Flow Traders Q4 & FY 2021 Results

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Operator: Hello, and welcome to the Flow Traders' Q4 '21 and Full Year '21 Results. My name is Josh, and I will be your coordinator for today's event. Please note that this conference is being recorded. And for the duration of the call, your lines will be on listen-only. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypads to register your question. If you require assistance at any point, please press star zero and you'll be connected to an operator.

I would now hand you over to your host, Jonathan Berger, to begin today's conference. Thank you.

Jonathan Berger: Good morning, and thank you for joining Flow Traders' fourth quarter and full year 2021 results call. As you've no doubt already seen, we released our results first thing this morning. I'm joined here on the call by Flow Traders CEO, Dennis Dijkstra, as well as Chief Trading Officer, Folkert Joling, and Chief Financial Officer, Mike Kuehnel, who will run through the results presentation. Afterwards, they'll be happy to take any questions you may have.

Before we begin, let me draw your attention to 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 the results we'll discuss in this presentation are unaudited.

With the formalities out of the way, I'd now like to hand over to Dennis for his opening remarks.

Dennis Dijkstra: Thank you, Jonathan. Good morning, and thank you all for joining this call, where we will provide additional colour on our fourth quarter and full year 2021 results.

2021, as a whole, saw an increase in the levels of market activity when compared to 2020, despite a more normalised volatility environment. Market ETP Value Traded increased 5% year-over-year, as investors continue to absorb the economic and social impacts of the pandemic.

The fourth quarter of 2021 was more active than the third, and this was reflected in the ETP Market Value Traded increasing by 20% quarter-on-quarter. Our own ETP Value Traded also increased both quarter-on-quarter and for the year as a whole. In the fourth quarter, ETP Value Traded increased by 13%, and year-on-year by 2%. 2021 saw record ETP Value Traded versus last year, which in itself was a record for our business as well.

This was also the third 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.

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

The market environment I just described, along with Flow Traders' own pricing and hedging capabilities, translated into a net trading income of €80.3 million in Q4 2021 compared to €67.1 million in the third quarter of 2021. This contributed to NTI for the full year of €384 million. This was Flow Traders' second most successful year ever from a top line standpoint.

We demonstrated yet again strong margins with a normalised EBITDA margin of 41% in the fourth quarter of 2021, with a normalised EBITDA of €32.6 million. Overall, in 2021, our normalised EBITDA was €175.3 million with a margin of 46%. As of Q3 trading update, we have been focusing on our normalised EBITDA and margin as metrics, which we believe better demonstrate underlying quarter-on-quarter performance as they remove the distorting effects of the IFRS treatment of our share-based compensation plans.

Q4 2021 net profit amounted to €16 million with a basic EPS of €0.37. Ultimately, we recorded a net profit for 2021 of €114.9 million with a basic earnings per share of €2.63.

Taking all of this into account, Flow Traders proposes a final dividend for the financial year 2021 of €0.35, implying €1.35 total dividend for the financial year 2021 and a 51% pay-out ratio. This will be paid shortly after our 2022 AGM. We do recognise that this pay-out ratio is lower than the previous years. The decision around the dividend reflects our view and confidence of the trading opportunities ahead, and accordingly the desire to have sufficient training capital retained with the business to capitalise on these accretive opportunities.

As you will see later, our trading capital is highly accretive. We once again retained a strong focus on implementing our strategic growth agenda during 2021. We saw further confirmation of our structural growth. Accordingly, we have worked to enlarge our ETP footprint and have taken further steps in enhancing coverage of fixed income crypto FX and commodity markets. These investments are positively contributing to the top line, and we expect even greater contributions going forward.

Let's now take a closer look at the market developments as well as a deeper dive into Flow Traders' performance and accomplishments.

Firstly, we will review recent ETP market dynamics on slide four. As shown on the – at the top left-hand side of this slide, ETP Market Value Traded increased significantly in the fourth quarter of 2021 compared to the third quarter. The fourth quarter was the strongest quarter in 2021 from a market volume perspective. Implied volatility also increased as the markets reacted to the emergence of the Omicron variant.

Accordingly, we saw market velocity increasing, driven mainly by the Americas and EMEA. ETP Assets under Management saw considerable growth during the course of 2021, driven predominantly by equities and fixed income. This once again confirms the structural growth evident in the overall ecosystem. It goes without saying that as a key part of the ETP ecosystem, Flow Traders facilitated trading in all these ETP asset classes.

