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Euronext Q1 2020 Results

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Operator: Hello, and welcome to the Euronext Q1 2020 Results. My name is Val, and I will be your coordinator for today's event. Please note, this conference is being recorded, and for the duration of the call, your line will be on listen-only. However, you will have the opportunity to ask questions at the end of the presentation. This can be done by pressing star one on your telephone keypad to register your question at any time. If at any point, you require assistance, please press star zero and you will be connected to an operator.

I will now hand you over to your host, Mr Stéphane Boujnah, CEO, to begin today's conference. Thank you.

Stéphane Boujnah: Good morning, everybody, and thank you very much for joining us this morning for Euronext first quarter 2020 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 of this first quarter. Giorgio Modica, the Euronext CFO, will then further develop the main business and financial highlights. We will then open up for questions, together with Anthony Attia, Member of the Managing Board of Euronext.

Before heading to the presentation, I would like to share some remarks on the current situation. The first quarter of 2020 has been an exceptional time for everyone. And while we can observe the impact of the pandemic on our lives today, its future implications remain uncertain for most of us. At Euronext, our priorities are very simple. It's to ensure the health and safety of our staff and communities and to guarantee the efficient functioning of our operations to ensure fair and orderly markets. This is our primary mission.

And as a matter of fact, there has never been more pressure than in the current challenging times. Our business continuity management programme, supported by our previous investments, especially in technology, has allowed us to secure the efficient operations of the company while ensuring the health and safety of our employees. It allows all of us to implement appropriate adjustments, if and when needed, following a close dialogue with our clients and with our regulators.

Stock exchanges are clearly key aggregation centres for liquidity and they play a key role in price formation. Euronext continues to perform this commission despite the exceptional circumstances currently affecting Europe and the world at large. It's quite obvious that the recent weeks and months have demonstrated more than ever the importance of regulated and transparent market infrastructures.

Moving now to the results of our first quarter 2020. Euronext reported a strong first quarter with significant revenue growth across all our business lines. Revenue increased during this quarter by €84.2 million, up plus 55.2% to €236.8 million compared to Q1 2019. This strong performance reflects obviously high trading volumes across all asset classes, but this strong performance reflects also continued diversification with the consolidation of Oslo Børs VPS and Nord Pool.

Non-volume-related revenue accounting for 44% of Group revenue this quarter and covered 119% of operating expenses, excluding depreciation and amortisation. So thanks to our continued cost discipline, EBITDA grew faster than revenue. Group EBITDA grew by 68.1% in Q1 2020 to €150 million. This translated into an EBITDA margin of 63.4%, which is 4.9 point higher than last year's first quarter EBITDA margin while we consolidated costs from our recent acquisitions, which as you know, are margin dilutive during the initial phase of acquisition and of integration. So on a like-for-like basis, EBITDA margin reached 66.7%.

In addition, we achieved a targeted €8 million run rate cost synergies from Euronext Dublin two years after the completion of the acquisition in 18th March. And as a matter of fact, one year ahead of the targeted deadline. In this context, we confirm our cost guidance for the year 2020 announced in February.

Overall, this dynamic performance over the quarter resulted in a plus 65.3% increase in adjusted EPS at €1.44 per share on a reported basis, and Q1 2020 net income was up 71.3% at €96.1 million. So this performance is not only the result of increased trading volumes. This strong performance also reflects what has been the trademark of the Group for the past few years.

First, rigorous and constant investments in technology to deliver best-in-class trading platform, robust capabilities and capacities to absorb extreme volatility and extreme volumes. Second, efficient and constant cash trading, market share management, yield management that have allowed us to increase our market share in extreme volatility and volume conditions.

Third, disciplined deployment of capital to acquire, sometimes in very fierce competitive conditions, like last year in Norway, value creative assets that have allowed us to benefit from the consolidation of value creative acquisitions. And fourth, continued cost discipline whatever it takes, that have allowed us to grow significantly the EBITDA above the level of the growth of revenues. And these are things to stay irrespective of volumes volatility.

So moving to slide five. On 23rd April, Euronext has entered into definitive agreements to acquire approximately 70% of the shares of the VP Securities, the Danish CSD operator, from its existing owner. The acquisition of VP Securities represents really a new major milestone in deployment of Euronext ambitions to build the leading pan-European market infrastructure because the leading acquisition – sorry, the acquisition of VP Securities will position Euronext as a leading CSD operator in Europe and as a leading player in the Nordic region, because as I said, on numerous occasions, there is no European success without a Nordic dimension.

And it's quite obvious that this transaction will double Euronext CSD's business size and will further improve the Group's revenue mix by further increasing the share of non-volume-related revenue. So even if Q1 2020 has showed the importance of the contribution of volume-related revenues, our objective remains to diversify our top line to create on the long run a company with a much more diversified revenue mix.

And let me use this opportunity to highlight key terms of the transaction. We offered DKK1.2 billion for 100% of the shares, and we have opened a tender offer for all the – to all the remaining shareholders at the same terms and conditions. The transaction is expected to close by early Q3 2020 once regulatory approvals have been received from the Danish FSA. As I said before, the acquisition of VP Securities is a new major milestone in our geographic expansion in the Nordic region.

One year ago, in 2000 – at the end of 2018, beginning of 2019, we only had a limited presence through one or – to very few employees in our corporate services company in Stockholm. We are now present in Bergen, Oslo, Helsinki, Vilnius, Tallinn and soon Copenhagen. So since

2019, Euronext has significantly increased its presence in the Nordic region with more than €850 million of capital deployment and committed in Scandinavia. So to this capital deployment, we strengthen our post-trade business with the addition of two CSDs and expansion into power trading.

And moving to slide seven. I think we can see here how this disciplined capital deployment further diversified Euronext's business profile. Pro forma, i.e., including revenues from Oslo Børs VPS, Nord Pool and VP Securities in Copenhagen, our revenue mix would significantly increase its exposure to post-trade that would account now for around 23% of Group revenue. Post-trade will represent now 23% of Group revenues.

