TP ICAP MIDCAP

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EQUITY RESEARCH

ABC ARBITRAGE SA

INITIATION OF COVERAGE

BUY

TP 7.5€

Up/Downside: 25%

VIXophile

Research partially paid by the Issuer

The return of market volatility offers strong prospects for a group whose new 2023-2025 strategic plan brings together everything that makes up its DNA (ROE>15%, Payout ratio of 80%) as well as an intact growth plan for third-party asset management. We are initiating the coverage with a BUY rating and TP of €7,5.

French Tech for financial markets. ABCA's business is based on the scientific and systematic exploitation of market inefficiencies for all asset classes. Supported by a powerful R&D force in the field of software engineering, the group exploits all the arbitrage opportunities that arise on the world's financial markets.

An impressive track record. Capitalising on almost 30 years of development, the group has an absolutely remarkable track record, recording 100% profitable exercises. Additionally, the group has never generated as much profit as during periods of high volatility - such as in 2008 (subprime) and 2020 (Covid). The search for returns is nevertheless part of a strict framework of risk control in order to ensure the group's patrimonial and reputational durability - founders/managers hold ≈40% of the group's capital. A capitalistic investment that ensures an alignment of interests with minority shareholders.

Playing dividend yield. Over the last 10 and 20 years, the group has paid €4.1 and €9.5 in cumulative dividends respectively, with an average payout ratio close to 100%. This is a key marker of the equity story that is set to continue, with the group aiming to distribute a cumulative dividend of €1.30 over 2023-2025 (identical to 2020-2022), with a payout ratio ≈80% (82% over 2020-2022).

Playing market volatility. During the 2010-20 decade, central banks gave away free money and inflated their balance sheets to extinguish market fires, with the effect of flattening volatility and generating inflation. Since 2020, a succession of crises combined with the recent willingness of central banks to engage in monetary tightening have reintroduced market volatility, creating more favourable conditions for ABC Arbitrage's activity.

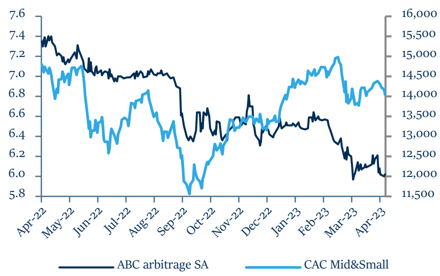
Playing AuM external client growth. While most revenue still comes from the group's own equity management (90% on average over 10 years), ABCA still intends to develop assets under management from external clients (with a target of €800m of AuM for 2025). This is an important growth and recurring revenue driver that will allow the group to diversify its revenue.

Key data	
Price (€)	6.0
Industry	Securities Brokerage
Ticker	ABCA-FR
Shares Out (m)	59.609
Market Cap (m €)	358.8
Average trading volumes (k shares / day)	29.323
Next event	AG - 09/06/2023

Ownership (%)	
Aubépar Industries	11.9
Financière WDD et D. CEOLIN	16.3
Eximium	7.1
Free float	52.0

EPS (€)	12/23e	12/24e	12/25e
Estimates	0.51	0.53	0.55
Change vs previous estimates (%)	na	na	na

Performance (%)	1D	1M	YTD
Price Perf	0.3	-0.2	-6.7
Rel CAC Mid&Small	1.2	-1.9	-11.2



TP ICAP Midcap Estimates	12/22	12/23e	12/24e	12/25e
Sales (m €)	61.4	65.8	69.2	72.5
Current Op Inc (m €)	29.2	30.9	32.1	33.2
Current op. Margin (%)	47.5	46.9	46.4	45.8
EPS (€)	0.49	0.51	0.53	0.55
DPS (€)	0.41	0.43	0.44	0.46
Yield (%)	6.8	7.1	7.4	7.6
FCF (m €)	23.5	28.8	32.5	33.6

Valuation Ratio	12/23e	12/24e	12/25e
EV/Sales	5.3	4.9	4.6
EV/EBITDA	10.7	10.1	9.6
EV/EBIT	11.2	10.6	10.0
PE	11.7	11.3	10.9

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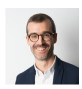


Description

ABC Arbitrage is an asset management company specialising in arbitrage. Founded in 1995 and listed on the stock exchange since 1999, the company has built a solid reputation in the field of quantitative trading. It has a wide range of complementary strategies to identify and exploit inefficiencies across all financial markets and for different market conditions.

The company invests its own equity and is also developing asset management for third parties (institutional investors, family offices, etc.) through funds (ABCA Reversion and ABCA Opportunities) and mandates.

SWOT Analysis

Strengths

- Experienced and skilled executive teams
- Strong track record of results
- High payout and dividend yield
- Risk disciplined approach

Weaknesses

- Business facing strong competitive pressure
- Margin pressure for some types of arbitrage
- Business dependent on market conditions
- Pressure on recruitment and retention of talent

Opportunities

- Increased volatility in the markets
- Development of AuM in third-party AM
- Development of new arbitrage strategies
- Launch of new products

Threats

- Central bank quantitative easing
- Inappropriate regulatory changes
- Tightening of taxation
- Poor perception of trading activities in France

A Summary of ABC Arbitrage's Activity

An arbitrage specialist: ABC Arbitrage is an alternative investment fund manager specialising in arbitrage strategies for all asset classes and in nearly 100 markets worldwide. Its business consists of taking advantage of unjustified price differences between financial assets. At ABC Arbitrage, it is based on a scientific approach to exploiting market inefficiencies. Market inefficiencies represent mathematically unjustified price differences between two products governed by a convergence process allowing the arbitrageur to profit from them.

Arbitrage examples: The group operates a portfolio of approximately 40 multi-asset strategies in nearly 100 markets around the globe. Most of the strategies are confidential in order to preserve the company's competitive advantage, as are the margins realised on these operations (revealing them would be tantamount to publicly sharing the market opportunities and thus worsening the conditions for profitability). The company nevertheless gives some examples such as: liquidity arbitrage (exploiting price inconsistencies arising from imbalances between supply and demand), capital transaction arbitrage (exploiting the probability of a successful transaction), statistical arbitrage covering a wide spectrum of systematic strategies (mean reversion, trend following, etc.) exploiting price divergences between two correlated instruments, and model arbitrage (exploiting inefficiencies detected between the value of the models and the prices observed on the market).

A global and industrialised approach to arbitrage: The group's arbitrage strategies are based on a systematic approach with objective statistical analysis processes which leave no room for speculation or personal convictions regarding a market's orientation. Capitalising on more than 25 years of development, the group operates according to a systematic and industrial approach in order to hunt and exploit as many opportunities as possible in all markets. ABC Arbitrage's algorithms track market inefficiencies 24 hours a day on all five continents. To this end, the group mobilises significant resources to ensure its activity levels (technological infrastructure, data access and processing, etc.).

Risk management: The search for returns is carried out within a strict framework of risk control to ensure sustainability and to prevent the company from potentially harmful risks of financial and reputational loss. Risk management permeates ABC Arbitrage's corporate culture, from the group's management to its operational teams. Risk management is reflected in the implementation of an organisation and a set of processes that serve as safeguards, both in terms of management rules (limits on exposure, maximum loss, leverage, etc.) and information systems (automatic controls, implementation of IT locks, traceability and transaction archiving, etc.) or the separation of production and control functions. Two departments (Finance/Internal Control and Market Risks), comprising approximately 10% of the staff and reporting directly to Management and the Board of Directors, exercise control over the group's various operational functions.

Proprietary trading as its DNA: Created in 1995, until 2010, the group developed on the basis of its own equity (≈€150m on average over the last 5 years and ≈€144m over the last 10 years). As part of its business, the group has financing agreements (with several prime brokers) allowing it to take larger market exposure. The leverage used is in the average range of 1x to 6x. Proprietary management is the group's DNA and still generates over 90% of its revenue.

Third-party asset management as a growth driver: Since 2010, ABC Arbitrage has also been developing a third-party asset management business. The growth of assets under management has been a bumpy road far from the group's initial objectives. While the inflows and revenue from this activity have not yet reached their expected levels, it nevertheless remains at the heart of ABC Arbitrage's strategic priorities. The group maintains high growth ambitions around an activity likely to strengthen the quality of its model (recurring growth relay, revenue diversification, lever for improving ROE) and therefore the group's valuation.

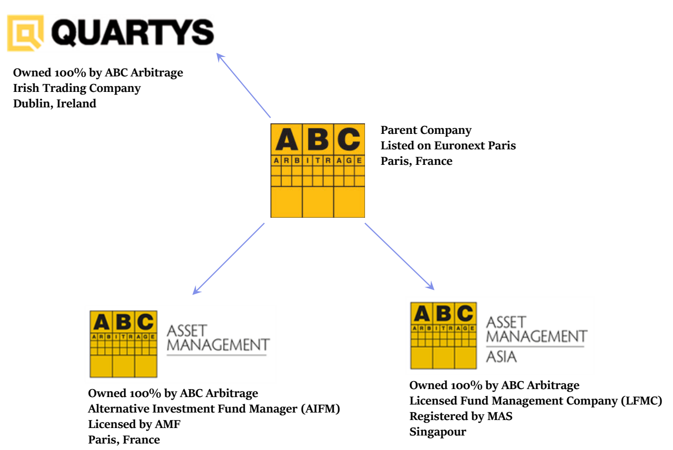
A hyper-competitive market but difficult to grasp: ABC Arbitrage operates in a hyper-fragmented and hyper-competitive market, even if arbitrage remains a niche in the financial industry as a whole. Backed by a long-term vision and a sustained track record of results makes ABC Arbitrage a player with established, recognised know-how in an industry where the star players change with the times, through both takeovers and management mishaps.

Focus on the group's organisation and shareholding

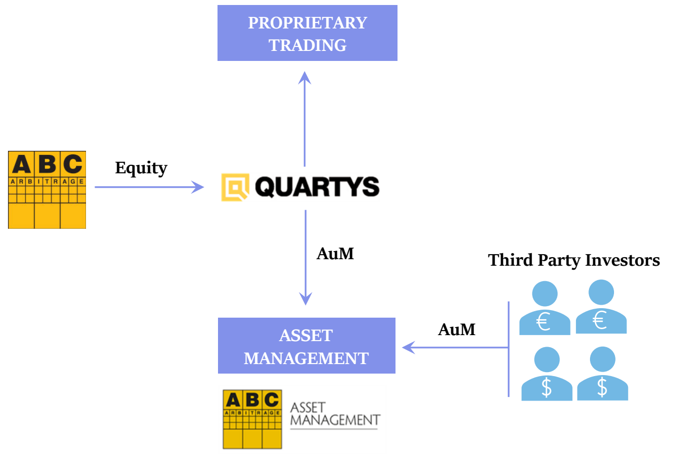
The group is structured around the following entities:

- ABC Arbitrage is the group's parent company, listed on Euronext Paris. It acts as a holding company and decides on the group's and its subsidiaries' strategy.
- Quartys is the trading company based in Dublin (Ireland).
- ABC Arbitrage Asset Management (Paris, France) and ABC Arbitrage Asset Management Asia (Singapore) are the group's management companies, respectively authorised by the AMF (AIFM) and the MAS (LFMC) as alternative investment fund managers. They house the group's research and development teams and manage the group's assets under management, both from client funds from outside the group and from ABC Arbitrage's own equity.

Group consolidation scope



The group's operational organisation



Source: Company

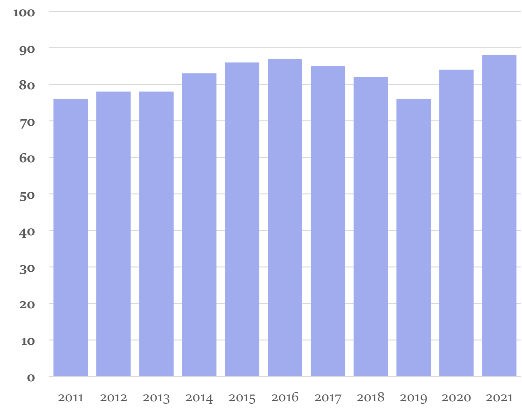
The 3 subsidiaries are wholly owned by ABC Arbitrage, but subject to different consolidation rules:

- Asset management subsidiaries are fully consolidated. Contributions to ABC Arbitrage's income consist of fees received (management fees and performance fees).
- Quartys, which meets the conditions of an investment entity established by IFRS 10, is not fully consolidated (exemption rule). Its contribution to ABC Arbitrage's revenue is measured on the basis of fair value through profit or loss, i.e. the difference between its revenue and all expenses incurred by the subsidiary (operating expenses, taxes, etc.).

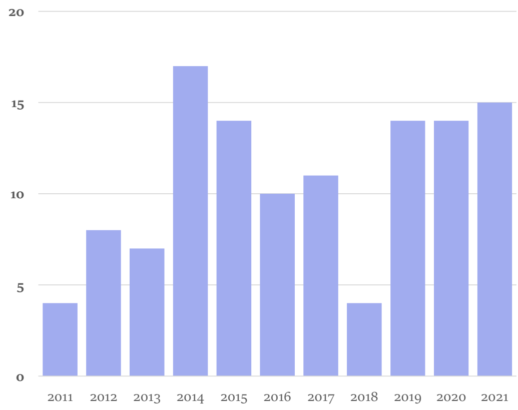
The group has around 100 employees, the majority of whom (≈70%) are dedicated to R&D (arbitrage strategies, software development, etc.) and front office operations. The rest of the employees are divided between Risk Management (risk control, compliance, etc.) for about ≈10% and the Support (≈10%) and Sales (≈10%) functions. Given the complexity and technical nature of the business, the group recruits mainly people with scientific profiles (developers, systems and network engineers, Quants). Competition for talent is a major challenge and the group is committed to offering an attractive working environment and competitive remuneration to attract high quality profiles.

