Please note that the conference call was accompanied by a complementary presentation in PDF format available on the Group's website: http://www.coface.com/Investors, under the "Financial results and reports" section.

Q1-2021 Results

Conference Call Transcription

Paris, 27 April 2021

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Readers should read the Interim financial report for the for the first half 2020 and complete this information with the Universal Registration Document for the year 2020, which was registered by the Autorité des marchés financiers ("AMF") on 31 March 2021 under the number No. D.21-0233. These documents all together present a detailed description of the Coface Group, its business, financial condition, results of operations and risk factors.

Please refer to chapter 5 "Main risk factors and their management within the Group" of the Coface Group's 2020 Universal Registration Document in order to obtain a description of certain major factors, risks and uncertainties likely to influence the Coface Group's businesses. The Coface Group disclaims any intention or obligation to publish an update of these forecasts, or provide new information on future events or any other circumstance.

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Presentation

Moderator

Ladies and gentlemen, welcome to the conference call for the presentation of Coface's results for the period ending 31 March 2021. As a reminder, this conference call is being recorded. Your hosts for today's call will be Xavier Durand, CEO, and Carine Pichon, CFO.

Xavier DURAND, CEO, COFACE

Thank you very much and welcome, everybody. Thank you for joining this call on our first quarter 2021 numbers. As you've probably seen in the announcements, it was by all means a very strong quarter, actually so strong that we had to preannounce the earnings a few days ago. As you can see from the headline number, we are reporting EUR 56.4 million of net profit for the first quarter. I think if you look at all the metrics in the quarter, you'll see that they're actually quite strong. Growth comes in at 4.2% all things equal, with trade credit insurance growth at 6.1%, all things comparable to last year. We continue to have pretty good execution through the business, with client retention at close to record levels. We are benefiting from the pricing impact of our actions last year, with pricing up 2.9%. Our business information line continues to grow where, as a reminder, we had 11% growth last year. This first quarter, growth stands at 9%, with good underlying momentum, while factoring and debt collections are down. The reason for the decline in debt collection is clear. In terms of factoring, demand in terms of working capital financing needs from companies is still quite weak, but we expect that to pick up as the recovery takes hold. The big news here is on the loss ratio, which is down 32.6 points versus the first quarter of 2020 to a record-low of 24.5%. That brings our net combined ratio to 52.8%. Excluding the government schemes that we've put in place, the net combined ratio would be at 61.1%. At 29.5%, the gross loss ratio is almost 26 points better than last year. This is probably the lowest level of claims that we've seen worldwide historically. The fact that our net cost ratio is down 1.5 points to 28.3% is also noteworthy. We continue to be very disciplined on costs, which are increasing less than our premiums. Another important point is that the government schemes that we put in place last year and that run until the middle of this year are costing us EUR 15 million pre-tax this quarter, which highlights the performance of the business. Net income of EUR 56.4 million represents a more than four-fold increase on last year and a 55% rise from the first quarter of 2019. This brings our Return on Average Tangible Equity to 12%. We are carrying more capital than we would probably have liked, given the fact that we didn't distribute any capital, or as much as we would have wanted to, last year. We still have the dividend of EUR 0.55 per share earmarked for 2020. Finally, as reported in the press, Fitch has confirmed our AA- rating and changed our long-term outlook from negative to stable. Amid all the short-term noise, we continue to focus on our execution and invest in our Build to Lead strategy. We haven't changed course. We recently appointed a new Chief Operating Officer, who will be helping the company to drive service quality in digitization as it accelerates and enhance these initiatives. We've been on this journey for five years now and there's still a lot more we want to do in that space.

So those are the highlights. I'm going to talk a little bit on page 5 about the environment. On the top left-hand chart, you can see the global economic numbers. Clearly, 2020 was the biggest recession we've seen since World War II at -3.6%. We're expecting a strong rebound this year at 5.1% and, actually, you can see that this rebound has started. You see on the right-hand side our exposures with a peak at the end of 2019, a reduction in the first half of 2020, and then since the beginning of this year we've actually started to grow our exposures again. They're up 2.7% in the first quarter, which reflects first and foremost that the economy is starting to pick up again. Second, the level of competition in the market is increasing and demand from our clients remains high in an overall pretty low claims environment. There's also some inflation in some of the assets that we help protect, such as the whole commodity space and metals in particular. The bottom left chart shows the number of risk management actions that we have taken historically. This number peaked in the second quarter of last year. Since then, it has remained quite high, but at this point in the first quarter, we are back to our pre-crisis level.

