Preliminary Results 2017

Presentation transcript

13 March 2018

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Introduction

John Phizackerley, Chief Executive

1.0 Introduction (00:00:01)

Good morning, welcome one and all, it's good to see so many of you here and thanks so much for coming.

So let me run through our agenda today, after the disclaimer, that's me, there's our agenda. I'm going to start by going through the highlights of our achievements for 2017. Then Robin will come up and talk you through the numbers. I'm going to come back up again and give a business and operational update. Then as usual we'll take the chance to answer your questions.

So we'll start with the highlights for 2017. I'm proud to say that this has been a good first year for TP ICAP; we've seen the benefit of the diversity of our product portfolio and our geographical footprint. And this has enabled us to deliver a resilient performance in what, let's face it, was essentially an ongoing low interest rate, low volatility environment.

Throughout 2017 we maintained our focus on delivering the integration, that was our number one priority. And as you'll see in a minute we're making strong progress on that.

As you would also expect as a financial services company we've continued to invest in technology for the benefit of our customers and the market, and for regulatory and government purposes. For example, on the technology front I'm please to say that our investment in MiFID II, which was a multiyear project, was successfully implemented on time. And Iain Plunkett, our COO, is here with us this morning to answer any questions you have on issues like MiFID II and the integration in general actually which he is leading.

Broker productivity remains a focus and progress was made here too. Revenue per broker and contribution per broker, which is a function of costs, increased in both metrics in every region. Revenue per broker was up in every region.

We made targeted investments in Data & Analytics, Energy & Commodities and Institutional Services and continue to work on optimising our biggest division, Global Broking.

As we look forward we believe we are well positioned to benefit from a variety of potential changes in market conditions across all our key markets.

So on the high level numbers, revenues for 2017 were £1.757bn compared to pro forma and pro forma in each case, £1.687bn last year. Operating profit was £263m, up from £240m. Importantly, and a good part of this deal was all about this, the operating profit margin was 15%, up from 14.2% last year. And basic underlying EPS was essentially flat at 33.3p as expected. And as promised the final dividend was maintained on the larger shareholder base at 11.25p per share, resulting in 16.85p for the full year.

Now, it's worth remembering how different this business is today than when we started this journey in 2015. It is fundamentally different. And there are a number of reasons for this. Obviously we dramatically increased our scale. Not only is TP ICAP now the world's biggest inter-dealer broker, but it's also the world's largest energy and commodities broker, and the single largest source of independent OTC pricing data creating greater operating leverage for the Group.

Now despite the imperative of 2017 of delivering the integration, we have simultaneously delivered a wide range of strategic investments in technology and embarked on a significant nearshoring agenda in Belfast.

Some of the technology investments we've rolled out have been regulator led and others have been purely client led. But both now deliver clients and shareholders value added revenue streams. In other words, for the larger players regulatory driven innovation is now becoming a differentiator and a revenue enabler.

Since 2015 we have diversified our revenues and our customers, most notably with growth in Energy & Commodities. But we now also have new leadership in Global Broking, Data & Analytics and Institutional Services, itself a new division, and a new COO.

These changes were made in recognition of the changing dynamics in our marketplace and the differing profiles and needs of clients and potential future clients.

I'm also pleased to note that those investments in our biggest division, Global Broking, have secured improved margins.

Finally, we have shown unwavering commitment to conduct and culture and have invested in technologies to monitor behaviour. These and other investments have created value and given us a broader and more diverse set of products for our customers across the markets we serve. And I believe it's for these reasons, and others, that our revenues and revenue per broker and our operating profit margin increased in 2017.

TP ICAP compared to Tullett Prebon only a few years ago is truly unrecognisable and I would say more valuable as a result.

On the integration front, first and foremost, I want to tell you that the integration is very much on track. We've recognised £27m of synergies, which is greater than our target and we've ended the year with £52m of exit run rate synergies, as well as a significant reduction in head count. Now Robin is going to talk about that in more detail in just a moment.

