1Q 2019 Results

Wednesday, 26th April 2019

Introduction

Anthony Mellor

Head of Investor Relations, Amundi

Yes, it's Anthony. Good morning to everyone. So with me in the room are Nicolas Calcoen, who will present the Q1 results, Domenico Aiello and Thomas Lapeyre. We will open the Q&A session after the presentation of the results. Nicolas, over to you.

Q1 2019 Results

Nicolas Calcoen

Group CFO, Amundi

1Q 2019 Results

Introductory Remarks

Thank you, Anthony and good morning to all of you and welcome on this call to present the results of Amundi for the first quarter of 2019. As an introduction, I would just say that overall they are good results, marked by a new increase in our net results, in our profitability. We turned to positive flows in long-term assets and we can confirm the ongoing finalisation of the Pioneer integration.

Market environment and risk aversion

So to enter into the details, starting with the activity. Maybe just a word before that on the market environment. I'm on the page seven of the slide show. As you all know, we benefited in this first quarter from a significant improvement in the market environment with equity markets sharply up compared to December. So recovering from the inverse evolution in the fourth quarter of 2018. Interest rates are declining, explaining a positive market impact.

Maybe one point, which is nevertheless important to notice, is the fact that the equity market went up sharply during the first quarter of 2019. However despite this, if you compare the average level of the first quarter 2019 to the average level of the first quarter of 2018, we are still a little bit below. Overall, the market environment, is clearly improving but a persistence of risk aversion from investors, particularly in retail, probably in connection with both macroeconomic and political uncertainties still exists. This is reflected by the fact that consumer investments are heavily geared towards traditional life insurance or deposits in many European countries.

Assets under management

In that context, page 8. Assets under management increased by 3.6% over the quarter, up to €1,476 billion at the end of March. A strong market effect of €58 billion contributed to a significant increase in the AuM.

Net inflows

And regarding net inflows, page 9. As I indicated a rebound in long-term asset flows, which came back into positive territory were offset by outflows in treasury products especially at the end of the quarter. Regarding medium to long-term assets, we had positive inflows of €8.4

billion if you exclude the impact of the re-internalisation of an institutional mandate in Italy for a bit more than €6 billion.

To be clear, it's a mandate from the Italian Post, which decided to re-internalise this relatively low-fee mandate. So clearly it has nothing to do with the performance of the mandate or the relationship with Amundi. If you exclude this effect, we had positive net flows of €8.4 billion in the first quarter. Overall, net flows for the first quarter were negative by €6.9 billion, but with a positive underlying trend for long term assets.

MLT inflows and treasury product outflows

If I go a little bit more into detail – slide ten. Regarding retail, we had positive inflows on long-term assets of €2.4 billion. So, a recovery from the last quarter despite risk aversion which is still very strong. This inflow was driven mainly by the international networks and especially in Italy, thanks to the development of the discretionary portfolio management, in particular for the UniCredit network and also, by some positive flows in long-term assets in the joint ventures. And again, all this against the backdrop of persistent risk aversion, especially in France where flows were slightly negative. At the industry level, the percentage of Unit Link gross inflows in life insurance products has continued to decrease this quarter, per Fédération Française de l'Assurance data. Remember, they were up until last summer and since then they have been decreasing. Overall for the French market, it came down to 24% compared to 28% last year.

Overall for the retail business, we saw positive inflows on long-term assets and negative outflows on treasury products in French Networks, Third-Party Distributors and in our Joint Ventures. Maybe one point to specify, the outflows were especially significant in the French Networks' treasury products. This is due to the corporate clientele of these networks, to the main part.

Institutional and corporate business lines

Regarding the institutional and corporate business lines, page 11. Same overall position. Buoyant activity in the long-term assets, despite the reinternalisation of a mandate in Italy, but some outflows coming from the corporate clients on Treasury Products.

So long-term assets, if you exclude the Italian mandate, recorded net inflows of €6 billion, with a lot of turnover. And we have seen of course this reinternalisation of the Italian mandate, so some outflows. But more than compensated by strong inflows with new clients – new mandates. Positive, also, contribution from the CA & SG mandate due to in particular strong inflows going to a traditional life insurance contract. But significant outflows in Treasury Products coming from the corporate clients at the end of the quarter.

By Region

On page 12, just to complement the vision. If you look at what assets classes of expertise contributed to these inflows. Again, if I exclude Treasury Product on the Italian mandate, other asset classes contributed positively with the good inflows coming from several expertise.

In terms of geography, again, excluding money market funds and the Italian mandate, net inflows came from outside France, which is relatively similar to what we have seen over recent years.

