



# **Q2 Results 2019**

Friday, 2<sup>nd</sup> August 2019

**Operator:** Hello and welcome to the Euronext Q2 2019 Results Conference Call. Throughout the call all participants will be in listen-only mode, and afterwards there will be a question-and-answer session. Just to remind you, this conference call is being recorded. Today, I am pleased to present Mr Stephane Boujnah, CEO and Chairman of the Managing Board of Euronext. Sir, please go ahead with your meeting.

**Stephane Boujnah:** Good morning everybody and thank you for joining us this morning for the Euronext Second Quarter 2019 Results Conference Call and Webcast. I am Stephane Boujnah, CEO and Managing Board of Euronext, and I will start with the highlights of the second quarter of 2019. Then Giorgio Modica, the CFO of Euronext, will further develop the main financials of the quarter. And I will update you on the status of the integration of the Oslo Børs VPS before opening for questions, together with Anthony Attia, member of the Managing Board of Euronext.

So if we move to page five, you can see that Euronext reported a strong set of results for Q2 2019, driven by both improved revenue diversification and continued cost management. And when we look into the details, clearly, revenue increased in Q2 2019 by plus €2.7 million, up 1.8% to a total of €159 million. The improved Group revenue profile and the efficient yield management mitigated the impact of declining trading volumes over the quarter. Oslo Børs VPS contributed to the €4.5 million revenues for the last two weeks of June. As you know, we have completed this acquisition on the 14<sup>th</sup> June. Also, services to issuers – the corporate services and also services to investors, or investors services as we call it – reported double-digit growth contributing to our revenue diversification.

Our trading business resisted very well despite a subdued volume environment thanks to our efforts on two fronts: yield management and market share management. Overall this quarter non-volume related businesses accounted for 48% of total revenues versus 44% in Q2 2018, even though we don't yet have the full impact of Oslo Børs VPS consolidation which, as you know, has a significant component of post-trade CSD business in its portfolio.

At the same time, we continue to demonstrate the Euronext discipline. Group cost excluding D&A decreased by minus 11% and were down by minus €7.8 million as a result of the continued cost discipline and the cost optimisation in Dublin that more than offset the impact of incremental costs related to the consolidation of Oslo Børs VPS and Commcise. As a result, Group EBITDA strongly increased by plus 12% in Q2 2019 to a total amount of €98.1 million and this overall translates into an EBITDA margin of 61.7%, 5.7 points higher than the EBITDA margin of Q2 last year. Overall, this strong operating performance over the quarter resulted in a plus 4.5% increase in adjusted EPS at an absolute number of €0.93 per share. Q2 2019 reported net income was down minus 4.4% at €53.4 million impacted by two components. First the postponement of the dividend paid by Euroclear that we expect to receive this year not in Q2, obviously, but in Q4 2019; and exceptional items relating to the transaction costs of the Oslo Børs VPS acquisition.

Moving to slide six, this quarter saw the continued deployment, as indicated earlier, of our diversification strategy and of our geographical expansion. As I mentioned several times, in June we closed the acquisition of Oslo Børs VPS as announced when we launched our offer in January this year. Integration preparation began on the acquisition date on the 14<sup>th</sup> June, and

we are currently designing our joint ambition and operation plan that we will communicate to our investors on the occasion of the Investor Day on the 11<sup>th</sup> October.

Second, we successfully launched a €500 million ten-year bond that was six times oversubscribed with an annual component of 1.125%. Euronext is rated A-minus stable outlook by S&P taking into account the Oslo Børs VPS acquisition. And our pro forma net leverage is around 1.9 times, and we still have room for manoeuvre for further expansion while maintaining our strong investment grade.

We also expanded our range of innovative services and solutions for clients through small targeted investments that are very important to keep the innovative dimension of the company. We subscribed the entire €5 million capital increase of Tokeny Solutions. Tokeny Solutions provides tokenized private market security issuers with end-to-end solutions to issue, manage and transfer tokenized securities on public blockchain. This investment will allow Euronext to further develop innovative asset solutions that continue to serve its clients and benefit from the impact of the tokenisation trends.

Lastly, on the governance side, some of our reference shareholders decided in June to renew their Reference Shareholder Agreement for another two years, and they now account for 23.27% of Euronext share capital.

So I now give the floor to Giorgio Modica for the detail presentation of the Q2 2019 financial results.

