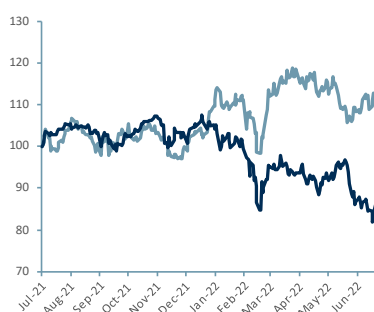


CIC

Value Range

EUR 133 – 136



DB1 (lighter line) XETRA market vs price relative

Monday, 18 July 2022

Close Price	159.55
52 wk Range Low	93.18
52 wk Range High	170.00
MCAP €(m)	30,315
EV €(m)	37,545
Index: Public	XFRA
Financial YE	30-Jun
Reporting Currency	EUR
Listing Currency	EUR
Business Activity	
Market Exchange	

Key Metrics

Gross debt €(m)	24,170
Cash €(m)	16,940
Net Debt (Cash) €(m)	7,230
Net Operating Cash €(m)	909
Revenue €(m)	4,550
Net Income (loss) €(m)	1,310

Key Ratios

(Net Cash) / Shareholder Equity %	23.85%
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Financials Sector Research

XETRA Market Index

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Deutsche Borse AG

Core Investment Case

Deutsche Borse AG (Xetra: DB1) is one of the largest providers of market infrastructure worldwide. The company covers the entire financial market transaction process chain – indices and analytical solutions (pre-trading), trading and clearing services and settlement, liquidity and collateral management (post trading). It operated via four segments YE21A – Data & Analytics €0.48bn (14% of revenue), Trading & Clearing €1.81bn (51%), Fund Services €0.38bn (11%) and Security Service €0.835bn (24%). ESG related income was 7% of net revs YE21A. The diversified segments provide resilience to volatility in markets and also includes a number of high growth areas. DB1 is trading at premiums to our peer multiples but with lower efficiency metrics.

- Leading capital markets infrastructure provider;
- Net revs YE21A €3.51bn, outlook 10% rev, EBITDA and NI growth;
- Rev recurring 55%, rev transactional 45%;
- Cash & CE at €16.9bn as of 31 Mar 2022.

EUR (bn)	MCAP	EV	RoA %	RoE %	NCO	Levered FCF
2022	30.31	37.54	0.53%	17.69%	0.91	0.70
Multiples						
	EV/ Revs	P/ S	Fwd PE	BV/ Share	P/ B	Current
2022	8.25	6.44	20.70	42.79	3.73	1.01

Investment Case

Deutsche Borse (DB1) is a leading capital markets infrastructure provider diversified across the entire capital markets value chain. Given its diversified business model and multiple sources of revenue, we believe it is well positioned to improve earnings in the medium and long term. However, it is trading above peer multiples and scores less well on efficiency metrics vs. peers.

Diversified market infrastructure business – DB1 has a broad offering covering all areas of a market infrastructure provider's value chain. The diversified nature of the portfolio exposes DB1 to multiple growth opportunities and shields it to some degree from market crashes and recessionary periods. However, DB1 is less efficient than our peers on a per head metrics basis.

Strong financial growth: DB1 is targeting revenue, EBITDA and EPS CAGRs of 10% to 2023. Since 2019, DB1 has achieved an average 11% net revenue and 12% EBITDA growth p.a.. The performance driver is organic secular growth markets and asset classes, which we expect to contribute 5pp (50%) to overall net revenue growth to 2023, with the rest coming from M&A activities.

Cyclical growth as an additional driver: After a decade of low interest rates and volatility, cyclical tailwinds are emerging from higher volatility in almost all asset classes, resulting in increased trading opportunities and hedging needs for clients. This trend was visible in commodities, equities, fixed income and FX during 1Q22A. In total, cyclical net revenue growth was 11% 1Q22A. Overall revenue growth could exceed DB1 management's 2023 10% p.a. target.

Performing above expectations in 2022: The original guidance for 2022 was for net revenue of ~€3.8bn and EBITDA of ~€2.2bn. Due to the stronger than expected cyclical net revenue growth 1Q22A, DB1 increased guidance for revenue to greater than €3.8bn and EBITDA to greater than €2.2bn YE22E (May). Net revenue is currently running ~€100m higher than original consensus estimates YE22E.

Catalysts

Positives: Higher interest rate expectations; Increased market volatility; Opportunistic M&A. **Negatives:** Deterioration in efficiency metrics; Missing 'Compass 2023' targets; Reduction in market trading volumes.

