

## Deal Terms

1 NXG LN = 500p in cash + 0.0444 CME

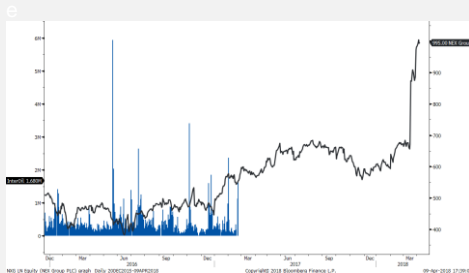
### Target: NEX Group Plc.

Country	Britain
Bloomberg	NXG LN
Sector	Financial technology
Share price (GBP)	994.00
Market cap (£m)	3,780
Free float (%)	~82

### Acquirer: CME Group Inc.

Country	U.S.
Bloomberg	CME
Sector	Exchange
Share price (\$)	160.57
Market cap (\$m)	54,679
Free float (%)	~98

### NXG LN share price



## Status

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## NEX Group Plc. (NXG LN) / CME Group Inc. (CME) SCHEME OF ARRANGEMENT

### Antitrust

We note that the proposed transaction requires antitrust approvals in the U.S. and the UK. **As per our product market definition, we believe that antitrust regulators might investigate the following:**

- **Firstly, we note that there is limited product overlap between the two companies - the two companies directly compete in FX spot market:**
  - We ultimately do not expect significant antitrust issues around the FX markets:
    - Considering the FX spot market, we note that NEX's EBS platform is one of the largest players – NEX's EBS platform had a daily volume of \$84 billion (as at H1 2016/17); while its competitors include Thomson Reuters (having a ~\$110 billion daily spot trading volume as at Jan 2016), Hotspot/CBOE (having a ~\$26 billion daily spot trading volume as at Jan 2016), FastMatch/Euronext (having a ~\$9 billion daily spot trading volume as at Jan 2016).
    - We note that CME announced in September 2017 that it entered the FX spot market.
    - The overall FX market (incl. the futures market) worth approximately \$5.3 trillion a day – we note that companies make only a small slice of the overall FX market – is dominated by Thomson Reuters, which had an average FX daily trading volume of more than \$400 billion as at January 2018, while NEX's overall FX average trading volume did not surpass \$100 billion (as at latest data).
- **Secondly, we note that the proposed deal would concentrate trading for U.S. Treasuries:**
  - According to Greenwich Associates, currently BrokerTec dominates the electronic Treasuries business among interdealer brokers, with a market share of around 80 per cent. At the same time, CME has a near-monopoly position in U.S. Treasury futures.
    - As per precedent merger cases, we note that i) cash instruments, ii) derivatives are not likely to be viewed as part of same product market.
    - Following that, we believe that there could be some investigation into non-horizontal effects of the proposed deal. However, we believe that companies are likely to argue that the proposed deal is likely to enable for efficiencies (if cash and derivatives are organized under one entity, it might enable for some saving for major banks which might be required to set aside less collateral).
- **Thirdly, we believe that antitrust authorities might be concerned that CME might intend to introduce "closed" model meaning that it does not allow customers to mix-and-match services it provides with services from competing providers.**
  - We note that CME Group operates CME Clearing, one of the world's leading central counterparty clearing providers. Therefore, **antitrust authorities might be concerned that CME might want to replace third parties that currently does clearing.**
    - As per the M&A call, CME representatives stated that "CME Group is committed to maintaining and further strengthening the valued relationships NEX has with its customers and trusted partners, including other exchanges and clearinghouses. We recognize that these relationships have supported the development and growth of NEX's offerings and they will continue to do so. We are not looking to change this model."
    - In connection to that, we note that it cannot be ruled out that some behavioral remedies might be required.

### Shareholder vote

NXG shareholder approval is required by a majority in number representing not less than 75 per cent in value of the NEX Shareholders in each case present, entitled to vote and voting, either in person or by proxy, at the Court Meeting.

- We note NEX Directors have irrevocably undertaken to vote in favor the resolutions relating to the Scheme in respect of their entire beneficial holdings representing approximately 16.75 per cent of the issued share capital of NEX (as at 28 March 2018).
  - We note that irrevocables cease to be binding if any competing offer for the issued and to be issued ordinary share capital of NEX is made which is declared wholly unconditional (if implemented by way of a takeover offer) or otherwise becomes effective:
    - In terms of potential of counter-bidders, we believe that interested parties might include LSE, Deutsche Boerse, ICE, and potentially others. However, we believe that the offer price is full and it might be difficult to justify a higher price; although, it might not be fully ruled out. Also, we note that some counter-bidders might face also other constraints.

