Preliminary Results 2020

Presentation transcript

09 March 2021

Contents

Introduction & Highlights
Nicolas Breteau, Chief Executive Officer

1.0 Introduction

Good morning everyone and thank you for joining us today.

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

2020 was a year of transformation for TP ICAP. It was a year in which we set out a new strategy for the Group, to drive higher returns for shareholders. It was a year in which we advanced electronification, aggregation, and diversification across our business divisions.

It was a year in which we announced the landmark acquisition, Liquidnet, which will accelerate our strategy and transform our growth prospects. It was a year in which we finalised our re-domiciliation, providing greater financial flexibility. And we embedded our risk management framework, which should release approximately £60m of regulatory capital.

We also put a stronger focus on ESG in 2020, establishing a new ESG reporting framework with 15 disclosure areas, each with its own metrics and accountable executive ownership. At the same time, we delivered a robust financial performance, despite the major disruption caused by COVID-19.

As you know COVID had a significant impact on the OTC market. Initially, it caused a huge spike in volatility and volumes in March, then as central banks reacted to the pandemic with interest rate reductions and quantitative easing and as traders adopted risk off positions, we saw a material softening of markets, especially in the summer months.

We were able to achieve robust results for two reasons. First, we responded rapidly, we deployed new technology and workflows at a time of exceptional volatility and all our desks remained operational. As a result we played a systemic role in keeping markets open and liquid.

Secondly, we have diversified our business model, in aggregate our three faster growing businesses increased revenues 6% year on year.
With regard to Brexit we continue to cover our EU clients effectively, by leveraging our network of EU offices and venues, by amending our workflows and by moving brokers to Paris, Amsterdam, and Madrid.

So let me know turn to the financial headlines. Revenue for the year decreased 2% on a reported basis and 1% on a constant currency basis to approximately £1.8bn.

While Global Broking experienced a challenging year our other businesses delivered good revenue growth, with Energy & Commodities up 3%, Data & Analytics up 9%, and Institutional Services up 21%.

These businesses were 35% of the Group's revenue in 2020, up from 32% in 2019. And collectively they delivered the equivalent of two thirds of the adjusted operating profit generated by Global Broking.

On an adjusted reported basis, operating profit was down 3% at £272m, yet we maintained stable operating profit margin at 15.2%, despite costs from Brexit, the risk capital, and the Liquidnet acquisition, re-domiciliation and of course COVID.

Profit before tax was down 3%, at £223m. Earnings per share were 32.9 pence. And we have a declared a final dividend of 2 pence, in line with our guidance when we announced the Liquidnet acquisition. This brings the total dividend for the year to 6 pence on a pro forma basis.

I'll now hand over to Robin to take you through the financial performance.

Financial Review
Robin Stewart, Chief Financial Officer

2.0 Financial review

Thanks Nico and good morning everyone. As you've heard we delivered a robust performance in the year.

Global Broking had a strong first quarter, though market conditions were more subdued for the rest of the year. And we continue to benefit from our increase in diversification as our other business divisions all generated good revenue growth.

I'm using numbers at reported exchange rates today, except for revenue and costs, which are on a constant currency basis. And I will focus on the adjusted performance of the business before any significant items.

We have made a change from reporting exceptional and acquisition related items, to reporting significant items, in line with best practice. So starting with the income statement.

Revenue decreased 2% on a reported basis and 1% on a constant currency basis, to just under £1.8bn. Adjusted operating profit was 3% lower at £272m. And adjusted profit margin was 15.2% in line with last year.

Net finance costs at £49m, were also the same as last year. And adjusted profit before tax decreased 3%, to £223m.

The tax rate was 24.7%, in line with guidance. Net income before adjusted items was 3% lower at £183m. And adjusted earnings per share were 32.9 pence.

Turning now to a breakdown of 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 down 5%, to just under £1.2bn.

Energy & Commodities grew 3% to £388m, this was driven by higher volumes in the majority of our product lines, including Oil, Power and Gas.

Institutional Services grew 21% to £91m, with a strong performance in all its core product areas as it continued to benefit from investment in the business.

Data & Analytics revenue grew 9%, to £145m, driven by the ongoing expansion of our product offering and increased channel distribution.

Looking at Global Broking revenue by asset class, the Rates business decreased 4% to £510m. After exceptional volumes in March, markets were quieter for the rest of the year as central banks took action during COVID by reducing interest rates and increasing quantitative easing.

FX and Money markets and Emerging markets so saw revenue declines of 7% and 12% respectively, due to subdued client activity.

Equities revenue grew 2% to £201m, largely as a result of the acquisitions of Louis Capital Markets in July.

And Revenue and Credit was down 3% to £90m in a competitive marketplace.

Moving to look at the results by business division. Total front office costs were down 2% at £1.1bn. this was driven by a decrease in revenue and much lower travel and entertainment costs.

Group contribution, which is revenue less front office costs was also 2% lower at £680m. Overall contribution margin was stable at 37.9% as lower revenues were offset by the reduction in front office costs.

