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## Research Update:

# Euronext Assigned 'A/A-1' Ratings; Outlook Stable

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## Research Update:

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## Overview

- We are assigning our 'A' long-term and 'A-1' short-term issuer credit ratings to Euronext N.V., a holding company that operates securities exchanges in Amsterdam, Brussels, Dublin, Lisbon, and Paris.
- We view the group's minimal leverage, good operating efficiency, and strong cash generation as the main strengths underpinning the ratings. These are partially offset by its relatively limited revenue base compared with larger peers.
- The stable outlook reflects our view that the company will retain its position as one of the leading European stock exchange operators, and that while its leverage has increased moderately to fund the acquisition of the Irish Stock Exchange, we expect Euronext's cash-generative business profile to continue to support its financial profile and the ratings overall.
- We view Euronext as an operating holding company, as it directly books market data and indices revenues at the holding level. Therefore, we equalize the rating on Euronext with the group credit profile.

## Rating Action

On April 3, 2018, S&P Global Ratings assigned its 'A' long-term and 'A-1' short-term issuer credit ratings to European stock exchange operator Euronext N.V. The outlook is stable.

## Rationale

The ratings reflect our opinion of Euronext's leading position as an operator of securities exchanges in Amsterdam, Brussels, Lisbon, Dublin, and Paris, as well as its good operating efficiency and minimal debt leverage. These credit strengths are partly offset by our view of its product diversity as limited and its revenue base as somewhat small compared with some larger peers.

Euronext N.V. is the listed entity that heads the Euronext group. We currently consider Euronext to be an operating holding company, and therefore we equalize the long-term rating with Euronext's 'a' group credit profile (GCP)--which reflects our assessment of the creditworthiness of the group as a whole. Euronext itself collects market data and indices revenue--19.5% of group's revenues in 2017. We also believe that there are only limited material barriers to the cash flows within the group. We note the group's strong liquidity and cash-generative business profile and the absence of short-term

debt.

The group is a provider of cash, spot foreign exchange and derivative products, market data, indices, and technological solutions. It also provides custody and settlement services through its Portuguese subsidiary Interbolsa. Previously, Euronext was owned by Intercontinental Exchange (ICE) as part of NYSE Euronext, but was carved out and became public in 2014. Its market share in cash equity in the five markets in which it operates is stable, between 60% and 65%. In addition, the group has a good franchise in equity derivatives, with, for example, a leading market share in French equity options.

We view Euronext's business risk profile as satisfactory, balancing the group's strong position in cash equities trading and listing, good operating efficiency, and geographic diversity with its limited penetration in the derivatives market and lack of a strong market position in the post-trade business segment, which offers some of the best growth opportunities at the moment.

In December 2017, Euronext announced its acquisition of Irish Stock Exchange (ISE) for €137 million on a debt-free, cash-free basis. The deal closed on March 27, 2018. In our view, ISE fits well with Euronext's federal model, brings geographic and product diversity, and exposure to English-speaking, common law jurisdiction. We understand that the group plans to achieve €6 million of cost synergies from this transaction.

We note Euronext's good track record in implementing strategic initiatives and cost optimization programs. For example, since its IPO, Euronext has reduced annual costs by €68 million (unadjusted for inflation) and improved the EBITDA margin to 56% in 2017 from around 30% in 2013. We calculate Euronext's overheads ratio to be 44% at year-end 2017, which compares favorably with peers and is one of Euronext's competitive advantages.

In our view, Euronext's satisfactory business risk profile lags behind Deutsche Boerse and London Stock Exchange in terms of scale and diversity of businesses. We believe NASDAQ is a closer peer for Euronext, as it also has a well-established franchise in cash equity and options trading, listings, market data and technology, and corporate solutions. However, we see NASDAQ as having a stronger business position due to its bigger revenue base and larger listing and indices business.

We assess the financial risk profile as minimal and as a clear strength underpinning the rating, with only about €70 million of net debt (after accounting for €60 million of operating leases and pension deficit) forecasted for the year-end 2018. We calculate Euronext's weighted-average funds from operations (FFO) to debt to stand near 250%, debt to EBITDA at around 0.3x for 2017-2019. These ratios underpin our minimal financial risk profile assessment.

