05-May-2025

# Coface SA (COFA.FR)

## Q1 2025 Earnings Call

# CORPORATE PARTICIPANTS

**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

**Phalla Gervais**
*Chief Financial & Risk Officer, Member-Management Board, Coface SA*

# OTHER PARTICIPANTS

**Michael Huttner**
*Analyst, Berenberg*

**Amalie Zdravkovic**
*Analyst, Deutsche Bank AG*

**Benoît Valleaux**
*Analyst, Oddo BHF SCA*

**Pierre Chédeville**
*Analyst, CIC Market Solutions SA*

# MANAGEMENT DISCUSSION SECTION

**Operator**: Good day, and thank you for standing by. Welcome to Coface's First Quarter Results Presentation. At this time all participants are in listen-only mode. After the speakers' presentation there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Xavier Durand. Please go ahead.

**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

Thank you very much, and good evening. Thanks to all of you for joining. Happy to report today our first quarter 2025 numbers. You will all have seen from the headline, it continues to be a good story for Coface. We're reporting net income at €62.1 million. The turnover is up 2% at constant FX and perimeter, with trade credit insurance growing actually 1.2%. That's an inversion of the trend that we had last year as we've had, I think, a negative or zero activity through most of the year. Client activity is up 1.2% for this quarter. Client retention near our record at 95%. Pricing still down, but pretty much in line with the prior year, and with historical trends. Strong growth continues with business information growing almost 15%, as same as debt collection. Factoring is slightly down. That's really the reflection of the industrial Germany and Central Europe business.

As you can see, the loss ratio came in at 39.1%, which is up 3.3 points. That brings the net combined ratio at 68.7%, which is in line with Q4, slightly higher gross loss ratio at 38.7%, higher opening year reserving, and pretty stable reserve releases from the prior vintages. The costs are up 2.2 points at 29.5%. We continue to invest deliberately according to our Power the Core business plan. So no change in strategy, deliberate investments because we think it is actually the right strategy in what is a pretty volatile and uncertain environment. And I think, the company is well positioned. So total €62.1 million, slightly down from last year, and RoATE at 12.7%.

We've added a page on page 5 about the environment. I mean, this is probably pretty obvious that the environment is as uncertain as it's ever been. On the left hand side of the page you can see a chart that represents the global economic policy uncertainty. We are at the stage at a very high level, driven by the US, moved away free trade, which has sent this index to record highs. It's very hard to see where this all settles, obviously. There's been a lot of announcements, changes and U-turns. But I think, whether or not it ends up at a very high or medium or lower level, for now we are very likely to see a negative impact on world economy and trade just because people are uncertain, and that slows down investments and spending.

But it also means for us as a business that we see more demand for our business proposition, whether it is insurance or short-term information. We think that our positioning basically on monitoring accurately or as accurately as possible, short-term risks, looking into details by industry, by trade court or by business, the expertise we have, the network we have, are all extremely relevant in this environment. And so we think we've got the right strategy. We continue to invest deliberately to make our Power the Core plan a reality.

If you go to page 7, just a little bit more detail on turnover. So turnover is up 2% this quarter. As I said, trade credit insurance premiums are up 1.2% at all things equal. The other revenues are up 7.5%. I've mentioned business information at close to 15%, same for debt collection, close to 15%, factoring slightly down. Insurance fees that we collect on our insurance contract continue to perform well at 4%, bringing the total insurance-related fees to premiums ratio at 13.3%, which is a nice number.

When you go to the next page, on page 8, by geography, I think what you see here is really a description of the world economy with Northern Europe, Germany, mainly down from last year. A strong growth though in services, close to 18%. Central Europe has had a bit of a one-off with a large contract that's been reduced and transferred to an Asian region, but still negative. Western Europe doing a little bit better with France, the UK and Switzerland growing at about 1.9%. Mediterranean and Africa actually continues to drive growth at 5.1%, continued Southern Europe and dynamism in the Middle East. And North America tracking along at 1.5%, Asia at 3%, and Latin America having a nice surge actually. We're coming out of a period where we have been working on the risk quite a bit, and there's obviously inflation underlying those numbers in Latin America.

