Research Update:

Euronext Outlook Revised To Positive On Further Deleveraging Prospects; 'BBB' Rating Affirmed

May 17, 2022

PRIMARY CREDIT ANALYST

Philippe Raposo
Paris
+ 33 14 420 7377
philippe.raposo
@spglobal.com

SECONDARY CONTACT

Giles Edwards
London
+ 44 20 7176 7014
giles.edwards
@spglobal.com

Rating Action Overview

- We anticipate Euronext N.V. will further reduce its financial risk in the next two years as it reduces leverage after its Borsa Italiana (BI) acquisition in 2021. By end-2023, we forecast that its financial metrics will have improved so that debt to EBITDA is about 2.5x, from 3.6x at end-2021, and funds from operations (FFO) to debt has reached close to 30%, from 19%, over the same period.
- At the same time, we expect Euronext to deliver on its strategic roadmap, including the integration of BI business into its Optiq trading platform, and a smooth transition of its data center, which it plans to move within the coming months.
- We therefore revised our outlook to positive from stable and affirmed our 'BBB/A-2' ratings on Euronext. We also affirmed our 'BBB' issue rating on its senior unsecured notes.
- The positive outlook indicates that we could raise the rating if Euronext continues to perform strongly, further lowers its net debt to the levels indicated above, and continues to successfully integrate BI.

Rating Action Rationale

Euronext's reduction in leverage over the next two years provides it with ratings headroom. We regard the improvement in its financial risk metrics as key to the ratings. Although debt spiked to significant levels when Euronext acquired BI for €4.4 billion last year, Euronext has already managed to lower its net leverage through solid performance and cash accumulation. We calculate that at end-2021, its S&P Global Ratings-adjusted debt to EBITDA was 3.6x and its FFO to debt was 19%; this includes only eight months of BI results. Pro forma the full year of BI results, adjusted debt to EBITDA would have been 3.2x and FFO to debt would have been 22.6%. We estimate that these metrics had improved further by end-March 2022 on the back of another strong quarter.

Euronext has reduced its leverage faster than we anticipated when we lowered our ratings on the company in April 2021. We remain cautious in our projections because of the potential for trading volumes to fall, or for Euronext to undertake bolt-on acquisitions, but we now expect the company to lower its leverage further, and by a material amount, by end-2023. Our forecast is that adjusted debt to EBITDA will be around 2.5x and FFO to debt about 30% by that time. Based on total gross debt of close to €3 billion, and given that Euronext's next bond maturity date is in 2025, we expect it to achieve leverage reduction by accumulating a high level of cash on its balance sheet. Alternatively, it may undertake some kind of liability management on its outstanding debt.

If achieved, Euronext's updated strategic plan (Growth for Impact 2024) will consolidate its competitive position. The roadmap, which it shared in November 2021, aims to set five strategic priorities without being disruptive:

- Leverage its integrated value chain,
- Expand its central securities depository activities,
- Consolidate its leadership in Europe,
- Empower sustainable finance, and
- Execute value-creative mergers and acquisitions (M&A).

The BI acquisition enabled the group to expand its revenue streams and added clearing and settlement capabilities. Clearing and settlement is done through Euronext Clearing (formerly Cassa di Compensazione e Garanzia). Notionally, this completes Euronext's trade value chain from listing, to trading, to clearing and settlement and other post-trade services. Euronext expects to gain market share in the clearing business and add related new revenue. With Euronext announcing its intention to progressively extend the services of Euronext Clearing to all of its market, we believe it could activate break clauses in its clearing contracts with LCH S.A. in the coming quarters. We consider this to be a tough target and that it will be a long process, given the incumbent positions of Eurex Clearing and LCH.

Nevertheless, we consider the financial targets Euronext has announced on total revenue and EBITDA to be reachable. The company aims to increase revenue by a compound annual growth rate (CAGR) of 3%-4% by 2024, and EBITDA by a CAGR of 5%-6%by the same date. We remain cautious regarding the volume-related business if volatility abates. In addition, Euronext' targets for synergies are prudent, in our view, given that it has over-delivered on past deals (Dublin, Oslo Bors, and VP Securities) and efficiency programs. As a result, we estimate that the EBITDA margin will remain above 56% in 2022 and 2023 (from 57.2% in 2021) despite one-off costs linked to the BI integration and the data center migration.

Clearing and settlement risk will continue to weigh on the rating. We define clearing and settlement risk as the company's ability to protect itself from loss in the event of member default. It is a relative weakness for the rating, reflecting our view of investment risk at Euronext Clearing. Although Euronext Clearing generally manages clearing and settlement risk well across its activities, its investment policy gives it a material exposure to the Italian sovereign. This is because it invests a sizable fraction of cash margins posted by clearing members into Italian sovereign debt (about €2 billion). This is a credit weakness relative to clearinghouses that invest in, or rely for collateralization on, very high credit quality instruments.

