THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ITG - Q3 2014 Investment Technology Group Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 03, 2014 / 4:00PM GMT

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

CORPORATE PARTICIPANTS

JT Farley *ITG - Managing Director, IR & Corporate Communications*

Bob Gasser *ITG - President and CEO*

Steven Vigliotti *ITG - CFO*

CONFERENCE CALL PARTICIPANTS

Rich Repetto *Sandler O'Neill & Partners - Analyst*

Ken Worthington *JPMorgan - Analyst*

Niamh Alexander *Keefe, Bruyette & Woods, Inc. - Analyst*

Patrick O'Shaughnessy *Raymond James & Associates, Inc. - Analyst*

PRESENTATION

Operator

Good morning and thank you for joining us to discuss ITG's third-quarter 2014 results. My name is Gary and I will facilitate the call today. (Operator Instructions). As a reminder, this session is being recorded. I would now like to turn the call over to JT Farley of ITG.

JT Farley - *ITG - Managing Director, IR & Corporate Communications*

Thank you, Gary, and good morning. In accordance with Safe Harbor regulations, I would like to advise you that the forward-looking statements we will be making this morning are subject to a series of risks and uncertainties that may cause actual results to differ materially from those statements. These forward-looking statements speak as of today and you should not rely upon them as representing our views in the future. While we may elect to update these forward-looking statements in future, we undertake no obligation to do so. I advise you to read about the risk factors that may affect forward-looking statements in this morning's press release as well as in our SEC filings.

I would also like to point out that we will be referring to non-GAAP financial measures in today's presentation. Reconciliation of these non-GAAP measures to the comparable GAAP measures can be found in this morning's press release as well as the press releases covering prior earnings periods.

Press releases and the PowerPoint slides which accompany this presentation are available for download on the Investor Relations section of ITG.com. Speaking this morning are ITG's CEO, Bob Gasser, and CFO, Steven Vigliotti. To start I would like to turn it over to Bob.

Bob Gasser - *ITG - President and CEO*

Thanks, JT. And thank you all for joining us. As we mentioned in our preannouncement press release a couple weeks ago, our strategy of a portfolio approach built around the four operating regions and four product groups continues to drive our financial performance. This played out in third-quarter as continued strong performance in Europe and profitability in the Asia-Pacific region more than offset some of the environmental challenges in the US and Canada.

Our international revenues rose 23% compared to the third quarter of 2013, driven by a 40% jump in European revenues over the same time period. This improvement comes despite continued weakness in US trading volumes. Consolidated US volumes were down 6% versus the second quarter of 2014 and down 2% compared to the third quarter of 2013, while ITG's third-quarter volumes fell 2% and 5%, respectively.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

We also saw a mix shift to more sell-side trading volume in the US in the third quarter, up to 56% of total volume versus 51% in Q3 2013. This sell-side flow helped increase volumes in POSIT, which had average daily volume of 71.5 million shares in the third quarter, an increase of 8% year-over-year.

We also believe that POSIT has benefited from some of the movement in market share amongst US dark pools. While this mix shift led to reduction in our overall average revenue per share to $0.0046 in the third quarter, we continued to see an increase in our average revenue per share from buy-side clients. Contributing to that buy-side rating increase is the impact of integrating fundamental research into our business model. Clients that use POSIT Alert to pay for research obligations pay average rates that are approximately 80% higher than other Alert clients. These research-paying POSIT Alert clients now represent nearly 30% of POSIT Alert revenues in the US.

Turning now to Europe, we continue to gain market share in the region. Average daily value traded in POSIT was up 46% year-over-year while average daily value traded through POSIT Alert rose more than 100% in the third quarter of 2014 compared with the prior-year period. We have continued to grow our regional market share through our diversification strategy of attracting different customer types from multiple geographies, and we are also benefiting from the ongoing rollout of our global POSIT Alert product with an enhanced client interface, making it easier for our clients to source block liquidity.

In Canada, we were able to grow revenues by 2% versus the third quarter of 2013 even as the currency rate declined 5%. In local currency terms revenues were up 7% compared to the year ago while overall market volumes rose just 1%. The environment remains difficult, but we are holding our own. And our sell-side dark pool MATCH Now posted strong gains during the quarter and now accounts for approximately 4% of total Canadian trading volume, single counted.

