



Euronext Q2 2020 Results

Thursday, 30th July 2020

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Operator: Hello, and welcome to the Euronext Q2 2020 Results Call. My name is Courtney, and I'll be your coordinator for today's event. Please note that this conference is being recorded. And for the duration of the call, your line will be on listen-only. However, you will have the opportunity to ask questions. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any time, please press star zero and you will be connected to an operator.

And I will now hand you over to your host, Stéphane Boujnah, Chairman of the Managing Board and Chief Executive Officer, to begin today's conference. Thank you.

Stéphane Boujnah: Good morning, everybody, and thank you for joining us this morning for Euronext second quarter 2020 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 second quarter. Then Giorgio Modica, the Group CFO of Euronext, will further develop the main business and financial highlights. And we will then open up for questions together with Anthony Attia, member of the Managing Board of Euronext.

So moving to slide four. As you can see, Euronext reported a solid operating performance in the second quarter. Revenue increased during this quarter by €51.7 million, up plus 32.5% to €210.7 million compared to Q2 2019. And this solid performance reflects two things. First is obviously high trading volumes across all asset classes, but also continued diversification with the consolidation of Oslo Børs VPS and Nord Pool.

So excluding acquisitions and at constant currency rates, revenue grew by plus 12.4% in Q2 versus last year. And non-volume related revenue accounted for 49% of Group revenue this quarter and covered 122% of operating expenses, excluding depreciations and amortisations. So thanks to our continued cost discipline, Group EBITDA grew by plus 27.8% in Q2 2020 to €125.4 million.

And this translated into an EBITDA margin of 59.5%, which is 2.2 points lower than last year's second quarter's EBITDA margin, as obviously, we are consolidating costs from our recent acquisitions. And typically, the assets we buy, the acquisitions we make have an EBITDA margin pre-synergies, which is lower than the Group level EBITDA margin.

But therefore, on a like-for-like basis, i.e., excluding recent acquisitions, EBITDA margin reached 61.7%. In this context, we confirm our 2020 cost guidance announced in February, and we expect the strategic plans costs and the Oslo Børs VPS integrations costs to ramp up in the second half of 2020.

So overall, this good performance over the quarter resulted in a plus 33.1% increase in adjusted EPS at €1.23 per share. And on a reported basis, the second quarter of 2020 net income was up plus 53.7% at €82.1 million.

Moving to slide five. I just want to underline some developments in Q2, because on 17th June we reached an important milestone in executing the ESG road map of our three-year strategic plan, Let's Grow Together 2022. This was the launch of a new suite of a ESG-focused product, including indices and derivatives, new bond segments and corporate services offering.

And all these product innovations were designed to provide a robust framework of tools for European capital markets to fuel sustainable growth. So first, on indices, we introduced the new Euronext ESG 80 index and derivatives. We also aligned leading Low Carbon 100 index to the Paris Agreement. And clearly, Euronext is the leading provider of customised ESG indices in Europe, and these steps will further consolidate our position in benchmark ESG indices.

On listing, and mainly equity listing, we already have a thriving cleantech issuers franchise. And we issued new ESG reporting guidelines earlier this year, and we launched a pan-European initiative to develop a European ESG measurement and reporting standard. We will continue to accompany our issuers in their transition to a more ESG-compliant communications, and we will propose new ESG advisory services, including virtual roadshows and digital corporate governance, all sorts of offerings driven to the goal of enabling, facilitating the transition towards sustainable finance and sustainable growth.

On bonds, we have already established a strong franchise since almost one-fifth of the world's green bond issued through 2019 are listed on Euronext Exchange. We intend to go further, expanding the green bond offering to social, sustainability, sustainability-linked and blue bonds.

And from a more corporate point of view, a Euronext focus point of view, we have committed to take a leading role in advancing the blue economy. Euronext has been an official supporter of the United Nations Sustainable Stock Exchange Initiative since 2015. And we recently became the first Exchange to sign the nine Ocean Principles, taking our ESG ambition a step further.

Moving to slide six. I'd like to update you briefly on the acquisition of VP Securities, the Danish CSD. As you know, we've received the clearance for the transactions from the Danish FSA on 15th July. And as of today, more than 90% of the shares have been tendered to our offer. So we now expect the closing to be completed in the coming days, in August 2020. And VP Securities in Copenhagen will contribute to our revenue at Group level from the third quarter, pursuing our top line diversification strategy, in particular, in the post-trade world.

In September, Euronext will initiate a compulsory offer to the minority shareholders, commonly known as the squeeze-out procedure, to become the sole shareholder in VP Securities. This transaction that we announced in April, and that we will complete in a few days, will be EPS accretive in full year one, and we expect a return on capital employed totally in line with the Euronext M&A disciplined policy in terms of capital deployment.

So to achieve that objective, we aim at delivering €7 million of run rate cash cost synergies by 2023. You can find the definition of cash cost in the appendix of this desk.

