

Amundi

Amundi
First Quarter 2016 Results
Transcript

Friday, 29th April 2016

Key Messages from Q1 2016

Nicolas Calcoen

CFO, Amundi

Introduction

Hello, good afternoon to everybody. We are here today to discuss the results of Amundi for the first quarterly 2016. To start with I would like to emphasise the fact that in this quarter, We have to take into account the market environment, which was obviously difficult, challenging and less favourable compared to the same period of last year.

Q1 2016: Buoyant business activity and sustained earnings despite a challenging market environment

The first element of course is the equity market. The European stock markets were very volatile. They were down around 10% in average compared to the first quarter of 2015. As far as the fixed income markets were concerned, rates remained at a very low level and short-term rates have decisively moved into negative territory in the past few months. Lower and volatile markets and negative rates do have consequences on our activity: (1) they obviously have a negative impact on our assets under management and therefore on our revenues. But they also (2) tend to increase the clients' aversion to risk, resulting in lower net inflows and more conservative investment choices.

Business

Nicolas Calcoen

CFO, Amundi

Net inflows of €13.8bn

In this context, in this unfavourable background, Amundi continued to benefit from its diversified business model whether you look at it by expertise, client segments or geographic areas, and so maintained quite a good momentum. Net inflows remained at a healthy level, €14bn, and over the first quarter these inflows more than offset the negative market impact of €12bn. Hence our assets under management slightly rose in the quarter to reach €987bn. Compared to end of March 2015 they increased by around 3% thanks to, over the last 12 months, €70bn of net inflows, ie close to twice the negative market impact of €37m.

Net inflows led by the institutional client segment

If you now look at where these inflows were coming from during this first quarter, first by client segment and you can see that the institutional segment contributed to the majority of these inflows, €12bn, thanks to our sustained commercial momentum. On the contrary the retail segment slowed down compared to past quarters, specifically due to the rise in risk aversion.

If you look at the French retail networks they were almost at an equilibrium for long-term asset with small net outflows of €0.3bn but suffered from large outflows in Treasury products, mainly due to corporate clients, ie SMEs. The overall result was net outflows of €4.6bn.

Amundi continued to gain market share on the French open-ended fund market. Its market share grew by close to 2 percent points compared to 12 months ago. Our business with third-party distributors and international networks, including our Asian JVs, was much better with strong inflows of €6.4bn of which €3.6bn were from the Asian JVs.

Net inflows balanced between medium/long-term assets and Treasury products

If you look now at the inflows by asset classes, you can see that they were quite balanced. On slide eight you can see our net inflows were quite balanced between Treasury products and long-term assets, both having inflows around the €7bn and within the medium to long-term assets most asset classes contributed positively: equities, bonds, multi-asset or real assets for example such as real estate products.

Net inflows still led by international activities, for which AuM grew 21% vs Q1 2015

Finally, page nine it will come as no surprise that again this quarter more than two thirds of the inflows came from outside France, quite evenly split between Europe outside France and Asia, with a special mention in Asia to our JVs and to Japan.

Income

Nicolas Calcoen

CFO, Amundi

Resilient revenues, stable once the market effect is excluded

The consequence on the P&L, page ten, starting with the net profit Group share which was very resilient, up by close to 1% compared to the first quarter of 2015. Let me detail now the few elements that contributed to this result. First with the revenues, page ten. Revenues were down by 3% compared to the first quarter of 2015 but they are stable if you exclude the impact of the market conditions calculated at €14m. This impact came of course mainly from the impact of the lower stockmarkets on our assets under management but also from a negative impact of the mark-to-market valuation in financial income. Overall the level of net fees was good but conversely performance fees were materially lower than last year, decreased by €8m compared to the first quarter of 2015. It is of course more difficult to generate performance fees in a low rate environment and in an unfavourable equity market. Again, the resilience of our revenues demonstrates the diversity in our investment expertise, which helps the Group withstand more difficult markets.

