Interim Results 2020

Presentation transcript

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Introduction

Nicolas Breteau, Chief Executive Officer

1.0 Introduction

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

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 open up for questions.

As you all know the first six months of this year has been dominated by the outbreak of COVID-19. From the outset we took swift action to adapt our business in order to protect the wellbeing of our employees and ensure continuity of service to our clients.

As a result, we were well placed to ride the wave of volatility and volume that peaked in March and to play a crucial role in helping global markets remain open and liquid.

Our agility enabled us to achieve record income with higher revenue in all four of our business divisions.

We have also taken steps to ensure balance sheets remain strong and that we have sufficient cash as well as access to incremental liquidity.

Importantly, despite the turbulent backdrop we were still able to start implementing the growth strategy I outlined in March, though at a more measured pace than originally intended.

We also sustained dividend payments reflecting the resilience of our business and the importance of dividends to investors.

So let me start with the financial highlights. The first half was a tale of two quarters. In the first quarter revenues were up 17% year on year as we captured a disproportionate share of high volumes in volatile markets.

By way of contrast the second quarter was much quieter with revenues down 2% as volatility and volumes declined.

As a result, the first half revenue grew 7% on both reported and constant currency basis to a record £990m.

Updating you on our underlying reporting numbers I think it's very important to note that they include an additional £10m accrual for unused leave that will reverse by the year end. And Robin will talk about this in more detail later.

On this basis operating profit was up 1% at £159m. Operating profit margin was 16.1%. Profit before tax was up 1.5% at £136m. Earnings per share increased 3% to 19.9 pence. And we have declared an interim dividend of 5.6 pence, in line with our interim dividend of last year. So overall a resilient performance.

Before I hand over to Robin I want to talk in more detail about the way in which we have responded to COVID-19. Our approach during the pandemic has been driven by two principles, keeping employees safe and continuing to provide our clients with the high quality service they need and expect from us.

To do this we fundamentally reengineered our operations using new technology and workflows. This involved transferring more than 2,000 private telephone lines to the cloud to create new client connections and installing desktop software to create digital dealer boards for more than 500 brokers.

We also embedded a robust workflow to manage operational and credit risk, without any issues, and our surveillance technology allows us to meet all our regulatory and compliance obligations.

This work has enabled around 80% of our brokers and the vast majority of our support staff to work from home.

This has freed up space to socially distance for brokers who would need to remain in the office.

Given that we operate in 26 countries globally we had to adapt the working practices for each office to align with local guidance.

All this was done rapidly and at the same time as managing periods of extremely high volatility and activity in the markets.

Despite these challenges all desks continued to be fully operational and our clients benefitted from continuous global coverage across all asset classes.

During this time we have not furloughed any staff. We have not reduced our permanent workforce due to COVID-19, or requested any government aid in any of our locations.

We have also been mindful of our responsibilities to the communities where we operate during this time of uncertainty. We have directed our disaster relief fund to global and local initiatives supported those affected by the pandemic.

And colleagues around the world have supported those in need. For example our UK employees took part in the 2.6 Challenge to raise money for charities who have experienced a significant reduction in donations.

I am extremely proud of the way that TP ICAP has met the challenges that we have faced. Our readiness and resilience reflect both my colleagues' commitments to our clients, to each other, but also to our communities.

I will now hand over to Robin who will take you through the financials.

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 the first half. Global Broking had a strong first quarter, though market conditions normalised in the second. And our other three business divisions all generated strong revenue growth as we benefitted from increasing diversification.

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

So starting with the incomes statement. Revenue grew 7% on both a reported and constant currency basis to £990m.

Underlying operating profit was up 1% to £159m and operating profit margin was 16.1% as higher revenue was offset by some one off COVID-19 related expenses and a change in revenue mix.

Net finance costs were down 4% to £23m and profit before tax increased 1% to £136m.

The tax rate was 25%, in line with last year and our full year guidance.

Net income before exceptional items increased 3% to £111 and underlying earnings per share were up 3% at 19.9 pence.

As you heard from Nico, these numbers include an additional £10m accrual for unused annual leave as employees did not take holiday during the first half due to COVID-19. This accrual will reverse by the year end as Group policy states that no more than five days can be carried over to the next calendar year.

Excluding this accrual and on an underlying basis, operating profit was up 7% to £169m, with a margin of 17.1%.

Profit before tax increased 9% to £164m and earnings per share increased 11% to 21.4 pence.

Turning now to revenue where we are reporting on a constant currency basis to give you a more accurate picture of our performance.

Revenue in Global Broking was up 2% to £656m, I will talk about performance by asset class in a moment.

Energy & Commodities grew 15% to £217m. This was driven by higher volumes in all our major product lines, including Oil, Power and Gas. We also benefited from additional hires in the ICAP Oil team.

Institutional Services, our agency execution business grew 50% to £57m, with a strong performance in all its core product areas as it benefited from increased client appetite and a greater capacity to serve new clients.

Data & Analytics revenue grew 8% to £70m, driven by the ongoing expansion of our datasets and client base.

Looking at Global Broking revenue by asset class in the middle pie chart, the Rates business grew 6% to £290m, with volumes surging on the back of high levels of volatility in March. Conditions normalised at the beginning of the second quarter.

Equities and Credit were up 1 and 2% respectively with Foreign Exchange & Money Markets and Emerging Markets declined as a result of macroeconomic factors, including a slowdown in global growth.

Looking at revenue by region EMEA grew 6% to £488m, the Americas grew 9% to £376m and Asia Pacific grew 2% to £126m, as the business experienced a decline in volumes following the busy first quarter.

Moving to the next slide. As we mentioned at the full year we're now reporting operating profit by business division as this is now how we run the business. This includes the impact of the sale of data from our broking businesses to Data & Analytics. You can see at the top of this slide revenue of £9m for Data in Global Broking and £1m in Energy & Commodities.

Front office costs grew 10% to £615m as a result of increased revenue and higher broker compensation as Energy & Commodities was a larger proportion of the revenue mix.

Looking at contribution, which is revenue less direct costs, overall Group contribution increased 4% to £375m and excluding the holiday accrual was £20m higher than last year. Contribution margin decreased to 37.9% as revenue growth was offset by the higher broker compensation I just mentioned.

We are also showing the allocated management of support costs by division to give you a full understanding of operating profit and margin. Net management and support costs increased by £12m to £216m.

Looking at underlying operating profit margin this decreased slightly in Global Broking from 20.7% to 20%, driven by higher broker compensation as well as an increase in headcount, third party clearing costs and IT investment.

In Energy & Commodities, operating profit margin increased from 12.2% to 14.7% on the back of strong revenue growth. Institutional Services delivered operating profit margin of 14%, up from 8.1% as it started to generate the necessary scale to benefit from strong revenue growth and higher productivity.

In Data & Analytics operating profit margin was 40%, down on last year as we increased investment in new sales and product development capability.

The next slide shows movement in management support costs year on year. This bridge shows an overall increase of £9m on a constant currency basis. We benefited from a further £6m of synergy savings in the P&L, the final delivery of cost synergies from the ICAP integration.

Net costs increased £4m due to an increase in support staff headcount, mainly in technology, risk and compliance, but also business change and strategy.

There was a charge of £3m for the unused annual leave accrual I mentioned earlier. And we invested £3m in the cloud technology Nico referred to earlier which allows our brokers to work from home.

At the full year we said we would invest an additional £45m in 2020 to support our long term growth plans, of which £15m would be operating expense and £30m would be capital expenditure.

We remain committed to our strategy, but have decided to taka prudent approach to resource allocation, given the uncertain outlook. And we slowed down our investment during the first half. As a result we invested an additional £6m in technology through the P&L.

We also spent a further £6m on other planned projects, such as cybersecurity, surveillance and data centres, allowing us to strengthen the resilience of our technology.

Finally, we benefitted from a foreign exchange gain of £6m.

Moving on to look at operating profit and margin by region. As I said earlier overall operating profit grew 1% to £159m and operating profit margin was 16.1%.

In EMEA profit was down 3% to £93m, but the increased revenue was offset by the additional unused annual leave accrual, higher broker compensation, third party and support costs. This resulted in the margin of 19.1%.

In the Americas, profit grew 14% to £56m and margin increased from 14.4 to 14.9% as higher contribution more than offset the slightly increased support costs.

In Asia Pacific operating profit decreased from £13m to £10m and the margin reduced from 10.5% to 7.9%, reflecting the impact of COVID-19 in the region for the entire period from January onwards.

