



Transcript Conference call

**Strategic Partnership in Spain
and Sabadell AM Acquisition
Announcement**

Wednesday, 22nd January 2020

Welcome

Anthony Mellor

Head of Investor Relations, Amundi

Hello, good morning to all of you. Welcome to this conference call, dedicated to the announcement we made yesterday evening regarding a new, long-term strategic partnership in Spain and the acquisition of Sabadell Asset Management. I now leave the floor to Nicolas Calcoen, Deputy General Manager of Amundi.

Strategic Partnership in Spain and Acquisition of Sabadell Asset Management

Nicolas Calcoen

Deputy General Manager, Amundi

Hello everybody. I am very, very glad to have the opportunity today to present to you our new partnership with Sabadell that was announced yesterday evening, which we see as a long-term partnership.

Executive Summary

I think you have all seen the presentation that we released yesterday evening. I will go through it and then leave the floor for more questions. However, as a way of introduction to this call, I just want to remind that what we announced, I am very, very glad to announce it, is a partnership with Sabadell. It is a ten-year strategic partnership based on a long-term distribution agreement and a partnership that does include the acquisition of Sabadell Asset Management, the asset management arm of Banco Sabadell.

We believe that this partnership with one of the leading retail banks in Spain is totally in line with our strategy and will allow us to reinforce and consolidate our European leadership position in one of its key markets, Spain. It will create a lot of value, first for the customers of Sabadell, for Sabadell itself and for Amundi.

Transaction Rationale

So, first, I am on page three of the presentation that was released yesterday evening, what is the reason, what is the rationale for this transaction.

I believe that this partnership is clearly a great opportunity for us to reinforce our footprint in Spain, which is one of the key markets of the Eurozone. This market represents roughly €600 billion, mainly retail. It has been growing relatively fast over the recent years, so it is a very important market. And in terms of distribution, it is a market which is still dominated by bank networks, so it is very important to find the right partner.

So, just a reminder that Amundi has already been in Spain for a long time. Today, we manage €21 billion for Spanish clients. After this transaction, we will, altogether, manage more than €40 billion for Spanish clients, making Amundi the fourth asset manager in Spain and the number one non-domestic player in this market.

To enter this market – like I said, it is a market dominated by distribution through bank networks – the important thing is to find the right partner. I really believe and am convinced that Banco Sabadell is a great partner with a lot of potential. This is, first, because of what is Sabadell today: a strong network, one of the leading banks in Spain; they are number five in the Spanish market with, overall, an 8% market share in banking activities, with a strong network, close to 2,000 branches, around 7 million customers and a strong presence in most of the most developed regions of Spain. They are, of course, very strong in Catalunya but they are also very strong in Valencia ; also a very strong presence on the Atlantic coast; maybe not that dominant but a good presence in Madrid region. So, a good opportunity to leverage in quite dynamic regions.

So, a very strong partner with good potential for development and a partnership which is secured by a long-term distribution agreement, a ten-year distribution agreement. On this basis, Amundi will become the preferred supplier for funds but, more globally, for savings solutions, including, for example, discretionary portfolio management or fund selection. This is something which is quite similar to the kind of agreement that we have with Crédit Agricole and with UniCredit, which secures a long-term relationship on which we can develop together better solutions for the client base of Sabadell.

So, globally, a combination of Banco Sabadell's powerful network and Amundi's comprehensive range of savings solutions should allow us to provide new solutions, better solutions and a more diversified set of solutions to Sabadell clients and therefore, to develop together.

So, globally, a transaction which is pretty much in line with the kind of relationship that we are accustomed to develop with many partners in Europe and Asia, which allows us to develop, on that aspect, our quite unique business model aimed at serving retail networks. And which is totally consistent with Amundi's strategy, as stated at the time of the IPO and restated following the acquisition of Pioneer. It consolidates, clearly, our leadership in Europe, adding a very strong position, now, in the Spanish market, in addition to our, of course, strong position in France, in Italy, in Germany, in most of the key markets of the Eurozone, to develop new partnerships. And to diversify our set of partners within networks and to continue to diversify our profile both in terms of geographies and customers.

