# TP ICAP plc Interim Results

For the six months ended 30 June 2019

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# Nicolas Breteau
CEO

# Agenda

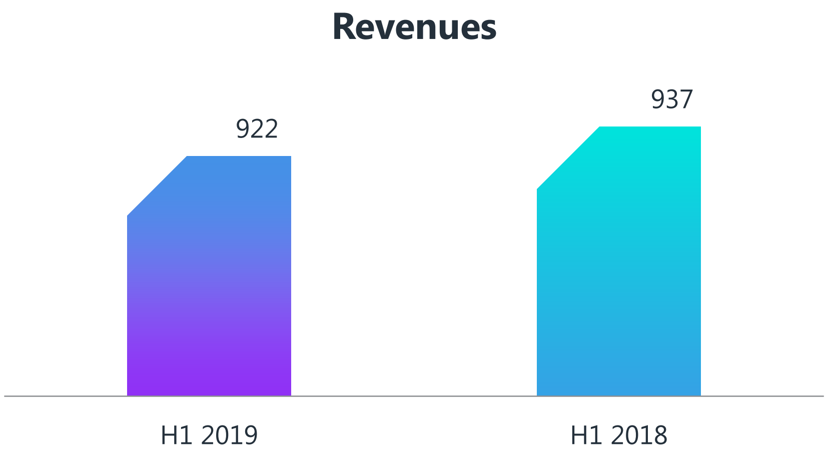
| | |
|---|---|
| **Introduction** | Nicolas Breteau |
| **Key financials** | Robin Stewart |
| **Business division update** | Nicolas Breteau |

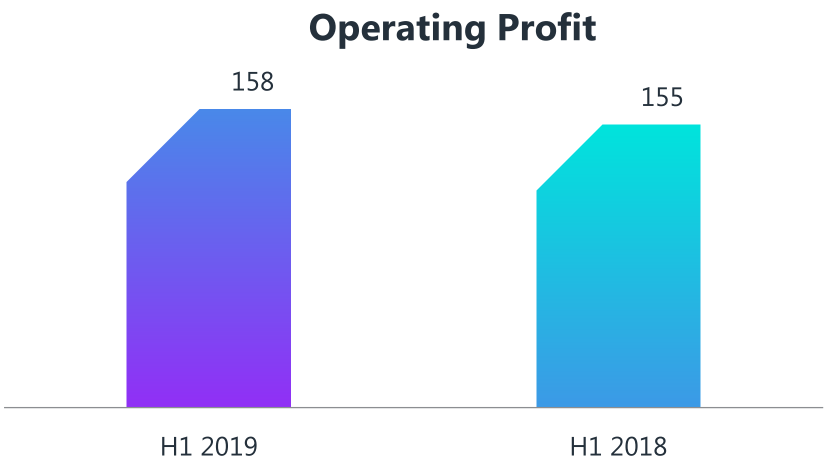
# H1 2019
## Financial highlights

- Revenue £922m
  (H1 2018: £937m*)
- Underlying Operating profit £158m**
  (H1 2018: £155m)
- Underlying Operating margin 17.1%**
  (H1 2018: 17.0%)
- Underlying Profit before tax £134m**
  (H1 2018: £139m)
- Basic Underlying EPS 19.3p**
  (H1 2018: 19.2p)
- Interim Dividend of 5.6p

*Constant currency basis

**includes impact of IFRS 16, H1 2018 does not



# Laying the foundations

- We are now in the last six months of integration
- This work will create an organisation that is agile, efficient and more responsive to client needs
- Immediate priorities:
  - Establish a strong management team
  - Finalise the integration
  - Create risk framework appropriate for the business
  - Prepare for Brexit
- We have made considerable progress on strategic planning for growth and will update the market in the new year

# Immediate priorities
## Strengthen Management and Governance

- Strengthening next layer of management now that the new senior leadership team is in place
- Responsibility for revenue generation lies solely with global business divisions
- New regional CEOs responsible for local regulator relationships, risk framework implementation and support and control functions
- New structure creates strong governance and clear accountability at lower cost