I'm going to turn now to exceptional one offs and acquisition related items that are not included in the underlying performance. These amounted to £57m after tax. With the integration of ICAP complete we did not book any integration costs in the first half of the year. In total £41m of exceptional items were non-cash. This includes £20m for the amortisation of acquired intangible assets arising on consolidation, which relates to the value of brand and customer relationships.

There was a further non-cash charge of £21m for the impairment of goodwill allocated to Asia Pacific. This was driven by the decline in operating profit I just spoke about.

There was also a charge of £9m for costs related to our proposed redomiciliation.

Moving now to the next slide, underlying earnings increased to £111m, which translated into underlying earnings per share of 19.9 pence. On a reported basis earnings per share decreased to 9.7 pence as a result of the impact of exceptional and acquisition related items. We intend to pay and interim dividend of 5.6 pence on November 6th this year.

Turning to cash flow, cash generated from operations amounted to £176m, up from £80m in the first half of 2019. Depreciation of right of use assets reflects the reclassification of lease appreciation as an interest expense under IFRS 16.

There were no outflows from net initial contract payments this year, compared to £2m in the prior year. And the working capital outflow of £24m was down from £112m, reflecting significantly lower settlement balances at the end of June compared with last year.

Capital expenditure of £23m was up from the £19m last year due to the fit out of our new office in the City of London and increased IT spend.

Interest payments decreased to £24m, as we did not issue any new debt in the period. And tax payments were £37m.

The resulting underlying free cash flow was £92m, up significantly from the first half of 2019.

Moving on to look at the balance sheet. Our balance sheet remains strong and has not been impacted by COVID-19. I want to comment on two areas here, cash and IFRS 16 lease liabilities.

Cash and financial assets increased by £62m to £886m after the payment of the final dividend for 2019. This includes a drawdown of £40m on our revolving credit facility. 90% of this cash is held in our regulated entities and you will recall that we need to set aside £25m each year to comply with the teams of our waiver from the consolidated supervision test under CRD 4.

The composition of IFRS 16 liabilities has changed because of the three additional leases on our new office building in the City of London.

Looking now at debt, the Group's gross debt before IFRS 16 lease liabilities increased to £730m, this is because we drew down £40m of our £270m revolving credit facility for general corporate purposes. This facility matures in December 2022.

Our IFRS 16 lease liabilities increased to £216m due to the three leases I just mentioned on our new office in the City of London. These liabilities are excluded from our banking covenant calculation.

So moving on to look at net funds. The Group had net debt of £60m at the half year compared to £5m at the end of 2019. This was driven mainly by the change in IFRS 16 liabilities associated with the new leases I just mentioned. As I said, our banking covenants are not affected by IFRS 16, which is why we show net funds, excluding lease liabilities of £156m.

I'd like to close with guidance for the full year. Activity in July slowed and was below 2019 levels. So despite a resilient performance in the first half we maintain our guidance of low single digit revenue growth, assuming no significant change in market conditions.

We expect broker compensation to remain at about 54%, net finance costs to be around £50m, and the effective rate of tax to remain at 25%.

We will continue investing prudently in the business in the second half to generate long term growth. We now expect to invest £15m in total during the year, significantly less than we indicated in March. £7m was invested in the first half, of which £1m was capital expenditure. We anticipate investing £8m during the second half, almost all of which will be capital expenditure.

We will of course adjust our investment spend depending on macroeconomic conditions.

Finally we intend to make a dividend payment of not less than 16.85 pence in 2020.

So in summary we delivered a resilient performance in the first half as we benefitted from heightened volatility on the first quarter, as well as the increase in diversification of our business. We have a strong balance sheet with sufficient cash and liquidity and we are continuing to invest in our strategic growth plans albeit at a more moderate pace.

Thank you very much, I will now hand you back to Nico.

Business and Operational Update

Nicolas Breteau, Chief Executive Officer

3.0 Business and operational update

Thank you, Robin. As you know TP ICAP is a leading provider of market infrastructure and we operate from a position of strength. Yet our industry is constantly changing, clients want more effective and efficient ways to discover prices and to access liquidity, regulation is driving demand for new services. So in March we outlined a new strategy in order to take advantage of market evolution and driven medium term growth.

Three themes will enable us to capitalise on these market trends, aggregation, electronification and diversification.

On aggregation we plan to provide our clients with access to liquidity across all our brands. By doing so they find the best price while we grow our market share.

On electronification we plan to grow the amount of business we do - we deliver electronically, to improve broker and client connectivity and deliver efficient workflows and grow our post-trade services.

And on diversification we plan to broaden our revenue streams and client base through our three faster growing businesses as well as post-trade services.

As you heard from Robin, we took the prudent decision to slow investment during the first half, given the level of uncertainty caused by COVID-19. Where we have invested, we are seeing good progress. We have brought new solutions to market, developed our global footprint, as well as grown and diversified our client base.

You will hear this reflected in my comments as I talk about each of our four business divisions. We have also increased average broker headcount by 2%. With the integration now complete our access to the largest liquidity pools and investment in new digital tools positions us as an employer of choice.

Looking ahead we will continue to assess where and when it makes sense to invest. Where we see opportunities to acquire assets that would accelerate and further our strategic ambitions then we will consider them carefully.

So let's start with Global Broking, Global Broking is the largest provider of OTC marketplaces, including voice, hybrid, and electronic platforms. It's a mature business that grew revenues 2% to £656m. There was extreme market volatility in the first quarter and we benefitted from increased volumes as clients adjusted their positions. However, trading activity cooled off in May and June as investor appetite subsided and the US Fed changed its stance on interest rates and global quantitative easing surged.

During a period of uncertainty we saw clients turn to us as a provider of high quality service, reflecting the trust they have in TP ICAP.

Our strategy in Global Broking is based around building electronic hubs that create a seamless experience for our clients. These offer a single point of liquidity for clients across our brands, front screens with a common look and feel, providing a choice of hybrid or pure electronic execution, together with first class connectivity and solid post-trade processing.

In Rates we have been developing an Interest Rate Options hub which goes live in September, as well as the Sterling hub which will be ready for the year end. Both of these solutions will eventually form part of an overall Rates hub, for which there are more projects in the pipeline.

Turning to FX I told you in March about the launch of our FX Options hub, this has had an excellent response and we are seeing a good number of top tier banks already streaming liquidity.

In Credit we have increased electronification by launching the Matchbook Rebalance platform. This is a pure electronic platform that enables traders to clear up unwanted hard luck (?) risk on their books through auctions.

In Equities where the market is much more dispersed, we have completed the Louis Capital Markets acquisition I told you about in March. This brings expertise and scale in cash equities and equity derivatives, as well as strengthening our Continental European franchise.

So we're making good progress in all major asset classes in Global Broking.

I'll move on now to Energy & Commodities, TP ICAP is the leader in OTC Energy & Commodities markets, with an especially strong position in Oil. Energy & Commodities had another excellent six months as we continue to outperform our peers. Revenues grew 15% year on year, supported by higher market volumes and volatility with double digit growth across all our major product lines, including Power, Gas and Oil.

Our numbers were also helped by strategic hires, especially in the ICAP brand where we continue to rebuild the whole team.

It's important to remember that our Energy & Commodities business earns commission based on volumes traded, not just on price. So these revenues are less price sensitive than some people realise. Pleasingly we saw contribution and operating profit margin improve as we benefitted from economies of scale.

Our goal for Energy & Commodities is to consolidate our global leadership position by increasing aggregation and electronification. We are extending our app strategy to Energy & Commodities, with an oil app called Nova Oil. This will enable clients to view aggregated liquidity across our competing brands, ICAP, TP and PVM and execute electronically via a range of low touch protocols.

In the first half we rolled our Nova to our desks in Norway and Asia Pacific. In the second half we will accelerate Nova's deployment by on-boarding our remaining desks, on-boarding clients and building a new front end.

Over time we believe Nova will deliver greater efficiencies, stronger margins and better client retention.

I have also spoken before about Darwin, our machine learning tool, we trialled this successfully during the first half and it will be rolled out to all desks in September. Darwin mines all kinds of market data to help brokers anticipate client needs better, but also improve productivity.

In addition, it will provide our Data & Analytics business with fast real time information.

Moving on now to Institutional Services, Institutional Services trades under the Coex brand and provides agency execution services to the buy-side. It's an important part of our diversification strategy, bringing in new revenue streams from a different and substantial client base. This includes hedge funds and asset managers. This division focuses on liquid markets providing clients with best execution by seeking liquidity from multiple dealers and venues.

The first six months of the year has underlined that the agency execution model has become an established and valued component of the market ecosystem. This progression is reflected in the very strong revenue growth of 50% year on year.

Growing scale has also resulted in higher margins, despite the early stage of the business. The growth came across all our core products, FX, exchange trading, traded derivatives, government bonds and cash equities, as well as a particular strategy related value.

Our strategy for IS is to add more asset classes, broaden our reach and invest in further electronification. During the first half the business grew its asset coverage by offering more interest rate swaps and equity derivatives. We have also added new brokers in Singapore and in New York. And we focused on an area of vital importance, the pre-trade client connectivity.

Our Emerging Markets order book, there was a gateway to thousands of buy-side clients via the Bloomberg's interface TSOX.

Let's move now to Data & Analytics, Data & Analytics us a high margin business that's largely subscription based, so it offers excellent earnings diversification and sustainable growth opportunities.

Revenues were up 8%, against a strong comparator and we outperformed the market where revenues are expected to shrink 2% this year due to COVID-19.

We continue to invest in this high potential business and grew headcount 15% to drive future revenue generation.

Some contracts were not renewed in the first half due to reduced client spending as a result of COVID-19. However, revenues continue to grow as new product sets were launched and we signed new mandates for clients.

Data & Analytics have a clear strategy to grow by developing its dataset offering, broadening its distribution network and moving up the value chain to provide insight as well as data.

During the first half we launched four new data products bringing our total offering to more than 50. We have also expanded our distribution channels, for example in April we launched a new direct data feed called SURFIX, this enables us to distribute real time market data for all security types from all brands.

We are also developing a web store that will enable clients to buy our products direct, in the same way that consumers shop online. Increasing our distribution enables us to drive more revenue at higher margins.

In addition we launched new products via new distribution partners, such as Amazon Web Services Data Exchange.

But perhaps the most exciting development was the launch of our first ever information product which takes us up the value chain. It's called Bond Evaluated Pricing; it was developed in response to the need for clients to meet stricter regulatory requirements for fixed income pricing. It helps them manage their internal risk management processes, for exposure to government, or corporate, or supranational bonds.

By using machine learning this solution provides clients with frequent and regular updates on a very large number of bonds, rather than just indicative pricing on a single bond at a single point in time. As a result clients have better insight into the price formation process.

So you can see that Data & Analytics is building momentum and breaking new ground, more datasets, more distribution channels and true solution innovation - meaning we move up the value chain.

As we move into the second half we remain cautious, we will continue to focus on what we can control, providing our clients with excellent service, investing in innovation, whilst keeping cost discipline and continuing to deliver solutions for our clients that help us grow market share and improve margins.

As far as Brexit is concerned, we believe around 90% of our business will be unaffected and we are prepared for all outcomes.

We remain committed to the process of incorporating a new Group holding company in Jersey, but this has been slightly delayed by COVID-19. This move will create greater financial flexibility for the Group and we now expect to push out the documentation by the year end.

So let me conclude, we have posted a resilient performance. We have a clear strategy to develop and grow. And despite the challenging backdrop we are executing this strategy to good effect across all four business divisions.

Now before we open up for questions let me invite you all to put Thursday 8th of October in your diaries, this is when we will hold our investor update, originally planned for June, but postponed due to COVID-19. We intend to discuss our strategic growth initiatives in more detail in October and outline divisional targets.

Thank you very much. We are happy to take any questions. Would you please tell us your name and organisation before asking your question? Thank you.

Questions & answers

4.0 Questions and answers

Telephone Operator

Ladies and gentlemen, if you wish to ask a question please press *1 on your telephone keypad. You may also submit questions via the chat bot, or if you've joined via the web there is also an option to submit questions there.

The first question comes from Ben Bathurst from RBC. Please go ahead.

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Ben Bathurst, RBC Capital Markets

Yeah, good morning everyone. I've got two questions please if that's okay, starting with one for Robin on costs.

Just referring to the Slide 12 and the cost bridge there, Robin, you referenced £6m of previously guided planned cost increases in the first half. I just wondered if you could - can you just clarify what the guidance of that movement will be for full year 2020 and if you'd say it's fair to assume sort of double that as an increase for the full year in that area?

