

BANCA IFIS

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SECTOR	Financials	FINANCIAL CALENDAR (2020)	Mar. 12: Extraordinary GM Apr. 23: Annual GM May 7: 1Q20 report Aug. 6: 1H20 report Nov. 5: 3Q20 report
INDUSTRY	Banking		
SUB-INDUSTRY	Banks		
MAIN SHAREHOLDERS	La Scogliera SpA (50.41%) Market (48.92%) Treasury Shares (0.67%)	CET1 RATIO (FY19)	10.96% (vs. 8.12% SREP)
KEY PEOPLE	Sebastien E. Furstenberg (Chairman) Luciano Colombini (CEO)	COST/INCOME RATIO (FY19)	52.8% (vs. 47.4% FY18)
MARKET CAP (03/04/2020)	EUR688.8m	TOTAL ASSETS (FY19)	EUR10.5bn
		EMPLOYEES (FY19)	1,753

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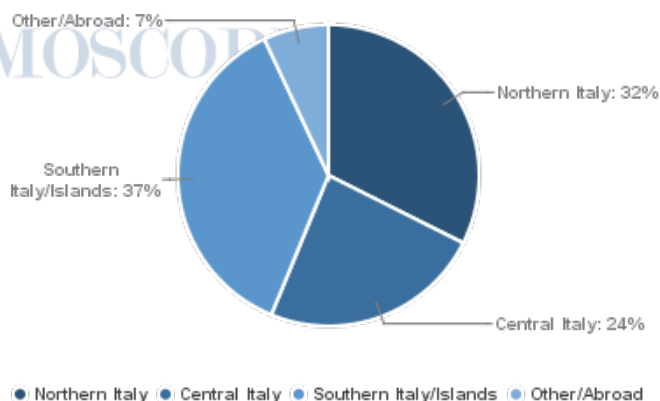
QUICK LOOK

Banca IFIS SpA is a bank specialized in the **purchase and management** of **non-performing loan** portfolios and in the supply of **factoring, leasing, and structured finance** services to Italian SMEs. With a business model that rating agency Fitch defines "quite unique in the Italian banking sector", IFIS was among the first players in the country in the NPLs market (*where it has been operating as investor and servicer since 2011*).

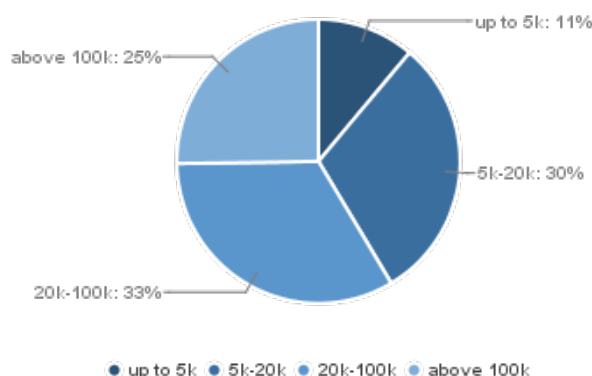
HIGHLIGHTS

- SHAREHOLDERS** - Founded in 1983 by Sebastien Egon Furstenberg (*son of Clara Agnelli and Tassillo Furstenberg*), Banca IFIS is 50.41%-controlled by **La Scogliera SpA**, a holding company 74%-owned by Sebastien Egon Furstenberg and 26% by other members of the **Furstenberg family**. Former CEO Giovanni Bossi is the lender's third largest shareholder with 2.92% of capital, according to data compiled by Bloomberg. The bank is listed on the **STAR segment** of the Milan stock exchange since 2003.
- GOVERNANCE** - In March 2019, with an unexpected decision, long-serving CEO **Giovanni Bossi** (59) was not confirmed at the helm of Banca IFIS due to **contrasts** with its reference shareholder on a potential **reverse merger** between La Scogliera and the bank (*endorsed by Bossi but not liked by the Furstenberg family*). The current Chief, **Luciano Colombini** (64), was previously CEO of Banca Finint and General Manager of Banca Popolare di Vicenza, Banca Popolare di Verona, Unipol Banca, and Banco Desio. Since its establishment, Banca IFIS has been chaired by **Sebastien Egon Furstenberg** (70). His son, **Ernesto Furstenberg Fassio** (39), has been CEO of La Scogliera since 2018 and Vice President of Banca IFIS since April 2019.
- INDUSTRY (1)** - Banca IFIS operations are divided into two main segments, **Non-Performing Loans** and **Commercial & Corporate Banking**, responsible for 51% and 46% of net income in 2019, respectively. IFIS is the 4th largest player in Italy by gross NPLs under management (EUR24.4bn), after **doValue** (EUR78.2bn), **Intrum** (EUR41.8bn), and **Cerved** (EUR41bn). According to **Assifact** data for 2018, the bank is also the 4th largest Italian player in factoring (*with a market share of 5.7%*), after **UniCredit Factoring** (23.3%), **Mediocredito Italiano** (21%), and **Ifitalia** (13.2%). In 2018, IFIS was 14th in Italy for leasing (*with a market share of 1.8%*), preceded by the leasing units of Italy's main banking groups, data compiled by **Assilea** show.
- INDUSTRY (2)** - As highlighted by IFIS, the NPL market has **barriers to entry** as it requires substantial investments in personnel and IT, and the achievement of economies of scale. According to Fitch, IFIS's increased reliance on earnings from **NPL investments** could expose the bank to **heightened downside risks**: the market for unsecured retail loans -- in which IFIS is specialised -- is at a **mature stage** and the bank will face increased challenges from **growing competition**. The lender has around 9,000 corporate clients in factoring and 16,000 in leasing, in addition to 55,000 self-employed customers and around 100,000 "Rendimax" customers (*the online deposit account offered by the bank*).

