



Euronext Q2 2023 Results

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Operator: Hello, and welcome to the Euronext Second Quarter 2023 Results Call. My name is Laura, and I will be your 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, CEO and Chairman of the Managing Board, joined by Giorgio Modica, the CFO, to begin today's conference. Thank you.

Stéphane Boujnah: Good morning, everyone, and thank you very much for joining us this morning for Euronext second quarter 2023 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 the second quarter. Giorgio Modica, the Euronext CFO, will further develop the main business and financial highlights of the quarter.

Let me take you through the key aspects of this second quarter of this year. First, Euronext Q2 2023 results demonstrate the real success of our diversification strategy. Our revenue was almost stable, excluding foreign currency effects, despite a much less volatile environment than in Q2 last year. And this performance was enabled by strong organic growth from our non-volume-related businesses and also from the dynamic quarter for fixed income businesses and power trading business.

We continue to deploy our strong cost discipline in Q2 2023. And as a result, we reported an adjusted EPS of €1.34, which is flat compared to the adjusted EPS of last year. And we reported net income of €120 million, up +0.9%.

Second, we confirm our intermediate target of €70 million of cumulative run rate synergies in relation to the Borsa Italiana integrations to be delivered at the end of 2023. We are well on track with the upcoming migration of other Italian markets to our Optiq trading platform in September 2023. And we are also well on track and in a position to confirm the expansion of Euronext Clearing to all Euronext markets, starting with equities clearing in Q4 2023.

Thus, we paved the way for the expansion of Euronext Clearing for the clearing of derivatives on all Euronext markets in Q3 2024. This migration, with all the other projects, will contribute meaningfully to the targeted €115 million of cumulative run rate EBITDA synergies to be delivered by the end of 2024.

Third, we expanded our position as the leading equity trading and listing venue in Europe. Cash trading market share grew to 65.4% on average, and revenue capture reached 0.53bps, well above the targets we gave you some months ago. On the listing side, we attracted the most significant IPO of the quarter and remained the most active listing venue in Europe with half of the new European listings made on our markets.

. Lastly, we launched on Monday a share repurchase programme for a maximum amount of €200 million. This programme is enabled by our strong cash generation capabilities and demonstrates our rigorous capital allocation strategy.

Moving to slide five. First, as I said, Euronext reported a solid performance for the second quarter of 2023. Total revenue and income amounted to €368.1 million. Our revenue was

almost stable at constant currency despite a low volatility environment, but down -1.8% compared to Q2 2022 on a reported basis.

Our very robust top line performance reflects strong organic growth of our non-trading activity and better performance of fixed income and power trading. This was partially offset by the strong comparison base for equity trading related activities in Q2 2022. And this performance is also partially offset by negative impact of foreign exchange rate variation, especially for the Norwegian kroner.

The strong growth of our non-trading-related activity drove the share of our non-volume-related revenues to 61% in Q2 2023, and this 61% share of non-volume-related revenues is the highest level Euronext has ever recorded. Euronext is much more diversified than it has ever been.

Cash trading today represents only 18% of our total revenue. That is half of the share of cash trading in the company's revenue at our IPO back in 2014. This demonstrates again the success of our diversification strategy implemented over the past six years. Thanks to our continued best-in-class cost discipline and despite an inflationary environment, we kept our underlying operating expenses, excluding D&A, under control, at €152 million on this quarter, down - 0.7% compared to Q2 2022.

Therefore, we reiterate our underlying cost guidance for 2023 at €630 million, reflecting usual seasonality and anticipated costs related to upcoming growth projects. Consequently, adjusted EBITDA reached €216.1 million, down -2.5% compared to the adjusted EBITDA of Q2 2022. Overall, this performance resulted in €120 million of reported profit, up + 0.9% compared to the reported profit of Q2 2022.

Our business continued to be strongly cash generative. Our leverage was at 2.2 times net debt to adjusted EBITDA at the end of the quarter. And this ratio was impacted this quarter by the payment of the dividend for the 2022 financial year of €237 million.

Moving to slide six. As planned, no major integration project was delivered in Q2 2023. We reached €44.2 million of cumulated run rate annual EBITDA synergies at the end of this quarter in relation to the integration of Borsa Italiana, in line with our expected €70 million of run rate synergies to be delivered in relation to the integration of Borsa Italiana Group by the end of the year. We continue to reach significant milestones paving the way for the last steps of the integration of the Borsa Italiana Group.

In September, we will start the migration of other Borsa Italiana markets to Optiq our single technology platform. And as a consequence, the third-party trading platform we are using today in Italy will be decommissioned in October of this year, and this will contribute to further delivering cost synergies in Q4 2023. We are also advancing well with the European expansion of Euronext Clearing.

