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SECTOR	Financials	COUNTRIES	* <i>Non-Recourse Factoring/Credit Collection Management</i> : Italy, Croatia, Czech Republic, France, Greece, Poland, Portugal, Slovakia, Spain * <i>Online Deposits</i> : Germany, Ireland, Netherlands
INDUSTRY	Financial Services		
SUB-INDUSTRY	Specialty Finance	CET1 RATIO (1H20)	11.5% (7.85% SREP incl. CCB)
SHAREHOLDERS	Centerbridge (7.95%) Management (4.33%) Float + Treasury Shares (87.72%)	LEVERAGE RATIO (1H20)	4.5% (5.3% 1H19)
TOP MANAGEMENT	Massimiliano Belingheri (CEO) Salvatore Messina (Chairman)	LIQUIDITY RATIOS (1H20)	LCR 520%, NSFR 108%
FINANCIAL CALENDAR (4Q20)	10 Nov. - 3Q20 Earnings/Call 11-13 Nov. - Roadshow 3Q20 Results	EMPLOYEES (1H20)	525 (+10% YoY)

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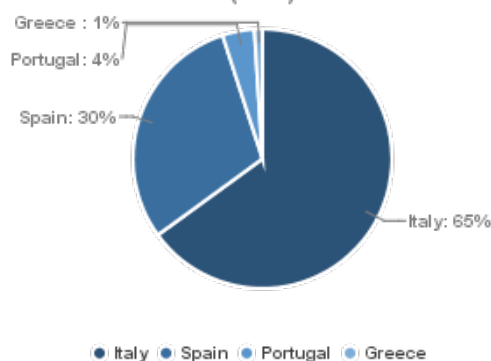
QUICK LOOK

Banca Farmafactoring SpA (BFF) is an Italian bank specialized in the **management** and **transfer** of **trade receivables** owed to **third party suppliers** by **public administrations** and **national healthcare systems**. Active in 12 European countries, the group's core business is providing liquidity to companies exposed to the public sector's **payment delays**, mainly through the tool of **non-recourse factoring**. The bulk of the bank's revenues arises, clients-wise, from the purchase of receivables at a discount to their face value and, debtors-wise, from Late Payments Interests (LPI) accrued on purchased receivables.

COMPANY PROFILE

- SHAREHOLDERS** - Farmafactoring SpA was established in **1985** by Confarma, BNL and Ifitalia in order to manage and collect the receivables owed by the Italian national health system to pharmaceutical companies. In 2013 the company became a bank and in 2017 it was listed on **Borsa Italiana's** MTA market (capitalization EUR678m). As of 9 October 2020, US private equity fund **Centerbridge** holds **7.95%** of the lender's capital (via BFF Luxembourg Sàrl), followed by the bank's **management** with **4.33%** (the remaining 87.72% is composed of free float and treasury shares). Following the completion of an announced merger with DEPObank (*see below*), **Equinova** (the investment vehicle controlled by private equity firms **Advent International**, **Bain Capital** and **Clessidra** which owns about 91% of the depositary bank) will become BFF's second largest shareholder with **7.6%** of its capital.
- GOVERNANCE** - **Massimiliano Belingheri** was appointed **Chief Executive Officer** of BFF in 2013, having served as Director of the bank since 2006. Currently, Belingheri is also a member of the BoD and of the Executive Committee of Italian factoring association ASSIFACT. Previously, he was Director of Milan-based Azimut Holding (2002-2004) and of Psagot (2011-2013), an Israeli investment house controlled by UK private equity firm **Apax** (the latter held a controlling stake in BFF from 2006 to 2015, before selling it to Centerbridge). **Salvatore Messina** has been **Chairman** of BFF since 2013. He is also Director at Italian banking association ABI and member of Fineco Bank's Supervisory Body. After 40 years at the Bank of Italy (1971-2011), Messina held executive roles in Banca Esperia (2012-2014), Monte dei Paschi di Siena (2012-2018), and Diners Club Italia (2015-2020). The lender's current BoD (which also includes **Vice Chairman Federico Fornari Luswergh** and six other directors) will remain in office until the approval of FY20 financial statements.
- BUSINESS MODEL** - BFF's operations are organized along **three** main **business lines**: (1) "**Non-recourse factoring in Southern Europe**," responsible for 74% of FY19 consolidated revenues, with volumes concentrated in Italy and Spain (*see pie chart*); (2) "**Financing and non-recourse factoring in Central and Eastern Europe**," accountable for 23% of total revenues, with a significant contribution from Poland (96% of volumes) and, to a lesser extent, from Slovakia (3%) and Czech Republic (1%); (3) "**Credit collection management (servicing)**," which generates the remaining 3% of total revenues, entirely in Italy (92% of volumes) and Spain (8%). Rating agency **Moody's** considers BFF to be **less exposed** than other Italian banks to the downside risks from the **coronavirus** pandemic due to its business model, which focuses primarily on **public administration receivables**, with limited exposures to corporates and SMEs.
- COVID-19** - Banca Farmafactoring posted a **net income** of **EUR37.5m** in **1H20** (-1.4% YoY), saying that it has not suffered significant negative impacts from the coronavirus pandemic. However, the bank booked **EUR2.3m** in **Loan Loss Provisions** (EUR0.4m in 1H19) and recorded an annualised **Cost of Risk** of **12bps** (+9bps YoY). BFF also confirmed its intention to distribute **EUR70.9m** in **2019 dividends** as soon as regulatory conditions are met, not earlier than **January 2021**.

