FLOW TRADERS

Q2 and Half Year Results

Wednesday, 24th July 2019

Q2 and Half Year Results

Operator: Good day, ladies and gentlemen. Thank you for holding, and welcome to the Flow Traders Q2 Half Year Results 2019. At this moment, all participants are in listen-only mode and after the presentation, there will be an opportunity to ask questions. I would now like to hand over the conference to Mr. Enneman. Please go ahead, sir.

Serge Enneman: Thank you, operator. Good morning, all. On behalf of Flow Traders, I would like to thank you all for joining us today. This morning, we have released our second quarter and first half 2019 results.

Our CEO, Dennis Dijkstra, and our Chief Trading Officer, Folkert Joling, will present prepared remarks, after which they will be available to answer your questions.

Before we begin, let me draw your attention to the disclaimer on page two. Please be advised that if you continue to listen to this presentation, you are bound to this disclaimer. Also please note that the results we will discuss in this presentation are unaudited results.

With these formalities now out of the way, I would like to hand over the call to Dennis for his opening remarks.

Dennis Dijkstra: Thank you, Serge. Good morning, all, and thank you for joining this call where we provide more colour on our second quarter and first half 2019 results, which we released this morning.

Flow Traders has had a good first six months of the year. The year started off well in January, after which, the market velocity came down a bit. Despite that slowdown in the financial markets in that period, Flow Traders grew its trading in ETPs to almost €0.5 trillion, which means it's out – it outgrew the market.

The fact that NTI was equal to the last six months of 2018 reflects the impact of market circumstances on spreads. Strategic growth developments in the different regions have supported the ambition to increase scale and improve efficiency in trading. Flow Traders is now an official liquidity provider in over 7,000 ETPs and is connected to 182 venues in total.

The FX initiative continued to grow as we expected our – expanded our activities as a maker on 10 venues in the EMEA region and the merger of the dealing rooms in APAC is well underway, which will optimise trading in the region in the future.

In the US, our presence continues to grow as we add more counterparties to our platform. Flow Traders NTI in the first six months of 2019 was realised while keeping a tight grip on cost growth and trading capital. Trading capital was €375 million at the end of June, following the slowdown in trading in the markets. Capital buffers remain strong.

In anticipation of future growth initiatives, we keep headroom available to finance growth without losing sight of regulatory and prime broker requirements. Flow Traders' own fund requirements under CRR, Capital Requirements Regulation, reflects the regulatory capital Flow Traders was required to hold at the end of June this year, and includes the impact of dividend payments.

Taking all of this into account, Flow Traders has decided to propose an interim dividend for 2019 of €0.35. The ex-dividend date is set as 12th August.

Let us now take a closer look at all the market developments and Flow Traders' accomplishments in the first half 2019. First, we take a closer look at the ETP market dynamics in the first six months of 2019 on slide number four. As is shown on this slide, the ETP market developments show a slowdown in the first six months of 2019 compared to the last six months of 2018.

Generally, this year had a good start. After that, the value traded started to slow down as global markets and political developments had their impact on the financial markets. The slowdown impacted value traded and market velocity as shown in the graphs. At the same time, ETP assets under management continued to grow again and the pickup was quite large in the first quarter of 2019. That pickup was especially visible in fixed income ETPs.

Realised volatility in the market fell back as a result of the overall slowdown in the first six months. Taking all of this into account, it is fair to say that momentum in the ETP universe remained positive but was influenced by market sentiment and velocity in the first six months. How that influenced Flow Traders' performance in that period, we will discuss now in the next slide.

For that, I would like to hand over to our Chief Trading Officer, Folkert.

Folkert Joling: Thank you, Dennis, and good morning, all. On this slide, we present an overview of our key performance indicators for the first half of 2019. The disciplined execution of Flow Traders' growth strategy resulted in a strong increase in value traded in markets that showed a decline in value traded.

Diversification of our trading activities and leverage of our trading infrastructure enabled Flow Traders to trade more financial products than ever before. Flow Traders' team-driven approach to develop new businesses resulted in an increase of our trading capabilities, and again, in growth of market share in the first six months of 2019.

Taking a closer look at the different regions. It shows that in the US, our ETP value traded grew considerably, resulting in a sharp increase in NTI versus the second half of 2018. The concentrated increase in value traded in the fourth quarter of 2018 in the US changed into a pickup of trading across the boards at the beginning of 2019. So, the product mix traded was more spread out. That led to an improved performance in ETP value traded and NTI in the US.

