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CORPORATE PARTICIPANTS

Giorgio Modica *Euronext N.V. - CFO*

Stéphane Boujnah *Euronext N.V. - Chairman of the Managing Board & CEO*

CONFERENCE CALL PARTICIPANTS

Ian White *Autonomous Research LLP - Research Analyst*

Johannes Thormann *HSBC, Research Division - Global Head of Exchanges and Analyst*

Kyle Kenneth Voigt *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

Ron Heijdenrijk *ABN AMRO Bank N.V., Research Division - Analyst*

PRESENTATION

Operator

Hello, and welcome to the Euronext Q2 2019 Results Conference Call. (Operator Instructions) Just to remind you, this conference call is being recorded. Today, I'm pleased to present Mr. Stéphane Boujnah, CEO and Chairman of the Managing Board of Euronext. Sir, please go ahead with your meeting.

Stéphane Boujnah - Euronext N.V. - Chairman of the Managing Board & CEO

Good morning, everybody, and thank you for joining us this morning for the Euronext Second Quarter 2019 Results Conference Call and Webcast. I'm Stéphane Boujnah, CEO and Chairman of the Managing Board of Euronext. And I will start with the highlights of this current 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 Oslo Børs VPS before opening for questions, together with Anthony Attia, member of the Managing Board of Euronext.

So if we move to Page 5, 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 EUR 2.7 million, up 1.8% to a total of EUR 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 EUR 4.5 million revenues for the last 2 weeks of June. As you know, we had completed these acquisitions on the 14th of June.

Our services offering, namely 2 family of services, or services to issuers, the Corporate services, and our services to investors, or Investors Services, recorded double-digit growth, contributing to our revenue diversification. Our trading business resisted very well despite a subdued volume environment, thanks to our efforts on 2 fronts, yield management and market share management. And overall, this quarter, nonvolume-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 past rate CSD business in its portfolio. At the same time, we continue to demonstrate the Euronext cost discipline. Group costs, excluding G&A, decreased by minus 11%, and were down by minus EUR 7.5 million. As a result of the continued cost discipline and the cost optimization in Dublin, that's more than offset the impact of the 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 EUR 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 EUR 0.93 per share. And Q2 2019 reported net income was down minus 4.4% at EUR 53.4 million impacted by 2 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 various exceptional items related to the transaction cost of the Oslo Børs VPS acquisition.

Moving to Slide 6. This quarter saw the continued deployment as indicated earlier, of our diversification strategy and of our geographical expansion. As 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 14th of June, and we are currently designing our joint ambition and operational plan that we will communicate to our investors on the occasion of the Investor Day on the 11th of October.

Second, we successfully launched a EUR 500 million 10-year bond that was 6x oversubscribed, with an annual coupon of 1.1%. Euronext is rated A-, stable outlook by S&P, taking into account the Oslo Børs VPS acquisition. And our pro forma net leverage is around 1.9x, and we still have room for maneuver for further expansion while maintaining our strong investment growth.

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 EUR 5 million capital increase for Tokeny Solutions. Tokeny Solutions provides private market security issuers with end-to-end solutions to issue, manage and transfer tokenized securities on public blockchain. And these investments will allow Euronext to further develop digital asset solutions that continue to serve its clients and benefit from the impact of the tokenization trends.

Lastly, on the governance side. Some of our reference shareholders decided in June to renew their reference shareholders agreement for another 2 years. And they now account for 23.27% of the Euronext share capital.

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

Giorgio Modica - Euronext N.V. - CFO

Thank you, Stéphane, 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 2 weeks of June, Commcise, and any project costs supported by Euronext for their integration.

In the second quarter of 2019, Euronext's consolidated revenue reached EUR 159 million with an increase of EUR 2.7 million or 1.8% versus the second quarter of 2018. These results are mainly driven by the strong performance of our services offering including Commcise with EUR 1.2 million of revenues, and the consolidation of Oslo Børs VPS contributing EUR 4.5 million to the revenues of the group.

On a like-for-like basis, Euronext's 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 EUR 28.7 (sic) [29.7] million. This performance reflects the above 60% 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 similar trend on yield apply to derivatives and spot effects as well. We will see the details in the coming slides.

Advanced Data Services posted a good quarter with revenue up 5.2% to EUR 30.9 million, thanks to the performance of industries 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, nonvolume 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, nonvolume-related revenue covered 124% of our costs, excluding D&A, compared to 100% in the second quarter last year, showing the promising results of our diversification and cost optimization efforts.

Moving to Slide 9. I would like to start highlighting that the investment in Corporate Servicing are paying off. With revenue growth of more than 60% 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 EUR 1 million listing revenue increased 8.6% in the second quarter to EUR 29.7 million.

Let's focus now on equities first. Primary market activity remained slow as the market continued to be affected by macro uncertainties 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 confidence in Euronext value proposition for Nordic companies willing to expand their shareholder base and access to international capital markets. In addition, with 5 new SME listings this quarter, strengthening on SME listing 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 a strong growth, demonstrating our leadership global position in this market.