I will now move on to the dynamics within the fixed income and crypto markets, which are becoming increasingly important for Flow Traders as we expand our trading activities in these markets.

As shown on the top left of the slide, it is evident that the investment grade and high-yield bond markets have remained subdued when compared to the levels seen earlier in the year. Given that US is the largest fixed income market in the world, we have used TRACE volumes as compiled by FINRA as a proxy for the dynamics within this section of the fixed income market.

We can also see the credit spreads have narrowed in 2021 when compared to 2020. Moreover, fixed income ETF spreads in EMEA more than halved in 2021 versus the prior year. This reinforces the subdued nature of the bond market.

From a crypto perspective, the trend has been more positive. Crypto ETP Value Traded recovered strongly in the fourth quarter and we have seen price volatility in the underlying coins with Bitcoin receding from historic highs in November.

Now, I will hand over to Folkert, who will brief you Flow Traders' regional performance in greater detail.

Folkert Joling: Thank you, Dennis, and good morning all. On this slide, we present an overview of some of the key performance indicators for the fourth quarter and for the full year 2021 on a regional basis.

As Dennis mentioned earlier, we have seen stronger performance in Q4 than in Q3. Heightened market activity and disciplined execution resulted in growth in ETP Value Traded and NTI in Q4. In Europe, we maintained our position as the leading liquidity provider in ETPs, both on and off exchange in equity, fixed income and quality ETFs with a strong overall trading performance in Q4.

There was also a further build-out of our single bond market making business with Flow Traders going live on Neptune and MarketAxess, which are both major RfQ platforms. We have also maintained our number one market status in crypto ETPs, with a 45% market share in Q4 and 2021 as a whole. By way of furthering our commitment to the digital assets base, we completed a strategic investment in D2X.

Moving to the Americas. Trading performance was once again affected by similar themes from Q3. Within fixed income, competition remained intense, which was also combined with low volatility and tight spreads. In addition, we continue to invest in our market presence in relation to single bond market making. We became a disclosed market maker on MarketAxess for high yield bonds in Q4 and already achieved the rank of seventh most active bond market maker by ticket count.

This demonstrates that we are gaining traction within this market. There were also positive developments in our lead market maker activities with more listings added from numerous issuers. We continue to be well prepared for the eventual launch of spot crypto ETFs in the US. And from a strategic ecosystem perspective, we also participated in MEMX's second funding round.

Lastly, with respect to APAC, we saw a solid trading performance with elevated volatility levels and increased activity in fixed income driven by the Chinese markets. We also deepened our relationship further with the Hong Kong Stock Exchange and Derivative Exchange by acting as a liquidity provider on the new MCI China A50 connect future.

As in other regional markets, we are driving forward the growth of the digital asset space by assisting ASX with their anticipated forthcoming crypto ETP launches.

I will now hand over to Mike for the next slide, where we will cover the cost base in greater detail.

Mike Kuehnel: Thank you, Folkert. I'm delighted to be participating in my first results call since starting at Flow Traders in August last year. As you can see, there was a 12% increase in fixed operating expenses in 2021, excluding one-off expenses, which is within the 15% guidance we communicated this time last year.

The growth in fixed operating expenses in Q4 was a modest 2%. The main drivers of these increases relates to new hires to support our growth strategy, as well as ongoing technology investments. We have incurred $2.5 million of additional one-off expenses in 2021, which relates to the ongoing activation of the business continuity plan.

Our headcount increased by 11% versus the end of 2020 with a focus on technology and development hires to support growth in product coverage, asset classes and trading platforms. The business overall continues to demonstrate healthy EBITDA margins. And in terms of costs for 2022, we maintain our guidance from last year and expect the maximum growth in fixed operating expenses of approximately 15% as we continue to execute our strategic growth agenda.

Now I will take a closer look at Flow Traders' capital position on the next slide. We show our required CET1 capital levels on the 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 requirement decreased to €243 million at the end of December from €337 million at the end of September. This reflects the nature of the trading book at that point in time. We had total CET1 of €483 million at the end of December 2021 with €240 million excess capital.