If you go to page 9, the usual breakdown of our business, you see that there continues to be a strong new business year for us. Actually, at the level of last year, I think there is good momentum. We are seeing a nice demand and nice continued growth in our direct business. We see retention at this stage at 95%, very close to a record 95.7%. The market is competitive, people are aggressive. But at this stage, I think we are performing pretty well. The price effect is still negative. That's as you know, the long-term trend in this business is something like negative 1.5%. So it's pretty much in line with the first quarter of 2024. And then on the volume side, as I said, 1.2% is a nice change from, I would say, the negative or slightly positive we had last year. So it's a good start to the year. It's hard to say where this is going to go obviously as there is lots of uncertainties on the trade as we've mentioned before.

Going to then page 10, you see the loss history by quarter on the top left. As we discussed priorly, insolvencies around the world continue to normalize or actually creep up slowly. The current environment is actually not helping. I would say, the frequency that we are seeing is now back to normal conditions. We are seeing the same number of claims that we had seen in 2019, prior to the COVID crisis and then the subsequent events. We see claims amount higher though because there's been inflation since, and that's reflected in the amount of claims that we're receiving. The severity is growing, but it is still below the, I would say, historic average of the business. So nothing really surprising here. You can see on the bottom right-hand corner that we still are cautious in underwriting the new vintage at 82% pre-discount, and we are still gaining very nice throwbacks from the prior vintages at minus 43.6%. So no change in our reserving policy, no change in our stance in the market. We are very conscious of the environment, and we are actually being very close to our clients in managing the risk, knowing that the full effects of the tariff situation will probably develop over the next part of the year.

On the next page 11, we see the Q1 compared to the prior years. I don't think it's very relevant during the first quarter to look at this because we're comparing one quarter with full years. So I'd rather turn to page 12 where we are seeing the sequence of the last five quarters that the business has gone through. And pretty much I think what we see here is, there's not much to talk about. I mean, on Western Europe, Northern Europe, Central Europe, Mediterranean and Africa, which are the largest and historically more stable markets that we operate in, you can see that the risk is really contained, and it operates at levels anywhere from say, 25% to 50%, but very, very stable. On three smaller and traditionally more volatile markets that we're in, North America, Latin America, again some claims here and there, but no real trend. And as you see, for example, in Asia Pacific, we had a low Q3, a higher Q4 and a lower Q1. So not much to report in terms of the risk side.

On the cost side, on page 13, as I mentioned, we are continuing to invest deliberately in our direct origination capabilities, in our technology, in our data, and in our business services. So the costs in total from Q1 2024 are up 5.7%. That brings the cost ratio before reinsurance on the bottom right from 31.7% to 33.1%. That's an increase of 1.4 points. And that's driven by a number of things. Investments, as I mentioned, are up, increased the ratio by 2.9 points. Cost inflation that's been embarked from the past is still there and creates 1.4 points of drag. It's offset by the revenues that we get from the new business services by 2.6 points. And then some growth that we have in the premiums which lower the ratio by 0.4 points. So the net cost ratio is up 2.2 points, very slightly lower reinsurance commissions. Phalla is going to take us through this. But pretty much for us a continued investment in our expertise and our people, and our capabilities, which makes a ton of sense in this current market.

And with that, I'm actually going to turn it over to Phalla, to take us through the rest of the pages.

## Phalla Gervais

*Chief Financial & Risk Officer, Member-Management Board, Coface SA*

Yeah. Thank you, Xavier. So premium cession rate very close to where we were last year. What is changing is, of course, the claims cession where you can see the increase from 21% to 26.4%, reflecting the increase in the loss ratio that we are seeing. As a result, we're passing on this result to the reinsurer moving from minus €30 to minus €20 million pre-tax. This leads us to a net combined ratio at 68.7%, very similar to what we've seen in Q4 2024 with an increase in net cost ratio and an increase in the net loss ratio, but still below 70%.