The workforce is growing at a steady but measured pace, allowing ABC Arbitrage to maintain a boutique-sized shop whose culture is focused on results and risk management. In a hyper-competitive industry, where scientific profiles are highly sought after, workforce turnover remains under control.

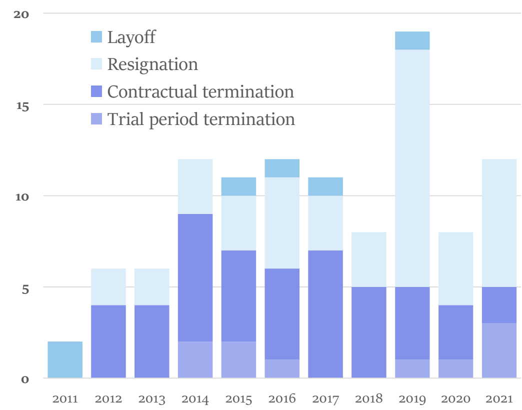
Evolution of the group's workforce



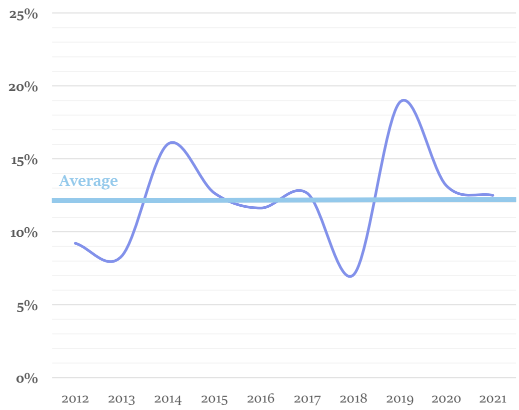
Evolution for the recruitment of permanent employees



Evolution and nature of departures



Turnover trends



Sources: Company, TP ICAP estimates

The operational teams are supervised by a highly experienced and stable management team, which guarantees the group's DNA and know-how. Most managers have been with the group for over 20 years. The 2020-2022 plan enabled the group's management committee to be expanded and enriched, including a series of internal promotions within ABCA AM.

Management team

Source: Company

The remuneration system for employees and managers aims to reward collective performance, assessed based on the group's net results. A significant part of employee remuneration is based on a variable part, with employees expecting to double fixed salaries.

The variable remuneration of the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer is also based on a performance target (consolidated net income taking into account these variable remunerations), set by the Board of Directors and approved by the General Meeting. It is calculated on the following basis:

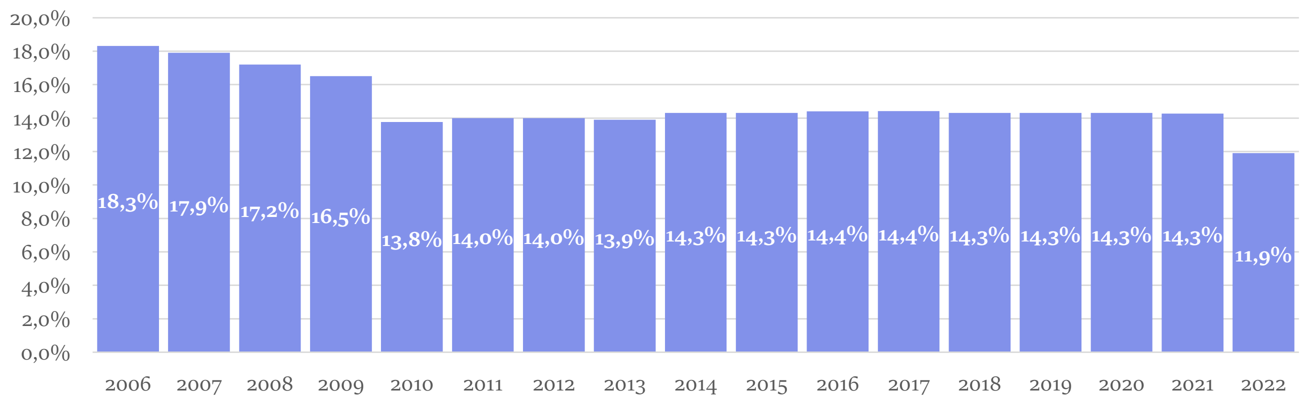
- €0 for a consolidated net result below €15m
- maximum €0.374m (CEO) and €0.320m (DGG) for a consolidated net result reaching €22m
- 3% of the consolidated net result for the part that exceeds €22m

Finally, for more than 15 years, the desire to engage employees over the long-term, while ensuring a convergence of interests with shareholders, has led management to create profit-sharing tools.

The current founding and managing shareholders hold around 40% of ABC Arbitrage's capital, divided into 4 main blocks:

- Aubépar, holding company of Xavier Chauderlot, co-founder and Chairman of ABC Arbitrage from 1995 to 2004 (no longer holding any executive or operational functions within the group). Aubépar has been a member of the Board of Directors since 2007 and currently holds 11.9% of the capital.

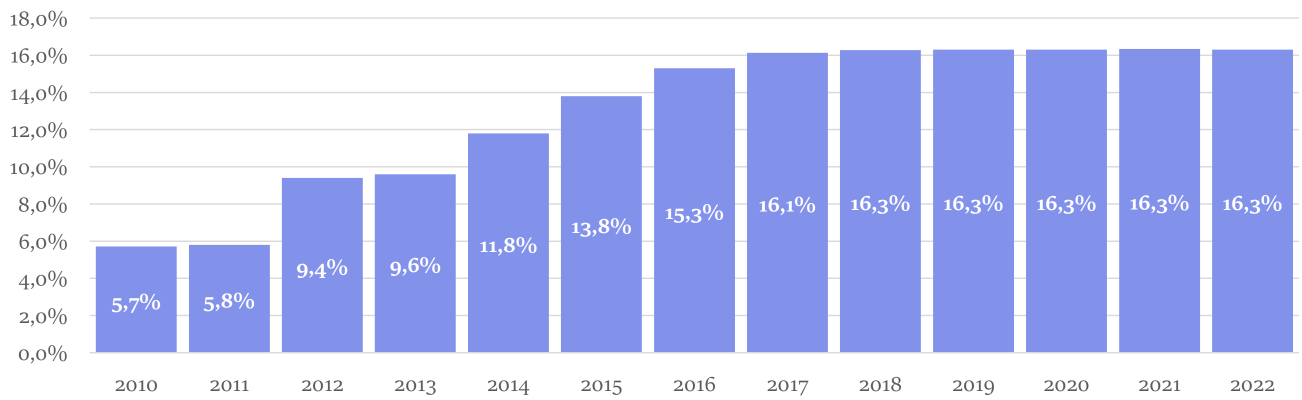
Evolution of Aubepar's participation



Source: Comapny

- Dominique Ceolin, co-founder and CEO of the group, holds directly and indirectly (via Financière WDD) 16.3% of the capital - Dominique Ceolin holds 50.01% of WDD Financière. The other shareholders are Didier Le Menestrel and Christian Gueugnier (founders of La Financière de l'Echiquier) through Weber Investissements.

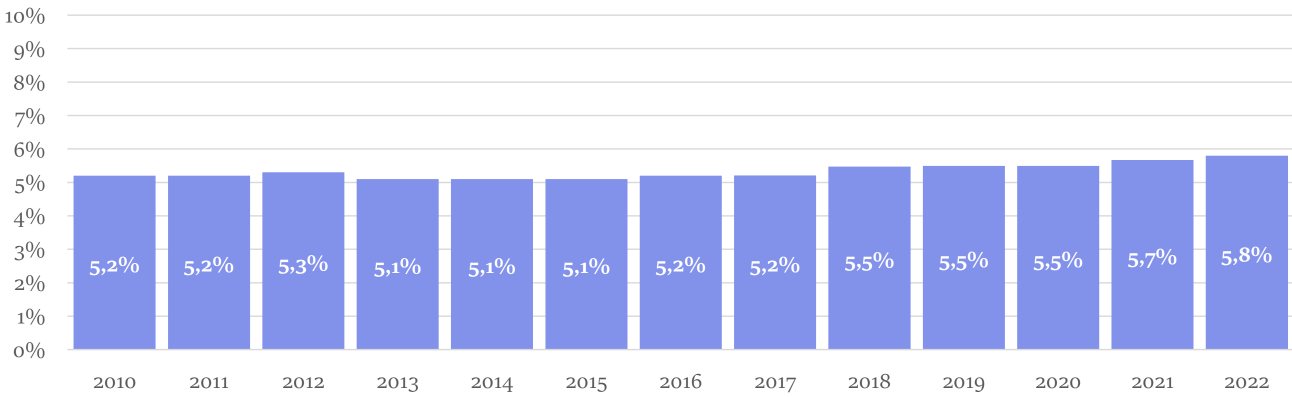
Evolution of Dominique Ceolin's participation



Source: Company

- David Hoey, the group's Chief Operating Officer, holds 5.8% of the capital.

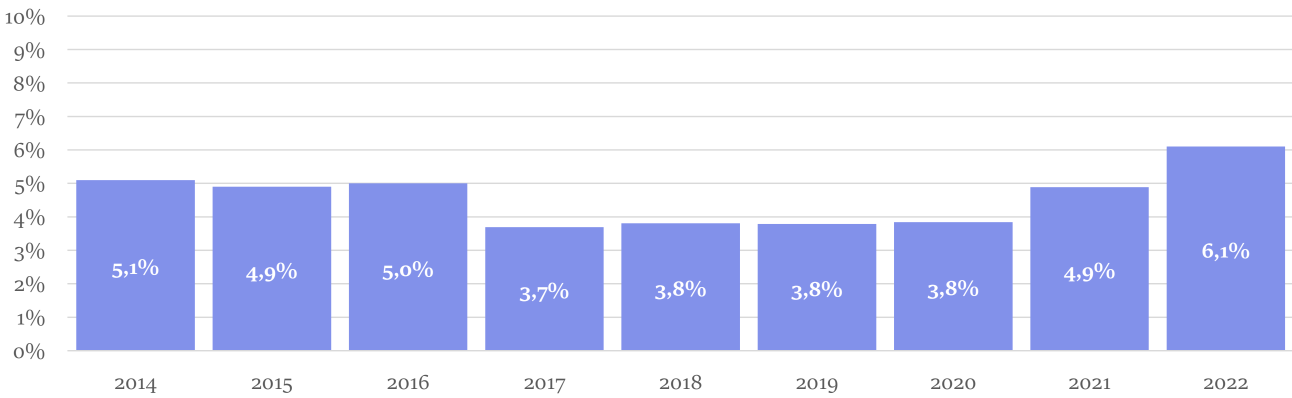
Evolution of David Hoey's participation



Source: Company

- Finally, a last block comprising the group's other managers/collaborators, together holds 6.1% of the capital.

Evolution of the participation of Other Managers

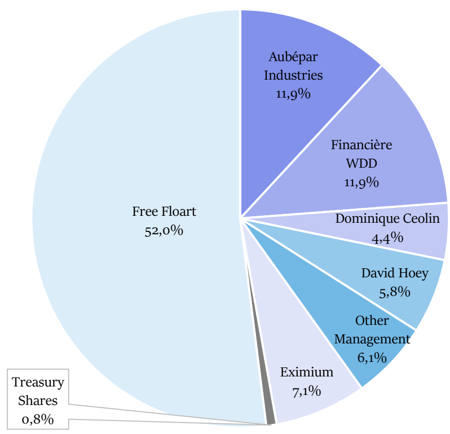


Source: Company

The presence of the founders and managers among the reference shareholders of ABC Arbitrage ensures an alignment of interests between insiders and minority shareholders. It responds to an asset-building project with a long-term vision that combines a logic of growth in net income with a framework of controlled risk. The share of insiders in the capital (around 40%) has remained relatively stable over the years.

Board of Directors

Shareholders



Source: Company

An Impressive Track-Record

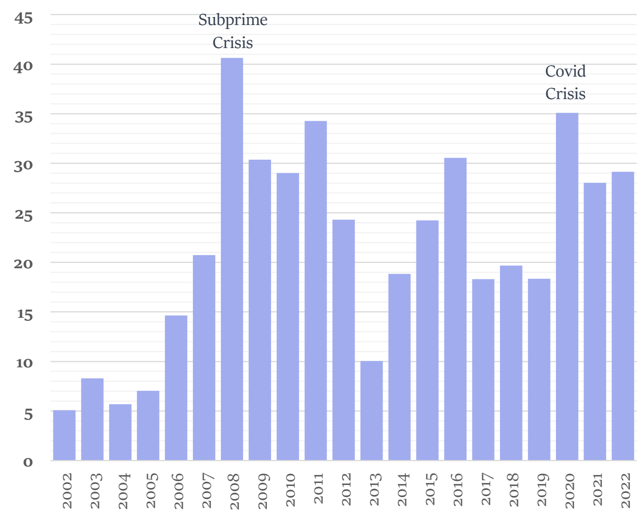
The group seeks to increase its results under the constraint of controlled risk management, which has led to zero losses since its creation in 1995. The group has always been profitable and will continue to expand its earnings capacity while controlling associated risks in order to ensure the performance and integrity of its funds.

Historically, ABC Arbitrage has matured using only its own equity. The presence of the founding directors as reference shareholders has introduced a patrimonial rationale into the group's operational management, guaranteeing a balanced risk/reward ratio management. Even though, since 2010, ABC Arbitrage has been open to managing funds on behalf of third-parties, the group has maintained its DNA by investing part of its Equity in the funds marketed to external clients.