One might set up a short-term trade on a counter-bid scenario. If there is no counter-bid, we would increase our position on a spread-widening towards regulatory approvals (we estimate deal closing by end of October 2018 assuming a 6-month regulatory review process).

## Key terms of the merger

### Transaction Details

Announcement Date	<a href="#">March 29, 2018</a>
Offer terms	<p>1 NXG LN = 500p in cash + 0.0444 CME</p> <ul style="list-style-type: none"> <li>■ Under the terms of the Acquisition, NEX Shareholders will be entitled to receive for each NEX share: 500 pence in cash and 0.0444 new CME Shares. <ul style="list-style-type: none"> <li>○ Based on CME's closing share price of US\$158.84 at 5.00 p.m. and the exchange rate of US\$1.4101:£1, at 4.00 p.m. (London time) on 28 March 2018, <b>the terms of the Acquisition value each NEX Share at 1,000 pence.</b></li> </ul> </li> </ul>
% owned by NXG stockholders	<5% (cos. est.)
Deal Size	~ <b>GBP3.9b</b> (~\$5.4 billion)
Offer structure	<b>Scheme of Arrangement</b>
Board Recommendations	<p>Yes</p> <ul style="list-style-type: none"> <li>■ NEX Directors intend to recommend unanimously that NEX Shareholders vote in favor of the resolutions relating to the Scheme at the Meetings.</li> </ul>
Voting Agreement	<p>Yes</p> <ul style="list-style-type: none"> <li>■ <b>NEX Directors have irrevocably undertaken to vote in favor the resolutions relating to the Scheme in respect of their entire beneficial holdings</b> of 63,590,827 NEX Shares, in aggregate, <b>representing approximately 16.75 per cent of the issued share capital of NEX</b> (as at 28 March 2018). <ul style="list-style-type: none"> <li>○ Bidco has also received irrevocable undertakings from Michael Spencer, Samantha Wren and Ken Pigaga, also NEX Directors, to vote or procure votes in favor of the resolutions relating to the Scheme at the Meetings in respect of any NEX Shares received by them prior to the Voting Record Time as a result of their options and awards over NEX Shares.</li> </ul> </li> <li>■ <b>The Irrevocable Undertakings will cease to be binding if:</b> <ul style="list-style-type: none"> <li>○ The Acquisition is implemented by way of an Offer and offer document is not sent to NEX Shareholders within the permitted period under the Code or as otherwise agreed with the Panel; or</li> <li>○ The Scheme lapses or is withdrawn in accordance with its terms and CME or Bidco publicly confirms that it does not intend to proceed with the Acquisition or to implement the Acquisition by way of an Offer or otherwise; or</li> <li>○ <b>any competing offer for the issued and to be issued ordinary share capital of NEX is made which is declared wholly unconditional</b> (if implemented by way of a takeover offer) or otherwise becomes effective; or</li> <li>○ the Scheme has not become effective by 6.00 p.m. (London time) on the Long Stop Date; <ul style="list-style-type: none"> <li>○ <b>and will remain binding if a higher competing offer is made for NEX.</b></li> </ul> </li> </ul> </li> </ul>
NXG LN Inc. Offer announcement	<p><b>Britain</b></p> <p>Click <a href="#">here</a> for offer announcement</p>
Synergies	<p>The transaction is expected to be immediately accretive to adjusted cash earnings per share, with <b>run-rate cost synergies of \$200 million annually by the end of 2021</b>, assuming deal completion in 2018.</p> <ul style="list-style-type: none"> <li>■ The CME Board expects the Acquisition to generate run rate cost synergies of \$200 million, which are anticipated to be fully achieved by the end of 2021 (assuming completion in 2018). <ul style="list-style-type: none"> <li>○ The Combined Company expects to create significant value through centralization and consolidation of operational functions, IT systems migration and consolidation, and removal of duplicate selling, general and administrative expenses. <ul style="list-style-type: none"> <li>○ The total expected run rate cost synergies of \$200 million per annum are equivalent to approximately 12.5% of the Combined Company's 2017 adjusted operating costs of approximately \$1.6 billion. It is expected that synergy and savings realization will take place progressively, whereby approximately 25% of the run rate cost synergies would be realized by the end of year 1, rising to approximately 55% by the end of year 2 and 100% by the end of year 3.</li> <li>○ In order to realize the total synergies, CME expects to incur on-time cash costs of \$285 million.</li> </ul> </li> </ul> </li> <li>■ In addition to expected cost synergies, there are anticipated to be compelling revenue growth opportunities. CME will be able to market its existing product offering to NEX's attractive customer base whilst CME will also benefit from the opportunity to cross-sell NEX products.</li> </ul>