In terms of delivering those synergies, they will be extracted through, first, optimisation of the operating model of the company. Second, through optimisation of the IT footprint. And third, with the rationalisations of support functions. And as part of the integration process, we expect restructuring provisions to occur in Q4 this year and €11.5 million of implementation costs.

So Giorgio Modica will be available during the Q&A to give you more details on these numbers relating to VP Securities.

And I now hand over to him for the detailed presentation of our second quarter results.

Giorgio Modica: Thank you, Stéphane, and good morning, everyone. First of all, I would like to start highlighting that the results like-for-like and organic performance refer to the results,

excluding the impact of the consolidation of Oslo Børs VPS, Nord Pool, OPCVM360 and Ticker and excluding changes of foreign exchange rates.

As Stéphane mentioned, Euronext reported a good quarter with revenues reaching €210.7 million, up €51.7 million or 32.5%. External growth contributed €36.9 million to this performance.

Let's now take a closer look at the different businesses. Double-digit growth in trading volume across all asset classes and the consolidation of Nord Pool led to a 34% increase in our trading revenue, reaching a total of €89.4 million. Post-trade activity revenue increased 64.5% to €36.1 million, driven by the consolidation of our Norwegian CSD, VPS and higher clearing revenue.

Listing revenue grew 21.3% to €36.1 million, driven by the organic performance of Corporate Services and the consolidation of Oslo Børs VPS. Advanced Data Services reported revenue up 16% to €35.8 million, driven by the consolidation of acquired businesses and the good performance of indices.

In the second quarter of 2020, non-volume related revenue accounted for 49% of our total Group revenue, up 1% year-on-year despite the strong trading volumes. This change reflects the increased exposure to non-volume related activities, such as services, custody and settlement in our revenue mix. Lastly, these non-volume related revenues cover 122% of our costs, excluding D&A, compared to 124% last year.

Now moving slide to slide nine and starting with listing. Similarly to last quarter, Corporate Services and Oslo Børs were the growth engines of the second quarter of 2020. Listing revenue grew 21.3% to €36.1 million. Combined with the activity of Oslo Børs VPS, our Corporate Services franchise reported €7.9 million of revenues this quarter. This performance is mainly organic, thanks to the strong client traction and increased demand for digital solutions, boosted by social distancing measure as market working.

Despite tough market conditions, Q2 2020 saw an improved primary listing activity, above all, supported by domestic issuers and SMEs. Euronext welcomed the large-cap listing of the Dutch coffee company, JDE Peet's, in addition we had 10 SME listing. During the quarter, €3 billion were raised on Euronext primary markets compared to €1.5 billion last year.

Secondary issuances reported a moderate activity, driven by issuers seeking for funding for growth or support throughout the crisis. In the second quarter of 2020, €16.2 billion were raised in secondary market issuance compared to €13.5 billion in the second quarter of 2019.

Moving to slide 10. Let's start with Cash trading. Cash trading revenue increased 28.4% to a total of €65.1 million, reflecting a dynamic volume environment, improved market share and strengthened organic revenue capture versus the second quarter of 2019. This performance was mainly organic with the like-for-like revenue growth of €11.5 million or 23%.

Looking now into the different components of this performance. ADV increased to €10 billion, up 20.4% pro forma of Oslo Børs volumes with a significant increase of volumes across all cash products. Revenue capture was 0.56 basis points on an organic basis, while excluding Oslo – including Oslo, it was 0.53 basis points.

The improvement of organic cash revenue capture is mainly linked to the reduced size of average trade, positively impacting average fees. This level of fees cannot be considered a new

normal. This reflects the very specific market condition of the second quarter of 2020. Our market share increased to 71.3%, including Oslo, 3.1 percentage points higher than last year and reached 71.7% like-for-like.

Moving to derivatives trading. Derivative revenues were €11 million, up 4.5%, while total derivative volumes were up 27%. This result take into consideration a lot of moving parts. Let's take a look at the different components.

Market conditions were not favourable, impacted by the short-selling ban in the first part of the quarter, lower risk appetite from clients and uncertainty on dividend payments. Those conditions negatively impacted index future volumes and revenues. On the other side, the same uncertainty around dividends boosted our equity dividend future franchise. And our new equity future products performed very well, helping to offset the environmental drawbacks that we just described.

In addition, it is important to highlight that the reduction of average fees does not come from a fee reduction but from a different revenue mix with more equity future-related revenue with lower fee per lot. In the slide, we highlight the revenue capture per lot, excluding the impact of our new single stock and dividend future products. Average revenue per lot was €0.25, down 17%. Excluding our recently launched new equity future, the average fee would have been €0.31.

Finally, commodity volumes were slightly down, 1%, as the agricultural markets were impacted by the pandemic.

