Interim Results 2021

Presentation transcript

07 September 2021

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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 introduction, Robin will take you through the financial performance, and I will then update you on the execution of our strategy, before we open up for questions.

Turning first to business highlights, we are making good progress executing our strategy.

We are rolling out our Hub strategy for Global Broking and Energy & Commodities to electronify our business and aggregate liquidity across brands. This is already producing results, for example, improved contribution margin relating to our Interest Rates Options platform, which I will illustrate later.

From our leading position in Broking, we continue to diversify our revenues. Our three business divisions outside Global Broking represented 40% of first half revenues compared to 26% in 2018 when I took over as CEO. Our Data & Analytics business, which continues to grow in double digits is helping to drive this diversification.

The Liquidnet acquisition completed in March, and since then we have worked at pace to integrate it into our Agency Execution division. In that process we have identified cost synergies that we are reinvesting to drive future growth.

Our growth plans for Liquidnet are already well advanced in both Equities and Credit. You will have seen that we are announcing today the launch of our first new product in Credit called Liquidnet Primary Markets which is an electronic solution to modernise debt issuance.

We also continue to focus on cost management. We told you in our trading update last November that we would make annualised cost savings of around £35m this year, and we are on track to achieve this.

In short, we are moving forward, executing our strategy, and investing to transform the business. As a result, the Group will be better placed to drive sustainable earnings growth over time.

So let me turn now to the financial headlines. The Group delivered revenue of £936m, down 1% on the same period last year in constant currency. This includes £55m from Liquidnet.

Excluding Liquidnet, revenue declined 7% to £881m against a strong comparator.

Secondary markets were subdued with continuing low interest rates across the G7 and a flattened yield curve. In addition, many of our clients' traders continued to work at home with reduced risk limits, which has further dampened activity.

Despite these market dynamics, our revenue is broadly in line with the equivalent period in 2019 when we saw more normalised trading conditions compared to the exceptionally high volumes in Q1 2020.

On an adjusted reported basis, EBIT profit margin of 12.5% was 3 percentage points lower than 2020 as a result of three main drivers. First, lower activity levels due to subdued markets. Second, sterling strengthening against the dollar, as 60% of our revenues are dollar denominated. And third, a larger cost base following the Liquidnet acquisition.

Adjusted earnings per share were 10.2 pence, and we have declared an interim dividend of 4 pence, in line with last year when adjusted for the February rights issue.

I will now hand over to Robin to provide more detail on our financial performance.

Financial Review

Robin Stewart, Chief Financial Officer

2.0 Financial review

Thank you, Nico, and good morning everyone.

You'll know from our update in August that we are trading in line with the market and that we continue to maintain a leading market share.

Against the backdrop of more normalised market conditions, we have done a great deal during the first half to put the business on a stronger footing.

In February we completed a successful rights issue to partially fund the Liquidnet acquisition. We also completed our re-domiciliation to Jersey which strengthened our capital position as we no longer have to set aside £25m a year to eliminate our CRD IV deficit.

As Nico mentioned, we completed the acquisition of Liquidnet in March and in the process of integration have identified around £20m of synergy savings.

We continue with strong cost controls in TP ICAP and are on track to meet our targeted savings this year.

We are also investing in the business to deliver sustainable earnings growth over the medium term so, despite quiet market conditions, we are making steady progress.

Starting now with the income statement. Revenue decreased 5% on a reported basis or 1% in constant currency to £936m. This includes 3 months of Liquidnet revenue. Excluding Liquidnet, reported revenue decreased 11% or 7% in constant currency to £881m.

As Nico said earlier, this is broadly in-line with the equivalent period in 2019 when we saw more normal trading conditions than last year.

You will see from this slide that we are now reporting EBITDA, in line with our market infrastructure peers. Adjusted EBITDA was down 17% with EBITDA margin 2.2 percentage points lower at 16.6%. Adjusted EBIT decreased 26% and EBIT margin was 3.6% percentage points lower at 12.5%. These movements mainly reflect the reduced contribution as a result of lower revenue.

Net finance costs of £29m were £6m higher than last year for two reasons. First, we drew down additional debt to partially finance the Liquidnet acquisition. Second, we purchased foreign currency options to hedge the acquisition proceeds.

Taken together, this resulted in adjusted earnings before significant items of £75m and adjusted earnings per share of 10.2 pence.

Turning now to the drivers of Revenue on the next slide. The charts here show transaction volumes by asset class. As you can see, volumes declined across every asset class in the first half this year and our revenue correlates with these market dynamics. You can also see exceptional volumes in every asset class in the first quarter last year, making 2020 not just a strong comparator but an outlier.