Net management and support costs were £9m lower than last year at £422m. I'll show you a breakdown of these costs in a moment.

Moving to adjusted operating profit margin. In Global Broking, this decreased from 17.5%, to 16.6%, driven by increased costs associated with working from home, the Louis Capital Markets acquisition and continued strategic investment in technology.

In Energy & Commodities operating profit margin increased from 12 to 13.6%, due to higher revenues, supported by some front office and management related savings.

Operating profit margin almost doubled in Institutional Services, to 7.7% as the business continued to scale. And Data & Analytics operating profit margin increased further to 44.1% as revenues continued to growth.

Looking now at the numbers by region. In EMEA was 1% lower at £888m and profit was down 2% to £160m, resulting in a margin of 18%.

In the Americas revenue decreased 2%, to £670m, yet contribution was stable, and profit grew 2% to £96m, mainly as a result of lower travel and entertainment costs. The margin increased from 13.7, to 14.3%.

In Asia Pacific revenue was down 4%, to £236m. Operating profit decreased from £21m to £16m and margin reduced from 8.5% to 6.8% as a result of lower revenues and contribution.

The next slide shows movements in management and support costs year on year. This bridge shows an overall decrease in costs of £9m, on a reported basis and £4m 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 completed in the prior year.

We acquired £4m of costs, with Louis Capital Markets and the consolidation of our Global Broking joint venture in Malaysia.

There was also an additional charge of £5m, as we invested in cloud technology to enable our staff to work from home. We invested a further £5m in technology, in line with our revised strategic investment guidance at the half year. You'll recall that we said we would invest £15m in total in 2020, of which £7m would be expensed in the income statement.

We also spend a further £4m on other planned projects such as cybersecurity, surveillance, and data centre migrations, allowing us to strengthen the resilience of our technology.

We reduced management and support discretionary bonuses by £18m. This was partially offset by £10m of other costs that included hires in key functions such as strategy, risk and compliance, the additional lease on our City of London premises and a non-recurring VAT credit.

Finally, there was an adverse foreign exchange movement of £8m.

I'm going to turn now to significant items that are not included in the adjusted results so that we can better measure business performance and compare with other reporting periods.

Significant items amounted to £87m after tax. In total £63m of significant items were non-cash, this includes £39m for the amortisation of acquired intangible assets arising on consolidation, which relates to the value of the brand and customer relationships.

There was a non-cash charge of £21m for the impairment of goodwill allocated to Asia Pacific. This is the same non-cash charge that we reported at the half year.

Significant cash items amounted to £31m, down from £67m last year. This included £11m of costs for the Liquidnet and LCM acquisitions and a charge of £18m for the reorganisation costs, which included our re-domiciliation.

Moving now to the next slide, adjusted earnings decreased to £183m, which translated into adjusted earnings per share of 32.9 pence.

On a reported basis earnings per share increased from 12 to 17.2 pence as significant items were considerably lower than the prior year.

We intend to pay a final dividend of 2 pence per share in May, bringing the total dividend for the year to 6 pence per share on a pro forma basis. This is half the cash dividend of the prior year, as we indicated at the announcement of the Liquidnet acquisition.

Turning now to cash flow. Cash generated from operations amounted to £305m, compared to £319m in the prior year. This was driven by a small outflow from net initial contract payments and a working capital outflow of £28m, which mainly reflects the reduced management and support bonuses and associated payroll taxes.

Capital expenditure of £53m was up from £33m last year, reflecting additional spending on our new building in the City of London and on IT, including routine mandatory and investment projects.

Interest payments were in line with the prior year, at £53m. and tax payments were £80m. The resulting adjusted free cash flow was £119m down from £160m in 2019.

Moving on to look at the balance sheet. Our balance sheet shows minimal impact from COVID-19. Half of the £62m change in current assets, less current and non-current liabilities reflect a reduction in tax liabilities and deferred consideration.

The other main movement relates to reduced payables, mainly management and support bonuses. I will talk about the composition of cash and financial assets and our debt profile shortly.

Our lease liabilities have increased as we signed leases for our new office in the City of London and there is a corresponding increase in our right of use assets.

Looking now at our cash holdings. You can see on this slide the total cash, cash equivalents and financial investments decreased from £824m to £783m. £687m of the Group's cash was held in our regulated entities for working capital, regulatory and liquidity purposes. £86m was held in non-regulated entities and £10m was in corporate entities.

Turning now to debt. Gross debt before IFRS 16 lease liabilities increased to £725m. At the year end we had £28m drawn down on a revolving credit facility, entered into with our Japanese JV partner, Totan, in August 2020. This facility matures in February 2023. And I just mentioned our IFRS 16 lease liabilities increased to £212m, due to the leases on our new office in the City of London. These liabilities are excluded from our banking covenant calculation.

I want to move now to some key events that have strengthened our financial position over the past year. First, we successfully embedded our new risk management framework in 2020, as you heard from Nico. And this should enable us to release about £60m of regulatory capital in total.

