Interim Results 2019

Presentation transcript

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Introduction
Nicolas Breteau, Chief Executive Officer

1.0 Introduction
Well good morning everyone and welcome to our 2019 Interim Results presentation. This is our agenda for today.

I will give you a brief introduction and Robin will take you through our financial performance. After that I will talk more about our four business divisions before we move onto Q&A.

Staring with the financial highlights, which we are reporting for the first time under IFRS 16. Against the backdrop of challenging market conditions we delivered a resilient performance in the first half.

Revenues of £922m were down 2% on a constant currency basis and up 1% as reported.

Underlying operation profit increased 2% to £158m; operating profit margin was 17.1%. And profit before tax was down 4% at £134m.

Earnings per share were 19.3p and we are paying a dividend of 5.6p per share for the half year in line with our guidance.

Robin will talk later about the impact of IFRS 16 so that you can better understand the underlying trends.

We are now in the last six months of the integration and our focus has been on delivering the priorities that I set out in March so that we have a solid platform from which we can deliver future growth.

The work we are doing this year is all about creating an organisation that is agile, efficient and more responsive to client needs. At the same time we are now working on our strategic road map and will present this to you in the New Year.

So let me remind you of those priorities which are to establish a strong management team, deliver the integration, create a risk framework appropriate for the size of our business and ensure that we are prepared for Brexit.

I'd like to update you on each of these before I hand over to Robin, starting with management and governance.

In March I told you about the changes I have made to our leadership team including the appointment of new CEOs for our four business divisions, as well as our new COO whose main priority is to complete the integration process.

Since then we have replaced our Chief Information Officer, given the importance of technology in our business. We are appointing a new head of Group Compliance and we have appointed new CEOs for our three regions in line with a change in their responsibilities.

Accountability for running the P&L, but also managing allocated costs now lies with the CEOs of our four global business divisions, which are much more closely aligned with our clients and their needs.

From now onwards our Regional CEOs are responsible for managing our relationships with local regulators, implementing our new risk framework and ensuring our support and control functions are fit for purpose.

This new structure reinforces our governance significantly. It has also led to a more streamlined senior management team and lower cost.

Now moving onto the integration. Our run rate of synergies is on course for £75m by the year end in accordance with our guidance last year. Martin Ryan, who's sitting there, our Chief Operating Officer, has a strong grip on the integration process, and we are on track to complete all the major work this year.

We continue to reduce the number of premises we operate from. Last year we brought our brokers together in New York and Singapore. And since March we have consolidated offices in Hong Kong, Jakarta and Amsterdam, as well as closing one of our offices in both Korea and Indonesia. We are on track to move our London staff into one building in Bishopsgate next year.

We also continue to move support staff such as IT, Operations, Compliance, Procurement to our new shared service centre in Belfast, where we expect to have around 300 people by the prelims.

We are making good process with system integration. We continue to complete several hundred desk migrations each month onto common platforms for a wide range of products.

Our preparation to decommission 32 out of our 78 core IT applications is on track. And we are on course to reduce 15 datacentres to 6. As we do with this, we are moving more workload into the Cloud. This will give us a common IT platform that is agile, scalable and efficient.

At the same time we continue to simplify our legal entity structure with the aim of reducing the number of entities by about 50%. This will simplify the governance, accounting and audit process and will reduce future governance costs. It also helps to streamline liquidity management make the flow of funds up to Group easier and more efficient.

Another important priority is to embed our new risk management framework. We started a full review of our risk framework last year taking into account regulatory expectations as well as the scale of our business.

We are making good progress and expect to complete the implementation of the new framework by the end of this year. This work is essential to discharge our responsibilities when the senior managers' regime comes into force for us at the end of December 2019.

A robust risk framework is also a competitive differentiator with our clients and a factor in the assessment of regulatory capital.

Lastly, I want to mention our preparations for Brexit. As I told you in March 90% of broking revenues are largely unaffected but there are two main business streams we need to consider when we leave the EU.

