an NTT Communications Company

Transcription

Title: Euronext Q3 2017 Results

Date: 08.11.2017

Speakers: Giorgio Modica, Lee Hodgkinson and Stéphane Boujnah

Conference Ref. No: EV00063172

Duration: 57:19

Presentation

Operator

Ladies and gentlemen, welcome to the Euronext Q3 2017 Results presentation. For the first part of this call, all participants will be in listen-only mode, and afterwards, there will be a question-and-answer session. And I would now like to hand the floor to our speaker today. Please begin.

Stéphane Boujnah

Good morning, everybody and thank you for joining us this morning for the Euronext Q3 2017 Results Conference Call and Webcast. I am Stéphane Boujnah, CEO and Chairman of the Managing Board of Euronext. And I will start with the highlights and the key figures of this third quarter. Giorgio Modica, Euronext CFO will then develop the main financials and business drivers for the quarter, before I conclude with the latest developments. We will obviously welcome your questions at the end of the presentation with Anthony Attia and Lee Hodgkinson.

Let's start with Slide 3. In a few words, this quarter was first marked by the following. First, an improvement in volumes, thanks to a stabilised macro environment, especially compared to Q3 2016. And in this context, we increased significantly our quarterly cash equity market share to a really unprecedented level at 65.2%.

Second, we continue to develop the Agility for Growth initiatives through the acquisition of iBabs, broadening therefore our Corporate Services franchise.

Third, we closed the acquisition of FastMatch in August wanting to spot Forex a range of asset classes trading on Euronext-markets. And the fourth major element of the quarter is the renewal of the derivative clearing agreement with the LCH SA for an additional ten-year period. We also entered, as you know, into definitive agreements to swap our 2.3% stake in LCH Group for 11.1% shareholding in LCH SA and to secure strong minority rights, including a strong pre-emption right.

In terms of IT projects, Q3 2017 has been very busy, as we pursued Optiq and MiFID II projects. We reached this summer two major milestones on Optiq projects with the go-live of the Market Data Gateway for cash and the one for derivatives. These deliveries encountered great success toward our clients and we disconnected the UTP data for cash in September. At the same time, as for the entire industry, we continued to work actively on MiFID II to be compliant on 3rd January, 2018.

Moving to Slide 4. The Q3 2017 results were mainly driven by the improvement of volumes and the first impacts of the acquisitions completed over this summer. First, this improvement in volumes was translated into revenue growth of plus 14.1% compared to Q3 2016, to €128.7 million, along with the first contributions of our acquisitions as iBabs and FastMatch.

EBITDA reached €69.5 million this quarter, up plus 13.3% compared to Q3 2016, driven by the growth in revenue and reached a margin of 53.9%. The EBITDA margin is slightly down this quarter, due to the cost related to Optiq and MiFID II IT projects and to the development of our business initiatives. For the same reasons, cumulated cost savings are slightly down compared to Q2 2017 to €11.9 million. Headcount increased from Q2, but remained moderate following the incorporation of our new acquisitions.

Our net profit remained stable year-on-year at €38.3 million, impacted this quarter by €9.7 million of one-off costs, mainly linked to the termination of the clearing agreement with ICE.

As you have understood, this quarter was a typical Q3 summer quarter. We capitalised on the improvement in volumes and diversified our top line through acquisitions, while continuing the important works on MiFID II and Optiq to secure delivery dates. And we also remain strongly focused on deployment of our Agility for Growth plan and on our cost discipline strategy.

I now leave the floor to Giorgio Modica, Group CFO.

Giorgio Modica

Good morning, everyone. Let's move to Slide 5. As highlighted by Stéphane, Q3 2017 revenues was driven by the good operating performance of listing and cash market and the impact of new acquisitions. Revenues in the third quarter of '17 grew by almost €16 million or 14.1% year-on-year, thanks to the positive contribution of all business lines, except Market Data.

Listing recorded a strong performance with a positive contribution of IPO and follow-ons with revenue up €1.9 million year-on-year and the positive impact of the consolidation of iBabs and Company Webcast. In particular, corporate service activities contributed €2.6 million to the revenue growth this quarter.

Trading was positively impacted by the improvement of cash and derivative volumes and the consolidation of FastMatch. Cash and derivative trading revenues increased by €4.4 million and €0.8 million, respectively, while spot FX trading revenues accounted €2.9 million with the consolidation of FastMatch since mid-August 2017. Only the Market Data and Indices revenues were down to the lower contractual audit findings compared to the same period last year. Volume-related activities accounted for 55% of total revenue compared to 54% last year. The slight increase is due to the fixed additional Corporate Service revenues being offset by the consolidation of FastMatch spot FX revenues. Finally, Agility for Growth initiatives totalled €2.9 million of revenues this quarter.

