Full Year Results 2018

Presentation transcript

19 March 2019

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Introduction
Nicolas Breteau, Chief Executive Officer

1.0 Introduction

Good morning everyone and welcome to TP ICAP's Full Year Results Presentation for 2018.

This is our agenda for today; I will start with a brief introduction. Our new Chief Operating Officer, Martin Ryan, will talk about the integration, and Robin will then take you through our financial performance. After that I will talk about our four business divisions and then our priorities for the future. We will then move on to Q&A.

I'll start with the financial highlights. We delivered a resilient performance in 2018; our revenues grew - up 3%, to £1.8bn.

Underlying operating profit increased 5%, to £276m. And underlying operating profit margin was up 15.7%, from 15% in 2017.

Our profit before tax was up 5%.

Earnings per share increased to 34.2 pence. And our total dividend for the year remains unchanged at 16.85 pence.

I said in August that we will measure our broking performing by looking at contribution, which is the broker revenue, less front office direct costs. Contribution improved 3% to £604m.

A great deal of my focus in the last six months has been on creating a platform from which we can deliver good returns for our shareholders.

My immediate priorities have been to put in place a strong management team, deliver the integration, create a risk framework appropriate for the scale of our business, and ensure that we prepare for Brexit. So I will talk about each of these in turn starting with the management team.

After I became CEO, I appointed John Abularrage as Head of Global Broking. John has a strong track record in leading a very successful operation of TP ICAP in the Americas, having joined Tullett Prebon in 2018 from Collins Stewart.

I have also made a change in Institutional Services, this is an agency broking business, focused on the buy side as you know and is our newest division. The business was not performing well, with the exception of a recent acquisition COEX, which was the fastest growing part of TP ICAP.

I have asked John Ruskin, who is here, who founded COEX, to run the Institutional Services division as a whole. John has more than 25 years of experience in the broking industry.

You will be familiar with the leaders of the other two divisions; Andrew Polydor comes with a strong track record, leading the Energy & Commodities business and has successfully completed a number of acquisitions, including PVM, SCS and more recently Axiom.

Eric Sinclair, leads Data & Analytics, you met him at our half year results last August. Eric joined us in November 2017 from the Toronto Stock Exchange. And in a short space of time, I think, has made a big difference.

I have also appointed Martin Ryan as Chief Operating Officer. Martin is responsible for running the integration process. He joined TP ICAP in December from the London Stock Exchange, where he ran their Shared Services business. Prior to this he was the CIO at LCH Clearnet. So Martin comes with over 20 years of experience running operations and technology across market infrastructure and investment banking.

Many of the team are here today and I hope you'll have opportunities to speak to them later.

We now have a strong management team, along with a clear structure for the Group. Our four global business divisions are closely aligned with our clients and their needs. And regional access remains important for compliance, risk and regulatory perspective, but the responsibility to generate revenue now lies with the global business divisions and that is a very important change.

Turning now to the integration, we carried out a review of our integration programme last year as you know and announced the revised synergy target of £75m last summer. We did this in order to strike a better balance between delivering cost synergies, but also providing our clients with high quality service, both now and in the longer term.

We have achieved run rate synergies of £71m in 2018, and we are going to deliver the remaining £4m in 2019, within the cost guidance we gave you last August.

Martin has now a real grip on the integration process. He has put in place a detailed implementation plan, a strong governance structure, along with dedicated project management capability.

I'll now hand over to Martin to give you a more detailed update on the integration.

With that I will now ask Martin to take you through our integration progress.

Integration Update
Martin Ryan, Chief Operating Officer

2.0 Integration Update
Thanks Nico and good morning everyone.

While I joined TP ICAP some way through their integration journey, I've spent the last few years in this building working for the London Stock Exchange Group, executing on very similar objectives. Most recently I led the global consolidation of their infrastructure, applications and people across capital markets, clearing and information services businesses.

At TP ICAP we have already delivered on some key integration milestones, such as full integrating the credit and equities platforms across both EMEA and APAC, moving to single finance and HR platforms and migrating over half our employees onto a single modern desktop that will be complete for the main locations by June, and consolidating our real estate in New York, Singapore, and for the Energy businesses in London.

