Deutsche Börse Group

Annual Press Briefing

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Speech Executive Board Members

Carsten Kengeter, CEO Deutsche Börse AG

Gregor Pottmeyer, CFO Deutsche Börse AG

[Slide 1: Highlights FY/2016: preliminary results]

1. Welcome and review (Carsten Kengeter)

Let me extend a warm welcome to this year’s press briefing.

For Deutsche Börse, 2016 was a year of transformation. We once again generated growth, matching our forecast with very good results, and we will resolutely pursue our growth strategy in order to ensure that things stay that way.

The restructuring of Deutsche Börse Group, within the framework of our “Accelerate” growth strategy, is in full swing. We have centralised our corporate structure – and we are in the process of aligning our corporate culture more strongly towards innovation and client service. This has turned us into a more powerful organisation. At the same time, with the project for a merger with the London Stock Exchange Group, we have embarked upon building a strong European infrastructure for the global capital markets.

This company’s thrust falls in a time of significant uncertainty. The stimulating effect of the persistent low interest rate policy pursued by central banks has run its course. Moreover, following the Brexit vote, US investors pulled capital from Europe. Both effects burdened turnover on the cash market in particular. This uncertainty has only sporadically increased market participants’ need for hedging, thereby boosting trading volumes, especially in the derivatives markets.

It is thus all the more remarkable that we grew our business in other areas – such as energy trading, the index business, interest-rate derivatives and net interest income in the post-trading business. In the fourth quarter, we thus generated the highest net revenue since 2008.

In order to let our shareholders participate in this positive development as well, we are proposing a dividend increase, compared to the previous year.

Our results are a testament to the strength of the extensive service portfolio we already have. We further expanded this portfolio by acquiring 360T, a foreign-exchange trading platform. Earlier this month, Deutsche Börse Group's central securities depository Clearstream successfully migrated to the Eurosystem-operated TARGET2-Securities platform, proving once again that we are capable of managing complex technology-based projects on a large scale, ensuring they go off without a hitch – for the benefit of our customers and for the benefit of a united Europe boasting a strong common financial market infrastructure.

Sustainable efficiency enhancements provided an additional boost for our results, placing us at the upper end of our forecast range for revenue and income growth. But let me state quite clearly: although we have continued our successful track record as operators of a stable, high-performance, integrated infrastructure for the international capital markets, the growth momentum we have shown to date will not be sufficient in the long run. As welcome as the uplift to our business performance during the fourth quarter may have been – it shows, at the same time, that it is still too dependent upon market cycles.

This is why we aim to further strengthen Deutsche Börse Group's growth potential. Our vision is to turn Deutsche Börse Group into the global market infrastructure provider of choice – being top-ranked in all our activities.

Our planned merger with the London Stock Exchange Group serves this purpose. Yet we pursue the same objective with a whole range of innovations that we have initiated in order to create what we call "Exchange 4.0".

Our Chief Financial Officer, Gregor Pottmeyer, will outline the concrete progress we have made. I will hand over to him in a moment, to allow him to explain our performance indicators in detail.

But first, allow me to comment on my own behalf. As you all know, the Frankfurt public prosecutor's office has launched an investigation against myself, on the grounds of a hint of suspicion concerning alleged insider trading. I ask for your understanding that, due to the pending investigations on this issue, I am unable to make any specific statements. What I can say is that I am personally deeply concerned by these insider trading allegations.

Insider trading is against my innermost conviction. When I purchased the shares using my own funds, I did not do so at a time of my own choosing. I did so between 1 and 21 December 2015, i.e. within the time-frame fixed by the Supervisory Board for participation in the remuneration programme. The purchase was then publicised immediately. In addition, the purchased shares are subject to a holding period which extends until the end of 2019.

Clearly, the allegations must be clarified in the interest of market integrity. I do understand the media's interest in this issue. However, I would like to ask for patience. We, Deutsche Börse and myself, are fully cooperating with the public prosecutor. I am certain that, following detailed investigation, the allegations will turn out to be unfounded. For this reason, I will not be able to answer questions pertaining to the proceedings today.

