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ITG - Q1 2016 Investment Technology Group Inc Earnings Call

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PRESENTATION

Operator

Good morning and thank you for joining us to discuss ITG's First Quarter 2016 Results. My name is Aaronson and I will facilitate the call today. After the speaker's 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 JT Farley of ITG.

JT Farley - *Investment Technology Group, Inc. - IR and Corporate Communications*

Thank you, Aaronson, 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 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 on 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.

Frank Troise - *Investment Technology Group, Inc. - President and CEO*

Thank you, JT, and thank all of you for joining the call. I've been here for just over three months, and I want to start off by telling you that I'm even more enthusiastic about our prospects than I was on day one. Since January, I've met with investors, analysts, vendors, dozens of colleagues and more than 100 clients in all regions, where we operate around the world. I listened closely and learned a great deal from these conversations.

The feedback was consistent. ITG has accomplished a tremendous amount in its 30-year history as one of the strongest and most recognizable brands in the industry. We deliver exceptional client solutions and have significant strengths. We can be even stronger. The bottom line is we have work to do to achieve even greater results. We need to continue to invest in innovation and scalable businesses and must be more consistent in our commitment to client delivery.

I'm in the midst of working with our leadership team and our board on an end-to-end review of our business. The review will be completed no later than the end of July and will chart a clear direction for growth with the goal of being the best-in-class provider of liquidity, execution services, measurement, and workflow products. Later in the call, I will share some early thoughts on this topic.

The first quarter demonstrated our business momentum. All four of our operating regions had increased revenues and improved profitability as compared to the fourth quarter of 2015. While this is solid evidence of the progress we have made with clients, there is clearly more work to be accomplished.

Before I turn it over to Steve to review the financial results of the first quarter, I'd like to address a couple changes we've made to hone our focus and exit non-core operations. Although we are in the midst of our business review, we are not waiting to take action. We have closed our Canadian arbitrage-trading desk and we are closing our US matched book stock loan group. While these were both modestly profitable operations, they were not core to our business. These are early moves to concentrate our time and resources on growing our core scalable businesses.

Steve will have more on the financial details of these closures after we review the results of the first quarter. Steve, all yours.

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

Thank you, Frank, and good morning everyone. Looking at the results of the first quarter, it is clear that we are making progress and restoring our business to pre-SEC settlement levels. We returned to profitability on an adjusted basis in the first quarter in an active market environment. More than 98% of the clients, who paused after the SEC settlement, have resumed trading with ITG at various levels of engagement. And the top 100 global accounts in our cornerstone product, POSIT Alert, are all back and trading with us.

On a GAAP basis, we generated revenues of $124.7 million in the first quarter and a GAAP net loss of $2.5 million, or $0.08 per share. These results compared to GAAP revenues of $224.2 million and GAAP net income of $2.40 per share in the fourth quarter of 2015 and revenues of $149.7 million and net income of $0.47 per share in the first quarter of 2015.

On Slide 5, we have detailed the non-operating items included in our GAAP results for the first quarter of 2016 and the fourth quarter of 2015. There were no non-GAAP adjustments in the first quarter of 2015. First quarter 2016 results included the cost incurred for the upfront compensation package awarded to our new CEO, which has limited tax deductibility, as well as a reserve related to the former CEO's arbitration claim and associated legal fees. Excluding these costs, we generated net income of $1.8 million, or $0.05 per share.

Fourth quarter 2015 results included the gain on the sale of energy research and a tax charge to amend the capital structure of our operations outside North America. Excluding these items, we incurred a net loss of $2.5 million, or $0.07 per share, in the fourth quarter of 2015. For the remainder of this discussion, all references to results, revenues, and costs will be on an adjusted basis as shown on Slide 6, excluding the items I just listed.

Slide 7 presents our consolidated results along with separate breakdowns of the results from our North American and Europe and Asia Pacific operations as well as our corporate activity. As a reminder, corporate activity includes investment income and other gains as well as costs not associated with ITG's regional and product group business lines including among others, the cost of being a public company, intangible asset amortization, interest expense, the cost of maintaining a global transfer pricing structure, foreign exchange gains or losses and certain other items.