If we move to the next page, so we're now on page 16, financial portfolio. The mark-to-market of our investment portfolio stands at €3.35 billion with high level in terms of liquid asset, cash, which is 17% of the total portfolio. Of course, we are holding cash as we're going to pay our dividend again of the [indiscernible] (00:22:10) about €200 million. In terms of investment income, if we look at the first two lines on investments, recurring income and realized gain and loss, you can see that this translated in the fact that we are increasing slightly the accounting yield with and without gain and loss. The thing is, it's moving up, and the new money is now invested at 3.8%, which is slightly below the level of our investment that we have last year, but still above 3%.

If we move to the FX line, something we have, you can see, minus €12.4 million, this includes €4.5 million related to hyperinflation, mainly in Turkey, which means that the remaining part is the FX negative impact. You can see the offset actually of these FX negative impact in IFE line. You can see that the IFE is moving from minus €11 million to €4 million. And out of the minus €4, you have €6 million or €7 million related to realized positive P&L impact on FX. So it's an offset in two geographies of bookings between financial results and technical results. IFE, as I said, if you exclude the FX impact, it will be pretty similar at the similar level that what we had in Q1 2024, which is more or less €10 million, €11 million. This leads us to a net income at €62 million, see a very strong net income despite I think the decrease versus last year. But this is driven by the fact that our net combined ratio has increased.

Return on average tangible equity, we're now on page 18. Total IFRS is moving from €2.194 billion to €2.234 billion, which is mainly driven by the next net income of the period. And then we have, I think, some [indiscernible] (00:24:25) translation, currency translation impact on our equity. Return on average tangible equity from 13.9% to 12.7%. Of course, we are comparing the year end return on average tangible equity to an annualized Q1. So I think, this is the impact would probably be much more significant – meaningful, I would say throughout the year, than what have seen in Q1. We don't disclose any solvency in Q1. What we can say is that, it will be anyway above the upper range [indiscernible] (00:25:03).

Xavier, I'll turn the floor back to you.

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## Xavier Pascal Durand

*Chief Executive Officer & Member-Management Board, Coface SA*

Yeah. So a relatively short presentation today. I mean, clearly we think this is another good quarter for Coface. Combined ratio is at 68.7%, it's stable versus the Q4 2024. We're getting nice income from our investment portfolio. The RoATE is above our target, as you know, through the cycle. Clearly, this is a complicated environment. I mean, not just for Coface, but for every one of our clients, and every industry participant. There has been lots of announcements made. Some hikes have actually taken place, and are starting to weigh. There's clearly a lot of discussions, a lot of U-turns, it's a very unclear as to where exactly this settles in the end, negotiations that need to take place, et cetera.

I think, when we see this, our impetus is on, one, staying very close to the action. So we've really broken down the world in different segments, and we're talking 600 different segments that we look at, and looking at each individual industries and each individual sectors impact. I think, this environment justifies what we do. I mean, we have experts all over the world. We have data that we've been investing on, we have technology, we have processes. We're very close to our clients, and we're making sure that we stay current with everything that's happening in the macroeconomic environment, as well as with the individual situations of our clients.

So I think, our strategy, which is to be really the best at doing this, investing in risk free services, investing in our technology and our people, in our processes, I think that makes a ton of sense. And we feel we're as well positioned as possible in this environment. So that's pretty much what we have for you today. A bit shorter than usual. We are going to turn it over for questions for all of those on the call.

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] Now we're going to take our first question, and it comes from the line of Michael Huttner from Berenberg. Your line is open. Please ask your question.

