Euronext Q2 2021 Results

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Operator: Hello, and welcome to the Euronext Second Quarter 2021 Results Call. My name is Courtney, and I'll be your coordinator for today's event. Please note that this event is being recorded and for the duration of the call, your lines 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. And 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, CEO and Chairman of the Managing Board of Euronext, to begin today's conference. Thank you.

Stéphane Boujnah: Good morning, everybody, and thank you very much for joining us this morning for the Euronext second quarter 2021 results conference call and webcast. I am Stéphane Boujnah, CEO and Chairman of the Managing Board of Euronext. And I will start with the highlights of this second quarter. Giorgio Modica, Euronext CFO, will then further develop the main business and financial highlights.

Euronext reported a strong second quarter performance with growth in both revenue and adjusted EPS. But before I take you through the numbers, I would like to single out a few important points.

First, this is the first time we have consolidated the Borsa Italiana Group accounts. You will see in most of the existing revenue line the contribution of the Borsa Italiana Group. But you will also see new revenue lines such as fixed income, or net treasury income from CC&G and clearing activity, the contribution of Borsa Italiana.

Second, we recorded good organic revenue growth despite the fact that the comparable Q2 figures from 2020 were exceptionally high because of the volatile market conditions at that time that many of you remember. The growth of this quarter was made possible thanks to the diversification of our activities, and we'll focus on that in a few minutes, the resilience of our core business.

Third, our performance in listing has been very strong. With 62 new equity listings in the second quarter, we have confirmed again our position as the largest listing venue in Europe. We're close to 1,900 listed companies, representing approximately €6.4 trillion in aggregate market capitalisation. And as the largest liquidity pool in Europe with €12 billion average value traded daily, we are definitely becoming the largest listing venue and the largest equity trading venue in Europe. We welcomed in Q2 2021 large listings such as Allfunds, and eight SPACs.

In addition, in Q2 2021, €7.1 billion was raised on Euronext primary markets. This amount doubled compared to the €3.4 billion raised in Q2 2020. Technology and innovative-driven projects accounted for more than half of the total new listings since the beginning of the year. And besides, secondary markets reported a solid second quarter of 2021 with €32 billion raised in secondary equity issues, compared to €16.4 billion in Q2 2020. I would like also to emphasise that Euronext was the leading exchange in Europe for the listings of ETFs for the second quarter in a row.

With regard to ESG, Euronext demonstrated again this quarter that it is more than ever the venue of choice for sustainable projects. One-third of new listings we welcomed were cleantechs. We have now over 40 European ESG indices, and we announced the upcoming launch of the Italian MIB ESG Index following the launch of the CAC 40 ESG. We also announced that Euronext was selected by the German government to launch an ESG Index to be replicated by German pension funds. This development shows the strength of our index franchise even outside of Euronext countries' borders.

Looking at the numbers themselves for Q2 2021. Revenue increased by €118 million, up +56% to €328.8 million. This solid performance was driven by organic growth of 3.5% with record activity in listing and fast-growing post-trade activity in the Nordic region. It was also driven by the consolidation of the Borsa Italiana Group for two months and two days in Q2 2021, contributing for €89.6 million to revenue and income.

As you know, we monitor closely the share of non-volume-related revenue in our mix, which rose this quarter to 56% of total revenue. And now non-volume-related revenue covered 137% of operating expenses, excluding D&A.

On the cost side, the reported increase this particular quarter is mainly related to the consolidation costs from the Borsa Italiana Group and also the VP Securities costs for €41.2 million. And also related to these incremental costs are the integration of the Borsa Italiana Group as announced in the full year and Q1 results.

Overall, these numbers translated into Group EBITDA increase of + 53.8% to €192.9 million, and an EBITDA margin of 58.7% in Q2 2021. On a like-for-like basis, our EBITDA margin in Q2 2021 was 59.2%. And the solid Group business performance resulted in a + 28.6% increase in adjusted EPS at €1.43 per share.

On a reported basis, net income was up + 5.6% to €86.6 million, despite exceptional and financing items related to the Borsa Italiana Group acquisition. I want to underline the fact that during this second quarter of 2021, we achieved the targeted synergies for VP Securities in Copenhagen, only 11 months after the closing of this transaction. With this new milestone, we have completed the integration plan for our recent Nordic acquisitions well ahead of schedule. We are also very pleased to see the fast growing pace of the VP Securities business since the acquisition in August last year.

Regarding the integration plans for the Borsa Italiana Group in Italy, all teams across the core Euronext businesses and across the Borsa Italiana Group companies are now working together very effectively and with enthusiasm to make this acquisition a success and to build together the leading pan-European market infrastructure.

I now hand over to Giorgio Modica for the detailed review of our businesses.

Giorgio Modica: Thank you very much, Stéphane, and good morning, everyone. I'm now on slide six.

In the second quarter of 2021, Euronext consolidated revenues reached €328.8 million with an increase of €118 million or 56%. These results were driven by the organic growth in post-trade, listing activity and by the contribution of the Borsa Italiana Group consolidated this quarter for two months and two days. It's important to highlight this.

On a like-for-like basis and at current currencies, excluding the impact of the Borsa Italiana Group, Ticker, 3Sens and VP Securities, Euronext consolidated revenue was up 3.5% versus the second quarter of 2020. This is an important message. Despite significantly softer trading volumes, Euronext delivered organic growth, thanks to an improved revenue mix.