As we have mentioned previously, the new IFR/IFD prudential regime came into force in 2021. We remain in ongoing discussions with the DNB as to the precise implementation of these new requirements. 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 €611 million at the end of the year and includes the proposed dividend, as well as deferred variable remuneration. It is also worth noting that given our expanded trading activities, there is increased demand for trading capital across the firm. Considering all these developments and the growth opportunities we very much see ahead, Flow Traders have set the full year '21 final dividend at €0.35 per share, implying a €1.35 total dividend for full year '21, implying a 51% dividend pay-out ratio.

Total dividends paid to shareholders since the IPO of Flow Traders now amounts to €14.50, including the full year '21 final dividend.

Now I will hand over to Dennis to discuss market trends and our strategy.

Dennis Dijkstra: Thank you, Mike, and welcome to the team again. On this slide, we have laid out our four key market trends, which we believe are acting as tailwinds to our business and offer an 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 each year until 2021, which underscores the strength and importance of the ecosystem we are a key part.

Electronification of trading is critical for all of our activities, but in particular, 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.

We have seen the increasing institutional adoption of digital assets, not only demonstrated by crypto ETP Value Traded, but also by the increasing number of listings. We expect this trend to continue, as well recognising the potential for DeFi to fundamentally revolutionise the 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. Moreover, increasing regulatory adoption of digital assets will also increase more opportunities for our firm.

Now I will turn to the next slide of the presentation and review our strategic objectives and progress in 2021 and focus items for 2022. With those key market trends in mind, our strategic goals and objectives are focused around three key areas: equity, fixed income or credit and crypto.

We have made significant achievements into 2021 and have a clear focus for 2022. These are all entirely consistent with our long-term strategic outlook. From an equities standpoint, Flow Traders will build on our leading global ETP liquidity provider position in 2021 and grow our presence in all regions. We also increased the Value Traded in all regions as we traded with more counterparties on a large array of venues.

In 2022, we will focus on further expanding our counterparty base, as well as improving our US domestic equities capabilities. We have enhanced coverage of fixed income in the past year by launching our corporate credit and emerging market sovereign bond market making businesses.

We now cover in excess of 8,000 ISINs and are live on all major RfQ platforms globally. Our proposition has been well received by the buy side, and we are gaining real traction in the market. In 2022, we will expand these market making activities into the APAC region.

In terms of the third strategic growth area, we have continued to grow our presence in the global crypto financial ecosystem. We expanded our coverage of crypto ETPs and have made strategic ecosystem moves through D2X and the Pyth network. Work will continue in 2022 on accelerating our footprint in ETP, spot and derivative products, as well as further participation in the overall ecosystem.

I will now hand over to Mike to conclude the presentation by reviewing our strategic ecosystem approach.

Mike Kuehnel: Thanks a lot, Dennis. During 2021, we refined and rededicated our overall strategic ecosystem approach, which we believe has added an additional and very important dimension to our long-term value creation model. It is clear that there is a tremendous amount of change and innovation happening in the global financial market arena. And 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.

This slide illustrates selective investments we have made recently. And 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 strategic focus areas of equities, fixed income and crypto. And in addition to that, there is an additional overlay with three distinct themes relating to platforms, data and connectivity which in of themselves are product-agnostic.

We do believe that these are the most relevant themes in the future evolution of global financial markets. As Dennis mentioned, this will be of continued focus for us going forward as well.

I will now hand back the call to Jonathan.

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

Questions and Answers

Operator: Thank you very much. If you would like to ask a question or make a contribution on today's call, please press star one on your telephone keypad now please. Please ensure your line is unmuted locally and then you'll be introduced into the call to ask your question. And that again is star one on your telephone keypads now please. We do have some questions coming through. And the first question comes from the line of Reg Watson from ING. Please go ahead.

Reg Watson (ING): Morning, gents. Just curious to understand the investments that you're making in gaining share in new markets such as single bond market making. I'm aware that you started that in Q3 last year. Obviously, we've seen it in the Q4 results. How much longer do you think it's going to be necessary to continue to make that investment to gain the market share that you want?

Dennis Dijkstra: Thanks. Folkert, will take that question.

Folkert Joling: Yeah, the first part and then maybe, Mike, you can chip in. So one of the core investments is to build up the entire setup, so the connectivity to liquidity pools, the technology underneath the pricing and the processing of all those trades. We're building up a counterparty business. So we're onboarding counterparties quite actively. So the activities will grow in time.

