# Euronext Q3 2022 Results

Friday, 4th November 2022

# Euronext Q3 2022 Results

**Operator:** Hello, and welcome to the Euronext Third Quarter 2022 Results Call. My name is Laura, and I will be a coordinator for today's event. Please note, this call 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 at the end of the call. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator.

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

**Stéphane Boujnah:** Good morning, everybody, and thank you for joining us for Euronext third quarter 2022 results conference call and webcast. I am Stéphane Boujnah, CEO and Chairman of the Managing Board of Euronext.

I'd like to start by briefly taking you through some of the highlights of the third quarter before handing over to Giorgio Modica, the Euronext CFO, who will further develop the main businesses and financial highlights of the quarter.

Moving to slide four. As you have seen, Euronext reported a solid performance in the third quarter of 2022. This quarter was marked, as everybody noticed it, by a challenging macro environment and lower trading volume. But this quarter demonstrated once again the resilience of our diversified business model and the strength of our non-volume-related activities, combined with our trademark cost discipline.

Euronext consolidated its position as the leading trading venue in Europe this quarter again, providing market participants with unreal market quality and market depth. In addition, we consolidated our leading position in equity listings in Europe with 18 listings this quarter.

But let's start with revenue. Underlying revenues were stable compared to Q3 2021 at €350.3 million as a result of our very strongly diversified revenue streams. First, non-volume-related revenue posted a strong performance overall, notably in Listing, in Advanced Data Services, in Post-trade and in Technology Solutions. In particular, this Technology Solutions revenue included for the first full quarter the contribution of the new Core Data Centre revenues following the migration of the Core Data Centre to Bergamo in June 2022.

But second, our trading businesses non-related to equity markets strongly performed as well with double-digit growth year-on-year in commodity derivatives, in forex trading, in power trading. So, on a reported basis, we clearly announced, as we announced it during our Q2 results last July, revenues were negatively impacted by a capital loss in net treasury income of €49 million pre-tax, representing €35 million post tax.

This results from the partial portfolio disposal at Euronext Clearing to neutralise any future impact of interest rate variations on net treasury income are clear in the accounts. Non-volume-related underlying revenues accounted for 59% of the total revenue and cover 138% of underlying operating expenses, excluding D&A.

On the cost side, the reported increase in underlying expenses, excluding D&A, mainly reflects the normalised level of marketing and travel expenses post-pandemic. But this cost performance this quarter also reflects our continued cost discipline despite inflationary pressure. Treasury costs are in line with usual seasonality, and we confirm our €612 million cost guidance for the year, which means that we are confident in our ability to continue to control the impact of inflation on our costs in 2022.

Overall, we reported an adjusted EBITDA of €199.9 million and an adjusted EBITDA margin of 57.1%. This led to a slight decrease in adjusted EPS to €1.21 per share and an adjusted net income to €129.5 million. Please keep in mind that we received a Euroclear dividend in Q3 2021 last year, whereas this year the interim dividend of Euroclear will be received in Q4 2022. On a reported basis, EPS for the third quarter reached €0.71.

I would like to reiterate that today, as already announced during our Q2 results, we intend to neutralise, to offset the negative impact of this capital loss on the dividend that will be proposed at our 2023 annual general meeting.

Moving to slide five. This third quarter was very significant for the integration of the Borsa Italiana Group. At the end of the third quarter 2022, we reached €24.4 million of cumulative run rate EBITDA synergies in relation to the targeted synergies related to the Borsa Italiana Group integration. In total, by the end of Q3 2022, we have now spent €37.9 million of cumulative implementation costs with €1.2 million incurred this quarter.

Moving to slide six. As you remember it, we delivered in June 2022 the successful migration of our Core Data Centre to Bergamo. The next few quarters will see the delivery of major milestones and the continuation of the Borsa Italiana integration.

First, a significant project was delivered recently with the successful implementation of a new listing framework in Italy. This framework is harmonised with Euronext and global listing standards, and it will significantly benefit Italian issuers as it will further enhance the competitiveness of the Italian capital markets ecosystem.

Second, the Italian ecosystem will also benefit from the upcoming first phase of the migration of Borsa Italiana cash markets in March 2023 onto Optiq®, the Euronext state-of-the-art proprietary trading platform. This migration will provide Euronext and Borsa Italiana in Italy, but also market participants across other geographies with significant benefits while retaining a strong local footprint. Such a migration into the European single liquidity pool, into the European single order book, into the European single technology platform will bring significant benefits as it did to the two previous successful migrations in Ireland and in Norway.

This migration would create the largest integrated liquidity pool in Europe and the largest order book in Europe. It will also allow us to align trading fees in Italy for global players with the European framework.

Third, we confirm the execution of the first phase of the European expansion of the Euronext clearing with the expected launch of the equity clearing offering by Q4 2022. This move will be the first milestone of the transformation at Euronext Clearing. Our goal is clearly to create the Euronext Clearing house of choice for the Euronext cash equity market. This will ensure strategic alignment between Euronext market and its clearing house.

This internalisation of clearing operations will unlock further development opportunities in various fields such as derivatives.

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

**Giorgio Modica:** Thank you, Stéphane, and good morning, everyone. I would like to start this session with a quick reference to the cash equity trading educational session held in October. For those of you who have missed it, the replay is available on our website.