In June, we published a fee grid for Euronext Clearing, which has been developed in close collaboration with clients. And the expansion of Euronext clearance equity clearing activity to all our markets will take place in Q4 2023 and will allow us to generate new revenues from the clearing of equities across Europe unlocking revenue synergies.

All in all, we are well on track for the delivery of the €115 million of cumulative run rate annual synergies by the end of '24.

As I mentioned earlier, Q2 '24 – '23, sorry, has demonstrated our position as a leading European equity trading and [inaudible]. The benefit of migrating Italian market to a single liquidity pool forward by Optiq are significant. In June 2023, Euronext reported its highest market share over the last 12 months, bringing the average market share in equity trading to 65.4% for the quarter. This is well above the target of at least 63% committed to secure in the beginning of the year.

In Italy, June 2023 market share even climbed to its highest level since January 2022. The new fee scheme in Italy allowed us to reach cash trading revenue capture of 0.53 bps on average in Q2 2023 despite average order size twice as large as two years ago.

In addition, the improved market quality post migration was sustained. Euronext recorded a sustainable 20% increase in EBBO setting daily average following the migration. And this CPI, which defines where the best prices formed across renewals clearly demonstrates how Euronext set apart from competition with its superior market quality.

Slide eight provides an update on Euronext capital allocation. On 6th July, we have completed the sale of our 11.1% stake in LCH SA to LCH Group for an amount of €111 million. This sale was enabled by our decision to terminate the existing derivative steering agreement by LCH SA as Q3 2024. Non-underlying capital gain of around €40 million will be booked and the results from equity investments in Q3 2023, and this gain will be exempted from tax.

Importantly, this disposal does not impact the revenues, nor the costs related to the clearing agreement with LCH SA, until the targeted and planned end of a contract in Q3 2024. I outlined earlier that we recorded another strong quarter of cash generation. Therefore, as part of our rigorous capital allocation strategy, we decided to return up to €200 million of capital to our shareholders through a share repurchase programme. The programme will start on Monday, 31st July and will run for a maximum of 12 months.

The targeted amount accounts for approximately 3% of all outstanding shares and will not impact our deleveraging path, nor our investment-grade rating. The programme will also preserve Euronext financial flexibility to capture market opportunities. In addition, we maintain our existing dividend payout at 50% of net income.

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

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

This quarter, Euronext diversified business model delivered solid results, driven by the strong organic growth of our non-volume-related businesses. This good performance almost entirely offset the lower equity and derivative volumes and the negative currency impacts, mainly and mainly the depreciation of NOK against euro. As already mentioned, total revenue this quarter reached €368.1 million, down 1.8% compared to last year.

Like-for-like, total revenue was broadly stable at -0.5% compared to last year. In detail, Technology Solutions revenue was up 13.2%, mainly thanks to the internalisation of our colocation services following the migration of the core data centre to Italy.

Advanced Data Service revenue was up 9.4%, driven by increased number of clients and improved revenue capture, as well as the continued good performance of the Data Solutions business. Listing activity confirmed Euronext's leadership in Europe despite an overall soft IPO

market with 16 new listings. More than half of the new European listing and the largest IPO in Europe took place on Euronext this quarter.

Listing revenue was €55.1 million, as said, negatively impacted by the NOK depreciation. Excluding these impacts, leasing revenue grew 2.1%. Post trading revenue was slightly down 0.8%, also impacted by the NOK. This reflects clearing revenue impacted by lower net treasury income contribution from LCH SA and a very good quarter of Euronext securities, +2% on a reported basis and +6.1% like-for-like.

Lastly, trading business was down -8.5%. This performance across our trading businesses was mixed, with fixed income and power trading, partially offsetting the impact of softer volumes for cash and derivatives trading.

I will start now with the financial review with the non-volume-related activities, which positively contributed to the results this quarter. Technology Solutions reported €27.3 million in revenue, +13.2%, thanks to the internalisation, as said, of colocation services following the migration of the Core Data Centre to Bergamo. Advanced Data Services reached record revenue of €56.9 million, again, +9.4%, driven by an increased number of clients and better revenue capture, as well as the continued strong performance of the Data Solutions business.

Investor Services reported €2.8 million in revenues this quarter, representing an increase of +21.5% compared to the same quarter last year, resulting from the commercial expansion of the franchise across the largest global investment managers.

I'm moving now to slide 12. Listing revenue was €55.1 million, up +2.1% like-for-like, reflecting a resilient quarter for the listing activity and the continued growth of our corporate services offering. Listing revenue slightly decreased by -0.5% compared to the same quarter last year on a reported basis, again due to the depreciation of the NOK against euro.

On the debt side, we also confirm our leadership in listing reaching for the first time for 54,000 bond listed on our market while we also strengthened our leading position in ESG bond listing. Euronext Corporate Services continued to deliver a solid performance with revenue growing to €11.8 million this quarter, up 17.4% compared to the second quarter of 2022, resulting from the strong performance of our SaaS offering.