# Immediate priorities
## Integration and Belfast

- On course for £75m of run-rate synergies by the end of 2019 in line with guidance
- Reducing the number of premises we operate from
- Continuing to move support functions to our Belfast shared service centre
- On track to decommissioning 32 of 78 core IT applications and reducing data centres from 15 to 6
- A common IT platform that is agile, scalable and efficient will support the future growth of the business
- Simplifying our legal entity structure will reduce associated costs and streamline liquidity management

# Immediate priorities

## Risk management framework

- Full review of TP ICAP's risk framework started last year; expect to complete implementation of new framework by end of 2019
- Framework is essential for the discharging of responsibilities when the Senior Managers and Certification Regime comes into force
- A robust risk framework is a competitive differentiator with clients and a factor in the assessment of regulatory capital requirements

# Immediate priorities
## Brexit

- 90% of our broking revenues are largely unaffected by Brexit

- Business we do in the EU for EU clients
  - Created new company, TP ICAP Europe, with European branches incorporated to protect business in the event of a Hard Brexit
  - EU venues have received regulatory authorisation and are conducting business

- Business we do for clients in the EU from desks in London
  - Planning to put more front office staff in our EU offices and change workflows

- Plan to relocate iSwap, our electronic rates MTF, to Amsterdam

- Regularly liaise with clients to respond to their evolving plans

# Robin Stewart
## Chief Financial Officer

# H1 2019 income statement

| £m (2018 at reported exchange rates) | H1 2019* | H1 2018 |
|---|---|---|
| **Revenue** | **922** | **910** |
| **Underlying Operating profit** | **158** | **155** |
| **Underlying Operating profit margin** | **17.1%** | **17.0%** |
| Finance income | 3 | 2 |
| Finance costs | (27) | (18) |
| **Underlying Profit before tax** | **134** | **139** |
| Tax | (33) | (36) |
| **Effective tax rate** | **25%** | **26%** |
| Share of JVs and associates less non-controlling interests | 7 | 4 |
| **Underlying earnings** | **108** | **107** |
| Total acquisition, disposal & integration costs and exceptionals | (42) | (94) |
| **Reported earnings** | **66** | **13** |
| *Weighted average basic shares in issue* | *560.0* | *556.3* |
| **Underlying basic EPS** | **19.3p** | **19.2p** |
| **Reported EPS** | **11.8p** | **2.3p** |

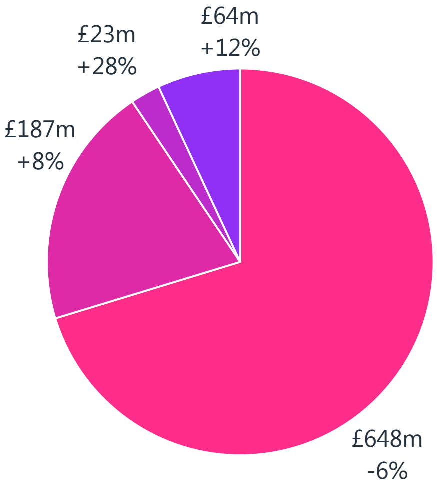
*includes impact of IFRS 16, H1 2018 does not

# Impact of IFRS 16 on the income statement

| £m (2018 at reported exchange rates) | H1 2019 Pre-IFRS 16 | IFRS 16 | H1 2019 Reported | H1 2018 | Change |
|---|---|---|---|---|---|
| **Revenue** | **922** | **-** | **922** | **910** | ***+1%*** |
| Net administrative expenses | (767) | 3 | (764) | (755) | *-1%* |
| Underlying operating profit | 155 | 3 | 158 | 155 | *+2%* |
| *Underlying operating profit margin* | *16.8%* | | *17.1%* | *17.0%* | *+0.1%* |
| Net finance expenses | (19) | (5) | (24) | (16) | *-50%* |
| Underlying profit before tax | **136** | **(2)** | **134** | **139** | ***-4%*** |
| Underlying basic earnings | 109 | (1) | 108 | 107 | *+1%* |
| Underlying basic EPS | 19.5p | (0.2p) | 19.3p | 19.2p | *+0.1p* |

