Deutsche Börse AG (OTCPK:DBOEY) Q1 2025 Results Conference Call April 29, 2025 8:00 AM ET

Company Participants

Jan Strecker - Director, Investor Relations
Stephan Leithner - Chief Executive Officer & Chairman of the Executive Board
Gregor Pottmeyer - Chief Financial Officer

Conference Call Participants

Mike Werner - UBS
Kyle Voigt - KBW
Arnaud Giblat - BNP Paribas Exane
Bruce Hamilton - Morgan Stanley
Johannes Thormann - HSBC
Enrico Bolzoni - JPMorgan
Andrew Coombs - Citi
Hubert Lam - Bank of America
Ian White - Autonomous Research
Ben Bathurst - RBC Capital Markets
Tobias Lukesch - Kepler Cheuvreux
Oliver Carruthers - Goldman Sachs

Operator

Good afternoon, ladies and gentlemen, and welcome to the Deutsche Börse AG Analyst and Investor Conference Call regarding the Q1 2025 financial results. [Operator Instructions] Let me now turn the floor over to Mr. Jan Strecker.

Jan Strecker

Welcome, ladies and gentlemen, and thank you for joining us today to go through our first quarter 2025 results. With me are Stephan Leithner, CEO; and Gregor Pottmeyer, CFO. Stephan and Gregor will take you through the presentation. And afterwards, we will be happy to take your questions.

The link to the presentation materials for this call have been sent out via e-mail and can also be downloaded from the Investor Relations section of our website. As usual, this conference call is recorded and will be available for replay afterwards.

With this, let me now hand over to you, Stephan.

Stephan Leithner

Thank you, Jan. Welcome, ladies and gentlemen. I will begin today's call by providing a summary of the achievements in the first quarter. Following this, I will comment on the latest developments in Europe and the growth opportunities they present for us beyond our existing targets.

Let me emphasize, overall, the development in the first quarter has proven to be slightly more successful than what we had originally anticipated. In addition to the underlying growth that we incorporated into our strategy, we observed the initial benefits of the recent surge in market volatility, a trend that has strongly continued in April. All businesses performed in plan. And the key drivers of the overall outperformance were the developments in cash equities, fund services and FX, all of which reported strong double-digit net revenue growth.

The broadly overall only stable net revenue performance in Investment Management Solutions was mainly driven by high comparables in 2024 in Software Solutions. In the first quarter of last year, there were exceptionally large contract renewals at Axioma and SimCorp, which resulted in significantly lower upfront license revenues in the first quarter this year.

In addition, in the first quarter last year, we signed up a significant new on-premise client in the Middle East. Put those together and you explain a large difference in terms of the starting point. As we have explained many times in the past, due to the point-in-time recognition element in our software business, revenue development can sometimes be lumpy from quarter-to-quarter. This is why we focus on the annual recurring revenues, or ARR, as our key performance indicator for our growth and client momentum.

Driven by significant customer wins in North America, including one of the largest asset managers in the world, ARR increased 15% year-on-year at the end of the first quarter and amounted to a new record level of €618 million. This performance puts us slightly ahead of our key peers. That's what I want to emphasize and the momentum continues into April with the addition of one of the largest U.S. public pension funds to our SimCorp One SaaS solution.

In summary, business momentum is strong on all key growth vectors of our Software Solutions business. And while the first quarter revenue performance looks somewhat underwhelming at first glance, it is in line with our plan. Our growth expectations for this year and next year also remain unchanged. Let me really emphasize this.

Based on the strong customer onboarding, conversions and upselling pipeline, we expect double-digit net revenue growth in Software Solutions in the second quarter and also on average for the remaining 9 months of the year. In Trading and Clearing, there was a 12% increase in net revenues without treasury results, driven by double-digit growth across most markets.

In the area of cash equities, increased demand for European equities had a positive effect. In FX, market share gains were made and there was a substantial increase in volatility. Commodities EEX continued secular growth that we have seen over the recent quarters, driven by market share gains and new clients.

Furthermore, we have made good progress in the fixed income segment of financial derivatives, our fixed income road map, as we call it, by achieving 11% net revenue growth, excluding the treasury result development. Let me come to the last 2 areas and really emphasize one more time the exceptional character of the momentum that we have.

In Fund Services and Securities Services, we have seen new all-time highs, both in custody and settlement, which resulted in double-digit net revenue growth without the treasury results. This was driven by three key factors. Firstly, there was continued growth in debt outstanding. Secondly, there was higher equity market levels. And thirdly, there were inflows into European equities, as I alluded before.

If I turn from the revenue side to the cost momentum, the underlying operating costs in the first quarter developed in line with our expectations. However, we experienced some headwinds from incremental provisions for share-based compensation and the stronger U.S. dollar at the beginning of the year, contributing to an overall operating cost growth of 6%.

Gregor will explain why we look at the underlying numbers at 3%, which is very much in line with our prediction also for the full year. The U.S. dollar momentum has changed by now. And unless headwinds from share-based compensation persist, we are still targeting, therefore, very much our 3% for the full year.