Second, our re-domiciliation has received overwhelming support from shareholders and came into effect last month. This creates a more capital efficient structure, as we no longer have to eliminate our capital deficit under CRD 4, for which we would have had to set aside about £25m to £30m a year, until the end of 2026.

Together with our rationalisation of legal entities this helps us to strengthen governance, improve risk management and reduce administration costs.

We have also successfully completed a rights issue to partially fund the acquisition of Liquidnet. This released approximately £315m in a 2 for 5 offer at 140 pence per share. I'm pleased to say that more than 98% of our existing shareholders subscribed to their rights and that the remainder was successfully placed into the market at £2 per share.

Moving on now to guidance for 2021, excluding the impact of Liquidnet. Activity in the first wo months of the year has been in line with the same period last year. But I should remind you that volumes in March 2020 were exceptionally high.

We continue to expect low single digit revenue growth for the full year on a constant currency basis.

It is worth noting that the ongoing strength of the pound against the US dollar is a headwind on our revenue and operating margin as 60% of the Group's revenue is in dollars, compared to just 40% of our costs.

We expect contribution margin for the year to be broadly in line with last year, net finance costs to be around £50m and the effective rate of tax to remain at 25%, absent any changes in rates outside the UK over the course of the year.

As we said at the Capital Markets Day, we will continue investing prudently in the business to generate long term growth. We plan to spend around £30m in strategic IT investments during the year, of which about £13m will be opex and £17m is capex.

Total capex is likely to be in the region of £50m, which is less than 2020 as we move from two buildings into one in the City of London in April this year.

We will be including Liquidnet in the Group's results from the half year onwards.

Finally, as we said at the Capital Markets Day, we intend to introduce a new dividend policy this year that targets cover of approximately two times adjusted earnings. This reflects a balanced approach to capital allocation, enabling investment to drive growth, while allowing dividends to increase as adjusted earnings grow.

So in summary, we delivered a robust performance in 2020 in exceptional circumstances and continue to benefit from the increased diversification of our business. We are also pleased to have finalised our re-domiciliation giving us more financial flexibility. And we completed a successful rights issue providing funding for our acquisition of Liquidnet.

Thank you very much. I'll now hand you back to Nico.

Business Review
Nicolas Breteau, Chief Executive Officer

3.0 Business Review

Thank you, Robin. This time last year we unveiled our strategy to drive improved returns for shareholders through electronification, aggregation and diversification.

On electronification we are growing the amount of business we deliver electronically, improving broker and client connectivity, delivering efficient workflows, and growing our post trade services. This will improve our operating margins, increase volumes, and decrease costs, with more trades transacted electronically, we will enhance broker productivity and better manage the contribution ratio over time.

With aggregation we are providing clients with access to liquidity across linked products and across all our brands. This means they find the best price while we grow our market share.

And on diversification we are broadening our revenue streams and client base through our three fast growing businesses. This will increase sustainable growth and the quality of our earnings.

Let me just remind you of the strategic initiatives that we have in place for each division.

Across our two Broking businesses we are executing our hub strategy for Rates, Foreign Exchange, Credit and Oil. These hubs will drive both electronification and the aggregation of liquidity. They offer a single sign on and screen with access to multiple brands and linked products, all with a common look and feel. They also provide robust post trade processing and connectivity.

In Data & Analytics, our focus is on moving up the value chain in terms of our product offering, going beyond selling raw data to creating value adding solutions and then distributing these solutions through new channels.

In Institutional Services we are expanding both our product and regional customer coverage. We expect the Liquidnet transaction to complete at the end of this month, as well as adding Cash Equities expertise, first class connectivity and a vast network of buyside clients it also provides two further growth opportunities. The creation of dealer to client platforms in Credit and in Rates.

I would like to talk about each of our business divisions in turn now, starting with Global Broking.

Our Global Broking division is the largest provider of OTC marketplaces in the wholesale market, with a share of around 40%, including voice, hybrid, and electronic platforms.

Global Broking revenues decreased 5% as record volatility in March was following by a material softening. It's worth noting that revenues in Global Broking are more closely correlated with secondary volumes in the relevant markets on the main exchanges than with those of tier one investment banks. There is a slide in the appendix to illustrate this.

Our strategy for Global Broking is based on building asset class hubs to meet the changing requirements of clients.

In Rates we have a marketing leading ICAP interest rate options platform, which we call Fusion. During the year we achieved our first electronic aggregation of liquidity across products on the platform. We also added Tullett Prebon to the platform, delivering aggregation across brands.

In addition, we developed our ICAP Sterling hub, which is now live. At the press of a button you can access gilts, interest rate derivatives, inflation bonds and swaps on this platform in order to facilitate trading across correlated assets.

In Foreign Exchange, we launched a cross brand platform for trading FX options, and we have been encouraged by its performance so far. We have several top tier banks streaming liquidity and our share of the FX options market has increased by about 5 percentage points.