The first is the business we carry out in the EU for EU clients, for which we need a legal entity and venues. We have set up and capitalised a new company in Paris called TP ICAP Europe. Our French and German branches are now part of it. Our Spanish branch will soon be part of

it. And this means that the business we currently transact from these offices is protected in the event of a hard Brexit.

In March, if you remember, I told you that we set up three EU venues, one MTF and two OTFs so that our EU activity can be conducted on MiFID II venues. These venues have now received regulatory approval and are conducting business.

The second stream in the work we do for EU is the one, for the work we do for EU based clients but going through our broking desks in the UK.

We are planning to protect this business by putting more front office staff in the EU offices and changing some of our workflows.

We have also made plans to relocate i-Swap, our electronic rates MTF to Amsterdam.

We have no further clarity about what Brexit will entail since we spoke with you in March, but we remain in close touch with our clients to understand their plans and believe we have made contingency plans for all possible outcomes.

With that I will now ask Robin to take you through our financial performance.

Financial review

Robin Stewart, Chief Financial Officer

2.0 Financial review

Thanks, Nico. As you've heard, the business delivered a resilient performance during the first half. Global broking was impacted by lower volumes in challenging market conditions, but we benefitted from the diversification of our business with strong growth in Energy & Commodities, Institutional Services and Data & Analytics. We also maintained our operating profit margin through good cost control.

As Nico said earlier, this is the first time we are reporting numbers under IFRS 16. As usual our focus on the underlying performance of the business before exceptional one-offs and acquisition related items.

So let me start with the income statement. Overall revenue of £922m decreased 2% on a constant currency basis and was up 1% on a reported basis. Operating profit of £158m was 2% up on the prior year, and this led to an operating profit margin of 17.1%, up from 17% for the same period last year.

Net finance costs were £24m and taken together this resulted in profit before tax of £134m.

The tax rate was 25% in line with our guidance. Underlying earnings were £108m and underlying earnings per share increased to 19.3p.

This slide shows the impact of IFRS 16 on the income statement. As you can see it has resulted in £3m increase in underlying operating profit and a £2m decrease in underlying profit before tax resulting in a decline of 0.2 pence in our earnings per share.

I'll talk about the impact of IFRS 16 on the balance sheet later.

Turning now to revenue by business division from here onwards I'll use numbers on a constant currency basis unless otherwise stated. Global broking revenues decreased 6% to £648m with a decline in all asset classes as a result of lower volatility and market volumes.

As you know, this performance is favourable compared to the trading performance on the investment banks for the first half.

Energy & Commodities grew 8% to £187m, as oil prices rose, market conditions in power and gas improved, and as we benefitted from the acquisition of Axiom in November last year.

We also made new hires as we continued to build out the ICAP Oil business.

Our agency broking business, Institutional Services, grew 28% to £23m under the leadership of John Ruskin, who joined the business with Coex. John has restructured this business with a focus on products and clients that generate stronger growth.

Data & Analytics grew 12% to £64m as it more than doubled the number of new product launches in the first half compared with same period last year and continued to win new clients.

Looking at the breakdown by asset class in Global Broking on the pie chart in the middle rates fell 2% to £288m as expectations of rate increases were pushed back, reducing both spreads and volatility against a background of slowing economic growth and the impact of the US-China trade war.

FX and money markets decreased 8% to £100m. Emerging markets were down 6% to £108m. And equities fell 9% to £102m against a strong first half in 2018.

Credit markets were also challenging. A lack of new issuance as well as regulatory restrictions on the size of clients' balance sheets resulted in a 14% decline in revenue to £50m.

We are taking action to reduce costs in response to these market conditions, which I'll talk about later.

Moving on to look at revenue by region in the chart on the right, in Europe, the Middle East and Africa it decreased 3% to £458m. Revenue in the Americas is broadly stable at £340m. And Asia Pacific was down 2% to £124m. This was partly the result of our decision to close loss making offices in Korea and Indonesia as well as the departure of some brokers in Hong Kong in 2018.

