



# Flow Traders N.V.

4Q19 & FY19 Results Presentation

7 February 2020

**F L O W** ■ **T R A D E R S**

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# 4Q19 & FY19 results snapshot

ETP value traded exceeded €1 trillion for the first time in 2019 – lower volumes in 4Q and reduced volatility affected NTI generation

## ETP market dynamics

- Market ETP Value Traded fell 11% Q-o-Q and 7% 2019 vs 2018
- Decline in Market ETP Value traded of 13% in the US Q-o-Q. Better performance in EMEA and APAC
- 2019 was 2<sup>nd</sup> highest inflow year on record for ETPs – driven by fixed income
- Global ETP AuM increased by 10% Q-o-Q and by 32% 2019 vs 2018
- Following the elevated VIX levels seen in August, volatility levels and accordingly market activity levels reduced significantly in 4Q – particularly in the US

## Flow Traders performance

- Flow Traders ETP Value Traded fell 5% Q-o-Q and increased 12% FY19 vs FY18, once again outperforming the broader market
- Flow Traders recorded NTI of €46.1m in 4Q19 reflecting an overall subdued market environment with reduced volumes and low levels of volatility as well as weaker than expected trading in the US. FY19 NTI was €216.4m
- Fixed operating expenses increased by 11% Q-o-Q and by 10% in FY19 vs FY18. €1.2m of one-off expenses in 4Q19 includes the termination of an additional Hong Kong office lease
- FTEs increased by 17.7% Y-o-Y to 513 as at 31 December 2019
- 4Q19 EBITDA margin reached 25%, contributing to a FY19 EBITDA margin of 36%
- 4Q19 Net Profit amounted to €7.2m, resulting in a FY19 Net Profit of €53.1m, and a FY19 EPS of €1.15
- Regulatory Own Funds Requirement (OFR) as at 31 December 2019 was €154m, resulting in an excess capital of €133m
- Proposed final FY19 dividend of €0.55, implying a €0.90 total dividend for FY19 and 78% dividend pay-out ratio
- Announced €20m share buyback programme given strong balance sheet and excess capital position
- In addition, c. 200,000 shares will be purchased to satisfy the requirements of various employee incentive plans

Market ETP Value Traded 4Q19:  
€5,480bn (-11% Q-o-Q)

Flow Traders' ETP Value Traded 4Q19:  
€251bn (-5% Q-o-Q)

Flow Traders' non-ETP Value Traded 4Q19:  
€746bn (-9% Q-o-Q)

Flow Traders' NTI 4Q19:  
€46.1m (-13% Q-o-Q)

EPS FY19:  
€1.15

Market ETP Value Traded FY19:  
€23,588bn (-7% Y-o-Y)

Flow Traders' ETP Value Traded FY19:  
€1,009bn (+12% Y-o-Y)

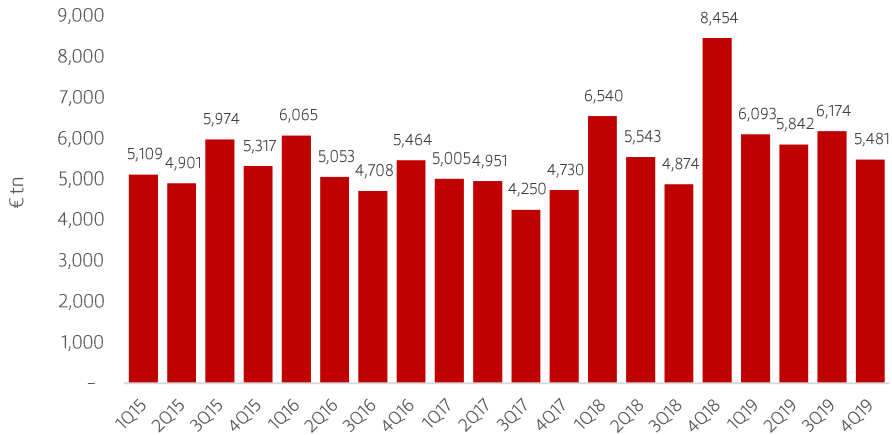
Flow Traders' non-ETP Value Traded FY19:  
€2,995bn (+12% Y-o-Y)

Flow Traders' NTI FY19:  
€216.4m (-44% Y-o-Y)

Final Dividend:  
€0.55

# ETP market activity decreased in 4Q19 – 2019 subdued overall

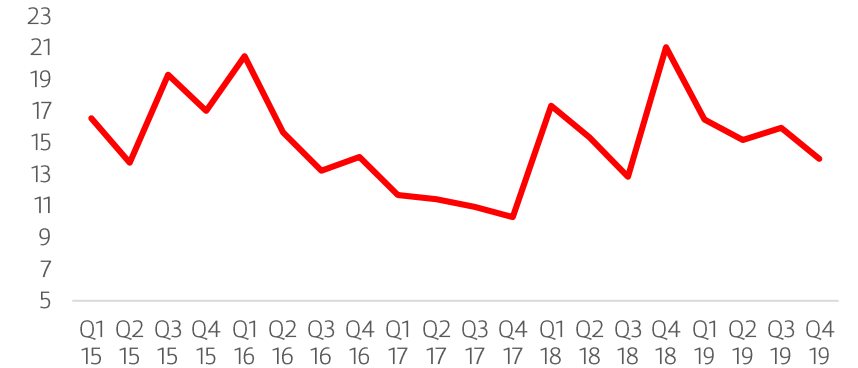
## ETP Value Traded development \*\*



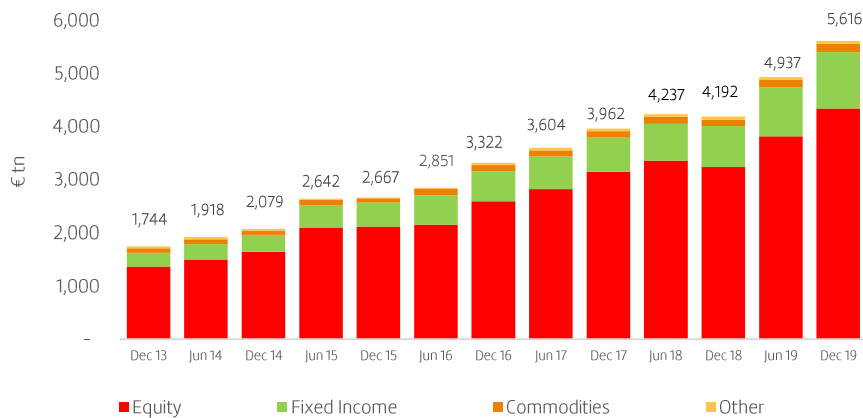
### GENERAL MARKET DEVELOPMENTS

- Central bank actions – Fed and ECB rate cuts
- Developments around Brexit had an impact on market sentiment in Europe
- Ongoing US – China trade talks
- Strong equity and fixed income markets performance in 2019 led to lower levels of portfolio rebalancing in 4Q