In the Asia-Pacific region we were profitable in the third quarter as revenues rose 20% compared to the prior-year period. Long-term profitability in the Asia-Pacific region is a key component of our efforts to create a sustainable global business. POSIT Alert continues to be a key source of growth in Asia. Regional value trade in Alert has increased for five straight quarters and was up more than 50% compared to the second quarter of 2014.

We recently launched POSIT Alert Philippines, the seventh market in the region where we offer block crossing and the 34th worldwide. And we will roll out coverage of another Asian market in the next few months.

During the quarter Futures & Options World cited our recently acquired RFQ-hub at the best new connectivity product in Asia. RFQ-hub currently has 34 dealer clients and 40 asset management clients and set a record for notional value traded in September of $48 billion. We have a clear and executable plan to integrate RFQ-hub into our Triton client base, expand into the US, and broaden the number of instruments traded.

We've also continued to innovate in order to enhance the value we are able to provide clients. POSIT Fixed Income, the industry's first all-to-all dark pool for trading US corporate bonds is entering its beta launch phase, and we will be live before the end of the year. We believe POSIT Fixed Income will deliver a much-needed solution to reduce the liquidity shortage in both investment-grade and high-yield corporate bonds in the US, and we are looking forward to partnering with our clients in this new asset class.

During the third quarter we launched the ITG Volatility Index, which forecasts foreign exchange volatility in the coming trading day for 20 currency pairs. And last month we introduced POSIT Marketplace 3.0, our next generation dark aggregation algorithm which sources high quality liquidity from more than 25 US dark pools.

And just last week we announced an agreement with FX Connect, a leading foreign exchange execution platform for institutional investors. Starting in the first quarter of 2015 Triton users will be able to access more than 50 FX liquidity sources directly through FX Connect. This is an important milestone in the evolution of Triton as a truly multi-asset execution management system. It is the first true integration of an EMS and an FX portal in the marketplace.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

We also expanded our investment research coverage. So far in 2014 we've added coverage on more than 20 new companies without any increases in our research analyst headcount. During the quarter we made alpha-generating calls on names including Harley-Davidson, Outerwall, Kodiak, and Athlon Energy.

We also made progress in selling our research and analysis services to corporate clients. We collected $1.8 million in revenues during the quarter for energy transaction advisory services. In total, our combined corporate business in energy, telecom, healthcare, and consumer made up more than 15% of our total global research sales and trading revenues for the first nine months of the year. As part of our efforts to diversify into additional client segments, we are increasingly excited by the corporate market.

We continued our active share buyback program during the third quarter purchasing 520,000 shares for $9.1 million, and our Board recently expanded the share repurchase authorization by an additional 4 million shares. We think our stock is attractive at current levels. We will continue to buy back shares as opportunities present themselves.

To wrap up, we are pleased with the third-quarter results and believe that our performance so far this year clearly demonstrates the operating leverage in our model and our improved cost structure. To put it in perspective, for the first three quarters of this year our overall revenues were 3% higher while adjusted expenses were up only 1% when compared to the first three quarters of 2013, resulting in a 22% increase in adjusted pretax income over that period. As volatility picks up in the US and trading volumes increase, we are confident that the improvements we made to our operating model over the past two years will deliver more levered returns.

Looking into 2015 and beyond, we remain focused on three key initiatives in order to grow revenues and generate shareholder value -- expanding our client base, particularly into more hedge funds; expanding our geographic reach; and expanding into new asset classes -- all while maintaining a disciplined approach to expenses. I am confident that we have the team, the technological resources, and domain expertise necessary to achieve our goals.

With that, I'd like to turn it over to our Chief Financial Officer, Steve Vigliotti, to review the third-quarter financial results.

Steven Vigliotti - *ITG - CFO*

Thanks, Bob, and good morning everyone. Continued market share gains in Europe and profitability in the Asia-Pacific region offset the impact of a challenging volume environment in North America during the third quarter. As noted on slide 7, we generated consolidated revenues of $134.8 million dollars during the first quarter, down 3% from the second quarter of 2014 and up 6% from the third quarter of 2013.

We posted GAAP net income of $0.32 per share in the third quarter of 2014. This compares to GAAP net income of $0.35 per share in the second quarter of 2014 and GAAP net income of $0.20 per share in the third quarter of 2013. Please note that our third-quarter 2014 net income included a net tax benefit of $0.07 per share from resolving a multiyear contingency in the US.

