



# Flow Traders Analyst Day presentation

28 June 2017

**F L O W** ■ **T R A D E R S**

Amsterdam ■ Cluj ■ Hong Kong ■ New York ■ Singapore

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# AGENDA

9.00 – 9.05

Opening

9.05 – 9.45

Core investment case and key messages by Dennis Dijkstra and Sjoerd Rietberg + Q&A

9.45 – 10.30

Diversify trading to other asset classes explained by Sjoerd Rietberg + Q&A

10.30 – 11.00

Break out / tour dealingroom

11.00 – 11.45

Regulation & Trading by Marcel Jongmans + Q&A

11.45 – 12.15

Conclusion & Guidance by Dennis Dijkstra

12.15 – 13.15

Lunch

## Changing market dynamics necessitates a shift in focus to better understand Flow Traders growth potential

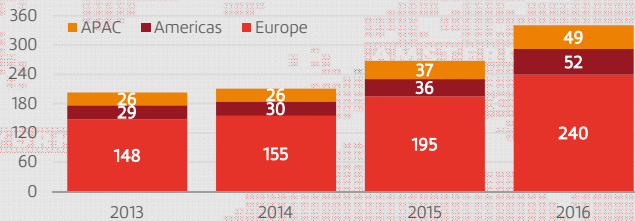
- Historic long term development of Net Trading Income (NTI) Flow Traders outperformed the growth in Assets under Management in the ETP market
- However, in the last 2 years, the ETP Asset under Management have grown faster, as Flow Traders NTI was impacted by a slowdown in ETP Value Traded overall, following lackluster investor trading appetite
- Consequently, Flow Traders' growth potential is better understood within the context of assessing changes in ETP Value Traded rather than ETP Assets under Management
- Market growth drivers for Flow Traders remain intact, as industry trends, technological developments and investor needs continue to show further need for electronification of markets
- Focus on growing costs by at max 15% annually after 2017 whilst maintaining the current dividend policy of paying out at least 50% of our Net Profit to our shareholders



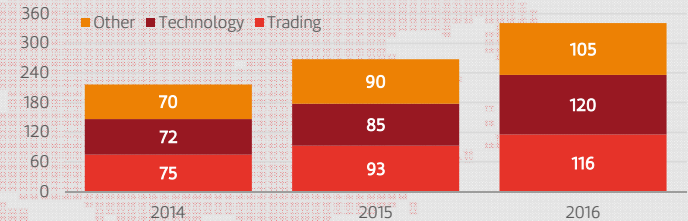
# Where we come from – Overview of the internal growth drivers

Continued investment in people

Investments to drive market penetration (# FTEs)

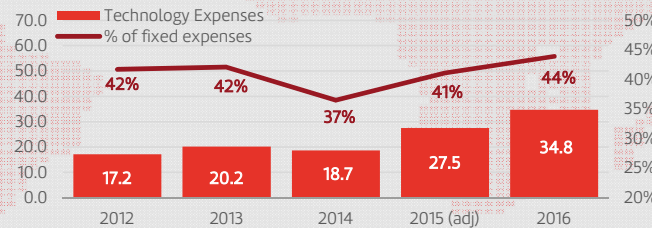


Maintained investments around key functions (# FTEs)



Technology costs development

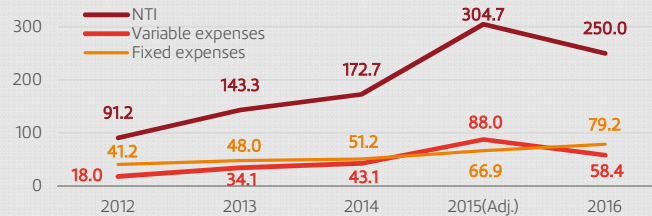
Heightened Technology costs (€m and %)



- Technology is a core strength of Flow Traders
- Technological developments support performance Flow Traders
- Technological developments enable Flow Traders to expand asset classes

Disciplined and responsible cost management

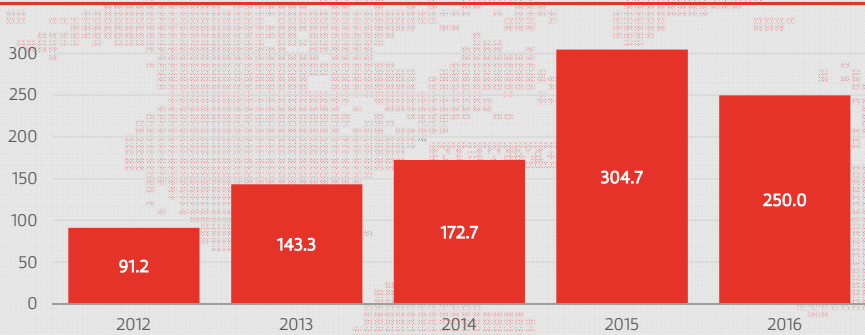
OPEX structure aligned with volatility of our markets (€m)



- Variable expenditures are based upon 36% of our Operational Profit, aligned with market movements (=> remuneration)
- Fixed OPEX decided after careful examinations of investment option

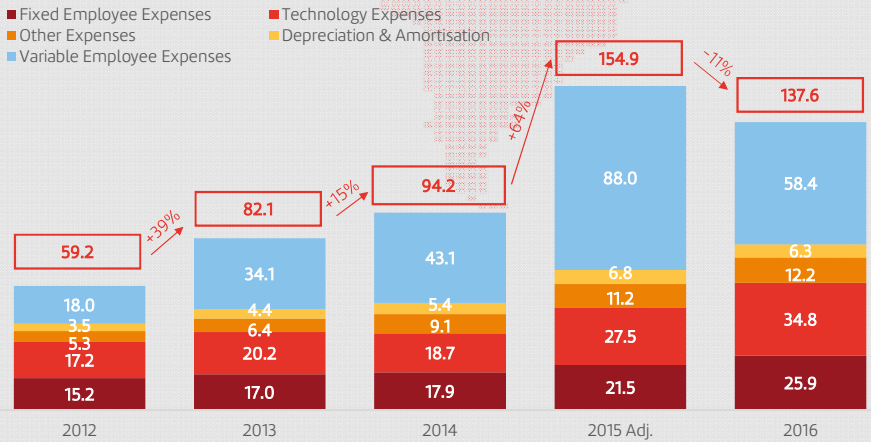
# A flexible remuneration model protects the business through a down cycle

Development NTI (€m)

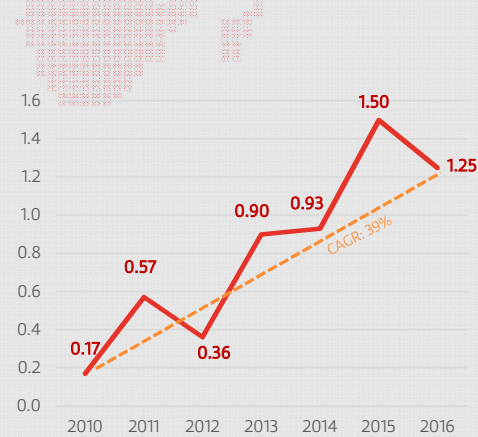


- OPEX adaptability shows cushioning effect cost development on results
- Fixed operating expenses have increased primarily as a result of the growth in number of employees and investments in Technology
- No capitalisation of IT development costs
- Objective is to maintain attractive dividend payout

