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ITG - Q2 2017 Investment Technology Group Inc Earnings Call

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PRESENTATION

Operator

Good morning, and thank you for joining us to discuss ITG's Second Quarter 2017 Results. My name is Keith, 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 - *ITG Market Research Inc. - Director of IR and Corporate Communications*

Thank you, Keith, and good morning. In accordance with safe harbor regulations, I would like to advise you that the forward-looking statements we'll 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 and CAO, 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. Today, we will review progress for the second quarter. I will deliver an update on the 10-quarter Strategic Operating Plan, which we launched last July. We'll also share additional steps to manage expenses, increase ITG's operating efficiency and expand product offerings. Following that, Steve will take you through the financial results. Finally, we will address questions.

Results for the second quarter show we are on the right path. We were profitable for a third consecutive quarter, with solid results across international operations. In Europe, we delivered another record quarter for revenues driven in part by a new record for value traded in our POSIT Alert block crossing network. We are taking a leadership position with clients as they prepare for major changes in January 2018 mandated by MiFID II.

The latest Greenwich Associates buy-side survey of European trading ranked ITG #1 in several categories, including electronic trading quality, reliability and ease-of-use and best dark algos. In Canada, our business performed well despite a drop in market-wide trading activity. Both ITG Canada and our sell-side dark pool, MATCH Now, gained a market share as compared to the second quarter of 2016.

During the quarter, we introduced a new version of POSIT Marketplace for Canadian equities, enabling clients to efficiently access dark venues, while minimizing information leakage. Asia Pacific added another record quarter for trading activity in POSIT Alert and year-over-year market share gains in Hong Kong and the Australian markets.

In the U.S., we finished the quarter on a strong note. Our loss narrowed sequentially as we rebounded from a challenging April and achieved profitability in the month of June. We identified new areas to reduce costs and under the Strategic Operating Plan, we continued our investments in people and technology. While the decline in market-wide volumes impacted results in July, progress continued on the Strategic Operating Plan. We are working to achieve consistent profitability in the U.S. operation in the coming quarters.

The latest Greenwich U.S. survey recognizes some key strengths in our U.S. franchise. We earned #1 distinctions in several categories: best portfolio algos, best pre- and post-trade analysis, best commission management client service and regulatory advice. The Greenwich survey highlights the quality and value of our capabilities. But we are not satisfied with our U.S. performance. We remain focused on achieving consistent profitability through a combination of revenue growth initiatives and disciplined expense management.

To boost revenue growth, we added Charlie Whitlock as our new Head of U.S. Sales. Charlie joined the firm in June and is driving our intense focus on client engagement across all products. In recent weeks, we recruited key experienced staff in sales and client coverage adding additional firepower to our talented teams. We've also added talent to improve technical expertise and operational efficiency. Mitul Raul joined the firm in June as a Global Head of Analytics Development and Market Data. Additionally, Rick Spear joined as Head of Business Process Improvement as we strive to become a global best operator.

We are looking for additional opportunities to reduce costs and enhance capital efficiency across our enterprise. During the second quarter, in the U.S., we made targeted reductions to headcount. And in Europe, we proactively engaged regulators to reduce capital requirements. Steve will have more details.

Overall, we've implemented efficiency savings that have reduced annual costs by more than $5 million in the first half of 2017 and more than $15 million over the past 12 months. These cost savings and capital efficiencies ensure that we have the funds necessary to pursue our growth initiatives.

I will now turn to our strategic operating plan, which aims to deliver global, best-in-class technology-driven solutions. We launched the 10-quarter Strategic Operating Plan in July 2016. And 1 year in, we are noting tangible progress. This plan calls for investing $40 million in people and technology, including at least 60 new hires in client coverage, product management and technology development. By 2019, we expect these investments to yield at least $5 million in additional annual savings from efficiency gains.

Assuming no reduction in average global trading activity from the level of mid-2016, the goal of this investment plan is to exit 2018 at a $600 million annual revenue run rate. That's more than 20% higher than annualized first half 2017 revenues. Given our high incremental margins and the expected expense savings related to these investments, pretax margins are targeted to be 15% by the fourth quarter of 2018.

