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ITG - Q4 2012 Investment Technology Group, Inc. Earnings Conference Call

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PRESENTATION

Operator

Good morning and thank you for joining us to discuss ITG's fourth-quarter results for 2012. My name is Latasha and I will be facilitating the call today. After the speakers' remarks, there will be a question-and-answer period. I will provide further instructions before we take questions. As a reminder, this session is being recorded.

I would now like to turn the call over to Mr. J.T. Farley of ITG. Please proceed.

J.T. Farley - *Investment Technology Group, Inc. - IR*

Thank you, Latasha, 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 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.

I would also like to point out that we will be referring to non-GAAP financial measures in today's presentation. Reconciliations 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 complete this presentation are available for download in the investor relations section of ITG.com.

Speaking this morning are ITG's CEO, Bob Gasser, and our CFO, Steven Vigliotti. To start, I would like to turn it over to Bob.

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

Thanks, J.T., and thank you all for joining us to discuss ITG's fourth-quarter and full-year 2012 results. I would like to offer an overview of the current state of the industry, a brief summary of our quarterly performance, discuss some of the developments in our global product areas, and finish up with some comments on our balance sheet before handing off to Steve.

As you know, the fourth quarter offered no relief from the tough business conditions of the past three years. Overall volumes remained weak in North America, Europe, and most of the Asia Pacific regions, challenging our ability to grow revenues and improve profitability.

Active equity managers had another challenging quarter, as evidenced by an estimated $56 billion in domestic equity fund outflows on top of the $43 billion in outflows in the third quarter of 2012 according to ICI. US equity volumes reflect these negative numbers, with combined New York Stock Exchange and NASDAQ average daily volume down 14% year-over-year in the fourth quarter. In contrast, ITG's average daily US volume was down less than 0.5% compared to the fourth quarter of 2011.

January has brought a reversal of this trend, with strong inflows into US domestic mutual funds and stronger overall trading volumes. While these are very welcome indicators, we believe it is a little early to predict a lasting reversal after more than three years of fund outflows and declining volumes.

Another potentially positive sign is the recent pickup in M&A activity in the capital market sector. Given the Knight-Getco and Stifel-KBW deals and TPG's purchase of ConvergEx's Eze Castle and RealTick platforms last week. We believe that these deals, particularly TPG ConvergEx, reinforce the value in established equity platforms and technologies even amidst a secular decline in institutional trading activity.

In the face of this decline, we remain focused on growing our market share through measured global product expansion, focusing on cost control measures and maintaining an active share buyback program. In December, we announced a plan to reduce operating costs given the continued unfavorable business conditions. The cost reductions are primarily focused on headcount, market data, and other general and administrative costs across all of ITG's businesses.

This initiative is designed to improve financial performance while maintaining our competitiveness and high standards of client service. While the staff reductions were a difficult decision, they were necessary to ensure our long-term competitiveness and profitability. We do not believe the reductions will impair our ability to capitalize on any future improvements in global trading volumes.

Historically we have viewed our various business activities as being deeply integrated and therefore have not measured our performance by product or service offering, but instead by geography. Recently we have undertaken a review of the performance of our respective businesses in each region. This review should help us better assess our competitive position and help ensure that we are getting the full value for the individual products and services we offer.

We believe this approach will lead to improved performance over time from both a revenue and cost perspective. We expect to offer additional insight into these business units, specifically electronic brokerage, trading platforms, analytics, and research sales and trading during the course of 2013.

Now for our fourth-quarter performance, average daily US volume for our POSIT Crossing network decreased 2% versus Q4 2011 to 85 million shares, while average block size in POSIT Alert in Q4 2012 was steady sequentially at 32,000 shares. Average revenue per share dipped slightly to $0.0043 due in large part to large market on close rebalance trades in late November.

Sellside activity accounted for 52% of total volume, up from 51% in the third quarter as we continue to see organic growth in that segment of our business. In a low volume environment, many broker-dealers continue to migrate towards an outsourced algorithm and smart order routing solution. They'd prefer not to make the significant investment needed to be competitive in these products but instead take advantage of our scale.

In addition, these firms turn to us for the same reasons that institutions turn to us -- quality of product, service, global footprint, and the agency model. Importantly, we do not expect this business to decrease as volumes improve but to move in lockstep and provide liquidity that will beget more liquidity for all of our customers.

