe region, revenues grew by +2.0% (on a current basis and at constant exchange rates). Revenues from credit insurance grew by +3.0%, driven by client activity, a good level of client retention and a rise in new business production.

In Western Europe, turnover progressed by +3.1% and by +2.9% at constant rate of exchange. This was due to a record rate of retention for the Group, a return to growth in new business for credit insurance and a good quarter for single risk insurance.

In Central and Eastern Europe, turnover rose by +9.2% and by +2.3% at constant FX and perimeter, mainly due to growth in credit insurance. The increase on a current perimeter basis is explained by the contribution of Coface PKZ, the activity that was integrated during Q2-2019.

* Also excludes scope impact

In the Mediterranean and Africa, a region driven by Italy and Spain, sales rose by +4.3% and by +4.9% at constant FX. This was supported by a positive sales momentum and strong growth in client activity.

In North America, reported turnover increased by +8.8% on a reported basis and by +2.9% at constant FX. Client retention rates are progressing and are now close to the group average, while new business is growing again. Turnover is, however, impacted by the cancellation of a single risk policy.

Emerging markets are once again reporting high growth rates. Revenues in the Asia-Pacific region rose by +24.0% at current FX and by +18.1% at constant FX. Client activities are continuing to progress and the region showed a strong improvement in commercial performance.

In Latin America, turnover grew by +19.8% at current FX by +32.4% at constant FX. These figures are affected by certain policies which were expressed in international currencies. When this technical effect is removed, growth would be +25.9%, due to the signing of large global contracts.

2. Result

- Combined ratio

The combined ratio net of reinsurance, for the first nine months of the year, was 76.8% (an improvement of 2.3 pts. compared to the previous year). The combined ratio for Q3-2019, net of reinsurance, was 78.1% (an improvement of 4.7 pts. compared to Q3-2018).

(i) Loss ratio

The gross loss ratio for the first nine months of 2019 stood at 42.6%, an improvement of 1.2 ppt. compared to the previous year. For Q3-2019, the gross loss ratio is slightly higher than the previous quarter (45.9% in Q3-2019 vs 41.9% for Q2-2019). This is in line with the deteriorating risk environment, but slightly improved compared to the same quarter last year (46.5% at Q3-2018).

The Group's reserving policy remains unchanged. Strict management of past claims enabled the Group to register 34.5 pts. of recoveries over the nine-month period. These levels remain well above the historical average. During Q3-2019, the group only recorded a few larger claims in North America and Latin America. There is a slight rise in the frequency of claims, even if unit costs are down compared to the previous year.

During the first 9 months of 2019, the net loss ratio was stable at 45.1%, compared to 45.0% for the first nine months of 2018.

(ii) Cost ratio

Coface is continuing its policy of strict cost controls and long-term investments. Costs during Q3-2019 were down by (0.6%) at current FX and by (1.9%) at constant perimeter and FX. This decrease is partially explained by non-recurring items of approximately €2m.

The net reinsurance cost ratio was 31.7% for the nine months, an improvement of 2.3 pts. year-on-year, thanks to positive operating leverage.

- Financial result

Net financial income for the nine-month period was €28.4m, including €7.3m of net realised capital gains and a positive currency effect of €4.0m. This figure appears lower than the previous year, as it benefited from a positive foreign exchange gain of €18m recorded in Q3-2018. This gain was partially offset by a charge of €10m recorded in the technical accounts.

Despite an environment still marked by historically low interest rates, Coface managed to achieve an almost stable yield on its current portfolio income (excluding capital gains, depreciation and currency effects) of €32.6m (compared to €32.7m for the first nine months of 2018). The accounting yield*, excluding capital gains, stood at 1.2% in 2019, which is stable compared to the previous year (1.2%).

- Operating income and net income

Operating income for the first nine months of the year was €174.2m, a rise of +6.6% compared to the previous year.

The effective tax rate fell to 28%, down from 35% for the first nine months of 2018. This reflects a return to profitability for regions that were heavily in deficit in the past.

In total, the net income (group share) amounted to €117.3M of which €38.8m was in Q3-2019. The net result rose by +19% over the first nine months of 2019 and by +27% during Q3-2019, excluding the positive currency effect recorded in Q3-2018.

3. Shareholders' equity

At 30 September 2019, total shareholders' equity amounted to €1,889.0m, up €82.6m or +4.6% (€1,806.4m at 31 December 2018).

This change is mainly due to positive net income of €117.3m offset by the dividend payment (€119.4m) and positive adjustments to the fair value of investments (€67.1m).

The annualised return on average tangible equity (RoATE) was 9.5% at 30 September 2019.

* Book yield calculated on the average of the investment portfolio excluding non-consolidated subsidiaries

4. Outlook

The third quarter did not bring much clarity on the major uncertainties affecting the global economic environment. The outcome of discussions around Brexit remains uncertain as the 31 October deadline is rapidly approaching. Tensions between the United States and China continue to weigh on the global economy. On a sectorial level, the tourism sector has been marked by some large bankruptcies, while the automotive industry remains under pressure worldwide.