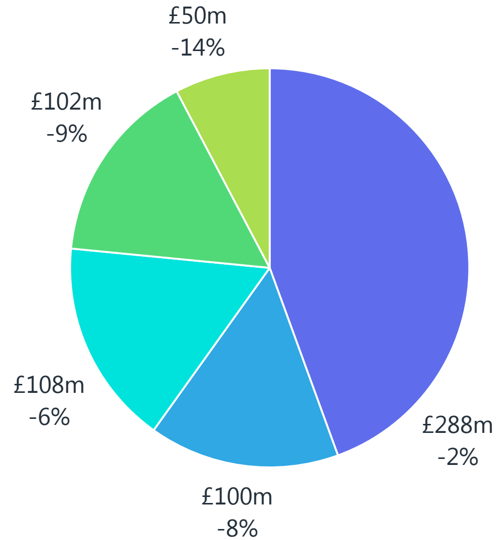
# H1 2019 Financial Performance

## Revenue by Business Division



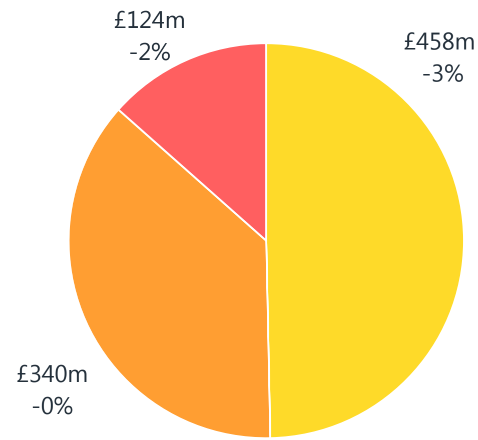

- Global Broking
- Energy & Commodities
- Institutional Services
- Data & Analytics

## Global Broking Revenue by product




- Rates
- FX & Money Markets
- Emerging Markets
- Equities
- Credit

## Revenue by Region




- EMEA
- Americas
- Asia Pacific

# Update on Integration

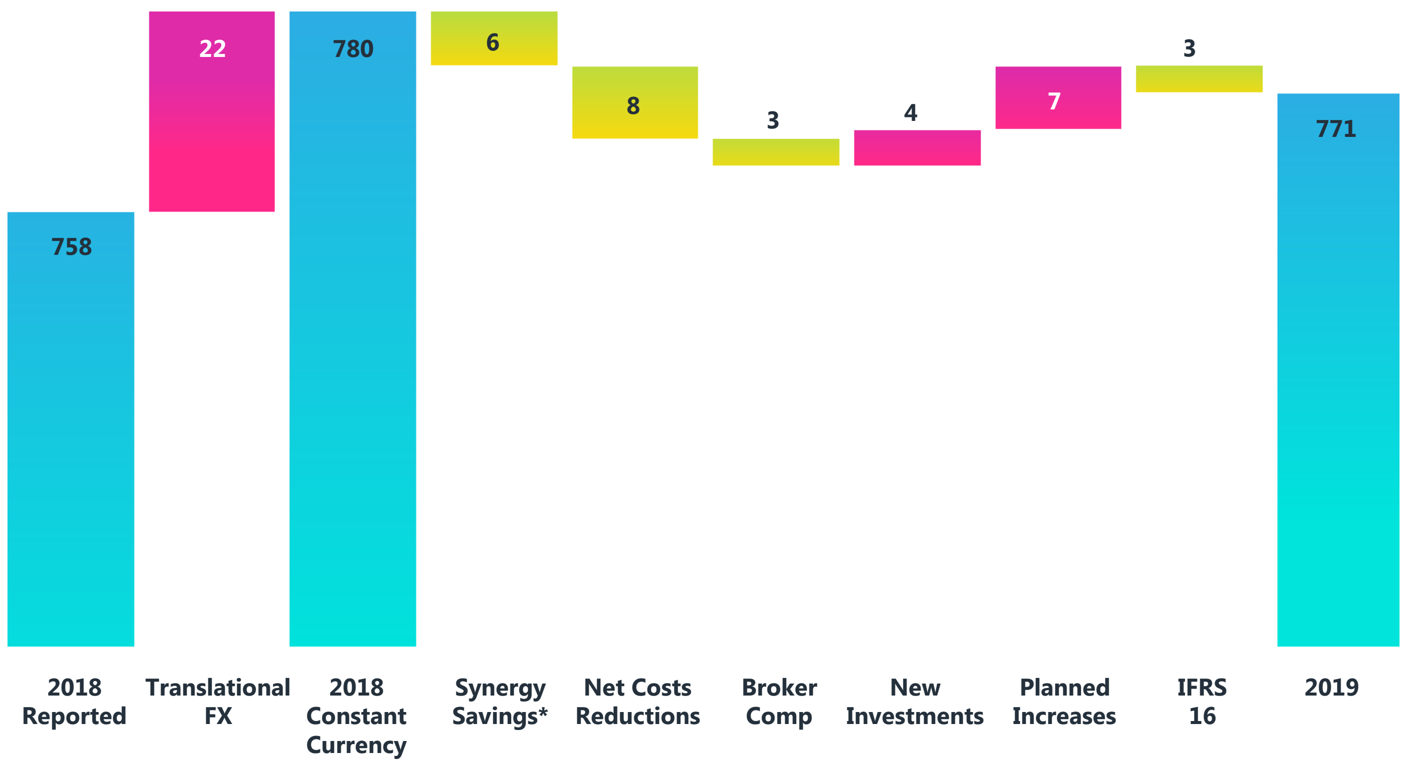
- Integration on track to deliver £75m of savings by end of 2019
- At H1 2019 a run-rate £74m has been delivered
- £20m spent on Integration in H1 2019 and expect to incur further costs of c. £10m in H2 2019 in line with guidance