Operational Strategy

DB1 is pursuing a medium-term growth strategy called Compass 2023. This strategy comprises of organic growth initiatives as well as inorganic (M&A) targets. DB1 is planning to strengthen existing high-growth segments whilst exploring opportunities in new asset classes and services.

Deutsche Borse is aiming for overall net revenue growth of 10% p.a. average out to 2023. Both the secular initiatives and M&A targets are each intended to contribute net revenue growth of around 5%. DB1 also expects to grow EBITDA and EPS by around 10% per annum on average.

EBITDA growth of 7% is expected from secular (organic) operations between YE19A and YE23E, whilst M&A is likely to contribute 3% of EBITDA growth over the same period (vs. 50% of net revenue growth). This suggests to us that DB1 is intent on delivering opex efficiencies as well as net revenue growth.

Organic (secular and cyclical) growth: DB1's organic growth strategy is comprised of secular and cyclical opportunities.

Secular growth opportunities are those that are relatively immune to economic cycles, e.g., relatively unaffected by interest rate rises. Secular opportunities are also defined as having long term attractive growth potential.

We expect secular opportunities to arise from regulatory changes, new client requirements, and trends such as growth in the proportion of AUM managed via passive investment strategies (e.g., index funds). DB1 expects net revenue from secular growth opportunities to increase by at least 5% to 2023.

Cyclical growth opportunities are driven by macroeconomic events and data such as interest rate changes. The macro environment is not in DB1's control, but the group is prepared to take advantage of favourable macro tailwinds. Cyclical macro tailwinds act as medium-term net revenue growth drivers.

Strategic acquisitions (M&A) growth: Inorganic growth via M&A accounts for 50% of DB1's estimates in its Compass 2023 project. DB1's M&A opportunities include the index and analytics business, ESG, commodities, forex trading, fixed income trading and investment fund services.

Note that organic EBITDA margins were 57% YE19A and are expected to rise to 61% by YE23E, whereas overall EBITDA margins are likely to remain unchanged at around 57%. This suggests to us that Deutsche Borse is intent on pursuing a continuous stream of acquisitions and that once acquired and integrated, DB1 is capable of improving margins within its acquisitions.

Technological opportunities: Deutsche Borse plans to leverage long term opportunities arising from technological transformations. DB1 has a particular interest in the capabilities of distributed ledger technology (DLT) and public cloud solutions for IT infrastructure operation. The exchange intends to develop a 'one stop shop' FX exchange using a leading technology platform.

Trading and Clearing business opportunities: Futurization of OTC derivatives/swaps – Deutsche Borse identifies the futurization of OTC derivatives / swaps as a major central clearing market opportunity. The futurization of OTC swaps is a process in which futures are used to mimic the risk allocation that OTC swaps currently offer to market participants.

In simple terms the futurization of swaps refers to the process by which the OTC interest rate derivatives markets are becoming more like exchange traded futures – given the volume of swaps, this is a significant potential opportunity for an exchange business such as Deutsche Borse.

Data and Analytics market opportunities: Deutsche Borse believes the blended growth of the segment is around 5-10% p.a.. Deutsche Borse has an opportunity to combine its index and analytics businesses to improve its penetration in the buy-side market. The investment intelligence market (data and analytics) is dominated by Factset, Refinitiv and Bloomberg. Most exchanges have tended to be resellers of data to other platforms which are sold as services to buy-side firms.

Deutsche Borse appears to be intent on providing market intelligence direct to the buy-side. It is difficult to see how Deutsche Borse will replicate Refinitiv, Factset or Bloomberg without acquiring one of them, however there is an opportunity to penetrate this market using an aggressive highly competitive price point.

Fund Services and Securities Services opportunities: DB1 can grow its custody services business to become a truly global competitor. The exchange has stated that it intends to pursue a partnership model to win new clients and broaden its services offering to establish a leadership offering for its funds services business.

Management Team

➤ **CEO, Theodor Weimer.**



Mr. Weimer was appointed as CEO, Deutsche Borse in November 2017. Prior to that, he has worked in senior leadership roles at some of the world's leading companies such as Bain & Co, Goldman Sachs and UniCredit Bank. He studied economics, business administration and geography in Tübingen and St. Gallen and was awarded his doctorate in mathematical organization theory from the University of Bonn.

➤ **CFO, Gregor Pottmeyer.**



Mr. Pottmeyer was appointed CFO of Deutsche Borse in 2009. Prior to Deutsche Borse, he was a member of the Executive Board of Mercedes Benz Bank AG responsible for finance and risk management. Before Mercedes, he was an Executive Board member at DaimlerChrysler Bank AG. He holds a degree in Business Administration from Saarland University.