**Giorgio Modica:** Thank you, Stephane, and good morning everyone. I would like to highlight that for the second quarter of 2019 the organic performance of the Group excludes Oslo Børs VPS consolidated for the last two weeks of June Commcise and any project costs supported by Euronext for their integration.

In the second quarter of 2019 Euronext consolidated revenue reached €159 million, with an increase of €2.7 million or 1.8% versus the second quarter of 2018. These results are mainly driven of the strong performance of our services offering, including Commcise with €1.2 million of revenues, and the consolidation of Oslo Børs VPS contributing €4.5 million to the revenue of the Group. On a like-for-like basis, Euronext consolidated revenue decreased 1.7% as a result of a trading environment that remains soft.

Looking now at the different business lines, Listing revenue grew 8.6% to €28.7 million. This performance reflects the above 50% growth of corporate services and the consolidation of Oslo Børs VPS listing activities. The impact of soft volumes across all asset classes on trading revenues was partially offset by improved revenue capture. Cash trading posted a good yield of 0.54 basis points this quarter and a solid market share at 68.2%. And a similar trend of yield applied to derivatives and spot FX as well. We will see the details in the coming slides.

Advanced data services posted a good quarter with revenue up 5.2% to €30.9 million, thanks to the performance of Indices and the consolidation of Oslo Børs VPS. Custody, settlement and other post-trade revenue reported a strong growth of 38.8%, mainly driven by the consolidation of VPS post-trade activities in Norway. In the second quarter of 2019, non-volume related revenue accounted for 48% of total revenue reflecting notably the increased portion of services

in our revenue mix. This ratio is not yet run rate as it does not embed a full quarter of Oslo Børs VPS.

Lastly, non-volume related revenue covered 124% of our cost excluding D&A compared to 100% in the second quarter last year, showing the promising result of our diversification and cost optimisation efforts.

Moving to slide nine, I would like to start highlighting that the investments in corporate services are paying off. With revenue growth of more than 50% versus last year, corporate services confirmed to be one of the growth engines of the Listing business. As a result, in addition to the contribution of Oslo Børs VPS for €1 million, Listing revenue increased 8.6% in the second quarter to €29.7 million.

Let's focus now on equity first. Primary market activity remains slow as the market continued to be affected by macro uncertainty in Europe. This quarter, we are proud to welcome Marel to Euronext, the largest company in Iceland by market value, which has chosen our market for its secondary listing. This listing gives us the confidence in Euronext's value proposition for Nordic companies willing to expand their shareholder base and access to international capital markets. In addition, we had five new SME listings this quarter strengthening our SME franchise.

Secondary market activity slightly improved since the start of the year, mainly driven by technical deals due to large cap. financing needs. Lastly, our debt franchise reporting strong growth, demonstrating our leadership global position in this market.

Moving now to cash trading on slide ten, the second quarter of 2019 saw subdued volumes with ADV declining 11.6% to €7.4 billion. However, a strengthened yield and a strong market share partially offset the drop in cash trading revenue, which this quarter decreased 5.9% to €50.7 million or 6.7% on a purely organic basis. More specifically, market share was 68.2%, as reminded by Stephane, 2.1 points higher than last year in an environment with very low activity. Yield was up 7.3% at 0.54 basis points. Please note that those metrics for the quarter exclude Oslo Børs Exchange.

ETF trading was impacted by low volume activities whilst the number of ETFs listed increased to 1,208 at the end of June 2019.

Slide 11, derivative revenues were down 2.8% to €10.6 million as improved revenue capture partially offset declining volume impacted by a low level of volatility this quarter. Revenue capture was up at €0.30 per lot.

On the business side, our recently launched Total Return Future contracts continued to gain traction while our new market participant programme for commodities designed to develop the commodity market continued to attract new flows. Finally, Euronext FX generated €5.4 million this quarter, reporting a decrease of 2.5% versus the second quarter of 2018, as a positive revenue mix mitigated the impact of challenging market conditions with Spot FX ADV down 18.5% to \$17.5 billion

Moving to slide 12, advanced data services revenue was up 5.2% to €30.9 million, primarily resulting from the consolidation of Oslo Børs VPS activity and the good performance of Indices. In addition, we invested in early July in OPCVM360, a leading data fund provider, to complement

Euronext's advanced data services offering and support its ambitions to provide value-added services to both by-side and sell-side clients in Europe.

