Q1 2023 Results

Wednesday, 17th May 2023

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Operator: Hello, and welcome to the Euronext First Quarter 2023 results. My name is Jess, and I'll be your coordinator for today's event. For the duration of the call, your lines will be on listen-only. However, there will be the opportunity to ask questions. This can be done by pressing one on your telephone keypad to register your question at any time. If, at any point, you require assistance, please press zero and you'll connected to an operator. I will now hand over to your hosts, Stephane Boujnah, Euronext CEO and Chairman of the Managing Board, joined by Giorgi Modica, Euronext CFO, to begin today's call. Thank you.

Stephane Boujnah: Good morning, everyone, and thank you for joining us, this morning, for Euronext's first quarter 2023 results conference call and webcast. I am Stephane Boujnah, CEO and Chairman of the Managing Board of Euronext, and I will start with the highlights of the first quarter. Giorgio Modica, Euronext CFO, will then further develop the main business and financial highlights of the quarter.

I'll take you through three key dimensions of this quarter.

First, Euronext reported a solid first quarter of 2023, driven by organic growth for more non-volume related businesses.

Second, we achieved another significant milestone in the Borsa Italiana Group integration with the successful migration in March of the Italian cash markets to uptake our proprietary state-of-the-art trading platform. And this achievement enabled us to reach €43.7 million of cumulative run-rate synergies in relation to the acquisition of the Borsa Italiana Group at the end of the quarter.

Third, we continue to innovate and strengthen our business across the value chain to build the only fully integrated trading value chain in Europe.

So, let's move to slide four.

And, as I said, Euronext reported a solid performance for the first quarter of 2023. Total revenue income amount to €272.3 million, in line with expectations. And this performance was done, clearly, minus 5.9% compared to Q1 2022 because, as you certainly remember it, Q1 2022 was a period of absolutely unprecedented volatility due to the job political situation in Ukraine; the invasion of Ukraine in February, in particular, last year.

In Q1 2023 our non-volume related business posted strong organic growth, now accounting for a substantial 58% of our total revenue. And I should underline the importance of this continuous trend. Technology solutions grew by +19.4%, driven by the growth of co-location revenues in our new core data centre in Bergamo. Advanced data services also reported organic growth, in this case of +7%, thanks to the strong performance of our data services and our data solutions.

From a cost perspective, we reported €153.8 million of operating expenses excluding D&A this quarter. This is up +7.1% compared to last year, but this is in line with our cost guidelines for 2023, that remains totally unchanged. This cost performance demonstrates our continued cost discipline despite inflationary pressure. As you might remember, in Q1 2022, our cost base, which is the benchmark for this comparison, benefited from a positive one-off, whereas, this quarter in Q1 2023, we incurred some costs for growth projects. Consequently, adjusted

EBITDA was €218.5 million, which represents a 58.7% adjusted EBITDA margin for the first quarter of 2023. Overall, this performance resulted in Euronext reporting its second-best quarter ever, in terms of adjusted net income of €147.1 million, and an adjusted EPS €1.33 per share. Also, and that's extremely important, we continued our solid, consistent robust deleveraging path and reached 2.1x net debt to adjusted EBITDA at the end up to Q1 2023.

Moving to slide five, the second highlight of the quarter, as I mentioned, it earlier, is the achievement of a major milestone in the Borsa Italiana Group integration. All teams migrated successfully on 27 March 2023. On time and on budget, the Borsa Italiana cash market have moved into our proprietary trading platform, Optiq. As a result of this migration and the adjustment of the Borsa Italiana trading pedigree, we delivered an additional €9.7 million of run-rate synergies this quarter, reaching €43.7 million of annual pre-trade, pre-tax run-rate synergies at the end of Q1 '23. The completion of this first phase of the Borsa Italiana markets migration into Optiq that play the way for the migration of the fixed income Warrants & Certificates market in the third quarter of 2023, and this migration will be followed by the migration of listed derivatives and commodities in the fourth quarter of '24. As a consequence, the third-party trading platform we are using today will be decommissioned at the end of this year, and this will generate cost synergies.

With the expected expansion of Euronext Clearing to all markets in Q4 '23 and Q3 '24, we are making significant steps to deliver as expected the €115 million of cumulative run-rate annual synergies by the end of '24.

Let me focus on page six on the migration of the Italian cash markets onto Optiq completed in March 23. The benefits of these major migrations are very significant, both for the legacy Euronext market participant, but also for Italiana market participants because this migration significantly increases the size and the depth of Euronext – of Europe's largest, single liquidity pool operated by Euronext, today accounting for 25% of European equity trading.

In addition, the quality of Italian cash markets was immediately improved. Euronext recorded a 20% increase in EBBO setting daily average following the migration. This KPI is very important because it defines where the best prices from across venues, and this is a true indicator of Euronext's superior market quality. Luckily, as part of this migration, the Italian cash markets participants were seamlessly transitioned to the Euronext harmonised fee guide and therefore to new pricing schemes that are effective from March 27. These new pricing schemes are less sensitive to the average order size, and this fee adjustment directly contributed to the run-rate annual synergies delivered this first quarter.

As you know it, moving to page seven – to slide seven, innovation and client satisfactions are at the core of our strategy, and we are glad to announce today two new innovative trading services to enable our clients to leverage the particular Euronext strength.

First of all, institutional clients. We launched a best-in-class dark execution facility for Euronext-listed stocks in Q4, 2023. This new service will enable market participants to benefit from the full suite on exchange execution models for the leading pan-European venue with the largest and deepest liquidity pool. This dark execution venue will notably include sweep mechanism between the midpoint and central limit order book. Thanks to our state-of-the-art technology, this new facility will enable low-latency between dark and lit execution.

