Flow Traders Q4 & Full Year 2022 Results

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Operator: Good day, and welcome to the Flow Traders' Fourth Quarter and Full Year 2022 Results Conference Call. This meeting is being recorded. At this time, I'd like to hand the call over to Jonathan Berger, Investor Relations Officer. Please go ahead, sir.

Jonathan Berger: Thank you. Good morning, and thank you all for joining Flow Traders' fourth quarter and full year 2022 results call. As you'll have no doubt already seen, we released our results first thing this morning. I'm joined here on the call today by Flow Traders' CEO, Mike Kuehnel, as well as Chief Trading Officer, Folkert Joling, who will run through this results presentation. Afterwards, they'll be happy to take any questions you may have.

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 by this disclaimer. Also, please note that the results we will discuss in this presentation are unaudited.

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

Mike Kuehnel: Thank you, Jonathan. And good morning, and thank you all for joining this call where we will provide additional colour on our fourth quarter and full year 2022 results.

2022, as a whole, saw an increase in the levels of market activity when compared to 2021 amidst the generally higher volatility environment. Market ETP Value Traded increased 41% year-on-year as investors absorbed various geopolitical and macroeconomic events. The fourth quarter of 2022 was marginally more active than the third, and this was reflected in ETP market value traded increasing by 2% quarter-on-quarter. Our own ETP Value Traded slightly decreased quarter-on-quarter. However, for the year as a whole, ETP Value Traded increased by 15%.

2022 saw record ETP value traded versus last year, which in itself was a record for our business. This was also the fourth consecutive year when our ETP Value Traded surpassed the €1 trillion mark. This is once again a testament to our market presence and leading global footprint. We also saw record value traded across each of our three asset class pillars in 2022, which demonstrates the structural return on recent investments and the development of a more diverse and resilient business.

From a NTI perspective, there has been a greater relative fixed income contribution in 2022. Consequently, this market environment, along with Flow Traders' own pricing and hedging capabilities translated into total income of €113.9 million for the quarter. This comprises net trading income of €115.6 million and negative other income of €1.7 million. As a reminder, the other income line item reflects the performance of our strategic investment portfolio.

2022, as a whole, saw normalised total income of €460.6 million, which was 19% greater than recorded in 2021. We delivered another strong financial performance and our second most successful year ever from a top line standpoint.

We demonstrated yet again strong margins with a normalised EBITDA margin of 42% in Q4 '22, with normalised EBITDA of €48.2 million. Overall, in 2022, normalised EBITDA was €208.2 million with a margin of 45%. As a reminder, our normalised income statement presentation removes the distorting impact of IFRS 2 in relation to share based payments and excludes one-off non-recurring advisory costs in order to provide an underlying performance view across the financial periods.

Q4 '22 normalised net profit amounted to €33.6 million with normalised basic EPS of €0.78. Ultimately, we recorded normalised net profit of 2022 of €150.2 million with normalised basic EPS of €3.45. Taking all of this into account, Flow Traders proposes a final dividend for 2022 of €0.80, which equates to a total dividend of €1.50 for 2022. This will be paid in early May following our AGM.

We once again retained a strong focus on implementing our strategic growth agenda during the fourth quarter, which saw further confirmation of our structural growth. Accordingly, we have worked to enlarge our trading footprint across multiple products and asset classes.

And lastly, I would also like to take the opportunity now to pay tribute to the professionalism, resilience and loyalty of all of our colleagues globally this past year. Everyone has contributed to the considerable operational and strategic achievements and successes over the past year.

Folkert will now review recent ETP market dynamics on the next slide.

Folkert Joling: Thank you, Mike, and good morning all. As shown at the top left-hand side of this slide, ETP Market Value Traded increased slightly in the fourth quarter of 2022 compared to the third quarter, although both quarters were down from quarterly volumes seen during the first half of the year.

Implied volatility, as represented by the VIX, remained elevated into Q4, although trending lower than Q3 as markets reacted to ongoing macroeconomic developments. There was a downtick in ETP velocity in the second half of '22, mainly driven by the Americas and Europe. ETP assets under management has reduced by 10% since the start of 2022, predominantly due to the broader market backdrop, but overall inflows remain strong.

In summary, it's fair to say that momentum and the outlook across the ETP universe continues to be positive.

I will now move on to the dynamics within the fixed income and crypto markets. As shown on the top left of the slide, it is evident that the investment-grade and high-yield bond markets have remained reasonably robust from a volume perspective, although being slightly down from the volumes seen in the first half. We can also see that credit spreads have widened in 2022 when compared to 2021. There has also been a corresponding widening of fixed income ETP spreads during the same period.