As compared to the fourth quarter of 2015, consolidated revenues were up $8.2 million, while consolidated expenses were up $3.1 million. Our consolidated pre-tax margin was 1.6%, up from negative 2.6% in the fourth quarter of 2015, and down from 14.9% in the first quarter of 2015. Effective tax rate on our consolidated pre-tax income was 6.6% for the quarter. Our European and Asia Pacific effective tax rate was 20.3%, reflecting higher rates on our European profits from recent legislation changes and the impact of the loss in Asia Pacific.

Our North American effective tax rate was 41.9%, and our effective tax rate on corporate activity was 37.2%. Our North American business posted net income of $0.09 per share in the first quarter on revenues of $82.4 million and our combined European and Asia Pacific businesses posted net income of $0.12 per share in the first quarter on revenues of $41.9 million. Corporate activity lowered net income by $0.16 per share in the first quarter.

On Slide 8, you can see the impact of translating the first quarter 2016 income statements of our foreign subsidiaries to US dollars using current exchange rates as compared to exchange rates in effect in the first quarter of 2015. Current exchange rates lowered consolidated net income by $1.2 million as compared to exchange rates in effect in the first quarter of 2015. You can also see the larger impact on gross revenues and expenses.

On Slide 9, we break down the performance of our North America operations between the US and Canada. During the first quarter of 2016, we generated revenues of $66.3 million with a pre-tax margin of 3.2% in the US This compares to $63.3 million of revenues with a pre-tax margin of negative 2.4% in the fourth quarter of 2015 and $80.5 million of revenues with a pre-tax margin of 13.7% in the first quarter of 2015. Commission revenues rose 18% sequentially, reflecting an increase in market wide trading activity during the quarter and our continuing recovery in trading with the buy-side, including in POSIT Alert.

As a result, our overall percentage of sell-side volume dropped from 58% to 52% sequentially. Recurring revenues were down $4.8 million from the fourth quarter of 2015 and $4.5 million from the first quarter of 2015, primarily reflecting the impact of the sale of energy research, which closed in late December. Other revenues were $1.3 million, up from $1 million in the fourth quarter of 2015, but down from $2 million in the first quarter of 2015. The year-over-year decline in other revenues primarily reflected a decrease in transaction advisory revenue from our energy group.

Our US expenses were down less than 1% for the fourth quarter of 2015 due to the lower expenses from the energy research business sale net of a new charge we have for 2016 to purchase energy research that gets distributed to our trading clients. This reduction was largely offset by higher transaction processing costs due to increased volume. Our compensation ratio was 44.3% in the first quarter of 2016, as compared to 49.2% in the fourth quarter of 2015 and 42% in the first quarter of 2015. The sequential decline in this ratio, during the first quarter, reflects the sale of the energy business as well as the impact of higher revenues.

In Canada, commission revenues were up 45% compared to the fourth quarter of 2015 reflecting the continuing recovery from the SEC settlement and outpacing the growth in overall market activity. Commissions were down from the first quarter of 2015 due in part to the impact of currency translation. Currency translation reduced net income for the Canadian region by $400,000 when comparing to current exchange rates to the effect during the first quarter of 2015.

On Slide 10, we break down the results of our European and Asia Pacific businesses. Our European daily value traded in the first quarter was up 14% sequentially and 12% year-over-year reflecting higher flows from sell-side accounts as we posted our second highest market share ever. POSIT posted strong market share with 14.2% of total dark trading, down only slightly from the record level during the fourth quarter of 2015.

Our European pre-tax margin was 18.2%, up from 14.8% in the fourth quarter of 2015, but down from the record 30.4% in the first quarter of 2015 and the momentum continues. Europe set a daily record for POSIT Alert last week crossing more than GBP1 million per minute during the trading day on April 25. Asia Pacific revenues were up 10% compared to the fourth quarter of 2015, which was better than the 5% increase in market-wide while trading activity. However, revenues were down 20% year-over-year, reflecting the lingering impact of a drop off in trading activity by US based clients after the SEC settlement.