Moving now to the different business lines. Post-trade revenue, including net treasury income, increased 157.4% to €93 million as a result of the excellent performance of VP Securities in Denmark and Euronext VPS in Norway and the consolidation of Monte Titoli and CC&G activities. The strong listing revenue growth, up 33.6% to €48.2 million, results from a record quarter in listing and the continued strong performance of corporate services as well as the consolidation of the Borsa Italiana Group.

Advanced Data services revenue increased to €46.5 million, up 29.7% benefiting from the resilient performance of market data and the consolidation of the Borsa Italiana Group. Trading revenue increased to €112.8 million, up 26.1%, thanks to the consolidation of Borsa Italiana and MTS trading activities, the good revenue capture and market share for cash trading activities, despite softer volumes in the second quarter of 2021. With regards to fixed income trading, I would like to highlight that MTS cash trading activities was a key growth engine for the quarter, posting over 50% growth in revenue.

In terms of revenue mix, this quarter non-volume-related revenue accounted for 56% of total Group revenue versus 49% in the second quarter of 2020, reflecting the increased diversification in our revenue mix and a good performance of non-trading activities. Please note that these non-volume-related activities now include net treasury income from CC&G.

Lastly, non-volume-related revenue covered 137% of our operating costs, excluding D&A, compared to 122% last year.

I'm moving now to slide seven for listing. Listing revenue was €48.2 million, an increase of 33.6% compared to the second quarter of 2020. Driven by record activity in equity and ETF listing and positive traction of ESG bond listing, the strong performance of Corporate Services up 31.2% as well as the consolidation of the Borsa Italiana listing activity again for two months and two days.

With regards to equity listing, the second quarter of 2021 saw a continuation of a strong primary equity listing with 62 new listings on Euronext, including three large caps and eight SPACs. As Stéphane said, we have confirmed our leadership as the leading listing venue in Europe for equities and ETFs. Secondary market activity reported a good second quarter and debt listing highlighted the growing momentum in ESG bond listing.

Let's move now to our trading business, slide eight. I would like to highlight that the revenue you see on the slide are actual revenues, i.e., include only 45 trading days for Borsa Italiana, while other KPIs, except the market share, are pro forma, i.e., include Borsa Italiana for the full quarter.

Let's start with cash trading. ADV on a pro forma basis decreased 9.2%, reflecting softer cash trading volume compared to an exceptional second quarter of 2020. On a pro forma basis, the average revenue capture over the quarter reached 0.52 basis points. Excluding Borsa Italiana, the revenue capture on cash trading averaged 0.57 basis points this quarter, while the market share was 68.3% and close to 69% at the end of the quarter.

The consolidation of the cash trading activity of Borsa Italiana and this robust revenue capture offset lower trading volume resulting in cash trading revenue increasing 8.7% to €70.1 million.

Let's move now to derivative trading. Derivative trading revenue was up 18.3% to €13.1 million in the second quarter of 2021. Pro forma average daily volumes on financial derivatives was down 7.9%, reflecting lower volatility and risk appetite vis-à-vis the second quarter of 2020.

Commodity products on the other side reported a very strong quarter with average daily volume up 41.3%, reflecting the successful geographical and client expansion. On a pro forma basis, the average revenue capture over the quarter for derivative trading was €0.28 per lot. On a stand-alone basis, Euronext reported average revenue capture of €0.26 per lot.

Moving to fixed income trading, this is one of the new reporting lines you see in our P&L this quarter. Fixed income trading now includes the trading activities of MTS both Cash and Repo and the fixed income trading activity of Euronext and Borsa Italiana, such as MOT and EuroTLX.

Fixed Income trading reported revenue at €17.3 million in the second quarter of 2021 compared to €0.6 million in the second quarter of 2020 as a result from the consolidation of the Borsa Italiana Group. For two months and two days of consolidation in the second quarter of 2021, MTS Cash generated €12.5 million of revenues and MTS Repo generated €3.2 million in revenue.

For the full second quarter 2021 on a like-for-like basis at constant currencies, MTS cash reported revenue growth of 52.2%, while MTS Repo reported revenue decrease of 1.6%, reflecting stronger client appetite for cash transactions. The strong performance of MTS Cash trading activity reflects the positive momentum in cash bond trading supported by the steady issuance and support from the ECB bond buying programme, the EU Recovery Fund to support the European economy and generally greater adoption of electronic trading solutions.

Continuing with trading on slide nine, Euronext reported average Spot FX trading daily volumes of $18.6 billion in the second quarter of '21, down 9.8% compared to the second quarter of 2020, resulting from less volatile trading environment. As a result, Spot FX trading revenue decreased 13.5% to €5.7 million.

Power trading reported stable revenues at €6.6 million, reflecting lower power trading activity offset by positive foreign exchange impact.

In the second quarter 2021, average daily day ahead power traded was 2.17 TWh and average daily intraday power traded was 0.07 TWh.

Moving to slide 10. Revenue from our post-trade activity, including net treasury income, increased by 157.4% to €93 million. Clearing revenue was up 70.6% in the second quarter of 2021 to €26.6 million as a result of higher clearing revenue and treasury income received from LCH SA and the consolidation of CC&G activity for two months and two days. On a like-for-like basis at current currencies, clearing revenue was up 20.6% compared to the second quarter of 2020. Net treasury income of CC&G was €9.6 million and is also another new line of our P&L.

If we focus on CC&G for the full second quarter of '21, on a like-for-like basis at constant currencies, CC&G reported stable revenues compared to the same quarter last year.

Custody, settlements and other post-trade encompassing the activity of the four CSDs we operate, namely, Interbolsa, Euronext VPS, VP Securities and now Monte Titoli, reported strong revenue growth to €56.8 million, mainly reflecting the contribution of VP Securities, a very strong organic performance of our Nordic CSDs and the consolidation of Monte Titoli.