## Quarterly average VIX



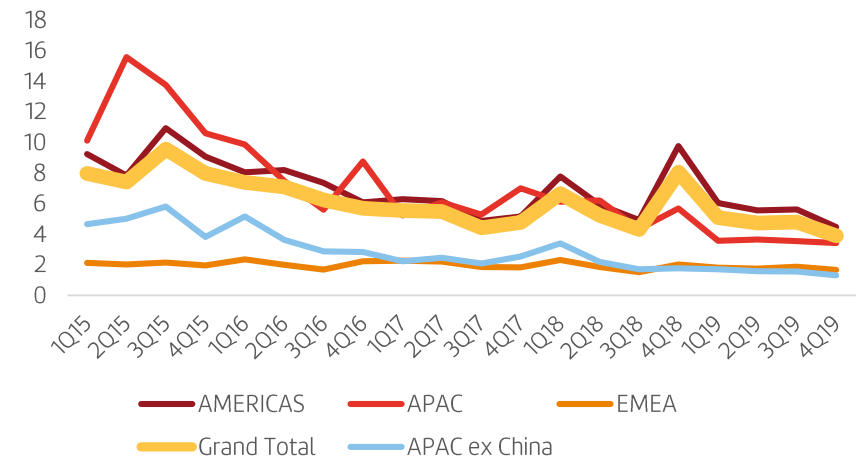
## ETP AuM development \*\*\*



### ETP MARKET DEVELOPMENTS

- Global ETP AuM have recovered strongly in 2019 (+32% vs 2018) – underlying growth trends in sector still in tact
- ETP AuM growth in Equities and Fixed Income continues
- Global ETP Value Traded decreased by 11% Q-o-Q in 4Q19 and by 7% Y-o-Y
- Implied volatility (VIX) decreased throughout 4Q19
- As a result of the above, ETP Velocity decreased 4Q19 compared to 3Q19

## ETP velocity



\*\* Source Bloomberg, iShares, Tradeweb, Bloomberg RFQ, Flow Traders. See appendix

\*\*\* BlackRock iShares ETP Landscape update

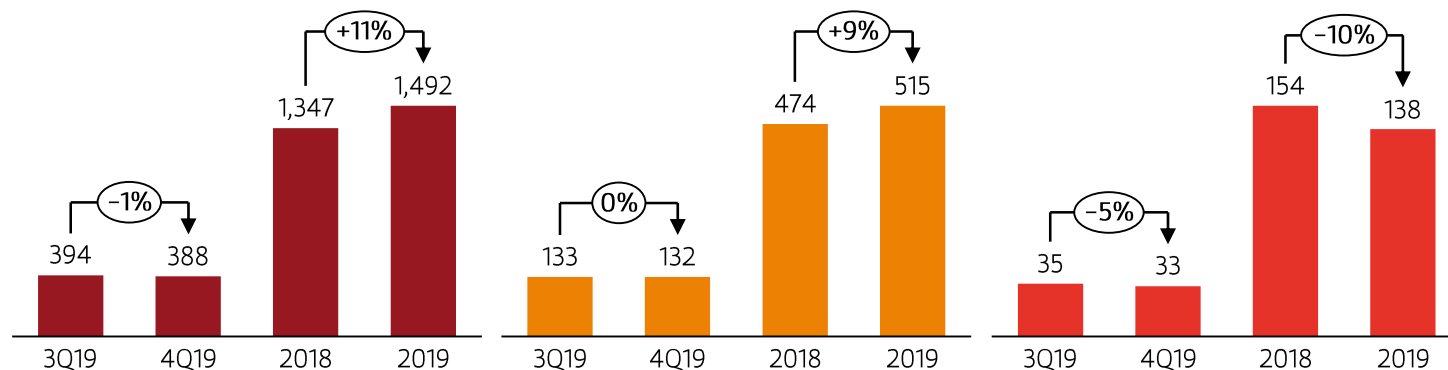
# Regional performance overview

Market ETP Value Traded (€bn)

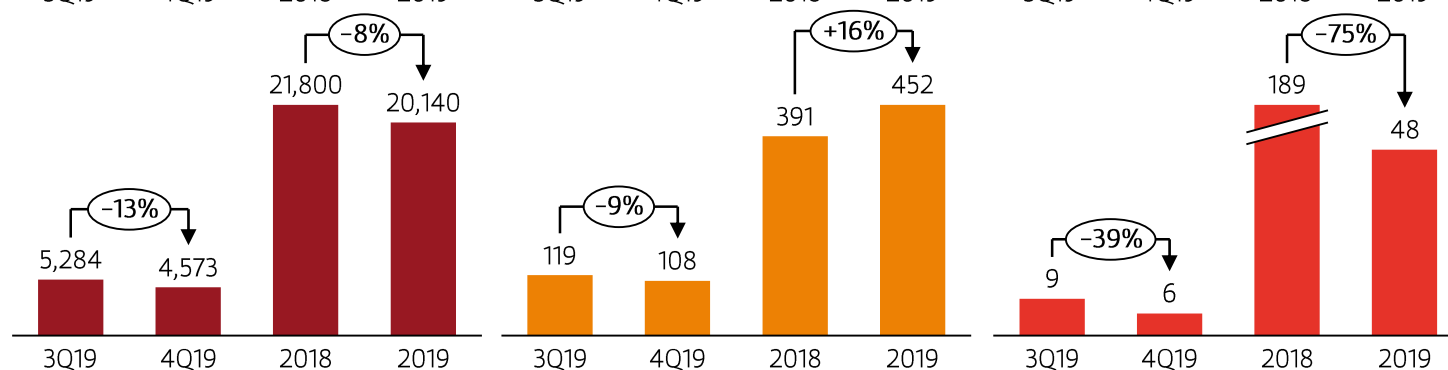
FT ETP Value Traded (€bn)

