

Research Update:

Euronext N.V. Upgraded To 'A-' On Lower Leverage And Enhanced Earnings Capacity; Outlook Stable

February 3, 2025

Rating Action Overview

- Euronext N.V. (ENXT) has materially reduced its leverage, with our estimate of adjusted net debt to EBITDA down to 1.8x as of end-2024, supported by increased cash flow generation from operations, and we see a lower likelihood that leverage could deteriorate very significantly.
- Synergies from the integration of Borsa Italiana (BI), and the expansion of Euronext Clearing to all its markets, have materialized beyond the levels that the group initially planned.
- We therefore raised our long-term issuer credit rating on ENXT to 'A-' from 'BBB+'.
- The stable outlook reflects that ENXT will maintain contained leverage while sustaining business development in line with its strategic plan "Innovate for growth 2027", with over 5% compound annual revenue growth over 2024-2027.

Rating Action Rationale

ENXT has materially reduced its leverage since the BI acquisition in 2021, and its strategic plan "Innovate for growth 2027" envisages financial targets and a leverage tolerance that are reflective of a contained risk appetite.

We anticipate that adjusted net debt to EBITDA will have been about 1.8x and funds from operations (FFO) to debt will have been about 42% as of end-2024. This reflects a meaningful improvement from the adjusted net debt to EBITDA of 2.4x and FFO to debt of 33.3% as of end-2023. Over the long term, ENXT plans to maintain a debt-to-EBITDA ratio of approximately 1.0x-2.0x, as calculated on a reported basis. Therefore, it is possible that leverage could decrease further in the coming years, supported by strong cash generation, even if moderate share buybacks become a recurrent part of its financial policy. However, while ENXT's strategy focuses primarily on organic growth, it does not rule out engaging in acquisitions, as illustrated by the recently announced signing of a binding agreement under which ENXT will acquire Nasdaq's Nordic power futures business. At the very least, we assume that it could undertake bolt-on mergers and acquisitions (M&A) averaging about €300 million per year. While outside our base case, ENXT's strategy presentation notes that it could undertake larger deals in the range of €3 billion-€4 billion, funded by a mix of available cash and additional

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debt. This could lead leverage (on a reported and adjusted basis) to peak above its long-term target. Therefore, we forecast ENXT's adjusted net debt-to-EBITDA ratio will stabilize at close to 1.8x by end-2026, we maintain the financial risk profile assessment as modest, and we continue to apply a negative one-notch modifier for financial policy.

ENXT completed the business migration to Euronext Clearing, which consolidated business diversity and stability, and achieved strong synergies from the acquisition of BI. The group finalized its integration of BI in 2024 and successfully achieved €121 million in run-rate EBITDA synergies at end-September 2024, which is above the €115 million target announced two years ago. Euronext Clearing is now the primary or else sole clearinghouse for cash equities and listed financial and commodity derivatives executed in almost all ENXT's markets. This has boosted the group's revenue diversification and improved earnings stability, with non-volume related revenue representing 59% of the total revenue base, compared with 51% in 2018. We think that this could improve further, notably considering ENXT's plans to expand its post-trade business through 2027.

We expect ENXT to sustain an improved EBITDA margin above 60%, supported by increased cash generation from operations and the phasing out of BI integration costs. We anticipate ENXT to report revenue growth of about 10% for 2024, in line with the year-on-year development it reported for the first nine months of the year, which was primarily led by fixed-income trading revenue and post-trade activities. This implies an adjusted EBITDA margin of about 63% for 2024, which would be a material improvement from broadly 56%-58% in the few years to 2023. We expect that the adjusted EBITDA margin will stabilize in the 60%-63% range in the coming two years, reflecting that ENXT will continue to make investments, notably to expand its fixed income trading, commodities, and currency trading and clearing franchise in line with its strategic plan up to 2027.

