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Coface SA (COFA.FR)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the Coface SA Nine Months 2025 Results Presentation. At this time, all participants are in a 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 first speaker today, Xavier Durand, CEO. Please go ahead, sir.

Xavier Pascal Durand
Chief Executive Officer, Coface SA

Thank you very much, and good evening to all. Thank you for logging in this call. We like to start on time. Well, I mean as you will have seen by the announcement, we're recording another very solid quarter in the third quarter of Coface. The number is €52 million for Q3 2025 of net income, which brings the total year-to-date to €176.3 million.

A lot of the discussions and points that I'm going to make are actually very much in line with the trends we discussed in the prior quarter, so really, no big surprise. You see total revenue for the first nine months, up 1.8%, at same FX and perimeter, with the premiums for insurance growing 1.1%. You see revenues from other activities, they were up almost 11% in the third quarter, which continues to validate the strategy we've put in place to develop an ecosystem around the credit management space.

We see client retention, which is back up close to our 2023 record of 93.5%. Pricing continues to be down, 1.8%, so clearly the market is competitive and there's pressure on prices, a little bit below or in line with the historic trend. The business information continues to show nice growth at 14.5% through the first nine months, and debt collection is up 38.5%. While we are seeing also a pretty good quarter in Q3 for factoring, which after a couple of

negative quarters is now up 0.4%. On the client activity front, we'll discuss that later, but it's slightly positive. But clearly, we're in the soft part of the market here.

The loss ratio is up 4 points to 39.6%, bringing the net combined ratio at 71.9% for the first nine months. I think that's actually best performance in this industry. The gross loss is up 4 points. We are not our stance in terms of reserving or reserve releases. We still see nice throwbacks from the prior vintages. The cost ratio, pretty much like we've discussed in the prior quarters, is up 3.4 points. And that's really driven by our investments, which again are around distribution and TCI, around data and around business information, around connectivity and technology. The return on average tangible equity stands at 12 points (sic) [12%] (00:03:30) and we continue to change our leadership team and then to prepare for the next phases, with the appointment of Christina, the CEO for North America. Her background in credit is an asset in growing this part of the world.

We added, as we often do, one page on page 5, which talks about actually our services businesses. You can see on the right hand side of the chart, when we add up BI and debt collection in dark blue and factoring in the light blue, you can see how the percentage of these businesses as a percentage of the total increases steadily, regularly. We're almost at 11% for 2025. And I think that shows that the strategy is starting to be more material for Coface as we go ahead. We continue to see nice growth, as I said in business information. Actually, the new business that we've signed this year in annual contract value is up more than 50% versus the first nine months of 2024. So I think we're starting to see performance here in a lot of geographies.

We're seeing the integration of Cedar Rose, which we closed not long ago, going well. This will be consolidated in the fourth quarter of 2025. We're actually starting to see good performance on the larger accounts in being able to sign more substantial deals. Debt collection itself is continuing to show that it's countercyclical and the volumes that have been entrusted to us are up 35%. So I think these strategies are paying off. At the same time that we're experiencing what I call the tougher part of the credit cycle, clearly, the market is not growing in our business. There is, as you know, lower inflation, slowing economies, commodity prices are pretty low. The good news is our risk management is active as ever and has been very effective. So far, we've kept away from the recent flow of large bankruptcy news that you've been able to hear about. And we are seeing about a 16% increase in the number of risk actions that – risk prevention activity that we carry out on the different sectors as the news develop and the market continues to evolve in a pretty actually unpredictable, but pretty active way.

So going into the next pages that you're very familiar with now. On page 7, I've already described a lot of these numbers. Just one thing I want to highlight is that insurance related fees to – percentage to the total premiums that we collect has held up really nicely from last year. So that's a substantial source of income for us and profitability for our business. And they've been growing the fees at the same level as the insurance revenue at plus 1.6%.

On page 8, we described the growth by region. And I think what you see here is, given the nature of our business, a reflection of the state of the global economy. I usually talk first about Northern Europe, which is essentially the German area, Germany area, and Central Europe, which economy is very connected to Germany. And you can see here that this part of the world has actually slowed down. Same for Western Europe, which is France and the UK. At the same time, you see Med & Africa doing a little bit better, but this is a region of the world where we used to see more like 5%, 6% annual growth and which has slowed down to 2.5% at this point. North America with an economy that's outside of the AI bubble seems to be slowing, is seeing 0.6% growth. And really where we are seeing more dynamic growth is now in the emerging markets. So this is the case for Asia Pacific and Latin America, which have been less affected, I would say, by the slowdown that we've seen in Europe or what's going on in the US.