So despite the favorable start for the year, we keep our guidance for the full year of around €5.2 billion for the revenues without treasury results, and that is a statement where we have indeed cautioned it by or positively cautioned it on the upside that in case of higher market volatility to persist beyond just April, there's a clear upside also for our overall revenue expectations.

We also started our share buyback program shortly after the announcement in February and have since then repurchased around €78 million of Deutsche Börse shares by the end of last week. This leaves a total of €422 million to be executed until the end of November.

Let me turn from the developments of the first quarter to a bit more to the outlook, in particular, around the recent developments in Europe and how we expect them to have a sustained positive impact on many parts of our integrated business model. I will, therefore, turn to Page 2, where I will comment on the recent developments of the political side as well as the additional growth opportunities for Deutsche Börse Group.

We have seen a broad change in flows and outlook momentum. I alluded to that earlier. This affects our top line, but it is also worth noting that despite the market turbulences of recent weeks and the record volumes processed on some of our systems, everything ran very smoothly and scaling worked very well.

We assisted our clients in dealing with exceptional circumstances in an orderly manner, in particular, in April, particularly also in terms of managing their portfolios and hedging their exposures. We have identified 3 significant developments that have positive medium- to long-term implications for our business and go beyond what was the March and April turbulences.

These developments were not anticipated in our initial forecast for this year or in our Horizon 2026 targets. The first of those 3 developments we are witnessing is a resurgence of flows into European equities and funds for the first time in many years. This is driven by the rotation from the U.S. to European markets in light of geopolitical uncertainty, macroeconomic and valuation differentials as well as the market performance year-to-date.

Evidence for this can already be seen in DTF flow data, but there are broader benefits for all equity investment fund-related products and services across the group. This changed flow development has at least broken the persistent outflow dynamics from recent years and supports, in particular, our cash equities business and the Fund Services segment.

The second, moving beyond just the flow dynamics is a structural medium-term driver that we anticipate from the German and European defense and infrastructure investments. For example, being also driven on the corporate side with much positive benefits on the tax side and stimulus to the economy. But at the same time, all of that momentum from the public authorities will require an increase in the amounts of debt outstanding, both on the public as well as in the private sector.

This will benefit to our Securities Services business, which handles a significant proportion of the international fixed income custody and settlement activities. It will also benefit our financial derivatives business, and it will emphasize further the ambition that we have around being the home of the European yield curve with Eurex and the fixed income road map that we have so much talked about.

So we continue to develop a comprehensive product portfolio of European capital markets offerings and the most recent introduction of the EU bond futures just last week is very much a testament to that innovation momentum that we see from the broader trend that I alluded to.

Let me add as a third element, and you can see it on the chart, the most significant and long-term opportunity for Deutsche Börse that lies with the potential benefits of the Savings and Investment Union. This initiative proposed by the European Commission aims to deepen and integrate EU capital markets. With an unprecedented level of rigor, it will address the investment focus of both retail and institutional investors in the securities markets as well as structural constraints.

There are several potential benefits for our organization from all those initiatives. The objective of the initiative is to channel the EU's €10 trillion in household savings, which are currently held in low-yield bank deposits into the capital markets. This shift is expected to increase retail investor participation and demand for products offered by our Trading and Clearing segment, including equities and ETF and by our Fund Services segment, obviously, very directly.

The Savings and Investment Union also builds on the Capital Markets Union to facilitate cross-border investments by reducing market fragmentation and regulatory barriers. Our European presence and infrastructure mean that we are extremely well positioned to capitalize on increased cross-border activities.

These activities drive more business to our very liquid and scalable platforms. And lastly, and furthermore, the savings Investment Union places a high priority on financing SMEs and innovative companies, which would result in increased listings and capital raising activities and also aims to facilitate the financing of the EU's green and digital transition.

You hear these many themes, these many initiatives. As we look at those, we, as the largest infrastructure provider with a broad footprint across different products, services and markets feel very well placed to benefit from these developments.

We are actively engaging and expect this to be an important component of our next strategy cycle beyond Horizon 2026. However, more importantly, our strong organic growth trajectory of recent years has significant further growth potential beyond 2026. The secular industry trends that support our strategies remain intact, and we are on track to meet our targets.

Going forward, our growth will be driven by further momentum from the fixed income road map that we often talked about from investment management solutions, and I gave you my perspective when I look at this year's outlook and obviously beyond, but also the continued double-digit growth in fund services, commodities and FX and digital.

So taken together, all these factors give us confidence that we can continue to grow successfully well into the future. So having looked beyond just the results, nevertheless, let me come back and turn it over to you, Gregor, to give us more detail.

Gregor Pottmeyer

Yes. Thank you, Stephan. On Page 3, we show the details of the first quarter results. Overall, net revenue increased by 6% to €1.5 billion. This includes the first more substantial decline in the treasury side since 2021, which decreased by 12% in the first quarter as anticipated. As Stephan has just explained, net revenue increased by a strong 10% without the treasury side. This was slightly above our general expectation of 8% CAGR growth, mainly due to additional tailwinds from the markets.

Despite the slightly higher-than-expected operating costs, which I will explain on the next page of the presentation, EBITDA without the treasury side demonstrated scalability, increasing by 11%, all other line items in the group income statement developed as expected. Only the tax rate was slightly below our guidance of 27% due to small positive one-off effects.