Costs down 1% vs Q1 2015

During this quarter Amundi also demonstrated its cost control ability. The costs were down by 1.3% year-on-year thanks in particular to the adjustment of variable compensations to the revenue evolution.

Cost/income ratio remains highly competitive

Consequently, the cost/income ratio remained at a very good level, 53.7%, up 1pp compared to last year but still one of the best in the industry, in particular in what is likely to be a difficult quarter for asset managers.

Q1 2016 net income up 1% vs Q1 2015

Finally, we benefitted in the first quarter from a lower tax rate which resulted in a tax charge down 12% compared to the same quarter of last year. This is mainly explained by the end of tax gross-up rate in France. It was a change in the corporate tax rate in France, from 38% in 2015 to 34.3% starting this year..

Conclusion

Nicolas Calcoen

CFO, Amundi

Resilient profitability

To conclude, the sound level of profitability in the first quarter of the year, despite a difficult market environment, is for us the result of the strength of the Amundi business model, thanks to its large diversification in terms of expertise, client segment and geographic areas.

Q&A

Hubert Lam (Bank of America): Good afternoon, a couple of questions for me. Firstly, can you discuss a little bit about fee margins for the quarter, how they have progressed in both the institutional retail and the Group quarter by quarter? Also, second question is can you let us know how much excess capital you have and any new updates in terms of M&A potential that you are looking at? Thank you.

Nicolas Calcoen: First question was on fee margins so as a general comment I would say that we do not provide the margins on a quarterly basis, only on a full-year and half-year basis because it makes more sense to look at it not with a very short-term view. It does not make sense to look at it with a very short-term perspective.

That said, what I can say is that margins have held up relatively well in the quarter. They also somewhat benefitted from a relatively high level of guarantees in the quarter but it was somewhat compensated by a lower financial revenue. The result is what you can see in the evolution of the total revenues. What we say in terms of margins in the medium-term is what we have seen for quite a while: the continued pressure on margins coming from low interest rates, from competition, that is expected to continue.

Regarding M&A we do not comment on any specifics. What I can say is we do continue and will continue to look at any opportunities as long as we believe there is potential for value creation, to increase distribution capacity, or to broaden our expertise, and we believe that in the medium-term there should be such opportunities arising for us.

Hubert Lam: Thank you.

Benoit Petrarque (Kepler Cheuvreux): Yes, good afternoon, thanks for taking my questions. First one will be on the French inflows. It is a small outflow, let us say, but we do see a small improvement quarter-on-quarter so I was wondering if you could comment on the trend you see in the quarter, also into March and maybe April as well? Also, if you see some improvement on unit-linked sales as we go in the year 2016 on the French retail?

Second question will be on the JVs. The contribution remains relatively stable quarter on quarter, I think, around €7m. I think you were at €6m last year. Obviously year-on-year we have seen a huge increase of assets under management so I was wondering why the contribution is so low.

The last question will be could you just provide a bit more feeling about the inflows in long-term assets for the international networks and the third party distributions? What do you see sequentially there? Do you see some improvement or anything special there? Thank you very much.

Nicolas Calcoen: Okay. First question about the French retail market, as I said, if you look at medium to long-term assets those are the assets where the individuals are investing. They are almost at equilibrium. We believe it is still unsatisfactory but we believe that the rise in risk aversion to the reason for what happened in the first quarter. It was also possibly amplified by the fact that we realised the maturity of structured products were not completely recycled in MLT products. So it is not yet positive. What we can say again is that the rise of risk aversion does contribute into what we are expecting in the medium-term, which is an increased part of the investment in life insurance going to unit-linked. We saw in 2015 until I would say summer or fall of 2015 an increase in the share of unit-linked within life insurance. This move tended to stop or to slow down at the end of 2015 and the beginning of 2016. In the medium-term we are still confident that this change will materialise. However, it is difficult to say at what pace it will go and it again depends on the market conditions.

The other point maybe that is interesting to remember is that in the medium-term plan of Credit Agricole for 2020, the medium-term plan that was announced one or two months ago now, they have clearly an objective which is shared within Credit Agricole Group both by the distributors, the life insurance and Amundi, which is to see an increase by 5pp of the share of unit-linked within life insurance.

