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ITG - Q4 2017 Investment Technology Group Inc Earnings Call

EVENT DATE/TIME: JANUARY 30, 2018 / 1:00PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Good morning, and thank you for joining us to discuss ITG's Fourth Quarter 2017 Results. My name is Rachel 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 J.T. Farley of ITG.

James T. Farley - *Investment Technology Group, Inc. - MD of IR & Corporate Communications*

Thank you, Rachel, and good morning.

In accordance with the 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 the 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.

During the call, we will also discuss non-GAAP financial measures adjusted to exclude certain specified items. Reconciliations of these non-GAAP financial measures to the most comparable GAAP measures are available on our website. Press releases and the PowerPoint slides, which accompany this presentation, are available for download in the Investor Relations section of itg.com.

Speaking this morning are ITG's CEO and President, Frank Troise and CFO, Steve Vigliotti. To start, I would like to turn it over to Frank.

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

Thank you, J.T. Good morning, and thank you for joining us to review ITG's fourth quarter and full year 2017 performance.

We are now 6 quarters into our 10-quarter Strategic Operating Plan. I'll highlight the progress we've made and the opportunities ahead for ITG. Then I will provide an early read on the impact of the MiFID II regulations. Steve will then take you through our financial results. Finally, we'll take your questions.

During the fourth quarter, we generated adjusted earnings of $0.12 per share driven by continued momentum in our international operations and the impact of cost-savings measures implemented over the past 6 quarters primarily in the U.S. Fourth quarter revenues were up 6% versus the prior year period. Both revenues and adjusted pretax income were at their highest level since the second quarter of 2015.

In Europe, we delivered strong results. This was driven by a 47% year-over-year increase in value traded in the POSIT Alert block crossing system. As a result, we set a new quarterly record for revenues in POSIT Alert. Overall, European revenues were up 18% year-over-year as compared to a decline of 2% in marketwide value traded.

In Asia Pacific, we achieved another quarter of record revenues and profitability. Revenues were up 25% and net income was up more than 80% compared to the third quarter of 2017. We achieved the best ever quarter in the region for revenues for both Algo's and for POSIT Alert, which offers block crossing for 11 countries across the region. Value traded in major regional markets was up a solid 27% year-over-year. We outperformed the market, growing Asia Pacific revenues 44% versus the fourth quarter of 2016.

In Canada, business continues to perform well despite weak market activity. While market volumes in Canada declined 11% year-over-year, ITG revenues dipped 3% in U.S. dollar terms. We gained market share versus the fourth quarter of 2016 both overall and in our Canadian dark pool MATCH Now.

In the U.S., we are working to achieve profitability despite weak market volumes. U.S. revenues were down 8% year-over-year, slightly outpacing a 10% drop in average daily trading in the U.S. equity market. Market share in the fourth quarter was 2.07%, up slightly from 2.05% in the fourth quarter of 2016 and 2.06% in the third quarter of 2017. While the adjusted U.S. loss narrowed considerably from the third quarter of 2017, we remain focused on initiatives to grow revenue and increased cost efficiency, particularly in our U.S. execution services business. Overall, since the launch of the Strategic Operating Plan at July of 2016, we've reduced annual costs by more than $20 million with most of the reductions in the U.S. These expense savings are funding investments we're making under the Strategic Operating Plan. We completed the consolidation of office space at our New York headquarters in the fourth quarter, expecting to save $2.5 million in annual costs going forward. This was the second office space consolidation we executed in 2017. The reduction of our space in Boston last March was the first.

Let me update you now on our Strategic Operating Plan, which aims to deliver global, innovative technology-driven solutions. We launched this 10-quarter Strategic Operating Plan in July of 2016, focusing on investing $40 million in people and technology. Since then, we have invested approximately $20 million, including more than $7 million in the fourth quarter.

On the recruiting front, our plans call for approximately 60 hires, including key roles in client coverage, product management and technology development. At the end of 2017, 55 people are in place, and we anticipate recruiting the remainder to support SOP projects in 2018. Even with these new recruits, our global headcount declined to 934 at year-end. That's down from 941 in the third quarter and 956 at the start of 2017 as we maintain our focus on expense discipline across the enterprise.