From a crypto market perspective, Bitcoin including other digital currencies, experienced a sharp price decline during 2022. There was also a noticeable volume spike seen in the market following the collapse of FTX. The declines in the cryptocurrency valuations have naturally impacted crypto ETP Value Traded, which also fell sharply in Q3 and Q4.

I will now review Flow Traders' regional performance. On this slide, we present an overview of some of the key performance indicators for the fourth quarter as well as for the full year 2022 on a regional basis. As Mike mentioned earlier, we have seen another strong performance in Q4. Heightened market activity and disciplined execution resulted in growth in NTI in Q4.

In Europe, we maintained our position as the leading liquidity provider in ETPs and delivered a robust overall trading performance in Q4. Encouragingly, our fixed income and corporate credit trading businesses continue to increase its presence across the markets.

Flow Traders retained our top five Bloomberg dealer rankings for executed tickets and volume within our Euro Investment Grade universe.

From a crypto perspective, as a regulated listed firm, Flow Traders continues to be well positioned, supporting partners in the overall ecosystem. It is also important to note that regarding FTX, Flow Traders has an immaterial exposure, and more broadly, we continue to manage risk effectively.

Moving to the Americas, it was clearly a strong trading performance in Q4, and this was partially driven by fixed income. As in Europe, we continue to build out the fixed income businesses in Americas and saw improved rankings across the various RfQ platforms. There was also a continuous focus on international equity pricing capabilities, including ADRs.

Flow Traders has also opened a new office in Chicago since 1st February, and we seek to further benefit from the city's unique talent pool and academic diversity. We also have created closer proximity to many innovative players in the US digital asset space to ensure Flow Traders remains well-positioned to be part of this defining moment in the future of finance and technology.

Lastly, with respect to Asia, we saw a solid quarter-on–quarter-on-quarter trading performance. In line with our strategy to expand geographically in Asia, we have further built out activities in China following the receipt of Flow Traders' QFII license and the opening of the Shanghai office with the purpose of helping to develop the local ETF market in making domestic and international indices effectively to make it available to investors.

Flow Traders have also started to leverage US and European fixed income businesses with our coverage in Asian trading hours for global coverage of both index products and selected single bonds. From a digital asset standpoint, we acted as a market maker on the Hong Kong Stock Exchange first virtual asset ETF and reflects our ongoing support for crypto and digital asset ETPs globally.

I will now hand back to Mike for the next slide, where we cover the cost base.

Mike Kuehnel: Thank you, Folkert. As you can see, we have seen 32% year-on-year and 5% quarter-on-quarter increases in fixed operating expenses. As we mentioned in recent earnings releases, a major impact has related to the US dollar strengthening against the Euro. This has affected all the fixed operating cost categories.

In addition, new hires, base compensation increases implemented in H1 and technology investments have also been contributing factors. I will discuss these developments in greater detail on the next slide.

We have also incurred €14.1 million of non-recurring strategic advisory costs predominantly relating to the updated corporate holding structure and further balance sheet review assets. These are excluded from normalised operating expenses. We have also seen further growth in headcount with a 3% quarter-on-quarter increase to 660 FTEs as we drive strategic growth. The business overall continues to demonstrate healthy normalised EBITDA margins both quarter-on-quarter as well as year-on-year.

While we remain committed to bringing on board additional talent in growth business areas, FTEs are expected to remain broadly flat during 2023, given expected efficiency gains. There is a strong commitment from the entire business to maintain the fixed operating cost base in line with the December 2022 run rate. Accordingly, normalised fixed operating expenses in 2023 are expected to amount to approximately €175 million to €185 million.

I will now discuss the development of our fixed operating expenses in 2022 on the next slide.

On this slide, we have presented the bridge to provide additional details and explanation around the development of normalised fixed operating expenses in 2022. As you can see, there has been a 19% increase in the normalised fixed operating expense development when adjusted for the strengthening of the US dollar as well as the targeted base compensation increases implemented in the first half of 2022. The impact of a strengthening US dollar versus the euro amounted to €6.6 million across all expense categories.

In terms of the base compensation increases, this had a €7.1 million impact. It is important to note, however, that this was offset by the change of the profit-sharing percentage to 32.5% of operating result from 35% previously. This ensures an income statement neutral impact overall.

I will now take a closer look at Flow Traders' capital position.

On the next slide, we show our required CET1 capital levels on the top left-hand part of the slide. After accounting for the final dividend, Flow Traders' capital buffers have remained strong and remain comfortably above our requirements under IFR/IFD. Our own funds requirements reduced to €274 million at the end of December from €323 million at the end of September. This reflects the nature of the trading book at that point in time.

We had a total CET1 of €539 million at the end of December '22 with €265 million excess capital. As you will have seen, we completed the update to our corporate holding structure on 13th January 2023. With this new holding structure, Group consolidated supervision and associated capital requirements no longer apply.