In EMEA, we continue to consolidate our leading position in ETPs as liquidity provider. Our value traded and NTI tracked market developments and confirmed our leading position in the region in ETPs. Growth initiatives developed further through the expansion of prime brokers and hires experienced personnel in specific areas. This enabled us to further grow initiatives like FX in EMEA, where we have expanded our presence as maker on FX and more platforms with more counterparties and fixed income ETPs where trading picked up clearly and we have improved the pricing of underlying asset classes.

In APAC, Flow Traders' ETP value traded grew 9% in the first six months of 2019, which was an outperformance compared to the market developments in the ETP universe. This was the result of improved trading strategies and better resources to develop these strategies. The announced merger of the dealing rooms in the region in Hong Kong is well underway and expected to be completed well before year end. This will improve Flow Traders’ trading infrastructure in the region.

Let's now turn to slide six, where we take a closer look at the financial performance of the first half of 2019. For that, I would like to hand back to Dennis.

Dennis Dijkstra: Thank you, Folkert. The simplified profit and loss statement presented here confirms again our strong cost control while growing our business. The overall fixed cost growth for the first six months of 2019 was well within the full year guidance. Efficiency improvements and controlled growth of our FTEs to support growth and diversification in trading led to a 2% quarter-on-quarter increase in fixed costs, which resulted in a flat fixed cost growth versus the second half of 2018 and a 9% increase in our fixed costs year-on-year.

In the overview of the fixed cost growth in the first six months of 2019, other expenses declined 30% versus the last six months of 2018. That was mainly due to a one-off charge for the early termination of an old office rent in the US. The variable compensation pool amounted to 34% of the operational profit annually, following the IFRS treatment of the various equity participation plans. The effective tax rate was slightly above average in the second quarter of 2019 but over the first six months, the ETR was 18%, as guided.

This all results in an earnings per share of €0.71 in the first half 2019, which was almost equal to the earnings per share in the second half 2018. With that, Flow Traders announces an interim dividend of €0.35 over 2019.

Now we take a closer look at the development of Flow Traders' capital position in the first half of 2019 on the next slide.

On this slide, we show our required core Tier 1 capital levels and our excess capital on the top left-hand side as usual. After corrections for the final dividend over 2018 and interim dividend of 2019, Flow Traders' capital buffers have remained strong and have even grown a bit. Our solvency ratio with the prime brokers declined somewhat compared to year end 2018, but is still well within said boundaries.

Taking all these developments into account, Flow Traders has decided to pay an interim dividend of €0.35. Flow Traders will continue to evaluate capital buffers in light of its future growth plans and upcoming regulations.

Now we take a closer look at the strategic developments in 2020 and beyond. For that, I will hand back to Folkert again.

Folkert Joling: As flagged during the Capital Markets Day, Flow Traders' growth strategy is centred on two topics: scale and efficiency. When looking at the market trading activity in the first six months of 2019, and especially the traction fixed income ETPs had in the market, it confirms the importance of gaining scale and optimising efficiency to be able to provide liquidity as optimal as possible. That supports our ultimate goal to maximise NTI growth.

On this slide, we highlight that in our effort to grow our pricing capabilities, there is an emphasis on fixed income ETPs. Following the momentum in recent months, and that momentum is expected to continue as we improve our ability to price flow in the asset class, we will see fixed income ETPs take up a larger part of our total ETP value traded.

Next to that, our initiative in currencies, which is FX and cryptos, is also highlighted as we are in the process of optimising that setup further, with the goal to eventually provide liquidity on a 24/7 basis.

Next, through the focus on pricing capabilities, the ambition is also to improve our connectivity to exchanges and other trading venues and continuously work on improving our setup and reach. That results in growth of number of counterparties setup, number of venues connected and to the other items of influence on the fiscal presence in the financial markets.

The combination of pricing and technological improvements, together with growing market presence, will create the optimal conditions to maximise our NTI growth. That focus on maximising NTI growth will remain key in the future.

Summarising all that was said before, it may seem clear that Flow Traders had made good progress in executing its growth strategy. Flow Traders remains the leading ETP liquidity provider globally and grew its presence, especially in US and Asia in the first six months of 2019.

In EMEA, we consolidated our leading position. So, we will reiterate our growth strategy going forward. By levering – leveraging all our knowledge, people and infrastructure, we are confident that we will be able to grow our addressable market in the future. Markets are constantly moving and developing and Flow Traders wants to remain at the forefront of the financial markets by becoming ultimately a one-stop liquidity platform for any institutional investor looking for liquidity in financial markets across the globe.

With this, I conclude our presentation. I will now hand back the call to Serge.

Serge Enneman: Thank you, Folkert. This concludes our presentation. We would now like to open up the floor for any questions you may have. Operator, would you be so kind to take over?

