Proposed Acquisition of Liquidnet

Presentation transcript

09 October 2020

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Introduction & Highlights
Nicolas Breteau, Chief Executive Officer

1.0 Introduction

Good morning everyone and thank you very much for finding the time at such short notice to join the call. I'm very excited to talk to you this morning about an opportunity that we've been working on over the summer.

For the first half of the meeting we will walk you through the presentation, covering the rationale, the impact of the transaction on TP ICAP, and the structure. We then aim to have plenty of time for questions.

Let's get into it on slide four. While TP ICAP is focused on the hybrid execution for dealers, offering services through voice and a few electronic platforms, Liquidnet is an electronic trading platform that is focused solely on the buyside.

TP ICAP and Liquidnet are very complementary and we see it as a unique opportunity to accelerate the strategic goals of TP ICAP, if you remember I led them last year, and deliver shareholder value. When we put what each other brings I think we create something incredibly powerful.

The deal, as I said is very consistent with our strategy of aggregation of the liquidity, the electronification of our business and the diversification of our sources of revenues.

If we turn to the aggregation theme with our dealer relationship and connectivity and with Liquidnet's buy side network, we will be focusing on developing a dealer to client trading platform for Credit, but also for Rates. We are very excited about these two opportunities and I will cover them later in the presentation.

Turning to electronification, where it's quite obvious Liquidnet has spent 20 years building its electronic trading network. The Liquidnet platform is integrated with the world's key execution and order management systems, EMS and OMS.

Liquidnet has developed a leading trading tool called Blotter Sync and a range of trading algorithms that can be further leverage by our Group, TP ICAP.

Let's look at diversifications, I think the benefits are clear, the Liquidnet transaction provides TP ICAP with immediate diversification into complementary low-touch cash equity execution. We also get substantial diversifications in terms of customer base. It provides us a clear opportunity to build scale in electronic D2C offerings in Credit and in Rates.

The deal also creates opportunities for our Data and Analytics division in terms of more easily accessible buyside customers and in terms of product development potential. I will come back to that.

Let me turn to the next slide to give you some highlights of Liquidnet and the key transaction terms. We see the acquisition of Liquidnet as a unique opportunity to transform and grow TP ICAP's business. Liquidnet is a recognised and trusted premier brand. It's a technology driven, global electronic trading network with more than 1,000 buyside clients, managing around $33tr of assets.

Liquidnet is one of the leading global providers of block dark equities brokerage services. And over the past several years it has also built a client to client corporate bond trading platform.

Let's have a look at the transaction highlights. We have agreed to acquire Liquidnet for a price between $575m and $700m which represents approximately from 9 times to 10.9 times their last 12 months adjusted EBITDA. Robin will give you more details on the financing and the financial impacts later on.

You know that it's a Class 1 transaction, so it will require shareholder approval. We have so far asked a few – several major shareholders and we got a large percentage of approval. And we expect to publish a circular and a prospectus in January 2021.

To facilitate the transaction, we will accelerate the re-domiciliation of TP ICAP to Jersey. We do not anticipate issue regarding the Competition Authorities, but subject to receiving regulatory approvals we think that the transaction will be closing in the spring of 2021.

Let me give you more detail about what Liquidnet is on the next slide. As I said Liquidnet is a trusted brand and partner to asset managers and hedge funds. It's a global electronic trading network, integrated into client end to end workflow.

You can see that Liquidnet is made of three key segments, the majority of the business is equities, focused on dark trading matching and complementary to our existing equities business.

A growing fixed income platform, focused on corporate bond trading, with roughly 500 buyside clients connected.

And a nascent investment analytics business which provides customers with a range of tools to help them filter and analyse data.

On the top right side of the chart you can see the that overall business is broadly balance in terms of regional revenue split, with just over 40% of revenue coming from each EMEA and the Americas and the balance deriving from Asia Pacific.

On the top right-hand corner, in terms of profitability the chart summarises recent performance with strong top line growth and consistent profitability.

The charts on the bottom right give you a sense of the shape of each of the equities and the fixed income businesses. In equities you can see that block transactions make the majority of the revenue, but it's important to notice that the Algo based trading becomes now a significant contributor.

On the fixed income, almost three quarters of the business is in the high yield and emerging markets.

Let us now look at Liquidnet's key divisions, equities, fixed income and investment analytics. Let's start with equities. The block trading is a critical and stable portion of global market activity as it's highlighted on this chart on the top right. Liquidnet is a recognised brand in this space with strong market positioning in equities.

