TP ICAP

Half Year Results Presentation

8th August 2017

TP ICAP

John Phizackerley, Chief Executive Officer

Andrew Baddeley, Chief Financial Officer

Questions From

Paul McGuinness, Shore Capital

Johannes Thormann, HSBC

Jonathan Goslin, Numis

Steve Keeling, Liberum

Owen Jones, Citi

Introduction & Key Highlights

John Phizackerley, Chief Executive Officer
Welcome one and all, good morning. This is the first presentation of the new TP ICAP for the six months to June 30th 2017. And as I've already said, thanks very much for coming.

I'm delighted to be presenting a solid set of numbers of TP ICAP today and I'm going to start by running through the highlights of the half year, I'll then hand over to Andrew who will take you through the details of the financial results. After that there's a bit more from me on our business model and the operational highlights and then it's over to you for Q&A and anybody who happens to be on the line, or dialling in.

In terms of key themes, we have delivered a robust performance in the first half in a mixed market environment. We spent a lot of time thinking about the wording for some of these statements and we aligned and alighted on mix for the market environment.

TP ICAP's diverse global product portfolio enables us to withstand market variations, while our financial strength enables us to make considerable investments for clients in regulatory, compliance, technology and conduct and culture initiatives.

Our revenues are up compared to the pro forma for last year and we have a higher operating profit margin. Importantly, revenue per broker went up in every region, while the overall percentage payout was again down a little bit.

Our rates and oil businesses were outperformers; they performed strongly, while power and parts of the commodities businesses were subdued.

We made a good start in the integration, which is delivering the planned synergies and we've made further investments in regulatory, governance and strategic initiatives.

So to the top level numbers, revenue is up 12% to £925m for the period, compared to a pro forma of £828m for the period. And by the way all the comparables today will be pro forma for H1 2016, so at constant currency rates that's an increase of 3%.

More importantly underlying operating profit is up 23% at £144m, compared to £117m and our progression on margins was also positive, we achieved 15.6% compared to 14.1%.

Our profit before tax was £129m compared to £111m and our basic earnings per share is 18.3 pence per share compared to 16.1 pence per share and we will pay as promised the interim dividend of 5.6 pence per share on the 10th of November 2017, now on an increased number of share of 552 million.

The progress of the integration of TP ICAP has been foremost on our minds and as we've already said this morning we are on schedule. It's actually been 222 days since we've been one company and the combination brought together two businesses, leaders in their sectors. Today we are recognising £8m of synergy savings, which is actually a bit ahead of schedule. We remain on track to deliver the three year £80m synergy plan, we set that out in the prelims and the £100m stretch target.

Having started at Tullett Prebon with a regional management model we introduced a global product management in a matrix with the regions. After the combination, frankly there was a lot of duplication. But today we have single regional heads in the Americas and APAC, we have single global business division heads and we have single global heads in all the corporate support functions. The result has been a reduction in non-producing management expenses going forward and there is more to come.

Our brands will retain separate management at the desk level to maintain their integrity and ensure competitive and separate liquidity pools.

Support staff headcount reductions are well underway and we are at roughly 175 departures so far this year. At the end of last year there were also some departures which we didn't replace, which you could technically add, but it's not in the 175. And Andrew is going to talk some more about the movement of heads and also some of the work we've done on the Broking side.

In IT after extensive pre planning and then management rationalisation, we are decommissioning over 50% of the 490 systems we started with at the combined Group. The simplified platform will enable us to be more innovative, nimble and automated. We're also rationalising our office footprint and co-locating support staff teams. More than 200 Tullett and ICAP support staff are now working together as a team in London and New York.

We have signed a lease for our new US headquarters in Lower Manhattan in Vesey Street and by June of next year all our New York front office staff will be located there. In Frankfurt we're implementing a move to a single physical location and we're committed to do that same in Singapore. Again, it's important that we will maintain the integrity of our separate brands through physical partitions and restricted access and strict segregation of information.

We have also completed phase one of our project to harmonise all our policies. And we have released new TP ICAP standards covering HR, compliance, risk, finance, corporate affairs and IT on the new TP ICAP intranet site.

So the key takeaway is that we've already covered a lot of ground and the integration is progressing well and according to plan.

We are moving aggressively and we're on track to exceed our year run rate cost synergy targets, which Andrew will update you on in a moment.

Alongside the integration, despite the numerous management changes we have kept up momentum in our business. We will shortly give an update on employee sentiment from our second firm wide employee survey, which among other things examines morale and employee awareness of our agenda.

Regionally Europe was the outperformer, although the USA is now a larger proportion of the combined overall Group. In the USA it was a half of contrasts and similarities between the Tullett Prebon and ICAP businesses. Energies and Commodities was flat in both firms, which can actually be viewed in a positive light against a weak backdrop in commodities for many US banks. And not surprisingly interest rate swaps were both strong at ICAP and Tullett Prebon. We remain positive on the medium term outlook for the US businesses, particularly in rates.