Operator: Thank you. Ladies and gentlemen, we will start the question and answer session now. If you have a question or a remark, please press star one on your telephone. So for questions, you can press star one. The first question is from Mr. Gregory Simpson, Exane.

Gregory Simpson (Exane BNP Paribas): Just two questions from my side. The first would be on fixed income ETPs. As you say, they're much bigger part of the industry flows of assets today. Just so I understand the slide eight correctly, you're saying that Flow Traders today is not particularly active in this space? And just what – if that's the case, what are the reasons for that, and then how does that change? How do you build a kind of competitive edge in the fixed income ETP space? And then the second question would be on the continued hiring this half. Could you give us just a bit more colour around what areas you've been hiring to, particularly where there's been maybe more senior hires? Thank you.

Dennis Dijkstra: Thanks, Gregory. Well, to come back to your initial question about our position in the fixed income ETPs, I would say that globally, we have a leading position in – as a liquidity provider of fixed income ETPs. But we're saying that we see also going forward that fixed income ETPs will be a very significant part of the ETF growth going forward. So that's why we keep on focusing, especially also this year in kind of improving our setup, improving our infrastructure, improving our pricing of these products, both the ETPs but also having the underlying.

So – especially because it's important for our growth going forward and to align it with the growth expected in the fixed income ETPs. So that's why we – and so that's why we highlighted our focus in 2019 on these products.

About your question about hiring. As we have every year, especially in September, we have both graduates, trading and software developments traineeships starting. So, a big part of the hiring will be focused either on our traineeships for trading and software developments. Those classes will start in September and October. But we will also look for some experienced hires to support our focus areas, which is fixed income, and we – and there was also some press about hiring a – recently about a more experienced FX person.

Gregory Simpson: Okay. Great. Thank you.

Operator: Your next question is from Mr. Federico Braga, UBS.

Federico Braga (UBS): Simply from my side. The first one is on the revenue capture of the Asian business. It's been the lowest since Q3 2017. So just wanted to have a little bit more colour on this, please. The second question is on the excess capital. Just to understand if the excess capital that you reported at the end of Q2 is also a good reflection of what you have seen on average through the quarter? Or if through the quarter the excess capital has been a little more variable compared to the final figure at the end of the quarter? Thank you very much.

Dennis Dijkstra: Thank you. I will refer to the first question to Folkert, but I will answer the second question now. As always, at – the capital requirements showed our kind of a momentum, because as you know, our positions kind of changed almost by the second, but our headroom is kind of reasonably stable. So we have two requirements. First is our regulatory requirement, which is shown on slide seven top left, which is reasonably steady.

So also the three charts which you can see show an excess or a regulatory capital excess of over €100 million. On the top right-hand side is our prime broker requirements. There it fluctuates a bit more and it kind of depends on the positions, but also there we have a lot of headroom also during the quarters.

Folkert, do you want to kind of reflect on the revenue capture in Asia?

Folkert Joling: The revenue capture may seem a bit lower, yes. It's mostly related to the lower volatility and the consequences of that on the overall picture of the market with the different products we trade. However, in China it's significantly lower than the previous period. We've also picked up a lot of market shifts in the region as well, which has led to a lot increase in the value traded as well. Let's say mostly the lower volatility is the explanation.

Federico Braga: Thank you.

Operator: Ladies and gentlemen, if you have a question, you can still press star one. The next question is from Mr. Albert Ploegh, ING. Your line is open. Please go ahead, sir.

Albert Ploegh (ING): Yes, good morning, all. A few questions from my end. First on the cost guidance, the up to 15%. You have now 9%. Listening to the call so far, I think there's no reason to assume that it should be any uptick in investments being required in the second half to get a bit closer to your full year guidance. Is that the correct observation is basically the first question. The second question I had is the news around Deutsche Bank that they basically are exiting the prime brokerage business. As far as I know, Deutsche is not on your list, so to speak, so has that any impact on that, or is that all having an impact for Flow Traders? And the third question is more or less a confirmation. Can you confirm that there have been no lost days in the second quarter as well? Thank you.

Dennis Dijkstra: Thank you very much. So, to confirm the last, no lost days indeed in this quarter as well. Then your question about the cost guidance. We said that we want to grow our cost base with a maximum of 50%, so that's a clear cap. And as always, we try to be as cost-conscious as possible, so also make sure we do not foresee that we will reach the cap and then hopefully, be well below it. As shown, the cost control is very tight. So I do expect to be lower, as you said.

