Preliminary Results for the Year Ended 31 December 2019

Presentation transcript

10 March 2020

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Introduction
Nicolas Breteau, Chief Executive Officer

1.0 Introduction

Thank you. Good morning everyone, and thank you for dialling in.

We are announcing our Full Year Results by conference call this morning because of concerns about the strain of COVID-19.

This is our agenda for the morning. I will start with a brief introduction, Robin will take you through the financial performance, and, after that, I will talk in more depth about our four business divisions before we are put up for questions.

As we have announced that we will hold an Investor Day on June 17th, our focus today is on our performance over the last year, and the outlook for 2020. I will also share some insights about our future strategies.

I'll start with the financial highlights on the next slide. Another reminder, this is the first full year that we report under IFRS 16.

We delivered a resilient performance in 2019. Global Broking experienced mixed market conditions, but we benefited from increasing diversification, as our other business divisions, Energy & Commodities, Institutional Services and Data & Analytics all generated double-digit revenue growth.

Overall, revenue grew 4% on a reported basis, or 1% on a constant currency basis, to just about £1.8bn.

Underlying operating profit increased 1% on a reported basis to £279m, including a negative impact of £8m from exchange rates.

Underlying operating profit margin was 15.2%, and profit before tax was £230m.

Earnings per share for the full year were 33.8 pence. And our total dividend for the year is in line with our guidance, at 16.85 pence.

Turning to the next slide, this time last year I told you that we had four immediate priorities; delivering the integration, strengthening our management and governance, creating a risk framework appropriate for the size of the business, and putting in place preparations for Brexit.

I'm pleased to say that we have now largely completed these priorities, and this gives us a strong foundation from which to deliver growth.

Before I hand over to Robin, I'd like to remind you briefly of the extensive work we've done to achieve this, starting with integration.

I'm very pleased to report that the integration is now complete. We have delivered synergies of £80m, and the total of integration was £164m, above guidance, but delivering recurring synergies that are £5m above our revised target.

We would not have achieved this without relaunching the process under our new Chief Operation Officer, Martin Ryan, who put in place a detailed implementation plan with proper governance.

We have integrated our management structures, consolidated our offices, largely completed a systems integration, and built out our shared service centre in Belfast where we now have 300 people.

We're on track to move most of our London employees into one building in Bishopsgate towards the end of this year.

The major benefit of the integration is that we have now consolidated both businesses onto a common platform that is scalable, capable of innovation and which enables us to increase efficiency and reduce operational risk. In other words, it gives us the infrastructure we need for future growth.

Now, let's turn to management and governance on the next slide.

My first priority when I took up my role was to put in place a senior management team that could meet the immediate needs of delivering the integration and stabilising the business. But we also had to create a team capable of implementing our future growth plans.

In total, we have 12 new people in the 15-strong senior team. I'd like to single out the two most recent appointments - a new Head of Global Strategy and a new Chief Transformation Officer, which signals that we intend to take an equally rigorous approach to our strategic development execution as we have to integration.

At the same time, we have put much stronger governance and better controls in place. First, we moved responsibility for P&L from the regions to our four business divisions, which are more closely in touch with client needs.

Our new regional CEOs are now responsible for risk management, control and support functions as well as managing our relationship with local regulators. This creates much clearer lines of accountability and stronger governance.

You will see this new structure reflected in the way we report our performance by business division for the first time today.

Second, we continue to reduce the number of legal entities in the Group in order to simply our business, reduce government costs and make the flow of funds to Group more efficient. We've made good progress so far and reduced the overall number by about 80.

And, third, subject to regulatory and shareholder approval, we are proposing to incorporate a new Group holding company in Jersey, given the size of our business in the US and Asia after the acquisition.

Together, with reduction in legal entities, this gives us more financial flexibility, greater ability to compete, and effective governance. We expect to issue a prospectus and circular in the second quarter.

Moving to the next slide - another essential building block we put in place last year is a new risk framework that takes into account the larger scale and greater diversity of the business.

We designed and implemented our new Risk Management Framework in 2019, and we're now embedding this within the organisation.

This framework is an important enabler for managers to discharge their responsibilities under the Senior Managers Regime, which came into force at the end of 2019.

It's also a key factor in the assessment of regulatory capital. On the basis of the work we've done so far, we've been able to release about one third of the increased capital requirements of £87m imposed by the FCA in 2018.