Moving to slide 11. Advanced Data Services revenue was up 29.7% to €46.5 million in the second quarter of 2021, driven by a resilient market data business and the consolidation of the Borsa Italiana Group various data activities. Proceeding now with investor services, revenue was up 29.8% to €2.2 million, reflecting continued commercial development.

Lastly, on Technology Solution & Other, revenue almost doubled in the second quarter of 2021 to €22.9 million as a result of a strong SFTI/Colocation revenue and the consolidation of this technology business Borsa Italiana Group, including Gatelab, a financial software company, offering brokering and property trading platform, and X2M, that provides the low latency trading access to the international financial markets.

Moving to slide 13 for the financial highlights of the second quarter. Let's start with the EBITDA bridge. EBITDA for Euronext this quarter was up 53.8% to €192.9 million. EBITDA margin slightly decreased but remained strong at 58.7% this quarter despite the ongoing integration activities impacting the quarter. On a like-for-like basis, the EBITDA margin was at 59.2% this quarter, and EBITDA increased 2.4%.

From a revenue perspective at constant perimeter, those revenue increased €7.5 million compared to last year, reflecting the listing and post-trade organic growth. The Borsa Italiana Group contributed €89.6 million to the top line, and the other business acquired for €20 million. And these €20 million mainly reflect the consolidation of VP Securities.

Looking at cost. Group operating costs, excluding D&A, were up €50.6 million to €135.9 million as a result of €4.5 million of additional organic costs, mainly reflecting the staff cost and €46.4 million additional costs from change of scope as a result of the consolidation of the Borsa Italiana Group, VP Securities and other smaller recent acquisitions, and also from the integration costs, mainly related to the Borsa Italiana Group. As a reminder, the figures related to the Borsa Italiana Group represent two months and two days of consolidation in the second quarter of 2021.

Moving to slide 14 for the net income bridge. Net income increased this quarter by 5.6% to €86.6 million, resulting from the following elements. D&A mechanically increased impacted by consolidation of recent acquisition D&A and PPA. Going forward, quarterly D&A for the Euronext Group are expected to amount to around €37 million, including PPA for around €20 million.

Exceptional costs were €26 million, mainly related to the transaction of the Borsa Italiana Group. I remind you that the estimate of those costs was already disclosed in our 2020 universal registration document for approximately €30 million. There are small discrepancies between the actual and the estimate resulting from cost savings, costs already booked in the first quarter of 2021 or being capitalised in the first half of this year.

Net financing expense for the second quarter of 2021 was €10.5 million higher compared to last year, primarily resulting from the consolidation of the costs related to the acquisition of Borsa Italiana. On a normalised basis, the financing costs are expected to amount to around €7-€8 million per quarter.

Lastly, income tax for the second quarter 2020 was €37.2 million. This translate into an effective tax rate of 29.6%, impacted by non-deductible exceptional costs. Going forward, excluding the potential impact of non-deductible exceptional items, we expect our tax rate to normalise at around 28%. Adjusted for PPA and exceptional items, adjusted net income was

€134.7 million, translating into an adjusted EPS increase of 26.8% to €1.43 per share this quarter.

Moving to slide 15 for the cash flow generation and leverage. The net operating cash flow was slightly negative this quarter at €1.3 million negative. I would like to highlight that this includes the negative impact of Nord Pool and CC&G cleaning activities on the changes of working capital for €63 million.

In addition, the cash flow generation this quarter was impacted by higher tax paid due to the higher taxable income in 2020 versus 2019 and the seasonality of tax cash out. Our net debt to EBITDA ratio is at 3.1 times at the end of June 2021 following the bonds we used to finance the Borsa Italiana acquisition. You can find our debt schedule in appendix.

Lastly, on slide 16 for the evolution of our liquidity position over the quarter. As you can see, the main impacts are related to the acquisition of the Borsa Italiana Group and its refinancing. In particular, the key items are €5.5 million mainly related to €3.8 billion of bridge facility and €1.8 billion three-tranche bond issuance; €4.1 billion of investment mainly from the acquisition of Borsa Italiana net of the cash acquired; €2.4 billion of capital increase; and €3.7 billion of bridge facility repayment. Our liquidity position was strong at above €1.2 billion including the undrawn RCF for €600 million.

Finally, our targeted cash for operation increased from €180 million to €400 million following the acquisition of Borsa Italiana.

I now hand over the floor back to Stéphane Boujnah.

Stéphane Boujnah: Thank you, Giorgio, and thank you again for your participation to this call. We were very pleased to share with you a strong Q2 2021 in terms of organic performance boosted by the first contribution of the Borsa Italiana Group accounts. We are actively preparing the new Euronext strategic plan, which will include 2024 Group guidance. And we will release these the new Euronext strategic plan in November 2021.

We are now available for your questions with Giorgio Modica, our Group CFO, and also Anthony Attia, the Global Head of Primary Markets & Post Trade.

Questions and Answers

Operator: Thank you. As a reminder, that 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. That's star one on your telephone keypads. And our first question comes in from the line of Mike Werner calling from UBS. Please go ahead.

Mike Werner (UBS): Thank you, and congrats on the results guys. Two questions, if you don't mind. First, on fixed income trading, particularly the cash portion. You noted how there was a quite a strong increase quarter-on-quarter. I was just wondering how this quarter compares to other quarters. I don't have a really good look into where these volumes have been quarterly. So maybe if you could just provide some context with regards to the Q2 volumes relative to maybe the full year 2020 run rate? And then also any indication as to how July volumes are panning out?