I presented the progress Euronext has made since its IPO in 2014, evolving significantly from the cash equity exchange it was at its IPO. In 2014, 36% of our revenue was related to cash equity trading, and today, only 19.2%. During the last year, Euronext transformed itself into a fully integrated exchange and achieved significant diversification of its revenues away from cash equity trading. But the more Euronext not only diversified in non-volume-related activities, but also within its spreading business. The different businesses we are operating in trading has no or limited correlation one with the other. This quarter illustrates this quite clearly with the strong performance of FX, power trading and derivatives despite softer cash equity volumes.

Diversification made our business model more robust across the different market cycles and allowed us to achieve stable underlying revenues this quarter despite lower volumes.

Let's have a look at the performance of our business in the third quarter 2022. I am now on slide nine. The third quarter of 2022 demonstrated the robustness of Euronext diversified business model in a more challenging environment for cash trading. Euronext underlying revenue and income was stable compared to the third quarter of 2021 revenue and income, driven by strong results from non-volume-related activities and the good performance of derivatives, FX and power trading activities.

On a reported basis, revenue and income was down -14% to €301.4 million, reflecting the €49 million non-underlying loss related to the sale of part of Euronext clearing fixed income portfolio. Post tax, the impact is €35 million.

Trading revenue was at €117.8 million, down -5.2%, resulting from lower cash equity and MTS cash volumes, partially offset by the good revenue capture and strong quarter for FX, derivatives and power trading.

Post-trade revenue, excluding net treasury income, grew +3.7% to €86.2 million, driven by the positive performance of clearing, custody and settlement businesses. Advanced Data Services revenue increased to €53.0 million, up +6.3% due to a good performance across the offering. Listing revenue grew +6.3% to €54.0 million confirming Euronext's number one position for equity listing in Europe.

In terms of revenue mix, the third quarter 2022 non-volume-related revenue accounted for 59% of total Group revenue versus 57% at the same quarter last year, thanks to the growth of our non-volume-related activities. Lastly, non-volume-related revenue covered 138% of our underlying operating costs, excluding D&A, compared to 142% last year.

Moving to the next slide for listing. In the third quarter of 2022, listing revenue was €54.0 million with an increase of +6.3% compared to the third quarter of 2021. This growth reflects a good performance of annual fees, corporate services, as well as the positive impact of IFRS 15, which allow us to continue benefiting from the exceptional equity listing activity of 2021.

During the third quarter of 2022, Euronext maintained its leading position in Europe for primary equity listing counting 18 new listings in a challenging environment. In the third quarter of 2022, €143.8 million was raised on Euronext primary markets compared to a very strong third quarter 2021 with €5.3 billion. As far as secondary issues are concerned, €4.8 billion was raised this quarter.

Euronext also empowered its position as the leading venue for bond listing worldwide with over 52,500 bonds listed across our Euronext markets. In the third quarter of 2022, €172.8 billion in debt was raised on Euronext market. Overall, this brings us to a total of €177.7 billion raised in equity and debt on Euronext market this quarter.

Lastly, Corporate Services continued its growth trajectory, slightly offset by lower webcast activities.

Let's have a look now at our trading business. I'm now on slide 11, and I will start with cash trading. In the third quarter of 2022, we observed slower cash equity trading volume, which was partially offset by improved revenue capture. This led to cash trading revenue of €67.3 million this quarter, a decrease of -10.2% compared to the same quarter last year. Euronext recorded average daily volumes of €9.6 billion, a volume decrease of -11.6% compared to the third quarter of 2021.

Despite the more challenging trading environment, Euronext has confirmed its position as the largest, deepest and most stable single liquidity pool in Europe, offering the highest quality of execution to its market participants.

Average revenue capture over the quarter increased to 0.53 basis points and the market share averaged 65.9%, in line with pre-COVID levels. Both values include Borsa Italiana. Like-for-like cash trading revenue was down -10.2%.

Moving on to derivatives trading. Derivatives trading revenue was up +3.3% to €14.0 million as a result of the strong traction of index derivatives and commodity derivatives trading, combined with an enhanced revenue capture. In the third quarter of 2022, average trading volumes on financial derivatives were down -12% year-on-year, reflecting a decrease in equity future and option trading. This decrease is mainly due to a base effect linked with exceptionally high level of activity of the third quarter of 2021.

This quarter, commodities average daily volume increased +1.9%. Overall, revenue capture for derivatives reached €0.35 per lot. This is +15% up, mainly linked to a volume mix impact. On a like-for-like basis, derivatives trading revenue was up +3.2% compared to the third quarter 2021.

Lastly, on fixed income trading. In the third quarter of 2022, fixed income trading reported revenues at €21.4 million, -9.8% compared to €23.8 million in the third quarter of 2021. MTS reported overall good performance in markets dominated by increasing interest rates. In the third quarter of 2022, MTS cash generated €13.1 million of revenue and MTS repo generated €5.4 million of revenue.

The third quarter saw a strong traction in repo trading with term-adjusted ADV up +14.7% to €323.2 billion. This partially offset lower MTS cash average daily volumes down -34% to €15.4 billion compared to a very strong third quarter of 2021. On a like-for-like basis, fixed income trading revenue was down -9.8% year-on-year.

Continueing with trading on slide 12. The third quarter of 2022 saw the strong performance of Euronext FX in terms of both revenue and average daily volumes continue, benefiting from volatility, geographical expansion and product diversification. Euronext reported average spot

FX trading daily volumes of $21.7 billion in the third quarter of 2022, up +24.2% compared to the third quarter of 2021.

Spot FX trading revenue increased +30.1% compared to the third quarter of 2021 at €7.3 million. On a like-for-like basis, FX revenue was up +11.2% compared to the third quarter of 2021.