Now, let's move onto Brexit. Putting plans in place for Brexit to ensure we can continue to serve our clients under all scenarios, including no deal, has been a significant operational challenge, but let me remind you that about 90% of our current broking revenues are largely unaffected.

Over the last year, we've put measures in place to protect two business streams that are affected by Brexit. The first, it's a business we carry out in the EU for EU clients, and the second is the work we do for EU-based clients through our broking desks in the UK.

As a result of our preparations for these two business steams, we now have a much stronger footprint in Europe.

We've set up a new legal entity in Paris called TP ICAP Europe, along with three new venues that are MiFID II compliant.

We've also relocated iSwap, our electronic MTF, to Amsterdam.

Last December, we announced our proposed acquisition of Louis Capital. Louis Capital specialises in cash equities, equity derivatives, fixed income and small cap advisory services. It has a strong customer franchise in Continental Europe. It adds over 70 brokers to our business and offers a breadth of products that complements our existing offering. We expect, this year, to complete, during this quarter, pending regulatory approval.

Ultimately, the eventual distribution of brokers across the EU and the UK will depend on our clients' requirements, but we expect the UK to remain our largest market.

So, as I look back over the last 12 months, I believe we've made significant progress. The ICAP acquisition has given our greater scale, more liquidity as well as a platform from which to attract new talent, incubate new products and accelerate our entry into the buy side.

With the integration complete, and all the necessary building blocks in place, we're now in a position to take full advance of these benefits, and to focus on delivering on future growth.

I’d like to hand over to Robin now to take you through the numbers.

Financial Review
Robin Stewart, Chief Financial Officer

2.0 Financial Review

Thanks, Nico, and good morning, everyone.

As you've heard, we delivered a resilient performance in 2019. Global Broking experienced mixed trading conditions, and our other three divisions all generated double-digit revenue growth as we benefited from increasing diversification.

We are also pleased to report that the integration is now complete, and has delivered £80m of synergies, £5m above our advised targets.

I'm using numbers of reported exchange rates today, except for revenue, which is on a constant currency basis, and I'll focus on the underlying performance of the business before exceptional one-offs and acquisition-related items.

We are also reporting today, for the first time, a breakdown of operating profits by business division, which includes the costs of data acquired by Data & Analytics from our Broking businesses.

So, starting with the income statement - Revenue grew 4% on a reported basis, or 1% on a constant currency basis, to just over £1.8bn.

Underlying operating profit was up 1% to £279m. And operating profit margin was 15.2%, 50 basis points down from last year, mainly as a result of adverse foreign exchange rates.

Net finance costs were £49m, and this includes an increase of £11m as a result of IFRS 16, which we told you about at the half year. This resulted in profit before tax of £230m.

The tax rate was 23.9%, slightly lower than our guidance.

Net income, before exceptional items, was £189m, and underlying earnings per share were 33.8p, and this includes an adverse impact of 0.5p as a result of IFRS 16.

There's more detail on the impact of IFRS 16 on the income statement in the appendix.

Turning now to the revenue where we are reporting on a constant currency basis to give you a more accurate picture of our performance. We're reporting revenue for the sale of data transferred between Global Broking and Energy & Commodities and our Data & Analytics divisions for the first time today. In effect, this is what Data & Analytics would have to pay to acquire this data from an external provider.

You can see on the chart, at the top of this slide, revenue of £18m for Data in Global Broking, and £3m in Energy & Commodities.

Revenue involved broking was down 3% to just under £1.3bn. I'll talk more about the performance by asset class in a moment.

Energy & Commodities grew 11% to £382m, and this was driven by three factors; there was strong growth in oil, power and gas, we made additional hirers during the year as we built out the ICAP Oil business and we benefited for the first full year of ownership of Axiom.

In Institutional Services, our agency execution business grew 21% to £75m, with a strong performance in all of its core product areas - foreign exchange, listed derivatives, relative value execution and cleared interest rate swaps.

The Global Broking relative value business from rates is now included in Institutional Services, where we acquired a relative value debt with Coex.

Data & Analytics revenue was up 11% to £135m as it leveraged proprietary data to launch many more new products in 2019. It also enlarged its salesforce and grew its client base during the year.