Let me now walk you through the operating cost development in the first quarter on Page 4. Higher provisions for share-based compensation due to the outperformance of our share in the first quarter and the stronger U.S. dollar at the beginning of the year resulted in an overall increase in operating cost of 6%. The 3% growth in underlying operating costs was in line with our expectation and was driven primarily by inflation and additional investments in the group growth areas.

Operating costs benefited slightly from lower exceptional costs in the Investment Management Solutions segment. However, some exceptional costs were also incurred in the first quarter of this year. I will now turn to the results of the segments, beginning with the Investment Management Solutions segment on Page 5.

The segment is split into two parts. The first part is Software Solutions, which is a combination of SimCorp software business and Axioma Analytics business. Stephan has already explained the broader dynamics in the Software Solutions business.

Looking at the different revenue line items, SaaS or Software-as-a-Services revenues increased by 18%, while on-premise revenues declined by 32%, this is mainly driven by the general trend of existing clients moving to the cloud and new clients typically being SaaS-based from the outset.

In addition, as Stephan has mentioned, we won a large new on-premise client in the Middle East in the first quarter of last year, which resulted in high point-in-time revenues. In terms of the ARR, so the annual recurring revenue growth of 15%, we continue to see overproportional growth in North America, which amounted to 21% and also in APAC.

The second part of the segment comprises the ESG and index business of ISS STOXX, which saw a net revenue increase of 5%. This was driven by the continued strong performance of the ESG business with Corporate Solutions achieving double-digit growth. The Index business also benefited from an improved market environment with inflows in the European ETFs and higher trading volumes in index derivatives.

However, the Market Intelligence business continued to face headwinds in the first quarter as clients in the asset management industry are still more sensitive to costs. Operating costs in the segment increased by 6% due to planned higher growth and infrastructure investments at the beginning of the year in both businesses.

Now let me turn to Slide 6, which shows the Trading and Clearing segment. In financial derivatives at Eurex, we have seen continued growth in fixed income activity, in line with our ambition to further grow this business. Furthermore, the increase in market volatility since March has led to a notable rise in activity in equity and index derivatives in comparison to the depressed levels last year.

Despite higher volumes and market volatility, margin fees on the collateral in our clearinghouse have shown a slight decline. This was primarily driven by enhancements to the risk methodology and an improvement in netting efficiency. In the commodity business, EEX growth was primarily driven by a significant increase in power derivatives trading in Europe and the U.S. This was due to significant market share gains from OTC and business from new customers, including quant-driven participants.

In addition, we observed strong activity in power spot and record activity in gas products. As with financial derivatives, we observed a decline in margin fees for commodities. This was primarily driven by the U.S. power derivatives business, Nodal, where margin fees are partly dependent on U.S. interest rates.

In the field of foreign exchange, 360T has successfully attracted new buy-side clients and has experienced accelerated growth in the regions such as U.S. and Asia Pacific. In addition, we have also observed a substantial increase in FX volatility attributable to interest rate speculation as well as economic and geopolitical factors.

In the Fund Services segment on Page 7, the market environment in the first quarter showed further improvement compared to last year. This was driven by higher equity market levels, volatility and inflows. Together with continued client and fund onboarding, we achieved new record level in all our business lines. We saw 23% net revenue growth in custody, 30% in settlement and 20% in distribution.

With underproportional operating costs, there was significant operating leverage in this business, and we achieved a high double-digit EBITDA growth without the treasury side. I will now turn to our Securities Services segment on Slide 8. Custody continued to benefit from the growth in global debt outstanding and higher equity market levels, with the latter being the slightly bigger growth contributor in the first quarter.

As a result, assets under custody reached a new record level of €16.1 trillion in March. Settlement activity benefited from higher levels of trading in over-the-counter fixed income securities. A new record of €9.5 million settlement transaction was achieved in March. As a result, net revenue increased by 19%, on the combined net interest income across Securities and Fund Services, we saw a decline of 11% to €172 million. While cash balances increased by 17%, reaching over €19 billion, interest rates declined significantly compared to the same quarter last year.

The Fed fund rate fell by 100 basis points, while the ECB deposit rate fell by up to 150 basis points. I'm now reaching the final page of today's presentation, our guidance for 2025. Following careful consideration, we have decided to maintain our full year guidance for the time being. Therefore, our targets remain at around €5.2 billion net revenue and around €2.7 billion EBITDA, both without the treasury side.

This is also in line with the sell-side analyst consensus that we have collected in April. However, if the recent developments in global trade tensions and high volatility as well as the increased interest in European securities persist, there is a clear potential for this guidance to be exceeded.

In addition to that, we continue to expect a treasury result of more than €0.8 billion for 2025. Based on current interest rate expectations and slightly lower cash balances compared to the last couple of months, we currently internally forecast a treasury result of around €850 million. This is around €80 million below the current analyst consensus.

Despite the slightly higher cost growth in the first quarter, we are still anticipating operating costs to rise by around 3% for the full year. The headwinds from the stronger U.S. dollar in Q1 have reversed by now, and we currently do not anticipate similar headwinds from provisions for share-based compensation as we experienced in Q1 for the rest of the year.