### Expected deal closing

The proposed transaction is expected to close, pending approvals by regulators and NEX shareholders, **in the second half of 2018**

### Deal premium

The terms of the Acquisition represent a premium of approximately:

- 49.2 per cent to the Closing Price per NEX Share of 670.5 pence on 15 March 2018 (being the date the Offer Period commenced);
- 49.3 per cent to the volume weighted average Closing Price per NEX Share of 670.1 pence for the one month ended on 15 March 2018 (being the date the Offer Period commenced); and
- 57.7 per cent to the volume weighted average Closing Price per NEX Share of 634.3 pence for the three months ended on 15 March 2018 (being the date the Offer Period commenced).

**Dividend**

- In addition to the offer consideration, the boards of CME and NEX have agreed that **NEX Shareholders will be entitled to receive a final dividend for NEX in respect of the year ending 31 March 2018, such dividend to not exceed an amount of 7.65 pence per NEX Share.**
- **In the event that the Effective Dates occurs prior to the date of NEX's 2018 annual general meeting** (currently expected to be in July 2018), **the NEX Board intends to declare the NEX Final Dividend as a second interim dividend for the relevant period.** In addition, if prior to the Effective Date, CME declares a dividend other than in respect of its regular four quarterly dividends (a "CME Special Dividend"), the NEX will also be entitled to declare and pay, by way of a special dividend, an amount per NEX Share equal to 0.0444 times the CME Special Dividend, multiplied by the exchange rate for the conversion of U.S. dollars into pounds sterling.
  - Save for the Permitted Divides, if any dividend or other distribution is authorized, declared, made or paid in respect of NEX Shares on or after the date of the Announcement, each of CME and Bidco reserves the right to reduce the offer consideration the by aggregate amount of such dividend of other distribution.
- We note that **CME regularly pays quarterly dividends** (ex-dates in March/Jun/Sep/Dec).

**Corporate Governance**

- Following completion of the acquisition, NEX CEO Michael Spencer will join the CME Group Board of Directors. He will remain with the combined company as a Special Adviser, working to drive the integration and continued evolution of the NEX businesses. He also will be ambassador for the combined company, working with key clients, regulators and officials in EMEA and Asia.
  - NEX's HQ will be combined with CME's, and the Combined Company's HQ will be located at CME's head office in Chicago. The Combined Company will also maintain its European HQ in London.

**NXG capitalization**

- **NXG LN Equity** There were 379,735,432 outstanding shares, as at March 29, 2018.
- **NXG LN Debt** As at 1H18, the co. had a net debt position of ~\$293 million (Bloomberg est.).

**Timetable**

■ <b>Confidentiality Agreement</b>	15 February 2018
■ <b>Deal Announcement</b>	29 March 2018
■ <b><u>Co-operation Agreement</u></b>	29 March 2018
■ <b>Regulatory filings to be made</b> (CBR est.)	by end of April 2018
■ <b>Scheme document to be post</b> (28 days)	by 27 April 2018
■ <b>Shareholder vote</b>	May 2018
■ <b>Regulatory approvals in place</b> (CBR est.)	by end of October 2018
■ <b>Long Stop Date</b>	31 March 2019

**Financing**

- CME and Bidco intend to finance the cash consideration payable by Bidco to Scheme Shareholders from existing cash on balance sheet and third party debt.
- CME has entered into a bridge facility agreement (the "Facility Agreement") with, among others, J.P. Morgan Chase Bank N.A., and Barclays, the proceeds of which will be used to fund the cash consideration payable by Bidco to Scheme Shareholders in connection with the Acquisition.
    - CME has secured the fully committed bridge financing from J.P. Morgan Chase Bank N.A., as Joint Lead Arranger and Administrative Agent, and Barclays, as Joint Lead Arranger and Syndication Agent. Such term loan facility will mature on the date that is 364 days from the initial borrowing date thereunder, will be unsecured and will have terms similar to the existing revolving credit facility among CME, the lenders party thereto and Bank of America, N.A. as administrative agent.