If we go to the next page, you continue to see, again, here the story is very similar to prior quarters. Record new production at €102 million. That's really driven by the investments that we're making and by the strategy we've pursued in terms of partnerships and distribution. As I said, the retention is at a near record level. So we are very active. We take good care of our clients. We're very aware of their options and we're still being disciplined in the way we manage risk. But I think that that's our trademark. In terms of prices, it's down 1.8%. So continues to be a very competitive market. We continue to see capacity being added into the market. And then finally, in terms of activity, we are back in positive territory, albeit just above the zero market, 2.1%, which historically, if you were to go back in the last six, seven years, would be a low level.

If I go to the cost slide – sorry, the loss slide, you can see that we had another good quarter at 35.1% loss ratio before reinsurance and including the claims handling expenses. As I've discussed already several times, the number of claims is more or less at the 2019 level, while the claims amount is higher by almost 13%. What's changing is that we continue to see an increase in the average amount of the claims. We see more material cases showing up in terms of bankruptcies or insolvencies. We've seen a number of recent high-profile US cases. As I said before, we were absolutely not touched by these. As you see on the bottom, we continue to open the new vintage at pretty much the same level, 78%. You see a nice throwback from prior vintages at 41.9% from the prior years. And clearly, the business continues to perform in terms of risk management.

I'll skip page 11. That represents the total year loss ratios. I mean, all I can say is that it's slowly but steadily moving upwards.

The page 12 shows the quarterly story, and really there's nothing to report on this page of any worth. It continues to be – in the four largest markets and more stable markets that we have on the bottom of the page, it continues to be pretty benign in absolute terms. And then, if you look at the smaller and more volatile markets on the top of the page, again, not much to report here. There is inherent volatility given that these are smaller places and more volatile economies, but at the same time, we're performing well. And so, not much going on, on that page.

If you look at page 13 where we talk about cost, so we've already discussed again those metrics. Costs are up 8% from the same period last year. As we did in prior quarters, we disclose on the right hand side how the cost ratio evolves from 2024 to 2025. And like we said in the prior quarters, inflation accounts for 1.1 point of increase of the cost ratio. At the same time, we are making investments which are costing us 2.4 points of cost ratio. And these are compensated partially by the contribution of services which are growing fast, which are lowering our cost ratio by about 1 point. Out of the 2.4 points of increase in investments, we have about 40% that are tied to the insurance business and 60% which are tied to the business information and debt collection businesses. And it's pretty much the story in terms of cost.

So we are able to make those investments because I think our cost base is actually good. And I think the current environment completely validates our strategy of investments in business information, and data, and technology, and connectivity, and in distribution for the trade credit insurance business, which I think [ph] carries the performance of the quarter (00:12:39).

I'll turn it over to Phalla for the next few pages as we usually do.

Phalla Gervais

Chief Financial & Risk Officer, Coface SA

Good evening, everybody. So let's look at the reinsurance page, now we're on page 14. In terms of premium cessions rate, you can see that has not changed since last year, it is pretty stable. Claims cession rate has increased a little bit. Of course, this follows the fact that our claims ratio is deteriorating a bit. This lead us to a

reinsurance result at minus €83 million. I think we're coming back for this in this quarter as a normal level of reinsurance result.

We move to next page, which is to net combined ratio at 71.9%, still below the through-the-cycle level. The net cost ratio increased by 3.4 points. This is coming from the fact that, of course, our gross cost ratio is increasing. Net loss ratio, up 4.1 points, again I think this is following the gross loss ratio increase.

In terms of quarterly net combined ratio at 73.1%. I just want to remind you, I think that we're probably close to the mid-cycle now. Compared to previous quarter, just to remind everybody that last quarter we had this impact on the net loss ratio related to the US dollars drop that we haven't seen in this quarter.

If we move to page 16, financial portfolio, the mark-to-market value stands at €3.3 billion. You can see that we're still holding a high level of cash and liquid assets at 16%, which is now with the new money invested at 3.7%. We haven't changed the rest of the asset allocation for a while now, because we have de-risked our investment portfolio.