Moving to the next part, our trading business. Spot FX trading recorded average daily volumes of \$20.6 billion, up 18.1% compared to the second quarter of 2019, supported by the volatile environment and improved market share. As a result, spot FX trading generated €6.6 million of revenues in the second quarter of 2020, up 21%, reflecting higher volumes and an improved fee scheme, partially offsetting increased level of disclosure activity versus the first quarter of 2019.

Power trading, encompassing the trading activity of Nord Pool, of which Euronext acquired 66% in January 2020, reported €6.7 million of revenues in this quarter. This reflects the lower volumes due to the seasonal slowdown of spring and summer months as anticipated in Q1. You will find in the appendix, the revenue breakdown by quarter of Nord Pool for 2018 and 2019 for comparison.

In the second quarter of 2020, ADV for the day ahead were 2.32 terawatt hour while ADV for the intraday market were 0.07 terawatt hour. As a reminder, trading revenues are not Nord Pool's only source of income. Other revenues from market coupling, shipping and market data are recorded in other P&L lines, namely market data and technology solution.

Moving to slide 12 for post-trade businesses. The revenues from our post-trade activities increased 64.5% in the second quarter of 2020 to €36.1 million. Clearing revenue was up 9.9% to €15.6 million, reflecting higher treasury income, partially offsetting the dilutive impact of equity futures. This performance is fully organic. Custody and settlement revenue accounted for €20.5 million, up 164.7%, resulting mainly from the consolidation of our Norwegian CSD VPS and increased settlement activity linked to the high levels of volatilities and retail activity at Interbolsa and VPS.

Moving to slide 13 and starting with Advanced Data Services. Revenue was up 16% to €35.8 million in the second quarter of 2020, driven by the consolidation of acquired business, including Nord Pool power data activities and the good performance of indices. Investor Services revenue was up 39.5% to €1.7 million, reflecting the commercial development and the consolidation of Oslo Børs VPS activity.

Lastly, on Technology Solutions, revenue was up a 36.6% to €11.9 million, mainly resulting from the consolidation of Oslo Børs VPS and Nord Pool, but also from organic growth.

Moving to slide 15 for the financial highlights of the quarter and starting with the EBITDA bridge. EBITDA in the quarter grew 27.8% to €125.4 million. We already covered revenues, and therefore, I will mainly focus my attention on cost and margin. Organic cost increased €7.4 million or 12.4%, mainly driven by revenue-related costs, lower net positive one-offs, higher long-term incentive plan costs linked to the increase of Euronext share price in the quarter and the lower capitalisation of costs compared to last year, thanks to the completion of the Optiq project.

Overall, the EBITDA margin for our Group decreased to 59.5%, down 2.2 percentage point as the recently acquired business are not fully optimised yet and are diluting the Group margin. On a like-for-like basis, the EBITDA margin was 61.7% this quarter, stable compared to last year. This quarter, the EBITDA margin of the newly acquired business was 49.1%, with Oslo Børs VPS benefiting from a seasonal decrease in costs due to the summer holidays in Norway, as last year.

Finally, as Stéphane mentioned, we expect costs from Oslo Børs VPS integration and strategic projects to increase in the third quarter and the fourth quarter of 2020, which is why we reiterate our 2020 cost guidance of a mid-single-digit growth compared to the annualised cost of the second half 2019.

Moving to slide 16, and net income. Net income increased this quarter 53.7% to €82.1 million as a result of the good operating performance. In detail, D&A increased 52.8%, resulting mainly from the consolidation of recently acquired business and the impact of PPA. This quarter, slightly more than €5 million of our D&A are linked to PPA. Exceptional items were very low this quarter, primarily reflecting some restructuring costs.

Net financing expenses increase versus the first quarter of 2020, reflecting mainly FX impact and the interest expenses on the top bond issued in 2020. Income tax rate was lower than last year at 25.1%, impacted by positive tax one-offs and lower non-deductible costs this quarter, while income tax in absolute amount increased to the overall better performance of the quarter. For the remainder of the year, we anticipate a normalised tax rate between 27% and 28%. Lastly, adjusted EPS is up 33.1% at €1.23.

To conclude with financials, let's move on to slide 17. Cash flow conversion improved from approximately 40% last year to close to two-thirds. Net operating cash flow post-tax for the quarter was €80.6 million. Our net debt stands at €651 million, representing a net leverage of 1.3 times pro forma over the last 12 months. Gross debt was €1,274 million. I remind you that we recently tapped €250 million on our 2029 €500 million bond.

Looking at the bottom of the slide, as of the end of June 2020, our liquidity position was strong, above €1 billion, including the undrawn RCF of €400 million.

I now hand the floor back to Stéphane.

Stéphane Boujnah: Well, thank you very much, Giorgio. And I'm now available for your questions along with Anthony Attia, Managing Board member.

Questions and Answers

Operator: Thank you. As a reminder, if you would like to ask a question on today's call, please press star one on your telephone keypad. Please ensure your line is unmuted locally and you will be advised when to ask your question. Our first question comes in from the line of Kyle Voigt calling from KBW. Please go ahead.