The economy is rebounding but in different ways in different parts of the world. You're all aware that China has pretty much been unaffected by this crisis and is already at a much higher GDP point than it was in 2019. The US should return to its 2019 level before the summer, and we expect Europe to take more time to recover. When you look at sectors, it's the same thing. Clearly, agro and pharma have been faring extremely well during the crisis. Electronics, chemistry and construction were hit but have since rebounded very strongly. Of course, when you go to areas like airlines, hotels, cruises and entertainment, it's a very different picture and I think it's going to last for a little while longer. So, we're in a phase where we have a health crisis, as you're aware. It's raging in some markets like Latin America and India. It is getting more under control in the developed world where vaccinations are progressing nicely; however, due to the virus variants that are out there, this is not going to be resolved overnight. However, it will improve. As it improves, we expect the governments to withdraw the incredible amount of support they've provided to economies around the world, which explains to a large extent the low level of claims that we are seeing. And as they withdraw that support, clearly, I think we will see insolvencies around the world return to levels that are more consistent with history, which is something we will have to contend with.

If I go to page 7 and talk a little bit more about growth, which came in at 4.2%, underlying trade credit insurance was up 6%, and other revenues all in down -1.6%. We are seeing a cyclical decline in factoring although it is ebbing somewhat now, and lower debt collections, but information is seeing good momentum at +9%. Clearly, fees are down from last year on lower volumes of business in general and lower trading by our clients.

More interesting if I go on to page 8, you can see the breakdown by region with Western Europe starting to pick up, with obviously positive effects of the pricing actions we took last year, stabilisation of activity and some growth in the business at 5.5%. Northern Europe is still down but that's mainly driven by an accounting method difference between Western Europe and Northern Europe linked to the way that contracts are structured. I do expect Northern Europe to pick up and to get in line over time as Western Europe did last year. Central Europe is fairly flat, albeit slightly positive at 1%. This is the part of the world that has been less impacted by the crisis, as you are all aware, thanks to its very strong industrial base and strong link to Germany. The Mediterranean and Africa are back up at 6%, which is a long-standing growth trend for this part of the world for us. North America is up slightly at 2.2%. Asia-Pacific is doing extremely well with good momentum here at 16% growth, and Latin America, driven by pricing and the global contracts we have, is up at 12.5%. So, the story here is of a progressive rebound and continued solid performance in the markets that have been less affected.

If you go to page 9, you can see the operational metrics here. New production at EUR 40 million is better than 2018 and 2019, although not quite as high as 2020. We're seeing a bit less demand, obviously, at this phase of the crisis than last year, and also more competition.

Our retention rate is close to our record at nearly 94%. Pricing, at 2.9%, benefited from our actions last year and is probably the best we've had in 15 years at this stage. Finally, volume effect, which is the growth of the underlying business that we insure from our clients, is slightly positive at 0.2%. I do expect that to pick up as the recovery takes hold.

Going to page 10, we can see some quite extraordinary numbers here I have to say, with losses that we thought were already low in Q4 2020 at 34.9% coming down to 29.5%. Two things here – we haven't seen any large losses and I have to give credit to our team for having avoided any large claim this quarter, which stems from all the actions that they've been leading. There were a few out there in the market but we had none of them. In terms of frequency, we are seeing low frequency that's driven by the economic support that the governments have put in place in many regions around the world. We haven't changed our reserving policy. We're keeping our opening year at a solid level of 76% here, anticipating that delinquencies and insolvencies are going to start to rise again. So, a fairly conservative stance here. We are also seeing strong recoveries from prior years, which explain the 49% you see on the bottom right-hand chart here, leading to this record low level of accounting loss for the quarter.

Page 11 describes the full-year loss ratio by region. As usual, I'm probably going to skip that page and move to the next page which gives you the quarterly sequence; as we're in the first quarter of the year it's more appropriate. You see at the bottom the four large economies where we operate, which are typically more stable than the rest of the markets. Losses are very low at 32% in Western Europe, below 20% in Germany, and at 27% in Central Europe with a consistent decline since the second quarter. Same thing in the Mediterranean and Africa at 38%, which is one of the best performances we've ever seen. The more volatile markets are up as usual. After a spike in Q2, North America is now operating at 35%. Asia barely has any loss at all at just 1%. Latin America is at 22%, so this is the most volatile market that we historically have been involved with. It goes up and down quite a bit, but the teams have done a really good job managing this and, as you can see, we've been in the 20%-30% range for a couple of quarters in a row.