And then second, Stéphane, I think I saw you make some comments about internalising the clearing opportunity. And I was just wondering, I mean, our numbers show that you account for Euronext now with Borsa Italiana Group consolidated for more than 50% of the revenues for the Paris subsidiary of LCH. So I was just wondering if Euronext would also be willing to consider a potential transaction or M&A solution to clearing with regards to the Paris subsidiary of LCH. Thank you.

Stéphane Boujnah: So I'll answer your question on clearing, and Giorgio will answer your question on fixed income trading. Three or four comments on your question on clearing. First, I don't want to comment the financials of LCH SA, and I'm not pretty convinced that the percentage you're referring to are accurate, but I am not in a position to comment the LCH SA numbers.

Second on the M&A front. It's a situation which is pretty clear. We own 11.1% of LCH SA. We seat at the Board of LCH SA. We have a pre-emption right in the event of a transaction where LCH Ltd would sell LCH SA, but that is up to the controlling shareholder, London Stock Exchange Group to decide whether they have an interest to consider such a transaction or not. As you know, the assets that are part of LCH SA, formerly known as Clearnet, used to be part of Euronext. They were sold to London Stock Exchange Group in 2003. And we tried to acquire those assets in 2016-'17 in the context of the remedies for the attempted merger between Deutsche Börse and LSEG.

Actually, we acquired them on the condition precedent of the completion of this merger, which did not complete. So it's not like the idea has never existed, but the reality of corporate life is that it's a London Stock Exchange Group decision to decide whether or not they would be interested in such transaction.

On what you referred to as the– internalisation of clearing. The matter has been discussed several times and requires some level of granular analysis because it's not binary. And what I said yesterday to a gentleman from Reuters, I think, was slightly more complex than what was necessarily expressed in the report. We are now the owner for the first time of 100% of a clearinghouse. And that changes completely the way we look at clearing flows from Euronext clients and Euronext operations.

And we have the duty to consider how, when, at what place, for what assets we could consider offering to our clients the possibility to clear the flows they trade with us within CC&G. And we are exploring these options. And this option requires the completion of at least four, five workstreams.

The first work stream is a legal workstream, which is a proper negotiation with LCH SA, LCH Limited and LSEG because we have an agreement with them that lasts until 2027. We have exit windows from this contract, but there are breakup fees associated to to the exiting of this contract, like any contract, the closer you get to the maturity, the smaller the breakup fee. So without entering into details, there is an element which is negotiations with the incumbent provider.

The second element is to assess what would it mean in terms of CapEx to transform CC&G, which today is mainly a single country clearinghouse for the Italian market into a pan-European clearing platform. And that's an easy workstream to do, but that's also work in progress, how much technology CapEx are needed.

The third workstream is what does it means in terms of capital requirement and in terms of risk model. So far CC&G is probably one of the safest clearinghouse in Europe with very strong capital requirements or initial margin required by the Central Bank of Italy. To what extent this margin – initial margin profile and risk model would be adjusted to make CC&G more competitive is another issue that requires a dialogue that has started with Banca d'Italia.

The fourth workstream is what is the right solution for the various assets that are cleared by LCH SA. We clear cash equity trading, but we don't have any revenue sharing agreement with LCH Limited, LCH SA for those operations. And as you know, they are not very complicated in terms of margin, but it is a relatively commoditised business. So what type of solution could be explored for these type of assets?

Then we have derivatives. Derivatives require more margin and we have a profit sharing arrangement with LCH SA, which is valuable to us, and that probably triggers a different type of options and solutions. And we have commodities clearing. Now for the commodities, some of them behave almost like financial derivatives because they are cash settled, but others have a specific profile in terms of clearing because they are physically settled.

And then we have the repo business mainly for the Italian govies repo, which has particular features and particular interactions between LCH SA and MTS. So the solution cannot be captured in one time decisions and require granular analysis. Then we need to have a dialogue with clients because clients like cross margining and collateral netting.

And my point is that we have also to go to the roots of what sort of incentives need to be created for clients to migrate. That being said, the big picture is that we own 100% of CC&G and we own 11.1% of LCH SA. So that's what was behind my comments made yesterday. We are exploring the options. We are analysing the pros and cons of all the situations. We have a good constructive dialogue with LSE, but we have also extremely productive, innovative discussions within Euronext with the CC&G teams. And we will share the conclusions at the Investor Day that will take place at the beginning of November. Apologies for this long answer but there can't be a simplified reply to your question.

Giorgio Modica: Yeah, let me take your question of MTS. So the first element that is important to highlight is that starting from the end of last year, the market has perceived a very strong support to the debt issuance of European govies. This has increased the appetite of investors, number one, to invest in cash transaction vis-à-vis using the repo channel of MTS. So this explains the mild dilution of the repo volumes and revenues vis-à-vis what happen in cash.

And then as you correctly highlighted, we are witnessing an explosion of volumes, which depending on the quarter and the month are between 50% and 100% higher than the volumes that we witnessed last year. Now part of your question entails the outlook for the remainder of the year. What I can share with you is that the trend remains strong as we speak. Even if we start perceiving some fatigue from the market, given this prolonged period of extremely high trading volumes. But I believe that the important element is that the underlying factors and tailwinds are there to stay in a view. The first one is support of EU to the pandemic recovery. The next-gen programme will help as well. And the general political stability across Europe is another very important factor.

So what we can see is clearly those volumes are exceptionally high. However, the positive trends are still there even though some first signs of fatigue are starting to appear.

Mike Werner: Thank you, both for those answers. Very helpful. Thanks.