We are very encouraged by the improvement in the buyside rate card, which is at its highest level since mid-2010 reflecting the impact of accounts paying for research at a higher bundled rate as well as recent market share gains for POSIT Alert Block Crossing.

Turning to our international operations, our European revenues rose 4% versus the fourth quarter of 2011 despite Pan-European value traded dropping 22% during the same period according to BATS data. POSIT performed well despite these headwinds with average European daily value crossed rising 16% versus the fourth quarter of 2011. POSIT now represents over 11% of total European dark trading.

The fourth quarter also saw the successful launch of ITG's new London datac and a record number of clients trading European equities through ITG. The purposeful investments we have made over the years in our European liquidity management effort clearly bore fruit in 2012.

Our Canadian revenues were down 15% compared to the fourth quarter of 2011 reflective of the decline in marketwide Canadian volumes. The new dark pool rules which took effect in mid-October initially hit the market share of our Canadian dark pool, MATCH Now. But it has fared much better compared to other dark venues and we believe its market share is now stabilizing.

MATCH Now remains an attractive source of quality liquidity and the new rules have not had a significant impact on our overall Canadian revenues.

In the Asia-Pacific region, ITG's revenues increased 1.5% in the fourth quarter versus fourth quarter 2011 against a 0.5% drop in regional value traded. During the quarter, we expanded POSIT Marketplace and Alert to Malaysia, which is the 28th global market where POSIT is now available. With the launch in Malaysia, expansion to new markets continues to be a focus for ITG as part of the ongoing commitment to providing quality global liquidity and improving investment performance for all institutional clients.

Last month ITG was recognized at the Trade Asia's Inaugural Algorithmic Trading awards for most consistent execution quality.

ITG IR, we continue to increase our penetration to key clients by delivering differentiated research combined with ITG's global execution capabilities. Since our last earnings call, we initiated coverage on grocery store chains and most recently the cable providers. During the quarter, we made alpha generating calls on names like Apple, CarMax, and Gulfport Energy.

Outside of research, we continue to make improvements to our execution platform. During the quarter, we announced the release of the ITG Flex Algorithm, which empowers traders to use the strategies of multiple ITG Algorithms while working on a single order.

We also announced the expansion of our global futures execution capabilities including both direct market access and the use of ITG's future algorithms. We won two prestigious American Financial Technology awards for best global deployment and most cutting-edge IT initiative during the quarter, demonstrating the strength of our infrastructure and our unflagging commitment to developing best in class technology.

Turning to our balance sheet, we remain dedicated to returning capital to shareholders through stock repurchases buying back 700,000 shares of common stock during the fourth quarter for $5.9 million. As a reminder, we have repurchased 8.6 million shares since the first quarter of 2010, returning over $112 million in capital to shareholders and reducing shares outstanding net of issuances by almost 15%. We expect to continue to repurchase shares at a level at or above the amount of our operating earnings each quarter. We will use the stock repurchases as a benchmark for comparison against other potential uses of our capital.

To wrap up, we believe the actions we are taking now will safeguard our profitability and reinforce our standing as the preeminent global independent agency broker. Our plan is geared to a flat environment, but we have more operating leverage than ever to take advantage of improving global trading volumes.

I am pleased with the early results of the business review we are conducting in each region. We expect this exercise, with its focus on cost alignment, to yield incremental savings in addition to the expenses we have already cut. Steve and I look forward to providing more transparency on this topic in future quarters.

Lastly, I want to thank my colleagues for their continued focus on the client outcome. Every day they are positioning us well to survive the macro headwinds and are readying us for a powerful recovery if the shift to equities and risk continues.

With that, I would like to turn it over to our CFO, Steve Vigliotti, to take you through the fourth-quarter financial developments.

Steven Vigliotti - *Investment Technology Group, Inc. - CFO*

Thanks, Bob. Good morning, everyone. As Bob mentioned, global institutional volumes remained weak in the fourth quarter but our continuing efforts to manage costs together with a sequential pickup in our European business helped preserve profitability on an adjusted basis.