Moving on, costs have grown by 0.7% year-over-year. We are still benefiting from the fact that we have constraints linked to Covid, as we were obviously impacted by Covid in 2020. There have also been fewer bonuses and payouts. All that is reflected in these numbers but they're nevertheless lower than the growth in our premiums, which explains the operating leverage benefit of 1.1% versus last year, bringing our cost ratio to 31.2% as you can see in the bottom right-hand chart.

So, all metrics are working in the right direction here. With this I am going to turn it over to Carine.

Carine PICHON, Group CFO and Risk Director

Thank you, Xavier, and good evening, everyone. So looking now at slide number 14, reinsurance results reflect low loss activity. You know that the cost of reinsurance is higher when you have lower claims, which is what happened. And on top of that, we are starting to see the impact of the government schemes we signed last year, mainly in Europe. The cost of these schemes, considering the very low loss ratio, had a negative pre-tax impact of EUR 15 million in the first quarter of 2021, which is included in the cost of reinsurance you see on the bottom of the chart at around EUR 47 million.

As a reminder, these schemes will continue until the end of June 2021, with the exception of the top-up schemes that will continue until the end of the year. In light of these good results in terms of loss ratio and cost ratio, unsurprisingly, on slide 15, you can see that the quarter-on-quarter combined ratio has decreased to a record low of 52.8%. The net cost ratio improved from 29.7% in Q1 2020 to 28.3%, for a decrease in the cost ratio of 1.4 point. The loss ratio is also very low at 24.5%, with significant recoveries coming from the past and a very low level of losses on which we have already commented.

The next slide, page 16, shows you what this combined ratio would have been without the government schemes. The updated figures are on the right where you have Q1 2021 with and without the schemes. Without the schemes the net combined ratio would still be very good at 61.1% with a clear quarter-on-quarter decrease, so I would say the underlying trend is there – a very low loss ratio and very good cost ratio too.

On page 17, we can see that there is no change in terms of allocation. If you remember, we told you before that we were constantly redeploying liquidity. In Q1 and Q2 2020 we decided to increase liquidity because we didn't know exactly what the effect of the crisis would be. And now, given the low level of claims, we have decided to redeploy that liquidity. Unsurprisingly, the accounting yield has declined and came out to 0.28% for this quarter. Last year it was 0.34%. So, we have a declining accounting yield and interest on the investment portfolio, but we continue to clearly reduce excess levels of liquidity.

Slide 18, we can see the split of operating income and net income. Current operating income totalled EUR 80 million, which is very high, for EUR 56.4 million in net income. We haven't had any extraordinary or restructuring income or expenses, and the tax rate has dropped. Last year it was 50% and this quarter it's 25%, mainly because we have strong distribution of our results through our countries, and so we don't have losses that we can use as deferred tax assets, or we can even use some past losses to offset some profit we have had with a very good tax rate at 25%.

On page 19, we continue with another way of looking at our performance. We have record historical Return on Average Tangible Equity at 12%. We were a lower at 5% last year so there have been many improvements in our results, and in the combined ratio because between financial results and tax and other items, it's quite stable and so there is no huge impact. Our equity level is even stronger than before, mainly because, unsurprisingly, we have the net income of this quarter. And on top of that, the moves that you may have seen in the market on interest have finally had a very small impact on our financial portfolio. And the revaluation reserves all in have decreased by EUR 6.2 million, which is not a huge amount. We had a record historical return on equity. So, now I will let Xavier speak about the Key takeaways and Outlook.