Gross NPLs by region (FY19)



Gross Bad Loans by ticket size (FY19)



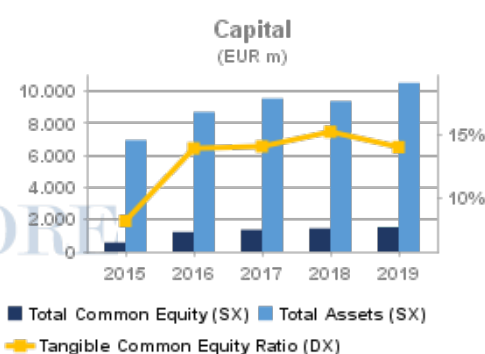
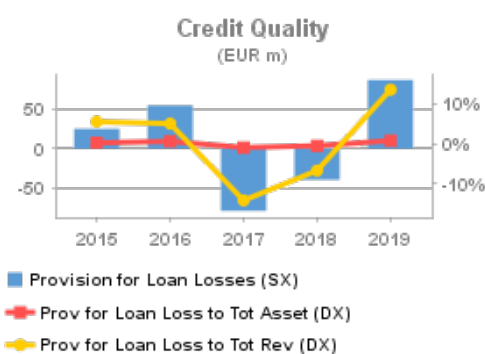
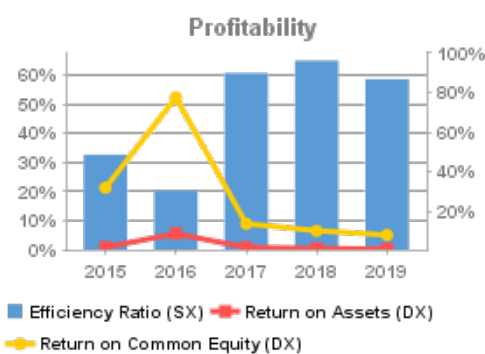
FINANCIALS

INCOME STATEMENT

(in EUR m)	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Net Interest Income	458,87	331,45	312,26	268,18	208,63
Adjusted Total Non-Interest Income	177,00	148,62	133,30	735,35	197,77
Provision for Loan Losses	87,18	-39,07	-78,39	54,88	25,27
Total Non-Interest Expense	372,45	316,16	275,38	218,35	135,54
Operating Income (Loss)	176,23	202,98	248,58	730,30	245,59
Non-Operating (Income) Loss	0,41	0,00	0,00	0,00	0,00
Pretax Income (Loss), Adjusted	175,82	202,98	248,58	730,30	245,59
Abnormal Losses (Gains)	-12,70	35,80	3,15	-631,80	0,20
Pretax Income (Loss), GAAP	175,82	202,98	248,58	730,30	245,59
Income Tax Expense (Benefit)	52,63	56,17	67,81	32,54	83,62
Net Income, GAAP	123,10	146,76	180,77	697,71	161,97