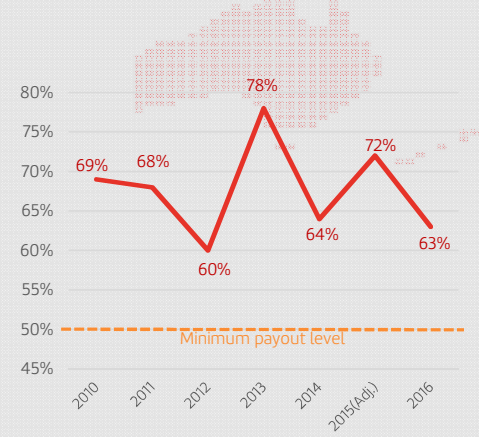
OPEX adaptability (€m)



Development of dividend (€)



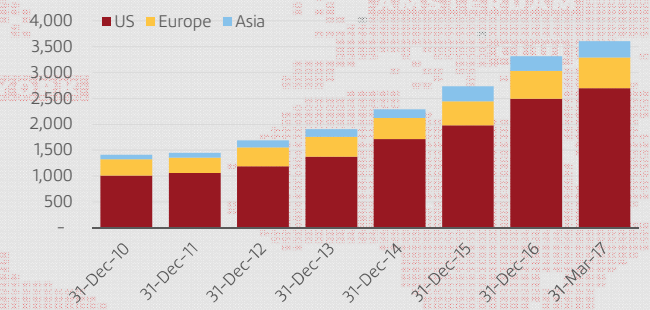
Development of dividend payout ratio



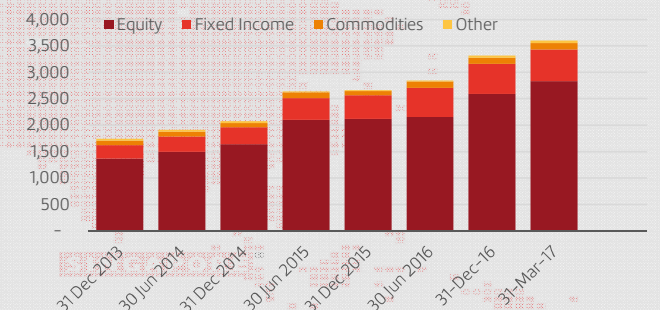
# ETP market fundamentals remain solid although activity has slowed since 2015

ETP Assets under Management continue to grow, confirming underlying strength of sector

ETP Assets under Management growth by region (€bn)

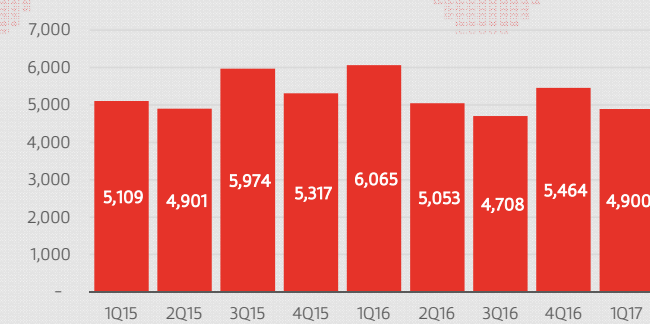


ETP Assets under Management growth by product (€bn)

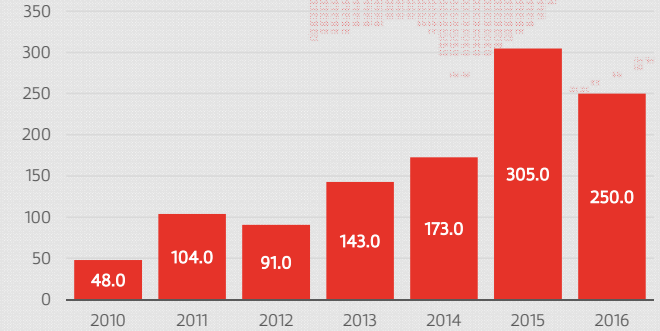


Market trading activity slowed down since 2015, impacting Flow Traders NTI development

Market ETP Value Traded development since 1Q15 (€bn)

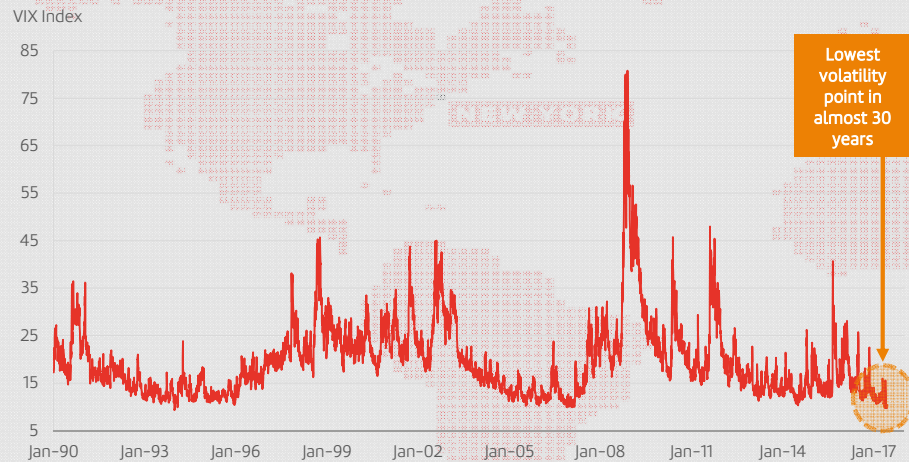


NTI Flow Traders (€m)



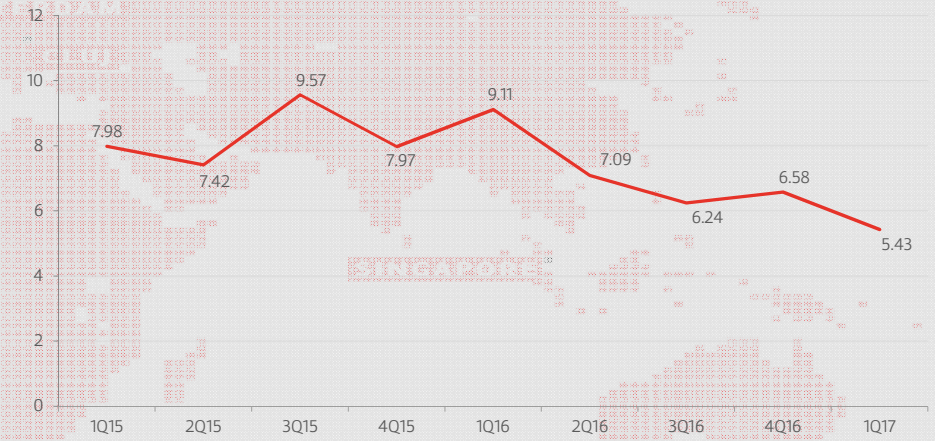
# Low Volatility and slow down of ETP Value Traded correlates with lower Velocity