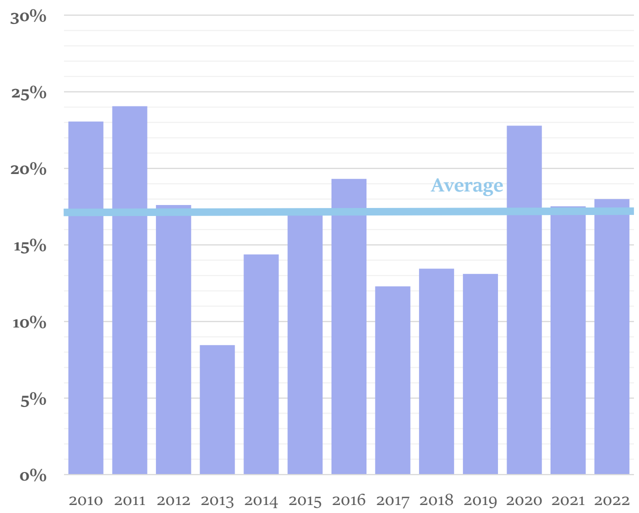
The group presents an impressive track-record of results, boosted during the years of severe market turbulence (volatility, volume) favourable to the company's activity, though generally associated with a bear-market (for example, in 2008 and 2020).

The group has a high return on equity, with an average ROE of 17% over 2010-2021. Equity is ABC Arbitrage's main asset since it is through the exploitation of this capital that the group still derives more than 90% of its income. As arbitrage strategies have structurally limited capacities (market size, competition, etc.), the group only retains the level of capital it needs to conduct its business, which leads it to return most of its earnings, a strong and sustained feature of the company's equity story.

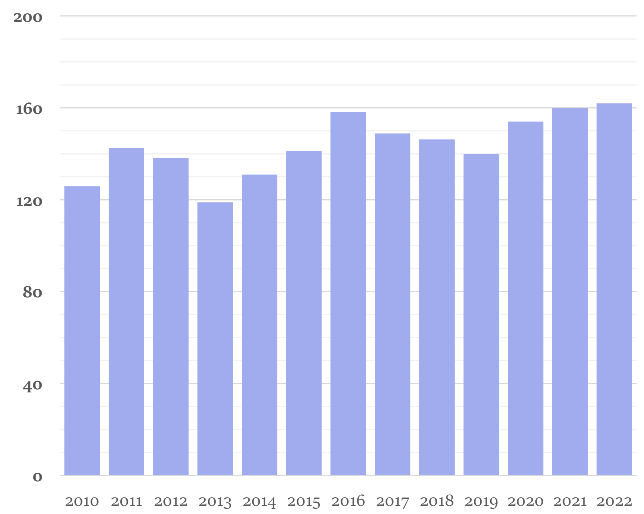
Net Income over 20 Years (€M)



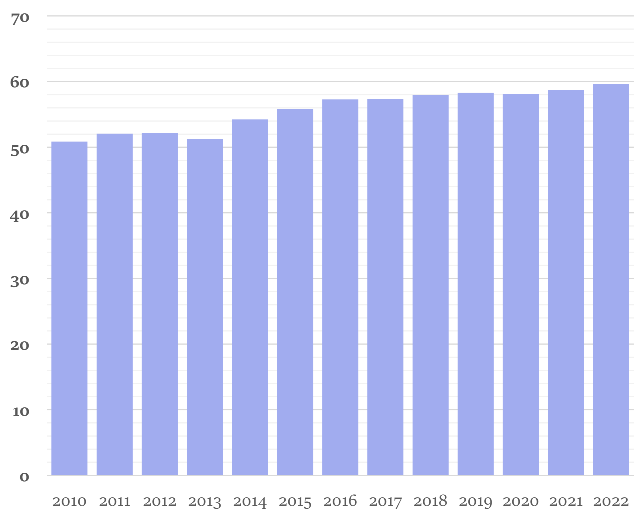
ROE (%)



ABC Arbitrage's Equity (€M)



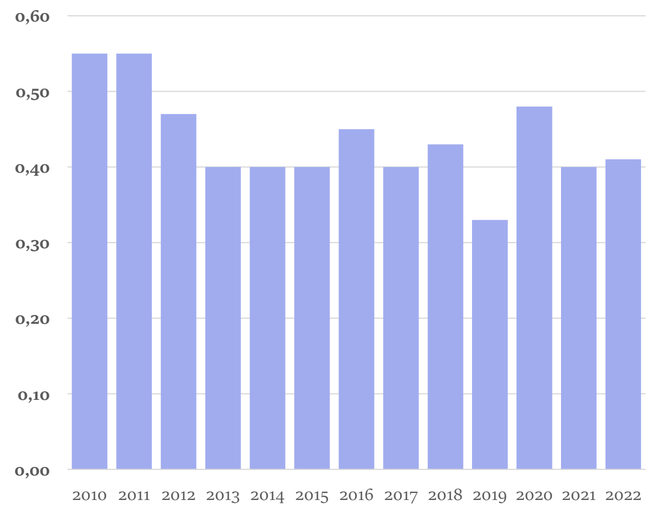
Basic Shares Outstanding (M)



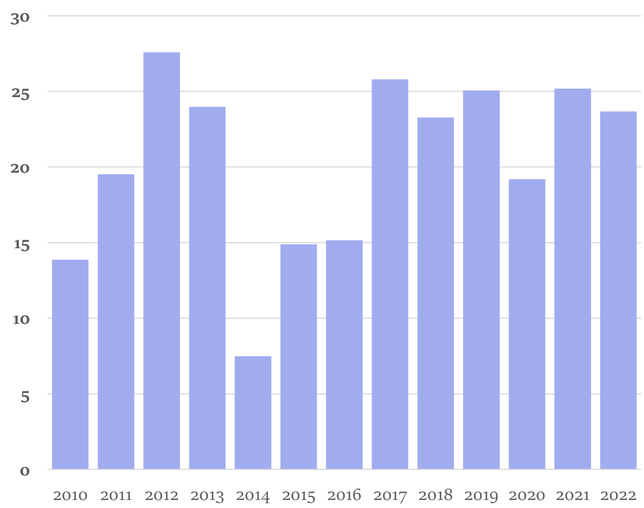
Sources: Company, Factset

With an average payout ratio of ≈100% from 2010-2022, the group tends to return all of its net income to shareholders – sometimes a little more, sometimes a little less. The payout ratio evolves according to the results from ≈80% to ≈120% with the notable exception of 2013 when it reached 210%. This makes ABC Arbitrage an attractive and sustainable yield stock – between 2010 and 2021, it posted an average yield of 7%.

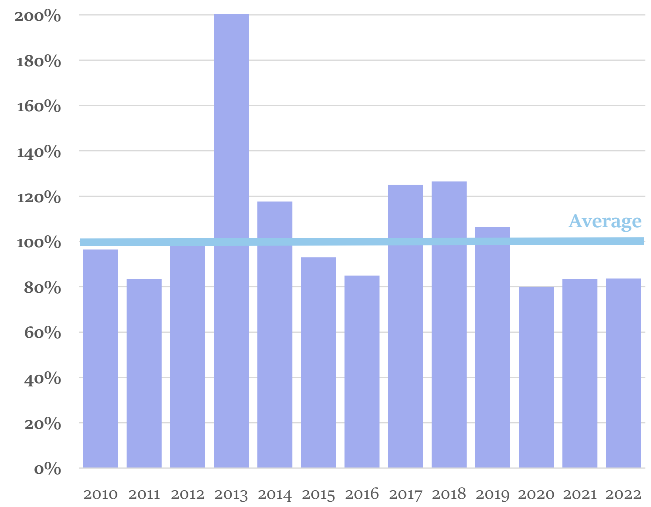
Dividend Per Share (€)



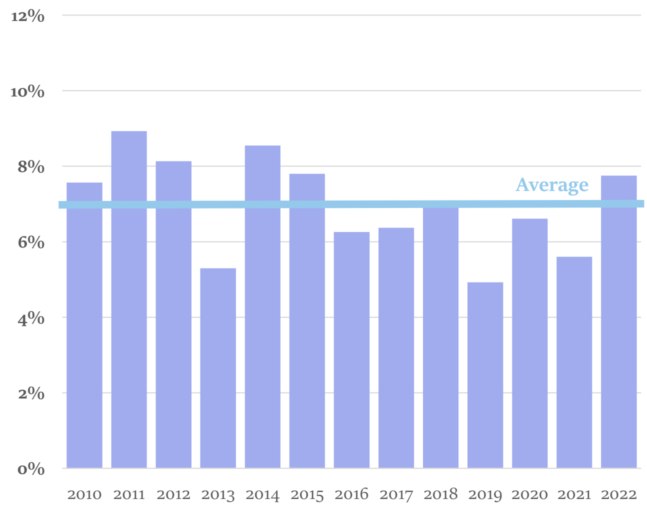
Dividend Paid in Cash (€M)



Payout Ratio (%)



Dividend Yield (%)



Sources: Company, Factset

What are the group's growth drivers?

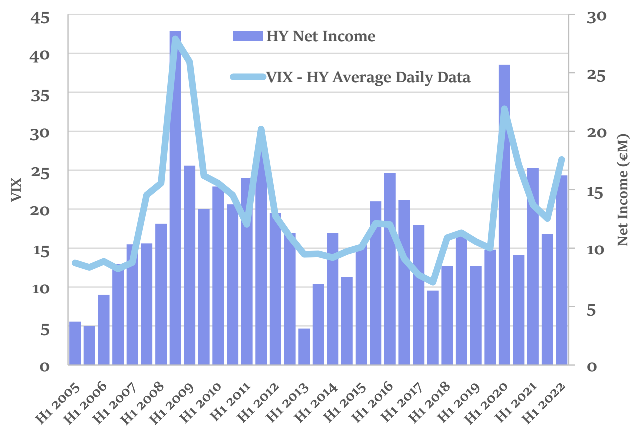
Market factors

Like the weather affecting a sailboat race (wind, swell, precipitation, etc.), arbitrage is subject to exogenous factors. ABC Arbitrage has always highlighted the three factors likely to have a significant impact on its operating conditions: volatility, volumes traded and the corporate activity of listed issuers (issues, M&A, etc.). The level and evolution of these market parameters has a direct and material impact on the group's activity. Higher volatility and volumes lead to more exploitable arbitrage opportunities. Thus, there is a powerful direct link between the quality of certain market parameters (volatility, volume) and the quality of the group's results.

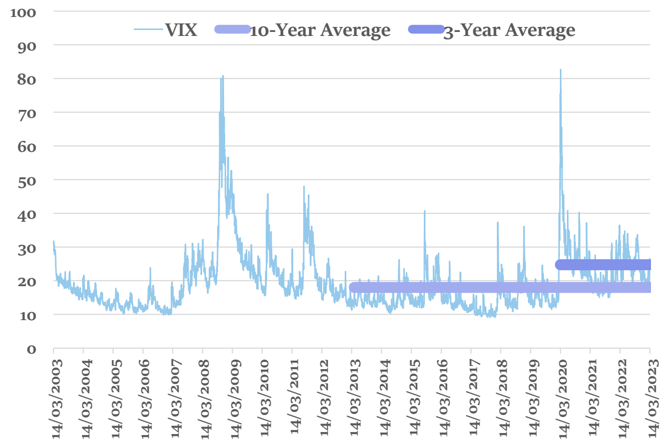
Volatility

The graph below points to the direct relationship between ABC Arbitrage's net income and the level of market volatility. Periods of peak volatility (H2 2008 or H1 2020) correspond to the periods when ABC Arbitrage generated its highest results. Conversely, when volatility declines, earnings decline, all other things being equal.

Relationship Between Net Income and VIX



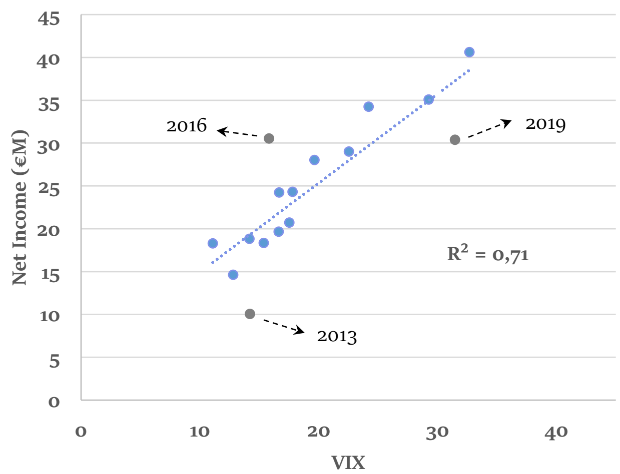
VIX Trend Over 20 Years



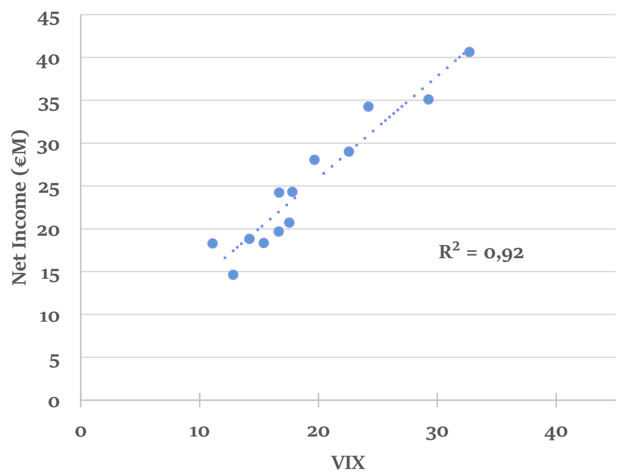
Source: Company

Indeed, we can observe a strong correlation (>0.7) between the two variables. Excluding three financial years (2013, 2016, 2019) out of the 16 studied, the correlation even exceeds 0.9. In other words, in more than 80% of cases, the correlation between Net income and the VIX is high. Several factors may partly explain certain deviations (the effects of innovation which enable ABC Arbitrage to enrich its portfolio of strategies to better take advantage of a low volatility environment, changes in OPEX that are occasionally out of step with the change in revenue, effect of organisational changes and/or accounting rules, etc.).