Regarding the JVs and the contribution it is clearly something you cannot look just on a quarter-to-quarter basis. There can be elements in a specific quarter due to the fact also that the the JV do not have to decide the same accounting closing period that makes it not necessarily relevant to look at it on a quarter-to-quarter basis.

The last question was about inflows in third party distributors and international retail, I think. No, in the quarter I do not see any specific element. As for retail market in international markets, clearly we can see the impact of market conditions in terms of the amount of inflows which was more limited than in the past. Then last year the composition of the inflows with part of these inflows going to short-term product or relatively secure products.

Benoit Petrarque: Just a follow-up question, just broadly speaking about French retail third-party international inflows, do you see some improvement in margin and maybe also talking about April as well? Do you see some more positive or not in the retail inflows lately?

Nicolas Calcoen: In terms of margins?

Benoit Petrarque: No, no, not margins, just inflows, net inflows.

Nicolas Calcoen: Sorry. Yes, it is slightly better than the very beginning of the year, I can say that.

Benoit Petrarque: Okay. Thank you very much.

Nicolas Calcoen: You are welcome.

Arnaud Giblat (Exane BNP Paribas): Good afternoon. Three questions from me please. Making some assumptions around finance income around maybe €5m and flat revenue margins in institutional, we work out that retail margins might have been around 52bps. Does that sound about like the right ballpark? Is the step-up versus previous quarters entirely driven from a higher maturity or structural products as you suggested in your earlier statement? Or are you also seeing maybe a bit more of a mixture towards higher margin products? Notably, I am thinking about quite big outflows in money markets in retail. Perhaps there might have been a bit of a step-up on the margin on the AUM that is remaining in retail.

My second question is on third party distribution. I mean, looking at Amundi versus peers' flows seem to have slightly outperformed the wider market so, yes, the flows are down a bit sequentially but outperforming the wider market. Can you maybe perhaps go into what is driving the outperformance there? Are you developing in more depth some of your third party networks in France or in Europe? Are you reaching your agreements? Maybe a bit of detail could be useful there.

Finally, on your JVs they have been quite successful in Asia. I am wondering if you are making some more progress in establishing new JVs. Are there any other opportunities you are working on there? Thank you.

Nicolas Calcoen: Okay. On revenues, as I said, we benefitted from quite a high level of guaranteed fees but conversely with a lower level of financial income due to market conditions. These two effects more or less neutralised each other. In the end what remained was considering the market impact and the evolution of the inflows, quite a good level of fees but lower level performance fees in a difficult environment.

In terms of development inflows by asset Class, they are quite split between money market fund and long-term assets and within long-term assets I do not see any very significant change in what we are doing. Assets that we continue to see strong inflows in related funds, especially in the French retail market.

Regarding third party distributors there are no new initiatives or agreement we are taking that has material impact on what happened this quarter. It is really the continuation of what we have been doing and what we continue to do, improving the relationship. The fact also that maybe if you compare to others, we have quite a broad range of products, that we cover a large spectrum of expertise being active management and passive management, being long-term assets but also Treasury products, being liquid or illiquid assets, allows us even in difficult environment to have something to propose to the clients and not rely on one expertise that could be hit by market conditions.

Third question regarding JVs, there have not been any new JVs in the period clearly. What we manage to say in the same question as for external distributors in general is that our model can be working well in some conditions and the JV model is working well in the three countries where we have implemented such a model. If there are opportunities, we will look at the opportunities to develop these type of solutions with new partners in new countries.

Arnaud Giblat: Okay, thank you.

Anil Sharma (Morgan Stanley): Afternoon, guys, couple of questions. Within the French retail I am just trying to work out how much of the AUM is left from these SMEs which could still flow out. Last quarter it sounded like you thought they were one-off in nature but now it sounds a bit more structural. I was just wondering if you could help us think that through.

Then if I look at the breakdown of where you went by asset class it looks like the specialised and structured products assets grew very, very strongly in the quarter. I just wondered if you can give us a feel as to what products in particular have been selling there.