Consistent with prior practices we do not carve out reversals of tax reserves from earnings in instances where we did not carve out the initial reserve when it was established. As a result we are not reporting any nonoperating items in the third quarter of 2014, and we also did not had any nonoperating items in the second quarter of 2014 or the third quarter of 2013.

Slide 8 presents our consolidated results along with separate breakdowns of the results from our US and international operations. On a year-over-year comparative basis revenues were up $7.2 million while consolidated expenses were up $5.8 million. Our consolidated pretax margin was 9% down from 12.1% in the second quarter of 2014 but up from 8.4% in the third quarter of 2013. Our consolidated effective tax rate was 5.9% for the quarter, reflecting the net tax benefit described above as well as high earnings from our international operations. Our US effective tax rate was negative and our international effective tax rate was 22.7%, generally in line with the guidance we provided last quarter.

During the third quarter of 2014 we posted net income of $0.08 per share in the US, including the $0.07 per share net tax benefit, and generated revenues of $72.5 million. This compares to the $77.3 million of revenues and net income of $0.07 per share in the second quarter of 2014 and $76.9 million of revenues and net income of $0.07 per share in the third quarter of 2013.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Other revenues in the US were $3.4 million, up from $1.8 million in the third quarter of 2013 but down from $5.1 million in the second quarter of 2014. Other revenues continue to reflect the efforts of our energy research team who generated $1.8 million for transaction advisory services revenue in the third quarter of 2014. While this amount is down sequentially, it was a driver of the year-over-year increase in other revenues.

Our third-quarter repent pretax margin in the US was one 1.4%, down from the second quarter of 2014 and the third quarter of 2013. As a reminder the US segment bears nearly all of the Firm's corporate loss, which negatively impacts pretax margins reported for that segment. These costs which typically range between $5 million and $6 million per quarter include among others: the cost of being a public company, intangible amortization interest expense, and the cost of maintaining our global transfer pricing structure. Excluding these costs, our US pretax margin in the third quarter would have been 8.8%.

Our combined international businesses posted net income in the third quarter of $0.24 cents per share on revenues of $62.3 million. The international results include the operations of RFQ-hub since the July 31 acquisition date which generated $900,000 in revenues and incurred $1 million in cost. Our international pretax margin rate was 17.7%.

On slide 9, you can see that our US expenses declined 1% from the third quarter of 2013 due chiefly to lower transaction processing costs associated with reduced trading activity and lower occupancy and equipment costs. These reductions were offset in part by higher compensation costs as our compensation ratio increased to just under 45% due in part to improve global profitability. Transaction processing costs as a percentage of revenue were 13.6%, up from both the third quarter of 2013 and the second quarter of 2014 due largely to an increase in the sell-side volume mix.

On slide 10, we provide a summary of our international results. Revenues were up $1.1 million from the second quarter of 2014 and up $11.6 million from the third quarter of 2013. European and Asia-Pacific revenues were up significantly versus the third quarter of 2013 while Canadian revenues were up 2%, reflecting the offset the impact of higher MATCH Now revenues and the negative impact of currency translation.

International expenses were higher than both the second quarter of 2014 and the third quarter of 2013 due largely to higher transaction of processing costs and compensation costs. The compensation ratio for our combined international operations was 32.1%, up from the second quarter of 2014 due to the impact of the new RFQ-hub operations and higher Canadian stock-based compensation. This rate was down considerably from 36.2% in the third quarter of 2013 due to the impact of higher revenues, the migration of our Israel development center to an outsourced solution and due to lower Canadian stock-based compensation.

Combined international transaction processing costs during the quarter as a percentage of revenue was 18.8%, up from 17.8% in the second quarter of 2014 due to a credit received in Canada in Q2 but down from 19.1% in the third quarter of 2013.

On the next slide, we track the performance of our foreign segments over the past five quarters. Of note this quarter, Asia-Pacific was profitable and both Asia and Europe posted their second-best quarters of revenues on record.

On slide 12, we offer supplementary information on revenues broken out by our four product groups for the last five quarters. The table opposite also includes a corporate group which primarily reflects investment income that is not directly attributable to any of the product groups. As you can see from this table, revenues in all of our product groups saw increases as compared to the third quarter of 2014 with the biggest growth in research, sales, and trading, up 14% thanks to higher research subscriptions from corporate clients as well as an increase in revenues from energy transaction advisory services.