Let's move now to Slide 6. Q3 2017 EBITDA was up 13.3% compared to the same quarter last year, reaching €69.5 million and was driven by good operating performance. I will focus on cost, as we already covered extensively the growth of revenues in the previous slide.

The cost in this quarter were mainly related to the consolidation of iBabs, FastMatch and Company Webcast, explaining the €1.6 million increase in staff expenses despite the seasonal decrease of staff cost in France during the summer period, and the deployment of Optiq and MiFID II projects, we generated an increase in System and Communication, as well as Professional Service costs. Finally, the increase of other expenses was mainly related to clearing expenses and some non-deductible VAT expenses.

Moving to Agility for Growth, the initiative generated €2.9 million of revenues and €2.8 million of cost this quarter with the margin of Corporate Services funding the rollout of other business initiatives. Consolidated EBITDA margin decreased slightly to 53.9%, down by 0.5%, while the EBITDA to operating cash flow conversion was slightly stronger this quarter at 83% from 81% in Q3 last year. Net income was stable at €38.3 million with the growth of EBITDA offset by exceptional cost of €9.7 million. These exceptional items were mainly related to the termination of the ICE clearing agreement, as you know, the one-off pension costs and through the advisory costs.

Finally, as a reminder, Euronext financial strength remained extremely solid with a cash position of €141 million at the end of the quarter, the signing of a new term loan facility agreement to finance the acquisition of FastMatch and iBabs, which brings up our gross debt at the end of the quarter at €165 million and more than €600 million of equity.

Moving to Slide 7, let's focus on the different activities. Listing was dynamic in the third quarter of '17 with revenues up 46.6% to €20.2 million. This reflects a good trend in both primary and secondary markets, thanks to the on-going return of large cap and strong M&A activity, as well to the first benefit of our Corporate Service strategy.

The third quarter is usually a quiet quarter for listing. However, IPO revenue grew by nearly 70%, demonstrating improved market condition. We recorded four IPOs this quarter and saw the return of large cap to Euronext with a technical listing of the real estate specialist, Nepi Rockcastle PLC in Amsterdam. Other landmark deals this quarter included the French CleanTech specialist, UV Germi on Euronext Growth and Pharmasimple. In addition, our EU Tech Hub initiative reached a new milestone this summer with the deployment of the marketing campaign and the build-up of a pipeline prospect across Germany, Italy, Spain, and Switzerland.

Secondary markets were very dynamic, in line with the trend initiated last quarter. Follow-on revenues increased by 38.2%, mainly driven by M&A activity, for example, the capital increase of Santander for €7 billion to support its acquisition of Banco Popular. We also recorded good centralisation fees this quarter, thanks to the Jabo transaction in France and Portuguese key bond market.

Few words on Corporate Services. We strengthened the franchise with the acquisition of iBabs in July, and the activity generated €2.8 million of revenues in the third quarter – of cost in the third quarter of 2017.

Moving to Slide 8. Cash trading volumes improved this quarter compared to last quarter at €6.9 billion ADV. This is nearly 20% up year-on-year due to improved market economics and better outlook for the Eurozone. Revenue increased by 11% to €44.4 million this quarter.

In third quarter, we reached our highest quarterly market share since IPO at 65.2 %. This improvement was achieved through an optimised pricing strategy, mainly related to the following elements. The optimisation of the SLP programme, which helped us on-boarding new customers, the innovative Omega pack for non-members, and our best of book service, which attracted more retail flows with one additional liquidity provider and now 25 brokers connected.

Yield remained robust at 0.5 basis point, slightly up compared to the second quarter 2017, yet down year-on-year. Euronext remains the reference market for best execution with 90% present at EBBO compared to MTFs, the tightest bid/ask spreads and the deepest liquidity pool in the business.

As far as innovations are concerned, Euronext Fund Services launched last May and allowing open-end fund trading on the platform, recorded a strong success with 6 new asset managers on-boarded. We also launched Euronext Block, an MTF platform powered by AX Trading technology and connected with the first wave of brokers. And lastly, Euronext Synapse, the MTF for corporate bond setup with Algomi received the FCA approval and are now in the process of on-boarding members. Finally a quick word on our ETF franchise. We recorded a strong listing activity this quarter with 17 new products launched in our markets.

Let's move to Slide 9. Derivative revenues increased 8.7% to approximately €10 million on the back of increasing volumes with ADV up 20%, thanks to improved market position in the Netherlands and despite the very low volatility. This increase was driven by the dynamism of our index and equity option franchise, especially following the migration of option contracts from the TOM platform last June.