And obviously, the initial trades that we do – those numbers, those quantities will go up. So the more you do, the more netting on the positions, the better the pricing becomes. So this all goes simultaneously. So last year, we made a lot of connectivity to platforms. We have already quite a lot of counterparties onboarded. We see quite a significant part of the market, but not the end goal yet. So it's a combination of different factors, which will build up. And this year, this will blossom. That's our strong expectation.

Reg Watson: Okay. And do you have a feel for how close you are to sort of achieving that critical mass for lift-off, if I can use a sort of little different analogy.

Folkert Joling: Yes. I think we're very strong on the current road map. Obviously, the market circumstances in mostly mid and towards the end of the year were a bit quiet. So that obviously means that other investments we have made internally is you don't fully see it back in all the KPIs yet. So that makes it more difficult to also see it reflected in the NTI at the moment, but that should come every quarter and increase obviously.

Dennis Dijkstra: Yeah. So if I can summarise Folkert's statement. So we are strong believers of the electronification in the markets. We've been building the underlying infrastructure over years. We became public disclosed market makers in Q3. Since then, we've been accelerating our presence by onboarding counterparties with a very compelling offering of high hit rates and also very competitive pricing. So we already are number seven ranking on MarketAxess and also on other platforms that we see our presence growing.

So we're building scale. And we do expect later this year to have more significant positive impact. But it is also supporting our fixed income ETF business. So it's not stand-alone. It's also supportive to the other growth area, which is the fixed income ETP markets.

Reg Watson: Yeah. And when you look at – I mean, perhaps if I could put the question another way. When you look at the onboardings you've made to-date, when you look at the pool of available counterparties and what – how many you've actually brought on where are you, A, against plan? And B, where was your plan versus the overall market?

Folkert Joling: So obviously if you onboard a lot of counterparties, it doesn't easily mean that you get to see the best flows. So you also have to prove yourself and also have to build up a relationship with them. So this will after the onboarding also takes some time.

And also the number of counterparties that we're onboarding, there is still a lot that we can add to our counterparty base. So it has to two dimensions. In total, a couple of hundred are already there. And there is quite a lot still to be onboarded.

Reg Watson: Okay. And then if I may just add a follow-on question. Do we – you mentioned in the presentation that you're going to be expanding in Asia as well. Can we expect a similar impact to the Asian business when you start making these kinds of investments there as well?

Folkert Joling: Yeah. So the APAC market is slightly different. So the liquidity in the US, obviously, is much larger. So it's not exactly the same sector that we're creating there. And so in APAC, there's also a lot of interest in dollar-denominated debt and also US debt. So there will be a strengthening to the existing business and also having a local market, which we're going to build up in the Chinese debt market, that's a stand-alone market, which if we have the infrastructure in general, we can also apply that to that market later.

Dennis Dijkstra: So the trend is similar to a global offering. It's just adding counterparties from the APAC region to the existing infrastructure and pricing. So it will be accretive and there will be leverage of the trading platform we've built.

Reg Watson: Yeah. Okay, understood. Okay. I don't want to hog the call. So I'll stop right there and let someone else have a go. Thank you very much for your time.

Operator: Thank you very much. Our next question comes from the line of Martin Price from Jefferies. Please go ahead.

Martin Price (Jefferies): Good morning. Thanks guys for the presentation. I just had a couple of questions, if I may. First, on the dividend. Should we assume a pay-out closer to 50% is the new normal for future years?

And separately, on the capital structure, I was just wondering if you could provide an update on how you're thinking about adding debt to provide more trading capital? Is that an option that's still on the table?

And secondly, just a follow-up question on US revenue capture. Do you see the run rate in the second half of 2021 is a reasonable proxy for 2022, assuming a similar cyclical backdrop? Or are you confident that it can improve? Thank you.

Mike Kuehnel: Thanks so much. I'm happy to take the first two questions, and the third one, I will hand over to Folkert. So on the dividend, in full transparency, we are currently seeing some structural growth opportunities for us, given the footprint we have indicated and the capabilities we are bringing to the market.

And as part of our value creation theme, if you will, this is not just about the static market share achievement or level we would like to get. This is very much about also acceleration. And this is true for both the ETP, but also the crypto, the credit business. And we have become much more diligent in also speeding up on that front as we believe that we will be able to capture more market share down the road and create a more competitive position in the market.

So capital has become – well, has always been important, but is now also helping us as a kind of additional muscle in order to really speed up in those key strategic growth areas that are important to us. That could change over time. So it's a perspective we currently have.