We've established a single global executive management team, I believe in the best in the industry, and a single TP ICAP corporate support function, as well as new overarching governance structures, single policies and procedures, and streamlined benefits.

We've focused on increasing our productivity through transformation initiatives in our core infrastructure, at the same time as we go through the work of simplifying it. We also started a project to focus on our sourcing and other third party costs and that work is now moving forward as the prize is great.

On the real estate front here in the UK, we're finalising our move to one location in Victoria for our Energy & Commodities business, which we expect to open in the summer. And also this summer our new US headquarters in Manhattan. Our new combined UK headquarters will be announced shortly. But most importantly to our brokers and our customers at the same time we've continued to provide a leading product while supporting our separate and competing brands. And with that I'm going to hand over to Robin.

Financial review

Robin Stewart, Interim Chief Financial Officer

2.0 Financial review (00:08:22)

Thanks, Phiz. Good morning, everyone. I want to start by showing you the context in which we delivered good results for the year.

As you can see, volatility was at historically low levels at the start of year, and it continued to fall in assets classes, including equities, currencies, rates and commodities.

Against that backdrop, we achieved a good result. Revenue increased by 1% on a constant currency basis, and by 4% on a reported basis to £1.8bn. I'll use comparatives that are pro forma on a constant currency basis this morning unless otherwise stated on a slide.

Overall, the business benefited from being well-diversified across both product lines and geographies. Global Broking was stable year on year with a more positive environment for the rates business in the US offset by challenging conditions in credit markets. I'll take you through a breakdown of the asset classes on the next slide.

As we told you at our Capital Markets Day in November, Energy & Commodities had a difficult year. Our oil business delivered an excellent performance which was more than offset by Power & Commodities. As a result, overall revenues fell 4%.

Revenue from Institutional Services doubled, albeit from a small base, due to the inclusion of Coex from January. The acquisition of Coex was completed on 30th November.

Data & Analytics revenue was up 8%, driven mainly by increased sales in our flagship products including rates and FX & money markets. There was renewed appetite for inflation and volatility data from the buy side of hedge fund services and high quality energy and commodities datasets to large corporates were also strong.

Looking at Global Broking in more detail, the rates business grew 1% as it benefited from volatility triggered by the election in the UK, an increase in the US federal funds interest rate, the ECB signalling a withdrawal from quantitative easing programmes, and the first interest rate rise for a decade in the UK.

Market conditions in credit were challenging throughout the year. Low volatility, combined with restrictions on clients' balance sheets, resulted in lower trading volumes and a 6% decrease in revenues to £117m.

Foreign exchange and money markets grew 1% with forwards in sterling and the euro performing well as a result of uncertainty around Brexit.

The Emerging Markets division covers a wide variety of products and geographies, including Latin America, Central and Eastern Europe, and Africa. Revenues here were broadly in line with the prior year, which benefitted from volatility around the US elections.

Revenue in the equities business grew 2% with a strong performance in structured products and index delta one.

Moving on to look at revenue by region, Europe and the Middle East and Africa increased 2% as all products within Global Broking grew with the exception of credit. Revenue in the Americas was down 2% as the region experienced subdued market conditions across all of its business lines. And revenue in Asia Pacific was up 2%, driven by the growth in Global Broking, which more than offset a fall in Energy & Commodities.

Turning now to look at operating profit and margin, underlying operating profit for the entire business grew from £240m to £263m. With an increase in operating profit margin from 14.2% to 15% as a result of higher contribution per broker.

Overall margin growth was impacted by investment in the business and an increase in one-off regulatory costs, which I'll break down in more detail on the next slide.

So turning to regulation and strategic initiatives, this was in line with our guidance at the half-year when we said that we expected to increase spending on regulation and other strategic initiatives by about £25m. We spent £14m becoming MiFID II compliant, with half of that cost expensed through P&L, which is more than our guidance at the half-year. This enabled us to be fully compliant when MiFID II came into force on 3rd January this year. Phiz will talk more about this later.

Other increased regulatory costs included a £4m increase in legal costs, mainly relating to existing regulatory investigations. In addition, we spent £2m as we continued to invest in surveillance tools to ensure we meet our compliance responsibilities.