And then secondly, on the sort of broader market environment, I think one of your peers reported last week and talked about how industry volumes and rates and FX had been impacted by QE and lower interest rates. I wonder if you could comment on whether this could develop into a concern for TP ICAP in the second half from a revenue perspective? Or maybe put another way, all things equal, is there anything about the fact that interest rates - expectations for interest rates are now lower that would expect to impact expectations for industry volumes, all other things equal? Thanks.

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Robin Stewart, Chief Financial Officer

Okay, thanks for that. Just highlighting on your first question, in terms of planned investments, yes, we guided that the planned investment number will be almost double that for the full year, but it'll be a very different mix. And so most - we anticipate that most of that planned new investment will be capex in the second half and minimal opex, if that helps you on that one.

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Ben Bathurst, RBC Capital Markets

Can I just follow-up on that, Robin? Because just looking at that cost bridge because you've got - you do have - you've got planned and new investments and then you've got a planned increase of £6m. Are both £6m? And I think you're very clear on the planned and new investment side, but I'm just wondering about that other element of the increase in costs. Do you see what that means? The second ...

. . . .

Robin Stewart, Chief Financial Officer

Yeah. No, I see what you mean. It will - it won't necessarily be double, but we will continue to incur costs on those planned increases, particularly on things like cyber security and other governance and risk and compliance related aspects. So they are indeed recurring.

A lot of the H1 costs were on data centres.

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Ben Bathurst, RBC Capital Markets

Okay, thank you for answering that ...

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Robin Stewart, Chief Financial Officer

It won't be double.

. . . .

Ben Bathurst, RBC Capital Markets

Okay, great. Thanks.

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Nicolas Breteau, Chief Executive Officer

Regarding the outlook, I mean I could start and Robin jump in, but I think we see an issue very similar to the contrasted H1 with a tail of two quarter, very, very strong and a more normalised Q2.

I think we see in July, in the summer months which are usually very quiet months, first we are below last year in July, but I think we are looking at a very strong comparator in 2019. And speaking to our clients almost on a daily basis I've realised that a lot of practitioners have decided to take some time off after a long period of lockdown.

So we anticipate this quarter, summer quarter, to be slow. But it is traditional a very slow quarter in our cycle. And we are very reactive to macroeconomic events, so we know that there are things lined up for the rest of year. There will be sovereign bonds issued, a lot of them. We know that there is Brexit at the end of this year. We know that there's the US election and potential order macro-events around the Energy & Commodities. So, let’s say we are cautiously optimistic.

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Ben Bathurst, RBC Capital Markets

Okay, great. Thanks for that.

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Telephone Operator

The next question we have comes from Gurjit Kambo from JP Morgan. Please go ahead.

. . . .

Gurjit Kambo, JP Morgan Chase

Hi. Good morning, everybody. So apologies, I admit I dropped off, if you have done this already, I do apologise.

So just on the kind of you know, the guidance around - not guidance, just the outlook into July where we've seen, I guess a tougher environment. I guess that's been seen [audio jump] …

… more specifically to the Global Broking business, or is that you know, across other businesses like Data & Analytics, Institutional Services etc?

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Nicolas Breteau, Chief Executive Officer

You dropped for a split second during your question, but I think your point is about the outlook across divisions if I understood properly.

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Gurjit Kambo, JP Morgan Chase

Yes. Yeah, exactly. Yeah.

. . . .

Nicolas Breteau, Chief Executive Officer

Yeah. I mean, we think that if I take a reverse order, I think that the general Data & Analytics industry has been impacted because clients generally reduced their spending. Also for us it's been difficult, so we have seen a slight increase if you want on the retention rates, but at the same time we continue to grow.

We would have grown faster without COVID obviously, because we would have - it would have been easier to sell our licences on new products that we have launched. We continue to, as you know, to check and audit our clients to make sure that they our data in accordance with licences, and we had to stop that.

And so I'm fairly optimistic that we will sustain a high level of growth in Data & Analytics in the - in H2. Because also we are going to monetise the benefits of our distribution, direct distribution on SURFIX but also the web store I mentioned. And we have a few more things in the pipeline.

On Energy & Commodities, again, relatively optimistic on our capacity to continue to grow in H2 compared to H1, absolutely.

In Institutional Services, we believe that after a pause over the summer a lot of our clients will come back and trade more actively in September. And we also see the benefit of our hires that we've made in Asia Pacific and in New York. So I'm positive about the growth compared to 2019 as well.

If we look at Global Broking, it is a more mature business for sure, and we will react positively if we see some macro-events during H2.