As of the end of the first half, we've identified 55 additional staff to deliver on the Strategic Operating Plan, with 42 engaged by the end of June. As part of that plan, through the end of June, we invested approximately $8.5 million since last July, including more than $3 million in the second quarter. As we add staff in line with the 10-quarter Strategic Operating Plan, we remain focused on cost discipline. As a result, global headcount at the end of the second quarter stood at 953, a net decline of 8 since the first quarter of 2017.

While most of the work in the strategic operating plan is multi-quarter in nature, we are bringing new capabilities to market. Let me share a few.

Preparing for MiFID II. We are launching our budget tracker tool. The ITG budget tracker enables institutional investors to account for research consumption and payments accurately and efficiently across their enterprise. It is an integral part of ITG's comprehensive MiFID II-compliant RPA solution. We also expanded the analytics offering with the launch of fixed income TCA. This draws from a deep execution data set to enable clients to measure best execution in major corporate and sovereign bond markets.

On the execution side, we've incorporated machine learning into our algorithms and are launching artificial intelligence-enhanced algos before the end of the third quarter. We're also rolling out Algo Wheel, which allows for objective, repeatable, auditable measurement of broker algos through a randomized approach, freeing up traders to focus on critical issues such as strategy selection. Algo Wheel is a true solution sale. It is global and leverages expertise and technology across ITG's enterprise: pre-trade analytics, execution, post-trade measurement and workflow technology.

In portfolio trading, we're incorporating pre-trade and real-time analytics to improve global performance and deliver added execution insights. Finally, in workflow technology, we made enhancements to the Triton execution management system to adapt to the MiFID II best execution requirements. Triton now has integrated pre-trade and real-time analytics and integration with our Algo Wheel product.

On the multi-asset side, Triton has streamlined access to RFQ-hub for electronic trading of over-the-counter and illiquid securities, as well as requests for stream capabilities for foreign exchange trading.

These investments in people and technology driven by the Strategic Operating Plan are the best use of capital. We're also open to evaluating strategic opportunities which would accelerate execution of this plan.

In summary, we have completed the first 4 quarters of the 10-quarter Strategic Operating Plan. International operations are moving from strength to strength, and the U.S. business is moving towards our goal of consistent profitability. There's much to do in the year ahead, and I'm confident that we're on the right track.

Now I'll hand it over to Steve to discuss second 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 a third straight quarter of profitability, with record European revenues and strong global alert activity.

In the second quarter, revenues were $121.6 million, and net income was $4.6 million or $0.14 per share. These results compare to revenues of $120.8 million and net income of $0.16 per share in the first quarter of 2017, and revenues of $120.6 million and a GAAP net loss of $0.16 per share in the second quarter of 2016.

On Slide 9, we detail nonoperating items that are in GAAP results for the second quarter of 2016. There were no non-GAAP adjustments to results for either the first or second quarters of 2017. For this discussion going forward, all references to 2016 results, revenues 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, Europe 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 first quarter of 2017, consolidated revenues were up $800,000, while consolidated expenses were down $500,000. Consolidated pretax margin was 4.2%, up from 3.2% in the first quarter of 2017 and up from negative 2.1% in the second quarter of 2016. The effective tax rate on consolidated pretax income was 8.7%.

This low rate was due to the relative profitability in different regions, where we are recognizing benefits at higher rates on losses in the U.S. than the rate of expense we are incurring on profits outside the U.S. Our ability to recognize tax benefits going forward in the U.S. will depend on an ongoing assessment of future U.S. profitability in accordance with accounting rules.

North American businesses posted a net loss of $0.05 per share on revenues of $68.7 million. Combined European and Asia-Pacific businesses posted net income of $0.29 per share in the second quarter on revenues of $52.5 million. Corporate activity lowered net income by $0.10 per share.

On Slide 11, you can review the impact exchange rates had on financial results of foreign subsidiaries. Currency changes increased profitability by $300,000 when compared to rates in effect in the first quarter of 2017. Currency rate changes reduced profitability by $200,000 when compared to average exchange rates in the second quarter of 2016 with a larger impact on reported revenues and expenses.