On slide 13, we are presenting supplementary pretax income for our four product groups and our corporate function for the third quarter of 2014 along with the margin rates for year-to-date 2014 and full-year 2013. We were able to maintain the higher margin rate in research, sales, and trading from the increased activity with corporate clients. We saw a seasonal decline in the margin rate for electronic brokerage while platforms saw its margin decline from the impact of the new RFQ-hub operations and from a seasonal decline in client-trading off Triton.

On slide 14, we have presented our US volume and rate capture statistics. Our average daily executed volume was down 2% versus the second quarter and down 5% versus the third quarter of 2013.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

As you can see on slide 15 our average overall revenue capture rate per share dipped to $0.0046. The drop is due to an increase in the percentage of sell-side volume to 56% from 49% in the prior quarter and, to a lesser extent, a decline in the average sell-side rate per share. These factors were offset in part by an increase in the buy-side rate which now stands at the highest level in more than five years.

We ended the quarter with $228.5 million of cash and cash equivalents on our balance sheet, down from $239.1 million at the end of the second quarter in part due to an $18 million net outlay for the acquisition of RFQ-hub.

Our excess cash on September 30, over and above what we need for regulatory capital and compensation liabilities, was $45 million, down from $55 million at June 30. We were active with our repurchase program again and bought back 520,000 shares during the quarter for $9.1 million. Our buyback program has reduced shares outstanding net of issuances by almost 21% since the end of 2009.

Looking forward, I would like to offer the following observations. In October we have seen a strong increase in market-wide trading activity due to heightened volatility. Our US average daily volume for October is approximately 205 million shares at an average rate slightly below our third-quarter average with a similar mix of sell-side and buy-side trading. That is the highest daily volume per month since January 2013. In our combined international business, our average daily commissions in October were approximately 7% above our third-quarter average.

And with that, I would like to open the call to Q&A. Operator, please open up the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Rich Repetto, Sandler O'Neill.

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

Good morning. First, congrats on the profitability in the Asia-Pacific area, Bob.

Bob Gasser - *ITG - President and CEO*

Thanks, Rich. Good morning.

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

Good morning. And I guess the first question is on the rate card, the mix -- I understand if it's more sell side, the mix is going to cause -- but the sell-side -- first question is, what makes the mix move towards more sell side versus buy side? Is it volatility? It just doesn't seem intuitive to me. And then also the sell-side rate is coming down -- and I know the buy-side is going up -- but the sell-side rate itself appears to be going down. Could you just touch on that?

Bob Gasser - *ITG - President and CEO*

Yes. I think look both are a function of some of the fluidity in the dark pool marketplace, Rich, in terms of, I think, POSIT has, as you saw, I think benefited nicely in terms of volume, but certainly in terms of routing and behavior between broker dealers, I think in the US right now it's an interesting fluid kind of environment. And what I mean by that is we are probably internalizing a little bit less. By that I mean we are not taking

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

spread capture as opposed to pure commission. I don't know -- it will be interesting to see where that all lands but it reduces -- and that's why we wanted to give you the attribution of that change.

Very clearly, it's mix -- on the negative side, it's mix. It's the sell-side rate itself. But on the positive side, obviously, we had a good result or continue to have good results on the buy-side rate card. So I do think it's going to take a little while for things to suss out post Flash Boys and post some of the structural change that is inevitable in the US marketplace. But overall, I think the positive news there on the POSIT side is that the volumes are up, and I think we feel good about POSIT's market share as a percentage of the overall US dark pool marketplace.

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

Okay. That's helpful, Bob. Thanks. And then just a follow-up on -- in international, two of the regions where revenues actually weren't bad. They actually went -- well, Europe and Canada both went up, but the expenses was a negative incremental margin -- not in Asia-Pacific, though. And I'm just trying to understand, you talked, Steve, about the transaction costs and comp, but it's just still a little surprising that the incremental -- that you made less profit in a higher revenue environment quarter to quarter.

Steven Vigliotti - *ITG - CFO*

You are talking specifically about international, Rich?

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

Yes, in Canada and Europe.