On a pro forma basis, this would have reduced our capital requirements by 15% if the new holding structure would have been in place at the end of 2022. From a disclosure standpoint, the concept of CET1 and other associated capital metrics at the Group level no longer exist and accordingly will not be reported on going forward.

On the top right-hand side of the slide, you can see our trading capital position. Trading capital really is the lifeblood of our business and has the ability to generate attractive returns, as shown on the chart. Our trading capital increased to €651 million at the end of the year and includes the proposed dividend, as well as deferred variable remuneration. It is also worth noting how consistently accretive trading capital has been over recent periods with levels in excess of 60%.

Considering all of these developments and the growth opportunities we very much see ahead, Flow Traders has set the full year '22 final dividend at €0.80 per share, implying a €1.5 total dividend for full year '22.

Moving to the next slide, I will discuss market trends, our strategy and recent achievements.

On this slide, you can see the supportive mega trends, which we outlined at the Capital Markets update, remains very much intact. These four megatrends continue to shape our market environment, are acting as tailwinds to our business and offer increased opportunity set.

Crucially, these trends all feed into and reinforce each other. Particularly relevant to our core business is the ever increasing acceptance of ETPs and growth in passive investing. According to BlackRock, ETP AUM is expected to double by 2025, which underscores the strength and importance of the ecosystem we are a key part of.

Electronification of trading is critical for all of our activities, but specifically, it is within our credit business, where this is a key structural trend in corporate credit and emerging market sovereign bonds. Increasing adoption of electronic trading ties into our core technology-enabled competency set.

Despite the recent market events, there has still been considerable average daily volumes across cryptocurrencies seen globally in 2022. Moreover, digital assets remain a long-term growth opportunity within the underlying technology expected to drive significant transformation across global financial markets in the coming years.

Lastly, regulation continues to support our business in terms of creating a level playing field in terms of execution transparency. In addition, increased regulatory adoption of digital assets will also create more opportunities for our firm as we are an active participant in accelerating these discussions with regulators.

I will now hand over to Folkert to review our strategic objectives and progress in 2022 and focus items for 2023 and beyond.

Folkert Joling: Thank you, Mike. With those key market trends in mind, our strategic goals and objectives across the three asset class pillars are fully aligned with the ambition outlined at the Capital Markets Update. We made significant achievements in 2022 and have clear focus areas for '23 and beyond. Again, these are all entirely consistent with our long-term strategic outlook.

From an equity standpoint, we are seeking to deepen product coverage and geographical footprint to align with structural industry growth. In 2022, we achieved record value traded across equity as we grew our large counterparty base even further and traded on a large array of venues. We also commenced onshore trading in China, which is a significant component of our broader Asia expansion plan.

In 2023, we will increase our focus on the US – in the US on index product with international underlying. In Asia, we will expand our set up in the major markets of China and Korea. We have further expanded and diversified our fixed income trading during the course of 2022. There was a material increase in fixed income value traded versus 2021 and the single bond market making proposition has grown globally in the past year as well.

2023 will see further growth globally in our single bond market making proposition. In line with this, we will also be onboarding additional fixed income institutional counterparties this year.

In terms of CCC, the focus here is on growing our presence and participation in digital assets, FX and commodities. We retain our long-term conviction around digital assets, and accordingly, have continued to grow our presence in the global crypto financial ecosystem. We expanded our coverage of crypto ETPs and have acted as a market maker on numerous crypto ETP launches. Work will continue in 2023 on accelerating our footprint in ETP, spots and derivative products as well as expanding OTC bilateral counterparty business across CCC space as a whole.

To complete the picture, we have expanded our strategic ecosystem approach, which is channelled through our corporate venture capital unit, Flow Traders Capital, which is covered in more detail on the next slide to be covered by Mike.

Mike Kuehnel: Thanks, Folkert. In 2022, we announced the establishment of Flow Traders Capital, which formalised and refines our overall strategic ecosystem approach. It is clear that there is a tremendous amount of change in innovation happening in global financial markets. Given our position within the ecosystem, we believe we can play a critical role in driving this innovation and change. Yet at the same time, we believe that single firms acting alone cannot accomplish this.

We therefore want to make sure we partner with other organisations to leverage this change as well as to accelerate our overall strategy by driving themes of electronification and transparency. In 2022, we made 16 strategic investments in total, which has a current portfolio value of €25 million. And this slide illustrates selective investments we have made recently.

I do not propose to run through each initiative shown on this slide in turn. But as you can see, our current portfolio is split across our three asset class pillars of equity, fixed income and CCC. Interest in strategically partnering with Flow Traders remains high. And whilst new investment activity has reduced, focus has intensified on strategic planning with existing portfolio companies. The pipeline for new investments in both digital assets and traditional finance ecosystem systems remain strong.