Looking at Global Broking revenue by asset class in the middle pie chart, the Rates business grew 1% to £537m, with a weaker performance in the first half, offset by increased volatility and stronger volumes in the third quarter. This was triggered by political uncertainty over Brexit, the US/China trade war, and the first rate cut from the Fed in 11 years.

Market conditions in other asset classes were challenging. Foreign Exchange & Money Markets, Emerging Markets and Equities, all declined as a result of subdued market volumes. Credit was down 10%, reflecting increased competition.

Looking at revenue by region, EMEA grew 1% to £900m, the Americas grew 3% to £687m, and Asia Pacific was down 1% to £246m as we closed loss-making operations in Singapore and Korea and lost some brokers in our Hong Kong office.

Moving to the next slide - Nico told you earlier that the business divisions now have responsibility for the P&L rather than the regions, so we are reporting operating profit by business division for the first time today. This includes the impact of the sale of data from our Broking business to Data & Analytics that I spoke about, and you can see here £18m of revenue in Global Broking and £3m in Energy & Commodities, alongside a cost of £21m to Data & Analytics, reported under Front Office costs.

You can also see an equivalent elimination figure of £21m in Corporate Centre in both the revenue and cost line to ensure overall Group numbers are accurate.

Front Office costs grew 2% to just over £1bn as a result of an increase in revenue, higher broker compensation in Global Broking together with a larger proportion of revenue and higher broker compensation in Energy & Commodities.

Looking at contribution, which is revenue less direct costs, overall Group contribution increased £15m to £694m, and contribution margin was 37.9% compared to 38.5% in 2018, reflecting the change in revenue mix I just mentioned.

We are showing the allocation of management and support costs by division for the first time to give you a full understanding of operating profit and margin. Management and support costs grew 2% to £431m, and this includes an adverse impact of £8m for foreign exchange rates.

Looking at the underlying operating profit margin, this decreased in Global Broking for 19.9% to 17.5%, driven by higher broker compensation and increased third party clearing costs.

Operating profit margin in Energy & Commodities increased from 9.6% to 12% on the back of strong revenue growth.

Institutional Services is our newest and smallest business division, and it delivered operating profit margin of 4% as the business continues to scale.

Data & Analytics benefits from a high operational leverage, and it improved margin from 41.9% to 43.7%.

The next slide shows movement in management and support costs year-on-year. This bridge shows and overall increase of £9m on a constant currency basis. We recognise a further £10m of synergy savings in the P&L in 2019, and this brings the total annualised synergies savings achieved from the integrations to £80m.

Net cost decreases related to lower costs for support staff, offset by some ongoing legal costs in the US.

We told you last year that we were planning to invest an additional £15m in the business during 2019. In fact, we invested £13m, of which £7m is shown here in management and support costs, with the remaining £6m invested in the Front Office in Data & Analytics, which is reflected in their contribution.

Planned costs also increased by £13m, slightly less than our guidance of £15m, and this included costs to improve cyber security, risk management and compliance as well as preparations for Brexit.

We incurred a foreign exchange loss of £8m, and this arose from the retranslation of cash and financial assets on the balance sheet as a result of sterling strengthening over the year.

And, finally, there was a £7m reduction in the cost of operating leases as a result of IFRS 16.

Now, moving on to look at operating profit and margin by region - As I said earlier, overall operating profit grew 1% to £279m, and operating profit margin was 15.2%. Profit was down 5% to £164m in EMEA as higher revenues were offset by increased investment costs and adverse currency movements, and this resulted in a margin reduction from 19.5% to 18.2%.

In the Americas, profit grew 16% to £94m, and margin increased from 12.7% to 13.7% as revenue grew and costs reduced year-on-year.

In Asia, operating profit of £21m was 5% lower than 2018, and margin fell to 8.5% as a reduction in management support costs was more than offset by its revenue decline.

I'm going to talk now about exceptional one-offs and acquisition-related items that are not included in the underlying performance.

These amounted to £122m after tax. Integration costs of £34m comprised running the integration work streams and staff severance costs. The total cost of the three-year integration was £164m, £4m higher than our guidance, with the benefit of delivering annualised synergies that were £5m above our advised target.

There was also a recurring non-cash charge or £42m for the amortisation of acquired intangible assets arising on consolidation, and this relates to the value of brands and customer relationships.