Positive Correlation Between Net Income and VIX Over 2006-2021



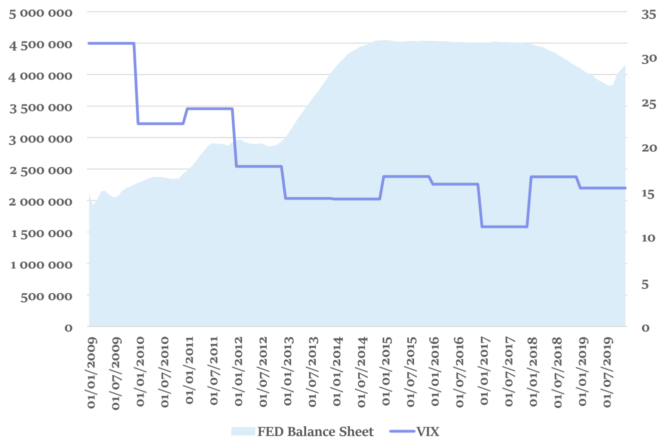
Positive Correlation Between Net Income and VIX Over 2006-2021, Excluding 2009-2013-2016



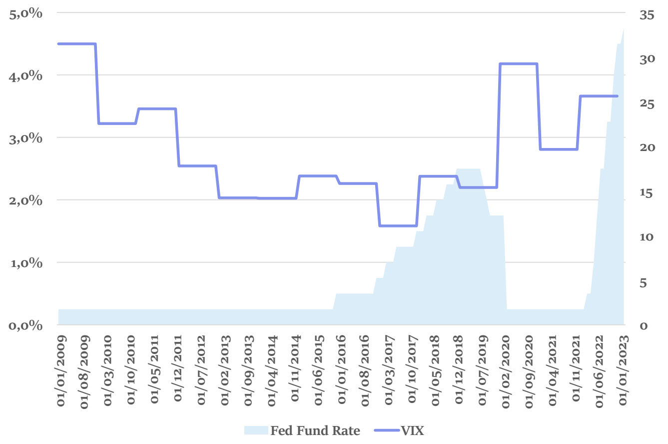
Source: Company

For a decade, ABC Arbitrage has evolved in an environment clearly unfavourable to its development. Central Bank interventions have reduced market volatility via the massive injunction of liquidity intended to extinguish any outbreak markets volatility, as well as low interest rate policies. The length of this sequence has nevertheless led the group to adapt and develop strategies capable of better exploiting this adverse environment.

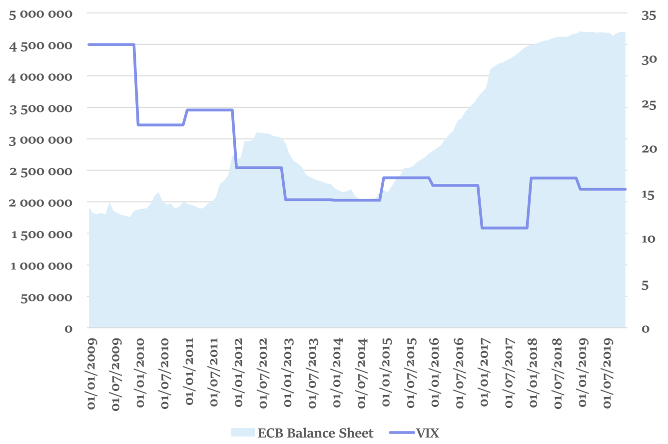
FED Balance Sheet Trend



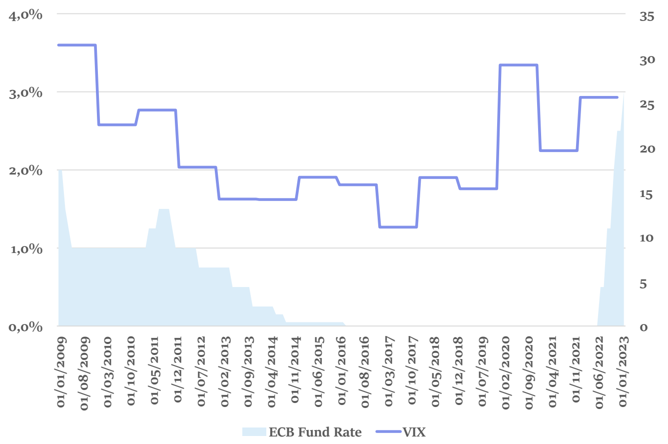
Fed Funds Rate Trend



ECB Balance Sheet Trend



ECB Interest Rate Trend



Sources: Fred, ECB, Factset

Since 2022, monetary authority activities (raising rates, desire to begin to reduce the size of their balance sheet) initiated a cycle of normalisation allowing risk to be restored to its fair value as well as a return to volatility, which would constitute a lever for the group's activity and the growth of its results.

Volumes

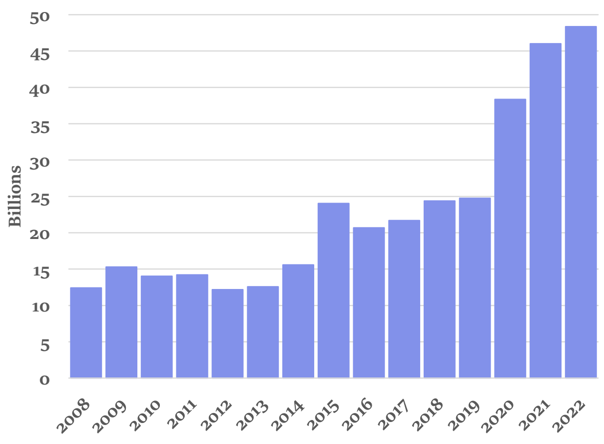
Volumes are also an important performance factor since they offer:

1) access to a broader range of opportunities, and

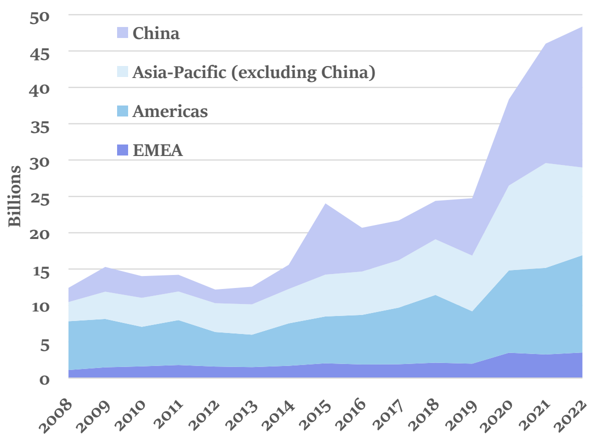
2) the guarantee of being able to effectively and quickly exploit these opportunities.

Over the last 15 years, equity market volumes have experienced strong growth, with volumes almost tripling, driven above all by Asia (7x), even if the growth was also felt, although to a lesser extent, in the Americas (2x) and in EMEA (3x).

Total Equity Market – Number of Trades (EOC)



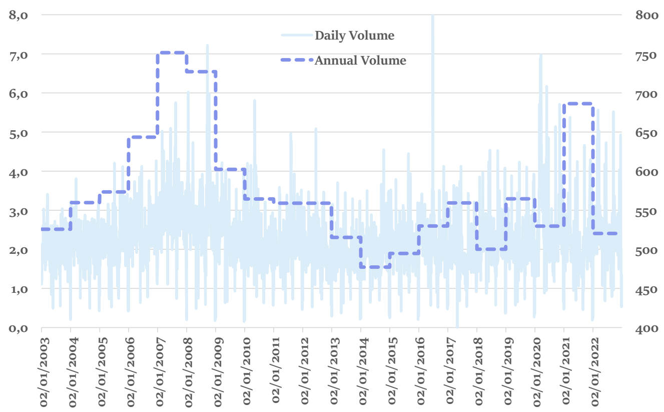
Geographical Breakdown



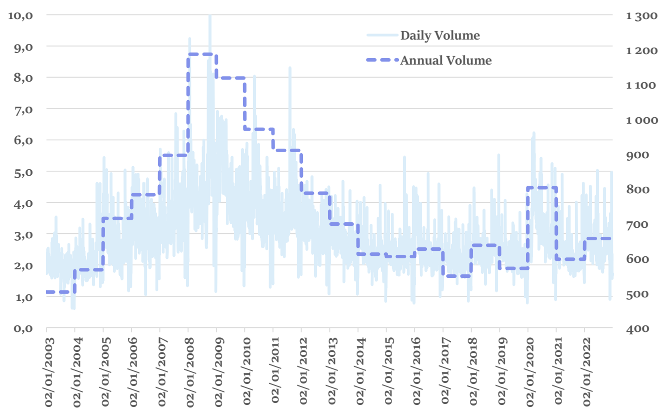
Source: World Federation of Exchanges

Market maturity in the US and Western Europe logically leads to broadening the scope of intervention on new markets and new assets in order to increase the pool of exploitable opportunities. While overall volumes are increasing, they are also likely to decline in certain asset classes or in certain markets. In this context, the development of the group's international and multi-asset footprint is an essential driver for ABC Arbitrage to continue to expand its activity. This justifies the group maintaining a sustained investment and innovation effort over time.

Volume Traded on Eurostoxx 600



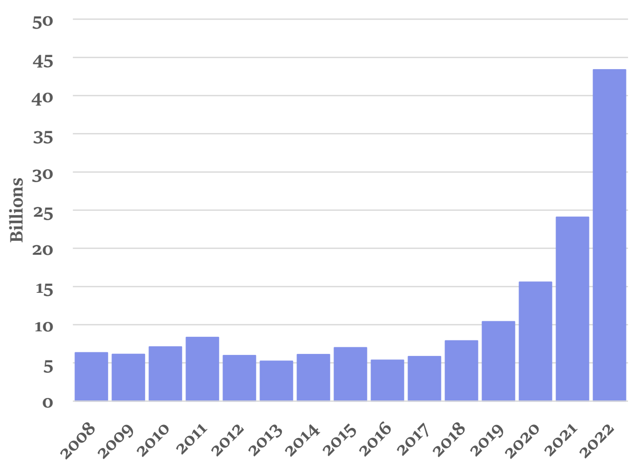
Volume Traded on S&P 500



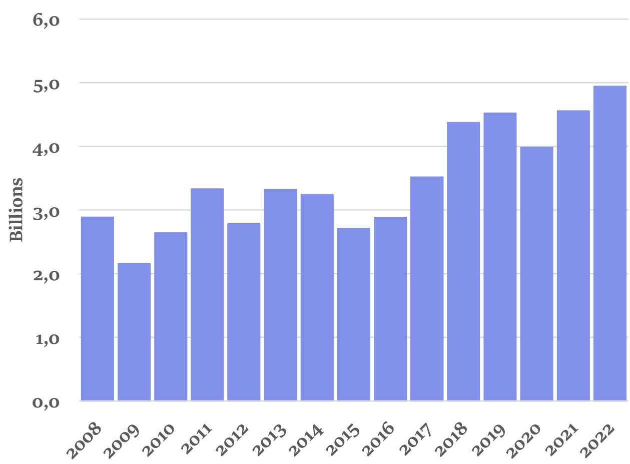
Source: Factset

A reading of the historical volumes concerning derivatives (Indexes, Rates, Exchange, commodities) reveals a clear trend of growth over the past 15 years.

Stock Index Derivatives – Contracts Traded

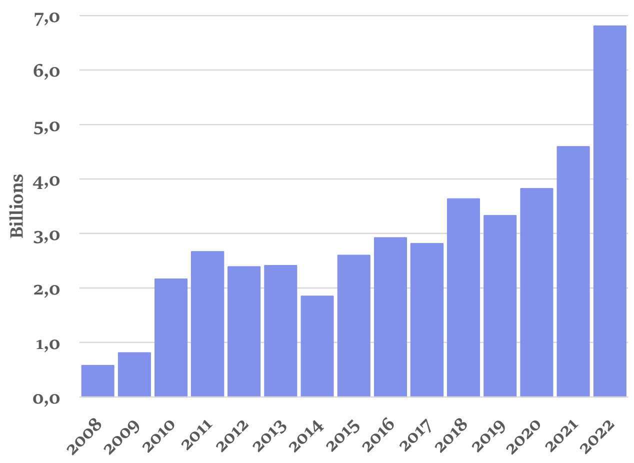


Interest Rate Derivatives – Contracts Traded

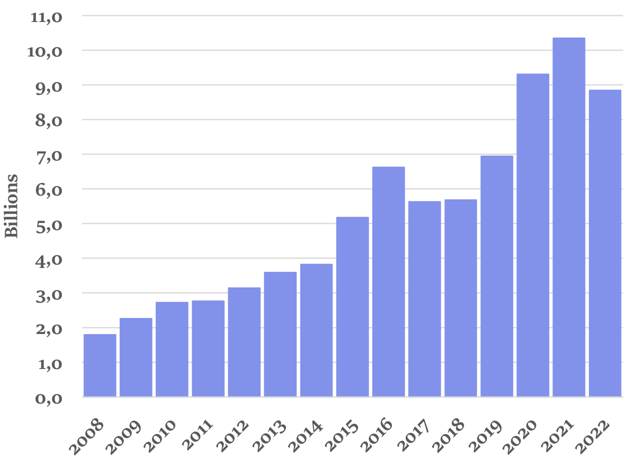


Source: World Federation of Exchanges

Currency Derivatives – Contracts Traded



Commodity Derivatives – Contracts Traded

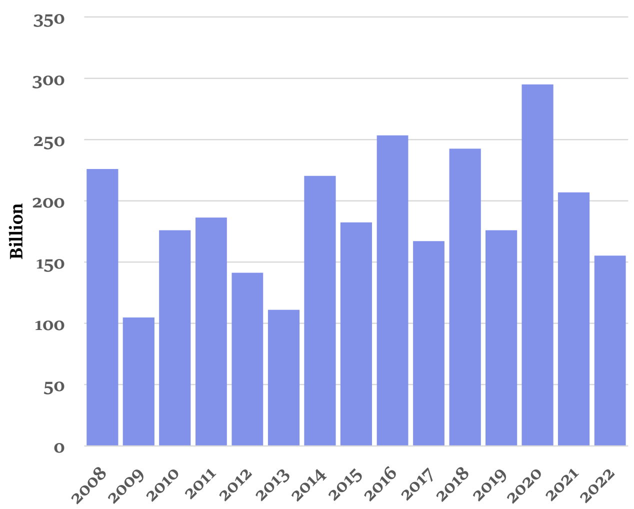


Source: World Federation of Exchanges

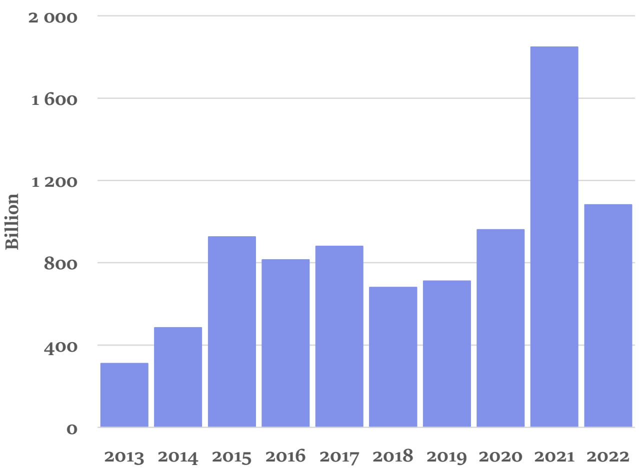
Corporate activity of listed issuers

A number of arbitrage strategies are dependent on issuers' corporate activity on financial markets (M&A, securities issues). A market with poor corporate activity naturally hinders the development of these strategies, since it generates a lack of opportunities to be exploited. The potential of these strategies naturally tends to move against volatility trends. Corporate activity is traditionally stronger in bull markets without spikes in volatility.