Non-Recourse Factoring in Southern Europe: Volumes by Geo (FY19)



FINANCIALS

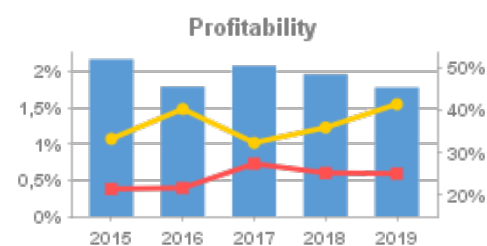
INCOME STATEMENT

(in EURm)	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Net Interest Income	200,51	188,74	198,07	159,27	133,05
Adjusted Total Non-Interest Income	13,16	14,16	7,17	14,86	n.a.
Net Revenue	213,67	202,90	205,24	174,12	146,47
Provision for Loan Losses	2,38	4,80	6,05	2,18	1,13
Net Revenue after Provisions	211,29	198,10	199,20	171,94	145,35
Total Non-Interest Expense	89,58	73,83	67,22	72,81	49,03
Operating Income (Loss)	121,71	124,26	131,97	99,13	96,32
Abnormal Losses (Gains)	8,50	-15,50	-16,10	11,60	n.a.
Pretax Income (Loss), GAAP	121,71	124,26	131,97	99,13	96,32
Income Tax Expense (Benefit)	28,55	32,11	36,43	27,00	27,53
NET INCOME, GAAP	93,16	92,15	95,55	72,14	68,79