I will now hand back the call to Jonathan.

Jonathan Berger: Thanks, Mike. This now concludes the formal part of our presentation. We would now like to open up the floor to any questions you may have. Operator?

Questions and Answers

Operator: Thank you, Jonathan. Ladies and gentlemen, if you wish to ask a question at this time, please signal by pressing star one on your telephone keypad. And please make sure, the mute function on your phone is switched off to allow your signal to reach our equipment. Again, just press star one to ask a question. And our first question comes from Greg Simpson from BNP Paribas Exane. Please go ahead. Your line is open.

Gregory Simpson (Exane BNP Paribas): Hi. Morning, guys. Thanks for taking my questions. Just first one maybe is could you talk about the net trading income mix by asset class? And I know that at Capital Markets Day you kind of gave that mix. How did it shape up in 2022 and in Q4, in particular, interested in the contribution from fixed income? That would be my first question.

Folkert Joling: Thank you, Greg. In line with the market activities, fixed income was more active in '22 than in '21. So this is also reflecting the relative contribution of fixed income on the total. So it has grown a bit. Equity is still the strong hold and very stable contribution on the distribution.

So fixed income grew relatively. And because of the crypto downticks and the activity in the CCC space, relatively fixed income, yes, is slightly larger than in '21. Equity, very stable and fixed income takes that part probably relative from the CCC bucket.

Gregory Simpson: Got it. Okay. And the – and then just on the – looking at the EMEA segment, the fall in NTI in Q4 versus Q3 in volumes look quite stable and the market didn't feel particularly different between those quarters. So can you just talk a bit more about why things are a bit slower on the recurring revenue side in EMEA in Q4?

Folkert Joling: There's always a bit of variance in those patterns. So the KPIs are very stable and strong. So we don't see a significant change in those. So it's nothing materially different. I think lot of the key indicators that we are looking at also a very stable pattern.

Gregory Simpson: Got it. And then maybe just one final one is – maybe answered, but any kind of particular change on the competitive front in terms of the players you're kind of seeing in the market or is it still kind of stable? And also, is your market share in equity ETFs very different to fixed income ETFs? Is there a big difference between those two on market share front? Thank you.

Folkert Joling: The competitive landscape in Q4 has remained relatively intact. So we do see the continued developments in technology, latency and prediction ongoing. But the mix of competitor is relatively equal.

The market shares across the different asset classes depends a bit on the segment of the pillar. So we are very strong on the international side on equity, relatively less on the domestic. That has also remained similar. And in fixed income, this is also the case where we are stronger on the investment grade and the high yield bucket relatively to the treasuries.

So the pricing element of our competence set is the reason for this. So those market shares have remained strong in equity side in Europe, 40% market share on exchange, between 25 and 30 off exchange. So these are all very stable.

Mike Kuehnel: Greg, if I may add just to provide a bit more broader colour. When we presented our Q3 results, we made a bridge into the diversification strategy paying off. But what we see now consistently is that the structured investments we made in our business and fixed income is a very prominent example, are increasingly paying off. So I think this is a testament that the trends are right that we indicated as key opportunities for us.

But secondly, creating a global footprint of our underlying infrastructure and making sure that we can capture very systematically more market share. That's another leg to it. So in a way, this is now, for us, a proof of concept for diversification work. So we can be, in part, significantly more asset class agnostic. And secondly, we are able to increase more operational leverage on a global basis. So I hope that this ultimately then builds the bridge into becoming more competitive down the road.

Gregory Simpson: Got it. Thank you. And just sorry, the fixed income was 10% of NTI in 2021. Is – any colour where that actually was in 2022?

Folkert Joling: We've not disclosed this, but slightly larger than that.

Gregory Simpson: Slightly larger. Okay. Thank you.

Operator: Thank you. And our next question comes from Julian Dobrovolschi from ABN AMRO-ODDO BHF. Please go ahead.

Julian Dobrovolschi (ABN AMRO-ODDO BHF): Hi. Good morning, gentlemen, and thanks for taking my questions. Congrats on the strong set of results. Of course, I have a couple of them on my side. I have to kick off. I'd like to kind of dig deeper a bit into the trading capital and the returns on that. So I was just wondering what are the main drivers actually for growth on the returns of trading capital? So in Q4, this landed at 71% while it was at 67% in Q3. And you clearly traded less crypto, which in the past was a bit of, let's say, kind of high return on capital, while the non-ETP volume stayed broadly flat quarter-on-quarter. So could you please give a bit of colour from where this is actually coming from?

Mike Kuehnel: Yes, Julien, I can kick it off. I think there are different components to that equation. One is an increased level of also internal visibility on trading opportunities. So we started talking last year actually about we want to make capital or drive velocity of capital and drive also across the entire global footprint even, the visibility of a rising trading capabilities and build an organisation behind that in order to capture that. So that is clearly and has been and still is a key priority for us. So that's a key driver.