So let's turn now to our breakdown of revenue by division and asset class on a constant currency basis.

Global Broking was down 7% to £575m, in line with market activity, and as I said earlier, we maintained our leading market share.

Energy & Commodities decreased 9% to £187m against a first half last year that included record pandemic-driven oil volumes

Agency Execution grew 84% to £103m, due to the inclusion of £55m from Liquidnet. Excluding Liquidnet, Agency Execution was 14% lower, reflecting weaker activity in the Relative Value business.

Parameta Solutions, which includes Data & Analytics and Post Trade Solutions, grew 6% to £82m. The Data & Analytics business maintained its double digit growth with revenues up 11%, while Post Trade Solutions declined 17% partly as a result of lower volumes due to the transition from LIBOR.

Looking at Global Broking revenue by asset class on the right, the Rates business decreased 16% to £226m as a result of lower volumes, the adverse impact of quantitative easing and low interest rates, as well as continued disruption caused by Brexit and the LIBOR transition.

FX & Money Markets and Emerging Markets saw declines of 9% and 6% respectively due to lower volatility.

Equities grew 17% to £117m, mainly driven by the addition of Louis Capital Markets.

And revenue in Credit was down 11% to £44m as despite strong bond issuance in the period this did not lead to increased secondary trading.

Moving on to results by business division on the next slide where I'll focus my comments on EBIT margin.

Global Broking EBIT margin decreased from 19.4 to 15.5%, driven by reduced revenues and increased investment in our hub strategy.

In Energy & Commodities it reduced from 14.7 to 12.3% as a result of lower revenues.

Agency Execution margin reduced significantly as a result of lower revenue in TP ICAP and the inclusion of Liquidnet which I'll talk about on the next slide. Bear in mind this is still a relatively small division and the impact of decreased revenue on margin is a reflection of scale.

In Parameta Solutions there was a decrease of 2 percentage points to 39% due to increased investment in new product development and additional hires in our global sales team.

Looking now at the numbers by operating segment. In EMEA revenue was 7% lower at £456m. Contribution margin decreased by 1.4 percentage points due to lower revenues and the costs associated with retaining key staff in a competitive market. Adjusted EBIT was down 25% to £77m, resulting in an EBIT margin of 16.9%.

In the Americas, revenue decreased 19% to £307m. New hires and a focus on retaining key staff reduced contribution margin by 1.5 percentage points to 33.2%. There was a 2.2 percentage point decline in EBIT margin to 12.7% as a result of lower revenue, despite reductions in management and support costs of £10m.

In Asia-Pacific, revenue was down 6% to £118m and contribution margin increased by 2.1 percentage points to 37.3% due to a reduction in broker compensation. This resulted in stable EBIT of £10m.

We are showing Liquidnet separately in line with our regulatory governance structure. Revenue of £55m post-acquisition generated a contribution of £26m at a margin of 47.3%. After support costs, the business made a loss of £2m which contributed to the reduced EBIT margin in Agency Execution. This will improve as we deliver the cost synergies I mentioned earlier.

I want to move on now to talk about movements in management and support costs on the next slide. As we planned and previously guided, Group costs decreased £18m year on year, but this was more than offset by a £48m increase from strategic investment, as well as acquisitions and foreign exchange movements. This resulted in a higher overall cost base of £246m.

So let me take you through the movements. We reduced the bonus accrual in line with trading for the period. We cut costs by £4m through headcount reductions as part of the £35m of annualised savings announced last year. And there was an additional decrease of £9m due to a reduction in COVID-19 related IT investment and lower consultancy costs.

The acquisitions of Liquidnet and Louis Capital Markets account for an increase of £32m. Finally, the strengthening of sterling against the US dollar resulted in an adverse foreign exchange movement of £14m.

Moving on now to significant items. These 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 £74m after tax. £24m of this was non-cash. Almost all of this consists of amortisation of acquired intangible assets arising on consolidation, which relates to the value of brands and customer relationships.

Cash items amounted to £36m, up from £17m in the first half last year. Within this, there were £11m of reorganisation and integration costs. Most of this relates to the Liquidnet integration which we expect to generate synergy savings, but it also includes £4m to achieve the £35m of annualised cost savings.

£8m of acquisition costs are associated with Liquidnet and legal and regulatory costs accounted for £11m. £4m of this relates to the recent AMF fine, with the balance resulting from litigation in Germany and Australia.

There was also a revaluation of our deferred tax liability in the period, resulting in a £9m charge.