We are also making very good progress in materially reducing our data centre footprint, from 15 to 6, which includes moving more workload to the cloud.

We still have some material milestones to hit this year and I am pleased to say that we're tracking to plan. The most significant projects include completing the decommissioning of 32 of our 78 core technology applications, continuing to expand our capabilities in Belfast, where we will more than double our footprint by the end of the year. This allows us to access a highly qualified talent pool while reducing the cost of servicing our broking businesses.

We are also integrating and reorganising processes in our operations functions to better support growing businesses, as well as improve customer service and our management of operational risk.

And finally we are on schedule to move our London based employees in Global Broking to one new building in the City next year.

While the scale and pace of integration are significant most of the direct cost synergies have been realised and the finishing line is in sight. My role is to ensure that this happens on time and within budget. And with that I'll hand back to Nico.

Nicolas Breteau, Chief Executive Officer

Thank you Martin.

So as you have heard this work is detailed and complex, but consolidating the two businesses onto a common platform that is saleable, efficient and agile will support our future growth.

Alongside the integration we have started a full review of our global risk framework, taking into account regulatory expectations, as well as the scale and diversity of our business.

This involves improving our management information, setting a clear risk appetite, and educating people across the business on the role they have to play in managing risk.

We are also halving the number of legal entities we have in order to simplify our structure. This too will make for better risk management.

A robust risk framework is a competitive differentiator with clients when they select service providers. But you know that it is also a factor in the assessment of regulatory capital.

Now to Brexit, we have been preparing for all eventualities for some time now, including leaving the EU without a deal. While 90% of our broking revenues are largely unaffected by Brexit, it remains a challenge for us. There are two main streams to consider.

The first is the business we carry in the EU for EU clients. We need two things to enable this business, a legal entity and a venue. We have set up a new subsidiary in France, called TP ICAP Europe. We have also applied for the authorisation of a newly created multilateral trading facility MTF, and two organised trading facilities, OTFs, in the EU, so that our activity can be connected on MiFID II venues.

The second stream is the business we do for EU clients - EU based clients, through our broking desks in the UK. In the case of a hard Brexit we may not be able to conduct this activity in the way we have done to date. So we have made plans to adjust our business model in order to continue to serve these clients. This involves putting extra front office staff in our EU offices and sometimes changing our workflows.

We have also made contingency plans to relocated i-Swap our electronic rates MTF, which is a JV with our investment bank partners, to Amsterdam.

The future distribution of staff between the UK and EU depends on what our clients decide to do. But we believe, we expect, the UK to remain a major centre for financial and energy markets.

While we are working to minimise the impact of Brexit it is difficult to estimate the scale of that impact at this stage. We will update you in due course when there is greater clarity on the nature of a Brexit deal and most importantly our clients' reaction.

So having talked about my immediate priorities on being appointed, I'll now hand over to Robin to take you through the financials.

Financial Review
Robin Stewart, Chief Financial Officer

3.0 Financial Review
Thanks Nico. As you've heard the business delivered a resilient performance, in line with our guidance last summer.

Global Broking experienced mixed market conditions, with a good performance in rates and equities. Institutional Services delivered strong double digit revenue growth and we saw an encouraging acceleration of growth in Data & Analytics in the second half.

Having announced a realistic plan for the integration last summer we are on track with its delivery.

I'm using comparatives on a constant currency basis today unless the slide says otherwise. And I will focus on the underlying performance of the business before exceptional one-offs and acquisition related items.

So starting with the income statement - overall revenue increased by 3% on a constant currency basis and was in line with the prior year on a reported basis at £1.8bn.

Operating profit of £276m was up 5% on the prior year and this led to an operating profit margin of 15.7%.

Net finance costs were £31m, below our guidance last summer of £35m and taken together this resulted in profit before tax of £245m.

The tax rate was 25.8% in line with our half year guidance.

Overall net income, before exceptionals, was £191m and underlying earnings per share increased by 0.9 pence to 34.2 pence.