I think the second point is that we feel that the investments we have made over the last few years also give us an opportunity to capture the right opportunities around high volatility and market dislocation. And there's clearly also a point on global alignment across the firm. So we've been very diligent in fighting complexity of a growing organisation and building systematically more alignment into the business.

So this gives us a significantly higher speed in being able to react to a rising trading opportunities for us. So in a way, this trading capital return footprint is a key indicator. And there are multiple KPIs below in order to make sure that this comes not as a surprise to us, but we are very systematic in driving the trading capital return to these levels and also making sure that we can maintain it there.

But there is more behind in order to make sure that the entire organisation can capture these opportunities structurally quarter-by-quarter.

Julian Dobrovolschi: Got it. Thanks. And just kind of building on that, you said that you'd like to kind of keep it at this level for the medium term. What kind of confidence would you have to kind of, let's say, generate the same returns in trading capital in 2023, for example, assuming there is no crypto and assuming the same split in trading, let's say, volumes across all the asset classes? Is 70% something feasible to kind of stay at in the midterm?

Mike Kuehnel: Now there are a couple of points to highlight. So the first point is it's always driven by market development that's hard to foresee. So we have seen – as you know the figures, we have seen trading capital returns above 100%. We've also seen levels of 60% or 50%. But I think what we have been building out is a very resilient model now that gives us an increasing level of comfort that there might be an up-levelling of the new trading capital return.

The second layer is in the capital markets update, we have been quite vocal on building out our research predictive trading capabilities. And it's fair to say that if we further diligently do that and embrace that and embed that in the business that this will have or could have at least that's our hypothesis a meaningful impact on trading capital returns going forward.

And the third highlight I would like to make because we have been quite reflected internally on not the average return, but the incremental return. And if we also embrace more capital through external sources, as we highlighted earlier, we had a very stringent review process on how that would impact our trading capital returns, and we are quite confident that this won't be dilutive.

So in a way, what we want to demonstrate is a high degree of scalability of the business. But it's important to make the link out of the trading capability evolution, which is a critical component, the ability of the organisation to become further global to continue our investments in the key priority areas and fixed income is one of it, but also on the CCC layer, and at the same time, maintain our strong equity position globally.

So if this all comes together, it's a fair assessment from our perspective that we can maintain or even further expand.

Julian Dobrovolschi: Okay. Got it. Thanks, Mike, for all the flavour. Then switching on to a different one on a strategic point of view. So you mentioned in the discussion today, but also in the press release that you opened a new office in Chicago. Could you kind of speak more about the rationale and vision behind that, let's say, try to build a team of IT, techs roles, traders. So what's exactly the vision behind that? And also how does this correlate with the fact that you mentioned that you actually expect the FD account to stay flat year-on-year?

Folkert Joling: Yeah. So you are right. It's predominantly focused on tech capabilities. There's also a lot of existing experience and knowledge in that region. So that probably would mean within, let's say, a headcount not growing unless we grow the businesses that is still affected, obviously, that it could mean that we hire new staff in Chicago if we were to have attrition in New York.

That’s not to say an additional growth. The size is expected is relatively small at the moment. So we have a couple of smaller representative offices across the globe. So we have main trading hubs, and we've got a couple of small offices. So in this case, the plan is to start with a tech footprint. So it's not materially changing a headcount plan at all.

Julian Dobrovolschi: But kind of a buffer just in case what I just also mentioned, just in case there are people dropping off from other regions and you can try to kind of, let's say, hire more in the Chicago base.

Folkert Joling: Yes. There's a strong tech recruitment plan on the need, definitely.

Julian Dobrovolschi: Sounds good. Thank you so much. Yeah.

Mike Kuehnel: Just add one point. So this entire asset further globalising the firm is also very much related to boosting – further boosting our brand name. And we are very focused on understanding what needs to be true and how we need to act in order to make sure that we dip into the top talent pools across the world. So that's one of the key ingredients of making sure that we can maintain our growth. And Chicago has been identified for obvious reasons as a critical component in that equation.

Julian Dobrovolschi: Yeah. Thanks. And just maybe also another one. Actually, it's a question that I guided from one of the investors. The question is as follows. I mean, if you want to really boost the trading capital, the idea is one of them, let's say, besides, of course, taking debt is to basically cut down even more the penetration of the dividend and basically pump all the net profits into the trading capital. Well, you’ve of course have done that already. So the pay-out and now it's reduced to 51 percent. Is there any – let's say, have you actually thought about having it even a bit more in the short term, just to kind of, let's say, boost the trading capital quickly and then eventually flip it back to where it was?