In this improved competitive landscape, our yield recovered compared to the second quarter 2017 to €0.3 per lot. As far as commodities are concerned, increase in volumes was driven by the continuing traction from the new market participant programme with 18 firm trading commodities, out of which 70% traded for the first time on Euronext. Since the acquisition of FastMatch last August, we recorded the first-time spot FX trading revenues. Please note that we consolidated only 1.6 months of revenues from FastMatch this quarter, which account for €2.9 million. FastMatch Q3 2017 revenues was up 35% year-on-year and ADV was up 49.5%.

Moving to the next slide, Slide 10. As commented, this quarter we have seen the progress across all business lines with the exception of Market Data. Market Data and Indices revenues were down 2.5% to €25.2 million, which was penalised by a negative base effect compared to last year, which – during which we recorded larger contractual audit findings. As announced in the second quarter of 2017, we issued new Market Data agreements to vendors and issuers in compliance with MiFID II requirements.

Moving to Market Solutions, revenues were up 3.4% to €8.3 million, thanks to MiFID II projects and new Optiq projects as we signed 5 agreements with clients in the Americas and Middle East. Clearing revenues was up 14.4% to €12.8 million, driven by volumes increase and treasury revenues. We signed our first client for our APA/ARM service under MiFID II. Lastly Custody & Settlement revenues was up 3.1% to €5.1 million, mainly linked to an increase in settlements, public debt and equity under custody.

I leave now the floor to Stéphane Boujnah to provide you with an update on the latest developments.

Stéphane Boujnah

Thank you Giorgio. As you know, we do not give any full year guidance, but we wanted to conclude sharing with you some recent developments. First, we recently released our October volumes and cash ADV is up plus 13.3% compared to October 2016, derivatives ADV is up plus 8.6% and spot Forex ADV is up plus 33%.

Second, we will see the continued integration of our newly acquired businesses. We clearly focus on the development of those businesses and we will insist on the cross-selling actions to capitalise on the strength of those assets outside of their domestic markets. We already started strong commercial actions with iBabs and Company Webcast towards our issuers. At FastMatch, we have set numerous meetings with our clients to introduce them to the spot Forex platform and received warm welcomes. FastMatch also started the build-up of FX Tape that publishes real-time post-trade information collected from market participants in aggregated and delayed fashion to minimise the market impact.

Third, as you may remember, back in January the main challenge was to secure a clearing derivatives agreement. We are proud to have secured a long-term agreement with LCH SA for the next ten years last August and to have signed the definitive agreement last week. We also have signed a swap of our 2.3% stake in LCH Group into an 11.1% stake in LCH SA, accompanied by strong minority rights, including strong pre-emption right. We should close the deal after regulatory review and then record an exceptional net capital gain of €24 million. We will of course keep you updated in due course.

Fourth, one quick word on MiFID II preparation. The entire industry is currently focused on MiFID II compliance, so are we. We are monitoring the readiness of both our clients and regulatory bodies very carefully to meet the deadline of 3rd January 2018. Optiq is also a key focus area at the moment and the basic trading chain on Optiq cash has been delivered early September for client testing. We're planning to deploy conformance tests after the MiFID II wave. And finally, as you know, cost discipline remain fundamental pillar of the Euronext DNA, but we are deploying physical projects that only happen every 10 years and come with some costs. Those projects are neither recurrent nor frequent, but they are mandatory to ensure the robustness and compliance of our businesses.

To conclude this presentation, I would like to set a date with you for a status report on Agility for Growth in February 2018 during our 2017 full year results announcement. Thank you for your attention. We are now available for questions.

Q&A

Operator

Thank you. Ladies and gentlemen, if you wish to ask a question, and you haven't already, simply press zero and then one on your phone keypad now, to enter the queue. And then after I announce you, simply ask that question.

And if you find that question has been answered before it's your turn to speak, just press zero, and then two, to cancel. I will now go to the line of Owen Jones at Citigroup. Please go ahead, Owen, your line is open.

Owen Jones

Hi, good morning, thank you. I have a couple of questions please. The first on Trayport. Now that Trayport looks to be on its way to TMX, is there anything that you can say about your involvement in that potential transaction? Was price the ultimate hurdle that you couldn't get over for example, or was there no interest on your part to pursue that acquisition? And then secondly, your FX Tape initiative looks interesting and looks particularly relevant now, given your increased level of market share and ADV now coming through FastMatch. could you say – or could you give us a little bit more detail as to how you see that initiative working, what will the distribution model be and what will the revenue model be for that?

