



Deutsche Börse Group

Annual report 2020

Excerpt: Report on economic position

Report on economic position

Macroeconomic and sector-specific environment

Macroeconomic conditions continue to have an influence on the business development of Deutsche Börse Group despite the growing importance of structural growth factors. The main factor affecting financial year 2020 was the outbreak of the Covid-19 pandemic, its global economic impact and the challenges of dealing with the virus and its containment. This had a massive impact on the macroeconomic environment. The following aspects are particularly noteworthy:

- the massive slowdown in the global economy, particularly in the first half-year 2020, due to the outbreak of the Covid-19 pandemic
- substantial restrictions on economic and social activities (lockdown)
- great uncertainty among participants in financial and capital markets due to the lack of visibility about the trajectory of the pandemic, combined with the spike in market volatility in the first half-year (as measured by the VSTOXX® index).
- higher levels of debt being taken on by many states to alleviate the consequences of the economic burdens
- concentrated monetary policy measures by central banks in response to provide liquidity, in combination with historically low interest rates around the world
- uncertainty until year-end regarding the terms of the United Kingdom's withdrawal from the EU and its impact on markets.
- regulatory projects and the resulting stricter requirements for capital market participants

In its January estimate the International Monetary Fund (IMF) predicted a global contraction of 3.5 per cent for 2020. Negative growth of 7.2 per cent is expected for the euro area and of 5.4 per cent for Germany.

Business developments

As described in the macroeconomic section of this report, it became apparent in spring 2020 that the infectious disease Covid-19 that broke out in late 2019 in China would have a significantly adverse effect on the performance of the world economy and so also an impact on business developments at Deutsche Börse Group. The rapid spread of the virus around the world caused great uncertainty among market participants and an unusual level of market activity on cash equities and derivatives markets. Governments and central banks around the world tried to contain the economic consequences of the Covid-19 pandemic with unprecedented stimulus programmes, emergency lending, cuts to prime interest rates and bond purchase programmes. The Federal Reserve, the US central bank, reduced its target range for the prime rate in the USA from 0.25 to 0.00 per cent, combined with various government policy measures, while the European Central Bank (ECB) increased the Pandemic Emergency Purchase Programme, PEPP) for sovereign and corporate bonds to €1.85 trillion and extended its minimum duration. Changes in the interest rate in particular had a negative impact on treasury result from banking business in the Clearstream segment. From the second quarter onwards, high liquidity levels and market hopes of a swift economic recovery resulted in a steep rise in leading international indices. This rather obscured the burdens from the trade conflict between the USA and China and the risk of a no-deal Brexit. Market volatility increased slightly in the fourth quarter following a breakthrough in the development of suitable vaccines against Covid-19. This in turn boosted market activity in cash equities and derivatives markets.

Comparability of figures

With effect from the first quarter of 2020, Deutsche Börse Group has adjusted the segment reporting structure, in order to further enhance transparency regarding the Group's growth areas.

- The former GSF (collateral management) segment has been fully allocated to the Clearstream (post-trading) segment.
- Business in the former Data segment is now being reported within the Xetra (cash equities) and Eurex (financial derivatives) segments.

For further information on the comparability of figures please see [note 3](#).

Results of operations

For Deutsche Börse Group the financial year 2020 was defined by the course of the Covid-19 pandemic, which in some cases had a significant impact on segment earnings. In an extraordinarily volatile market environment, the Group saw significant earnings increases in the first quarter of 2020, whereas markets became increasingly subdued over the remainder of the year and prime rates fell to new lows worldwide. It was only in the fourth quarter that market activity picked up again slightly, triggered by the hope of an economic recovery following the development of a suitable vaccine against Covid-19. Looking at the full year, all segments contributed to the Group's growth, with the exception of Clearstream. Secular net revenue rose across the Group by 5 per cent as planned, driven by product innovations, greater market share and new customer wins, particularly in the segments Eurex, EEX, 360T, IFS and Qontigo. Cyclical effects contributed a total of 2 per cent to net revenue growth. Positive factors, such as the increase in trading volumes of equity index derivatives (Eurex segment) and cash equities (Xetra segment) were offset by a significant decline in net interest income from banking business (Clearstream), particularly due to the interest rate cuts by the US central bank. The Group also reported an increase of 2 per cent in net revenue due to consolidation, primarily relating to the acquisitions of Axioma (Qontigo segment) and the UBS fund distribution platform Fondcenter AG (IFS segment). Net revenue in the reporting therefore rose to €3,213.8 million (2019: €2,936.0 million), an increase of 9 per cent.

Operating costs for Deutsche Börse Group came to €1,368.7 million in the reporting period (2019: €1,264.4 million) and were made up of staff costs and other operating expenses. Accounting for exceptional items of €155.3 million (2019: €134.9 million) in connection with expenses to cut structural costs as part of the Roadmap 2020, acquisition costs and advisory costs in the context of litigation, adjusted operating costs came to €1,213.4 million (2019: €1,129.5 million). This represents an increase of 7 per cent, which is primarily due to consolidation effects from the acquisition of Axioma and higher investment.

Adjusted staff costs increased in 2020 by 11 per cent to €786.5 million (2019: €705.7 million), largely due to higher average staff numbers as a result of acquisitions. This figure does not include exceptional items of €36.4 million (2019: €42.1 million) which mainly include costs of efficiency measures in the context of the Structural Performance Improvement Programme (SPIP) introduced in 2018.