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

Kyle Voigt (KBW): Hi. Good morning. So first question is on just cash equities revenue capture excluding Borsa Italiana once again came in very strong. I think you noted before that you expected that capture rate, excluding Borsa Italiana, to settle in a lower range than it was – than it had been at for the last several quarters. I guess now that this trend has persisted, do you expect those cash equity capture rates to still move directionally lower, or do you think we're in a more sustainable type of revenue capture yield environment? That's the first question.

Second question is just with the strong EBITDA growth, the pro forma leverage has come down faster than we expected. Can you just give us some updated thoughts about this kind of new diversified pro forma business? And what type of leverage profile you think this business can sustain on an ongoing basis? And where you're willing to flex that to the high end for further M&A?

And then lastly, should we think about M&A as really off the table for the next 12 months or so as you focus on integrating Borsa Italiana because of the size of that integration? Are you still comfortable executing on M&A opportunities?

Stéphane Boujnah: Right. I'll provide you with a general qualitative answer to your strategic question on M&A and Giorgio will answer your question on cash equity capture or yield and on the pro forma leverage profile evolution.

Clearly, the key priority of Euronext for the coming 18 months is to make the acquisition of Borsa Italiana a success, leveraging on the very good quality of the teams, the very good features of the local markets and the trust we have in the possibility to grow the business in Italy. So our priority for the next, let's say, 18 months is to integrate Borsa Italiana to grow the combined top line of the Group, to grow the EBITDA, to grow the free cash flow generation, to deleverage the company as quickly as possible. And we will probably not have proactive M&A move until we significantly deleverage.

That being said, the reality of a corporate life and M&A is that situations come when they come and you don't select the timing of sellers. So we are monitoring very closely opportunities to further expand the European footprint of Euronext and the European federal model of Euronext. And we'll see whether some opportunities come or not after 18 months or before 18 months. Also we continue to monitor very closely opportunities to diversify our top line to be less dependent than we are even if you have massively diversified over the past five years, less dependent on volumes volatility.

And this exploration will continue. So to the extent we have control of timing, we're trying to push them down the road for the next 18 months. To the extent we do not, we will not have control of timing, we will explore ways to offer to our shareholders the possibility to capture those deals when they offer great EBITDA expansion potential. So it's a sort of generic reply, because unfortunately we can be specific only on specific situations, but at least you have the mindset in terms of priorities.

Giorgio Modica: So let me take your first two questions. So revenue capture. Yes, you're absolutely right. We are at the highest point ever. And in this respect, what I would like to share with you is similar to the message that I shared in previous quarter. This is a result of very specific market condition, which are linked as well to the size of the order that remains low. So what we have seen are a number of elements. The first one is that volumes and volatility has normalised, but on the other side, other elements of the market remain specific like retail participation, which remains relatively high, and the average trade side remains low, and this trigger a level of revenue capture that we still do not deem sustainable in the long-term.

So now we have as well the revenue coming from Borsa Italiana, which are diluting the yield. You've seen the 0.52 as pro forma revenue capture for the whole Group. So what I can share with you is that on a pro forma basis, we believe that what would be sustainable for us is revenue capture below 0.50 basis points at around 47, 48. This is more or less what we anticipate would be sustainable in the long-term. That doesn't mean that the next quarter we might not have a similar situation as the one we are witnessing this quarter, but this is our view for the long-term.

When it comes to leverage, again, you're very right. When we closed the transaction, we were in a better situation than the one we were expected to be in September. And today, we are in a better situation than the one we were expecting when we closed the transaction. This gives us a room of manoeuvre within our current rating of several hundreds of million euros in terms of theoretical firepower. However, as Stéphane commented, our priority is to integrate Borsa Italiana and then we would be extremely tough in the assessment of any potential opportunities in the short-term.

Kyle Voigt: Very helpful. Thank you.

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

Arnaud Giblat (Exane BNP Paribas): Yeah. Good morning. Three questions, please. Firstly, could I ask you to comment perhaps on a specific deal situation? I think the Euroclear stake has stake has come up for sale from ICE. I think in the past you've also mentioned wanting to become the Euronext of clearing and settlement across Europe. So could you perhaps comment on whether or not you've got any interest there?

Secondly, I was wanting to get some of your views on net treasury income. I mean, historically, on the LSE's ownership, there has been a significant amount of optimisation, if we can call it that way, of net treasury income yield at Borsa Italiana maybe going up the risk curve. How do you see the situation now? Do you think the yields are optimal or can you shift them – or are you expecting them just one or another?

And my final question is, could you perhaps quantify the integration costs that have happened over the quarter? Thank you.

Stéphane Boujnah: Okay, I will answer your first question, and Giorgio will answer your second question and your third questions. The first question on the reports in the media interest for ICE to dispose their 9.8% stake in Euroclear. I don't have any comments to make as far as the Euronext approach of this situation is.

On the other two issues, Giorgio?

Giorgio Modica: Absolutely. So when it comes to the net treasury income, what I can comment is that the investment policies of CC&G have remained stable for a number of years. And if we look at the revenue capture out of the invested portfolio, which I want to highlight, remains a very small portion of the overall initial margin in defaultfund has been fairly stable in the last few years. And we feel that this level is in line with the risk appetite of our Group.

Having said that, it is clear that clearing activities are new to Euronext and we will be extremely cautious and we will monitor the investment policies in the quarters and years to come. When it comes to the integration costs this quarter, we did spend above EBITDA around €5 million.

Arnaud Giblat: Thank you very much.