And do you see any potential revenue synergies, perhaps in the medium term, utilising your Algomi platform? Thank you.

Stéphane Boujnah

Okay. So, Giorgio will answer on the second question and Lee and Anthony on the second question on the revenue side.

Giorgio Modica

Yeah. So with respect to Trayport, a few elements on our side. Clearly the asset had some features which are consistent to the feature that we are seeking in targets, namely, the strong market position and the fixed revenue base. At the same time, the other element that I would highlight is that the winning bid was a combination of cash and assets and clearly this is something that – it's a mix which is – that was not possible for us to match, in the sense that clearly we don't have assets to swap and therefore, any of our future acquisitions are going to be funded in cash. So to a certain extent, on the one side, the acquisition was – the transaction was related to an asset which is – it is consistent with what we're seeking in our targets. On the other side simply was not a deal for us.

Operator
Okay, we now go to the line of –

Lee Hodgkinson
Sorry we need to finish the questions on FastMatch, Owen.

Owen Jones
Yes, it was FX Tape, just a few words of explanation on FX Tape, what the distribution model will be, what the revenue model might be and whether or not you see any potential medium-term revenue synergies with Algomi utilising that platform.

Lee Hodgkinson
So look, this is where I think we can bring something new to the FastMatch story. Obviously, we've got a great market data business. And our philosophy is that transparent and orderly markets are the most efficient markets and will therefore be the most successful. So we're very supportive of the regulatory drive to improve conduct and transparency in the FX market and the FX Tape is very much part of that drive.

It's a revolutionary product with the intention to sell – to set the construct up as a for-profit consortium, where banks are the participants, ECNs can submit data to the Tape and then those contributors will receive a revenue share based on their contribution and will distribute that pretty much everywhere.

And the content will include, essentially, the last sale data feed with prior size and relevant time stamps. We do some consolidation, various points within a second to make sure that some – that any sensitive transactions are kind of aggregated.

And I think like anything brand new to a segment that's as sizable and globally important as FX, we need to be cautious about the velocity or take-up. So monetisation can be expected towards the end of 2018 in any meaningful terms. But I can tell you we've already got customers in test and the feedback we're getting is very, very powerful. So this is a real innovation in that market and something we're very excited about.

Now in terms of the synergies with Algomi, I think what I would say is, we're not focusing on synergies with Algomi in the short term. Longer term, I think we would hope to build synergies across the businesses that we're developing. But right now we are focusing in FastMatch on cross-selling to existing Euronext customers, as Stéphane pointed out, driving organic sales growth from existing customers and new customers of FastMatch and getting the types of products off the ground. So Algomi synergies will come to a less or greater degree at some point in the future, but you shouldn't expect them in 2018.

Owen Jones
Okay. Thank you very much.

Operator
So we go over to Ron Heijdenrijk at ABN AMRO. Please go ahead, your line is now open.

Ron Heijdenrijk
Good morning, it's Ron Heijdenrijk at ABN AMRO. Just, a few questions, one follow-up question for Lee on the answer just on the FX Tape.

You said end 2018 we should expect some monetisation, which would be significant. And could you already give us an indication of the quantum of revenues that could come from this FX Tape, just to give us an idea there?

Then secondly, the cost uptick in the third quarter you say this is due to the IT projects which come every 10 years and therefore are non-recurrent. Could you give us an idea on the quantum there of these – this cost uptake of these IT projects and whether or not they will fall out in Q4 already or somewhere in the future in 2018? And then finally, maybe could you give us the pension costs and the M&A fee to break down into one-offs the €9.7 million one-offs, €5 million of the breakup fee, but could you also quantify the pensions and the M&A fees? Thank you very much.

Stéphane Boujnah
Okay. So Lee will follow – will answer your question on the product statement and Giorgio on cost and M&A.

Lee Hodgkinson
Look, on the Tape, it's a brand-new service in a new market and so we're not providing estimates at this stage, but we will be happy to give an update on progress when we meet early next year to discuss the full-year results.

Giorgio Modica
Yes. I mean when it comes to cost you need to consider several items and the first one is that, if we look at the business as usual, let's say, not including the acquisition, especially on the salary part we are down with respect to the same quarter last year.

So where is the increase, as I said, it's mainly related to Professional Service and System and Communication cost. I cannot tell you exactly how much is that. But if you look the delta between the costs per quarter, the delta between 2016 and 2017, you will get an idea of how much it would represent. Another element that is important is that some of the other expenses are non-recurring in nature. And to conclude on the break of the exceptional items, pretty much €6 million is a combination – out of the €9.7 million, €6 million is a combination of the ICE break-up fee and the net cost for the ICE project itself. And then we have around €2 million of cost related to advisers in general and the pension costs, which again are one-off is slightly more than €1 million.