As noted on slide 7, we generated consolidated revenues of $121.5 million during the fourth quarter, 2% higher than the third quarter of 2012 and 6% lower than the fourth quarter of 2011. We posted a GAAP net loss of $0.17 per share in the fourth quarter of 2012 compared to GAAP net income of $0.01 per share in the third quarter of 2012 and a GAAP net loss of $0.09 per share in the fourth quarter of 2011.

On slide 8, we have detailed the non-operating items included in our GAAP results for the fourth quarter of 2012 and the fourth quarter of 2011. There were no non-operating items in the third quarter of this year.

In the fourth quarter of 2012, we incurred a restructuring charge of $9.5 million related to a cost-reduction plan focused on the areas of headcount, market data, and other general and administrative expenses. We also incurred duplicate rent charges of $1.4 million, stemming from the build-out of our new headquarters in lower Manhattan.

In the fourth quarter of 2011, we incurred restructuring charges of $6.8 million and we wrote off the remaining carrying value of our investment in Disclosure Insight for $4.3 million. Excluding these items, we generated adjusted net income of $0.02 per share in the fourth quarter of 2012 and adjusted net income of $0.07 per share in the fourth quarter of 2011.

For the rest of this discussion, all references to results and costs will be on an adjusted basis excluding these items.

Slide 9 presents our consolidated results along with separate breakdowns of the results from our US and international operations. On a year-over-year comparative basis, consolidated expenses were down $6 million due primarily to lower compensation from our cost reduction efforts and lower incentive compensation associated with lower revenues.

Our consolidated pretax margin was 1.9%, up from 0.2% in the third quarter and down from 3.6% in the fourth quarter of last year. During the fourth quarter of 2012, we posted a loss of $0.03 per share in the US on revenues of $77.1 million. Our US results included the impact of year-end adjustments to income tax expense of approximately $400,000 or $0.01 per share associated with true-ups to our 2011 returns, which were recently filed, and adjustments to our estimates of available tax credits for the current year.

Our combined international businesses posted net income of $0.05 per share on revenues of $44.4 million.

On slide 10, you can see that our US expenses declined $5.6 million compared to $82.9 million in the fourth quarter of 2011 due to lower compensation costs of $3.4 million, reflecting our cost reduction measures, and the impact of lower revenues on incentive compensation and lower general and administrative costs of $2.4 million due to continuing efforts to reduce these costs.

US expenses were essentially flat compared to the third quarter. Our US compensation expense ratio was 39.9% versus 39.7% in the third quarter of 2012 and 41.2% in the fourth quarter of 2011.

Transaction processing costs as a percentage of revenue were 15.5% versus 14% in the third quarter and 14.1% in the fourth quarter of 2011.

On slide 11, we have provided a summary of our international results. As compared to the third quarter of 2012, revenues were up $2.6 million primarily due to strong market shares gained for ITG in Europe as we posted a 10% sequential increase in overall trading activity while market wide trading activity was down 6%.

Overall international expenses were down slightly on both a sequential and year-over-year basis. The compensation ratio for our combined international operations fell to 36.8% compared to 38.8% in the third quarter. Combined international transaction processing costs during the quarter as a percentage of revenue were 18.1%, down from 20.2% in the third quarter due in part to a higher crossing rate in POSIT on European trading activity.

On the next slide, we track the performance of our foreign segments over the past five quarters. All regions posted higher revenues and improved pretax results compared to the third quarter of 2012 while results were generally lower compared to the fourth quarter of 2011, due in large part to declines in market wide trading activity.

On slide 13, we have presented our US volume and rate capture statistics. Our average daily executed volume was up 5% versus the third quarter of 2012, while market wide volumes [decreased] only 2% and our volume was down less than 1% versus the fourth quarter of 2011 while market wide volumes were down 14%.

Our overall capture rate per share declined slightly to $0.0043 as a percentage of our volume from sellside clients was 52%, up from 51% in the third quarter of 2012 and 44% in the fourth quarter of 2011. Our average capture rate from buyside clients remained strong, more than 10% higher than the average buyside capture rate in the fourth quarter of 2011.

We ended the year with $245.9 million of cash and cash equivalents on our balance sheet, down from $262.9 million at the end of the third quarter due to an increase in clearing broker deposits and a decrease in the amount of soft dollar liabilities payable.