With this new recruitment to complement our already talented team, we remain dedicated to delivering unsurpassed client service and best-in-class products in our 4 key business segments: liquidity, execution, workflow technology and analytics. Let me focus a bit on each.

In liquidity, we launched POSIT Auction in Europe this month, providing an alternative source of liquidity for smaller-sized trades, which is compatible with the MiFID II regulations. We will also be providing streamlined access to electronic block liquidity via the new POSIT Alert ticket and workflow, which is being rolled out to clients in the first quarter.

In execution, we are committed to reinventing Algos as demonstrated by our recent launch of an enhanced dark aggregation algorithm. We are now preparing to roll out a new version of our flagship implementation shortfall algorithm, which leverages artificial intelligence to improve execution performance.

In workflow technology, we are making additional enhancements to Triton to reinforce its position as a leading global multi-asset execution management system. We're also making progress with Algo Wheel, our broker-neutral solution, which allows for objective, repeatable, auditable measurement of broker algos through a randomized approach. We have almost 30 clients live on Algo Wheel connecting to more than 30 brokers globally with a strong pipeline to be onboarded in the coming months.

And in analytics, we are developing a new client portal, backed by a state-of-the-art data architecture and analytics services. We're also providing more customizable access to ITG's robust transaction cost peer database.

As we've noted in prior calls, the SOP targets accelerated revenue growth through the end of 2018. Our international operations are well ahead of plan, while the U.S. is lagging. If U.S. market activity remains weak, it will take longer than the original end of 2018 target to reach the long-term financial goals of the Strategic Operating Plan, which are exit rates of $600 million in annualized revenue and 15% pretax margins. Regaining profitability in the U.S. is a key focus. We are working diligently to deepen our engagement with clients, deliver even more value and grow U.S. market share.

Now I'll give you an early read on the impact of MiFID II, which began in Europe on January 3. MiFID II has brought about the biggest changes to European equity market structure in a generation, and they will have dramatic and long-lasting impacts far beyond the European Union. Throughout 2017, we've taken a leadership position in helping clients understand the changes, offering a road map to navigate the requirements for unbundling, best execution, measurement and reporting. Given the delay in volume caps until March, it may take several more months to understand the full impact of MiFID II, but we are confident we will provide significant value to clients and further differentiate ourselves from competitors.

So what have we seen so far? Looking at trading in the first 4 weeks of January, turnover on European venues was up roughly 10% over January of 2017. Growth of block trading continued in January, with Large-in-Scale size executions making up almost 28% of all European dark trading. This is consistent with the findings of a survey we conducted last month, which found that 80% of clients expect strong block trading to continue in 2018.

Our POSIT Alert block crossing system hit a new 1-day record in Europe on January 24, crossing over GBP 1 billion in value traded. That performance broke the previous 1-day record set in November of 2017, beating it by nearly 30%.

With MiFID II entering its second month, ITG is well positioned to capitalize on the increased global focus on best execution, performance measurement and operating efficiency. Our goal is to be recognized as the industry's leading independent, technology-enabled agency broker. We are committed to achieving this goal through the execution of the Strategic Operating Plan. Importantly, we are also open to potential opportunities to add scale through acquisition if these opportunities are in line with our core focus on liquidity, execution, workflow technology and analytics. We would only consider opportunities if they accelerate the progress of the Strategic Operating Plan. We still have a lot to accomplish over the coming quarters, and I believe we are on the right track.

Now Steve will discuss fourth quarter financial results. Steve, all yours.

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

Thank you, Frank, and good morning.

As Frank noted, we posted another quarter of strong international results with record Asia Pacific revenues and momentum in global Alert. This was partially offset by a loss in the U.S. that narrowed considerably from the third quarter of 2017.

In the fourth quarter, revenues were $126.7 million and GAAP net loss was $2.4 million or $0.07 per share. This compares to revenues of $114.5 million and a GAAP net loss of $1.42 per share in the third quarter of 2017 and revenues of $119.6 million and GAAP net income of $5.7 million or $0.17 per share in the fourth quarter of 2016.