*Volatility at historically low levels*



- Currently at the lowest volatility point in almost 30 years
- Volatility events occur regularly, showing the importance of market cycles for Flow Traders

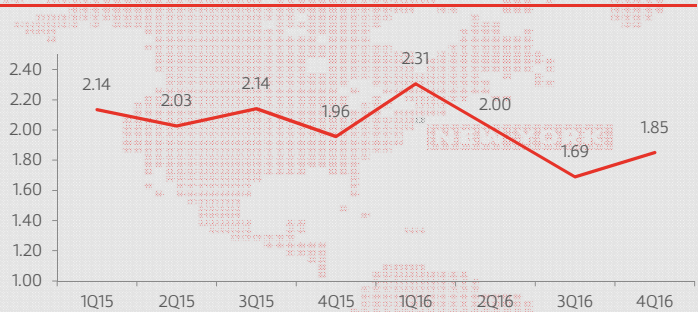
*Market velocity on a declining trend since early 2015*



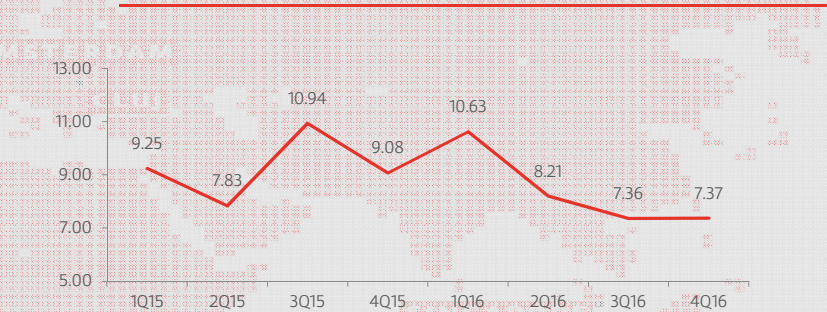
- Lower Velocity is caused by an overall slow down in trading activity, with an underlying steady growth in ETP Assets under Management
- Lower Velocity shows the need for global scale, which Flow Traders has and continuously expands
- If Velocity bottoms out and trend in Assets under Management continues to grow, ETP Value Traded will grow
- As such the growth measurement shifts to ETP Value Traded from ETP Assets under Management

## Velocity differs per region – US shows the base

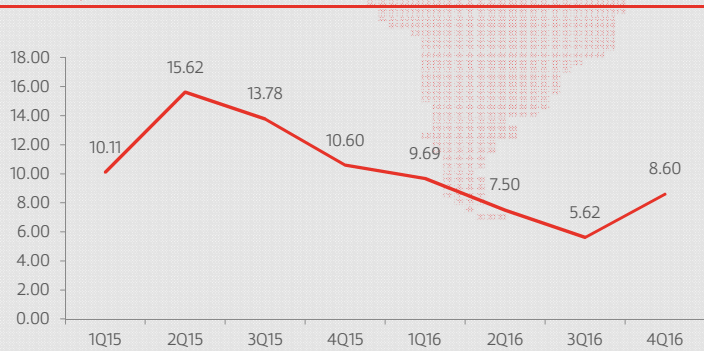
Velocity EMEA



Velocity Americas



Velocity APAC



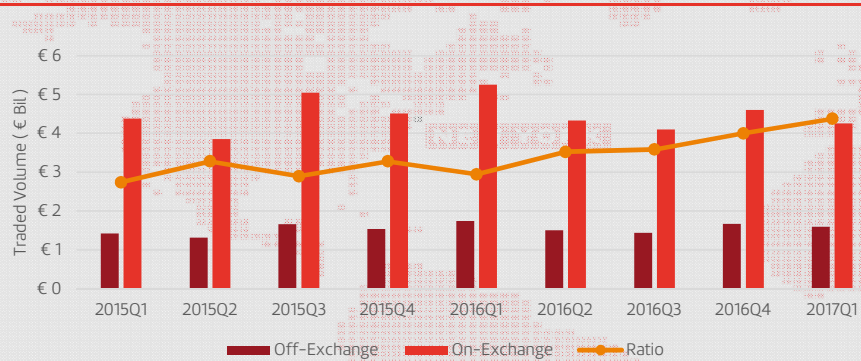
- Velocity clearly differs per region
- Velocity in the Americas is based on a mature market with big volumes
- Velocity in EMEA and APAC are at a low base currently
- Velocity development in EMEA and APAC are believed to grow towards levels witnessed in the US, once markets have grown more mature in those regions

Flow Traders' focus is to grow the NTI in a structural way while remaining cost conscious



## Overview On- / Off-screen trading in US and Europe (Asia not available)

### Americas ETP Trading Volume Q1'15 - Q1'17 (€B)

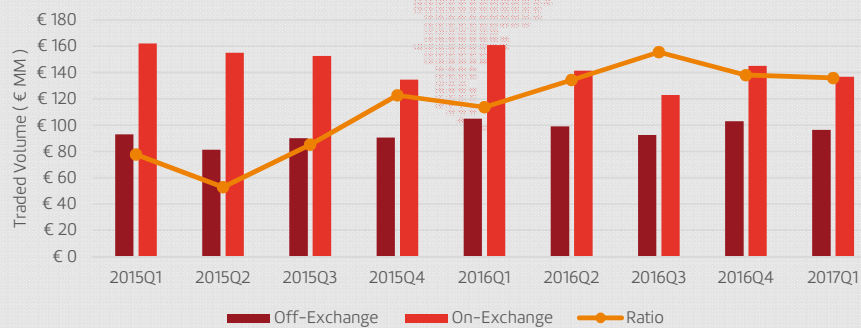


- Trend on-exchange / off-exchange in the US has been growing steadily in the last 5 quarters in favor of OTC trading

- Off-screen trading comprises about 33% of total volumes traded in the US

- US market remains almost 20 times bigger than European market - also OTC

### EMEA ETP Trading Volume Q1'15 - Q1'17 (€MM)



- Trend on-exchange / off-exchange in Europe is an estimate, based on data from Bloomberg RfQ and Tradeweb as off-exchange trading is still not visible

- Off-Screen Trading comprises about 41% of total volumes traded in Europe

## Flow Traders' ambition is to become the world's leading technology-enabled liquidity provider



- Safeguard the Flow Traders corporate culture to remain flexible under any market circumstance
- Continuously improve our trading capacities by improving our knowledge, our experience and our infrastructure
- Pursue organic growth opportunities that fit with our business model (e.g. FX trading)
- Leverage on our trading knowledge and technological infrastructure
- Balance growth opportunities and capital allocation to warrant growth and returns

## A clear pathway to driving growth over the next 3-years

Actively grow headcount to stay at forefront of market developments

Aim for operational excellence

Expand ETP product coverage

New share participation plan for employees

Maintain balance between capital growth and shareholder returns

Conscious cost management to facilitate growth of business

# Vision2021

Diversify into other asset classes

Expand trading venues in all regions

Expand counterparty base

Continuous performance monitoring and 360 degrees feedback

Remain pro-actively involved in Regulatory developments globally

Constantly review all organic growth opportunities

Impact per region?