We also continued to invest in the business in line with our strategic goals. This included building out our buy side institutional services, investing in our procurement capabilities, extending our Belfast support services centre, which now has 60 employees, as well as expanding our early career programme to bring through the next generation of brokers.

We're pleased that broker productivity improved during the year. Average revenue per broker has increased by 10% to £579,000, with revenue per broker growing in every region. Contribution per broker, which is average revenue per broker less average compensation per broker, increased by 11% to £287,000. This is a result of the cost improvement programme that we told you about at the interims.

As you heard from Phiz, we've made a good start on the integration process. We initially targeted £10m of synergy savings in 2017, but we delivered savings faster than we expected, and are reporting £27m in the P&L. This has delivered £52m of run rate savings.

These synergy savings have been brought forward from 2018, and we remain committed to achieving £100m of synergy savings by 2020, at a cost to achieve of 1.3 times.

The savings were mainly related to headcount. We reduced headcount by 295 and transferred an additional 109 heads to work on the integration, which accounts for the end of year run rate savings of £52m.

In addition, we fully integrated the finance systems of TP and ICAP; we closed underperforming offices in Luxembourg and Warsaw and reviewed all other systems to identify those we want to decommission. Progress on further technology integration was slowed down by the need to become MiFID II compliant by the beginning of this year.

We also focused on integrating our governance structures, which has included removing duplication in our management teams, implementing firm-wide policies and procedures and driving forward our real estate plans in order to co-locate our businesses across the regions.

As you heard from Iain at the Capital Markets Day, the next two years of integration is more complex. Now that we are MiFID II compliant, we can focus on further technology integration as well as process improvement and transforming our services. Building out our support functions capability in Belfast will also be critical to delivering the next phase of the integration.

Taking into account the accelerated savings of 2017 and increased complexity of the integration in its next phase, we expect to achieve £10m of synergies in 2018, at a cost to achieve of around two times. So, by the end of 2018, we expect savings to be in line with our original guidance in last year's Annual Report.

So let's move on to the first TP ICAP income statement as a combined company. As I said earlier, operating profit for the year £263m, which is 10% up on the prior year. This resulted in an operating profit margin of 15%. Net interest costs were £30m, which reflects increased interest payments on the £500m bond we issued in January last year. Taken together, this resulted in profit before tax of £233m.

The tax rate of 26% is in line with our guidance at the 2016 prelims. We expect the effective rate to remain at 26% in 2018 despite the recent reduction in US corporation tax from 35% to 21%, and this is because other aspects of the US tax legislation have the effect of broadening the US tax base.

Overall net income, before exceptionals, was £184m.

So let's take a look in more detail at the exceptional and acquisition related items which amounted to £97m after tax. This includes integration costs, the amortisation of intangible assets as a result of the acquisition of ICAP, and the cost improvement programme. Integration costs of £79m included running the integration work streams, staff severance costs, including senior management redundancies, and the non-cash charge for the management LTIP.

In line with previous guidance, the cost improvement programme incurred a charge of £32m as a result of restructuring broker employment contracts and removing underperforming brokers.

We expect this programme to generate savings of about £25m per annum from 2019 onwards.

We also recognised share-based payment charge of £9m relating to the acquisition of PVM in 2014, which was amortised through the income statement. This is the final charge.

Underlying earnings for the year were £184m, which translates into an underlying EPS of 33.3p. The total dividend for the year was 16.85p and, as you know, we have committed to maintaining this throughout the integration period.

Moving on now to the balance sheet, which is broadly in line with the prior year. The reduction in pension assets reflects the bulk annuity transaction with Rothesay Life in May last year.

Total shareholder equity has decreased as a result of the amortisation of goodwill, and a currency loss on the retranslation of foreign subsidiaries that's included in other comprehensive income.