NTI (€m)

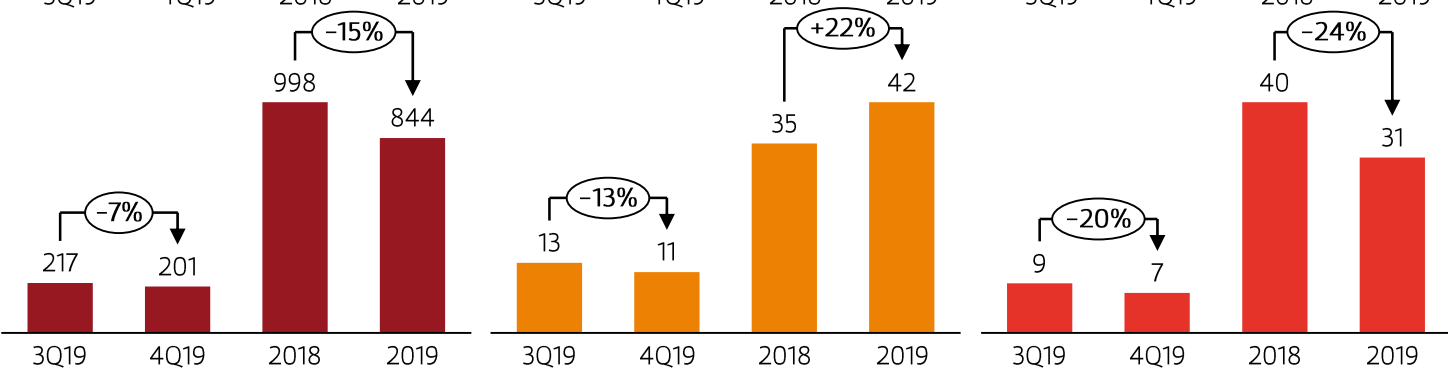
EMEA



Americas



APAC



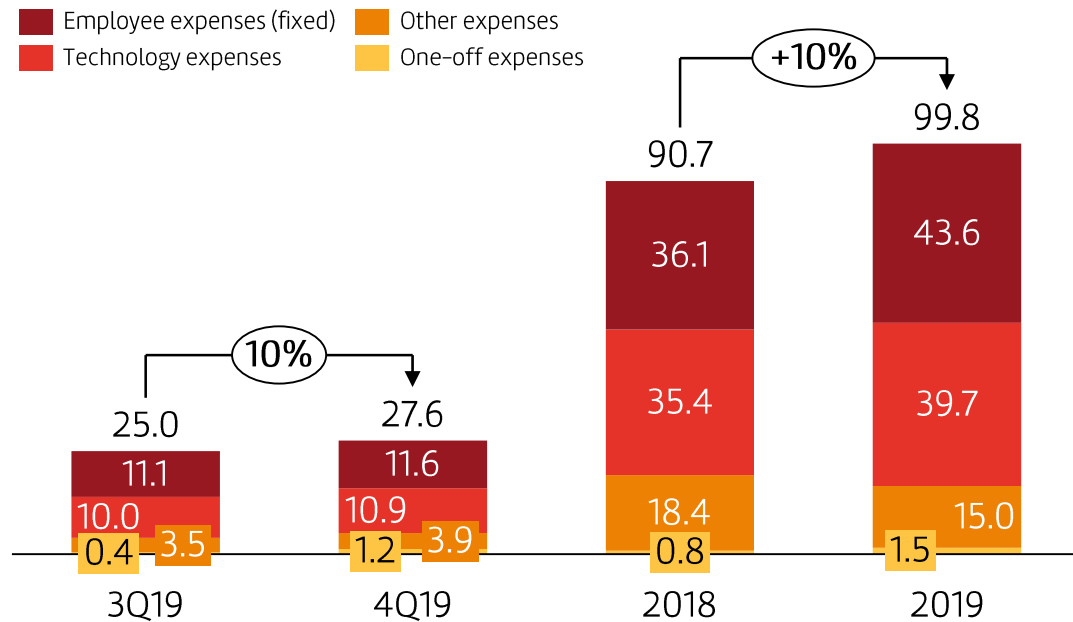
- Continued our leading liquidity provider position in ETPs with on-exchange market share reached new highs through the year
- Flow Traders ETP value traded broadly tracked market value traded in 4Q19 given the leading competitive position in the region
- Low volatility affected NTI generation
- Expanded the ETP ecosystem by becoming a remote member of TASE

- Challenging market environment as the Americas saw the largest decrease globally in market volumes during 4Q19
- Flow Traders continued to enhance its position in the region by growing ETP value traded in FY19 despite a declining overall market
- NTI was lower than expected in 4Q19 due to a weak market environment where trading strategies in fixed income perform less optimally
- Onboarding additional, newly connected counterparties
- Management in the US was strengthened with two new managing directors focussed on trading – confident that the US will be increasingly successful

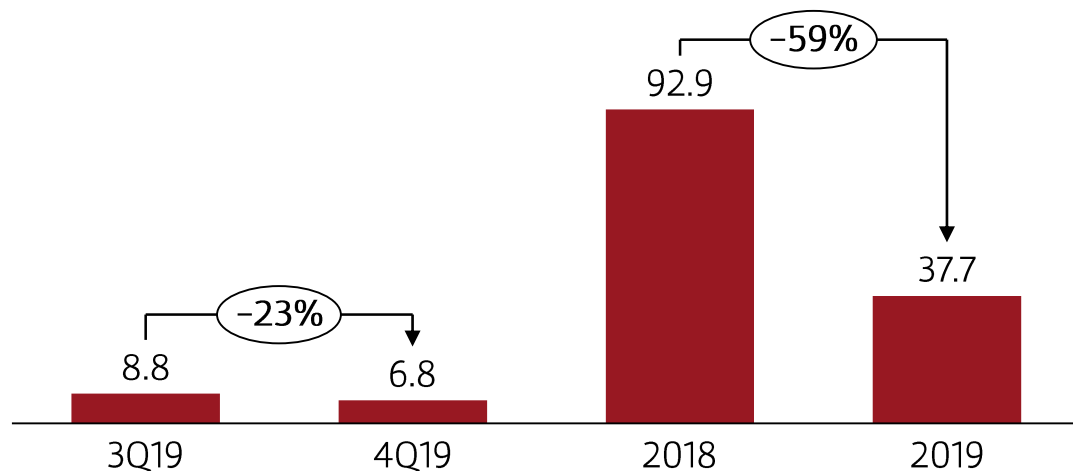
- Flow Traders ETP value traded grew significantly during 2019 as the regional presence in both on and off screen trading increased
- Improved trading performance following the move of all trading desks for on-screen liquidity provision to Hong Kong from Singapore
- Business continuity plan remains in place with respect to recent political and public health developments in the region