This quarter, Power Trading reported €7.8 million in revenue, a growth of +23.5% year-on-year, driven by strong volumes, increased footprint of Nord Pool in Central Europe, UK and Ireland and a strong performance in the Nordics. In the third quarter of 2022, average daily day-ahead power traded was 2.39TWh, a +18.5% increase compared to the third quarter of 2021. An average daily intraday power traded was 0.10TWh, up +76.8% compared to the same quarter last year. On a like-for-like basis, power trading revenue was up +20.2% compared to the third quarter of 2021.

Moving to slide 13. Revenue from our post-trade activities, excluding net treasury income, increased +3.7%, to €86.2 million. In the third quarter of 2022, clearing revenue was up +5.5% to €29.1 million due to the strong volume derivative trading activity. On a like-for-like basis, clearing revenue was up as well, +5.5%.

As announced in the second quarter of 2022, we have disposed our long-term Euronext clearing fixed income security portfolio maturing after 1st May 2023 in order to neutralise future impact of interest rate variation on our net treasury income. This led to a one-off pre-tax loss of €49.0 million, €35 million post-tax.

Adjusted for the one-off impact, net treasury income was at €10.7 million this quarter, in line with the guidance provided in the second quarter of 2022. As a result of the disposal, our surplus regulatory capital for Euronext is expected to increase. The decrease of regulatory capital requirements for Euronext clearing linked to the investment portfolio will more than compensate the negative impact on available capital of the one-off loss resulting from the disposal.

As a reminder, we expect a lower level of net treasury income margin at around 10 basis points in the fourth quarter of 2022 and in the first quarter of 2023 before normalising at around 20 basis points from the starting of the second quarter of 2023.

Finally, as the sale of the portfolio will have no negative impact on the available capital of the Group, Euronext confirms its decision that the dividend for the fiscal year 2022 will be adjusted to neutralise any negative impact deriving from this operation.

Moving back to the third quarter performance, custody, settlement and other post-trade revenue encompassing the activity of the four CSDs we operate under the Euronext Securities brand was up +2.8% to €57.1 million. Like-for-like at constant currencies, settlement and other post-trade revenue was up +0.5%.

Moving to slide 14. I would like to use this opportunity to have a look at the seasonality of Euronext security activities. It is important to properly assess the performance of the quarter. During the last three years, we can observe a seasonal peak of CSD revenue between the second and the third quarter.

The explanation for the seasonality is threefold. Firstly, very few general meetings and dividend payments occur in the third quarter, leading to lower revenues related to digital services and issuance. Secondly, we observed the usual slowdown as experienced in other markets like the cash equity market. Thirdly, some specific services are charged twice a year in the second and in the fourth quarter, and this further contributes to the seasonality.

In addition to the seasonality, this might allow us to illustrate the progress we made over the last three years in growing and diversifying our Euronext Securities business, which resulted in a CAGR of +7.3% between third quarter over 2019 and the third quarter of 2022.

Moving on to slide 15. Advanced Data Services revenue was up +6.3% to €53.0 million, driven by strong traction of our core data business, solid index activity and good momentum of the Advanced Data Solutions franchise. On a like-for-like basis, Advanced Data Services revenue was up +6.5% compared to the third quarter of 2021. Investor Services revenue was at €2.5 million this quarter, up +16.3%, reflecting a continued commercial expansion of the business, partially offset by a mild reduction in scope. Like-for-like, Investor Services revenue was up +12.2%.

Lastly, on Technology Solutions, revenue was up +6.7% compared to the third quarter 2021 to €26.0 million, reflecting the first full quarter of revenue of the new Core Data Centre following the migration on 6th June 2022. On a like-for-like basis, Euronext technology and other revenue was up +6.5% compared to the third quarter 2021.

Let's move to slide 17. I would like to convey two messages. The first one is that Euronext costs, as you can see in the graph, are seasonally lower in the third quarter compared to the fourth quarter. Second, in the third quarter '22, we reported €150.4 million of underlying costs, excluding D&A, an increase of +6.3% compared to the third quarter 2021. Please note that this increase is not related to inflation, but to the post-pandemic context with more travels and more marketing expenses and higher clearing expenses related to the high trading activities.

Thanks to our continued cost discipline, despite the inflationary environment, we confirm our underlying cost guidance for 2022 at €612 million. This brings us to the next slide with the EBITDA bridge. Euronext adjusted EBITDA for the quarter was down -4.4% to €199.9 million, resulting from stable underlying revenue and the +6.3% increase of underlying operational expenses, as we just discussed.

The adjusted EBITDA margin decreased -2.6 points compared to the third quarter of 2021 to 57.1%. On a like-for-like basis, EBITDA margin was at 57% this quarter and adjusted EBITDA decreased -5.2%.

Finally, I would like to remind you that non-underlying costs, excluding D&A, are mainly related to the integration of Borsa Italiana.

Moving to slide 19 to net income. Adjusted net income this quarter was down -5.5% to €129.5 million, resulting from the following elements. First, D&A was broadly stable year-on-year. Second, net financing expenses decreased -€10 million due to a positive FX impact linked to the revaluation of foreign currencies balances. Results from equity investments decreased -€10.1 million, as in the third quarter of 2021, we received the dividend of Euroclear and Sicovam as Stéphane just discussed which will be paid in the fourth quarter this year.

I would like to highlight that the non-underlying items in this bridge are mainly represented by the loss on the sale of the fixed income portfolio and D&A, namely the PPA amortisation of our acquisition.