Moving now to the next slide. Adjusted earnings decreased to £75m, which translated into adjusted earnings per share of 10.2 pence. On a reported basis, earnings per share were 0.1 pence due to the significant items I have just mentioned.

We intend to pay an interim dividend of 4 pence per share which is in line with last year's interim dividend when adjusted for the February rights issue.

Turning now to cash flow. Cash generated from operations amounted to £55m, compared with £115m in 2020.

This is largely the result of a working capital outflow of £55m which mainly reflects higher trade receivables as the number of days sales outstanding increased because COVID-19 impacted many of our client's payment processing centres in India.

Capital expenditure of £30m was up from £23m last year, reflecting investment in ongoing IT projects and in Liquidnet, as well as our incremental spending on our new City of London office. The resulting adjusted free cash flow was £25m, down from £92m.

You'll find the balance sheet and cash breakdown in the appendix, where there are no significant changes except the addition of Liquidnet, so I'll move on now to talk about debt.

Gross debt, before lease liabilities, increased by £140m to £865m. This was driven by an increased drawdown on our revolving credit facility and £36m of vendor loan notes, both associated with the Liquidnet acquisition.

Our IFRS 16 Lease liabilities increased to £286m, due to the leases on our new office in the City of London. You'll recall that these liabilities are excluded from our banking covenant calculation.

You may have seen last week's announcement from Fitch that our investment grade credit rating has been re-affirmed with stable outlook.

Before I close, I'd like to talk about the cost synergies we have identified in relation to Liquidnet. We intend to deliver annualised cost synergies of about £20m by the end of 2023 with a cost to achieve in line with the savings. These costs are treated as significant items.

This represents around 10% of annualised addressable costs and around half the savings are related to headcount reductions, the other half to non- compensation expense

We expect to achieve around a quarter of the savings this year, with the remainder delivered over the next two years.

We also expect to deliver additional property savings, but these are being reviewed as part of a wider project across the Group and we will update you on this in due course.

Moving on now to guidance for the full year. Activity in July and August has been at similar levels to 2020 and we continue to expect full year revenues, excluding Liquidnet, to be broadly in line with last year at constant currency. Liquidnet is expected to contribute revenue in the region of £160m to £180m.

As 60% of Group revenue is in US dollars compared to just 40% of our costs the strength of sterling against the dollar is a headwind on both our revenue and operating margin. As a result, we expect full year EBIT margin to be lower than the full year in 2020.

We said at the Capital Markets Day that we will continue investing prudently in the business to generate medium term growth. We still plan to spend around £30m, in strategic IT investments this year, of which about £13m will be opex and the remainder capex. This includes planned expenditure on Liquidnet.

Total capex is likely to be in the region of £50m, of which we have invested about £30m during the first half. This is in line with guidance.

Finally, as we said at the Capital Markets Day, we intend to introduce a new dividend policy this year that targets cover of approximately 2 times adjusted earnings. This reflects a balanced approach to capital allocation enabling investment, while allowing dividends to increase as adjusted earnings grow.

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

Business Review
Nicolas Breteau, Chief Executive Officer

3.0 Business Review

Thank you, Robin. Let me start with a brief reminder of our strategy. As you know, we are transforming our business through electronification, aggregation and diversification in order to drive sustainable earnings growth over the medium term.

Electronification improves client connectivity, workflow efficiency and post trade processing, which together improve operating margins.

Aggregating liquidity enables our clients to find the best price across all our brands and increases client stickiness.

Diversifying our revenue streams by focusing on the buyside, corporates and data users, drives growth and better-quality earnings.

We are executing our strategy to drive electronification and aggregation in Global Broking and Energy & Commodities by building hubs for Rates, FX, Credit and Energy.

These hubs will enable traders to access our screens and platforms via a single login, instead of many. The screens look the same across instruments and brands, making it easier and more efficient for traders who are active across multiple instruments, or multiple asset classes, to absorb information and transact.

The hubs will benefit TP ICAP as well as clients. First, client relationships will be more sticky and brokerage rates will become more standardised.

Second, with more activity conducted via platforms and common screens, there is greater opportunity for us to develop new data and analytics solutions.

Third, and most important, the hubs help increase broker productivity and improve profitability.

I want to show what this means in practice by sharing a short film featuring our new Interest Rates Options platform, which forms part of the Rates Hub and is accessed via the TP ICAP liquidity portal, Fusion.