BALANCE SHEET

(in EUR m)	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
ASSETS					
Cash & Cash Equivalents	0,06	0,05	0,05	0,03	0,03
Interbanking Assets	626,89	640,44	1760,75	1393,36	95,35
ST And LT Investments	1310,91	595,94	501,38	421,62	3221,53
Net Loans	7651,23	7264,13	6392,57	5928,21	3437,13
Net Fixed Assets	106,30	130,65	127,88	110,35	52,16
Total Intangible Assets	60,92	23,28	24,48	14,98	7,17
Investments in Associates	0,00	0,00	0,00	0,00	0,00
Total Deferred Tax Assets	334,32	348,26	367,31	493,18	39,42
Total Derivative Assets	n.a.	29,81	35,61	n.a.	0,26
Other Assets	435,40	349,71	344,29	347,18	104,65
TOTAL ASSETS	10526,02	9382,26	9554,33	8708,91	6957,72
LIABILITIES + EQUITY					
Demand Deposits	n.a.	1008,06	1174,48	931,88	748,49
Interest Bearing Deposits	n.a.	3642,50	4106,83	3824,40	2447,60
Other Deposits	n.a.	22,75	11,88	18,54	12,40
ST Borrowings & Repos	981,32	816,55	830,15	822,76	2941,97
LT Debt	2217,53	1979,00	1639,99	1488,56	0,00
Pension Liabilities	n.a.	n.a.	n.a.	n.a.	3,62
Total Deferred Tax Liabilities	40,77	39,36	38,60	24,43	21,40
Total Derivative Liabilities	n.a.	n.a.	n.a.	n.a.	0,02
Other Liabilities	461,21	415,06	383,68	369,79	208,75
TOTAL LIABILITIES	8987,07	7923,26	8185,61	7480,36	6384,25
TOTAL EQUITY	1538,95	1459,00	1368,72	1228,55	573,47
TOTAL LIABILITIES & EQUITY	10526,02	9382,26	9554,33	8708,91	6957,72



- BUSINESS PLAN** - The **2020-2022** Business Plan, disclosed by Banca IFIS last January, provides for EUR8.5bn of new **NPL purchases**, for a net investment of about EUR0.8bn. The **Gross NPE ratio** will be 6.1% in 2022 (*Net NPE ratio of 2.4%, Coverage ratio at 62.5%*). The Plan envisages a reduction in the lender's **cost-to-income ratio** to 52.1% in 2022 and the achievement of a **net income** of EUR147m. The **CET1 ratio** will be raised to 12% (*14% without consolidation within La Scogliera*). The bank will support its **organic growth** with EUR60m in investments and will not make **acquisitions** in the short term other than small, targeted and opportunistic deals.
- COMPS** - Banca IFIS's most direct competitors in the NPL market are companies that act both as **investors** and as **servicers** of non-performing loans (*Hoist Finance, illimity, MBCredit Solutions, J-Invest, Intrum, Credito Fondiario*). The firm competes also with "**pure**" **servicers** (*doValue, Cerved, Prelios, Phoenix, Sistemica*) and "**opportunistic**" **investors** (*DE Shaw & Co, JC Flowers & Co, Oaktree, Blackstone, GoldenTree, Apollo*). The non-banking nature of most of these players complicates any comparison based on financial-statement data and ratios (*where available*). **Banca Sistema** and **Banca Farmafactoring**, despite having their core business in factoring (*more than NPLs*), are probably the peers that are most akin to IFIS in the eyes of investors.

Total Assets (EUR m)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Banca IFIS SpA	10526,02	9382,26	9554,33	8708,91	6957,72
Banca Farmafactoring SpA	5511,03	4941,52	4446,94	4735,00	3321,55
Banca Sistema SpA	3730,08	3144,90	2309,23	1999,36	2411,67
Illimity Bank SpA	3025,22	909,03	1074,41	955,76	853,89

Return on Assets (%)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Banca IFIS SpA	1,24	1,55	1,98	8,91	2,12
Banca Farmafactoring SpA	1,78	1,96	2,08	1,79	2,17
Banca Sistema SpA	0,86	1,00	1,24	1,15	0,78
Illimity Bank SpA	-0,82	-2,94	0,33	0,17	n.a.

Overhead Efficiency Ratio (%)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Banca IFIS SpA	43,77	57,00	56,65	-176,01	33,23
Banca Farmafactoring SpA	37,93	33,22	28,10	37,22	27,43
Banca Sistema SpA	42,55	36,03	38,67	41,03	52,84
Illimity Bank SpA	166,85	238,21	53,22	55,73	49,48

Non-Performing Loans to Total Loans (%)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Banca IFIS SpA	n.a.	23,38	29,08	27,63	7,93
Banca Farmafactoring SpA	n.a.	n.a.	n.a.	2,66	n.a.
Banca Sistema SpA	n.a.	8,14	7,30	9,01	7,08
Illimity Bank SpA	n.a.	n.a.	n.a.	n.a.	n.a.