# Administrative expenses

| £m (2018 at constant exchange rates) | H1 2019 | H1 2018 | Change | Change |
|---|---|---|---|---|
| Broker compensation | 451 | 454 | *(3)* | *-1%* |
| Other front office costs | 88 | 93 | *(5)* | *-5%* |
| **Total front office cost** | **539** | **547** | ***(8)*** | ***-1%*** |
| Support Staff Costs | 117 | 123 | *(6)* | *-5%* |
| Third Party Technology | 27 | 28 | *(1)* | *-4%* |
| Premises | 26 | 27 | *(1)* | *-4%* |
| Depreciation & Amortisation | 17 | 16 | *1* | *+6%* |
| Other | 48 | 39 | *9* | *+23%* |
| IFRS 16 adoption | (3) | - | *(3)* | *n/m* |
| **Management & Support Costs** | **232** | **233** | ***(1)*** | ***+0%*** |
| **Total Costs** | **771** | **780** | ***(9)*** | ***-1%*** |
| Exchange translation | - | (22) | *22* | |
| **Underlying total costs** | **771** | **758** | ***13*** | ***+2%*** |

# Administrative expenses
## Breakdown of cost movements: H1 2018 vs H1 2019

£m




*£74m of total synergy savings recognised to date

# Contribution

| £m (2018 at constant exchange rates) | H1 2019 | H1 2018 | Change | Change |
|---|---|---|---|---|
| **Total Broking contribution** | | | | |
| Revenue | 858 | 880 | (22) | -3% |
| Total front office costs | (539) | (547) | 8 | +1% |
| **Contribution** | **319** | **333** | **(14)** | **-4%** |
| Contribution margin (%) | *37.2%* | *37.8%* | *-0.6% pts* | |
| **Data & Analytics contribution** | | | | |
| Revenue | 64 | 57 | 7 | +12% |
| Direct costs | (22) | (20) | (2) | -10% |
| **Gross Contribution** | **42** | **37** | **5** | **+14%** |
| Gross Contribution margin (%) | *65.6%* | *64.9%* | *+0.7% pts* | |

# Underlying operating profit and margin by region

| | Underlying operating profit | | | Margin | |
|---|---|---|---|---|---|
| **£m (at reported exchange rates)** | **H1 2019** | **H1 2018** | **Change** | **H1 2019** | **H1 2018** |
| EMEA | 96 | 97 | *-1%* | 21.0% | 20.9% |
| Americas | 49 | 45 | *+9%* | 14.4% | 14.0% |
| Asia Pacific | 13 | 13 | *+0%* | 10.5% | 10.6% |
| | **158** | **155** | ***+2%*** | **17.1%** | **17.0%** |