In the meantime, we are also improving our exposure to healthy and solid local economies as the Nordic region will generate around 25% of our 2019 revenue pro forma.

So I now hand over to Giorgio Modica for the detailed presentation of our first quarter.

Giorgio Modica: Thank you, Stéphane, and good morning, everyone. First of all, I would like to highlight that like-for-like, an organic performance refers to the results excluding the impact of the consolidation of Oslo Børs VPS, Nord Pool, OPCVM360 and changes of foreign exchange rate. As Stéphane mentioned, Euronext reported a very strong quarter with revenue reaching €236.8 million, up 55.2% compared to last year.

Let's now take a closer look at the different businesses. Double-digit growth of volumes across all asset classes, coupled with strong revenue capture and the consolidation of Nord Pool, led to a 73.3% increase in trading revenues for a total of €111.8 million. Post-trade revenue more than doubled to €39.2 million, driven by the consolidation of our Norwegian CSD VPS and higher clearing revenues linked to stronger derivative volumes.

Listing revenue grew 26.7% to €35.4 million, driven by the organic performance of Corporate Services and the consolidation of Oslo Børs VPS. Advanced Data Services reported revenue up 13.2% to €34.9 million, driven by the consolidation of acquisition and a resilient core business.

In the first quarter of 2020, non-volume-related revenues, as Stéphane mentioned, accounted for 44% of total Group's revenue, down year-on-year due to record trading revenues offsetting the increased exposure of the Group to non-volume-related activities, such as services, custody and settlement.

Lastly, these non-volume-related revenues covered 119% of our operating costs, excluding D&A compared to 114% last year.

Let's move now to slide 10 for Listing. The growth engine this quarter were Corporate Services and Oslo Børs VPS. Revenue grew 26.7% to €35.4 million, in particular, Corporate Services continued to report strong organic growth, reflecting continued commercial traction across all services. Combined with the activities of Oslo Børs VPS, our Corporate Services franchise reported €6.8 million of revenue this quarter.

The first part of the quarter display a dynamic start with a good momentum in primary equity issuances until the advent of the COVID-19 pandemic that severely affected the rest of the quarter for equity primary market. In the first quarter of 2020, Euronext welcomed the listing of MERLIN Properties, a Spanish large cap, and in addition with eight SMEs listing this quarter.

In total, €257 million were raised on Euronext primary market compared to €48 million last year. Secondary market saw a similar trend with €11.1 billion raised this quarter compared to €5.3 billion in the first quarter of 2019.

Let’s move now to our trading business on slide 11 and let’s start with cash trading. Cash trading revenue increased €32.5 million or 67.3% for a total of €80.8 million, reflecting significantly higher volumes, improving market share and a limited dilution of Euronext revenue capture versus the first quarter of 2019. This performance was mainly organic with like-for-like revenue growth of €28.8 million or 59.6%.

Looking now into the different components of this performance. ADV increased to €12.6 billion, up 53.2% pro forma of Oslo Børs volumes with a significant increase of volumes across all products. Revenue capture was 0.53 basis points on an organic basis, while including Oslo Børs, it was 0.50 basis point.

The resilience of our cash revenue capture is mainly linked to two elements. First, the relative stability of the volume mix with not major spike in volumes from liquidity providers that usually characterise periods of short-term volatility.

Second, the reduced size of average trade positively impacts average fees. In this extreme situation, trading volume concentrated on our markets, thanks to their depth, quality of execution and the reduced appetite of banks to internalise trades, which positively impacted transparent lead markets. As a consequence, our market share increased to 69.9%, including Oslo, 3.9 points higher than last year, and reached 70.2% like-for-like.

Moving to derivative trading. Derivative revenue were €15.7 million, up 51%, thanks to the higher trading volumes and slightly higher revenue capture. Product innovation in equity futures, such as single stock and dividend future with new maturity cycles, combined with high volatility, supported financial derivative volumes with ADV up 37.8% while an improved agricultural physical market benefited to commodity volumes increasing 50.2%. Average revenue per lot increased 2.1% to €0.29 per lot.

Let’s move to Slide 12 for FX and power. FX reached record average daily volumes of $25.9 billion in the first quarter of 2020, up 30.8% compared to the first quarter of 2019, supported by a highly volatile environment, increasing market share and the strength of the platform. Spot effect generated €8 million of revenues, up 39.5%, reflecting higher volumes combined with an improved fee scheme, partially offsetting an increased level of disclosed trading versus the first quarter of 2019.

Let’s move now to power trading. Power trading reported a €7.2 million revenues for 2.5 months of consolidation of Nord Pool, which Euronext acquired 66% in January 2020. This reflect the good performance of the UK and Central and Western Europe market, offsetting reduced volumes in the Nordic region impacted by a mild winter.

Over the first quarter of 2020, average daily volume were 2.9 terawatt-hour for the day-ahead auction and 0.08 terawatt-hour for the intraday trading.

Before moving to the next slide, I would like to highlight a few elements concerning the activity of Nord Pool. First, trading revenue is not Nord Pool’s only source of income. Other revenue for market coupling, shipping services and market data are recorded in other P&L lines, as we will see in the next slide.

Second, Nord Pool business is impacted by power demand and is therefore seasonal. As a result, it tends to display stronger Q1 and Q4's colder months and relatively weaker Q2 than Q3's milder months.

Finally, the revaluation of NOK against the euro impacted the performance of the business when converted into euros.

Let's move to slide 13 for post-trade. Revenue from our post-trade activity more than doubled in the first quarter of 2020 to €39.2 million. Clearing revenue was up 45.1% to €19.2 million, reflecting higher derivative volumes over the quarter and higher treasury income. Custody and settlement revenue accounted for €20 million, plus 262.8%, resulting mainly from the consolidation of our Norwegian CSD VPS and an increased settlement activity at both InterBolsa and VPS.