In Asia Pacific both the Tullett Prebon and ICAP brands benefitted from more active rates markets. Tullett Prebon is a market leader in Hong Kong dollar and Singapore dollar swaps and ICAP is a market leader in Australian rates, in equity derivatives our ICAP desks performed very well. In Energy and Commodities in APAC Tullett Prebon is strong in oil products and precious metals, whereas ICAP is strong in iron ore and in the Australian energy markets. Australia is now an important centre for us.

Our Tullett Prebon branded Chinese joint venture continued to grow revenue, headcount and profit.

Now the point of these anecdotes is to underline the product and regional diversity of the new TP ICAP businesses. We've continued to hire experienced talent and we've been managing our underperformers. In fact since the start of the year we've added more than 130 brokers, including from our competitors, across the regions. In addition our early talent programme is also paying dividends.

We have enhanced the functionality of our platforms in several products and expanded our offering of data products and I'll give you some more detail on data later.

Our Belfast IT centre, which we announced a year ago now has more than 50 people in it and we're delighted with the calibre of employees we've been able to attract in Northern Ireland and we expect real long term benefits from this initiative.

And lastly we are on track to be compliant with MiFID II when that comes into effect on the 3rd of January 2018, which I'll also touch upon again later.

So with that introductory summary I will hand over to Andrew to go through the detailed numbers and I'll be back.

. . . .

Financial Review

Andrew Baddeley, Chief Financial Officer
Thanks Phiz. Total revenues of £925m in the first half of 2017 was 12% higher than pro forma 2016 as reported and 3% higher at constant exchange rates.

The stronger performance in our rates desks in Global Broking business offset the fractional decline in the performance of our Energy and Commodities business, resulting from particularly challenging power in certain commodity markets where declines of up to 20% had been observed.

However, the investments we've made in the oil brokerage market through PVM and Moab saw oil brokerage, our largest product in the segment grow by 10%, which meant that the overall revenue was only £4m down on 2016, a result that was significantly ahead of the market's experience.

Institutional Services benefited from the inclusion of revenue from Coex, under the authorised representative arrangement and accounted for £11m of the growth.

The Data and Analytics business performed strongly and benefitted from the continued expansion of its client base and geographical presence, the enhancement of its sales capability and the extension of the data content it provides to customers, particularly from its expanded high quality Energy and Commodities datasets.

The Global Broking revenue was 2% higher than pro forma for the first six months of 2016 at constant exchange rates. The business benefitted from volatility around the UK election and an increase in the US federal fund interest rate. A gradual shift in the inflationary stance of the ECB and the Bank of England provided further opportunities, particularly in the rates business which saw growth of 4% compared with the first half of 2016.

Rates has also benefitted from the increased performance of the risk management services business. Restrictions on client's balance sheets continue to adversely impact credit markets, which was the only asset class where revenue fell year on year. The foreign exchange money markets and equities businesses have seen slight growth in revenue and emerging markets' revenues saw growth of 3% overall, driven by increased activity in Central and Latin America, resulting from interest rate movements.

Turning to the regions, for revenue by region EMEA benefitted from strong growth in Global Broking for both TP and ICAP where rates in particular performed well. And also the structured products desks within equities. Various macro market elements have contributed to this, including French and UK elections, Brexit uncertainty; US rate changes and speculation on likelihood of UK interest rate moves.

Americas' revenue was in line with the first half of 2016. The Americas have reduced underperforming broker headcount since the first six months of that year, increasing revenue per broker and further positioning the business to take advantage of growth opportunities within both the Tullett Prebon and ICAP brands.

Overall general market condition continued to be mixed in the first half of 2017 with a noticeable lack of volatility, particularly in the equity markets.

In Asia Pacific revenue grew at 3%, with rates doing particularly well across the major financial centres in the region, reflecting pick up in market activity due to actual and expected US interest rate changes.

Moving on to operating profit, the underlying operating profit for EMEA was 24% higher than the previous year with a 2.4% increase in the operating profit margin to 19.9%. This improvement reflects growth in revenue and particularly in the rates business, together with an improvement in the broker employment compensation percentage.

For the Americas underlying operating profit increased by 26% to £39m with an increase in the margin to 11.7%. Again, improvements in broker compensation have had a positive impact on the margin.

Asia Pacific saw an increase in operating profit, while broker compensation percentage was flat where was some additional technology expenses that reduced the operating margin overall.

Overall our underlying operating profit was up 23% from £117m to £144m. Our margin was 15.6% compared to 14.1% for the first half of 2016. 1% of that improvement was due to a further reduction in the percentage of our revenues paid to brokers. At the same time average revenues per broker increased by 7% as we continue to work on broker productivity optimisation.