Xavier DURAND

As we said, this is a record quarter in every respect for Coface under extraordinary circumstances. Good operating performance – nothing new on that front – but I think that's the story we've been telling over the last 12 months. Bankruptcies are still low across all regions as the governments continue to support business. I think the question now will be how do they withdraw that support as we get through the next phase of the Covid crisis. We continue to rely on our culture to support our clients. We started with our exposures up 2.7% in the first quarter. It is very important for us to be there for our clients when things rebound. We are actually giving the governments EUR 15 million during this quarter for the schemes that are ongoing until the end of June. We do expect the number of bankruptcies to increase as the support to the economy is withdrawn. We are investing for the future; we're moving ahead on our strategic agenda. We do expect that the growth in the economy will support our business as well, factoring at a later stage, however, given how the cycle works here. And we're continuing to invest in information services, which we see as an interesting business and we see momentum in there.

So, that's basically the story. Happy now as usual to turn it over to a Q&A session and leave the floor open.

Q & A session

David Barma (Exane BNP Paribas) Thank you. Good evening, everyone. I have three questions please. The first one is on reserving and on the prior year releases. They are at a very high level in Q1. How much of that is coming from the 2020 reserve buffers you may have built, and can you give us any colour on how we should think about the rest of the year and if there is any mechanical effect from the government schemes, especially in the second half of 2021 on that P&L item?

My second question is around pricing and I know it's difficult to give a global picture of the pricing trends, but +3 seems pretty strong in light of the profitability indicators we're seeing. Can you explain a bit the dynamic and the pricing environment? I think you also mentioned some competition, so touching a bit on those two topics would be very interesting.

And then lastly around services. You talked quite a bit about that in the presentation today. Where do you stand in your aspirations for services versus the plan you presented last year? You were saying you were quite confident on the top line there. What sort of growth should we expect going forward? Thank you.

Xavier DURAND (CEO, Coface) I'll take them in the reverse order, and I'll leave the first question to Carine, so I'll give her a little bit of time to think through it, but I do think on that one, the government schemes we signed are in 2020 so the governments will get to share in the recoveries from 2020, they don't get to share in the recoveries prior to this.

On pricing, the way this industry works, it's a competitive industry, it's heavily intermediated, so last year when we saw the crisis coming - and as you know this is a unique type of crisis we've never gone through - the whole industry started tightening up on limits and on price. Clearly, we are now in a very different environment where there are very limited insolvencies as you know, and so mechanically there's more pressure from clients, from brokers, and the competitive space has actually completely changed from last year. So, those are the dynamics. In terms of services, I don't think we've changed anything we've told you since we launched Build to Lead. We said that services were about 12% of our business at the time. We did expect that part of the business to grow over time, and grow faster than the rest of the business and I think that's what's happening here. For now, in the information space, as I explained, factoring is a business which will start growing when companies start picking up activity again and when the amount of liquidity that's out there is reduced. In terms of debt collections, that's pretty simple, when there's limited collections there's limited debt collection markets and fees and so I don't think there is anything new here from what we've said before. I'm just highlighting as we move forward that we're continuing to do what we said we would do, giving you a little bit of the colour on how things are playing out quarter by quarter.

Carine, do you want to talk about the reserving?

Carine PICHON (CFO, Coface) Thank you, Xavier. On reserving, I would say that most of the recovery, which is quite usual, is still coming from underwriting in 2019 and part of 2020. But 2020 is not finalised. You know that we may continue to receive some claims relating to this underwriting year. I would say that the significant improvement compared with previous years in terms of boni is really linked to 2019 and to a lesser extent 2020. For 2020, we will see quarter by quarter if we have the same level of recoveries, which will depend on the level of claims. We have the same reserve methodology but it's clear that it's quite unusual, given that this level of loss is so low. I think that it's mainly coming from this unusually low level of claims.

I think you also had a question about government schemes. In fact, it's true. If you remember what we said last year, that there is a kind of breakeven, an average. It depends on the country, but around a 65% or 70% loss ratio. The lower the claims are, the more margin we are transferring to the states. So, we started to do it in Q1 and will continue, my guess is at least for the next three or four quarters. We will continue while recovering the loss, if the situation is not changing, to give it back to the states. We keep a part but will give some back too.

Benoit Petrarque (Kepler Chevreux) Yes, good evening. A couple of questions. Just to come back to the previous one on the 2020 reserving. You have not taken many writebacks on 2020 yet and the level of bankruptcy has been quite low obviously. So, can we expect writebacks on the reserve in 2020 in the coming quarters? Is that still something we should expect? As I understand, most of the writebacks taken in Q1 were related to 2019, so it would be great if you can clarify that.