Globally their clients represent an average of $72bn of dollars to daily liquidity to the marketplace, where Liquidnet is particularly effective in the execution of relatively larger sized trades.

It has been growing its market share, you can see particularly in Europe, where best execution is a regulatory priority.

Liquidnet offers connectivity to 45 markets to their clients via OMS and EMS integrations. But they also have their own screens, they provide desktops and allow the clients to connect through APIs.

Much of Liquidnet's success is down to two things, innovation and trust. An excellent example of both trust and innovation is something I just mentioned before, the Blotter Sync technology. With Blotter Sync, Liquidnet directly accesses a buyside traders' blotter, pulling orders into its liquidity pools, rather than the trader having to - if you want, to take an active decision to trade. So, it's fair to say that Liquidnet has a privileged insight into its clients' blotters. It proactively highlights customers to the emergence of liquidity opportunities.

Another example of innovation is the development of Liquidnet Algo execution tools. The charts on the bottom right show clients' execution via Algos and you can see that it's been growing rapidly.

Liquidnet has progressively created what is now a broad suite of strongly performing trading Algos. And its and opportunity for Liquidnet to grow revenues beyond the matching in their block dark pool. Because they could lead clients to trade between their dark pool and other dark pools, but also between dark pools and lead markets.

Turning to slide 9, I would like to talk you through how Liquidnet has been able to turn its platform capability to the world of the fixed income. Liquidnet launched buyside client to client matching in September 2015. They started with the US and European investment grade and the high yield bonds. They provide one of the largest pools of buyside corporate liquidity and it's important to notice that as a result the trades executed on the platform tend to be five to ten times larger than the average trade size on other platforms, on average $2m per trade.

So recently – so they started as a client to client, with the same protocol as on the equity, but recently Liquidnet ha allowed some dealers to participate in the pool on an all to all basis, with the same matching protocol, but with the dealer status identified to buyside clients. So, it is very transparent and the buyside could decide if they want to execute against the dealer flow

Like on equities, Liquidnet's fixed income model, uses the Blotter Sync technology, allowing Liquidnet to proactively search the whole global liquidity pool for potential trades.

Liquidnet has leverage its equities network and existing OME/EMS connections and it's now amongst the largest Credit trading platforms, with more 500 buyside firms connected, together offering $13bn of daily liquidity.

Their clients are really good quality, they include 47 of the 50 largest global corporate bondholders. The prominence of Liquidnet's brand is clear, if you look at the chart at the top right, you will see that Liquidnet is a top five brand in fixed income.

But further innovations are coming. There's a planned launch of an Algo portal and this is important because it will allow dealers to automatically quote prices to buyside customers. And a DCM primary workflow service, targeted at helping buyside and sell side to better manage the new issuance process. It's important, because if you look at the structure of the markets you could see that bonds are usually mostly traded in the secondary markets 10 to 15 days after issuance. And the lifespan of the secondary market is much shorter.

We see huge potential to build on what Liquidnet has already got in place and we'll talk more about our plans to the platform in the next section.

Let's look at the Investment Analytics on the next slide. Although nascent, we are excited about the potential for this division, including how we might use the capabilities within our Data and Analytics business. Over the past few years between 2017 and 2019, Liquidnet has been investing in a range of products and capabilities to support the investment decision making process.

You can see on this slide that they made recent acquisitions of FinTech companies, Prattle, Otas Technologies, and Rsrchxchange. Just take an example, Otas Technology uses artificial intelligence and machine learning and gives and edge to liquid net in identifying trade opportunities. That's something very similar to the initiative we've launched on our oil business with our Darwin project. So, there will be some synergies here.

Let me speak now more about the rationale of the transaction. So why are we so excited about it? The logic of combining Liquidnet with TP ICAP works across multiple dimensions. And the rationale for doing it is now very clear, we are highly complementary partners. TP ICAP has relationships with all the major dealer globally, Liquidnet operates one of the largest electronic buyside trading platforms in the world. TP ICAP is an expert in financial markets, where actually Liquidnet has either a nascent presence like on Credit, or no presence like on Rates.

We know from our own efforts in Institutional Services that it's not efficient to pursue buyside firms to onboard a new platform provider and many do not want to be the first. Doing that organically is hard, it's expensive and it's slow to achieve integration with key OMS and EMS, which the buyside need to trade.