Second, for retail investors, we will soon propose a simplified access to trading of a wide range of pan-European and US securities. Leveraging on our existing MTF in Italy, the global equity market, we will simplify broadened access to trading of non-domestic securities. Through this new, innovative offer, we will offer retail investors a true one-stop shop experience for equity trading.

Moving to slide eight, let me end with a few words on the expansion of Euronext Clearing to all Euronext market and recent developments on this front.

I would like to focus on the future value proposition this unique clearing project would provide to the European ecosystem. Euronext Clearing represents the final step for us to deliver the largest European integrated trading value chain. And this expansion of Euronext Clearing to all Euronext markets will strengthen and enlarge a single resilient and multi-asset clearing house for all Euronext markets and thus cover 25% of the equity traded in Europe. We will be the only player in Europe with such a size and asset coverage present on the entire trading value chain, able to offer the best solutions, innovations and services to our clients. This clearing migration project is progressing very well according to plan and the test platform is now available for clients.

The clearing expansion will be a game-changer for Euronext. It will be for sure a win-win situation for both Euronext and our clients, not only for clearing, but for the world post-trade framework.

First, Euronext Clearing will offer a strong value proposition to clients because Euronext Clearing services will include optimised cost of capital for clients, thanks to the new Value-at-Risk (VAR) framework. Euronext Clearing will also provide clients with the opportunity to clear a large range of products and markets, allowing competitive prices and economies of scale. Furthermore, our post-trade offering with our CSDs will allow clients to reduce frictional cost and to access with cost-efficient settlement chain.

Second, from an operating perspective, the expansion of Euronext Clearing will support innovation and business expansion. As I said earlier, Euronext Clearing will offer a unique scalable platform to clear all products and support a set of modern and versatile user interface and APIs. Going forward, Euronext Clearing will support further innovation to improve post-trade operational efficiencies with further data transparency and automation. I would like to emphasise that by 2024, we will offer a unique post-trade platform in the European landscape. Across all Euronext venues, market participants will benefit from a simplified and common trading and clearing setup combined with a direct T2S access and shorter settlement chain.

We are working intensively to secure this migration. As of today, client readiness is increasing, and we confirm the expansion to clearing of equities for markets in Q4 2023 and for derivatives in Q3 2024, unlocking the last synergies targeted in relation to the acquisition of the Borsa Italiana Group in our "Growth for Impact 2024" strategic plan.

I now hand over to Giorgio Modica for the review of our first quarter 2023 performance.

Giorgio Modica: Thank you, Stephane, and good morning, everyone. Let us now have a look at the performance of this first quarter of 2023. I'm now on slide 10.

In the first quarter of 2023, Euronext diversified business model delivered a solid quarter driven by the organic growth of our non-volume related businesses that partially offset the lower trading activity against the first quarter 2022, marked by unprecedented level of volatility and market activity. As we've already mentioned, total revenue this quarter reached €372.3 million, down 5.9% compared to last year. Technology solution revenue was up 19.4%, resulting from the internalisation of our co-location services following the migration of the core data centre of Euronext to Italy. Advanced data services revenue was up 7%, driven by an increased number of clients and improved revenue capture as well as a strong performance of the data solution business. Listing revenue was slightly down 1.2%, impacted by the depreciation of the NOK against Euro.

In the first quarter of 2023, Euronext confirmed its leadership position for equity listing in Europe. Post-trade revenue was also slightly down 1.9%, reflecting lower clearing revenue in NTI, while custody and settlement reported its best quarter ever. Lastly, trading revenue was down 15.5%, reflecting a normalisation of the market condition against the record volatility level reached in the first quarter of 2022. In particular, the strong performance of fixed income and power trading activity was offset by lower cash and derivative revenues.

I will start now the financial review with our non-volume related activities, which strongly performed this quarter.

Technology solution reached record revenues at €27.6 million, up 19.4%. This performance primarily reflects the contribution of our new co-location services following the internalisation of this activity in our new core data centre and the strong performance of technology solution business of Nord pool and MTS.

Advanced data services also reached record revenues at €56.3 million, up 7% from last year. This result from a strong performance of the core data business, we continued positive momentum for client development as well as for our quant research product from our data solution business.

Investor services reported revenues of €2.6 million, up 16.7%, as continued successful commercial expansion of the franchise is positioning Commcise as the research evaluation platform of choice for the investment community.

Moving on to listing business on slide 12.

Listing revenue where €54.7 million this quarter. This decline, as I already highlighted of 1.2%, is solely due to the unfavourable exchange rate movement of the Norwegian Krona impacting our listing business in Norway. On a like-for-like basis, revenues from listing increased 0.6%. Excluding this impact, the business reported a solid quarter with 12 new equity listings of which 25% was from international company, confirming our leading position as the venue of choice for equity listing in Europe.

We attracted two of the three largest European listing this quarter.

On the debt side, we also performed and confirmed our leadership position, reaching for the first time €1 trillion in sustainable bonds listed on the Euronext market.

Lastly, corporate service revenue were up 2.2%, primarily driven by the good performance of our software-as-a-service (SaaS) offering.

Now, I'm starting with trading on slide 13.

Cash trading revenue was down 23.7% to €71.1 million euros. This primary results from the negative comparison basis versus the first quarter of 2022, impacted by unprecedented level of volatility following the outbreak of the war in Ukraine. As a result, cash trading volume dropped 26.2%, compared to the same quarter last year. Cash trading revenue capture averaged 0.48 basis point over the quarter. The revenue capture was negatively impacted by larger order size. This impact was further emphasised on the Italian market, that was for the last quarter on a standalone Borsa Italiana fee guide much more sensitive to order size than the Euronext one.