On Slide 9, we detail nonoperating items that are in GAAP results for the fourth quarter of 2017, the third quarter of 2017 and the fourth quarter of 2016. In the fourth quarter of 2017, we incurred a charge of $8.1 million or $0.25 per share for fixed asset write-offs and other costs associated with the consolidation of our New York office space. We also booked tax benefits of $1.7 million or $0.05 per share primarily relating to the realization of fully reserved U.S. deferred tax assets following a tax method change, along with the impact of a lower U.S. corporate tax rate on an existing deferred tax liability. Excluding these items, we earned adjusted net income of $4 million or $0.12 per share for the quarter. For this discussion going forward, all references to 2017 and 2016 results and costs will be on an adjusted basis, excluding the items listed on Slide 9.

Slide 10 presents consolidated results, along with separate details of results from North America, European and Asia Pacific operations as well as corporate activity. As a reminder, corporate activity includes investment income and other gains as well as costs not associated with operating

ITG's regional and product-based business lines. Compared to the third quarter of 2017, consolidated revenues were up $12.2 million while consolidated expenses were up only $3.6 million. Consolidated pretax margin was 6.1%, up from negative 0.8% in the third quarter of 2017 and unchanged from the fourth quarter of 2016. North American businesses posted a net loss of $0.08 per share and revenues of $67.2 million. Combined European and Asia Pacific businesses posted net income of $0.39 per share in the fourth quarter and revenues of $59 million. Corporate activity lowered net income by $0.19 per share.

Slide 11 details the impact of exchange rates on financial results of foreign subsidiaries. Currency changes decreased profitability by $100,000 when compared to rates in effect in the third quarter of 2017 and increased profitability by $700,000 when compared to rates in effect in the fourth quarter of 2016. You can also see the larger impact on reported revenues and expenses.

On Slide 12. North America operations are separated between the U.S. and Canada. During the fourth quarter of 2017, we generated revenues of $51.4 million with a pretax margin of negative 7.5% in the U.S. This compares to $47.4 million in revenues with a pretax margin of negative 19% in the third quarter of 2017. U.S. commission revenues rose 12% sequentially while daily marketwide volumes were up 5% versus the third quarter of 2017. The percentage of sell-side volumes rose slightly from 52% to 53% quarter-over-quarter. The average U.S. revenue per share was up 7% to 35 -- to 39 mills, excuse me, due in part to higher-average rates from hedge funds and active institutions.

U.S. expenses were down 2% sequentially reflecting lower competition costs, partially offset by higher transaction processing costs. Expenses were down 4% year-over-year, largely due to the wind down of the energy research distribution agreement as well as lower compensation and transaction processing costs.

The fourth quarter 2017 compensation ratio was 46% compared to 55.7% in the third quarter of 2017 and 43% in the fourth quarter of 2016. The sequential decrease in this ratio reflected higher revenues in the fourth quarter of 2017 as well as the impact of employee separation charges during the third quarter of 2017. This decrease also reflects reductions to compensation in the current quarter to reduce bonus accruals and reverse expense previously recorded on performance-based stock awards that will not vest.

The year-over-year increase in this ratio is largely due to recording the full year impact of increasing the stock mix in incentive compensation in the fourth quarter of 2016.

Canadian revenues were up 5% sequentially and were down 3% year-over-year. Canadian market volumes were up 12% sequentially and down 11% year-over-year.

Slide 13 is a breakdown of European and Asia Pacific results. European value traded in the fourth quarter was up 17% sequentially versus a 4% increase in daily marketwide trading activity. Momentum in our crossing network continuous with POSIT Alert seeing a 20% increase in value trading.

In the Asia Pacific region, we set new records for revenues, net income and value traded in POSIT Alert. Commissions in the region were up 28% sequentially, far outpacing a 14% increase in daily marketwide value trading.