Kyle Voigt (KBW): Hi. Thanks for taking my questions. Just on the very strong organic equities yield, you mentioned the smaller trade sizes caused this to be unusually high. So I'm just wondering what's really driving the smaller trade sizes? Is it higher retail activity or something else? And then if the trade sizes were at a more normal level, what would have the fee capture been during the quarter? Any colour you can provide there on what is normalised fee capture on a pro forma basis. And then my second question is just regarding all the M&A that you've done over the past 12 months. Obviously, pretty significant amount of M&A for the last 12 months. But taking a step back and looking at the pro forma business now, it's more diversified. But I'm also – I'm really wondering whether the diversification has changed your view regarding the potential normalised organic revenue growth rate in the business relative to what you laid out at your Investor Day of that 2% to 3% type range? Thank you.

Giorgio Modica: Yeah. Let me take your question. So clearly, there are different factors impacting the average size. And clearly, the increased activity of retail is one of those, but it would be difficult from our side to identify specific factors more than others. So we take it as the key explaining factor for the increase of the fees during the quarter. But clearly, there are others. But it's difficult to make a ranking.

When it comes to the normalised revenue capture, what I can say is that what you have seen in the first quarter and in the second quarter does not come from fee changes but more changes of the behaviour and market structure and flow mix. And therefore, in terms of normalised rate, which is always a difficult question, the second quarter really seems high, something which is closer to what we have seen in the first quarter seems to be more sustainable.

But again, market condition might change and we might get at the level which is closer to the one of last year. But to answer straight to your question, 0.53 seems high, 0.50 seems to be more sustainable.

When it comes to your last question, I totally understand where you're coming from. We are not ready yet to adjust and update our long-term revenue growth targets. However, in the coming quarters after the completion of the VP Securities transaction, we might reconsider and provide you with additional information.

Kyle Voigt: Thank you.

Operator: The next question comes in from the line of Philip Middleton calling from Bank of America. Please go ahead.

Philip Middleton (Bank of America Merrill Lynch): Good morning. And thank you for – thanks for the presentation, which I think it was clear. Could we just talk about VP Securities? Two things. First of all, how should we think about phasing of cost savings? And secondly, given you're now building a range of post-trade services, both in the custody area and in the Nordics, how are you thinking about generating incremental business activity on top of that? What's the new business innovations you're looking for?

Stéphane Boujnah: Okay. So Giorgio will answer your question on the phasing of cost, and Anthony Attia, who is head of post-trade operations for the Group, will answer your question about possible revenue expansion across the Nordics.

Giorgio Modica: So when it comes to the phasing, there are a few elements to be taken into consideration. So we believe that clearly we can deliver the target in the three-year period. However, we will need to start discussion with regulators within the framework of CSDR, which means that it's difficult today to provide a fact-based phasing of the synergies for the coming quarters.

What I would say and what I would anticipate subject to the comments of Anthony that will comment on the details is clearly that what we are expecting to finalise our view in the next couple of quarters. And this will reflect – and based on a finalised plan, we will be able to potentially be more specific, and we will likely book a provision for restructuring costs in the fourth quarter after we will have again finalised a more detailed plan on the delivery of synergies. Anthony?

Anthony Attia: Thank you, Giorgio. Good morning, everyone. This is Anthony. So in terms of expansion, it's worth noting that now that VP is part of Euronext, we have three CSDs. And this constitutes a critical mass with €2 trillion of assets under custody. And so the project is to build, what we call, the Euronext of CSD, which is a network of rich functional CSDs covering both the Nordic market with a strong access to the European post-trade markets.

We have a wide arrays of functionalities from segregated accounts, omnibus accounts, multi-currencies, access to T2S, local settlement, etc. So we have the ambition to use this as a platform to grow our settlement and custody business, first in the Nordics, then in Europe by doing several things. One is to develop ancillary services.

There are some pain points for Nordic banks around the fragmentation of post-trade access. So we want to see how we can tackle that. Second, there is this fragmentation that we need to look at. But for sure, we will not concentrate all the post-trade services in the one CSD. We want to keep a local presence because they are growth areas in developing local services, such as the mortgage services business in Denmark, for instance.

Philip Middleton: Okay. Thanks very much.

Operator: The next question comes in from the line of Ian White calling from Autonomous. Ian, please go ahead.

Ian White (Autonomous Research): Hi. Good morning. Thanks for the presentation. Two questions from my side, please, both on pricing. Can you just remind us, please, kind of where you are in terms of Oslo Børs cash equity yield? Should we expect those to converge on the levels that we see at the rest of the Euronext group over time? That's question one. And secondly, I wondered, do you plan to do anything differently at Nord Pool as a result of the

recent entry of a large competitor into the Nordic spot power market, which I think happened during 2Q? That's my second question, please. Thank you.

Stéphane Boujnah: I'll answer on the Nord Pool strategy and Giorgio will answer on the Oslo Børs cash equity yield.