Moving now to cash trading in Slide 10. The second quarter of 2019 saw subdued volumes with ADV declining 11.6% to EUR 7.4 billion. However, a strengthened yield and a strong market share, partially offset the [troubled] cash trading revenue, which this quarter decreased 5.9% to EUR 50.7 million or 6.7% on a purely organic basis. More specifically, market share was 68.2%, as reminded by Stéphane, 2.1 points higher than last year in an environment of very low volatility, yield was up 7.3%, up 0.54 basis points. Please note that the metric for the quarter excludes Oslo Børs exchange.

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

Slide 11. Derivative revenues was down 2.8% to EUR 10.6 million, as improved revenue capture, partially offset decline in volume impacted by a low level of volatility this quarter. Revenue capture was up at EUR 0.30 per lot. On the business side, our recently launched total return future contracts continued to gain traction, while our new market participant program for commodity designed to develop the nonphysical market continued to attract new flows.

Finally, Euronext FX generated EUR 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 USD 17.5 billion.

Moving to Slide 12. Advanced data services revenue was up 5.2% to EUR 30.9 million, primarily resulting from the consolidation of Oslo Børs VPS activities and the good performance of indices. In addition, we invested in early July in OPCVM360, a leading data fund provider to complement Euronext Advanced Data Services offering and support its ambition to provide value-added services to both buy-side and sell-side clients in Europe.

Revenue from Euronext Technology Solution and other decreased 3.1% to EUR 8.7 million due to a delay in Optiq commercial product revenue recognition, while Managed Services and Safety Colocation Business performed well. Clearing revenue was slightly down at EUR 14.2 million with lower derivative volumes, only partially offset by higher treasury income.

Revenue from custody and settlement strongly increased to EUR 7.7 million, benefiting from the first consolidation of VPS activities contributing EUR 2.1 million, while the organic business remained stable. Investor Services that accounts for Commcise business reports EUR 1.2 million of revenues. The integration with Euronext is underway, and the business continued to grow, benefiting from Euronext's reach and expertise.

Moving to Slide 15. EBITDA for the quarter increased 12% to EUR 98.1 million. This growth is mainly explained by our continued effort on cost management and revenue diversification. From a top line perspective, revenues at constant parameter decreased EUR 2.7 million due to lower trading volumes, while Oslo Børs VPS, Commcise and other nonorganic elements contributed EUR 5.5 million. As a reminder, Oslo Børs VPS is consolidated from 14 June '19, thus only for 2 weeks this quarter.

Looking at costs, we consolidated EUR 2.4 million of OpEx from Commcise and Oslo Børs this quarter. In this respect, I would like to highlight that this level of cost includes positive seasonal FX in salary costs for Norway.

Organic operating expenses excluding D&A, strongly decreased at EUR 10.2 million as a result of the impact of IFRS 16 on costs. As already mentioned in the first quarter, this accounts EUR 2.7 million. Favorable base effect, as you remember, last year we reported EUR 1.5 million of negative one-off, positive one-offs this quarter for around EUR 1 million. And finally, our cost discipline translated into EUR 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 through OpEx. And some new projects might be launched. This is why, despite the



good performance on costs, we don't amend our '19 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 EUR 8 million of expected run rate savings, EUR 7.5 million have been already delivered as of June 2019. Overall, EBITDA margin increased to 61.7% in the second quarter of 2019, while on a like-for-like basis, the EBITDA margin was mainly 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 explain the decrease in the 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 represented for Euronext, EUR 4.3 million in the second quarter of 2018. Exceptional items this quarter are mainly related to M&A costs for the completed acquisition of Oslo Børs VPS. On the other front, D&A mechanical 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 higher nondeductible exceptional items this quarter. Excluding PPA and exceptional item, adjusted net income was up 4.5%, translating into an adjusted EPS of EUR 0.93 for the quarter.

To conclude with financials on Slide 15, over the quarter 40.3% of the 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 completion of 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 EUR 783 million, representing a net leverage of 1.9x pro forma, leaving us further M&A for power before reaching our strong investment -- 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 EUR 680 million, including undrawn RCF of EUR 355 million.

I now hand back the floor to Stéphane Boujnah.

Stéphane Boujnah - Euronext N.V. - Chairman of the Managing Board & CEO

Thank you, Giorgio. Moving on to Slide 17, I just wanted to update you on the status of the integration of Oslo Børs VPS. As you know, we started integration work on 14 June, when we closed the acquisition. And as of the 4th of July, we owned 100% of the shares of Oslo Børs VPS. So from a governance perspective, we made some changes to the Oslo Børs VPS Board of Directors to include 2 new independent Norwegian directors. In addition, we -- and as announced initially, Oslo Børs VPS CEO, Håvard Abrahamsen has been appointed as a member of the Euronext Managing board subject to regulatory and shareholders' approval.