Financial Impact of the Transaction

On the financial side, financial impact of the transaction, page four, so the acquisition of 100% of Sabadell AM is based on the consideration of €430 million, plus, potentially, an earn-out of €30m which will be payable in 2024, based on the future performance of business. This €430 million represents a 2020 multiple of around 13, without synergies, considering the fact that we expect the Sabadell AM net income to be around €34 million in 2020. Including the synergies that we have identified, that would correspond to a 2020 multiple, pro forma of the synergies, of around nine times the 2020 results. This is based on the synergies that we have identified when we had our discussions and made our due diligence. Synergies that we expect to be in a position to achieve in three years, that we estimate at around €15–20 million pre-tax. That will be driven by revenues for the majority of it but also based on cost optimisation and revenue enhancements, including, in particular, the re-internalisation of some expertise that today were outsourced by Sabadell AM to external providers because of

their limited range of expertise. Of course, the potential to move to Amundi expertise is strong, considering the large breadth of Amundi expertise.

So, globally, in terms of the financial impact, the transaction is fully in line with Amundi's financial criteria for acquisition. It should be, following the acquisition, immediately accretive to our EPS. The return on investment is expected to be at least, or above, 10% within three years; again, totally in line with our financial criteria.

In terms of financing, this acquisition is not conditional to any fundraising, as we have the capacity to finance it in totality on our existing cash resources. In terms of core equity tier one, the impact is expected to be around 400bps on our core tier one ratio. The actual closing of the transaction, which is, of course, subject to customary regulatory approvals, is expected to be in Q3. So, at that time, our capital position, our CET1 ratio, will remain largely above the minimum regulatory requirement.

The last point, maybe, I forgot to mention on this. I mentioned we already have operations in Spain through our subsidiary, Amundi Iberia, which is based in Madrid. We intend to keep two companies, so Sabadell AM dedicated to the Sabadell network and Amundi Iberia dedicated to our other clients and partners in Spain, to remain separated because they serve different clients. In particular, Sabadell are expecting to keep the close relationship they have today with the Sabadell AM team. So, they are two entities that will remain separate but, of course, Sabadell AM will be fully integrated in the global Amundi organisation.

I will stop here for this presentation and open the floor for your questions.

Q&A

Haley Tam (Credit Suisse): Morning Nicolas, morning everyone. Congratulations on a great announcement this morning. Can I ask you two questions, please, one perhaps on some of the numbers and second on the strategic rationale?

Just, firstly, on the economics, could you perhaps help us understand what the current operating margin, or cost-income ratio is at Sabadell asset management?

With that in mind, I am just trying to understand: the €34 million of net income expectation you have for 2020 looks exactly the same as the €34 million that they actually earned last year. I am just trying to understand why that is.

The second question, in terms of the strategic rationale: you have talked, obviously, about a revenue synergy opportunity and the outlook for Spanish market growth. I am trying to just wonder: what is the greater focus for Amundi's ambitions in Spain? Is it tapping into that market growth or are you looking specifically to improve the performance at Sabadell Asset Management? We see that some of the big multi-asset funds, for example Prudente Fund which is €5 billion, does look to have underperformed its peers and be seeing some net outflows. So, any comment you can give us there would be great.

Nicolas Calcoen: Okay, well, thank you. Regarding the numbers and the current numbers of Sabadell AM, for their net result, we are expecting €34 million of Net Income. If you compare, in particular, to past published data, you have to take into account three elements. The first one is that, in the perimeter – and maybe I forgot to specify that – we made the acquisition of 100% of Sabadell AM but not of what is today a subsidiary of Sabadell AM,

which is Urquijo Gestión, which is a very small asset management company which is dedicated to manage specific products for the private bank. It does not mean that our distribution agreements are not covering this clientele. But some specific, dedicated, tailor-made products that were managed, and are managed by Urquijo Gestión are out of the scope of the transaction.

The two other elements are regarding rebates. The level of rebates paid by Sabadell AM to Banco Sabadell has been adjusted in the recent past to better incentivise the network and be aligned with market practice. It is done and our deal is based on a rebate that will be now determined. But they are at a slightly different level, higher level, than what they used to be in the past.

On the last element, regarding cost, there are also some cost adjustments that were made, or are being made, to take into account the fact that Sabadell AM, which used to leverage and rely on some functions managed by the bank, by Sabadell, will work on an autonomous basis and it implies some cost adjustment. So, that explains the results.

Regarding the cost-income ratio, within a pro forma basis, it will be around 30%, or something like that. However, let us say I do not put too much focus in absolute terms on the cost-income ratio for a structure which is dedicated to our network and we will also continue to rely on Amundi's support function.

On the second question, regarding the rationale, maybe we could start with the rationale for Sabadell to make this move. I think, and it was very clear during the process, what they were looking for was a partner; a partner to improve what they are able to provide to their client base in terms of savings solutions. They were very attentive to that dimension. The reason why I think they selected us and the reason why we think we have a lot to work together is thanks to, first, our very large weight of expertise, which is obviously much larger than the one of Sabadell AM, which was a relatively small entity, around 130 people. Because of the quality and the performance of the expertise and because of our experience in designing the solutions which fit the needs of a network like this, we can improve what we provide. We can improve in terms of performance, yes, probably, and maybe integrating, progressively, their process in our process, should improve the performance of existing product. However, we can also enlarge the expertise, or the kind of solutions we can propose to the network and to their clients.