Adjusted other operating expenses of €426.9 million (2019: €423.8 million) mainly reflect the costs of upgrading and operating Deutsche Börse Group's technological infrastructure. This includes, for example, costs for the Group's own IT and for external IT service providers. Also included are the costs of office infrastructure at all the Group's locations. This figure does not include exceptional items of €118.9 million (2019: €92.8 million) related to the cost of M&A activities.

Results from financial investments rose to €24.3 million (2019: €6.7 million) and stem primarily from a mark-up in the equity method measurement of Tradegate AG Wertpapierhandelsbank (Xetra segment) which recorded a very strong performance in the reporting year.

Deutsche Börse Group increased its earnings before interest, tax, depreciation and amortisation (EBITDA) to €1,869.4 million (2019: €1,678.3 million). Adjusted EBITDA rose to €2,024.7 million (2019: €1,813.2 million).

Depreciation, amortisation and impairment losses, which are reported separately from the operating costs, went up to €259.2 million (2019: €222.9 million) due to higher capital expenditure and consolidation effects.

The financial result totalled €-76.9 million (2019: €-53.7 million). Compared to the prior year, the increase resulted from provisions for interest on potential tax backpayments.

The Group's tax ratio of 26 per cent was on par with the previous year.

Overall, the net profit for the period attributable to Deutsche Börse Group shareholders was €1,079.9 million (2019: €1,003.9 million), an increase of 8 per cent. Adjusted for exceptional items, this increased by 9 per cent to €1,204.3 million (2019: €1,105.6 million).

Net profit for the period attributable to non-controlling interests rose to €45.2 million (2019: €31.5 million) and consisted mainly of the profits attributable to non-controlling interests in the EEX Group and Qontigo GmbH, which put in a good performance in 2020.

Undiluted earnings per share on the basis of a weighted average of 183.4 million shares was €5.89 (2019: €5.47). After adjustment this rose by 9 per cent to €6.57 (2019: €6.03).

Comparison of results of operations with the forecast for 2019

For 2020 Deutsche Börse Group forecast a secular increase in net revenue of at least 5 per cent on the basis of its various growth initiatives. In terms of the impact of macroeconomic factors on cyclical growth the Group assumed a slight improvement year on year. By the time the combined management report 2019 was published, however, it was already apparent that the viral infection Covid-19 would have a significant adverse impact on global economic performance, although the actual pandemic and its long-term effects were not foreseeable at the time. Specifically, there was no assumption of significant cuts in US interest rates in the first quarter. On the other hand the great uncertainty among market participants led to much more market activity than expected in the first half-year. Despite these setbacks, Deutsche Börse Group achieved secular growth in net revenue of 5 per cent and so met its forecast.

With an anticipated increase in secular net revenue of at least 5 per cent and operating costs ranging accordingly, Deutsche Börse Group had expected adjusted net profit attributable to Deutsche Börse AG shareholders to go up to around €1.20 billion. Although the course of business differed substantially from the original forecast due to the Covid-19 pandemic, the company was able to increase its adjusted net profit attributable to shareholders of Deutsche Börse AG to €1,204.3 million and so exactly meet the forecast. Moreover, the Group achieved a ratio of net debt to adjusted EBITDA of 1.0, which is well below the target value of 1.75 maximum. In line with projections, the operating cash flow was clearly positive. Investments in property, plant and equipment, as well as intangible assets amounted to €195.5 million, in line with the forecast of around €200 million. The dividend ratio is generally in the middle of a range of 40 to 60 per cent of adjusted net profit for the period attributable to Deutsche Börse AG shareholders. According to the proposal made to the Annual General Meeting, based on a proposed dividend of €3.00 per share, this target was also realised with a ratio of 46 per cent.

Eurex (financial derivatives) segment

Eurex (financial derivatives) segment: key indicators

	2020	2019 ¹⁾	Change
FINANCIAL KEY FIGURES	€m	€m	%
Net revenue	1,110.3	1,009.3	10
Equity index derivatives	540.5	484.0	12
Interest rate derivatives	200.1	210.9	-5
Equity derivatives	48.4	51.1	-5
OTC clearing (incl. net interest income on margins for OTC interest rate swaps)	54.9	41.2	33
Margin fees	85.4	52.3	63
Eurex Data	59.8	60.8	-2
Other (incl. connectivity and member fees)	121.2	109.0	11
Operating costs	-373.1	-333.8	13
EBITDA	738.8	678.5	8

1) Previous year adjusted

In the Eurex (financial derivatives) segment, Deutsche Börse Group reports on the financial derivatives trading and clearing business at Eurex Exchange. The clearing volume of OTC interest rate swaps, one of the secular growth factors for Deutsche Börse Group, is reported as a separate item within the segment. The performance of the Eurex segment largely depends on the trading activities of institutional investors, and proprietary trading by professional market participants. From the start of the financial year reporting also covers the marketing of licences for Eurex-specific real-time trading and market signals and the provision of historical data and analytics from the former Data segment.

In 2020 the strongly fluctuating market volatility, as measured by the volatility index VSTOXX, had a significant impact on market activity and thus also on trading volumes for financial derivatives. Accordingly, when volatility spiked in the first half of 2020, significantly more financial derivatives were traded than in the second half-year. Equity index derivatives in particular saw year-on-year volume increases. This also includes growth in new products such as MSCI, total return and dividend derivatives. The sharp decrease in volumes of equity derivatives is primarily due to high trading volumes in 2019, in addition to an unfavourable market environment in the second half of 2020. Monetary and interest rate policy decisions to alleviate the economic impact of the Covid-19 pandemic significantly reduced the likelihood of higher long-term interest rates in Europe and resulted in less market activity in interest rate derivatives. Trading volumes in the Eurex segment across all product groups reached 1,861.4 million contracts in the 2020 financial year (2019: 1,947.1 million).