Steven Vigliotti - *ITG - CFO*

Yes. So Europe was some of the margin there was somewhat impacted by the new RFQ-hub activity, which as I mentioned in my comments, had revenues of just around $900,000 and costs of about $1 million for the two months since we owned it. So that impacted -- we also had our transaction costs in Canada picked up a little bit. We actually had a credit in the prior quarter from our clearing provider, so that kind of distorted the quarter-over-quarter comparison there as well. So those are probably the two bigger drivers -- the new RFQ activity and the adjustment we had last quarter for Canadian transaction processing costs.

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

Got it. And a very last quick one, Bob. The preannouncement came out at an interesting time when the stock was well down and just trying to see that you give us a little color on how aggressive you might be -- have been in the buyback in October because the stock has certainly taken off -- prices have improved since then. Just trying to see whether you are aggressively in the market place after you made the preannouncement and could buy back stock.

Bob Gasser - *ITG - President and CEO*

I'll just point out, Rich, the announcement is not unprecedented in our history. We've done that before, and I think that we viewed it opportunistically given the way the stock was trading down in lockstep with much of the rest of the market as an opportunity. I think in terms of its recovery, probably a function of what Steve described at the end of his remarks which is this volatility has led to an extraordinary amount of volume globally. So, we viewed it as an opportunity given what we knew about the volumes -- institutional volumes to wade in there and get involved. So I won't comment on in terms of our aggressiveness because it's kind of counterintuitive. We like to buy as much stock as we can at lower prices, Rich. So that is what it is.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

Okay. Thanks for the info. Appreciate it.

Operator

Ken Worthington, JPMorgan.

Ken Worthington - *JPMorgan - Analyst*

Good morning. First, you are returning large amounts of cash to investors but is there a way to be even more capital efficient? And my thought was -- as you are thinking about self-clearing in the US, Europe, and Asia, can you give us details in terms of what kind of capital you actually tie up and what the cost savings is there? Does it make sense -- I'm sure this is something you have evaluated -- but does it make sense to self-clear both inside the US and outside the US?

Steven Vigliotti - *ITG - CFO*

Sure, Ken. So first, we actually don't self-clear in Europe yet. We've leverage a clearing agent there who posts margin on our behalf. Our international capital requirements has actually been increasing recently -- are largely driven by our activity. So as we actually do more business and have a more have more unsettled trade activity on our balance sheet that triggers higher requirements for us. So, we have roughly $50 million-ish each of requirements in both Europe and Asia-Pacific and a similar requirement in the US, although it doesn't fluctuate like it does in those two regions as a result of the credit agreement we have to support our self-clearing.

We view self-clearing -- one, as definitely strategic in how we work with clients. Our ability to be flexible around nonstandard trade settlements and to preserve their anonymity, we think, provides us with a strategic advantage as well as a cost advantage and enables us to bring in other sources of liquidity into POSIT.

Bob Gasser - *ITG - President and CEO*

And the only thing I would add there, Ken, is that, obviously, a big milestone for us in Asia-Pac in terms of profitability, but we are not finished there, obviously. We take very seriously the notion that like any other region -- and Europe I think has a very strong precedent for it -- when we are committing capital to the degree that we are in Asia-Pac that the goal or the bar has to be high in terms of the return on that capital being in excess of the firm's risky rate. So from our perspective that's the first step in the right direction Q3, but there is obviously a lot more runway left. But I think you can rest assured that at the Board level this is something that's discussed and reassessed and certainly monitored frequently.

Ken Worthington - *JPMorgan - Analyst*

Okay. Great. And terms of RFQ-hub, is there a cost-cutting opportunity here to, or is the drive profitability really a revenue story in the integration with Triton?

Bob Gasser - *ITG - President and CEO*

This is a strategic deal, not a financial deal, from our perspective, and it gets to that theme that I talked about at the end of my prepared remarks in terms of multi-asset class expansion for Triton and for that matter for the rest of our business. Triton needs to be competitive on the multi-asset class front in terms of functionality, and I think there's a strong sequence of events that we've announced recently between FX Connect and RFQ-hub

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

that give us, I think, the market-leading capability at this stage of the game. So in terms of Triton's competitiveness, our ability to reach new customers, our ability to trade new securities and asset classes and derivative instruments, it's a strategic deal without a doubt.