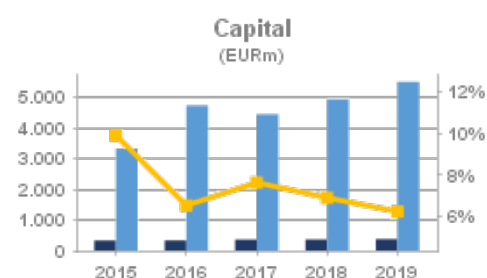
BALANCE SHEET

(in EURm)	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
ASSETS					
Cash & Cash Equivalents	78,31	99,46	80,93	0,15	0,16
Interbanking Assets	136,68	62,76	44,79	144,87	60,52
ST and LT Investments	82,91	160,76	1222,60	2018,00	1252,30
Net Receivables	5114,04	4531,01	3018,49	n.a.	n.a.
Total Loans	n.a.	n.a.	n.a.	2499,09	n.a.
Net Fixed Assets	17,11	11,99	12,80	12,99	12,67
Total Intangible Assets	35,27	26,41	26,03	25,81	2,75
Investments in Associates	0,09	0,17	0,26	0,30	n.a.
Total Deferred Tax Assets	11,57	8,18	5,03	4,42	n.a.
Total Derivative Assets	0,00	0,00	0,32	0,77	n.a.
Other Assets	35,06	40,79	35,68	28,59	2053,69
TOTAL ASSETS	5511,03	4941,52	4446,94	4735,00	3321,55
LIABILITIES + EQUITY					
Demand Deposits	53,76	55,47	46,53	78,45	21,30
Interest Bearing Deposits	1304,55	871,31	953,06	743,98	395,35
Other Deposits	359,84	392,36	333,49	364,66	389,56
ST Borrowings & Repos	2138,35	2268,72	1821,44	2443,86	1608,55
LT Debt	1105,69	815,18	790,14	634,28	452,96
Pension Liabilities	0,84	0,85	4,37	6,34	n.a.
Total Deferred Tax Liabilities	70,12	65,72	56,83	49,53	n.a.
Total Derivative Liabilities	n.a.	n.a.	0,00	0,18	n.a.
Other Liabilities	100,62	105,69	77,24	79,96	122,54
TOTAL LIABILITIES	5133,77	4575,28	4083,09	4401,25	2990,27
Share Capital & APIC	132,02	130,98	130,98	130,98	130,90
Treasury Stock	1,76	0,24	n.a.	n.a.	n.a.
Retained Earnings	93,16	92,15	95,55	72,14	68,79
Other Equity	153,84	143,35	137,32	130,63	131,59
TOTAL EQUITY	377,25	366,24	363,86	333,75	331,28

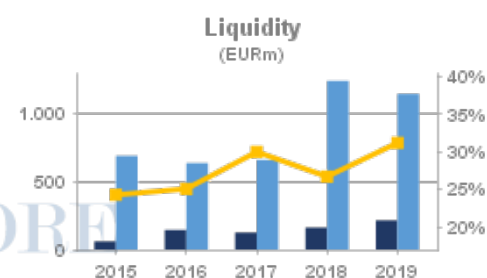
Source: Bloomberg -- Note: Financials audited by PwC; Decimal separator ",", "



■ Return on Assets (%) (SX)
 ■ Return on Common Equity (%) (DX)
 ● Efficiency Ratio (%) (DX)



■ Total Common Equity (SX) ■ Total Assets (SX)
 ● Tangible Common Equity Ratio (%) (DX)



■ Cash and Marketable Securities (SX)
 ■ Short Term Debt (SX) ● Deposits to Assets (%) (DX)



■ Provision for Loan Losses (SX)
 ■ Prov for Loan Loss to Tot Asset (%) (DX)
 ● Prov for Loan Loss to Tot Rev (%) (DX)

- DEPOBANK** - On 13 May 2020, BFF signed a binding agreement for the **acquisition** and subsequent **merger by incorporation** of DEPObank (Banca Depositaria Italiana SpA). According to Banca Farmafactoring, the transaction (which is expected to be completed between 4Q20 and 1Q21) will create the largest independent specialty finance player in Italy, enabling **business model diversification** as well as **funding** and cost **synergies**. Born in 2018 from a spin-off from payments group Nexi, DEPObank offers **securities services** and **bank payments services** to over 400 institutional counterparties. As of YE19, the lender has 363 employees, EUR9.1bn in total assets (mostly Italian government bonds and ECB deposits), EUR7.5bn in customer deposits (mainly current accounts of the investment funds for which it performs depository services) and a CET1 ratio of 39.6%.
- INDUSTRY** - According to **August 2020** data compiled by **ASSIFACT**, Italy's factoring market recorded in the first eight months of the year a **turnover** of **EUR136.4bn** (78% non-recourse, 22% recourse) and an **outstanding** of **EUR49.7bn** (71% non-recourse, 29% recourse), i.e. a 14% and 12% decrease YoY, respectively. **Banca Farmafactoring** is **16th in Italy** in terms of turnover (EUR1.8bn), in a ranking of 32 peers dominated by Intesa Sanpaolo (EUR32.7bn), UniCredit Factoring (EUR32.7bn), and Ifitalia - BNP Paribas Group (EUR17.5bn), ASSIFACT data showed.