As a reminder, we successfully migrated the Italian cash market to Optiq on 27 March 2023. Therefore, the benefit on revenue capture will be immediately visible from the second quarter of this year, and we reiterate and confirm our floor of 0.52 basis point post migration.

Lastly, our cash equity trading market share averaged 63.8% over the quarter, in line with our guidance of at least 63%. Derivative trading revenue was down 7.5% to €14.9 million. As for cash trading, this primarily reflects the lower level of volatility, with total derivative volumes down 18.3% compared to last year. Yet, that was partially offset by a strong performance of our commodity franchise despite a record quarter last year and by increased revenue capture at €0.34 per lot. Lastly, FX trading revenue reported €6.3 million in revenue, down 11.7%, again, due to lower volatility. However, this decline in trading volumes was partially offset by the growth of our business in Asia.

Continuing on slide 14 with our other trading activities, fixed income trading recorded a record quarter with revenues reaching €26.2 million, or an increase of 7.4%. The franchise recorded strong volumes dynamic across all the asset classes and companies of the Group. Increasing interest rate at a positive impact across the franchise, not only MTS, but also the MOT in Italy and the other fixed income markets of Euronext. Both cash and repo performed extremely well, supported by increasing demand from both institutional and retail, as well as the increased traction of MTS across Europe.

Our trading also delivered a record quarter with volume up 8.4% to €9.8 million. Both intraday and day-ahead volumes reported record traded volumes this quarter. As a result of increased market share across all key markets, the growth of the intraday trading, thanks to the increasing share of renewable energy into the mix and improved revenue capture.

I conclude this business review with our post-trade activity on slide 15.

Clearing revenue excluding NTI was down 6% to €30 million. This reflects lower equity and derivative Euronext Clearing, only partially offset by an uplift in bond clearing, as well as the lower contribution from LCH SA. Net treasury income was at €7.5 million, better than anticipated due to higher cash held. As a reminder, we have completed the planned disposal of the investment portfolio of Euronext Clearing. From the second quarter of 2023, we will reach the targeted run-rate NTI of approximately 20bps on a cash attempt. Lastly, custody and settlement posted its best quarter ever, despite an already strong first quarter last year.

Revenue reached €64 million, reflecting the rollout of the new fee scheme combined with the continued recovery in value of assets under custody.

Moving to the financial highlights of the quarter, I will start with the EBITDA bridge on slide 17.

Euronext adjusted EBITDA for the quarter was down 13.3% to €218.5 million, resulting from lower trading revenues, partially offset by non-volume revenue growth and continued cost discipline. With regard to the underlying expenses including NDA, I would like to remind you that the first quarter of 2022 was positively impacted by some one-oof items, including bonus release of around €5 million. Adjusted EBITDA margin was, as a consequence, reduced to 58.7% this quarter. From a non-underlying cost perspective, the main impact is, as you can see on the slide, related to the provision for the termination fee in relation to the derivative clearing agreement with LCH SA. This provision accounts for €36 million, and I remind you that for the time being this is a non-cash item. The payment will be due in 2024.

Moving to net income on slide 18, adjust net income this quarter was down 10.6% to €147.1 million, resulting from lower EBITDA, partially offset by the following elements. On the one side, we have lower net financing expenses, resulting from higher interest from cash and cash equivalent; higher results from equity investment representing the contribution from LCH SA and a dividend received from Sicovam. As a reminder, in 2022, we did not receive any dividend payment from Sicovam. I would like to highlight that non-underlying cost in this bridge are mainly related to the provision for the termination fee of the derivative cleaning agreement and PPA amortisation of our acquisition.

Finally, the income tax for the first quarter of 2023 was €33.1 million. This translated into an effective tax rate of 24.5% for the quarter, positively impacted by exempted tax items such as the dividend from Sicovam. Reported net income was €96.5 million and adjusted EPS basic was down 10.7% this quarter at €1.38 per share compared to adjusted basic EPS the same quarter last year of €1.54 per share.

To conclude, with the cash flow generation and leverage, the net operating cash flow post-tax amounted to €318.2 million this quarter. This was positively impacted by €138.4 million of positive changes in working capital related to Nord pool and Euronext Clearing CCP activity. Excluding this impact and adjusted for the €36 million termination fee provision, as this is a non-cash item in EBITDA, net operating cash flow post-tax accounted for 86.5% of EBITDA.

Net debt to adjusted EBITDA was at 2.1x at the end of the quarter and 2.4x on a reported basis.

And with this, I would like to conclude, and I will give back the floor to Stephane.

Stephane Boujnah: Thank you, Giorgio.

As you can see, the first quarter of 2023 marks very strong start to a very important year in the future of Euronext. We were able to reinforce our position as the leading venue for equities listing in Europe and in debt listing worldwide. The successful migration of Italian cash markets onto Optiq has paved the way to the future expansion of Euronext Clearing to all Euronext markets. And combined with the successful migration to our new core data centre completed in June last year, and the recent internalisation of technologies powering MTS and Euronext securities, we are now more than ever on the right path to build the only fully integrated trading value chain across Europe.

So, this combined with our innovation capabilities as the one we announced today in trading, will further unlock opportunities for growth in the near future.

So, thank you for your attention. We are now ready to take your questions together with Giorgio, Anthony Attia, Global head of Primary Markets and Post-trade, and Simon Gallagher, Head of Cash and Derivatives Trading.

Questions and Answers

Operator: If you would like to ask a question, please press star one on your telephone keypad. Please ensure your line is unmuted locally, as you'll be advised when to ask your question on the first question. And the first question comes from the line of Mike Werner from UBS. Please go ahead.