The most interesting thing, I think, will be not only the integration into Triton but also the introduction of RFQ-hub into the US market. None of RFQ-hub's revenues are currently derived from US-based clients. It's purely Europe -- roughly 90%, Asia, 10%. But we view that as another significant opportunity, particularly given what's going on in the SEF world and the notion that there will be a significant change there in terms of the way clients trade and clear OTC derivatives contracts.

Ken Worthington - *JPMorgan - Analyst*

Great. Thank you very much.

Operator

Niamh Alexander, KBW.

Niamh Alexander - *Keefe, Bruyette & Woods, Inc. - Analyst*

Good morning. Thanks for taking my questions. If I could just go over to FX for a bit. I know it's not a big driver of the revenue or the earnings yet, but you have been working on it for a couple of years. You have the TCA. Is it a bit of a change in strategy to kind of go now with FX Connect? I mean, they are one of the biggest venues in the industry, but I thought you were going to be building execution yourselves. So can you explain to me, why the shift and how you are going to get paid for the FX expertise you've built --?

Bob Gasser - *ITG - President and CEO*

On the platform side you've got to split it up into those three business units. Obviously FX TCA is in the marketplace. Electronic brokerage, we built FX for POSIT and now those -- we are currently working on a clearing solution with a major provider so that we can distribute their balance sheet to our clients and that capability. And then on a platforms front, the thing that's so exciting about FX Connect is we've been in discussions with those guys for the better part of the last couple of years. I think in earnest we started working on this about a year ago. It takes that long -- obviously there's a lot of moving pieces, a lot of strategic elements to address, et cetera. But it didn't hold us back in terms of the technology teams working together to integrate.

What you find when we do a competitive analysis of the EMS space is you find -- and this is a very, very important point -- you do not find any EMS's that are integrated into the FX portal world. The FX portal world is absolutely essential and core to make this a straight-through process. By that I mean the ability to trade -- in our case trade equities, trade the exhaust of those equities in FX -- for that to flow through the process and for there not to be any parts of the process that are disjointed or disconnected.

So this is an historic, if you will, an historic moment not only for Triton but for the EMS world in that you've got -- for the first time you will give clients a front end view, request for stream, algo integration -- all of those things that will only enhance their environment, not add complexity to it in terms of its ability to integrate completely into the downstream process that FX Connect supports.

Niamh Alexander - *Keefe, Bruyette & Woods, Inc. - Analyst*

That's really helpful and it gives it more color on the execution and how you think about three. How do you get paid for it, Bob? How do you get paid for offering the link into FX Connect through Triton?

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Bob Gasser - *ITG - President and CEO*

It's going to be very much a network type of relationship with the dealer community. Obviously, we have to be sensitive to the fact that there is an ecosystem there that exists today. Some of our competitors that engage in this business charge varying prices for that type of connectivity to the dealers. We think it's an inferior offering given the fact it's not integrated, but that doesn't mean that we are going to try to go out there and land with a thud in terms of adding to the dealer cost structure.

Niamh Alexander - *Keefe, Bruyette & Woods, Inc. - Analyst*

So that should be more kind of the recurring fee rev than the volume-based revenue?

Bob Gasser - *ITG - President and CEO*

Yes. It looks a lot like our commission sharing line in the equity world.

Niamh Alexander - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. Fair enough. Thanks. Moving on to a few other questions if I could, the comp and -- like the US revenue was down year-to-date so we usually talk about the quarter, but for the nine months versus the nine months last year, the revenue is down but the compensation in the US is up quite a bit. So help me, I guess, reconcile that. What's going on?

Steven Vigliotti - *ITG - CFO*

Sure, Niamh. This is Steve. To some degree, those ratios reflect in part a little bit of the imperfection of the regional reporting structure in that we have a number of employees and senior management who run some of our global product groups in the US whose comp gets reported in the US line, but yet whose compensation is based upon the improvement in overall global profitability. So that's a big driver of why that looks little bit distorted from period to period.

Niamh Alexander - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. So is it more kind of senior management?

Steven Vigliotti - *ITG - CFO*

Senior management and some of the folks that head our global business units. Yes.

Niamh Alexander - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. Great. Thank you. Appreciate it. And then just lastly if I could go back to the capital distribution because you did some pretty strong share repurchases during the quarter, and then I'm guessing you announced at that time because you wanted to give yourself some flexibility as well to be able to buy back stock through earnings. But if I look at your cash generation -- like you give us the EBITDA, thank you very much -- but cash generation is probably a little bit higher than that because of the stock repurchases.