# Exceptional and acquisition related items

| **£m (2018 at reported exchange rates)** | **H1 2019** | **H1 2018** |
|---|---|---|
| ICAP integration costs | 20 | 24 |
| Amortisation of intangible assets arising on consolidation | 21 | 20 |
| Impairment of intangible assets arising on consolidation | - | 58 |
| Net charge relating to legal settlements | 2 | 4 |
| Charge relating to business reorganisation | 4 | - |
| Adjustments to deferred consideration | 2 | (1) |
| Other | 2 | - |
| | **51** | **105** |
| Tax relief | (9) | (11) |
| **Total Exceptional and acquisition related items** | **42** | **94** |

# Earnings EPS and dividends
## Maintenance of full year dividend throughout integration

| £m (2018 at reported exchange rates) | H1 2019 | H1 2018 |
|---|---|---|
| **Underlying Earnings** | **108** | **107** |
| Exceptional and acquisition-related items (net of tax) | (42) | (94) |
| **Reported Earnings** | **66** | **13** |
| Weighted average shares in issue | 560.0m | 556.3m |
| **Underlying EPS** | **19.3p** | **19.2p** |
| **Reported EPS** | **11.8p** | **2.3p** |

- Dividend to remain at 16.85p through the integration period
- A 5.6p per share interim dividend (2018: 5.6p) will be paid on 8 November 2019 to shareholders

# Operating cash flow
## Increased cash from operations

| £m | H1 2019 Underlying Cash flow | H1 2018 Underlying Cash flow |
|---|---|---|
| **Underlying Operating profit** | **158** | **155** |
| Share based compensation and pension admin fees | 3 | 1 |
| Depreciation and amortisation | 18 | 17 |
| Depreciation of right-of-use assets | 11 | - |
| **EBITDA** | **190** | **173** |
| Change in initial contract prepayments | 2 | (16) |
| Working capital movements | (112) | (104) |
| **Cash generated from operations** | **80** | **53** |
| Capital expenditure | (19) | (48) |
| **Underlying Operating cash flow** | **61** | **5** |
| Taxation | (39) | (21) |
| Interest paid | (27) | (16) |
| **Underlying Free cash flow** | **(5)** | **(32)** |

# Balance sheet

| £m | Jun-19 | Dec-18 |
|---|---|---|
| Goodwill & other intangibles arising on consolidation | 1,635 | 1,663 |
| Other non-current assets | 202 | 197 |
| Current assets less current and non-current liabilities | 44 | (117) |
| Cash and financial investments | 781 | 800 |
| Pension assets / obligations | (3) | 52 |
| Deferred tax liabilities | (98) | (123) |
| Interest bearing loans and borrowings | (726) | (642) |
| **IFRS 16 related balances:** | | |
| Right-of-use assets | 101 | - |
| Finance lease receivables | 13 | - |
| Lease liabilities | (150) | - |
| **Net assets** | **1,799** | **1,830** |
| Shareholders' equity | 1,782 | 1,814 |
| Attributable to non-controlling interests | 17 | 16 |
| **Attributable to shareholders** | **1,799** | **1,830** |