In Credit we increased electronification by launching Matchbook ReBalance in the UK, a platform that enables traders to clear up unwanted odd lot risk on their books. This has now also been launched into the US.

In Equities, where the market is much more dispersed, we completed the Louis Capital Markets acquisition in July. This brings expertise and scale in Cash Equities and Equity Derivatives, as well as strengthening our Continental European franchise.

Ultimately the aim of our strategy in Global Broking is to improve our contribution margin and operating margin.

I will now move on to Energy & Commodities. TP ICAP is the leader in OTC Energy & Commodities markets with an especially strong position in Oil. The business had another strong year and continued to outperform peers.

Revenues grew 3% against a strong comparator as increased market volumes and price movements provided good trading opportunities.

We delivered growth across most product areas, Oil is our largest business and it benefited from the extraordinary conditions in the first part of the year.

We also recorded a strong performance in LNG as natural gas became a global rather than a regional market. And we experienced good growth in Metals and Environmental Products.

Contribution and operating profit margin improved on the back of higher revenues, as well as front office and support cost savings.

Our goal for Energy & Commodities is to consolidate our global leadership position by increasing aggregation and electronification. For example, we're making good progress building an Oil hub, enabling clients to view aggregated liquidity across our competing brands.

30% of desks are already live with our electronic matching engine, Nova, and all our desks will be live by the Half Year.

We have also implemented an order management system on the platform to facilitate trades and provide straight through processing. Over time, we believe this will deliver greater efficiencies, stronger margins, and better client retention.

Moving on now to Institutional Services. As of today, we are changing the name of Institutional Services to Agency Execution, which better describes the business and its activities.

Liquidnet will sit within Agency Execution once the transaction is complete. At that point, the division will comprise of two brands - COEX partners, a high-touch Agency Execution service for the buyside, and Liquidnet, a low-touch service.

Agency Execution is an important part of our diversification strategy, bringing new revenue streams from a different and substantial buyside client base. This includes hedge funds and asset managers.

In 2020, this division delivered strong revenue growth of 21%, showing the Agency Execution model has become an established and valued component of the market's ecosystem. This growth was a result of a significant increase in requests from institutions that have traditionally sought execution services exclusively from banks. We believe this trend will continue as banks move away from these activities, and we aim to increase market share.

Our growing scale has also resulted in improved margins despite the early stage of the business.

All our core products and regions delivered growth in 2020. Exchange traded derivatives performed extremely well. And we were also pleased with ongoing endeavours deriving growth in FX, equity derivatives, interest rate swaps and government bonds.

A number of our clients now interact with us in two or more asset classes. This is an encouraging development which we believe will become an important growth driver.

Our strategy for Agency Execution is to add more asset classes, broaden our reach and invest in further electronification.

Let's move on now to Data & Analytics. Data & Analytics is a subscription-based high-margin business that offers excellent earnings diversification and sustainable growth opportunities.

Revenues were up 9% against a strong comparative period and market growth of 4% to 5%.

The first half of the year was slow due to the pandemic, but the second half was much stronger, with fourth quarter revenues up 11% on the prior year.

Data & Analytics has a clear strategy to grow by moving its product offering up the value chain, broadening its distribution network and diversifying and expanding its client base.

Again, we've made good progress during the year. We launched six new offerings, including, importantly, our first information product - Bond Evaluated Pricing. This was developed in response to clients having to meet stricter regulatory requirements for fixed income pricing.

In terms of distribution, we launched a new direct-to-client service, known as SURFIX. This enables us to distribute real-time market data for all security types from all brands.

We expanded our channel partners to include Amazon Web Services and Google Cloud Platform, giving clients greater agility and a lower total cost of ownership.

We also have a growing and diversified client base, including both the buyside and sell side, as well as exchanges, index providers, consultants, corporates, and governments. Market data vendors are also major clients, and an important part of our distribution capability.

15% of our clients currently come from the buyside, and our aim is to grow these to 45% over time.

From January 2021, we have moved Risk Management Services, which includes Matchbook and ClearCompress, into Data & Analytics, and we plan to grow post trade services as a revenue stream within this division.

Looking ahead, we will continue to launch new products, sometimes in partnership with third party data providers, covering other asset classes. We are also developing new solutions that meet clients' needs for regulated benchmarks and indices given the retirement of Libor. This includes an interest rate options volatility index based on our Global Broking data. We are also working on index partnerships in Energy & Commodities.

I'd like to move on now to talk about Liquidnet. We believe Liquidnet is a compelling acquisition which will materially accelerate our strategy. It provides TP ICAP with electronic trading and workflow connectivity to the buyside, it diversifies our asset class expertise into Cash Equities, and it offers substantial growth opportunities with dealer-to-client platforms for Credit and for Rates. It also accelerates our Data & Analytics offering. We expect the transaction to close towards the end of the month pending certain regulatory approvals.

We have also set up dedicated integration teams to realise the revenue opportunities and to optimise the support framework. Their workstream plans are well-formulated and will enable us to hit the ground running on day one.