Haley Tam: Okay, that is very clear. Thank you.

Hubert Lam (Bank of America): Hi, good morning. I have three questions. Firstly, on the distribution agreement, maybe you could give us just a little bit more details on how it works. Is it an exclusive distribution agreement? What is the rebate that you would pay to Sabadell? Are there any revenue guarantees associated with the distribution agreement? That is the first question.

The second question is on flows. Could you give us a little bit more colour in terms of how flows have been at Sabadell, as management over the last year, as well as the flows for your own Spanish business? That would be good.

Lastly, does this deal that you are doing now, and the time it takes for you to integrate it and for it to close, stop you from doing other deals during the year, if an opportunity comes up? Thank you.

Nicolas Calcoen: Thank you. First, regarding the distribution agreement, of course, there are many elements I cannot disclose. What I can say is, first, it is very much in line with the kind of agreement we have with UniCredit, for example, to mention the most recent one which has been negotiated, as an exclusive or preferred partner relationship.

In terms of rebates, I cannot disclose the level of rebates, but they are determined for the ten years to come, and they are very much in line with market standards across Europe and with what we can see with other partners.

Regarding the flows, in the recent year, Sabadell AM had some outflows that show that performance – it was also mentioned in the previous question – of the fund has not been that good last year, but that is one of the dimensions in which we expect to bring something to the business and to the clients of Sabadell.

Does it prevent to do other deals? No. Again, if we see opportunities - in your question there are two dimensions: in terms of managerial capacity, Of course, it's a very important deal but it is not impacting the whole organisation as for Pioneer; and in terms of financial terms, well, it depends on the size, the timing and the way we could finance it. But as you know, our capital position is rebuilt regularly, since we distribute 65% of our net results and we retain the rest. If there are opportunities, we can continue to explore them but again, we are very opportunistic on this side and we are not looking to do deals. We will only do deals if we find opportunities that make sense, clear value that allows us to go faster and in a more efficient way in implementing our strategy.

Arnaud Giblat (Exane): Yes, good morning. First of all, could you detail maybe a bit what the conditions of the earn-outs are? You mentioned I think growth in AuM. Can you specify what that growth is?

Secondly, on the synergies, could you perhaps quantify what these are? You mentioned 15-20. What proportion is coming from cost? What proportion is coming from revenue synergies? And maybe in terms of revenue synergies, quantifying if it is new products or a re-internalisation of a sub-advisory management. If you could give a bit of quantification there, that would be quite useful.

Finally, I do not think you mentioned any dissynergies. Should we look for any? Are you expecting to keep all the AUMs? Thank you.

Nicolas Calcoen: On the earn-out I cannot provide the details. What I can say is it is payable in 2024 and based on the increase of AUM that we will see at that time. And we expect a significant increase two to three years from now. Overall, as I said, what we expect is around €15-20 million pre-tax of synergies. The majority are revenues but also costs, so roughly it is two-thirds revenues, one-third costs. But in terms of revenues, the majority of what we take into account is revenue synergies coming from our capacity to re-internalise some expertise. As I said, with Sabadell, there are limited lines of expertise. So, they have some funds, for example, delegated to other asset managers or in their fund-of-funds or

solution business, they use some external funds. We could leverage on very good quality expertise that exist at Amundi. So, that is the main part on the revenues.

That is why if you take into account these kinds of synergies coming from re-internalisation of expertise and the cost synergies coming from the fact that their operations will be moved to our global IT platform, which could possibly also come with some staff reductions, you have more than 80% of the target synergies. It means that 80% of the synergies we identified are basically linked to decisions that we will make, and we do not rely on the potential development coming from capacity to sell more savings, investment funds in the network, which means that we are very confident on this level of synergies.

In addition, I would say that the remaining 20% is feasible. We also think that we have the capacity by providing better solutions, new solutions to the network to increase the penetration rate of investment funds in the network. You may have noticed that the market share of Sabadell in terms of banking activities, deposits and loans is around 8%. In asset management, it is 6%. We see a potential improvement there, but we have been, as we are usually when we evaluate synergies, cautious about taking into account this additional potential.