Lastly, income tax for the third quarter 2022 was €27.9 million. This translated into an effective tax rate for the quarter of 26.2%. Reported net income was €75.8 million, and adjusted EPS is down -3.2% to €1.21 per share this quarter. As a reminder, we completed our rights issue in the second quarter of 2021. So even though now the number of shares stabilised, we will have share count effect on EPS for the next quarters.

Moving to the next slide, slide 20, for cash flow generation and leverage. Net operating cash flow post-tax amounted to €318.1 million, and the cash conversion from EBITDA was in excess of 200%. Excluding the impact on working capital from Nord Pool and Euronext Clearing CCP activities, net operating cash flow accounted for 179% of EBITDA. In addition to the working capital impact from CCP, we had a €148 million impact from other operating activities, mainly reflecting accrued VAT payables and the receipt of refundable VAT.

At the end of the quarter, our net debt to LTM EBITDA ratio was at 2.3x compared to 2.4x in the second quarter of 2022. Excluding the non-underlying one-off loss on NTI, net debt to EBITDA reported LTM was at 2.1x.

Moving to slide 21 for the evolution of our liquidity position over the quarter. As illustrated, our liquidity position remains very strong, above €1.4 billion, including the undrawn RCF of €600 million and excluding the cash in transit at Nord Pool.

And with this, I would like to give back the floor to Stéphane.

**Stéphane Boujnah:** Thank you, Giorgio. Once again, I would like to emphasise that for 2022 dividend will not be impacted negatively by the change in our investment portfolio policy, as Giorgio said.

But in a nutshell, we delivered a solid quarter in a challenging trading environment, thanks to our very diversified business model. The Borsa Italiana Group integration and the delivery of our cost guidance are both on track. We are very confident in our ability to continue to control inflation in order to meet our 2022 cost guidance. And looking forward to 2023, our diversified business model, combined with our continued cost discipline, give us the confidence to face the macroeconomic challenges ahead of us and to continue creating value for our clients and for our shareholders.

I'm now available for your questions, together with Giorgio Modica, Anthony Attia and Simon Gallagher.

## Questions and Answers

**Operator:** Thank you very much. Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. We'll now take our first question from Arnaud Giblat of BNP. Your line is open. Please go ahead.

**Arnaud Giblat (Exane BNP Paribas):** Yeah, good morning. I've got three questions, please. Firstly, on net interest income. You mentioned here that essentially the net interest margins come in and the cash balance have stayed stable, and that's why we've seen a decline in NII. I'm just wondering if you could talk a bit more about the outlook and how that's likely to evolve in the coming quarters?

My second question is with regards to market data. Historically, you have been able to put up prices. We've seen a bit of inflation come through in some of your peers in market data, although it's not pricing more in other areas. But I'm just wondering whether you can apply some repricing there in 2023.

And my final question is on M&A. I'm just wondering if – how you're viewing M&A under your framework of ROCE greater than WACC in the context of the cost of debt and the equity risk premium generally going up. Has your WACC evolved? And how are you thinking about M&A versus the opportunity perhaps in the longer term of buying back your own share?

**Stéphane Boujnah:** Thank you, Arnaud. So I'll take the question on M&A, and Giorgio will complement on the balance sheet outlook for the company. And Giorgio will also cover your first question on the NTI and market data pricing.

On the M&A front, as everyone appreciated, we are in a moving environment where valuations are being reassessed by markets across the board. So our stock price is under pressure. The valuation of some of the targets that everyone is looking at is also under pressure. So we are in a very, very challenging environment. The usual competition in the M&A environment from private equity players is also changing, access to leverage for some of the usual competing bidders in some assets is evolving. Some of them who are owners of assets that might be of interest to us to diversify our revenue streams are also not necessarily under pressure but have to revisit their exit options.

So the overall environment for rotation of assets is changing both for potential buyers and for potential sellers. In this environment, clearly, the cost of debt is changing. The parameters to return on capital employed are moving, and we are monitoring all of those. But what I'm trying to convey, Arnaud, is that the whole environment is changing above and beyond the cost of debt.

I'll leave the floor to Giorgio to be more specific on how we are approaching this environment, in particular, in a situation in the context where the deleveraging of Euronext is continuing. What I want to say is that on the share buyback approach, because this issue was raised by some investors, for the moment, we take the view that retaining balance sheet flexibility, retaining the optionality to deploy capital for acquisitions, retaining the means that are needed to further growth is probably a better use of our capital than a share buyback for the moment.

Giorgio?

**Giorgio Modica:** Yeah. I mean, three comments on my side on balance sheet and leverage. And then I will answer the question on NTI and the market data. So the first element is that with the sell-down of the portfolio of Euronext Clearing, formerly CC&G, we are as well reducing and improving the creditworthiness of the Group that we hope will translate into better rating, and therefore, a higher financial flexibility, which means that to a certain extent, our profile is slightly better than what the 2.1x net leverage would suggest. So this is the first comment.

The second comment I would like to make is that clearly, when we are looking at the cash on our balance sheet, we are looking as well at the cost opportunity of the cash. And clearly, now is much different from what it was even a few months ago, considering the refinancing rates that we would incur should we again increase our leverage or seek for new debt.

When it comes to the NTI, just to be clear, what is going to happen is the following. We have disposed the long-term part of our portfolio. And therefore, we have reduced the interest rate mismatch in our clearing business. Before, we had 100% of our liability that were indexed on variable rate, but only 75% of the assets. Now we have reduced that to 10%.