Coface continues to streamline its commercial processes to generate positive commercial momentum, without changing its selective underwriting policy in this context of global economic slowdown.

The Fit to Win plan is coming to an end and its objectives will be met or exceeded. Coface is now working on its next strategic plan. Some of the financial objectives within this new plan will depend on the validation of the partial internal model by the French regulators (ACPR).

Conference call for financial analysts

Coface's results for 9M-2019 will be discussed with financial analysts during the conference call on 23 October at 18.00 (Paris time). Dial one of the following numbers:

- +33 1 72 72 74 03 (France)
- +44 207 1943 759 (United Kingdom)
- +1 646 722 4916 (United States)

The access code for participants is: **82810357#**

The presentation will be available (in English only) at the following address:

<http://www.coface.com/Investors/financial-results-and-reports>

Appendix

Quarterly results

Income statement items in €m Quarterly figures	Q1-18	Q2-18	Q3-18	Q4-18	Q1-19	Q2-19	Q3-19	%	% ex. FX*
Gross earned premiums	278.4	282.3	292.2	289.7	299.0	306.3	312.6	+7.0%	+5.0%
Services revenue	65.6	58.7	58.5	59.3	66.4	60.8	58.3	(0.5)%	(2.1)%
REVENUE	344.0	340.9	350.7	349.1	365.5	367.1	370.9	+5.7%	+3.8%
UNDERWRITING INCOME(LOSS) AFTER REINSURANCE	52.4	35.9	34.5	35.0	52.0	47.4	46.3	+34.1%	+29.8%
Investment income, net of management expenses	8.3	4.6	29.6	8.6	5.1	11.5	11.8	(60.2)%	(55.7)%
CURRENT OPERATING INCOME	60.7	40.5	64.1	43.6	57.2	58.9	58.0	(9.4)%	(9.5)%
Other operating income / expenses	(2.3)	1.5	(1.0)	(3.2)	(0.2)	1.3	(1.0)	N.A	N.A
OPERATING INCOME	58.4	42.0	63.1	40.5	56.9	60.3	57.0	(9.5)%	(12.2)%
NET INCOME	35.5	27.3	35.4	24.1	36.4	42.2	38.8	+9.5%	+9.1%
<i>Income tax rate</i>	35.3%	26.4%	39.7%	32.8%	29.4%	28.9%	25.0%	<i>(14.8) ppts.</i>	

Cumulated results

Income statement items in €m Cumulated figures	Q1-18	H1-18	9M-18	FY-18	Q1-19	H1-19	9M-19	%	% ex. FX*
Gross earned premiums	278.4	560.7	852.9	1,142.6	299.0	605.3	917.9	+7.6%	+6.7%
Services revenue	65.6	124.3	182.8	242.1	66.4	127.3	185.6	+1.5%	+0.8%
REVENUE	344.0	685.0	1,035.7	1,384.7	365.5	732.6	1,103.4	+6.5%	+5.6%
UNDERWRITING INCOME(LOSS) AFTER REINSURANCE	52.4	88.3	122.8	157.8	52.0	99.5	145.7	+18.7%	+16.0%
Investment income, net of management expenses	8.3	12.9	42.5	51.1	5.1	16.6	28.4	(33.1)%	(25.4)%
CURRENT OPERATING INCOME	60.7	101.2	165.3	208.9	57.2	116.1	174.1	+5.4%	+5.4%
Other operating income / expenses	(2.3)	(0.8)	(1.8)	(5.0)	(0.2)	1.1	0.1	N.A	N.A
OPERATING INCOME	58.4	100.4	163.4	203.9	56.9	117.2	174.2	+6.6%	+5.5%
NET INCOME	35.5	62.8	98.2	122.3	36.4	78.5	117.3	+19.4%	+19.5%
<i>Income tax rate</i>	35.3%	31.7%	34.8%	34.4%	29.4%	29.2%	27.8%	<i>(7.0) ppts.</i>	

* Also excludes scope impact

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FINANCIAL CALENDAR 2020 (subject to change)

FY-2019 results: 5 February 2020 (after market close)
Q1-2020 results: 23 April 2020 (after market close)
Annual General Shareholders' Meeting 2019: 14 May 2020
H1-2020 results: 29 July 2020 (after market close)
9M-2020 results: 29 October 2020 (after market close)

FINANCIAL INFORMATION

This press release, as well as COFACE SA's integral regulatory information, can be found on the Group's website:

<http://www.coface.com/Investors>

For regulated information on Alternative Performance Measures (APM),
please refer to our Interim Financial Report for S1-2019 and our 2018 Registration Document.

Coface: for trade - Building business together

70 years of experience and the most finely meshed international network have made Coface a reference in credit insurance, risk management and the global economy. With the ambition to become the most agile, global trade credit insurance partner in the industry, Coface's experts work to the beat of the world economy, supporting 50,000 clients in building successful, growing and dynamic businesses. The Group's services and solutions protect and help companies take credit decisions to improve their ability to sell on both their domestic and export markets. In 2018, Coface employed ~4,100 people and registered turnover of €1.4 billion.

www.coface.com

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