Moving to slide 13, we will discuss about trading. Cash trading revenue was €65.2 million, -13.3%, reflecting improved revenue capture and market share, offset by lower volumes. Revenue capture averaged 0.53 basis points, reflecting the immediate benefits from the new fee scheme implemented in Italy following the migration of the Borsa Italiana cash equity market to Optiq.

It is important to highlight how order size reached unprecedented levels, +20% vis-à-vis the end of last year and contributed to the dilution of our revenue capture and compensated the positive impact on the revenue capture itself coming from the softer volumes this quarter. Cash equity market share steadily increased over the second quarter of 2023 to average 65.4%, which is, as you know, above the target of at least 63%.

Lastly, I would also like to highlight that this quarter, there was one less trading day, which had an impact on our trading revenues. Derivative trading revenue decreased by -12.6% to €13.0 million compared to a particularly volatile second quarter of 2022, mainly due to the war

in Ukraine. This quarter, financial derivatives suffered from a significantly lower level of volatility, while commodities did perform extremely well.

Lastly, FX trading reported €6.1 million in revenues, down -15.7% from a strong second quarter of 2022 and mainly impacted by lower volumes.

Continuing on slide 16 with our other trading activities. Fixed income trading revenue grew by +1.4% to €25.3 million, reflecting the strong performance of MTS Cash, MTS Repo and the increased traction of Euronext fixed income retail franchise. For the second quarter of 2023, MTS Cash reported €15.5 million of revenues and MTS Repo reported €6.3 million of revenue. Our trading grew to €8.6 million, up 24.7% compared to the second quarter of 2022, driven by the very strong intraday volume growth, improved revenue capture, partially offset by slightly lower day-ahead volumes.

I conclude this business review with our post-trade activities on slide 15. Clearing revenue was down 6.4% to €29.4 million, due to the lower net treasury income contribution from LCH SA. As a reminder, the derivative clearing arrangement with LCH SA provides for a sharing of part of LCH SA net treasury income. Excluding these LCH SA net treasury income drop, the strong performance of government commodities more than offset the impact of weaker volume for cash, single stock and index derivatives.

Net treasury income amounted to €13.8 million this quarter, a decrease of 12% compared to the second quarter of 2022. As anticipated, the spread on the net treasury income reached now its cruising speed, and the whole collateral from filing member is now invested at ECB.

Lastly, revenue from Custody & Settlement and other Post-Trade activity was €63.7 million. This is a +6.1% increase like-for-like and a +2% increase on a reported basis compared to the second quarter of 2022, again, impacted by the NOK. These results are mainly driven by a combination of assets under custody increase, the new fee scheme rolled out in 2023 and the seasonal uplift in corporate action.

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

Euronext's adjusted EBITDA for the quarter was down -2.5% to €216.1 million, resulting from lower trading revenues, partially offset by non-volume revenue growth and continued cost discipline. This translated into an adjusted EBITDA margin of 58.7%.

With regards to the underlying expenses, excluding D&A, I would like to confirm our 2023 cost guidance at €630 million as underlying costs for strategic projects are not evenly distributed across the year. The underlying cost for the quarter were €8.9 million, primarily in relation to the ongoing work related to the clearing expansion and the Optiq migrations.

Moving to net income on slide 18. Adjusted net income this quarter is almost stable at €142.9 million, resulting from the lower EBITDA offset by the following elements: lower net financing expenses, resulting from higher interest income from cash and cash equivalents; higher results from equity investment; and a lower tax rate.

I would like to highlight that the non-underlying costs in this bridge are mainly related to the PPA amortisation of our acquisition. And that from the next quarter, LCH SA, as Stéphane anticipated, will not contribute to a result from equity investments. This quarter, LCH SA contribution was €3.2 million.

Lastly, income tax for the second quarter of 2023 was €41.2 million. This translated into an effective tax rate of 24.8%. Reported net income increased +0.9% to €120 million. And adjusted EPS basic was almost stable, only down -0.3% at €1.34 per share.

To conclude with cash flow generation and leverage. In the second quarter of 2023, Euronext reported net cash flow from operating activities of €139.0 million compared to €76.8 million in the second quarter of 2022, reflecting lower income tax paid. Excluding the impact on working capital from Euronext Clearing, Nord Pool and CCP activities, net cash flow from operating activities accounted for 73.3% of EBITDA this quarter. As a reminder, Euronext paid in May 2023, €2.22 per ordinary share as a dividend for the 2022 financial year.

Net debt to adjusted EBITDA was at 2.2 times at the end of the quarter and 2.6 times on reported EBITDA, impacted by significant one-offs like the disposal of the investment portfolio in the third quarter of 2022 and the LCH termination fee in the first quarter of 2023.