On Slide 11, we offer supplementary information for the past five quarters on revenues broken out by our four product groups and for investment income, which we categorize as corporate. As you can see from this table, revenues in electronic brokerage increased 19% sequentially driven in part by a 28% increase in global POSIT Alert revenues. Platforms revenues increased modestly versus the fourth quarter of 2015, thanks in part to an increase in commission sharing for trades executed at ITG through trading.

Analytics revenues were down slightly in the first quarter due to lower consulting fees and the timing of service delivery. In research, sales and trading, a 16% sequential increase in global portfolio trading commissions offset some of the impact of the sale of the energy research business.

On Slide 12, we present supplementary pre-tax information for our four product groups and for our corporate activity for the first quarter of 2016. Margins improved sequentially for the electronic brokerage platforms and research, sales and trading groups, while analytics margins were lower due to the revenue decline just mentioned. The sequential increase in corporate cost reflects the impact of higher fees related to ongoing legal proceedings and certain other governmental inquiries, including inquiries related to industry practices for securities borrowing and lending activities.

On Slide 13, we have presented our US volume and rate capture statistics. Our average daily executed volume was up 30% versus the fourth quarter of fiscal 2015 and down 15% versus the first quarter of 2015. As you can see on this slide, our average overall, revenue capture per share fell slightly versus the fourth quarter of 2015 due to a higher mix of index rebalancing by passive buy-side clients as well as a small drop in our average sell-side rate per share.

We ended the quarter with $274.4 million of cash and cash equivalents on our balance sheet down from $330.6 million at the end of the fourth quarter, due primarily to the payment of incentive compensation for calendar 2015, higher clearing deposit requirements, and additional cash used in settlement activities. Our excess cash at March 31 over and above what we need for required regulatory capital and other compensation liabilities was approximately $100 million, down from $110 million at December 31 due to excess capital returns and the net settlement of employee stock vestings during the quarter.

With regard to capital returns, we were opportunistic with our stock repurchase program in the first quarter of 2016, buying back 588,000 shares at an average price of $16.35 per share for a total of $9.6 million. Since the beginning of 2010, our buybacks have reduced shares outstanding, net of issuances, by more than 24%. We also maintained our quarterly dividend program during the fourth quarter, paying out $2.3 million in cash dividends.

Looking forward, we intend to maintain our regular quarterly dividend and we expect to continue to be active with our share buyback program on an opportunistic basis, depending on market and business conditions and the relative return on alternative uses of capital. Looking forward, I would like to offer the following observations. The closure of the Canadian arbitrage and matched book stock loan operations, which Frank mentioned, is expected to decrease other revenues by approximately $7 million annually and pre-tax income by approximately $3 million annually on a combined basis.

Our US average daily volume for April was approximately 129 million shares with average revenue per share slightly higher than our first quarter 2016 average. The average daily commissions in April and our Canadian, European and Asia Pacific businesses, increased a combined 1%, compared to the [fourth quarter of 2015] (corrected by company after the call).

And with that, I'd like to turn it back over to Frank.

Frank Troise - *Investment Technology Group, Inc. - President and CEO*

Thank you, Steve. I am going to start with observations of where I think ITG is today and then share some thoughts on where I believe we need to focus to be recognized consistently as best-in-class by our clients. Please remember, these are early perspectives as there is still work to be done to complete our end-to-end business reviews.

ITG is recognized as a pioneer in electronic execution, analytics, and financial technology. ITG was founded almost 30 years ago with a belief that technology could empower investors to improve performance by reducing implementation costs. In fact, given the pressure on institutional investors to beat their benchmarks and drive operational efficiency, I believe this mission is even more relevant today.