This concludes our presentation. We are now looking forward to your questions.

Question-and-Answer Session

Operator

[Operator Instructions] The first question then comes from Mike Werner, UBS.

Mike Werner

Just a question on FX exposure. I've heard a lot about the impact it will have on costs. But we've seen a significant move in the dollar-euro FX rate in recent weeks/months. And I was just wondering if you could give us a little bit color as to what portion of your revenues are generated in U.S. dollars and in particular, which segments? I presume it's mainly in IMS, but I would love to get your feedback.

Stephan Leithner

Mike, thank you very much for your question. Let me use it to augment and reemphasize the breadth and the strength of our business. I mean we have seen a 10% fee-based revenue momentum. I think we have seen in April that had unprecedented volumes that was testing to many market infrastructure providers. Our platforms have operated really flawlessly.

I think, therefore, that the fact of all the pistols in our engines really continue to move is something that is very much also independent of the FX dynamics that I will hand over to Gregor to comment in a minute. And I truly believe it's good you bring out by the question that certainly, we have a global business, but the gist of that is very robust and is euro-based. So Gregor can comment on IMS as well as on the Security Services side, how we see more exposure to the currency there.

Gregor Pottmeyer

Yes. So overall, FX tailwind we had in our revenues in Q1 was on group level, roughly 1%, right? So that was positive. And obviously, on the cost side, it’s another 1% headwind. So that was the Q1 number. Overall, you can say that €0.01 delta means roughly additional €7 million for Deutsche Börse Group revenues and roughly €3 million costs.

So that’s basically the number on group level. And obviously, the far majority from the business with regard to FX impact relates to our Investment Management Solution business, where we have the highest share of revenues. But even in the IMS segment, it was in parenthesis, just 1% tailwind on the revenue side and 1% headwind on the cost side. The other big element is obviously our treasury side with regard to the U.S. dollar where you see an impact on our treasury side.

Operator

The next question then comes from Kyle Voigt, KBW.

Kyle Voigt

Maybe just a question on interest rate trading. I believe interest rate futures volumes were up a very strong 18% in the first quarter, but we only saw a 7% increase in your interest rate trading revenues. And I don't think margin fees are a substantial part of that revenue line. So just wondering if you could expand upon what drove that divergence in growth rates, whether it was lower revenue capture due to product mix or if there were any headwinds on the repo business to note that might have also contributed to that.

Gregor Pottmeyer

Yes. Thanks, Kyle, for having the opportunity to explain it a little bit in more detail. Yes, you are right, the interest rate volume increased by 18%. And exactly the revenue number for the interest rate derivatives also increased by 18%. So no deviation in revenue per contract on the pure interest rate derivatives. But what led to the plus 7%?

So first of all, OTC clearing is a little bit flattish compared to last year. The main reason I mentioned that in my speaking notes is that despite the fact that the onboarding is rightly on track, so we onboarded another 200 clients on fund level basis for the last 4 months. So that's all according to our plan. But the reason for the flattish revenues is a cash margin level that did not increase. So that's according to our compression runs on the one hand side, so increasing the netting efficiency for our clients.

So we do something good for our clients, obviously. And with regard to the risk methodology that the increased volatility does not immediately increase to additional margin requirements. So on the long term, if the volatility would be on a higher level over the next 12 months, then the cash margins would continue to increase.

But we have this anticyclical buffers in our risk models included, and that's basically the explanation for that. And the second explanation for the – I would like to give update on the repo business, what is basically minus 25% from a revenue perspective in the first quarter.

So first hand, the comparison in Q1 was very strong on the repo business. And secondly, currently, there's enough liquidity in the market, right? And therefore, that is currently in the current situation, a little bit of headwind. But giving you to continue to have the guidance for our fixed income road map, it's unchanged, right?

We are positive. We see very good chances to continue to achieve our €300 million net revenues additional out of fixed income compared to 2022 in our Horizon 2026 target. So we see continued activity in our interest rate derivatives business, and it will continue to happen, as Stephan alluded to the 3 more mid- to long-term growth drivers and that will benefit in our interest rate derivatives.

The OTC clearing will have a push in the second half year when you see the impact out of the active accounts discussion so that the onboarded clients, I told you 200 onboarded clients on funds level will really show more activation. And currently, we do not see a step change in our activation level, but we expect it in the second half year. So that is still right on track.

And even in our short-term interest rate, where we still have some incentives to clients to move to our platform. And we have considerable success here in the short-term rate. So in the ESTR, what is already 15%. So Euribor is 85% and ESTR is some 15%. In this 15% market, we have 50% market share on trading level. I think that's a good success. In the Euribor, it's still below that level. It's above 5% market share. But nevertheless, continuously, we win the liquidity we had originally expected.

Operator

The next question comes from Arnaud Giblat, BNP Paribas Exane.

Arnaud Giblat

I've got a question on Investment Management Solutions. So it looks like the transition from on-premise to SaaS is having an impact on your revenues. Could you confirm how long this transition will go on for? And once you've achieved most of your revenues coming from SaaS, whether you expect still revenues to grow in line with ARR? And secondly, if I can just double check if you're having any negative impact on the ISS part of that business coming from lower appetite in the U.S.