We took at further non-cash charge of £24m for the impairment of goodwill allocated to Asia Pacific, driven by the decline in operating profit that I spoke about on the previous slide.

A net charge of £10m for legal settlements includes a fine of £15.4m paid to the FCA during the second half for historical issues relating to broker conduct, together with a true-up for a settlement with US regulators reported in the first half.

These items were partially offset by a £9m credit arising from the settlement of employment litigation with a competitor.

Many of these items will not recur, with the exception of the amortisation of intangible assets, but we expect to incur additional one-off costs in 2020 related to our proposal to create a new Group holding company in Jersey.

Moving now to the next slide - Underlying earnings increased to £189m, which translated into underlying earnings per share of 33.8p. On a reported basis, earnings per share more than doubled from 5.7p to 12p.

We committed to pay a total dividend of 16.85p each year throughout the integration period. A final dividend of 11.25p will be paid in May in addition to the interim dividend of 5.6p paid earlier in 2019.

Turning now to cash flow - Cash generated from operations amounted to £319m, up from £278m in 2018.

Depreciation of right-of-use assets reflects the reclassification of depreciation on leases as an interest expense under IFRS 16, and this is offset by higher interest payments show at the bottom of the table.

There was a net outflow of £2m from initial contract payments compared to £10m in the prior year.

And the working capital outflow of £21m was down from £29m in 2018.

Capital expenditure of £33m decreased from £73m. This is considerably lower than our guidance of £70m due to a delay in taking over the lease on a new office in Bishopsgate. As a result, some of the capex we expected in 2019 will now be made in 2020.

Interest payments increased to £53m as we refinanced some of our debt during the first half and reclassified depreciation on leases as an interest expense under IFRS 16.

Tax payments increased to £73m against a low comparator, mainly driven by the full utilisation of US federal tax losses in the prior year and a payment for tax losses to mitigate a prior liability.

The resulting underlying free cash flow was £160m, up from £130m year-on-year.

Moving on to look at the balance sheet - I want to comment on three areas here; pension assets, deferred tax and the impact of IFRS 16.

We no longer carry a £52m pension asset on the balance sheet relating to the defined benefit pension scheme in the UK. This is a result of our instruction to the pension trustee to wind up the scheme after they brought a bulk annuity policy from Rothesay Life.

As part of this wind up, we incurred £5m of exceptional costs, which are reported in the income statement. When the wind up completes, which we think will be around the end of this year, we expect the residual assets, net of deferred tax, of around £30m to be returned to the company as cash.

The removal of this pension asset has reduced our deferred tax liability from £123m in 2018 to £83m in 2019.

There was also an impact from IFRS 16 as we moved operating lease commitments onto the balance sheet. This resulted in the recognition of right-of-use assets of £91m and lease liabilities of £140m.

Looking now at debt, we issued a £250m Sterling Note last May at 5.25%, which matures in 2026. The proceeds from this we used to refinance the £18m bond that matured at the end of June, pay down the outstanding drawing on the revolving credit facility and buy-back £69m of our £500m bond that matures in 2024. As a result, our debt has increased to £689m.

Total debt of £829m includes £140m of lease liabilities as a result of IFRS 16. This liability is excluded from our banking covenant calculation.

You can see on the next slide that our total cash, cash equivalents and financial investments increased from £800m to £824m. £723m of this is held in 61 regulated entities, £76m is held in non-regulated entities for working capital purposes, and £25m is held in corporate entities.

Now, moving on to look at our net funds - this slide shows you the movement in total funds and debt that I've just taken you through.

You can also see that the impact of IFRS 16 has moved our net funds position of £135m to a net debt position of £5m through the recognition of £140m of lease liabilities. I repeat, this is excluded from our banking covenants calculation.

Before I close, I'd like to remind you of our obligations under CRD IV. When we completed the acquisition of ICAP, the FCA granted us a 10-year waiver from consolidated capital supervision tests in line with other limited licenced firms, like ours. Instead, the Group only has to comply with the Financial Holding Company Test.

We currently have a deficit under the Consolidated Supervision Test as Goodwill is not eligible capital under CRD IV. The only eligible capital is Net Tangible Capital. And the Group is eliminating its capital deficit through retention of earnings, and we need to set aside around £25m a year to be compliant by the time the waiver expires at the end of 2026.