Risks

Competition risk – includes the risk that competitors, including other exchanges such as Euronext, Singapore Exchange (SGX), ICE Futures Europe and Mercado Español de Futuros Financieros (MEFF), might increase their market shares on the European trading markets. This could result in reduced profitability for Deutsche Borse.

Acquisition risk – Inorganic (M&A) growth remains a key part of Deutsche Borse's growth strategy. Overpaying for an acquisition, generally, destroys shareholder value. Further, failure to successfully integrate acquisitions could adversely impact DB1's operations and again, lead to value destruction. The failure of cultural integration is the single most common reason to cause value destruction in acquisition strategy.

Information Technology risk – As a global provider of financial infrastructure, attacks on its IT systems and its data, particularly by cybercriminals, could lead to major operational risks for the group. Unauthorized access and loss of information, as well as non-availability of information and services, may result in major losses for the group.

System risk - Deutsche Borse operations are highly dependent on the smooth functioning of certain systems. These systems have to run in order to ensure that market participants can trade securities or derivatives at any time and without delay. System failures that lead to a system outage can create large losses and liabilities.

Trading Multiples Valuation

Exhibit 1: Deutsche Borse peer group metrics

TTM Metrics / Company Name	Market	Tkr	EV \$(m)	Revs \$(m)	EBITDA \$(m)	FCF \$(m)	Staff	GM%	EBITDA M%	EBIT M%	FCF M%
Deutsche Boerse	XETR	DB1	38,069	4,614	1,937	713	10,200	75.4%	42.0%	39.2%	15.5%
Intercontinental Xchg	XNYS	ICE	67,350	7,250	4,430	2,020	9,009	98.6%	61.1%	50.2%	27.9%
London Stock Xchg	XLON	LSEG	59,603	8,057	3,012	2,678	23,261	87.2%	37.4%	22.6%	33.2%
ASX	XASX	ASX	2,057	708	496	4,496	749	93.4%	70.0%	68.5%	634.6%
OTC Markets	OTCM	OTCM	640	92	40	34	82	98.0%	43.3%	41.4%	37.0%
Average							8,275	94.3%	52.9%	45.7%	183.2%
Median							4,879	95.7%	52.2%	45.8%	35.1%

Source: ACF Research Estimates; Companies reports; Thomson Reuters.

Exhibit 2: Deutsche Borse peer group multiples

TTM Metrics / Company Name	Market	Tkr	MCAP US\$(m)	EV \$(m)	EV / REVS	EV / EBITDA	EV / FCF	EV / NI	PER	P/ sales	P/ book
Deutsche Boerse	XETR	DB1	30,737	38,069	8.25	19.65x	53.40x	28.66x	22.51x	6.45x	3.74x
Intercontinental Xchg	XNYS	ICE	53,520	67,350	9.29x	15.20x	33.34x	16.55x	13.17x	5.89x	2.36x
London Stock Xchg	XLON	LSEG	51,259	59,603	7.40x	19.79x	22.26x	94.25x	78.61x	6.14x	1.81x
ASX	XASX	ASX	11,022	2,057	2.90x	4.15x	0.46x	6.17x	33.46x	16.21x	4.29x
OTC Markets	OTCM	OTCM	670	640	6.92x	16.00x	18.69x	20.98x	20.53x	6.72x	23.58x
Average					6.63x	13.78x	18.69x	34.49x	36.44x	8.74x	8.01x
Median					7.16x	15.60x	20.48x	18.76x	26.99x	6.43x	3.33x

Source: ACF Research Estimates; Companies reports; Thomson Reuters.

We exclude the subject company of this investment research note from the average and median values in order to make the comparison with the rest of the peer group as undistorted as possible. We also rely more on the median values as the median is a statistically better indication of central tendency than the average.

DB1 is trading at a premium to the median multiples of its peers on most measures. This suggests that DB1 is overvalued. DB1 has significantly lower unlevered FCF margins than its peers and on a per head of staff basis also performs less well than most of its peers in most cases, e.g., rev/per head \$452k whereas the median for the peer group is \$805k. Similarly, EBITDA/per head is running at \$190k vs. median \$488k. If DB1 achieves its compass 2023 targets, it will still be significantly behind its peers by these profitability and efficiency measures.

We assess that DB1 recognises these trading multiple relative valuation gaps, but we are not yet convinced that it will be able to do enough over the next 24 months to close these significant margins, efficiency and so multiples gaps.

Notes [Intentionally Blank]

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