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

Stéphane Boujnah: Thank you, Giorgio. So as you have seen, this quarter demonstrated the robustness of our diversified business model. Clearly, Euronext has never been as diversified as it is today. And we have a very strong confidence in our growth prospects. In the next quarters, we will deliver two major milestones of our Growth for Impact 2024 strategic plan, which will contribute significantly to the delivery of €115 million synergies in relation to the integration of Borsa Italiana to be achieved by the end of '24. So Euronext has never been as strong as it is today.

So thank you for your attention, and I'm happy with Giorgio, with Anthony and Simon to take your questions now.

Questions and Answers

Operator: Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. Thank you. We'll now take our first question from Mike Werner at UBS. Your line is open. Please go ahead.

Michael Werner (UBS): Thank you, Giorgio and Stéphane. Congrats on the results as well. Two questions from me, if you don't mind. On the revenue capture rate, certainly a strong number. I'm just trying to understand that we did see, as you noted, a quite high average trade size during the quarter. So in a more normal environment, should we expect the historical correlation that we have seen at Euronext to persist, whereas if the average trade size goes down, all else equal, we could see actually an uplift in that revenue capture rate going forward? That's the first question.

And then the second question, we've got a little bit more updates on the consolidated tape plan, how it might look in the next couple of years. Just want to know if you have any as to the potential impact or if you thought a little bit more now that we have more colour. Thank you.

Stéphane Boujnah: Thank you. I'll take the consolidated tape questions, and Simon Gallagher will take your questions on the revenue capture rate, in particular in relation to order size.

The most significant development on the consolidated tape debate was the decision taken by the Trilogue, the debate between the Commission, the European Parliament and consent of the European Union a few days ago to define the scope of what will be the consolidated tape. It will be a consolidated tape, pre-trade, EBBO-1 and anonymised. So we welcome this consolidated tape that will foster the dissemination of information to secure best execution is clearly the priority of the Euronext model. And in this respect, this consolidated tape will be a good development.

As far as the impact on revenue generated from dissemination of real time market data, it's a bit too early to assess what will be the impact because of two or three reasons. Number one, technical Trilogue discussions are ongoing and will probably materialise in the course of September and October into final decisions about the revenue sharing model and the way revenues will be disseminating, will be shared with contributors. So this new tape is a new model.

This new tape is not going to be a trading product. So let's see how the discussions will develop after the summer break on the revenue stream.

And the third development, which might be relevant, is that Euronext with other European exchanges has set up a consortium to bid for the role of operating this consolidated tape, and whether or not we are part of the operations of this consolidated tape will also have an impact on net revenue. So this is the status of the debate as of today.

So we don't expect in any event any impact before '25 and '26, whatever the outcome of those various developments are.

I hand over now to Simon Gallagher on your question about revenue capture.

Simon Gallagher: Thank you, Stéphane, and good morning. On the revenue capture, I'd make three points. So up until March this year, at the end of March, the time of the migration of the Italian markets to the central systems, the Italian market was very, very highly correlated to this phenomenon of trade changes in average order sizes. This is no longer the case in the new fee scheme for the Italian market, and it has no correlation anymore if you look at the fee grid to order sizes that persists in the overall model, some modest exposure now to variance in order sizes along the legacy Euronext fee grids.

And we will take a view going forward as to the future fee grids as a function of the way average order sizes evolve in the coming months of the appropriate fee model to define our exposure to this phenomenon.

Michael Werner: Thanks, Simon. Thanks, Stéphane.

Operator: Thank you. We'll move on to our next question from Arnaud Gibrat at BNP Paribas Exane. Your line is open. Please go ahead.

Arnaud Gibrat (Exane BNP Paribas): Yeah, good morning. I've got three questions, please. If I could start with how we should interpret your buyback. Is this – should we take this as a sign that there's no imminent deal in the pipeline? And does it change your return criteria for M&A?

My second question is on derivatives. I'm just wondering if you could comment there on the strong performance. How is your market share relative to the OTC markets evolving over the past couple of years?

And my third question is on clearing. I was just wondering when you're moving to launching the cash equity and even further down the line, the derivative clearing onto Euronext markets. Is there an opportunity there to realign pricing to Euronext level?

Stéphane Boujnah: I'm going to take the question on the share buyback, and I'll let Anthony comment on derivatives, clearing and derivatives market share.

On the share buyback, it's a very natural step that we have taken in an environment where, A, the company is deleveraging very quickly and we're confirming a strong cash flow generation; B, we collected the pursuit of the sale of 11.1% stake in LCH SA. Third, the current valuation of our stock is significantly below the average target price of analysts. And in that environment, we believe that it was appropriate to return money to shareholders within a share buyback programme that is calibrated to retain flexibility to capture other M&A opportunities that may come.