Michael Werner (UBS): Thank you, guys. A question on this fully integrated trading value chain, which you guys highlighted at the beginning of the presentation and towards the end. Once you bring clearing on, you can offer, in theory, kind of a full bundled product for both issuers as well as investors. Where do you see the opportunities in terms of being able to kind of grow your revenue base out of this value chain and if possible, is that something that you're willing to quantify? Thank you.

Anthony Attia: Good morning, this is Antonio Attia. Thank you for your question. It's very important to give some perspective on this. So, first of all, the investment in a clearing house that has been mentioned earlier with the migration that will take place this year for cash equity and next year for listed derivatives will position the clearing house as one of the key CCPs in Europe across asset classes. So, there are some opportunities for further growth in the CCP in the future, supporting Euronext, but also other markets. The value chain today that Euronext has covers, as you rightly said, from the issuer side, so this is the primary market, and the CSD to the investor side, and we already have some synergies between our primary market of the listing business and the CSD business. As for issuers services and corporate services, we won't share with you numerical numbers, and I will let Giorgio comment on that. But the synergies between the different part of our value chain has already started with the growth of European securities, on one hand, and corporate services, on the other hand.

Giorgio Modica: Maybe to complement what Anthony said, the objective is to provide clients with best-in-class services and to expand the offering to the Euronext market, but outside of the Euronext market, covering to the extent possible, new asset classes and new product development. When it comes to the quantification, and if we focus specifically on the clearing side, we confirm that two elements: the total synergies of €115 million for the end of '24, and the fact that clearing is going to be a key component of that, and the major contributor that allow us to increase synergies from €100 million to €115.

Stephane Boujnah: And if I can add a more general comment, the objective of the internalisation of clearing operations within the Euronext Group is not only to replace the current provider of clearing services to migrate the clearing of cash equity and the clearing of listed derivatives to internalised solutions within Euronext Clearing. The fundamental underlying ambition is to take to the next level the derivatives product offering of Euronext because the capabilities of the Group, when we have the current positions in cash equity trading and derivatives trading combined with an internalised clearing platform, will allow us, will enable us to take to the next level our derivatives products ambitions.

Michael Werner: Thanks. Could I just have a quick follow-up? Obviously, again, with this value chain in France and I believe the Netherlands, you currently are not the owner of the CSD in those respective countries. Do you see that as a potential opportunity to win revenue or wallet share of the investor and of the issuer? Thank you.

Anthony Attia: Look, we have a footprint in terms of CSDs, as you know, in Norway, Denmark, Italy and Portugal. But we are reaching out to the different ecosystems where we have our exchanges as well. So indeed, in France, Belgium and Netherland, as well as Ireland, we don't have CSD licences. Nevertheless, we work in collaboration with the incumbent and that doesn't prevent us to work very closely with our issuers and their custodians on developing services. That's what I mentioned with the corporate services growth.

Michael Werner: Thank you.

Operator: The next question comes from the line of Kyle Voigt from KBW. Please go ahead.

Kyle Voigt (KBW): Hi, good morning. Maybe a first question just on the All Funds situation. Just wondering, can you give a bit more detail behind the bid process, and what attracted you to that asset and any colour regarding why the talks were ended with All Funds board, how much of that was price versus other factors?

My second question is a related question, but a bit broader. Stephane, since you stepped into your CEO role, I think there was always kind of a preference for transformational M&A eventually, but there was a near-term need to scale the business in order to kind of compete for some of those transformational assets in the market. I think All Funds certainly would have been the most transformational deal that Euronext pursued to date. I guess my question is, looking forward, given the scale that Euronext has achieved today, should investors simply now kind of expect more transformational type deals ahead? And if so, is there any way to kind of help frame where the most interesting opportunities are, whether that's in the fund space or data or other segments?

Stephane Boujnah: Okay. The Euronext ambition has always been to grow, and first in profitability, then in diversification. And M&A is a tool, it's not an objective. We looked at All Funds because it was an asset that was going to bring potentially some form of diversification to the top line of Euronext in a field which is adjacent to what Euronext does in a similar way as positive distribution is adjacent to what Deutsche Borse does with their own strategy in this field. We look at the company for all sorts of reasons, and in particular because it could have been a contributor to diversification and to potentially some growth to the Group.

We looked at the first public available numbers after conversation started, which were the full-year numbers of '22, with the revised guidance of the company for '23. We had due diligence discussions with the management, and we decided to discontinue conversations because we felt that the company was not going to match at the price that was considered the sort of return on capital employed expectations of Euronext, period.

That being said, we remain committed to explore two avenues. The first ones are more of the same, but bigger, i.e., deals that are synergistic to what we do today. And the second avenue is diversification. So, we will continue exploring situation targets where we can, through inorganic growth, increase the growth profile of the company and diversify the revenue profile of the company within a very strict discipline. That is a very strong limitation to that ambition, but which is what we have done so far, that we will not deploy capital of Euronext shareholders unless the return on capital employed is above what between year four and five positive synergies, and if we don't have an accretive deal in year two.

And that's what I can tell you. So, you should expect Euronext to continue generating strong free cash flows, exploring opportunities to grow and to diversify, and to do it only when we can find targets and situations that meet our M&A discipline initiative.

Kyle Voigt: Very clear. Thank you.

Operator: The next question comes from the line of Arnaud Giblat from BNP Paribas. Please go ahead.

Arnaud Giblat (BNP Paribas Exane): Yeah, good morning. If I could just follow up on the previous question. You mentioned you won't to do a deal unless the ROIC is greater the WACC in year four, five. If I remember well, that used to be year three. So, is this a case of doing deals that are slightly diversifying, therefore have less cost synergies? And if so, cost synergies is really where you've excelled in the past. So, what sort of change has there been here? If you just go through that, please.