And from today to 1st May next year, we will progressively let the portfolio of CC&G mature and reinvest in the ECB. This is what explains the fact that for two quarters, we will have a lower level of NTI at 10 basis points. But then starting from the second quarter next year, at that point, we will have 100% of the asset and liability indexed on variable ECB rates, and therefore, a further evolution of interest rates will have no impact on our net treasury income. And we assess that 20 basis point is the level that we can maintain, again, despite the underlying intake.

Then with respect to your question on market data, the answer is yes. So a price increase in line with inflation was already communicated to clients. And more specifically, the main price changes for market data are communicated around the middle of the year, June, July, and reflect the inflation of the previous year. For next year, inflation in prices is going to be around 5%. And this is a process that we have always followed. So by the same token next year in June, we will revise prices taking into consideration the actual inflation of '22 and in '24, the inflation of the previous year.

**Arnaud Giblat:** That's great. Thank you.

**Operator:** Thank you. We will move on to our next question from Kyle Voigt of KBW. Your line is open. Please go ahead.

**Kyle Voigt (KBW):** Hi. Good morning. Maybe a couple of questions on expenses. First question, you've done a nice job at continuing inflationary pressures this year. But as we look out towards next year, I'm just wondering if you're seeing any signs of the inflationary pressures beginning to ease at all, or have those been relatively persistent?

And second question on expenses. You highlighted good resilience in your revenues in the third quarter with revenues flat year-on-year. However, if the macro environment continues to worsen from here, and we're in a scenario where revenues begin to decline year-on-year, can you remind us how much flexibility there is to pull back on the cost base maybe naturally in terms of variable expenses? And then would there be other levers that you have to pull in terms of a more challenging – managing through a more challenging revenue environment, if that were to come to fruition?

**Stéphane Boujnah:** I'll give you the big picture, and if Giorgio wants to elaborate or complement, he's welcome to do it.

You have to understand that cost management has been a fundamental feature of the development of Euronext since 2015-2016. And we are not waiting for pressure on top line for changing macro environment to deploy all sorts of mechanism internally to create extreme activity on cost management. So we are not surprised by the current environment, and we have already – we're in the process of finalising the budget for '23. And as you can imagine, we take appropriate measures.

So for us, cost management in difficult macro environment is not something new because it's – cost management or stress testing on the cost front every unit in the organisation - is part of business as usual. It's not like in other organisations that are fatter, a panic mode development. It's just very ordinary course of business.

And I want to insist on that because effective cost management is not intellectually complicated. It's culturally complex. Organisations that are strong at managing costs are organisations with a culture of efficiency and cost discipline that is deployed everywhere. And it's very long to put in place, and it's very effective as it exists. So that should be very, very clear. So we are – we have all sorts of measures for adjusting our cost base in 2022.

Now when it comes to your first question about the persistent inflation, it's clear; we have some areas where our cost base is more impacted by inflation than in other areas. I mean, clearly, energy, which is an issue for our data centres. But in most cases, we can pass to our collocated clients the cost of energy to our clients for buildings, but it's marginal compared to our cost base.

We have increased the prices in technology, in hardware, in software and in some professional services, insurances or all these type of areas. But – and clearly, we have to manage very, very carefully the pressure on labour cost. We are doing that in a very differentiated manner. There will not be any cutdowns and things of labour cost. And clearly, we have to do it in a very differentiated manner because our teams are spread across Europe and the inflation rates in Europe are very different. As you know, in countries like France it’s between 5% and 6% inflation, whereas in the Netherlands it’s close to 17%.

So we have to address the impact of inflation on labour costs in a super differentiated manner, in a gradual manner. That's the best way to control it and to mitigate the impact for ‘23 of the inflation – in relation to inflation and labour cost.

Giorgio, do you want to complement or to add more specific comments?

**Giorgio Modica:** No. Just to comment, clearly, the inflationary environment gives us an opportunity as well to look at inflationary trend on revenue as well. We discussed market data, but market data is not going to be the only area on which we will reflect the increased cost in revenues.

And the second element is that our cost base is largely fixed. Having said that, there is no fixed cost in the midterm, which means that should there be anything above and beyond what we are expecting, I believe that we will have the opportunity to revise our fixed cost base to make sure that we will deliver in any scenario of the target performance for 2024.

**Kyle Voigt:** Great. Thank you very much.

**Operator:** Thank you. We'll move on to our next question from Haley Tam of Credit Suisse. Your line is open. Please go ahead.

**Haley Tam (Credit Suisse):** Good morning. Thank you very much for taking my questions. If I dare, could I ask a question about revenue capture, please? And then also one about your synergies. In terms of revenue capture, obviously, your cash trading yield was high this quarter at 0.53 basis points. Thank you for the educational session you did give us a few weeks ago. Can you talk to us about the sustainability at this level? And how much of the improvement in Q3 was due to the liquidity programmes and the cost segmentation you've talked about?

And if you could help me understand the possible uplift from a migration of the Borsa Italiana to Euronext fee schedule next March? Could you tell us what the current yield is excluding Borsa Italiana?

And then if I can, a question on the synergies, just to confirm, the €24.4 million run rate that you had at the moment with the migration of Borsa to uptick in March, should I expect that to account for or to better see most of the move to your original €60 million target, which I think was set excluding any Euronext clearing uplift? Thank you.

**Simon Gallagher:** Hi, this is –

**Stéphane Boujnah:** Go ahead, Simon.

**Simon Gallagher:** Yeah. Simon Gallagher. I'll answer your questions. So first of all, in terms of the yield performance in Q3 and the good yield performance, this was primarily due to the lower volume environment we witnessed over the quarter. And there's more volumes are going through the higher priced, lower volume tranches of the fee grid.