There is – we will continue and we continue to monitor options to deploy capital through external growth in order to deliver synergies, and we believe that there is no inconsistency for the moment between deploying a share buyback programme of €200 million, generating strong cash flow, paying a 50% dividend, keeping our rating and continuing to analyse potential M&A opportunities. This programme has not changed anything in our criteria in terms of M&A requirements.

Anthony Attia: Good morning. This is Anthony Attia. Regarding your third question on pricing related to the clearing migrations, we should separate the cash equity from the derivative approach. So regarding the cash equity clearing, we have created a new value proposition related to the migration to our CCP, to Euronext Clearing, with clearing fees with new risk framework and with very competitive settlement fees.

And so this new value proposition will be in place in Q4 this year after the migration. And if I want to characterise it, we will have a harmonised clearing fee across our different markets, very efficient risk framework that will return efficiencies to the market and extremely efficient settlement setup with low settlement fees due to the single access to target-2-securities through our Euronext securities franchise.

On derivatives, it's a different approach. So we've always had a very consistent trading plus clearing approach regarding fees on derivatives, and we will favour stability at the occasion of the migration. Thank you. And I will let the mic to Simon for the second question.

Simon Gallagher: Thank you, Anthony. Good morning. So with respect to market share on derivatives, just a reminder. So our derivatives franchise is based on obviously equity derivatives, so exchange listed derivatives.

With respect to peers, our market share trend has been positive year-on-year versus Eurex, and we've seen no market share on the Cboe attempts from the Netherlands. Obviously, you raised the question about the size of the OTC markets. So within the space we're currently occupying, we see the market share stable between on exchange and OTC. But obviously,

going forward, as Anthony said, once we integrate the clearing aspect to our strategy, the clear price here is to bring on exchange some of the OTC business.

We've made a very successful first moves here with respect to the total return futures franchise across – on the CAC 40. This will be extended to other national entities, and we're looking very carefully at total return swaps and the further development of our dividend complex around derivatives. So this is clearly a space where we see upside post migration.

Arnaud Giblat: Thank you.

Operator: We'll now take our next question from Bruce Hamilton at Morgan Stanley. Your line is open. Please go ahead. Bruce, you might want to unmute your audio from your line.

Bruce Hamilton (Morgan Stanley): Sorry, yeah, unmuting now. Can you hear me?

Operator: Yes, we can.

Bruce Hamilton: Sorry. So yes, three questions from me. Firstly, on cost saving, obviously, you're doing very good job on costs at the moment you're running below prior year Q2. I know there are a number of comments around sort of further kind of investment builds in the second half. But just to check, I mean it feels as though you're running quite a bit below that €630 million, so I just wanted to confirm that there aren't risks on the downside to that number.

Secondly, on the treasury income, NTI was a little firmer. I guess that was on the back of collateral balances being a bit higher. Were they particularly elevated in Q2? Or is that a sort of a good sort of sustainable level that we can consider going forward?

And then third one, just going back to the question on consolidated tape to check if I heard you right, Stéphane. We're talking then about a pre-trade consolidated tape. I guess that would theoretically carry more risk to revenues, I assume. So there could be – I know it's longer dated. But would you expect there to be some downside beyond 2025 then to some of your data-related revenues? Thank you.

Stéphane Boujnah: So I'll take your question on the consolidated tape, and Giorgio will answer your questions on cost and on NTI.

The scope of the consolidated tape has been finalised a few days ago, and that will be a real-time, pre-trade EBB01, anonymised consolidated tape. It's a new product with no impact on trading and with limited impact on real-time market data to the extent that irrespective of what this limited impact is, it will be further mitigated by various steps that are being discussed on the board.

We don't expect material net-net impact on the – on our revenues, even if for some clients who are using our real-time market data for EBB01. That could be a new product of interest. But you have to consider that this EBB01 pre-trade, real-time anonymised tape is a totally new product, and we don't expect any material impact in any event before '25, '26. So the debate is ongoing.

I think the discussions that will take place in the coming months are important to be in a position to answer more precisely your questions. The way the selection of the operator of the consolidate tape will take place is important. So I suggest that in order to provide you with a very educated answer, we talk again. Let's go over the following one.

Now over to you, Giorgio, on cost and NTI.

Giorgio Modica: Yeah, sure. Let me start on cost. The first message, as I said, is that we confirm the €630 million as a target for this year. And the reason for that, you might remember that last year, we said that we had €10 million devoted to the development of strategic projects. And as I said, those €10 million, the spending of this €10 million is not going to be equally spread across the 12 months but is going to impact more the second part of the year. So this is the first element.

The second element is that if you look at from a reported basis, clearly, you see a decrease. But like-for-like, you see a 1.9% increase. So the NOK has well an impact on this cost performance, and we don't know what are going to be the evolution in the next six months.

And final comment, we have quite a strong delivery pipeline for the third and the fourth quarter, which means that it would be too early for us to change the guidelines for the end of the year. So we are happy, extremely proud of what we have delivered so far in terms of cost control but not ready yet to change the target.