In July 2019, the allowable deficit reduced for the first time by 25% in line with our agreed plan with the FCA, but we remain well within that allowance deficit.

I'd like to close with some guidance for the current financial year. We continue to expect low single-digit revenue growth assuming no significant change in market conditions. We anticipate broker compensation of at least 53%, net finance costs of around £50m and the effective rate of tax to be 25% in 2020.

We continue investing in the business to generate long-term growth and will provide a detailed outline of our growth plan at our Investor Update in June.

We intend to invest an additional £45m in 2020, of which £15m will be operating expense and £30m will be in the capex line.

Nico will talk later about some of the projects we are currently undertaking.

We anticipate total capital expenditure for 2020 of around £80m, which includes this additional investment as well as taking over the lease on a new building in Bishopsgate.

Finally, as we continue to invest in the future growth of the business, we expect to grow the dividend over the long-term within the framework of these ambitions. We will set out our Capital Allocation Policy after our Investor Update in June.

For 2020, we commit to at least maintaining our dividend of 16.85p.

A note on current trading before I hand back to Nico - whilst many companies are reporting subdued levels of activity as a result of the Coronavirus epidemic, increased volatility has been positive for our business, and the year has started well, especially in Energy & Commodities.

So, in summary, we delivered a resilient performance in 2019 in mixed market conditions, we've increased the transparency of our reporting today in order to give you a better understanding of the profitability of our business divisions, and we're pleased that the integration is now complete.

We are now in a position to focus on driving future growth.

I'll hand over to Nico now to talk more about that.

Business Update
Nicolas Breteau, Chief Executive Officer

3.0 Business Update
Thank you, Robin.

We're now moving to Slide 27. As you know, TP ICAP is the world's largest interdealer broker. We are also a leading intermediary in energy and commodities. We are building a strong buy side agency franchise, and we are the largest provider of OTC data.

But we operate in an industry going through enormous change. Market structures are evolving. Clients are looking for more efficient ways to discover prices, access liquidity and get their trades confirmed.

Regulation is increasing and driving demand for new services.

Our three strategic themes, which I have talked about before, will enable us to capitalise on these trends.

The first theme is aggregation of liquidity. Putting Tullett Prebon and ICAP together has given us leadership in almost all the markets in which we operate. Tullett gives us leadership in foreign exchange and money markets, ICAP gives us leadership in rates and equities. Together, they give us the deepest liquidity pools in the industry.

We want to continue to operate using both brands because they are brands that our clients relate to, but we also want to give clients access to the liquidity of all brands so that they find the best price while we grow our market share.

My second theme, electronification, is closely linked to this. Our ability to offer clients access to aggregated liquidity via single-user interface depends on technology, but we also want to increase the amount of business we delivery electronically to improve client connectivity, and also to facilitate efficient workflows and post-trade processing.

Third is diversification. We are already seeing the benefits of diversification as our three fast-growing business divisions delivered double-digit growth in 2019. They now represent about one third of our revenue and contribution.

But there is scope to diversify our offering further in order to serve the buy side in all those markets, maximise the value of our data and grow other non-broking revenues through both, pre and post-trade services.

As I said earlier, we have also an Investor Update on June 7th. In advance of that, I want to give you some insights into how we are taking TP ICAP forward now that the integration is complete. So, I will elaborate further on these themes as I talk about each of our four business divisions, starting with Global Broking in the next slide.

Global Broking is our largest division, operating more than 10 regulated venues around the world, and is a core component of the OTC market infrastructure.

As the leader provider, Global Broking enjoys long-running relationships with all the major investment banks, but our biggest clients in Global Broking face cost and balance sheet pressures which are driving changes in their business model, and we must respond.

We need to deliver our services both more efficiently to meet their needs and more profitably to meet ours. At the same time, we want to leverage our most precious asset in Global Broking, which is liquidity.

Our Global Broking strategy is based around electronic hubs that create a seamless experience for our clients. These hubs offer a single point of liquidity for clients across our brands, from screens with a common look and feel together with robust post-trade processing.

Our plan is to create a rates hub and FX hub, and, eventually, bring these together into a macro hub. So, our execution will be global, multi-product and multi-brand across several years.

To give you some early examples on how we are increasing electronification and aggregation in Global Broking, last week we successfully launched a foreign exchange options platform with both request or core functionality and essential limit order book. This platform enables real-time low-cost execution for all strategies, and we already have live-streaming from top tier market participants.