So, as I look back on 2020, we are better positioned to drive sustainable revenue growth and higher returns for shareholders than we were 12 months ago.

We have the right strategy at the right time, responding to the changing needs of clients in the nature of markets.

We have a clear execution path which we have already embarked on. We have strengthened our financial position with our re-domiciliation and new risk management framework. And, in Liquidnet, we have a game-changing opportunity to accelerate our growth.

Regarding 2021, it has started well with good activity across the business. But remember that March last year was the month that broke our historical record. Our focus now is simple - execution.

I want to close by reminding you of the targets we laid out at our Capital Markets Day last year. We are planning revenue growth of 4% per annum over the medium-term, with the inclusion of Liquidnet.

Our adjusted operating margin target for 2023 increases from 17% on a TP ICAP basis, to 18%, including Liquidnet. Over the medium-term, this grows from roughly 20% to 23% as a result of Liquidnet.

In short, our aim is to accelerate revenue growth, deliver stronger margins and generate higher returns to shareholders.

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

Questions & Answers

4.0 Questions and answers

Telephone Operator
Ladies and gentlemen, if you'd like to ask a question, please press * followed by 1 on your telephone keypad now. To withdraw your question, please press * followed by 2. And, if you've joined us online, please press the flag icon on your web browser. [Pause]

As a reminder, ladies and gentlemen, if you'd like to ask a question, please press * followed by 1 on your telephone keypad now.

We have a question from Nick Pritchard from the webcast. - What has the feedback from employees been in terms of returning to the office full-time? Do you envisage travel and hospitality to return to normal or, for the foreseeable future, remain subdued?

. . . .

Nicolas Breteau, Chief Executive Officer
Hi. Regarding working from home, for brokers, we will require them to be back in the office as soon as it's safe for them. And, for our back-office staff, we are implementing a hybrid model where staff could work from home up to two days a week.

So, we are, as we speak, testing this flexi-work policy in Asia-Pacific were have a higher percentage of our staff back in the office. And, in June, our plan is to implement that flexi-work policy in the UK and, gradually, in the US.

So, the reaction is very positive because I think a lot of our employees have a strong desire to come back and meet their colleagues again, provided that we can keep some flexibility.

Regarding the second part of your question on travel and entertainment, we've seen a huge decrease this year, and we continue, as we are in lockdown in the UK, to have very reduced activity in this area. We do not anticipate these to resume at levels pre the COVID pandemic because I think we have improved our way of working collaboratively through electronic channels. So, some of it will resume but at a lower pace.

. . . .

Telephone Operator
Our next question comes from Vivek Raja of Shore Capital. Vivek, your line is now open. Please go ahead.

. . . .

Vivek Raja, Shore Capital
Hi. Morning, gentlemen. Can you hear me okay?

. . . .

Nicolas Breteau, Chief Executive Officer
Yes.

. . . .

Robin Stewart, Chief Financial Officer
Perfectly.

. . . .

Vivek Raja, Shore Capital
Great. Thanks.

Look, I wanted to explore the revenue guidance you provided today. So, you're guiding, again, low single-digit revenue growth in 2021 for the standalone business, i.e. excluding Liquidnet. You mentioned revenue per day is higher year-on-year in January and February. I wondered how January and February compared to activity levels in Q4. So, that's the first bit of my question, please.

. . . .

Nicolas Breteau, Chief Executive Officer
Robin, would you like to?

. . . .

Robin Stewart, Chief Financial Officer
Yes. So, certainly in terms of revenue levels in the first two months, they are an improvement on Q4. You may recall that Q4 started slowly. We didn't get the pick-up in revenue that we anticipated we'd get off the back of the US elections, but it started to strengthen in December with the onset of the finalisation of Brexit. But, of course, December itself had fewer working days a month. But that's how I would marry the two periods up.

. . . .

Vivek Raja, Shore Capital
Okay.

. . . .

Robin Stewart, Chief Financial Officer
In terms of guidance, I think, for us, from a guidance perspective, you know, last year you will recall that, even after Q1, when we had a really, almost, well, pretty much a record March 2020, which drove the 17% revenue growth in the first quarter, we were very cautious again for the outlook of the year at low single-digit because we've seen, over many years, you know, sharp pick-ups in on month or so. It doesn't necessarily lead to a trend. And I think we were right in assuming that that wasn't going to be the result for the full year. And, in particular, we had a very, very subdued Q3 last year.

So, for us, we're just being optimistically cautious, I think, in terms of saying that we are anticipating low single-digit for the year ex-Liquidnet.

. . . .

Vivek Raja, Shore Capital
Okay. So, you're basically looking at the sort of sharp-moving oil prices, the yield curves deepening, which is obviously beneficial in January and February on an annual comparative, you just don't want to extrapolate those too far forward?

. . . .

Robin Stewart, Chief Financial Officer
Not after two months, Vivek. I think it's just too soon to think that two months will then translate into 12. Like we did last year, on three months, again, we didn't translate that into 12, and I think that was the right thing to do. So, we're anticipating that.