But we believe with the value creation mindset we have now applied across multiple dimensions that the current dividend level is very much in line with our notion to create shareholder value and speeding up not just remaining but increasing our competitive nature in the market.

On the capital structure and debt, as indicated before, last year, we have started a comprehensive capital structure review project internally, so us looking into also value creation through capital deployment, capital allocation and the balance sheet structure. So this is still running, and we are looking into different, if you will, options and also different timing. So that's definitely still a point on our agenda.

And once we have gotten to a point where we have identified the most optimal point, we will revert with an update. So this is not off the table as to your question.

Folkert Joling: Regarding the third question, so a run rate for 2021, the quarters were not similar, I would say, because the first two quarters were more active than the second two quarters. So for 2022, and we look at the normalised performances, so adjusted for market circumstances and the expectation is somewhere in the middle between, a first half and the second half, so definitely higher than the last two quarters.

So is this a good proxy for the next quarters? No, it's not. It should be higher.

Martin Price: Understood. That's very helpful. Thanks guys.

Dennis Dijkstra: You're welcome.

Operator: Thank you very much. Just as a reminder, if you would like to ask a question on today's call, it is star one on your telephone keypad. Our next question comes from the line of Julian from ODDO BHF. Please go ahead.

Julian Dobrovolschi (ODDO BHF): Good morning, gentlemen. Can you guys hear me?

Dennis Dijkstra: Absolutely.

Julian Dobrovolschi: Great. Hi, good morning. Yeah, this is Julian from ABN AMRO. Thank you gentlemen for the presentation. I have a couple of questions on my end as well. The first one is that in the publication, you mentioned that crypto ETP activities grew sharply quarter-on-quarter on the EMEA region. Flow has currently a market share of something like 35% in the region. Now if you look at the performance of 2021, what can you say about the market share gains there probably started a lower base and growing and just what are the growth dynamics there? And how much upside do you still have left in terms of market share? And how do you expect seeing the competition might look in the future? And then I have a follow-up as well.

Dennis Dijkstra: Folkert, do you want to give it a go first?

Folkert Joling: So what we expect in general is more listings because more issuers are also adopting the product. We will see more markets allowing these listings. And so not only Europe, I think Europe already has the most, but then there's still growth in these number of listings and issuers. The growth for those ones is probably more visible in the rest of the world, APAC and hopefully also the US.

So the market share of 45%, it is expected that more parties will also take part. So it's probably higher than the natural balance. If you look at fixed income where we're very strong, there it could be similar. So I'm not expecting it to drop sharply. But do expect that there will be more interest of liquidity providers in these products. So that it should remain more or less stable. And then with more activities and more issuers, this will definitely drive growth.

Dennis Dijkstra: It's not per se just the European offering, also that we've become very active and supportive facilitating this investing in the US, but also in other markets like Canada, Australia soon, LATAM. Again, we have built a global infrastructure and platform and where we can leverage this for investors on a global scale as well. So it's not per se a European offering, but more of a global approach we have for these focus areas.

Julian Dobrovolschi: Got it. I think that's kind of a nice segue into my next question, which is, if you can kind of speak about the mix of crytpo-related NTI and also non-ETP products related NTI? So if you kind of look at the crypto trading or trying to compare with what we've been doing in the past, what you can say about the mix that we expect in the future? And also probably you could – I don't know, maybe you can relate with how much resources you actually allocate for both lines? If you have anything to share about that, that would be really grateful.

Folkert Joling: But where you're describing ETP or non-ETP. I think it would be maybe slightly better to look at index, non-index because the way these products are traded, it's not just the exchange traded fund. It's also futures and other type of derivatives, which are similarly trading.

So what we do see with the diversification that we are applying also touching the underlying market is that if you would split it as in ETP, non-ETP that the part of the NTI that comes from non-direct ETFs is increasing and will continue to increase relatively because we just start to pick up more of those non-ETF products. So that trend is visible, and that will continue.

Julian Dobrovolschi: Yeah. And if you look now at the resources that you deploy for – against all kind of the difference that I just made, do you see, let's say, the number of teams growing for non-direct ETP type of product trading growing? Or you can have, let's say, the same amount of people which are in the end probably like developing more code and able to grow also the non-direct ETP revenue?

Dennis Dijkstra: Well, most of the new staff is working on new projects. So definitely, a lot of the additional headcount and also the already existing headcount is shifting, in your words, to non-ETP business.