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

Bruce Hamilton (Morgan Stanley): Thanks. Morning guys. The performance of MTS is very good. And in terms of your sort of plans to extend the offering outside of Italy. Obviously, you gave quite a detailed answer about the steps you need to go through for CC&G to think about or bringing clearing back from LCH. But what are the sort of steps to go through on the MTS side to maybe extend that?

And then secondly, I guess often in large exchange deals, there is discussion with users around some sharing of the benefits of the deal in terms of pricing give up or other. How should we think about that? And I assume it's already embedded in the sort of revenue synergy numbers that would be net of any sort of give back to users. But is there any sort of – are there any areas where there could be some price adjustments to benefit users? Thank you.

Giorgio Modica: Yeah. So I will take your question. So if I understand correctly, the line was a little bit breaking up. What we will be doing in order to extend the potential of certain Euronext – Borsa Italiana subsidiaries outside of Italy, and I believe you were mentioning MTS. This is something that we are already doing and the work is around different lines.

One line is clearly to export the value proposition that MTS has built on sovereign debt to other geographies outside of Italy. MTS has a very specific electronic solution that might greatly help DMOs around Europe, and we are actively marketing for that. And the other element, we believe that the full value chain of Borsa Italiana and Euronext would deserve a greater share of the EU programme for the refinancing and development of European economy.

We believe that Euronext Dublin could contribute. We believe that our CSDs would be able to contribute. And we believe that the electronic platform of MTS could play a very significant role in this respect.

When it comes to your second question, I can only confirm that any retrocession or any give back, as you called it, would be or is embedded in the target that we have already shared and is going to be included in the target that we will share to the market at the Investor Day later this year.

Bruce Hamilton: Great. Thank you.

Operator: The next question comes in from the line of Enrico Bolzoni calling from Credit Suisse. Please go ahead.

Enrico Bolzoni (Credit Suisse): Hi. Good morning, and thanks for taking my questions. Just a couple. One on cost. They were pretty much under control over the quarter despite clearly the Borsa acquisition. Can you just give an update on how we should think about that in terms of future quarters in terms of evolution in the near-term? I'm talking about operations, so excluding clearly the exceptionals. And then I have another question on actually the custodian settlement that clearly was very, very strong. So again, can you just confirm how comfortable you are that this trend can continue for this part of the business over the coming quarters?

And then finally, just a bit of a general question. There are numbers of retail players that are coming in Europe and quite a few of them offer basically internalisation of trades between clients. So is this something that down the line concerns you, the fact that there's going to be more and more of these players that actually internalise the trading orders and defacto do not use the actual infrastructure? Thank you very much.

Giorgio Modica: So starting with your first question on costs. The way I can help you is twofold. I can confirm the target that we have set for the perimeter, excluding Borsa Italiana, in February with the result of 2020. So our ambition to decrease cost in 2021 with respect to the annualised Q4 2020 by mid-single-digit.

Then to be more granular than that, we will need to go to the Investor Day. This is more, if you want, of a technical quarter between – and we were going to have some – so it's very difficult to give you a specific target for Q3. So I cannot do more than that.

The other element that I can highlight is that clearly, we are in the process of onboarding costs for the integration and to get prepared to the migration of the data centre that will impact our cost in the quarters to come.

Then I will take your question on retail and I will give the floor to Anthony Attia, who is the Global Head of Post Trade, to answer your last question. So when it comes to retail, I want to highlight a few elements. Number one is that Euronext has a very strong retail participation. And it is one of the key assets of the Group. And we are willing to leverage that even more going forward.

The second element is that in this respect, Borsa Italiana provides a great contribution, because also the Italian ecosystem, retail ecosystem is intimately linked to the stock exchange and we are willing to use and leverage that asseteven more. We are always vigilant for the new threats that might emerge around retail. At the moment, what I can say is that we believe that we have the right element and a strategic flexibility to cope with those elements.

And one of the most important element is making sure that we are able to display the value added of our solution with respect to other solutions, because many times internalisation comes at a very significant cost for retail, even if this cost is not explicit in a fee, but is implicit with the lower quality of execution. Anthony?

Anthony Attia: Yes. Good morning. Thank you, Giorgio. So concerning our CSD businesses. So we have four drivers for the growth of the earnings of CSDs. The first one is the valuation of assets, which, as you know, has been growing in the past few months. Now we are reaching a level of €6.3 trillion in our four CSDs. It's obviously difficult to predict the trend, but it's a macro trend that you can follow.

The second driver is the number of settlement instructions, which is the result of the trading on the different markets that are captured by the CSDs. And we had – in Q2, we had managed 33.1 million settlement instructions. And again, this is the consequence of the volumes of the market. We've observed some stabilisation in the past few weeks.

The third driver is specific to our Nordics CSDs, which manage retail accounts directly in opposition to the Continental CSDs such as Monte Titoli or Interbolsa who manage jumbo accounts. And the revenues are directly linked to the number of new accounts being open for the retail clients and as well as the retail activity. So same thing this has been growing in the past few quarters, although we observed some trends to stabilisation.

The last driver is very important for us because it's the growth part of the CSD, which is diversification to post-trade services around our CSD. This is something that we would comment in the future, but it is still modest at that stage. Thank you.

Enrico Bolzoni: 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): Yeah. Thank you. I wonder if you could say a little bit – obviously, you've been talking about Borsa Italiana, which is, I think, a fantastic deal. But could you say a little bit about your ambitions in the Nordic region? Now you've completed your integrations there. I mean, sure, there's plenty you can do there organically.

And secondly, you give this very compelling figure about non-volume-based revenues. Presumably that's only including two months of Borsa Italiana and that would have been higher had you accounted for a full three months. Do you have any idea about what that number might have been?