**Key conditions to the merger**

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>■ <b>Scheme Approval</b></li> <li>■ <b>Court Approval</b></li> <li>■ <b>Competition Law and Regulatory Approvals</b></li> </ul> | <ul style="list-style-type: none"> <li>■ <b>Yes</b> <ul style="list-style-type: none"> <li>○ <b>NEX:</b> approval by a majority in number representing not less than 75 per cent. in value of the NEX Shareholders in each case present, entitled to vote and voting, either in person or by proxy, at the Court Meeting.</li> <li>○ All resolutions necessary to approve and implement the Scheme being duly passed by the requisite majority or majorities at the General Meeting of at any adjournment of that meeting.</li> </ul> </li> <li>■ <b>Yes</b></li> <li>■ <b>Yes</b> <ul style="list-style-type: none"> <li>○ <b>U.S. HSR,</b></li> </ul> </li> </ul> |
|--|---|

- **CMA:** the CMA deciding: i) not to make a Phase 2 CMA Reference; or ii) where the CMA has made a Phase 2 CMA Reference, confirmation having been received by CME from the CMA that: A) the Acquisition may proceed without any undertakings, conditions or orders; or B) the Acquisition may proceed subject to the giving of such undertakings by, or the imposition of such conditions or orders on, CME or NEX, on terms reasonably satisfactory to CEM, and all necessary approvals or consents for clearance having been provided by the CMA
  - **FCA,**
  - **Hong Kong Monetary Authority,**
  - **Securities and Futures Commission of Hong Kong,**
  - **BaFin,**
  - **Swedish Financial Supervisory Authority,**
  - **SEC,**
  - **FINRA,**
  - **CFTC.**
- Nasdaq listing ■ Yes
  - Confirmation having been received by CME that the New CME Shares have been approved for listing.
- No injunctions ■ Yes
- No material transactions ■ Yes
- No adverse change, litigation or regulatory enquiry ■ Yes
- No discovery of certain matters ■ Yes
- Anti-corruption, sanctions, and criminal property ■ Yes

**Antitrust related clauses**

- Jurisdictions ■ U.S., UK, Hong Kong, Germany, Italy, Sweden
- Divestiture obligation ■ The Scheme lapses if the EU decides to review the transaction before the shareholder meetings: “The Acquisition will lapse if the Scheme or Offer or any matter arising from or relating to the Acquisition is referred from the CMA to the European Commission under Article 22(1) of Council Regulation (EC) 139/2004 before the date of the Meetings.”
  - Yes, subject to MAE
    - As per our understanding, neither CME nor Bidco will seek to invoke any Regulatory Condition so as to cause the Transaction not to proceed, to lapse or to be withdrawn unless the circumstances which give rise to the right to invoke the Regulatory Condition are of material significance to CME and/or Bidco in the context of the Transaction in accordance with the Code as applied by the Panel.
- Litigation obligation ■ No.
- Reverse break fee (regulatory) ■ N/A

**Governing Law**

The Scheme will be governed by the laws of England and Wales.

**Key NXG LN shareholders**

Key shareholders	%
Schroders PLC	9.92
Incap Finance BV	9.18
Massachusetts Mutual Life Ins	7.22
Incap Overseas BV	7.02
Marathon Asset Management LP	5.31
Silvester Intl Investors LP	4.97
Blackrock	3.40
Artemis Investment Mgmt Ltd.	3.28
Liontrust Asset Mgmt Plc	3.14
<b>Others</b>	<b>46.56</b>

Source: Bloomberg

## Company descriptions & rationale for the merger

### NEX GROUP PLC. DESCRIPTION

NEX Group Plc. is a financial technology company at the centre of the global financial markets.

- NEX provides electronic trade execution platforms for the OTC markets and delivers transaction lifecycle management and information services to help its clients optimize their capital, mitigate their risk and reduce their operational costs.
  - NEX partners with emerging technology companies to bring greater efficiency, transparency and scale to the world's capital markets.
- NEX is a global business, serving clients in more than 50 countries, and employing almost 2,000 people, with key hubs in the U.K., U.S., Israel, Sweden and Singapore. NEX is organized into three main business lines: NEX Markets, NEX Optimization and NEX Opportunities.