Outlook

The positive outlook on Euronext is based on our view that we could raise the rating in the next two years if it continues to perform strongly, further lowers its net debt, and continues to successfully integrate BI.

Downside scenario

We could revise our outlook to stable if Euronext's performance weakened, challenging our view of its capacity to sustainably reduce its leverage. Although this would be unlikely to affect our assessment of its financial risk profile, it would constrain our view of Euronext relative to its rated financial market infrastructure (FMI) peers, thereby undermining the upside at this rating level.

Upside scenario

We could raise our rating on Euronext if, in addition to steady business prospects, the company were to improve its credit metrics on a sustained basis, such that:

- Adjusted debt to EBITDA is close to 2.5x in 2023; and
- Adjusted FFO to debt improves close to 30% by 2023.

Company Description

Euronext is the operating holding company of a leading pan-European FMI group that operates securities and derivatives exchanges in Amsterdam, Brussels, Dublin, Lisbon, Oslo, Milan, and Paris. The group operates listing and trading venues for cash and derivative products, and provides market data, indices, technological solutions, clearing, custody and settlement services. It is 23.8%-owned by a consortium of reference shareholders comprising Euroclear SA/NV, Caisse des Dépôts et Consignations, Italian CDP Equity, and leading banks from its main national markets; but is otherwise widely held.

Our Base-Case Scenario

Assumptions

Our base case for 2022 and 2023 reflects:

- Solid franchises across key trends in FMI;
- Sound organic growth prospects amid continued volatility. Revenue growth of about 17% in 2022 (4% organic growth excluding the BI effect, as 2021 included only eight months of Italian activities), and 3%-4% in 2023.
- EBITDA margin of about 56%-57%, including costs to achieve synergies across the group;
- Solid cash flow and cash generation;
- No transformative M&A, but we include a conservative yearly €80 million-€120 million budget for bolt-on acquisitions, given Euronext's track record; and

- Net debt, including liabilities arising from right-of-use assets, approaching €2.0 billion-€2.2 billion by end-2023.

Our forecast of solid underlying revenue growth at Euronext is based on positive elements in 2022, in particular, continued volatility and good structural drivers in core services, such as sustainable finance listings. EBITDA margins are likely to fall from the current 57%-58% because of one-off transaction costs in 2022 and 2023, including those to achieve synergies with BI. We expect margins to return toward 58% thereafter, excluding any M&A-related costs.

Key metrics

Euronext N.V.--S&P Global Ratings-Adjusted Key Metrics

	2020	2021	2022f	2023f
EBITDA margin (%)	58	57	56-57	56-57
Net debt/EBITDA (x)	1.5	3.6 (1)	2.7-2.9	2.4-2.6
Funds from operations to debt (%)	50	19 (2)	25-27	29-31

f--Forecast. (1)3.2x pro forma full year of BI. (2) 22.5% pro forma full year of BI.

Ratings Score Snapshot

Euronext N.V.--Ratings Score Snapshot

	To	From
Issuer credit rating	BBB/Positive/A-2	BBB/Stable/A-2
Business risk	Strong	Strong
Country risk	Low	Low
Industry risk	Low	Low
Competitive position	Strong	Strong
Financial risk	Intermediate	Significant
Cash flow/leverage	Intermediate	Significant
Preliminary anchor	bbb+	bbb
Clearing and settlement risk	(-1)	(-1)
Anchor	bbb	bbb-
Modifiers	(+1)	(+1)
Diversification/portfolio effect	Neutral (0)	Neutral (0)
Capital structure	Neutral (0)	Neutral (0)
Liquidity	Strong (0)	Strong (0)
Financial policy	Neutral (0)	Neutral (0)
Management and governance	Satisfactory (0)	Satisfactory (0)
Comparable rating analysis	Neutral (0)	Positive (+1)
Group credit profile	bbb	bbb

Euronext N.V.--Ratings Score Snapshot (cont.)

	To	From
Structural subordination	None	None

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Financial Institutions | General: Issue Credit Rating Methodology For Nonbank Financial Services Companies, Dec. 9, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Global FMI Sector Outlook 2022: Growth Initiatives Will Be Key To Increasing Earnings, Jan. 13, 2022
- LCH S.A. And Euronext N.V. Go Their Own Ways On European Clearing, Nov. 10, 2021

Ratings List

Ratings Affirmed		
Euronext N.V.		
Senior Unsecured	BBB	
Ratings Affirmed; Outlook Action		
	To	**From**
Euronext N.V.		
Issuer Credit Rating	BBB/Positive/A-2	BBB/Stable/A-2