Now, what we have observed is that if we have a prolonged COVID situation, we tend to be the broker of choice because we, as you know, being the largest liquidity provider in the market at the time where clients are operating from home they do not necessarily have the luxury of having many brokers in their boxes. So they will choose the brokers commanding the largest liquidity pools. And have undoubtedly benefited from that in H1 and grown our market share and I think that will continue in H2.

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Gurjit Kambo, JP Morgan Chase

Thank you. That’s great.

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Telephone Operator

The next question comes from Vivek Raja from Shore Capital. Please go ahead.

. . . .

Vivek Raja, Shore Capital

Hi, good morning. Can you hear me?

. . . .

Robin Stewart, Chief Financial Officer

Yes, Vivek.

. . . .

Vivek Raja, Shore Capital

All right, great. I've got three questions if I may please.

The first one is about capital and the FCA waiver. I just wonder whether you can give us a sense of when you expect to get that judgement from the FCA and to the extent that that does unlock capital that otherwise trapped, could you give a sense of what you plan to do with that? Are you planning to reinvest in the business, are you planning to return it to shareholders, a bit of both?

And then the next question is about costs. So the broker compensation ratio has obviously just been creeping up roughly 1% a year since 2018 through to 2019, and then this year you're guiding 54%. So that guidance is obviously deteriorated from the position at the full year point. What's driving that really?

And how long do you think it'll take to get a handle on that? Because obviously that is constraining the operating profit growth. And you know, how quickly can you get a handle on that broker compensation ratio to start delivering the operational gearing to that line? Thank you.

. . . .

Nicolas Breteau, Chief Executive Officer

If I may, I will start with the broker compensation question and let Robin answer about the positive impact of our - the redomiciliation, etc.

Yes, broker compensation is increasing mainly as a result of the evolution of our business mix. You've seen the large push in Energy & Commodities where we have a higher broker compensation ratio. The reason being is this more fragmented industry, less regulated, for some players are not regulated. And they on average - this is an industry that commands earns around 60% pay-out for the brokers. And we are - we still see a lot of competition in the traditional IDB in Global Broking, and we want to be very, very strong in making sure that we retain and attract the best talent in the market.

So this is why I said before that for me, we don't want this to run uncontrolled, but this is not the KPI I am focusing on the most. And I am looking more specifically at the contribution rate.

So if you look at that, we have increased it by 6% if you take away the accrual for the holidays. But - so it means that it has gone up £20m between 2019 and 2020. And that's I think important because broker comp is in my view an outcome of the strategy. So it's not something that I could just decide to reduce, because if I do that, I will lose some revenues quite quickly.

So this why we are rolling-out this growth strategy where we embed more technology and we aggregate liquidity because over time it will give us the capacity to have a better broker compensation ratio.

We, as you know, focused primarily on completing our integration, having the right management team in place, putting a risk framework in place, working on our capital, working on our redomiciliation because it's very important for the future.

The second phase is rolling-out more electronic solutions, aggregating our liquidity. And this will have a beneficial impact on broker comp. Unfortunately, we have to slow down the pace of investment but nevertheless, we've made some significant progress.

When we will detail in October at our Investors Market Day the initiatives in each business line, you will see the benefit. And one of the benefits is to reduce broker comp over time, but it will be a result of that strategy.

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Robin Stewart, Chief Financial Officer

Just on the capital question, there's two parts for capital for the Group, which I'll just outline.

One is in respect of the question you raised on I suppose consolidated capital on the waiver. And just to be clear, you know, we would hope to get some beneficial outcome from redomiciliation in terms of our regulatory - our consolidated regulatory capital position. And whilst we will still be subject to consolidated capital supervision, it hopefully will be maybe not to the entire Group.

Now, what that does is, the restriction which I mentioned earlier when I was talking was that we currently have an obligation under the waiver to set aside around about £25m per year of tangible capital. And so to the extent we have any alleviation of the obligations under the waiver, what we would be doing potentially is to not have to retain future additional capital in the organisation. Because the reality is that the capital that we actually hold within our legal entities is a requirement of solo capital regulation, and that won't change.

So you know, each operating entity in the territory that it operates has minimum and also management buffer capital calculations and requirements.

So there's a different programme going on in respect of that capital, which you may recall where we are looking to embed our risk framework and strengthen our governance around our operations, which may alleviate some of the capital obligations at a solo level in the UK entities. But they're two different things.