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Fusion Video Played

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Nicolas Breteau, Chief Executive Officer
The migration you saw in that film requires investment of £100m over five years, as we told you last year, and the hubs will be delivered incrementally over that timeframe.

As you can see from this slide, to achieve our target state we have a comprehensive plan in place covering Rates, FX, Credit and Energy & Commodities. Our approach is to build out the hubs systematically across all asset classes, all regions and all brands.

Turning to our progress in H1, let's start with our Rates Hub. The key products we transact in Rates are interest rate swaps and options, as well as inflation, cross-currency swaps, repo, cash gilts and European Government bonds. As I said, our plan is to bring these different products together incrementally until they all sit in the Rates Hub.

During the first half we completed the delivery of the Interest Rates Options platform, which is now live in EMEA, the US and Japan.

Most of our Interest Rate Option clients are now using the platform with orders and trades flowing through it. In ICAP, where the platform is more established, approximately 50% of its Interest Rate Option volumes are now highly electronic. Tullett Prebon was brought on to the platform last September. And as the chart on the top right shows, 14% of its Interest Rate Option revenues are now platform-driven, whereas just one year ago they were pure voice.

This move to electronification is a positive development when we see the impact it has already had on contribution margin as the chart on the bottom right shows.

Moving on now to our Foreign Exchange hub, where the key products are G10 FX forwards, FX options, and non-deliverable forwards.

Progress in the first six months includes the launch of ICAP Spotmatch, a fully automated matching solution for the daily spot FX benchmark fixing. The new platform is simple, intuitive and uses state of the art FIX API connectivity. We already have 12 banks using the platform, including three of the five largest globally.

For the Credit Hub, we have launched an Index Options platform in EMEA for iTraxx indices. We also launched new execution protocols, such as, all or none, and added range-trading features to the platform.

In our Energy & Commodities Hub, we commenced a client pilot on Guarantees of Origin in Norway. These are trading certificates generated by European companies that produce electricity from renewable sources. So we are systematically deploying more technology across our broking businesses.

I will now move on to our other key strategic update, Liquidnet, focusing first on its Equities business.

We've now owned Liquidnet for about six months. Over this time we have undertaken a full qualitative assessment of the business. That assessment confirms that Liquidnet is a trusted partner for both clients and market participants. It has top-tier technology and great talent; an established network with more than a thousand buy-side clients globally; and access to 45 markets as well as third party dark and lit venues. Its buy side connectivity and ability to co-create customised solutions is a clear differentiator.

But it has much more potential than it has delivered to date. In Equities, clients choose to transact using several different channels depending on their style of trading, namely block trading, high touch, algorithms or programme trading.

Liquidnet has a strong advantage in block trading, and we want to leverage that in order to increase use of the other channels which will in turn increase liquidity in the dark pool.

We plan to do this in four ways. First, we are extending Liquidnet's distribution by leveraging TP ICAP's network of offices across 27 countries. We see specific, near term opportunities in Asia Pacific, where the commission wallet grew over 30% in the first quarter this year, as well as in Continental Europe. France, for example, is an underpenetrated market for Liquidnet and we have already launched Liquidnet in Paris by leveraging TP ICAP's presence.

Second, we are building out our award winning suite of algorithms in order to help clients move more easily between execution protocols to access both dark and lit markets.

Third, is programme trading, which is the use of algorithms to trade a basket of stocks in large volumes and sometimes with great frequency. Programme trading represents 17% of US trading volumes, according to Greenwich Associates, almost all of which is pure agency, so it's a good fit with our abilities.

Liquidnet is already active in programme trading, especially in the US, but revenues have declined in recent years as it has not been a clear priority. We will now refocus, leverage our un-conflicted model, and undertake targeted hiring in order to drive performance.

Fourth, we see potential to capture an increased share of cross-border trading. Cross-border, or inter-region trading involves taking orders generated in one region and executing them in another. It represents about 35% of the $20bn global equity wallet, yet it currently provides less than 20% of Liquidnet revenues. So, we see an opportunity to meet more of our existing clients' inter-region trading needs.

In short, we have a clear plan to deliver the full potential of the Equities business and we have already started to implement that plan.

I will now turn to Credit. Liquidnet's existing platform is the fourth most used in Credit. It has about 500 active buyside clients, including most of the top 50 bond holders globally. It sees good order activity, but its revenues remain small as not enough of that liquidity is matched.

To address this, we are leveraging the complementary capabilities of Liquidnet and TP ICAP, making targeted investments in technology and talent and developing new offerings.

We are launching the first of those new offerings today, Liquidnet Primary Markets. So let me tell you more about it.