Ron Heijdenrijk
Very clear. Thank you very much.

Operator
We are now over to the line of Rosine Van Velzen at ING. Please go ahead, your line is open.

Rosine Van Velzen
Yes, hi. Good morning all. My first question is on FastMatch. I think the disclosure is a bit more limited than in the second quarter. So I was wondering if you could give us a bit more guidance on the EBITDA margin and market share in that market. And then the second question is on the Agility for Growth status update scheduled in February 2018. If there are no large acquisitions done before, what would hold you back to become a little bit more shareholder friendly? Thanks.

Stéphane Boujnah
Lee, Giorgio?

Giorgio Modica
Yes. So when it comes to the margin of FastMatch, the first thing is that this is clearly a fully consolidated business and is another asset classes in our trading mix for which we do not disclose a separate margin, but we – you can implicitly find this information, and the margin for the third quarter was 42.5%. And we published in the press release the revenue growth without – and the margin without considering those acquisitions. When it comes to the market share, again, ECNs do not publish regulated market share and we will not disclose this quarter the market share.

Lee Hodgkinson
One of the great benefits of the FX Tape, of course, once we get considerable volume strength of our product, the transparency of that service will enable consistent reporting for everybody.

Stéphane Boujnah
And just to clarify on the Agility for Growth points. The Agility for Growth was released – this plan which was released in May '16 with targets for December '19. We have decided to do an annual detailed reporting of where we are. We did once – that we did the first one in February this year. We will do the second annual update in February '18. And we will cover very precisely where

we are in terms of deploying the various objectives released in May ‘16. So that’s for us a sort of normal status update meeting point for what has been released and for the perimeter released in May ‘16.

Rosine Van Velzen

Great. Thank you.

Operator

We are now over the line of Arnaud Giblat at Exane. Pease go ahead, your line is now open.

Arnaud Giblat

Yes, hi. Good morning. Three questions please. Firstly, maybe a comment on my behalf, but what I noticed on Trayport and other M&A deals in the space is they are tending to be quite competitive. A lot of the exchanges out there are talking about new acquisitions and it seems as though deals are going for quite a high price. I’m wondering how you’re seeing the M&A environment, whether there are assets available where maybe there is a bit less competition. I mean, could you give us a bit of a feel as to how the pipeline is looking in terms of potential deals?

Secondly on FastMatch, you don’t give market share, but if I look at what EBS, Reuters and other venues are doing it seems as though the rapid growth in market share achieved that FastMatch has benefited from over the past few quarters has shrunk in Q3. Is there anything specific that we should be thinking of here and how you see the market share evolving going forward, because I mean clearly over the last few months from these other players, they seem to be – their progress seem to have stalled.

And finally on block trading, could you perhaps give us a bit of an indication in terms of what pricing we should be looking at? Clearly the volume there has a great potential from MiFID caps on dark pool trading, but I’m wondering what the revenue potential can be. Thank you.

Stéphane Boujnah

Okay. So I will answer your M&A question and Lee will answer your questions on FastMatch and blocks. On the M&A environment, the main takeaways from the Trayport situation for you should be that we wanted to stick with our M&A discipline announced on – in May ‘16 when we released the Agility for Growth strategy.

As Giorgio said, the value transferred by – to ICE to buy from them Trayport is a combination of a very high valuation and the contribution of North American assets with strong synergies with the North American ICE business. So this was a combination of ICE price and asset contribution with synergies. So that’s why the Trayport deal eventually was not for us.

But we continue to monitor closely and to explore potential acquisitions in the two fronts we have made clear for months. The first one is assets that could diversify the top line of Euronext, similar type of Trayport situations, and assets that can help us expanding the Euronext federal model.

So there also the situations that are available with all sorts of environment. So we look at them in a very systematic manner, but always with these three dimensions, is being very disciplined in our M&A acquisition approach and focusing only on two avenues: the diversification of our top line and/or the expansion of our federal model.

Lee, FastMatch and blocks?

Lee Hodgkinson

Yes, hi, Arnaud. So FastMatch, look, I think September was the second highest ever month volumes for FastMatch on average. So I think you’re correct in saying certain parts of Q3 was softer, but October is pretty good. I think November’s release was as well. What I would say is the FastMatch kind of client base at the moment is – have a bias towards higher frequency kind of activity, and so it’s kind of volatility correlated quite highly. But as we’ve talked about earlier on this call, we’ll be building out more real-money portfolio of clients but organically at FastMatch and also as part of the cross-selling activities with Euronext. Your third question was on block trading, I think?