Moving to slide 14, the final slide on top line. Starting with Advanced Data Services, revenue was up 13.2% to €34.9 million in the first quarter of 2020, driven by the consolidation of acquired business, including Nord Pool power data activities and the resilient core business. Investor services' revenue was up 74.5% to €1.9 million, reflecting the commercial development and the consolidation of Oslo Børs VPS activity.

Lastly, on Technology Solution, revenue was up 44% and to €13.3 million, resulting from the consolidation of Oslo Børs VPS and Nord Pool.

Moving to slide 16 for the financial highlights of the first quarter, starting with the EBITDA bridge. Euronext EBITDA grew 68.1%, as mentioned by Stéphane, to €150 million this quarter. We already spent some time on revenues. Therefore, I would like to focus on cost and margin.

Organic costs slightly increased €2.5 million or 4%, mainly driven by higher clearing expenses for €1.9 million. As you know, those costs are pretty much our only volume-related costs within an otherwise nearly fixed cost base. Overall, the EBITDA margin for the Group increased to 63.4%, up 4.9 points, while on a like-for-like basis, the EBITDA margin was at 66.7% this quarter, up 8.2 points.

The profitability of newly acquired business was at 47% this quarter with Oslo Børs VPS benefiting from exceptional high volatility and a strong Q1 seasonal revenue for Nord Pool, as mentioned in the previous slides.

In summary, first, organic costs were nearly flat year-on-year, excluding the impact of clearing expenses linked to volumes. Second, Euronext displayed a higher level of profitability across the board, thanks to its high operating leverage. I would say this is a pretty simple quarter to read, have to take questions in the Q&A, if needed.

Let's move now to the slide 17 to the net income bridge. Net income increased this quarter by 71.2% to €96.1 million, resulting primarily from the strong operating performance. Looking at below EBITDA items, D&A increased 45.6% during the quarter mainly resulting from the consolidation of recently acquired businesses and the impact of PPA. This is mechanical. The more business we acquire, the more D&A linked to the purchase price allocation. This quarter, nearly €5 million of our D&A are linked to PPA.

Exceptional items were lower this quarter and resulted primarily from advisory cost and restructuring cost at Oslo Børs VPS. Net financial expense increased year-on-year, reflecting the interest expense on the second bond issued in 2019 to finance the acquisition of Oslo Børs

VPS. Income tax rates was lower than last year at 28.1% as anticipated, while the income tax charges increased in absolute amount due to the higher level of profitability. Finally, adjusted EPS is up 65.3% at €1.44.

To conclude with financial, let's move to the slide 18. I would like to start spending time on the cash flow conversion rate that reduced this quarter from our normative rate of approximately two-third to one-third. In the first quarter of 2020, the net operating cash flow was lower than last year, impacted by higher changes in working capital from Nord Pool.

More explicitly, as a part of the acquisition of Nord Pool, we acquired both, on the one side, a large payable position that was actually paid during the quarter, and on the other hand, the necessary cash to settle that position. This settlement negatively impacted the changes in working capital for the Group this quarter.

If you look further down in the chart of the liquidity bridge, you will notice under the item, acquisition of subsidiaries net of cash acquired, a positive €61.3 million. This is linked to the cash we acquired, and it was used to settle the payable position we just discussed.

To conclude on Nord Pool working capital and cash flow conversion, I would like to add a few elements. First, Nord Pool operate as CCP and has a structurally negative working capital as it cashes in power receivable at T plus one before it settled power payable at T plus two. Second, excluding those self-funded working capital fluctuation related to the market activity, Nord Pool cash conversion rate is similar to the one of Euronext.

Finally, excluding Nord Pool changes in working capital, the net operating cash flow would stand at €116.5 million.

Moving to the financial leverage of Euronext. Our net debt stands at €602 million, representing a net leverage of 1.3 times pro forma on the last 12 months. Looking at the bottom of the slide, at the end of the first quarter of 2020, our liquidity position remains strong close to €820 million, including the undrawn RCF of €400 million. You will also notice that we slightly increased our targeted cash flow operation to reflect the increased perimeter of the Group.

I now hand the floor back to Stéphane for his final remarks.

Stéphane Boujnah: Thank you, Giorgio. We successfully managed this high volatility environment to deliver a strong first quarter 2020. This demonstrates the relevance of our past investments in technology, notably in our proprietary trading platform, uptick and on strong operating leverage.

I just want to emphasise a few things because some comments have been written about whether this quarter is sustainable. So let me say as a matter of conclusions, very clear things. There are things that we don't know that may change and that we don't control. And these are volumes and volatility. And there are things that we know that will not change and that we control. And these things that we know that will not change and we control are, number one, our yield management expertise and commitment to extract the best from volumes and volatility, whatever it is.

Second, our commitment to cost discipline, which allows us, in this particular circumstances, to grow EBITDA more than revenues. Third, a disciplined capital deployment, a disciplined way to acquire company, which translates into the deals we do and also into the deals we don't do as demonstrated over the past few months in order to secure value creation and shareholders' value aggregation.

Fourth, we have created post-merger integration factory. I mean, the example of the Irish Stock Exchange, where we have delivered €8 million of run rate cost synergies one year ahead of schedule, demonstrates that the full price we have paid post tangible synergies for the acquisition of the Irish Stock Exchange is approximately seven times the EBITDA.

And finally, we are committed to grow, to diversify our top line and to expand our federal model by acquisitions. So yield management, cost discipline, disciplined capital deployment, integration, factory commitment to grow by acquisition, these are things that we know, things that will not change and things that are under our control. And they are things to last that are very different from external factors like volumes and volatility.

So we are now available for your questions with Anthony Attia and Giorgio Modica.

Questions and Answers

Operator: And as a reminder, if you would like to ask a question or make a contribution on today's call, please press star one on your telephone keypad. To withdraw your question, please press star two. Please ensure your line remains unmuted locally. You will be advised when to ask a question. So again, that's star one on your keypads. And the first question comes from the line of Benjamin Goy from Deutsche Bank. Please go ahead.