Focus on regulations and growing traded asset classes

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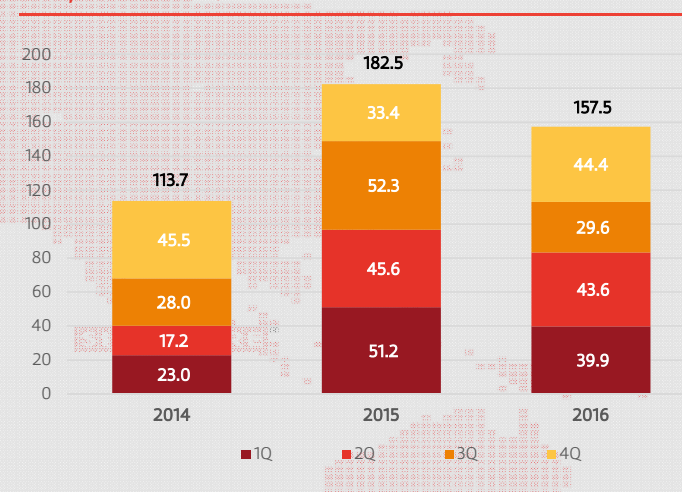
# Flow Traders expanded its position as the #1 ETP liquidity provider in Europe in 2016

## Highlights

- 2016 NTI reached EUR 157.5m, second best NTI result in existence of Flow Traders Europe
- Flow Traders ETP Value Traded in Europe reached EUR 418bn (+11% Y-o-Y) where the market grew 3%
- Market share grew well above 20% on-and off-exchange 2016, following further improvements in our infrastructure and technology
- Institutional Trading grew bigger, as the number of counterparties continued to grow in 2016 and Flow Traders continued to have a dominant presence in OTC trading

Flow Traders Marketshare grew in Europe in 2016 overall

Europe NTI (in €m)



## Focus points Flow Traders

- Maintain dominant market position by growing number of counterparties and number of trading venues
- Expand portfolio of products traded to improve trading capabilities
- Expand and diversify traded asset classes – starting with FX in Europe
- Pro-actively track changes and opportunities arising from MiFID II and other regulatory discussions
- Improve operational efficiency
- Remain cost conscious while growing the business



# AMERICAS

Focus on growing efficiently in all areas

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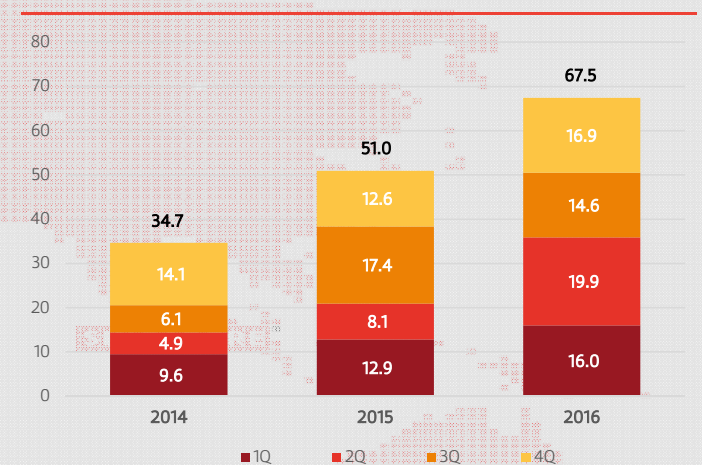
# 2016 was Flow Traders best performing year to date in the US ... but focus remains on growth

## Highlights

- 2016 NTI grew 32% to EUR 67.5m, highest level realized in the US ever
- Flow Traders ETP Value Traded in US reached EUR 190bn (+12% Y-o-Y) where the market remained flat
- Market share grew above 2% on-exchange 2016, following further improvements in our infrastructure and product coverage
- Institutional Trading development progresses as expected as we continue to roll out the set up and connect new institutional counterparties

This is still without OTC trading and realized in the on-screen market only

Americas NTI (in €m)



## Focus points Flow Traders

- Further rolling out OTC trading
- Expand portfolio of products traded, number of counterparties and number of trading venues to improve trading capabilities
- Roll out technological infrastructure to optimize trading OTC and On-Screen
- Remain pro-actively involved in regulatory discussions, like consultation over Reg AT and Fiduciary Ruling to increase transparency
- Remain cost conscious while growing the business



# ASIA

Singapore/Hong Kong

Focus on technological development, local visibility and regulatory status

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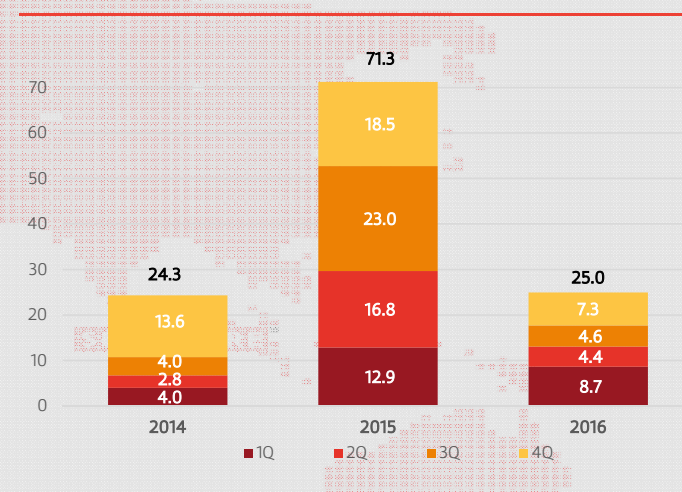
## Flow Traders started to implement the improvement program in Asia in 2016

### Highlights

- Overall trading in Asian markets slowed down substantially in 2016
- Flow Traders 2016 NTI reached EUR 25m, below 2015 levels and a bit higher than 2014
- Flow Traders ETP Value Traded reached EUR 32bn, reflecting the slow down overall in trading
- Market share stabilized at 3% on-exchange, as first improvements in infrastructure and technology started to bear fruit
- Opening Hong Kong office has been announced

Market developments in 2016 show need for change

APAC NTI (in €m)



### Focus points Flow Traders

- Rolling out infrastructural improvements to all major trading venues in Asia
- Expand portfolio of products traded and number of counterparties
- Expand number of trading venues to increase liquidity providing and improve trading capabilities
- Remain cost conscious while growing the business
- Establish Regulated entity in Hong Kong
- Expand Institutional Trading in Asia

