Research Update:

Euronext Outlook Revised To Positive On Advanced Integration Of Borsa Italiana And Steady Deleveraging; Ratings Affirmed

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Overview

- We expect Euronext N.V. (ENXT) to deliver the €115 million it announced in revenue and cost synergies following the integration of Borsa Italiana (BI), and to further strongly deleverage over 2024-2025.
- We believe that the group will conclude in 2024 the transition to directly manage the clearing of its cash and derivatives markets across Europe.
- However, we do not rule out that ENXT might undertake sizable mergers and acquisitions (M&A) if diversification or faster growth opportunities arise, again increasing the group's financial leverage.
- Therefore, we revised our outlook to positive from stable and affirmed our 'BBB+/A-2' issuer credit ratings on ENXT.
- The positive outlook reflects that we could upgrade ENXT over the next six-to-12 months if it balances continued business expansion in its next strategic plan with further debt reduction and an unchanged leverage appetite.

Rating Action

On April 29, 2024, S&P Global Ratings revised its outlook on Euronext (ENXT) to positive from stable. At the same time, we affirmed our 'BBB+/A-2' long- and short-term issuer credit ratings on Euronext and our 'BBB+' issue rating on its senior unsecured notes.

Rationale

ENXT has reached the final stages of its integration of BI and is set to complete business migration to Euronext Clearing in 2024. ENXT is now approaching the end a journey started in 2021, which included the acquisition of BI (2021), the migration of its core data centre to Bergamo (2022), the migration of BI's cash equities and derivatives to its propriety platform Optiq (ended in the first quarter of 2024), and the European expansion of Euronext Clearing (2023-2024). As of year-end 2023, ENXT has already locked €75 million in revenue and cost synergies and is well on track to achieve an additional €40 million in 2024. As these synergies are expressed on an annual run-rate basis, they materialize only partially during the year when they were achieved. Consequently, the effect in reported profitability is not fully reflected in the 2023 accounts and will materialize in 2024, with some residual effect to materialize only in 2025. Notably, from 2024 onwards, we anticipate more interest income along with increased cash balances at Euronext Clearing. Overall, we expect the EBITDA margin to improve to 62%-64% over 2024-2025, from about 57% in 2022 and 2023.

ENXT has materially reduced its leverage since the acquisition of BI and we expect further material deleveraging in 2024-2025, absent any unpredictable large M&A. We forecast adjusted debt to EBITDA of nearly 2.0x and funds from operations (FFO) to debt of just above 40% at year-end 2024, which reflects a meaningful improvement from the estimated 2.4x and 33%, respectively, at year-end 2023. This would be achieved by continually rising EBITDA, supported notably by clearing revenues along with the European expansion of Euronext Clearing. Therefore, we revised our financial risk profile assessment for ENXT to modest from intermediate. However, while our forecast factors in only €100 million annually in bolt-on acquisitions, we believe that ENXT might undertake larger M&A, should the opportunity arise, if needed to support its business growth and diversification. Therefore, we now also apply a one notch negative financial policy adjustment.

We believe the next phase of the group's strategy will be key. In the past decade, ENXT has expanded significantly, mainly through acquisitions, and now has a leading position in listing and cash equities trading across much of Europe, with a supportive but much smaller exchange-traded derivatives franchise. Furthermore, with the acquisition of BI and the development of Euronext Clearing, the group operates more broadly across the capital markets value chain. ENXT also reports that it derives a solid 60% of its revenue from non-volume-related sources. However, while some of the key peers have a higher leverage appetite than ENXT, we remain mindful that it remains smaller and less diversified by business than many of them. Peers include leading global players like Deutsche Boerse AG (group credit profile [GCP] is 'aa-'), London Stock Exchange Group PLC (GCP is 'a'), Intercontinental Exchange Inc (GCP is 'a-'), and Nasdaq Inc. (GCP is 'bbb'). Therefore, we apply a negative adjustment to ENXT for comparable rating analysis. That said, we will monitor any announcements in terms of new strategic orientations following the integration of BI, and the related contemplated balance between business growth and leverage in such next strategic phase.