**Michael Huttner**
*Analyst, Berenberg*

Q

Fantastic. Thank you very much. [indiscernible] (00:28:04) three. Could you give us a feel for how conservative the loss pick, the 82.2% is, just to get a feel, if I look at the slide 10, the little blue band, which I kind of think of the conservatism, maybe I'm wrong it's a little bit narrow then in previous year, but maybe I'm wrong, and any commentary would be useful. The second is, you said your number of claims is similar now to 2019, but your combined ratio is about quite 10 points better. I don't have the quarter, but I think in the year you had 77% back then, you now, first quarter, 68.7%. So 9 points or so better.

And I just wondered if you could get a feel, my feeling is, what's changed is that, just like you said, you focus more on clients, et cetera, but your balance sheet is immensely stronger than it was back then, both in terms of the mix of assets, some more fixed income, less real estate maybe, but probably also more reserving, I don't know. Any comment here would be helpful. And then, I know you said that it's similar, but I always think as the CE as a kind of magic region, and it does stand out at 51.8%, then you might say, well, 51.8%, given where we've seen isn't big variation, but the previous numbers have only ever – well, in the past few quarters, only above 41%. So I just wondered if there's something there which is unusual. Thank you.

**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

A

Well, just on that one, one quarter ago we were at 13%, right?

**Phalla Gervais**
*Chief Financial & Risk Officer, Member-Management Board, Coface SA*

A

Exactly. And it's something you can see the CE region is only 10% of the total premium. So it's still a little bit volatile, and we have one or two claims that we had actually describe this peak. But other than this, there's nothing unusual to be reported.

**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

A

And there's couple of claims that could tell the balance. But I mean, the low large number on these starts to work for large places. On your – Michael, I wouldn't try to read into the, I guess, you're referring to the dotted blue...

**Phalla Gervais**
*Chief Financial & Risk Officer, Member-Management Board, Coface SA*

A

...which is a discounted...

**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

A

That's the discount effect.

**Phalla Gervais**
*Chief Financial & Risk Officer, Member-Management Board, Coface SA* A

You turn to slide 2.

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**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA* A

So I wouldn't try to read in that number. Anything else than the interest rate discount, the interest rate that we're using for the discounting. So my comment to you on this one is, we haven't changed our underwriting stance. We haven't changed our reserving methodology. There's really nothing new in these numbers as far as this quarter versus the year before, or the two years before. In terms of your comparison with 2019, yes, we had the same number of claims, but the business was smaller at the time because we also have had more premiums. So the claims are larger in amount, but so are the premiums. So I think, you also have to factor that part of the equation there.

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**Michael Huttner**
*Analyst, Berenberg* Q

And but, if I may say but, it's not a nice word, but anyway, you did highlight the reserving point. I feel still hungry for an answer, if you highlighted it, I thought it was fair to ask. So the 82.2%, you actually said it's higher. That's why...

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**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA* A

I mean, I think, as I said, we haven't changed our stance. So we have been, I think, I've mentioned over this call, I don't know, time and time and time again that we've taken a relatively conservative stance when it comes to looking at the market, knowing that a slow but steady normalization was underway for something like four years now. And that hasn't changed. So we continue to see normalization. I don't know if that's the right word, but we continue to see slow and progressive increase in the insolvencies around the world. We continue to be careful about what we underwrite. We continue to reserve appropriately for whatever might lie ahead. And that's it. That's all we're seeing here in these numbers.

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**Michael Huttner**
*Analyst, Berenberg* Q

Okay. Thank you.

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**Operator**: Thank you. Now, we're going to take our next question. And the next question comes from the line of Amalie Zdravkovic from Deutsche Bank. Your line is open. Please ask your question.

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**Amalie Zdravkovic**
*Analyst, Deutsche Bank AG* Q

Yes. Hello. Good afternoon. This is Amalie from Deutsche Bank. Thank you so much for taking my questions. I just have two, if I may. And it's mainly just, I mean, on sort of the commentary around the impact of global trade and business failures, I was just wondering if you'd sort of have any more color to add on sort of how this impacts your outlook for 2025 And I mean, are you building any new assumptions, are you building in potential recessions? How are you sort of, how are you thinking about the outlook more generally? And then, I mean, you touched a bit on.