When it comes to NTI and to the absolute level of the collateral, what I would say is that we have seen in the last couple of quarters an increase with respect to the overall amount with respect to last year. Right now, we are trending around €25 billion. This trend has been, I would say, relatively stable. But as you know, depends on market condition. In June, we have saw – we have seen a slight decrease.

So what I would say is that, again, to answer your question, the level at the moment is around €25 billion. This is driven by market conditions, so it is relatively difficult to anticipate. But we have seen a slight decrease towards the end of the quarter but no specific sign to anticipate that in the next quarter it's going to be significantly different from where it is today.

Bruce Hamilton: Okay. Very helpful. Thank you, guys.

Operator: Thank you. We'll take our next question now from Enrico Bolzoni at JP Morgan. Your lines is open. Please go ahead.

Enrico Bolzoni (JP Morgan): Hi. Good morning. Thanks for taking the question. Just two. One, you mentioned that you were going to launch dark pool, I think, towards the end of the year. Can you give us an update there? How quickly will you be able to set it up? And do you have any idea in terms of what volumes you'll be able to capture and over what period of time?

And then the second, sorry, going back again on the net interest income. Should we expect any change in the split of revenues that you pass on to customers and that you retain as rates keep evolving? Or it's going to remain fairly stable going forward? Thank you.

Stéphane Boujnah: So Giorgio will answer your question on net treasury income, and Simon Gallagher will provide you details on the dark pool industry.

Giorgio Modica: So on the net treasury income, as I commented in the past, right now, the model is fairly simple, which means that we have – we pay our clearing members a variable fee. And we received from ECB a variable fee, which means that we are – a variable interest, which means that we are completely hedged and we earn a spread, which is around 20 basis points.

So we take no counterparty risk, no risk as well on the evolution of interest rates. So what we shall assume for the moment is a spread around 20 basis points going forward. So the key

variable that will impact the NTI are going to be mainly two; one, which is the – as we discussed in the previous question, the absolute amount of the collateral received, and the second is the share of collateral which is actually at LCH SA, with which we have an interoperable link. So those are going to be the two variables. But again, on average, we expect to receive around 20 basis points.

Simon Gallagher: Thank you. And concerning the dark pool. So in terms of timing, work is underway, and it will be technically ready by the end of the year for a launch at the back end of December, early January next year.

In terms of volumes, as a reminder, the type of dark trading we're targeting here is the reference price waiver volumes. So these are the dark trades generated electronically in small sizes. This makes up around 7%, 8% of the on-market volumes today. So this is the pie we're targeting. And obviously, we would like a decent market share of that.

In terms of client interest, client interest is great due to two reasons. The latency proximity to the reference prices in Bergamo compared to platforms in London. And secondly, the presence of local players – domestic players from each of our markets.

And just in terms of fees, this is expected to be non-dilutive as it will be charged roughly in line with the lit market.

Enrico Bolzoni: Thank you. Can I ask, sorry, a follow-up on this one? You say you're targeting in small size at the moment, so below the waiver. Is it fair to assume that for now that you're not actually targeting the institutional flows that I presume tend to be bigger in size? Because I guess they might also have an interest in trading with your dark, if the latency is going to be very small. Am I right? Is this something you might consider in the future?

Simon Gallagher: Yeah, absolutely. The first step will be primarily the smaller sizes from the sell side intermediated algorithms, but we don't exclude at all. Large in scale trades will be available on the platform. But obviously, the developments going forward will be to move into that space as well.

Enrico Bolzoni: Thanks.

Operator: Thank you. We'll take our next question from Hubert Lam at Bank of America. Your line is open. Please go ahead.

Hubert Lam (Bank of America): Hi. Good morning. Thank you for taking my questions. I've got two quick questions. Firstly, going back to the revenue capture point on equity – cash equities. Can it be sustained at the higher level at 0.53 basis points compared to the floor of 0.52? Just if you can just comment around the drivers around that.

And the second question is, can you also give us an update on how you see the equity clearing revenue opportunity? And whether LSE pulling back from clearing of European equities has changed your views on the potential growth you see here? Thank you.

Stéphane Boujnah: So Giorgio will answer your first question on the revenue capture on the cash equity trading, and Anthony Attia will answer your question on clearing revenues.

Giorgio Modica: So answering your question about the revenue capture. It is important to have in mind that there are multiple factors that impact the revenue capture. Some in a positive fashion, some in a negative fashion. Clearly, as Simon highlighted, the order size goes against

us, and dilutes the yield. Because even if the order sizes are significantly less relevant than in the former Borsa Italiana model, the order side have an impact on our fees as well. So the higher the order size, the more dilution we have on our revenue capture.