The second one is on the expectation that the number of bankruptcies will increase. Because we are coming from a very low level it's quite obvious actually, but could you give us a bit of direction in terms of what you expect? Are you talking about a return to pre-crisis levels or above pre-crisis potentially? Could you help us to quantify this likely increase in the number of bankruptcies in the latter part of 2021?

The third one is on the schemes and I was wondering if you expect the schemes to end fully at the end of June or if you are still in discussion with the states to get support for the second half of 2021.

And then the final one will be on the yield. We're seeing a bit of a yield pick-up now on the market. Can we expect in the coming quarters, probably not next quarter but towards the end of the year, some positive effect of that on investment income? Thank you very much.

Xavier DURAND (CEO, Coface) Again, I'll take them in the reverse order. In terms of yields, yes if yields go up, we benefit but as you're aware our assets are more in a three-year range. It will take time before we see anything material in our portfolio; I'm speaking here under the direction of Carine, it's her area. In terms of the states' schemes, you might have seen an announcement by the German government that they will not continue the state scheme and it will stop in June. We do not actually wish to continue these schemes. The discussions aren't technically finalised with other governments, but at least we have one that's clarified and that's Germany. There are a few schemes that have already been discussed but these are top-up programmes which, quite frankly, we don't mind doing, so we've been agreeing to do a few of these. There's almost no consequence for us so we're happy to support there, but we would like to not continue these schemes. However, the discussions are not closed, and these things tend to be kind of last minute.

In terms of the number of bankruptcies, it's very hard to forecast what's going to happen month by month or quarter by quarter. Quite frankly, if anybody had told us last year in March that we would be where we are today, it would have defied logic in terms of the way the economy's been playing out. But what I can tell you is that this industry is competitive and, whatever the claims are at some point, if the claims are too low, either competition comes in and sets more limits or clients come in and ask for price rebates, or something happens because it's not a place where you run an insurance industry with a level of claims at 24%. So, naturally, things revert to the mean and as you know, this industry operates with a 50% loss ratio plus or minus. I'm not quoting Coface numbers here but as a frame of reference to think about this industry, you can look back at the historic combined ratios of this industry and they're not close to where we are today. One way or another, I think you will see the loss ratio normalise. The question will be at what pace and is there going to be a peak followed by another adjustment or is it going to be a more linear kind of thing. This remains to be seen. And with this, I'm going to turn it over to Carine on the reserving. Carine, do you want to talk about this?

Carine PICHON (CFO, Coface) Xavier, I think you also introduced this, but it will really depend on the level of bankruptcies. It's clear that if these levels are still low for the next six months, we will have some releases in 2020, but we don't know at this stage. On the contrary, if the situation continues to deteriorate, we will have a higher loss ratio in 2021, so it's a mix between both, and so really we don't give any forward-looking statements about that. We will continue with the same policy and it will really depend on the level of loss for this year, and that's where we don't know. That's one thing we don't know exactly, when the situation could deteriorate.

Xavier DURAND (CEO, Coface) But what's very unique here is that you have the hand of the government, which plays a big part in how bankruptcies materialise or not, and at what pace.

Benoit VALLEAUX (ODDO BHF) Good evening, a few questions. My first question is regarding the competitive environment. You mentioned there is still some competition including in new production. Would you say that you are still gaining some market share in Q1 of this year, as was the case last year?

The second question, just to follow up on the previous question regarding bankruptcies. Have you seen any signs of deterioration up to now in April, or have you seen any early signs, any increase in payment delays? Anything like this which may suggest the start of deterioration, or if it's not the case?

My third question is related to solvency. I know that you don't disclose solvency at the end of March. Nevertheless, you have reported a record level of reserves with a very low level of claims in Q1. In contrast, you also saw some increase in your exposure year-to-date, so what could we expect in terms of your solvency at the end of June at this stage? Would you say that your solvency margin excluding government schemes will increase, or not, or lead you to the increase in your exposure?

And maybe a very last short question. What would be from your point of view your normalised tax rate right now? Because as you mention, it has been very low in Q1 and you have your reinsurance captive in Switzerland and maybe a different mix of business. What is the normalised tax rate that you expect for this? Thank you.

Xavier DURAND (CEO, Coface) OK, I'll let Carine speak on the tax rate but you know that our tax rate has been quite volatile over the years because of the geography of where the losses are coming from and the geography of the premiums. And since there's not a perfect match there, it's been volatile, but I'll let Carine answer this one.