It's much more efficient to build on existing technology and to leverage existing industry partnerships and extend existing customer relationships than to start from scratch.

In the next slide I will talk you through the immediate opportunities we intend to focus on post-closing, building on Liquidnet's platform.

So, let's start with dealer to client electronic credit trading opportunities. Of course, we will continue to invest in Liquidnet's client to client market model. We also see many additional immediate opportunities in Credit. Remember that post 2008 the regulation prompted a range of big changes across financial markets and Credit was one of the asset class most affected by legislation.

As you can see on the chart on the top right the dealers now hold much less inventory than they used to a decade ago and they do not provide immediate pricing as they used to as a consequence of that. That doesn't mean that the trading has declined because it has not. But it means that the search costs have increased for the buyside. The dealers do not provide the same immediate liquidity as they used to.

Industry pressures have caused buyside traders to turn more to electronic platforms. It improves for them the search efficiency; it helps them document that search process and demonstrate best execution and it assists them with trade processing workflows.

You can see on the bottom bar chart that the dealer to client Credit electronic trading is growing rapidly. However, electronic dealer to client activity is currently very concentrated among a small number of platforms and the market continues to function poorly for many participants, buyside of sell side.

So, one of our post transaction areas of immediate focus will be to build a market leading dealer to client offering. What do we have? We have a strong dealer relationship network, and we have our data assets. Liquidnet brings 500 plus clients, already connected, they bring their Algo portal and their Blotter Sync technology. Together we are confident in our ability to add value to the existing market structure.

Let's turn to the next slide and see another great opportunity in the interest rate market. Here again the market is transforming rapidly. Like Credit, regulation has also triggered changes in the interest rate market structure. Why? Because regulators have pushed central clearing of interest rate derivatives. And this has prompted strong growth in the OTC interest rate derivatives execution. You can see this on the chart with the green and the pink parts. You can see that actually the OTC execution has taken substantial market share from the exchange traded market.

In addition, like in credit the regulation has encouraged buyside customers to both seek quotes from dealers electronically, as well as to process trades via electronic platforms.

If you look at the top right chart the dealer to client market is growing much faster than the dealer to dealer market. And the dealer to client electronic is growing especially rapidly, particularly in the interest rate swap segment.

However, also dealer to client electronic growth is strong, we believe the current market structure is not ideal for many participants, because many want to have more choice. So here what do we bring?

With Liquidnet we believe we can provide choice and add value. As you know TP ICAP is a leading global interdealer Rates franchise, if you look at the euro swap, dollar swap, sterling swap, we are the number one franchise in the world and we are even the reference for pricing benchmarks. So, we very much understand the global interest rate markets.

We also operate iSwap which is an exchange grade interest rate swaps trading platform, and we own iSwap incorporation with a number of tier 1 banks. And iSwap is connected to 41 bands via API.

Liquidnet brings their client network and its buyside workflow integrations. These are the ingredients for a compelling dealer to client interest rate platform.

Let's turn to slide 15, I would like to highlight another great opportunity in the area of Data and Analytics. So, you've heard me speak before on previous occasions about our Data and Analytics business and I think you're familiar with the value pyramid. We started two years ago in a situation where we were – harvesting real data and selling them mostly through very limited distribution partners. We have worked a lot on our distribution network, we have built capacity to distribute directly to the clients. We have also invested in our capacity to develop and launch new products.

So here there are a number of different strengths that are the strategic rationale from the Data and Analytics perspective. Liquidnet brings us a lot of new buyside customers. And as I just said a lot of our new existing and planned higher value products are geared towards the buyside. So, having so many institutions already from Liquidnet is opening the door to an easier sales process.

The second advantage, we can use our global Data and Analytics sales team to sell Liquidnet's analytic products. They've got a lot of very good products across their three FinTech companies, but they don't have the distribution capability that TP ICAP has in place.

The third advantage, we can apply Liquidnet's data science tools to TP ICAP's data to create new products and services. We could do that by putting their data science and their quants with our teams and that creates and opportunity to build more products in the pre trade, in the post trade and risk management, and potentially for indices as well.

So, I think the rationale for this transaction is very, very strong. I'll come back to that later. But in the meantime,

But in the meantime, I will hand over to Robin to talk a bit about the financial impact of the transaction

Financial Review
Robin Stewart, Chief Financial Officer

2.0 Financial review

Thank you, Nico. So, this first slide looks at how we believe the acquisition of Liquidnet will transform TP ICAP's earnings profile and improve the combined Group's revenue growth and profitability.