High level of net income

If I come now to page 14, as I indicated earlier, a good first quarter with a high level of net income. The accounting net income bottom line increased by 6%, compared to the first quarter of 2018 and by 22% compared to the last quarter. And the adjusted net income – so net income excluding the amortisation of the distribution contract and the integration cost increased by 3% compared to first quarter 2018 and 10% compared to the last quarter. So the difference in terms of evolution between, I say, accounting net income and the adjusted net income, is coming from the fact that we no longer have any integration costs in 2019. They were all booked in 2017 and 2018.

Revenues

To page 15. In terms of revenues, total revenues are almost stable compared to the first quarter of 2018. With our core revenues – net management fees being slightly up compared to the first quarter of 2018, thanks to the good level of activity, especially on the long-term higher margin product. Performance fees with €20 million are at the same level as the fourth quarter of 2018. But don't compare to the first quarter of 2018, because you have to remember that first quarter of 2018 was exceptionally high. Lastly, we had a good level of financial income in Q1 2019, €18 million, in connection with the market recovery. Remember that most of these revenues are coming from the mark to market change in the valuation of the investment portfolio. The markets were up during the first quarter, especially the equity market. So, we have a positive financial income, to be compared to the fourth quarter of 2018 where we had negative financial income due to the decrease in the market.

Improved cost/income ratio

Overall good resilience of our revenues. The costs are kept under control. They are stable compared to the first quarter 2018. The impact of the synergies related to the Pioneer integration, especially the decrease in the staff headcount compared to the first quarter of 2018. So these synergies offset the gross investment that we made in the targeted recruitment, to support development, as well as the negative foreign exchange effect and the impact of the usual increase in price.

So in total, our cost income ratio is almost stable compared to the first quarter of 2019. And improving by 1.6 basis point compared to the first quarter 2018. At 50.9%, it remained one of the lowest in the industry.

Income statements

Continuing with the P&L elements, to continue also with the contribution of JVs. We continue to increase the contribution from our joint ventures. As I indicated, our adjusted net income was €247 million, so increasing by 3% compared to the first quarter of 2018. And the net income, accounting net income at €235 million, is increasing by 6% compared to the first quarter of 2018.

Conclusion

So to conclude, page 18 now. Just to reiterate that we see this first quarter as encouraging and clearly the continued improvement of profitability in the first quarter, which is in line with the roadmap and the target for the net income which we stated last year for 2020.

Thank you very much.

Anthony Mellor: We can switch to Q&A.

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. As a reminder, if you wish to ask a question, please press star and one on your telephone keypad and wait for your name to be announced.

The first question comes from the line of Jaques Henri Gaulard from Kepler Cheuvreux. Please ask your question.

Jacques-Henri Gaulard (Kepler Cheuvreux): Yes, good morning. Basically, two questions for me. The first one on French retail, it seems that the inflows are now slowing a little bit and you mentioned the risk aversion, Nicolas, in your presentation. Is it a trend which you believe is sustainable or are we going to see a little bit of recovery within that? And the second question would be on your gross margin trends, which actually are actually very solid. It was probably the big surprise of your result this morning. Again, are you confident about the level of long-term assets and that you can actually maintain this level going forward? Thank you.

Nicolas Calcoen: Okay, thank you. So first point on the French retail. Yes, on this first quarter – again, excluding the money market Treasury Funds, which– I would say, follow a different path. We had slightly negative flows due to this risk aversion environment, as illustrated by the increase in the share of Euro-contracts in France. Also reflected by the strong level of new money going into Livret or LDD, which I believe for the French total market were close to €10 billion on the first quarter, probably higher…

Jacques-Henri Gaulard: But –

Nicolas Calcoen: So I give you again this background. Going forward – and this is important to notice that especially in France and especially when you look at mass market, we have always a significant lag between, I would say, the evolution of the market environment and saving behaviour. So going forward, I would say we would expect progressive recovery. But again, especially for this mass market retail, there is caution because the change in behaviour is always a bit slow.

Jacques-Henri Gaulard: Sorry, just a little bit of a follow-up. Would you correlate maybe – that really risk aversion with the political situation in France at the beginning of the year?

Nicolas Calcoen: No – I mean I have clearly no evidence to make a connection between the two. I would really more relate that to the fact that the market went down last year. Investors received at the beginning of the year their statements on their investment of last year and they realised that yes, when investing in on the market it went down. So we would really more relate that to market environment, but not specifically on the political environment in France

Jacques-Henri Gaulard: Thank you.

Nicolas Calcoen: And regarding your second question on margin trend.