Although these cash uses were by our regulated brokerage subsidiaries, neither affected the regulatory capital amounts of those entities. As a result, our excess cash at December 31 over and above what we need for regulatory capital, debt payments, and compensation liabilities was approximately $50 million, comparable to the amount we reported at September 30.

We maintained our repurchase activity during the fourth quarter in accordance with our guidance of funding repurchases based on a premium to adjusted earnings. During the quarter, we repurchased 700,000 shares for $5.9 million or $8.45 per share. For all of 2012, we repurchased 2.5 million shares for $23.5 million, representing 287% of adjusted earnings.

Our ability to repurchase shares over and above our earnings level and maintain our excess cash level is attributable to the additional free cash flow we have over and above reporting earnings due to non-cash stock-based compensation and amortization levels in excess of amounts currently capitalized for software.

We continue to view our stock as an attractive investment at current levels and we believe that share repurchases are an effective way to return capital to shareholders. We currently have 1.5 million shares available for repurchases under approved authorizations.

Looking forward, I would like to offer the following observations. We expect to complete the move into our new headquarters at One Liberty Plaza in lower Manhattan by the end of the second quarter. We expect to incur duplicate rent charges of approximately $1.4 million per quarter in the first half of 2013 as we complete the build-out. The total remaining capital expenditures related to the new premises are expected to exceed $20 million and will be financed by a combination of landlord credits and a financing facility recently established for this purpose.

These financing sources should allow us to maintain our repurchase program in 2013 uninterrupted. Upon completion of the move, we expect to incur a one-time charge of approximately $5 million including a reserve for the remaining lease obligations at our current headquarters.

Excluding these extraordinary charges, we expect our rental expenses associated with One Liberty Plaza to be approximately equivalent to the current rental expenses we incur for the two New York offices we occupy, 380 Madison and 1270 6th Avenue, with an increase in related depreciation and amortization expense of approximately $2 million per annum.

As previously announced, we have recently enacted a cost reduction plan focused on headcount, market data, and other general and administrative expenses. We expect these measures to lower our cost base in a flat revenue environment by approximately $20 million on an annualized basis. Approximately $1.5 million of those savings were realized in the fourth quarter with the balance to be realized over the course of 2013.

Our US average daily volume for January is expected to exceed 200 million shares at an average rate slightly higher than our fourth quarter 2012 average. In addition, we have seen an uptick in our trading activity in both Europe and Asia Pacific during January, with average daily trading commissions up from Q4 levels in both regions by more than 20%.

During 2013, we expect to offer supplementary financial details to provide greater transparency into the performance of the business units Bob referred to earlier. We will likely begin with the first quarter 2013 earnings release with revenues for the business units on a global basis.

With that, I'd like to open the call to Q&A. Operator, please open up the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Richard Repetto, Sandler O'Neill.

Richard Repetto - *Sandler O'Neill - Analyst*

Good morning, Bob. Good morning, Steve. I just wanted to verify that number for -- on the volumes in January. You said it's over 200 million?

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

Correct.

Richard Repetto - *Sandler O'Neill - Analyst*

Got it, that's helpful. I guess, Bob, as we hopefully get into a better environment in 2013 and what we are looking at least so far, I guess the operating leverage, is it as simple to look at incremental margins at around that 85% -- you know, transactions -- expenses were roughly 15% of revenues in the US. Is it as simple as that? Or am I missing anything?

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

Yes, and it also -- compensation can fluctuate with that as well, Rich.

Richard Repetto - *Sandler O'Neill - Analyst*

Okay, so any estimate of how much that would bring down the incremental margin?

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

I think we would stay within the range I think that we have been in historically, but clearly everything we have done in our last three years is focused on driving as much of that improvement to the bottom line. And I think the theme that I use internally with my management team is let's not confuse improvement in the macros with success. We have got to do better than that.

And we've worked very hard to get there and I think we will have significant, a significant drop to the bottom line, but there will be some flex around comp, but I think you are looking at it the right way.

Richard Repetto - *Sandler O'Neill - Analyst*

Okay, then, Bob, you know this industry as well as anybody, so the Eze Castle and RealTick transaction, can you give us a little bit more color -- what did that tell you in regards to -- was it more of a distressed sale or how does it affect the competitive landscape? I know it's just a competitor in a couple of your businesses, not your entire.