So, let's first consider TP ICAP's standalone growth potential. So, looking at the bar on the left, you can see we have high-growth businesses in Data and in Analytics and Institutional Services and mid to high-growth businesses in Energy and Commodities. However, our largest business is Global Broking and although TP ICAP is the largest interdealer broker in the world, dealer-to-dealer trading is becoming a smaller share of the overall market activity in part due to greater internalisation of client flow by the largest dealers.

The bar on the right shows how we see our revenue growth profile in the medium term where almost half of our revenue comes from our higher-growth businesses. However, the top line is not all we should be thinking about. Potential earnings growth and earnings quality should arguably be a bigger focus for us, and with Liquidnet we'll be acquiring and scalable electronic businesses and improving the Group's EBIT margin.

Due to their high operating leverage, electronic businesses operate at higher margins and we've seen that when a critical mass of customers become active on an electronic trading platform, their activity also tends to be much more stickier than in the high-touch world and this results in a more sustainable and higher-margin business.

The next slide outlines the financial highlights of the transaction, and I'll go in a bit more detail than Nico touched on earlier.

As Nico said, we are paying between \$575m and \$700m, which represents the last 12 months adjusted EBITDA multiple of between 9 to 10.9 times. \$525m will be paid at completion. \$425m of this will be financed through a fully pre-emptive rights issuance that is fully underwritten on a standby basis.

The balance of the initial consideration will come from \$100m of cash raised from existing debt facilities.

We also have a deferred consideration vender loan note of \$50m payable three years post completion.

And finally, we have also agreed an earn out of up to \$125m to be settle in 2024 based on the accumulated revenue performance of the existing equities business in 2021, 2022 and 2023.

I should point out there needs to be a significant overperformance for us to pay the upper end of this range.

So, what are the financial impact of this transaction? We expect the transaction to be earnings accretive in year three, subject to factors including the TP ICAP share price at the time of the placing.

As we increase the proportion of higher-growth business revenue over the medium term, we expect the direct impact of the Liquidnet transaction to improve TP ICAP's revenue growth profile to mid-single digit, and underlying EBIT margin by about 300 basis points over the medium term.

Together with initiatives in our existing business, we are confident we can achieve and EBIT margin of more than 20% over the same timeframe, but to get there we'll need to invest.

To build the D2C businesses we are planning in Credit and Rates. We plan to invest an additional £25m to £30m over the next 12 to 24 months, which can be broadly funded by Liquidnet's own cash flow. The bulk of this investment spend will be focused on the D2C Rates initiative as Liquidnet is already very advanced in terms of the required build for Credit.

So, what does this mean for the Group's dividend guidance? If the acquisition is approved, the Board intends to recommend a one-off 50% reduction to the anticipated £94m dividend for the financial year 2020 to help fund the acquisition and minimise earnings dilution from the rights issue.

For 2021 onwards, we are then looking to move to a new dividend policy over the medium term that targets a dividend cover of two times underlying earnings.

Turning to Slide 19, so how will we achieve all this? We have already undertaken a significant amount of work with Liquidnet to scope the opportunity that this transaction brings us. And we have established a governance framework to ensure accountability and to derive timely execution of our plans.

Our three key business transaction focuses are back-office integration in 2021 into TP ICAP's existing governance frameworks, but we intend to maintain Liquidnet's brand for this busines.

We are already designing and will be executing the business growth plans that will drive the value-creation opportunity this transaction brings us with initial focus on credit and rates, and we'll provide more details post completion. And while our primary focus will be in creating value through revenue growth, which will require investment, we will of course be reviewing and identifying cost synergies that undoubtedly exist with the combination of our businesses.

So finally, let's look at timeline and the approvals we need to do to undertake this transaction.

To facilitate the transaction, we will first need to execute the previously announced re-domiciliation of the TP ICAP Group to Jersey. As we have said before, this should result in improved regulatory capital efficiency on an ongoing basis.

We expect to publish the prospectus and scheme circular of the re-domiciliation in January next year, and subject to shareholder approval the scheme will become effective later in that quarter.

The completion of the Liquidnet acquisition will also be conditional on shareholder approval early next year as well as approval by various regulatory bodies including the FCA, and we plan to complete both the re-domiciliation and then the acquisition by around the end of Q1 2021.

Thank you, Nico, back to you.