At the same time, the competitive landscape for our products and services has intensified. We've seen competition from many players. Global full-service brokers promoting electronic execution offerings, mono-line players and de novo technology entrants. While industry feedback indicates that we are still leaders in innovation, breadth, and quality of product offering and client service, our competition has attracted considerable client attention. We need to continue to evolve to ensure we deliver differentiated client service and live and breathe our best operator culture.

We have a tremendous opportunity to leverage ITG's strong brand through focused investment in innovation, technology, and client delivery. First, as I described earlier, we have taken steps towards our business simplification and we will continue to evaluate other opportunities. Our main focus is how we can best invest in personnel and technology to achieve leadership in delivering client solutions and scale in our operations. To that end, in recent weeks, we made some key hires to help us pave the way.

To enhance our global risk and controlled approach and processes, we have added a new Global Chief Compliance Officer, Tom Shpetner, who joins us from RBC Capital Markets.

Technology is at the heart of what we do and is key to driving scale on our business. And early observation from our end-to-end business review is that we must invest to ensure that we're a market leading trading plant. As a step in this direction and to complement our extremely skilled team, we've brought in a new Head of Global Technology Architecture, Saro Jahani. Saro has held Senior Technology positions at Direct Edge, Realtick and trueEX, the interest rate swap platform.

Just as we will strengthen our risk and control architecture and bolster our technology capabilities, I am also confident we will continue to rebuild sales by listening to clients, passionately engaging and solving their challenges and providing consistent delivery of our solutions. Simply put, we will work harder than the competition to earn our clients' business. Business is done in clients' offices, working out innovative solutions and delivering on our commitments. This approach relies on disciplined teams who will listen to clients and work non-stop to meet their needs.

In the US, we've added more senior leadership and experience to the squad Andrew Larkin, a two decade veteran of ITG has returned to lead our POSIT Alert client coverage team. These initial changes in approach and investments in people are just the beginning. As part of the end-to-end business reviews, we're looking at all aspects of our organization to determine if there are better, more efficient ways to operate. We will use this review to identify and prioritize the investments that will drive change, improve performance, and strengthen our business. Many of these investments will be multi-quarter in nature.

Along the way, we will also consider inorganic opportunities to compliment the in-house investments, all with a focus on scalable outcomes through the lever of technology. In making these investments, our goal is to grow revenues and expand our margins. In all of our activities we'll be mindful of using capital where we see the best returns, whether that is for internal investment, acquisitions or changing the level of capital returns to our shareholders.

To wrap up, after just over three months, I'm even more enthusiastic about our prospects than I was on day one. ITG is a strong brand with an experienced, passionate team and I'm confident we will be able to deliver for our clients and our shareholders.

I look forward to sharing more details on our next call. And with that, I'll turn it over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Ashley Serrao of Credit Suisse.

Ashley Serrao - *Credit Suisse - Analyst*

Good morning.

Frank Troise - *Investment Technology Group, Inc. - President and CEO*

Good morning, Ashley.

Ashley Serrao - *Credit Suisse - Analyst*

I guess first question is just on client engagement, heard you loud and clear on the call that you said the top hundred clients are back. Just curious what it will take for them to sort of restore the engagement levels with ITG offerings and what are you hearing from them in general?

Frank Troise - *Investment Technology Group, Inc. - President and CEO*

So thank you for that Ashley. The team has done exceptional work regaining accounts. I've been seeing clients across the globe and regaining share takes time. As I've talked to clients, 98% of the clients are past the SEC settlement. What we need to do now is we need to earn back their business. And we need to work through account by account in their office as I mentioned on the call solving problems and earning back their business. There is no doubt that we are focused as a management team on accelerating this recovery.

Ashley Serrao - *Credit Suisse - Analyst*

Okay, thank you for the color there. And just one for Steve on the G&A line, it seems like that's been a little outsized this quarter, just curious if you're running any legal expenses there, any sense of the magnitude would be appreciated.