On Slide 12, North American operations are separated between the U.S. and Canada. During the second quarter of 2017, we generated revenues of $52.8 million with a pretax margin of negative 9.5% in the U.S. This compares to $53.4 million in revenues with a pretax margin of negative 12.4% in the first quarter of 2017. U.S. commission revenues declined 1% sequentially, while market-wide volumes were flat versus the first quarter of 2017. The percentage of sell-side volume fell slightly from 56% to 55%, and the average U.S. revenue per share declined sequentially from $37 million to $36 million.

Recurring revenues were flat sequentially and down $2.9 million from the second quarter of 2016. This year-over-year drop reflects in part the investment research divestiture in May 2016 as well as OMS attrition. U.S. expenses were down almost 4% sequentially reflecting a reduction in upfront expenses incurred to implement cost efficiency measures.

In the second quarter, we incurred employee termination costs of $1.2 million. In the first quarter, employee termination costs were $2.5 million. Additionally, there was an $800,000 charge to reduce the firm's Boston real estate footprint. Expenses were down 6% year-over-year, largely due to the investment research divestiture and the ending of the energy research distribution agreement.

Second quarter 2017 compensation ratio was 49.4% compared to 50.2% in the first quarter and 46.9% in the second quarter of 2016. This year-over-year increase primarily reflected the impact of employee separation charges during the second quarter of 2017.

Canadian revenues were down 3% sequentially driven by an 8% decline in market-wide trading volume. Canadian revenues were up 1% year-over-year despite a 10% reduction in market-wide trading volumes and the closure of the inter-listed arbitrage trading operation at the end of April 2016.

Slide 13 is a breakdown of European and Asia-Pacific results. Europe achieved record revenues due in part to a record quarter in the region for POSIT Alert. Daily value traded in the second quarter was up approximately 18% year-over-year outpacing a 14% increase in market-wide daily trading activity as measured by BATS. We also set a fifth consecutive record for value traded in POSIT Alert in the Asia Pacific region. Commissions in the region were up 22% year-over-year versus a 12% increase in market-wide value trading.

On Slide 14, we offer supplementary information on product group revenues and investment income, which we categorize as corporate. Execution services revenues rose 1% versus the first quarter of 2017 driven by stronger European performance. Revenues were up 4% year-over-year due in part to a 41% increase in global POSIT Alert revenues. This was offset by the impact of the investment research divestiture.

Workflow technology revenues rose 1% versus both the first quarter of 2017 and the second quarter of 2016 due in part to higher European commission-share revenues. Analytics revenues were down 1% on a sequential basis and down 3% year-over-year.

On Slide 15, we present supplementary pretax income information for the 3 product groups and for corporate activity. Margins were flat sequentially and up significantly year-over-year in execution services, driven by strong global growth in POSIT Alert and reduced expenses following the research divestiture in May 2016. Workflow technology margins were up sequentially but down year-over-year due to the impact of employee separation charges and infrastructure spending under the Strategic Operating Plan.

Analytics margins were negative in the first and second quarter of 2017 due to employee separation charges. The corporate loss declined both sequentially and year-over-year. The decline versus the second quarter of 2016 reflects, in part, lower legal expenses. However, as I have mentioned on 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 down 2% versus the first quarter reflecting a decrease in volume from sell-side and passive clients. We have gained significant share since the second quarter of last year with average daily volume up 12% versus a decline in market-wide volumes of 5%. Overall revenue rate per share was down on both a sequential and year-over-year basis.

We ended the quarter with $252 million of cash, up from $245.4 million at the end of the first quarter. This increase was due primarily to currency movements on foreign balances and a reduction in cash tied up in settlement activities. Excess cash at June 30 over and above what is needed for required regulatory capital and other compensation liabilities was approximately $75 million, up from $55 million at March 31. This increase was largely driven by an approximately $15 million reduction in estimated peak European capital requirements following an extensive review we initiated with our regulators.

Regarding capital returns, we continue to buy back shares during the second quarter, repurchasing 90,000 shares for approximately $1.8 million or an average cost of $19.65 per share. As a reminder, we intend to repurchase shares over the course of the year in an amount sufficient to offset any dilution on shares outstanding from the vesting of stock awards.