Our plan in the Primary Market is to offer the full range of electronic agency services across the entire lifecycle of a bond, from issuance, to trading, to redemption. Today marks the start of that journey. Liquidnet Primary Markets is a new solution that directly addresses stage one of the lifecycle, debt issuance.

So, why Primary? This is one of the last parts of the capital markets to electronify so the process of issuing new bonds is largely manual, error prone, inefficient and time consuming. As a result, buyside traders, portfolio managers and banks' sales teams spend large parts of their day on clerical tasks. So, both the buyside and sell side need an electronic solution.

In response, Liquidnet has worked with top European banks, asset managers and other market participants, such as data vendors and order management system providers, to develop a truly market-driven solution.

Liquidnet Primary Markets will enable banks to send new issue information to investors electronically via the Liquidnet app and order management system. Investors can then input new issue orders electronically to the syndicate banks, with minimal manual intervention. They will then receive deal updates, allocations and final pricing electronically via Liquidnet.

Clients will also be able to trade new issues electronically from their order management systems. This addresses another problem caused by the current lack of electronic trading, limited liquidity discovery and price formation in early trading.

Liquidnet's solution will cover nearly all new issuance in Europe as we are working on this with more than 10 leading banks.

Turning to the secondary market, around 80% of corporate bond trading is dealer to client and dominated by just three platforms.

Now that Liquidnet and TP ICAP are together we have both the buyside connectivity and strong dealer relationships to compete. And we know from engaging with both clients and dealers that we are welcome as a new entrant in this market.

We are consulting with members and dealers to shape the new offerings that we are currently developing; first, a dealer to client request for quote workflow and second, price streaming services. We will launch both these initiatives in 2022. We will then develop a dealer to client protocol for Rates and broaden our offering further.

So let me now move onto progress in Parameta solutions. We have rebranded this division from Data & Analytics to Parameta Solutions and incorporated Post Trade Solutions.

The new brand gives the business a distinct identity, better enabling it to develop new partnerships, work with third party data providers, and diversify its offering beyond raw data to include benchmarks, indices and post trade solutions.

Parameta's strategy is three-fold. First, to develop new high value information products. Second, to grow its client base, with a focus on the buyside and corporates. Third, to expand its distribution capabilities.

As you can see from the chart, Parameta's strategy is the right one. It has delivered double-digit compound annual growth over the last four years.

So, let's start with products. We told you in March that we had launched our first ever information product, Bond Evaluated Pricing, to help clients meet stricter regulatory requirements for fixed income pricing. In the first half we expanded this offer to cover Foreign Exchange as well.

We are growing our client base by aligning our sales team to specific client segments; buyside, sell side and corporates. To give you one example of how this is driving results, we added 30 new buyside clients in H1.

Turning to distribution, we have expanded our global sales team in under-penetrated markets and made new hires to work with our largest and most complex clients. We have also partnered with market-leading cloud providers to create off premise solutions for clients. This means users can now access data on a shared basis via the public cloud, with greater speed and agility, in a more cost-efficient way.

In Post Trade Solutions, despite a challenging first half, our award-winning compression service, ClearCompress, has added ten large dealers to its client list and launched two new products following client demand. We have now built a working group of 27 dealers to help co-create new compression products and opportunities.

We will provide a more in depth presentation on Parameta Solutions at an Investor Seminar on October 12th.

So, in summary, we are making good progress executing our strategy. We have achieved notable deliveries in building out our broking hubs, and they are already starting to deliver positive results.

With Liquidnet, we have a clear growth plan for both Equities and Credit, which we are already executing, as you can see from today's launch of Liquidnet Primary Markets.

We have also moved at pace to integrate Liquidnet into the Group and identified meaningful cost synergies.

And Parameta Solutions continues its growth trajectory, developing higher margin and higher value products and creating innovative partnerships.

In short, disciplined execution of our strategy is driving our transformation, which positions us well to deliver sustainable earnings growth over time.

Thank you for listening. I will now open the floor to questions.

Questions & Answers

4.0 Questions and answers

Telephone Operator
Of course. If you would like to register a question, please press * followed by 1 on your telephone keypad or, if you have joined us online, press click the 'Request to speak' flag icon. When preparing to ask your question, please ensure you are unmuted locally and, if you would like to withdraw your question, please press * followed by 2. So, that's * followed by 1 on your telephone keypad to register a question.

Our first question comes from Kim Bergoe from Numis Securities. Kim, your line is open, please go ahead.

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Kim Bergoe, Numis Securities
Morning. Just checking, can you hear me?