We also launched a single sign on portal in Asia last year giving clients access to both Tullett Prebon and ICAP liquidity in rates and FX products in specific currencies.

Our strong market share in major asset classes positions us very well to deliver hubs, offering liquidity across all our brands in an efficient low-touch manner.

The key organic earnings drivers for Global Broking will be increasing the share of low-touch execution, broadening our range of pre and post-trade services, to help our clients achieve better costs and balance sheet outcomes and making our services relevant to a wider range of bank customers.

I move on now to Energy & Commodities. TP ICAP is a leader in the OTC energy markets, with an especially strong position in oil where we have an estimated share of around 70% of the OTC market.

Commodities markets have always been all to all with a wide range of market participants.

You can see from the pie chart on the right that commodity producers and consumers, and physical commodity trading firms represent the largest share of our activity.

I think Global Broking is also a valuable service provider for banks.

And we have a growing number of buy side customers over a relatively small portion of activity today.

Commodity markets are evolving. Buy side activity continues to grow as financial market participants seek diversification away from traditional asset classes.

And much of the OTC market is now cleared, which has helped asset managers and hedge funds to get more involved. The themes of aggregation, electronification and diversification are all evident in our strategy for this division.

We operate three main brands in Energy & Commodities; Tullett, ICAP and PVM.

I've spoken before about our electronification strategy for oil. We're in the process of introducing an electronic-wide board for all the management systems that will be used first for our brokers and then rolled out for clients.

These oil hub will eventually allow clients to view the regular liquidity, offered by our competing brands, and to execute electronically via a range of low-touch protocols.

I've also spoken about the machine learning tool we are developing. This will help our brokers anticipate current activity more easily and also improve productivity across broker teams.

In addition, we are diversifying our sources of revenue by product, by geography and client base. For example, last year we launched a new ICAP weather derivatives desk. We have announced a new joint venture in China called Enmore Commodity Brokers, offering services in iron ore, LPG and Naphtha. And we plan to diversify our client base further by developing our offering for the buy side.

We think there's also an opportunity to make bolt-on acquisitions since the business on Energy & Commodities is still highly fragmented, especially in the US.

Moving on now to Institutional Services, which is a key example of diversification.

This division provides agency execution to the buy side, and our clients here are large hedge funds and asset managers. We focus on liquid markets and provide clients with best execution by seeking liquidity from multiple dealers and venues.

The role of an agency broker is to help clients with every stage of the trade lifecycle, from trade selection and optimisation, to order management and routing, to trade performance and post-trade analytics.

Clients trust us to act impartially on their behalf to achieve the best outcomes across venues because we are not engaged in principal trading or market making activity ourselves.

We offer execution across a range of products, including foreign exchange, exchange-traded and cleared derivatives, government bonds and cash equities.

The strategy for Institutional Services is very much about continuing to grow and also to diversify. We're adding more assets classes to our coverage, we are broadening our geographic reach and we also plan to invest in further electronification.

Let's move now to Data & Analytics.

Data & Analytics is our highest margin business, and its revenue is subscription-based and sticky, so it provides us with excellent earnings diversification.

TP ICAP is a leading provider of OTC data. We have a long time service of order and trade data across a wide range of asset classes, and we distribute our data through third party vendors as well as directly.

Our client base has strictly been dominated by banks, but we now have a growing number of other customers.

There are several reasons why demand for data is growing. This includes growing risk management requirements as well as regulatory drivers. Clients need data to meet the demands of mandatory pre and post-trade reporting.

We expect our growth over the next few years to derive from a number of areas. We plan to continue increasing the number of debt assets we make available to our clients. This includes our own deficit, but also third-party content.

We are progressively adding more diverse clients. We see an opportunity to move further up the valve chain in order to provide insights as well as data. Do you remember, we recruited talent in risk products, benchmarks and indexes last year in order to help us do this.

And, importantly, we are managing our distribution channels more efficiency as well as targeting new distribution partners. For example, last year, we launched our first product with Amazon's cloud-based data exchange, AWS.

Growing our Data & Analytics division not only improves our margins and diversifies our revenue streams; it also supports the development of our broking businesses by feeding data back to them.