At our preliminary results in March we noted that the Group had continued to invest both in developing its capabilities in managing its new business and strategic initiatives and in strengthening the control and support functions in readiness for the integration of ICAP. We estimated that these various items would add around £20m to our cost base.

During the first half of 2017 we have incurred costs in relation to our ongoing regulatory and compliance responsibilities, in particular broker surveillance systems and MiFID II, where the timing of the introduction of that new regime and the work needed to migrate all our applications onto a single IT stack means that we have to achieve MiFID compliance for both the Tullett Prebon and ICAP systems. This resulted in additional costs and is also very challenging for the IT teams working on this very important project. MiFID has cost £4m in the first half of 2017 and we expect to incur a further £5m to £6m in the second half of the year.

The Group incurred ongoing costs in respect of our IT centre in Belfast, the early talent programme, the customer relationship management system, additionally we've also started to build the capabilities of our institutional services division, that - together with the previously mentioned initiatives we believe are very important for the business to retain its competitive advantage, to innovate and to grow revenue and earnings in the long term.

These actions, which we will complete by the end of the year, had added around £15m to our costs compared to the half year 2016. As we look at the whole, compared to 2016 the cost base will have grown by about £25m and the additional amount compared to my previous guidance is driven by the MiFID project.

The £10m we expect to spend on meeting MiFID compliance is one off in nature, others such as the double running IT costs as we establish our Belfast facility will be eliminated over time as we switch activities over to that centre. We remain confident that as a result of the synergy savings and expense management generally we will still meet market expectations of our operating margin on projected revenues for 2017.

Turning to the integration, I'm pleased to report that the integration of the two businesses support functions is progressing well and is on track with the guidance we announced at the preliminary results in March. To date we have recognised £8m of synergy savings associated with the integration exercise. These have resulted from material headcount savings from business as usual activities and we believe the synergy savings are likely to be more than double that for the full year.

Although this is a very strong start to the integration this does not change our overall guidance of £80m of synergy savings a further stretch target of £20m of savings from process improvement over the period, as these cost savings have simply been accelerated from future years. We have so far made synergy exits of 175. We have 106 staff engaged in the integration project, so do not form part of our underlying business costs. As part of our investment in strategic initiatives we've hired 80 new staff in areas such as the Belfast IT centre.

Overall therefore we have 200 less staff in functions supporting the underlying business than at the start of the year.

The Belfast IT project is progressing well as Phiz referenced earlier and we've now employed more than 50 permanent employees and plan to have more than a hundred by the end of the year. At this stage we're still incurring the double cost of running those two centres, but by 2018 we plan to be making P&L savings.

We've initiated a legal entity rationalisation project that should see a substantial reduction in the number of entities in the Group and the costs associated with that. The project will simplify the Group structure and is part of a drive to optimise the capital efficiency of our regulated entities.

So let's move on to the first TP ICAP income statement as a combined company, you'll not that the comparatives for June 2016 are on a pro forma basis. We've talked about revenue for the period, but it's worth reiterating our guidance that we believe that revenue growth will be in the low to mid single digits on a reported basis for the full year, which translates into a low single digit on a constant currency basis.

Operating profit for the period is £144m, a 23% increase on the prior year and this translates to an operating margin of 15.6%. At the preliminary results announcement we stated that net interest costs were expected to be approximately £28m for the year. We are on track to achieve this with a slightly higher interest cost in the first half due to the expenses of the bridge facility that we used at the time of the acquisition.

Profit before tax amounted to £129m and the effective tax rate at 26% is in line with the guidance that we gave at the prelims. Overall net income pre-exceptionals was £101m, which equates to the underlying basic EPS of 18.2 pence.

Exceptional charges for the year are principally related to integrated costs as well as the amortisation of intangible assets that arose on the acquisition of ICAP. The £28m charge for integration costs relating to the acquisition of ICAP includes professional fees and staff costs relating to planning, setting up and running the integration work streams and staff severance costs.

You'll notice included within our exceptional items is a charge of £5m in relation to a front office cost improvement programme. This charge has occurred as we have commenced a contract restructuring programme, as well as removing underperformers. The cost of the programme for the full year is expected to be around £30m in total and this will be included within exceptional costs.

The benefits of this programme are likely to accrue in 2018 and by the start of 2019 we expect to have increased operating profit by a similar amount to the cost of the programme. This is part of our ongoing effort to bring the global broking compensation ratio to its target. We have discussed this with you previously.

We have also recognised £5m of costs relating to the share based payment charge that we incur as part of the acquisition of PVM in November 2014 as the payment to each individual vendor is amortised through the income statement over the relevant ongoing service period.

Turning to our balance sheet which is broadly in line with the year end and reflects the nature of the acquisition of the people business like ICAP. Worthy of notice, the current pension asset. On the 11th of May 2017 the Group announced that the trustees has ensured the defined benefits liabilities of the

UK scheme through a bulk purchase annuity transaction with Rothesay Life for the payment of a premium of £270m to ensure all scheme liabilities with an accounting value of £214m.