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

Yes, I'm not going to itemize expense by expense, but we did note that the corporate expenses were up due to some legal fees that we have relating to the ongoing proceedings we disclosed, the lawsuits and claims as well as governmental inquiries we have as a regulated business including one related to industry practices around borrowing and lending of securities.

Ashley Serrao - *Credit Suisse - Analyst*

Okay, thanks for taking my question. I'll get back in the line.

Operator

The next question comes from Rich Repetto of Sandler O'Neill. Please go ahead.

Rich Repetto - *Sandler O'Neill - Analyst*

Yes, good morning, Frank. Good morning, Steve.

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

Good morning.

Rich Repetto - *Sandler O'Neill - Analyst*

Good morning. I guess my question goes was there any reclassification or restructuring going on between either in research or the corporate segment because even stripping out that about $3 million in profit or $2 million to $3 million research actually incrementally get more profitable and the corporate segment, if the expenses went up, I think it was $3.6 million.

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

So on the RS&T product group revenues, Rich we had a really strong quarter with our global portfolio trading team had a really strong quarter of revenues there for that operation was up 16% over the fourth quarter, we also had good subscriptions from the legacy Majestic product and as you know, we continue to earn some revenue from the energy research through our distribution agreement.

We were very good on costs there in the quarter as well. We continue to operate the business as efficiently as we could, given sort of the change in the business. So no re-classes there or anything like that, it's just due to the way we've been operating the business.

And on the on the corporate side I touched on with Ashley's question, a lot of that jump just had to do with some legal fees this quarter.

Rich Repetto - *Sandler O'Neill - Analyst*

On the corporate segment the increase quarter-to-quarter was $3.6 million. And when you look at -- that's just in the corporate segment and you looked at other G&A consolidated was only up by $1 million. So I'm just trying to see again, that looks like you we had incremental legal, it is not showing up or at least not more than it, only a million appears in the G&A line.

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

Now I hear you, typically Rich in the first quarter a lot of our operating G&A tends to come down a little bit, so there's a little less T&E and marketing, that's not unusual. For first quarter, I think you can even compare the first quarter, let's say our US G&A in the first quarter of 2015 you will see it's down, but it's not down as much as is it is in the fourth quarter. And that's because we tend have more promotional activity later in the year than we do earlier in the year.

Rich Repetto - *Sandler O'Neill - Analyst*

Got it. Okay this cannot just be a coincidence with the numbers here.

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

Yes there is no, Richard, there is no movement, it's everything stateds in the way it was in Q4 and in the prior year.

Rich Repetto - *Sandler O'Neill - Analyst*

Got it, okay. And then I guess with the bigger picture, again Frank we've gotten a lot of the metrics of 98%, I think you said 98% are reconnected and the top 98 and the top clients. But as we look up and down, the different, I guess, products and volumes, POSIT seems like it's done very well. And it's not down that much more than 15% to 25%. But other volumes are down whether it's dark pool from FINRA are down more.

And I guess, after looking at it, since you've taken over, just your assessment of where we are on a percentage basis, being back, fully back with the clients, because, again we're looking at things that say, we're 10% to 15% away or 20% away, we are looking at other things and say we're still half of dark pool volume, according to FINRA. But where do you think we are in getting clients to fully recover from the SEC issue?

Frank Troise - *Investment Technology Group, Inc. - President and CEO*

So Rich, I don't want to give you the percentage, right. We've made some good progress in Alert and Steve did talk about some of the progress we've made in global portfolio trading. I mentioned also that the business is competitive, and there's a lot of competition in the algo space. And on the back of the SEC settlement, we have not yet regained our position and our market share with clients in different regions. So I have to take a look at the algo space. I have to take a look at clients, global clients who trade with us in multiple regions. And we have to look product-by-product. And really focus and zero in on clients in each region, each product. So the main area, we need to really focus on now is ramping up out algo business.

Rich Repetto - *Sandler O'Neill - Analyst*

Okay, I understand and thank you for the color.

Frank Troise - *Investment Technology Group, Inc. - President and CEO*

Thanks, Rich.