Stephan Leithner

Let me start out on the first question with respect to the SaaS transition. Building on what we did in the deep dive in November, it's very important that we do see, obviously, that transformation progressing very strong and the growth rates and the revenues of 18% just in Q1 continue to underscore that.

Structurally, however, it is not as though the SaaS solution will completely replace the on-premise. The on-premise business with many of the client groups, take, for example, just the clients that are the central banks in a number of instances, is important for them. That is a good, very lucrative business. That is something from an underlying model is something that we are very much able to support and it doesn't affect at all the effectiveness of the setup on the software side.

So that is the important ingoing. So that transformation is a combination as many of the new clients are also only SaaS. That's a clear direction there. And we have the transformation that is going on. That's why the growth rate momentum will continue for a long time, and we expect to cross sort of the threshold, if you want, in 2027, as we have said before.

Gregor Pottmeyer

And just to add from my perspective. So really, I understand that you say, look, from a revenue perspective, it looks disappointing. And obviously, on the first clients, a minus 5%, right? But we already guided in the last call that there was a big one-timer in Q1, right? So -- and on the other hand side, the quarterly development is really hardly to predict.

In principle, we say, look at -- looking at the ARR number, the annual recurring revenue, that's a plus 15%. And this 15% will translate in double-digit growth over the next 24 months. So that's why we have that kind of logic. And therefore, the development in several quarters are really difficult to predict.

Nevertheless, we gave now this kind of guidance that we say, look, in Q2, it will be double-digit growth. We already know today, right? So -- and for the rest of the year, we also expect double-digit growth. That's why we really confirm from a client perspective, we are really right on track.

And Stephan mentioned 2 big Tier 1 clients. So one of the biggest U.S. asset manager and secondly, one of the biggest pension funds in the U.S., really 2 Tier 1 clients, and it's great to see, right? And therefore, really, we can confirm we are rightly on track, no change with regard to our guidance of the SimCorp business.

And also the SaaS transformation, plus 18% growth here. SaaS is now more than 50%, right? And yes, it will take another 2 years before we achieve that, let's say, some 70% SaaS solutions overall, right? And still the perspective that a SaaS client is 2x from a value proposition compared to an on-premise client.

So -- and that's exactly the right strategy. So even if it looks, we are not on track on the pure revenue recognition perspective, indeed, from a cash flow perspective, from a perspective over the next 24 months, we are rightly on track to deliver our horizon targets.

Stephan Leithner

The second question. Could you repeat that? I know was it software solutions in the U.S. or...

Arnaud Giblat

No, I was just wondering, I mean, given all the pushback we've had on ESG in general in the U.S., whether you've seen any impact in ISS?

Stephan Leithner

We do see, and you've heard the numbers from Gregor. We do see a continued momentum in the business. So there's continued growth in the business. Certainly, the complexity of the business has increased by the debates. There's a regional differentiation that is going on.

But in addition, we, in particular, see a strong focus on clients on getting tailored solutions. We now have -- and we have on our site, we have uploaded a more detailed material already a few weeks ago on ISS stocks. And there, you can see that 90% of the solutions that we provide on proxy solutions are by now tailored solutions.

So they are not standard voting policy advisory work, but they are really tailored to the individual client demands. And that differentiation from higher complexity provides additional revenue opportunities. So that's why we have a strong belief in the continued growth momentum of the business.

Gregor Pottmeyer

Due to that fact, we have seen no cancellation on the client side. I think that is really – yes, there is a lot of debate and a lot of noise in the U.S. Yes, we all know. But at the end of the day, the client makes a decision whether they pay for our advice. And we are just a platform, right?

As Stephan said, it’s 90% customized, another 10% are benchmark based. So we are not an opinion leader. We are a platform providing that, and that is much appreciated by clients if you have to do hundreds of AGMs in a very short time horizon. That’s the reason why still our offer is – has additional value for our clients and more importantly, they pay for that.

Operator

The next question comes from Bruce Hamilton, Morgan Stanley.

Bruce Hamilton

One is sort of an ask and another question. I think -- I mean, obviously, the software solutions and IMS has had quite a lot of focus. And Stephan, you've addressed quite a lot of that in your initial comments. I just wonder if there's a way that you could improve the disclosure to help us better understand that convergence between revenues and ARR? Because I think the risk is that every quarter, you seem to come in light of expectations and say it's all on track is all fine.

But at some point, the risk would be that the market loses confidence if we can't see that convergence happening. So I don't know if there's anything you can do, but that would certainly help.

And then in terms of the question, outside of fixed income, I guess, both equity derivatives and equities saw a kind of mid- to high single-digit decline in revenue per volume. Just checking, were there any kind of volume impacts there? Or is it, I assume in derivatives a function of index versus single stock. But in cash equities, perhaps that is volume discount related.

Stephan Leithner

On the Software Solutions, in terms of better transparency, I think we've really spent time on that. Let me say that. We will need and we realize after the sort of deep dive we did in November, this is a continued journey. Unfortunately, there is no simple shortcut because -- and let me just emphasize there.

For those of you that will look at this quarter's numbers, you will see the on-prem decline of 32% and you had the earlier sort of reference that Gregor and myself gave that we had a big singular sort of client win a year ago in on-prem.

So the differentiation is a number of factors. It is not a simple one item between what is the ARR total amount and then the net revenue. It is really a variation quarter-by-quarter. We recognize that, that is an undue complexity. That's why we really very much stay consistent in giving you an aggregate guidance and pointing to the ARR and giving transparency on ARR because ARR is the leading indicator we continue to see.

Gregor Pottmeyer

And to your second question on the equity, equity index part, this is just specifically the product mix, so more single equity, less equity index so that there's no price deviation.

Bruce Hamilton

Okay. And for cash equities?

Stephan Leithner

Very little. I mean, compared to the fourth quarter, the RPC is down a little bit, but compared to the average over the last 3 or 4 quarters, it’s pretty much in line. And probably, yes, there was a little bit of a volume effect.

Operator

The next question comes from Johannes Thormann, HSBC.

Johannes Thormann

Two questions from my side in terms of follow-up. First of all, you mentioned that you still have 50% market in ESTR Trading. Are you still free of charge? Or have you changed your pricing in this business?

And secondly, you want to reduce your dependency on the cyclical trading businesses with the acquisition of some more stable software business, but at the point in time, accounting is now leading to even more volatile revenues. So please help me understand why you think this is still a good strategy.

Can you provide more details on the deals you just closed. You mentioned another pension manager. Is this the one in Texas or another one in the U.S. And probably also on the pricing of the very big U.S. asset manager you mentioned to see how this will benefit you in the future? And also why is the decline in the ARR from 17% last quarter to 15% is still good news and not bad news.

Stephan Leithner

Thank you very much, Johannes, for the questions. First, to kick out of the quote, the simple one, yes, the trading is still free of charge on that specific singular product. Let me turn to your second question in terms of the strategic intent and the stability of the business.

I think there's no question. If you look at the ARR base that we are building, that will be and is a very steady flow of cash flow that this is generating totally different. So the volatility is only an accounting technicality volatility, which we are as unhappy as many of you about, but which is part of the accounting standards that we need to apply.

The important point, however, and that is critical in your latest question, we've always guided in terms of a range of the AR growth on a consistent basis. Now we have seen a 17%, which was at the upper end of our sort of guidance range in Q4. That was very exciting, and you know how important Q4 is.

So that growth in Q4 alone because it's such a big quarter is a major statement. I think the continuity and stability of that growth to 15% now on the basis at the end of Q1 is not a decline as such or it's just a continuity of growth.

I don't think there's any question around that. If we can help you with more substance around that, happy to do that. But the underlying growth stability is one that is in addition to the stability of the cash flows on an ARR basis.

Jan Strecker

Does that answer your question, Johannes?

Johannes Thormann

Yes. And probably on the clients, just big pension manager or...

Stephan Leithner

It's not Texas. You need to continue to move and move to the West.

Johannes Thormann

Okay, so another big client.

Stephan Leithner

It's a really big one. It's a really big one. It's further west if that is without giving away undue details. But don't walk into the water there, just move west.

Operator

The next question comes from Enrico Bolzoni, JPMorgan.

Enrico Bolzoni

So a couple of questions on the fund business, please. First of all, I just wanted to ask if you can give some update on the competitive landscape, especially after the correction we saw in market. Do you see any sign of changes there from distributors, pricing pressure or some moves from some of your key competitors?

And then I also wanted to ask you, can you please remind us what proportion of assets are in equities there? And including both fixed income and equity, what is the overall exposure to the United States?

Stephan Leithner

Thanks for the questions. I love it for somebody to focus on the fund side. It's indeed a true star business, as Gregor was highlighting. From a competitive landscape, the events in March have not had a particular impact in a way.

I don't think there is any short-term type pricing behaviors and patterns. What seems important to me is to emphasize the breadth again of the business we have on the fund side. We have historically had a unique strength, and we continue to have that in terms of the alternative funds.

We have built a very solid position on the private assets and funds. And on top of that, our business is closely integrated between funds and ETFs. So I think in that sense, I don't even see any – now clearly, we will need to watch how the market overall from an investment dynamics reacts.

But for the moment, we continue to see strong momentum there. There's around 70% in terms of equities exposure in the funds business. So very different from the Securities Services, which is clearly dominated in the reverse almost from a fixed income side.

But the U.S. exposure is one that is very balanced in the overall picture. We clearly – since we don't have any distribution activity in the U.S., there's no local market exposure.

Also, the international exposures are always at the back of a UCITS funds business. So it's not as though we have in Asia, for example, a disproportionate localized funds business, but it is really driven off the international fund business to a very large extent. And there, it's a global as well as a European sort of background that clearly dominates. I hope that clarifies your question.

Operator

The next question comes from Andrew Coombs, Citi.

Andrew Coombs

A couple of follow-ups, please. Firstly, on Software Solutions. I just want to make sure you called out the big Middle East contract that you won this time last year in Q1 '24. Were there any other big contracts in the on-prem upfront revenue recognition through Q2 through Q4 '24 that you'd like to call out? That's the first part.