And now I would like to hand over to Gregor Pottmeyer.

2. Detailed results of operations and progress in implementing Accelerate (Gregor Pottmeyer)

[Slide 2: Development of Group financials in 2016]

Thank you, Carsten. Ladies and Gentlemen, even though 2016 was not exactly an easy year for us in many areas, we nonetheless achieved our growth targets for net revenue, which advanced by 8 per cent, to approximately €2.4 billion. I will comment on the drivers of this growth in a moment, when I will look at the results of the various segments.

Thanks to the variety of measures designed to enhance operational efficiency which we have taken within the framework of our Accelerate programme during the financial year under review, operating costs only increased marginally, despite additional costs due to consolidation. As a result, net income for the period grew at a faster pace than net revenue – up 14 per cent, to €811 million, thus reaching the upper end of our forecast range.

I would like to add that the number of employees at Deutsche Börse Group (adjusted for ISE, Infobolsa and MNI) also increased in 2016, reaching 5,176, a plus of 246. During the same time, the employee count in Germany rose to 2,226, an increase of 108.

[Slide 3: Development of segmental financials in 2016]

Net revenue of the Eurex segment was once again up significantly during the year under review, rising 16 per cent to just top the €1 billion mark.

The strongest growth driver however was the commodities business at the European Energy Exchange, which posted high double-digit structural growth rates, especially in power and gas products.

Eurex also benefited from a trading environment that was very active overall in its index derivatives business – thanks to elevated volatility. Volumes rose in response to changes of the political framework, such as the “Brexit” referendum on the United Kingdom’s exit from EU membership in June, or the US presidential elections in November.

Moreover, the turnaround in US interest rates – initiated in December 2015 and affirmed in December 2016 – stimulated business in interest rate derivatives during the second half of the year. With its broad product range, the derivatives exchange Eurex meets investors’ needs for trading and hedging strategies, particularly in such situations.

Not least, the acquisition of foreign-exchange trading platform 360T during the fourth quarter of 2015 contributed to the increase in net revenue of the Eurex segment.

Net revenue in the Xetra segment declined by 11 per cent, compared to the record year 2015, to around €165 million in 2016, in line with the overall development on cash markets. In the previous year, cash markets had benefited from strong tailwinds due to the ECB’s bond-buying programme; this effect faded during the programme’s second year.

This was exacerbated by the continued fragile state of economies in Europe, plus the UK’s decision to leave the EU – as a result, US investors in particular pulled capital from Europe.

Clearstream saw particular growth in its largest areas of business, increasing net revenue by 5 per cent, to €782 million. The segment grew especially in its international operations. Thanks to the emerging turnaround in US interest rates, Clearstream's net interest income also showed a marked increase.

For the current year, we anticipate impulses from the new, EU-wide TARGET2-Securities (T2S) settlement service. T2S commenced operations on a step-by-step basis during 2016; on 6 February 2017, Clearstream migrated to the new infrastructure – on schedule and very successfully. Clearstream's clients can now combine their assets in a single pool, whilst benefiting from our extensive range of services for securities lending and collateral management.

Finally, thanks to double-digit growth rates in the index business, net revenue in the Market Data + Services segment was up slightly, despite the deconsolidation of Market News International (MNI) and Infobolsa.

[Slide 4: Increase of 2016 dividend to €2.35 per share proposed]

Our dividend policy follows a clear guideline: the distribution amounts to between 40 per cent and 60 per cent of net income for the period.

Having maintained the dividend at the upper end of this range for several years, we now aim to bring it closer to the 50 per cent mark, reflecting income growth, as already announced last year. We therefore propose a dividend increase to €2.35 per share, which is equivalent to 54 per cent of net income for the period. The final decision will be resolved by our Annual General Meeting in May.