And secondly, I'm just also thinking about the – what you said earlier on clearing. You mentioned that – sorry, I'm just looking back at my notes – but there's an ambition to take derivatives offering and clearing to the next level. What do you mean by taking it to the next level? Is this offering new products, doing a more comprehensive service? If you could just explain that a bit more, I'd be quite interested in hearing that.

And finally, just a quick numbers question. Some strong price growth in data – sorry. Is that linked to a repricing of data? Thank you.

Stephane Boujnah: Okay, I'll let Giorgio comment on the data and pricing issue, and Giorgio will comment also on the return and work clarification. I just want to make – to answer your questions on the synergies and derivatives.

On the synergies, thank you very much for appreciating the performance of Euronext in extracting cost synergies. But we do extract also significant revenue synergies out of the synergies in relation to the acquisition of Borsa Italiana. There are significant cost synergies but also significant revenue synergies. By the way, as demonstrated this quarter with the harmonisations of the fee guide in Italy for global participants and as demonstrated with the revenue synergy generated by co-location services extracted by the migration of local centre from Basildon near London to Ponte San Pietro near Bergamo, and so on and so forth. So, you should look at Euronext as a Group that is – has now a track record in managing its own home cost discipline, in translating that into strong post-merger integration in terms of cost management in the assets we buy, but also in generating revenue synergies as really demonstrated by the past few quarters.

On derivatives. I don't want to give you a number, but what I want to say is that there is a fundamental difference between having derivatives ambitions when you are a client of a clearing house, as we are today, when we are clients of LCH SA, and where your capability to create derivatives, to develop derivatives, depend on your provider willingness, capabilities to facilitate and enable the development of your derivative first. And the other model which is a situation that exists with, for example, the largest derivative places in Europe when you have a sort of intimacy within the same group between the derivative houses that has, by the way, the same brand name as the clearing houses, and that's what we are about to be in a position to deliver. And that's what I mean in terms of taking other derivatives ambition to the next level.

We are not going to create expectations in terms of number, but anyone who is familiar with this industry can appreciate that it is a game-changer in terms of capability to come to the market with integrated solutions.

Now over to you Giorgio, on the clarification of the expectation we have created on return on capital employed for our acquisitions, and I think it's a misunderstanding, and on market data price.

Giorgio Modica: Yeah, absolutely. So, let me start with market data. These results, which is positive this quarter, is a consequence of two key elements. The first one is that the number of clients are increasing, I mean the secular decrease of a number of terminals. This is a process that to a certain extent stopped and reversed with the new practice of working from home. So, what we are seeing is, and this is the same in the last quarter, is an increase of the number of clients. So, this is one driver and this trend might stop or reverse, but as this mix, work from home, work from the office environment proceed, we are still benefiting from the increase of number of clients and number of terminals. So, this is one driver.

And the second driver, as you pointed out, as you know, we increase price of market data and this is the same thing we did in the past in line with the inflation of the previous year. So for 2023, the inflation applied is the one of 2021 as the pricing is usually communicated to clients in the mid of the year. So, we communicated the price of '23 in mid '22 based on the inflation of the previous year.

So to conclude, there is a combination of price increase and increase of number of clients. Those are the key two drivers.

When it comes to maybe a side note on what Stephane just said. The growth of the derivative franchise is not included in the €150 million, €15 million of targeted synergies for '24. So, this represents something we believe, but an upside with respect to that number. And finally on the horizon to deliver the return on invested capital, the four to five year is something that we have communicated at the Investor Day in November '21. It's true that in the previous cycle that was three-year. But as the market condition has become more competitive, usually this is the type of range that investors give themselves to reach that target result. And the other element is that when you need to execute diversification deals that by definition have cost synergies, which are lower than integrating other similar business, then clearly the time to deliver the full potential is slightly longer than a simple integration of platform.

So, I hope I've covered your questions.

Arnaud Giblat: Yeah, thank you. And just if I could quickly follow up. So, 2023 pricing is based on 2021 inflation. Does that mean next year you've got a huge price increase coming in data?

Stephane Boujnah: I mean, we will go through the process, but we will follow the same idea. When the cost increase, the pricing mechanism are such that we reflect the increase of our cost into the pricing. So, when the inflation was 1-2%, that was the increase of pricing. Going forward, we will incorporate inflation in the pricing of market data.

Arnaud Giblat: Thank you.

Operator: Next question comes from the line of Bruce Hamilton from Morgan Stanley. Please go ahead.

Bruce Hamilton (Morgan Stanley): Hi, good morning. Thanks for taking my questions. Just looking at the cash equities business in terms of the fee margin, obviously, I think I'm right in saying you indicated that the migration of Borsa Italiana and a slight change in pricing that makes it less sensitive to trade size will benefit and that's why you're confident in the 0.52bps. But could you give us an indication of what Q1 would have looked like had Borsa been on that new pricing schedule?

And then secondly, on the market, obviously, that's drifted again Q-on-Q. So, you're 63.8 from 65. I think you indicated a bit of a tick up in April, although CBO's data suggests that you're more flat, and I think things have deteriorated again in May. So, can you just give us your level of confidence on those numbers? And do we expect that there might be more need to shift pricing to address market share?

And then secondly, just on the sizing, the opportunities from your new trading, the dark execution and the new retail trading, could you give us any sense of how to think about how significant those might be as we look forward? Thank you.

Stephane Boujnah: So, Giorgio will come and will answer your question on fee, and Simon Gallagher will answer your question on market share, volume dynamic, and the new offering that we have announced this morning.