Total Assets (EURm)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Banca Farmafactoring SpA	5511,03	4941,52	4446,94	4735,00	3321,55
Banca IFIS SpA	10526,02	9382,26	9554,33	8708,91	6957,72
Banca Sistema SpA	3730,08	3144,90	2309,23	1999,36	2411,67
Illimity Bank SpA	3025,22	1235,44	1074,41	955,76	853,89

Prov for Loan Loss to Tot Rev (%)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Banca Farmafactoring SpA	0,91	1,95	2,47	1,06	0,64
Banca IFIS SpA	-5,08	-6,68	-14,19	5,17	5,64
Banca Sistema SpA	6,58	5,74	5,13	9,88	5,76
Illimity Bank SpA	7,62	64,35	12,52	8,30	8,68

Prov for Loan Loss to Tot Asset (%)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Banca Farmafactoring SpA	0,05	0,10	0,13	0,05	0,04
Banca IFIS SpA	-0,33	-0,41	-0,86	0,70	0,33
Banca Sistema SpA	0,26	0,25	0,25	0,44	0,24
Illimity Bank SpA	0,31	0,30	0,31	0,19	n.a.

Common Equity to Tot Assets (%)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Banca Farmafactoring SpA	6,85	7,41	8,18	7,05	9,97
Banca IFIS SpA	14,57	15,49	14,33	14,11	8,24
Banca Sistema SpA	4,75	4,87	5,83	5,72	3,87
Illimity Bank SpA	18,00	45,09	5,59	5,31	6,40

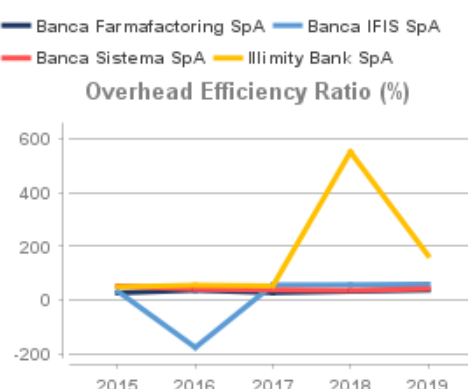
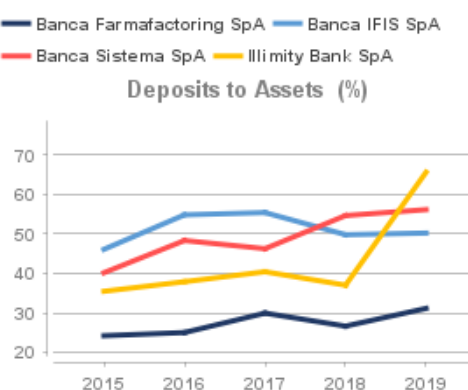
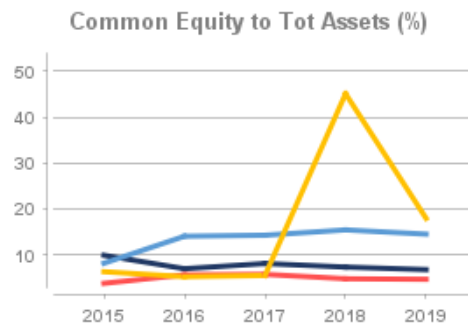
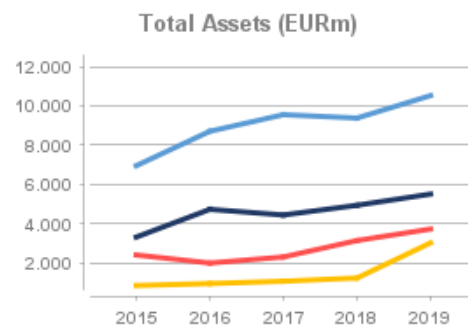
Deposits to Assets (%)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Banca Farmafactoring SpA	31,18	26,69	29,98	25,07	24,27
Banca IFIS SpA	50,22	49,81	55,40	54,83	46,11
Banca Sistema SpA	56,15	54,65	46,27	48,34	40,19
Illimity Bank SpA	65,62	37,05	40,44	37,92	35,50