Arnaud Giblat
Yes.

Lee Hodgkinson
And what would be the upside is going to be, is that right? Look, the very interesting outcome, of course, will be the industry-wide structural shift resulting from MiFID II. As we discussed on a number of these calls over the past year, we believe that business will be migrating out of the traditional OTC internalised dark pools, so investment banks into a more lit environment that we will benefit from that. And we, like a number of our competitors, are positioning a block trading service to capture that volume. In terms of making accurate predictions for that shift in activity, I think that would be unwise for anybody to do. The important thing for us is that we've got the tools in our armoury to offer a full service that is not just compliant with MiFID II, but to take advantage of it. We're getting good customer feedback, we're getting clients testing and I think we feel pretty good about having that service. It would be unwise for us to make fast and firm predictions so shortly ahead of MiFID II.

Arnaud Giblat
Okay. Thank you very much.

Operator
We are now over to the line of Johannes Thormann at HSBC. Please go ahead, your line is open.

Johannes Thormann
Good morning, everybody, Johannes Thormann, HSBC. Three questions from my side, please. First of all, could you elaborate a bit more on the decline in Market Data and Indices? As you said, again, there was an audit one-off also in the third quarter of '16 and then this caused the decline, but still could you elaborate more on how the data business is performing and the index business is performing in terms of revenues?

Secondly, could you explain a bit more what triggered the deferred capital gain in Q3? Will there still be dividends in Q4 and the €24 million, any timeline next year will it be booked, to get a better understanding of that?

And then in regards of the €24 million, a general question on the LCH SA clearing agreement. Now, I can clearly understand that you want to have a grip on the French business, but wouldn't it have been mandatory to get a 25% stake in that business to have a blocking minority and rather pay a bit more and not make a gain, because 11.1% is probably not really enough to have a big say in that entity? Or do you have any additional veto right agreement, which you haven't disclosed so far? Thank you.

Stéphane Boujnah
On the relationship with LCH SA, we have disclosed what we were able to disclose. But what I want to make clear, LCH SA has always been a strategic priority for Euronext. And we tried to buy it, we had an agreement to buy it subject to completion of the merger between DB and LSE. This merger did not complete. Therefore, we lost the option to buy LCH SA.

The deal we have today is definitely less good than owning LCH SA, but is massively better than the situation where we were in relation to LCH SA one year ago. We have a ten-year agreement for clearing, which fixed the operational dimension of our relationship with clearing.

We have an agreement that provides comparable EBITDA contribution to the one we had in the previous agreement. We have a minority stake, which did not require any deployment of cash. We have a board seat. We have strong pre-emption right and we have prospects for reduction of clearing fees to clients up to 15%, which we're going to work with LCH SA.

So my point is that, this deal is not as good as owning LCH SA. It's probably not as good as having a minority – a blocking minority. But it is a deal with a significant improvement in the relationship with LCH SA, in terms of operations, EBITDA and strategic outlook.

Now, I leave the floor to Lee to answer your question on the Market Data and Indices and to Giorgio to comment on the specific timing of the capital gain.

Giorgio Modica

Yes, this is Giorgio speaking. Let me start with the €24 million. So the €24 million is clearly the delta net of taxes between the valuation of the stake we are swapping with the valuation of this 11.1% we were getting. I remind you that this is a swap with no cash settlement. When it comes to the moment in which we will book that gain is going to depend on the moment where we will receive a regulatory approval to execute the swap.

It is likely to be in the fourth quarter this year. When it comes to the dividend policy, no changes to our current policy, which as a reminder, is 50% of reported earnings, net earnings, with a floor of €1.42 per share. Lee, do you want to say something about market data?

Lee Hodgkinson

Yes. The Market Data and Indices businesses are performing well. Really the only thing for us to say is, the delta was related to a one-off audit. And so as we've discussed before in these calls, the one thing we don't have control over are audit findings, either to the extent that they exist. Of course we pursue aggressively the protection of our intellectual property and our data. The timing of the process are beyond our control. So nothing more to say on that topic, really.

Johannes Thormann

Sorry, just – so you had audit findings both on the data and the index business?

Lee Hodgkinson

No, the audit findings are on the distribution of data and the compliance of our clients with the policies that we set out relating to the usage and redistribution of our data across all of our transaction business.

Johannes Thormann

Okay. Thank you.

Operator

Our next question is from the line of Martin Price of Credit Suisse. Please go ahead, your line is open.