Benjamin Goy (Deutsche Bank): Yes, hi. Good morning. One question on your cost guidance. As you mentioned, plus 4% like-for-like but almost entirely driven by clearing fees. So seems like you're running ahead a bit of your guidance. Any thoughts on that? Appreciate it. And then secondly, on VP Securities. Maybe you can comment on the discussions of the minorities, how this is going and whether we should expect 100% acquisition and basically all of your acquisitions?

Stéphane Boujnah: So I'll take the questions on VP Securities, and Giorgio will answer your question on the cost guidance.

On the VP Securities situations, we have acquired – we have signed an agreement to acquire 70% of the shares. It's subject to Danish FSA approval that we should get in the course of July. So subject to that approval, we will complete controlling transaction. In parallel, we have launched an offer to the minority shareholders. As you know, under Danish law, like in many other countries, we need to reach 90% of the shares in the company to be in a position to "squeeze out" the minority shareholders, i.e., to offer a forced exit to the minority shareholders. So this offer is ongoing. We are gathering acceptance.

The offer is open for a relatively long period until the end of August because there are existing pre-emption rights that needs to be clear in the ways existing shareholders in VP Securities can transfer their shares. So it's a pure technical issue. But the momentum we are gathering so far make us confident that we should get to the 90% threshold, which will allow us to complete within a reasonable amount of time a full control of 100% of the shares in the company. It's not absolutely certain, but there is for a moment, a momentum which is favourable.

Giorgio Modica: When it comes to costs, clearly cost discipline is our trademark and our commitment. However, I would like to highlight that evolution of cost is not linear throughout the year. And we are running at a level that we expected to run in the first quarter and you should take as well into consideration the fact that we might have not evenly spread cost across the different quarter. And therefore, we reiterate the guidance that we shared with you with the result of the end of year 2019.

Benjamin Goy: Very clear. Thank you.

Operator: Thank you. The next question comes from the line of Arnaud Giblat from Exane. Please go ahead.

Arnaud Giblat (Exane BNP Paribas): Yeah. Good morning. I've got two questions. Firstly, on yield, in cash equities. That held up very, very well given the strong volumes, usually you see the yield move in opposite direction. So is the change in pricing you've enacted there and that you went through the Investor Day. Is that what's keeping that yield up? Should – how should we think about the yield sensitivity to volumes in the future? That's my first question. Secondly on M&A. What – I mean, last time you spoke about BME. You were still in the bidding. You'd indicated that you were going to – you were reviewing your required return on capital relative to a new WACC. What decided not – why did you not proceed? Was it a case about the revenue synergies or the threshold not high enough? Secondly, I noticed that the VPS deal has a return on invested capital of 10% – greater than 10%. So clearly, a much higher return on invested capital than BME would have generated. So what's the thinking here? Are you now back to your guidance of looking for deals at higher or making it higher than 10% return? And secondly, if I can ask on M&A. Can you just give us maybe an update in terms of competition for deals? Were the deals for Nord Pool and for the VP Securities competitive? Thanks.

Stéphane Boujnah: I'll take the M&A question, and Giorgio will answer the question on the yield. The reasons why we did not proceed with the – contribute on BME are very clear. We have analysed carefully for long the situation the performance of the asset, the surrounding environment, the strategic value of the acquisition and the return on capital employed to be expected and the environment, including the existing offer of another bidder, who was willing to pay multiples on BME and to accept not to do any synergy for the next 10 years.

And the combination of this price paid by another winning buyer, plus the commitment not to do anything in the company in terms of cost for the next 10 years compared to our approach of the company, which would have been to make them part of the single liquidity pool enabled by a single order book and powered by a single technology platform, which would have meant significant restructuring and synergies, plus – or expectations on return on capital employed, led us to believe that this transaction, despite its strategic benefit, would have been value destroying for Euronext shareholders.

Hence, we've decided not to do it. So the "hesitations" or the time we spent analysing the whole thing was to assess the "strategic value" that would have justified to reduce the expectations for – or self-imposed discipline in terms of return of capital employed.

We've reached the conclusions that the gap between the strategic value and the return of capital employed was not to be justified. And therefore, we decided not to proceed. As you said rightly, VPS is a totally different asset, where we believe that extraction of synergies will be much easier. Clearly, as you can imagine, we buy the asset from five large shareholders, and the largest seller is the Central Bank of Denmark. So these issues have been discussed at length.

And we are – and the price we are paying is definitely much better than the Spanish situation. I say as a – take it as a sort of a slogan, VPS is roughly five times smaller in terms of revenues than BME, and we pay it 20 times less. So it's financially a more attractive asset. It doesn't serve the same strategic purpose. But what you can observe is that when you consolidate Oslo Børs VPS, Nord Pool and VP Securities in Copenhagen, you get to a contribution pro forma to its top line of the Group of 25% and with a return on capital employed blended, if you look at the region, which is probably more attractive than other decisions we could have made, and we have not made.

In terms of Nord Pool, like any asset, there is competition. There is always competition of – and at that time, there was – there is always competition of private equity players, competition of potential other industrial bidders. We always face competition. There is no such a thing that – but what we try to do is to position Euronext as providing a particular angle. I mean, if we bought VP Securities, among other things, if we bought it from the Central Bank of Denmark, among other things, was the fact that we were perceived as a sort of – more than fit and proper but a sort of predictable appropriate owner of a local market infrastructure, which is not an exchange, but which has many feature of this very regulated transparent infrastructure that needs to be close to regulators and close to local clients.

Giorgio Modica: Yeah. Turning to the yield, there are a few elements that I would like to highlight. So clearly, in the last 12 months, there were fee changes. However, there were no major fee changes between the last time we spoke with the result of December '19 and today. So you should not link what has happened to a specific measure that were taken in the first quarter of 2020. So this is the first element.