Julian Dobrovolschi: Okay. Got it. And then the final one, the tax rate in my calculation went up to something like 26%, if my math is correctly, for Q4 2021. So that's basically like

5% higher than expect the average of Q1, Q2 and Q3 of 2021. Can you kind of give us the main reasons behind this? And what should we expect going forward as well?

Dennis Dijkstra: Yes, very happy to. And indeed, the Q4 effective tax rate stood at 25.7%. That was higher than our typical approximately 20%. This was mainly due to the fact that share awards are non-tax-deductible under Dutch tax laws, as well as due to a reclassification of the tax credit in the US. So that was a one-off and the historical 20% region is what you should have in mind looking ahead.

Julian Dobrovolschi: All right. Thank you.

Operator: Thank you very much. We don't have any further questions in the queue at present. So if you would like to ask a question, please press star one on your telephone keypad now, please. Okay. We have had a question come through. It comes from the line of Gregory Simpson. Please go ahead. Your line is now unmuted.

Gregory Simpson (Exane BNP Paribas): Hi there. It's Greg Simpson from BNP Exane here. The first question at a more high level is there's lots of coverage around Payment for Order Flow in the US. And so I'm wondering if you could share some thoughts on how the US market structure impacts Flow today? So is it the case that you don't really benefit from US retail investors adopting ETFs because of payment for order flow and maybe that could change if regulators look at that at some point? So that was kind of just the first question on that topic.

Second one is just on the planned 10% headcount growth. And any kind of colour on where your hiring plans are going to be. Are there any particular region or area? And do you think the kind of cost – fixed compensation costs will kind of track that kind of level of headcount growth?

And then just the final question is, the markets have been quite choppy and volatile year-to-date. Any kind of colour on if you're seeing any benefits in terms of better activity across your business? Thank you.

Dennis Dijkstra: Yes. So on your first question on PFOF, I would say, in general, the markets we are very active in, so that's the international, emerging, some thematic product index ETPs are not particularly very exposed to these retail investments structures of PFOF.

We do not participate in PFOF in the US markets. And as you are very well aware, it's prohibited here in Europe. So I would say a review will probably be a positive for us because more flow will come to the lit markets. In general, I do think it's a balanced debate about the pros and cons of PFOF. And also there, the US markets and the size and the interconnectedness are just also different than the European ones, which are much more fragmented.

On your question about the headcount. As Folkert already mentioned, we are growing our credit and also our digital assets presence very significantly. A big part of the headcount growth is also for these areas. As in the past, a big part of the company is always busy and engaged in growing footprint, optimising the current platform and adding and diversifying into new asset classes and products.

So also there are the anticipated headcount growth is indeed, especially for these high-growth areas for us. And that's also reflected in the cost growth of maximum of 15%.

And your question on 2022, the start, I think the market statistics speak for themselves, right? So as always, we don't give guidance on where we are. But the exchange and ETF volumes speak for themselves. I don't know, Folkert, if you have any different?

Folkert Joling: I thought you also had a question on market share. Could you clarify that perhaps?

Gregory Simpson: No. I don’t have any other – any question on market share.

Dennis Dijkstra: Yeah, just market activities.

Folkert Joling: On market activity, okay.

Dennis Dijkstra: Yeah. That kind of speaks for itself.

Gregory Simpson: Yeah. Okay. And then just lastly, the timeline around the China onshore launch? Any kind of colour on how long that kind of takes in terms of process? Or is this still pretty early days?

Dennis Dijkstra: Yes, it’s in review with the Chinese regulators and government. So we hope to get feedback soon. We have people on the ground. So we do continue to make progress on the local presence. But in the end, we are dependent on getting the final approval from the local regulators, which we hope to receive as soon as possible. But we can't pressure them, right? So we're not there – we’re waiting for their review.

Gregory Simpson: Okay. Thanks.

Dennis Dijkstra: Thanks.

Operator: Thank you very much. Our next question from – comes from Michael Roeg from Degroof Petercam.

Michael Roeg (Degroof Petercam): Yes, good morning, gentlemen. I have a question about the excess capital and the dividend, because the excess capital at the end of the year was €5.56 per share, which is a record. As far as my data go back even stronger than super year 2020. And you're going to pay only €0.35 as a final dividend. So that means – well, does it suggest that that accelerated growth that you want to achieve is going to happen in the short term already, because otherwise you would have been able to pay a higher dividend this year?

Mike Kuehnel: I'm very happy to take that question. So just to state the obvious, we have dedicated growth plans established within firm across every region. And there's also a very strong perspective on our side on the impacts of ongoing structural market changes, right, for our business. We talked about electronification. We looked into and still look into the adoption rate for crypto and the same point is true for credit.

And we do see, as I highlighted earlier, that there are tremendous opportunities for us ahead of us. So it's basically us embracing a higher yield on our investments and speeding up. And this optionality, I would even say it's not just the technical, it's a strategic optionality. We felt it's important that we have a robust capital base and make sure that we can allocate sufficient capital in order to be fast and dedicated in our push.

And we also believe that this is not just a one-time incident, so that there is a kind of opportunity which might go away. We do believe that we need this push in order to further establish us in the market. That's particularly true on the credit side. As Folkert highlighted, counterparties really embracing our set of functionality, our quality and pricing. So this is kind of a strategic decision on our side that we now want to further speed up, fully boost up our capital base and reap the benefits we see ahead of us.

Michael Roeg: And I understand that you want to have that comfortable capital position available to invest. But will we already see a noticeable effect, for instance, somewhere in the course of the second half of this year already? Or is this something that will develop gradually that acceleration gradually over a period of, say, three years?

Mike Kuehnel: The reality is we also have a long-term structural growth plan in place. And I would argue you would be clearly surprised if that's not the case. But we are also very much focused across the management board and delivering in the short to midterm. So this is the proper combination of speeding up on the most immediate opportunities we see fully embedded into our multiyear structural growth plan.

And this is also, us being mindful about we want to be vocal about our economic – about our economic profit generation throughout the year. So making sure that we build further confidence in the market. Our investments are yielding returns. We are building a broader and more diversified footprint also indicating our structural growth much more dominantly. So this is all on our agenda and will hit the P&L also in the course of this year.

Michael Roeg: Okay. That is, on the one hand, promising. On the other hand, how will we be able to notice that? Because the disclosure of Flow Traders is ETP Value Traded, NTI, we can calculate the revenue capture on that basis. But we don't see what's happening inside to see your expansion into all these adjacent categories and also those new investments. Is there any way for you to be able to disclose more on that in the future, so we can track it?

Mike Kuehnel: Well, if I may start, there are a couple of elements. So one is the NTI migration over time, where we will become also more vocal on the yield of the various kind of opportunities we see and the investments we have been taking. This is, in our mind, a kind of baseline setting.

On these strategic investments, and I did mention that from a value creation perspective, this is also about further diversifying our business and building more proximity, a high degree of connectivity in the broader ecosystem. And there's also a strong theme around building value by teaming up with other counterparties in the market or other ecosystem partners in order to further spur growth, right, whether that's for platforms around data or connectivity per se.

And clearly, as part of our ongoing disclosure, we will become more vocal on what we do and how that will impact our business, because we clearly see the bridge between the kind of core business we have established with the adjacencies you know. And now this additional level of value creation, we are mindful that this needs to come across more details once we are there throughout the year. So I would just ask you to bear with us for now and the kind of transparency on what we do and why we do it that will be properly broken out.

Dennis Dijkstra: I think there is a very strong graph on the right-hand side of slide eight, which shows the return on our trading capital. So I think also there, having a thorough review, we do see very accretive opportunities by retaining some more trading capital to deploy at accretive returns. So the most important metric will be growth in NTI, structural growth in NTI.

And also, if you look at the competitive landscape, on a global scale, especially in the growth areas as credit but also digital assets, also there the competition has a lot of trading capital at work. So also there we see accretive opportunities to retain and perhaps grow the trading capital to add accretive returns for the shareholders in the short, but also in the longer term.

Mike Kuehnel: Dennis, if I may add just one point. I think that's also important to frame your mind. So in multiple areas of the market, we are taking clearly the role of being a key catalyst for growth and the key architect, if you will, or innovator. So if you take the credit business, right, us embracing electronification, it's not just us responding to a market trend. It's also delivering new functionalities to market, which will ultimately – this is basically driven also by our experience over the last few months, driven by excitement on the counterparty side.

So increased and better transparency, more optionalities or functionalities around the product we deliver to the market. So we truly believe that this will also yield to more sustainable returns once we have established our footprint there and build the market share there. I think that's also important to know because over the next few years, we will – that's our expectation benefit from the investments we've been taken and the stance we have taken in the market.