# Hong Kong – Overview and timeline of setting up the office

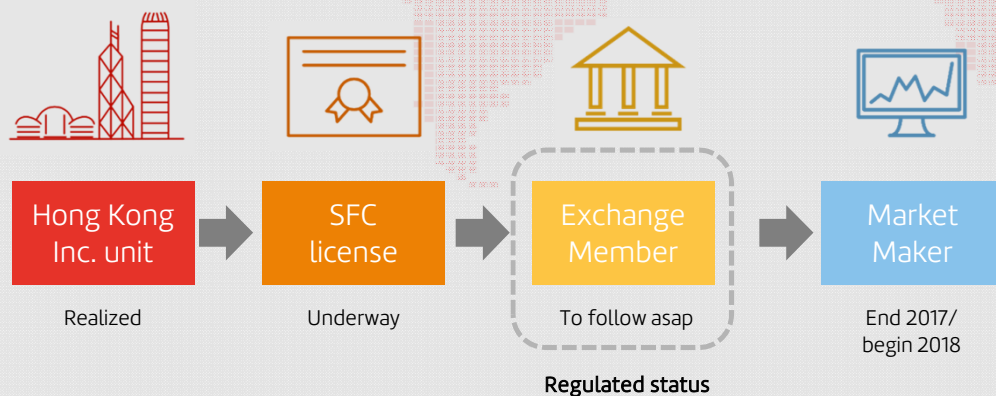
## Why the Hong Kong Office?

- To become regulated, which will increase the visibility with institutional investors
- To position optimally for when the Chinese ETF link is being realized
- To become a market maker, which allows us to better price ETFs in the Hong Kong market

## Market participants

- Local banks and banks like Commerzbank, Macquarie and Societe Generale
- Non-Bank liquidity providers like Virtu, Citadel, Susquehanna, Grasshopper

## Steps to follow



## Market characteristics

- Stand-alone market with own set of regulation
- Linked with China mainland
- Top 10 traded products takes about 80% of total ETP flows in Hong Kong market
- Dominant market participants are the more traditional banks
- Spreads and tick sizes around 5 BP's or more
- Most trading on-screen now, is expected to show more off-screen trading in the future
- Silo-ed market with strong broker-client relationships and issuers also providing trading and settlement



## Balanced and flexible approach to recognizing growth ambitions

Costs growth at max 15% annually after 2017

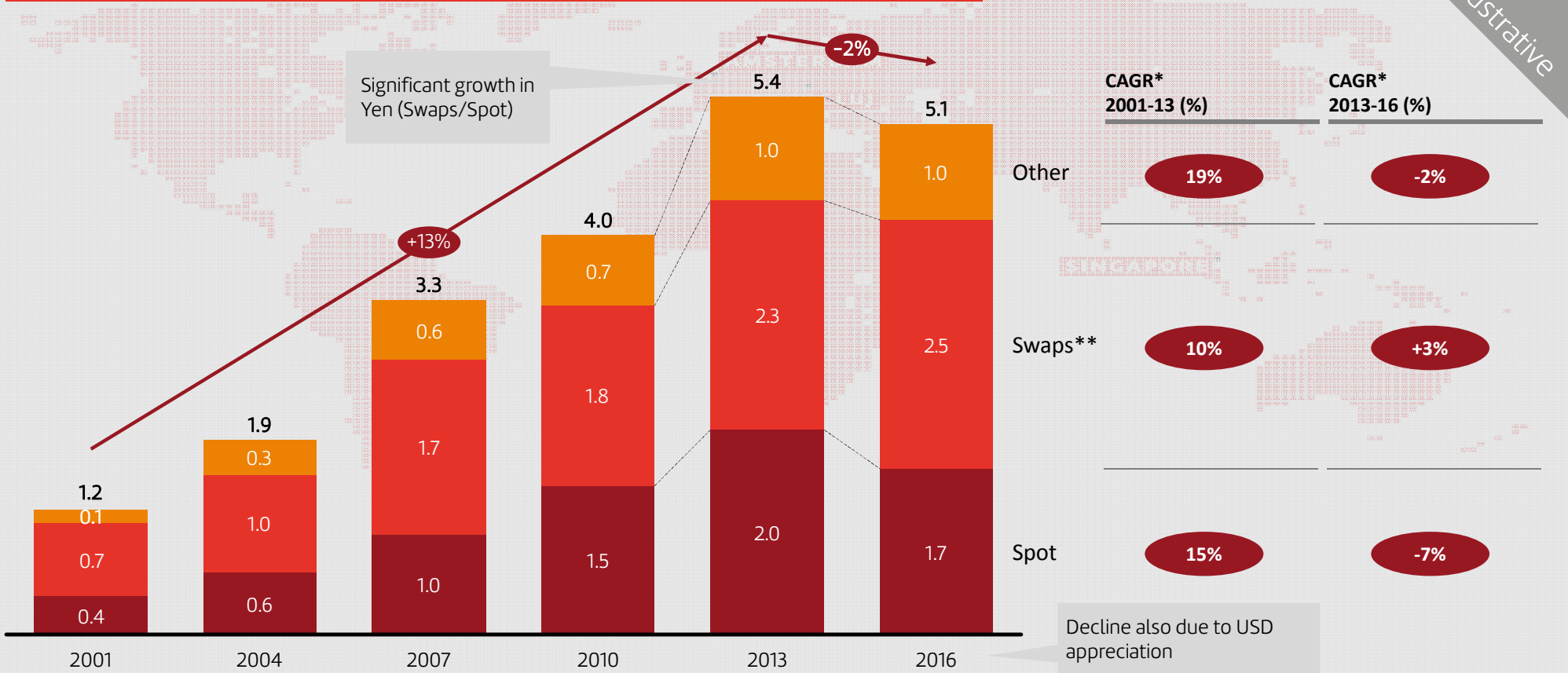




# 1. Diversify trading to other asset classes: FX Trading

# FX markets have grown significantly through time, but are easing from a spur of growth in FX spot

Daily average global FX trading volume and growth rates, 2001-16 (\$ trn)