Martin Price

Good morning. Just a quick question for me on the M&A environment. Just to follow-up on that. It seems like ICE's recent acquisition of a stake in Euroclear really highlights the value of your own stake in that business. So just wondering if you could provide some more detail on how strategic your relationship is with Euroclear and perhaps whether you see opportunities to commercialise that relationship a little bit more in the future than you have in the past? Thank you.

Stéphane Boujnah

So as you know, Euroclear is a close partner of Euronext in many respects. And there is operational relationships. But also in terms of cross-shareholding, Euroclear owns 8% of the shares in Euronext. Euroclear is the largest shareholder of Euronext. And the CEO of Euroclear is a member of the supervisory board of Euronext. And Euroclear is the largest component of the group of reference shareholders who have extended in June '17 their shareholders' agreement for 2 more years.

So we are very close to Euroclear and we value a lot our relationship with Euroclear. We have shares in Euroclear directly and indirectly through the Sicovam Group. And we monitor very closely the situation within Euroclear, and our intention is to remain as close as possible and as cooperative as possible and as friendly as possible to Euroclear.

Martin Price

Understood. That's very helpful. Thanks, Stéphane.

Operator

We are now over to Kyle Voigt at KBW. Please go ahead, your line is open.

Kyle Voigt

Hi, good morning. Just two questions, maybe both for Lee. First is just on the higher cash equities market share over the past couple of quarters. Just wanted to understand how much of this you believe is still related to the pricing changes that BATS made earlier in the year and is this simply your customers continuing to adjust and react to that, or is there something else going on there?

And then the second would be on MiFID II. I think you and some other cash equity exchanges have been vocal about some details within MiFID II allows for behaviour that's maybe not consistent with the spirit of the directives, for example the tick size rules for Systematic Internalisers. Just wondering if we can get your updated thoughts there and whether you think that gives SIs an unfair advantage beginning next year? Thanks.

Stéphane Boujnah

Okay. So Lee on market share and MiFID II?

Lee Hodgkinson

Right, thank you. Let's start on cash market share. I don't believe it's related to pricing changes of BATS at all. So as Giorgio mentioned in his earlier remarks, we have been aggressively pursuing three activities to support and improve market share. The first is the continued optimisation within our SLP and market-making programme, which has helped us on-board new customers. We've been driving ahead with our innovative Omega pack for proprietary non-members who can access some markets through relationships with their investment banks; that's been incredibly successful.

As has the third element, which is our equity best-of-book service for attracting retail flow, where we picked up an additional liquidity provider and now we have 25 brokers. I think what we've been doing is leveraging to the maximum extent possible the diversity of flow and client base that we have.

We haven't really seen any discernible flow changes on the BATS pricing. So I'm pretty happy with that, we will continue to build out those services.

On MiFID II, I've been, I think pretty, pretty clear, as have a number of venues but also market users in that the systematic internalised regime as a legitimate and valid place in the workflow of investment banks, as part of the management of client flow, particularly for transactions that are in need of sensitive handling and reduction of market impact.

But I think where we have concerns is that the intention of MiFID was never to see a proliferation of systematic internalised venues operated solely by HFT firms and competing with MTFs and exchanges on an unlevelled playing field, both in terms of subject pricing and some slight delays in post-trade reporting. I think you would have seen the public comments from Markus Ferber and other law makers in Europe, this is the concern to the wider industry.

Quite frankly, I think the first three to six months of MiFID will be consumed with our clients finishing off their implementation projects. We know that many banks and many brokers across the continent are struggling to be compliant in every asset class, so there will be a lot of clean-up work I suspect in the first and second quarters of next year and we will start to see changes in behaviour during the second half.

I think the fact that so many HFT firms are establishing these Sis, is a concern to ESMA and others and I shouldn't think that kind of activity will go unanswered if it were to gather any material pace. So in essence I'm pretty relaxed, but I think the most important thing when implementing new pan-European regulation, is that we operate in a new environment of transparency, of certainty and on a levelled playing field and that's why I make the comments that I do.

But as I say we're pretty relaxed. I think we've got a very, very powerful value proposition in the cash markets and in terms of products and there is no reason why we won't prosper post-MiFID II.

Kyle Kenneth Voigt

Great. Thanks, Lee.

Operator
We will now go to the line of Adedapo Oguntade of Morgan Stanley. Please go ahead, your line is open.

Adedapo Oguntade
Yes, thanks for taking my questions. I have two questions here. One, just in terms of costs, I know you've given comments on this on the call, but just to clarify, should we see Q3 operating expenses ex-depreciation as the pace going forward? I guess what I'm trying to understand is what portion of your operating expenses is one-off, i.e., expected to follow up at some point in Q4 of 2018? And secondly also with respect to your market data and indices business, just to be clear. Are you saying like Q3 '16 revenues were elevated, i.e., above normal levels ,due to the audit findings, if you could just give comments on also the underlying trends in the business and how we should think about growth going forward.