Concluding Remarks

Nicolas Breteau, Chief Executive Officer

3.0 Concluding Remarks

Thank you, Robin.

So, I think it's clear that we are very excited about this acquisition. I'd like to say that it's clear for two reasons. The first one is that we've long believed that servicing the buyside client base can create significant value because it will allow us to access a larger but also growing commission wallet.

Our initiative in Institutional Services has been very successful with a high rate of growth, but we need to make it a more significant part of our overall revenue.

The second reason is that electronification strategy is highly scalable and as a result helps us deliver sustainable margin expansions over the medium term.

We of course recognise that is a big investment to deliver this acquisition, but we are confident that this deal will allow us to be a more diverse and more electronic and more platform-like business with a higher quality, higher growth and higher margin earnings profile.

I will stop here and take your questions at this point. Thank you.

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. If you change your mind that's * followed by 2, and when preparing to ask your question please ensure your phone is unmuted locally.

We have a question registered from Gurjit Kambo of JP Morgan. Gurjit, please go ahead

. . . .

Gurjit Kambo, JP Morgan Chase

Hi. Good morning, yeah. Thank you for the presentation. Just a couple of questions really.

So firstly, when we think about the opportunities for Liquidnet, clearly, they're doing a good job in the client to client side and I think they're developing, so their fixed income capabilities there. And I think you know, what TP ICAP's brings is the dealer connectivity and therefore you can grow into the D2C market. But where do you see the bigger opportunities? Are clients wanting to do more client to client or is the bigger opportunity in the D2C side on the fixed income side? That's the first question.

The second question is just really how does your existing electronic platform offering at TP ICAP look like versus what Liquidnet offers? I guess is there an overlap there and going forward what do you do, do you just keep your own electronic platform, keep Liquidnet's electronic platform? Is there some opportunity where you bring everything onto one platform? So that's the second question.

And then the third question just is on the equity side. I think you said that's mid-single digit growth for Liquidnet. I guess the electronification in equities is pretty advanced, so where is that growth coming from, is that just clients trading more equities?

So just those are the three questions I have, thank you.

. . . .

Nicolas Breteau, Chief Executive Officer

Okay, I think it's more than a couple of questions, but I'll start with the first one.

It's a very good question. I think what we have seen is that Liquidnet has been extremely successful with a vision, with a concept of offering the opportunity for clients to match large-size orders into a block pool. And that's been very successful.

They converted that success and tried replicate it in the fixed income. They invested and spent time getting more than 500 clients connected to their platform. What we can see is that they started in 2015, they managed to establish a presence, a name, get some liquidity on the platform.

But I think we will continue to push the investments in client to client in the Credit side, but I believe that the dynamic and the growth in the medium term will come from the dealer to client. Why? Because mostly the dynamic of the trading is different there, because you don't have lead markets to reference to in terms of pricing. So, it's much more difficult to do the matchmaking into the credit space than it is on the equity space.

And if you look at one of the slides where you can see that Liquidnet on the Credit side with $13bn of daily liquidity it's actually considered one of the top-five platforms in the market. But you could see that most of - the vast majority of the activity is client-to-client. Why? The growth coming for the others like Market Access or Tradeweb is actually driven by dealer to client revenues.

So we are going to offer the choice to the clients to stay in the client to client matching if they wish, but we are going to push, complementary to here and use our networks of dealers and encourage them to provide prices on the flow that we will bring with Liquidnet. So, I think that in the medium term this is where the growth is coming from.

Your second question about TP ICAP electronic platform, it's a little bit different because we have TP ICAP matching engines. We are pushing two types, I would say. If I simplify two types of execution protocols, one is what we call the volume matching where we're really offering the clients a screen where they could do auctions, so it's relatively different from what Liquidnet is doing. And the other one is in iSwap where we are offering a central limit order book for dealers to dealers to allow them to actually stream prices onto that.

So, they are different execution protocols, and it is more complementary than I would say overlapping.

Having said that, what we intend to do is to make our technology divisions more efficient. And we will certainly leverage the investment, the experience that Liquidnet has in practically two directions, one is the connectivity of their clients. We have started developing connectivity to OMS and EMS and you know, just on Credit they've got 500 clients already there.

It takes on average a year to collect one client if you do that organically, so it's not something we have to start from scratch, so we intend to leverage that. And trading Algos is also something that we will use and leverage for the benefit of the entire Group.

