Flow Traders N.V.

Transcript Call 3Q 2015

13 November 2015

Disclaimer

- This presentation is prepared by Flow Traders N.V. and is for information purposes only. It is not a recommendation to engage in investment activities and you must not rely on the content of this document when making any investment decisions. The information in this document does not constitute legal, tax, or investment advice and is not to be regarded as investor marketing or marketing of any security or financial instrument, or as an offer to buy or sell, or as a solicitation of any offer to buy or sell, securities or financial instruments.

- The information and materials contained in this presentation are provided 'as is' and Flow Traders N.V. or any of its affiliates ("Flow Traders") do not warrant the accuracy, adequacy or completeness of the information and materials and expressly disclaim liability for any errors or omissions. This presentation is not intended to be, and shall not constitute in any way a binding or legal agreement, or impose any legal obligation on Flow Traders. All intellectual property rights, including trademarks, are those of their respective owners. All rights reserved. All proprietary rights and interest in or connected with this publication shall vest in Flow Traders. No part of it may be redistributed or reproduced without the prior written permission of Flow Traders.

- This presentation may include forward-looking statements, which are based on Flow Traders' current expectations and projections about future events, and are not guarantees of future performance. Forward looking statements are statements that are not historical facts, including statements about our beliefs and expectations. Words such as "may", "will", "would", "should", "expect", "intend", "estimate", "anticipate", "project", "believe", "could", "hope", "seek", "plan", "foresee", "aim", "objective", "potential", "goal" "strategy", "target", "continue" and similar expressions or their negatives are used to identify these forward-looking statements. By their nature, forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors because they relate to events and depend on circumstances that will occur in the future whether or not outside the control of Flow Traders. Such factors may cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements. Accordingly, no undue reliance should be placed on any forward-looking statements. Forward-looking statements speak only as at the date at which they are made. Flow Traders expressly disclaims any obligation or undertaking to update, review or revise any forward-looking statements contained in this presentation to reflect any change in its expectations or any change in events, conditions or circumstances on which such statements are based unless required to do so by applicable law.

- Financial objectives are internal objectives of Flow Traders to measure its operational performance and should not be read as indicating that Flow Traders is targeting such metrics for any particular fiscal year. Flow Traders' ability to achieve these financial objectives is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond Flow Traders' control, and upon assumptions with respect to future business decisions that are subject to change. As a result, Flow Traders' actual results may vary from these financial objectives, and those variations may be material.

- Efficiencies are net, before tax and on a run-rate basis, i.e. taking into account the full-year impact of any measure to be undertaken before the end of the period mentioned. The expected operating efficiencies and cost savings were prepared on the basis of a number of assumptions, projections and estimates, many of which depend on factors that are beyond Flow Traders' control. These assumptions, projections and estimates are inherently subject to significant uncertainties and actual results may differ, perhaps materially, from those projected. Flow Traders cannot provide any assurance that these assumptions are correct and that these projections and estimates will reflect Flow Traders' actual results of operations.
- By accepting this document you agree to the terms set out above. If you do not agree with the terms set out above please notify legal.amsterdam@nl.flowtraders.com immediately and delete or destroy this document.
- The figures comprised in this presentation have not been audited nor reviewed

Table of Contents

1 Transcriptie

Participants:

Operator

Sjoerd Rietberg

Dennis Dijkstra

Mr Bruce Hamilton, Morgan Stanley

Mr Daniele Brupbacher, UBS

Mr Michel De Jong, ABN AMRO

Mr Martin Price, Credit Suisse

*** Start transcriptie

Operator

Good day and welcome to the Flow Trader analyst conference call regarding the Q3 2015 results. A live audio webcast of this call is also available via the company's website. You may experience a small delay in the online presentation slide show. Participants can manually click through the slides when needed.

Then let's hand over to Mr Sjoerd Rietberg. Please go ahead.

Sjoerd Rietberg

Thank you, operator. Good morning everyone. On behalf of Flow Traders: thanks for listening in on this presentation regarding our Q3 2015 results. Presenting today will be our co-CEO Dennis Dijkstra and myself, co-CEO Sjoerd Rietberg.