So if you say you generated around $50 million in cash last quarter and you bought back from $10 million in stock, is that a good ratio to think about? And then you've repaid a bit of debt, so is it kind of like two-thirds of the cash generation a good proxy to think about? Are we getting back in kind of the stock level where you are a little bit more sensitive to the price?

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Steven Vigliotti - *ITG - CFO*

We certainly -- in terms of guiding our activity I think we are just going to kind of continue to go with the opportunistic guidance we gave, so we will buy more at better prices and less as the price moves up. I think in terms of the overall period to period, when you look at our activity over the course of the year I think it's good to estimate around the area of our net income is probably the amount we are targeting to buy back over a calendar year. So, again, may dip from quarter to quarter depending on how the stock reacts to different things, but over a longer term that's kind of what we are using right now.

Niamh Alexander - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. Because your cash earnings are much higher than that though -- it's kind of interesting. Okay. And then lastly, if I could, just on the capital distribution and use of capital, you've done a few small deals. Are there any more on the horizon that should we be looking out for anything in terms of use of cash right now?

Bob Gasser - *ITG - President and CEO*

As you know we are not really going to comment on any other activity there, but as I said we are going to be -- as Steve alluded to, we will be opportunistic on both fronts.

Niamh Alexander - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay. All right, thank you.

Operator

Patrick O'Shaughnessy, Raymond James.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

Wanted to go back to the discussion on your US commissions and buy side. It seems to me that there's probably a couple of offsetting factors here. On the positive side, your buy-side revenue capture rate card continues to move up, and thanks for that detail on the slide by the way. On the negative side, it does seem like maybe you are losing a bit of market share on the buy side. I'm tracking your buy-side volumes were down about 15% year-over-year in the third quarter and that compares to industry-wide volumes down around 6%. So, I was wondering if you could just kind of comment on that. It's just interesting diverging trends, it seems like.

Bob Gasser - *ITG - President and CEO*

Yes. I think that's a good question. I'll tell you, I just reviewed the first-half McLagan numbers on the institutional side, and we've gained market share. In terms of the buy-side community we are up 6%, which I think is a good result. But I think when you look at our client base, certainly they look at it from a global client wallet perspective.

All that having been said, I will tell you that in October we feel as if we were operating on just about every cylinder in terms of the institutional business and a lot of the things we are doing in terms of POSIT Marketplace 3.0 in the US -- we hired Tim Reilly, who joined us in August on the electronic sales side. He is now part of my executive committee.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

All of those things are meant to continue to forcefully go after the US domestic business as well. So if you look at it from a pure global perspective, the McLagan numbers will tell you that we actually gained institutional market share in the global wallet. And I think for us that says it all.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

All right. That's helpful. Thanks. And then you guys announced that you are going to be rolling out POSIT Fixed Income and obviously you are doing some things in the foreign exchange space as well. What sort of consideration have you given to create an execution venue in foreign exchange? Because certainly there seems to be something of a proliferation of those, but still a pretty meaningful market opportunity ahead in that space.

Bob Gasser - *ITG - President and CEO*

We have created FX POSIT, and we have it in beta. It's trading every day, and we expect that as we enter the new year we will also offer a clearing solution that makes it very easy to draw in diverse participants, whether or not they be dealers, institutions, macro funds -- just about anybody you can name of that's a constituent in the FX space. So, we've spent the better part of the last two years building that, building the reference prices, the market data -- all the infrastructure needed to support that. So the short answer to that is, it's live and we expect it to be part of our business mix in 2015.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

All right. That's helpful. Thank you. And last one for me, just with the dollar strength recently, what sort of impact is that having on your expense base?

Steven Vigliotti - *ITG - CFO*

You have a mix of our activity by region, so you can see -- the Canadian revenues being tied to the Canadian dollar and our European activity being largely tied to the pound, so you can look at each of those individual reports there and flex those with the changing currency.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

All right. Thank you.

Operator

This concludes our question-and-answer session. I'd like to turn the conference back over to Bob Gasser for any closing remarks.

Bob Gasser - *ITG - President and CEO*

Operator, thank you, and thanks to all of you for joining us for our Q3 call. We look forward to speaking with you all in February.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2014, Thomson Reuters. All Rights Reserved.

©2014 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS