

Tullett Prebon plc

Interim Results 2014

July 2014





Terry Smith
Chief Executive



Introduction

- Challenging market conditions
- Revenue down 15% at constant FX
- Operating margin 14.0%
- Cost improvement programme
- Interim dividend 5.6p per share – 50% of 2013 final dividend

Market Activity

- Financial market activity subdued
- Volatility at post-crisis lows
- Onerous regulatory environment for banks
- OTC market regulations : uncertainty and fragmentation

Costs

- Broker compensation costs as % of broking revenue:
 - H1 2014 : 56.7%
 - H1 2013 : 58.2%
 - H1 2012 : 59.7%
- Regulatory readiness project costs:
 - H1 2014 : c.3% of revenue
 - H1 2013 : c.1.5% of revenue
 - H1 2012 : c.0.5% of revenue

Cost Improvement Programme – Benefits

- Reduction in annual fixed costs of over £40m
- Headcount reduction:
 - 160 front office
 - 50 back office
- Vacating office space
- Annualised operating profit benefit £35m
- H2 2014 operating profit benefit c.50% of £35m

Cost Improvement Programme – Costs to achieve

	Total Programme	H1 2014
Cash charges	c.£24m	£9.2m
Non-cash charges	c.£18m	£16.2m
Provision against grant receivable	£3.2m	£3.2m

PVM

- Acquisition agreed 9 May 2014
- A leading independent broker of oil instruments
- Consideration \$160m:
 - initial \$112m
 - deferred \$48m: paid after 3 years dependent on revenue
- Financial performance – year to 31 July 2013:
 - Revenue \$107.5m
 - PBT \$18.2m
- Revenue 10 months to May 2014 up on prior year

PVM – Rationale

- Increase scale in Energy
- Diversify customer base
- Significant presence in crude oil and petroleum
- Expand Information Sales data offering

Completion is subject to FCA change of control and other approvals

Electronic Broking

- Most OTC product markets depend on voice broker support
- Hybrid model
- Electronic broking platforms provide:
 - pure electronic execution
 - execution with voice broker support
 - streaming prices and analytics
 - auction capability
 - order management
 - trade capture and reporting

tpSEF

- Trade execution and reporting services compliant with US regulations
- Utilises the group's electronic broking platforms
- Trade capture and reporting since October 2013
- Execution of certain "MAT" instruments since February 2014
- Market shares of IDBs stable