In terms of net investment income, I think there's two lines to be highlighted. The first one, of course, is the recurring income. And you can see that results even without gain, realized and unrealized gain and loss on the accounting yield is increasing compared to last year. If we look at the FX impact, the minus €29.4 million, just again, I think this is also coming from just a result of the US dollars drop this year by more than 10%, out of which of the €29 million, we have €20 million coming from the FX impact, negative impact related to the US dollars, and the minus €9 million related to hyperinflation, especially in Turkey. The offset of the FX impact is booked actually in insurance finance expenses on the minus €0.9 million, out of which €23 million is coming from the FX gain. So all in, not much impact from the US dollars movement, but it's just the geography of booking that shows different lines.

If we move to page 17, I think as a result net income at €176.3 million, down 15% compared to last year. Just again to remind everybody, last year we had a really, really high, almost a record year in terms of net income. We're coming from very good results. So, but I think this year €176 million is a strong performance of our business as Xavier highlighted. We're trending above the book value per share and above the tangible book value per share.

Return on average tangible equity, I start with the change in IFRS equity, moving from €2.193 million (sic) [€2.193 billion] (00:16:34) to €2.153 million (sic) [€2.153 billion] (00:16:38). No change at all in the work. We organized the distributions of dividends, we booked the net income for the period and that's pretty much it. This leads to the return on average tangible equity moving from 13.9% to 12%.

Xavier?

Xavier Pascal Durand

Chief Executive Officer, Coface SA

Okay, so last page. So, as I said, I think we delivered another good quarter in an environment which obviously is a bit tougher. The revenues are slightly up despite, I would say, low energy prices, an economy, which is slowing in a lot of large markets, particularly Europe and US. The combined ratio is at slightly below 72% and it's better than our targets through the cycle, despite the fact that we're in this not so pleasant part of the market. And at the same time, we're seeing some nice growth in services and we continue to invest deliberately in areas of innovation, around data, technology and connectivity, as well as in distribution for TCI. The fact that we are disciplined I think is paying off. I mean, clearly this combined ratio I think is excellent level in this industry, if not

the best. The fact that we've been disciplined is keeping us away from the recent flow of bankruptcy news. We are seeing new business up in TCI, actually by 6%. So in this environment I think it's pretty good.

On the business side, on the business information side, we are up more than 50%. We see a nice flow of larger deals actually now. Debt collection is up 38%. We are integrating Cedar Rose. We now have almost 850 people dedicated to BI and to debt collection, continues to grow. And clearly, I think the strategy we've put in place of investing in those areas, of differentiating through service, of investing in distribution is paying off. And the recent, I would say, environment that we operate in and the performance of the business confirms I think this choice. So these services are now 11% of our total revenues. They're growing double digits. And I think we're really happy we have them.

With that, I will leave it up to, to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We will now go to your first question. And your first question today comes from the line of Michael Huttner from Berenberg. Please go ahead.

Michael Huttner

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Fantastic. Thank you. Well done on lovely results given the environment. It really is outstanding. Lots of question, three. Sorry Gross loss ratio seems to decline quarter-on-quarter. So 38.7%, 36.9%, 35.1%. Just wondered, things look as if they're improving. I know you're saying that they're getting tougher, but they look as if they're improving. I just wonder if you can say anything on that. The second is the tax in Q3 looks extraordinary. I couldn't work out precisely, but I think it's around 19%. And then, I remember you saying at the half year, tax, French tax wouldn't affect you much, but it looks as if it's almost benefiting you, so I just wondered if there's anything. And then, on the growth in – you've got both growth in new business in TCI and also in business information. Very strong growth, €80 million and 50%. When will we see that come through in terms of profit? There we go. That's it. Thank you.

Xavier Pascal Durand

Chief Executive Officer, Coface SA

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Okay. So I'll just handle the last question, and I think I'll let Phalla take the first three. Actually, right, there were three? There was – oh two, two tax, then.

Phalla Gervais

Chief Financial & Risk Officer, Coface SA

A

The loss ratio and tax.

Xavier Pascal Durand

Chief Executive Officer, Coface SA

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The loss ratio and tax. So, in terms of TCI and BI, TCI is a long-term endeavor. As you know, when you hire a sales guy and it takes a few years for that person to pay back its cost, but I think it's a very worthy investment to make for the long-term, accessing spaces in the market that are not currently covered by the current brokerage infrastructure. In terms of BI, the return is a bit shorter, but the, I would say, this business is still pretty small. I

mean, this is a very big market in which we are growing faster than the market. We're taking share. But there's still a lot to do to make this business, I would say, of scale and matter to the company in a financial way. So I think we haven't changed our guidance in terms of what we want to get in 2027. And pretty much we're focused right now on trying to grow the business, to build an infrastructure that makes sense, to acquire skills and distribution and clients. And I think it'll be a little bit of time before this turns material in terms of the results of the company.