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

The Eze Castle, RealTick business would compete with our platform business and we will give you guys more and more insight into that business and some of our thoughts around it in terms of its performance and the things that we are working on to improve performance over time. But I don't consider the Eze Castle from everything I've heard and I don't know certainly the details of the transaction, but from everything I have heard, this was anything but a distressed sale. It happened at a very significant multiple of EBITDA apparently and hopefully it closes and I think it's a good thing for everyone that owns assets in that space.

Richard Repetto - *Sandler O'Neill - Analyst*

Okay, just one last -- just what you mentioned on the segment reporting, I know it's going to help and we appreciate the increased transparency. Can you just give us a little like what do you think will be most -- will impact investors just in a qualitative standpoint? You don't need you to go through the numbers but as you break out, what did you find interesting? What do you think that investors will find interesting?

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

I think transparency was certainly one of the motivators in terms of for shareholders and analysts but more importantly, it is how we operate the businesses. And I think we have learned a lot about the connectivity of both the regions and the business units. Some things we were doing well, some things we are not doing very well.

But I -- in the time I have been here, I have never been more excited about the potential to operate and organize ourselves differently. So I think -- but as Steve alluded, it will start hopefully in Q1 with a disclosure around the revenues and then I think we will have a full P&L later in the year and that will be a jumping off point for us to sit down with the analysts and the shareholder community and give them a full view of these four units and how we are operating them.

Richard Repetto - *Sandler O'Neill - Analyst*

Okay. Thanks, guys.

Operator

Ken Worthington, JPMorgan.

Ken Worthington - *JPMorgan - Analyst*

Good morning. I am just trying to flesh out some more thoughts. First couple weeks have seen extremely strong sales of domestic equity funds. You mentioned the 200 million shares per day. How do you think the relationship between mutual fund sales and ITG US trading revenue kind of plays out from a timing perspective and a magnitude perspective?

Like is this something that you would expect if January 1 was truly an inflection point here that it takes a couple quarters to kind of get your clients to kind of re-engage with you the way they may have re-engaged before the credit crisis? Do you think it happens more quickly? Does it take years? How do you kind of guess that would play out?

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

I don't think it's going to be instantly reflective, to be honest. I think it will hopefully show up over time in terms of our business. But let's step back a second and think about pre-financial crisis what our firm looked like and what it looks like now.

We have a significant balance or a significant onboarding of sellside volumes, which I don't think - as I said in my prepared remarks, I don't think that's going away. In fact, I think we've had a great market share opportunity over the past several months and have taken full advantage of that.

We have a research business that is helping us with the rate card. We have a POSIT Alert business that's very healthy not only here in the US but globally. We have a European business that is performing extremely well and we are very proud of.

So I think the firm is geared differently. And I think we took, as those numbers would suggest, in the US I we took some pretty good share. So while the volumes may not instantly translate into higher institutional activity, I think the firm is very well positioned this time around to take advantage of the uptick.

Ken Worthington - *JPMorgan - Analyst*

Okay, and do you think -- do we see the translation maybe even in the rate card, maybe more than we see it in the volumes? Does that make sense or do they kind of go hand in hand?

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

I think it's going to go hand in hand and I think on the volume side, don't forget and I keep coming back to this point, the sellside -- because the buyside business improves, the sellside business is not going to go away. It's going to improve as well because I would assume that other dealers are participating in this rally and I think it creates a leverage effect for our internalized liquidity as well within POSIT.

So I think it's both -- and getting back to this point of what we've built in the last four years, we've built a research business, a high touch business that has distinct capabilities from where we started. We've got a sellside routing and algorithm business and internalization business that is very robust. And I think those two things will play off of one another very, very nicely.

Ken Worthington - *JPMorgan - Analyst*

Now if I play the optimist and assume that January 1 represented the inflection point in the market and ITG is off to the races and recovering. To kind of flesh out Rich's question, how does it play through expenses? My thought is there has been a lot of belt-tightening and I would think that you would have to give back a bunch to your people who have kind of put up with a lot over the last couple of years as the market environment has changed.