[Slide 5: “Accelerate”: substantial progress]

Let me now turn to the progress we have made in implementing our growth strategy. We are pursuing five objectives with Accelerate: cultural change, creating a performance-based incentive system, growth through scalability, a targeted allocation of capital, and exploring complementary growth opportunities. During the year under review, we made progress with each of these objectives – progress which we will pursue and expedite during the current year.

Cultural change means that we endeavour to turn Deutsche Börse Group from a client-*oriented* into a client-*centric* enterprise. For this purpose, we realigned the distribution of responsibilities within the Group Executive Board right at the beginning of last year, creating new Group functions and bringing together marketing activities for the entire Group.

Moreover, we reorganised our IT division, with the objective of establishing responsibility for final results. This also serves the purpose of better aligning our client business with our IT.

Within the scope of 360-degree feedback, we are working on sustainably promoting the individual career development of all executive staff throughout Deutsche Börse Group. Ultimately, this cultural change is set to lead to a massive increase in innovation.

The next objective is a performance-based incentive system. The new system for executives is designed to align remuneration even more closely to growth and performance. In this context, individual performance appraisals were discussed across departments, in so-called Performance Panels, and calibrated accordingly. Besides growth targets, bonus payments to executives are based on results. The new remuneration system has already been implemented, with further new concepts set to follow.

Perhaps the most important objective of Accelerate is to facilitate growth through scalability. As already pointed out, we achieved very good results in the year under review. But we aim to further improve performance. This means that we will need to become less dependent upon economic cycles. And we will have to continue demonstrating our ability to boost net revenue without costs increasing in the same proportion.

To achieve this goal, we are also improving our capital allocation: we will divest businesses where we do not see scope for reaching the number one or two position over a medium-term horizon. This is why during the year under review, we not only sold International Securities Exchange (ISE), against a cash consideration of US$1.1 billion, but also information services providers Infobolsa and MNI.

[Slide 6: “Accelerate”: further double-digit earnings growth expected in 2017]

As part of Accelerate, we also communicated Deutsche Börse Group’s medium-term growth targets in mid-2015. We affirm these targets – which is why we are also targeting net revenue to grow between 5 per cent and 10 per cent in 2017. We will continue to dynamically manage operating costs in order to preserve the scalability of the business model. All in all, we thus expect net income for the period to increase between 10 per cent and 15 per cent.

On the one hand, our optimistic outlook is based on the Group’s strategic initiatives, which will continue to bear fruit throughout 2017. On the other hand, the cyclical outlook is positive, especially as far as interest rate trends are concerned. Moreover, with our ongoing efforts to enhance efficiency, within the framework of our Accelerate growth strategy we have achieved the necessary flexibility in order to further expand our scope for strategic growth.

For this reason, we are consistently pursuing our planned merger with the London Stock Exchange Group. Looking at a medium-term horizon, the initiatives we have embarked upon under the heading of “Exchange 4.0” will add further momentum. Carsten will now discuss these two forward-looking initiatives.

3. Strategy for further development, and outlook (Carsten Kengeter):

[Slide 7: Deutsche Börse’s position in the global context unchanged]

Ladies and Gentlemen, we have fulfilled our ambitious earnings forecast – in a difficult year. This proves our ability to generate organic growth. But if we want to limit what is still an unequivocally cyclical impact of the markets on our business, we will have to move on. There are only two ways do to that: innovation, and a business combination with a strong partner.

Despite all our successful achievements, our ranking amongst exchange organisations worldwide has not changed: we are still stuck in no. 4 position. At €16 billion, our market capitalisation is less than half of the biggest two global exchanges; furthermore, it is more than €10 billion less than for the organisation even ranked third. Moreover, our price-earnings ratio of 16 is at the lower end of the range for the ten largest exchange organisations.

This not only exposes our enterprise to the risk of falling further behind in competition – it also means that Europe is losing ground to America and Asia, where the three largest exchange organisations in the world are based. In fact, there are more exchanges aiming for the top ranks. We must be aware of the fact that Frankfurt as a financial centre can only flourish in a strong Europe.

We are prepared to do something to make Frankfurt flourish. But we all have to recognise that in the ten-year comparison of financial centres worldwide according to the Global Financial Centres Index, Frankfurt has slipped from sixth place to number 19.

This is something we cannot afford as a location – nor can our economy afford it. The digitalisation of the German economy will require total investments amounting to some €40 billion each year. These funds should be raised in Europe – companies must find opportunities to raise this capital here. To this end, we will need the boost that the merger with London would bring.

According to most recent estimates published by the International Monetary Fund, gross domestic product in the euro area will only grow by a real 1.6 per cent in 2017 – meanwhile, the growth rate for the US is projected at 2.3 per cent. In the US, a combination of an interest rate turnaround, fiscal expansion, and a return to deregulation of financial markets will fuel growth, at least for the short term. The IMF projects growth in China at 6.5 per cent.

All this will open the gap between Europe and the rest of the world even further – and hence, the gap between exchange organisations, unless we take active steps to improve our relative position, in the best interests of the capital markets.

Europe is not only suffering from political divergence: during times of growing protectionism, the German model of high export surpluses – Europe's growth engine – is exposed to increasing risks.

Our response to global competition, and our contribution to a strong Europe, comprises two parts which complement each other: the creation of "Exchange 4.0" and the planned merger with the London Stock Exchange Group.

[Slide 8: Merger with London Stock Exchange Group:
strong value creation potential]

The initiatives I am going to point out in the next step will boost our potential for growth. Yet if we want to reach the next growth stage in a single bound, we need the planned merger. Therefore, we want join forces with a strong partner.

The best partner we can find for this purpose is the London Stock Exchange Group. We have now reached the decisive phase of our planned merger.

On 6 February 2017, together with the London Stock Exchange Group, we resolved to propose to the European Commission the sale of LCH.Clearnet SA, the French subsidiary of LCH.Clearnet, as a remedy to address antitrust concerns.

Having reviewed this issue in detail, we believe that we have addressed the relevant core requirements imposed by the EU with this proposed remedy. As such, we are optimistic about further progress of the merger control clearance procedure. Of course we will continue to maintain a constructive dialogue with the EU antitrust authority.

Moreover, we still require the approval of the Exchange Supervisory Authority at the Ministry of Economics of the State of Hesse. We have been listening closely to the Hessian policymakers. We are engaged in a constructive dialogue. Through our referendum committee, we are going to ensure that the combined group will meet all regulatory requirements with regard to closing the transaction. This would pave the way for the merger to be completed during the second quarter.

Throughout this process I have followed one guiding principle: I will do the utmost to strengthen Frankfurt as a financial centre. Any concerns that Frankfurt as a financial centre might be disadvantaged by the proposed business combination fail to recognise one thing: the biggest risk to Frankfurt – in light of the global trends I have just described – is doing nothing.

The business combination offers Frankfurt new opportunities for growth and strengthens its position as the leading financial centre in Continental Europe. Brexit has rendered this connection even more important. The merger would be a signal for a united Europe – for bridges, not walls.

Another thing is clear as well: We will adhere to the principle of two headquarters. The Hesse Exchange Supervisory Authority will retain control over the regulated markets domiciled in Frankfurt. It will be able to fully exercise its powers vis-à-vis Deutsche Börse, regardless of where the new holding company will be domiciled.

In fact, Deutsche Börse cannot transfer its duties as the administration institution of the Frankfurt Stock Exchange and of Eurex Deutschland to the umbrella company: this is prohibited by the German Exchange Act. Consequently, the two exchanges – as well as the post-trading and the market data businesses – will remain in Frankfurt, even after the merger. Now, Frankfurt has the choice to evolve into the European centre for supranational risk management. This will increasingly attract international investors as well.

In addition to the jobs we already created in 2016, we are planning – as part of our growth strategy – to increase our number of employees by another 400 during the course of the year. More than 300 of them will be working in Frankfurt.

Let me now move on to my next point: “Exchange 4.0”.