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**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

A

Well...

**Amalie Zdravkovic**
*Analyst, Deutsche Bank AG*

Q

Oh, sorry.

**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

A

No. Go ahead.

**Amalie Zdravkovic**
*Analyst, Deutsche Bank AG*

Q

No. And then my second question is just – I was just curious a bit on the demand side. I mean, you've touched a bit on demand for a trade credit, but I was just wondering if you could add a bit more color on sort of where in particular you're seeing demand coming from. Yeah. That would be great. Thank you.

**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

A

Okay. So on the economic outlook, I think, frankly, no one was last year expecting the barrage of tariffs and all the activity that took place in the first 100 days of the US administration. And so this has been – I mean, I'm not – this is no news for anyone here on the call, but this has been a bit of a shock to a lot of people. And clearly, there are two effects, there's a multiplicity of effects that we think are going on. First, people in the short-term, probably stocked goods so that probably increased the level of trade short-term. Second, nobody knows where the tariffs really end, but I think we'll have to wait for actuals before we can form a view on how much impact there is today. If you think of 145% tariff between China and the US, it pretty much means trade will be very, very, very difficult. So it's anticipated this would not be the case. But is it, let's say, from 20% to 145%, there's a whole big world out there. So it's very hard to predict.

The one thing, though, is everybody understands it's uncertain, everybody understands it's volatile. And so I think after trying to protect the very short term by stocking up and making sure you did what you can for the next few months, people are probably being cautious in how they invest, how they spend. It's very hard to make an investment decision today on a factory, on anything. So our assumption is, it's going to slow down the economy. I think our outlook for the world economy was something like 2.7% growth this year. And we've brought that down at the stage by 0.4% or something like this to 2.3%. Same for Europe where we're going from 1.1% to 0.5% growth outlook. I mean, it is what it is. It's worth what it's worth for now until things change.

But it's clearly, I think, in our view, an anticipation that the economy is going to be slower, probably inflation will be higher in heavily hit sectors of the US economy. And it's very likely, most likely that insolvencies will keep going up in that environment because the adjustment to that new world is going to take some time and not everybody is going to do perfect. On the demand for trade credit, I think it's just the uncertainty. I mean, it's a natural phenomenon. When you start to see that the world is riskier, you start to think about how do I protect my business, and you start to look for people who might have answers. We don't have an answer on where this all ends, but we do have means to look at your short-term counterparties and figure out how well they're doing, at least as good as anybody can. So I think, that's where the demand comes. It comes from, I would say, almost all segments in the market. There is obviously interest in looking at what we have to offer and seeing if that can be put to use, to good use in the different segments that we operated.

**Amalie Zdravkovic**
*Analyst, Deutsche Bank AG*

Q

Thank you.

**Operator**: Thank you. Now, we're going to take our next question. Just give us a moment. And the question comes to line of Benoît Valleaux from Oddo BHF. Your line is open. Please ask a question.

**Benoît Valleaux**
*Analyst, Oddo BHF SCA*

Q

Yes. Good evening. Thank you for taking my question. Two questions on my side, if I may, sorry to come back on current economic environment, but can you maybe give us more color on the risk management action you've taken over the last, say, weeks and months and year-to-date in terms of number of action, in terms of – or your total equities exposure has evolved or maybe, for example, some figures regarding the potential reduction on your exposure to low quality business. Second question, I know it's a quarterly-only figures, but when I look, sorry to come back also on your loss ratio geographies, is there anything specific to mention for LatAm and North America? I also know it's only quarter, but it seems that there is an increasing trend in terms of loss ratios. And I just would like to have your view on that.

And maybe the third question is regarding costs. When you look at your internal costs in absolute terms, it has increased by about 8% or €$40 million versus Q1 last year. So there is a significant increase. You mentioned, of course, you've made some investments. What has been the increase, which is related to BI, in absolute terms, within this €14 million, just to look at the underlying trend? Thank you.