Revenue from Euronext's Technology Solutions and others decreased 3.1% to €8.7 million due to a delay in Optiq commercial product revenue recognition, while Managed Services and SFTI/Colo businesses performed well. Clearing revenue was slightly down at €14.2 million with lower derivate volumes only partially offset by higher treasury income. Revenue from custody and settlements strongly increased to €7.7 million benefiting from the first consolidation of VPS activities contributing €2.1 million, while the organic business remained stable.

Investor Services that account for Commcise business reports €1.2 million of revenues. The integration with Euronext is underway and the business continues to grow, benefiting from Euronext's reach and expertise.

Moving to slide 13, EBITDA for the quarter increased 12% to €98.1 million. This growth is mainly explained by a continued effort on cost management and revenue diversification. From a top line perspective revenue at constant perimeter decreased €2.7 million due to lower trading volumes, while Oslo Børs VPS, Commcise and other non-organic elements contributed €5.5 million. As a reminder, Oslo Børs VPS is consolidated from 14 June 2019, thus for only two weeks this quarter.

Looking at costs, we reported €2.4 million of OPEX from Commcise and Oslo Børs VPS this quarter. In this respect, I would like to highlight that this level of cost includes positive seasonal effect in salary cost for Norway. Organic operating expenses excluding D&A strongly decreased €10.2 million as a result of the impact of IFRS 16 on cost - as already mentioned, in the first quarter this accounts €2.7 million - favourable base effect, as you remember, last year we reported €1.5 million of negative one-off; positive one-offs for this quarter for around €1 million; and, finally, our cost discipline translating into €5 million of organic cost decrease.

Although we will not communicate the full plan for Oslo Børs VPS now but at the Investor Day, we would like to anticipate that Oslo Børs VPS integration costs will gain traction in the third and fourth quarter partially to OPEX and some new projects might be launched. This is why despite the good performance on cost, we don't amend out 2019 cost guidance announced in February, as we expect costs to grow low single-digit in 2019 versus 2018.

With respect to the integration of Euronext Dublin, I would like to highlight that out of the targeted €8 million of expected run-rate savings, €7.5 million have been already delivered as of June 2019.

Overall, the EBITDA margin increased to 61.7% in the second quarter of 2019. While on a like-for-like basis, the EBITDA margin was nearly at the same level at 61.9%.

Moving to slide 14 for the net income bridge. This slide is self-explanatory, but I would like to underline some of the items that explained the decrease in reported net income. The main reason for this decrease is, as expected, the postponement of Euroclear dividend. Euroclear interim dividend will be paid in the fourth quarter this year. As a reminder, it represents for Euronext €4.3 million in the second quarter of 2018. Exceptional items this quarter was mainly related to M&A cost for the completed acquisition of Oslo Børs VPS.

On the other front, D&A mechanically increased due to the adoption of IFRS 16 and were also impacted by PPA of recent acquisition. In this respect, I would like to highlight that the PPA for Oslo will be completed in the third quarter of 2019.

Net financing expenses increased mainly reflecting adverse FX impact. Lastly, income tax rate increase resulting from non-deductible exceptional items this quarter. Excluding PPA and exceptional items, adjusted net income was up 4.5%, translating to adjusted EPS of €0.93 for the quarter.

To conclude with financials, on slide 15, over the quarter 40.3% of EBITDA was transformed into net operating cash flow. This increase from 25.5% in the same period last year is explained by the impact of one-off linked to the acquisition of Euronext Dublin in the second quarter of 2018. As far as the leverage is concerned, following the launch of our second bond, our net debt stands at €783 million representing a net leverage of 1.9 times pro forma, leaving us far beneath firepower before reaching our strong investment grade floor.

Looking at the bottom of this slide, as of the end of the second quarter of 2019, our liquidity position remains strong, close to €680 million, including undrawn RCF of €355 million.

I now hand back the floor to Stephane Boujnah.

**Stephane Boujnah:** Thank you, Giorgio. Moving on to slide 17, I just wanted to update you on the status of the integration of Oslo Børs VPS. We started integration on 14 June when we closed the acquisition and as of the 4<sup>th</sup> July, we own 100% of the shares of Oslo Børs VPS. From a governance perspective, we made some changes to the Oslo Børs VPS Board of Directors to include two new independent Norwegian directors. In addition, as announced initially, Oslo Børs VPS CEO, Håvard Abrahamsen, has been appointed as member of the Euronext Managing Board subject to regulatory and shareholder approval.