Michael Huttner

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Thank you.

Phalla Gervais

Chief Financial & Risk Officer, Coface SA

I'll take the first question on the gross loss ratio between Q1, Q2 and Q3. At quarterly basis, sometimes we have some large losses on large special reserve. That happened in Q1 and Q2. Remember that we had in Latin America and in the US in the first semester and we don't see it in Q3. So I think that you should look at the year-to-date. I think what is really meaningful is when you compare the year-to-date, Q3 2025 compared to Q3 2024, which is up 4 points. And between the quarters, you have some large coming in and coming through. I think that's the answer. But overall, we see the loss ratio increasing surely [indiscernible] (00:23:08).

In terms of tax, and you know that actually in Q3 it's mainly driven by the fact that we have again from one quarter to another we calculate different tax, and depending on the geography where the tax rate is lower and we have more benefit, of course, it's lower the tax rate. Nothing more than this. Will we be impacted by all the changes that's discussed, currently discussed, not passed yet, on the French side? No, because I think the scope is we need the French businesses only, and so far we are below the threshold.

Xavier Pascal Durand

Chief Executive Officer, Coface SA

Yeah, we're too small in France itself to be at the heart of the legislation that so far is being discussed. As you know, until the ink is dry, you never know. But I think at this stage we're not in the scope.

Michael Huttner

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

What tax should we use then in our estimates? Should we – because it seems to vary. We had 26% in the first half year, now we're at 23%.

Phalla Gervais

Chief Financial & Risk Officer, Coface SA

Yeah, I think it depends on the geography. The taxes is driven by the geography which is applied. So when you're making more money in geography where the tax rate is lower, of course the average tax rate is low.

Xavier Pascal Durand

Chief Executive Officer, Coface SA

Varies a little bit, but I mean we've kind of been pretty much in the same range, right?

Phalla Gervais

Chief Financial & Risk Officer, Coface SA

Yeah. We're always in the same range, between 20%, 25% and then we depend on the quarter, quarter by quarter to quarter.

Michael Huttner

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Lovely. Thank you.

Operator: Thank you. Your next question today comes from the line of Benoît Valleaux from ODDO BHF. Please go ahead.

Benoît Valleaux

Analyst, ODDO BHF

Yes. Hi, good evening. Few question on my side, if I may. First one maybe, Xavier, you mentioned so increase on new business, and the same time some pricing pressure. So can you please elaborate a little bit regarding the competitive environment? I mean, do you see this competition at this point of time of the cycle? I have a second question related to BI. So you still continue to invest in that business. Do you believe that you could be breakeven on this business next year? And do you confirm your ROATE contribution target of 50 bps in 2027? Or maybe you've changed your mind, taken into consideration the growth potential of that business, just to know.

And maybe a third question regarding factoring. You just mentioned good performance in factoring business. I know we had this discussion a few years ago, but what does the benefit of Coface to still be active in factoring business in Germany and Poland? I mean, could you consider to exit one of those market or do you still plan to continue to benefit from your existing franchise on this business? And maybe, if I may, I'd ask question regarding reinsurance. I know it's a little bit too early, but do you plan to change anything regarding your insurance coverage? I know that you plan to remain very consistent on this, but with some maybe thoughts on pricing changes, could you change, for example, [ph] your touch on point regarding excess (00:26:29) of loss or anything [indiscernible] (00:26:33). Thank you.

Xavier Pascal Durand

Chief Executive Officer, Coface SA

All right. Well, a great set of questions here. Well, I'm afraid on many of those questions I'm going to be very boring because I'm going to repeat things that you already know. But I guess that's the game, right? In terms of, first of all, increase in new business, yeah, we are making investments in distribution. And I think we are not seeing any new business growth come from traditional channels, what we call brokerage basically. It's more of a churn of existing accounts between existing players. So, our investment in distribution means we are really trying to get out there and do the market development work. And I think it's paying off in the sense that we are seeing new business grow. Obviously, we choose and pick the areas to make sure that this is areas where we're going to be profitable. It's not about lowering our price or anything like this. And a significant portion of that business that we're getting is what we call new news, so people who were not insured before.