Stéphane Boujnah
So Lee on market data and Giorgio on the costs going forward.

Giorgio Modica
Yes, I mean the key element is that we highlighted the trends, but as reminded by Stéphane, we do not provide phasing and targets for the end of the year. So most of the question you asked are following to that category. Can you remind me your question on the one-off items?

Adedapo Oguntade
Yes, the one-off items in the operating expenses, I mean how should we think about OpEx going forward, should we take your Q3 level as it is?

Giorgio Modica
So in this respect, I mean we reiterated the guidance, which is already extremely detailed in Agility for Growth. So the objective is to reach the €22 million savings in 2019 and we do not give specific target for the end of this year, nor for the phasing between this quarter and the end of the plans.

Adedapo Oguntade
What's the exact amount of one-off, I mean, do you have in operating expenses; what part of that is expected to fall off in Q4 2018?

Giorgio Modica
We do not provide that information, this is a target for the end of the year and we never provide such target.

Lee Hodgkinson
So, again, I think that I'd reiterate the point I've already made on market data and indices. It's a robust franchise, we're doing well with the index business as well and we're highlighting one thing which is the one-off audit findings, the comparable is, why there's a difference. But you shouldn't read into that anything other than it is what it is. But the market data and index businesses are in robust health.

Adedapo Oguntade
Yes I guess what I'm trying to understand is, when you say one-off audit findings, does that mean Q3 '16 revenues were elevated, or I mean just trying to get more info on that?

Lee Hodgkinson
Well by the very nature, the audit findings depend on what we find. So, look, I wish they were possible for me to predict, but they're not. We have a team of people that detect and investigate instances where entities around the world are using our data in ways that don't comply with our policy, we then audit those firms and if we find any wrongdoing, then we place a damages claim and it gets negotiated and then the firm typically becomes compliant, we move on. But there's really nothing more to it than that.

Adedapo Oguntade
Okay, thank you.

Operator
We are now over to the line of Louisa Chender at Global Investor Group. Please go ahead, your line is open.

Louisa Chender
Good morning. We were just wondering, if LCH doesn't come up for sale what are the other options for Euronext in clearing?

Stéphane Boujnah
We have, as I said, fixed the operational issues with a ten-year contract with our existing partner. We have fixed the EBITDA contribution issue with a profit-sharing arrangement, which is comparable to the one we are – we have in place until the end of the existing agreement.

We have a pre-emption right that allows us to buy the asset if it could become liquid. So the clearing issue for Euronext, for all operational EBITDA contribution strategic purpose is fixed for the foreseeable future. Now we don't need to explore any alternatives, we need to grow together with LCH SA, the company where we have an 11.1% stake and where we are the only minority shareholder. So we don't need to explore alternatives in the current environment. We have to make it more efficient, more relevant to clients, more competitive and more profitable.

Louisa Chender
Thank you.

Operator
We are now over the line Will Hatfield at Bloomberg News.

Will Hatfield
Hello. Just wondering whether you are hearing from any large clients, especially ones based outside the European Union, whether they are now so negative on MiFID II that they are deciding not to connect to your platform or indeed to any others?

Stéphane Boujnah
Lee?

Lee Hodgkinson
No, I'm not hearing that. In fact we're in dialogue with our US clients last week on helping them get testing on the transaction reporting system. So no, I'm not hearing that at all.

Will Hatfield
Okay. And also just trying to work on what's going on with the Optiq platform. Will the platform that is live on 3rd January, will that be like your final MiFID production platform able to handle all the reporting requirements, including the personal identity stuff that you need to do for traders and fund managers, will that be live on 3rd January?

Lee Hodgkinson
So the short answer is, yes. But let me just give you a bit of background detail, because of course MiFID is not just about cash markets. So this coming weekend we will roll out the production version of the cash platform; on subsequent weekends in November we'll also roll out the derivative upgrade and the upgrade for transaction reporting, the data items that you're talking about.

So as we move into 1st December, our core technologies will all be MiFID II compliant and will be ready to go live. The market data elements of MiFID were already delivered across the summer, as Stéphane mentioned in his opening remarks. So we are all good to go.

Will Hatfield
Okay, thanks for that, Lee.

Operator
As that was the final question on today's call, Stéphane could we pass it back to you for any closing comments?

Stéphane Boujnah
None. Thank you.

Operator
Okay. In that case this now concludes today's session. So thank you all very much for attending. And you can now disconnect your lines.