So from that perspective, what do you need to pay them and kind of make up for them? Then at the same time, belt-tightening has probably had some influence in how you invest in the business and challenging decisions there. Is there a bunch, even if it's not lasting, is there a step up that needs to be made in investment to kind of catch up to what you haven't done?

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

I would say flat-out no to that question on the investment side. And as I think Niamh pointed out in her report of several weeks ago we've invested heavily throughout the duration of this cycle. We have recast the firm, re-engineered the firm, expanded our client constituencies, and I think established a very, very solid global footprint at this stage of the game.

You are right though in terms of the flex, we from a comp perspective with improvement that -- and I think Rich fleshed it out and you've teased it out again -- that's the place where I think we will reward our employees for their loyalty and sticking with this throughout. But I think we have always had a very good, solid shareholder-friendly approach to that, so it's not going to get out of hand but certainly we have got to be very, very cognizant of retaining our people at a time when they have suffered for the past two or three years.

Ken Worthington - *JPMorgan - Analyst*

Okay and then lastly, we've got a big merger in cash equities. Are you in a position to pick up any sort of capabilities should they become available as this consolidation takes place or based on where the business is today either because you are happy with where you are or financially you would rather buy back stock, is kind of picking up some new capabilities unrealistic?

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

I feel like we've got a lot of capabilities at this stage of the game. I think that having been said, if something comes out of one of these -- an asset kind of becomes available that is so attractive, certainly we have the balance sheet and the credit quality I think to look at something like that, but I think we are, as I said, we are repositioned. We have invested heavily throughout and we have got a lot of headroom and capacity on our infrastructure.

And as I said, as I alluded to in my remarks earlier, I think one of the interesting things about the business unit way of organizing ourselves and assessing performance is that our business units have already taken initiatives on their own to probably extract even more expense than what we have announced.

Ken Worthington - *JPMorgan - Analyst*

Okay, great. Thank you very much.

Operator

Niamh Alexander, KBW.

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

Thanks for taking my questions and thanks for reading my research, too, Bob.

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

Always.

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

The good and the bad. Okay, so M&A, you mentioned it at the outset of the call. We had heard and I don't know -- like a very high number for the Eze Castle business which is similar -- it has similar businesses, not exactly the same, nothing is exactly the same, to yours. But here's your stock and your market cap is trading not far off the cash on the balance sheet.

So help me think about when you see deals like that, when you consider the investments you made, how does the Board kind of reconcile continuing with this valuation versus maybe seeing that there are clearly other people in an M&A market that would value the company differently?

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

I think that the business unit focus and effort is exactly that. It is intended to make sure that folks understand the quality of the assets that we own, their financial performance, and our plans for growing them in the future. That is really what we are -- what Steve and I have been very, very focused on and the Board the past several months, and it has been a heavy lift.

We will, as Steve alluded, give people some more supplemental reporting in stages. I think you guys are going to get a much clearer picture of how for instance in this case, that asset compares to an asset that is traded in the space.

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

Okay, that's fair enough and there's not at this time -- it's like wow, if we are in a bit of a turn in asset allocations, like why would we think about selling now? It's not a reluctance like that that we should be kind of nervous about?

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

No, that's not the purpose of that effort. I think it's about giving you guys more transparency and allowing you to make your own decisions in terms of how to value these individual components of our business.

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

Okay, fair enough. I look forward to getting that detail. That should be good. Then on regulation, if you could because there's just so many different changes going on right now, do you mind just indulging for a minute if we just go through the three major regions, the international like Canada, Asia, Europe, if you could just help me characterize whether you see more headwinds or tailwinds in each market right now. From my perspective, I'm kind of concerned about the headwinds in Europe, but I thought there were some in Canada too. So if you could and just let me know what are you most concerned about or watching for and then where are the opportunities?

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

I think as always we are monitoring things very closely. We're very engaged with the regulators. I think our relationship with the regulators across the four regions is very, very solid, very positive. I think if I were to move across the three regions internationally, I think Canada has had I think some change here in Q4 in terms of minimum internalized order flow. It's basically focused on trade-at and internalization of order flow. I think the initial response in terms of market wide volumes was fairly negative and we'll be monitoring that very closely, because I think it's an interesting test case in terms of what it does to overall market quality.