Worldwide Takeover Bids (Transaction Value)



Worldwide Equity Market – Total Capital Raised



Source: Factset

Internal drivers

Regardless of market conditions, over which ABC Arbitrage has no control, the group is working on drivers that are likely to feed its capacity for organic growth along two axes:

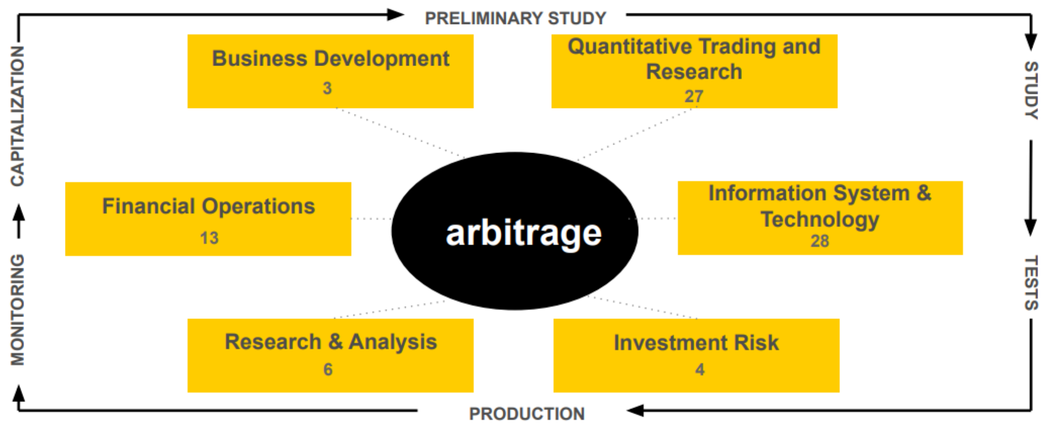
- The identification new arbitrage opportunities. A permanent focus is on innovation to enrich and develop the portfolio of arbitrage strategies. The group devotes significant R&D resources (about 30 employees are dedicated to the Quant Trading & Research department) to 1/ enrich and adapt its existing strategies, 2/ develop new strategies, and 3/ extend its strategies to new classes of assets.

- Increase the group's operational footprint to capture a maximum of opportunities. In the same way, the group allocates significant resources to develop its industrial capacity to detect and deal with arbitrage opportunities in various markets. It involves developing the capacity and speed of its technical infrastructures, information systems and algorithms. About 30 employees are thus dedicated to the Information System & Technology department.

These drivers can explain ABC Arbitrage's investments for the development of its human capital, while technology and expertise remain the group's development engine.

In this respect, ABC Arbitrage can be considered a technology company in its own right. More than half of all employees carry out a programming activity. In proportion, R&D is also the main function of the group (vs. 10% in S&M). There are very few examples of listed groups whose R&D is so directly revenue-generating and profitable.

Talent Breakdown



Source: Company

Scalable & Fast Trading Systems

Source: Company

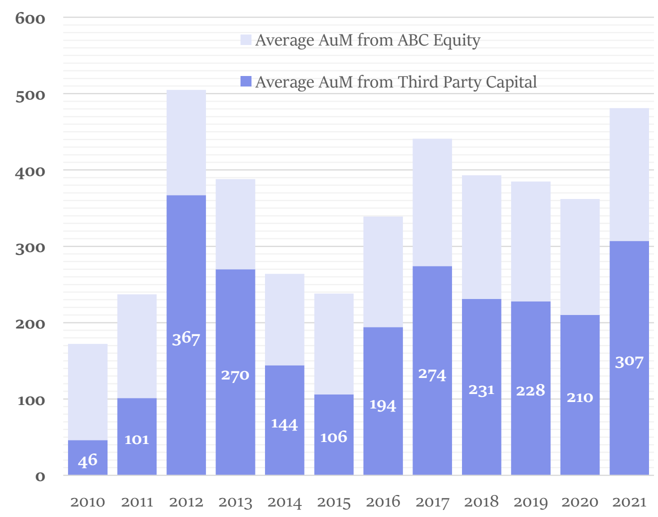
Third-Party Asset Management

Third-Party Asset Management has roots dating from the launch of the first fund in 2007 (mainly incubated with capital from ABC Arbitrage). But it was from 2010 that the group launched the marketing of the ABCA Reversion fund, followed in 2015 by the ABCA Opportunities fund. These two funds now have a long-track record.

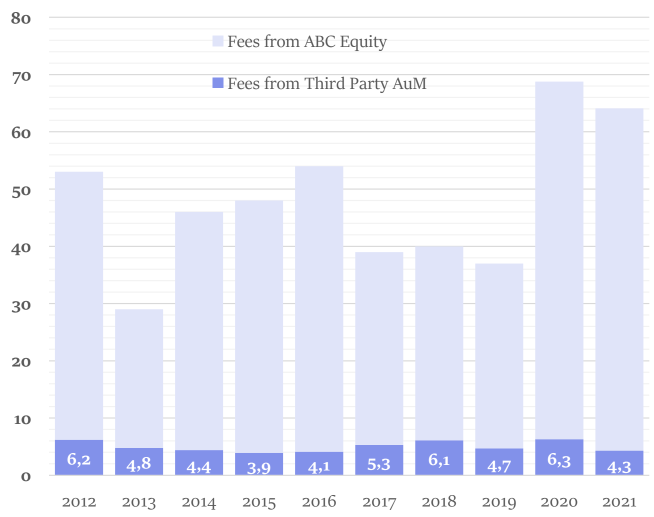
This is an important area of growth in the group's development strategy, even if the level of fundraising has historically experienced ups and downs and ultimately did not reach, over the period of the previous plan (2020-2022), the ambitions that the group had set itself. To explain the delay in collection, several factors can be put forward:

- From 2010-2020, the context of monetary easing and low market volatility made the ABC Arbitrage offer globally less attractive than other asset classes.
- For the most recent period, inflows were slowed down in 2022 by 1/ a performance of the ABCA Reversion fund lower than the performance that investors are entitled to expect given the volatility peak observed in March, leading the group to consider that the fund's performance had not met the expectations of its "moral contract" (strong performance in a period of strong turbulence), and 2/ a product catalogue not sufficiently in line with market demand, leading the group to rework its range and marketing of these funds and work to launch new ideas.

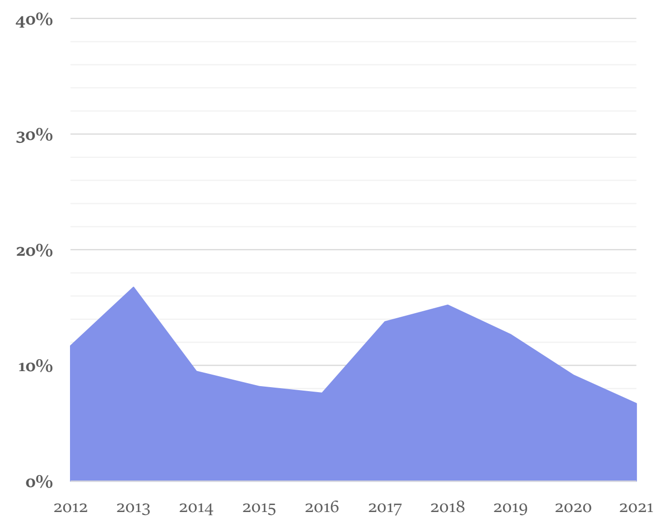
Average Asset Under Management (€M)



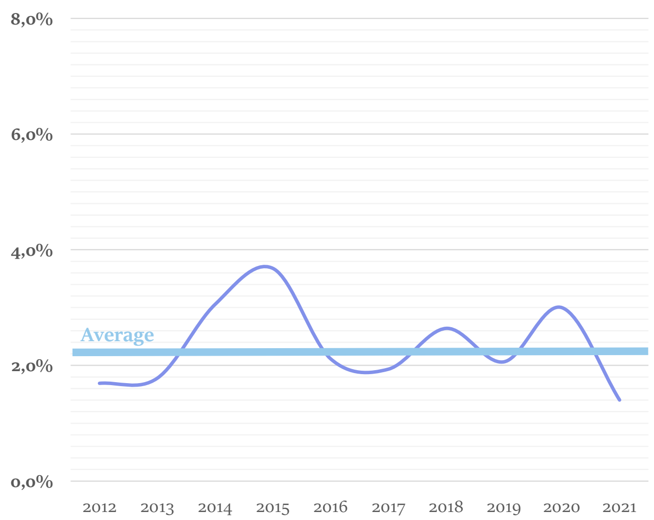
Fees From ABC Equity & Third Party Capital (€M)



% of Third Party fees Over Total Revenue



Net Return on AuM from Third Party Capital (%)



Sources: Company, Factset

The intention to develop third-party fund management remains at the heart of ABC Arbitrage's equity story. This activity is one of the pillars of the new 2023-2025 strategic plan. The group thus reiterated its ambition to achieve assets under management of €1b, including €800m from external clients. Failing to achieve this objective in its previous plan, the group now seems better equipped to succeed. Development and structuring investments made from 2020-2022, as well as the lessons learned from the failure of collection over the same period, now put ABC Arbitrage in a much more favourable position to achieve these ambitions:

- While the funds have been around for many years, proprietary management marks the deep DNA of ABC Arbitrage. The development of third-party fund management requires a learning curve on which the group has made good progress in recent years.

- The group has devoted resources to structuring a team entirely dedicated to the commercial development of third-party AM; this is one of the important constructions of the 2020-2022 plan on which ABC Arbitrage will be able to capitalize. The team is fully operational and the 2023-2025 plan should benefit from it.

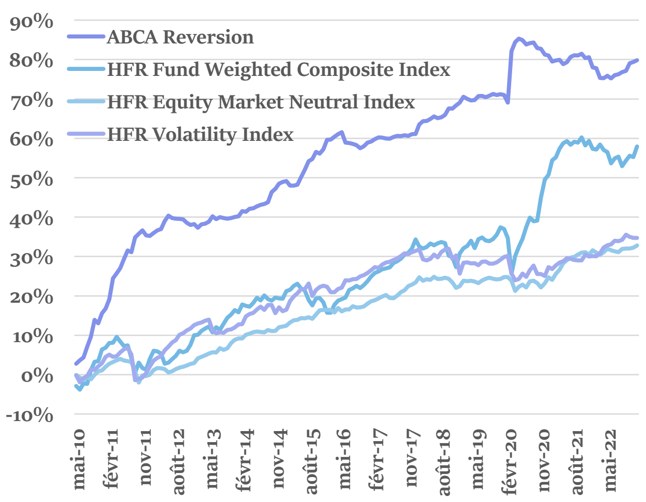
- CRM and reporting tools have been put in place, allowing for better mapping and better follow-up of prospects/customers. In 2020-2023, the group developed a much larger and more qualified base of contacts than it had in the past, with regular discussions that should bear fruit in 2023-2025.

The catalogue currently includes two funds:

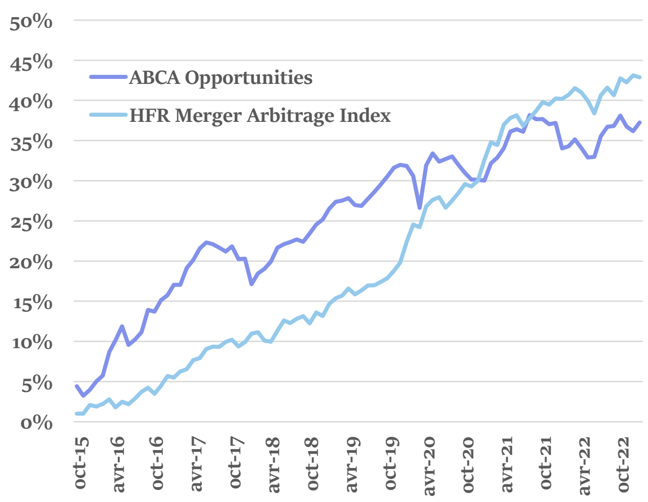
- **Reversion**. A fund grouping strategies designed to generate performance in particularly volatile markets. It is the group's flagship fund, and concentrates the majority of external clients' AuM (≈75%), with a strong defensive fund identity in a volatile environment – particularly in North America with diversified hedge funds.