The benefit of the transaction is that it secures the retirement income of the scheme's members while also de-risking the Group balance sheet so that TP ICAP is no longer exposed to the liabilities of the defined benefit pension scheme. This was an excellent outcome for the Group, the pension scheme and the scheme's members.

A slide on debt profile, as we noted at the preliminary announcement we issued a £500m, 5.25% seven year sterling bond to pay the £470m bank bridge loan used as part of the funding of the ICAP transaction. Net interest costs at the half year were £15m. But that includes £2m for the expense of the bridge facility fees. Our guidance for the full year financing remains at £28m.

Overall the Group had net cash funds, i.e. total cash less external borrowing of £182m at the end of June 2017. The movement shown in the waterfall from December reflects the final dividend paid to Tullett Prebon shareholders as well as the effect of movement in exchange rates.

In this slide we're disclosing where we hold the £759m of cash and financial assets on our balance sheet, as we've said before we hold cash for regulatory capital, liquidity and margins calls and for working capital. £643m of the cash is currently held in 55 regulated entities who hold the bulk of this cash to meet regulatory requirements and for liquidity purposes. Cash is also held in these entities for working capital and there is a small amount of excess cash which represents accrued profits that will in due course be distributed to the parent company.

Non-regulated entities include the data sales business and employee service companies. The cash held in these entities is held for working capital as well as accrued profits from the data sales business that have yet to be distributed to the parent.

Finally, cash held at corporate represents cash available for dividend, interest payments, capital expenditure and general corporate purposes. So in terms of available cash resources at the balance sheet date we had £42m of corporate cash and accrued profits yet to be distributed from the trading entities.

Our business is highly cash generative and with near 100% conversion of our profits, accordingly taking these amounts and the profits that should emerge over the next few months we're satisfied that we have access to sufficient financial resources to support our operating and corporate activities, not forgetting of course that we also have access to our revolving credit facility of £250m.

Now that I've run through those finances I'll hand back to Phiz.

. . . .

Business and Operational Update

John Phizackerley, Chief Executive Officer
Thanks Andrew. I'd now like to take a few moments to update you on our business lines and some of the initiatives that we are taking.

Firstly, I want to share this slide with you, it's one we quite often show clients, it's designed to show the broad array of organic self-help opportunities and markets that are potentially available to us. And it shows how many different aspects of the business can come together to create further shareholder value.

Now I'm most often asked by investors for two numbers, how big will the synergies be? And where are you on broker compensation? And that's because they are probably the two factors that have the greatest near term impact on the P&L and the short to medium term value proposition.

The good news is that we've made good progress on most of these fronts. On broker productivity optimisation for example at ICAP in Europe we're pretty much at our target compensation levels for the medium term. And as Andrew pointed out, the overall Group trend is continuing to head in the right direction on broker compensation optimisation.

And the integration, which is our biggest short term value creator as I said, is now in full swing. So whether it's improvement in operations efficiency, growth in electronic trading capabilities, improvement in procurement, or capital efficiency, or real estate rationalisation there's plenty to be getting on with on top of servicing our important and valued clients.

The way that we deliver liquidity there is by instrument and by market conditions, we provide voice, hybrid voice, electronic volume matching, algorithmic matching, risk mitigation platforms, post trade and risk management services to satisfy the evolution of the marketplace. And markets behave and evolve in different ways in the cycle.

The majority of markets we service benefit from the sophisticated integration of technology, data and human interaction, the so called hybrid voice model. In some cases brokers use electronic liquidity for price discovery, which allows them to do larger size transactions by voice with less price slippage and in other cases brokers shift liquidity to our platforms to drive the volumes; based on market conditions liquidity shifts from one source to another.

But in all cases our brokers are completely engaged in the electronic flow to protect and guide our clients, to increase the overall quality of our liquidity provision. And this is the core of our service provision for clients, high quality liquidity provided with integrity by high calibre professionals in the best way for them to consume it using technology.

Execution and information slippage is a major concern for all. And the bottom line is that clients trade with us when it's in their best option in terms of price, transaction cost, and achieving the desired outcome.

We know from our interaction with our client base, which we have significantly increased in recent months through our client relationship management programme, that what we do and how we do it is valued and valuable. This slide contains quotes from a recent research piece provided by Greenwich Associates and from a speech given by the CFTC that reinforces the importance of integrated technology services involving brokers in achieving desired execution outcomes.

And just to give you some colour, this recent survey of 108 trading professionals found that voice communication is very or extremely critical to trading workflow and we don't see it going away. For complex products or large trades hybrid voice broking was categorised as really valuable.

I set out last time how we've organised and run the TP ICAP Group with our four client facing businesses and we have some senior leadership at the front here; Global Broking, Energy and Commodities, Data and Analytics and Institutional Services. And I also said that while the integration remains our number one priority in the short term if all we do for the next 18 months is the integration we will lift up our weary heads at the end of it and realise that the world has moved on without us.