Competition remains strong. I mean, I think the way the industry works, we've had four, five years in total. Maybe people haven't enjoyed the same combined ratio that we have, but they still enjoyed pretty good combined ratios. And so as such, it's been seen by a lot of insurers as a profitable space. And a lot of people are looking at it saying – wondering how they can add capacity. We're seeing that at play, particularly in markets that are more dynamic like North America, where capital tends to move around faster, but we're seeing it in other places as well. Of course, other entrants don't have the infrastructure that we have, so they tend to add capacity to existing things or to go into slightly different kinds of products, but still putting pressure on the business.

In terms of BI, I mean, I've told you I don't know how many times that we run it more or less at zero. Depends on the quarter. I mean, there'll be some quarters where it'll be a little bit negative or it'll be zero. But we haven't changed our stance. I mean, I think it's a nice venture. We're learning a ton. We are building something quite unique. And in many ways, it's working. I mean, we're seeing it take hold in many different geographies. We're seeing that it's beating the growth we get in many other segment actually, but it's still very small. So whether it makes a buck or loses a buck doesn't make a difference really for Coface. I think what really matters is what we are building for the future. I think you – we have no reason to change our guidance at this stage that we gave for 2027. So no change on this front. But again, I mean, I think for me, the key is, can we build a differentiated machine for the future that will really expand the breadth of what we do and provide a different source of revenues for Coface. And that's really what we're focused on.

In terms of factoring, that question's been asked I think since I've joined Coface from the first day. And I asked that question myself. I mean, obviously when I got into the business, I looked at it, coming from the banking world and I thought, well, does it make sense to keep it? I think we've concluded that it still do, that it does. And the reason is, we are operating in two markets where we have scale, where we have a great team, and where we have the funding and all the capabilities. And these two markets, which are Germany and Poland, these things are very much intertwined with our TCI business. It's basically a product we sell along with TCI or in one or two different contracts. It's an extension – I mean, it's basically managing the same risk, except in one case you provide liquidity, in the other case you don't.

I think we have one of the best teams in the industry, if not the best. I think these guys have a great track record. And it makes us different in a different market and I think it's a great asset to have. It also gives us scale, quite frankly, in terms of, we use the same data, we use the scores, we use the underwriting, we share a lot of clients in common so it makes a ton of sense for me.

And then, I'll leave Phalla to answer the question on reinsurance. Are we going to change the – so.

Phalla Gervais

Chief Financial & Risk Officer, Coface SA

No, we're not.

Xavier Pascal Durand

Chief Executive Officer, Coface SA

Short answer is no [indiscernible] (00:31:11).

Phalla Gervais

Chief Financial & Risk Officer, Coface SA

[indiscernible] (00:31:12).

Benoît Valleaux

Analyst, ODDO BHF

Agree. Maybe like, I think factoring – thank you for the answer, but as you mentioned, it is very well connected to TCI business, but would you say that TCI business which is accretive or [indiscernible] (00:31:26) impact on your ROATE? I mean, [indiscernible] (00:31:29).

Xavier Pascal Durand

Chief Executive Officer, Coface SA

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It's neutral in terms of the percentage itself. It just adds scale and volume. And we pretty much get the same returns as we do on the insurance business.

Benoît Valleaux

Analyst, ODDO BHF

Q

Okay. Thank you very much.

Xavier Pascal Durand

Chief Executive Officer, Coface SA

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I mean, it's been the case for – that's how we run it, by the way, right? I mean, so I think we're stronger with the two businesses together than we are with just one. And from an ROE standpoint, it's completely indifferent in percentage. But if we were to take a big piece out of our business, I think we would be more fragile and we would lose scale. So it probably would have a negative impact, I would say.

Benoît Valleaux

Analyst, ODDO BHF

Q

Okay. Thank you very much.

Operator: Thank you. Your next question comes from the line of Amalie Zdravkovic from Deutsche Bank. Please go ahead.

Amalie Zdravkovic

Analyst, Deutsche Bank AG (UK)

Q

Yes, hello. Good evening. It's Amalie from Deutsche Bank. Thank you so much for taking my questions. I have two. First, I mean, it's a very strong underwriting result also given the environment and what you've spoken about before. Just, I mean, how are you thinking about your risk appetite going forward? And has it changed at all? So that's question number one. And then number two, I mean, also on underwriting, more on the cost ratio going forwards. I mean, how should we think about a normal level also sort of given the continued investment strategy that you're on? Thank you very much.

Xavier Pascal Durand

Chief Executive Officer, Coface SA

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Yeah. So on the risk appetite, I mean, clearly we haven't changed our stance. I think we laid the foundation for how we operate when I joined 9 years ago, 10 years ago. We said we're going to be very disciplined. We're not going to look for growth for growth's sake. We're not going to commit to growth or risk targets that would cause us to make short-term decisions to the detriment of medium or long-term value creation.