On Slide 14, we offer supplementary information on product group revenues and investment income, which we categorize as corporate. Execution services revenues increased 14% versus the third quarter of 2017, fueled by stronger marketwide global trading and share gains in Europe and Asia Pacific. Revenues were up 7% year-over-year boosted by a 14% increase in global POSIT Alert revenues.

Workflow technology revenues rose 4% versus the third quarter of 2017 due to higher commission share revenues. Workflow technology revenues were almost unchanged from the fourth quarter of 2016.

Analytics revenues were up 3% on a sequential basis and 6% year-over-year on stronger sales and favorable currency translation.

On Slide 15, we present supplementary pretax income information for 3 product groups and for corporate activity. Margins and execution services were up both sequentially and year-over-year driven by strong growth in POSIT Alert in both Europe and Asia Pacific. Workflow technology margins were up sequentially due to stronger revenues and the impact of employee terminations in the third quarter of 2017. Margins were down year-over-year due in part to the impact of investments under the Strategic Operating Plan and increased infrastructure costs.

Analytics margins rebounded sharply in the fourth quarter of 2017 boosted by stronger sales and the impact of cost-reduction measures in the third quarter of 2017.

Pretax loss from corporate activity increased both sequentially and year-over-year reflecting higher legal expenses. As we have mentioned in prior calls, corporate expenses, including legal costs, will vary from quarter to quarter as we work through litigation, regulatory and other corporate matters.

Slide 16 presents U.S. volume and rate capture statistics. Average daily executed volume was up 5% sequentially in the fourth quarter, in line with the increase in daily marketwide trading volume. Our market share increased slightly on both a sequential and year-over-year basis. Overall revenue cash and rate per share was up 7% sequentially but down year-over-year.

We ended the quarter with approximately $288 million of cash, up from $239 million at the end of the third quarter. This increase was due primarily to a reduction in cash tied up in European settlement activities as well as lower clearing deposit requirements. Excess cash at December 31, over and above what is needed for required regulatory capital and other compensation liabilities, was approximately $75 million, down from $80 million at the end of the third quarter.

Regarding capital returns, we significantly increased repurchases during the fourth quarter, repurchasing 514,000 shares for approximately $9.5 million or an average cost of $18.55 per share. We bought back a total of 885,000 shares in 2017, offsetting all the dilution from share issuances on the vesting of stock awards during the year. In 2018, we intend to continue share repurchases in an amount sufficient to offset this dilution, although the repurchases may vary from period to period depending on market conditions.

Looking forward, here are a few closing observations. As Frank mentioned, we invested approximately $7 million in the Strategic Operating Plan during the fourth quarter. We have invested approximately $23 million since the launch of the SOP, including almost $20 million in full year 2017. We expect to complete the balance of the $40 million investment program under the SOP over the course of 2018 with roughly half the total investment expense and half capitalized. The Matrix derivatives venture we announced in September is expected to close before the end of the first quarter. This deal is expected to improve our U.S. profitability by at least $1 million annually, given expectations of a $5 million drop in annual revenues and an approximate $6 million drop in annual expenses.

Due to a change in accounting rules regarding revenue recognition that went into effect on January 1 of this year, we will be deferring a portion of commission income attributed to analytics products under bundled arrangements in the first half of the year. Those deferred commissions will be recognized over the second half of the year as the performance obligations for the analytics products are fully satisfied. We expect this change will reduce first quarter revenues by roughly $4 million and second quarter revenues by approximately $2 million. These reductions will be offset by increases to third and fourth quarter revenues of approximately $2 million and $4 million, respectively.

Looking at current business activity levels. Preliminary U.S. average daily volume in January was approximately 134 million shares with revenue per share comparable to the fourth quarter of 2017. We had reduced activity from lower rate sell-side clients as compared to the fourth quarter and there was no meaningful index rebalance activity during January. Preliminary January combined average daily commissions in Canada, Europe and Asia Pacific were up approximately 15% in U.S. dollar terms compared to the fourth quarter of 2017. On a blended international basis, there were 22 trading days in January.

Now I will turn the discussion back to Frank.

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

Thank you, Steve.