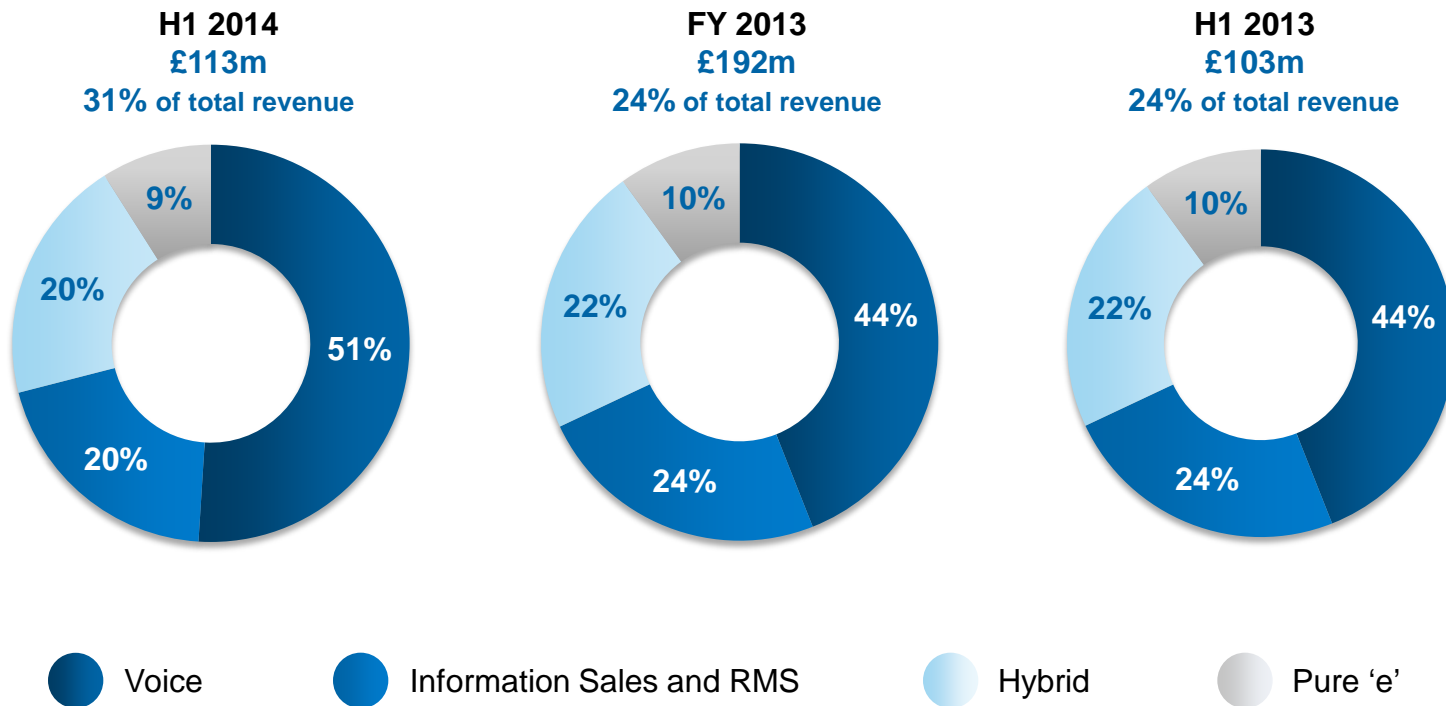
Information Sales

- Inside Market Data magazine:
 - Best Data Provider (Broker) Award – fourth consecutive year
- Continued expansion of customer base
- Addition of new content sets

Electronic Broking – Revenues

Revenues from products supported by electronic platforms plus Information Sales

Proportion of Revenues by Type



Litigation Update

- United States:
 - FINRA arbitration outcome determined in July
 - \$33.3m awarded to the group's subsidiaries
 - \$6.3m to be paid by the group's subsidiaries
 - RICO action, scheduled for trial in the autumn
 - £4.4m H1 costs – exceptional item

Financial Performance

£m	H1 2014	H1 2013	Change
Revenue	360.3	439.8	-15%*
Underlying Operating profit	50.3	71.4	-28%*
Underlying Operating margin	14.0%	16.2%	-2.2%pts

**at constant exchange rates*

Revenue by Product Group

£m (2013 at constant exchange rates)

H1 2014

H1 2013

Change

Treasury products	96.9	110.2	-12%
Interest Rate Derivatives	70.6	93.1	-24%
Fixed Income	103.0	119.8	-14%
Equities	20.3	21.9	-7%
Energy	46.6	53.9	-14%
Info Sales/Risk Management Services	22.9	23.7	-3%
	<u>360.3</u>	<u>422.6</u>	<u>-15%</u>
Exchange translation		17.2	
	<u>360.3</u>	<u>439.8</u>	<u>-18%</u>

Revenue by Region

£m (2013 at constant exchange rates)

H1 2014

H1 2013

Change

Europe and the Middle East

209.0

254.2

-18%

Americas

102.7

117.8

-13%

Asia Pacific

48.6

50.6

-4%

360.3

422.6

-15%

Exchange translation

17.2

360.3

439.8

-18%

Underlying Operating Profit & Margin by Region

£m	Underlying Operating Profit			Underlying Margin	
	H1 2014	H1 2013	Change*	H1 2014	H1 2013
Europe and the Middle East	43.0	57.9	-25%	20.6%	22.7%
Americas	2.7	7.7	-61%	2.6%	6.0%
Asia Pacific	4.6	5.8	-8%	9.5%	10.3%
	<u>50.3</u>	<u>71.4</u>	<u>-28%</u>	<u>14.0%</u>	<u>16.2%</u>

**at constant exchange rates*

Performance Measures

	H1 2014	H1 2013	Change
Average broker headcount	1,654	1,710	-3%
Average revenue per broker	£204k	£243k	-12%*
Broker employment costs : broking revenue	56.7%	58.2%	-1.5%pts
Broking support headcount (period end)	733	737	-1%

**at constant exchange rates*

Broker Headcount

Period End

June 2014

December 2013

June 2013

Europe and the Middle East

762

816

821

Americas

490

512

520

Asia Pacific

343

359

363

1,595

1,687

1,704

Total Headcount - Movements

	Brokers	Support	Other*	Total
At 31 December 2013	1,687	747	162	2,596
Net hires / (attrition)	(5)	6	(10)	(9)
Cost improvement programme to date	(87)	(20)	(2)	(109)
At 30 June 2014	1,595	733	150	2,478
Cost improvement programme expected H2	(73)	(20)	(8)	(101)
Proforma	1,522	713	142	2,377