Looking at revenue - the business continues to benefit from being well diversified by both product and geography. Global Broking grew 3% to £1.3bn, with rates and equities performing well. I'll take you through the asset classes in Global Broking on the next slide.

Energy & Commodities was down 1% to £331m; oil market revenues were flat, while growth in gas, commodities, renewables, European power and metals was more than offset by the impact of weaker US energy markets and challenging market conditions for coal and iron ore.

Institutional Services grew 16% to £37m, driven by a strong performance from the COEX business and in particular its US and foreign exchange desks.

Data & Analytics was up 8% to £117m, as the business continued to expand both its client base and product offering.

So looking at Global Broking in more detail the rates business grew 5% as it benefited from volatility triggered by increases in the US Federal Funds rate, the ECBs proposed withdrawal of quantitative easy last year, and ongoing geopolitical uncertainty across the world.

Conditions in credit markets continue to be challenging and revenue was down 11%. Foreign exchange and money markets, as well as emerging markets were down 3%.

Equities grew 18% as a result of increased volatility, and new hires, especially in the Americas.

Looking at revenue by region - revenue in Europe, the Middle East and Africa increased 2% and the Americas grew 5%. These were down driven by a strong performance in rates and equities.

Revenue in Asia Pacific was down 2%, due to a decline in the coal and iron ore markets, as well as the loss of some brokers to competitors in Hong Kong and Sydney that we told you about at the interims.

As you heard from Nico we achieved £71m or run rate synergies from our target of £75m, a further £31m was recognised in the P&L in 2018; this, in addition to £27m recognised in the P&L in 2017. And we now have a further £4m of synergies to deliver by the end of 2019.

We expect to incur around £30m of additional cost by the end of 2019 to complete the integration as we told you in August.

Moving on now to look at admin expenses - total underlying costs increased by 1% to £1.5bn. We look at cost in the business in two categories, first, front office costs; these have a large variable component, linked to the output of our brokers. They also include travel and entertainment, communications and information services, and clearing and settlement fees.

Second, management support costs, these comprise other staff costs, Data & Analytics technology and premises.

Total front office costs increased by £19m. And this reflects the revenue growth of 3% and increase in the broker compensation ratio to 52.2% and the impact of the acquisition of COEX, SCS and Axiom.

Management and support costs were in line with the prior year.

This slide shows a breakdown of admin cost movements in the last 12 months. As I mentioned earlier we recognised £31m of synergies in the P&L in 2018. These additional savings were offset by additional costs, including £8m on new initiatives, £6m in net cost increases and net one off cost movements of £12m.

These net one off costs movements include a one off cost of £3m in preparation for Brexit, £4m of severance costs, and £1m in relation to MiFID II and a charge reflecting lower capitalisation of staff costs relating to IT projects.

There are additional front office costs of £19m as I explained on the previous slide. And there was also a £5m impact from the acquisition of COEX, SCS, and Axiom.

So let's look at contribution - Broking contribution represents the revenue of the Broking business less total front office costs. This is an important metric, because an improvement in Broking contribution drives earnings growth for the Group, assuming a stable management and support cost base.

In 2018 contribution increased by 3% to £604m. This was driven by higher revenue and a reduction in other front office costs, offset by the increase in broker compensation.

Data & Analytics contribution reflects revenue less direct costs and this increased by 12% to £75m, driven by the revenue growth.

As I told you earlier operating profit grew 5% to £276m with an increase in operating profit margin to 15.7%. This was the result of revenue and contribution growth, as well as net support cost savings.

This slide gives you a regional breakdown of underlying operating profit at reported exchange rates. Operating profit was slightly up on the prior year in Europe, the Middle East and Africa and in the Americas it grew 27% as the region benefited from the cost improvement programme implemented in 2017, as well as synergy savings.

The reduction in operating profit in Asia was mainly due to the loss of broking teams that I mentioned earlier.

Looking now at exceptional and acquisition related items which amounted to £159m after tax. This includes integration costs, the amortisation of intangible assets as a result of the ICAP acquisition, the impairment of intangible assets arising on consolidation, as well as charges relating to vacant property due to our office relocation programme.