And then the second part of that question, you talked about a big contract win in the U.S. in your SaaS business, but presumably, that won't be a big point in time revenue recognition given that it will get amortized over the life of the contract. So just to make sure I'm right on that.

And then the second part of the question just on the margin please. I'm interested in your comments around the risk management in netting being the cause of the decline there? Because I think my working assumption is that greater volatility would mean you have your clients holding more collateral, which means actually your margin fees will go up.

I can see why you're doing it. It's obviously in the benefit of the customer, but is this going to be an ongoing tailwind as you try and win market share by improving your risk management in netting going forward?

Stephan Leithner

So on your first on the Software Solutions side, I think when we look at 2024, Q2 and Q3, there were no comparable sizable singular sort of renewals or new contracts in the on-prem business. So I hope that, that takes away some uncertainty there for you. And then on the second question, I will hand it over to Gregor.

Gregor Pottmeyer

Yes. So with regard to the margin fees netting question, so as I alluded, so first, we do these compression runs that's standard. We do that on a quarterly basis, so to support our clients and to increase the netting efficiency.

Secondly, from a risk methodical point of view, we have some anti-cyclical buffer. So that means if there's high volatility to avoid that the clients have to immediately put the full amount of margin calls, we reduce it a little bit.

And that's why you do not see that kind of correlation between higher volatility and cash margins. But again, if the market volatility continues to be on a higher level, then the cash margins will increase over the next months and quarters.

Andrew Coombs

And then on the big U.S. client wins that assuming that we're going to amortize over the life of the contract. So you won't recognize a significant one-off revenue boost in Q2.

Stephan Leithner

Yes. Yes. The one I alluded to the sort of pension client in the U.S., yes, the asset manager was part of Q1. There was not a big one-off, but there was a big ARR win.

Operator

The next question then comes from Hubert Lam, Bank of America.

Hubert Lam

I just got two of them. Firstly, on cash balances in Securities Services, it still remains quite high at €19 billion. Should we expect this to remain at such a high level going forward? And what are the drivers for this? The second question is on the fee holidays within the short-term interest rates. Like how long do you expect this to continue for? And what are you looking for before stopping these fee rebates?

Gregor Pottmeyer

Okay, Hubert. So the cash balances in Q1 was at €19.4 billion, will continue to be on that level, right? So – but what we expect and when we guide this €850 million for the full year, then we expect that it will go down usually seasonalized in Q3, right, usually in summer, July and of course, August, you see lower activity level due to the holiday season. That's still what we assume.

And if I look into the consensus forecast, most probably that was ignored and just said, okay, this high level of €19.4 billion, will be extrapolated for the full year and even slightly increase, right? So that's why we gave that specific guidance, what we expect here for the cash balances.

But obviously, if it continues to be on that high level, then obviously, our guidance is too low. That's just the expectation. And the other thing is, obviously, there could be some deviation out of the interest rate cuts. So we included the current 3 further cuts on U.S. dollar, on euro and British pound, right?

So that was basically the consensus and not sure whether some of your houses take your own assumptions out of your economy department, could be also some differences. So that's why we said very openly what is our expectation and what are the premises.

With regard to the fee holidays in the ESTR business, yes, it will continue to happen this year, most probably until year-end because really our focus is to get the additional liquidity because that is the key element that we build up a new liquidity pool here for Eurex, so that we have the strong Bund future liquidity, that we have then the ESTR and Euribor liquidity, that we have the repo liquidity.

And so far, we are really focused on getting all the – obviously, the interest rate swap overall, so making a good offer to our clients that the netting efficiency across all of these 4 products will really be a strong benefit for our clients and then they have to move from London to Europe that they do not lose too much of the efficiency. I think we can compensate that when we build up these 4 liquidity pools and offering the right netting efficiencies.

Operator

The next question comes from Ian White, Autonomous Research.

Ian White

Just a couple of follow-ups from me, please. First of all, just on Software Solutions, would you be prepared to call out for us the level of point-in-time revenue that you recognized in 1Q '25 and also what it was in 1Q '24.

I feel like that would just put into numbers and make very clear for us what you're telling us sort of qualitatively in terms of what's happened and the clients that have been booked in the 2 periods, I think that would be really helpful.

And just secondly, just a follow-up on the treasury result in trading and clearing. Just looking at some of the balance sheet disclosures, it looks like the cash deposits by market participants are down about 10% year-over-year at the end of the first quarter and the financial instruments held by central counterparties, that line is down by about 1/3 year-over-year.

How much of those declines is being driven by sort of secular changes that you've made to the margin models, for example? And how much of it is just reflective of market conditions and might unwind if we see volatility persist, as you mentioned?

Gregor Pottmeyer

Maybe I'll start with the second question around the balance sheet. So from a balance sheet perspective, the key dominating factor is our repo business, right? So that's roughly 2/3 of our balance sheet roughly. And therefore, if I told you earlier that the repo revenues declined by 25%. So you basically see the same decline in our balance sheet for the repo business.

The second big element in our balance sheet is obviously the cash balances, right? So the cash balances we have on Clearstream. That is obviously increased, right, compared to Q1 last year. But compared to Q4, it should be even a little bit less. So it really depends on that.