On – if we look then, the second important element is the absolute amount of volumes, which means that usually with lower volumes, we have a higher revenue capture. So this quarter, what has happened is an exceptionally high level of order size and a relatively softer volume environment that, to a certain extent, have netted each other. And there is as well a third element, which is very important to highlight, which is the share of the SLP programme within our volume mix.

So again, very many variables that Simon and his team manage on a daily basis, so it's very difficult to share with you a precise formula to define exactly how the volumes and revenue capture will move. So our commitment, again, is to deliver the targets that we have set at the end of last year, and we are committed to do that trying to balance the different elements. But those are the fundamental elements that you need to have in mind. This is not a fixed number. This is impacted by those variables, again, order size, absolute level of volumes and participation of the SLP programme.

Anthony Attia: This is Anthony. Concerning your question on the revenue capture linked to the clearing migration. So focusing on the cash equity migration in Q4 this year, we're going to migrate the Portuguese, the French, the Belgian, the Dutch and the Irish market to Euronext Clearing. And that will allow us to capture clearing fees, so the proceeds of the clearing fees connected to our market that we do not capture today because this is entirely a third-party with LCH SA and with third-party revenues.

On the derivative migration next year, we will mainly create cost synergies by concentrating in one clearing house all our clearing. Thank you.

Operator: We'll now take our next question from Benjamin Goy at Deutsche Bank. Your line is open. Please go ahead.

Benjamin Goy (Deutsche Bank): Yes, hi. Good morning. Two questions, please. One, coming back to your buyback. Should we read into it that you're generally comfortable to stay above 2 times net debt EBITDA? And do you think that's an efficient capital structure to run the company, i.e., you would revisit share buybacks going forward at this level? Or is it more opportunistic, given the share price and the valuation?

And then secondly, I was wondering about how the competitive situation is changing for Nord Pool with NASDAQ transferring the portfolio? Thank you very much.

Giorgio Modica: So on your two questions, on the buyback, I would like to be clear on that, as we've been clear in the past. We have a disciplined and pragmatic approach to capital allocation. So we have sized and timed this buyback not to change in a significant fashion the deleveraging profile of the Group.

What I mean is that quarter-after-quarter, the leverage numbers that we have disclosed are going to go down, and this is a use of the capital that we have received. So you should not read any specific message other than the fact that the share price we feel is not what it should be, and this is a movement which we would consider as a capital hygiene.

Then going forward, we will assess the situation again in a pragmatic and disciplined approach. And you should not read into it that our mix of distribution will change or that other programme will follow this one. So we will, as we always do, constantly monitor our capital structure and assess capital allocation opportunities.

Then when it comes to Nord Pool, we are extremely pleased with the results achieved so far. The market share is strong and growing across market. The increase of the intraday and the financial performance of the company is quite strong. Then when it comes to the implication of the transaction, now it's too early to see.

What I can say on our side is that we have plenty of ideas, and we will try to capture at best the opportunities that will arise once we will have as well our clearing setup in place.

Enrico Bolzoni: Understood. Thank you.

Operator: Thank you. And we'll now take our next question from Kyle Voigt at KBW. Your line is open. Please go ahead.

Kyle Voigt (KBW): Hi. Good morning. Maybe a first question is for Giorgio on the expense trajectory. Obviously, there's a lot of moving pieces heading into 2024. We have an increased realised synergies in the year versus '23. But that all met against organic cost growth. I'm assuming there may be additional build-out costs ahead of the derivatives clearing migration in 2020 – in later 2024. So I'm just wondering if there are any major items – any other major items that we should be considering on the expense side as you look out into 2024. And when you take those major items together, could you give us any early sense of, at least directionally, how we should be thinking about operating expenses relative to the €630 million number this year?

And then I have a follow-up just on the tax rate. I think you noted higher non-taxable income in the quarter that impacted the tax rate. Just wondering if you could give us an update on the rate – tax rate – run rate to use given the current business mix at the moment?

Giorgio Modica: So yes, many thanks for the questions. So on the first one, as you know, this is the tradition of the house to give a clear target at the beginning of the year. So I will not – I cannot share with you a target for cost for next year unless the one which is embedded in our targets for 2024 that we disclosed at the Investor Day some years ago.

But however, I understand your question, and I want to highlight maybe one element, which is relevant. We will deliver a significant part of the cost savings this year. Next year, as far as costs are concerned, one element that you should look into is that clearly after the termination of the LCH SA contract, the cost base is going to reduce significantly because we will not have that expense anymore as we will have internalised that process. So this is an element of discontinuity that will kick in, in the third quarter of 2024.

Then when it comes to the tax, the easiest way and the simplest way for you to look at that, we have a target, which is around 26%, 27%. Now that target embeds as well a recurring level of M&A, if you want. With M&A, usually, you have non-deductible expenses that contribute to levelling the tax rate at 26%, 27%.