So I've charged the organisation and these leaders with continuing to pursue our strategy of diversification, hiring the next generation of brokers, growing in data and institutional services and adding product expertise. And we have wins in all four of our business divisions in this first half year at TP ICAP.

In Global Broking we've achieved a number of record months in our volume matching sessions, one of the transaction methodologies that we provide to clients with particular success in US emerging markets bonds. And we've launched volume matching for new asset classes, including index synthetics and roles in financials and sovereign bonds.

As our mentioned we've managed our underperformers and hired new and experienced talent. We've benefitted from the investment in our sales efforts in our post trade business, with traction in Asia and record volumes transacted in EMEA in June, establishing, we believe, an all-time record bulk risk mitigation run by any provider of two trillion US dollars.

In FX options we launched a new global RFQ platform which has been well received by our customers who can now interact directly with the Tullett Prebon liquidity pools through electronic connectivity with broker guidance and negotiation support. This platform also incorporates enhanced analytics and streamlined straight through processing.

In our Energy and Commodities division we have built a new product area for the Americas with a new natural gas liquids desk, which links in with our global liquefied petroleum gas desk in EMEA. We have also expanded our LNG desk in EMEA.

We have a programme of marketing and attracting a new customer base by successfully pitching to funds in a market that has long been all to all in nature. A number of commodities asset classes we cover such as coal and iron ore are now mature and large enough to be of interest to them.

We made 35 new hires in H1 in Energy and Commodities including coverage of Eastern Interconnect in the US, gasoline and iron ore in Asia. And we added 12 new joiners from our early talent programme with more scheduled for later in the year. And we plan to grow significantly in Houston Texas.

Our Data and Analytics business is now approximately twice the size in revenues than before the ICAP acquisition. And during H1 we substantially reorganised our sales capability, adding resources in London, New York, Singapore and Tokyo. The benefits are beginning to be felt with a strong pipeline of new business emerging.

We launched a new comprehensive Europe corporate bone package, covering bond yields and prices for over 2,000 Eurobonds from issuers in more than 40 countries across investment grade and high yield issuance. Now the dataset comes from live orders and trades sourced from our Global Broking desks and is enhanced by the application of proprietary analytics.

In February our data business partnered with Valens Research to distribute equity and credit research and analytics data, we've launched a comprehensive market data service for the interest rate derivatives markets in Scandinavia and upgraded our interest rate options volatility data services, adding greater depth and breadth to our swaption coverage. And we continue to focus hard on Data and Analytics.

The new Institutional Services division, we've completed our first in depth strategic review to validate and articulate the new business proposition of the division. Our big investment banking clients have off-boarded thousands - thousands of second and third tier accounts as they are no longer able to profitably service them. In many products we are able to provide a service when it doesn't conflict with our important bank customers and it delivers much needed liquidity to markets overall.

Our analysis suggest in aggregate this represents a significant potential long term fee pool, although it is a modest and separate revenue stream today. As part of our review we extensively canvassed and interviewed our target client base and feedback validated our approach. In 2016 we hired Sam Ruiz from Nomura and Lehman to head up this division. And he's been building our team up recently in areas like FX and corporate bonds. And we have high hopes Sam.

We've recently invested in a new FinTech business, LiquidityChain, which is focusing on unlocking liquidity in credit markets using unique algorithms and improved process flows.

So it's been a busy first half for all our business divisions and you can see that that's been going on alongside the integration. There are some other important thematic agendas that we're pursing. Our continued focus on conduct and culture, it's an expense, it costs us money - it costs us millions, but one we believe is vital to guarantee that we are fit for purpose in the eyes of the biggest financial institutions in a consolidating broker sector. And it shows that we share the values and standards of our customers. And we believe that it will increasingly differentiate us.

MiFID II is a major work stream for us and a compulsory one. On MiFID II we have partnered with Bloomberg and Entity Exchange to simplify the repapering process for our clients, which will help them comply with regulations more smoothly without significant disruption to their workflow. We believe we're an important early mover in this sector on this and we're gaining traction and recognition with clients as a result.

We remain on schedule to be MiFID II compliant on January 3rd 2018.

Brexit is another key work stream that absorbs resources over and above the integration. Mihiri is leading that. And we have garnered extensive feedback from our customers, particularly in the USA regarding their plans as to where they will move in the EU 27, the usual locations of Frankfurt, Paris, Amsterdam and Madrid seem to be high on the moving list.

We already have offices across the continent and service EU clients from all these locations; we are already in dialogue and have been with the regulators in all of those places. But it goes without saying that there is still a lot of ongoing political uncertainty here around Brexit.