Before we take your questions, let me review our comments today. We're entering the final year of the 10-quarter Strategic Operating Plan. International operations as a whole are performing above expectations. In the U.S., we are driving the business toward profitability in the coming quarters. Over the past year, we have enhanced our technology capabilities and product offerings. We've added team members in key areas even as we've streamlined our organization. We are committed to acting with the highest integrity and establishing a best operator culture across the firm. With a passion for delivering world-class client service, disciplined investment in innovation and a commitment to excellence, I am confident we are on a path toward reaching our goals.

Now Steve and I will answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Rich Repetto with Sandler O'Neill.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

And I guess my first question has to do with digging a little bit more on the impact of MiFID II in Europe. And we saw that the restrictions that ESMA actually delayed the restrictions on the, they call it, double volume caps, so that stocks will get restricted for 6 months from dark trading. But it looks like your market share overall is up slightly. So I'm trying to get a feel for the mix shift because we see all the other large block crossing systems picking up a lot of volume but the mix shift between traditional POSIT and POSIT Alert. And can you talk about that mix shift and then the revenue impact because we know that revenue capture is higher for POSIT Alert?

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

Hey, Rich. I'll start. It's Steve. So historically, we haven't given out a specific rate information on our Alert activity. But I can tell you historically that Alert does represent more than 30% of our total European commissions. And as we noted in our comments, we had a strong month of January there.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

So any guidance? Because if this continues we still haven't even seen the actual stocks that will get precluded from trading in the dark on the non-large inscale platforms. But any -- can you quantify how we model out or look at volumes as they shift to POSIT Alert?

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

Rich, we look at Large-in-Scale trading in the move toward greater and greater use by the buy side of electronic block liquidity as a wind in our back. And we expect that to only continue to grow in 2018. With respect to modeling, that's I think all the direction that we can give you.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

Okay. And I guess the last question is, with the improved performance in Europe, and you got to have some thoughts on MiFID, I guess, going forward. And you talked about this a bit, but I guess -- does it impact how much U.S. contribution you need? I guess it does, to reach your profitability targets to the Strategic Operating Plan because if you expect to get a lot more from Europe, could -- would you expect that the U.S. -- does it still need to be meaningful, profitable? Or does the U.S. contribution need to stay the same to meet your targets?

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

Right. Our international operations are at or doing better than the expectations. Growing market share and achieving profitability in the U.S. is a top priority. We've taken a number of actions to improve our U.S. performance. We've complemented, supplemented an already strong talented and dedicated team, a dedicated team for many years. In November, we reorganized the leadership of U.S. execution services, and we continued to invest in the technology-enabled capabilities that are relevant to clients. Now with that, we're not satisfied with our performance, and we have a lot more to do. We're confident we're on the right path. Our value proposition, I had been out there to see clients, is extremely relevant. We've been an important innovator in the industry for 30 years. And since launching the SOP, our view is we have reaffirmed that commitment as a technology-enabled innovator in the industry. Through the SOP, our capabilities and team are getting stronger and stronger every quarter, and we're stepping up the intensity of our engagement with clients to prove our value and differentiate the client experience. So international operations, at/or above expectations and the U.S. is improving -- we're focused on improving it quarter-by-quarter.

Operator

The next question comes from Ken Worthington with JPMorgan.

Kenneth Brooks Worthington - *JP Morgan Chase & Co, Research Division - MD*

As we think about the U.S. business, in your view on progress and building sort of size and scale, are you making progress quickly enough given the low volatility, low-volume environment? And I think your expectations were to be able to grow enough organically the scale to U.S. business. Is organic growth still the best road forward here for you guys in the U.S.? Or are you thinking more about the possibility of inorganic growth being kind of a better option? And if inorganic growth is feeling like a better option than it had been, are there -- maybe what kind of opportunities are there available in the U.S. should ITG choose to go this inorganic route? Like if you want to go there, are there things out there to buy is, I guess, really what I'm looking for.