On slide number 2 you will find our disclaimer, since this presentation may contain forward looking statements which are based on Flow Trader's current expectations and projections. We also use some non-IRFS recognized matrixes, like net-trading income, EBITDA and revenue capture, to describe the performance of the company. Note that these figures are not audited or reviewed. If you choose to continue to listen to this presentation, you are bound to the disclaimer as shown in this presentation and in the press release as sent out this morning.

We will first present our prepared remarks. After that, there will be room for Q&A. Now I would like to hand over to Dennis.

Dennis Dijkstra

Thanks, Sjoerd. On slide number 3 there is an overview of the content we will be presenting to you today. In this presentation and the call we will sometimes use the terms adjusted profit, adjusted earnings per share, adjusted EBITDA, et cetera. As also mentioned during the previous call regarding the half year figures, these are matrixes that are adjusted to our IPO related costs, which we account for in our YTD September financial numbers. These costs are one off 1.8 mln euros of IPO related expenses, and 33.2 mln euros related to the accelerated vesting and the cancellation of our employee stock appreciation rights. On slide number 4 you will see our Q3 2015 highlights. First of all, we are very proud to present our record results for the third quarter of 2015. In this quarter, we traded 180 bln euros value of ETP's, resulting in a net trading income of 92.8 mln euros this quarter. This makes this last quarter also the best quarter measured in NTI in the history of Flow Traders, driven by both some higher revenue capture and significantly more ETP value traded.

The higher revenue capture was partially the result of certain periods of high volatility on the markets, and also driven by our improved quality of execution. Our US office benefited especially from this, showing a significant increase in their revenue capture from 1.9 basis points in Q2 to 3.7 basis points this quarter.

In the first nine months of 2015 we had no loss days, while the average net trading income remains well over 1 mln euros per day. During the last quarter, we remained focused on our cost base and we were thereby able to maintain our adjusted EBITDA margins at 52%. Again, I would like to remind you that a big part of our operational expenses are variable employee expenses which are not fixed and only payable if we have an operational profit. Our highly cash flow generative business model has resulted in an adjusted net profit of 98.5 mln euros over the first nine months of 2015, representing 188% growth compared to the 2014 numbers. Also this years started with our IPO so all in all, it has been a very exciting and busy quarter for all of our colleagues at Flow Traders.

On slide number 5 there is some more information about the market and our performance. As a leading global ETP liquidity provider, we play a crucial role in this fast growing industry. ETP assets under management are widely expected to double to 6 tln USD by 2019, or 5.5 tln euros. The exchange traded products have seen inflows in every single asset class, except for emerging market equity, in the first nine months of 2015 compared to 2014. Especially fixed income ETP's showed a relatively strong acceleration of inflows. YTD the ETP AUM grew by 30% compared to the first nine months of 2014, measured in euros. It's worth noting however that global ETP's assets under management by the end of September are back at the levels of the beginning of 2015, due to the market movements in especially developed equity and emerging market equity. The market ETP value traded grew by an even faster rate of 60% over that same period. It is still the Asian market that shows the biggest increase in ETP value traded.

The first three quarters of 2015, our net trading income grew from 99 mln euros to 240 mln euros, representing a growth rate of 141% year over year. This increase in net trading income is a result of both more ETP value traded and a higher revenue capture in all offices, year over year. Our ETP value traded increased 50% year over year to 511 bln euros YTD, while our revenue capture increased to 4.7 basis points compared to 2.9 basis points.

On slide 6 you will find some more information on our consolidated income statement, which remains relatively straight forward. We again benefited from our operational leverage as a result of our low and predictable fixed cost base. This is shown in our adjusted EBITDA margin that remains at a 52% YTD, up from 43% in the first nine months of last year.

Our adjusted net profit is 98.5 mln euros to date, and 37.9 mln euros for Q3. Both are again up significantly compared to the previous periods. It is worth noting that all offices contributed to our year over year net trading income growth, as we will show on the next slide.