Mike Kuehnel: So the perception is as follows. We operate very much in a dynamic decision tree, if I may say it like that. So if we bring in more trading capital to the firm, there needs to be a deployment process. So you're not immediately able to deploy it.

And coming back to your point on incremental trading capital returns, we have a very stringent and very competitive approach in making sure that we steer that, so to avoid dilution. And in light of the fact that you need a bit more time than over the different cycles, which then cannot be foreseen, but we are quite reactive to that. We are getting internally in terms of the capital allocation to a clear view, and there's also a predictive model in place to understand how we can play then the investment side versus the dividend side.

And I think that's the true answer to your question that given the high cash generative power of the business and our – not just ability but focus on making sure that we are always accretive on trading capital return when new capital is being added, we have flexibility. And I think that we explained in the past how important that is for us in order to make sure that we explain the link between the dividend policy and our deep conviction that the business is still significantly scalable at attractive returns.

Julian Dobrovolschi: Okay. Got it. All right. Thank you so much.

Mike Kuehnel: Welcome.

Operator: And our next question comes from Michael Roeg from Degroof Petercam. Please go ahead.

Michael Roeg (Degroof Petercam): Good morning, gentlemen. I have a couple of questions. The first one is on your workforce that you want to keep unchanged versus year-end 2022. However, the number of people was only 5% higher than at year-end 2021. And yet you have a lot of growth initiatives, including new offices here and there and a lot of initiatives on slide 11. So keeping your workforce unchanged should be compensated by much more efficiency. So could you explain a bit what kind of efficiency measures you wish to implement and in which fields of the operations that will happen.

Folkert Joling: Well, there is also the fact that we've been hiring a lot of young staff over the last couple of years who we have been training, and that process from graduates coming in to becoming fully effective also takes time. So from the number of people that we've been hiring since 2019 and onwards, these all will become way more effective. So that's one element.

And on the other side, the effort that we're making on the inside, the link between the benefits of the NTI and the cost and the way to get there. We're putting a lot more focus on that in the last couple of months, and we feel confident that we can realise lot of efficiencies gains coming out of that insight that we have created.

Mike Kuehnel: And maybe one additional layer and that's more the mid to long-term perspective. So when we conducted also our review last year on our strategy, understanding what are the opportunities, where can we go from here, there was a key reflection that we need to also put a strong focus on how to create a lean organisation and how to avoid redundancies, how to capture more scale for the next few years in the most ideal way.

So a lot of reflection has gone into avoiding redundancies, functional duplication and creating more standardisation. So that's also a key element. This might not be seen right away, but we are very much convicted that this is one of the key ingredients, making sure that the company is further growing. We are not facing a cost spike. We are not facing any limitations on further growing the firm.

So it's a broader picture around the pieces Folkert highlighted and the more long-term perspective, the next few years, how does the organisation further need to be built in order to capture that growth.

Michael Roeg: Okay. That's clear. And you also mentioned you can grow further if you want to. But based on the flat workforce, you've also given cost guidance fixed costs.

Mike Kuehnel: Yeah.

Michael Roeg: What kind of euro-dollar rate did you include in that guidance?

Mike Kuehnel: So we have different or put different scenarios into it in order to have some flexibility. And the reality is that we are most comfortable with the range we gave in the press release. So in our own calculation, assuming that there won't be significant changes, we are around in the middle. But if there are some deviations, we also have a longer mitigation list in place. So it's already a very holistic approach with clear ownership across the organisation on how to drive then the cost evolution throughout the year in order to make sure that we stick to that target.

Michael Roeg: Okay. But basically, the dollar weakened – last year, you had a negative impact from a stronger dollar on your cost base. This year, it looks like it's going the other way around so far this year. But of course, we don't know what it will be happening later on.

But surely, if there's going to be strong swings, you cannot compensate everything. So is it fair to assume that you basically put in today's spot rate for the dollar in your cost guidance?

Mike Kuehnel: As part of the scenario setting, that's what we did. However, it's important that I highlight what I said before. So we approached it via different scenarios, also expecting different changes than to the exchange rates in order to make sure that this is in line.

And I have to highlight the cost guidance we are giving is then also on a normalised level. So it's important for us that the starting point, the 161.6 million has been given in the presentation on an adjusted basis is a clean figure. So what I'm trying to say is we will monitor the US dollar exchange rate development over time. And depending on where this comes out, we have different levers to pull in order to make sure that we can really, yeah, counteract.

The more important piece to that equation, however, is that the key focus will be really on driving structural efficiency. So this is about functional redundancies, creating more alignment in the organisation, increasing standardisation, the focus highlighted on making sure that incoming ranks are becoming significantly more productive over time.