As you have rightly spotted it, the competitive environment has changed, but it has changed both ways. One part of the strategy of Nord Pool now being an important component of the Euronext Group is to facilitate and boost the Nord Pool initiatives across the European continent. So we have planned for expansion of the top line and penetrating other markets that were not as opened in the previous competitive environment.

So I can't say more at that time. But what I can tell you is that the change in the competitive environment was a full part of the analysis of this transaction and that there are defensive components and "offensive" components to opportunities in other parts of the European continent.

Giorgio Modica: So when it comes to your first question on Oslo Børs, my answer is twofold. So today, the pricing is not aligned with the one of Euronext. However, if we look at the basis points, the factor already is in the sense that the reason why you see a dilution in the yield coming from Oslo Børs VPS is more related to the mix between on-exchange and reported deals than anything else.

Oslo Børs contribute around €1 billion ADV. However, 50% of these are reported deals which therefore do not generate any revenue. And therefore, this is what is the source of dilution, and that part is not going to change going forward. However, the alignment of fees is going to follow the migration to Optiq that we expect to happen towards the end of 2020.

Ian White: Got it. That's crystal clear. Thank you.

Operator: The next question comes in from the line of Ron Heijdenrijk calling from ABN AMRO. Ron, please go ahead.

Ron Heijdenrijk (ABN AMRO): Yeah. Good morning all. A few questions from my side on – to start off with the Euronext of CSDs. It was just said that you're not going to build one CSD, but keeping it local. Does that mean that you're not going to build one entity, or does that mean that you're not going to build one technology? And then secondly, a few smaller questions, maybe what drove the very strong performance in the debt listing revenues in the second quarter? And is that a level that could be sustainable? And then in the Tech Solutions, I noticed a drop from the Nord Pool contribution from €2.5 million in the first quarter to €1.6 million in the second quarter. Could you give some colour on that drop? And then finally, on the cost lines, I noted a Q-on-Q increase of 9% on your personnel cost while there was a 30% drop in your other operating expense. Has there been some sort of transfer between those lines?

Stéphane Boujnah: Okay. So Anthony Attia will answer your first question on the ambition of the Euronext of CSDs and Giorgio will answer your three questions on the debt listing on Nord Pool and on the cost structure.

Anthony Attia: Thank you, Stéphane. So indeed, CSDs are locally regulated entities under CSD regulation. And as I said, we intend to keep our three CSDs as three local regulated entities. Nevertheless, there are some commonalities between from CSDs from governance to

some technology components, to data centres, to networks, to client access, etc. And so in the next three years, we would work on bringing these components together.

But in the same way, we have a federal model for our exchanges. We intend to keep our local footprint very much alive with our post-trade business in order to develop local services and also service global customers obviously.

Ron Heijdenrijk: Could I have one follow-up question on that? So there will be further synergies over and beyond the synergies that you're foreseeing now, the initial synergies. Do you then think that on VPS, you will reach or you could reach a similar EBITDA margin as your Group EBITDA margin?

Stéphane Boujnah: I mean, we don't comment on this mid-term targets.

Giorgio Modica: So I mean, I understand your question. I believe that the answer to your question in – is on the separate targets that we have disclosed for each single asset that we have acquired.

So you have a target for Oslo Børs VPS and you have a target for VP Securities. And for the moment, as I comment in the past, we fully understand the complexity of putting those together for a group that is changing. However, we will consider in the next quarter whether it makes sense to provide a more unified target for the future. But as of now, we keep the target embedded in the plan, Let's Grow Together, plus the individual targets for the acquisition we've completed so far.

Now coming to your other questions. So on Nord Pool, actually if you look at the seasonality, this is not really a drop. So you will see that the trading revenues are perfectly in line with what – with the past and you should consider as well that there is a negative effect coming from the poor performance of the NOK against the euro in the last 12 months. So no surprise in this respect. A slightly stronger performance with respect to last year. So nothing to highlight in this respect.

When it comes to personnel cost, there is no change of mix. There is no spill over. The impact is mainly related to one element. You should be aware that there are two things. There is a part of our long-term incentive plan, which is triggered by the operating performance and clearly, the stronger performance is the more we have cost in our P&L.

And then there is another element, which is more volatile, is that the social security costs over LTI plan are linked to the share price, and we need to adjust on a quarterly basis. And as our share price has materially increased in the last quarter, this has had a strong cost impact on our cost base.

So this is what explain the increase of salary cost. There is as well a small inflation component, but it's a low-single digit. So nothing specific to mention in that respect.

Anthony Attia: There was a question on debt. Your second question was about the sustainability of the higher revenues on our debt business. It's too early to say if it's a new normal. Obviously, there are two components in our good numbers. The first one is the effort that we are developing to attract ESG listings in the front of green and sustainable one. The second component is obviously the COVID crisis. So we need to wait and see to assess if this is the new normal.

Ron Heijdenrijk: Thank you very much.