Looking forward, here are a few closing observations. As Frank mentioned, we invested approximately $3 million in the Strategic Operating Plan during the second quarter, and invested approximately $5.5 million in the first half of this year. We expect total 2017 investment to be in the mid-teens millions range, with roughly half of that expensed and half capitalized, and the remainder of the SOP investment to take place during 2018.

U.S. average daily volume in July was 130 million shares, with average revenue per share slightly lower than the second quarter 2017 average. July market share was in line with second quarter 2017 levels. July combined average daily commissions in Canada, Europe and Asia Pacific were down approximately 10% in U.S. dollar terms compared to the second quarter of 2017. Market activity in the U.S., Europe and Canada was seasonally lower in July 2017 as compared to second quarter levels.

Now I will turn the discussion back to Frank.

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

Thank you, Steve. Before we address your questions, let me summarize our remarks.

We are 1 year into the execution of the 10-quarter Strategic Operating Plan. We are making clear progress despite challenging market conditions. Operations in Europe, Canada and Asia Pacific are performing well. In the U.S., we were profitable in June and narrowed the quarterly loss compared to the first quarter.

Our goal is to drive the U.S. business to consistent profitability in the coming quarters. Across the firm, we remain focused on communicating and delivering value to clients and gaining traction in all product offerings. With a passion for delivering world-class client service, disciplined investment and a commitment to excellence, we are on a path to achieving these goals.

Now, Steve and I will answer your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from Ken Worthington with JPMorgan.

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

I guess, first, in the U.S., market share's been on the rise. Can you talk about where things are going particularly well or maybe even better than expected? And maybe what aspects of the U.S. business do you really need to redouble your efforts?

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

Ken, we're encouraged by the progress we've made in the first 4 quarters of the Strategic Operating Plan. So we communicated that we would accelerate growth in the back end of 2017, and we remain optimistic. The -- we've seen delivery in our Strategic Operating Plan of capabilities that are very relevant to our clients. For example, delivering valuable products -- the Algo Wheel, next-generation Triton. We've extended our analytics offering from FX to credit, and also delivering our machine learning, artificial intelligence-based algo, Active AI. So we think we're doing very well with respect to delivering capabilities. We've also complemented and supplemented our talented team, and we're seeing green shoots on our U.S. business around portfolio trading and the adoption of some of our electronic algos. Beyond revenue growth, we're focused on operational efficiency, and best operator is our mantra. So we've reduced costs in the commentary by $15 million over the past 12 months by optimizing facilities and personnel, specifically delayering and reducing redundancies. And we'll continue to seek opportunities to do so, while investing for growth in the Strategic Operating Plan. We need to do some more work in communicating the value of our capabilities to our clients and intensifying the day-to-day client coverage and engagement with our customers to ensure that they understand the value and that we're differentiating the client experience.

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

Great. And then just on MiFID, can you talk about how you see the opportunities for ITG evolving as we get closer to implementation of the new rules? And maybe, how ready are clients? We keep hearing that there's a lack of readiness thus far. And if that is the case, if you're seeing that case, does that create more risk to you in the environment in Europe? Or does that actually create more opportunities for the business?

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

Sure. So we believe MiFID II is a significant opportunity for ITG, whether it's the unbundling component, large in scale around electronic block trading and other aspects of best execution. The --we're very early in the cycle. MiFID II goes into effect in January of 2018. We're already starting, we believe, to feel some of the impacts, and we see that as evidenced in the pickup in electronic block trading in our Alert product, but we are very early in the cycle. The level of preparation? We engage clients in this topic a tremendous amount. We're taking a leadership position in this space. So it's another opportunity for us to engage with clients, understand where they're headed. And there are many clients we speak to who are well down the road in preparation, and we've taken a position that we've been able to help them and assist them as a trusted global adviser in the process. So that's another opportunity for us. We do believe also that it's a global phenomenon. So although MiFID II is a European regulation, the impacts will be global. It's very early in the cycle. If 2018 is the start in Europe and the start for some of the international buy-side firms, it'll ramp up slowly in 2018, we think this is a multi-year opportunity across the rest of the world.

Operator

And the next question comes from Richard Repetto with Sandler O'Neill.