Turning now to the integration. As you heard from Nico, we are on track with the integration and have delivered £74m of annualised synergies up from £71m at the end of 2018 and on course to deliver £75m by the year end.

We spent £20m on integration in the first half and expect to incur further costs of around £10m by the year end in line with our guidance.

Moving on now to administrative expenses. Total underlying admin costs of £771m were down 1% on a constant currency basis, and up 2% as reported.

You'll recall that we look at these costs in two categories, front office costs and management and support costs. The 1% in reduction in front office costs to £539m was driven by a £5m decrease as we negotiated unit cost reductions in items such as telecoms and clearing.

There was also a £3m reduction in broker compensation resulting from the lower revenue.

Management and support costs were in line with the first half of 2018 at £232m. We reduced staff support costs by £6m as a result of both synergies and cost savings made in response to market conditions.

This was offset by an increase of £9m which includes the planned costs and new investments that we gave you guidance on last year.

This slide shows the movement in admin costs year on year for the first half. We recognised £6m more synergy savings in the P&L this year than last. And we made further net cost reductions of £8m which comprised savings in telecommunications and IT maintenance, as well as a reduction in support staff costs of £4m made in response the market environment, and we continue to identify further savings in the second half.

As I mentioned, there was a reduction in broker compensation of £3m as a result of the decrease in revenues offset by an increase in the broker compensation ratio to 52.5%.

These cost reductions were offset by two increases. We made £4m in new investments that are part of the £15m investment in developing our electronic capability and data & analytics business that we told you about last August.

£7m of planned increases comprise Brexit, risk and cybersecurity as well as legal and regulatory costs that are part of the £15m of additional cost that we guided you to last year. There was also a credit of £3m as a result of IFRS 16.

Moving on now to look at contribution. As you know contribution represents the revenue of the businesses less direct costs. Broking contribution decreased by 4% to £319m, the contribution margin was slightly lower at 37.2% as a result of a 3% fall in revenue together with the increased broker compensation ratio, partly offset by a reduction in other front office costs.

Data & Analytics contribution also excludes the cost of data generated the Broking business. It grew 14% to £42m driven by the revenue growth of 12% and contribution margin increase to 65.6%.

This slide shows a breakdown of underlying operating profit at reported exchange rates.

As I told you earlier, underlying operating profit grew 2% to £158m and operating profit margin grew to 17.1%. Excluding the impact of IFRS 16 this would have been £155m in line with last year and the margin would have been 16.8%.

Operating profit in Europe, the Middle East and Africa declined 1% to £96m.

In the Americas it grew 9% to £4m, where operating profit and margins benefitted from efficiencies as a result of the integration process.

And in Asia operating profit and margin were more or less in line with last year at £13m and 10.5% respectively.

The difference in margins between the regions reflects the scale of our business in each region.

I'm going to turn now to items that are not included in the underlying performance.

Exceptional and acquisition related items amounted to £42m after tax. Integration costs of £20m that I mentioned earlier comprised running the integration work streams and staff severance costs.

There was also a charge of £21m for the amortisation of acquired intangible assets arising on consolidation relating to the value brands and customer relationships. This is a recurring non-cash charge.

As Nico said earlier, earnings for the first half of £108m translated into earnings per share of 19.3p and we have announced an interim dividend of 5.6p per share. As you would expect we are maintaining our policy awarding a total dividend of 16.85p throughout the integration period.

Turning now to cash flow. Cash generated from Operations amounted to £80m on an underlying basis compared with £53m in the same period last year.

There was a £2m inflow from initial contract payments as payments made in the first half were lower than the amortisation expense charged for the income statement.

Working capital outflows are seasonally high in the first half of the year. This is a result of discretionary bonus payments made in the first quarter and an increase in trade receivables at

the end of the half year as the business generates more revenue in June than in December. This generally leads to a corresponding increase in settlement balances.