The second element is the fact that clearly the mix of our volumes is a clear trigger of the average fee. And again, as I mentioned, usually what happened with spike of volatility is liquidity providers that usually have lower fees than the rest of the volumes tend to be overrepresented. This did not happen this quarter because despite the very significant level of volumes, the natural volumes, the buy side, were quite significant and represented in our volume mix.

Then there is a last comment I would like to make, which is the general principle of our fee scheme is that the more you contribute to the quality of the market, the lower the fee you pay. And clearly, when there are extreme situation in terms of volatility, the possibility to contribute and maintain high level of standard for the equity provider becomes tougher. And therefore, this can have an impact on average prices.

Another element that plays, and I already mentioned, is the decreased size of average transactions. So all in all, what I would say is that the general between brackets pool that higher volumes command lower yield still remain valid. The exceptional circumstances of the first quarter do not – cannot be and should not be extrapolated for the remainder of the year.

Arnaud Giblat: Thank you.

Operator: Thank you. The next question comes from the line of Mike Werner from UBS. Please go ahead.

Mike Werner (UBS): Thank you. I had two questions please. First on VP Securities. I was just wondering, this is a business that according to their records, have grown revenue by just under 1% per annum over the past three years. So I was just wondering do you see an opportunity here to kind of accelerate the revenue growth for the business? And then how do you look at potential expense synergies relative to the size of the current cost base? And then secondly, you noted that – I think you gained certainly a decent amount of market share in Q1 as you indicated that banks behaviours have shifted, and people and traders and investors were preferred to transact on venues with greater transparency. Is that something that is continuing into Q2, i.e., are those market share gains sticky as ultimately volatility – the remaining elevated levels had come off from highs? Thank you.

Stéphane Boujnah: So I'll let Giorgio answer the question on the market share development, and I'll answer your question about the VP Securities. VP Securities operated as a stand-alone country CSD and had ambitions to grow their top line and they have developed new value-added services, but they lacked the scale and the support of a solid shareholder to implement those projects.

They have many growth projects that have remained, to a large extent, aspirational because the previous shareholder basis and the previous Board structure was mainly user-driven with no focus on growth that was not related to the core local services. So they are very specific projects ready to launch. They have explored cross-border ideas, including ideas for Nordic development services. And you should know that – I mean, you know, sorry, that VPS in Oslo and VP Securities in Copenhagen share the same technology DNA.

The technology used by VPS in Oslo comes from a sort of basic technology developed by VPS in web securities in Copenhagen. The companies know each other very well. They have discussed in the past ideas to grow a joint offering. They operate the same CSD business model with segregated accounts. That makes them very, very similar, which is different from what is common in the south of Europe with our jumbo account or omnibus accounts.

So they are prospects of growth. As I said, in my concluding remarks, the core of the EBITDA expansion will come from the integration of VP Securities into the Euronext cost culture, making a single country platform part of a Group organisation. But we believe that we are in a position to expand the top line of the Group because of this Nordic project. Giorgio?

Giorgio Modica: Coming to the – to your second question with respect to market share. There are two elements. As you pointed out, there is an increased level of volatility. These attract risk for bank's book. And therefore, to a certain extent, reduce the appetite for increasing systemic internalisation, which in turn, to a certain extent, slightly reduces the size of the non-lead market in favour of transparent market. So this trend is linked to risk – appetite for risk and volatility and remains in place.

Then looking at the other market share in the lead market, what I can tell you is that it was strong and remains strong. And clearly, we will need to see how things evolve in an environment, which remains highly volatile.

Mike Werner: Thank you.

Operator: Thank you. The next question comes from the line of Haley Tam from Credit Suisse. Please go ahead.

Haley Tam (Credit Suisse): Morning gentlemen. Two questions for me please, if I may. The first one just simply on the Oslo Børs acquisition. I just wondered if there's any update on the synergies there, I suppose, specifically whether the COVID-19 crisis led to any sort of distractions and maybe delays as resources were maybe diverted elsewhere? And I guess on the plus side, you obviously mentioned VP Securities already on the revenue synergy side, but any comments there would be - any further comments there would be useful. And the second question, just in terms of short selling bans. Obviously, those have been ongoing since the crisis began. And I just wondered whether you thought that had any ongoing impact on volumes. Again, any comments you have there, would be great. Thank you.

Stéphane Boujnah: Okay. So I'll take the question on short selling ban, and Giorgio will take questions on the update about – on the integration of Oslo Børs.

So the short selling ban is what it is. It's a measure that was enacted in several Euronext jurisdiction, including France and Belgium, not in others at mid-March. It has been renewed for one more month. In the coming days, there will be discussions among regulators concerned about whether they want to renew it for one more month. We believe that at the time it was – the decision was taken, it could be understandable.

I mean, actually, the regulators called us to consult us. And we told them that at that time, anything that could cool down the market and – will be welcome. We did our share with the extension of reservation payers, of circuit breakers, etc., and they felt that the right compromise to avoid unnecessary procyclical amplification downside for some issuers was to pull down the market with ban on short selling.

Today, the situation is very different. So whatever the decision of directors will be, it will be. But we strongly believe that the situation has changed materially since mid-March.

In terms of revenue impact, it had an impact on our derivatives business. But the good news is that it was massively offset by the high volumes that you are observing in the results of this month in cash trading, but it had an impact. But in a crisis environment, I believe that you cannot get the cake and eat it. You cannot get high volatility and volumes on cash trading and expect that the regulators will stand still and will not take some measures that they felt were appropriate to cool down the market during the initial prior of the crisis.

Giorgio Modica: Yeah. Then when it comes to the integration programme of Oslo Børs VPS, what I can tell you is that the decision have been taken and communicated to the relevant counterparties, which means that we are in full execution and we are not anticipating any changes with respect to the plan that we committed to deliver and that we planned.

However, on the other side, it's fair to say that clearly, we are living unprecedented times. And clearly, the success of the integration relies as well on third parties, client readiness. And therefore, we are doing everything possible to minimise the risk that this might have an impact on the plan.

But what I can tell you is that based on what we have today and the interaction we have today, we do not envisage any change in the plan.

Haley Tam: Thank you.

Operator: Thank you. The next question comes from the line of Andrew Coombs from Citi. Please go ahead.

Andrew Coombs (Citi): Good morning. If I could ask one question, also one follow-up. First question would be on the custody business. Could you just elaborate on any sensitivity you have to the quite sizable cuts that we've seen both in Norwegian rates but also in Fed rates as well? And second question, which would be coming back to the cost guidance. I think in answer to the first question, you said that you maintained the previous guidance of looking at mid-single-digit growth in OpEx versus the second half annualised. And you seem to suggest that because a lot of the integration and digitisation projects will probably come through later in the year. Is that fair? And if so, when can we kind of expect those to come through? Is that a Q2 event or is that going to be more Q3 and Q4 weighted? Thank you.

Stéphane Boujnah: So Giorgio will answer you the cost guidance question. Can you rephrase your first question because you mentioned custody and then exchange rate? I'm not sure whether you refer to the Norwegian kroner exchange rate situation, which deserves some comments if – and Giorgio can make them.

Andrew Coombs: Yeah. Not so much exchange rate but the interest rate cut. So I assume the base rate cut will feed through into your net treasury income at some point, but interested in your thoughts.

Giorgio Modica: I mean, in this respect, as you've seen, clearly, the revaluation of the NOK against the euro is not positive on two sides. The average rate for the quarter in terms of P&L was around NOK11.5 against the euro, which is clearly much above the reference rate at which the company was acquired. From a liquidity standpoint, there is no issue because the business naturally hedged. However, it does create an impact on equity that goes through OCI and will reverse back once the condition of the NOK against the euro will normalise.

And as well in the cash flow, you've seen, roughly speaking, €50 million impact on the cash at the end of the period. But again, we are not concerned about that.

Then when it comes to your second question about the cost guidance, let me be even clearer. So what we said at the end of – actually at the beginning of this year when we provided the cost guidance, we said, let's take the second half 2019 annualised cost base, this is around €311 million, and we gave a cost guidance of mid-single-digit increase that we do maintain. And you should appreciate that it would be very difficult, even more difficult today given the situation, provide the exact phasing throughout the quarters.

That by definition cannot be linear, but we need to have a margin of flexibility from an operational side. And clearly, the perimeter of the Group has changed. So clearly, we will have 11.5 months for Nord Pool. As you know, the revenues in euros are around €40 million. We guided on around 25% margin. So on an annualised basis, this is around €30 million of costs. And then clearly, VP Securities, pending the date of completion, but let's assume as we announced that this is going to be early third quarter. Here, we're guiding for 35% type of margin on a €57 million revenue.

So you can do the math to see how much could be the cost for 2020. So I guess that those are the key building blocks. And we cannot provide further breakdown by quarter over and above the target for year-end.

Andrew Coombs: That's useful in terms of the cost block. Thank you. Just on the original question, rather than the FX exchange rate, I was more interested about the impact of the interest rate cuts on your net treasury income within the custody business.

Giorgio Modica: No. This is not the - I mean, key drivers for the business is – key drivers for the business are assets under custody, which are measuring value at the end of the year. So for this year, those are locked. And then number of accounts and number of transactions settled. So the interest rate is not the key driver for the evolution of the P&L.

Andrew Coombs: Okay. Thank you.

Operator: Thank you. The next question comes from the line of Johannes Thormann from HSBC. Please go ahead.

Johannes Thormann (HSBC): Good morning everybody. I have two follow-up questions, please. First of all, on the VPS deal. Will you make use of your cash flow and use only existing cash, or do you need to tap your existing credit lines to pay for VPS? And in terms of EPS accretion, can you guide when you expect a positive impact on your EPS from this deal? And probably on the extraordinary costs or exceptional items, how much should we expect from VPS and from other deals in this year? Thank you.

Stéphane Boujnah: So Giorgio will answer on those two questions.

Giorgio Modica: So the first question is about the –

Stéphane Boujnah: The financing.

Giorgio Modica: When it comes to the financing there are a few elements because, clearly, we expect most of the deal to be financed with existing cash. Depending on how things will evolve and, to a certain extent, the flexibility between the different Euronext countries, we might finance it completely with the existing cash or to ease some cash flow constraints linked partially to the current situation. We might as well use, for a very limited portion, the RCF that we would then rapidly repay.

Then when it comes to the – to target about integration cost and VPS, I mean, let's close the transaction first, and then we would see to give you more specific targets.

Johannes Thormann: Okay. Understood.

Operator: Thank you. The next question comes from the line of Kyle Voigt from KBW.

Kyle Voigt (KBW): Hi. Good morning. I just have three questions. So one is the – just a follow-up on the M&A environment. Can you just talk about the number and the quality of M&A opportunities you're seeing now versus what you're seeing in a pre-COVID-19 world? Just wondering if the volatility in public asset values has caused some challenges there. Second question is on the listings business. Just wondering if market capitalisation stay in your current levels, maybe the CAC 40 down near 28% year-to-date, the IPO market likely to remain challenged near-term. Is there any way to frame the expected impact to the listings franchise over the next – and the revenues over the next 12 months? And then lastly is, when we look back historically at periods of extreme volatility, they typically result in lower market values and eventually lower cash equities industry volumes. As you said in your prepared remarks, volumes aren't something that you can control. But I'm just wondering in that scenario, which volumes do begin to fall if that comes to fruition, can you just go over any potential expense levers you may have in a more challenging operating environment?

Stéphane Boujnah: So I'll take the first question on M&A environment and the "crystal ball/stress test" question, your third question. And then Anthony will take the question on listings.

On the M&A environment, it's very difficult to give you a numerical answer. What we can tell you is that as far as we are concerned, we have decided not to pause, not to wait and see but to continue deploying our external growth ambitions as demonstrated with the VPS – the VP Securities deal in Copenhagen announced on 23rd April in the middle of the pandemic.