So, let me conclude. I told you when we last met that 2019 was a pivotal year as we put the foundations in place for the next stage of the company's development.

The integration is now complete. We have a common infrastructure that is scalable, flexible and capable of future innovation. We have much stronger governance and controls in place. And we have a senior team focused on delivering future growth.

Aggregation, electronification and diversification will be key themes as we implement our growth plans.

We will talk in more detail about these plans at our Investor Update. I am sure all they will help to improve our operating margins, drive earnings growth and strengthen the quality of earnings over the medium-term.

Thank you very much. We're happy to take any questions.

Questions & Answers

4.0 Questions and Answers

Telephone Operator

Thank you.

So, as a reminder, that if you would like to ask a question via the audio lines, it's '*1' on the telephone keypad.

We currently have no questions coming through, so, as another reminder, it's '*1' on your telephone keypad if you would like to ask a question.

Facilitator

We have a question from Shore Capital, Paul McGinnis - under the new structure there appears to be both regional CEOs and heads of business divisions. Can you explain the reporting lines under this new arrangement?

Nicolas Breteau, Chief Executive Officer

Yes, of course.

So, as I explained, we've changed the governance, splitting the roles where the business and division heads are responsible for the P&L, for the revenue, because they're closely aligned with the clients. And the regional CEOs are really making sure that we deploy the right resources to support and control the business.

Both for heads of divisions and three regional CEOs report directly to me.

Facilitator

Thank you very much.

Another question from Shore Capital. This time from Vivek Raja - how might the move in holding company impact capital requirements and, in particular, the £25m you've been retaining annually? If you can't give clarity now, when would you expect to be able to do so?

Robin Stewart, Chief Financial Officer

We can't give you that clarity today. We absolutely will give you full clarity at our Investor Update in June. Just reminding people that there is a circular and prospectus to go out in the next few weeks, and the transaction that we're looking to do requires both change of control consent from regulators globally, but it also needs shareholder approval at the AGM in May, and that's why we'll wait until June.

Facilitator

Thank you, Robin.

Just a follow-up question to that, so staying with Vivek Raja from Shore Capital - As you grow the Institutional Services business, how are you managing retention with the traditional IB clients?

Nicolas Breteau, Chief Executive Officer

That's a very good question.

We are specifically focusing on the agency execution, IS. We are focusing all to all markets primarily. This is why we listed futures and options.

So, there is no conflict with our traditional client base because they're all to all markets.

And for other asset classes, the way we operate is to consolidate liquidity from a variety of venues and sources. So, we are actually channelling volume to the banks and that works very well as a semi-complement to their salesforces.

Facilitator

Thank you.

I'm going pass you back to the conference, and I believe we've got some questions there from some callers.

Telephone Operator

Thank you.

So, the next question comes in from the line of Justin Bates calling from Canaccord. Justin, please go ahead.

Justin Bates, Canaccord

Good morning, gentlemen.

Thank you for just flagging that it's been a good start to the year. I wonder if you could just provide a bit more colour on which asset classes in particular, oil versus rates, etc.

Robin Stewart, Chief Financial Officer

Thanks for the question, Justin.

I think it's fair to say that you'll recall that the energy markets were buoyant at the back end of last year, and it's fair to say that that buoyancy has continued into this year, through both months of trading that we've had, and more so you've seen some interesting activity on the oil markets yesterday.

On the Global Broking side, a different story. As I said earlier, we had a bit of a sluggish H1 last year, a very buoyant Q3, and then a slowdown in Q4, certainly in volumes. You obviously saw lots of activity or lots of improvement in the banking results, but that was more about asset class revaluation, not coming from flow.

That slow flow continued into January, but we've seen a huge pick up in February, and that continues today. And that's across all asset classes in Global Broking.

Justin Bates, Canaccord
Thank you very much.

Telephone Operator

The next question comes in from the line of Ryan Gandy (?) calling from Charles Stanley. Please go ahead.

Ryan Gandy (?), Charles Stanley

Hi, guys.

I just wanted to know if you could define specifically what areas you think the future innovation would be, if you could give a bit more detail on that. And also, since the acquisition, are you now in a stage of reducing broker headcount or are you actually growing broker headcount?

Nicolas Breteau, Chief Executive Officer

So, regarding the areas for investments, we will give you more details in June, but, as I said before, we want to primarily work on the electronification of our business, and we want to develop solutions to pool the liquidity together from our various brands and deliver that to our clients.