The working capital outflow here of £112m includes £48m for settlement balances that cleared immediately after the period end compared with £46m last year.

Capital expenditure was £19m. This is lower than last year when we made office moves in New York, Singapore and Belfast, as well as moving our Energy & Commodities business into one office in London.

Capex will increase in the second half as we take over the lease of our new City of London office. And we continue to expect capex in the region of £70m for the full year.

Tax payments increased to £39m against a low comparator in the first half last year. And interest payments increased to £27m compared to £16m last year. This is the result of refinancing some of our debt during the first half and includes the impact of £5m from IFRS 16 which re-categorises depreciation on leases into an interest expense.

Underlying free cash flow was an outflow of £5m; an improvement of £27m on the first half last year reflecting the lower levels of capex and initial contract payments to brokers.

Looking at the balance sheet there are three areas I want to comment on; pension assets, deferred tax and the impact of IFRS 16.

We no longer carry a £55m pension asset on the balance sheet relating to the UK defined benefit pension scheme. This is the result of our instruction to the pension trustee in April to wind-up the scheme following their decision to insure their liabilities for the purchase of a bulk annuity policy from Rothesay Life.

This both protects the retirement income of our pension scheme members and de-risks our balance sheet.

During the wind-up period any further costs associated with settlement of the scheme's liabilities will be recorded as exceptional costs in the income statement. And on completion we expect the residual asset net of deferred tax of around £30m to be returned to the Company as cash.

The removal of this pension asset has reduced our deferred tax liability from £123m last year to £98m at the end of the first half.

There's also been an impact from IFRS 16 as we've moved operating lease commitments onto the balance sheet which were previously off balance sheet. This has resulted in the recognition of right of use assets of £101m and lease liabilities of £150m.

Moving on now to look at our debt profile. We issued a £250m sterling note in May at 5.25% which matures in 2026. The proceeds of this we'll use to refinance the £80m bond that matured at the end of June, pay down the outstanding drawing on the revolving credit facility and buyback £69m of our £500m bond that matures in 2024.

As a result our debt has increased to £726m but this also includes a £37m short term loan from one of our JV partners that we expect to repay in the second half.

Out total cash, cash equivalents and financial assets as financial investments has reduced slightly from £800m at the year end to £781m. £678m of this is held in 61 regulated entities,

£82m is held in non-regulated entities for working capital purposes and £21m is held in corporate entities.

So moving on to look at our net funds this shows the movement in total funds and debt that I've just taken you through and you can also that the impact of IFRS 16 has moved our net cash position of £55m to a net debt position of £95m through the recognition of £150m of lease liabilities, but this has no impact on our banking covenant.

Before I close, I'd like to remind you about our obligations under CRD IV. When we completed the acquisition of ICAP the FCA granted us a ten year waiver from the consolidation capital supervision test, in line with other limited licenced firms like ours. Instead the Group only has to comply with a financial holding company test.

We currently have a deficit from the consolidated supervision test as goodwill is not eligible capital under CRD IV. The only eligible capital is net tangible capital. So the Group is eliminating its deficit through retention of earnings, and we need to set aside around £25m a year to be compliant by the time waiver expires at the end of 2026.

At the beginning of July the allowable deficit reduced for the first time by 25% in line with our agreed plan with the FCA and we remain well within that allowable deficit.

I'd like to conclude with guidance for the full year. There's been a strong start to the second half, but there are many uncertainties, including Brexit, so our revenue guidance is low single digit growth.

We continue to expect additional planned costs of £15m and additional investments of £15m in 2019 with the majority of this investment falling in the second half. We expect the broker compensation ratio to be around 52.5%. And we are on track to achieve £75m of annualised integration synergies by the year end with the total full year cash cost to achieve of around £30m.

We gave you an estimate in March of the impact of IFRS 16. Now that we are reporting under IFRS 16 we have a better view and expect it to have a positive impact on full year net operating profit of £9m and a negative impact on net profit before tax of £2m.