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Robin Stewart, Chief Financial Officer
Yes, Kim.

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Nicolas Breteau, Chief Executive Officer
We can. Morning.

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Kim Bergoe, Numis Securities
Okay, thank you. Morning. Thanks for taking my question. I think what I'm thinking here is, if you could give us a little bit of an update on, sort of, more risks. What are you seeing in terms of run rates within the business, and so including what the general market is doing?

And, you know, also talk a little bit about market share trends within, sort of, key areas and key products, what are you seeing there and keeping market shares winning, losing?   So, that, sort of, into your medium term or your shorter term outlook. Just so if you could just update us a little bit on current trends that would be great. Thank you.

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Nicolas Breteau, Chief Executive Officer
Yes, a very good question. So, in terms of activity, as we said, it's interesting to see that H1, what happened in H1 '20 versus '19 is that we went up 7%. And, in H1 '21 versus H1 '20, we are down 7%. So, we've seen some more, kind of, normalised level of activities.

The relatively good news is that - and Robin will complement my answer with more numbers - but, if we look at activity levels over the summer, we have a much better comparative than H1, and we've seen stronger days and a stronger level of revenue compared to last year. So, we see a kind of, return to market, we see clients on the buyside but also on the dealer side coming back to the markets identifying some trading opportunities, and we are relatively confident that Q3 and Q4 will be higher levels than last year.

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Robin Stewart, Chief Financial Officer
Yeah, just to reiterate on that, Kim, July/August, as Nico said, slightly up on where we were last year but, obviously, they were very low levels of revenue and activity. I think the view is that, in the context of our guidance of the full year being broadly in line with the prior year, is that we will start to see that pick up this month, and we are seeing some relatively stronger days, but we anticipate that to pick up over the rest of Q4 so that we meet that guided target.

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Kim Bergoe, Numis Securities
Thank you. Could you touch a little bit upon what you see in terms of market share, and including Liquidnet? You touch upon it in the result, in the actual results, that Liquidnet, that type of platform, has seen market share loss. Could you talk a little bit on market shares both for Liquidnet but also for the rest of the business?

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Nicolas Breteau, Chief Executive Officer
Yes. So, for the rest of the business, if we look at the, I would say, the core business, the Global Broking and Energy & Commodities, we have picked up market share, we have gained market share over the last 18 months, so that's a good position to be in. It's a very, as you know, consolidated market.

There is still tension and competition for brokers because, in subdued market conditions, we've witnessed that leading franchises are overperforming and second and third tier players are underperforming. So, some of our competitors are really trying to catch up on revenues by poaching brokers, especially if they lack a clear technology plan. So, that's really important that we maintain and, in our leading franchises, gain some market share.

On Liquidnet, I think there is, in terms of market share, a bit of a difference between EMEA and the US. I think we've managed our position, a very strong position in the UK and the EMEA in terms of market share.

In the US, it seems that the growth of the market was mostly led by retail activity, and that retail activity is not benefiting us because it has more benefited some other players who are making markets and taking positions against retail brokers. So, that explains why we have a bit of a difference between the US and the UK situation.

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Kim Bergoe, Numis Securities
Okay. Thank you very much.

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Telephone Operator
Before we take our next question, I'd just like to remind everyone that, if you would like to register a question, please press * followed by 1 on your telephone keypad or, if you have joined us online, please click the 'Request to speak' flag icon.

Our next question comes from Vivek Raja from Shore Capital. Vivek, your line is open, please go ahead.

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Vivek Raja, Shore Capital
Hi. Good morning. Can you hear me okay?

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Robin Stewart, Chief Financial Officer
Yes. Thanks, Vivek.

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Nicolas Breteau, Chief Executive Officer
Yes.

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Vivek Raja, Shore Capital
Great. Thanks. I've got a couple of questions. The first one is about D2C flows. So, you, sort of, outlined the situation of Liquidnet into credit. It sounds like 2022, before you start having the solutions to drive D2C flows, it looks like, at the moment, it's still, sort of, between D2D and C2C. I wondered if that is the correct understanding?

And second, within Rates, when do you expect to start penetrating D2C flows in that area? And, as you've started talking to your clients on both the buyside and the sell side, what are your senses of getting those D2C flows up and running? What are the sort of, real barriers that you're potentially meeting there? So, that's the sort of, first, or the long question with a few points in it.

The second one, simpler, just wondered, you stopped printing consensus on your website I noticed. I wondered if you could confirm where consensus is and how comfortable you are with that in terms of, let's say, operating profit, EPS, DPS, whichever metric you choose to focus on? Thanks.