The offer and trading in ESG-specific derivatives developed well in the reporting period, particularly for Euro STOXX ESG derivatives. Here the trading volume for the full year passed the 1 million contract mark for the first time. There was also much greater interest in new products featuring exchange-traded forex derivatives (FX-Futures), primarily FX-Futures on the euro/US dollar rate.

The sharp rise in volatility in the first quarter of 2020 also led to an increase in collateral deposited with Eurex Clearing. The resulting net revenue rose accordingly.

Growth in clearing of OTC derivatives continued in financial year 2020. The average outstanding notional volume again beat the previous year's figure by 43 per cent, which means that Eurex Clearing has a global market share of 17.5 per cent in euro-denominated OTC interest rate derivatives (2019: 14.5 per cent). By refining the incentive programmes for transferring interest rate derivative portfolios to Eurex Clearing, customers are now supported in an even more purposeful way when migrating their positions to the EU-27.

EEX (commodities) segment

EEX (commodities) segment: key indicators

	2020	2019	Change
FINANCIAL KEY FIGURES	€m	€m	%
Net revenue	302.2	289.3	4
Power spot	72.1	70.9	2
Power derivatives	115.8	105.1	10
Gas	43.0	42.8	0
Other (incl. connectivity, member fees and admission allowance)	71.3	70.5	1
Operating costs	-174.3	-169.6	3
EBITDA	127.0	119.4	6

In the EEX (commodities) segment, Deutsche Börse Group reports on trading activities on EEX Group's platforms in Europe, Asia and North America. The EEX Group operates marketplaces and clearing houses for energy and commodity products, connecting more than 750 participants around the world. The product portfolio comprises contracts on energy, environmental, freight and agricultural products, as well as metals. EEX Group's most important revenue drivers are the power spot and derivatives markets, and the gas markets.

The EEX Group increased its trading volume in the spot power market by 4 per cent in 2020. Volumes in the intra-day segment rose by 21 per cent year-on-year, with increases in all market areas. The day-ahead segment was stable compared to the previous year. Intra-day and day-ahead products for four Scandinavian countries were added to the spot market portfolio towards the middle of the year. The introduction of new incentive schemes for market participants in power spot markets reduced net revenue growth in the reporting year.

Volume growth on global power derivatives markets, the main net revenue driver for the EEX Group, continued with a year-on-year increase of 11 per cent. Trading in power derivatives is being expanded continuously and now offers comprehensive geographic coverage of 20 European market regions and additionally the Japanese market, which was launched in May 2020. The volume of power derivatives traded in Europe passed the mark of 4,000 TWh for the first time in 2020. Whereas the German, French and Hungarian markets made the greatest contribution to growth in absolute terms, volumes on the US market declined, which is primarily due to lower hedging requirements as a result of reduced industrial production.

Trading volume on the gas markets fell year-on-year by 5 per cent. This is partly a result of lower demand due to the impact of the Covid-19 pandemic, with a lower total market volume on the spot markets. At the same time, greater competition on the gas derivatives markets, particularly in the Netherlands, led to trading volume changes. Despite these conditions, the EEX was able to increase its market shares in the gas spot market and defend its position as Europe's leading gas spot exchange in 2020.

360T (foreign exchange) segment

360T (foreign exchange) segment: key indicator

	2020	2019	Change
FINANCIAL KEY FIGURES	€m	€m	%
Net revenue	101.5	92.1	10
Trading	81.9	76.9	7
Other (incl. connectivity and member fees)	19.6	15.2	29
Operating costs	-53.9	-57.7	-7
EBITDA	47.6	34.4	38

In the 360T (foreign exchange) segment, Deutsche Börse Group manages its foreign exchange trading business, which takes place on the platforms provided by its subsidiaries 360 Treasury Systems AG and 360TGTX Inc. Net revenue in the 360T segment is driven mainly by the trading activities of institutional investors, banks and internationally active companies, and the provision of liquidity by so-called liquidity providers. During the year under review, the segment generated 81 per cent of its revenue from foreign exchange trading and 19 per cent from the provision of other services.

In the reporting year, the market environment in the 360T segment was determined by strongly fluctuating volatility, a varying risk appetite on the part of investors, restrictions due to Covid-19 lockdowns and the resulting impact on trading volumes. After an exceptionally strong first quarter marked by the outbreak of the Covid-19 pandemic and the ensuing high market volatility with high trading volumes, the following two quarters saw less trading activity on the back of a much less volatile and more risk-averse market, which was also affected by restrictions. Over the course of the fourth quarter the market recovered significantly compared to the prior quarters, based on movements in key currency pairs.

Furthermore, 360T was able to boost growth in trading volumes by winning and connecting new customers to the platform, particularly in the USA and EMEA. This resulted in growth being recorded across all product groups, with the total average daily trading volume up by 5 per cent to around €87 billion. 360T also set new records with an average daily trading volume of €109 billion in March 2020. Drivers of net revenue growth in particular were an increase in swap transactions, the 360TGTX business and solid growth in market data and connectivity.