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

Johannes Thormann (HSBC): Good morning, everybody. I have some questions as well. First of all, looking at the declining margin in your derivatives business. You explained just by the change in product mix. Do you expect a sustainable change in the product mix and derivatives? Do you think the margin will stay at those levels, or will it go up again in the next quarter? So what is your feeling for this, so as you don't want to give a guidance, but at least some qualitative statements. Secondly, how big could the impact of all the businesses you're now integrating on your technology sales be in the future? And some technical questions. First of all, are you thinking about hedging your NOK exposure as you have now two businesses reporting in this currency? And last but not least, could you elaborate on your tax rate outlook probably for this year, as well for the next year? Thank you.

Stéphane Boujnah: So Giorgio will answer your three questions on derivatives, on the NOK hedging and on the tax rate.

Giorgio Modica: Yeah. So let's start with the derivatives. So it really depends. One of the key factors that you need to consider is that when we are looking at a single stock future, there are a few drivers in this respect. One driver is the lack of visibility on dividend payments is clearly provides headwinds and therefore reduction of volumes. And the second element is that, clearly, the market – some of the market participants prefer to put – to concentrate the risk profile on larger products rather than single stocks, which has a negative impact on the mix.

So in terms of what is going to come next, clearly, if those headwinds would disappear, what we would envisage would be an automatic increase of the average yield, because mechanically we will keep – I mean, the new product would be dilutive, but would provide revenues over and above the revenues that we had last year, but which is not the case today.

So given the uncertainty around dividend payments and the volatility, I would say that in the next quarter, we should expect an average fee per lot, which is similar to what you have seen now. However, should market conditions revert back and should we have more visibility on dividends, this should improve the mix and therefore, the average revenue capture.

I hope that I answered your question. I cannot be more specific.

Then on the hedging of NOK, so there are a few things. From a business perspective, our businesses are all operationally hedged because we have revenues and costs in the same currency. And our policy is that we don't have hedge investment that we have in mind to keep forever as our Norwegian business. So you should not expect – and the cost of the hedging in cash flow terms would be too high. So we do not expect to hedge a risk which is only an accounting one for the moment.

When it comes to your question on taxes. So the situation is pretty simple. There are two drivers. One driver is that the tax rate of the individual Euronext countries, and this tax rate is going down progressively. So you should expect a tax rate that will reduce gradually. And when I look at the mid-term view, we could be looking at an average tax rate in between 26% and 27%.

However, there are fluctuations. One fluctuation is related to one-off costs. Sometimes, for example, in the Q1 – and usually, non-deductible costs are related to M&A costs. So usually, you will see in the cost where we have either strong provision of M&A activity, the tax rate will go up and it is related to the fact that certain costs are not tax deductible.

When it comes to the one-off we have this quarter, this is really a one-off, is a source of income we received. And you should not project it for the next quarter.

Then when it comes to the – your question on technology sales, I mean, clearly, this is a business we're looking at. But to a certain extent, our recent acquisition doesn't really change the outlook for that specific business at the moment.

Johannes Thormann: Thank you very much.

Operator: Thank you. The next question comes in from the line of Arnaud Gibrat calling from Exane. Arnaud, please go ahead.

Arnaud Gibrat (Exane BNP Paribas): Hi. Thank you. Just a question on M&A. I was wondering if you could maybe update us on the competitive dynamics you're seeing? I mean, obviously, we saw quite a competitive process around BME. But it doesn't seem to be the case around smaller assets. Is that something that sounds true to you, or could you elaborate maybe on the competitive processes and competitive dynamics around smaller assets you might be looking at? And secondly, could you confirm that – what you said, I think, was during Q1 that your threshold had – for doing deals had reduced with your – alongside your WACC? Thank you.

Stéphane Boujnah: So on the smaller assets, we monitor all the potential situations that may arise in Europe. And I have no specific view on any situation, because there is basically no situation. And there is no active situation in Europe at the moment. So I just don't want to make a generic comment on – in the absence of any particular situation. And as far as the WACC is concerned, Giorgio is going to answer you precisely.

Giorgio Modica: Yeah. So what we said in the first quarter is – was more to address some of the concerns that were expressed with respect to specific acquisitions. What I can say is twofold. The first element is that, so far, we did not do any investment with a lower return as we have anticipated.

The second thing that I can say is that clearly, when it comes to deals, we have a specific assessment of the WACC. However, we can confirm that for specific and early strategic assets, we would consider having a WACC lower than the 8% to 9% that we guided before the beginning of 2020.

Arnaud Gibrat: That's great. Thank you very much.

Operator: Thank you. The next question comes in from the line of Martin Price calling from Jefferies. Martin, please go ahead.

Martin Price (Jefferies): Thank you. Good morning. Two quick questions for me, if I may, please. First, on costs. Do you expect to report the €11.5 million of VP restructuring expenses through exceptional items in the fourth quarter or could some also come through operating costs? And secondly, just on corporate services. You've made a number of acquisitions over the past few months. I was just wondering if you could provide an update on the strategic

rationale for those deals. And what we should expect in terms of further M&A as you look to round out that franchise? Thank you.