*Corporate, Information Sales and RMS

Comparison with Sector – RoE

Return on Equity	5 year Average*
ICAP	10.10%
Tullett Prebon	18.63%
BGC Partners Inc	10.46%
Tradition	10.40%
GFI	0.17%

**source: Bloomberg*

Comparison with Sector – most recent 6 months

Most recent published 6 months (see appendix for basis)	Revenue £m	Revenue Change Year on Year %	Operating Margin %
<i>ICAP - 6 months to March 2014</i>			
- Electronic Broking	124	-7%	41.9%
- Post Trade Risk and Information Services	109	4%	48.6%
- Voice Broking	428	-12%	8.6%
ICAP (All activities)	661	-9%	21.5%
Tullett Prebon	360	-18%	14.0%
BGC Partners Inc – 6 months to March 2014	312	-7%	2.6%
Tradition	287	-11%	3.0%
GFI – 6 months to March 2014	225	-1%	2.2%



Paul Mainwaring
Finance Director



Profit & Loss

£m	H1 2014			H1 2013		
	Underlying	Exceptional Items	Total	Underlying	Exceptional Items	Total
Revenue	360.3		360.3	439.8		439.8
Operating profit	50.3		50.3	71.4		71.4
Exceptional charges:						
Major legal actions		(4.4)	(4.4)		(10.3)	(10.3)
Cost improvement programme		(28.6)	(28.6)		-	-
Acquisition costs		(1.3)	(1.3)		-	-
Operating profit	50.3	(34.3)	16.0	71.4	(10.3)	61.1
Finance income/(expense)	(7.1)		(7.1)	(8.6)		(8.6)
Profit before tax	43.2		8.9	62.8	(10.3)	52.5
Tax	(9.3)	2.2	(7.1)	(14.6)	1.7	(12.9)
Associates	1.2		1.2	0.9		0.9
Minorities	(0.2)		(0.2)	(0.3)		(0.3)
Earnings	34.9	(32.1)	2.8	48.8	(8.6)	40.2

Finance Income/(Expense)

£m	H1 2014	H1 2013
Interest receivable on cash balances	0.7	0.8
Payable on Sterling Notes	(7.3)	(7.3)
Bank loan	-	(0.2)
RCF commitment fee	(0.8)	(0.7)
Amortisation of debt issue costs	(0.6)	(1.7)
Other interest	(0.2)	(0.2)
Cash interest and fees	(8.2)	(9.3)
Net pension scheme income	1.1	0.9
Amortisation of discount on deferred consideration	-	(0.2)
Non-cash interest	1.1	0.7
	(7.1)	(8.6)

Taxation – Underlying

£m	H1 2014	H1 2013	FY 2013
Underlying Profit before tax	43.2	62.8	99.6
Effective rate of tax	21.5%	23.2%	22.5%
Tax charge on underlying Profit before tax	(9.3)	(14.6)	(22.4)

Taxation – Exceptional Items

£m	H1 2014	H1 2013	FY 2013
Exceptional items	(34.3)	(10.3)	(15.2)
Effective rate of tax	6.4%	16.5%	15.8%
Tax relief on exceptional items	2.2	1.7	2.4

EPS

	H1 2014	H1 2013
Underlying Earnings	<u>£34.9m</u>	<u>£48.8m</u>
Weighted average number of shares	217.8m	217.8m
Basic Underlying Earnings per share	<u>16.0p</u>	<u>22.4p</u>

Operating Cash Flow

£m	H1 2014	H1 2013
Underlying Operating profit	50.3	71.4
Share based compensation and other non-cash items	0.5	0.6
Depreciation/amortisation	6.7	6.1
Accelerated depreciation – fire damage	-	1.5
EBITDA	57.5	79.6
Capital expenditure	(4.0)	(8.7)
Decrease in initial contract prepayment	7.4	4.2
Working capital	(33.1)	(26.1)
Operating cash flow	27.8	49.0

Net Cash Flow

£m	H1 2014	H1 2013
Operating cash flow	27.8	49.0
Exceptional items: 2014 Cost improvement programme	(3.8)	-
2011/2012 Restructuring	(0.7)	(2.2)
Major legal actions	(4.4)	(10.3)
Acquisition costs	(1.3)	-
Interest	(2.4)	(2.3)
Taxation	(9.9)	(14.7)
Dividends received from associates/(paid to minorities)	0.1	-
Acquisitions/investments	(1.2)	(0.4)
Cash flow before debt repayments and dividends	<u>4.2</u>	<u>19.1</u>