But we do think the shape of the revenue this year will be almost the inverse of last where, you know, we've started this year still in COVID, and, you know, operating remotely. Hopefully, with the rollout of the vaccination, particularly in the UK, and, as that spreads west into the US, we hope that that means that the H2 this year will be a better shape than last year. But, yeah, that's sort of how we're offering it for now, and we'll give people an update after Q1.

. . . .

Vivek Raja, Shore Capital
Okay. Thank you.

. . . .

Telephone Operator
As a reminder, ladies and gentlemen, if you'd like to ask a question, please press * followed by 1 on your telephone keypad now.

We have a question from Piers Brown of HSBC. Piers, your line is open. Please go ahead. [Pause] Piers, your line is now open.

. . . .

Piers Brown, HSBC
Sorry. Sorry, I was on mute.

Yeah, good morning, gentlemen. Just a couple of questions on Liquidnet. So, I appreciate you still haven't closed yet, but I guess you've had some initial dialogue with your dealer clients in terms of potentially adopting some of the Liquidnet protocols and just how those conversations are progressing in terms of the appetite to take on-board the Liquidnet service. That's the first question.

And then the second question, just around Liquidnet trading - I don't know whether you can give us any updates in terms of how their numbers have performed through the back half of last year, particularly through the fourth quarter, and what they're seeing in terms of first quarter trends.

. . . .

Nicolas Breteau, Chief Executive Officer
Yes, absolutely. So, the first part of the question regarding Liquidnet and the discussions, the reaction with our clients, so two sides - one on the Liquidnet clients first.

I had the pleasure of meeting a lot of them in the UK and in the US virtually, having discussions about our plans and have been very encouraged by the reactions from the clients who are very - we feel that it's very important that we are a pure player, that TP ICAP becoming the owner of Liquidnet is a great thing because we will give them additional ammunition to develop, to grow, to distribute their products, but, with the same respect of confidentially of information, and not taking any positions or market-making. So, that's a very positive point.

On our own clients, on the banking side, we have also really great conversations with large Tier 1 investment banks. They have an appetite to cooperate with us, particularly on the development of the dealer-to-client solutions for Credit because they think that there is space for more competition. They're looking for some improvements in the pricing methodology, and they are also looking forward to working with us to improve the execution protocols.

So, we have engaged in a lot of discussions, and we have workstreams with the Liquidnet folks to plan our go-to-market on Credit first, and the second is on Rates.

So, we have, as we said before, a very large, the largest franchise on the rates space, we have, already, and electronic platform iSwap, and we have discussions on how could we leverage what each partner brings into this operation to develop dealer-to-client, initially dealer-to-client platforms on Rates as well.

So, very, very encouraged by the conversations with our clients today.

. . . .

Robin Stewart, Chief Financial Officer
And, Piers, just on your question on Liquidnet trading, you remember that, at the beginning of the year, just in advance of the rights launch, we talked about them having a strong finish to the year. The shape of Liquidnet's revenue was very similar to ours in 2020, and so they had a pick-up at the back end of the year, but the pick-up growth outperformed TP ICAP's.

Similarly - and I would say that we're comparing revenues on a US dollar to US dollar basis because they're not part of our group yet so we can only look that, how they've grown on their own function of currency - they're had a strong start to the year as well for the first two months and are, yeah, doing fairly well.

. . . .

Piers Brown, HSBC
That's great. It's very clear. Thank you very much.

. . . .

Telephone Operator
Ladies and Gentlemen, if you'd like to ask a question please press * followed by 1 on your telephone keypad now.

We have no further questions at this stage so if you'd like to continue.

. . . .

Facilitator
We've got questions in the room that's come in via the webcast so, I'll pose these now from in the room.

Question number one from Gurjit Kambo, JP Morgan. Post Brexit, how many staff have relocated to Europe and have you seen any material impact on your business? Thank you.

. . . .

Nicolas Breteau, Chief Executive Officer
That's a very good question so I would say the first thing is credit to the teams who are navigating what has been a really complex situation with Brexit, and a situation made even more difficult by COVID.

We continue to cover our clients effectively and the impact on revenues has been negligible. We've been able to do that because we have today 220 employees on the ground in our Continental European offices.

The plan is to transfer more brokers, overall we said in our plans that the number is around 80. We have transferred approximately one third of those so far. Because of the difficulties with COVID we have transferred initially in priority the EU nationals, and as application for visas are going through, we will continue to transfer more brokers.

In the meantime, we have also hired local brokers and sometimes reallocated coverage of EU 27 banks on the ground with our brokers in the European offices.

We also have to keep in mind that many large institutions have established a UK branch under the temporary permissions regime and therefore we could continue to service these clients London to London.

So overall the Brexit challenge represents less than 10% of our overall Group revenues, but we are able to continue to cover our clients effectively and there's no impact on the revenue.

. . . .

Facilitator
Many thanks. A further question from Stuart Duncan from Peel Hunt.