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

Ken, with respect to our strategy, we remain committed to our strategy. The SOP is an organic build, and we've been investing in our core business. I said, a few minutes ago, our value proposition is extremely relevant to clients. And our SOP is working with clients globally, right? I noted our U.S. business is lagging. We -- in my comments that I made earlier, we're open to inorganic opportunities provided that they accelerate our strategic operating plan, that they're in line with our core 4 business areas: liquidity, execution services, analytics, workflow technology. And as we're out there in the market, we will look to -- constantly look to achieve scale through inorganic opportunities provided they make sense and they accelerate the SOP.

Kenneth Brooks Worthington - *JP Morgan Chase & Co, Research Division - MD*

Okay. And there's enough out there that it makes sense to -- like there's opportunities for the inorganic side is, I guess, what I'm trying to ask.

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

We're not going to comment on anything specific. But we do believe -- one of the objectives of the SOP is to set ourselves up to be a consolidator in an industry that will be ripe for consolidation. Scale players will be the players who can survive and earn returns with their investors. We are setting ourselves up to be a scale player through organic -- building the organic foundation, and then we'll look to achieve scale as opportunities present themselves through inorganic means.

Kenneth Brooks Worthington - *JP Morgan Chase & Co, Research Division - MD*

Great. Steve, I wanted to ask about the impact of the corporate tax changes on your business. So taking losses in the U.S., what is the impact to the change in the corporate tax rate on the U.S. business? You've got -- given your profits are really coming from abroad. And then you've got various tax losses in different regions and you've been taking losses in the U.S.. So how does the U.S. code change your ability to kind of use those losses going forward?

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

Sure, Ken. Yes, as you mentioned, and as we talked about recently, we are in a loss position in the U.S. and have fully reserved all of our tax benefits. So the only impact so far that the new tax code has had in our financials is that we actually wrote down a deferred tax liability, which you saw by the onetime item we carved out there this quarter. Going forward, once we resume generating profits in the U.S. and beginning incurring tax expense, that will obviously be at a lower rate than the roughly blended rate we had in the U.S. historically of 40%, that U.S. rates have come down somewhere in the high 20s thereabouts once you factor in state expenses as well. You mentioned losses and credits and carryforwards. So in the U.S., given the requirement for repatriation and some of the tax method changes we recently implemented, we don't currently have loss carryforwards. We do have though pending credits for things like research and development and foreign taxes paid that could offset approximately $20 million of future taxes. However, we're still in the process of analyzing the new legislation to see how much of that will actually be usable again under the new code. If you look out outside the U.S., we do have loss carryforwards in the Asia Pacific region, which can shield approximately $75 million of future taxable profits and that has a tax value on an effective rate of roughly around $17 million.

Kenneth Brooks Worthington - *JP Morgan Chase & Co, Research Division - MD*

Okay. Great. And then maybe just one last one, the question for dummies here. In terms of MiFID in ITG, is really the big benefit for ITG on the large block side really just more business is sort of eligible to go through POSIT and POSIT Alert? Or does MiFID on the execution side go beyond POSIT for ITG? Again, thinking mostly about execution.

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

Sure. Ken, it goes beyond POSIT, right? So POSIT is -- it's a tailwind for POSIT with respect to Large-In-Scale electronic block liquidity, especially in an environment where capital can become scarce. It's also a tailwind for ITG with respect to measurement, right? So a greater focus on auditable, repeatable processes around measurement of best execution. And as part of that, that opens up the addressable wallet and the addressable fee pool as research gets unbundled from execution. And the jump ball becomes how well do you execute. So it's beyond block liquidity.

Operator

The next question comes from Chris Allen with Rosenblatt.

Christopher John Allen - *Rosenblatt Securities Inc., Research Division - Senior Research Analyst*

I wanted to follow up on some of the prior answers, specifically when -- Frank, you're talking about the -- set up to be a consolidator in the scale industry. I wondering where your thoughts and where the industry is from consolidation perspective. Obviously, MiFID II is impacting the industry globally and there's probably to be a shakeout there. Do you think this is going to be a multiyear process? Or are you starting to see signs that people are kind of waving the white flag a little bit? Any thoughts there?