And as we speak, we are monitoring other situations. We have some dialogues. As always, most of these analyses and most of these dialogues will lead nowhere because that's the reality of M&A where the circumstances or the conditions to be met for a deal to happen is very constrained by own expectation and salary's expectations.

What I can tell you to answer in a qualitative way your question is that what the crisis is showing is that some sellers are becoming more flexible. We are not getting a situation where there are distressed sellers, but there are sellers that are revisiting their options. Having an open option where you had pre-crisis always deep-pocket private equity bidders is not necessarily a good idea because bilateral processes might be more productive than open processes, of which the outcome is not certain.

So I would say that the grammar, the choreography, the way of doing deals is slowly and discretely changing, and that creates opportunities for people like us who are very agile and have demonstrated our capability to navigate in bilateral processes. So the environment is definitely changing in terms of number of deals. You'll have a deal that will accelerate. You will have sellers who will wait and see. You will have private equity guys who are in a wait and see mode but are going to reach, for some of them, liquidity needs to fund other components of their portfolio.

So yes, the environment is changing. Yes, there are opportunities for Euronext. No, I can't give you a number. In terms of listing?

Anthony Attia: Yeah. Good morning. This is Anthony. In terms of equity listing, your question was about the impact of the total market cap decrease that we see on the market after COVID-19 crisis. So let me remind the structure of the equity listing revenues. We have three sources of revenue, three buckets. The first one is new listings, such as IPOs. The second one is secondary follow-on activities. And the third one are yearly fees.

And so your question is definitely related to the yearly fees. They are calculated based on the market cap of our listed companies at the beginning of the year. So for 2020, we have – we are immune from the COVID-19 impact. And to appreciate this impact, we're going to have to look at the total market cap at the beginning of 2021. And all this, obviously is pre-IFRS 15 application on the numbers.

Stéphane Boujnah: And you had one last question about what happens – what's going to happen on cash equity trading volumes and what would be the consequences for the company in the event of a low-level plateau – lasting low-level plateau. Again, I don't have a crystal ball. I think in the coming months, we will have a combination of positive news flow and negative news flow.

There will be positive news flow potentially on vaccine, treatments, test. There will be a positive news flow on some specific sectors that are benefiting from the current crisis. And there will be negative news flow on some sectors that are more damaged than we anticipate, especially when the sort of current incubator that is put on the GDP of many countries is going to be lifted, and we will see the reality under normal market conditions of the damage done by self-imposed lockdown will have a stream of bad news.

On the other hand, we – the monetary stimulus is going to continue. The fiscal stimulus is massive, and there will be a new layer of fiscal stimulus post-crisis. So these flows of money are going to be transformed into debt and equity investments somewhere. So frankly, it's very difficult to form a definitive view. What I do believe is that we are in a business, which is driven by fundamental growth, but also by fundamental intensity of new flows and by fundamental injections of money. So each of us can form his own model.

And in the event that all that goes south and ends up in a very dark low-volume plateau, what I can tell you is that we have, in the last quarter, close to 120% of our cost base, which is covered by non-volume-driven revenues. So in very extreme circumstances, the diversification that we have embarked into for the past four years is relatively protecting us in terms of extreme conditions.

If it were to last, the profitability would probably reduce. But even then, if you look at our experiences in the previous quarters and in the previous years, where sometimes we had significant reduction of flows, Euronext performed better on profitability than our peers on cash trading because of cost base, it's much thinner. So the effort – the huge effort made on our cost base has always been driven by a sort of very profound ambition to make sure that in good days we capture a disproportionate part of volumes and volatility by a thin cost base, so that we can monetise the disproportionate part of those volumes and volatility.

And in bad days, we minimise the impact of the cost pressure, so that whatever continues to come in terms of volume and volatilities is monetised. And that's what you have observed in the previous years. So to make a long story short, no clear idea on where volumes will end up, strong confidence that whatever reduction volumes, the diversification is there and strong confidence that whatever volumes are, we will extract a disproportionate part of those volumes in terms of profitability.

Kyle Voigt: Thank you.

Operator: Thank you. The next question comes from the line of Martin Price from Jefferies. Please go ahead.

Martin Price (Jefferies): Good morning. Hopefully, two quick questions for me, please. Firstly, on VP Securities. Do you expect the acquisition to change Group level cash needed for operations much beyond the €190 million you flagged for the first quarter? And secondly, just turning to the derivatives business. You've clearly reported strong volumes there for most of the year. Clearly, volatility has been the key driver. But it also looks like you've had some success with product innovation, including the new majority cycles on some equity derivatives.

So I was just wondering if you could talk a little bit about the actions you've taken there to improve the sort of underlying level of structural growth within the derivatives complex, please?

Stéphane Boujnah: So Giorgio will answer your two questions, the one on VP Securities and the other one on the progress made on our organic growth operatives.

Giorgio Modica: So when it comes to VP Securities, we do not expect major changes in the cash flow profile of Euronext. When it comes to your second question, yes, you're right. What we actually did is two things that seem simple but are not listen to clients and execute. And we had quite success looking at two products, the equity future and the equity dividend future that – I mean, looking at the performance, the growth of the former is quarter – year-on-year is increased tenfold. And equity derivative future increased twelvefold with nice gains of market share there.

And there the key success was, again, a dialogue with clients that we're aiming to have new maturity cycles alongside the existing ones.

Martin Price: Okay.

Giorgio Modica: And going forward, our ambition is clearly to remain close to clients to detect the pockets of demand, which are not addressed today and try to do it more efficiently and with more agility with respect to our main competitors.

Martin Price: That's helpful. Thanks Giorgio.

Operator: Thank you. The next question comes from the line of Bruce Hamilton from Morgan Stanley.