Then my final question is if I look at the corporate and employee segment you had really strong inflows in the last quarter and that has turned to a very big outflow this quarter. Again, can you help us think through the dynamics there of what is driving the flows and how the demand is shaping up as we look forward?

Nicolas Calcoen: The second question I did not get, sorry.

Anil Sharma: I was just saying, if I look at your AUM bar, equities, bonds, multi-asset etc. the specialised and structured assets are at €65bn and they are up almost 9% Q-on-Q. I am just trying to understand what is driving that growth. Is there one product in particular that has been successful or is there a distribution change that has happened that has helped the growth there?

Nicolas Calcoen: Okay. First we have the French retail. All I can say is that there are money market funds, mainly held by corporate clients in this asset class. The vast majority is of course long-term assets held by individuals.

Regarding specialised and structured assets the increase comes mainly from real assets, meaning real estate, private debt and also some absolute performance products such as volatility products.

Regarding corporates and employee saving plans we saw two elements. Regarding corporate clients, we saw a bit similar to what we saw for corporate clients of the French retail for here it was the corporate clients, direct clients of Amundi, ie large corporates. However, we saw the same funds, the same kind of phenomenon of outflows from these corporate clients. You can probably link that to the fact that in France most of the banks do not charge negative interest rates on deposits yet. It is not the case everywhere in Europe and it is not the case for depository banks for institutional clients.

The second element is regarding employee savings plans. It is very usual to have outflows in the first quarter as well as the end of the year, by the way. Most of the inflows in fact are concentrated generally on the second quarter of the year which is the period of time where the corporates pay the employee incentive schemes, mechanism, collective remuneration is generally paid in April, May or June.

Anil Sharma: That is helpful. Thank you.

Flora Benhakoun (Deutsche Bank): Yes, thank you, good afternoon. My first question is on the tax rate which was obviously down a lot this quarter, whether you could maybe tell us if the Q1 tax rate is representative of what we can expect for the next years.

Then my second question is on the performance fees. I know this can be a very volatile line in the P&L especially on the quarterly basis. I think you have previously guided for

performance fees to be between 8% and 12% of net fees. Did you think that it will remain in that range on the full-year 2016? Thank you.

Nicolas Calcoen: Okay, first we have the tax rate. Just to explain the main element of the evolution of the tax rate, the fact that a few years ago was implemented in France a 10% gross up on corporate tax for large corporates, meaning that when the tax rate was 34%, it was 34% multiplied by 1.1 basically and that is the gross up that was cancelled in 2015. That is a permanent effect, not specific to the first quarter and there is no reason to see a tax rate that changes very much compared to first quarter. However, of course it depends at the end of the day on where the revenue is made and where the profit is made in the country we are in.

Regarding performance fees, yes, as you pointed out rightly they are very volatile and difficult to predict. What we can say is clearly it is more difficult to generate performance fees in a difficult market environment when the rates or the spreads are low. It is difficult to generate additional performance and when the market is down specifically for a product that has an absolute performance logic, it is difficult to generate performance fees. Clearly with difficult market as we see we would expect to have quite a low level of performance fees but again we are only at the beginning of the year so it is too early to tell.

Flora Benhakoun: Thank you.

Mike Werner (UBS): Hello, thank you for the opportunity to ask questions. I have got two questions. First one is on the net inflows by asset class which you show on slide 17. I was looking at Q1 and I was just wondering if you could give us a little bit of colour what this would look like if we were to exclude the joint venture inflows that you saw during the quarter?

Then on the second question, you did a very good job of lowering costs in this difficult environment and I think you attributed that to some of the variable costs. However, I was wondering if there were any specific cost-cutting initiatives that you had in place or have planned for 2016? Thank you.

Nicolas Calcoen: Okay. First question, sorry we do not provide by asset class and by client segment.