#### Revenue breakdown

FY17	\$m	%
<b>Total revenue</b>	<b>543.0</b>	<b>100.0%</b>
NEX Markets	313.0	57.6%
NEX Optimisation	240.0	44.2%
NEX Group and Other	7.0	1.3%

Source: CBR and Bloomberg

- **NEX Markets:** provides electronic execution platforms and solutions in FX and fixed income products. The BrokerTec and EBS platforms offer efficient and effective trading solutions across a range of instruments including spot FX, FX forwards, U.S. Treasuries, European government bonds and E.U. and U.S. repo. These electronic platforms are built on its bespoke networks connecting participants in financial markets.
  - NEX Markets delivers solutions to the widest range of financial and professional institutions, including banks, hedge funds, asset managers, professional trading firms and corporations around the world
    - **Central Limit Order Books (anonymous)**
      - BrokerTec: USTs, U.S. Repo, EGBs, E.U. Repo, Gilts
      - EBS Market: Spot FX, NDFs, precious metals
      - EBS Hedge: Spot FX
      - Clients: Global banks, regional banks, professional trading firms, hedge funds, central banks
    - **Relationship-based Platforms (disclosed)**
      - EBS Direct: Spot, forwards, NDFs, precious metals, options
      - EBS Select: Spot FX, NDFs, precious metals
      - BrokerTec Direct: UST actives
      - Clients: Primary dealers, global banks, regional banks, professional trading firms, hedge funds
    - **Execution Management System (disclosed)**
      - EBS Institutional : Spot, forwards, NDFs
      - Clients: Asset managers
    - **Cash and FX Liquidity Management Centre (disclosed)**
      - NEX Treasury: MMF, Spot FX, forwards,
      - Clients: Treasurers.
- **NEX Optimization:** is dedicated to mitigating risk, increasing efficiency, reducing costs and streamlining increasingly complex processes for its clients and offers the opportunity to optimize both regulatory and financial resources. NEX Optimization operates a number of distinct services across the transaction lifecycle:
  - **Traiana** enables global market participants to automate cross-asset risk management and pre/post-trade processing, for both listed and over the counter transactions
  - **TriOptima** is a provider of critical post trade infrastructure and risk management services for the OTC derivatives market
  - **NEX Data** delivers pricing, analytics, index and regulatory reporting solutions to a global and diverse client base providing innovative insights in pre and post trade services that enable confident trading decisions and market analysis
  - **ENSO** is the leading treasury and portfolio finance solution for the Hedge Fund industry with over \$1 Trillion in AUA and creates a consolidation point for our client's treasury activities
  - **NEX Regulatory Reporting** platform, lowers costs, eliminates operational risk and provides regulatory reporting effectiveness
  - **RESET** is a provider of risk mitigation **services** that manage basis risk in trading portfolios for the derivatives marketplace
- **NEX Opportunities:** invests in financial technology companies that are transforming markets. NEX partners with pioneers who are bringing new technologies, sciences, business models, and talent to capital markets technology.
  - Investee companies include:
    - Duco,
    - OpenGamma,
    - RSRCHXchange,
    - Axoni,
    - Cloud9,
    - OpenFin,

- Acadiasoft,
- Digital Asset Holdings.

NEX was formed following the disposal of ICAP's global hybrid voice broking and information business to Tullett Prebon plc in December 2016.

- The ICAP name was sold to Tullett Prebon plc and the remaining business was rebranded NEX Group plc. Intercapital plc was founded by Michael Spencer in 1986 as Inter Capital Brokers Limited ("Inter Capital"). Exco plc acquired the wholesale broking operations of Inter Capital by means of a reverse takeover in October 1998 and changed its name to Intercapital plc. In 1999, the company merged with Garban Group to create Garban-Intercapital plc, the largest inter-dealer broker in the world with approximately 2,000 employees across 26 offices. GarbanIntercapital plc renamed itself ICAP plc in 2001. The ICAP group continued to grow and develop over the next 15 years, driven by acquisitions in the electronic markets and post-trade businesses, including BrokerTec in 2003, EBS in 2006, Reset in 2007, TriOptima in 2010 and Abide Financial and ENSO Financial in 2016.

## CME GROUP INC. DESCRIPTION

**CME Group Inc.** serves the risk management and investment needs of customers around the globe. Through its exchanges, CME Group offers the widest range of global benchmark products across all major asset classes, including futures and options based on interest rates, equity indexes, foreign exchange, energy, agricultural products and metals. CME provides electronic trading globally on its CME Globex platform

### Revenue breakdown

FY17	\$m	%
<b>Total revenue</b>	<b>3,644.7</b>	<b>100.0%</b>
Clearing and transaction fees	3,098.6	85.0%
Market data and information services	391.8	10.7%
Access and communication fees	100.8	2.8%
Other	53.5	1.5%