Giorgio Modica: Yeah. So, covering your question on fees. So, the Borsa Italiana fee scheme was mainly a FS trade type of fee scheme and therefore very sensitive to sizes, whereas, as you know, we are mainly a basis point type of fee scheme. There is a portrait component, but this is more marginal with respect to the one of Borsa Italiana. Unfortunately, I cannot give to you the pro forma for the first quarter. However, clearly, I have an indication in mind. The only thing I can share with you is that we are very confident on our ability to deliver the 0.52. So, this is the message that I can share at this stage.

Stephane Boujnah: Simon?

Simon Gallagher: Thank you. Good morning. So, I'll answer first the question on market share dynamic. So, as you noted, over the first quarter, we saw a positive dynamic month by month, 63, 64, 65% market share in March. We were particularly pleased with the market share in March because it demonstrated that when markets are volatile and more in crisis mode, investors tend to fly to the liquidity of regulated markets. Yes, in April, we're down slightly to 64%. And as Giorgio said, we're confident of maintaining our guidance of above 63%.

The main moves we've made recently in defence of market share have been twofold. The first was a change in November to our flagship liquidity schemes to support market share. There will be further changes to this liquidity scheme before the summer, which we won't go into now, but which will be non-yield dilutive and which will involve pegging requirements of market makers to a more pan-European benchmark. So, we're pretty confident about market share going forward.

With respect to sizing, the two new initiatives, I can just give you some flavour to help you have an order of magnitude. And so, the dark offering is mainly targeting small dark trading, which occurs under the reference price waiver, under European regulation. This pool of liquidity represents around 6% of the overall pie, so 6% of lit trading. So, this is the addressable pool we're looking at here, 6% of Euronext trading volumes. And once this is off the ground, this will have a small single-digit, but material impact on the market share we report.

The second component involves the retail business. So, Euronext is in the position where we still have retail brokers connected to all of our markets in all of our locations, and in particular in the Italian market where retail represents 20% of the flow. And so, the aim here is to give those domestic customers facilitated access to their non-domestic activity. So, the stocks which are traded beyond Euronext markets, typically for those firms, this represents around 10% of their trading activity relative to their domestic Euronext activity.

So, hopefully, those two numbers will give you an idea of the order of magnitude for this initial range of initiatives we're rolling out.

Bruce Hamilton: Thanks, very helpful.

Operator: The next question comes from the line of Enrico Bolzoni from JP Morgan. Please go ahead.

Enrico Bolzoni (JP Morgan): Hi, good morning. Thanks for taking my questions. One again, going back to M&A, does the fact that the market didn't seem to like either the potential acquisition or funds, but also looking at some of the deals done by some of your competitors, they were kind of rather big deals, the market be a big concern. I just wanted to ask you if anything has changed in the way you think about M&A and potentially if there is an opportunity for doing actually fewer transformational deals and more bolt-on deals? I'm thinking in data, in technology solutions, maybe leveraging your database or anything else that can be done in that space as I presume there is a vast amount of companies that are rather small but maybe fast-growing and could diversify your business, but more gradually in a way. So, that's my first question.

And then my second question again, going back to the dark pool proposition, I would just like to have some colour from you in terms of how you see the evolution. So, is this an answer to the fact that you see more and more volumes, maybe going to dark pools versus lit? And is there any risk at all that having a very successful dark pool at some point might cannibalise some of the lit business? Thank you.

Stephane Boujnah: Okay. So, I answer the – your M&A question and Simon Gallagher will clarify the dark pool initiatives and will address your question on that one.

On the M&A side, let me reiterate what I've said. We have been relatively successful in our M&A development since 2017 because we had a very clear and strict framework. We are good at buying assets that deliver significant synergies, and we are good at extracting post-merger integration synergies on time, actually quicker than expected, on budget, actually more synergies than expected. And therefore, we want to continue acquiring assets that deliver synergies within a framework, which is our return of capital, which gives us a strong guidance not to overpay assets because we are in the business of creating capital, we are not in the business of destroying capital.

In addition to that, in addition to growing the company in terms of profitability, in terms of growth, we need to acquire assets that accelerate the sort of standalone growth profile of the Group. And that's called diversification.

Now, fundamentally, the more you diversify, the less synergies you have. The less you diversify, the more synergies you have. So, any deal that is a diversification deal and that achieves diversification objectives does not deliver the same amount of synergies as more of the same type of acquisitions. That's the nature of things. Now, the only guide that is useful to make sure that you manage the compromises attached between growth profitability is discipline and return. And that's why we have these district things, these strict standards that Giorgio has clarified.

What it means is that there are good deals that other people do that we don't do because we don't – we are not willing to pay what they pay. It is as simple as that. So you mentioned data. One of the reasons we have not done significant data acquisition so far is that the price of data assets up to now is extremely high and doesn't meet the discipline of return on capital employed that we have – that we are imposing to ourselves.

So, there is no conclusion to draw from the old fund experience, except that we like the diversification it would have provided for the Group. We like the initial growth profile of the company. We didn't like the revised guidance, and we didn't like the risk profiles that emerge from the due diligence, and therefore, we decided to move on. But we will continue to explore deals as long as they meet those objectives that I've just described: growth contributions; diversification to a business and meet or satisfaction of a return on capital; and accretion objectives.

That being said, I want to highlight something that maybe was not enough and is something very often clear in the mind of maybe investors. Euronext is much, much more diversified than many people think. As of today, the core historical cash equity trading business represents less than 20% of the top line of the Group. So, I understand why it captures so much attention. And we are going to preserve, defend, and grow this business with our commitment on the market share which we will meet, our commitment on the yield post-migration of the Borsa Italiana platform at 0.52bps. We will do that, but we are talking about a part of a business which is less than 20% of the top line. And as of today, 58% of the top line of the Group is absolutely non-volume related.