There's a very stringent process in place to make sure that this is working. So it's a meaningful and comprehensive effort across the entire firm and also with the global executive committee being fully in charge to make sure that we have a common goal to steer towards. And with that, we want to set a clear signal to the market that this is not just a top line driven business. We are very reflective on what needs to be true in order to make sure that we are able to further grow with a very healthy cost structure.

Michael Roeg: Okay. That's quite an elaborate answer. Thank you. Then I also have two questions on the dividends. The first one is that the press release mentioned a 51% pay-out, the dividends against the normalised net profit was only a pay-out of 43%. Why did you decide to pay out against the reported net profit, which is not your main KPI?

Mike Kuehnel: The IFRS was the reference for the interim period, and we wanted to stick to the former method and make it also clear that IFRS is the non-Flow Traders adjusted version of the net profit in order to make it very transparent. Basically, we wanted to stick to what we communicated to markets before – and in light of – and that's the broader setting for the answer in light of the tremendous trading capital returns we see in the 71 in Q4. It's a fair reflection of that.

We also felt that that's a very prudent and comprehensible approach, making sure that we are able to further drive the business with the retained capital.

Michael Roeg: Okay. Good. So I guess we already have the answer to one of the questions of my – the other analysts with the investor who wanted a lower pay-out. So you could grow faster. So it's on IFRS.

But then to turn it around, last year the dividend pay-out ratio was lowered to free up more capital for growth. In the meantime, you have changed your corporate structure, which will free up capital for growth. If that would be sufficient, would it be a possibility to raise the pay-out ratio again to former glory?

Folkert Joling: Well, that last statement is not fully true. That change of the legal structure doesn't impact trading capital. There's a difference between the trading capital and regulatory capital, so the trading capital and the regulatory capital are not complementary. There's two different views on the operation.

Michael Roeg: Okay. But I thought that changing the corporate structure would remove some regulatory capital on some of your units that would be able to be put at work. But that's not the case.

Mike Kuehnel: In order to be perfectly clear, the new environment gives us more flexibility to deploy trading capital. So there will be, if you will, a higher capital excess. And this is now important to explain what that actually means. It means that depending on rising trading opportunities, we have more flexibility. So specifically, if there are trading opportunities in more capital intensive parts of the businesses, such as fixed income, we have now an ability to boost these opportunities even further.

So there was a restriction, if you will, from a regulatory perspective in place before under IFR/IFD. In the new setting, we are significantly more flexible. And why is that relevant? It's relevant because we felt when we built the higher degree of capital velocity in the firm and the higher degree of transparency on where returns actually occur and us wanting to jump onto these returns, we felt that we need to have a higher degree of flexibility.

And the point we made earlier on, we want to create, or want to be on a level playing field with competition, we felt that's a key ingredient in making sure that we remain fully competitive on that front. So in a way, what you will see going forward is an impact yet hard to break out, but an impact on NTI.

Michael Roeg: Okay. So does this basically allow you to do more cherry-picking than before?

Mike Kuehnel: I wouldn't call it cherry-picking. I would basically say we have an opportunity to double down on rising opportunities more significantly.

Michael Roeg: Okay.

Folkert Joling: For the growth, it is not forming a similar constraint on the growth for the future. So on the current, it doesn't change anything. But for the growth of the trading capital, that makes it possible. But I think we do conclude that it's probably good to explain a bit more on the trading capital versus regulatory capital to the analysts in a later stage. Let's commit to that.

Michael Roeg: Perfect. Good. That's it from my side. Thank you.

Mike Kuehnel: Welcome.

Operator: And our next question comes from Michael Werner from UBS. Please go ahead.

Michael Werner (UBS): Thank you very much, guys. Great presentation. Just a couple of questions from me. One is on capital, but I'm going to take a little break from that right now. I guess in terms of the FTE and the headcount space, as we think about it, you want to kind of keep this flat. We've seen, let's call it, around 10% or 11% net growth in FTEs over the past five years per annum. I imagine that was probably 15%, 20% gross increases, a loss of, I don't know, 5% to 10% of employees a year. I was just thinking as we look out to 2023, in terms of your – how you're budgeting in terms of the gross increase in FTE, i.e., how many incremental spots you expect to add? And then kind of backing out of that kind of the number of headcount you expect to potentially reduce as a result of efficiencies.

Folkert Joling: The attrition has been a bit higher than 5%, especially since the COVID period where people do re-evaluate their lives, so flexibility in working from home. And all, let's say, the personal items have reflected in those periods generally in the entire market for people moving and making some decisions to life. So I think that attrition has been a bit higher since 2020-‘21 compared to before.

So for this year, we still have around 50 people confirmed starters to join us. And we have – we are anticipating an attrition, which is probably still a bit higher than the years before COVID. So the natural attrition, we're not expecting to – that you net off. And then we have a lot of vacancies still open as well because we do intend to grow the businesses with new activities. So what we look at here is what we know what we can build with the current staff.