Outlook

The positive outlook factors in our expectation that ENXT will post an average of 4%-6% underlying growth in EBITDA over 2024-2025, and slightly improve its margins aided by the completion of the integration of BI and successful expansion of Euronext Clearing. Importantly, we also anticipate continued deleveraging in our base-case scenario, given the group's strong cash flow generation.

Upside scenario

We could upgrade ENXT over the next six-to-12 months if the group balances continued business expansion in its next strategic plan with further debt reduction and an unchanged leverage appetite. We also factor in our upside scenario that strong cash generation through 2024 will materially increase the company's headroom to absorb debt-funded acquisitions, which could improve comparability with higher rated peers.

Downside scenario

We could revise the outlook to stable if ENXT doesn't deleverage as we currently expect, prioritizing inorganic growth or shareholder distributions. This could be the case if debt to EBITDA does not decrease materially below 2.5x from 2024, or if FFO to debt does not improve beyond 35%. We could also revise our outlook to stable if the group shifted to a strategy that does not reflect strong enough growth ambitions or business initiatives. Although we do not see it as a likely scenario, we could also revise the outlook to stable in the event of major operating underperformance.

Our Base-Case Scenario

Assumptions

- Reported revenue to increase by 5%-10% in 2024 and 2%-3% thereafter.
- Adjusted EBITDA margin to improve to 62%-64% on synergies in 2024-2025, stemming from the integration of BI and reflecting the end of restructuring costs from 2024.
- €100 million annually for bolt-on acquisitions but no transformative M&A.
- A dividend payout ratio of 50% and no significant share buybacks.
- Decrease of adjusted net debt to €1.5 billion-€2.0 billion over 2024-2025, from €2.0 billion at year-end 2023, supported by steady accumulation of operating cash flows.

Key metrics

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

	2022	2023e	2024f	2025f
EBITDA margin (%)	57	57	59-61	62-64
Net debt to EBITDA (x)	2.9	2.4	1.8-1.9	1.4-1.5
Funds from operations to debt (%)	24	33	40-42	52-54

e--Estimate. f--Forecast.

Liquidity

In our view, liquidity risks appear highly manageable over our 24-month rating horizon. Over this period, we expect sources of liquidity to remain positive even if forecast EBITDA were to decline unexpectedly by 30%. We also expect that our sources-to-uses ratio will remain well above 1.5x over the coming year.

Euronext remains highly cash-generative, retains significant headroom under its debt facilities, and it has no debt maturities before April 2025. As one of the major European financial market infrastructure entities, Euronext has well-established and solid relationships with banks, some of which are its reference shareholders.

Ratings Score Snapshot

Euronext N.V.--Ratings Score Snapshot

	To	From
Issuer Credit Rating	BBB+/Positive/A-2	BBB+/Stable/A-2
Business Risk	Strong	Strong
Country Risk	Low	Low
Industry Risk	Low	Low
Competitive Position	Strong	Strong
Financial Risk	Modest	Intermediate
Cash Flow/Leverage	Modest	Intermediate
Clearing And Settlement Risk	0	0
Anchor	a	bbb+
Modifiers		
Diversification/portfolio effect	Neutral (0)	Neutral (0)
Capital Structure	Neutral (0)	Neutral (0)
Liquidity	Strong (0)	Strong (0)
Financial Policy	Negative (-1)	Neutral (0)
Management And Governance	Positive (0)	Positive (0)
Comparable Rating Analysis	Negative (-1)	Neutral (0)
Group Credit Profile	bbb+	bbb+

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10,

2021

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- FMIs' All-Weather Business Models Support Stability In 2024, Jan. 25, 2024
- Ratings On Seven Financial Market Infrastructure Companies Affirmed Following Management And Governance Review, Jan. 22, 2024
- Euronext N.V., Jun. 29, 2023
- Euronext Upgraded To 'BBB+' On Reduced Clearings And Settlement Risk And Continued Deleveraging; Outlook Stable, Feb. 9, 2023

Ratings List

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