Secondly, in terms of outlook for the yield, I think we're going into an era now where the pricing programmes we're going to roll out going forward will be slightly more focused on capturing incremental volumes at a slightly lower marginal yield. So some of the pricing schemes you've seen us roll out in recent months have involved subscription fees for the first time.

So these are very, very small volumes going through these pricing schemes at the moment. But I think – and Giorgio please correct me. But I think some of the yield numbers we saw over the last year with smaller trade sizes, contributing significantly to the yield numbers. I think we've seen sort of the top end of the yield numbers.

Going forward into next year, there will be a number of important points in yield management, notably the integration of the Borsa Italiana volumes onto the Euronext fee grids and the new Euronext fee grids, which will apply at that point. And so there will be further opportunities at the end of March for further yield enhancement on a segmentation on the legacy Borsa business.

I don't know, Giorgio, in terms of any more outlook, if you want me to be any more precise, please tell me.

**Giorgio Modica:** And maybe a few comments on my side. So – and just to make a step back. Before the integration of Borsa Italiana, we guided for a more five-zero type of sustainable margin. Now we are running, excluding Borsa Italian, in excess of 10% above that. And if you look at the combination between the market share and the revenue capture, this is still very positive.

So clearly, we are not in the previous situation where we have had exceptionally high market share and exceptionally high level of revenue capture. But the fundamental reason for us to benefit from higher revenue capture remains intact. Euronext remains the point of price formation. And we are – and Simon is spending more and more time to clients to make it even more evident.

So what I would say is the following; that in terms of the long-term sustainable rate, nothing has changed, and we are running above what we define as a long-term sustainable target. So if we adjust the 50 for the integration of Borsa Italiana, this would put us in a couple of basis points at 0.47, 0.48 and we are running at 0.53.

So before the integration of Borsa Italiana, clearly, we are in a good spot. And the slightly dilutive measure will have a very, very limited impact on the overall revenue capture. So the key message is Euronext remains the point of price formation. And we believe that in the long term, we can sustain the level that we thought were sustainable in the long run at the level of around 0.50 basis point, as we said.

And on the second question on synergies, I cannot – and we will give more details in the fourth quarter, give too granular feedback. But what I can say is clearly in – by the end of 2023, most of the synergies communicated will be delivered on a run rate basis. So this is clearly something that we can confirm today.

**Haley Tam:** Thank you.

**Operator:** Thank you. Now we'll move on to our next question from Bruce Hamilton of Morgan Stanley. Your line is open. Please go ahead.

**Bruce Hamilton (Morgan Stanley):** Thanks very much. A couple of questions from me. One, just going back to the NTI or NII on clearing looking forward. So I think if I heard correctly, you're saying I think around 20 basis points on the cash collateral. So are we saying that you're pretty insensitive to rates moving higher? Or do you get any benefit as rates move higher or the curve steepens, i.e., you're paying overnight, but then investing in sort of one, three months, just to understand how that could sort of move in a high-rate environment?

And then secondly, on the opportunities on the revenue side, I think in the past, you've talked about the potential to roll out MTS internationally. And I just wondered where you are on that and how big an opportunity that is or whether we shouldn't be assuming too much from that. Thank you.

**Stéphane Boujnah:** On MTS, I'll make the point and then on NTI, Giorgio will answer your question.

Progress on MTS internalisations are happening. It's a slow development. What I can tell you is that in certain countries like, for example, France, progress has been significant in terms of volumes already. But it's a slow-motion exercise because it's all about entering into detailed dialogues with the debt management offices that do not choose the MTS platform for secondary trading for the moment, convincing them that this is a solution that is complementary to the historical relationship we have with primary dealers, clubs and human interactions with the primary dealers. It's a long process.

What we are observing is that in a context where interest rates are increasing, where secondary trading becomes more important as it used to be in negative or very low interest rate environment. There is more opening and willingness by debt management offices across Europe to listen to the value added – the added value of MTS solutions. So it's real, but it's slow, but it's starting to become – to materialise. Giorgio?

**Giorgio Modica:** Yeah. Just maybe a quick comment on MTS in the €15.4 billion of cash volumes. What we're seeing is, for example, higher share coming from the trading of French government bonds at the level which is unprecedented. So we are starting to see some first sign of positive traction, but as Stéphane said, it’s something that that needs to be developed.

When it comes to NTI, just to be clear, the 20 basis points and the current strategy we are adopting would make us immune to changes of interest rate, and therefore, we will not benefit from an increase of interest rates. We would have assets at variable rates and liabilities at variable rates. We would have fixed spread between the two.

Our strategy does not include for the moment any optimisation to take advantage of the €20 billion of collateral that sit with Euronext clearing at the moment. And those  billion might further increase following the increase of activity of Euronext Clearing.

What would take for us to take a more – a different stance would be, I believe, a few elements. The first one is a normalisation of the environment. So an environment where interest rates are slightly more predictable than today. And second, really, the assessment and the right balance between the risk and rewards of the investment of part of the collateral. But for the time being and to answer straight your question is, with the strategy would be insensitive to interest rates, we would make 20 basis points on collateral and we will not take any counterparty risk because our counterparty would be the ECB.

**Bruce Hamilton:** Great. Thank you.

**Operator:** Thank you. We'll take our next question from Ian White of Autonomous Research. Your line is open. Please go ahead.

**Ian White (Autonomous):** Hi. Morning. Thanks for taking my questions. Just a couple from me, please. Firstly, just to wrap up on cash equity trading. Have we seen all of the market share pressure there now? Can we expect stability or even growth in the market share again from here? It sounds like, again, you're reiterating that this is sort of a post-pandemic anomaly. So I just wanted to clarify that we're kind of through that now?