Looking at our overall cash position, the Group had net funds of £172m at the year end. As you can see on the bridge on the left, the reduction from December 2016 is mainly as a result of the final dividend payment and exchange rate fluctuations. The graph on the right shows cash and financial assets for regulated, non-regulated and corporate entities. Cash held in both regulated and non-regulated entities includes accrued profits that have yet to be distributed to the parent company.

Underlying operating cash flow of £210m represents a conversion of 80% of underlying operating profit into cash. Capital expenditure of £41m includes the development of our electronic broking capabilities and straight-through processing technology, investment in IT and communications infrastructure as well as property related capital expenditure for our offices moves.

Initial contract payments increased as the business looked to sign up brokers on new contracts, and these payments are amortised over the life of the contract, which is typically three years.

Other working capital outflow mainly reflects an increase in trade receivables. An ICAP integrational expenditure of £73m is lower than the £79m charge in the income statement as the income statement charge includes the write-off of intangible assets and the charge relating to the transformation of LTIP.

Moving on to look at our debt profile, as I mentioned earlier, at the beginning of last year we issued a £500m seven year sterling bond at 5.25%. This was in order to repay the £470m bridge loan used to partially fund the ICAP acquisition.

Net increase costs for the year were £30m, which includes £2m for bridge facility fees.

So, to summarise, we delivered good results in a low volatility environment. Revenue and contribution per broker improved across all regions. We made a good start on the integration by accelerating 2018 synergy savings into 2017, with a further £10m of saving expected this year. We were fully MiFID II compliant by the beginning of the year, and we continue to invest in the business to enhance our operations.

Before I close, I'd like to talk about the revenue outlook for 2018. It's been a good start to the year with increased volatility in January and February, and the US interest rates rising across the yield curve. It's too soon, however, to know whether these market conditions will continue throughout the year.

Looking at currency movements, the current dollar to sterling exchange rate is 1.38, and that compares to an average of 1.29 last year. At these exchange rates, we would expect a headwind in our reported revenue but, on a constant currency basis, we anticipate revenue growth in the low single digits.

Thanks very much. I'll now hand you back to Phiz.

Business and operational update

John Phizackerley, Chief Executive

3.0 Business and operational update (00:24:34)

Thanks Robin. Okay, I'm now going to go through the business and operational update for 2017. Now our ethos is that clients should be able to trade with us in the manner of their choice. So we aim to provide a full range of execution protocols. The Greenwich survey on trends in trading concluded that one single trading protocol works for everyone, choice is key, order book trading alongside RFQ, auction, aggregated streams, and, yes, the phone will all continue to play their part.

But our aim is to create safe, efficient and professional run venues and marketplaces which our clients trust and which attract and retain liquidity. In short, we know the value of making our brokers the best informed in the market and supplying them with the tools to add value to customers who continue to look for efficiencies.

Culturally for our brokers, technology has moved from being a threat to becoming a revenue enabling resource. And it's this which gives them the edge over our competition. Now inside the outer ring in this chart you'll see our regulatory venues, in which we have invested significantly. All this investment makes us a trusted and go to counterparty, at the same time as our customers are reducing the number of broker counterparts they deal with and streaming their electronic connectivity.

The outer ring shows our client relationship management function. And this is a real differentiator that is delivering results. Not only do we have top level dialogue on an ongoing basis with the world's biggest banks, but we also talk at the IT level, the operational level, the HR level and so on. And by getting closer at all these touch points we have been able to grow our business ties with these firms.

Now, as you know, our business is divided into four global divisions and they all formed effectively in 2017 and they all have inherent opportunities in 2018.

Global broking is the largest contributor to revenues and profits in the firm. Our focus is very much on increasing productivity through a range of initiatives, including adopting and leveraging technology as I've mentioned, selective new hires, active management of underperformers, and a few selective desk mergers to leverage stronger relationships and liquidity pools where appropriate.

We provide our customers with efficient and effective ways of executing via multiple protocols, such as central limit order books, volume matching, crossing solutions and requests for quote, which is a particular growth area at the moment. The electronic markets team is an integral part of Global Broking and is responsible for improving hybrid platform functionality, developing pure electronic services and enhancing our clients' workflows, often on a bespoke basis.