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Nicolas Breteau, Chief Executive Officer
Well, thank you for your questions. The first question regarding D2C flows, we are building on Credit. And, referring to the secondary market, I propose to ask Mark Russell, who's our Global Head of Fixed Income for Liquidnet to give you his views in terms of the milestones in building the offering, and he will tell you and give you more colour about intense dialogue that we're having with the dealers on one side and the clients of Liquidnet. So, Mark, if you could give us some colour on the D2C flow?

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Mark Russell, Global Head of Fixed Income, Liquidnet
Yeah. Happy to, Nico. Hi, Vivek. Yeah, so on the Liquidnet Credit side, I think you picked up on the fact that we are moving into the dealer decline workflow kind of solutions, right, so where you have a bunch of, kind of, market markets, people that can provide liquidity and other people that want to tap into that liquidity, and the protocols around that.

So, those protocols, actually, some of those protocols already exist, it's a question of how you build the connectivity and the flows to integrate to all of those clients. We're spending a lot of time, at the moment, consulting with our buyside members as well as the TP ICAP traditional client base on the dealer side to figure out, you know, exactly how we build that connectivity and how it works for both of those sides going forward, so filling in some of the gaps, right, that they currently see out there as we launch in that space. So, we're on track with the technology and with the communication that we're having with both sides of the equation to build those things.

I would say, on top of that, right, you know, what you're really building here, in addition to the technology and the connectivity to both of them, is you're building that relationship and that, kind of, hub, if you like, of clients. So, as we're having these conversations, we're also introducing both sides to new protocols that we're launching as well.

So, for instance, today, we launched the Liquidnet Primary Market business, which offers automation of new issue announcements, but it also has new issue trading. That new issue trading is an all to all order book protocol and we are actively engaged with banks and with buyside to participate in that.

So, in addition to building the specific technology for the D2C flow, workflow kind of protocols, and working out exactly how that goes, alongside that, we are actually rolling out offerings that are taking advantage of the TP ICAP Group network across dealers and partnering with the traditional Liquidnet member base, which is typically, you know, buyside firms, and bringing them together with our new issue trading protocol, right.

So, a lot of the building blocks that we need to successfully enter that space next year, we're actually already putting them in place right now this year.

That's on the Credit side. The Rates side is a little bit further out. I mean, I think we'll probably come back with more information around that as we get it, but those plans are still being finalised. The focus is more on the Credit side at the moment.

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Nicolas Breteau, Chief Executive Officer
Yeah. Thank you, Mark. Moving on to the second question regarding consensus...

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Robin Stewart, Chief Financial Officer
On consensus, Vivek, yeah, and apologies that that's not on the website but, at the moment, we've got a consensus of six analysts, which we'll put up very shortly, and we'll update that post any changes that we've seen after these results.

Revenues would be 1,911 if we posted an EBIT of 268 and a DPS of 11.47 pence if that was on the website today.

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Vivek Raja, Shore Capital
Robin, could you repeat the DPS number, please?

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Robin Stewart, Chief Financial Officer
11.47 pence.

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Vivek Raja, Shore Capital
And how do you feel about that right now, all those numbers?

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Robin Stewart, Chief Financial Officer
I think we would probably anticipate that the EBIT and DPS might come off a bit after today's announcement.

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Vivek Raja, Shore Capital
Okay. Thank you very much.

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Telephone Operator
We have no further questions, so I'll hand back over to the team for closing.

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Facilitator
If I may, I've just a couple of questions in the room that have come in online. So, the first question is from Gurjit Kambo. Gurjit, I think Nicola actually responded to that question earlier with regard to why we're seeing a competitive environment for staff and staff costs given the subdued revenue environment, but if you have a follow-up then, please, do submit.

The second question is from Stuart Duncan. So, Stuart asks - In the IRO hub example you gave, can you give us a little bit more detail on how the contribution margin improved? Was this a function of reduced compensation rates, fewer brokers or something else?

And a follow up to that – What determines the pace of rollout of Fusion?

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Nicolas Breteau, Chief Executive Officer
So, on the second question, so, typically, the improvement of contribution, it's a combination of different things. So, the first is that there is an element of higher productivity. So, we've seen that, because that we could compare and benchmark the implementation of technology when we launched it for one brand before the second, we had some days where, with the technology, we were able to in one hour, in one brand, what the other brand was doing in a full day.

So, there's definitely a higher revenue for the desk, so it means that you don't need the same number of brokers. An example, on the cash gilts where we are now making probably around 97% of our revenue around volume matching, we have less brokers generating higher revenues. So, that's an important element.