Bruce Hamilton (Morgan Stanley): Hi. Thanks. Morning guys. Many of my questions have been asked. Maybe just a follow-up on the M&A stuff. In terms now of your sort of Nordic footprint, do you feel it's pretty much complete? Obviously, you alluded to some potential to drive top line through joint projects. But are there any other areas that you would like to fill in to kind of accelerate the growth there? And then just thinking about sort of sourcing deals looking forward. I mean, would you expect the sort of banking consortium-owned assets are the most likely area of opportunity just given the – obviously, the challenges and strategic refocus for many of the banks in the sort of post-COVID system?

Stéphane Boujnah: Can you rephrase your second question?

Bruce Hamilton: Yeah. So in terms of where you source assets, VP Securities were sourced from a banking consortium who may not be natural owners. I mean post-crisis, would you see that as being even more likely sourcer of assets or is that too simplistic?

Stéphane Boujnah: No, I think your comment is right. I mean, if you take a long-term historical perspective of our industry, there was a first wave of disposals by banks or by consortium of banks of infrastructure assets after the previous crisis, where banks were under pressure to recapitalise, so after 2008, 2009. You've seen in 2010, '11 and '12, a first layer of disposals of user-owned market infrastructures.

So whatever is left for the moment is probably going to be subject to the same analysis. So it's not simplistic approach. But it's true that the number of assets that are under this type of ownership is not as large as it was 10 years ago. But it's clearly a spot where Euronext wants to be, to entertain dialogue with those owners. But it's also a spot where private equity buyers want to be. And it's a spot where previous owners, when they wait the benefit of selling to private equity and selling to Euronext, feel that the required element of continuity are more protected when the new owner is a pan-European regulated exchange than when it is a private equity player. But your approach is right.

On VPS, there is a Nordic ambition. CSDs are by nature very local. They are very close to the local regulators. So if there is a world where there is a big gap between PowerPoint and reality, this is the world of CSDs because you don't do whatever you want. The flipside of it is that barriers to entries and stickiness of the revenues in the business are very strong. But in terms of involvement of regulators, in particular, risk-driven regulators, central banks, etc, or specific roles – I mean, in Norway, VPS does produce fundamental components of tax returns in terms of capital gains to the tax authorities.

In Portugal, InterBolsa plays an important role to manage sovereign debt. In Ireland, the CSD collects stamp duty. So local CSDs have to be – are massively driven by local regulators. So there are things we can do in all the fields that are not subject to the core regulated settlement and custody business because there is a lot of knowledge embedded. There is a lot of data embedded within CSDs that are not very much valued.

So the holy grail is to find ways to monetise those data because there is an appetite for many issuers, for many investors, to know who are the owners and how the owners behave in the equity world and more broadly in the financial instruments world. So this create opportunities of top line expansion. You need a very similar business models to be able to extract those. You need similar type of clients. The beauty of the Nordic region is that the key players in the local financial world are across the four countries in the Peninsula and – plus Denmark are SCB, Nordea, Danske Bank, DNB, plus many local savings banks.

And this is a relatively homogenous business environment. So we believe that there are opportunities that, for the first time, we will be able to unlock.

Bruce Hamilton: Okay. Thank you.

Operator: Thank you. Our last question for today comes from the line of Ron Heijdenrijk from ABN AMRO. Please go ahead.

Ron Heijdenrijk (ABN AMRO): Yeah. Good morning, gentlemen. I have a few questions that are left. With regards to synergies, you've reached your ISE targeted synergies one year early. Do you see any additional synergies coming from that acquisition going forward in the next year, let's say? And then secondly that was also a question, I think, from Haley earlier on, on VP Securities. Can you share us how we should think about how the synergies from that transaction? Also given the fact that all the comments that this is local, but at the same time, that they have some similarities with your Norwegian CSD there? And then finally, on VP Securities and maybe even on Nord Pool. Will we, at some point in time, get a bit more detailed financials on the two acquisitions rather than just revenues and EBITDA? And then finally, on the personnel cost. What is the delta this quarter for Nord Pool integration? That's it. Thank you.

Stéphane Boujnah: Okay. So I leave Giorgio answer the four questions. The first on the futures purchase, some synergies on Ireland and the synergies in – within VP Securities and the prospects on Nord Pool.

Giorgio Modica: So starting from your first question. When it comes to Dublin, clearly, our ambition has not stopped with the €8 million. But there is a moment where – I mean, to a certain extent, it's an artificial perimeter that we are measuring. And now the company is completely integrated. And for practical reason, we don't look it anymore as a different entity. And therefore, we will stop monitoring that, not because we don't have ambitions but because now it's part of the core Euronext.

Then to your second question, what should we expect from VP? Here, we should expect two things, two phases. A phase 1, which is the integration of a stand-alone company within the Euronext ecosystem. And the second one, which does not affect only VP but all the CSDs of Euronext, is more related to the project of creating Euronext of CSDs.

Now the second one, clearly, it's too early to have any discussion. When it comes to the first one, without giving you quantitative targets, what I can tell you is that, clearly, as you can see from publicly available information, there were certain specific costs that VP had in the past related to the migration, transition to the T2S system. And today, there is a gap of profitability between the VP and VPS. And clearly, our ambition would be to make sure that all activities are run as efficiently as possible.

And then clearly, this would represent the first layer, and then there is going to be a top-up layers related to again the Euronext of CSD going forward.

Then when it comes to the cost of employees, what I can tell you is that the cost of – on a comparable basis, cost for Euronext have been going down around – let me give a look, cost of employees have been down on a like-for-like basis of around 4%. The rest is coming from change of perimeter. And we're not giving the breakdown between how much of that is coming from VPS and how much is coming from Nord Pool.

Ron Heijdenrijk: Thank you.

Stéphane Boujnah: Ladies and gentlemen, if you don't mind, we need to close this call. I have to jump on the call for the Annual General Meeting of Euronext NV. So if there are no further questions, let me thank you for your time and your interest for Euronext development and happy to follow up on your additional questions to our Investor Relations team. Have a good day.

Operator: Thank you for joining today's call. You may now disconnect. Hosts please stay on the line and await further instructions.

[END OF TRANSCRIPT]