In 2017 for example our electronic volume matching platforms were functionally enriched and deployed into new products globally, resulting in record trading volumes, and revenues were up 30% year on year. A new RFQ platform for FX options was launched, delivering hybrid workflows, with effective price discovery and the ability to disseminate liquidity to the market through an API.

In 2017 we continued our Early Careers programme and 53 trainees have joined and attended training academies.

Global Broking is the division which stands to benefit the most from any sustained levels of heightened market activity, volatility and ongoing rate rises. And our brokers remain key to our success in Global Broking and we focus on retaining our star performers, we well as actively hiring the next generation.

Our Energy & Commodities division is the world's largest with 20 offices around the world and a coverage of comprehensive energy and commodities products across the three brands we operate, Tullett Prebon, ICAP and PVM.

It actually also has our most diverse customer base, with nearly 90% of its revenue coming from non-banking clients. These are commodity producers and consumers, refiners, energy companies, utilities, hedge funds, asset managers and trading companies. Also, interestingly, average revenue per broker at TP ICAP is the highest in this division.

Now in January this year we acquire SCS Brokers, a US based oils and softs firm, adding 26 brokers in the US. And we'll continue to look for further value enhancing opportunities in a consolidating market. Meanwhile we're also consolidating back office deal management systems into one global platform.

In 2017 the Coalition Survey of major bank revenue noted that commodities revenues have reached their lowest levels since 2006, because of ongoing weakness in energy products, low volatility, reduced client activity, and trading underperformance. And despite this difficult environment we only saw a small fall in revenues. With our diversified portfolio of businesses and growth in market share we're well placed to take advantage of any increased market activity and we plan to grow this business accordingly.

Today we have disclosed that the margins in Data & Analytics are 62%, it's roughly 25% of our operating profit and we have a goal to deliver double digit growth per annum. We're enthusiastic about the prospects for this business for a variety of key reasons, not least because it stands to benefit from rising regulatory demand and independent pricing products, such as MiFID II.

We already represent the broadest global coverage in proprietary, neutral OTC data generated by our brokers. Those of you who were at our Capital Markets Day will have met Eric Sinclair, who has recently joined us from the Toronto Stock Exchange to help us grow this business.

In 2018 we'll continue to work with third parties to bring innovative and new data products to the market.

Our Institutional Services division provides high touch agency execution service, anonymously accessing liquidity sources across many products. You may remember from our Capital Markets Day that we talked about the potential fee pool for this part of the business. At the end of 2017 there were $3.5 trillion of assets under management in hedge funds, 50% of those assets are managed with hedge funds under a $1bn under management.

During the year we added agency FX, FX options, listed futures and options and rates to this range of products. We're also working with clients to develop special structured product solutions, such as indices.

Every time I see you I talk about conduct and culture and I will continue to do so. We have a clear set of values at TP ICAP which govern how we operate as a business; honest, integrity, respect, excellence. We have a structured learning programme for all our employees, which via training outlines the behaviours and standards that we expect.

We cultivate and develop our employees to ensure their interests remain focused in the long term. For example our brokers have regular performance, conduct and behaviour reviews before the payment of any bonus.

Moving on to Brexit, our work to prepare for Brexit has been hampered by the political uncertainty which persists in 2018. As a result we've now moved from analysis and planning to decisions and actions, albeit, like many financial services firms we don't have a clear understanding of the final outcomes of the negotiations. We are in talks with a number of European financial regulators to establish what we and they require.

During 2018 we'll need to do what is necessary to ensure, as far as possible, that we can provide uninterrupted service to our clients after Brexit in March 2019.

Based on our current knowledge, we consider that TP ICAP's business post Brexit will require further investment. And the outcome of a post Brexit world could result in fragmentation of our currently centralised infrastructure model as we respond to the outcome of negotiations.

We also anticipate a potentially more costly operating model in Europe as we undertake more activities, including interaction with regulators from within the EU.