Source: CBR and Bloomberg

- **Clearing and transaction fees:** a majority of CME's revenue is derived from clearing and transaction fees, which include electronic trading fees, surcharges for privately negotiated transactions and other volume-related charges for exchange-traded and cleared swaps contracts.
  - CME's exchanges - CME, CBOT, NYMEX and COMEX - offer the widest range of global benchmark products across all major asset classes, including futures and options based on interest rates, equity indexes, foreign exchange, energy, agricultural commodities, metals, weather and real estate.
    - In 2007, CME Holdings merged with CBOT Holdings, Inc. and was renamed CME Group. In connection with the merger, it acquired the CBOT exchange.
      - CBOT is a leading marketplace for trading agricultural and U.S. Treasury futures as well as options on futures.
    - In 2008, it merged with NYMEX Holdings, Inc. and acquired NYMEX and COMEX.
      - On NYMEX, customers primarily trade energy futures and options contracts, including contracts for crude oil, natural gas, heating oil and gasoline.
      - On COMEX, customers trade metal futures and options contracts, including contracts for gold, silver and copper.
    - Through its CME Globex electronic trading platform, users worldwide are able to access the broadest array of the most liquid financial derivatives markets available anywhere.
      - Additionally, CME Group operates CME Clearing, one of the world's leading central counterparty clearing providers.
  - As clearing and transaction fees are assessed on a per-contract or notional value basis, company states that revenues and profitability fluctuate with changes in contract volume.
    - While volume has the most significant impact on co.'s clearing and transaction fees revenue, there are four other factors that also influence this source of revenue: i) rate structure, ii) product mix, iii) venue, and iv) the percentage of trades executed by customers who are members compared with non-member customers.
- **Market data and information services:** CME receives market data and information services revenue from the dissemination of its market data to subscribers. Subscribers can obtain access to the market data services either directly or through third party distributors.
  - CME's service offerings include access to real-time, delayed and end-of-day quotations, trade and summary market data for its products and other data sources.
    - Users of basic service receive real-time quotes and pay a flat monthly fee for each screen, or device, displaying our market data. Alternatively, customers can subscribe to market data provided on a limited group of products. The fee for this service is also a flat rate per month.
- **Access and communication fees:** are charges to members and clearing firms that utilize our various telecommunications networks and communications services.
  - Communication services include its co-location program as well as the connectivity charges to customers of the CME Globex platform. Access fee revenue varies depending on the type of connection provided to customers.

## Deal rationale

The CME Board believes there is a compelling strategic and financial rationale for undertaking the Acquisition:

- **Unique opportunity to create a leading, client-centric, global markets company, generating significant efficiencies across futures, cash and OTC products** at a time when market participants are seeking to lower their cost of trading and better manage risk
  - The Acquisition combines CME, the most diverse derivatives marketplace, with NEX's electronic FX and fixed income cash execution platforms, EBS and BrokerTec, and OTC post-trade services.
  - EBS is a leading electronic trading platform within the approximately \$5 trillion cash FX market, a market which is expected to benefit from increased volatility and rising interest rate differentials as the global economy moves beyond financial crisis era monetary policy. In addition, the growth of Asian currencies within the world financial system and increased electronification are also expected to increase the average cash FX volume traded
  - BrokerTec is a leading electronic trading platform for cash fixed income products, particularly U.S. Treasuries.
  - The U.S. Treasuries market is positioned to benefit from a favourable macro environment with the ongoing unwind of the U.S. Federal Reserve balance sheet and more normalized monetary policy.
  - The Acquisition is driven in part by CME's desire to acquire both EBS and BrokerTec, given the opportunity to streamline access to these adjacent platforms and CME's listed fixed income and FX derivatives products.
- **Improves offering to customers through the complementary combination of CME's exchange-traded derivative products and NEX's OTC products.**
  - The combination will enable CME to deliver significant value to customers across the combined set of CME and NEX businesses through:
    - Streamlined technology and a consolidated operational infrastructure across marketplaces and post-trade services, at a time when customers are seeking cost efficiencies and the reduction of operational complexity
    - Valuable new efficiencies and risk mitigation services through expansion and improved integration of clearing and post-trade services across listed, OTC cleared and bilateral OTC marketplaces, to address the continuing impact of regulatory capital costs, including uncleared margin rules.
    - Expanded and streamlined market data offerings based on the combination of data offerings from CME and NEX, enabling better data-driven insights for customers to manage risks and evaluate trading decisions.
- **Expands CME's international footprint and client base in EMEA and APAC.**

## Deal risks

### REGULATORY REVIEW

#### Antitrust review

As per precedent merger cases (e.g. Deutsche Borse/LSE, 2016), assessment of mergers between operators of financial markets infrastructures is performed against a background of the specific features of these markets, while these markets are characterized by a two-sided "matrix" structure.