Our forecast for 2018-2019 incorporates mostly flat transaction revenues compared with 2017, despite volatility spikes since the beginning of the year

(which have pushed cash trading transaction volumes up 29.4% in February 2018 compared to February 2017). We expect revenue growth for the two-year period to stem mostly from Euronext's more annuity-like businesses such as data, indices, corporate services, and market technology, helped in part by acquisitions. We assume 7% revenue growth in 2018 to account for the ISE acquisition and 5% afterwards in line with Euronext's business plan. We expect EBITDA margin to fall slightly in 2018, as Euronext integrates less-profitable ISE, before rebounding slightly in the second half of the year. We believe Euronext could participate in the consolidation of the FMI industry, especially in Europe, which could translate into additional debt. However, timing, acquisition targets, and desired funding structure (cash versus equity) is very unclear at this point so we do not include such a deal in our leverage projections for Euronext, beyond Euronext's plans to spend €100 million-€150 million on bolt-on acquisitions annually to help diversify revenue streams.

Our assessment of the Euronext's clearing and settlement risk is neutral. Euronext operates one central securities depository (CSD), Interbolsa, which is primarily focused on the Portuguese market. While membership is concentrated on mostly speculative-grade or low investment-grade Portuguese financial institutions, it is our understanding that Interbolsa takes no unsecured credit risk against them. We believe Interbolsa's risk management policies and procedures are broadly comparable with the rest of the FMI industry globally. It complies with current regulatory requirements and PFMI standards. It has completed the migration to TS2 systems in March 2016, and is currently very well capitalized, and Euronext has stated will remain so. As a CSD, Interbolsa's key risks are operational in nature.

## **Liquidity**

We view Euronext's liquidity profile as strong. In our view, liquidity risks appear highly manageable over our 24-month rating horizon. Euronext remains highly cash-generative and retains significant headroom under its debt facilities. As one of the major European financial market infrastructures, Euronext has well-established and solid relationships with banks, some of which are its reference shareholders.

Anticipated principal sources of liquidity are:

- Cash FFO, which totaled €235 million in 2017.
- Unrestricted cash on balance sheet available for debt repayment after adjustments for regulatory restricted cash.
- €250 million revolving credit facility (RCF) provided by a syndicate of banks.

Anticipated principal uses of liquidity are:

- Expected mergers and acquisitions in 2018 for about €150 million. Potential acquisitions to realize organic growth strategic initiatives of up to €100 million per year thereafter.

- Dividends to shareholders, which totaled €121 million in 2017. We assume a dividend pay-out ratio of 50% going forward, in excess of €1.42 per share.
- We assume capital expenditures will stay around 2% of revenues.

Under the RCF, Euronext has a covenant to comply with a maximum leverage ratio of 3.5x. The leverage ratio is defined as total gross debt to EBITDA. Euronext has sufficient covenant headroom, in our view, we project a maximum leverage ratio of 1.6x at year-end 2018.

No modifiers affect the outcome of Euronext's GCP.

## **Outlook**

The stable outlook on Euronext reflects our view that the company will maintain its leading position as a market operator of French, Dutch, Belgian, Portuguese, and Irish stock exchanges. While the company will likely continue to undertake some bolt-on acquisitions, we expect that it will remain disciplined about leverage consistent with the current minimal financial risk profile.

### **Downside scenario**

We would lower the ratings on Euronext if the company were to pursue a transformational debt-financed acquisition that would lead to a significant increase in leverage, not compensated by an improvement in the company's business risk profile. For example, we would very likely revise our view of the financial risk profile if, on a sustained basis, the adjusted debt-to-EBITDA ratio increases above 1.75x or FFO to debt falls below 50%.

### **Upside scenario**

We do not anticipate any upward rating momentum for Euronext in the next 12-24 months, because Euronext is pursuing a steady, organic growth strategy that is unlikely to lead to transformational change relative to peers in our base-case scenario. While we do not rule out the possibility of a transformative acquisition, if it were to happen it could lead to a substantial rise in leverage, making an upgrade unlikely at the one-to-two year horizon.

## **Ratings Score Snapshot**

Issuer Credit Rating: A/Stable/A-1

Business risk: Satisfactory

- Country risk: Low
- Industry risk: Low

- Competitive position: Satisfactory

Financial risk: Minimal

- Cash flow/Leverage: Minimal

Clearing and settlement risk: 0

Anchor: a

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable ratings analysis: Neutral (no impact)

## **Related Criteria**

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Financial Institutions - General: Key Credit Factors For Financial Market Infrastructure Companies, Dec. 9, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## **Ratings List**

New Rating

Euronext N.V.

Issuer Credit Rating

A/Stable/A-1

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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