The Eurex FX market also expanded further, despite the global events mentioned above. Especially Open Interest and the average daily trading volume reached new highs in 2020. A total of more than 600,000 contracts were traded (2019: around 96,300), with a new daily record of 130,000 contracts in June 2020. Average monthly Open Interest rose year-on-year in the reporting period by around 1,250 per cent (from USD 320 million 2019 to USD 4.8 billion). To further support this positive trend Eurex introduced European-style FX options in the second half of the year, as well as connecting numerous new clearing members, liquidity providers and trading participants and activating them for trading and clearing.

In addition to the success of the Eurex exchange with listed FX derivatives, Eurex Clearing is seeing increasing demand for its OTC FX clearing service. Increasingly more customers are interested and are partly already in the process of being connected to the service.

Xetra (cash equities) segment

Xetra (cash equities) segment: key indicators

	2020	2019 ¹⁾	Change
FINANCIAL KEY FIGURES	€m	€m	%
Net revenue	391.7	329.3	19
Trading and clearing	203.3	151.4	34
Listing	18.9	19.9	-5
Xetra Data	125.7	111.7	13
Other (incl. connectivity and member fees)	43.8	46.3	-5
Operating costs	-158.8	-148.6	5
EBITDA	258.7	186.5	42

1) Previous year adjusted.

In the Xetra segment (cash equities), Deutsche Börse Group brings together its cash market trading venues (Xetra®, the Frankfurt Stock Exchange, and Tradegate). Besides trading and clearing services income, the segment generates revenue from the ongoing listing of companies' securities and exchange admissions, the marketing of trading data, connecting clients to trading venues, and from services provided to partner exchanges.

The significant earnings increase in the Xetra segment in the reporting year 2020 was mainly due to higher trading and clearing revenues as a result of more trading activity. The volume of the order book increased year-on-year in almost every month, rising overall by 37 per cent to €2.1 trillion. Higher revenues were particularly due to the increased volatility compared to the previous year, the recalibration of share portfolios by institutional investors and much higher turnover in exchange-traded funds (ETFs). Trading volumes in these securities rose to a new annual record of €250 billion, which was 70 per cent up year-on-year. The strong increase in activity on part of the private investors was an additional driver during the entire reporting period. Competing with other pan-European trading venues, Xetra further strengthened its position as the reference market for trading in DAX constituents, increasing its market share to 73 per cent (2019: 71 per cent).

A total of seven initial public offerings (IPOs) took place in 2020 (2019: 4) as well as two new listings. By far the largest issue volume was recorded by the IPO of Hensoldt AG at €400 million. The share price of Siemens Energy AG when it was listed corresponded to a market capitalisation of approximately €16 billion.

Undiminished interest in gold as an investment asset again led to new records for Xetra-Gold[®], a bearer bond backed by physical gold. Thus gold reserves increased to 217 tonnes as at the end of the financial year (2019: 203 tonnes) – representing some €11 billion – and an order book turnover of €6 billion was reported (2019: €3.4 billion). Xetra-Gold thus remains the leading security in Europe backed by physical gold and the best-selling security among Xetra's exchange traded commodities (ETCs). The disposal of Regulatory Services GmbH, the regulatory reporting hub of Deutsche Börse Group, to MarketAxess Holdings, Inc. was completed on 30 November 2020. Income of €19.8 million from this transaction was recognised in net revenue for Xetra Data.

The business of Tradegate AG Wertpapierhandelsbank grew very strongly in 2020 thanks to much higher activity on the part of the private investors, and its equity method measurement had a positive impact on the result from financial investments, taking it to €25.8 million in total.

Clearstream (post-trading) segment

Clearstream (post-trading) segment: key indicators

	2020	2019 ¹⁾	Change
FINANCIAL KEY FIGURES	€m	€m	%
Net revenue	827.2	842.7	-2
Custody	417.5	391.7	7
Settlement	114.8	82.2	40
Net interest income from banking business	100.5	188.2	-47
Collateral management	76.9	78.0	-1
Third-party services	23.8	24.3	-2
Other (incl. connectivity, account maintenance)	93.7	78.3	20
Operating costs	-367.3	-343.4	7
EBITDA	458.0	497.5	-8

1) Previous year adjusted

Deutsche Börse Group's settlement and custody activities are reported under the Clearstream (post-trading) segment. In providing the post-trade infrastructure for Eurobonds and other markets, Clearstream is responsible for the issuance, settlement, management and custody of securities from more than 50 markets worldwide. Net revenue in this segment is driven mainly by the volume and value of securities under custody, which determines the deposit fees. The settlement business depends primarily on the number of settlement transactions processed by Clearstream via stock exchanges as well as over the counter (OTC). This segment also contains Clearstream's net interest income from banking business.

Since the start of the financial year the performance of Clearstream services in securities financing and securities management – the former GSF (collateral management) segment – has now been fully allocated to the Clearstream segment.

Issuance activity on the bond market increased significantly driven by corporates as well as the public sector due to growing financing needs during financial year 2020. This development led to a higher average value of assets under custody in the central securities depository (CSD) and international central securities depository (ICSD). In June, said figure surpassed the €12 trillion mark for the first time. Much higher trading volumes resulting from higher average volatility also pushed the number of settlement transactions up by 27 per cent – with a record volume of 7.5 million transactions in March – which had a significantly positive impact on net revenue in the Clearstream segment.

The net interest income from banking business was influenced by falling or exceptionally low interest rates in the reporting year. The US central bank Fed cut its prime rate in the US to 0.00 to 0.25 per cent in mid-March, which in turn had a negative impact on interest income on deposits in US dollars. Even the introduction of a cash handling fee of 30 basis points on US dollar-denominated deposits could only partly offset the interest rate effects.