In terms of our solvency, you know we ended the year pretty strong last year, helped what's more by the governments. So, the governments' part of the support is the government schemes that will start to be reduced, and we will get back to our normal self-standing solvency level. As the economy picks up, two things are at play. One is that as we increase the exposures, that automatically drives more requirement for capital, but I would remind you that we drove down our exposures last year. At the same time, if delinquencies are low, that drives down the level of capital requirement. We don't publish detailed solvency levels in Q1 but I would expect our solvency to remain strong. In terms of what we have seen recently, as you know, when something happens in the market there is a lag time for clients to make a declaration and then for us to see the claims. So, all I can tell you is what we look at is what's going on in the markets, what can we see from court activities, for example. At this stage we're starting to see some court activity, not so much for clients that we serve but for the smaller companies. I think you can actually read that in the papers and see that the very small companies are just starting to get back into the court and it would seem reasonable to think that, progressively, it will start impacting bigger and bigger companies as the economy picks up and the government support is withdrawn. But that remains to be seen. I forget what your first question was, sorry, I didn't have time to write it down.

Benoit VALLEAUX (ODDO BHF) It was if you think that you are gaining market share, in Q1, or not really?

Xavier DURAND (CEO, Coface) Well, I can't calculate market share until I know what the market looks like. So, all I can tell you is the market numbers are reported on an annual basis and it's very different from market to market. I guess there's going to be a variety of situations here but that's all I can tell you. We continue to execute at Coface; we're not giving up on any of the principles that we highlighted. We are here to try to create value for the long term. When we see an opportunity, we fight, so we're fighting. We're not going to sit still and wait for things to develop. We will continue to hunt and be on the offence for good business; however, if it's not business we think is good over the cycle, over the long term, we're not going to go for it. So, we're staying true to all the statements I have made and the commitment I've made to the investor community over the last four or five years.

Carine, do you want to talk about the tax rate?

Carine PICHON (CFO, Coface) Yes, I think that the most important thing is that the tax rate will depend on the spread of results for all the regions where we operate. I will say that as long as they are well spread and you have the kind of results that you see, so they may change from one quarter to another, but let's say they are around that. But if you have a huge shift then you may have an increase, particularly if there are new losses in one country. We will see how we can fully use them from an accounting point of view. So, it will depend on the trend in the results in all our regions.

Thomas FOSSARD (HSBC) Yes, good evening everyone. The first question will be back to the pricing environment. Could you remind us if the 2.9% price increase is gross or net of rebates? Because looking at the accounts, I can see that the nominal amount of rebates is going up quarter on quarter. And so, I was wondering even though you have been reporting a low combined ratio or loss ratio since Q3, if we should expect higher momentum in the rebates to clients in the coming quarter.

The second question will be related to solvency. As you've said, you're carrying excess capital or you're carrying more capital than you would have expected and, for once Coface is exiting this crisis with a very strong balance sheet and solvency position. So, what do you intend to do from this position of strength in terms of balance sheet? Should we expect Coface to be more active? I know you've talked about some projects in the past, but I was wondering if you could say something about it.

And one of the last questions will be about solvency. So, we went through the crisis, another crisis, another stress test. This one was quite different. But I was wondering, given the way the loss ratios have behaved in this crisis, should we expect long-term implications on the internal capital model? Is it going to change some of the parameters, and could it actually provide some benefits to you on a longer-term basis? Thank you.

Xavier DURAND (CEO, Coface) Well, you're right to point out that this is a crisis like no other that we've seen, and by the way it's not over. In the sense that in 2008 the crisis originated from the financial sector, so I think there was a lot of moral hazard hesitation from the governments to bail out those who created the problem and to throw money at the culprit. That's not the case here – we have a health crisis, it's for a good cause. I also think lessons have been drawn from the Lehman crisis and the governments have understood that whatever it takes is cheaper than anything else and, to your point that is not reflected in the past models, in the past histories, because it's never happened. The way internal models work is they gather years and years and years of data and they try to predict the future based on the past and, as you know, it's a bit like going home looking in the rear-view mirror. It's better than being completely blind but it's not a good tool to predict the future necessarily. So, the benefit of this crisis will somehow percolate progressively over the years into our knowledge base. I have to say also that it requires us to improve, change or refine the tools that we have. We're doing a lot of work in this space to improve or to tune our forecasting tools to the nature of what we're seeing here.