Integration costs of £44m including running the integration work streams and staff severance costs.

The impairment charge includes £58m taken at the half year on our Americas business, as well as a charge of £7m for impaired goodwill in Asia. This impairment reflects the impact of resetting the integration programme last July, as well as a movement in discount rates. This is a non-cash charge and has no effect on our regulatory capital position as intangible assets are excluded from this calculation.

As I said earlier, earnings for the year of £191m translated into earnings per share of 34.2 pence. We have announced a final dividend today of 11.25 pence per share. And this brings the total dividend for the year to 16.85 pence, in line with our policy of maintaining the dividend at this level throughout the integration period.

Moving now to cash - cash generated from operations amounted to £278m on an underlying basis, an increase of 11% on the prior year. There was a working capital outflow of £29m in line with the prior year. Capex increased to £73m, mainly as a result of office moves in the US, London and Belfast and their associated technology costs.

Underlying free cash flow was £130m, which was lower than normal due to the capex increases, higher interest costs and the working capital outflow.

Looking at the overall cash position, the Group had net funds of £158m at the year end. This is a decrease of £14m, due to the cash outflow and payment of dividends. £52m was drawn down from the revolving credit facility at the year end. You will recall that we drew down £87m on the facility at the end of June to meet increased capital requirements in our UK regulated entities imposed by the FCA.

So looking at the balance sheet, you can see the impact of the goodwill impairment, together with a £14m movement in net funds as I mentioned earlier. The increase in other non-current assets is a result of office moves and associated technology costs.

So looking at debt, we refinanced the revolving credit facility in December on improved terms, increasing it by £20m to £270m. As I said earlier, net interest costs for 2018 were £31m. We continue to expect net finance costs, per our guidance, of about £40m in 2019, before the impact of IFRS 16.

In line with international financial reporting standards we have adopted IFRS 16 in the current financial year, so before I close I'd like to talk about the impact we expect this to have on our balance sheet and P&L.

At the end of 2018 we had operating lease commitments of £313m which were off balance sheet. Under IFRS 16 this will now be shown on balance sheet as a right of use assets of £146m and a lease liability of £192m. We expect this to result in some changes on the P&L. A reduction in operating expenses of £25m, an increase in depreciation of £17m, and an increase in net interest expense of £14m.

So as a result we estimate operating profit to improve by £8m and profit before tax to reduce by £6m.

This will have no impact on cash flow as it is merely and accounting change and we also believe it will have no impact on our investment grade rating with Fitch.

So our guidance is unchanged for 2019 as you can see from this table that we showed you in August. Trading was strong in January but more subdued in February. As Nico said earlier it's difficult to gauge the impact of leaving the EU until we know the nature of the agreement, but we have planned for all eventualities.

So in summary the business delivered a resilient performance in 2018, we continue to work hard on the integration this year while investing for future growth. We expect to see the benefit of this work start to come through in 2020, with a strong return to cash generation and a business that is much better positioned for the future.

So I'll now hand you back to Nico.

Business Update
Nicolas Breteau, Chief Executive Officer

4.0 Business Update

Thank you Robin. I've been the CEO for eight months now at TP ICAP and when I spoke to you for the first time last August I said the business is fundamentally sound, but it is not yet delivering its full potential. So I want to talk now about our four business divisions and some of the changes we are beginning to make, starting with Global Broking.

Global Broking is our largest division and it generated 72% of our revenues in 2018. One of our fundamental strengths in Global Broking is the long established relationships that we have with investment banks. Although many of Global Broking' sub segments are mature, the pace of change in client behaviour and preferences has never been greater.

We operate through separate and competing brands in Global Broking and this has proven to be a wise decision both for our business and for our clients.

We also operate a full range of execution protocols from pure voice, through hybrid; to pure electronic so that clients can choose what is most appropriate depending on the nature of the market, or the product, as well as the size, the speed, and the complexity of the transaction.

During 2018 we have invested in both our people and technology to provide a platform for growth. We diversified our services by filling gaps in our coverage in equity derivatives, Delta One and high yield bonds. We also continued to invest in hybrid technology to improve efficiency of execution for our customers and provide better pricing.