Jacques-Henri Gaulard: Yeah.

Nicolas Calcoen: As always, I would say that we shouldn't focus too much on the way the margins can change from one quarter to a quarter. We had a good level of revenues due to the fact that the activity in the long-term assets in high-margin products is relatively good.

That said, you know that some of our revenues, especially those coming from structured product are not totally linear during the year. We had a good activity on the structured product on the first quarter. So again, the level of activities on the margins are good, but don't extrapolate too much just on the data for one quarter.

Jacques-Henri Gaulard: That's great. Thank you very much, Nicolas.

Operator: Thank you. The next question comes from line of Mike Werner from UBS. Please ask your question.

Mike Werner (UBS): Thank you, two questions from me. First on the cost of risk and other line item in your revenues and your income statements. We certainly saw an improvement in this quarter. Usually this is a negative figure, and we saw plus 5 million. I was just wondering if you could provide a little bit of colour as to what drove that. And then second, getting back, again, to kind of the retail flows. You know, certainly we saw a good flows into medium and long-term products, strong outflows from Treasury Products. I was just wondering if you could provide some colour as to what portion of those inflows into the medium long-term products are active versus passive? Or, you know, for the overall retail group active versus passive. Thank you.

Nicolas Calcoen: And the first question on cost of risk, I think, well, nothing significant and we have various provisions that can be adjusted of course considering the evolution, but nothing particular to report on new trend underlying this evolution. And the second question was – active versus passive. We continue to have a good level of inflows on passive. For example, we had 1.6 billion net inflows on ETF and some inflows on some passive mandates and Smart Beta, which is for us in the same business line. In active management, if, of course I exclude the reinternalisation of the Italian mandate, net flows were almost positive. One expertise such as emerging markets where we have good appetite at the beginning of the year, good performing expertise on multi-asset. Again, excluding the Italian mandate. Or, again structured products which we believe are products which offer guarantee protection of the capital, which are a good answer to this risk aversion environment that I mentioned. We have of course a strong expertise at Amundi, and on which we have worked a lot with our partner networks to develop new offers, both for the French networks and the Italian networks, to allow these partners to give an answer to these clients that are in a risk aversion mode.

Mike Werner: Thank you. And if possible just a quick follow-up. You mentioned, you know, the strength of structured products in these types of environments. Does that have any impact in terms of the capital requirements that you have to hold from a regulatory perspective?

Nicolas Calcoen: Well, when we provide a guarantee to firms or when we have derivatives with a market counterpart generating counterparty exposure, it's one of the elements that contribute to our RWAs. So, yes, if we have inflows, it's a marginal increase on our RWAs. But we are in line with what we expect on this. There's no particular worry on that front.

Mike Werner: Thank you.

Operator: Thank you. The next question comes line of Hubert Lam from Bank of America. Please ask your question.

Hubert Lam (Bank of America Merrill Lynch): Hi, good morning. I got a few questions. Firstly, can you talk about how the quarter progressed in terms of the medium long-term flows? Have you seen improvement month by month and are you seeing April continuing on an improving trend versus, say, at the beginning of the year? The first question.

The second question is on your views in terms of the M&A backdrop. Now that you've completed the Pioneer integration, are you now open to doing more M&A? How do you see the M&A environment? Do you see opportunities out there or – and what do you think about current valuations? And the third question, just for clarification, can you get this – can you just clarify what the flows were for both ETFs and passives in the quarter? Thanks.

Nicolas Calcoen: Regarding the month by month trend in inflows, I would say we saw a slightly improving pattern during the quarter. So, not a huge change from January to March. Excluding, of course the Treasury, which have a different pattern and including the reinternalisation of the Italian mandate. For the rest, I would say, slight improvement month-by-month, but not major.

Regarding M&A, well I can reiterate that first of all, our strategy is a strategy of organic growth. We believe that we don’t have an issue in term of size. And we believe that we have the capacity to improve, to develop, to gain market shares organically in most of the business lines we conduct and the geographies where we organise. But at the same time, M&A can be an opportunity. Yes, with the end of the integration of Pioneer, we could be ready – if we see opportunities to look at new opportunities as long as we are convinced that it creates value that we see synergies and as long as we believe that we can execute such a deal and contain execution risk.

With that said, we also believe that if there is consolidation in the market, we should be a natural consolidator, considering our business model. It is by nature and from its origin an open platform. The organization allows us to deliver cost synergies when completing an integration and considering the fact that we have some experience in that field. In particular, through the creation of the asset management business by merging Credit Agricole and Société Générale and more recently with the successful integration of Pioneer. Even if we are primarily focused on organic growth, we're continuously looking at opportunities when they arise.