And for the cash balances on the Eurex clearing business, I already mentioned that there's now a slight decline due to that compression runs and to this risk methodology. So that is the principal explanation for the key elements on our balance sheet.

Stephan Leithner

In terms of the -- your first question, we don't have those numbers here with us when it comes to the prior year. I think it's 1/3 for this year roughly in Q1. That's what we estimate, but we don't have the same breakdown for last year.

Gregor Pottmeyer

So that’s the principal number. It’s roughly 1/3 or 35%. So that we provided in our deep dive session with Christian Kromann, but it can definitely deviate from quarter-to-quarter. So that’s just roughly some rule that roughly 35% is triggered by one point-in-time revenue.

Q1 last year was higher than Q1 this year. That's the main reason why you see the on-premise where you usually have that point-in-time revenue declined by 32%, right? So that's the main reason that we have a double-digit million euro a month more point-in-time revenue in Q1 last year.

Operator

Our next question comes from Ben Bathurst, RBC Capital Markets.

Ben Bathurst

My question is also on Software Solutions. I understand that ARR growth has been driven more proportionately from the U.S. in recent periods. And it sounds like that will be the case again in Q2. I just wondered how the macro developments in recent weeks change your thinking about the U.S. market opportunity. Could a more challenged economic growth outlook in the U.S. actually stimulate more demand, do you think? Or could that be thinking about things too optimistically?

Stephan Leithner

Indeed, sort of the U.S. remains a key growth market in Q2, definitely by the win that we alluded to, it will be a very relevant number. Underlyingly, we think, however, that our idiosyncratic momentum is clearly, clearly, clearly isolating us materially from what is – if there is any macro development.

I mean the underlying trend in change of business model, the look for a front-to-back platform, we do not see that having changed. But besides that, as I say, our idiosyncratic, those 2 big wins alone in terms of client reference and buzz that they create is very strong.

Today, as we speak, there is the annual conference of SimCorp in Barcelona, more than 1,200 participants. I know this doesn't feel like the Salesforce 50,000 or 500,000 conference, but in the financial sector, that has an enormous buzz yesterday afternoon for a brief period totally in the dark, but not because of the product, but by the environment in Barcelona.

But again, on a serious note, I think our singular – the points of reference is that we have created the type of client names, which in the industry are very well known and visible even if we partly only describe them in more generic terms, they strongly drive what we see in the U.S.

Operator

The next question comes from Tobias Lukesch, Kepler Cheuvreux.

Tobias Lukesch

Quickly touching on the capital allocation. Is there anything we should consider over the next quarters in terms of bigger projects or potential M&A, maybe the discussion about your U.S. business. Maybe you can give us an update there, what the current situation is.

Stephan Leithner

There’s nothing – I mean, clearly, the dividend payment is coming shortly. But outside of that, there is nothing special that we would highlight. We have said we remain from a big scale transaction situations focused on the integration efforts, but we continue to do smaller M&A. I don’t think there’s anything that affects the aggregate sort of cash planning that would be relevant on a group level.

Operator

The next question comes from Oliver Carruthers, Goldman Sachs.

Oliver Carruthers

Oliver Carruthers from Goldman Sachs. So I've got one question on Software Solutions. Sorry to have another one here, but it's on the ARR rather than the point-in-time revenue. So the year-over-year growth in your Software Solutions ARR is 15%, which is strong.

But if I look at the quarterly progression in your ARR, which has gone from €608 million to €618 million, it's only risen 1.5%. So it looks like 2025 has slowed down quite a bit so far. And if I annualize that Q1, it's 6%, 7% ARR growth in the first quarter.

So I appreciate there might be some FX in this quarterly progression, but any comment as to what's driving this, especially as you're calling out a big ARR win in the first quarter, which presumably is reflected in the €618 million.

Stephan Leithner

Thanks, Oliver. And it's a good question in the sense that it allows us to reiterate and explain the context, obviously, that in absolute euros, that progression is very, how to say, seasonalized and affected by the seasonal pattern that the big numbers in Q4 are in euros or in absolute euros progress.

It's very much driven by the sheer size of individual sign-ups that we see in line with what is on a revenue item also a disproportionate absolute number. The same dynamic applies basically when we look at the ARRs from a currency perspective, what we report on the ARR side is on a like-for-like basis.

Oliver Carruthers

Sorry, do you mind just maybe a little bit on the seasonality in the ARR number?

Stephan Leithner

I think the seasonality in the ARR is structurally from a dynamics of clients signing contracts to go back. That is the important component. I mean the software business, the one element of seasonality that it has brought to us that is a bit different from what we have before is that clients buying software have a habit of waiting to the last day in the quarter, but even more so to the last day in the year.

And that's why the Q4 dynamics is simply projects that have been discussed often for many, many months are kept by clients to the very end. It's no different from the dynamics from a seasonal just during the year dynamics that you will see with SAP with software on Microsoft and other, any bigger contracts. I don't know why the IT responsibles have developed the habit of doing that in the last few days of the year, but it seems an inherent component of how software purchasing is happening.

Jan Strecker

Right. There are no further questions in the pipeline. Thank you very much for your participation today. If there are further questions, then please do feel free to reach out to us laterally. Thanks again, and have a good day.

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