And then in terms of the individual actions, they vary based on whatever the environment has to offer. As you know, we have this ability in this business to expand or reduce our risk on any segment based on a permanent basis. And that's what we do. So, we have a machine. We make 13,000 credit decisions every day. And these decisions are all based on analysis by our economists and our risk experts. We look at each and every one of 540 different sectors or segments, if you will. And their position on each one of those may vary based on, I don't know, tariffs, geopolitics, this or this or that. But the overall stance of the business hasn't changed. And I think that's a trademark. Clients know we do this, they trust us. They trust that we are neither – we're not going to knee jerk in

one way or another, actually, because I think that's the worst thing to destroy value in this business. And so we're very consistent.

In terms of cost, so there's two things. One is, we are investing in data and technology, in connection, in distribution and connectivity because it makes sense for the business for the long-term. We're growing the BI business, so I'll leave that aside. But for the rest, on the insurance side, we're very thrifty. We make sure we save every penny that we can so that we are able to invest in the things that matter for tomorrow. And we're seeing the impact of this. I mean, we've spoken a few times about AI and how that's helping us build better scores and better retention for clients and things like this. And it's just the beginning, I think, of that story.

And I think to some extent there's a connection between cost and risk. I mean, if I spend money building a great data stack, hiring great AI engineers, and I build a score that is better than the one we had before, I increase the cost, but I reduce the risk, right? And I think that's why we give a guidance that is focused on the combined ratio and not on the individual component, because I think that would just be a mistake. I think technology evolves, markets evolve, we will be impacted by the environment, of course. I mean, that's what we do for a living. But we can invest in more tools that help us better manipulate the stack of risk we have in the books. And I think that's really what the business is focused on.

Amalie Zdravkovic

Analyst, Deutsche Bank AG (UK)

Thank you.

Q

Operator: Thank you. Your next question comes from the line of Michael Huttner from Berenberg. Please go ahead.

Michael Huttner

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Thanks. Thanks for the second chance. And slide five, you had this lovely progression which looks like 1% a year. So 8.2%, 8.9%, 10%, looks like 11%. At what stage does it become meaningful? Because many times in the presentation you say it's still small, it's still small, it's still small. At what stage would you stand up and say, well actually, now it's okay.

Q

Xavier Pascal Durand

Chief Executive Officer, Coface SA

Actually, we turn the question to you.

A

Michael Huttner

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Not for me, Xavier. I'm asking the question. I'm not going to answer any questions. I'm not the CEO, I'm not [indiscernible] (00:37:06).

Q

Xavier Pascal Durand

Chief Executive Officer, Coface SA

So the point is, I think the question is the investor view on this more than the CEO's view on this. For the CEO, it's strategic, it creates capability, it creates differentiation, it creates a, I would say, a source of revenue that is independent from risk levels. It is a non-capital consuming line of business. So it makes us stronger I think from a

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client and market standpoint. We have many more clients than we did before. We're much more relevant to many more people for different reasons than we were before. And we are building knowledge, we're building capabilities, we're building technology that is differentiating because it's hard to pay for all this stuff. So for the CEO, it makes a ton of sense, even if it's not that big, right? For investors, it's a question of, all right, when do you start counting the revenue? Obviously, it's not the case today, but it will be at some point in time. And I think it depends on the investor, quite frankly. But I think it needs to continue to grow for this to matter more to the investing world.

Michael Huttner

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Very clear. And then, on the – two other questions. The first one is, on slide 12, I noticed Western Europe is 19.7%. And I just wondered, that seems a lovely number. What happened there? The benefit is fantastic. And then the last one is you said the benefit of increased investment in business information and technology gives you a better handle on the risk side. Can you talk a little bit about maybe some, well, specifics – obviously, not mentioning names, but how further, much further ahead [indiscernible] (00:39:15) question can you now see risk or perceive risk than maybe previously? Or how can we get a feel for that benefit?

Xavier Pascal Durand

Chief Executive Officer, Coface SA

A

So the first question is on page 12, the Western Europe [indiscernible] (00:39:29).

Michael Huttner

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

19.7%, Western Europe.

Xavier Pascal Durand

Chief Executive Officer, Coface SA

A

Yeah. I mean, you see ups and downs here. I mean, based on the individual files and stuff like this. But I don't think we can derive on a quarter any – look at the other ones. We always had the quarter at 19% or at 13%. I mean, there's some mechanics here at play that don't mean much.