Our guys are very -- as you would imagine, are very engaged. They are at the heart and at the center of the debate there and of the dark activity. Interestingly enough, MATCH Now is one of the only alternatives left to the TMX, so we do view that as an opportunity. And we will, as I said, we're watching it very closely.

The other place that has changed is Australia, with similar focus on internalization and trade-at and there seems to be a little bit of -- certainly a lot of negative press and attention paid to high frequency trading, etc.

But Europe, we are very engaged with the regulators in the EU, the FSA. We sponsored a lot of client visits and interactions with the regulators so that I think there's a good dialogue that we facilitated there which we think is important. We do think that outside of the transaction taxes, which are starting to take effect, and that true MiFID II -- full-bloom MiFID II - is probably more than several quarters away.

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

That is more a negative than a positive right now?

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

I think there's still a lot of runway left in terms of getting to a final conclusion there.

And the last thing is Asia Pac outside of Australia I think is a fairly -- I hate to say it -- but benign regulatory environment right now.

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

And in terms of just the market structure, the regulatory is benign, but am I right in thinking just the market environment is much more favorable and people are adopting more tools like yours and whatnot?

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

Yes, yes, and that's why we have gotten -- we've really put the pedal to the metal in terms of introducing POSIT into places like Indonesia, Malaysia. We've got a plan for Thailand. Hong Kong and Japan and Australia are already in production.

So I think the dark liquidity in general folks are looking at more and more electronic sources of liquidity and the real -- I think the real turning point or tipping point is that we can prove to them that they can meaningfully improve their market impact or their trading costs by adopting some of these things that are become very common place in the Western world.

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

Okay, fair enough. Thanks so much and I will get back in line.

Operator

Chris Allen, Evercore.

Chris Allen - *Evercore Partners - Analyst*

Good morning, guys. If we just focus I guess a little bit on the international side, you noted the start to the first quarter was fairly strong from a volume perspective with activity up about 20% sequentially. You outperformed the market a little bit in the fourth quarter.

I'm just trying to think about how to think -- like if the volume trajectory continues here, is it almost a one-to-one passthrough on the revenue side, where there is any give back on revenue capture or also is there market share opportunity gain as well?

Steven Vigliotti - *Investment Technology Group, Inc. - CFO*

Yes, so in terms of capture, our fourth-quarter capture rate in Europe was actually an improvement over where we had been earlier in the year, so we saw some good institutional flows in the fourth quarter there, Chris.

Going forward, we think there are opportunities to grow market share particularly in Europe as we rolled out our liquidity management products that we were successful here in the US with. As you know, as our sellside-buyside mix changed here, it would likely change there as well and as a result, you may see a dip in what we get for per trade there. But nonetheless that is still very profitable incremental flow for us and it makes good business sense for us to do it both from a stand-alone profitability on that flow itself and also from the ability to cross it with our existing institutional flows.

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

And with TP costs of 18%, which is getting close to the US number, I think we've built an efficient factory floor, and as Steve alluded to, the London data center I think was one of the last incremental pieces of investment needed to really put that into what we think will be a great shape to reap the benefits of improving volumes there as well.

Chris Allen - *Evercore Partners - Analyst*

Got it. And then actually basically the exact same question for Asia, where the volume pick up is even better at the start of the first quarter.

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

Yes, I think Asia has been probably a little bit more beta. Market volumes are up significantly. Certainly the concern about the Chinese economy and its effect on Pan Asia I think is -- and certainly the recent events in Japan and the improvement in the currency there, etc., I think all of that has been very, very good fundamentals of the region and I think we have participated in that.

Chris Allen - *Evercore Partners - Analyst*

Got it. (multiple speakers) I will get back in queue.

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

So I view Europe as a little bit more alpha and Asia as a little bit more beta.

Chris Allen - *Evercore Partners - Analyst*

Great, thanks for the color, guys.

Operator

There are no further questions in the queue. I would now like to turn the call over to Bob Gasser, CEO.

Bob Gasser - *Investment Technology Group, Inc. - President and CEO*

Great, thank you for joining us today and we look forward to sharing the Q1 results with you in several months.

Operator

This concludes the presentation. Thank you for your participation and I would now like to disconnect the line. Thank you.

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