So, a big part of our investments in broking areas will be around platforms, to be able to consolidate liquidity and deliver that in an efficient manner to our clients.

We're also looking at areas in pre-trade connectivity, but also post-trade services, to make sure that we deliver very efficient straight-through processing to our clients.

In the areas of Data & Analytics, as I briefly mentioned, we have the capacity to develop ourselves organically by sourcing more debt assets from our existing broking business. We will acquire external third-party debt assets as well. We're working on our distribution to improve distribution through third parties but also develop direct distribution solutions.

We're also looking at opportunities to increase the value of our products, going up in the value chain.

So, we have a very exciting set of initiatives that will be rolled our gradually. We've started in 2020 with around 30 major projects, but we will give you more colour in June about that.

Ryan Gandy (?), Charles Stanley

Okay. Thank you.

Facilitator

One question online again from Lakshay Thakur at Merian Global Investors - with the brokers potentially working from home, have you seen any disruption so far from the virus? And do you do you need to invest further to enable your brokers to have the right resources to be able to perform their work?

Nicolas Breteau, Chief Executive Officer

So, we have rolled out a global plan about the virus. It's a plan with information. It's a plan with gradual travel bans. So, we started with several regions in the world, and now we've gone through a full world travel ban. We're e-meeting contacts with external parties, clients or third-party providers. We are, indeed, facilitating work from home, but not for brokers. For non-brokers exclusively. So, management and support functions and control functions could work from home.

We are, regarding the brokers, delivering a different strategy. It's a strategy of splitting the teams and containment.

So, we are taking the benefit of operating from various sites. In London, for instance, we have an office at Broadgate with two floors. We have another office in Bishopsgate with two floors. We have Victoria. We have Jermyn Street. And our strategy is to contain.

So, we are splitting the population by floor, and we also sending people to operate from our front row disaster recovery site.

So, we want to, if you want, multiple the options to have up-and-running teams split from one another.

Telephone Operator

As a final reminder, that if you would like to ask a question via the audio lines, please press '*1' on your telephone keypad.

We do have one final question coming through from the line of Vivek Raja calling from Shore Capital. Please go ahead.

Vivek Raja, Shore Capital

Hi. Good morning, gentlemen. And sorry to bombard you with questions today. I've got a couple of questions, please, if I could.

The first one relates to, Nico, you talked a lot about aggregating the liquidity across the different brands and, obviously, that makes sense, but I thought that was a key part of obtaining regulatory approval for the consolidation in the first place, so I just wondered if you could comment on that?

And the second question I had was about the broker compensation ratio. Now, I appreciate, you know, there are moving parts to this, but if you could you give us a steer of where you think you can get that ratio down to and, particularly in the near-term, if revenues are flat, what can you do to sort of manage that number? Thanks.

Nicolas Breteau, Chief Executive Officer

Okay. I'll start with the aggregation questions.

So, there was no constraint in terms of regulatory approval regarding the separation of brands, but we decided to keep separated brands because we think it's the best way for our brokers and for our clients. And we intend to keep separated brands.

But what I want to develop is the ability for the clients to have access to liquidity from two, sometimes three brands. If I take the energy market, we have Tullett, we have ICAP, we have PVM. While we're keeping the brokers separated, and the brands separated, we want to give the opportunity for the clients to access the best price and the best liquidity at any given time.

So, that's important because you will guarantee best execution for the clients, but also, it's a cross-selling exercise for us.

When have a leading brand, this brand will help the others to catch up, if you want.

So, that's why I believe that's a strong benefit of having done this acquisition. It's by having built up the largest pools of liquidity, and we want to monetise, we want to leverage that.

Regarding the compensation ratio, we are implementing a strategy with a view to grow our low-touch business. A bigger portion of our revenue will be made from electronic venues. But, as we execute that strategy, we still have to protect our revenue stream. And our industry remains ferociously competitive for clients.

So, we think that our two closest competitors have higher compensation ratios than we do. We compensate that by offering technology to our brokers, but also having the largest pools of liquidity. If I take the euro swap, for instance, it is clear.

So, our target is to control the compensation ratio, and, as an output of that strategy, is gradually reduce that in the medium-term.

Vivek Raja, Shore Capital

Thank you very much.