Michael Roeg: Good. Well, that was a very elaborate answer. And I guess I have to be patient for more transparency hopefully somewhere in the course of the year. And although patience is not my strongest, I'm looking forward to it. I have one final question, sort of a technicality, accounting technicality. IFRS 2 is shifting profits from stronger years to weak, now shifting variable remuneration costs from one year to the other, sometimes up, sometimes down. Did I understand correctly that the impact from that is not deductible from taxes, so the difference between reported EBITDA and normalised EBITDA is – yeah, that gap, it cannot be deducted from your tax income as cost?

Dennis Dijkstra: Yeah, there's two effects. So the share of our remuneration is vesting over multiple years. So that's why the share part of previous years is accounted for on balance in future years. And because 2020 was a stronger year, the equity part hits the income statement this year. That's one. And second, in the Netherlands, as you might be aware, any compensation in shares is non-tax deductible.

Then it is just a kind of Dutch-specific item. That has nothing to do with IFRS. It's just more when it's paid. That's just for the Dutch part.

Michael Roeg: Okay. And just as a clarification, if I look at full year 2021, the difference between EBITDA and normalised EBITDA is about €16 million.

Dennis Dijkstra: Yeah.

Michael Roeg: Should I add that up to the reported net profit to get to a normalised net profit?

Dennis Dijkstra: I think there's an exploratory part on the press release, right?

Michael Roeg: I know – I see in the reconciliation between normalised EBITDA and reported EBITDA, but I want to calculate my own normalised net profit.

Dennis Dijkstra: Then you should take the difference between 27 and 14, because the policy – the remuneration policy is that we share 35% of the operational profit with the employees, of the 35%, part of that is deferred.

Michael Roeg: Yeah.

Dennis Dijkstra: That's the 14, but we have to add back the previous year's one. So if you have a true normalised one. I agree, it's kind of the difference between the two.

Michael Roeg: Okay, lovely. Good. Very helpful. Thank you.

Operator: Thank you very much. We have another question from Reg Watson from ING. Please go ahead.

Reg Watson: Sorry, one final question. Thanks for referring to that chart on the top right of slide eight is the return on trading capital. Obviously, it's ticked down a little, but I can see that it's just one quarter. But given the long-term trends of electrification bought to lead to greater efficiency in markets, do you expect unless – everything else being equal, unless you get an increase in velocity, do you expect that return on trading capital to gently decline over time? I'm not suggesting sort of as stark that is from Q2 to Q4. But is this something that we should expect to see gradually trending down?

Folkert Joling: It may be difficult to compare the entire set of new activities that you add if you look at the normalised figure for the new total. The return on capital of activities is in the digital asset space can be slightly different than a traditional equity markets. So everything that we had has a healthy return on capital if we build out the crypto and the fixed income business, it may start on a lower return on capital than the end goal is obviously. So there are different forces into this.

Reg Watson: Okay. What are the thresholds you're looking at then when you make this decision to invest in those markets? What's acceptable to you as a management team and what's not?

Mike Kuehnel: So I'd say from a business mix perspective, and this is us looking also into the new areas. We are very much minded by accretion. So the perspective we are taking is even kind of economic value-added perspective. And at this point in time, given the outlook, we believe and this goes back to my earlier comments on the capital retention or the capital deployment that there are multiple opportunities for us ahead on the horizon, and this is not just true for this year. This is more midterm-oriented, where we are quite, yeah, impressed, or let's say, confident that we are able to be accretive in a way that we can basically up our game here on that front.

As Folkert rightly pointed out, this is always a mix between the investment period and then the kind of reaping the benefits period. But if you see the return patterns and our proximity to the market and the capabilities we are bringing in, this is really much embedded in our value creation theme, which we shared earlier today. So you should basically expect that we try to beat it by adding accretive elements to the portfolio.

Reg Watson: Yeah. Okay. Understood. That's really helpful. Thank you.

Operator: Thank you very much. We have no further questions in the queue. So I'll hand you back over to the speakers.

Jonathan Berger: Thank you. We'd like to thank all the analysts for participating in today's call. Please note that we will 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 the call will follow in due course. Our first quarter trading update is scheduled to release on 22nd April 2022. This now ends the call. Thanks again, and have a great day.

[END OF TRANSCRIPT]