**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

A

Yeah. So let me start with the risk question. So on risk management, as I said, we've kind of broken down the world in, let's say, 600 different segments that our economists look at. We track the effect of the measures that are actually being put in place, because all the other ones can change so fast on each one of these sectors. And then we drill down within those sectors and into the companies that are most likely affected, and those where we have the biggest or exposures or those where we have the weakest participants. And so there's a whole amount of work going on. By the way, this is no different than anything that we've done in the past. It's just more intensity because there's more action, and there's more news coming, the news flow is actually stronger.

So we stay very close to our clients. I mean, I think our teams are busy. We're not sitting idle. We've been working on some of these sectors or industries for quite some time. I mean, we all know that the automobile industry is right in the bull's eye. The steel industry, the aluminum industry, and also all those. So these are all areas that our analysts are reviewing very, very diligently. In terms of the quarterly figures, you mentioned the US, I think we had a couple of claims, larger claims, I would say, and the first at the beginning of the year. But that number has been coming down. I mean, again it's 9% on one quarter. So we're talking about something that if you look at it small enough, it's going to be volatile.

**Phalla Gervais**
*Chief Financial & Risk Officer, Member-Management Board, Coface SA*

A

Exactly. I think, both for North America and LatAm, if you exclude I think one or two claims or large claims that we have, then the loss ratio [indiscernible] (00:40:32).

**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

A

Yeah. The other question was, it was Latin America?

**Phalla Gervais**
*Chief Financial & Risk Officer, Member-Management Board, Coface SA*

A

Yeah.

**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

A

Yeah. But look at Latin America. I mean, if you look back in history of our business, it keeps oscillating from 0 to 100%. This is 4% on one quarter. So this is really 1% of our yearly turnover. It's going to be volatile. Then in terms of our investment. So I mean, we are really to the letter sticking to our Power the Core playbook. I mean, we're managing the costs very tightly, and we are deliberately investing in those things that we said we would. So those things that we said we would invest in have to do, of course, with BI, which has been a significant investment. I didn't mention that, I think, on the call, but we probably have between BI and debt collections 700 people at the end of the quarter. I mean, that's a very significant increase from, I would say, the 50 people or so we had four or five years ago.

We're investing in the technology as it relates to this area. We're investing in the data. We're investing in the sales origination for the insurance business, and in the technology, in general, because that's where I think the game is moving slowly but surely, actually not so slowly. So we're really completely aligned with our plan. There's no surprise in these numbers. I just think, there's not going to be a better time to invest. I mean, the environment is what it is. There's no reason to slowdown the investment because I think we are also delivering on growth in these areas. And we're creating something that has value for the future, and which is differentiating in the market. And the more we invest in data and technology, the more we learn about what the power that it has and the value that it can have, both in terms of new revenues, risk free revenues, but also in making our insurance business better. That's pretty much what I will have to say.

**Benoît Valleaux**
*Analyst, Oddo BHF SCA*

Q

Okay. Thank you very much.

**Operator**: Thank you. [Operator Instructions] Now, we're going to take our next question, and it comes from the line of Michael Huttner from Berenberg. Your line is open. Please ask your question.

**Michael Huttner**
*Analyst, Berenberg*

Q

Fantastic. Thank you for this second opportunity. I had three. One is, Q2, what we've seen most recently, has there been any – because the tariffs came in after the end of Q1? And the second is on tax. I think in tax, if my memory, Q4, you put a big amount aside because of thinking about what might happen going forward. And now the tax seems to normalize again. Is there anything to say here, have you been too prudent or has the tax issue now settled? And the last one is on the – I've forgotten. It'll come back to me in a second. Sorry about that.

**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

A

Well, maybe start with the tax while you find the – you try to...