On the operating side, we are currently assessing the organization and processes in Oslo as well as the possible terms and conditions of other technology platform migration schedule. We are also mapping revenue opportunities, and we will present our joint operating plans and ambitions for Norway and 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, the 11th of October 2019. And during that meeting, we will present our new strategic ambition and our plans and our financial targets for 2022.

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



QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Kyle Voigt from KBW.

Kyle Kenneth Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

So my first is on -- just in July, ESMA launched a consultation on market data costs and is looking at the potential for a 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?

Stéphane Boujnah - *Euronext N.V. - Chairman of the Managing Board & CEO*

We take part very actively to this consultation. We do not comment on ongoing consultation with regulators and supervisors.

Kyle Kenneth Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

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 U.K. exchange peers over the next 18 months. Just considering the size of that deal, will that help inform your capital priorities near term? Just in terms of maybe wanting to focus on deleveraging cash capacity, should there be some smaller divestitures that need to happen through that competition review?

Giorgio Modica - *Euronext N.V. - CFO*

So this is Giorgio speaking. So I guess that as we commented this 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, 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 would be opportunity emerging in the market, we will look for sure at those.

Operator

Our next question comes from the line of Johannes Thormann from HSBC.

Johannes Thormann - *HSBC, Research Division - Global Head of Exchanges and Analyst*

Several questions from my side. First of all, your trading -- cash trading did pretty well, but your spot FX trading continues to worry and even if volumes in the general market do fall, it seems that you're 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 then also looking for M&A? And the second thing is, could you be a bit more precise and give a clearer indication how much cost 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.

Giorgio Modica - *Euronext N.V. - CFO*

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 then be able to attract even more clients on our existing platform.

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

You did ask as well a question with respect to the to the cost base, the integration of the Oslo Børs VPS. And what I can tell you is that the cost base of Oslo Børs VPS to consolidate it this quarter is slightly lower than EUR 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 comments, this is due to a seasonal effect in staff costs in Norway for the last 2 weeks of June, and this is linked to the holiday season. So when it comes to your projection, you should take into consideration a level of profitability, which is more in line with the historic one and the one that we have disclosed for the first and the second quarters, which is closer to the range of 45%, 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 what are the -- if there are going to be changes, but we expect the tax rate to normalize at the level between around 29%, 28%.

Operator

(Operator Instructions) Our next question comes from the line of Ian White from Autonomous Research.

Ian White - *Autonomous Research LLP - Research Analyst*

Just one from my side, please. Just on the cash markets performance. Obviously, the yield performance there was quite strong as was 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?

Giorgio Modica - *Euronext N.V. - CFO*

So as you very well know, we look at constantly ways to maximize 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 growth 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 -- the level -- a 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 in between EUR 0.53, EUR 0.54, this is something that we look at as sustainable.

Ian White - *Autonomous Research LLP - Research Analyst*

Got it. And on the market share, please?

Giorgio Modica - *Euronext N.V. - CFO*

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 quarters, is linked to the volumes, which are traded at the closing auction.

Operator

Our next question comes from the line of Ron Heijdenrijk from ABN AMRO.



Ron Heijdenrijk - *ABN AMRO Bank N.V., Research Division - Analyst*

A few questions from my side. Firstly, on the clearing business, that was significantly better than expected. The yield there was about 4 -- 0.4 -- 0.04 base points better despite mixed effects 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 FastMatch, coming back to the FX platform, is not as expected? Have you or are you adjusting your growth outlook going forward on 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 were significantly lower than normal. Would that be a new run rate? Or are there any one-offs there that we should take into account?

Giorgio Modica - *Euronext N.V. - CFO*

Starting from your first question. Clearly, if I look at the yield on clearing without the treasury income part, I would say that the rate is quite stable. So the -- 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 characterized 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 level of volatility of the market is, to a certain extent, a negative situation for the platform. In the last 12 months, we have 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're going in the right direction. And this performance, given the characteristic of the company mix and the current market trends do not surprise us.

Your -- then there was a question on professional services. In this respect, the situation is fairly simple. As we commented many times, in professional service, 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, for the development of Optiq, we were helped by consultants. Now these consultants are fading out as the delivery of step 2 and step 3 are getting to the end. And this is the main driver of the reduction of professional services. But clearly -- sorry, in one sense, this is sustainable. On the other sense, as I highlighted we are embarking in 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 that -- on the market solution. The market solution, again, I believe that you should not read it as a constant decrease, we will catch up on that. Again, the effect that you see this quarter is more related to a delay in the delivery of certain optic -- commercial optic project rather than anything else.

Operator

(Operator Instructions) We have no further questions coming through, so I'll hand back to our hosts, if I may.

Stéphane Boujnah - *Euronext N.V. - Chairman of the Managing Board & CEO*

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 your lines.



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