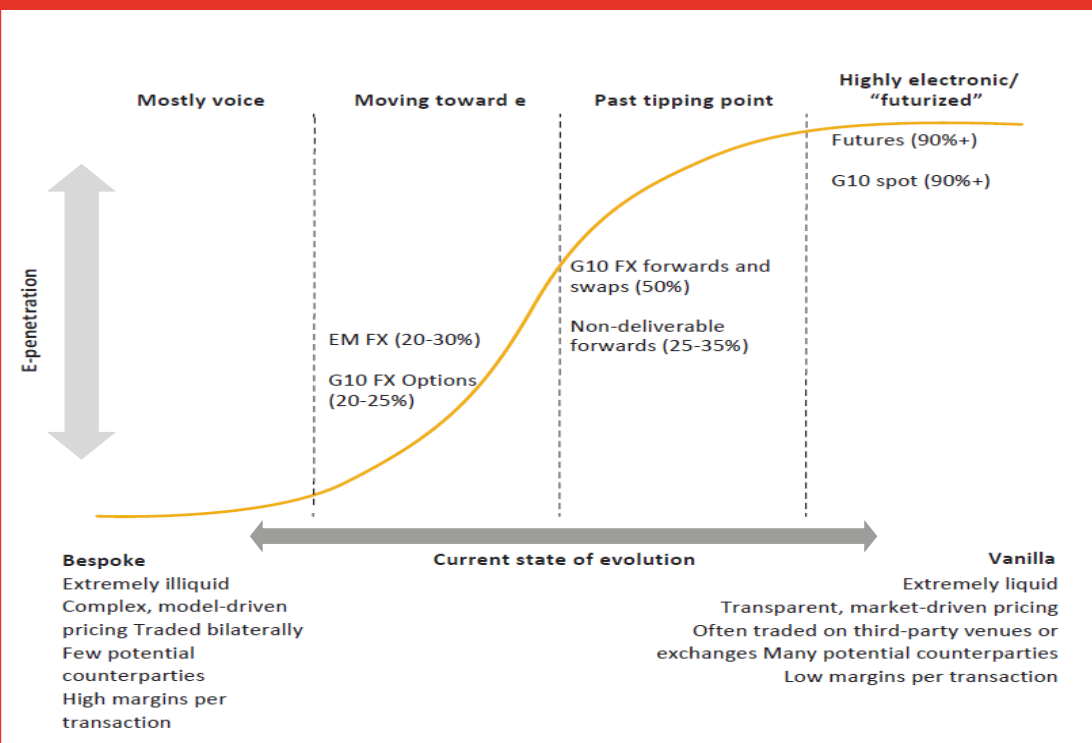
\* CAGR = Compound Annual Growth Rate

\*\* Swaps includes FX swaps & Currency swaps

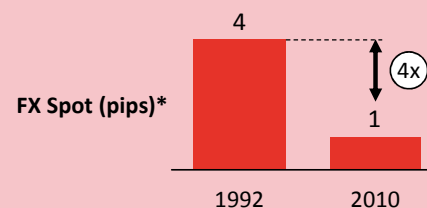
Source: BIS

# Instruments are rapidly shifting towards electronification

## FX instruments going up the electronification curve...



## ...resulting in lower costs / higher volumes

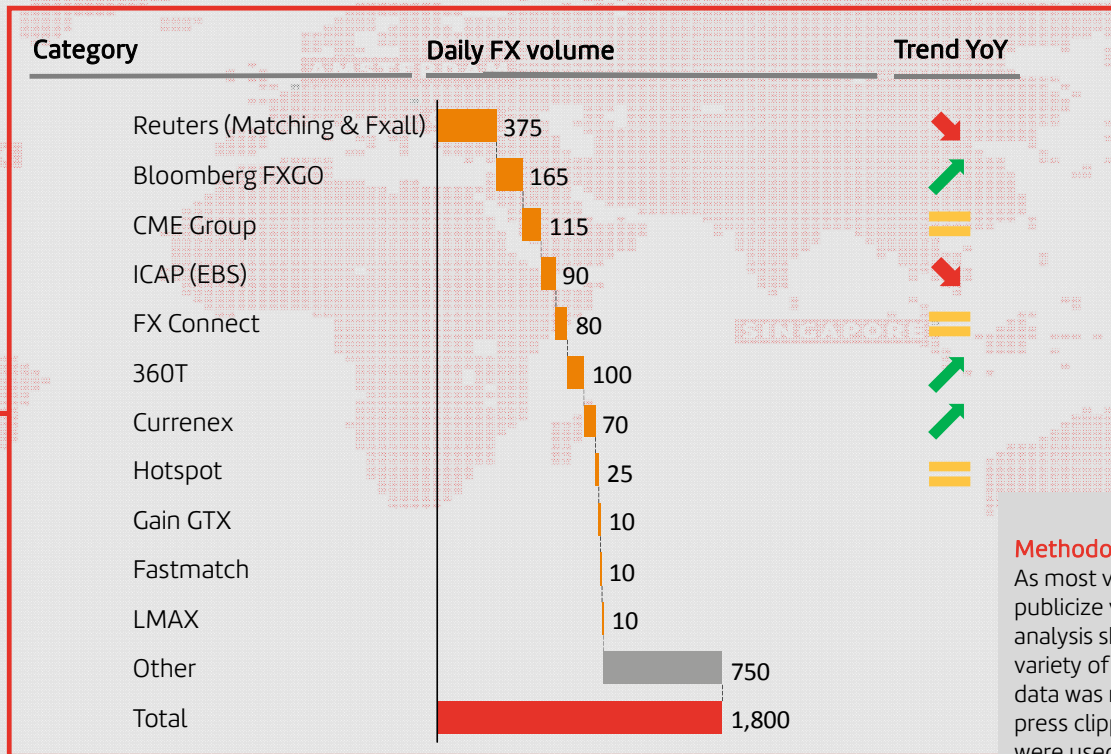
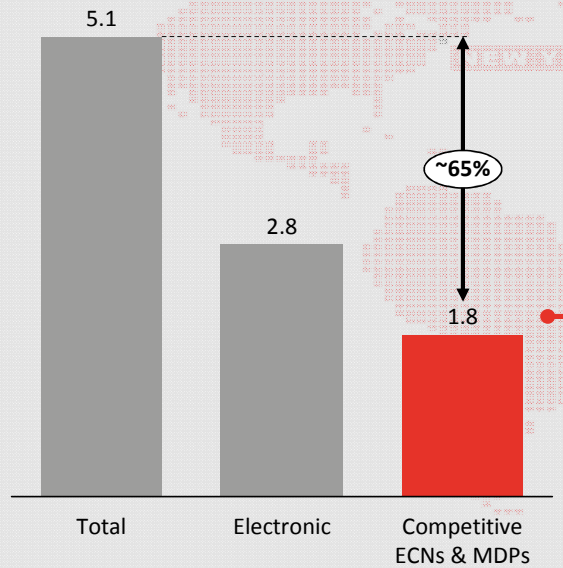


- The costs that market participants are faced with, are highly dependent on the relationship it has with its counterparty.
- In addition, FX Spot is not a homogenous group when it concerns the advent of electronic trading; in general electronification has compressed costs by 4 times.
- Over the same period volumes have as a whole increased by 3.8 times, which nearly negates the 4 times cost reduction.
- With the exception of G10 spot and futures, FX instruments have ample room for electronification.

\* Percentage in pips  
Source: McKinsey

# The majority of the trading flows are traded on several competitive platforms

Daily average global FX trading volume, 2016 (\$ trn)



**Methodology:**  
As most venues do not publicize volume data, the analysis shown combines a variety of sources. When no data was reported, data from press clippings and/or surveys were used.

Indicative

Source: Bloomberg, Hotspot, BIS, Oliver Wyman, Aite Group, Greenwich Associates, Leaprate, Singledealer, Spring Associates analysis

## Considerations for a successful market entry into FX

### Internal optimisation

There is a large currency component in ETF trading. By optimizing internal flows in FX, Flow Traders can improve competitive pricing in ETFs and engage in FX streams

### Regulatory

Margin and capital requirements are (i) driving up costs for traditional market participants, (ii) pushing end-users to move away from bilateral positions, and (iii) causing Non-Bank Liquidity Providers to grow in the FX space.