# Growth investments made in 2019 – maximum growth in fixed operating expenses of 10% for 2020

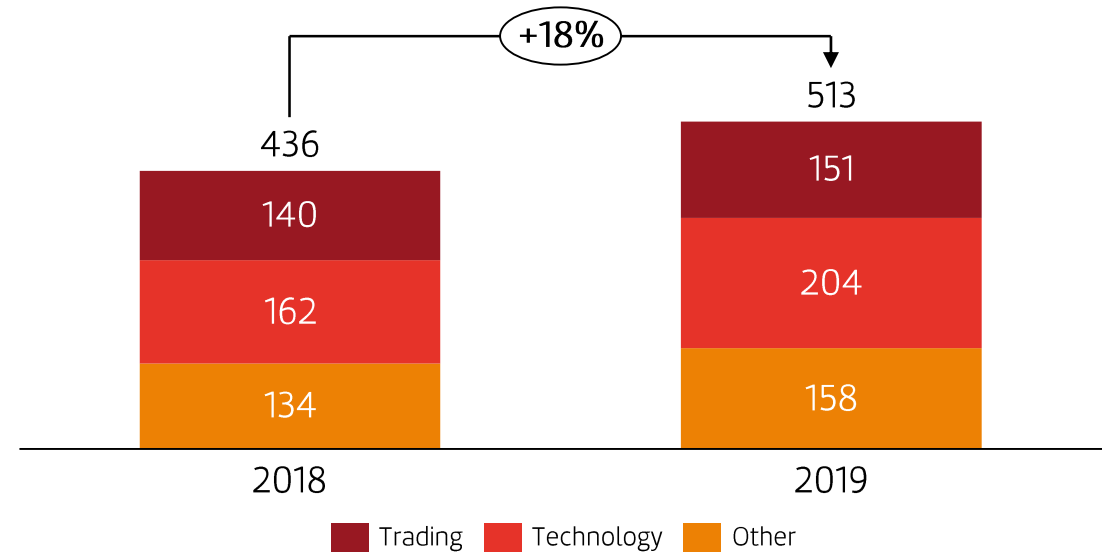
## Fixed operating expenses (€m)



## Employee expenses (variable) (€m)



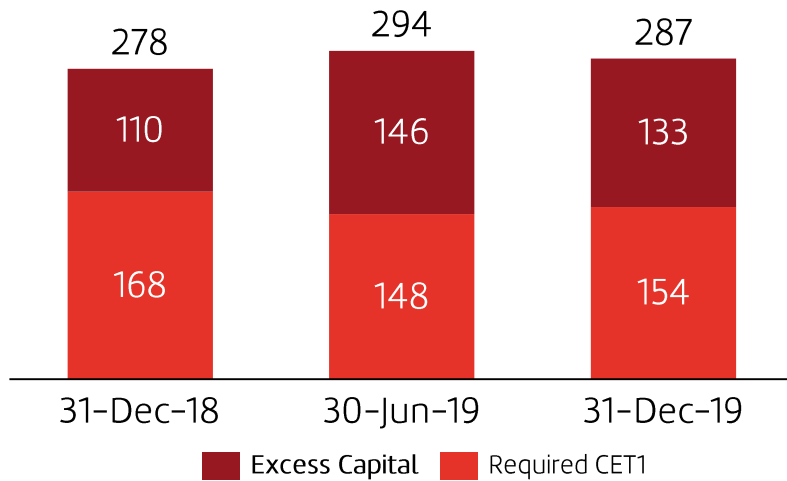
## FTEs



- 10% fixed cost increase remained within guidance
- Increased technology expenses as investments made to support diversification initiatives and improve efficiency – technology hiring substantially done
- Main driver of increased fixed expenses relate to new hires – FTEs grew 17.7% Y-o-Y to 513 with broadly flat fixed cost per average FTE (2019: €92k vs 2018: €90k)
- €1.2m of one-off expenses in 4Q19 due to a number of items including the termination of an extension to the Hong Kong office lease
- Given the investment in people made over the prior 2 years as well as ongoing organisational improvements, expect no material net FTE increases in 2020
- Variable employee expenses reflect overall financial performance

# Capital position remains strong and conservative

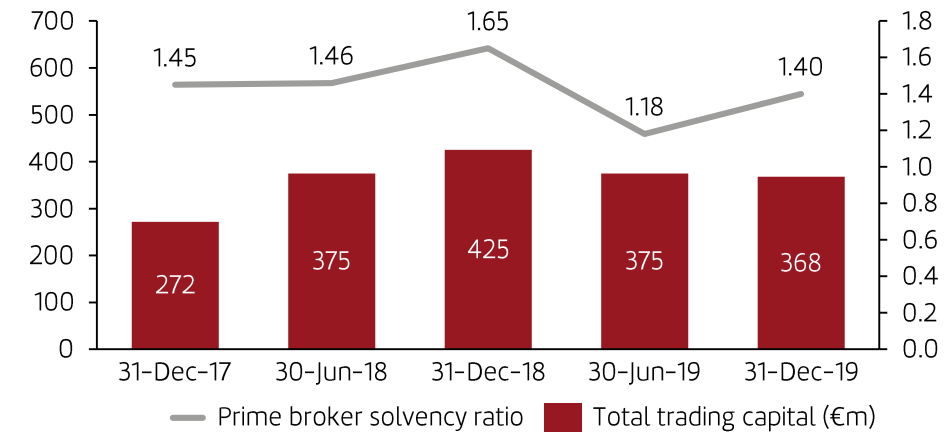
## Regulatory Own Funds Requirement (OFR) (€m)