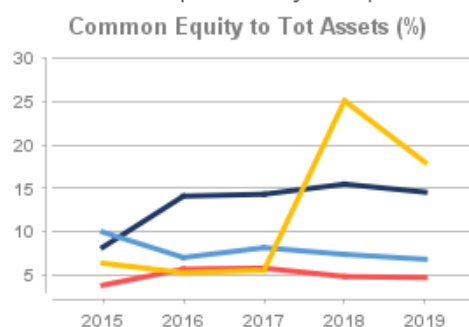
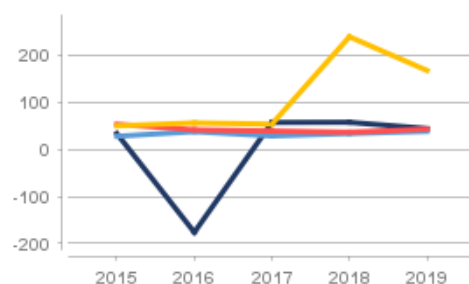
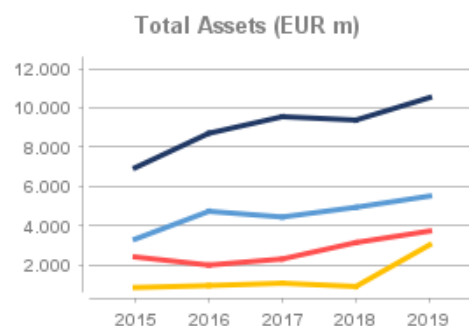
Prov for Loan Loss to Tot Loan (%)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Banca IFIS SpA	n.a.	-0,52	-1,10	1,03	0,75
Banca Farmafactoring SpA	n.a.	n.a.	n.a.	n.a.	n.a.
Banca Sistema SpA	n.a.	0,29	0,32	0,73	0,44
Illimity Bank SpA	n.a.	1,45	0,94	0,67	n.a.

Res for Loan Loss to Tot Loans (%)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Banca IFIS SpA	n.a.	4,25	13,20	14,48	6,94
Banca Farmafactoring SpA	n.a.	n.a.	n.a.	n.a.	n.a.
Banca Sistema SpA	n.a.	1,29	1,42	1,82	0,80
Illimity Bank SpA	n.a.	2,83	2,97	2,37	2,67

Common Equity to Tot Assets (%)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Banca IFIS SpA	14,57	15,49	14,33	14,11	8,24
Banca Farmafactoring SpA	6,85	7,41	8,18	7,05	9,97
Banca Sistema SpA	4,75	4,87	5,83	5,72	3,87
Illimity Bank SpA	18,00	25,07	5,59	5,31	6,40

Deposits to Assets (%)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Banca IFIS SpA	50,22	49,81	55,40	54,83	46,11
Banca Farmafactoring SpA	49,24	26,69	29,98	25,07	24,27
Banca Sistema SpA	68,41	54,65	46,27	48,34	40,19
Illimity Bank SpA	65,62	52,17	40,44	37,92	35,50

After-Tax WACD (%)					
Company	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Banca IFIS SpA	0,85	1,80	1,18	1,81	0,05
Banca Farmafactoring SpA	0,67	1,20	0,98	0,94	0,56
Banca Sistema SpA	0,69	0,89	0,62	0,33	0,11
Illimity Bank SpA	0,13	2,14	0,33	0,27	0,30



Source: Bloomberg

INVESTMENT CASE

Banca IFIS SpA (IFIM) - Sr Preferred - Fixed 1.75% - June 25, 2024 - XS2124192654

YIELD TO MATURITY	2.04%	COUNTRY RATING (Italy)	Moody's: Baa3 / Stable (10/19/2018)
G-SPREAD	177 bps		S&P BBB / Negative (10/26/2018)
Z-SPREAD	247 bps		Fitch: BBB / Negative (08/31/2018)
ASW	242 bps	ISSUER RATING	Fitch: BB+ / Stable (09/28/2017)
MODIFIED DURATION	4.10		GOVERNING LAW
OUTST. / MIN PIECE	EUR400m / 100k + 1k	IMPLIED CDS SPREAD	81 bps
EXP. DAILY VOLUME	54,123,980	1-YR DEFAULT RISK	IG8
BID-ASK / LQA SCORE	0.092 / 93	1-YR DEFAULT PROB	0.1629%
MARKETS	Dublin (XDUB), EuroTLX (ETLX)	REPORTING TIMELINESS	Adequate
ECB ELIGIBLE	No		
LEVEL OF DISCLOSURE	Adequate		