- Following precedent transactions, we believe that the **financial instruments relevant for the assessment of the NEX Group/CME transaction can be grouped into three broad categories, namely i) cash instruments, ii) repurchasing agreements ("repos") and iii) derivatives.**
  - i) cash instruments are transferable securities that are sold and delivered against a payment in cash.
    - Cash instruments fall into two broad categories, equities and fixed income instruments.
  - ii) repurchasing agreements or "repos" are contracts between two counterparties that stipulate the selling and re-purchasing of a specific asset (usually bonds) at a future date.
  - iii) derivatives are financial products designed to transfer various types of economic risk between trading parties. The risk transferred can be the change in the price of an asset, a basket of assets, the value of a financial indicator, the level of interest rates or any other variable.
- **The second dimension of the financial infrastructure markets matrix defines financial instruments value chain for each financial instrument: i) listing, ii) trading, iii) clearing and settlement.**
  - i) listing: listing in the narrow sense refers to the practice of admitting a particular security to trading on exchanges or similar trading venues at the request of the issuer in the context of raising capital and thus enabling the security to be publicly traded.
  - ii) trading: is the expression of a mutual commitment by two parties to enter into a transaction involving financial instruments, i.e. entering into an agreement to buy or sell cash securities, entering into a repo or a derivatives contract.
    - The trading environment can vary greatly depending on the instrument in question and the applicable regulation.
      - At one end of the spectrum, trading can occur on regulated exchanges and on a multilateral basis, i.e. with multiple buying and selling interests interacting on the platform. At the other end the transaction can be negotiated privately and bilaterally without transparency, which is referred to as OTC trading.
  - iii) clearing: refers to all activities in the trading cycle between the commitment to enter into a transaction (trade execution) and the fulfilment of that commitment (settlement).

- The main function of clearing is to ensure that the obligations resulting from the trade are honoured by the transacting parties. In other words the role of clearing is to manage counterparty risk, i.e. the risk that one of the parties defaults on its commitment.
  - If the clearing service is performed by a neutral third party, this third party is referred to as a central counterparty ("CCP") or clearing house and the activity is referred to as central clearing. In central clearing, once a trade has been executed by two counterparties, the trade can be handed over to a clearing house, which steps between the two original counterparties and assumes the legal counterparty risk for the trade.
- Settlement is the final stage of the trading life cycle in which a security traded by a seller is delivered to the purchaser in exchange for payment.
- In connection to that, we note that some companies operate a fully integrated "closed" model meaning that, in most instances, it does not allow customers to mix-and-match services it provides with services from competing providers. By contrast, there are companies that operate a model that can be generally considered as an "open" model whereby it allows the creation of products that combine services from different providers (e.g. combining a trading services of one company with other services, such as settlement services provided by a third party).

### CBR view

We note that the proposed transaction requires antitrust approvals in the U.S. and the UK. **As per our product market definition (in previous paragraphs), we believe that there are following areas that antitrust regulators might investigate:**

- **Firstly, we note that there is limited product overlap between the two companies - the two companies directly compete in FX spot market:**
  - Based on available market share data, we ultimately do not expect significant antitrust issues around the FX markets:
    - Considering the FX spot market, we note that NEX's EBS platform is one of the largest players – NEX's EBS platform had a daily volume of \$84 billion (as at H1 2016/17); while its competitors include Thomson Reuters (having a ~\$110 billion daily spot trading volume as at Jan 2016), Hotspot/CBOE (having a ~\$26 billion daily spot trading volume as at Jan 2016), FastMatch/Euronext (having a ~\$9 billion daily spot trading volume as at Jan 2016).
      - We note that CME announced in September 2017 that it entered FX spot market.
    - If we consider the overall FX market (incl. the futures market) that is worth approximately \$5.3 trillion a day – we note that companies make only a small slice of the overall FX market – market is dominated by Thomson Reuters, which had an average FX daily trading volume of more than \$400 billion as at January 2018, while NEX's overall FX average trading volume did not surpass \$100 billion (as at latest data).
- **Secondly, we note that the proposed transaction would concentrate trading for U.S. Treasuries:**
  - According to Greenwich Associates, currently BrokerTec dominates the electronic Treasuries business among interdealer brokers, with a market share of around 80 per cent. At the same time, CME has a near-monopoly position in U.S. Treasury futures.
    - As per precedent merger cases, we note that i) cash instruments, ii) derivatives are not likely to be viewed as part of same product market.
      - Following that, we believe that there could be some investigation into non-horizontal effects of the proposed deal. However, we believe that companies are likely to argue that the proposed deal is likely to enable for efficiencies (if cash and derivatives are organized under one entity, it might enable for some saving for major banks which might be required to set aside less collateral).
- **Thirdly, we believe that antitrust authorities might be concerned that CME might intend to introduce "closed" model meaning that, it does not allow customers to mix-and-match services it provides with services from competing providers.**
  - We note that CME Group operates CME Clearing, one of the world's leading central counterparty clearing providers. Therefore, **antitrust authorities might be concerned that CME might want to replace third parties that currently do clearing.**
    - As per the M&A call, CME representatives stated that "CME Group is committed to maintaining and further strengthening the valued relationships NEX has with its customers and trusted partners, including other exchanges and clearinghouses. We recognize that these relationships have supported the development and growth of NEX's offerings and they will continue to do so. We are not looking to change this model."
      - In connection to that, we note that it cannot be ruled out that some behavioral remedies might be required.
- Ultimately, we believe that remedies are unlikely to be required. In terms of the CMA review, if companies believe that remedies might be required, then they might intend to have a long pre-notification and have a remedy package structured in Phase 1.