Stéphane Boujnah: I will answer your questions on our Nordic strategy and Giorgio will answer your question on the revenues. The Nordic region is a very important component of the Euronext strategy. There is no European success without a Nordic dimension. Before the acquisition of the Borsa Italiana Group, the Nordic region was representing 25% of the top line of the Group and all the investments we have made in this part of the world are extremely successful. And we are very happy with this pace and of integrations over there, the flexibility offered by local markets and it's really a place where we want to grow up for sure.

We had several dialogues with the several players, mainly in the fields of platforms to diversify our revenue mix. And we definitely will try to continue this dialogue and to capture any available opportunity to grow in this part of the world, again with a focus on acquiring assets that would help us to diversify our revenue mix.

Giorgio Modica: Philip, with respect to your second question, my honest answer is that this quarter there was so many gaps and changes to compute that we did not compute that one. So I do not have a reliable number to share with you. But my guess is that the number will not be dramatically different from the 56%.

Philip Middleton: Okay. Thank you, both, very much. That's helpful.

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

Martin Price (Jefferies): Good morning. Thanks for taking my questions. I've got two, hopefully quick ones. The first was just on costs. I was just wondering if you could provide an update on the non-recurring expenses you expect to be included in full year 2021 operating costs, rather than exceptionals. I think you said you booked €5 million in this first half. Just be helpful to understand how significant those items are in the context of your guidance for this year. Second question, just a quick one on M&A. Clearly, you've done a lot of deals in the last three to five years. We've seen you divest a couple of non-core assets this year as you optimise the portfolio. I was just wondering if we should expect a bit more of this and potentially something more significant in terms of size? Or are you sort of essentially happy with the existing business perimeter? Thank you.

Stéphane Boujnah: I think I covered the acquisition part in the previous question and you are opening a new question about the disposal of assets, or the asset rotation, whatever you want to call the fact that you sell assets. We have a clear view on that one. The bigger you want to grow – get, the more important is to trim the perimeter and to dispose assets that can find a better a better owner elsewhere. And I'm referring here to small businesses that have a margin dilutive impact on the Group.

The philosophy, and since you asked an open-ended question, is the following. We don't like margin dilutive businesses. We can live with margin dilutive businesses if such margin dilutive businesses produce growth at a higher level than the core business and/or quality of earnings in terms of resilience of revenues, that is stronger and better than the core business.

Now if the margin dilutive business doesn't grow and doesn't bring in any material way, quality of earnings, then we sell or we restructure, or we do whatever is appropriate to make sure that it is not part of the Euronext perimeter. We have done that in the past two quarters in Q1 with the Centevo and in Q2 with OMS. These were two good assets that were part of the perimeter of Oslo Børs VPS when we acquired it in 2019.

We looked for a year and a half as to what to do with those assets and we reached the conclusion that we were not the best owner and that we will not be in a position to create any convergence towards the blended margin contribution of the Group, nor that the growth profile nor the quality of the earnings would be material enough to justify that. So we have done it.

We will continue to have the same approach across the Group. And it's a sort of continuous sanity check, a trimming effort that we have on every asset. And we will apply the same logic on some periphery assets there within the Borsa Italiana Group if and when appropriate. But this is a sort of very important discipline to focus the Group on areas where we do create value and not to use our shareholders' resources in areas where we don't create value.

Giorgio Modica: On your question on cost, the short answer is that I cannot give you a target for the next quarter or the end of the year. The slightly longer version of the answer is that we've put a lot of importance in the credibility of what we – of the target we set out. So we are still gathering the information needed to give you the plan as detail as possible at the time of the Investor Day.

What I can tell you as well is that out of the around €5 million that I was mentioning, not 100% is related to Borsa Italiana, because there is a small component around 10%, which is related to the completion of the integration of other acquisitions. And the other element I can share with you is that you should expect these numbers to grow in the next quarter as we are getting equipped to deliver on very ambitious project such as the migration of the data centre and the Optiq migration. Unfortunately, I cannot tell you more than that. More to come at the Investor Day. Thank you.

Martin Price: Understood. That's great. Thanks, Giorgio. Thanks, Stéphane.

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

Ian White (Autonomous Research): Hi. Good morning. Thanks for taking my questions. Just two follow ups from me, please. So first of all, just on Corporate Services. Could you provide a sense of the penetration rate for those services, please? Essentially, what percentage of the Group's listed issuers purchases those services today? Just keen to understand the scale of remaining opportunity there.

Secondly, a follow up from the clearing discussion. So I'd be keen to understand the extent of flexibility you think you might have there, particularly on the MiFID's non-discriminatory access provisions? So basically, do you think it's possible to silo the MTS business specifically and actually sever the clearing link to LCH SA? Or is it more likely that any clearing solution that you pursue going forward would maintain a choice for end users between CC&G and LCH SA over the long-term, please? Thank you.

Stéphane Boujnah: I will answer your second question. And Anthony and Giorgio will answer your first question on Corporate Services as he's the head of listing which includes our Corporate Services ambitions. No one is suggesting to create the first silo of any – or any solution which would be contradictory to the terms of MiFID and EMIR. So what we are discussing and what I commented earlier on is that the possible development of a solution to be proposed to our clients, and because we want to be CCP neutral to preserve your clients.

And we are just talking about offering them a solution that is a complement that could be an alternative to what they do today with LCH SA. So nothing different or contradictory to the current regulatory framework. So no silo ambitions. Just an alternative proposal. Anthony on the Corporate Services?