As a result we have seen growth in products such as interest rate options, foreign exchange options, UK gilts and off the run US treasuries.

As we increase our electronic and hybrid capability we also help our clients to access liquidity in the most efficient manner. In order to leverage our liquidity in some asset classes clients can see an aggregated view across all our brands on one screen with one single log on. They get the best price and we increase our overall business.

So for example we have migrated our Tullett Prebon interest rate swap business onto i-Swap that we have acquired from ICAP. This has been a success for both brands and generated additional volume.

I believe that the aggregation of liquidity will enable us to create a competitive advantage in our Broking business and we plan to extend this across our brands and regions.

Moving now to Energy & Commodities, our second largest business with revenues of £331m in 2018. Energy & Commodities include oil, power and gas, coal, iron ore, base and precious metals as well as soft commodities. It operates in every major energy centre in the world and serves clients, including banks, trading companies, government organisations, corporates and hedge funds. During 2018 we have added two bolt on acquisitions, in January we acquired

SCS and Energy & Commodities broker based in New Jersey. And in November we acquired Axiom. Axiom specialises in oil, ethanol and physical grains. Axiom reinforces our presence in Houston where it is headquartered.

We now have a core competency of adding acquisitions to our existing infrastructure and as the energy broking business is a very fragmented one, particularly in the US, we believe we can continue this trend and become the acquirer of choice.

We have also diversified our offer organically in 2018, adding weather derivative broking and extending the activities of PVM from oil into gas and power in the US.

We told you last August that we are investing an additional £6m across our three broking businesses in 2019. One initiative that we have prioritised is the machine learning application that equips brokers with data to improve how they sell to clients. Artificial intelligence will help brokers extract news and information from websites to identify market opportunities and it will also alert them to market triggers.

The prototype for this application has been released for testing with a small number of users and we plan to roll it out to a large population in the second half in the Energy division first and later on to the larger Global Broking population.

Turning now to Institutional Services. Under John's leadership this division will revenue 16% to £37m. The business now has a good top line momentum and healthy margins. Our focus here is on the largest hedge funds and asset managers, and our offerings concentrate on listed derivatives, relative value and foreign exchange where we continue to win new clients.

We are also developing connectivity to clients order management systems so that they can transact with us electronically. This will open up a significant new fee pool.

In Data & Analytics we grew revenues by 8% in 2018, ahead of the market average. And the revenue growth run rate at the yearend was in double digits. This resulted in 12% growth in contribution with a cost base that remained flat.

As you heard last August Eric has made some significant changes in this division. We have unified two sales forces so they can now market a broader suite of products to each client. We have started a client audit programme to ensure that we are fully compensated for the usage of our data.

We are creating a channel management function to optimise our relationship with our current distribution partners as well as target new ones. This gives us a much better control over the commercial terms on which our content is sold.

In addition we have set up a product management team who are developing new products. They work in collaboration with Global Broking from data sets which have never been commercialised. We now have a strong product pipeline and have increased the launch rate of new products. In the second half of 2018 we launched four new products, and so far this year we have already launched seven.

Data & Analytics shows a strong organic growth trajectory and attractive margins. What is more, the revenues are subscription based so there is a high level of stickiness and repeat business. This is the leading provider of neutral TC pricing data with a huge range of products and a library going back several years. While it is still a small business it has great potential.

As we told you last August we plan to invest £9m in Data & Analytics this year to accelerate growth.

So there are exciting developments taking place in all four of our divisions and I'm pleased with the progress we are making.

I now want to talk about our priorities for the future. I believe that 2019 is a pivotal year at TP ICAP as we create a platform from which we can grow and generate good returns for our shareholders. So we are starting to lay the foundations for the next phase of the company development.

Our industry is going through enormous changes as you know. This brings both challenge and opportunity. Our markets are becoming more varied. Clients are looking for new ways to access products and services. Regulation is increasing. So we must position ourselves to take advantage of these trends.