Robin, you mentioned the simplification of the corporate structure following the re-dom. Are there any cost savings to be realised?

And then a follow-up for Nico, on the hub strategy as market shares improve and there is more value in the Hub, how does this impact discussions with brokers around compensation ratios going forward? Does it impact broker retention if other firms are willing to pay up?

Robin, to you please.

. . . .

Robin Stewart, Chief Financial Officer
Thanks, Stuart, for that question.

Just in terms of - there's two ways we look at the cost base of the Group on a legal entity simplification. First on regulatory capital and second on absolute, I suppose, cost overhead.

On the reg cap perspective, I've already covered I suppose where we think we've got some future savings in terms of our ongoing requirement that we had previously in growing our tangible capital base for our CRD 4 requirements, so that’s alleviated, but I've covered that.

In terms of actual management and support costs that we have, yes, we were already going through a corporate restructure which the domiciliation is part of. You may recall, we've mentioned previously that post the acquisition of ICAP, we had 260 entities in the Group and we’re looking to halve that over a period of time. That’s ongoing and that clearly should yield some administrative overheads for the Group in terms of just less compliance obligations around just managing that big corporate structure.

. . . .

Nicolas Breteau, Chief Executive Officer
Regarding Hubs, it's an important part of our strategy for Broking businesses so, I think the question was around market share, so I think if I look at 2020, we've been able to increase slightly our market share overall. And I think we are at the early stages of the implementation of our Hub strategy, but where we are more advanced is in Oil with our Nova Oil project. I think we have increased our leadership on that segment thanks to Nova because it allows us to share more information between brands, between desks and therefore to increase the opportunity to match interest and orders from clients.

On Rates, which is also the area where we have progressed the most in Global Broking, we have consolidated our advance and our market share I think in two areas. One on the interest rate options, I mentioned Fusion and really the benefit of being able to distribute prices electronically and also the fact that we have onboarded Tullett on the ICAP platforms increasing the amount of liquidity available for clients has pushed our market share.

If I look at the Sterling Hub, I mentioned that as well, today it's on the ICAP side, but we've been able to aggregate family projects like gilts, interest rates, inflation bonds, or swaps and we see the benefit of that. But we are at the beginning of harvesting the benefits of that strategy.

But there's no doubt that for us it will lead to an increase in market share, and this is why we continue to think that there is an opportunity in the medium term to have a 1% growth - a competitive growth rate on the Global Broking activities. But we are at the beginning of the deployment of that strategy, and we'll see the benefits as we go along.

Definitely it's attractive for brokers to dispose of better technology because it makes their role more relevant. It's clear that our aim in doing that is to improve the level of the productivity per broker and the level of contribution and hence the profitability of the business.

So, we are not overly focusing on broker compensation, because that's a ratio that could be distorted. We've seen in 2020 that this ratio has been a little bit distorted by two elements. One is that was travel and entertainment has gone down a lot, and that has benefitted compensation. And also it depends on the mix and the nature of the composition of our revenue. So as we grow more diversified streams of revenue like Energy & Commodities, you have an inflation on that area.

But the idea is overall to improve contribution is for productivity per broker to go up, for brokers to take more pay home, but the overall ratios to improve for the firm.

. . . .

Facilitator
Many thanks. Next question from Mark Williamson, Peel Hunt. Three questions in fact from Mark, so I'll ask them individually.

Question number one, why do you think a larger proportion of the Rates market hasn't already gone electronic?

. . . .

Nicolas Breteau, Chief Executive Officer
So, we have developed the technology for Rates. We have gathered the appropriate liquidity providers, but we've seen in the US despite Dodd-Frank and in the UK that actually the vast majority of the market remained hybrid based.

I think there is an element of commitment that you take as a trader when you trade electronically so if you use a central limit order book your order is committed, it's firm. And there is always a risk that you could be picked up if there is a market movement while interacting with a broker giving an indication of interest is a more agile flexible way of operating.

I think that we are seeing an evolution of behaviours and I think as our strategy demonstrates, we believe that we are gradually seeing a stronger electronification of the markets. So we are well placed for that because off i-Swap technology, because our partnership with the larger institutions, but also because we have this strategy of electronic hubs to capitalise on this electronification trend.

. . . .

Facilitator
Many thanks. The second question from Mark. Is investment in data science and machine learning required to facilitate greater electronification of more complex products, and to what extent does that feature in the investment you're making?

. . . .

Nicolas Breteau, Chief Executive Officer
I suggest Joanna, our Global Head of Strategy will answer that question.

. . . .

Joanna Nadar, Global Head of Strategy
Sure. I think in the more complex products which tend to be the less liquid products, I think there is a role and we're already using these types of techniques for using sort of data science to come with pricing methodologies and pricing of securities that haven't been trading and for valuation purposes.

Those are the kinds of things that we think that can help for example in certain segments of the credit markets where we've really got the bond evaluated pricing and also potentially on a more dynamic basis. And so yes, I think that sort of is one area that we're looking for and one area where we think Liquidnet's data science team can particularly help us given our data sets and their capabilities.