### CAPITAL POSITION HIGHLIGHTS

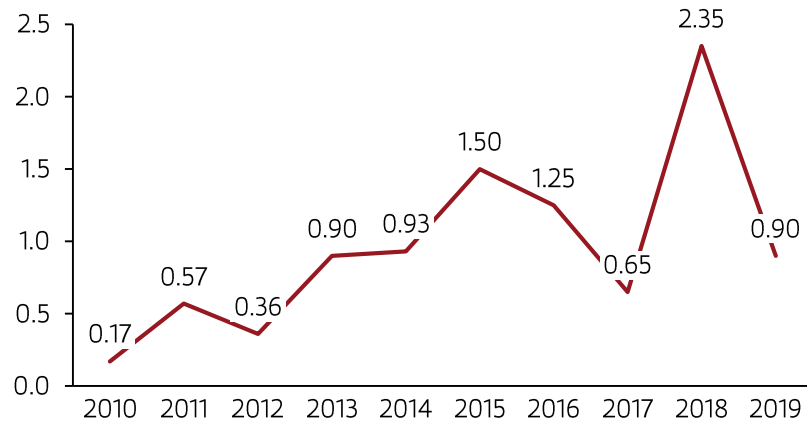
- Flow Traders' trading capital remained comfortably above our Prime Broker requirements and Own Fund Requirements under CRR in 4Q19
- Current Regulatory Own Funds Requirement under CRR of €154m resulted in an excess capital of €133m
- Prime broker solvency ratio recovered from the temporary dip in 1H19
- Trading capital of €368m as at 31 December 2019

## Prime broker solvency ratio



Note: Total Trading Capital divided by Prime Broker haircut

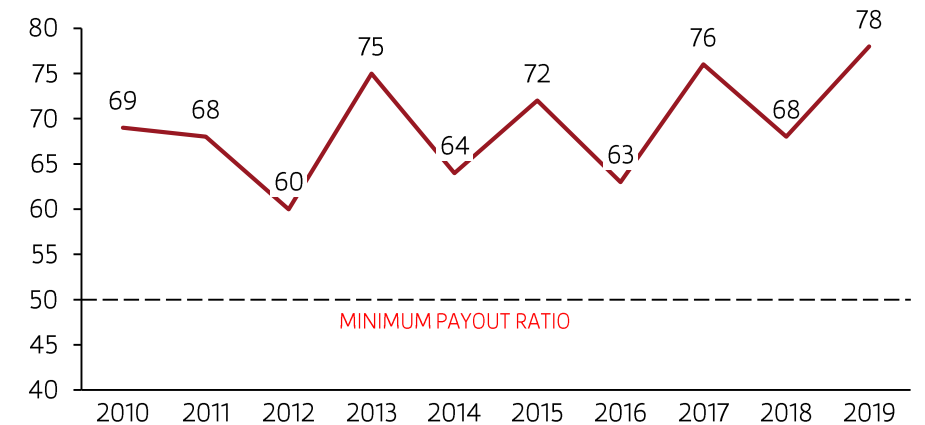
## Annual dividend (€)



### DIVIDEND HIGHLIGHTS

- Flow Traders pays its annual dividend in 2 instalments
- Dividend policy targets to return at least 50% of its net profits to shareholders
- Proposed final 2019 dividend of €0.55
- Aggregate dividend paid out since IPO amounts to €6.65 including proposed final dividend for FY19
- €20 million share buyback programme given strong balance sheet and excess capital position

## Annual dividend payout ratio (%)



# Strategy update





# 2019: Continued focused execution of our growth strategy

## 2019 strategic objectives

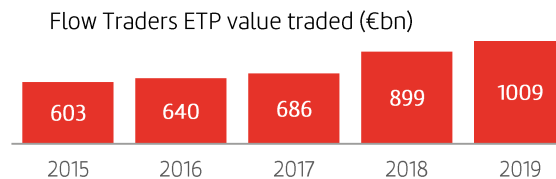
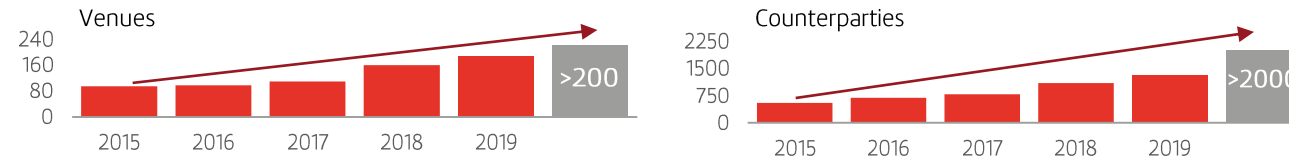
- Expand presence in ETP trading, both in products and trading relations, especially in the Americas and APAC
- Intensify and expand liquidity providing in ETPs and the underlying asset classes globally
- Grow technology infrastructure to increase scale and data processing while at same time increase trading efficiency
- Continue to operate cost conscious, reiterate fixed expense growth guidance of max 15% annually for 2019 and beyond

## 2019 achievements

- ✓ Total number ETP counterparties grew to c. 1,300 and number of venues connected to grew to 187
- ✓ Consistently grew value traded in all regions – onscreen, OTC or on MTFs
- ✓ Increased market share in ETPs in all regions
- ✓ Growth in ETP Value Traded globally by 12% Y-o-Y overall, especially in US and Asia
- ✓ ETP Value Traded exceeded €1 trillion for the first time
- ✓ Global non-ETP value traded grew 12% Y-o-Y – represented 75% of total Value Traded
- ✓ Momentum in FX trading in Europe
- ✓ Liquidity provision in ETPs and other financial products (Futures, FX, FI) increased 12% Y-o-Y
- ✓ Supported by 12% increase in technology expenses Y-o-Y
- ✓ Improved trading efficiency and developing infrastructure to support diversification initiatives
- ✓ FY19 fixed operating expenses increased 10% Y-o-Y , well within guided range
- ✓ Strong cost control as growth investments have been made
- ✓ FTE growth of 18% Y-o-Y to 513