This reflects a decrease in operating expenses of around £32m, an increase in depreciation of around £23m, and an increase in net interest expense of £11m. We now expect total net interest expense for the full year of about £50m including the impact of IFRS 16.

Finally, we continue to expect capex in the region of £70m, taking into account the cost of our premises relocation programme.

So in summary, we are reporting a resilient performance. Global Broking was impacted by lower volatility in volumes, but we benefitted from the diversification of our business and maintained our operating profit margin through good cost control.

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

Business and operational update
Nicolas Breteau, Chief Executive Officer

3.0 Business and operational update

Thank you, Robin. I'd now like to talk in more detail about some of our initiatives in our four business divisions. As we told you last year, we're investing an additional £15m in 2019 to increase our hybrid and electronic offering and grow our Data & Analytics business.

This has being deployed in six projects which cover creating greater client productivity to our electronic platforms, developing our Nova matching engine to electronify our credits but also our oil business, launching an Asian NDF platform for foreign exchange, developing artificial intelligence in Energy & Commodities, as well as launching new products in Data & Analytics.

We are also increasing our diversifications as our three smaller business divisions deliver strong growth. Taken together, Energy & Commodities, Institutional Services and Data & Analytics have grown 10% year on year and now represent 30% of the Group revenue.

Since I became CEO I have also encouraged much greater collaboration between the divisions to capitalise on the clear connections between them. You will hear these themes elaborated in more detail as I talk about each division, starting with Global Broking.

As you know, Global Broking is our largest division where we have market leading positions in rates, equities, foreign exchange and money markets.

Market conditions were challenging in the first half of the year and revenue for Global Broking was down 6% as major investment banks reported a more severe decline in their sales and trading performance.

Against this backdrop we delivered a creditable performance. As Robin said earlier, we are reducing our cost base in response to this environment. This includes replicating the more efficient and streamlined structure of our US support functions in the other regions.

Despite challenging market conditions there have also been areas of good performance, and we continue to make progress developing our hybrid and pure electronic business.

Key priorities here are the aggregation of liquidity, improved client connectivity and the delivery of exchange like workflows for all products. Making all the liquidity of our competing brands available via a single user interface remains a primary goal.

We now have aggregated execution services in rates, numerous products in rates, foreign exchange and also our credit products. As a result the client can see live historic prices from both Tullett Prebon and ICAP from a single login.

Clients are now able to access better pricing while TP ICAP generates more business. Our post trade services group is also performing well, while the profitability of our core service MatchBook grew at more than three times the rate of revenue year on year as the business scales.

Until now MatchBook has offered risk mitigation services in our Global Broking divisions, mostly in rates and FX. We are now extending our MatchBook technology to Energy & Commodities. This is one example of the collaborations between the business divisions that I mentioned.

We have also deepened our collaboration with Clear Compress; it's a FinTech company which is providing post trade compression in cleared and un-cleared interest rate swaps. We believe this is an excellent addition to our post rate solutions.

Moving onto Energy & Commodities, which is our second largest division with a much more diverse client base than Global Broking, including regional banks, corporates, hedge funds and trading companies.

Energy & Commodities has grown 8% year on year as we added strategic highs and benefitted from the acquisition of Axiom last November, which specialises in oil and grains.

The US energy broking business is still very fragmented, and we believe there is an opportunity to build on our success in making bolt-on acquisitions there.

Energy & Commodities represents an auto market with considerable scope for the expansion of hybrid and electronic offerings.

One project that we have invested in is an electronic whiteboard for our oil business, which is currently in live testing with a small number of desks.

This whiteboard enables us to capture multiple data points in every client interaction. When fully deployed it will enable better sharing of liquidity across the desks, automatic calculation of spreads, but also a seamless processing of executives trades.

The data that we capture from this whiteboard also helps populate the artificial intelligence application I talked about in March. This application provides brokers with information, data and insights to help them sell more effectively to clients.