So in summary, it's been a good first year for TP ICAP. We are a stronger, more confident and more resilient company and we've added numerous value enhancing aspects to our business. Importantly, integration remains on track and we remain very focused on delivering it.

We're investing in technology to lower execution costs and in risk, surveillance and compliance to ensure that we run our venues in a manner that is safe, compliant and which engenders trust from our clients and all our stakeholders.

The Group is significantly more diverse in product offering and client reach then ever before and we continue to grow organically and through bolt-on acquisitions. This positions us well for any improvements in market conditions.

Looking forward, political and economic factors are likely to continue to affect asset prices and volatility during 2018. Short and long term interest rates have been declining for 30 years and there are signs that this cycle is at last turning. At the same time central bank support for asset markets has probably peaked.

I firmly believe that TP ICAP will continue to play a central role, providing liquidity at the heart of the global financial and energy systems, ensuring that those markets run effectively and transparently. Thank you very much.

And with that I'd like Robin and Iain, or any of the other senior managers to take any of your questions and if there are any questions on the conference call we'd also like to take those too.

Questions & answers

4.0 Questions and answers (00:36:37)

Daniel Garrod, Barclays

Good morning. Three questions from me. The first is on the sort of Data expansion plans. 8% constant currency revenue growth in 2017, can you outline sort of what initiatives starting in 2018 you've got to sort of accelerate that top line revenue growth in Data specifically?

Second question, the cost base 1511 for 2017, I wonder if you could provide a breakdown of the elements of that particularly staff versus general admin and the percentage movements in the year?

And last one is on the contribution per broker. Historically we've looked at comp per broker but are you sort of directing people that that's more the metric you're going to be using going forwards? And can I clarify is it just headline, it doesn't adjust for FX movements, and does it include anything for allocated costs given that you're indicating your supervisory regulatory costs are all going up, the costs of operating as a broker are going up?

John Phizackerley, Chief Executive

Well I'm going to divvy those up a bit but on data just to start with we obviously hired a new head. I've got on my desk a business plan from him that he promised me after his first 100 days. It's about that thick and we'll be talking about it at the upcoming interims. So it's a bit premature to give you a whole lot of guidance. But Iain was waving his arm in terms of something he wanted to add so…

Iain Plunkett, Chief Operating Officer

I think the model for Data we can confirm we've seen some really strong performance. I think this business in moving into being one of our key drivers of our operating margin; I think a few key points. Firstly we are trying to make sure that the way in which we distribute our data that we have got control of who is consuming that data and that we are actually gaining in terms of the overall control of the distribution model for our data. And again that is something that this market has done through the market data providers historically. But as we mature this business I think that's a big focus for us.

Secondly we're clearly looking to see how that data can help us build services. So Eric alluded to the fact that the index sector is a massive sector with regards to our data and we have some proprietary data, so building services whether it's risk analytics services to support regulation, FRTB and those type of sale side regulatory services. But again on all of these fronts I think we feel that we've got a big opportunity ahead of us that we can capitalise on.

John Phizackerley, Chief Executive

The second two were kind of cost and finance related so I was thinking Robin could probably do a better job on those.

Robin Stewart, Interim Chief Financial Officer

Okay just looking at the costs we don't really and we don't intend to break out all of our cost lines that are contribution but I think the important points to note on that is that we talked about that we've had synergy savings of £27m in the year. We've also had some other costs that we've incurred during this particular year, about we said £7m of those were in relation to MiFID and another £4m incremental costs on defending legal cases which are incremental to our normalised cost base. We've had a similar amount of costs increments in this year's cost base which are very much a result of investing.

We talked about Belfast, we've incurred cost there. We've been beefing out our procurement capability; we've invested in our Institutional Services business with some hires in the senior management. And as Sophia mentioned the early careers programme has also been an additional cost. Those costs will be ongoing. And whilst the non-recurring costs in say MiFID and legal we'd expect to fall away, it's likely that this next year we will incur some incremental costs on MiFID during the first half of the year as we seek to make our platforms more robust which is the same as everybody else in the market. But we'll also start incurring costs on Brexit.