The impact of Deutsche Bank. First of all, DBX, which is an ETF issuer in Europe, is part of DWS, so they're not part of Deutsche Bank anymore, so that's kind of spinoff. We do not see any issues there. From a competition perspective or a counterpart perspective, Deutsche Bank is not of any significance, so we do not see any kind of positive or negative effects of that currently happening at Deutsche Bank.

Albert Ploegh: Okay, thank you.

Operator: Ladies and gentlemen, for questions or remarks, you can still press star one. The next question – additional questions is from Mr. Gregory Simpson, Exane. Your line is open.

Gregory Simpson: Hi there. Just a quick follow-up actually on how are you doing in the US OTC channel? What proportion of the volumes you traded there this quarter was from OTC? How's that been trending in your view? Thank you.

Folkert Joling: We see a consistent increase of the part of the market we see, and we see a consistent increase of the hit rate we have there, so it is – it's looking good. It's improving continuously.

Dennis Dijkstra: We see some positive kind of developments in the US, where we see kind of a pickup of RFQ like platforms for electronic OTC trading, so especially Bloomberg and Tradeweb are making a big push and they're seeing some growth in their ETF offering where we benefit from as well. Although, like as in Europe, onboarding counterparties sometimes takes a bit longer than anticipated because you need to go through a whole process but we only see – we don't see a big part of the market yet, so there's still – so there are a lot of growth.

Gregory Simpson: That's helpful. Thank you.

Operator: The next question is from Mr. Thomas Couvreur, KBC. Your line is open. Please go ahead, sir.

Thomas Couvreur (KBC Securities): Hi sorry, I was still on mute. Apologies. Maybe a follow-up question on the Americas business. Looking at it from a quarter-on-quarter view, traded volumes have dropped from €121 billion to €105 billion, which is significantly more than the market and also significantly more than the euro business. Is there any specific reason for that or do you have any colour on that? And I understand there's – quarter-on-quarter is always volatile, but do you have any comments on that? Thank you.

Folkert Joling: There's nothing specific behind this dimension I would say. The regular course of business on the other, the pattern of the volatilities of the different asset classes. So we don't see anything insignificant here.

Thomas Couvreur: If I understood correctly, fixed income seems to be doing well. So I would assume that actually in the US, you would be at least on par with market evolution or even better than market evolution, given that last year equity business was dominating US and that's something where Flow is maybe less strong. So that's why I was a bit confused about this quarter-on-quarter drop.

Folkert Joling: Yes, as stated earlier, the fixed income is slightly above the norm and the equity is slightly below but that's also because of the difference in the volatility distribution by the end of last year because a big portion of the traded activities in the domestic products and that's more spread out now.

Dennis Dijkstra: Yes, adding to Folkert' s comment, if you look at kind of a six month to six months comparison or a bit longer year-over-year, 1H18 to 1H19, you do see that we have gained significant market share. So, I would say the second quarter 2019 is more a temporarily drop than anything else.

Thomas Couvreur: Okay, thank you.

Operator: The next question is from Mr. Matthias De Wit, Kempen. Your line is open. Please go ahead sir.

Matthias De Wit (Kempen & Co): Hi. Good morning. I have just one question remaining. It's just to follow up on the prime brokerage requirement. I understood that the increase from the start of the year is linked to the mix where fixed income increased relative to other product. Is there sort of structural trend like should we expect this to remain like this percentage of the ETP value traded, or is this like more a temporary issue which could reverse? Then just to come back on a previous question following on prime brokerage requirements. Can you shed some light on the intra-quarter volatility of the ratio? Thank you.

Dennis Dijkstra: Thanks. There is indeed some volatility in kind of the day-to-day requirements. If we would do a big trade or there's significant increase in trading in especially fixed income. You do it – you might see kind of a pickup in the requirements, especially because some of the positions are not perfectly kind of held at one prime broker, so there is some inefficiency in how we have our positions at the prime brokers. There's always a lot of headroom left, so although there, it will fluctuate, we don't see particularly a very big kind of increase in the requirements going forward.

Matthias De Wit: Okay, thank you.

Operator: Ladies and gentlemen, for questions you can still press star one. There are no further questions. Please continue.

Serge Enneman: Thank you, operator. We would like to thank the analysts for the questions and remarks. Please note that we will host the next analyst call when we release our full year 2019 results. Details for this call and the timing of this call will follow in due course. Our third quarter trading update is scheduled to take place on 17th October 2019, via press release only, as usual. We will now end this call. Thank you all for your attention, and have a good day. Thank you, operator. You may close the call.

Operator: You're welcome. Ladies and gentlemen, this concludes the conference call. You may now disconnect your line. Thank you for joining, and have a very nice day.

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