We now have an opportunity at TP ICAP that was never available to either of the businesses on their own. Putting Tullet Prebon and ICAP together has given us leadership in almost all the markets in which we operate. Tullet Prebon is the market leader in foreign exchange and money markets. ICAP is number one on rates and equities. So together they give us the deepest liquidity pools in the world. Liquidity is the key resource of our business and an enormous source of value that we have not yet fully realised. With a common technology platform in place and with the right technology pre and post trade we can extend the aggregation of liquidity across all our brands and regions. This is the real prize for TP ICAP.

So what do we need to achieve this? First we must enhance our technology. We must make our broking business more electronic in order to respond to client needs and make it easier for them to interact with us.

Second, we must drive operational excellence. I want TP ICAP to be an organisation that has the necessary systems, capabilities and processes in place to offer outstanding service.

Third, we must make the most of our people. This is a people business and our staff are our best asset. We want a dynamic culture with a strong emphasis on conduct, integrity and risk management. And we are committed to recruiting, retaining and developing the very best talent in this industry.

Finally, we must diversify both our customer base and service offering to take advantage of industry trends and customers' changing preferences. Diversification enables us to capture more hybrid and electronic revenues to serve the buy side in all to all markets, to maximise the value of our data and analytics and to grow all the non-broking revenues such as portfolio optimisation or trade compression.

So to sum up I believe that we have an exciting future ahead of us. Our business is strong, resilient and performing well. We will complete the integration in 2019 and create a platform for future growth.

It will take time for the full benefit to come through but we are building on our strong foundations to deliver a successful, sustainable business with good financial performance and attractive returns from 2020 onwards.

Thank you very much. We’re happy to take your questions now.

Questions & answers

5.0 Questions and answers

Nicolas Breteau, Chief Executive Officer

As I said earlier we have members of the new management team here and they are also available for questions. If you could wait for the microphone to ask your question, and please give your name and organisation first. Thank you.

Al Alevizakos, HSBC

I've got a couple of questions for you. One question is on the capital requirement. It seems like you still have got the SREP add on for another period and it's actually taken some of the credit line at the same time so it affects a bit the cash flow statement.

Then secondly it seems like the initial contract prepayments that you're paying for the brokers remains high and you're saying that the market is still competitive. How do you see that this will go through?

And then thirdly you mentioned about the i-Swap and that the volumes actually went up. I was wondering if you've got any numbers for us?

Robin Stewart, Chief Financial Officer

Sorry could you just repeat your first question?

Al Alevizakos, HSBC

The first question was on SREP. When do you think that the add on would actually be removed?

Robin Stewart, Chief Financial Officer

So on the SREP yeah as we said at the interims we had an increased capital requirement of £89m in our UK regulated entities. We are embarking on a very comprehensive risk framework strengthening programme during 2019 and we expect to be in a position by the end of this year to have got ourselves into a place where I think we have a much stronger framework. That will probably not be reviewed by the FCA until early 2020, and so until then I think we are currently in the same position.

In addition to that we will also be looking at, as Nico said in his speech, simplifying our legal entity structure and that will also go a long way to making that position more favourable.

On the ICPs question, yes the cash flow movement was lower than the prior year. We are still requiring to make ICPs to retain the best talent that we have and to attract new talent into the organisation. It's lower than the prior year because we had to, spend as we said last year, significant amounts locking in our US brokers. It's always going to be something which is governed by market and competitive pressure but we need to protect our franchise and so it's difficult to guide as to how that will change over time.

Nicolas Breteau, Chief Executive Officer

I agree with that and this is why you have seen - it's partly explained the reason why you have seen a small increase in the broker compensation ratio. I insisted on that last summer that we need to protect our people who are our best asset and we have to be competitive in the market. So we do not anticipate this ratio to grow much higher than that but we use ICP to lock our brokers and also to attract new talent from the competition or from the industry.

There was one question about i-Swap. We are using the i-Swap platforms to help both sides and particularly the TP side to have the best reference in terms of pricing. So it led to an increase in the volume and the revenue on both sides.

That's different from the volume generated on i-Swap itself from our clients streaming directly into the electronic club. Unfortunately the shareholders' agreement we have with our investment partners' banks on i-Swap doesn't allow me to disclose volumes or revenue numbers. But they have gone up this year. And probably also as a result of MiFID II.