Average outstanding volumes in collateral management and securities lending grew significantly in the reporting year. Whilst net revenue in collateral management (Repo und Tri-Party Collateral Service) are directly related to the volumes outstanding, central banks' money market measures lead to ample liquidity in the market thus putting lending fees under pressure. Ultimately this effect more than offset the positive performance of net revenue from collateral management.

IFS (investment fund services) segment

IFS (investment fund services) segment: key indicators

	2020	2019	Change
FINANCIAL KEY FIGURES	€m	€m	%
Net revenue	232.8	183.1	27
Custody	87.4	76.7	14
Settlement	72.0	53.6	34
Fund distribution	14.4	-	-
Other (incl. connectivity, order routing and reporting fees)	59.0	52.8	12
Operating costs	-117.5	-110.3	7
EBITDA	115.2	72.8	58

In the IFS (investment fund services) segment, Deutsche Börse Group reports the order routing and settlement activity and custody volumes of mutual, exchange-traded, and alternative funds processed by Clearstream. Clients can settle and manage their entire fund portfolio via Clearstream's Vestima® fund processing platform. The new Fund Distribution unit also covers the fund platform business of Clearstream Fund Centre, a merger of the existing Clearstream Fund Desk with the recently acquired UBS Fondcenter AG business. Net revenue in the IFS segment is largely a function of the value of assets under custody and the number of orders and transactions processed.

The IFS segment can look back at a successful business year 2020. Fund settlement as well as custody activity partly gained significantly with regard to volumes, which are considered to be the main driver for net revenue growth. This results on one hand from a steadily growing client base, on the other hand from strongly active market participants due to market conditions. Establishing Vestima as a platform solution to manage this fund business efficiently from a single source is key to IFS' success.

Clearstream Fund Desk – a service for fund distribution support founded in the course of the Swisssanto Funds Centre Ltd. Integration – achieved positive growth. Clearstream Australia Limited, former Ausmaq Limited, the specialist managed funds services business which was acquired from National Australia Bank Limited in May 2019, shows the same positive development.

The acquisition of a majority stake in UBS's fund distribution platform Fondcenter AG is a further important milestone in the reporting year. Since 30 September 2020, the newly combined and separately reported business of Clearstream Fund Centre is the centre of excellence for global fund distribution services within Deutsche Börse Group with assets under administration of around €290 billion. It is considered to be one of the leading market providers in the world. Fund distributors now have access to contracts covering more than 70,000 funds globally. Usually resource-intensive distribution support services such as fee management and research as well as the administration of fund data and documentation can be streamlined in an efficient way by using Clearstream Fund Centre's services. Alternatively, they can also be outsourced to Clearstream entirely. Asset managers benefit from Clearstream's global client network which brings additional scope and efficiency in the distribution of investment funds.

Qontigo (index and analytics business) segment

Qontigo (index and analytics business) segment: key indicators

	2020	2019	Change
FINANCIAL KEY FIGURES	€m	€m	%
Net revenue	248.1	190.2	30
ETF licences	34.7	38.7	-10
Exchange licences	34.7	31.5	10
Other licences	105.6	94.2	12
Analytics	73.1	25.8	183
Operating costs	-123.8	-101.0	23
EBITDA	124.1	89.2	39

In the Qontigo (index and analytics business) segment, Deutsche Börse Group reports on the development of its subsidiary, Qontigo, which was formed through the merger of the index business STOXX and DAX with Axioma in September 2019. In the index business, Qontigo offers issuers an extensive range of indices, thus providing these issuers with a wealth of opportunities to create financial instruments for even the most diverse investment strategies. While the ETF licence revenues depend on the volume invested in exchange-traded index funds (ETFs) on STOXX® and DAX® indices, the exchange licence revenues are derived mainly from the volume traded in index derivatives on STOXX and DAX indices on Eurex. Licence fees from structured products are shown as part of other licence fees. In Analytics, Qontigo offers its clients risk analytics and portfolio-management software.

European stock markets and the corresponding indices were buffeted in 2020 by a strong outflow of investment capital as the Covid-19 pandemic unfolded, the hope for a rapid economic recovery and the prospect of the development of a vaccine. Average assets under management in ETFs on STOXX and DAX indices fell by 7 per cent in the reporting year, even though significant inflows were recorded in the fourth quarter of 2020. As a result, the ETF licence revenues also fell year-on-year. Exchange licences were up by 10 per cent due to a strong first quarter in index derivatives trading and a moderate performance for the remainder of the year. Other licence revenues benefitted from the growing number of licenced products and on average higher back billing effects.

After a strong start to the year in the analytics business, the restrictions imposed to contain the Covid-19 pandemic made sales and implementation activities difficult. Since net revenue in this area depends mainly on the order value and a significant part of revenue is tied to the date of the transaction (rather than distributing revenue over the course of the contract), the restrictions in connection with Covid-19 caused revenue to fluctuate or decline. Axioma's net revenue is only shown pro rata for 2019 as the takeover of Axioma was closed on 13 September 2019.

Development of profitability

Deutsche Börse Group's return on shareholders' equity expresses the ratio of net income after taxes to average equity available to the Group during the course of 2020. In the reporting year, it was at 18.1 per cent (2019: 19.3 per cent). Adjusted for the exceptional items described in [Results of operations](#), the return on equity was 20.2 per cent (2019: 21.3 per cent).