Sjoerd Rietberg

Thanks, Dennis. On slide 7, we dive into more detail for our European offices. In Europe, we have seen that ETP assets under management are declining a bit by roughly 3% quarter over quarter to 453 bln euros, mainly caused by the first market movements. Year over year, assets under management grew by 24%. Market ETP value traded increased by 62% year over year, partially driven by some elevated volatility, although on a quarter on quarter basis traded volumes remained relatively stable. Our European office posted strong results, showing 119% increase in net trading income in the first nine months of 2015, compared to the same period in 2014. This is driven by the already mentioned increase of ETP value traded in the market, in combination with a higher revenue capture, resulting from our focus on quality of execution, combined with an elevated level of volatility in certain periods.

Also in a quarter to quarter comparison, we outpaced the market in Europe, both in terms of value traded and in net trading income. We have maintained our top position in terms of market share on the major European cash exchanges and the number of institutional counterparties we can trade with also increased, to well above 400, resulting in an increase in volumes in our off exchange liquidity provision.

Let’s move on to the US office, on slide 8. What we see in the Americas, is that the assets under management were just over 1.8 tln euros by YTD 2015, reflecting a growth rate of 30% year over year. On a quarter over quarter basis, assets under management fell 6%, roughly reflecting the decline of the S&P 500 index which was down 7.5% over that same period. The market ETP value traded increased by 49% year over year and 28% quarter over quarter, which is partially driven by the volatile wild week of August. YTD, our net trading income was 38.4 mln euros, up 87% from the same period in 2014, while our ETP value traded was up 17% year over year. This reflects our increased revenue capture, resulting from investments in IT infrastructure, better pricing models and a change in asset mix, which enabled us to increase our revenue capture. It increased to 3.7 basis points, also due to our strong focus on the quality of execution and due to the more volatile market circumstances as mentioned. Quarter over quarter, our ETP value traded increased not as much as the market, but the majority of the growth in the market came from the top 20 names in the US. We did however manage to substantially increase our net trade income in our US offices, due to the fact that our revenue capture is so much higher.

On slide 9 there is more information on our Asian office. In the Asian region, we have seen that the AUM assets under management grew by 46% year over year, just under 200 bln euros. This reflects a small decline compared to the second quarter, caused by the same market movements. Market ETP value traded has grown significantly by well over 200% year over year to over 1.2 tln euros YTD. Quarter over quarter ETP value traded dropped significantly, mainly due to the fact that intervention in the Chinese stock markets by the regulator has led to a dramatic fall in trading volumes in China. Since we are not actively providing liquidity in the Chinese cash markets, the impact of this drop on our market share is positive. Our net trading has outpaced both the asset under management growth and the market ETP value traded, both year over year and quarter over quarter. Net trading income in the first three quarters grew by 391% year over year to 52.7 mln euros for the period. This has been driven by the strong growth to value traded and by a significant increase in the revenue capture.

Dennis Dijkstra

On slide number 10 again some insight in our operational expenses. We have increased our headcount in 2015 by 41 fte's to just over 250 employees. The majority of the increase is in our European and American offices. Our variable expenses consist for the largest part of our global profit sharing pool, being effectively 36% of our operational profit. We see a slight increase again in our other operating expenses, after slightly higher expenses in Q2. Again, we expect to have a 20% effective tax rate going forward. To complete: once again, the one-off IPO related costs were 1.8 mln euros for the IPO expenses and 33 mln for the SARs related to the accumulated tax effect of 4 mln euros.

On slide number 11 we give you a bit more insight into our consolidated financial position and our balance sheet. Our trading capital further increased, driven by our profits YTD, to close to 300 mln euros. Our capital remained well within our prime broker regulatory capital requirements. Also in Q3, due to our robust results, our strong capital base was more than enough to cover both our prime broker and our regulatory capital and margin requirements. We continue to operate within sufficient headroom for further trading opportunities.

Due to IPO in Q3, we had to restructure our capital from the member's capital accounts to normal shares issued to Flow Traders NV which is the listed entity. For more details we refer to appendix 2.

Sjoerd Rietberg

On slide number 12, we have listed certain other relevant items. Let's start by giving some more colour on August 24th. On that day, when the US market when down to up to 7% intraday, our proven business model, based on pricing, technology and risk management, all embedded in our team driven culture, resulted in a record trading day in terms of net trading income. We traded almost three times as much in value as on a normal trading day, with a revenue capture of above 10 basis points – this all in an operation that functioned as expected.

Another item that we want to mention here is that we have signed a horizontal supervision agreement with the Dutch tax authorities. This means that we will be in close cooperation with these authorities, and give and get swift feedback regarding all tax related matters.

A third item we want to mention here is that our IT expenses are up slightly. We disposed of some radio frequency network assets. We expect a positive effect. There are lower costs from the sale of these assets.

During the full year figures, we will provide you with more insight into our strategy, although the main focus will remain on expanding our business in an incremental way, and continuously improving ourselves in all aspects of our business.

This brings us to our final slide, slide number 13. This is our medium to long term guidance. It is a repetition of what we already mentioned in the previous presentations. We will aim to grow our net trading income on average, ahead of the growth of the global ETP assets under management. In terms of our cost base, we aim to continue to control our fixed costs in line with what we have done in the past years. Finally, we aim to retain enough capital to support future growth of the business, while at the same time paying out dividend in excess of 50% of annual net profits, paid semi annually.

To summarize, we had a very successful Q3 of 2015, resulting in strong growth of our net trading income year over year, and outpacing the growth in assets under management. We would like to thank our people again. They have contributed to all the new milestones we have accomplished in a great quarter, and in building the great company that we have today.

We are now available for your questions. Operator, can you take over?

Operator

Thank you. If you would like to ask a question at this time, please press the star or asterisk key, followed by the digit 1 on your phone. Please ensure that the mute function on your phone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered, you may remove yourself from the queue by pressing *2. Again, please press *1 to ask a question. We will pause for just a moment to allow everyone to signal.

We will now go to our first question, from Mr Hamilton of Morgan Stanley.

Mr Hamilton

Thank you. Good morning, guys. I have three questions. Firstly, this is a very, very strong quarter, helped by volatilities, as you said pretty clearly. Could you give us any colour on the trading activity level since September, after the volatility subsided a bit? Just to give a sense. Obviously we shouldn’t extract Q3 but any colour on any dynamics so far in a quarter would be helpful.

Secondly: I notice that you have not disclosed the gross trading income, and therefore the costs of clearing exchange in prime brokerage. I am interested to take in the prime brokerage costs, given that the powerful three are going to increase the leverage intensity of prime brokerage clearing your business. How are you looking at that, in terms of risk of additional costs, in your conversations with the prime brokers? How are you doing in terms of maybe expanding the prime brokerage you use in case the concentration risk of the two that you use?

Thirdly and finally: in terms of the strong balance sheet position, can you give us your excess liquidity? I think that in the past you have shown that we need to deduct from your total trading capital the prime brokerage margin requirement. That's the key, because it is more than the regulatory capital requirement. Maybe you can help us understand what the current excess position is versus that 294 mln of trading capital. Thank you.

Sjoerd Rietberg

Thank you. I will pick up the first question. With regards to clearance trading activity: we will not disclose how things are going right now, but you can see in the market after the quite volatile periods that we have seen in the last week of August, that the markets normalized in September. That trend continued a bit in October, until now. That is what we can say about the current market activity.

Dennis Dijkstra

To come back to your questions about prime broker's fees and the likes: as you are well aware, we have a diversified prime brokers setup on a global scale. We continue to look for alternatives to diversify further. As you said, there are new regulations coming into place. We have not seen any pressure on us. If you look at liquidity and leverage ratios, we tend to trade very straightforward products, which are easy from a balance sheet perspective and also for the prime brokerage. There are no derivatives such as options. We remain confident that the prime brokers will be able to serve our needs going forward, and we remain very cautious on diversifying, also from an operational risk perspective, as much as possible.