Second last slide - market outlook, so as I mentioned there's a lot of political uncertainty around the globe and marked economic disparities. Generally this promotes market and currency trading activity which is good for our business. Europe's economies, although improving slightly, remain fragile and the UK is under a cloud of Brexit uncertainty. In contrast in the United States the S&P companies are on track to post two consecutive quarters of double digit profit growth. Meanwhile in Asia, Samsung, now outsells Intel in memory chips as Asia continues to grow albeit at lower than historic rates.

Now while there are growing signals that the long period of falling or flat interest rates in Europe and America may gradually be coming to an end it's not yet clear that a sustained reversal is imminently in hand. Political and fiscal imperatives continue and restrain the return of the normal economic cycle. The US offers the greatest hope and in that event the clear establishment of a rising yield curve would undoubtedly be good for our business.

In Energy and Commodities, the two biggest macro factors are the apparent abundant supply of natural gas and oil from shale rock as an alternative energy source, and as ever the outlook for the economy of China. Commodities traders have had a very touch second quarter. Large amount of liquidity await direction from the outcome of these variables and we are very well positioned to efficiently facilitate their movement.

So in summary we have started well at TP ICAP, we have a sense of urgency as we want to complete this integration as quickly and smoothly as possible. The regional and product diversity of our enlarged business is important and it has stood us in good stead in mixed markets.

Our new size is delivering economies of scale. Looking forward Data and Analytics and Institutional Services represent important organic growth opportunities for us. And overall our integration is on track. We are focused on delivering the synergies while at the same time building our business and delivering returns to shareholders. And we look forward to telling you more about the business in more detail at our Capital Markets Day on the 30th of November and you're all invited. Thank you very much. So I will go back over there and we'll take questions.

. . . .

Questions and Answers

Paul McGuinness, Shore Capital
Just with respect to the £30m of cost cuts for the front office that you announced, can you tell us how many heads that you anticipate that being and where ultimately you see the number of brokers headcount stabilising, just noting that it's down 6% year on year as at 30th of June?

And just as an extension to that, do you have to be quite careful here that this isn't seen as reducing your sort of in effect front office - cost cutting with respect to where competition authorities or clients might not want to see it?

. . . .

Andrew Baddeley, Chief Financial Officer
So we're embarking on a cost improvement programme across the front office, this involves restructuring contracts. If you look at our business as a whole there are myriad versions of contracts

and from the combination of the two businesses there's yet more variety of contracts. So there is an exercise to try and bring more commonality to how those contracts are structured.

We also want to ensure that the brokers that bring the liquidity are very, very well compensated. So this isn't per se about cutting broker pay, this is about improving the productivity of the front office. And as I indicated you know the 7% growth in revenue per broker is as a direct consequence of managing out some underperforming brokers during the first seven months.

The plan that we have talked about in the past has been to bring down broker pay and as you would be aware from your previous coverage you know that we've brought it down from 59.5% down to around 50% which is the current level. And all we're doing with the programme is continuing that work to try and make sure that the brokers that bring the liquidity to the marketplace are very well compensated for that and that we generate a good profit from providing the infrastructure to support them.

. . . .

John Phizackerley, Chief Executive Officer
Do you have anything to add Nico? So Nico heads up Global Broking for the firm.

. . . .

Nicolas Breteau, CEO, Global Broking
I would just add that we've invested in our client relationship management systems, which allows us also to better monitor the performance of the teams and the brokers and compensate them accordingly. And as it was mentioned the percentage of business generated with the assistance of more technology, for example volume matching, is also a way for us to reduce compensation going forward.

. . . .

Paul McGuinness, Shore Capital
Just in terms of therefore number of heads and optimal number, do you want to give a number on that or prefer not to at this stage?

. . . .

John Phizackerley, Chief Executive Officer
I mean it was never our agenda to structurally downsize the footprint of TP and ICAP brokers. We're churning through frankly a bit of an upgrade, but I would expect that the broker population over the medium term is stable to growing, certainly not in any kind of structural decline.

And it's important for our employees to hear that the very best brokers in the market should be working at TP ICAP because like we're the biggest and hopefully the best. And they will be paid very well if they provide the liquidity and they're on board in terms of all the other things we expect of them in terms of embracing conduct and culture and technology etc.

And we have a big agenda to bring in the next generation of young brokers into the organisation and so it's an evolutionary process. But the broker experience for this period is that pay has gone up even after we managed to cut compensation and that's a function of using technology and taking some market share I imagine.

. . . .

Johannes Thormann, HSBC
Two questions please. First of all a follow up on your broker headcount set up - where we saw different trends in the regional lines probably much more on new hires in Europe and a bit harder restrictions in the US. While your comments on the US economic outlook seem far more positive do you plan to change it in H2 and especially looking at your competition there?

And secondly as you're moving the cost to achieve forward could this also imply that we could see an earlier rise in the dividend when you don't need this cash?

. . . .