Phalla Gervais

Chief Financial & Risk Officer, Coface SA

A

Yeah. I think on this page, I would probably especially the way I look at Q2 plus Q3, which to give you an average of 30%, this is probably more meaningful.

Xavier Pascal Durand

Chief Executive Officer, Coface SA

A

Maybe I should – starting Q3, I should actually start commenting page 11 more, because there's inherent volatility. The more you reduce the time or the geography, you get to smaller stacks, and then it doesn't mean the same thing, right? You're second – I'm sorry, I forgot your second question.

Michael Huttner

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

It's on the benefits of the – how can we get a feel for the benefits of the investment in costs in terms of risk selection or underwriting or just have a feel?

Xavier Pascal Durand

Chief Executive Officer, Coface SA

A

Well, first of all, you see the results in our quarter-after-quarter, year-after-year, event-after-event. It's been Russia, it's been COVID, it's been, you name it, I don't know. What was the latest? The cockroaches, whatever. So, I think you see much less volatility probably, you've been following us for years, than you did 10 years ago, right? That's pretty clear.

The second thing is, when you look deep into the machine, you see, take an obvious one, you see scores that are better at predicting the future. I mean, let's see, and that's because they integrate better data, fresher data, sometimes unique data that, that we exchange with clients, and they are more sophisticated machines that are able to get us a better correlation. So that's another very tangible way to look at risk, right? We also make investments in process. We make investments in the flow of things between different agents, which means reduction of errors and better productivity, etcetera, etcetera. I don't know if that's your question.

Michael Huttner

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Yes, yes, that's helpful. Thank you very much. That's super. Thank you.

Operator: Thank you. Your next question comes from the line of Pierre Chédeville from CIC. Please go ahead.

Pierre Chedeville

Analyst, CIC Market Solutions SA

Q

Yes, good evening. I have a first question regarding BI, because when you look at quarterly the turnover of this activity, we have the feeling that since the beginning of the year, revenues are stable quarter-after-quarter. Like you said, we are kind of plateau, which I do not really understand, because there is not a lot of cyclicity in my view in this business, which is quite a recurring business, and considering the fact that you still invest.

My first question was, the kind of plateau here. And also, it would be interesting regarding an activity in development to know for instance comparison is not reason, but when we look at, for instance, a business like BoursoBank each quarter, they communicate on the number of new clients, net new clients, which is quite interesting as information to measure, the commercial development of growing fast activity. Do you have this kind of information to give us?

My second question is about geographies, and more generally about your description of the global economy. Because when you look at your slide, page 8, when you look at carefully the evolution, with or without FX effect, what you have said was, in the biggest or the wealthiest region, we are more in a resilient environment in term of your turnover while in a decreasing or depressing environment, we also see that economies are doing not so bad. On the worldwide view, of course it's more difficult, but what is your view regarding the resilience of the economy and your turnover? And once again, I have the feeling that you are still very – I would not say pessimistic, but overcautious because your comment is lagging a little bit with your peers, if I can say. Thank you very much.

Xavier Pascal Durand

Chief Executive Officer, Coface SA

A

Okay. All right. So, on the – if you don't mind, I'll probably handle these questions, but on the quarterly BI figures, I mean, this is a business where you sign annual contracts and the revenue recognition follows certain rules, right? So just because you sign a contract today, doesn't mean you start recording revenues immediately and you have

to spread it over the consumption of the data by the client basically, which usually starts small, and then tends to increase and also has some seasonality in it. So, I think that's the gist of it.

So, actually we have seen that over the course of the last couple of years that we tend to plateau for a few quarters when you add all these things together and then you have a – at least the last few years, we had a better Q4. And there seems to be a way this business kind of works from an accounting standpoint, but it doesn't mean that the business is not growing from a total value of the contracts that we have in the books, right?

From a number of new clients standpoint, I think the case with BoursoBank is a little bit different in that there's a lot of individuals and very homogeneous set of clients in their numbers. For us, what's amazing about this business is that we have very small clients and we have very large clients. And frankly, the turnover we get from one can be between 1 and 1,000 times more. It's just – it's actually that bad. So, giving you a number of clients doesn't really mean that much because yes, in some countries we get a lot of small clients and the number will be impressive, but it doesn't mean much in terms of turnover. In other countries, we sign one deal and suddenly we're twice the size that we were before.