Regarding costS, there is obviously two elements as to why it is done in the first quarter there is what we can call the impact of low revenues, lower results, on the provision for the variable remuneration. Of course, at the same time we continued to regularly review the process to try to do productivity gain. We do that on a regular basis, on a constant basis. We obviously do that even more seriously when market conditions are difficult. I would say there are no big cost-cutting plan but there are constantly initiatives to try to do productivity gains in all the functions, especially in France and to limit the cost base in France. To also review all the providers, for example data provider. It is a constant source of potential cost savings if we streamline the way we work with these providers.

Mike Werner: Thank you.

Question (J. P. Morgan): Good afternoon, quite a few questions have been answered but just one follow-up I have is in terms of the flows by asset class, can you provide absolutely the colour in terms of, in equities, what were the funds or products that were selling and

within multi-asset is it the Patrimoine fund which is selling? Just a bit of colour on that would be helpful

Nicolas Calcoen: Okay. I would say in both cases it is quite diversified in terms of product or expertise. For equities it is quite diversified: European equities, Japanese equities, ETFs of course. In terms of multi-asset, it is both in the institutional space and the retail space. As regards the retail space, there is Amundi Patrimoine but there are also other funds. Some are more conservative, for example, Amundi Rendement, and that work well in more difficult environment as we have seen in the last three months.

Question: Thank you. Thank you.

Jean Sassus (Oddo): Yes, good morning. Just a very quick follow-up on the cost side. How did you see the evolution of the headcount and then did you experience a reduction or an increase in Q1? Is there any significant change on the volume there?

Second point, it seems that CIB banks experience some troubles on the equity derivative side in Q1 and just to know how you managed that on your side for the guaranteed product.

Nicolas Calcoen: On the headcount, no big change. Soon to be a very minor decrease in the headcount and globally the idea for the year is to continue to do productivity gains and probably to reduce a little bit headcount in France and to continue to make very focused recruitment in talents, mainly outside France.

For your second questions I am not sure I see your point, to be honest, regarding the equity derivatives.

Jean Sassus: No, it is just a kind of read-across with what we have seen at some investment banks which have reported some not so easy first quarter on the equity derivative side. Just to know on the buy-side how do you manage your total product in such a difficult market?

Nicolas Calcoen: I am not aware of any difficulty in how we structure the products.

Cyril Meilland (Amundi Head of Investor Relations): You have to keep in mind that we do not take any position, neither do we sell equity derivatives so our revenues are not dependent on the business per se.

Jean Sassus: Thank you. Thank you.

Alex Koagne (Natixis): Yes. Yes, hello. Just one follow-up question on the costs. I think that on the slide 11 you point out that the cost is 9.3bps of your REM. This is a low number if we look back to 2012 when it was 10.7bps. I am just wondering whether you now think that this is a level that should continue to go down. What do you see as a normalised level if you think about your business and your development going forward? Thank you.

Nicolas Calcoen: Well, of course there is a numerator and a denominator. It is I think a good indicator in the long term but it is not a way to steer the business. I would say it obviously will depend on market conditions. If we have very strong negative or positive impact on assets it will change. However, given market conditions I think it is a level that is sustainable.

Alex Koagne: Okay, thank you.

Nicolas Calcoen: You are welcome.

Arnaud Giblat (Exane BNP Paribas): Hi, just a quick follow-up on M&A. I understand that you do not want to make any specific comments but just generally commenting about the European M&A environment I am wondering if you think that is becoming more conducive to do deals.

Nicolas Calcoen: I would say there are objective elements that should connect to see more M&A. The fact that a lot of businesses can be under review, medium-sized or medium-performing businesses. In a more difficult, more challenging environment in terms of market, in terms of competition, in terms of regulatory burden. Yes, we believe the environment could be conducive to M&A. However, to see M&A you need to see sellers, you need to see buyers and you need to see them agreeing on a price. It is something very uncertain.

Arnaud Giblat: Thank you.

Nicolas Calcoen: No specific remarks so just to thank you very much for your participation and to remind you that with Cyril Meilland, Annabelle Wiriath and myself, we remain available if you have additional questions.

[END OF TRANSCRIPT]