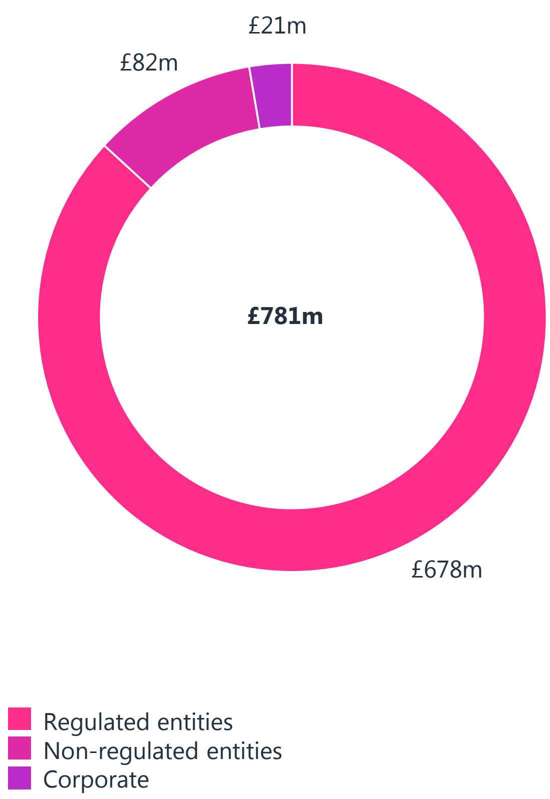
# Debt profile and refinancing

| £m | Jun-19 | Dec-18 |
|---|---|---|
| 5.25% Sterling Notes June 2019 | - | 80 |
| 5.25% Sterling Notes January 2024 | 431 | 500 |
| 5.25% Sterling Notes May 2026 | 250 | - |
| Loan from related party | 37 | - |
| Revolving credit facility draw down | - | 52 |
| Unamortised debt issue costs | (3) | (2) |
| Accrued interest | 11 | 12 |
| **Gross Debt pre-IFRS 16** | **726** | **642** |
| IFRS 16 Lease liabilities | 150 | - |
| **Total Debt** | **876** | **642** |

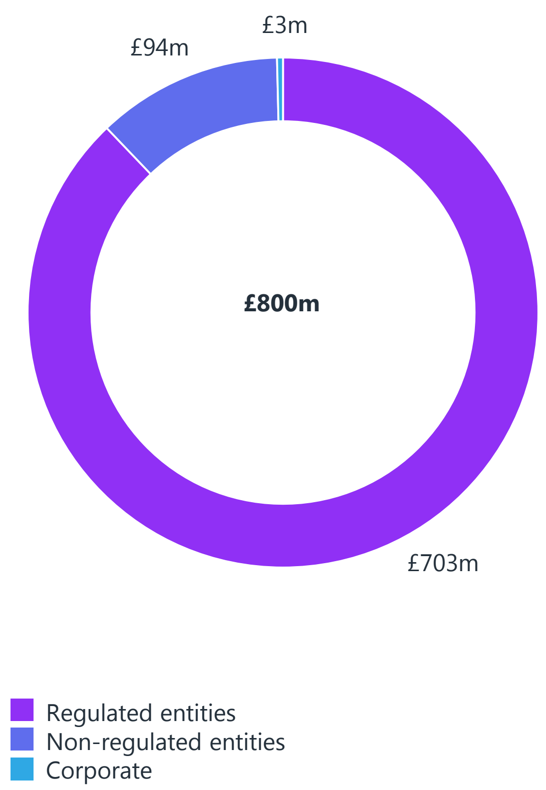
# Cash & cash equivalents and financial investments

- Cash held for working capital, regulatory, liquidity and corporate purposes
- Capital requirements of the regulated legal entities are generally met by net tangible assets held in cash
- This cash is restricted for regulatory and operational purposes

**H1 2019**




**FY 2018**



# Net funds /(debt)

| £m | Cash & cash equivalents | Financial investments | Total funds | Debt | Net |
|---|---|---|---|---|---|
| **At 31 December 2018** | **667** | **133** | **800** | **(642)** | **158** |
| Reported net cash flow from operating activities | (2) | - | (2) | 1 | (1) |
| Net cash flow from investment activities | (21) | 2 | (19) | - | (19) |
| Dividends paid | (63) | - | (63) | - | (63) |
| Net repayment of revolving credit facility | (52) | - | (52) | 52 | - |
| Issue of Sterling Notes | 250 | - | 250 | (250) | - |
| Repayment of Sterling Notes | (149) | - | (149) | 149 | - |
| Related party loan | 35 | - | 35 | (37) | (2) |
| Other financing activities | (8) | - | (8) | - | (8) |
| Finance lease payments | (10) | - | (10) | - | (10) |
| Debt issue cost | (1) | - | (1) | 1 | - |
| **Net funds pre-IFRS 16** | **646** | **135** | **781** | **(726)** | **55** |
| IFRS 16 lease liabilities | | | | (150) | (150) |
| **At 30 June 2019** | **646** | **135** | **781** | **(876)** | **(95)** |