The third question is about the single-digit growth on the equity. Equity is a mature market, very competitive market. But I will ask Joanna Nader, our Head of Strategy, maybe to say a word about the equity segment.

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Joanna Nader, Group Head of Strategy

Sure. I think maybe it's certain as you point out, Gurjit, the equities market is highly electronified already, it was one of the first to become electronified.

Liquidnet has a relatively differentiated position within that market in that it very much focuses on large trade size, so it's average negotiated trade size is about $1.5m, and its average sort of total average compared to dark pools is about five times larger than other dark pools, so it's very much on that large-size end of the spectrum.

And it's also differentiated in that it allows market users to access a large number of pools, especially through their Algo trading, so you can access dark - within Liquidnet's own dark pool, you can access within Liquidnet's dark pool and other dark pools and you can also access lit markets. So, it's a very specialised way of trading and we do see that as a reasonable growth opportunity, but we do recognise that equities is a very mature market as well.

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Telephone Operator

Our next question comes from Justin Bates of Canaccord. Justin, please go ahead.

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Justin Bates, Canaccord Genuity

Thanks very much. Good morning, all.

I appreciate you've flagged the extra cost that's required at £25m to £30m, but just thinking further afield, over the medium term, is it possible to quantify, or do you have in mind, any synergies, be that both cost and revenue, please?

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Robin Stewart, Chief Financial Officer

Do you want to take that?

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Justin Bates, Canaccord Genuity

And, sorry, just to clarify…

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Nicolas Breteau, Chief Executive Officer

I didn't really –

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Robin Stewart, Chief Financial Officer

I didn't get the last part of your question, Justin.

. . . .

Nicolas Breteau, Chief Executive Officer

Justin, if you don't mind, just repeating the question, please? Have we lost the connection?

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Robin Stewart, Chief Financial Officer

They're just coming back.

. . . .

Nicolas Breteau, Chief Executive Officer

Okay. Thank you. I think question was about the initial investment that we're making and then the question about the cost synergies.

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Robin Stewart, Chief Financial Officer

I'll pick up where I think the question was, Justin, and, if I've missed a bit, certainly let me know.

I mean, we certainly expect to have to invest, initially, in the first 12 to 24 months of between £25m to £30m. That's really an investment in the Rates opportunity that we have, which is why, when we talk about the growth opportunity here, we don't think the Rates business will start flourishing until the end of that investment. However, the credit offering is pretty much done. So, I think -

. . . .

Telephone Operator
We're just reconnecting your line. We're just reconnecting you through.

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Robin Stewart, Chief Financial Officer

Are we live? Back on again? Carry on

So, yeah, so, in terms of investment, it's very much focused on building out the rates growth opportunity, which we expect to take at least two years or so.

In terms of cost synergies, yes, of course, as I mentioned, we do expect that there will be some anticipated cost savings. Inevitably, there are. And, when we look at the opportunity, we model some sort of market standard opportunities that we think will inevitably exist between the two franchises.

But I think it's important to note that the cost synergy benefits are not the driver to the value creation that we think that we here. This is very much a growth opportunity for us on the revenue side.

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Nicolas Breteau, Chief Executive Officer

I would add that, yes, on the cost synergies, we're looking at support functions, organisation, make it very efficient. You mentioned technology is one.

We are also looking at the cost of acquisition of data. We're at third party providers. We're looking at our settlement and clearing relationships, and the one that Liquidnet have across 45 equity markets. So, all of that is part of our model.

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Robin Stewart, Chief Financial Officer

And you'll appreciate that, following the three years of integration of the ICAP business following the acquisition, you know, we've built up a very strong procurement function, which is every adept at achieving, I suppose, beneficial rates for the enlarged group.

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Justin Bates, Canaccord Genuity

Thanks, Robin. I'm not sure if it was me, but you seemed to all get cut off, so I don't know if anyone heard the point about revenue surges.

. . . .

Joanna Nader, Group Head of Strategy

So, I guess, in terms of characterising, sort of, revenue synergies, I'd say that the main category of true synergies in what you would say, sort of, as cross-selling is in the Data and Analytics space because they have particularly these 500 Credit customers, and we have, as you know, a lot of data and Credit. And we've recently launched a bond devaluated pricing product which provides the buyside with real-time data on how to price any particular given security. And we do think that will be very useful to Liquidnet customers, and particularly in the customer to customer trading segment.