### NXG SHAREHOLDER VOTE

NXG shareholder vote, approval is required by a majority in number representing not less than 75 per cent in value of the NEX Shareholders in each case present, entitled to vote and voting, either in person or by proxy, at the Court Meeting.

- We note NEX Directors have irrevocably undertaken to vote in favor the resolutions relating to the Scheme in respect of their entire beneficial holdings representing approximately 16.75 per cent of the issued share capital of NEX (as at 28 March 2018).
  - We note that the Irrevocable Undertakings cease to be binding if in certain circumstances.
    - Unless there is a competing offer, we believe that shareholders will vote in favor of the proposed transaction.



- We note that the offer price represents 49.2 per cent premium to the Closing Price per NEX Share on 15 March 2018.

**Counter-bid**

- We note that irrevocable cease to be binding if any competing offer for the issued and to be issued ordinary share capital of NEX is made which is declared wholly unconditional (if implemented by way of a takeover offer) or otherwise becomes effective:
  - In terms of potential of counter-bidders, we believe that interested parties might include LSE, Deutsche Borse, ICE, and potentially others. However, we believe that the offer price is full and it might be difficult to justify a higher price; although, it might not be fully ruled out. Also, we note that some counter-bidders might face also other constraints.
    - **LSE:** the company is currently in a transition period (without a permanent boss), which might be an obstacle to entering a bid for the co.

**Valuation**

**ROIC MODEL**

In our base case scenario, we assume the following:

- Bid price at 1,050 pence per share;
- Net debt: as per 1H18;
- BEST Operating Profit for FY1, FY2 and FY3.
- \$200 million annual cost synergies p.a. (as per cos.’ estimates);
- Tax rate of 30%;
- WACC of 7.0% – 7.5%.

**ROIC sensitivity tables**

	Bid price (GBP/share)					
	£9.50	£10.00	£10.50	£11.00	£11.50	
<b>2020 Operating Profit (GBPm)</b>	£190.0	7.0%	6.7%	6.4%	6.1%	5.9%
	£210.0	7.4%	7.0%	6.7%	6.4%	6.2%
	£232.0	7.8%	7.4%	7.1%	6.8%	6.5%
	£250.0	8.1%	7.7%	7.4%	7.0%	6.8%
	£270.0	8.4%	8.0%	7.7%	7.4%	7.1%

	Bid price (GBP/share)					
	£9.50	£10.00	£10.50	£11.00	£11.50	
<b>Ann. Cost Syn. (GBPm)</b>	\$100.0	6.0%	5.7%	5.4%	5.2%	5.0%
	\$150.0	6.9%	6.5%	6.2%	6.0%	5.7%
	\$200.0	7.8%	7.4%	7.1%	6.8%	6.5%
	\$250.0	8.7%	8.2%	7.9%	7.5%	7.2%
	\$300.0	9.5%	9.1%	8.7%	8.3%	8.0%

	Bid price (GBP/share)					
	£9.50	£10.00	£10.50	£11.00	£11.50	
<b>Tax rate</b>	20%	8.9%	8.4%	8.1%	7.7%	7.4%
	25%	8.3%	7.9%	7.6%	7.2%	7.0%
	30%	7.8%	7.4%	7.1%	6.8%	6.5%
	35%	7.2%	6.9%	6.6%	6.3%	6.0%
	40%	6.6%	6.3%	6.1%	5.8%	5.6%

Source: CBR, Bloomberg

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