Regarding net flows, we had +€1.6bn in ETF; while I don't have the exact number for Smart Beta and for indices I think it’s around +€2bn each.

Operator: Thank you. The next question comes from the line of Arnaud Giblat from Exane. Please ask your question.

Arnaud Giblat (Exane BNP Paribas): Hi. It's Arnaud Giblat. Three questions, please. Firstly, can you give us an indication that the margin levels for money market funds in retail, is it sub 10 basis points? My second question is on costs. When I look at your costs in Q1 versus Q4, Q3, that steps up by about 10 million despite Q3 and Q4 tending to be a bit more heavy on costs. So clearly, it seems as though you have invested. Can you tell us maybe a bit more in which area specifically you've done the hiring over Q1?

And finally, if I can follow up on M&A, what sort of optimization could we be looking at on the balance sheet level? How much cash or debt could you deploy in the eventuality of a deal?

And if you could maybe also comment a bit further as to whether you're seeing a number of opportunities out there to be looking at? Thank you.

Nicolas Calcoen: So first question regarding margins in retail – margin in treasury products for retail. Yes, they are below 10 basis points, so not at the same level that we see in medium to long-term assets. Second question, on cost and the areas where we invested in the recent months and which started, I would say, at the middle of last year but we are starting to see an impact. It's again very targeted on priority areas in term of development, such as to continue to develop passive investment platform in all dimensions including salesforce, marketing force and joint investment capacities. In the real asset platform as well to accompany the development of the platform on investment and in some geographies, in salesforce and I would say every time we do that, it's not only on a quantitative basis but also on a qualitative basis, trying to find the right people to elevate the level of performance of our teams.

And regarding the third question of M&A, it was the financial means as I understand. So as you know post acquisition of Pioneer, we did not have any excess capital. We are starting to rebuild it, but it's a beginning. So clearly as of today, the capacity to fund an acquisition based on our existing balance sheet and goodwill is relatively limited. But as you know, we are a listed company with a majority shareholder, which is supporting the development strategy of Amundi. If we were to consider a significant deal, we would, I believe, have the capacity to raise capital.

Arnaud Giblat: And in terms of – did you see many potential companies you could acquire?

Nicolas Calcoen: Well, we constantly look at opportunities. We have discussion with potential partners but nothing specific to report.

Arnaud Giblat: Okay. Thank you.

Operator: Thank you. The next question comes from line of Chris Turner. Please ask your question – from Berenberg, my apologies.

Chris Turner (Berenberg): Yes. Good morning. It is indeed Chris Turner from Berenberg. Just two questions from me, if I may. Firstly, can you tell us what proportion of your funds are – I say are above benchmark over 12 months. And then secondly, you sold some outflows from your joint ventures in Q1. Can you provide some additional colour there on the geographical mix? What proportion is from China and India? And then just more broadly on that, given the strong performance of emerging market assets in Q1, can you probably share your thoughts on really what the drivers of those outflows were? Thank you.

Nicolas Calcoen: So the first question was on percentage of funds performing above benchmark. In terms of funds above benchmarks, I don't have the data with me. In terms of the proportion of funds whose ranking is in Q1 or Q2, it's two-thirds. Regarding flows in our JVs I think we had some outflows on treasury products and these outflows at the end of the quarter were mainly in India and in China, but again typically outflows this year at the end of quarter. Long-term assets inflows were positive in India, which has continued to develop well, also positive in Korea. In China, slightly negative but with some outflows in low margin money market products. Outflows in low margin product and positive inflows on higher margin products.

Chris Turner: Thank you.

Operator: Thank you. The next question comes from the line of Anil Sharma from Morgan Stanley. Please ask your question.

Anil Sharma (Morgan Stanley): Hello. Morning. I've got two questions, please. And first one is, Nick, I'm just trying to understand within your retail book, the revenue margin improvement in the quarter, how much of that is due to the money market outflows that you talked about being sub-10 basis points versus the commissions and fee or one-off gains you got from the structured products and if you could help us think that through, please. Secondly, related to the structured products, I think the last time you disclosed it was about three years ago, and I think you said there was about 24 billion of assets there. Could you give us an update on that number and what the kind of maturity profile is of the book again?

And then the final one, just on the JV, I think there was − I don't want the word promise, but at least there was an expectation of operational improvement and leverage in those JVs. And I think there was some improvement in the first half of 2018, but you have three quarters now, whereas there kind of really hasn't been. So could you just perhaps explain, is there more investment been going on there? Why isn't there more operational leverage in that business? Thank you.