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

Chris, I think we're in the early part of the maturity curve, right? So it's in the early days. But we have seen a couple of firms back away from Europe with respect to execution. And I'd expect to -- I'd expect that to accelerate over time. I think it's a multiyear process. We do have to recognize that the barriers to exit are pretty high for a number of firms.

Christopher John Allen - *Rosenblatt Securities Inc., Research Division - Senior Research Analyst*

Got it. And just from your perspective, you mentioned you wanted to be set up to be a consolidator. I mean, are you guys there already? Or do you still have more work to do before you can even begin to contemplate that?

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

The SOP sets us up with the foundation to be a consolidator making us stronger in capabilities: tech, infrastructure, products, people. However, should there be an opportunity today, tomorrow, next day, we'd take a good hard look at it.

Christopher John Allen - *Rosenblatt Securities Inc., Research Division - Senior Research Analyst*

Got it. And then just on the U.S., your financial targets you had put out back in '16, basically, looking at industry ADV of 7 billion, which is kind of where we're running at in January, obviously, a much higher market share. I mean, as you were contemplating kind of the environment, is there anything you might point out that kind of an impact to your market share in terms of maybe higher retail activity than normal or something along those lines? Just trying to think about where this environment needs to go to be helpful from a tailwind perspective for ITG?

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

Chris. It's Steve. We talked about -- historically, when we launched the plan, we did a right on the back of Q2 '16, when the market volumes were 7.3 billion. So certainly, we've seen a pickup in January, but we're still a little shy to that level. In terms of mix shift and different client segments, as I noted on my call -- on my comments during the call that we did see a reduction in lower-margin sell-side activity during the month of January. And January wasn't the month for index rebalancing activity, any significant, anyway. So for month-to-month, you may see that move around a little bit...

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

And then I would add, Chris, that we have more work to do to penetrate long only and the hedge fund community, whether there's long, short equity hedge funds or quantitative hedge funds. And the capabilities that are coming out of the SOP align very well with pursuing that segment, both segments.

Operator

Next is a follow-up question from Rich Repetto with Sandler O'Neill.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

I would just -- first question follow-up is the rationale for the accelerated buyback. If you -- it seems like it was multiples of the other prior quarters. Could you just give the background on that why?

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

Sure. We had set out the beginning of the year a target that we were looking to offset dilution. As we exited the third quarter, we were concerned we might not get there during the fourth quarter. Obviously, the stock came in a little bit and we were opportunistic and we're able to get some at a good price and achieve our goal of offsetting the full dilution for -- during the year of 2017.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

Okay. So with -- okay. And then next question is in the U.S., G&A went up quarter-to-quarter by looks like $0.5 million or so. And you also mentioned, Steve, increased legal expenses. I'm just trying to understand what that might be for, the increased legal expense?

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

Sure. So the increased legal expenses I was making reference to were actually part of the corporate category where we discussed -- and as I've guided historically and I guided again, those costs can move around from period-to-period as we engage with advisers to assist us with various matters. Like you we operate a -- in a regulated business that puts us in contact with regulators. So from time to time we have to deal with issues. So that legal expense doesn't really impact the U.S. segments, It's more more the corporate, the corporate sleeve.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

Okay. And then I got to take one more try at this POSIT Alert. You see some of the other Large-in-Scale dark venues, Liquidnet being up 300 basis points in market share, Turquoise being up close to 250. So I mean, if we calculate, if you did 1 billion ADV in -- on January 24, that it had to be about 75% of your mix. And you said 30 was the -- is that -- is the 30% mix, is that what it is for January?

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

That 30% number has been historically our -- the percentage of total European commissions that come from Alert, not in a particular day or particular week. It's just over the course of 2017.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

Okay. Is there any -- can you give us any feel for what it's like in January? And is it -- I guess it's safe to assume it's gone up.

Steven R. Vigliotti - *Investment Technology Group, Inc. - CFO, Chief Administrative Officer and MD*

Yes, it has.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Frank Troise for any closing remarks.

Francis J. Troise - *Investment Technology Group, Inc. - CEO, President & Director*

Thank you for your questions. We look forward to discussing our continued progress on our first quarter call in May. Thank you again for joining us this morning.

Operator

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