**Phalla Gervais**
*Chief Financial & Risk Officer, Member-Management Board, Coface SA*

A

Well, know that, in Q4 the tax rate was and it used to be usually in Q4, we had a higher tax rate. But last year, if you recollect, we booked some impact related to the worldwide 15% tax [indiscernible] (00:44:22), and it has an impact of €2 million once booked in Q4. I think, this year in Q1 we're just going through the normal computation. What needs to be highlighted also is the fact that, of course, our tax composition is depending on the results and the level of income tax of all our geography, as we have passing on less results to our reinsurer. I think, of course the reinsurance company that we're having in Switzerland, tax up 50% is driven now. Our average tax rate is down compared to last year. So, it's really a matter of geography of results that drives the tax impact.

**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

A

Yeah. As it pertains to your first question on Q2, I mean, there's really nothing to add here. All the comments I made pertain to where we are today.

**Michael Huttner**
*Analyst, Berenberg*

Q

Excellent. Okay. Yes. The question was exactly on what Phalla said, the reduction in the cost of reinsurance from €30 million to €20 million. Is there anything particular here?

**Phalla Gervais**
*Chief Financial & Risk Officer, Member-Management Board, Coface SA*

A

Well, no, because it's just, you can see – it's just the fact that we are passing on the more claims to our reinsurance as it's reflecting the increase on our ratio. Nothing unusual, I would say. And this is where tax [indiscernible] (00:45:58).

**Michael Huttner**
*Analyst, Berenberg*

Q

And would there be if – does it depend on the pattern of claims? In other words, would reinsurance cover you better if you had more smaller claims or fewer big claims? Is there some kind of difference here?

**Phalla Gervais**
*Chief Financial & Risk Officer, Member-Management Board, Coface SA*

A

No. Remember, our reinsurance schemes, we have three level, while you have the proportional or the quota share 25%, that has not changed for years now. And then you have, of course, stop loss in excess of loss. As far as I know, there's no stop loss, [indiscernible] (00:46:34) has occurred for years now. So it's really the quota share that's being [indiscernible] (00:46:44) as well.

**Michael Huttner**
*Analyst, Berenberg*

Q

And the last, if I may, the number which I mean, all your numbers are actually, given the environment, very strong. The number which appears particularly strong given the current environment to see what I call reserve release, the €40 odd million. Is there anything here to say? Is that more related to past [indiscernible] (00:47:07), or is it just the quality of your reserving, it reflects some change other than there?

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**Phalla Gervais**
*Chief Financial & Risk Officer, Member-Management Board, Coface SA*

A

The prior year development, it's just – again, I think our reserving policy has not changed. So of course, just reflecting what we used to do and what we're doing, nothing about that to be highlighted there, Michael.

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**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

A

We remain very consistent, and actually that number hasn't moved now, and you can see it on the page for literally years.

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**Michael Huttner**
*Analyst, Berenberg*

Q

Exactly. Yeah. No, that's outstanding. Excellent. Thank you.

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**Operator**: Thank you. Now we're going to take our next question, and it comes from the line of Pierre Chédeville from CIC. Your line is open. Please ask your question.

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**Pierre Chédeville**
*Analyst, CIC Market Solutions SA*

Q

Yes. Thank you. Currently I was not in the line of question. So I don't have a lot of questions left. Maybe a general comment, because you said a lot of things regarding the evolution of the economic climate, et cetera. But I am a little bit surprised by your tone, if I may say. You seem a little bit more, I wouldn't say optimistic, but positive compared to your traditional stance on outlook, which is quite conservative. And we can see this conservatism in your targets, notably your target on combined ratio. So what would you say regarding your outlook? You're quite optimistic or pessimistic? And my second question is a follow up on reinsurance. Do you see any increase in premiums of reinsurance due to the current environment, and what you said? And could it change a little bit or marginally your policy in this area? Thank you.