In addition we have announced this morning a new joint venture in China with Enmore Investment Group. The JV which is based in Shanghai will be called Enmore Commodity Brokers. It will initially offer brokerage services in iron ore, coal, LPG and Naphtha before expanding to other products over time.

It will offer liquidity to clients from three of our brands, Tullett Prebon, ICAP, but also PVM. And as part of the agreement TP ICAP has exclusive rights to distribute data from the JV internationally.

Moving onto Institutional Services, these provide straight ideas and agency execution to buy side clients including hedge funds, asset managers and sometimes known bank liquidity providers.

The role of agency brokerage is to offer the buy side access to the best price in the market from a wide range of sources, while guaranteeing anonymity and neutrality.

Institutional Services grew revenue by 28% as we refocused the business. We have concentrated initially on products where we can achieve early success. Foreign exchange, listed derivatives, relative value execution and clear interest rate swaps.

We have also shifted our focus from very small clients to top tier hedge funds. There is a strong momentum now in our agency offering driven by a change in market dynamics as other investment banks reduce their sales coverage.

Our core offering has positioned us well and we are now expending both by product but also geography in response to client demand. So for example, we will go live in September with an FX agency desk in Singapore.

Our Data & Analytics division is the leading provider of OTC pricing data harvested from both Global Broking and Energy & Commodities. As the world's leading inter-dealing broker we have access to more data than any other player.

As MiFID II has imposed new reporting obligations on our clients along with the need to demonstrate best execution, they need access to data in order to comply.

Data & Analytics grew 12% year on year. This was partly driven by the launch of ten new products during the first half, compared to three in the same period last year.

We have also hired talent in risk products, in benchmarks and indices, because these are areas where we want to expand into as we move up the content value chain.

While we have seen good organic growth within Data & Analytics, we see also selective opportunities to accelerate these developments. So as you can see there is progress across all the divisions.

In conclusion, we continue to work hard to create a solid platform from which we can grow next year. We start from a very strong base. Our large pools of liquidity and strong client relationships put us at the heart of financial markets around the world.

But I believe that we are much more than a traditional inter data broker. We are also the leading intermediary in Energy & Commodities. We are building a strong agency franchise. We are the largest provider of OTC data and we continue to develop our post trade services.

We are accelerating the development of our technology. We are aggregating more of our liquidity and we continue to increase our diversification, but most importantly we have invested in the business whilst still maintaining our operating margin.

At the same time we've made considerable progress in developing our strategic plan from 2020 onwards in order to unlock the true value of the business and deliver sustainable growth in the future.

This work is well under way and we will update the market in the New Year.

Thank you very much. And we're now happy to take questions.

Just a quick reminder for the benefit of those dialling in, would you please wait for the microphone and tell us your name and organisation before you ask a question. Thank you.

Questions & answers

4.0 Questions and answers

Gurjit Kambo, JP Morgan

Hi, good morning. Two questions. Firstly, in terms of the OTC pricing data clearly you're a leading provider in that. How do you expect to monetise that better? Because obviously, you know, you've got a lot of information there and it, you know, what sort of routes are you using to monetise that in the future? So that's the first question.

And then the second question is just around the electronification in markets like Energy and Commodities what are the trends you're seeing there?

Nicolas Breteau, Chief Executive Officer

Pardon me, the second question is on Energy and Commodities?

Gurjit Kambo, JP Morgan

Just the electronification in asset classes like Energy and Commodities, you know, what are the trends you're seeing there?

Nicolas Breteau, Chief Executive Officer

Would you want to take - I'd suggest Eric Sinclair who is heading our Data & Analytic division will answer your first question.

Eric Sinclair, CEO, Data & Analytics

Good morning. Can you hear me? Yeah. Thank you for your question. So in terms of monetising our data, just one thing I wanted to highlight is that John Abularrage and Andrew Polydor are not only providing us with the world's greatest breadth of OTC data, but they're actually providing it post analytics. They have some very advanced analytics that actually fill in the gaps that our clients our need.