### Execution Methods

There is a shift towards more electronic trading and discussion in the industry lead to more transparency and control (“last look”)

### Leverage Infrastructure

Flow Traders’ proprietary Technological infrastructure is well developed and active at almost all major trading platforms across the globe. We also have an extensive counterparty network, which is still growing. These elements offer good leverage opportunities to trade into other asset classes

## 2. Regulation & Capital

# Regulatory environment of Flow Traders

EXCHANGE  
REQUIREMENTS

FLOW TRADERS

REGULATORS

PRIME BROKER  
REQUIREMENTS

- Flow Traders Regulatory-, Prime Broker and Exchanges environment sets the boundaries within which it can operate
- Flow Traders aims to hold a close and pro-active relationship with regulators in every region it trades, either directly or via lobby groups (FIA, EPTA)
- Flow Traders is a member of almost all major exchanges it operates on
- Flow Traders monitors its capital usage intensively and puts a lot of effort in optimisation

## Upcoming Regulation – Flow Traders is preparing for MiFID II

### MiFID II

Flow Traders is looking forward for MiFID II as it will bring transparency and a more level playing field.

MiFID II is expected to have an impact on Trading. The regulatory impact on electronic trading is expected to cause a shift to more “lit” trading – making best execution more important. That is expected to make our competitive pricing power more visible. Below some examples of the changes by MiFID II for Flow Traders.

Main changes with the introduction of MiFID II	FT readiness?
Become regulated	✓
ETP flow visibility in OTC trading	✓
Continuously liquidity providing	✓
Pre-Trade Risk Controls	✓
Strict trade monitoring	✓
Technology development controls & requirements	✓
Trade Publication (as soon as it is required)	On track to reach deadline
Data Retention and Documentation	On track to reach deadline

We welcome the added transparency of MiFID II and have already implemented certain key elements  
Flow Traders is well-positioned to implement the remainder



# Impact MiFID II on Non-Bank Liquidity Providers like Flow Traders

MiFID II is expected to bring a number of changes, which offer opportunities to Non-Bank Liquidity Providers (NBLP's) like Flow Traders. Changes that are expected to take place, are:

## Examples of market changes expected, based on the introduction of MiFID II

Increase in focus on Best Execution

Unbundling research and execution

Influence commission charges on trading

Increased use of NBLP's for execution of trades in more asset classes

Growth in counterparties using NBLP's

Increasing transparency

These changes require an efficient setup for Non-Bank Liquidity Providers within the boundaries the Prime Brokers set for them

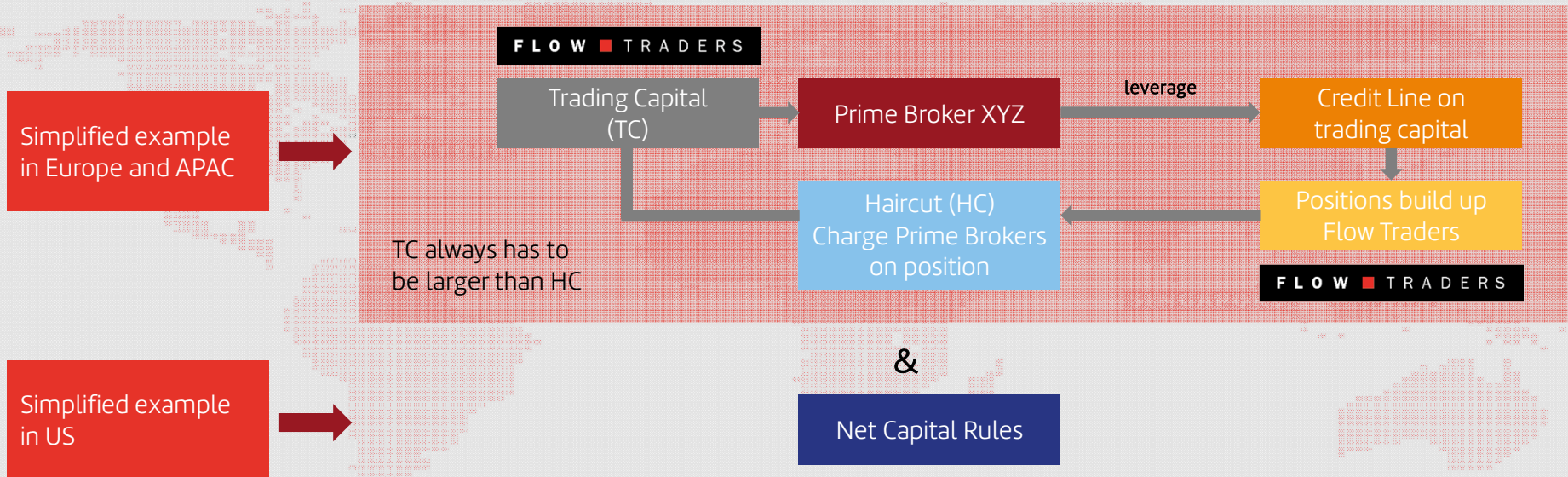
# What do Prime Brokers and Regulators in the different regions demand?

	Europe	Americas	Asia
Prime Brokers	Haircut	Haircut	Haircut
Regulators	Regulatory margins, equal to Prime Broker Haircut	Net Capital model	Not regulated
Excess Capital	Excess cash with Prime Broker	Excess cash with Prime Broker	Excess cash with Prime Broker



Excess capital determines flexibility of Flow Traders to operate in different regions

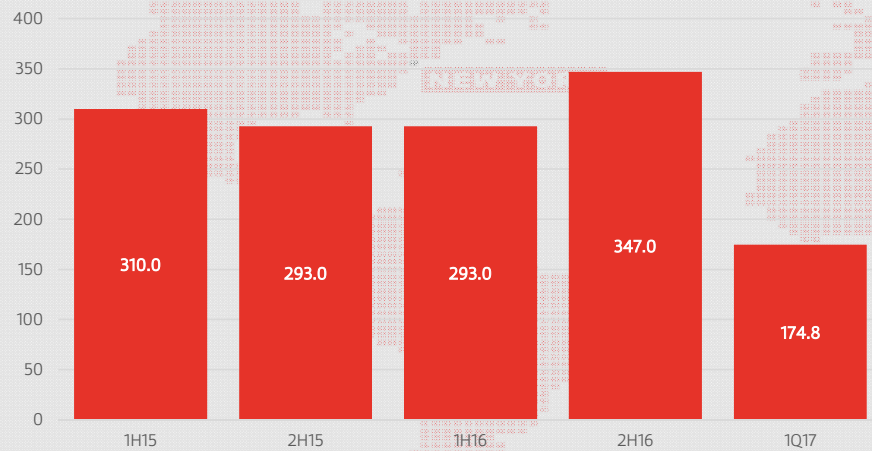
# Prime Brokers and the relationship with a liquidity provider like Flow Traders