So, over to you, Simon, on the dark pool and what it means in terms of interactions with the rest of our core trading business.

Simon Gallagher: Thank you, Stephane. So, the first question was about the evolution of dark volume.

So, the types of dark business we're targeting here are mainly small dark sizes. So, reference price waiver sizes. At the moment, this amount of business that can be transacted on this type of platform in Europe is capped around 8%. So, it's de facto capped by regulation. This cap may or not remain in place after the determination of the current market review. It is also targeting large in scale transactions which are not capped. And this is where we see some potential upside. So, this is a space where we think we need to be present and where we need to be innovative. So, this is a very first step of moving into this area.

Your second question was about cannibalisation. So in the short- to midterm, dark and lit workflows tend to be very separate workflows within the investment banks. So, we see the short-term potential for cannibalisation as limited. But, obviously, things evolve over time and there may be some small shift between dark and lit platforms over the scale of five years or so. If this does occur, we'd like to reassure you that the pricing that will be applied to this dark venue will be identical to the pricing of the lit venue. So, in terms of revenue and yield capture, it will be a simple pass-through for us from lit to darker.

Giorgio Modica: This is Giorgio speaking, just to take the opportunity and complement what Stephane said. What I wanted to highlight is that clearly we have a very strict and pragmatic approach to capital allocation in general. Market condition has changed, will change. So, we are looking at what is the best use of capital. M&A is one, but there are others as well. So, the message here, is that we will pragmatically look at the market conditions going forward, and we will make sure that we will use our available resource in the best way possible in a very pragmatic and disciplined fashion.

Enrico Bolzoni: Thank you.

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

Haley Tam (Credit Suisse): Morning. Thank you very much for taking my questions. Two for me if I can.

Firstly, on clearing, just to understand from the end of 2023, when that migration for equity clearing happens, how quickly should we expect the revenue synergy benefits to materialise? Because I think my understanding is if Euronext is the preferred clearing house, then the market participants would have to elect not to use Euronext Clearing for that not to be an immediate revenue benefit for you. So, I guess what I'm really trying to ask, is we should be able to see by the end of Q1 exactly what your run-rate of revenue synergies is, and whether you are running ahead of your estimates, I suppose, is the question.

And then the second question, just in terms of consolidated tape, which I appreciate is old news, as well as being something that's being picked up again more recently in the commentary. Can you remind us please of what your thoughts are on the likelihood of firstly a bond consolidated tape, and what impact that might have on your business, and then, I guess maybe more importantly from an equity perspective, whether we think a pre-trade tape might actually ever be possible? Thank you.

Stephane Boujnah: So maybe on the clearing issue, I mean, I'll give the floor to Anthony to clarify the operations of clearing and the behaviour of clients because there might be some room here for clarification.

What I can tell you is that in terms of revenue and cost synergies in relation to the internalisation of our clearing operations, the only guidance is the €115 all in incremental run-rate synergies EBITDA expansion by the end of 2024. So, you should consider that the impact on cost and on revenues is at least encapsulated in that number. Clearly, as I said earlier, the ambition is to take to the next-level beyond '24 and maybe earlier, I don't know, and I don't want to create expectations, maybe earlier the development of our clearing operations.

So, I'll leave the floor to also need to clarify in a minute what it means in terms of clients behaviours. And clearly there is a difference between the way they will make decisions in terms of cash clearing and derivatives clearing the year after.

When it comes to the consolidated tape. For the equity consolidated tape, which has been the most debated issue, we have made clear that we welcome the creation of a post-trade consolidated tape with a snapshot of pre-trade. As long as it is a way to create efficiency for all the market participants in access to consolidated high-quality information contributed in an homogeneous manner by all the places, all the participants, all the players who do create data that are relevant for price information. However, we believe that a pre-trade consolidated tape is a wrong idea because it will create fragmentation of price formation. It will create arbitrage opportunities between the ones who have access to low-latency because real-time does not exist. Real-time exists for happy few only. And we believe that it will not address the use case that had been identified by the Commission back in '21. Therefore, we support the consolidated tape as it was agreed and decided by the Council of the European Union under the Czech presidency in December last year. And we believe that this would be the right consolidated tape and to be implemented.

Anthony Attia: Thank you, Stephane. So, to go back on the question about clearing, as Stephane said, we have both cost and revenue synergies linked to the clearing expansion. The situation is different for cash equity, which will migrate in Q4 2023, compared to derivatives, which will migrate in Q3 2024. And I will zoom in on those asset classes.

But before that, what I want to emphasise is that we have a value proposition at the level of the clearing house which is complete, including clearing fees, efficient margin approach, a new risk framework with efficient default contribution, very efficient and competitive settlement fees, and modern technology that provides transparency on data and predictability on capital allocation. This value proposition spans across cash equity carrying listed derivative commodities, fixed income repos, etc.

Now, focusing on the cash equity migration that will take place at the end of this year. You remember today we do not capture value on cash equity clearing, right? We don't have these revenues. Post-migration, we will switch to link what we call the CCP by default link from LCH SA to Euronext Clearing. And the open access implementation for cash equity clearing will be one CCP per default, which will be Euronext Clearing, and other third-party clearing houses, which will be labelled preferred CCP for derivatives. It's a different approach. We will migrate the clearing house for a derivative market from LCH SA to Euronext Clearing next year and capture the entirety of the value of the clearing business.

Operator: The next question comes from the line is Julian Dobrovolschi from ABN Amro Oddo BHF. Please go ahead.

Julian Dobrovolschi (ABN Amro - Oddo): Hi, good morning, gentlemen, and thanks for taking my questions. I have two if I may.

So, the first one is on the synergy guidance. I was wondering if you could actually split the €70 million in synergies you expect to realise at the end of 2023 into the revenue but also cost component?

And also, just to kind of follow-up on that, if you just basically look at the €70 million synergies expected to be realised by the end of this year, that basically implies that there is a delta of €45 million left to kind of make the bridge to the €150 million in total synergies by the end of 2024. And I think that about €35 million from that will be kind of, let's say coming from the phasing out of costs related to the LCH clearing at the end of 2024, which basically means that we have left €15 million for other revenue but also cost synergy potential, which I think is kind of modest. I was just wondering if you think that there is capacity for another uplift of synergy guidance there or you actually feel comfortable with the current guidance of €115 million? And then I have a follow-up as well, please.

Giorgio Modica: So I will try to be as precise as possible with respect to what I can say. So, the first element is that we confirmed the €70 million and the €115 million. The second element I can share with you is that when it comes to the €70 million synergies expected for the end of the year, we are going to have as well a component linked to revenue. But this is going to be to a certain extent minor and mainly linked to activities. One is the one of the data centre and the one is linked to the one of equity cleaning. But again, the contribution is rather limited and we would not provide the breakdown. But at least you have the elements there.

And then when I look into the synergies for 2024, then what I can share with you is that there is going to be a significant component coming from revenue synergies. And this is mostly linked to the migration of clearing and the ability to incorporate the part of the value chain that is not currently with us but is with our current provider. And clearly, we are aiming to do better than the target, but at this very stage we confirm the €115 million in terms of target for '24.

Julian Dobrovolschi: Got it. Thank you so much. And maybe a follow-up on the post-trade. So, I've seen that US, for example, they voted and looks to be transitioning to T+1 settlement cycle as of the next year. Was just wondering what is your view on such a move within Europe and if you think that it's actually possible that Europe is going to follow up on the US step quite soon. And actually, if that actually would be the case, can you please talk about what are the positives, and what are the negatives for the business in your view from such a move?

Anthony Attia: So, thank you for your good question. Indeed, there is a debate in Europe about following on the T+1 settlement effort led by the market in the US and by DTCC. What I want to say first is that most of our European post-trade chains are already technically ready to move from T+2 to T+1. So, there's no technical challenge. Nevertheless, the industry is actually debating about the benefits and the pros and cons. I believe eventually we will follow, but you have different population of market participants who have different impact. If I think about the custodians, for instance, you have some de-synergies associated to the move to T+1. And so, they need to understand the extent of the de-synergies and adjust their business model. So as for the position of Euronext, we will support where the industry is going, and we'll be ready if any change occurs.

Julian Dobrovolschi: Thank you so much and good luck with the current quarter.

Operator: The next question comes from the line of Ian White from autonomous research. Please go ahead.

Ian White (Autonomous): Morning. Thanks for taking my questions. Just two short follow-ups from me, please.

First, upon the listed derivatives, can you just help me? Does the integration of the value chain there and the in-house CCP provide any competitive support for you in the trading layer when it comes to listed derivatives? You obviously got equity index derivatives products now, for example. But my understanding is that you're a challenger in that market in Europe, and the main barrier is liquidity in the trading layer. So, how might internalisation of the value chain help with that, please, if at all?

And just secondly, can you just clarify please, why is 63% considered a floor for cash equity market share? Is there something in the underlying market mix or dynamic that makes it near impossible for market share to fall below that level? That's question two, please. Thank you.

Stephane Boujnah: Simon will answer your question on derivatives and on cash.

Simon Gallagher: Thank you for the question and good morning. So, I think, as Anthony and Stephane said earlier, economic control and managerial control over a clearing house is absolutely fundamental to developing any derivatives franchise in Europe. Where we see the growth for us in Europe after the integration of the clearing house, I think it's threefold.

First, it's in the variety of derivative products we can develop. Over the last two or three years, we've developed a material business in a more complex equity derivatives world, especially in total return futures and a dividend complex around dividend payments. These are priced significantly higher than the sort of more plain vanilla business. To develop these products, you need massive, massive cooperation from the clearing house. So, that's the first thing. There will be a joined-up approach to developing these new products for the first time at Euronext, which one or two of our competitors already enjoy.

The second area of expansion is geographical. So, today the equity derivatives footprint at Euronext is based on the domestic markets, the seven domestic markets of Euronext. And obviously, as with the cash equity announcement, we made for retail earlier this morning, there will be ambitions to expand this franchise to a more pan-European level. And the market is asking for more competition in this space against the big incumbent in Europe.

And the third one is just the power of the central order book and the variety of customers we can bring to bear on these two development axes. So, that's where we think control over a clearing house will help power that strategy.

With respect to the second question on the 63%, it's a very difficult question to answer, but you have to put a line in the sand somewhere. This is in the past, the sort of mid-2015, a lot of exchanges were below 60%, some around 55%. But this is, below this area, is where we really want to avoid getting into that space. To avoid getting into that space, we're not reducing prices, we're simply tweaking the market-making schemes we have already and putting more requirements in place. But we think that is a pragmatic line in the sand we can manage and commit to the market.

Ian White: That's great. Thank you.

Operator: There are no further questions, so I'll turn the call back over to your host to conclude today's call.

Stephane Boujnah: Thank you very much for your time, and I wish you a very good day.

Operator: Thank you for joining today's call. You may now disconnect your lines.

[END OF TRANSCRIPT]