So in some asset categories there may not be the breadth of liquidity in native raw activity. And they have some very advanced analytics that is actually driving the growth. So the growth you saw in H1 is from launching new products based on the data they're providing to us.

The second thing that gives us a competitive advantage is we have better technology that helps ensure the data quality. We run that through processes, you know, things like erroneous data fields and whatnot are trapped, so the quality of our data competitively is much richer than our competitors have.

The other thing we're finding though that all the monetisation is driven by client need and our clients particularly on the buy side need neutral independent data that is of high quality to meet things like the global investment performance standards for evaluation purposes and whatnot.

So we're at early stages. It's been a great year, I mean compared to where we were last year, we're launching much more products with our partnership with Global Broking and partners in Energy & Commodities, and there's a lot more to come down the path, so we're very excited about that.

Nicolas Breteau, Chief Executive Officer

Thank you. Thank you, Eric. You're second question is about the trend in electronification on the Energy & Commodities, so maybe I'll start and Andrew Polydor, who is heading the division will complete what I have to say.

But this is probably an industry which is less electronified than Global Broking, than financial products at the moment. Because it's also an industry which is much more fragmented, particularly in the US. So our intention of being the leader in oil is to really push electronification in that segment.

So I mentioned the whiteboard investment that we've made, so it is changing the dynamic of how the brokers are interacting with our clients but also how we pool liquidity. So it means that interests on the given product are shared within desks, but now between different brands as well. So you can see the trends are pushing the aggregation of that liquidity on a single platform.

You want to add something, Andrew?

Andrew Polydor, CEO, Energy & Commodities

Not really, I think you've kind of covered it.

Nicolas Breteau, Chief Executive Officer

No? Okay.

Nicholas Watts, Redburn

Good morning, I had three questions please. The first one was just around broker compensation. You guided at I think at full year to 52%, it's now 52.5%. Could you perhaps just talk about the recruiting environment at the moment for brokers across the different product categories?

The second question was around the FCA charge you took last year, the increased capital they demanded you hold in terms of do you think you will get some of that back once the risk framework is overhauled?

And then the last question is just around, again going back to the electronification trend, obviously in the credit market in particular you've seen a drop off of revenue. You mentioned the Nova matching engine, could you just talk a bit about how quickly you can bring onstream pure electronic credit solutions?

Robin Stewart, Chief Financial Officer

Shall I take the broker comp, or do you want to do it?

Nicolas Breteau, Chief Executive Officer

Please.

Robin Stewart, Chief Financial Officer

So we got it to the 52% last year and now we're at 52.5%, I think that's very much a function of very much the investment that we've pushed into securing some of our brokers in the Global Broking space, but also building out the Energy & Commodities business last year, particularly in the ICAP oil space.

As you probably the Energy & Commodities compensation ratio for brokers is much higher. It's ticking upwards towards 60%, but that's the market rate which sort of leads me into your second question.

And that's that it is still a very competitive environment and whilst we're still seeing, you know, challenges in our traditional customer base it almost means that good brokers are even more valuable at the moment and we're seeing a lot of pressure from some of our competitors who are potentially looking at buying revenue at all costs.

We are very clear that we want to maintain our best brokers. We still want to hire the best brokers out there, but we're also focused on ensuring that we retain our margins on the bottom line.

Nicolas Breteau, Chief Executive Officer

You asked about the regulatory capital. Yes, it's true, so following a review in 2017, you remember that the FCA increased several of our pillar. As a result we had an increase of £89m of regulatory capital. So, our response was to embed the risk framework as I've mentioned. So there are several phases in this process.

The first was to do an assessment of the situation, deliver an execution plan and get that validated by the FCA.

So, this Phase 1 is done now. We are in full implementation, so we have started a dialogue with the FCA about reducing some of those pillars. They are very receptive to that. It's the decision of the FCA, but we're optimistic and we'll let you know once, as we go from the news coming from the FCA.