- **Opportunities**. The fund was redesigned in early 2022, after realising that it was too diversified compared to client expectations. Opportunities is built around a mix of complementary strategies to generate performance in various market conditions – while Reversion aims to generate performance in very volatile markets. The fund is thus invested in Quant M&A strategies (whose field of opportunities is developing in calm markets) and structured strategies to operate in more turbulent markets (≈40% of the fund is thus invested in Reversion).

ABCA Reversion Fund Performance Since Inception



ABCA Opportunities Performance Since Inception

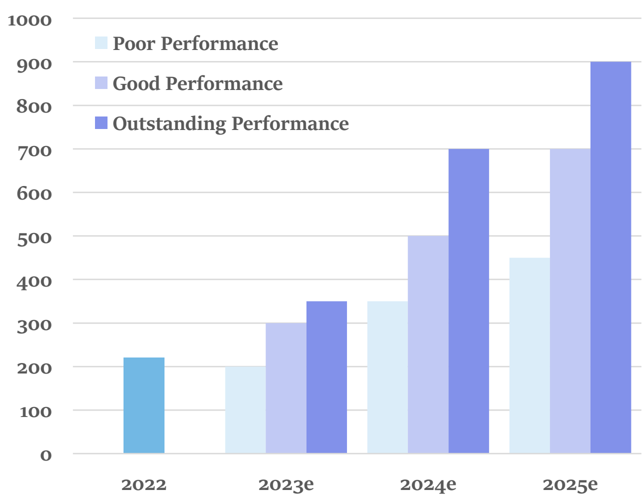


Sources: ABC Arbitrage, Hedge Fund Research

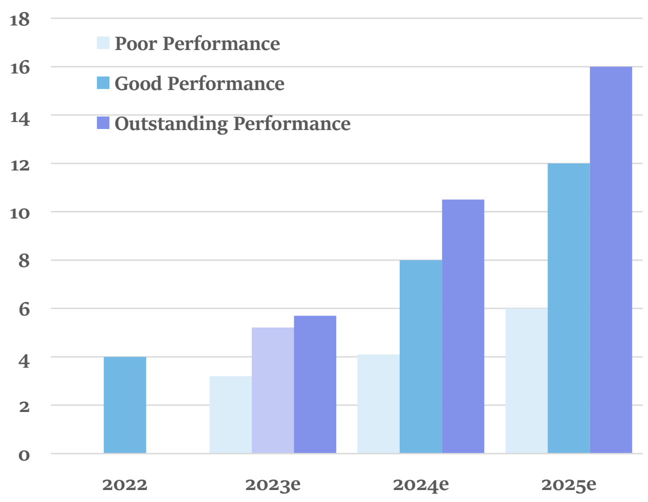
The catalogue should continue to grow to allow ABC Arbitrage to have a broader offer to meet customer needs. The group is working on the launch of new funds (cryptocurrencies, ETFs). Beyond its funds, the group is now able to meet client needs through management mandates, which make it possible to offer personalized strategies.

The 2023-2025 strategic plan's objective to reach €800m in AuM from outside investors would constitute a significant change in scale with regard to the AuM at the end of 2022 (≈€220m). Assuming that the group reaches this collection target, it would benefit from an increment in gross income of around €16m (vs. €4m in 2022) which would provide a major growth driver of net income by allowing better amortisation of the cost structure. For the record, third-party fund management uses infrastructure and resources mobilised for proprietary management, thus providing additional income without increasing the cost structure. Thus, it makes it possible to increase the group's profitability through a scalability effect.

External Third Party AuM Growth Scenarios



Gross Revenue From External Third Party AuM



Sources: ABC Arbitrage

Even if it is an important growth driver for ABC Arbitrage's net income, revenue from third-party fund management will only remain a supplement - management of its own equity should continue to generate more than 80% of group income.

Remuneration is based on management fees of 1.5% and performance fees of +20% (applied to performance above the monetary rate + 1%). The company estimates that it can achieve on average a gross profitability close to 2% on the AuM of external customers, i.e. ≈€1M for €50m of AuM.

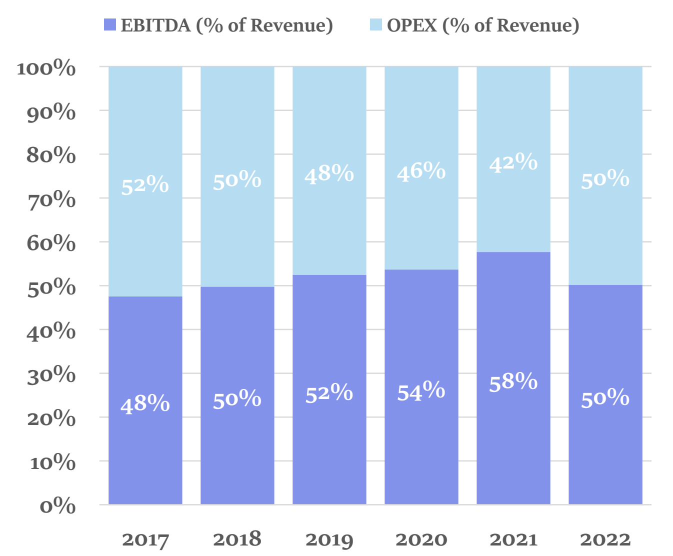
In the end, the development of third-party fund management constitutes a favourable element for equity:

- the leverage effect that this activity could generate on the group's net revenue
- the effect of diversification and recurrence that this activity is likely to bring to the group's revenue
- the positive impact it should have on the company valuation

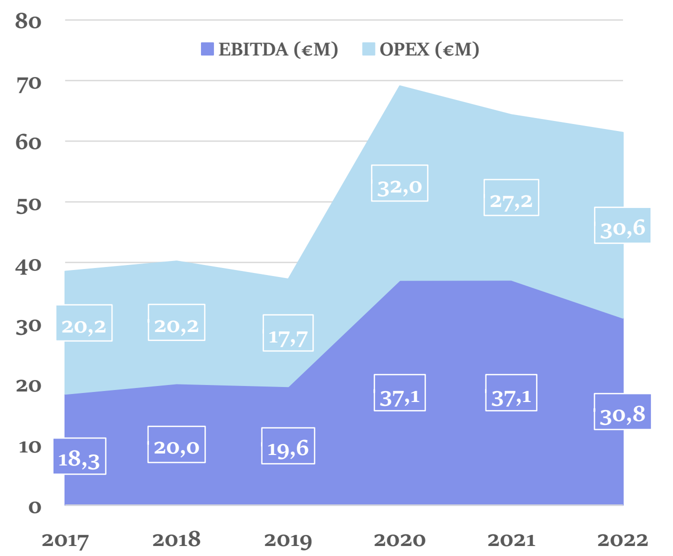
Cost structure focus

The group has high profits and on average, the EBITDA margin exceeds the threshold of 50% of revenue.

Breakdown Between OPEX and EBITDA (% of revenue)



OPEX & EBITDA Growth (in €M)

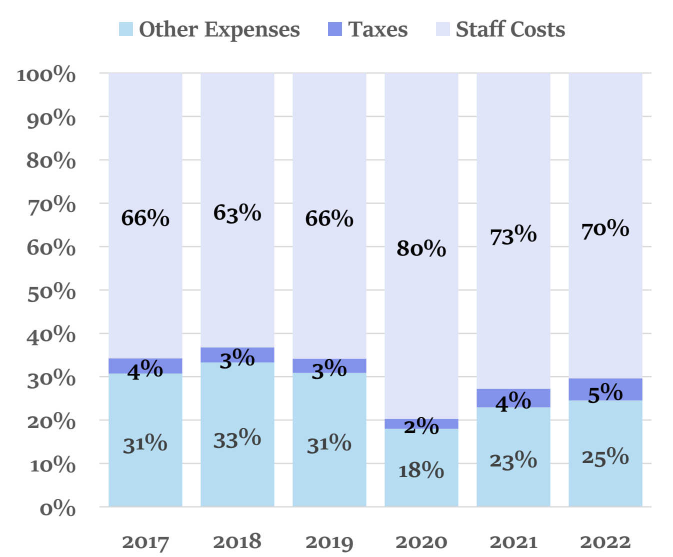


Source: ABC Arbitrage

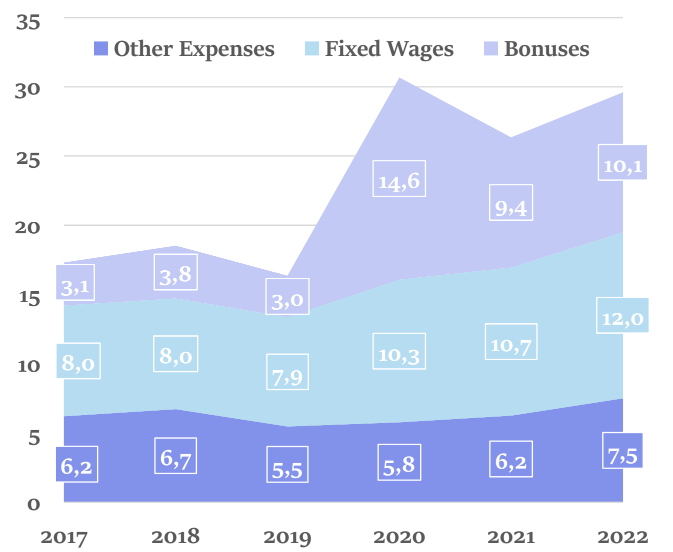
Wages are the group's main expense - on average, amounting to 70% of OPEX over the last 5 years, whose growth reflects:

- The group's investment in team development (new staff recruitment) and talent retention in a competitive workforce environment (salary increases). This is an essential strategic investment to fuel the group's development.
- Results growth, which leads to the payment of significant variable employee compensation - when justified, of course, by performance levels. Variable pay is a powerful employee motivational tool. In good years, variable pay can double fixed pay or more (see for 2020 below). In bad years, on the other hand, the share of variable pay logically contracts, in line with the group's lower performance.

OPEX Breakdown (% of OPEX)



Staff Costs & Other Expenses Trend (€M)

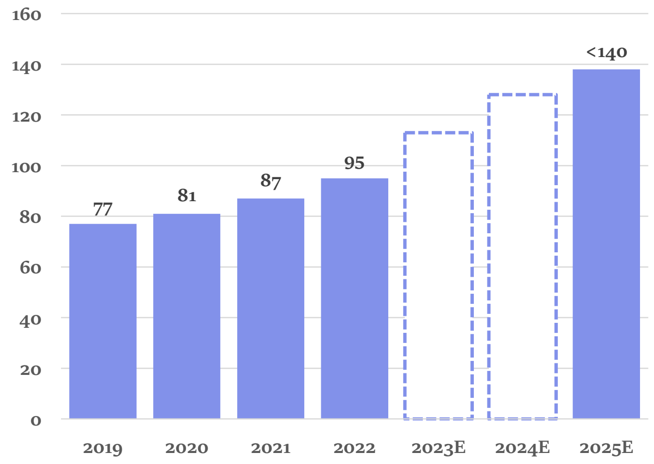


Source: ABC Arbitrage

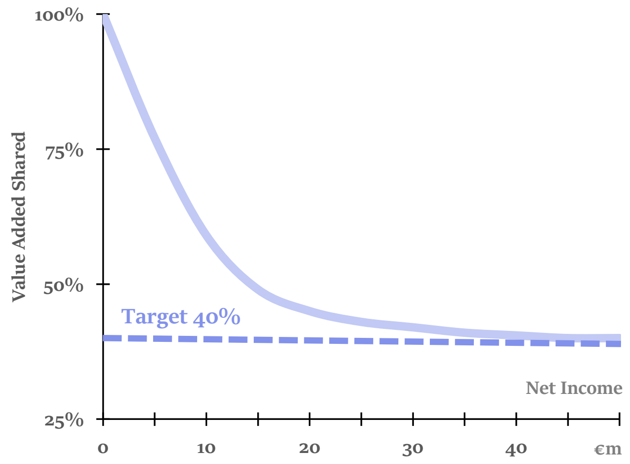
IT costs account for 2/3 of all other expenses, including infrastructure costs necessary to access and have a secure and fast connection to the various markets (hardware, hosting, telecoms, etc.) and data. These costs should continue to increase within a range of +5% to +10%, but their impact will remain limited at the group level.

To reach the 2023-2025 objectives, the group should accelerate its pace of recruitment, with the aim of increasing from around 100 employees to almost 140 by 2025. However, this target will naturally be monitored to avoid any drift in the wage bill in relation to results. The company will retain the flexibility to adjust its HR policy according to team productivity indexes. Variable remuneration share will also serve as a buffer in the event of insufficient performances as bonuses are dependent on the evolution of net results. The sharing of value between employees and shareholders will remain closely linked to the group's performance - with a target ceiling of 40% for employees.