# Leveraging our global ETP trading footprint to drive further growth

Focus remains on enlarging the ETP footprint



## Americas

- US is the largest ETP market globally with single regulatory regime
- Technology (e.g. RfQ adoption) and regulatory changes (e.g. unbundling, best execution) will create a more level playing field and ability to grow share
- Already top 3 in OTC with current set-up and momentum continues to grow
- More products and additional large counterparties to generate more flow
- Confident of increased success with building blocks in place



## Europe

- Growing ETP market in 2019 with increasing regulatory alignment
- MIFID II has led to step change in transparency with trading moving away from dark pools to MTFs
- Retrenchment of market participants
- Flow Traders sees almost all flow which drives pricing capabilities
- Flow Traders is successfully defending and enhancing a strong market position – 35%+ onscreen market share

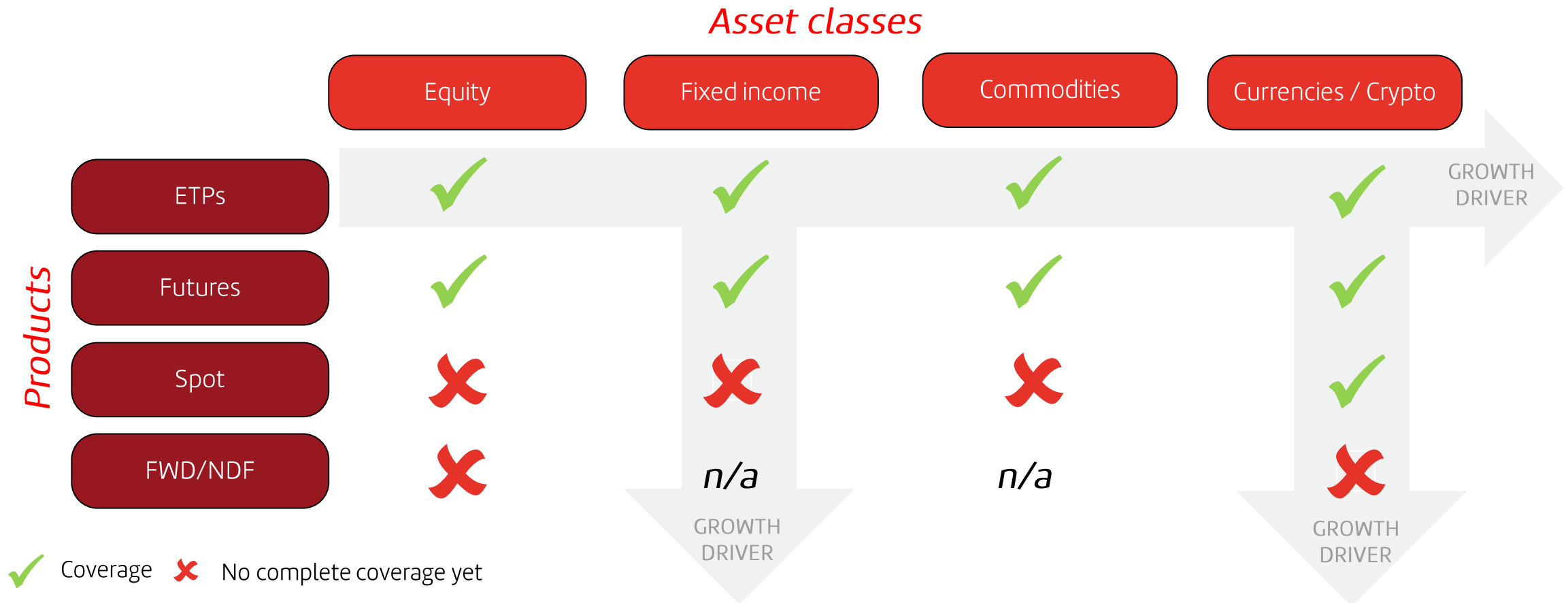


## Asia

- Second largest regional ETP market dominated by China
- Highly fragmented landscape
- Flow Traders currently operates in Asia ex-China – examining entering this market in the near future
- High degree of relationship-driven trading led by domestic banks (often also ETP issuers themselves)

# Three near term key growth drivers – fixed income and currencies alongside ETP core strength

Technology and regulatory developments are catalysts for these key growth drivers



- Growth focus is on enhanced coverage of fixed income and currency products alongside enlarging the global ETP trading footprint
- Pricing of products traded, connectivity and transparency are key
- NTI growth is realised through growing Value Traded **and** optimising Revenue Capture
- Improved efficiency through greater scale and continued technology investments

# 2020 strategic priorities

1 Expand leading ETP liquidity provider position and continue to grow ETP ecosystem through more venues, products and counterparties

