

Research Update:

Euroclear Group Ratings Affirmed On MFEX Acquisition; Outlook Stable

April 1, 2021

Overview

- Belgium-based financial market infrastructure (FMI) group Euroclear announced on March 26 its agreement to acquire MFEX for an undisclosed amount.
- The integration of MFEX's fund distribution platform with Euroclear's fund settlement will consolidate Euroclear's very strong competitive position without materially deteriorating Euroclear group's financial leverage and cash flow metrics.
- We are affirming our 'AA-/A-1+' issuer credit ratings on Euroclear Investments and our 'AA/A-1+' ratings on Euroclear Bank.
- The stable outlook reflects our view that Euroclear group will maintain a leading position in securities settlement and post-trade activities combined with satisfactory profitability and strong capitalization.

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Rating Action

On April 1, 2021, S&P Global Ratings affirmed its 'AA-/A-1+' long- and short-term issuer credit ratings on intermediate nonoperating holding company Euroclear Investments S.A. and its 'AA/A-1+' long- and short-term issuer credit ratings on operating subsidiary Euroclear Bank S.A./N.V. The outlook is stable.

Outlook

The stable outlook reflects our view that Euroclear group's creditworthiness will remain resilient. We expect that the group will maintain a leading position in securities settlement and post-trade activities combined with satisfactory profitability and strong capitalization.

Downside scenario

We could lower the ratings in the coming 12-24 months if there is an unexpected deterioration in

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the group's very strong market position or an increase in debt-risk appetite that would push Euroclear's debt to EBITDA beyond 2.5x. We could also lower the rating on Euroclear Bank if we changed our view of its core status to the wider group, but we consider this very unlikely.

Upside scenario

We consider an upgrade unlikely at this time, given the already high rating, increased debt, and potential medium-term challenges to the group's business model and competitive position arising from industry changes and economic developments.

Rationale

The MFEX acquisition consolidates Euroclear's very strong competitive position without materially deteriorating financial leverage and cash flow metrics. We view integration risks as low since we consider Euroclear has in-depth knowledge of MFEX by virtue of the existing commercial agreements in place between the groups. In addition, we view positively that, beyond MFEX's core fund platform distribution activity, the relatively more operationally complex post-trade activities carried out by MFEX will entirely migrate to Euroclear's FundSettle branch of business. Euroclear expects the acquisition to complete later in 2021, subject to the necessary approvals.

Euroclear has demonstrated the resilience of its business profile. Business income saw exceptional 12% growth in 2020, compensating for the close to 50% drop in interest and other income. As a result, EBITDA has declined only moderately and Euroclear has maintained its financial leverage and cash flow metrics at the lower end of the modest financial risk profile range. Euroclear Investments will increase its debt load to finance the acquisition but without materially deteriorating its capacity to service its debts. We understand that Euroclear will finance the transaction in a manner that limits financial impact on its capital structure. We thus forecast that Euroclear's debt to EBITDA will settle at about 2.0x over the next two years, in line with the level reached after Euroclear Investments' most recent debt issuances in the spring of 2018.

Ratings Score Snapshot

Business risk: Strong

- Country risk: Very Low (previously Low)
- Industry risk: Low
- Competitive position: Strong

Financial risk: Modest

Preliminary anchor: a+

Clearing and settlement risk: 0 (no impact)

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Positive (+1 notch)

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- Financial policy: Neutral (no impact)
- Liquidity: Exceptional (no impact)
- Management and governance: Strong (no impact)
- Comparable rating analysis: Positive (+1 notch)

Group credit profile (GCP): aa

N.B. The above scores reflect the components of the GCP of Euroclear. We classify Euroclear Bank as a core subsidiary and rate it in line with the GCP. We rate Euroclear Investments one notch below the GCP due to its status as a nonoperating holding company.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed

Euroclear Investments S.A.

Issuer Credit Rating	AA-/Stable/A-1+
Senior Unsecured	AA-
Subordinated	A

Euroclear Bank S.A./N.V.

Issuer Credit Rating	AA/Stable/A-1+
Senior Unsecured	AA

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Ratings Affirmed

Certificate Of Deposit A-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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