MAIN EXTERNAL RISK (↓) / RETURN (↑) FACTORS

NPL mkt consolidation	↓	Country risk (Italy)	↓
Calendar provisioning	↓		

Source: Bloomberg, Banca Promos

- **DEBT** - Banca IFIS has **5 outstanding bonds** for a nominal value of **EUR1.4bn** and maturities from 2020 to 2027, data compiled by Bloomberg show. The **weighted average maturity** of the bond debt is slightly above **4 years**. IFIS's Business Plan aims at reducing the bank's **cost of funding** from 1.4% in 2019 to 1.2% in 2022, through greater diversification of funding sources and approximately EUR1bn of net bond issues (*senior and Tier 2*) over the three years.

- **BOND** - The **EUR400m senior-preferred** bond due in **June 2024** was issued by Banca IFIS on 18 February 2020 as part of its EMTN programme. It was the **first step** of the new funding **diversification** strategy envisaged by the lender's 2020-2022 Plan. Issued about two years after the bank's latest bond sale, the notes have received **demand** by investors for **EUR1.1bn** (*over 60% from foreign buyers*) and have been placed with a yield to maturity, calculated at inception, of 1.82% (*the coupon rate is 1.75%*). The bonds are listed on the Irish Stock Exchange regulated market and have obtained by Fitch a rating in line with the issuer's LT IDR (*BB+*).

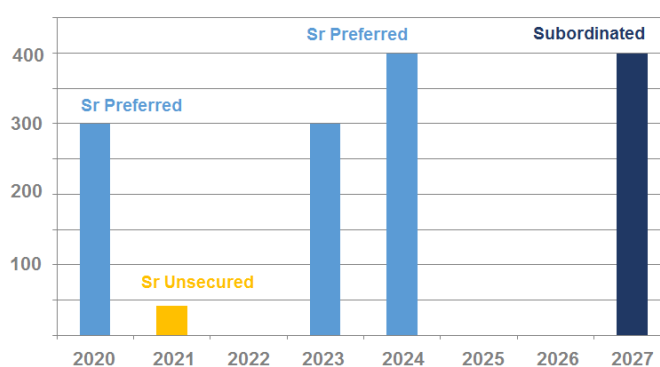
- **RATING** - On 19 July 2019, **Fitch** confirmed Banca IFIS's **BB+ Long Term Issuer Default Rating** with **stable outlook**. The rating reflects the bank's specialized business model, healthy earning generation and adequate capital buffers, but also its limited progress in reducing impaired loans. Fitch acknowledges that IFIS's **non-traditional activity** as NPL investor implies **high levels of impaired loans** but also that credit risk arising from purchased NPLs is manageable given the bank's conservative pricing of these loans and good track record of recoveries.

- **CALENDAR PROVISIONING** - Banca IFIS believes that **European rules** on calendar provisioning will start having an impact on its purchases of NPLs only from **2022-2023**, remaining a **minor concern** until that moment. CEO Colombini has excluded that IFIS will follow in the footsteps of **doValue** (*previously doBank*), renouncing its **banking license** to escape the new regulation (*which asks banks to impair up to 100% of their NPLs*), hoping that European regulators will envisage **exceptions** for banks specialized in the purchase of already-written-down loans.

IN THE NEWS

- On 30 October 2019, Banca IFIS became **sole shareholder of FBS**, acquiring for **EUR12.2m** the not-yet-owned 10% of its share capital, previously held by FBS's top management. The remaining 90% was bought by IFIS in January 2019 with a cash payment of **EUR58.5m**. FBS is the 4th Italian player in the management of **secured and corporate NPLs**, with EUR6.8bn of impaired loans under management and a proprietary portfolio with a nominal value of approximately EUR1bn.
- On 30 October 2019, Banca IFIS abandoned the exclusive negotiations started in August with **Credito Fondiario** (*a lender 82%-controlled by the US hedge fund Elliott*) for the set up of a partnership in the **debt servicing** sector, citing divergences related to the **governance** of the new entity. The joint venture (*of which IFIS would have held a minority stake*) would have combined IFIS's expertise in unsecured loans with Credito Fondiario's focus on secured loans.

Debt distribution (EUR m)



Source: Bloomberg

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