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

I guess the first question is on the international average daily commissions. What you put out each month on the monthly reports, 5% up, 4%, 2%. So we came up with a blended average, up 3.5%, 4%, based on the day count. And just wondering how that -- why that was different. It looks like you reported average daily international commissions flat according to our model. Just trying to understand whether we get something wrong here or whether -- what's the differences.

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

Yes, I mean, we can go offline and reconcile that, Rich, make sure we both are using the same day counts, right? Different regions have different day counts that are factored in. So we can certainly work through that offline.

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

Okay. All right. So that's the first thing. I guess the next thing, Frank, on the headcount, it looks like you went up 23 in the Strategic Operating Plan by the end of 2Q compared to the first quarter. Overall headcount at ITG went down by 8. So that would sort of imply a 31 million -- we know you did headcount reductions, but a 31 person reduction, is that all coming from North American operations? And trying to understand the movement in headcount, I guess, is the question.

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

Sure. We've been focused on operational efficiencies, Rich, and delayering the organization, eliminating redundancies and division of labor has been a focus. That headcount reduction has come out of the U.S. primarily. And I'll give you a little bit more of a feel on it. Since January 2016, we're net down 13 managing directors and we're net down 48 directors as we've unwound noncore businesses and flattened the organization.

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

Yes, Rich, and just to give some reconciling color on that. So we've had roughly 19 heads start under the program. We went from 23 that had started at the end of March to 42 that had started at the end of June. And the cost-reduction measures we put in place reduced by 11, and then the balance of the reduction is just from other attrition at the firm.

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

Got it. Okay, that's helpful. And then I paid close attention to -- at least I heard the comment on the tax benefit. And I'm just trying to be clear, Steve, nothing's changed in regards to you -- if there was a loss, that you would, at least at this point, still expect profitability and still be able to take the tax benefit, right? I know you consider that each time, but there's nothing changed...

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

Yes, nothing's changed this quarter, Rich. We were just cautioning that -- just that could change in the future, right? So in the second quarter, we recorded tax benefits on the loss we incurred in the U.S. and on the U.S. portion of corporate activity of approximately $3 million. And again, we're able to record that because we expect those benefits to be able to use to offset taxes on future U.S. profitability. And our ability -- and what I'm trying to be cautious, our ability to continue to record those benefits are based on our outlook for the future on U.S. profitability. And obviously, we believe the growth targets that we have on our Strategic Operating Plan support that and support pretty strong projections going forward. But accounting guidance does place an emphasis on recent performance. So if the trend continues as it is now for a period of time, our ability could get challenged in the short term. And again, just keep in mind, even we can't record them from accounting purposes, those benefits are obviously always available for us to use when we generate future taxable U.S. profit, similar to this situation we have right now in Asia Pacific, where our net operating losses are fully valued -- fully reserved rather, so our pretax profit drops right to the bottom line. But -- so they'll always be available for us to use regardless.

Operator

And the next question comes from Chris Allen with Rosenblatt.

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

I guess, just on the U.S. profitability. You noted that you reached there in June, and then obviously in July we're seeing volumes closer to April, which sounded like a pretty -- it was a pretty challenging month and a loss for you guys. Are those kind of volume levels for the respective months, maybe June versus April/July, kind of good barometers to think about of kind of what you need to see for consistent profitability? I realize you made further headcount reductions in the quarter, but you're also hiring some people in the U.S. Just trying to get kind of a rough ballpark how to think about what's the minimum volume level we need to see from you guys in an industry perspective just because, obviously, it's a very tough environment right now.

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

Yes. I mean, volume in the month of June was approximately 165 million shares. And in order to model that going forward, it really depends on a number of factors, Chris, in terms of what our volume needs to be in the U.S. for breakeven. Those factors include things like the number of trading days, where in June we had 22 trading days. It also depends in some part on the execution strategies of our clients and how that impacts our costs. As well as the timing of investments, so the SOP relative to other cost-saving measures we put in. So it's really hard to kind of come out right now with a firm guidance to give you as a breakeven ADV number for the U.S.