Financial position

Cash flow

	2020 €m	2019 €m
Cash flows from operating activities excluding CCP positions	1,523.0	1,030.6
Cash flows from operating activities	1,412.0	926.1
Cash flows from investing activities	- 787.7	- 722.9
Cash flows from financing activities	- 254.2	99.4
Cash and cash equivalents at end of period	2,506.7	2,145.5
Other cash and bank balances	1,467.3	888.1

Cash and cash equivalents at Deutsche Börse Group, i.e. its liquidity, comprise cash and bank balances – to the extent that these do not result from reinvesting current liabilities from cash deposits by market participants – as well as receivables and liabilities from banking business with an original maturity of three months or less. The increase in Group liquidity, which is reflected in significantly higher cash and bank balances of €2,506.7 million (31 December 2019: €1,467.3 million), mainly reflects cash inflows from operating activities, offset principally by cash outflows for acquisitions.

In the 2020 financial year, Deutsche Börse Group generated a positive cash flow of €370.0 million (2019: €302.6 million). The information value of Deutsche Börse Group's cash flow is limited since the CCP positions which are subject to significant fluctuations on the reporting date, as well as the inflows and outflows from the banking business, result in distortions. Adjusted for these effects of €111.0 million (31 December 2019: €104.5 million), the cash flow in 2019 can essentially be explained as follows:

Cash flow from operating activities was €1,523.0 million (2019: €1,030.6 million) before changes in CCP positions on the reporting date. Cash flow from operating activities stemmed mainly from the higher net profit of €1,125.1 million (2019: €1,035.4 million) and the positive year-on-year changes in working capital (2019: €82.8 million; 2019: €-273.0 million).

Cash outflows for investing activities came to €787.7 million in 2020 (2019: €722.9 million), and stemmed largely from the acquisitions of Fondcenter AG and Quantitative Brokers LLC, which resulted in cash outflows of €448.5 million, compared with a cash outflow of €666.4 million in 2019, primarily for the acquisition of Axioma. Investment in intangible assets, property, plant and equipment of €195.4 million was slightly up on the year (€184.7 million).

Cash outflow for financing activities came to €254.2 million in 2020 (2019: inflow of €99.4 million). A bond issued by Clearstream Banking AG resulted in a cash inflow of €350 million. The dividend of €531.9 million paid in 2020 was higher than the previous year (€495.0 million), which is due to the year-on-year increase in the dividend per share from €2.70 to €2.90.

The positive cash flow from operating activities, sufficient credit lines and its flexible management and planning system mean that Deutsche Börse Group was adequately supplied with liquidity in 2020.

For further details of cash flow, see [the consolidated cash flow statement](#) and [Note 20 to the consolidated financial statements](#).

Liquidity management

Deutsche Börse Group primarily meets its operating liquidity requirements from internal financing, i.e. by retaining generated funds – with a view towards maintaining sufficient liquidity in order to be able to meet all of the Group's payment obligations when due. An intra-Group cash pool is used for pooling surplus cash as far as regulatory and legal provisions allow. All of the Group's cash investments are short-term, in order to ensure rapid availability, and are largely secured by liquid bonds from prime-rated issuers. Moreover, Deutsche Börse AG has access to external sources of financing, such as bilateral and syndicated credit lines, as well as a commercial paper programme (see [note 23 to the consolidated financial statements](#) for details of financial risk management). In recent years, Deutsche Börse AG has leveraged its access to the capital markets to issue corporate bonds in order to meet its structural financing needs.

Debt instruments issued by Deutsche Börse AG (outstanding as at 31 December 2020)

Type	Issue volume	ISIN	Term to	Maturity	Coupon (p.a.)	Listing
Fixed-rate bearer bond	€600 m	DE000A1RE1W1	10 years	October 2022	2.375%	Luxembourg/Frankfurt
Fixed-rate bearer bond	€500 m	DE000A1684V3	10 years	October 2025	1.625%	Luxembourg/Frankfurt
Fixed-rate bearer bond	€600 m	DE000A2LQJ75	10 years	March 2028	1.125%	Luxembourg/Frankfurt
Fixed-rate bearer bond (hybrid bond)	€600 m	DE000A289N78	Call date 7 years/final maturity in 27 years	June 2027/ June 2047	1.250% (until call date)	Luxembourg/Frankfurt

Capital management

The Group's clients generally expect it to maintain conservative interest coverage and leverage ratios, and hence to achieve a good credit rating.

The Group is committed to achieving the minimum financial risk profile that is consistent with an AA rating in accordance with S&P Global Ratings methodology. Furthermore, the company endeavours to maintain the strong AA credit rating of its subsidiaries Clearstream Banking S.A. and Clearstream Banking AG, in order to ensure the long-term success of its Clearstream securities settlement and custody segment. The activities of the Eurex Clearing AG subsidiary also require Deutsche Börse AG to have and maintain a strong credit quality.