So that's a little bit of difficulty, as long as it's a small business is the means or the – we don't have a great trends to be able to monitor that are very stable in time. And that's a little bit why also, so far, you've seen less numbers I think maybe probably you wish to have in a normal mature business, because a lot of things are still being put in place and are still moving. But I mean, it's a good point. The clients are growing, I think the average amount per contract is growing, and – do you want to add something?

.....
Phalla Gervais

Chief Financial & Risk Officer, Coface SA

A

Yeah, I think that the ACV is much more meaningful for...

.....
Xavier Pascal Durand

Chief Executive Officer, Coface SA

A

Yeah, the annual contract value that we put on the books.

.....
Phalla Gervais

Chief Financial & Risk Officer, Coface SA

A

Value that we measure.

.....
Xavier Pascal Durand

Chief Executive Officer, Coface SA

A

So, when we say, for example, we have more than 50% new business more than we did last year, it means that the flow of – we're trying to answer that question, but in aggregate euros, instead of talking about the number of clients because that's also evolving. As you know, in that business, we serve different use cases. We can look at your clients' book, we can look at your supply chain, we can help you identify companies, we can help you do marketing. And these are very different things. So put it all together and I'm not sure the number would mean a whole lot.

In terms of the geographies, so the economies are not doing so bad, I would share, but they are slowing. I mean, there's arguments to say, for example, that the US economy is flat if it weren't for the AI bubble, right, which means in our part, we're not in the AI space, we're more geared towards the old, traditional industrial spaces. We're in tech, but more on tech equipment that's changing hands. So, we don't necessarily see – the headline

number doesn't necessarily completely forecast what we are. And so, I think I'm saying a few things. The trade as we know it, as a percentage of GDP, is slowing, right? So that's one fact. It's not just GDP, it's trade as a percentage of GDP is not growing the way it used to grow 10 years ago. We are impacted by that, clearly.

We're also impacted by prices which are going down. You see it in the numbers. So competition is still fierce and people are lowering prices to get new business at the expense of the incumbent. And the activity we get from clients which is typically their growth, as you see at 2% is better than the 0% we had last year, but not much to speak of when you compare that to the prior years. We used to have activities in the 6% to 11%, the 12% range. So that's not happening anymore. And that's just the underlying growth of our clients. So, I mean, that's where we are.

Phalla Gervais

Chief Financial & Risk Officer, Coface SA

A

I would say, is the glass half empty or half...

Xavier Pascal Durand

Chief Executive Officer, Coface SA

A

Half full, yeah.

Phalla Gervais

Chief Financial & Risk Officer, Coface SA

A

It depends on how will you look at it.

Xavier Pascal Durand

Chief Executive Officer, Coface SA

A

But I think that maybe the dissonance that you're feeling is just this, we are not quite just the GDP number. No, it doesn't quite work that way.

Pierre Chedeville

Analyst, CIC Market Solutions SA

Q

Okay. Very interesting. Thank you.

Operator: Thank you. [Operator Instructions] We will now take the next question. And the next question comes from the line of Michael Huttner from Berenberg. Please go ahead.

Michael Huttner

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

I'm sorry [indiscernible] (00:50:52) asked before and I missed it. On reinsurance, what's happening in pricing, please?

Phalla Gervais

Chief Financial & Risk Officer, Coface SA

A

Reinsurance, what's happening?

Xavier Pascal Durand

Chief Executive Officer, Coface SA

Reinsurance. Well, we don't know yet.

A

Phalla Gervais

Chief Financial & Risk Officer, Coface SA

We don't know yet.

A

Xavier Pascal Durand

Chief Executive Officer, Coface SA

We do these negotiations at the end of the year. So, I really don't know what to say at this stage. I always hope it goes down, but until you get to it in front of people you don't know.

A

Michael Huttner

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Okay. Lovely. Thank you.

Q

Operator: Thank you. There are currently no further questions. I will hand the call back to you.

Xavier Pascal Durand

Chief Executive Officer, Coface SA

Well, thank you. It was actually a lot more questions than I was expecting because we really didn't have that much news to report. So thank you for this contribution. We're going to close it here. We will report our full year numbers. That's going to be in February?

Unverified Participant

February the 19th.

Xavier Pascal Durand

Chief Executive Officer, Coface SA

February 19. So stay tuned. And and in the meantime, we're going to focus on Q4. So thank you very much.

Phalla Gervais

Chief Financial & Risk Officer, Coface SA

Thank you all.

Operator: Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.

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