Movement in Cash and Debt

£m	Cash	Debt	Net
At 31 December 2013	282.8	(227.6)	55.2
Cash flow	4.2	-	4.2
Dividends	(24.5)	-	(24.5)
Amortisation of debt issue costs	-	(0.3)	(0.3)
Effect of movement in exchange rates	(2.7)	-	(2.7)
At 30 June 2014	<u>259.8</u>	<u>(227.9)</u>	<u>31.9</u>

Debt Profile

£m	June 2014	December 2013	June 2013
6.52% Sterling Notes August 2014	8.5	8.5	8.5
7.04% Sterling Notes July 2016	141.1	141.1	141.1
5.25% Sterling Notes June 2019	80.0	80.0	80.0
Unamortised issue costs	(1.7)	(2.0)	(2.2)
	<u>227.9</u>	<u>227.6</u>	<u>227.4</u>

Balance Sheet

£m	June 2014	December 2013	June 2013
Goodwill	274.4	275.6	282.0
Deferred consideration	(0.9)	(1.7)	(5.6)
Associates/investments	10.5	9.7	10.9
Operating assets/(liabilities)	43.9	46.4	64.1
Interest/facility fees	(9.8)	(4.2)	(9.2)
Tax	(12.2)	(15.4)	(21.9)
Pension scheme surplus net of deferred tax	35.8	32.8	44.2
	341.7	343.2	364.5
Net funds	31.9	55.2	52.5
Net assets/Shareholders' funds	373.6	398.4	417.0

Operating Assets/(Liabilities)

£m		June 2014	December 2013	June 2013
Fixed assets		47.4	50.6	49.7
Trade receivables		77.9	70.2	94.8
Net settlement balances		1.7	0.7	2.7
Other debtors/prepayments		38.6	64.9	80.3
Payables/accruals		(112.2)	(133.9)	(154.4)
Provisions - Property and other		(3.2)	(4.4)	(6.2)
- Cost improvement/Restructuring		(6.3)	(1.7)	(2.8)
		43.9	46.4	64.1
Gross settlement balances	- Receivable	18,486.4	5,682.5	37,162.7
	- Payable	(18,484.7)	(5,681.8)	(37,160.0)
		1.7	0.7	2.7

Pension Scheme Surplus

£m	June 2014	December 2013	June 2013
Scheme assets	237.0	226.1	228.4
IAS19 valuation of liabilities	(182.0)	(175.6)	(160.4)
Accounting Surplus	55.0	50.5	68.0
Related deferred tax liability	(19.2)	(17.7)	(23.8)
	35.8	32.8	44.2
Discount rate applied	4.2%	4.4%	4.6%



Terry Smith
Chief Executive



Outlook

- Financial market activity subdued
- Periods of market calm can be protracted
- Continued focus on management of costs
- Benefit from cost improvement programme in H2

Succession Planning

- 31 August – Terry Smith departs
- 1 September – John Phizackerley starts

Tullett Prebon plc

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Appendices



Comparison with Sector – most recent 12 months

Most recent published 12 months (basis: see page 43)	Revenue £m	Revenue Growth Year on Year %	Operating Margin %
ICAP (Electronic Broking)	265	-1%	40.4%
ICAP (Post Trade and Information)	212	3%	45.3%
ICAP (Voice Broking)	920	-8%	10.0%
ICAP (All activities)	1,397	-5%	21.1%
Tullett Prebon	724	-13%	13.0%
BGC Partners Inc (Financial Services only)	666	-7%	n/a
Tradition	560	-11%	5.6%
GFI	469	-2%	3.3%

Competitor Analysis – Sources

- Unless noted below operating profit margins are calculated using reported profit before net interest and associates
- ICAP is 12 and 6 months to March 2014 with prior year comparatives. Operating profit margin is shown before “acquisition and disposal costs” (which include amortisation of acquisition intangibles) and exceptional items
- Tullett Prebon is 12 and 6 months to June 2014 with prior year comparatives. Operating profit margin is shown before exceptional items
- BGC Partners Inc. is 12 and 6 months to March 2014 with prior year comparatives. Revenue includes Financial Services Broking (excluding eSpeed), Market Data and Software Solutions revenues. Adjusting the reported profit to exclude gains from the sale of eSpeed results in an operating loss for the 12 month period
- Tradition revenue is 12 and 6 months to June 2014 with prior year comparatives on the most recently reported basis. Operating profit margin is 12 and 6 months to December 2013
- GFI is 12 and 6 months to March 2014 with prior year comparatives. Revenue includes Broking, Clearing Services (net), Software, Analytics and Market Data
- Average exchange rates applied for each period