To this end, the Group aims for the following relevant key performance indicators:

- Net debt to EBITDA ratio: no more than 1.75
- Free funds from operations (FFO) to net debt: equal to or greater than 50 per cent
- Interest cover ratio: at least 14
- Tangible equity (for Clearstream Banking S.A.): total of at least €1.100 million

When calculating these key performance indicators, Deutsche Börse Group closely follows the methodology applied by S&P Global Ratings:

- To determine the rating relevant EBITDA, reported EBITDA is adjusted by the result from strategic investments, as well as by unfunded pension obligations. The rating relevant EBITDA for 2020 was €1,852 million.
- In order to determine the rating relevant FFO, interest and tax expenses are deducted from the rating relevant EBITDA. The rating relevant FFO in 2020 amounted to €1,420 million.
- The rating relevant Group's net debt is reconciled by first deducting 50 per cent of the hybrid bond, as well as the surplus cash as at the reporting date, from gross debt (i.e. from interest-bearing liabilities). Liabilities from operating leases and unfunded pension obligations are then added. The rating relevant net debt in 2020 amounted to €1,861 million.
- The parameters used to determine the rating relevant interest expenses include interest expenses for financing Deutsche Börse Group, less interest expenses of Group entities which are also financial institutions – including Clearstream Banking S.A., Clearstream Banking AG, and Eurex Clearing AG. Interest expenses incurred which are not related to Group financing are not included in the calculation of interest expenses. Only 50 per cent of the hybrid bond is counted towards interest expenses. The rating relevant interest expenses totalled €53 million in 2020.

Deutsche Börse AG has declared its intention not to reduce the tangible equity (equity less intangible assets) of Clearstream Banking S.A. below €1,100 million. Clearstream Banking S.A. exceeded this threshold during the year under review, with a figure of €1,461 million.

The following table "Relevant parameters" illustrates the calculation methodology and shows the values for the reporting year.

Relevant key performance indicators according to the adjusted calculation method

		Target figures	2020
Net debt / EBITDA		≤ 1.75	1.0
Free funds from operations (FFO) / net debt	%	≥ 50	76
Interest coverage ratio		≥ 14	35
Tangible equity of Clearstream Banking S.A. (as at the reporting date)	€m	≥ 1,100	1461

S&P Global Ratings bases the calculation of key performance indicators on the corresponding weighted average of the reported or expected results of the previous, the current and the following reporting period. To ensure the transparency of the key performance indicators, the Group reports them based on the respective current reporting period.

Dividends and share buy-backs

Deutsche Börse Group generally aims to distribute dividends equivalent to between 40 and 60 per cent of adjusted net profit for the period attributable to the shareholders of Deutsche Börse AG. Within this range, the Group manages the actual payout ratio mainly relative to the business performance and based on continuity considerations. In addition, the company plans to invest the remaining available funds primarily in the Group's complementary external development. Should the Group not be able to invest these funds, additional distributions, particularly in the form of share buy-backs, would be another possible use for them.

For the 2020 financial year, Deutsche Börse AG is proposing that the Annual General Meeting resolve to pay a dividend of €3.00 per no-par value share (2019: €2.90). This dividend is equivalent to a distribution ratio of 46 per cent of adjusted net profit for the period, attributable to shareholders of Deutsche Börse AG, adjusted for the non-recurring items described in the [Results of operations](#) (2019: 48 per cent, also adjusted). Based on 183.5 million no-par shares with dividend rights, this would result in a total dividend payment of €550.6 million (2019: €531.9 million). The number of shares with dividend rights is produced by deducting 6.5 million treasury shares from the ordinary share capital of 190.0 million shares.

Credit ratings

Credit ratings

	Long-term	Short-term
Deutsche Börse AG		
S&P Global Ratings	AA	A- 1+
Clearstream Banking S.A.		
Fitch Ratings	AA	F1+
S&P Global Ratings	AA	A- 1+
Clearstream Banking AG		
S&P Global Ratings	AA	A- 1+

Deutsche Börse AG regularly has its credit quality reviewed by S&P Global Ratings, while Clearstream Banking S.A. is rated by Fitch Ratings and S&P Global Ratings, and Clearstream Banking AG by S&P Global Ratings.

On 05 August 2020, Fitch Ratings affirmed the AA credit rating of Clearstream Banking S.A. with a stable outlook. The rating reflects Clearstream Banking's leading position in the post-trade business and its diligent liquidity management, as well as its impeccable capitalisation.

In 2020, S&P Global Ratings left the AA credit ratings of Deutsche Börse AG and Clearstream Banking S.A. unchanged. Deutsche Börse AG's rating reflects the assumption that the Group will continue its growth strategy. S&P Global Ratings confirmed the AA credit rating on 19 November 2020 in the course of the intended takeover of Institutional Shareholder Services, Inc. Clearstream Banking S.A.'s rating reflects its strong risk management, minimal debt levels and strong position on the international capital markets, especially through its international custody and transaction business.

On 23 November 2020 S&P Global Ratings gave Clearstream Banking AG a AA credit rating with a stable outlook. The rating reflects its strong position in post-trading and its core importance in the Clearstream Group.

As at 31 December 2020, Deutsche Börse AG was one of only two DAX-listed companies awarded an AA rating by S&P Global Ratings.

Net assets

Material changes to net assets are described below; the full consolidated balance sheet is shown in the consolidated financial statements.