[Slide 9: Deutsche Börse at the forefront of change in the financial services industry]

Our industry is undergoing fundamental change. Technological innovation will not only change the face, but also the DNA of the entire financial services sector – and this also applies to the exchanges industry. This is why we are persevering in our efforts to create what we call “Exchange 4.0”, both via organic growth and by way of targeted acquisitions.

To expedite organic growth, for example, we have established a “Content Lab” within our Market Data + Services segment. Specifically, the Lab deals with issues such as predicting transaction costs, or offers leveraging via artificial intelligence.

In 2015, we also established a pre-IPO network for investors and high-growth enterprises: the Deutsche Börse Venture Network, which we will continue to grow over the coming years.

So far, the Venture Network has been able to raise more than one billion euros for innovative companies. With our FinTech Hub, we are improving the start-up and investment culture in Germany, at the same time strengthening Frankfurt’s position as a start-up hotspot.

We will continue to bring this ecosystem in line with international standards in 2017: March will see the launch of a new exchange segment for successful small and medium-sized enterprises. Its name, Scale, clearly defines our aim of further expanding the existing ecosystem for corporate financing.

Scale is our answer to the immense investment needs triggered by the digital revolution and Industry 4.0. It is designed to benefit companies with well-tried business models which have already proved successful with investors. We will substantially increase our primary market activities. And again, Frankfurt will benefit.

Besides these initiatives to generate organic growth, we will make acquisitions where we see potential for future growth. We want Frankfurt to evolve into the leading European fintech centre. In fact, we are right on this path.

Through our investment vehicle DB1 Ventures, we invest in fintech enterprises – in order to further modernise Deutsche Börse, as well as Frankfurt as a financial centre. One of them is figo, a financial services provider based in Hamburg which offers application programming interfaces – so-called APIs. We can use these APIs not only to facilitate access for our clients in the future, but also to explore new client groups.

With our shareholding in Digital Asset, we are driving an innovative technology which – over the longer term – has the potential to trigger a real quantum leap for the exchange industry: the blockchain technology. Simply speaking, blockchain is a digital register for electronic transactions. Its proponents compare the innovative potential it holds for today's financial services sector to that of the internet in the 1990s.

Since the financial crisis, supervisory authorities have increasingly demanded that market participants provide collateral in order to reduce risk within the financial system. By using blockchain technology, this vital task can be performed more efficiently and with the utmost degree of reliability.

We are the first organisation who has developed a real Blockchain model, together with a central bank: in cooperation with Deutsche Bundesbank, we showcased a prototype for securities settlements based on Blockchain technology in November of last year.

Moreover, we are working on two additional and very promising prototypes in the area of clearing and collateral management. We have taken on projects such as a global blockchain-based initiative which is set to simplify the cross-border transfer of securities collateral. Participants include the central securities depositories of Canada, Luxembourg, South Africa and Norway.

Our third blockchain project involves a collateralised digital currency – the so-called collateral coin. By using Eurex Clearing as a central counterparty, we mitigate credit risk associated with the transfer of digitised commercial bank money. The interface between Eurex Clearing and Clearstream could also enable this new concept to increase the efficiency of our post-trading services.

These three prototypes cover the relevant parts of our value chain as far as blockchain is concerned. The focus here is on further efficiency gains for our clients.

Our clients and the real economy in Europe are under pressure, from many angles: you are of course familiar with the key words: low interest rates, capital requirements, pricing and margin pressure, digitalisation, regulation. That is why we must strengthen our economy. That is our responsibility as a market infrastructure provider.

Ladies and Gentlemen, allow me to summarise: we have achieved our target growth in 2016, posting very good results. We have delivered.

Once again, we have shown that our forecasts can be relied upon. My key forecast today is this: there is only one way for us to keep pace with the momentum of the global economy, and that is by working together intensely to create new opportunities for Europe as a business location. And that is what we want to do – hand in hand with policymakers and regulators, for the benefit of Frankfurt as a financial centre, and for the benefit of Europe.

And now, my fellow Executive Board members and I are looking forward to your questions. Thank you for your attention.