In term of dissynergies, frankly, no, we do not expect dissynergies from the network. As always, we are very cautious on starting to work with the team from Sabadell AM and Sabadell to ensure that the transition is done as smoothly as possible, without any perturbations for the networks and for the clients. We do not expect dissynergy on that side, neither from the rest of our business in Spain, since, in particular, the two businesses will be kept separate.

Arnaud Giblat: That is great, so just a very quick follow-up. Can you tell us a bit about the phasing in of the synergies?

Nicolas Calcoen: Three years.

Arnaud Giblat: One-third, one-third, one-third?

Nicolas Calcoen: Progressive phasing, yes. Some can be implemented relatively rapidly, some will take longer, we will assess once we are in control.

Arnaud Giblat: Thank you.

Gurjit Kambo (JP Morgan): Hi, good morning. Just a few questions. So, firstly in terms of the partnership, you have now with Sabadell, does this prohibit you from doing other retail partnerships in Spain? When you talk about developing new partnerships, is this in Spain or outside Spain? So, that is the first question.

Secondly, just in terms of the product offering that Sabadell Asset Management offers in terms of the asset class split, how does that compare to what you currently offer in Spain via your own asset management business?

And then just finally, in terms of the structured products which I think is about 18% of Sabadell Asset Management, is there any balance sheet exposure that you would need to take for those products? Thank you.

Nicolas Calcoen: Okay, so no, to your first question, it does not prevent us to do any other partnerships in Spain. Today we have already relationships, that we can call partnerships,

with other players and these things do not prevent us potentially, if there is an opportunity, to have stronger commitments and partnerships with others.

Regarding the asset class split, we provided some data in the appendix, Sabadell AM has a bit more than 50% in multi-asset, and then bonds and structured product limited penetration and equity. Overall, the line of product is relatively conservative. Of course, our global range of expertise at Amundi is much broader; in Spain we have very limited investment capabilities and products today. But in Spain what we distribute is the overall expertise of the whole Amundi book.

And on your last question regarding structured products, no, Sabadell AM is not providing guarantees directly so it does not have any implication on its balance sheet.

Pierre Chedeville (CIC): Just one last question regarding capital. Just to say that you mentioned that you will be above regulatory capital requirement, which could be below 10%, I guess, if I compare with the banks and your other company. But I remember that constantly Mr Perrier said that one of the major advantage of Amundi is that it has a very solid capital position in terms of facing a crisis, for instance, or problems of liquidity, things like that.

My view is that considering this strategic stand regarding the necessity for Amundi to be very solid in terms of capital, I do not think that to be below 10% of core tier one is something which is satisfactory, from the strategic point of view. My view is that how long do you think it would take for you to come back to a conservative capital position, regarding the fact that you want to have the image of a very solid asset manager? Thanks for that.

Nicolas Calcoen: First thing, we said that, yes, at closing, when we will have done the transaction, the CET1 ratio will be well above regulatory capital requirements. I think in itself, it is a strong position. Plus again, we are not the same as big banks that have a lot of RWAs. Concerning our capacity to generate additional capital, our capital position is rebuilt very fast so in itself, we will continue to have a good capital position and strong capital position.

And second element, and you were referring to our conservative stance regarding the advantage to have a strong capital position, I would say, look at the other asset managers when I am talking about regulatory capital requirements. Amundi is licensed as a bank, so is subject to capital requirements and other banking regulation environment, which generates significant capital requirements.

It is not the case for asset managers in general, and you may have noticed that some big players are not at all in that position, and some of them, sometimes even have negative tangible equity. I think we are far from that. We continue to be far from that. We want to be far from that, and we do have good capital position. And again, this needs to be looked in dynamic terms and not static terms, with a strong capacity to regenerate capital position.

Pierre Chedeville: Thank you.

Bruce Hamilton (Morgan Stanley): Hi, yes, good morning guys, thanks and most of mine have been asked. Maybe two follow-ups. One, the deal appears to reinforce a sense that a MiFID is making it more difficult for third-party or independent managers to access distribution, and hence the importance of captive or exclusive relationships. So, a) would you

agree with that analysis of the impact on MiFID; and 2) is there any regulatory or other risk that could change that, which will obviously be a negative for the way your current model is set out, which obviously works very well?

And then secondly, you have now strong distribution across France, Italy and Spain. Where are their gaps or within Europe, which are the markets where you feel you are underpenetrated in distribution if we think about the footprint from there? Thank you.

Nicolas Calcoen: Regarding third-party versus captive business, well, I would not say that MiFID make it really difficult for asset managers which have a different model, which have different distribution partners. And by the way, at Amundi, we do have both. We have what you can call captive, semi-captive, preferred partnerships networks, and you have purely third-party business.