So we have a couple of spots which we need to fill, but we also are looking for new business growth, which is not embedded in the budget yet, so that will lead to also adjusting the NTI budget, for instance. So if the – if we manage to find talent that would go along with increasing the business plans.

So it's not only looking on the efficiency side. It's looking at probably – it's better to see us looking at the ratio between the NTI and the cost and not just the cost.

Michael Werner: Thank you. And then just a quick question. Have you had any loss days, trading loss days, either in Q4 or in the full year 2022?

Folkert Joling: To be honest, I don't know if I had because it's not really something we focus on. It could be one or two, but nothing really special in my recollection. But I have not looked at the data because it's not something which is relevant to us because it's not a theme here, to be honest.

Michael Werner: Okay. That’s it. Thanks.

Folkert Joling: So it’s probably one or two or something.

Michael Werner: Okay. Thank you. And then finally, just kind of getting back to kind of the capital. During your Investor Day last year, you indicated you have ambitions for 20% annualised NTI growth, I believe. At the same time, again, that's kind of really punchy, pretty much kind of a growth company. And yet at the same time, you have a 50% dividend pay-out ratio, which is not really a characteristic of a growth company as that capital typically is needed to be reinvested to generate the excess revenue growth.

And I certainly recognise that the change in the corporate structure will improve the revenue return on trading capital. But how should we think about that, where you're kind of aiming for 20% growth? And at the same time, you're returning half of the earnings in the form of the dividend. Is that 20% growth achievable on a sustainable basis with the current kind of capital strategy?

Mike Kuehnel: Yes, that's a fair question. The answer is yes. And I'll explain in more depth why – so one key piece of the equation is indeed the new corporate holding structure. So we sense, and this is also driven by analysis we did over time that that increased flexibility can give us more ambition to – more drive in order to increase the NTI footprint.

The second point is the fact that we have structurally increased the capital allocation throughout the firm, including the velocity is another driver where we can capture the rising opportunities faster and better. So that's a key part of the equation.

And the third point is there's a very clear perspective on our side on how our investments are paying off. And I think we have clearly made the point in the past, even when we started looking into it, that we are very much following these long-term investment strategies around the underlying themes we feel strongly about, electronification being one.

So the combination of us then driving that into a stronger counterparty penetration and an ability to also be significantly more competitive than others in the market is another point where we expect that the next few years will give us an increased ability to really push that further. Yeah. But these components together then really drive our conviction that the top line growth is realistic. And the – I wouldn't say the trading capital return per se. It's more than a combination of trading capital return and equity returns should also increase on that front.

Michael Werner: Thank you very much.

Operator: As a reminder, to ask a question, please signal by pressing star one. Our next question comes from Reg Watson from ING.

Reg Watson (ING): Morning, all. I was just wondering if you could provide a breakdown of the trading capital for 2022. You had the breakdowns for '20 and '21 at the Capital Markets Day. So it would be nice to be able to build a time series of that. And then sorry, by breakdown, I mean to asset class – the asset class split.

Folkert Joling: Yeah. So to answer it properly, what happened with the, let's say, the crypto markets in Q3, Q4, that made us moving trading capital away from there for the risk appetite and the balance between risk rewards on those allocations went down – so we moved that trading capital to other parts of the business.

So if you would look on the full year, it might be a bit distorted. So in the end, the mix shifted a bit more to less to the CCC and more to the others, where the growth of the fixed income activities has a higher projection for needs on still the next months to come compared to equity.

So the – let's say, in rough terms, what we have seen is a shift from the CCC to relative – that is all relative to the fixed income books more than to the equity seem pretty logical. Nothing major different than –

Reg Watson: Okay. But are you not going to give us a breakdown going forwards then for the NTI and the trading capital splits because I was under the impression that one of the key elements of the CMD was to align periodic reporting with the business structure given that you're organised along these asset classes rather than by geography? I was under the impression we were going to get a clearer view of how the individual businesses themselves are performing.

Folkert Joling: Yeah, that's happening. We're still in the transition.

Reg Watson: Okay. Fair enough.

Operator: Thank you. As there are no further questions in the queue, I'd like to hand the call back over to our speaker for any additional or closing remarks.

Jonathan Berger: Thank you, operator. We would like to thank the analysts for participating in today's call. Please note that we host our next analyst call when we release our second quarter and H1 2022 results in July. Details for this call and the timing of this call will follow in Q4. As a reminder, our first quarter trading update is scheduled to release on 21st April 2023. And with that, this now ends the call. Thanks again, and have a great day.

Operator: Thank you. This concludes today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.

[END OF TRANSCRIPT]