Looking at the contribution per broker metric I think it was important for us to get that statistic out there. It's something which we're much more interested in looking at ourselves internally because the contribution per broker, which is really the revenue less their employer costs or employee costs should I say, that's effectively what drives the underlying earnings which is obviously a much better statistic that the investors are interested in. So we're very much geared in looking at that contribution per broker.

Clearly people are focused on revenue employment costs and whilst that's a statistic that's out there it's one that's been focused on historically since its peak in 2009 when the market was very buoyant in IDB. But it doesn't tell the whole story. I think it's much better to focus on that contribution line per broker because different asset classes yield different revenues per broker and there are different market rates for those brokers, and so all in all the net contribution per broker I think is a better statistic to look at.

Paul McGinnis, Shore Capital

Two questions please. Just on Data & Analytics the 62% margin, could you just explain how you account for the transfer costs for that business? I'm just interested to the extent which that margin could essentially be anything you want it to be or is it done on an arm's length basis?

And then secondly just to clarify I understood the revenue growth guidance. It was constant currency low single digit perhaps, and that's after a strong January and February on a reported basis at current exchange rates you'd expect revenue to be down year on year, is that right?

Robin Stewart, Interim Chief Financial Officer

I'll pick up that last question first as it's freshest in my mind. So January and February were good months, particularly if you look at the profile of the VIPS over the period it spiked up very much mid January and then went through February and then started to come down. We've had some good days but I think it's worth pointing out that last year as well we had a very good March and so Q1 that was very strong. And so one swallow doesn't make a summer, we're cautious to think that you extrapolate that good two months throughout the rest of the year when normally you see that dropping away as the quarters go by in terms of the revenue contribution of the firm.

I think from an FX perspective and a revenue outlook perspective we are - last year's average rate of 1.29 was the dollar to sterling is now at 1.38 and so you can see a sort of 7% depreciation. We've said before that around about 60% of our revenues are in US dollars so before you start we'd expect our like for like reported revenue to be about 4% down. And so we're sort of guiding towards a constant currency growth on that reset start point.

So in Data & Analytics I mean people were very keen to understand the margin. That's a gross margin before cost of sales. As you can imagine within the firm the Data & Analytics business uses the raw material that flows out the back of the broking business. Whilst we do look to cost that internally it's a tax - it's a transfer pricing charge for tax purposes. The range that you can look at in terms of charging that is so wide you could drive a bus through it so I think it's more - it's better just to quote that gross margin so that you can understand that.

Anil Sharma, Morgan Stanley

Morning. I've just got two questions. Just to go back to that revenue point and make sure I've understood, be honest it's a little bit confusing. So if I look at your peer BGC they said their Q1 revenues were up mid double digit year on year and I take it they're in dollars, you're in sterling. So are we saying that on a reported basis the revenues are down or are we saying they're potentially up low single digit? I guess that's the first question.

And then the second one is the revenue guidance, does that include the acquisitions in the Energy business as well as on the Data side or Institutional Services there was another small acquisition so does that include that? And can you give us some idea as to the contribution of those 26 brokers you've added in Energy?

And then so the final one just on costs. There's quite a lot of detail in the report about what measures you're doing in 2018 and 2019 but based on the slide it looks like the contribution to the cost base is very small. So I guess I'm just trying to understand, it feels like there's actually a lot more going on but you're being a bit conservative so I'm just trying to understand is that read correct or is it -

Answer

There's a lot going on.

Anil Sharma, Morgan Stanley

Or is it just that there's a lot of small tweaks going on?

Robin Stewart, Interim Chief Financial Officer

I mean on your first point again on the revenue side I think what we're trying to say is whilst without sounding like I'm repeating myself so apologies for that, what we're trying to say is whilst it's been a good first couple of months the way - if the FX rates stay as they are at the current 1.38 rate for the rest of the year the comparative would be much lower than we're currently reporting at 1.757, and we'd expect that to fall by about 4% on a reported basis. But then we do expect to yield some single digit growth off that throughout the year.