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**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

A

Well, I think that, frankly, the two questions kind of participated in the same underlying question, which is what's going to happen. And I think nobody knows. I mean, frankly, if you have a clue, let us know. Because as I said before, and with such high numbers being mentioned of where the tariffs are going to land, it could be anything. So I don't know if I can be positive or negative. I think we just don't know. And we're going to have to see where the dust settles and then we're going to have to do the work of going line by line and figuring out who's impacted and who's not. I mean, for me, it's not about being optimistic or pessimistic. It's about taking whatever the world is going to decide for us and dealing with it.

And the only thing I can tell you is this business has been over the years investing in its people, in its process, in its technology, and this and this and that. I think, we're in as good a shape as we've been. But the environment is what it is going to be, and there's not much I can do about it. So I tend to try to worry about things I control and less about things I don't control. I think it's probably the way to think about it. And as far as the reinsurance, I think it's the same thing. The question is, where is that going to be. I think, at the end of the year is when we renegotiate our insurance contract. And I think, in the next nine months or eight months, we're going to learn a lot more about what's going on in the world. So that will, again, not be for me to decide, but we'll have to take whatever the market's going to give us.

**Pierre Chédeville**
*Analyst, CIC Market Solutions SA*

Q

Okay. Thank you.

**Operator**: Thank you. Now, we're going to take another question. And this comes from the line of Michael Huttner from Berenberg. Your line is open. Please ask your question.

**Michael Huttner**
*Analyst, Berenberg*

Q

Thank you. This is last one. Sorry. Demand versus volume, which way do you think the coin settles? Is it up or down?

**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

A

Demand versus...

**Phalla Gervais**
*Chief Financial & Risk Officer, Member-Management Board, Coface SA*

A

...versus volume.

**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

A

What do you mean?

**Michael Huttner**
*Analyst, Berenberg*

Q

So you've got – your clients asking for more cover or being more worried. And but the underlying world trade environment being more challenging. And which way...

**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

A

It is hard to say because, I think on one hand, it can be very different by sector, by area. I mean, increased inflation in the US will drive activity in the US, but it's not our biggest region. I would say, a slowdown in the economy drives lower activity. I would say, in general, the commodities going lower is not helping our activity. So that's never been a great thing for us. So general uncertainty drives demand for smaller clients who start to struggle, sometimes it also means they can't pay their premiums or they don't want to pay their premiums or whatever. So I mean, it's a mixed set of things.

**Phalla Gervais**
*Chief Financial & Risk Officer, Member-Management Board, Coface SA*

A

And even on volume, Michael, I think the volume is driven by, first of all, the volume of activity of our customers that might decrease if the GDP, overall GDP is going down, but inflation is pushing up the volume, because at the end of the day, I don't even know where it's going. It's really the $1 million question.

**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

A

[indiscernible] (00:51:33).

**Michael Huttner**
*Analyst, Berenberg*

Q

Well. Like I say, in light of unknowns, the numbers look fairly good. Thank you.

**Xavier Pascal Durand**
*Chief Executive Officer & Member-Management Board, Coface SA*

A

And at least you know what the consequences are. But we don't know what the cause is going to be.

**Michael Huttner**
*Analyst, Berenberg*

Q

Absolutely. Thank you very much.

**Operator**: Thank you. [Operator Instructions] Dear speakers, there are no further questions. I would now like to hand the conference over to Xavier Durand, for any closing remarks.

## Xavier Pascal Durand
*Chief Executive Officer & Member-Management Board, Coface SA*

Well, thank you very much. I mean, for all of you who have been listening in and have been asking questions, I mean, we didn't mean to close this early. But I mean, I guess, it's a good thing. Let's see. We will be speaking again, I think, on the 31st of July for the Q2 first half results. I'd just remind everybody, the General Assembly of Coface takes place on the 14th of May. And so I guess, to all of those questions about what the environment holds, I think, we'll probably know a little bit more, but who knows, we'll see. Thank you for calling in. And looking forward to speaking with you soon.

**Operator**: This concludes today's conference call. Thank you for participating. You may now all disconnect. Have a nice day.

## Phalla Gervais
*Chief Financial & Risk Officer, Member-Management Board, Coface SA*

Thank you.