2 Expand currency trading capabilities

3 Expand fixed income trading capabilities – will strengthen fixed income ETP trading

4 Drive efficiency improvements through technology infrastructure and data processing

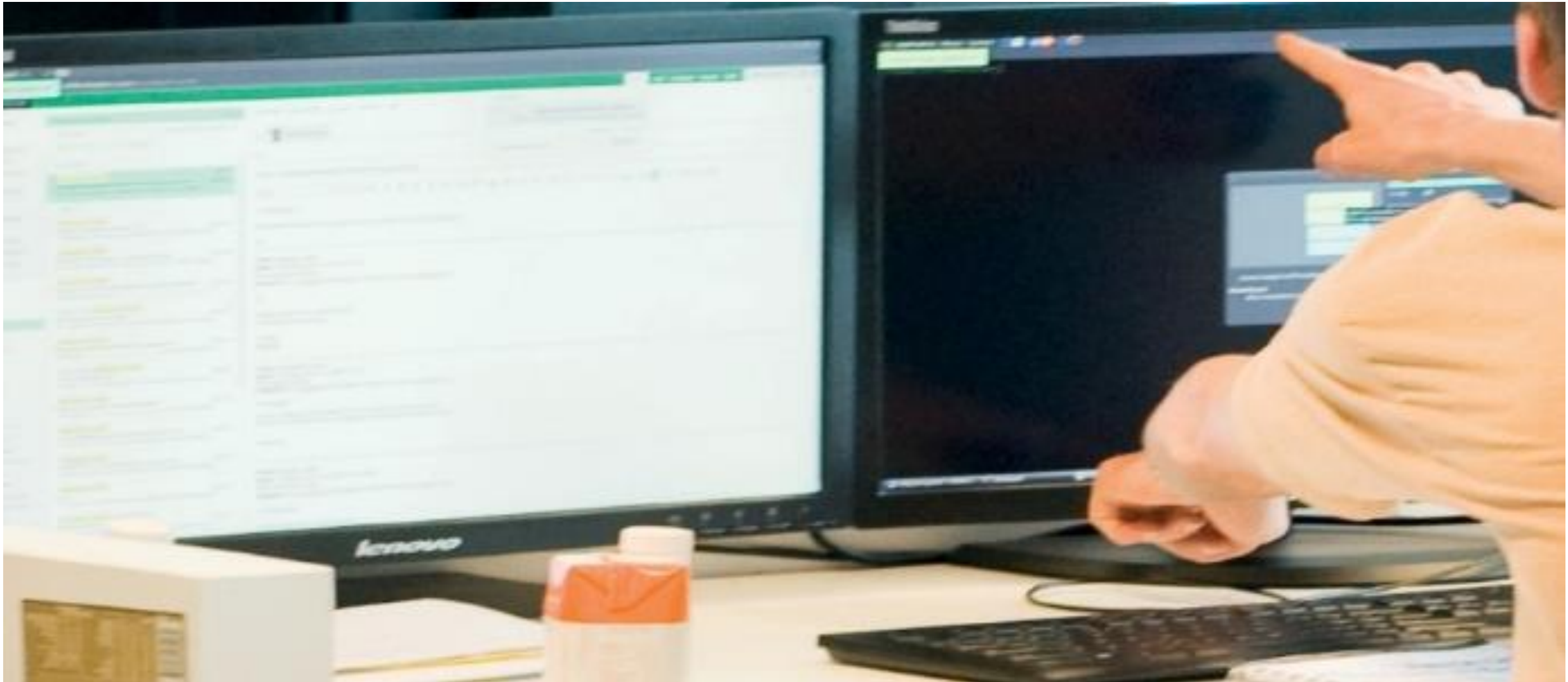
5 Maintain strong capital position and robust risk management framework

6 Strong cost discipline as growth investments are made

Structural NTI growth potential

# Q&A

*Thank you!*



# Summary income statement

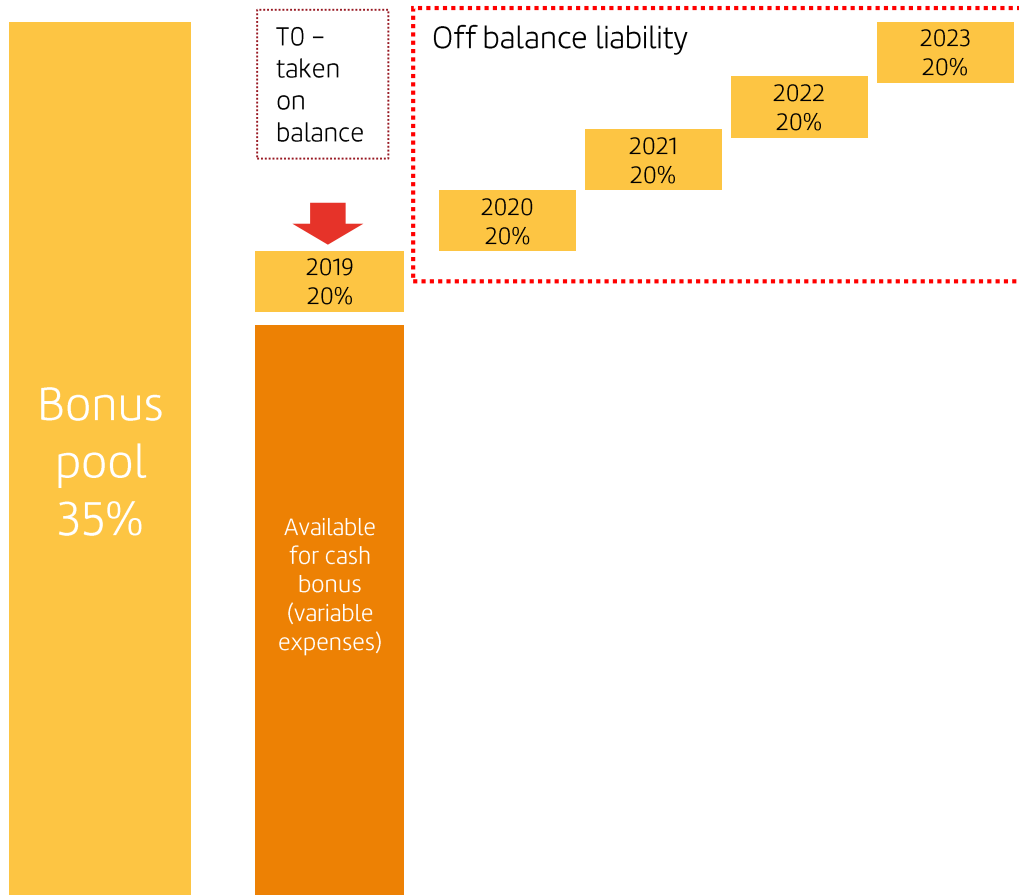
€ millions	4Q19	3Q19	▲	FY19	FY18	▲
<b>Net Trading Income</b>	<b>46.1</b>	<b>53.3</b>	(13%)	<b>216.4</b>	<b>383.4</b>	(44%)
<i>Employee expenses (fixed)</i>	11.6	11.1	5%	43.6	36.1	21%
<i>Technology expenses</i>	10.9	10.0	9%	39.7	35.4	12%
<i>Other expenses</i>	3.9	3.5	13%	15.0	18.4	(19%)
<i>One-off expenses</i>	1.2	0.4	209%	1.5	0.8	88%
<b>Fixed operational expenses</b>	<b>27.6</b>	<b>25.0</b>	11%	<b>99.8</b>	<b>90.7</b>	10%
<i>Employee expenses (variable)</i>	6.8	8.8	(23%)	37.7	92.9	(59%)
<b>Total operational expenses</b>	<b>34.4</b>	<b>33.8</b>	2%	<b>137.5</b>	<b>183.6</b>	(25%)
<b>EBITDA</b>	<b>11.7</b>	<b>19.5</b>	(40%)	<b>78.9</b>	<b>199.8</b>	(61%)
<i>Depreciation / Amortisation</i>	3.7	3.7		14.6	9.0	
<i>Write offs, tangible assets</i>	-	-		0.1	0.3	
<i>Results subsidiaries</i>	1.0	-		1.1	3.4	
<b>Profit Before Tax</b>	<b>9.0</b>	<b>15.8</b>	(43%)	<b>65.3</b>	<b>193.9</b>	(66%)
<i>Tax</i>	1.8	2.9		12.2	33.0	
<b>Net Profit</b>	<b>7.2</b>	<b>12.9</b>	(44%)	<b>53.1</b>	<b>160.9</b>	(67%)
EPS (€)	0.16	0.28		1.15	3.46	
EBITDA margin	25%	37%		36%	52%	