Anthony Attia: Thank you, Stéphane. So on our Corporate Services business, it's a diverse the business from a client segmentation point of view, as well as from a product offering software-as-a-service offering point of view. So we do offer all services to listed issuers, some of them being Euronext listed issuers, others being non-Euronext listed issuers. It is wide and broad across Europe.

We do not disclose the proportion of issuers versus non-issuers clients. But what I can tell you is that we still have large opportunities in Europe to deploy our advisory post listing services as well as our webcast services. In particular in this increased accelerated digitalisation, a period of time where we see a high demand.

Some of our Corporate Services are targeting non-issuers and this is why it's called Corporate Services. And it's the same thing we have a very deep, very broad potential client base in Europe.

From a geographical point of view, it's the same approach. Of course, we leverage on the countries where Euronext is present, but we also are expanding in non-Euronext countries such as Spain, Sweden and Germany for instance. Thank you.

Ian White: Thanks very much. Very clear. Thank you.

Operator: The final question comes in from the line of Andrew Coombs calling from Citi. Please go ahead.

Andrew Coombs (Citigroup): Morning. And thanks for squeezing me in. I have a broad-based question and I appreciate that some of this we may have to wait until the investor update later in the year. I just want to ask your thoughts on investments then more broadly. You've given a lot of initiatives coming up in terms of the Optiq migration, the data centre migration, potential shift in post-trade from LCH SA to CC&G. And you're still sizing up the clock and the timeframe and all of these things. I guess the question would be when you think about investments, then number one is, how do you think about how you look at between exceptional OpEx, CapEx? And secondly, what do you deem to be the necessary payback period for that investment?

Giorgio Modica: I can take the more accounting question and then Stéphane can take the more strategic part of the question. So our rule – and this is very important. What you read in the line, exceptional items, does not mean one-off. It's very, very specific category of one-off. And those are the one-off which are related to transactions that are considered transformational in nature. And the shortcut for that that usually fits 95% of the cases are the transactions where we need to seek for General Meeting approval.

Just to give you a very practical example. An M&A fee paid to an investment banker to buy a small company would be in OpEx. So in the last quarter, for example, even in large transactions, we have booked those type of cost in OpEx. However, when it comes to transactions that require General Meeting approval, such as Borsa Italiana, then the same line item in nature is recorded into the line exceptional items.

The second condition is that in terms of amount, would need to be meaningful. And therefore, several hundred thousands case, for example. Travels for the Borsa Italiana Group will not be booked clearly as exceptional. So in the €26 million, what you will see are probably invoices from lawyers, banks, etc. And then – so I believe that I answered your questions or not fully?

Andrew Coombs: Well, then let me ask you a couple of follow-ups. I guess given that point, absent in any further M&A, should we expect exceptional items to trend to zero? And then also on the CapEx versus OpEx and you think about the investment, is a case of the technology investment goes in CapEx and the bulk of the rest is in OpEx?

Giorgio Modica: Yes. Absolutely, yes. So the first element to your question; in the range between being aggressive or conservative on capitalisation, we are very conservative, which means that if you compare ourselves to the other, most of our IT expenses flow through OpEx which does not mean that we do not invest enough. It means that we are conservative.

However, the large projects that you are mentioning, that will trigger a long-term financial benefits for the Group of course are going to be booked as CapEx.

Stéphane Boujnah: On my side to give you some intellectual framework to assess the way we look at this big technology projects with strategic component. The situation is different from the three examples you have mentioned. For the Optiq trading platform migration, this is part of the fundamental synergies of the acquisition of Borsa Italiana. So the cost part, the revenue part and the restructuring cost part of the Optiq migrations are a component of what has been announced today.

The cost part is part of the €45 million cost synergies to be extracted from the transactions by year three. The revenue part is included in the €15 million of revenue synergies to be generated by year three. And the restructuring costs are part of the €100 million restructuring costs that we have announced when the deal was made public.

For the core data centre, this is not part of the initial synergy story. So we will announce in November the contribution of the core data centre migration to the expansion of the Euronext EBITDA and the restructuring costs will be separated from the €100 million restructuring costs.

For the clearing migration, if any, as I told you, it's work in progress, but that will be a separate project as well. And as for any of these projects, there will be if this migration of clearing is eventually decided and completed an element of cost synergies or revenue synergies and implementation costs with significant one-offs.

So the solution is very different. Each time we measure the stand-alone financial profile of the initiatives in terms of return on capital employed, like any investment. In some cases, we look at the strategic value, because there are things that we have to do for strategic reasons that make sense.

I mean, the migration of the core data centre was something we had to do for all sorts of reasons, including uncertainty post-Brexit. And although, it's a deal that make sense in any respect, it's a deal where the decision was somehow a must-do decision and where we had to price the structuring benefits of having a core data centre in a facility that was built very recently in 2017, with 110% renewable energy production facility in Italy, which is now a very core market to Euronext and within a coordinated regulated environment of the European Union.

So that's part of the decision as much as the standalone financial, the same for clearing. For clearing, the decision is really what we need for Euronext in terms of reduction of costs, incremental revenues and return on capital vis-à-vis the one-off costs. But there is also an element of what does it mean to be fully independent in terms of clearing and not to be dependent on a contract that has a maturity that ends in 2027.

So for this type of very, very fundamental project we have to factor in – we have to price the strategic value of positioning the company differently and to make it less dependent on third parties than before. So that's the way we're approaching those big projects.

Andrew Coombs: That's really helpful. I appreciate the colour. Thank you.

Operator: Thank you. That was the final question in the queue. So I shall turn the call back across to yourselves for any concluding remarks.

Stéphane Boujnah: Thank you very much. I wish you a very 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]