Nicolas Calcoen: So first question, margin in retail. So well, again, as I said initially, there are two effects on the level of revenues but again do not extrapolate too much because some of the revenues coming from structured products in particular are not equally split during the year. Regarding the structured products, we have 30 billion euros of assets under management.

And the last question regarding profitability of JVs, we expect to grow profitability of the JVs in line with asset growth. In the first quarter, the increase in net income was around 8% compared to the first quarter of 2018 while assets increased by 14%. So it's just quarterly data. In some of the JVs, the first quarter of the calendar year is the last quarter of their fiscal year. So there are sometimes adjustments at the end of the year but overall we anticipate profitability to continue to be in line with the AuM and we expect this to continue in the years to come.

Anil Sharma: Okay. Thank you. Can I just ask one quick follow-up? And how does this sort of French regulator, what's their view on doing asset management M&A with debt? Are they − to give you one example, in the UK, they're not too keen on that given the negative tangible assets and leveraging off the balance sheet? So what's the French regulatory perspective on M&A with debt?

Nicolas Calcoen: Well, I cannot tell you what the French authority position will be on that but as you know, we have a banking license, we are under ECB supervision. So, the important factor for us is our capacity to abide by the regulations regarding the capital requirement and total capital ratio. We have a very solid position at the end of 2018, core equity T1 was bit more than 13% and the total capital ratio was 16%. We are in a good position but such a position wouldn't allow us to make an acquisition that would generate very significant amount of goodwill without having capital.

Anil Sharma: Okay, that's helpful. Thank you.

Operator: Thank you. The next question comes from line of Angeliki Bairaktari from Autonomous Research. Please ask your question.

Angeliki Bairaktari (Autonomous Research): Hi. Thank you very much for taking my questions. Three questions on my side please. First of all, third party distributer flows. They are negative again this quarter even on medium to long term level. Should we expect a return to inflows over the coming quarters or is that too optimistic? You've given us some comments on the risk aversion in the French retail and international retail networks, but if you could give us some colour on third party distributors as well, that would be much appreciated.

Second question, on the treasury outflows that were concentrated at the end of Q1. You usually have some money market outflows in Q2. Where are those outflows now at the end of Q1, just a timing issue, so effectively pre-empting the usual Q2 outflows or should we expect some more outflows in money market funds in Q2 as corporate pay dividends, et cetera. And the third question, you announced a few weeks ago the launch of a very low-cost ETF range, priced at five basis points. I just wanted to hear your thoughts on who is going to be the target client for those ETFs and how can you ensure that such low margin products do not cannibalize your fund offering in the retail networks? Thank you very much.

Nicolas Calcoen: So regarding third party distributors, yes in the first quarter including the treasury products, we saw some outflows I think but significant recovery compared to the end of the year, a trend which is becoming a bit better month after month. Going forward staying prudent but hopefully we should expect to recover.

Regarding treasury flows, outflows that were concentrated at the end of the quarter and the beginning of this quarter, we already started to see some recovery of these flows, but going forward, well, we remain prudent for several reasons. Firstly, it's by nature an activity which is very volatile so it has proven to be quite volatile. Second element, yes, on the second quarter 2019 we see some outflows coming from the fact that corporate clients pay dividends. Thirdly, we have seen in the first quarter at least in some geographies in some areas more competition coming from banks, from investment banks being more aggressive on deposits, specific term deposits. This is probably linked to the fact that at least for the last month, there were uncertainties about the monetary policy. So going forward, again for this activity, which is volatile by nature, we will remain prudent. there is uncertainty especially around the monetary policy. So I would remain prudent on treasury flows.

So last question on low cost ETF products launched a few weeks ago, positive feedback from investors. It's too early to say where it goes exactly because it was just launched a few weeks ago but overall positive feedback from investors. I think it is a good value proposition for this kind of product. Nevertheless, we don't fear any cannibalization effect, we think it is a complement to our offer and especially, we don't expect cannibalization in the networks.

Where ETFs are not already sold directly it can be used in company mandate on products as a way to allocate their part of this solution to specific asset classes but no, we don't believe there will be significant manner of directly sold to any investors in the networks.

Angeliki Bairaktari : Thank you.

Operator: Thank you. Dear participants, once again, if you wish to ask a question, please press star and one on your telephone keypad. Dear speakers, there are no further questions at this time. Please continue.

Anthony Mellor: Okay. Well, thank you to all of you for your attendance. Next publication will occur at the end of July for H1 results. Thank you. And the AGM, yes, which will take place on the 16th of May. Thank you. Bye-bye.

Nicoals Calcoen: Thank you very much.

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