Now that growth will include elements of what we think is the revenue that we would achieve on SCS which is a small acquisition we made in January. And on the Institutional Services perspective it will obviously also include the Coex business which we had in - which from a revenue perspective we had in our numbers throughout the entire 2017 period, it's just that until we actually acquired it at the end of November we didn't have any operating profit because under the appointed representative agreement that we had with them we had to - we returned all of their revenue to them and just charged them a fee for acting as their rep. So you'll see a difference in the operating profit margin or the operating profit that yields from Coex but like for like revenue numbers.

Your second question, could you just remind me what that was again?

Anil Sharma, Morgan Stanley

I think you've covered the second one, it was about the acquisitions and the final one was just about costs.

Robin Stewart, Interim Chief Financial Officer

So I mean from a cost perspective - are you looking at the synergies Anil or just the costs in…?

Anil Sharma, Morgan Stanley

A combination of things. I mean a lot of the investment which you've outlined in the release you explicitly say you expect that to be earnings accretive but in year two and three, not in year one.

Robin Stewart, Interim Chief Financial Officer

Yeah I mean from the ongoing increment in costs that we have ought to - we do expect them to be earnings incremental over a period of time. Some should yield earnings quicker than others so for example investing in Institutional Services, that should yield revenues as those pupils bed in. Costs that we're incurring in say the early careers programme and in the investment in Brexit are a slower burn but investments that we very much expect to yield growth on in the future.

John Phizackerley, Chief Executive

In our bolt on acquisitions we typically make a small upfront payment and then there's an earning based on performance so they're pretty accretive. In fact they've all been accretive in recent years. So it's a relatively low cost way of enhancing your earnings.

Analyst, HSBC

I have two questions please. The first question, how many years will the cost improvement programme last in 2017? So what kind of cost do you expect this to have this year and next year probably?

And the second question is do you have any guidance for the dividend payment for 2019? Thank you.

John Phizackerley, Chief Executive

I'll do the second one and pass the first one over.

We're not changing our guidance at the moment for the dividend. So the guidance is as is, is the guidance. No change in the dividend is the guidance. Yes, at this time.

Robin Stewart, Interim Chief Financial Officer

I think we've always said - for example we said at the Capital Markets Day our stated intention is to maintain that 16.85 pence per share dividend over the integration period but we will look to review it during 2019 as we come out of the - we've done all the hard yards on the integration programme.

Looking at the cost improvement programme that's very much a programme which we implemented during 2017 which is really steered at post acquisition of ICAP as a sort of a new firm. We sort of put together a programme that really focused on restructuring some broker contracts and also exiting underperforming brokers, and it also covered closure of two other offices in Luxembourg and Warsaw. The charge for that in the area of £32m is a one off charge that you'll see in 2017, that won't be a recurring charge. But we expect to yield in the end around about £25m of annual savings off the back of that.

Justin Bates, Liberum

Can I just cover off on two points to really clarify this? Firstly on revenue and then costs. On revenue are you saying at current exchange rates, take down the 1757 by 4% and then add back the underlying growth that you are guiding to of low single digits?

Robin Stewart, Interim Chief Financial Officer

That one.

Justin Bates, Liberum

Okay thank you. And then on the cost front, the additional costs that you mentioned, MiFID II in the first half and then Brexit, could you give a rough indication of what quantity?

Robin Stewart, Interim Chief Financial Officer

The MiFID II costs that we'll incur in the first half of this year will not be anything like we incurred last year but there'll be some residual costs. Brexit is ongoing but I'd expect about the same, similar level of costs that we incurred last year on MiFID to be at worst.

John Phizackerley, Chief Executive

Low millions.

Robin Stewart, Interim Chief Financial Officer

So less than ten we'd expect.

Justin Bates, Liberum

So less than ten for MiFID - no sorry Brexit.

John Phizackerley, Chief Executive

And a lot less than ten for MiFID.

Justin Bates, Liberum

Okay thank you very much.

John Phizackerley, Chief Executive

Thank you very much everybody, thanks for coming. See you next time.