Joanna Nader, RBC

Just a couple of questions. First on Data & Analytics. I'm just wondering if you could give us a bit more detail on the recent new products that you've launched and also the development plans, you mentioned portfolio optimisation?

And on commodities I'm just wondering also if we could have a little bit more detail on the machine learning and is it geared towards particular types of clients and also sort of if there's any sort of if there's any sort of view on potential to transition at some point to a screen based model?

Nicolas Breteau, Chief Executive Officer

Yes Data & Analytics, Eric is here, I suggest Eric could you give us an overview of the new products we've launched like the Australian package?

Eric Sinclair, CEO of Data & Analytics

Yeah sure. Good morning and thanks for your questions. So we used to have a cadence of launching one or two new products a year and at the beginning of last year it was all about MiFID II so we launched a bunch of products that went live on January 3rd in line with the deadline for MiFID II.

So far we've launched a whole suite of products. It's a mix of global and regional products and what's been very important and I think an important part that's changed in the organisation is that Nico came from Global Broking. And with Nico, John and Andrew Polydor we actually have an alignment of interests where we've been able to launch products at a rate we've never seen before. And why it's helped drive the revenues is because not only are they helping us with the content, but they're also helping us with the sales. John Ruskin's group and David Perkins' group has also helped in actually giving us leads as well so that's helping.

The types of products we're doing they're all based on client needs. So we mentioned this at half year, we had just launched the Pacific product and we had launched the Scandi product. These are regionally based products that are multi asset based, so we cut it across desks. And that's to meet the risk management needs that our clients have globally. So even though they might be treading a subset of those assets, they need related content to help them run their models. Those products are doing very well, they're very low development costs, cost us less than 100 grand to build them. And they're already generating seven figures in revenue, it's very, very high margin.

So it's products like that, the so far products, so far this year we've launched products in Energy & Commodities, we've launched the a Dutch product which is a regional product, we've launched some new coal products. With the ICAP there's a lot of wood to chop. In ICAP it actually represents less of our data revenue than the total Prebon business and it should be the other way around. So we're finding that most of our new products that we have launched this year are coming from ICAP, we launched the euro IROs. There's a bunch of new initiatives that are coming around the pike, repos etc. So it's a good mix of products coming out of Global Broking, Andrew in Commodities with both a global focus and a regional focus.

Nicolas Breteau, Chief Executive Officer

Thank you Eric. I think your second question was around trade optimisation, what we are doing there. There's a product called Matchbook and David Perkins is our global head of E-Markets and he's supervising Matchbook which is a new name, the previous name was tpMatch. So maybe you could explain what has been happening.

David Perkins, Global Head of Electronic Markets

Yeah so risk management services reports into me alongside E-Markets. Basically we've set it up for the purpose of helping dealers reduce secondary risk. The main product is Matchbook, it dominates that business. It helps clients reduce FRA risk and NDF risks in the secondary market - secondary risks sorry.

We understand we need to diversify that business more. We're looking for opportunities in things like bond odd lots, how we can help clients clean up their balance sheet and clean up their positions because they're becoming much more expensive to run, manage and capitalise.

And one of the areas we are focusing on at the moment as well is compression and what services we could add into RMS so that we can add more of a full sweep of services so clients can reduce secondary risk, compress positions at the same time and the output at the end is much more efficient for them. So we haven't got any announcements today about what we are doing in that space but we've got two or three very live projects which are exciting.

Nicolas Breteau, Chief Executive Officer

And I think Joanna your last question was around what we are doing in the machine learning. So Andrew Polydor who is running Energy & Commodities, he's been the pioneer of that project. He could say a few words.

Andrew Polydor, CEO of Energy & Commodities

There's two strings to this project. One is a platform specifically for oil because we need to start harvesting all our data in a consistent manner to help Eric's group as well. So that project is running alongside the AI project. The AI project is interesting both from a price perspective, knowing where all the prices are, but it's really, really interesting for us because of the diversity and the size of our group, the behavioural data of all our clients.