Hiring Plan



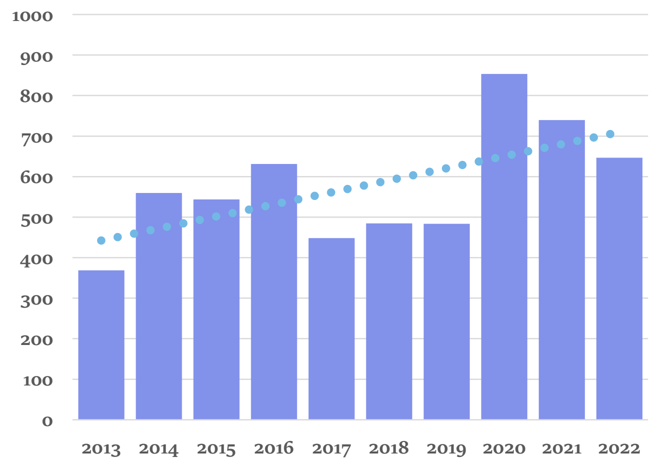
Value Added Sharing Process



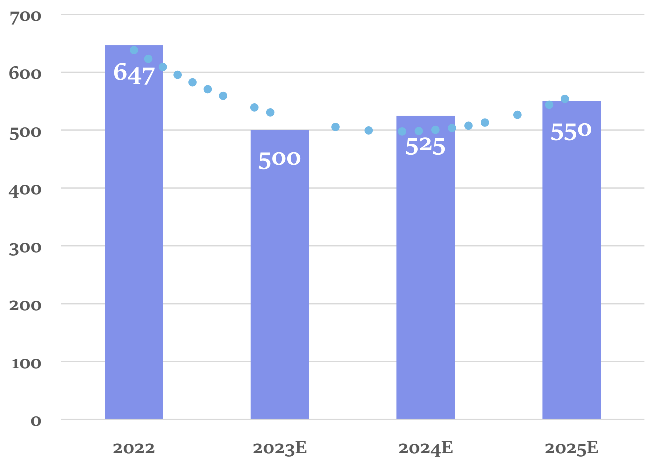
Source: ABC Arbitrage

For the past 10 years, the average revenue per employee has been growing (despite some natural uncertainty) from year to year as activity rates also depend on market conditions - this is particularly visible with revenue peaks per employee, as observed in 2020. The intention to accelerate recruitment over 2023-2025 to strengthen the group's medium/long-term organic growth potential should logically impact productivity in the short/medium-term, although management will be careful to maintain a floor level of €500/550k per employee in order to preserve profitability.

Average Revenue Per Employee (€k)



Estimated Average Rev. Per Employee Over 2023-2025



Source: ABC Arbitrage

The objectives of the new Springboard 2025 plan

Not a revolution, but a new plan, one that is perfectly in line with the strategic continuity of its predecessors. The quantified targets are:

- a cumulative net result of €100m over 3 years, amounting to an +8% increase vs. the average Net Results of the 2020-2022 plan (which benefited from a more favourable volatility context vs. the average trend over 10 years) and of +76% vs. the average Net Revenue of the 2017-2019 plan.
- The 2023-2025 plan also includes an investment effort never seen in the group's history, but essential for ABC Arbitrage to reach long-term growth milestones. In this respect, the 2023-2025 plan already lays the foundations for the plan that will follow.
- The €100m target is based on the assumption that market conditions (volatility/volumes) will maintain historical averages for the last 10 years. This assumption leaves a certain upside if the market were to present parameters close to their average for 2020-2022.
- Maintaining a ROE above 15%.
- Maintaining an attractive shareholder return policy, with the objective of a cumulative dividend per share over 2023-2025 of €1.30, with a payout ratio of 80%.

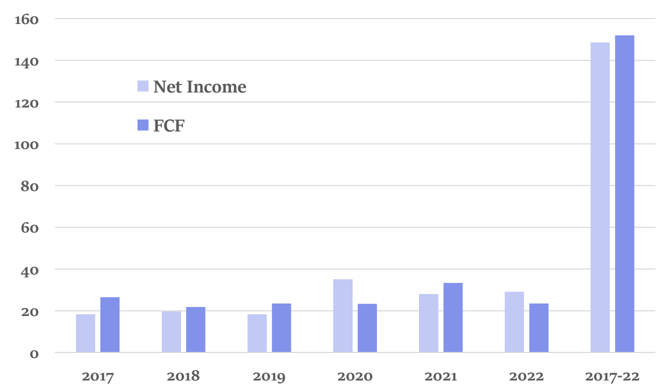
The group will continue to capitalise on its historical strengths (proprietary management) and therefore attempt to accelerate the development of third-party fund management (AuM, revenues, product catalogue) with, if successful, the prospect of reaching a new milestone in 2026-2028. The challenge of the 2023-2025 plan is therefore to demonstrate that the group is able to take this activity to critical size, which will be an enormous lever for the share's valuation.

Historically, every euro of net income is fully converted into FCF. The group has thus generated as much FCF (€152m) as net income (€149m) over the two previous strategic plans (2017-2019 and 2020-2022).

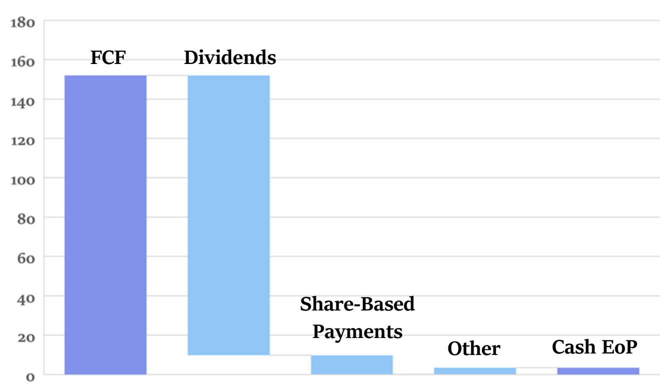
Capex levels are low (around 1.5% of revenue on average), with the bulk of the group's investment - consisting of employee salaries – being recorded as an expense in the income statement.

With no financial debt and no M&A (the group is growing 100% organically), almost all FCF (94%) generated during the 2017-2019 and 2020-2022 plans is returned as dividends to shareholders.

Net Income Conversion Into FCF



Cash Allocation (Cumulative Data over 2017-2022)



Source: ABC Arbitrage

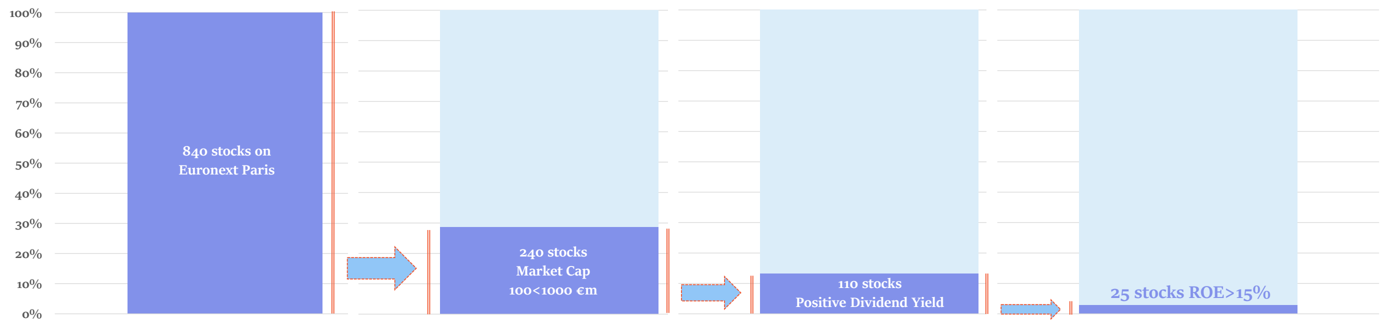
The group's unique features

ABC Arbitrage has some rather unique characteristics. Our screening of all Euronext Paris stocks indicates that less than 30% of them have a capitalisation between €100m and €1,000m (Small Caps universe). In this universe, our screening shows that:

- Less than half of this company sample pays dividends.
- Of this half, only a quarter have a ROE of over 15%.

Thus, less than 3% of the stocks listed on Euronext Paris meet these performance criteria, including ABC Arbitrage. And out of this final sample, ABC Arbitrage is the only stock to present such a high payout ratio (>80%) and stable over time.

How Unique Is ABC Arbitrage



Source: Factset

Valuation

Dividend Discounting Model

The group has historically redistributed most of its results back to shareholders. Over the period of the previous plan (2020-2022), the average payout ratio was 82%. Over even longer periods, the payout ratio even reached higher levels (98% over the average of the last 10 years and 97% over the average of the last 20 years) due to the distribution of surplus equity.

This strategy of returning cash to shareholders remains at the heart of the stock's equity story. As part of its new strategic plan, the group aims to maintain a payout ratio of around 80% and a cumulative dividend over 3 years of €1.30 (identical to that paid over 2020-2022). Our valuation by DDM is based on a forecast cumulative dividend of €1.30 for 2023-2025 and a growth in dividend per share of +3% per annum for the period 2026-2032. We assume a cost of capital of 8.7% and a perpetual growth rate of +3%.

DDM

DDM										
End Date	31/12/2023	31/12/2024	31/12/2025	31/12/2026	31/12/2027	31/12/2028	31/12/2029	31/12/2030	31/12/2031	31/12/2032
Discount rate	0,94	0,87	0,80	0,74	0,68	0,62	0,57	0,53	0,49	0,45
Dividends	0,43	0,45	0,46	0,46	0,47	0,48	0,49	0,51	0,52	0,54
Discounted dividends	0,40	0,39	0,37	0,34	0,32	0,30	0,28	0,27	0,25	0,24
Sum of discounted dividends	3,2									
Discounted terminal value	4,4									
Share price	**7,5**									

Source: TP ICAP estimates

Fair Value Sensitivity to CoE, G Rate and Payout Ratio

		G Rate				
		2,0%	2,5%	3,0%	3,5%	4,0%
Cost of Equity	7,7%	7,7	8,3	9,1	10,0	11,1
	8,2%	7,1	7,6	8,2	8,9	9,8
	8,7%	6,6	7,0	7,5	8,1	8,8
	9,2%	6,2	6,5	6,9	7,4	8,0
	9,7%	5,8	6,1	6,4	6,8	7,3

		Payout Ratio				
		70%	75%	83%	90%	100%
Cost of Equity	7,7%	7,9	8,3	9,1	9,7	10,6
	8,2%	7,2	7,6	8,2	8,8	9,6
	8,7%	6,6	6,9	7,5	8,0	8,7
	9,2%	6,1	6,4	6,9	7,4	8,0
	9,7%	5,6	5,9	6,4	6,8	7,4

Source: TP ICAP estimates

Annexes

Annex 1: The group's history

1995/1996: Creation of ABC Arbitrage. ABC Arbitrage initially sells its expertise in the form of advice to institutional clients, thus providing a recurring revenue stream. The group generates profits from the outset.

1997/2000: Validation of the business model. In 1997, ABC Arbitrage starts managing its own funds on the various European and American financial markets. This activity generates the majority of its revenue from 1999.

2001/2003: Consolidation. In March 2001, ABC arbitrage optimises its organisation and sets up a corporate governance structure to ensure the proper management of the company in the interest of its shareholders. On 13 February 2003, ABC Arbitrage is successfully transferred to the regulated market of Euronext Paris, compartment B.

2004/2005: Launch of the third-party asset management activity. At the request of institutional investors wishing to benefit from its expertise and performance, ABC arbitrage launches a third-party management business. The management company ABC arbitrage Asset Management is created and receives AMF approval.

2006/2007: Horizon 2010. ABC arbitrage implements an ambitious profit-sharing programme entitled "Horizon 2010" to promote the convergence of interests between shareholders and employees. In June 2007, ABC arbitrage Asset Management creates its first alternative investment fund under Irish law, ABCA Opportunities Fund Plc, reserved for qualified investors.

2008/2009: Record results in the midst of the financial crisis. ABC arbitrage records historic performances and exceeds the ambitions of its "Horizon 2010" plan a year ahead of schedule by achieving a cumulative net profit of more than €106m from 2006/2009.

2010/2013: New headquarters. The group moves to new premises at 18 rue du 4 Septembre (Paris 2nd), providing it with a workspace and technical tools adapted to its new ambitions, which will be realised in particular through the launch of new investment funds.

2014/2016: Continued organic development. Faced with the profound changes in the markets, in 2013 the group laid the foundations of a new development plan, "Ambition 2016," based on 4 axes: recruitment, geographical development and internationalisation, innovation and third-party management. This plan is illustrated in particular by the opening of Quartys in Dublin, the opening of ABC arbitrage Asset Management Asia in Singapore, and ABC arbitrage Asset Management obtaining AIFM approval.

2017/2019: "Step Up 2019." This new plan focused on the continued development of low volatility strategies and IT and R&D investments in the group's historical strategies in order to better face the market environment that has developed since 2012. These investments should enable the group to develop its management capabilities and improve the stability of results in a majority of market contexts.

2020/2022: ABC 2022. In March 2020, the group presented a new strategic plan, "ABC 2022," focused on strong development of the third-party management activity and an increase in R&D investments. In the face of the health crisis, the group continues to build the pillars to adapt to the measures that will be taken by central banks and governments to support the economy.