# CRD IV Compliance

- FCA has granted TP ICAP ten year waiver from supervision under CRD IV on a consolidated basis
- The Group now only has to comply with Financial Holding Company Test
- Currently we have a deficit under the Consolidated Supervision Test, as Goodwill is not eligible capital under CRD IV
- The only eligible capital resources that count under CRD IV are Net Tangible Assets
- We need to set aside c. £25 million of retained earnings per annum in order to comply by 2026
- Agreed allowable deficit reduced by 25% from 1 July – the Group remains well within limits of agreed plan

# Full year guidance
## Refinement of IFRS 16 and broker compensation guidance

**Revenue for 2019**
Low single digit growth
Uncertain impact of Brexit

**Synergies and costs to achieve**
On track to achieve £75m of synergies by end 2019
c. £30m of cash costs to achieve

**Planned costs**
£15m in 2019

**Net finance expense**
c. £50m in 2019 including £11m IFRS 16 adjustment

**Investments**
£15m of investments in 2019
Cash flow and earnings accretive by 2020

**Tax rate**
Expected to be 25% in 2019

**Broker compensation**
Expected to be c. 52.5% for 2019

**Capex**
Expected to be c. £70m in 2019

**IFRS 16**
Operating profit estimated to increase by £9m, composed of a decrease of £32m in operating expenses and increase of £23m in depreciation. PBT estimated to fall by £2m due to an increase in net interest expense by £11m

# Nicolas Breteau
CEO

# Evolution of TP ICAP continues apace

- Investing to increase the proportion of hybrid and electronic trading with additional £15m made available for six projects across the Group
- Increasing diversification across the Group; non-Global Broking businesses now represent 30% of group revenue
- Encouraging greater collaboration between our divisions

# Global Broking

Revenues H1 2019: £648m
- 6%

- The division gave a creditable performance against a backdrop of challenging markets
- Senior management are taking action to reduce costs
- Despite difficult markets, there has been good progress in developing more hybrid and electronic business in keeping with client demand
- Key priorities:
  - Aggregating liquidity
  - Implementing a single user interface for the client
  - Enhanced workflows for all products
- Post-trade services performing well

# Energy & Commodities

Revenues H1 2019: £187m
+ 8%

- Increased revenues driven by improved conditions in power and gas markets, strategic hires and acquisition of Axiom
- E&C represents an all-to-all market with considerable scope for expansion of hybrid and electronic offerings
- Investment initiatives include electronic whiteboards for oil desks and an Artificial Intelligence application which is in live testing
- Announced today a new JV in China – Enmore Commodity Brokers, offering brokerage services across three of our brands; exclusive right to distribute data

# Institutional Services

Revenues H1 2019: £23m
+ 28%

- Institutional Services provides trade ideas and agency execution to buyside clients
- Offers access to best price from a wide range of sources while guaranteeing anonymity and neutrality
- Initial focus on FX, listed derivatives, relative value and cleared interest rate swaps
- Strong momentum for this service driven by changing market dynamics
- Expanding our core offering by both product and geography

# Data & Analytics

Revenues H1 2019: £64m
+ 12%

- Data & Analytics is the leading provider of OTC pricing data
- Uses data harvested from both Global Broking and Energy & Commodities; as the world's leading interdealer broker, we have access to more data than any other market player
- Demand for data continues to grow under MiFID II
- Launched ten new products during H1 2019 compared to three in H1 2018
- Hiring staff to expand in risk products, benchmarks and indices as we move up the content value chain

# Strong base for the future

- Good progress in creating a solid platform to deliver future growth

- We start from a strong position:
  - Large pools of liquidity and strong relationships put us at heart of financial markets
  - Leading intermediary in Energy & Commodities
  - Building a strong agency franchise
  - Largest provider of OTC data

- We are investing while maintaining our operating margin:
  - Accelerating development of technology
  - Aggregating more liquidity
  - Increasing diversification

- We have made considerable progress on strategic planning for growth and will provide an update in the new year

# Questions & answers