Return on Assets (%)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Banca Farmafactoring SpA	1,78	1,96	2,08	1,79	2,17
Banca IFIS SpA	1,24	1,55	1,98	8,91	2,12
Banca Sistema SpA	0,86	1,00	1,24	1,15	0,78
Illimity Bank SpA	-0,76	-2,04	0,33	0,17	n.a.

Return on Tangible Equity (%)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Banca Farmafactoring SpA	27,33	27,20	29,59	22,67	21,61
Banca IFIS SpA	8,48	10,58	14,13	78,40	32,47
Banca Sistema SpA	18,31	19,11	21,84	24,82	26,82
Illimity Bank SpA	-3,11	-7,91	6,13	2,85	n.a.

Overhead Efficiency Ratio (%)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Banca Farmafactoring SpA	37,93	33,22	28,10	37,22	27,43
Banca IFIS SpA	59,23	57,00	56,65	-176,01	33,23
Banca Sistema SpA	42,55	36,03	38,67	41,03	52,84
Illimity Bank SpA	166,85	551,95	53,22	55,73	49,48

After-Tax WACD (%)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Banca Farmafactoring SpA	0,67	1,20	0,98	0,94	0,56
Banca IFIS SpA	0,85	1,80	1,18	1,81	0,05
Banca Sistema SpA	0,69	0,89	0,62	0,33	0,11
Illimity Bank SpA	0,29	2,01	0,33	0,27	0,30



Source: Bloomberg -- Note: Decimal separator " , "

DEBT PROFILE

Banca Farmafactoring SpA (FARMIT) - Sr Preferred - EUR - Fixed 2% - 29 June 2022 - XS1639097747 (RegS)			
YIELD TO WORST	1.715%	COUNTRY RATING (Italy)	Moody's: Baa3/Stable (10/19/2018) S&P: BBB/Stable (10/23/2020) Fitch: BBB-/Stable (07/10/2020) DBRS: BBBh/Negative (05/08/2020)
MODIFIED DURATION	1.616	LT ISSUER RATING	Moody's: Ba1/Developing (06/12/2020)
COUPON FREQUENCY	Annual (29 June)	1Y DEFAULT PROB	0.365%
DAY COUNT	ACT/ACT	5Y IMPLIED CDS SPREAD	136bps
AMOUNT	EUR200m	G-SPREAD	204.5bps (vs. EUR Italy Sovereign Curve)
MIN PIECE / INCREMENT	100k / 1k	Z-SPREAD	224.5bps (vs. Euro Swaps Curve)
EXCHANGES	ExtraMOT PRO, EuroTLX, Euronext Dublin	GRACE PERIOD	5 days
LQA LIQUIDITY SCORE	14/100	GOVERNING LAW	English Law
USE OF PROCEEDS	General Corporate Purposes		
ECB ELIGIBLE	No		
COVENANTS	Negative Pledge, Cross Default, CAC		
PUT/CALL OPTIONS	Tax Call, Clean-Up Call		
KEY DOWNSIDE / UPSIDE RISKS			
Covid-19	=/↑	FX Funding (PLN)	↓