Stéphane Boujnah: So Giorgio is going to answer your question on the cost and Anthony Attia, who is responsible for our listing business, including Corporate Services, will answer your question about the M&A momentum for bolt-on acquisitions in our Corporate Services business line.

Giorgio Modica: So when it comes to your first question, in the 11.5 – so first, as you know, we are very conservative in adding cost to exceptional. So only specific costs are added in that line, which means that in the €11.5 million, there are going to be plenty of costs, which are related to the integration and therefore accounted for in the €11.5 million, that will not be exceptional, and therefore, will be expensed in the EBITDA.

It is very fair to say that in the fourth quarter we will very likely book a provision and this provision will include a few elements which are quantifiable in a precise fashion at that point. This is going to be likely, including a provision for restructuring costs and a provision for termination of material contract.

It is very difficult to anticipate a specific amount, but what we can say is that usually, that type of provision is in the range between 50% and 70% of the envelope.

Anthony Attia: So on Corporate Services, the ambition is to service corporate and in particular issuers across Europe through technology services and advisory. So we've done acquisitions. We've also done organic development. And we now have a suite of products and services who cover four main areas.

The first one is financial communication through webcast, webinar, IR services. We have governance with iBabs. We have RegTech with insider list reporting. It's a company called InsiderLog that we acquired from the Nordics. And we also have advisory with the latest developments on ESG advisory.

And so all these services are being integrated. And they allow us to search broad number of customers and also develop cross-selling. And so as Stéphane said on the M&A policy, we are scanning the market, and then we don't have any specific comments on the future of Corporate Services. But a lot of work is done in order to cross-sell and to integrate these different acquisitions.

Martin Price: That's very helpful. Thank you. Maybe if you could just – Giorgio, a quick clarification on the costs. Does your full year cost guidance of mid-single digits percentage growth include any non-recurring implementation costs that could come through from VP?

Giorgio Modica: No. So the question is yes and no. In the mid-single digits, we would have all the costs. So it's a catch all. However, clearly, VP Securities is not included as – I mean, the transaction was not in place when we gave the guideline. So it includes the one-offs. However, it does not include one-off of VP Securities. I hope it's clear.

Martin Price: Yeah. That's very clear. Thank you, Giorgio.

Operator: The next question comes in from the line of Bruce Hamilton calling from Morgan Stanley. Bruce, please go ahead.

Bruce Hamilton (Morgan Stanley): Hi. Good morning, guys, and thanks for the presentation. Most of my questions have been answered. But just maybe returning to sort of M&A. I'm just interested whether there's been any sort of increase in the number of files coming across your desk post COVID-19? Is there any sort of change in activity as other owners of assets reconsidered their strategic sort of priorities? And then secondly, I guess, quite a lot of your activity has been focused in the post-trade area. Is that where you expect most opportunities to arise from here, or is it sort of going to be across different parts of the business in terms of sort of potential M&A from here? And then finally, just to confirm the – so the peak levels you'd go to in terms of net debt to EBITDA. I think it's sort of 2.75 times for a period and then dropping to 2.25, just to reconfirm those, would be great. Thanks.

Stéphane Boujnah: So your first question was about the deal flows or the opportunities post-COVID. Your second question on CSD. And I'll take those two ones, and Giorgio will confirm the net debt ratios target.

So as you know, our overall strategy is to diversify our top line by operating new asset classes and new revenue models and also to monitor the opportunities to expand a federal model in other geographies. In this respect, as I said, there is no life situation on the expansion of the federal model because there is no asset for sale for the moment.

On the diversification objective, clearly – and you know that some processes are public, some assets are for sale, mainly from the US. So I don't see any particular or different momentum. Process have been stopped for a few weeks or months, but they have all restarted. And we are monitoring various situations in various asset classes, where it could make sense for Euronext to expand its footprint.

We are also looking at different revenue models that can help us diversifying away from cash equity trading, and more generally, volume-driven revenues. The first two quarters of the year have been very good for whoever is exposed to volumes, and we are very happy to have benefited from that momentum.

But on a mid-term basis, we remain committed to have a much more diversified revenue streams. So the short answer is that no change and continuous flows of NDAs, MoUs, exploratory situations. And we continue to have one four-hour investment committee every four weeks to scan opportunities. And as you can imagine, to filter that in a disciplined manner and to decide to pass most of the deals that come to our desk because they don't need disciplined capital deployment approach.

On the CSD side, we developed this approach of post-trade because there is an opportunity in this sector. We had legacy CSD part of the acquisition of Lisbon 20 years ago with Interbolsa. One of the appealing aspects of the acquisition of Oslo Børs VPS was the fact that almost 50% of the revenue of the Group in Norway was generated by this CSD. And there are significant similarities, proximities, potential synergies between VPS in Oslo and VP Securities in Copenhagen.