In terms of solvency, yes, we do have excess capital versus what we ideally want to have as per our solvency scale. What will we do with it? I'm going to say again, and I've been consistent with what I told everybody: last year, we could not distribute dividends and we did not want to, given the stress in the system, and I think it played out well for us because we withdrew the dividend before we were asked to or required to. We were able to do a stock buyback, the first ones and maybe the only ones in the space, in the market in France. And this year if you look at where we are, I've said that we are open to core growth, we're open to M&A if things are there that we could buy at a good price and under good conditions, which as you know in our industry are few and far between, and we're also open to sending capital back to shareholders. We don't have a vocation to hold excess capital forever. So, these all remain possibilities, but this a decision that belongs to the Board, not to myself.

And then in terms of pricing and here, Carine, tell me if I'm wrong, the pricing numbers are gross of rebates.

Carine PICHON (CFO, Coface) Yes, it's without rebates.

Xavier DURAND (CEO, Coface) Because the rebates happen at the end of the year. The rebates are more like profit-sharing schemes if you will, so if there's low losses, the clients have a mechanism by which they can benefit. If the losses are high, it goes the other way around, right.

Carine PICHON (CFO, Coface) Exactly.

Thomas FOSSARD (HSBC) Yes, sorry, I just wanted to go back to the bankruptcy expectations. Looking at your barometer publication, you're talking about a concept I've never heard of which is the hidden bankruptcies, and you're quoting a pretty high number. So, I was wondering if this was something that we should pay attention to and if it was signalling a kind of a catch-up to a normal level that you were expecting.

And the last question would be back on the 2019 underwriting year. Carine, sorry about that but I did not quite understand why, in your view, 2019 is so strong and so good. Everything was prior to Covid and I'm not sure what is driving this. Thank you.

Xavier DURAND (CEO, Coface) Thomas, to your point, our economists are comparing what our models tell us about the balance sheets of the companies and what we should see as an output in terms of insolvencies to the reality. So, on one hand we look at what the market does, and on the other hand we look at what our models tell us is in the balance sheets of these companies, taking into account all of the support and everything that they've received from the government, and there's a discrepancy here. The only way you can explain this is by saying that companies have been discouraged from coming forward with their problems, there's been excess money given to them, or excess facilities versus the normal, and in the end this will normalise. So, the question is not whether it will normalise, the question is how fast and when and how. And, to that, I don't think we have an answer, but that's what we're saying in our analysis here and our economists and our actuaries are spending quite a bit of time looking at this and making sure we get it right.

Carine, do you want to answer the other question on 2019?

Carine PICHON (CFO, Coface) Yes, maybe I need to be clearer and thank you for the question. What I was saying is that – I think the question from David was "Why do we have such a huge level of releases compared with the previous year?" What I was saying is that we have more premiums coming from the year 2019 compared with the previous quarter, mainly because, and just let me remind you that, for 2019, it's what we have underwritten at the time, but we may receive claims up to Q2 2020 and Q3 2020. What we are seeing is that we don't have many claims related to that. And that's the reason why we have had some additional releases on this underwriting year, which was not totally the case before. So, even if 2019 was higher, part of it was post-Covid too, because part of it was the claims that we received in Q2 and Q3 of last year. So, they are also benefiting from the very good cost ratio level and the low level of claims. I hope this helps, Thomas.

Xavier DURAND (CEO, Coface) Well, it's 18:55 so we're right on the hour. We don't need to torture everybody if there are no other questions. By the way, you know how to get to Thomas, our Head of Investor Relations. It's not a hard quarter I guess. I just want to thank everybody for being here tonight and obviously I will be happy to speak again. It's going to be July when we release our first-half numbers for 2021.

Moderator

Thank you, ladies and gentlemen. This concludes the conference call. Thank you for your participation. You may now disconnect your mics.

(End of transcript)

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FINANCIAL CALENDAR 2021 (subject to change)

Annual General Shareholders' Meeting 2020: 12 May 2021

H1-2021 results: 28 July 2021 (after market close)

9M-2021 results: 28 October 2021 (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 S1-2020 and our 2020 Universal Registration Document.

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