From a balance sheet perspective, and the excess liquidity: as a rule of thumb, we see that our prime broker requirements are in line with our regulatory capital requirements. There you can also see the difference between our trading capital available and the capital requirements from a regulatory perspective, which are in line with our requirements for the prime brokers.

Mr Hamilton

Just to clarify: you say that 221 mln is your regulatory capital requirement. Is there only 73 mln of excess? Or is the 111 mln the right number to use?

Dennis Dijkstra

111 mln is the right number. 221 mln is our regulatory capital. The capital requirements by either the Dutch Central Bank and the SEC are 111 mln.

Mr Hamilton

In effect, you then have a bit over 180 mln of excess liquidity.

Dennis Dijkstra

Exactly.

Mr Hamilton

To check on the prime brokerage point: is it still correct that BAML and ABN are your two key prime brokers? Of have you already diversified to more relationships?

Sjoerd Rietberg

We are in an advanced process of further diversifying our prime broker base. You are right though: at the moment we are brokering with both BAML and ABN. We have some smaller brokers globally for local markets.

Mr Hamilton

Thank you.

Operator

We will now take our next question form Daniele Brupbacher of UBS.

Mr Brupbacher

Can I just do some number crunching with you? You gave a helpful indication on slide 12 regarding August 24th. If I look at the value trade, I see that the average daily traded is 3 bln. You say it was three times that amount that day, so about 9 bln. Ten basis points is around 9 mln. Is it a methodological correct calculation if I assume that you made close to 10 mln on that day?

Sjoerd Rietberg

I think on ballpark you are right.

Mr Brupbacher

I would like to understand a bit better what is happening in the Americas, which is obviously a big fall through at least my estimate, in terms of beat, where it is coming from. The 3.7 basis points are a great result. Would you consider this to be a more sustainable level going forward, based on your outlook regarding the revenues and to allocate more capital to that region? It feels a bit like if you are a bit more positive structurally, and that it was not just a lucky punch in the third quarter.

I have another question, but let's do this one first.

Sjoerd Rietberg

With regards to the increased revenue capture in the Americas: that is indeed also the effect of the volatility on these busy trading days there. That is in part the effect. The other part is of course that we also changed the product mix and increased the quality of our execution by improved trading systems. At the same time, we also increased and are still increasing the team there and the knowledge-base that we have. Thereby, we improve the quality of the pricing we provide in all these products. It is a dual effect. There might be some elements there related to increased volatility, which mainly occurred in the US markets during the last weeks of August, but there is also a more structural component, coming from these improvements we made in pricing and technology.

Mr Brupbacher

You also mentioned the asset mix during your prepared remarks. How significant is that? So shifting into other asset classes in the US? You would summarize that within the structural changes, I guess.

Sjoerd Rietberg

Yes, that is part of the structural changes. Hopefully of course this will, but we envision this is structural and significant. We can already see the first benefits from that. Of course, as you know, and as also mentioned during our strategic outlook, we want to improve ourselves in all elements of what we do, not just in a few specific products or product categories. We are in fact expanding our product coverage. By doing so, we also move into asset classes where we find more revenue capture.

Mr Brupbacher

My last question: I guess you will not publish a Q3 results report, will you? It is issued half yearly, right?

Dennis Dijkstra

I think in the appendix to the press release, there are some more numbers.

Mr Brupbacher

You use the balance sheet to show the bigger positions, and I am never quite sure how meaningful or relevant these numbers are. I guess there is a lot of volatility around these positions intraday and intra quarter. Is that why you do not show them in the presentation? And should we just look at the net figure, or the total trading cap? How should I think about it?

Dennis Dijkstra

There is some volatility in the size of our trading positions. In general, they are gross in line with the last quarters. There is not a lot of change from a gross perspective. That is why we only present the trading capital, the condensed balance sheet.

Mr Brupbacher

Thank you.