. . . .

Facilitator
Many thanks. Question number three from Mark. Is sterling the most appropriate functional currency for the Group?

. . . .

Robin Stewart, Chief Financial Officer
That's a good question, I'll take that. For those who've been covering our stock for a while, you will have seen historically some volatility on the top line and the margin over the years with the fluctuation particularly of cable. That's been fairly benign for the last two years where average cable rates for 2020 and 2019 have been around 128, 129.

I think particularly with the acquisition of Liquidnet which grows the level of dollar revenues in the Group and increases the volatility impact of that, we are certainly looking at whether the right thing to do for the Group is to change its functional currency.

So that's a piece of work that's ongoing right now and to the extent that we conclude on an outcome, we'll certainly update you after we've done that.

. . . .

Facilitator
Many thanks. And the final question I have via the webchat from Gurjit Kambo again, at JP Morgan.

So in terms of the outlook for Data & Analytics, you indicated 11% Q4 year-on-year growth. Do you expect double-digit revenue growth from Data & Analytics, I presume going forward? Thank you.

. . . .

Nicolas Breteau, Chief Executive Officer
Yes, we have finished 2020 Q4 in a very strong position for Data & Analytics going to 11% while overall, we traded at 9%. Our sales process has been impaired by COVID but the answer to the question is yes, we are going to deliver double-digit growth going forward in this division.

A lot of the revenue of that division is predictable, so I say that based on the investments and the sales that we have concluded recently.

As you know, we have a clear strategy in Data & Analytics to deliver that to maintain a very high operating profit margin - but see growth by working on our direct distribution with clients, so we have invested in technology and we will see the benefits of that in the coming years.

We are investing in generating more products, and those products are of higher value. And so that will deliver the growth I'm talking about.

And again, the acquisition of Liquidnet will give us a reach, a significant reach to the buyside. Today the buyside client base accounts for approximately 15% of our DNA business. We are targeting 45%. Liquidnet is giving us a big accelerator in that aspect.

. . . .

Facilitator
Many thanks. One new question literally just coming in. Nope, sorry, an error on that one.

That's it, no more questions from within the room. Back to the Operator.

. . . .

Telephone Operator
We've had another question come through from Piers Brown of HSBC. Piers, your line is open, please go ahead.

Piers, your line is now open.

. . . .

Piers Brown, HSBC
Yeah, sorry. Hi, sorry for taking a second bite of the cherry. It's three sort of related questions actually, just coming on the point of broker compensation.

So, I'm looking at slide twelve and you've obviously given the £80m gross reduction in bonus pool. So the first question is I just wonder can you say what percentage decline that would be over the gross pool last year?

And the second related question to that would be, you've talked about you've got an offset really, the brokers have an offset because they've got lower deduction for travel and entertainment. So what would be the sort of equivalent percentage decline in the net bonus pool that the brokers would actually be seeing in terms of their take-home pay?

And then the third and final sort of related question is just the overall marketplace competition for brokers, I mean how is that looking at the moment? Because I guess a lot of your competitors are facing similar sort of revenue pressures to what you would have experienced last year. So has competition for brokers decreased, increased, any sort of colour you can give on that would be very helpful.

Thanks very much.

. . . .

Robin Stewart, Chief Financial Officer
I'll take the first two of those Piers.

The slide that you talked about is the management support cost. It's nothing to do with brokers, just to be clear. That's the change in the bonus pool of the support functions. But just to answer your question on it, it's about a 30% reduction.

In terms of T&E and how that might impact going forwards, I think was your question, changing levels, it's a complex machination of many contractual arrangements across the various brands in the Group. And so as a rule if travel & entertainment costs picked up year-on-year, we would anticipate the broker compensation KPI to come down as a function of that. However, net-net the impact on the contribution line is much more benign, and that's why we are focusing peoples' attention on the contribution percentage as a much more relevant KPI in terms of the output of the business, it's not just about the broker compensation number in isolation.

. . . .

Nicolas Breteau, Chief Executive Officer
Regarding the competition for brokers, I would say that the market, the competition in that space continues to be fierce. That's something we know how to do. We know how to hire; we know how to protect our revenue base and retain our brokers.

I think I would say two things matter more and more in that space beyond a compensation ratio - it is the capacity for the firm to deploy technology because our brokers are really asking for more technology to service that clients, because that's what the clients want to do. They want better pre-trade connectivity, they want full STP and that's really important.

And also, I think brokers realise that technology is the means for them to have a longer professional career in this space, becoming more and more liquidity managers rather than brokers that they were maybe in the past.

One other element that it's worth mentioning is that we have in 2020 rolled-out equity plans for our brokers. So we are aligning really our brokers incentives with the success of the strategy that we are deploying, and we are aligning them also with our shareholders, with our stakeholders. So that's another important element in terms of retention in the future.

. . . .

Piers Brown, HSBC
That's great, thanks very much again.

END

DISCLAIMER