# Flow Cash Incentive Plan (FCIP) mechanics overview

## Payment schedule

### FCIP



### Accounting considerations

- All 5 future cash incentives are funded out of this year's bonus pool
- Cash incentive will only be paid to employees who remain employed at the company and still hold shares
- This results in a service condition and IFRS accordingly requires that the costs are allocated to that year
- These costs will, however, not impact the bonus pool of that particular year, but as the expenses are taken into the P&L, the % presented in that year will be impacted

# 2019 monthly market updates

	2019												2018		
	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct
<b>On &amp; Off Exchange* Value Traded - Global (€bn)</b>	<b>1,786</b>	<b>1,654</b>	<b>2,041</b>	<b>1,973</b>	<b>2,462</b>	<b>1,739</b>	<b>1,853</b>	<b>2,228</b>	<b>1,761</b>	<b>2,116</b>	<b>1,696</b>	<b>2,281</b>	<b>3,033</b>	<b>2,321</b>	<b>3,100</b>
<b>On &amp; Off Exchange* Value Traded - EMEA (€bn)</b>	128	124	136	130	135	129	119	124	111	118	113	125	108	107	131
<b>On &amp; Off Exchange Value Traded - Americas (€bn)</b>	1,483	1,354	1,736	1,682	2,155	1,447	1,589	1,934	1,479	1,813	1,451	2,017	2,710	1,994	2,768
<b>On &amp; Off Exchange Value Traded - APAC (€bn)</b>	175	176	168	160	173	163	145	170	170	186	132	138	215	220	201
<i>EMEA - Off Exchange Market Value Traded on MTF** (€bn)</i>	75	76	71	76	70	76	67	71	66	68	68	73	60	58	68
<i>EMEA - Off Orderbook* Market Value Traded (€bn)</i>	17	12	22	15	16	14	12	10	10	9	7	8	7	6	9
<i>Americas - Off Exchange Market Value Traded (€bn)</i>	562	496	562	553	660	492	567	621	538	595	518	752	899	639	812
<i>APAC - On &amp; Off Exchange Market Value Traded in China (€ bn)</i>	113	109	97	93	90	97	86	89	101	105	67	68	125	133	87
<b>Assets under Management*** - Global (€bn)</b>	<b>Pending</b>	<b>n/a</b>	<b>n/a</b>	<b>5,157</b>	<b>n/a</b>	<b>n/a</b>	<b>4,937</b>	<b>n/a</b>	<b>n/a</b>	<b>4,785</b>	<b>n/a</b>	<b>n/a</b>	<b>4,192</b>	<b>4,457</b>	<b>4,363</b>
<b>Assets under Management - EMEA (€bn)</b>				843			805			778			682	715	710
<b>Assets under Management - Americas (€bn)</b>				3,756			3,602			3,497			3,062	3,272	3,195
<b>Assets under Management - APAC (€bn)</b>				558			530			510			448	471	458
<b># of ETP listings - Global</b>	<b>12,751</b>	<b>12,709</b>	<b>12,651</b>	<b>12,583</b>	<b>12,457</b>	<b>12,359</b>	<b>12,268</b>	<b>12,158</b>	<b>11,821</b>	<b>11,910</b>	<b>11,583</b>	<b>11,620</b>	<b>11,508</b>	<b>11,445</b>	<b>11,425</b>
<b># of ETP listings - EMEA</b>	6,046	6,037	6,019	6,022	5,983	5,953	5,939	5,872	5,649	5,782	5,471	5,580	5,539	5,522	5,591
<b># of ETP listings - Americas</b>	4,620	4,599	4,582	4,529	4,473	4,435	4,386	4,374	4,286	4,269	4,264	4,196	4,148	4,103	4,054
<b># of ETP listings - APAC</b>	2,085	2,073	2,050	2,032	2,001	1,971	1,943	1,912	1,886	1,859	1,848	1,844	1,821	1,820	1,780
<b>Average VIX per month</b>	<b>13.74</b>	<b>12.70</b>	<b>15.66</b>	<b>15.72</b>	<b>18.98</b>	<b>13.31</b>	<b>15.84</b>	<b>16.72</b>	<b>13.05</b>	<b>14.65</b>	<b>15.42</b>	<b>19.57</b>	<b>24.95</b>	<b>19.39</b>	<b>19.35</b>
<b>VIX high per month</b>	16.30	13.39	20.24	19.66	24.59	16.12	18.86	20.55	14.39	18.33	17.89	25.45	36.07	22.48	25.23
<b>VIX low per month</b>	12.12	11.62	12.90	13.74	15.80	12.07	14.33	12.87	11.03	12.37	13.44	16.57	16.44	16.36	11.61

## Notes:

\*: Off Exchange flow EMEA includes Off Orderbook flow printed on exchange and flows via MTFs. This is still excluding flows via SI

\*\* : Publicly available data about market flows traded on MTFs, representing Tradeweb and Bloomberg RfQ. Last month number is preliminary and may be subject to change

\*\*\*: BlackRock Global ETP Landscape (as of 2019 no longer on monthly basis, but on quarterly basis)

Sources: Blackrock Global ETP Landscape, Tradeweb, Bloomberg, Flow Traders analysis