John Phizackerley, Chief Executive Officer
So the first comment on the US is the context you have to have on this is we are a lot bigger in the US than we were. And there are economies of scale that fall out of that, as a proportion of the group the US is a bigger contributor than it was to TP on its own. And that was early on identified as one of the ticks of why this transaction would be good so that has indeed come to pass.

We have every expectation and ambition to grow the contribution from the United States. We've made some pretty important management announcements, there's a lot of clarity about who's doing what, we've announced a brand new headquarters.

I can report that I've spent two weeks there on the ground getting to know better the brokers at ICAP. And my assessment is that they are motivated and on side and probably needed to see a bit more of myself and some of the other senior people. But I'm very confident that that business in relative terms for the overall TP ICAP Group will grow in importance in the coming months and years. And it certainly is an area in terms of future investment when we get back into that business where we would be biased to invest.

. . . .

Andrew Baddeley, Chief Financial Officer
Turning to your dividend question, we have said that through the integration we will maintain the dividend at its current level, 16.85 pence per share. It is worth remembering that with the issue of 310 million shares to the ICAP original owners, now NEX, the cost of the dividend to the Group has gone from £40m to more than £90m annualised. We will maintain that through the integration programme and then we'll see what the resulting cash flow profit situation is.

. . . .

Jonathan Goslin, Numis
Just a couple from me thanks. First off on the M&A opportunities, obviously in the past you've been quite vocal about the long tail of brokers especially across Europe and the opportunities that present. Maybe you could give a bit more information around the current landscape there and where you see such opportunities?

. . . .

John Phizackerley, Chief Executive Officer
Yes I mean typically in any one year we would expect to announce bolt-on acquisitions. We haven't announced anything particularly large so far, the year's not over yet. So we have a dedicated M&A department which works with business leaders to assess good fit opportunities for us and we've got some pretty high hurdle rates in terms of return on equity capital employed. And also a pretty crystal clear roadmap of the sorts of areas we would want to get into versus not wanting to get into. And that operation is in full swing and as I said the year's not over yet.

. . . .

Jonathan Goslin, Numis
And then I suppose following on from that the Data and Analytics side obviously growing faster than the Broking side of the business. Would you expect to accelerate the growth there through additional bolt-on M&A or are there sort of relationships that you're currently working on that you think you can accelerate growth?

. . . .

John Phizackerley, Chief Executive Officer
I think our investors are looking to us to develop a more exciting story on data and I share that ambition. There are massive opportunities inherent in the dataset that we have already. We're still integrating the ICAP and Tullett Prebon personnel and data sets. It's doubled as a result in size, it's growing at 8% a year, it's actually growing more on the Tullett side than the ICAP side at the moment.

And as I say it will be an area of dedicated focus for us in the second half of the year and going forward in the same way that Institutional Services is a dedicated area of focus for us in the years ahead. Because we think they're both, if you like brownfield sites for us to generate significant revenue improvement without necessarily, and it's not saying we're not going to add on bolt-on acquisitions but there's upside organically as well as inorganically.

And I think given the size of the fee pools of both those things, which are large, and are typically all to all in nature so it's not just the banks it's the buy side, etc, it would be remiss of us not to push on those as hard as possible. In the meantime Nico's job is to optimise the technology and efficiency and compensation of the Global Broking businesses which remain the core revenue and earnings driver of the firm.

. . . .

Steve Keeling, Liberum
Morning, a question probably for Andrew. You've eluded to the fact that your cash conversion's incredibly strong, you've also indicated you're paying £90m on the dividend but clearly you've got a lot of these legal entities holding cash. The question is pretty simple, are you sufficiently happy with the efficiency of the balance sheet from a capital perspective?

. . . .

Andrew Baddeley, Chief Financial Officer
The short answer is no and it's in progress. So one of the bullets on one of the slides talked to the legal entity rationalisation. We inherited a large number of companies when we bought the ICAP Global Business Group and we need to rationalise that.

I also mentioned earlier that we have 55 regulated entities in which a significant amount of our cash is held to meet regulatory capital requirements. This isn't something you can fix at a wave of a wand or a click of the finger, it's a lengthy project; but what we want to do is reduce the number of our legal entities and our expectation is as we do that we will free up capital resources from the various subsidiaries that are eliminated.

. . . .

John Phizackerley, Chief Executive Officer
There's about 250 of them at the moment, that's a lot.

. . . .

Steve Keeling, Liberum
It's a nodding question because I don't do modelling, but how much cash over your regulatory capital do you currently hold?

. . . .

Andrew Baddeley, Chief Financial Officer
How much cash over our regulatory - so if you flick back to slide 21, you'll see there that the total cash and financial assets is £759m and £643m of that is held in the regulated entities. And as I explained in the description I gave to the slide within that £643m there is some accrued profit that will come out. But in terms of an excess over the regulated amount it's the difference.

. . . .

John Phizackerley, Chief Executive Officer
I think we've got some questions at the back, is that online?

. . . .