On the operating side, we are currently assessing the organisation and processes in Oslo as well as the possible terms and conditions of the technology platform migration schedule. We are also mapping revenue opportunities and we will present our joint operating plan and ambitions for the Nordic region at our Investor Day in October.

So to conclude, we are very pleased to invite you to our 2019 Investor Day that will take place in Paris on Friday, 11 October 2019 and during that meeting we will present our new strategic ambition and our plans and financial targets for 2022.

Thank you, and we are now available for your questions with Anthony Attia, Managing Board Member, and Giorgio Modica.

**Operator:** Thank you. If you would now like to ask a question, please press \*1 on your telephone keypad, and please ensure your line remains unmuted locally. So once again, if you would like to ask a question, please press \*1 on your telephone keypad.

Our first question comes from the line of Kyle Voigt from KBW.

**Kyle Voigt (KBW):** Hi. Morning, thank you for taking my question. My first is on the consultation on market data cost and looking at the potential for consolidated tape in Europe. Do you anticipate any negative consequences from that review, and maybe you can help us understand whether you'd be for or against that consolidated tape plan?

**Giorgio Modica:** We take part very actively to this consultation. We do not comment on ongoing consultation with regulatory supervisors.

**Kyle Voigt:** Okay, maybe I'll move to a separate question then. Just given that there's a large deal that may have to be worked through by one of your UK exchange peers over the next 18 months, just considering the size of that deal would that help define your capital priorities near-term just in terms of maybe wanting to focus on deleveraging to have capacity should there be some smaller divestitures that need to happen through that competition review?

**Giorgio Modica:** We do not comment on our peers. So I guess that, as we commented several times, Euronext is proactively looking at ways to strengthen its business profile which means that we are constantly engaged in looking at what could be available and what could strengthen our profile, which means that we will clearly be very attentive to the opportunities that might emerge in the future. And if there will be opportunities for us, we will take them. So in terms of overall strategy nothing changes. The objective of the Group, again, is to diversify as we did our revenue mix and strengthen our profile. And if there will be opportunities emerging in the market, we will look for sure at those.

**Kyle Voigt:** Understood. Thank you very much.

**Operator:** Thank you. Our next question comes from the line of Johannes Thormann from HSBC. Please go ahead with your question.

**Johannes Thormann (HSBC):** Good morning, several questions from my side. First of all, your cash trading did very well, but your spot FX trading continues to wane. And even if volumes in the general market do fall, it seems that you are losing market share, although, the yield on trade is probably good. How can you steer against this? Is a joint venture with any of your competitors an option for you to increase in size where the market is concentrating and also looking for M&A?

And the second thing is could you be a bit more precise and give a clear indication how much costs of Oslo were in Q2 and what we should expect in the next quarter? And last but not least, just an update on your tax rate run-rate would be appreciated. Thank you.

**Giorgio Modica:** So let me start from the first one. As you correctly pointed out, the general market of FX, the spot part, is suffering from a reduction. Where I would disagree with you is that based on our computation, Euronext FX is not suffering from a dilution of the market share. Clearly, we are not happy with the overall reduction, but in terms of competitiveness our platform is not losing ground. What we intend to do in the future is something that we already communicated on, which means that we are about to launch a new matching engine in Asia, and we are willing to further expand our revenue mix, so to diversify and be able to attract even more clients on our existing platform.

When it comes to M&A, we remain disciplined, but clearly FX is one of the areas that we might be looking to strengthen our business profile.

You asked as well a question with respect to the cost base of the integration of Oslo Børs VPS. And what I can tell is that the cost base of Oslo Børs VPS to consolidate this quarter is slightly lower than €2 million, which means that the profitability attached to the revenues we consolidated does not differ significantly from the one of the Group. But as I highlighted in my

comment, this is due seasonal effects in staff costs in Norway for the last two weeks of June and is linked to the holiday season. So when it comes to your projection, you should take into consideration level of profitability which is more in line with the historic one and the one which we have disclosed for the first and the second quarter, which is closer to the range of 45% to 48%.

Final question, when it comes to the tax rate. This quarter, as you pointed out, the tax rate was higher. When it comes to the end of the year, we will need to see whether there are going to be changes, but we expect that tax rate to normalise at the level between around 29%-28%.