You asked about the credit environment. It's true that we have suffered from a decrease in revenue. It's a small business for us. As you've seen £15m of revenue to date, but market access has done well in offering an all to all electronic market.

So as I mentioned, we are working really in our strategic road map. We're making preparations. And we are obviously looking when it comes to credit about accelerating tremendously the electronification of that business, but also routes to access, to propose new all to all offering.

So we'll be more specific next year. But this is our intention to catch up on that product.

Justin Bates, Canaccord Genuity

Good morning, could I ask you if you could help us think about dividend policy from FY'20 onwards and does that tie into your thinking?

You seem to be guiding to perhaps acquisitions in Data & Analytics and I'm just wondering whether or not growth is going to occur at the expense of dividend growth and dividend will be maintained? I don't know if it's too early to comment on that, perhaps you could give us some help.

Robin Stewart, Chief Financial Officer

Thanks, Justin. Indeed I would say it is too early to comment. We've always said we'd maintain the dividend during the integration period at 16.85 pence, which we are.

I think as Nico alluded to, our expectations are to come to the market sometime around the prelims or thereafter to talk about strategy and our strategic aspirations to create value in the organisation and as part of that we fully expect to provide much clarity on our capital allocation policy, which will then capture what our expectations are on the dividend.

Nicolas Breteau, Chief Executive Officer

I think we had question at the back before.

Telephone Operator

The question comes in from the line of Vivek Raja, calling from Shore Capital. Please go ahead.

Vivek Raja, Shore Capital

Hi, good morning. Thanks for taking my questions. A couple of questions on costs please.

So the first one is about obviously the synergies on the integration. So you're sort of tracking towards the £75m, which you have guided you'll achieve by the end of this year. You're up to £74m now. I'm a little bit confused about is what's on the IT systems and the applications, as you said, backend loaded that's obviously the wording you're using in the press release.

So I'm just a bit confused as to whether there should potentially be more cost savings which aren't reflected within that £75m once those IT applications are turned off?

And the second question I wanted to ask is, I appreciate, you know, Brexit is largely unknown in terms of what the impact on the business will be, but that - to the extent that you have to move more brokers to your European Union subsidiaries, would that be included within your 52.5% broker comp ratio guidance for the current year? Thank you.

Robin Stewart, Chief Financial Officer

So just looking at the first question on synergies, I think for us we're very adamant and rigid on that we will achieve the £75m of annualised savings.

Yes, there is still a lot of work to do to complete the integration and the £10m more of additional costs that we're guiding to for the second half are very much about completing a lot of the integration work streams.

I think it's fair to say that a lot of the savings that we currently are booking, and have shown very much reflect the reduction in headcount, which have almost accelerated ahead of the completion on a lot of those integration work streams.

So that's why we wouldn't expect to push that number up higher, because we've already banked that saving, we've still got the heavy lifting to do to complete the activity which effectively allows us to have that at that lower headcount in the organisation.

On Brexit, do you want to take that?

Nicolas Breteau, Chief Executive Officer

Yes. So yes, your question on Brexit is more about the business transacted by EU based clients with our UK desks. So a response to potentially a no deal Brexit is to change our workflows and potentially have more people on the ground.

So, in case of a hard Brexit there will be a transition phase where we might have some of our brokers relocating to Amsterdam, Paris, Frankfurt or Madrid. We have put a transition budget for that. Our intention after that if need be is to have people relocated permanently or hire, or do bolt-on acquisitions locally.

So all in all what we've seen with, because we already have people in all these offices, is that all in all it doesn't impact our broker comp ratio because the average pay out on the Continent is slightly lower, so if you add social charges you end up with relatively the same in the same zone. So we do not plan for an effect of increase of broker comp because of Brexit.

No more questions? No.

Well, I want to thank you very much for attending this morning. Bye-bye.

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