And if you look at it in term AUM today, the so-called captive part is a bit bigger than the third-party business. But the difference is not that big. We manage more than €180 billion of third-party business. And in term of growth, again, looking at it on a medium-term perspective, this third-party business is growing a lot. And by the way, we see a lot of value to have these kind of businesses, and the advantage in being, at the same time, in long-term relationship, where we can develop solutions to be in proximity with networks.

And at the same time, to also operate on a more open architecture basis, where we are on a daily basis challenged in terms of performance and so on, is a good way to be constantly under scrutiny and to improve ourselves constantly. I would not oppose the two businesses, and we are on both businesses. And for now, I do not see in the foreseeable future any regulatory challenge for this positioning.

Second question regarding gaps in Europe, I would not say we have gaps. We are in most of the significant European markets. Of course, we have a stronger position in France than in Germany or even Spain, but we have a good position. We know that we can improve, and we want to improve our position in most of the market.

And in fact, we are convinced that we have the opportunity and the capacity to gain market share in all the markets. We may not succeed everywhere, but we want to develop everywhere, in Europe at least, but based from a position which is already a significant one in most of the other key markets.

Bruce Hamilton: Got it, thank you, very helpful.

Mike Warner (UBS): Thank you. Just a quick follow-up. With regards to the mandates that you will be re-internalising, what type of strategies and/or asset classes are those expertises focused on? And then, after the re-internalisation effort, any remaining or existing mandates for AUMs are going to be that you plan to have managed by third parties? Thanks you.

Nicolas Calcoen: We are quite diverse actually. Again, if you look at our expertise, certain expertise, for example, we can bring to Sabadell AM: very strong expertise in emerging markets and in US expertise. And in the fixed income space, when you go beyond additional fixed income, we have other capabilities, so it is quite large and quite diverse.

And of course, they will continue to use external providers and the network will also use external provider. But I cannot say exactly in what proportion. And, anyway, it is part of one

of the service that we will be providing to Sabadell, we will help in the selection of this external expertise.

Mike Warner: Thank you.

Roberta De Luca (Goldman Sachs): Hi. Thank you, Nicolas. Just a quick question, actually, on this point, the internalisation of the expertise. Will it incur into any extra cost for the end of the contract with third-party providers?

Nicolas Calcoen: No, no extra cost.

Roberta De Luca: Okay.

Angeliki Bairaktari (Autonomous Research): Hello. Thank you for taking my questions. Just two, please. The first one is the margin on the Sabadell AM AUM seems to be around 30 basis points, which is lower than your 45 basis points retail margin. Is that explained by the mix that you described earlier, less equity funds, and is there any scope for that to get closer to the margin that you have in the rest of the retail business at the moment?

Second question, did you see any competition in the bid for Sabadell Asset Management from other non-domestic Spanish players, especially considering that you have now leapfrogged from number two foreign player in Spain to number one? I was just curious if, in particular, American asset managers are considering entering the European captive distribution space. Thank you very much.

Nicolas Calcoen: Thank you. On margins, yes, average margins should be around 30 bps. Two reasons for that. First, Sabadell AM business is mainly in retail, it is around 80%, but it is not purely retail; there are some institutional business which is, of course, with lower margin. Second, in terms of expertise, yes, it is quite conservative in terms of expertise, so not necessarily the one that have the highest margins. We will see if there could be a potential to leverage on the higher-margin expertise. But at the same time, we know that, overall, it is not specific to Sabadell, it is not specific to Spain, but we expect to continue to see fee pressure across the board in Europe, so we will see where it goes.

Regarding the competitions' bid, what I can say is there was a process launched by Sabadell; I cannot comment on what could have been the competition in that regard.

Angeliki Bairaktari: If I can just make my question a bit more general. In general in Europe, do you see non-European players having a new appetite to enter the captive distribution through banks or is that really not a threat for you, not a concern at all?

Nicolas Calcoen: Well, what I can say is, yes, US players are pushing hard on trying to develop, and do develop, in Europe. The way they do the distribution I cannot comment, maybe it is a question for them. What I can say is that what we have is the strong expertise, knowledge, experience in dealing with banking networks and it is clearly something that is more and more recognised by partners. And I think that is one of, if not the main reason why Sabadell decided to partner with us.

Angeliki Bairaktari: Thank you very much.

Anthony Mellor: Okay. Thank you, that ends our conference call. Thank you to all of you for your attendance, and the next event will be the full year 2019 earnings announcement on 12th

February, 07.00 am CET, and then the usual presentation meeting at 10.00 am, London time, in Amundi UK. Thank you to all. Have a good day. Bye bye.

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