**Johannes Thormann:** Okay. Thank you.

**Operator:** Thank you. As a reminder, if you would like to ask a question, please press \*1 on your telephone keypad. Our next question comes from the line of Ian White from Autonomous Research. Please go ahead.

**Ian White (Autonomous Research):** Hi. Morning, thanks for taking my question, just one from my side, please, just on the cash markets performance. Obviously, the yield performance there was quite strong, as what the market share. Could you just give us some details about what you did specifically in order to achieve that and whether it's sustainable, please? Thank you.

**Giorgio Modica:** So as you very well know, we constantly look at ways to maximise our market share and yield. So as you've seen, we were able to extract a little bit more than with respect to the first quarter. Part of that, of course, is linked to the lower trading volumes that as you are aware usually command a higher yield. When it comes to the sustainability of that yield, we believe that that yield or level of yield, which is in between the one of this quarter and the one of the previous quarter, would be sustainable for the remainder of 2019. So a yield in between 0.53% to 0.54%, this is something that we look at as sustainable.

**Ian White:** Got it. And on the market share, please?

**Giorgio Modica:** On the market share, a part of that increase is linked to the very good performance of the market share in continuous trading. And a part of this, but there is not a big difference between the first and the second quarter, is linked to the volumes which are traded and the closing option.

**Ian White:** Got it. Thank you.

**Operator:** Thank you. Our next question comes from the line of Ron Heydenrijk from ABN AMRO. Please go ahead.

**Ron Heydenrijk (ABN AMRO):** Good morning, gentlemen, a few questions from my side. Firstly on the Clearing business, that was significantly better than expected, the yield there was about 0.4 base points better, despite the mix, in fact, not that clear with commodities being in line with Q1. So could you elaborate a little bit what happened there? Then secondly, the growth in FX trading, coming back to the FX platform, is not as expected. Have you or are you adjusting your growth outlook for that business? Is it now only going to grow in line with market whereas before you bought it you were winning market share or that platform was winning market share? And then on Technology Solutions, it was a bit disappointing this



quarter. It looks like there's a timing difference from the wording that you use. So delivery project recognition difference, is that indeed correct should we therefore expect a big mark-up in the third quarter? And then finally, if I may, the cost of Professional Services was significantly lower than normal. Would that be a new run-rate or are there any one-offs there that we should take into account? Thank you.

**Giorgio Modica:** Starting from your first question, Clearing, if I look at the yield on Clearing without the treasury income part, I would say that the rate is quite stable. So, clearly, the treasury income part is an important element to that. And this explains why your overall in margin shows an increase.

On your second question on FastMatch, the element that you should take into consideration is that FastMatch is a spot FX platform today that is characterised by a very high level of performance, which means that in the revenue mix the volumes are significantly affected by the operations of high frequency traders. Which means that the very low volatility of the market is to a certain extent the negative situation for the platform. In the last 12 months, we vastly improved the mix of clients and the number of clients. And this is an effort that we will continue doing together with the widening the scope of service offered. So, clearly, there is still room to grow, but we believe that we are going in the right direction. And this performance given the characteristic of the company mix and the current market trends do not surprise us.

Then there was a question on Professional Services. In this respect, the situation is fairly simple. As we commented many times, in Professional Services – so the first element I would like to highlight, as we said several times, there are – there was a part of CAPEX in our OPEX in the sense that we, from the development of Optiq, we were helped by consultants. Now, these consultants are fading out as the delivery of step two and step three are getting to the end. And this is the main driver of reduction of professional services. But, clearly, so in one sense this is sustainable. On the other hand, as I highlighted, we are embarking on a new project and a part of the cost for the integration of Norway are going to be OPEX, and therefore, this is the reason we do not change the guidance of cost for the remainder of the year.

Then you had another question on the market solution, the market solution again I believe you should not treat it as a constant decrease. We will catch up on that. Again, the fact that you see this quarter is more related to a delay in the delivery of certain Optiq – commercial Optiq project rather than anything else.

**Ron Heydenrijk:** Thank you very much for that, very clear.

**Operator:** Thank you. As a final reminder, if you would like to ask a question, please now press \*1 on your telephone keypad. So as a final reminder, please now press \*1 on your telephone keypad if you would like to ask a question.

Thank you, we have no further questions coming through. So I will hand back to our hosts, if I may.

**Stephane Boujnah:** Thank you very much to all of you and have a good day.

**Operator:** Thank you for joining this morning's conference call. You may now disconnect.

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