ENXT continues to show solid modelled resilience to a hypothetical Italian sovereign default. Following ENXT's acquisition of BI in 2021, Italy became an important market for the group. We expect that ENXT will continue to derive about 35%-40% of its revenues from its Italian businesses. Since our unsolicited long-term sovereign Foreign Currency rating on Italy is 'BBB', below the credit strength of ENXT, we have routinely assessed whether ENXT's solvency would likely remain resilient even in a hypothetical sovereign default scenario. Our analysis confirms this to be the case, and we consider it unlikely that Italian sovereign creditworthiness would influence our ratings on ENXT in the future.

Outlook

The stable outlook reflects our expectation that ENXT will sustain its current lower level of leverage supported by strong cash generation, aided by solid execution of its "Innovate for growth" strategy. While we do not rule out a large M&A transaction, should the opportunity arise, we expect leverage to remain contained.

Downside scenario

We could downgrade ENXT if a large debt-fueled M&A materially worsened its financial risk profile, with the adjusted net debt-to-EBITDA ratio increasing significantly and sustainably above 2.5x or, similarly, adjusted FFO to debt moving materially below 35%. While unlikely in our view, we

could also lower the ratings in case of a material business or strategic setback or if we saw material risk-management deficiencies emerge as ENXT continues to expand its clearing services.

Upside scenario

We consider an upgrade to be remote within our two-year outlook horizon because we do not expect the group to adopt a minimal risk appetite with very low tolerance to any spikes in leverage. We see leverage appetite as the primary sensitivity for upside as, in our view, the span and scope of ENXT's business is likely to remain inferior to the strongest global names in the financial market infrastructure (FMI) sector, such as the London Stock Exchange Group PLC, Intercontinental Exchange Inc., and Deutsche Boerse AG. In addition, for a potential upgrade, we would need to see continued modelled resilience to an Italian sovereign default.

Company Description

ENXT is the operating holding company of a leading pan-European FMI group that operates securities and derivatives exchanges in Amsterdam, Brussels, Dublin, Lisbon, Oslo, Milan, and Paris. ENXT is the largest European stock listing player, and it provides market data, indices, technological solutions, clearing, custody, and settlement services. Since the acquisition of BI in 2021 and setting up of Euronext Clearing, the group operates more broadly across the capital markets value chain. As of July 30, 2024, ENXT was 23.44% owned by a consortium of reference shareholders, notably Caisse des Dépôts et Consignations, Italy-based CDP Equity, and Belgium-based Société Fédérale de Participations et d'Investissement, but is otherwise widely held.

Our Base-Case Scenario

Assumptions

- We anticipate 10% annual growth in reported revenue for 2024, and 5%-6% thereafter as we expect ENXT to further benefit from expansion in post-trade services and steady momentum in trading.
- We anticipate a 63% adjusted EBITDA margin in 2024, and we expect a stabilization to 60%-63% in 2025-2026, reflecting that ENXT will reinforce investments to support its business development.
- We expect cash flows from operations at €0.8 billion-€0.9 billion annually.
- We factor in sizable M&A over 2025-2027, typically €300 million annually, which we see as consistent with ENXT's strategic plan and our view of its leverage appetite.
- We assume a dividend payout ratio of 50%, in addition to the €300 million share repurchase program announced in November 2024.

Table 1

Euronext N.V.--Key metrics

	-- Fiscal year ended Dec. 31--				
	2022a	2023a	2024e	2025f	2026f
EBITDA margin (%)	57.5	56.5	63	60-63	60-63
Net debt to EBITDA (x)	2.9	2.4	1.8	1.7-1.9	1.7-1.9
Funds from operations to debt (%)	23.9	33.3	42	40-42	43-45

S&P Global Ratings-adjusted metrics. a--Actual. e--Estimate. f--Forecast.

Ratings Score Snapshot

Euronext N.V.

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

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, 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

- Financial Market Infrastructure Sector View 2025: Rocky Geopolitics, Solid Fundamentals , Jan. 27, 2025
- Research Update: Euronext Outlook Revised To Positive On Advanced Integration Of Borsa Italiana And Steady Deleveraging; Ratings Affirmed, April 29, 2024
- Research Update: Euronext Upgraded To 'BBB+' On Reduced Clearings And Settlement Risk And Continued Deleveraging; Outlook Stable, Feb. 9, 2023

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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