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

Got it. And then, I guess, just longer term, in terms of kind of hitting that $600 million revenue number. I mean, how are you thinking about that kind of -- the current overall industry volume environment? Is that kind of realistic? Or would you kind of do you need to see -- I mean, it seems like you're making a great progress in the international front, U.S. is just a bit more challenging given the kind of volume backdrop. And I mean, I think you noted earlier you need to see probably a little bit better industry overall volumes to kind of see those numbers. I mean, is there anything -- any other levers you guys could kind of pull? I mean, obviously, you're doing a lot of blocking, tackling to kind of those kind of levels.

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

Chris, at this point, we're holding firm to our targets. And admittedly, the market environment has been challenging. When we did -- when we announced the SOP, we did set the revenue and pretax margins based on the market environment consistent to the second quarter of '16, which at the time was approximately 7 billion shares a day. We did achieve profitability in the U.S. in June. A solid milestone. Now regardless, we're not satisfied with our progress and the key objective. One of our key objectives is to achieve consistent profitability in the U.S. over the coming quarters. And we're going to drive to attain that goal, the revenue growth initiatives and identifying operational efficiency gains.

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

Got it. And then, I guess, just last for me. Excess cash at the $75 million, you -- obviously, you still have more -- some investment spending to go in the Strategic Investment Plan, but you also noted you look at kind of the strategic opportunities to kind of bolster that plan. I mean, are you seeing opportunity out there that maybe smaller competitors are feeling more pressure in the current volume environment? Has anything changed from that dynamic, where there's -- there seems to be more opportunities? Or is it kind of status quo?

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

We believe, as many reports and others believe, that there's overcapacity in the industry. The investment in our strategic operating plan, in addition to the revenue and pretax margin targets, positions us up -- positions us, right, to opportunistically explore strategic acquisitions, sets us up to be a consolidator of choice. And we'll take a good hard look at opportunities as they arise as long as they accelerate our Strategic Operating Plan.

Operator

And we have 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*

Yes, I guess, this is for Steve. You alluded to the breakeven and how the U.S. expense base could move around. Could you go into a little bit more detail on then? I know you -- I guess, the hiring. But other than headcount, is there any other -- the expense -- or could you just run through how expenses could change that breakeven equation, I guess?

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

Yes, sure. So you're right, hiring is certainly one. That's a factor, right? We did note that 55 employees have been identified, only 42, which have started by the end of June, so we have more people coming onboard for the Strategic Operating Plan, to focus on the Strategic Operating Plan beginning in the third quarter. And also, as I noted, in my response to Chris is that our trading mix can impact cost as well in terms of the amount of transaction processing cost we incur, right? So depending on the execution strategy of our clients and how we route those orders and what cost we incur to execute those orders that can impact our cost structure as well.

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

Great. Helpful. And one last thing for Frank. So you've had a sort of a steady drumbeat of market share gains, I guess, maybe with the exception of April. And so, I guess, the market share gains from here, how do you see them come out? Are they driven by the product enhancements? Or they -- is this still a concerted effort in regards to -- on the sale side with clients, just getting them back on -- just trying to how you look at market share gains going from the 2.2% back up to closer to 3% in the target?

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

It's a combination of both, Rich. It's a combination of sales and coverage efforts as well as rolling out new products for clients. And I believe our value proposition has never been more relevant. Helping clients capture alpha as well as drive operational efficiency. A number of the capabilities coming out of the SOP are in their early phases. They're in the market right now. One is active AI, our machine learning algo. Another is the Algo Wheel, right? The Algo Wheel is right in line with the requirements of MiFID II -- objective, repeatable, auditable solution to best execution. Our Triton enhancements, I talked about some extensions into FX and fixed income around our analytics product. So combine those capabilities, which are being driven by the Strategic Operating Plan, with complementing and supplementing our talented team with additional hires and sales and coverage, that is up -- that's going to up the intensity of our engagement with clients and differentiate the client experience. A combination of both, products and people.

Operator

And that does conclude the question-and-answer session, so I would like to turn the call to Frank Troise for any closing comments.

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

Ken, Rich, Chris, thank you for questions. We look forward to discussing our continued progress on our third quarter call in November. Thank you again for joining us this morning.

Operator

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