Operator

We will now take our next question, from Michel de Jong of ABN AMRO.

Mr De Jong

Good morning gentlemen. There is only one question left from my side, also about the US revenue capture. There was a strong beat versus our estimates as well. Given your investments in IT, what is a structural revenue capture going forward, not taking into account market volatility? Obviously it is higher than the 1.3 recorded last year, but also lower than the 3.7 of this quarter. I am trying to get a bit more feeling on what the structural increase is and what is more tied to the one-offs and the August 24 effect maybe. Thanks.

Sjoerd Rietberg

The revenue capture is of course the result of the liquidity in the market, which can be the result of the volatility of the number of participants in the market itself, or the products they are looking at. The relatively more straightforward products will of course have less revenue capture than the more advanced or more complex products. This defines the revenue capture available, of course combined with our own setup. It is really hard to answer your question exactly, although we do have to recognize that the revenue capture we see here is partially influenced by volatility. Having said that, we also know that volatility might occur again in the future or it might not. It is something we cannot control and something we do not envision to control. All we can say there is that the revenue capture we see purely depends on how we improve our systems and how we improve our pricing knowledge. That is something we continuously invest in. This is what we control. At the same time, we cannot control the other external factors: competition and volatility are beyond our control.

Mr De Jong

You also mentioned the change in the asset mix, being responsible for the high revenue capture. What kind of differences do we see there versus other quarters?

Sjoerd Rietberg

The change in asset mix is partially responsible for the increase in revenue capture. Due to investments in our US offices in terms of people and systems, we have access to more asset classes and more venues, so that we are able to provide liquidity in different product categories. Based on that, we were able to increase our revenue capture. That has also been the change over time: just the growth of the office and the operations, and improvements in our technology and improvements in our pricing methodology.

Mr De Jong

And more specifically: in which asset classes are you now trading in and which you did not trade in before? Then I will hand over to the next person.

Sjoerd Rietberg

As mentioned during the IPO, we have always been active in equity space. We have also always been active in commodities and in bond trading. It is no secret that we want to expand in the bond ETF trading space. That is where we are actively expanding. That makes sense, given the developments we see in bond trading and the ETP space.

Mr De Jong

All right. Thank you very much.

Operator

As a reminder: press *1 to ask your question. We will now take our next question, from Martin Price of Credit Suisse. Please go ahead.

Mr Price

Good morning. I just have a quick follow up question on the capital position, which is clearly very strong now. Could you put forward some thoughts on how this has changed your ability to grow the business next year, perhaps related to your expectations at the start of this year? I think you made a statement about having new liquidity venues and new block trading capability. I guess you also need to consider increasing some of the credit lines you have with some of the prime brokers. Thank you.

Dennis Dijkstra

I think these are very valid questions. I think having liquidity venues or off screen trading also makes our trading more efficient. We see that there is no linear relationship between the growth of our trading and the value we trade and the capital requirements. As said, we always trade market neutral. The requirements from both our prime brokers and our regulators do not increase significantly with the increase of our trading. Adding new liquidity venues and adding new countries or liquidity pools therefore only optimizes our trading. Getting more access to more flow gives us the ability to price better, to hedge better and it also reduces our risks. Going forward, I therefore think we have a very strong capital base, both from a trading capital perspective and from a regulatory capital perspective. We feel that we are very well and robustly capitalized from those perspectives. We also have enough capital to grow the business. In addition, given our business model and the fact that we have a highly cash flow generative business model, we have the ability to pay dividends - next to the fact that we have enough capital to grow the business.

Mr Price

That’s great. Thank you very much.

Operator

As a final reminder, please press *1 to ask your question.

As there are no further questions in the queue, I will conclude this Q&A session. Let us now turn to call back to Mr Rietberg for any additional or closing remarks.

Sjoerd Rietberg

I just want to thank you all for listening in on this call. Hopefully you will be there with the next call as well. Thank you very much.

Operator

I will conclude this conference call. Thank you very much for your participation, ladies and gentlemen.

*** Einde transcriptie