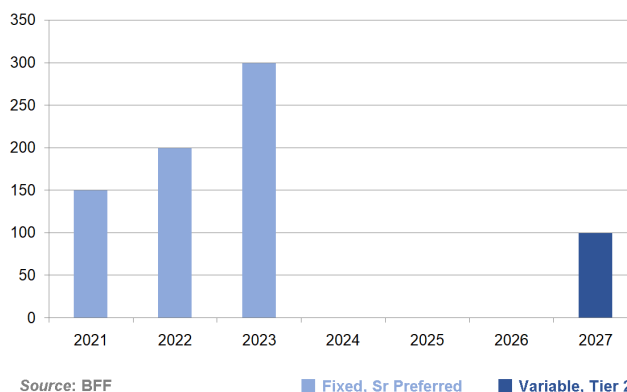
Source: Bloomberg, BFF, Banca Promos

- BOND FUNDING** - As of today, Banca Farmafactoring SpA has **four outstanding bonds** for a total of **EUR750m**: (a) EUR150m 1.25%-2021 (XS1435298275); (b) EUR200m 2%-2022 (XS1639097747); (c) EUR300m 1.75%-2023 (XS2068241400); (d) EUR100m 5.875%-2027 (XS1572408380). All the bonds are **fixed-rate senior preferred** notes, with the exception of the **variable-rate** subordinated **Tier 2** note due in 2027 (callable in 2022). The bond due in 2023 is the only one issued under the bank's **EUR1bn EMTN Programme**, as well as the only one provided with a rating (Moody's: Ba1). The **EUR200m 2%-2022** senior preferred note (*see table above*) was issued by Banca Farmafactoring SpA in **June 2017**, following the repayment of a previous EUR300m senior unsecured bond sold in 2014 with a 2.75% coupon rate. The deal was priced with a tightening of around 5bps from IPTs (+195bps over Mid Swaps from MS+200bps area).

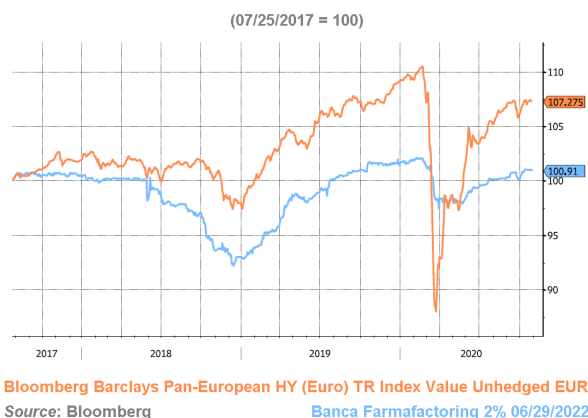
- MOODY'S RATING** - On 12 June 2020, **Moody's** changed to 'developing' from 'positive' the **outlook** on Banca Farmafactoring SpA's **Ba1** long-term issuer rating, following the announcement of the acquisition of **DEPObank**. The key takeaways from the rating action are the following:

- BFF's venture into **depository banking**, in which it has no real experience, marks a material departure from the lender's core business. DEPObank is also a **larger entity** than BFF (total assets of over EUR9bn at YE19 against around EUR5.5bn).
- While the transaction will lead to higher regulatory capitalisation, other capital metrics, notably **nominal leverage** and the **Tangible Common Equity/Risk-Weighted Assets** ratio, will decline markedly. Similarly, **Return on Assets** would decline, albeit benefiting from greater diversification.
- BFF will gain access to an ample **deposit base** and a large stock of **liquid assets**, even though these deposits are essentially **wholesale** in nature and hence likely to be more **credit-sensitive** than retail deposits.
- If the acquisition is finalised, Moody's sees a **downgrade** of BFF's issuer rating as likely because the amount of **senior debt** relative to total banking assets would materially reduce, leading to higher **loss-given-failure** for these creditors, who are subordinated to depositors in Italy. This is because DEPObank would bring substantial assets to BFF but is almost entirely deposit funded, with little senior debt.
- BFF's issuer rating could be downgraded by **up to two notches** if the acquisition of DEPObank is finalised and results in a material diminution of senior debt loss-absorbing capacity relative to its expanded balance sheet.

Banca Farmafactoring SpA: Bond Maturity Profile



FARMIT 2%-2022 vs. HY EUR Index



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