So when you have a desk and a really good broker on a desk that broker intuitively knows when he sees a signal who's going to do the next trade. We're harvesting all of that and the intention is to put that in front of our brokers quicker and more efficiently. And that should in the medium to long term lead to stickiness to our seat and a much greater seat value, and hopefully a compression in our brokerage compensation rates. That's the idea, that's what we're pioneering. It's kind of working for us now, we're just rolling it out as Nico said initially and it should be all out by Q4 of this year and we'll just see how it goes. But we think it's a really exciting project.

Joanna Nader, RBC

[Inaudible - no microphone]

Andrew Polydor, CEO of Energy & Commodities

There's a big opportunity there, we've got two very, very strong brands and the idea for this start - well the idea for the whole thing with Perky and I when we bought the PVM business, like how do we protect the franchises and how do we - we kind of build a wall around them, keep the brokers stuck inside and get the clients in there and engaged as well.

So the oil platform is very, very important because we think that you know we've got to get the brokers using the platform as an internal whiteboard initially, it feeds the data analytics suite and also our AI project. If the market deems they need to go electronic we're ready. We have three brands, we'll have aggregated liquidity. As an example if you've got 50 gas oil prices between three brands you can put out 150 prices because you can leg them all. We think that's quite compelling. And inevitably if things go very electronic you start to get brokerage compression but you're going to build enterprise value on the other side of it so that's the idea.

Justin Bates, Canaccord

Morning. Two questions please. Firstly on slide I think it's 35 you spoke about sustaining and enhancing IT investment. So just wondering if you're flagging increased investment there over and above what you've previously outlined?

And secondly onto the dividend, when you are through the integration process in 2020, any guidance you can give or thoughts on dividend policy for '20 and beyond?

Nicolas Breteau, Chief Executive Officer

Regarding IT investments, so what I would say at this stage is that it's of major importance to complete the integration and end up with very simplified and unified IT stack, IT setup, because this is the condition to make sure that we could continue to invest and evolve without massive costs going forward.

In terms of the purpose of getting this agility and completing this integration is to rebalance the amount of money that we spend every year in our IT from a pure run into change. Because our change capacity has been somehow limited because of the integration we have been going through. So the idea is not necessarily to go for a spending spree in IT technology but get much better return for our investment.

We are also going to I think be a bit more innovative in the way we will partner with external providers in the delivery of technology. And we are talking to several people with a view to do that in the future. And you have heard also from Martin that we are pushing the initiative on Belfast. We had 130 people in June. We are planning to have 300 at the end of this year. So we are building a centre of excellence for IT development at a cheaper run rate than we had before. So that's the other way we'll do that.

Having said that as I said we are now turning into a more strategic planning phase so we are going to put more numbers and update you later in the year about that.

Robin Stewart, Chief Financial Officer

So Justin just on your dividend question, we've always said that we would maintain the dividend at its current level over this integration period until the end of 2019. I expect fully to be talking to you this time next year on what a revised policy, if there is one, is for the future after that once we understand how 2019 landed and what our cash generation prospects are for 2020.

Marcus Barnard, Numis

A couple of questions for Robin I think. Firstly on the working capital you've seen two years of cash outflows into working capital, I just wondered what the outlook is for that and if we might see that reverse?

And secondly on the IFRS 16 you mentioned there's an increase in net interest expense presumably relating to the lease liability. I'm just wondering are you going to show that as debt or just another obligation?

Question

Can you say anything about your discussions with Fitch and do your counterparties require you to have an investment grade rating?

Robin Stewart, Chief Financial Officer

They don't require us to have an investment grade rating, we as an internal policy wish to maintain an investment grade rating, it obviously has a significant impact on our interest rate or the interest rate that we pay on our debt. The main criteria for many of our customers is what the credit worthiness of the individual regulated entities that they're trading with is. So most of our customers wish to see the balance sheet strength of their trading entities that they deal with.

Nicolas Breteau, Chief Executive Officer

Any more questions or do we have any questions online? No Okay.

Well if there are no more questions I will thank you all for attending this presentation and I suggest we go next door to have a coffee. Thank you very much.