Source: Company

Annex 2: Governance

Board of Directors	Description
	**Dominique Ceolin – Chairman of the Board of Directors** Mr. Ceolin is a graduate actuary from the Institut des Actuaires Français and holds a DEA in Mathematics and Computer Science. He joined ABN AMRO Securities France in 1994 and participated in the development of the "Domestic Arbitrage" business. In 1995, he co-founded ABC Arbitrage and became head of the R&D and Market Risk departments. Mr. Ceolin is Chairman of the Board of Directors and Chief Executive Officer of ABC arbitrage. He is a member of the French Institute of Actuaries.
	**Xavier Chauderlot – Permanent representative of Aubépar Industrie SE** Aubépar Industries SE, the historic shareholder, represented by Xavier Chauderlot, co-founder of the group, is one of ABC arbitrage's largest shareholders with a 12% stake in the capital. It combines knowledge of the business with a distance from the day-to-day operational activity.
	**Sabine Roux de Bézieux – Independent Administrator** Sabine Roux de Bézieux is a graduate of ESSEC and holds a DECF and a degree in philosophy. After two years in investment banking, she spent 13 years with the Andersen group in London and Paris. From 2002 to 2012, she ran her own consulting business, Advanceo, before joining the Board of Directors of several listed companies and becoming CEO of Notus Technologies. She has been involved in the world of foundations for more than 15 years, with the Araok Foundation which she co-created in 2005, and then by launching the association Un Esprit de Famille, which brings together family foundations in France. She is also active in the community sector, as treasurer of United Way L'Alliance and president of the Fondation de la Mer.
	**Sophie Guieysse – Independent Administrator** An engineer by training, Ms. Guieysse graduated from the Ecole Polytechnique and the Ecole Nationale des Ponts et Chaussées. She holds an MBA from the College of Engineers. After a first part of her career dedicated to urban development and public infrastructures within the Ministry of Public Works and ministerial cabinets, Ms. Guieysse worked as a human resources director in several large French and international companies such as LVMH, CANAL+ and Richemont. Ms. Guieysse also has extensive experience as a board member. Over the last ten years, she has been a member of the boards of GO Sport, Rallye Group, TVN (Poland), Maisons du Monde and Compagnie Financière Richemont (Switzerland). She is also a member of the Remuneration Committees of the Paris 2024 Olympic Games and the Rugby World Cup 2023.
	**Isabelle Maury – Independent Administrator** Ms. Maury holds a Master's degree in Financial Techniques from ESSEC, a postgraduate diploma in Banking and Finance and a Master's degree in Modelling applied to Economics and Management from the University of Paris X. After starting her career in audit at Deloitte, she held several operational positions in investment banking within three major banking groups (Crédit Lyonnais, Société Générale, Groupe BPCE - Natixis). She became risk director of the Banque Populaire group in 2007 and then of the BPCE group in 2009. Ms. Maury joined its executive committee and was in charge of the group's risk management and governance, directed regulatory programmes, ensured relations with the supervisory authorities and supervised Natixis compliance. Founder of IM7 Consulting in 2017, she assists executives through consulting missions to professionalize governance, secure relations with supervisory authorities, support executives in crisis situations and strengthen the efficiency of risk, audit and compliance functions.

Source: Company

Direction	Description
	**Dominique Ceolin – CEO (ABC Abitrage SA)** Mr. Ceolin is a graduate actuary from the Institut des Actuaires Français and holds a DEA in Mathematics and Computer Science. He joined ABN AMRO Securities France in 1994 and participated in the development of the "Domestic Arbitrage" business. In 1995, he co-founded ABC Arbitrage and became head of the R&D and Market Risk departments. Dominique Ceolin is Chairman of the Board of Directors and Chief Executive Officer of ABC arbitrage.
	**David Hoey – Deputy CEO (ABC Abitrage SA)** Mr. Hoey is a native of Ireland and holds a Master's degree in Accounting and Finance with a major in Computer Science from the BBS. After an initial 4-year experience at Crédit Agricole, he joined the founders of ABC arbitrage, the parent company of ABC arbitrage Asset Management, in 1996. As an executive member of the Board of Directors, he contributed to the strategic development of the group and the growth of its core business.
	**Gaëtan Fournier – General Secretary/CFO (ABC Arbitrage SA)** A graduate of NEOMA Business School and holder of a DSCG, Gaëtan Fournier began his career as a financial auditor with Ernst & Young, specialising in the Middle Market. After 5 years in this Big Four firm, he joined the ABC Arbitrage Group in 2012 and became Head of the "Finance & Internal Control" department in 2016 before being appointed General Secretary of the Group in 2020.
	**Alexandre Ospital – CEO of ABCA AM** Mr. Ospital is a graduate of an engineering school (ESTP) and joined the ABC arbitrage group in 1999 after a year spent in a consulting firm. He was appointed Head of the Financial Operations Department in 2005. Since August 2013, he has been Deputy Director in charge of operations at ABC arbitrage Asset Management. In February 2020, he became Director of Operations before being appointed Managing Director of ABC arbitrage Asset Management in January 2022.
	**Franck Bonneau – Deputy CEO & CTO of ABCA AM** Mr. Bonneau is a graduate of an engineering school (ESIE) and joined the ABC arbitrage group in 1999. He was appointed head of the "Information Systems & Development" department in 2006 and then deputy director of the same department in 2013. In February 2020, he became Technical Director before being appointed Deputy Managing Director of ABC arbitrage Asset Management in January 2022.
	**Yves-Oleg Zajtelbach – Deputy CEO & CIO of ABCA AM** Mr. Zajtelbach graduated from the University of Paris-Dauphine with a specialisation in finance (DEA 104) and joined the ABC arbitrage group in 1999. He was appointed Head of Trading in August 2013. In February 2020, he became Head of Research and Trading before being appointed Deputy CEO of ABC arbitrage Asset Management in January 2022.
	**Marie-Laure Cillard – CEO of Quartys** Ms. Cillard is a graduate of the Ecole Nationale Supérieure des Mines de Nancy. She joined ABC arbitrage in 1999, working on statistical arbitrage strategies. She is Managing Director of Quartys, based in Dublin, Ireland, since 2014.
	**Xavier Boutin – CEO of ABCA AM Asia** Mr. Boutin is a graduate of the Ecole Nationale Supérieure des Mines de Nancy. He joined ABC arbitrage in 1999, working on statistical arbitrage strategies. He has been managing director of ABC arbitrage Asset Management Asia, based in Singapore, since 2014.
	**Sébastien Lépy – Head of Market Risks of ABCA AM** Mr. Lépy graduated as an engineer from the Ecole Nationale Supérieure des Mines de Nancy and joined ABC arbitrage in 2010. After two years as Deputy Head of the Market Risk Department, Mr. Lépy was appointed Head in 2015.
	**Marie Bourdelin – Head of Business Development of ABCA AM** A graduate of NEOMA Business School and holder of the DSCG, Ms. Bourdelin joined ABC Arbitrage in 1999, and was appointed Head of the Financial Analysis Department. In 2010, she also took on the role of "Investor Relations."

Source: Société

Annex 3: Auditors and certification of accounts

Accounting standards	IFRS
Statutory auditors	ERNST & YOUNG (since 1999) DELOITTE & ASSOCIES (since 2009)
Certified accounts	Yes
Key audit points	Tax risks and related contingent liabilities Fair value measurements of financial instruments

Fees (€m)	**Missions**	**2018**	**2019**	**2020**	**2021**	**2022**
ERNST & YOUNG	Statutory audit	68,8	67,5	68,5	88,2	90,3
	Others services	--	--	--	--	--
DELOITTE & ASSOCIES	Statutory audit	68,8	67,5	68,5	103,5	90,3
	Others services	--	--	--	--	--
Total (€m)		137,6	134,9	136,9	191,8	180,6
in % of revenue		**0,34%**	**0,36%**	**0,20%**	**0,30%**	**0,29%**

Source: Company

FINANCIAL DATA

Income Statement	12/20	12/21	12/22	12/23e	12/24e	12/25e
Sales	69.1	64.3	61.4	65.8	69.2	72.5
Changes (%)	85.5	-6.9	-4.5	7.1	5.2	4.7
Gross profit	69.1	64.3	61.4	65.8	69.2	72.5
% of Sales	100.0	100.0	100.0	100.0	100.0	100.0
EBITDA	**37.1**	**37.1**	**30.8**	**32.4**	**33.7**	**34.8**
% of Sales	53.7	57.7	50.2	49.3	48.6	48.0
Current operating profit	**35.5**	**35.4**	**29.2**	**30.9**	**32.1**	**33.2**
% of Sales	51.3	55.0	47.5	46.9	46.4	45.8
Non-recurring items	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	35.5	35.4	29.2	30.9	32.1	33.2
Net financial result	0.0	0.0	0.1	0.0	0.0	0.0
Income Tax	-0.3	-7.3	0.1	-0.2	-0.3	-0.3
Tax rate (%)	1.2	21.4	0.0	1.0	1.0	1.0
Net profit, group share	**35.1**	**28.0**	**29.2**	**30.6**	**31.8**	**32.9**
EPS	0.60	0.48	0.49	0.51	0.53	0.55

Financial Statement	12/20	12/21	12/22	12/23e	12/24e	12/25e
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Tangible and intangible assets	1.5	1.3	1.4	1.6	1.8	2.0
Right of Use	0.9	5.4	4.8	4.2	3.5	2.9
Financial assets	0.6	0.6	0.7	0.7	0.7	0.7
Working capital	143.2	139.6	146.3	148.8	148.8	148.8
Other Assets	0.1	0.3	0.1	0.1	0.1	0.1
Assets	146.4	147.2	153.1	155.3	154.9	154.5
Shareholders equity group	154.0	160.0	161.7	167.8	174.3	180.8
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
LT & ST provisions and others	0.0	0.0	0.0	0.0	0.0	0.0
Net debt	-7.6	-12.9	-8.5	-12.6	-19.4	-26.3
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	146.4	147.2	153.1	155.3	154.9	154.5
Net debt excl. IFRS 16	-8.8	-18.3	-14.2	-18.5	-25.7	-32.8
Gearing net	-0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Leverage	-0.2	-0.3	-0.3	-0.4	-0.6	-0.8

Cash flow statement	12/20	12/21	12/22	12/23e	12/24e	12/25e
CF after elimination of net borrowing costs and taxes	37.0	30.4	31.1	32.2	33.4	34.5
ΔWCR	-12.7	3.6	-6.6	-2.5	0.0	0.0
Operating cash flow	24.3	34.0	24.4	29.6	33.4	34.5
Net capex	-1.0	-0.7	-0.9	-0.9	-0.9	-0.9
FCF	23.3	33.3	23.5	28.8	32.5	33.6
Acquisitions/Disposals of subsidiaries	0.0	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0	0.0
Change in borrowings	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	-19.2	-25.2	-23.7	-24.4	-25.4	-26.4
Repayment of leasing debt	-1.1	-1.0	0.0	0.0	0.0	0.0
Equity Transaction	-2.0	2.3	-3.8	0.0	0.0	0.0
Change in net cash over the year	1.0	9.5	-4.0	4.3	7.1	7.2

ROA (%)	20.3%	15.1%	15.6%	15.9%	16.0%	15.9%
ROE (%)	22.8%	17.5%	18.0%	18.2%	18.3%	18.2%
ROCE (%)	19.4%	19.2%	15.2%	15.9%	16.6%	17.2%

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Analyst certifications

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This Report may mention evaluation methods defined as follows:
1. DCF method: discounting of future cash flows generated by the company's operations. Cash flows are determined by the analyst's financial forecasts and models. The discount rate used corresponds to the weighted average cost of capital, which is defined as the weighted average cost of the company's debt and the theoretical cost of its equity as estimated by the analyst.
2. Comparable method: application of market valuation multiples or those observed in recent transactions. These multiples can be used as references and applied to the company's financial aggregates to deduce its valuation. The sample is selected by the analyst based on the characteristics of the company (size, growth, profitability, etc.). The analyst may also apply a premium/discount depending on his perception of the company's characteristics.
3. Assets and liabilities method: estimate of the value of equity capital based on revalued assets adjusted for the value of the debt.
4. Discounted dividend method: discounting of estimated future dividend flows. The discount rate used is generally the cost of capital.
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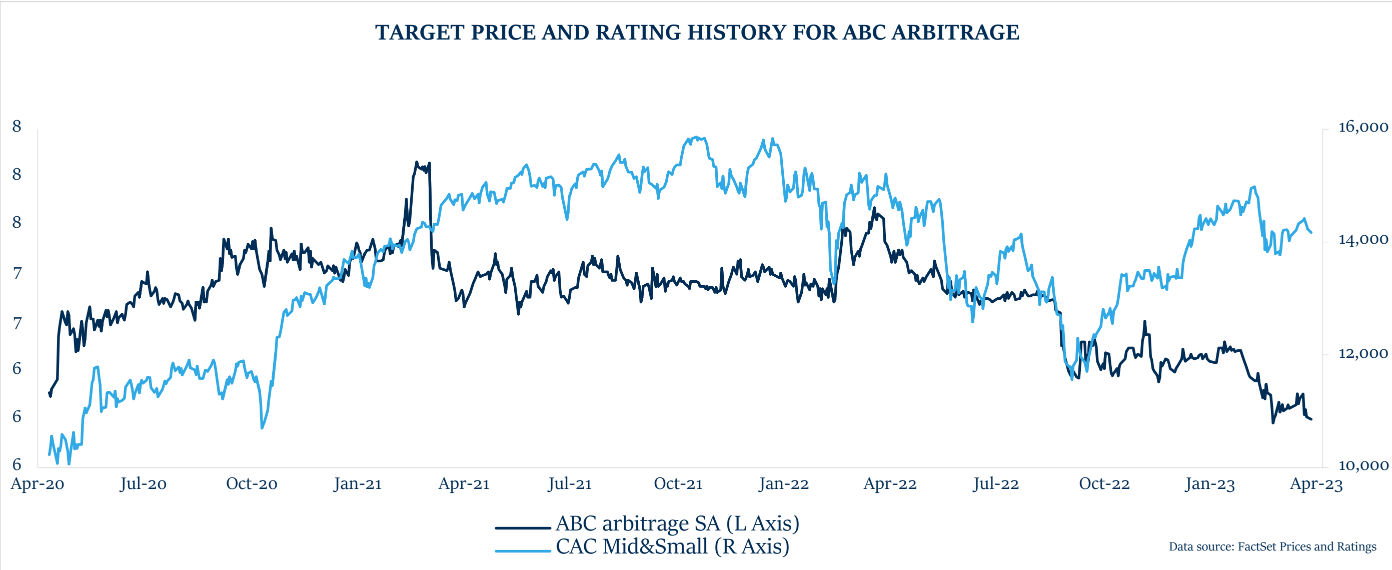
G. Midcap and the Issuer have agreed to the provision by the former to the latter of a service for the production and distribution of the investment recommendation on the said Issuer: ABC arbitrage SA

History of investment rating and target price – ABC arbitrage SA



Distribution of Investment Ratings

Rating	Recommendation Universe*	Portion of these provided with investment banking services**
Buy	84%	64%
Hold	15%	41%
Sell	1%	0%
Under review	1%	0%

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