Just also so you know in terms of the redomiciliation, the delay in that process is not through any sort of delay that we have here, it's fundamentally due to the delays in getting the approvals from regulators. And the two main outstanding approvals that we're waiting on are in France and the US and, because we are subject to their - the timeframes that they're giving us under COVID-19, we would anticipate getting those approvals through by the end of Q3 this year.

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Vivek Raja, Shore Capital

Okay. Could I follow up? When do you expect to hear back from the FCA?

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Robin Stewart, Chief Financial Officer

On which, on ...

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Vivek Raja, Shore Capital

On the consolidated capital waiver.

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Robin Stewart, Chief Financial Officer

Oh, so we're not anticipating to have any further approvals from them other than - we're pretty good with the FCA.

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Vivek Raja, Shore Capital

Okay.

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Robin Stewart, Chief Financial Officer

It's non-UK regulators we're waiting for approvals from.

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Vivek Raja, Shore Capital

I see. Okay. And Nicolas, if I could come back to your first answer please, and maybe I'm pushing my luck here but where would you like that broker compensation ratio to get to in two or three years' time? And I appreciate there's lots of moving parts there and you're trying to do it through the revenue line, and not necessarily focusing on the compensation item itself. But where would you expect that to be in two or three years' time?

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Nicolas Breteau, Chief Executive Officer

I'm going to ask you to wait for the Investment Markets Day because as you say, it's a lot of moving parts. When we - you will see when we invest in technology and Energy & Commodities you will see some benefits which are different from some segments of the Global Broking.

And I will not announce a number because I know that will start the rebellion in the - with my brokers, so that would not be the right thing to do. But there will be some benefits and we'll go through them at this stage.

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Vivek Raja, Shore Capital

Absolutely understood. Thank you very much.

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Telephone Operator

As a reminder ladies and gentlemen, to ask any further questions you should press star followed by one on your telephone keypad.

And we have a question now from Piers Brown from HSBC. Please go ahead.

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Piers Brown, HSBC

Yeah. Good morning everybody. I just thought I - it's a question really related to Slide 14 on the exceptional cost item. And I guess as the ICAP integration fell-off, maybe there's an extra pace to some of these charges where it starts to taper off. And I guess what we're seeing the in the first half is that previous charges have been replaced by new charges.

I just wonder if you could give us a little bit of steer on two specific items, the intangible asset impairment and the redomiciliation charge as to whether we should think those two are discrete exceptional items that were only impacted the first half or whether there could be some residual drag from those two items as we move into the second half? Thanks.

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Robin Stewart, Chief Financial Officer

Okay, so taking the first of those two, which is the impairment of intangible assets of £21m, that's an impairment we've taken on the goodwill that is allocated to the Asia Pacific Group which I mentioned earlier.

That's really because the - I suppose that cash-generating unit is very sensitive to movement in its operating profit forecasts.

Now, I would hope not to take any further impairment to that, but it's really dependent upon I suppose how H2 turns out and more importantly how our forecast for 2021 in terms of we look forward for the business in the future.

We inevitably are required to do an impairment review at the end of each accounting period, so we'll see how that one turns out.

In respect of the business redomiciliation, that is we would hope a cost that we only see in 2020. There may be some minimal costs to come in the second half, but - well, there'll be some more costs to come in the second half, but I don't anticipate them to be at those levels.

And just being clear on the first one ...

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Piers Brown, HSBC

Okay, thank you.

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Robin Stewart, Chief Financial Officer

... And just being clear on the first one that I talked about, the impairment of tangible assets, just reiterating, that's a non-cash charge.

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Piers Brown, HSBC

Yeah, absolutely.

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Telephone Operator

Another reminder ladies and gentlemen, if you wish to ask questions, you can press *1 on your telephone keypad. You may also submit questions via the webcast if you've joined us via the web.

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Nicolas Breteau, Chief Executive Officer

Okay.

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Telephone Operator

It seems there are no more questions, so I'll hand back to the management team.

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Nicolas Breteau, Chief Executive Officer

Well, I want to thank everybody for their time and remind everyone that we will speak again on 8th October.

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Robin Stewart, Chief Financial Officer

Thank you very much.

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Nicolas Breteau, Chief Executive Officer

Thank you very much. Bye-bye.

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END

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