Secondly, I just wondered if you could perhaps say a bit more about how taking ownership of the data centre might benefit Euronext business over the medium term, might it help you to increase volumes from some of the larger market makers since you now own directly the terms of service for high frequency trading firms, for example? Or are there any other particular opportunities we should be thinking about in terms of how the data centre and feedback into the wider group? Thanks very much.

**Stéphane Boujnah:** On the data centre front, there are two areas of development. The first one would be clearly commented by Simon in a minute. But in addition to the impact on volumes, we are developing our colocation services with broader complementary services offered to either market participants or to partners that are not necessarily market participants but want to be – to benefit from the quality of our colocation services for other purposes.

So we have launched new offerings, and we are starting to see traction for not directly uptick-related colocation services. So you should think about the data centre as a new avenue of revenues in terms of technology solutions and as an enabler to more volumes or development in our cash equity trading in the other assets trading revenue.

So Simon, over to you.

**Simon Gallagher:** Thank you, Stéphane. So firstly, on the market share question. So there's been no doubt since post-COVID era that the level of competitive intensity on the core cash equities trading business has reverted to pre-COVID level. So I think it's very good to put the recent movements in context. It wasn't too long ago that some of the big primary markets, including ourselves, had market shares below 60% in, I think it was 2014.

And so I think we have seen movements in recent months. And as Giorgio has underlined previously on the call, we dispose of probably more tools in our box of pricing schemes and liquidity schemes than any other market. This week, and this is all public information, we rolled out a new version of our flagship blue-chip liquidity scheme. And we're seeing very, very positive initial results on this with a positive effect on market share in the last three days, outperforming peers in particular.

And so, I think what we're seeing is just a simple reversion to the competitive intensity we – which was part of everyday life pre-COVID, and we're well equipped to deal with that at Euronext.

Secondly, just to comment Stéphane’s comment on the data centre. In addition to the incremental revenues from handling the data centre ourselves from an operational perspective, we offer smart hand services. We offer lots of new value-added services, and we're looking at offering non-colocated customers space in the building as well. The impact on this in terms of liquidity is going to take a longer period to settle down.

In the immediate months since the migration, the liquidity impact was surprisingly stable for Euronext, which was very, very good news. So obviously, there's increased latency between ourselves and some of the technology setups of the big banks in London, but all this went very, very smoothly. And going forward, I think the big change we'll see is a gradual shift of infrastructure, maybe from the UK environment by the big investment banks to the triangle of liquidity, which is emerging between Zurich, Bergamo and Frankfurt.

And so when these shifts of infrastructures happen from the big US investment banks, I think this is when we'll start to see the centre of sort of the liquidity in latency terms shifting to this new centre of gravity in Europe, which will just dominate volumes in Europe. So it's very early days to see the liquidity benefits, but it's definitely going in the – in that direction of travel. So hopefully, that adds some colour to Stéphane’s answer.

**Ian White:** That’s very interesting. Thanks for those points.

**Operator:** Thank you. We'll take our next question from Tobias Lukesch of Kepler Cheuvreux. Your line is open. Please go ahead.

**Tobias Lukesch (Kepler Cheuvreux):** Yes. Good morning. Thank you. Two questions from my side. Both have been answered. So bear with me, please. But I would like to, again, touch a little bit on the very positive integration, Stéphane, you highlighted basically for that quarter. Looking into Q4, I was wondering, since we hardly saw any effects on the synergy side and also integration cost-wise, how we should think about Q4 in particular, and you just highlighted basically the outline for '23, which is very helpful.

And on the cost side, I mean, you said you're now in the planning mode. There will be an update next year with a clear cost target. But I was wondering, like if there's a little hint we could use for basically next year, especially maybe Q1, Q2 on the underlying cost side. Thank you.

**Stéphane Boujnah:** The only thing I can give you in terms of guidance is to reiterate our cost guidance for '22, which, as you may remember, was revised downwards and that we confirm our cost guidance for '22 despite inflationary pressure on ‘22.

The other thing I can confirm is our guidance in terms of EBITDA growth for the end of '24 as announced in November '21. At this stage, we cannot provide you any guidance for cost in 23, nor more specifically for Q1 or Q2.

On the Q4 synergies, the quarterly reporting does not necessarily reflect the pace of significant milestones. Clearly, this quarter was relatively down in terms of a real milestones in terms of run rate synergies. In Q4, we have more run rate synergies to be reported. '23 will be a very significant year in terms of run-rate synergies in particular, but not only, but in particular, because of the Optiq migration, which will have impact on cost, material impact on cost, particularly in the end of the transition service agreement with LSEG related to the Millennium IT technology services provided by the London Stock Exchange Group to Borsa Italiana, but also in terms of internal cost, in terms of professional services that have been deployed to organise this migration. But also in terms of revenues, as indicated earlier, with the harmonisation of the fee grids for global players operating on the Italian market with the European fee environment of Euronext.

So '23 will be very material. Q4 will be an active quarter in terms of synergies. I just want to highlight that what is important is that we confirm the overall ambition and target and objective to deliver by the end of '24, €100 million of EBITDA expansion for the Group compared to what it was in 2020. But the pace of quarter-to-quarter is not linear.

**Tobias Lukesch:** Thank you very much. If I may ask again on the outlook you gave for 23. If I get that correctly, you said most of these €60 million revenue synergies you were expecting to realise by '23. Did I get that correctly?