So that's how we build a true combination of very clear strategic view about the diversification of our topline and opportunities of amalgamating synergetic assets. That's how we build the critical mass to enter into the CSD world with those three assets.

So we will continue to monitor opportunities to buy post-trade assets in general. And as you know, there are very few clearing assets that are really available in high-quality clearing assets. There are more CSDs, but not that many. And sometimes they are part of existing "silos," so they are already linked to specific exchanges that are not for sale.

And there is a wider group of mission-induced ancillary post-trade focused assets that may come to become available or actionable. So we monitor the situations that way.

Giorgio Modica: Going to the S&P ratios. So after our – the latest discussion with S&P and it is my interpretation, they did take into account the leverage profile of the Group, the resilience of the first quarter and the improved revenue mix in terms of volume and volume-related activity.

And as a result, they have, to a certain extent, depending on how we see that lowered or increased the threshold for a down rating. So now the threshold for a down rating are – have moved. So on a net debt-to-EBITDA from 2.25 times to 2.5 times. And when it comes to cash flow to debt from 40% to 35%. And usually, the grace period attached to those, but again, this is more of a rule of thumb should be 18 months on the net debt to EBITDA and 24 months on the cash flow. So this is the latest.

Bruce Hamilton: Thank you.

Operator: The next question comes in from the line of Mike Werner calling from UBS. Mike, please go ahead.

Mike Werner (UBS): Thank you. And thank you for the presentation. I just have one question, and apologies if it's already been covered. But just looking at the cost base, the underlying cost base in Q2. I was just wondering if there is any impact of the lockdowns in terms of lower travel expenses and/or marketing? And if so, what was the magnitude? Thank you.

Giorgio Modica: Yeah. It's a very fair question, and there is – there are – there is an advantage. Actually, there are a few savings that you can attribute to the lockdown, to a certain extent, and those are exactly the ones you mentioned in terms of lower traveling costs. But it is a relatively small number. It could be around a single million euro to give you an order of magnitude.

Mike Werner: Thank you.

Operator: Okay. We have another question coming through from the line of Ron Heijdenrijk calling from ABN AMRO. Please go ahead.

Ron Heijdenrijk: Yeah. Thank you for taking my follow-up question. Giorgio, I think I heard you say when you discussed the one-off in the tax line that this was related to a source of income that Euronext received. Can you give some clarity on that source of income and which P&L line that source of income?

Giorgio Modica: No. No, no. What I did say are three things. The first one is the tax rate of Euronext is the mix of a tax – its weighted average tax rate of different tax rate of the Euronext countries weighted by the revenues. So, this is the first element.

The second element is that if we look at the different countries of – in which Euronext operates, there is a trend of a reduction in terms of tax rate, and therefore, we should expect going forward to have a reduction of the tax rate.

And the third element I highlighted is sometimes you find a higher tax rate when we have non-deductible costs. And usually, non-deductible costs are linked to M&A activity. And therefore, you should expect when we announce a new transaction, those costs not being tax deductible, artificially increase the tax rate for the quarter, as it happened in the first quarter of 2020.

Ron Heijdenrijk: And yeah, but this – I think you also mentioned the one-off tax benefit in the second quarter.

Giorgio Modica: Yeah. I did mention that, and I say that I did not qualify that. I said that it was really one-off and therefore you should not expect it to have it in the coming quarters.

Ron Heijdenrijk: Sure. But could you maybe elaborate on where in the P&L the underlying revenue line lies that was non-taxed in this quarter.

Giorgio Modica: In this quarter, we don't have major non-deductible cost, and this is the reason why the tax rate is so low together with the fact that we have positive one-offs.

Ron Heijdenrijk: All right. Thank you.

Operator: Okay. And our final question comes in from the line of Kyle Voigt calling from KBW. Please go ahead.

Kyle Voigt: Hi. Thank you for taking my follow-up question. Just a question on a competitive landscape. Cboe recently announced its plan to roll out look-a-like European equity indices and derivatives products, some of which will compete directly with Euronext products. They noted that they're seeing inbound customer demand for a more quote-driven market, one that looks more similar to the US options market. Just wondering, do you hear customer demand for a different type of market model and equity index derivatives trading? And then maybe any other thoughts you have regarding that initiative and your competitive positioning?

Stéphane Boujnah: No, I don't comment on competitors' initiatives. I mean, the European market is very different from the US one in many respects. And we are pursuing our strategy in the – on the derivatives front, which is making significant progress with product innovations. And I don't want to comment on competitors' moves.

Operator: Okay. We have no further questions coming through. So I shall turn the call back across to yourselves for any closing remarks.

Stéphane Boujnah: Thank you very much for your time, and have a good day.

Operator: Thank you for joining today's call. You may now disconnect your handsets. Hosts, please stay connected and await further instruction.

[END OF TRANSCRIPT]