The second that will benefit contribution is that you have a more automatised straight through processing, so the flow is easier, you've got a better invoicing and follow up on the rate cards with your clients. And the other element is the stickiness and the fact that you could standardise your rate cards like any exchange will do. So, that's why I firmly believe that that's the right strategy for that business to improve contribution over time.

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Facilitator
And just with regard to the follow-up there that Stuart asks, what determines the pace of rollout of the Fusion platform?

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Nicolas Breteau, Chief Executive Officer
So, we have a very detailed plan to deploy technology. You've seen, across brands, across products, so we have really pushed and actually accelerated recently our efforts on Rates because this is our number one franchise. We are really the market leaders. We have a very, very strong franchise around Euro Swaps, for example, where we are the benchmark of the market. So, this is where we are concentrating our efforts, but we have step-by-step deployment of technology across the brands.

It's important also, depending on products, to see if we could go to what you've seen the film, Level 1, Level 2 or Level 3, and, in some areas, the market allows you to go quicker and to go Level 2 or Level 3 immediately, sometimes it's more difficult because, if you've got two brands displaying different mid-prices at a given time, you don't want necessarily to cannibalise your own business. So, that will also be an element to define the cadence of the deployment of technology.

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Facilitator
Many thanks, Nicolas. I have no more questions that are coming online, but I believe there's one more that's coming on the phone, so I could hand back to the moderator, thank you.

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Telephone Operator
Yeah, we have a question here from Piers Brown from HSBC. Piers, your line is open, please go ahead.

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Piers Brown, HSBC
Yeah. Good morning, everybody. Thanks for taking the question. It was just a quick one on the new expense reduction or cost synergy target for Liquidnet and the £20m, I'm just interested in whether you can give us any more colour on where you've identified those savings. I think you mentioned about half is coming from a headcount but what sort of functions are we looking at here?

It's interesting that you've identified the cost savings at the same time but you're obviously, you know, building out the platform quite rapidly, so just how you, sort of, balance the risks between focusing on expenses whilst, I guess, simultaneously trying to position the business for the growth, particularly the electronic fixed income rollout.

And then just an add-on to that, you mention also, on the Liquidnet guidance slide, there could be additional property savings. I don't know whether you can give any, sort of, quantification at this stage as to how material or not those might be. Thanks very much.

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Robin Stewart, Chief Financial Officer
Okay. Thanks, Piers. Yeah, just to reiterate, as you said, the £20m we've identified is around half and half, what we call headcount and non-compensation expenses.

From a headcount perspective, it's certainly not in areas where we're developing and pushing our strategic goals on improving the revenue. A lot of those, as you can imagine, are in train or have happened, they're at the senior end where we've got duplication at the very high end of the organisation, but it certainly doesn't affect the pace at which we want to drive those revenue synergies.

On the non-compensation side, as you'd expect, you've got an organisation coming in, a smaller organisation coming into a larger one. We do anticipate that we can achieve savings in the context of our larger buying power across a lot of areas like, you know, contractual arrangements that we have with third party providers, both in technology, also in settlement and cleaning. Those sorts of areas are clearly ones that we can take advantage of our increased overall scale.

The second question you had was on real estate, absolutely, okay. In that synergy, we've acquired additional real estate with Liquidnet. Ordinarily, we might be looking at talking about what we think is a possible saving in the context of the Liquidnet standalone. I think, as we emerge out of COVID and we, like many organisations, are reviewing and analysing our agile working policies and how we operate going forwards, the Liquidnet facilities portfolio falls into line with the Group's global facilities portfolio, and we're currently reviewing that in aggregate in the context of what we think are the best working practices going forwards for the Group. And, as that develops, we will be able to give the market a better guidance on what savings we think are achievable across the whole estate.

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Piers Brown, HSBC
Okay. That's very clear. Thanks. Thank you very much.

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Robin Stewart, Chief Financial Officer
Thank you.

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Facilitator
I still don't have any further questions in the room. Assuming there are no further questions on the phones, Nicolas, I'll turn over to you to close.

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Nicolas Breteau, Chief Executive Officer
Well, thank you very much for your time and listening to our presentation. So, I will just conclude by saying that difficult market conditions are actually confirming and reinforcing our conviction that it's really important for the company to continue to deploy technology and diversify its sources of revenues.

And I will remind you that we will hold an investment seminar on 12th October for Parameta Solutions to give you more practical details on the success of that division. Thank you very much for your time. Goodbye.

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