Telephone Operator
We do have a question coming in from the line of Owen Jones, Owen please go ahead.

. . . .

Owen Jones, Citi
Hello, good morning, I have a couple of questions please. Of the 490 systems that you've outlined to be cut roughly in half, do you have an idea as to what the eventual split between old ICAP systems and old Tullett systems will be?

And the second question, on the topic of training the brokers of tomorrow, can you give us an idea as to how you see that evolution going in the sense that you know how do you see the brokers of tomorrow looking like in terms of things like product specialisation and geographic specialisation and that overall drive to efficiency? I think it was an interesting topic so maybe just if you have any thoughts around that area that would be useful, thanks.

. . . .

John Phizackerley, Chief Executive Officer
Going to introduce everyone to our new Chief Operating Officer, Iain Plunkett, joined us recently from Aberdeen Asset Management and he's very much in charge of certainly the IT part of the business plus a few other important areas. He's going to tell you about the platform migration because he'll do a better job than I will.

. . . .

Iain Plunkett, Chief Operating Officer
So thank you. We are taking a pretty simple approach to the overall integration. We've identified actually 281 applications that we seek to take out of the overall platform for the firm. Rather than trying to take a very granular integration approach for achieving this objective we have tried to adopt - take one set of services from a firm and try to migrate, to reuse the common platform. So that is by anybody's standards the really best practice and most efficient approach to do this.

That being said we're also looking to develop some means by which we can create higher levels of agility for IT to support the needs that fits, and Andrew has outlined, to drive higher degrees of innovation for our customers. And so whilst we're taking a decommissioning approach for the platform we're also trying to increase our overall rate of change and get far more value from the technology organisation that we have.

. . . .

John Phizackerley, Chief Executive Officer
In terms of the future of the organisation in terms of hiring the next generation of brokers, all financial service companies and all big businesses generally focus quite rightly on ensuring that there is sufficient inflow of new talent to ensure the long term security and development of their organisation. And there's some industries like the accounting industry for instance where the average age is incredibly young because that's the model that works in terms of bringing in cannon fodder for crunching the numbers.

I would also say that the investment banking industry has probably moved more effectively in reorganising its workforce than the brokerage industry and we are at some level playing a little bit of catch up. We have recruited professional recruitment capabilities from the banks actually, we are now live on things like LinkedIn and Twitter therefore we are not short of applicants, thousands of people from all corners of the world looking for jobs as a broker. And the fact remains that a career in TP ICAP for a young man or woman is a very exciting and diverse prospect.

And the other thing we've been investing in is training in all areas whether it be technical training or whether it be technology training or whether it be conduct and culture and the requirements around legal and compliance, etc. So that has in a large part accounted for some of the cost inflation we've seen in that area of the business over the years as we get the firm capable of bringing in the next generation of brokers.

You always worry when you stand up and talk about these things what the current generation of brokers is thinking. And the strong message here is that we value tremendously our best brokers. And again our biggest and most impactful brokers who command the liquidity in the marketplace will absolutely be paid the appropriate level in the market place to secure their ongoing loyalty to the firm and there is no agenda ever to change that. All we're simply doing is providing a trickle of the next generation of employees who will ultimately take over from that group in time.

Attributes are varied, there are three distinct buckets, there's the 30% of the intake are typical graduates, we have a lot of need for high calibre graduates in broking itself and in other support staff areas. The second bucket is broadly lateral hires, which means stealing from the opposition. And the third bucket is somewhat of a hotchpotch of different types of people whether it's ex military or ex teachers or second jobbers who pass the various screening programmes that we have.

One thing that is clear to me is that a good broker is quite an unique individual and he or she has to have a series of attributes which apart from a deep knowledge of the sector that they broker, they have to have particular skills around working with the technology that we provide and also the ability to attract liquidity and engage people in wanting to provide that liquidity to them so they can pass it on. It doesn't necessarily go to be a fact that a good trader at Goldman Stanley will be a good broker at TP ICAP. So there is a learning process and there are attributes which we look for and hopefully nurture.

So we've announced that over the medium term we're looking to hire 600 new people into the firm. We've been very open with everybody that we like all well run organisations manage out underperformers and we've been doing that on a consistent basis. And as Nico said by using the data we now get from our client feedback database which is significant, we know down to the desk level and the individual broker on the desk which brokers are highly regarded and which are less highly regarded and that enables us to target the population of the organisation going forward.

So it is one of the areas which is a big lift for the firm over an extended period of time. It's incredibly important, I won't quit on it and it will cost us some money, but we have to look like our clients, we have to share technology with our clients and therefore we won't be giving up on that agenda. But it's a bit of a catch up by the brokerage industry I would say, the banks have moved a lot quicker.

If there's no more questions, thank you ever so much for coming and make sure you come to the Investor Day which is the 30th of November, I'm not sure where it's going to be but we'll let you know. Thank you.