The rest of the, sort of, value creation is really coming from building on the platform and the infrastructure and the OMS, EMS connections that Liquidnet brings us. So, I'm not sure if you would sort of traditionally look at that as revenue synergies, but it certainly is value creation.

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Justin Bates, Canaccord Genuity

Okay. Thank you very much.

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Telephone Operator

As a reminder, ladies and gentlemen, that's '*' followed by '1' on your telephone keypad to register a question.

Our next question comes from Piers Brown from HSBC. Piers, the line is yours. [Pause] Piers, please go ahead.

. . . .

Piers Brown, HSBC

Yeah, sorry, I was on mute.

Yeah, good morning, everybody, and congratulations on getting the deal.

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Nicolas Breteau, Chief Executive Officer

Thank you.

. . . .

Piers Brown, HSBC

Getting the deal over the line. I've just got a few questions.

I mean, first off, in terms of the fixed income business, I mean, Liquidnet's fixed income presence is very focused on corporate credit, whereas you're B2D's fixed income business is obviously predominately rates, so I wonder if you could just elaborate a little bit more on what presence the Liquidnet actually does currently have in the Rates business and why that is going to be helpful in terms of pushing your Rates business forward?

And the second question is in terms of other strategic options which might have been considered, and I guess you would have looked at Liquidnet alongside other strategic options, particularly the standalone option of just incremental investment spend, as you had previously been doing. Why was it, ultimately, that you concluded that you need M&A to further the strategy? Thanks.

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Nicolas Breteau, Chief Executive Officer

Thank you. Very good questions. Would you like to answer the first one, Joanna?

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Joanna Nader, Group Head of Strategy

Sure. Thanks very much.

And just on the Rates business, Liquidnet doesn’t have a presence in the rates business, so that's something that we are bringing.

We have, as Nico mentioned in the presentation, we have the leading global franchise amongst the dealer to dealers trading in interest rates across the G3 currencies. And so we bring that.

We also have a platform called iSwap which is the leading dealer-to-dealer platform for rates. It's an exchange rate platform. It has 41 dealers connected via API. So, we plan on the Swap side, to sort of plug that into the Liquidnet, OMS, EMS connections. That will take a bit of work in terms of building interfaces and building the sort of connectivity with the various OMS, EMS providers, which is why we have that £25m to £30m spend in there, and the two year build timeframe that Robin mentioned. But we think we are bringing a lot there. Certainly, that will be, I believe, a credible challenger in the space.

. . . .

Nicolas Breteau, Chief Executive Officer

Yes, the second question was, I think, if I'm correct, about why do you need M&A to do this?

Well, it's a question of opportunity, it's a question of a time to market.

So, we have laid out a strategy with three pillars, and you have seen that the diversification efforts are paying off. You would see this in the growth rates of our Energy & Commodities Division, our Data & Analytics Division and the growth rates of our Institutional Service Division.

On that latest division, we started from scratch two years ago, and we are going to reach hundreds of millions of pounds of revenue this year. So, it's a success.

But, even with these high growth rates, this still represents a part that is still too small compared to the core business, the overall core business of the company.

And what we are seeing is that markets are evolving. There are changes, profound changes that are actually accelerating in our industry, and Credit is very good example.

You've seen in the slides that the market is moving without a dealer to client on Credit is representing the larger portion of the market. And I think this space is still inefficient. There is room for competition. There is room for us to enter. And I, personally, believe that the future will be for the D2C to go electronic and to become the standard, and it will be followed by the electronification of the dealer to dealer. That will happen gradually.

But it is very, very much possible that this will happen on the same platforms. So, what you don't want is to just to wait for the market to go away from you in the D2C, and just concentrate on the electronification of your D2D because you at risk of missing, actually, the transformation of the industry. So, this is why it's important to do this move now.

Liquidnet is absolutely unique. You don't not come across a global electronic platform like that, with this level of connectivity, to establish a level of connectivity with 1,000 buyside clients on the equity, or 500+ on the credit. It is something that is extraordinarily difficult to replicate. It takes a very, very long time, a lot of massive investments, and it is actually a lot harder. So, this is why this is our preferred route.

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Piers Brown, HSBC

Very good. Thank you very much.

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Telephone Operator

We have no further questions on the phone line, so I'll hand back.

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Nicolas Breteau, Chief Executive Officer

Thank you very much, everybody, for your time, and we remain at your disposal if you have any further requests or questions. Thank you and have a nice day.

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Robin Stewart, Chief Financial Officer

Thank you.

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END