Major Shareholders as at 11 July 2014

Investor	Holding	(%)
1 Jupiter Asset Management	23,086,358	10.60
2 Schroder Investment Management	17,619,293	8.09
3 Aberforth Partners LLP	15,643,643	7.18
4 Aberdeen Asset Management Limited	12,051,962	5.54
5 Oppenheimerfunds	11,339,075	5.21
6 Invesco Trimark	10,763,003	4.94
7 Majedie Asset Management	10,621,023	4.88
8 Director & Related Holding(s)	9,939,251	4.56
9 Henderson Global Investors	9,825,641	4.51
10 Allianz KAG Frankfurt	7,419,781	3.41
11 Liontrust Asset Management	7,216,070	3.31
12 Norges Bank Investment Management	6,379,842	2.93
13 LSV Asset Management	6,305,736	2.90
14 Legal & General Investment Management	6,189,135	2.84
15 BlackRock Investment Management (UK)	4,092,756	1.88
16 Dimensional Fund Advisors	3,145,908	1.44
17 Premier Fund Managers, Limited	2,700,000	1.24
18 Invesco AIM Capital Management	2,472,600	1.14
19 IG International Management	2,205,364	1.01
20 UBS Global Asset Management	2,101,559	0.97
	<hr/> 171,118,000	<hr/> 78.58

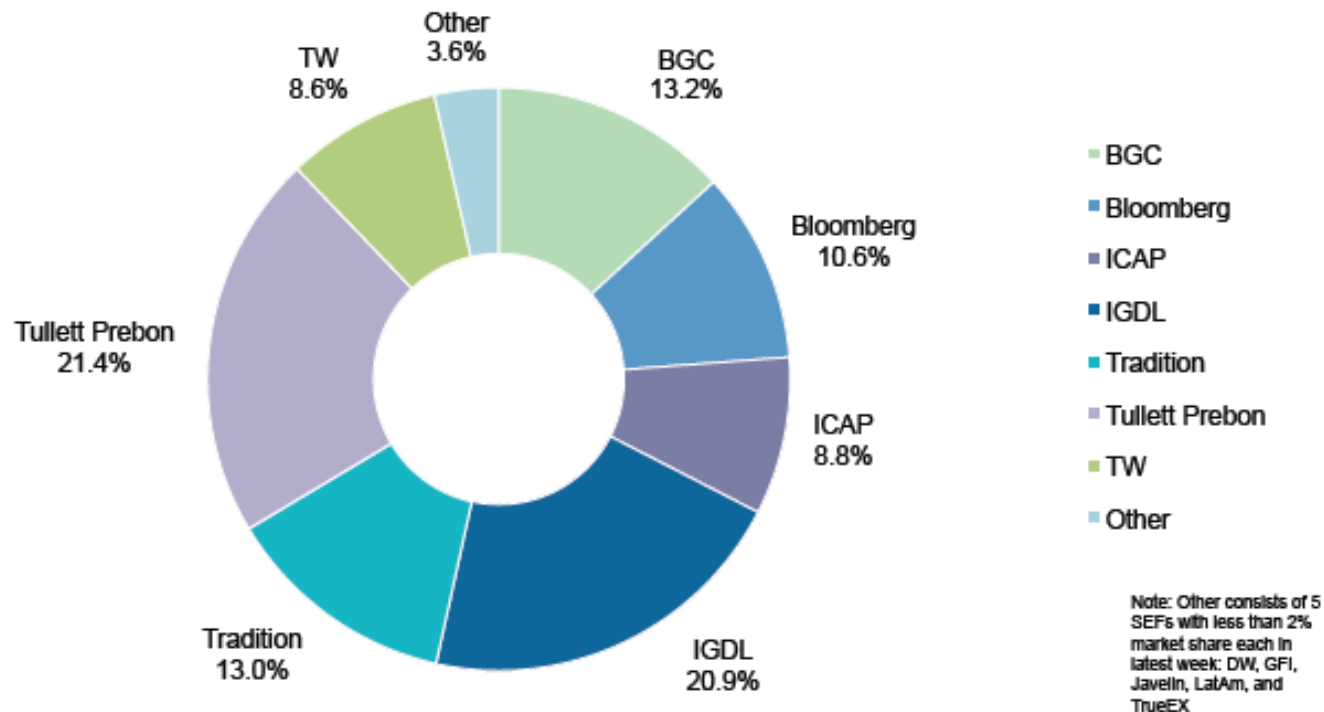
SEF Statistics

Interest Rate Volume (in billions notional USD)