**Giorgio Modica:** So what I was saying is that most of the €100 million synergies are expected to be delivered in 2023, including cost and revenues.

**Tobias Lukesch:** Sorry, I had a bad line. So it's the underlying cost. So it's more on the €40 million side that you expect that fully effect to hit by the end of '23?

**Giorgio Modica:** No. What I said is most of the €100 million, the total target.

**Tobias Lukesch:** Yeah.

**Giorgio Modica:** Most of the total synergy target on a run rate basis is expected to be delivered in 2023. Revenues and costs, the two.

**Tobias Lukesch:** Okay. Well understood now. Thank you very much.

**Operator:** We'll move on to our next question from Andrew Coombs from Citi. Your line is open. Please go ahead.

**Andrew Coombs:** Morning. I think most of mine might have been answered, but perhaps I could just ask on financing. I guess, three parts to the question. Firstly, you've actually had a positive move, both year-on-year and Q-on-Q in the net financing income expense, which you put down to FX translation, but perhaps you could elaborate on that?

Secondly, if I look at the split of your gross debt, and you helpfully put it in slide 21 as well, it all seems to be fixed. But just if you could just confirm that there's nothing floating rate in there. And then finally, given the move that we've seen in rates, does that impact on your thought process on M&A? How big you'd be willing to go? You obviously said you want to keep flexibility, but did the change in rates and potential implications for financing impact on your thought process as far as M&A is concerned? Thank you.

**Stéphane Boujnah:** Yeah. So to answer your question, yes, correctly, the reduction of net treasury income this quarter is mainly related to FX. So we have the revaluation of the stock in foreign currency that have appreciated against the euro. But as a general trend, we are looking at the decrease, which is going to be recurring over time because more and more, we will be able to have a positive interest rate on our €1billion of cash. So this year, this quarter, to a certain extent, there is very specific FX impact.

But if we look at the next quarters into 2023, we might see as well a positive trend coming from cashing in the cost of opportunity of cash. When it comes to your question, do we factor the cost of debt into the – into M&A? The answer is clearly yes. The answer is clearly yes, despite the fact that we have a very favourable rate. Today, our €3 billion has an average maturity slightly higher than eight years with a rate of 1%. And we are very fortunate to have locked in for a very long time, a good rate. Despite that, in assessing any opportunity in the financial structure, we do take into consideration the prevailing market conditions and which are very different from where they were even only 12 months ago.

If you can remind me your second question because I didn't get it correctly, I want to make sure I get it right.

**Andrew Coombs:** I guess the other two parts were just making sure that all of the gross debt is fixed. There isn't a floating component within it. And then finally, just how you think about M&A in the context of more expensive financing now?

**Giorgio Modica:** So yes, I can confirm that 100% of our debt is fixed, whereas just as a reference, the same quarter last year, we had a swap in place that was terminated last quarter that allowed us to save money. So the decrease in terms of cost of financing is even higher considering that this quarter we are not benefiting from the hedge we had.

And then when it comes to the site, again, I can repeat what I just said, in assessing any acquisition, we do consider the new and prevailing financing conditions. So this is what I can say. Then this is a part of a framework. So what we do consider, and I can reiterate what we already said, is that our long-term objective is to remain strong investment grade. And financing costs are part of that equation.

And the other element that I would like to underline again is that we have today more flexibility than we had just a few months ago because of the decision to reduce our fixed income portfolio because that fixed income portfolio was one of the important elements triggering a notch downgrade for clearing risk. So I believe that this contributes as well to increase potentially the envelope available to us for future M&A.

**Tobias Lukesch:** That's very helpful. Thank you.

**Operator:** And we'll now take our last question from Mike Werner from UBS. Your line is open. Please go ahead.

**Mike Werner (UBS):** Thank you very much. I had a question regarding the Euronext Clearing opportunities. Can you just tell me where you are with regards to the potential opportunity to clear the derivatives that are traded within Euronext? I know currently you have a contract with LCH for LCH Paris to clear that, I think through 2027. Is there – when should we think about that from a timing perspective? When is your first opportunity to exit that contract? And if you could provide any colour with regards to the cost of that exit and when that should feed through from a revenue perspective into Euronext? Thank you.

**Giorgio Modica:** So a few considerations. The first one is, unfortunately, for many reasons, I cannot answer as precisely as your question would suggest. What I can say is, unfortunately, general is the fact that at Euronext, we are minded to migrate and to extend the activity of Euronext clearing to clear the derivatives of the whole Euronext franchise.

However, to do that, this is a decision-making process on timing, which is not concluded. And therefore, I cannot elaborate further. Once we will have completed this process, we will inform and follow the necessary steps. And just to give you a very clear indication, it's clearly we will need to – I mean, we will need to follow a number of very precise steps and the decision-making process on the timing is not over yet. So, unfortunately, I cannot comment further.

**Mike Werner:** Thank you. Can I just have a quick follow-up? So you said that most of the €100 million of synergy opportunities should be delivered on a run-rate basis by the end of next year. So I can presume that any impact coming from the internalisation of derivative clearing is not included in that €100 million?

**Giorgio Modica:** Again, I cannot comment further and add any detail that might entail the date of a potential termination of our derivative clearing arrangement with LSE.

**Mike Werner:** Okay. Thank you very much.

**Operator:** Thank you. There are no further questions. I will now hand you back to your host to conclude today's conference. Thank you.

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

**Operator:** Ladies and gentlemen, this concludes today's call. Thank you for your participation. Stay safe. You may now disconnect.

[END OF TRANSCRIPT]