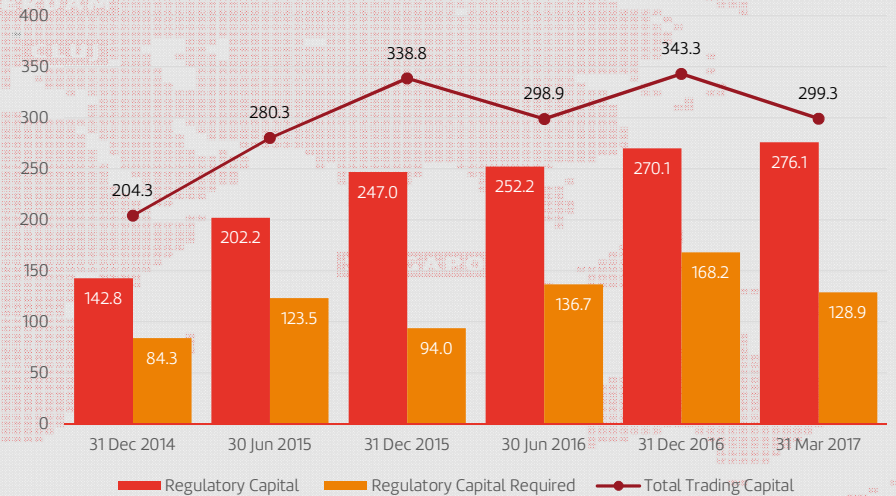
- Leverage rules differ per region, per asset class and per Prime Broker
- Using multiple Prime Brokers creates flexibility for liquidity providers and reduces dependencies, but also creates capital inefficiencies
- Only European Prime Brokers use a maximal Credit Line
- Growing Leverage means growing Credit capacity
- Trading Capital grows by Net Profit adjusted for non-cash items, but will be deducted by dividends and bonus payments

# Regulatory Capital grew through the years with various momentum in the markets

Flow Traders ETP Value Traded (€bn)



Development of regulatory capital



- Flow Traders Trading Capital is posted with its Prime Brokers
- What is earmarked as Regulatory Capital, consistently grew through the years
- As Flow Traders is not regulated in Asia, we are not required to hold regulatory capital there
- Rise in ETP Value Traded leads to rise in turnover of inventory, not to a rise in Regulatory Capital Required

How does trading relate to Capital?

## Flow Traders – a principal trading firm – key characteristics

### Principal Trading Firms (PTFs)

- Exclusively trade on own account in financial instruments on regulated markets
- Have no exposures to customers
- Do not hold customer funds or client deposits
- Hold positions that:
  - are highly liquid
  - are off-setting
  - are margined and
  - serve as full collateral to Prime Brokers
- Effectuate transactions that are either cleared by central counterparties or settled DVP
- Do not undertake 'bank-like' intermediation or underwriting
- Are thoroughly regulated and have multiple layers of Supervision
- Are not systemically important

## How is Trading of a Principal Trading Firm related to its Capital use?

Profitable Trading opportunity



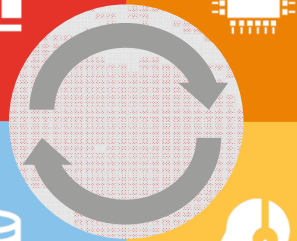
Technology



Capital



Skilled Traders



- The better the Technology, the more profitable trades can be identified
- The more profitable trades can be identified, the more trading can be done
- Capital facilitates the trading, but only if profitable trading opportunities can be identified
- Our traders identify new trading opportunities, deploy capital efficiently (creation/redemption) and interact with our Technology department to develop our Trading abilities
- If volatility increases, this process speeds up

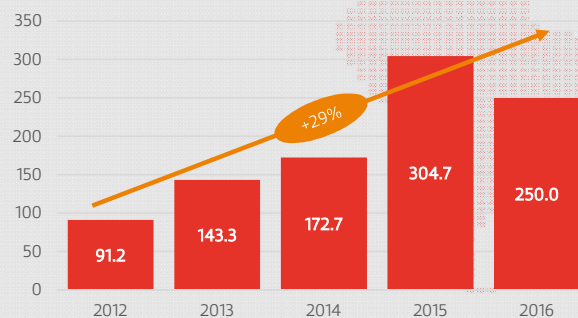
## Conclusion & Guidance



## Flow Traders – A technology enabled ETP liquidity provider

- A global ETP focused liquidity provider, with strong presence in Europe and expanding across the US and Asia
- Core business in providing ETP liquidity with increasing diversification to other asset classes
- Technological expertise and proprietary trading platform, creating a critical competitive advantage
- Highly robust, real-time risk management framework with multiple lines of defence
- Prudent financial management with focus on cost management and driving operational efficiencies
- A track record of strong growth, high margins and attractive dividend

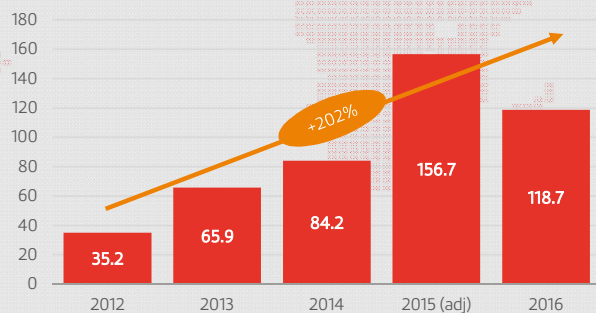
*Net Trading Income (€m)*



CAGR

+29% top-line CAGR since 2012

*EBITDA (€m)*



EBITDA Margin

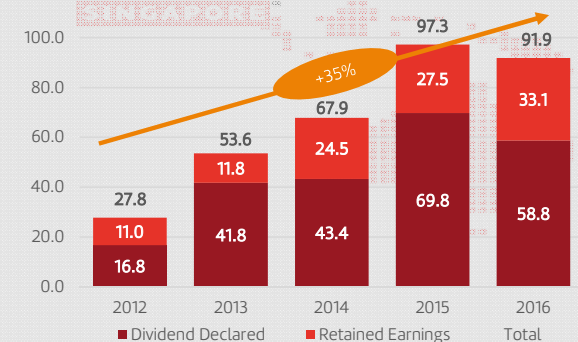
39%

+ 8 pts

47%

NTI growth and operating leverage driving EBITDA margin expansion

*Net Income and Dividends (€m)*



Pay-out Ratio

60%

78%

64%

72%

63%

Historically high dividend pay-out



## Focus for Flow Traders towards 2021

- 1 Grow Net Trading Income (NTI) structurally
- 2 Execute on organic growth path in all regions, driven by efficiency and diversification
- 3 Grow costs at max 15% annually after 2017
- 4 Regulatory focus on MiFID II and CRD towards 2018 and beyond
- 5 Maintain growth profile while keeping dividend policy in place to pay at least 50% of net profit in dividend

It is Flow Traders' ambition to become the world's leading technology-enabled liquidity provider

*Thank you!*