Now this year, missing that M&A component and benefiting from some income, which are tax exempted as dividends, our tax rate is hovering around 25%. So the easiest way to look at that is that you should expect a slightly lower tax rate, 25%, 26% in a non-M&A environment,

whereas slightly higher tax rate at 26%, 27% when we execute M&A transactions. So this is the easiest way that I can guide you.

Kyle Voigt: Thank you.

Operator: Thank you. And we'll now take our next question from Johannes Thormann at HSBC. Your line is open. Please go ahead.

Johannes Thormann (HSBC): Good morning, everybody, on this call. Two follow-up questions, please. First of all, on the cash trading yield again. Previously it was said that we should expect still an uplift in Q3 due to full effect of the Borsa-Optiq migration. Is there any change to this, or would you still expect it to level those up?

And secondly, on the clearing revenues. Is there a point in time where we see no contribution from LCH anymore? Will clients still have the chance to clear via LCH SA? Or will this window be closed as you go to a full silo approach? Thank you.

Stéphane Boujnah: So Giorgio will take the question on cash trading, and Anthony the question – or sorry, Simon will take questions in cash trading, and Anthony will take the question on the clearing revenue.

Simon Gallagher: Thank you, Stéphane. So concerning the effects of the Borsa uplift, we've already seen the first full quarter of that in Q2 since the new fee grid went in place at the end of March Q1 for a few days. Anthony?

Anthony Attia: Thank you, Simon. If I understand well your question, it was related to the fact that we will continue working with other CCPs on cash equity clearing as preferred CCP such as LCH SA or Cboe for instance. So today, we don't have a revenue sharing agreement on cash equity with LCH SA or any other CCP related to cash equity clearing, and that's going to continue in the future. So we will capture the revenues from Euronext Clearing but not from the third-party CCP just like it is today.

Johannes Thormann: Okay. And then in derivatives, there will be a full silo approach?

Anthony Attia: In the derivatives, we will capture 100% of the revenues of the clearing to - linked to our market.

Johannes Thormann: Okay. Thank you.

Operator: We'll take our next question from Haley Tam at Credit Suisse. Your line is open. Please go ahead.

Haley Tam (Credit Suisse): Morning. Thank you very much for taking my questions. I have a couple of quick follow-ups, please. Just on the LCH clearing, the loss of the revenue expenses in Q3 '24. Can I just make sure I understand, that €18 million per quarter, around €72 million per annum. Is that all derivatives? So we should expect that to swap out one for one what you will now earn yourself? Or is there any expectation that the clearing revenue will actually fall in 2025 versus '24 due to the loss of the LCH revenue share?

And then I guess, a related question as well. You mentioned the loss of LCH clearing expenses as well. Could you quantify that for us, please? Thank you.

Stéphane Boujnah: I'll let Giorgio walk you through the transition model from the current situation with LCH SA with revenue sharing arrangements and the profit-sharing arrangements

on derivative clearing agreement versus the new model when everything will be internalised under Euronext.

Giorgio Modica: So the – what I would like to highlight is a few things. The first is that in our P&L, we have one line, which is called clearing expenses, and this line embeds the cost that we pay to LCH SA in exchange of the service they render to us on the clearing of derivatives.

Now clearly, we are building up and ramping up Euronext clearing. So there is going to be a net effect in between the increase of cost and the decrease of those costs. But if you ask me, what is the line that will disappear, it's that line and that will be partially offset by higher internal cost. So this is the first element.

We have already sized what is going to be the absolute uplift coming from clearing, and this is going to be €40 million, €45 million. And this is going to be a combination in between cost savings and increased revenues. Then when it comes to your second question, which is related to the derivative revenues, we have not yet disclosed with the market what the new fees are going to be. But the idea would be, as you said, to internalise those revenues in a value proposition, which is appealing for clients.

So in a nutshell, the answer is, we will lose the clearing expenses currently in our P&L. This is not going to be a full saving because in parallel, we will ramp up Euronext clearing activities. And we will internalise the portion of revenues of clearing revenues, which are already in our P&L, the derivative revenues. What we will add that today is not included in our P&L are the revenues coming from the clearing of equities, and this is going to start at the end of 2023.

Haley Tam: Thank you. Sorry to ask again. But can I just clarify that €18 million per annum of LCH SA clearing revenues you get at the moment, that's just derivatives clearing?

Giorgio Modica: You mean – I don't recognise the €18 million. The number is significantly higher. So the derivative – the clearing of – the retrocession we have on the derivative clearing is going to be internalised.

Haley Tam: 100% internalised. Thank you.

Giorgio Modica: Yeah.

Operator: Thank you. There are no further questions in queue. I will now hand it back to Stéphane for closing remarks. Thank you.

Stéphane Boujnah: Thank you very much for your time. Have a very good day.

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

[END OF TRANSCRIPT]