SEF	Latest Week			Year-to-Date*		
	Non-FRA	FRA	Total	Non-FRA	FRA	Total
BGC	83.0	34.0	117.0	3,215.5	616.6	3,832.1
Bloomberg	66.7	-	66.7	1,622.5	-	1,622.5
DW	8.1	-	8.1	137.1	-	137.1
GFI	12.1	1.4	13.5	461.1	27.1	488.2
ICAP	55.0	1,107.7	1,162.7	3,906.4	17,970.2	21,876.6
IGDL	131.5	25.1	156.6	1,256.6	316.9	1,573.5
Javelin	0.4	-	0.4	7.8	-	7.8
LatAm	-	-	-	-	-	-
Tradition	81.5	2.3	83.9	3,330.1	299.4	3,629.6
TrueEX	1.9	-	1.9	28.4	-	28.4
Tullett Prebon	134.6	264.2	398.8	3,739.2	4,429.5	8,168.7
TW	54.1	-	54.1	831.2	-	831.2
Total	628.9	1434.7	2,063.7	18,535.9	23,659.7	42,195.7
Latest Week: June 23 - 27				*Until June 27		

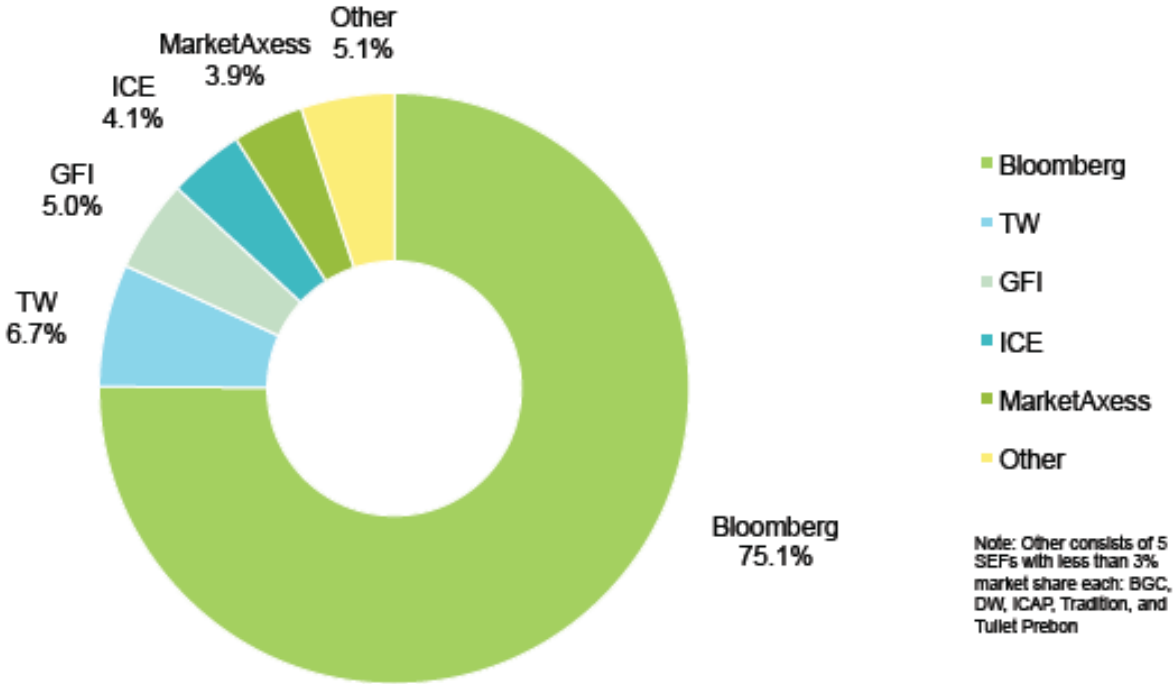
SEF Statistics

IRS: Volume per SEF in Latest Week
(23 – 27 June, excluding FRAs)



SEF Statistics

Credit: Volume per SEF in Latest Week (23 – 27 June)



SEF Statistics

FX: Volume per SEF in Latest Week (23–27 June)