Consolidated balance sheet (extract)

	31 Dec 2020 €m	31 Dec 2019 €m
ASSETS	152,767.7	137,165.3
Non-current assets	14,596.7	11,706.9
thereof intangible assets	5,723.2	5,008.4
thereof goodwill	3,957.6	3,470.5
thereof other intangible assets	1,255.4	1,040.9
thereof financial assets	8,086.0	6,027.6
thereof financial assets measured at amortised cos	997.5	698.7
davon erfolgsneutral zum beizulegenden Zeitwert bewertete Beteiligungen	111.4	66.3
thereof financial instruments held by central counterparties	6,934.7	5,234.2
Current assets	138,171.0	125,458.4
thereof financial instruments held by central counterparties	80,768.1	78,301.5
thereof restricted bank balances	38,420.1	29,988.7
thereof other cash and bank balances	1,467.3	888.1
EQUITY AND LIABILITIES	152,767.7	137,165.3
Equity	6,556.1	6,110.6
Liabilities	146,211.6	131,054.7
thereof non-current liabilities	11,031.4	8,610.4
thereof financial instruments held by central counterparties	6,934.7	5,234.2
thereof financial liabilities measured at amortised cost	2,637.1	2,627.2
thereof deferred tax liabilities	216.7	226.3
thereof current liabilities	135,180.2	122,444.3
thereof financial instruments held by central counterparties	80,673.1	77,411.5
thereof financial liabilities measured at amortised cost	15,018.6	14,432.1
thereof cash deposits by market participants	38,188.8	29,755.8

Deutsche Börse Group's total assets increased year on year by 11 per cent. The increase in intangible assets resulted primarily from the acquisitions of Fondcenter and Quantitative Broker. This particularly gave rise to significantly higher goodwill.

Much higher cash, restricted bank balances and financial instruments held by central counterparties as at the reporting date were also responsible for the rise.

Group equity rose by 7 per cent compared with the previous year. This was mainly due to the net profit for the reporting year 2020, less the dividend payment for the previous financial year.

Deutsche Börse Group invested a total of €195.4 million in the reporting year (2019: €184.7 million) in intangible assets and property plant and equipment (capital expenditure, CAPEX). The Group's largest investments were in the Clearstream and Eurex segments.

Working capital

Working capital comprises current assets less current liabilities, excluding technical closing-date items. Current assets, excluding technical closing-date items, amounted to €1,289.9 million (2019: €898.4 million). As Deutsche Börse Group collects fees for most of its services on a monthly basis, the trade receivables of €616.6 million included in current assets as at 31 December 2020 were relatively low compared with net revenue (31 December 2019: €447.3 million). The significant increase in trade receivables was particularly due to the acquisition of Fondcenter AG, which led to a similar increase in trade payables. The current liabilities of the Group, excluding technical closing-date items, amounted to €1,374.5 million (2019: €1,072.9 million, excluding technical closing-date items). The Group therefore had slightly negative working capital of €84.6 million at year-end (2019: €174.5 million).

Technical closing-date items

The “financial instruments of the central counterparties” item relates to the function performed by Eurex Clearing AG and European Commodity Clearing AG: since they act as the central counter parties for Deutsche Börse Group's various markets, their financial instruments are carried in the balance sheet at their fair value. The financial instruments of the central counterparties are described in detail in the [risk report](#) and in [notes 12 and 23 to the consolidated financial statements](#).

Market participants linked to the Group's clearing houses partly provide collateral in the form of cash deposits, which are subject to daily adjustments. The cash deposits are generally invested on a secured basis overnight by the central counterparties and reported in the balance sheet under “restricted bank balances”. The total value of cash deposits at the reporting dates relevant for the reporting period (31 March, 30 June, 30 September and 31 December) varied between €38.2 billion and €62.2 billion (2019: between €29.6 billion and €32.3 billion).

Value added: breakdown of company performance

Value added is calculated by subtracting depreciation and amortisation as well as external costs from the company performance. In 2020, the value added by Deutsche Börse Group amounted to €2,400.7 million (2019: €2,194.8 million). The breakdown shows that large portions of the generated value added flow back into the economy: 24 per cent (€577.2 million) benefit shareholders in the form of dividend payments, while 34 per cent (€822.9 million) was attributable to staff costs in the form of salaries and other remuneration components. Taxes accounted for 17 per cent (€403.1 million), while 2 per cent (€49.6 million) was attributable to external creditors. The 23 per cent value added that remained in the company (€547.9 million) is available for investments in growth initiatives, among other things.

Overall assessment of the economic position by the Executive Board

The main factor affecting financial year 2020 was the outbreak of the Covid-19 pandemic, its global economic impact and the challenges of dealing with the virus and its containment. In an extraordinarily volatile market environment the Group saw significant earnings increases in the first quarter of 2020, whereas markets became increasingly subdued over the remainder of the year and prime rates fell to new lows worldwide. Secular net revenue nevertheless rose by 5 per cent across the Group as planned. Cyclical effects and consolidation each contributed another 2 per cent to net revenue growth, increasing net revenue overall by 9 per cent. Adjusted operating costs were up by 7 per cent. Main contributing factor was the consolidation of companies acquired during the course of 2020. On an adjusted basis the Group increased net profit attributable to Deutsche Börse AG shareholders by 9 per cent to €1,204.3 million, which was also in line with the Executive Board's expectations.

Based on this, the Executive Board considers that Deutsche Börse Group's financial position remained very solid during the reporting period. The Group generated high operating cash flows as in previous years. Deutsche Börse was able to further improve the ratio of net debt to EBITDA at Group level: The figure of 1.0 was significantly below the target of 1.75.

Deutsche Börse AG has offered its shareholders increasing dividends for years – and the 2020 financial year is no exception. A proposed dividend of €3.00 (2019: €2.90) is 3 per cent higher than the distribution to shareholders in the previous year. As a result of the improvement in earnings the distribution ratio fell from 48 per cent in the previous year to 46 per cent in the year under review (adjusted in each case for exceptional items) and was thus in line with the Executive Board's target range of 40 to 60 per cent.

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