Operator

Our next question comes from Ken Worthington of JPMorgan. Please go ahead.

Ken Worthington - *JPMorgan - Analyst*

Hi, yes, just following up on Rich's and Ashley's questions. In terms of getting those clients to reengage on the algos, you've kind of indicated there is a process here. Getting in to see the clients is part of the process and there's follow-up that takes place.

How long does it -- is there a typical or maybe even a range in terms of -- once your -- you've now started, you've now met with most of these big clients. At a guess, how long it takes to work through the process that you think needs to take place to get them to reengage? Should they be on that path in the first place? Like it's just something where beginning and it takes six months is it a year, is it two years, is it two months, one month? Any color there on timing I think would be appreciated.

Frank Troise - *Investment Technology Group, Inc. - President and CEO*

There's no standard answer there. Some clients if they've gone as far as turning us off on the back of the SEC settlement have a process that they go through, and there may be timing. There may be certain points in a year where they go about reevaluating their algo providers. And we may have to wait for that timing for that opportunity to prove ourselves.

Others, we've gone live with and it's a matter of ramping up market share. Certain clients have multiple traders on the desk. And we may be trading with one trader maybe, we may have one trader using our algo product today and we need to get end traders at that client using it just as they had in the past. That takes time. But there is no standard solution there. Again, it's one-on-one.

Ken Worthington - *JPMorgan - Analyst*

Yes. Maybe asked another way. After the day after the settlement, it seems unlikely you'd be able to go back to your clients, day two and be extremely aggressive asking for the business back. But at some point in time, enough time has gone past where I would think that you would be able to get more aggressive and I'm sure it changes client by client.

Is there may be a rule of thumb there where you can really start to turn up the pressure or it's more appropriate to turn up the pressure than not with clients. Is it -- does year-end become the milestone, does a year, you're being there at ITG a year and throughout timeframe. So is there something that feels right from that perspective?

Frank Troise - *Investment Technology Group, Inc. - President and CEO*

I believe we've passed the inflection point and we're in the midst of, we have already started to assert ourselves more with clients.

Ken Worthington - *JPMorgan - Analyst*

Okay, okay.

Frank Troise - *Investment Technology Group, Inc. - President and CEO*

So that is spot on the way we've been thinking about it. We're in the up slope in the acceleration point of the curve here.

Ken Worthington - *JPMorgan - Analyst*

Okay, great. And then Steve, you mentioned some of the maybe unusual items, some of the legal fees and stock loan fees. How likely are those to reoccur throughout the year? It feels like legal fees will. Are the stock loans sort of extra expenses there, start to fade-off in second half 2Q [2016] (corrected by company after the call)? When do they start to ease?

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

Yes, in general, right, the corporate expenses which the increase is primarily driven by legal fees, it's kind of hard to predict, right. We've got a lot of different things going on. And they may jump around a little bit from quarter-to-quarter on balance. It'll probably be higher certainly in the first half of this year and we'd look to see it go down maybe towards the latter part of the year, but it is really hard to predict.

Ken Worthington - *JPMorgan - Analyst*

Right.

Frank Troise - *Investment Technology Group, Inc. - President and CEO*

Just to be clear, I think it's important to note that the securities lending inquiries have nothing to do with client order handling, execution or our ATS operations. The inquiries relate to legacy operations and we wanted to provide as much transparency as we could about it.

Ken Worthington - *JPMorgan - Analyst*

Okay, great. Thank you very much.

Operator

Our next question comes from Rich Repetto with Sandler O'Neill. Please go ahead.

Rich Repetto - *Sandler O'Neill - Analyst*

Yes. Hi, Frank, Steve, I just had a follow-up question. On the issue of the stock line of the lending businesses that you're closing as well as the Canadian, I guess arbitration business. Is there any connection and I guess the question is there's an inquiry going on, but you're also closing the businesses at the same time. I'm just trying to understand what's happening. And does any capital get freed up? It seems like these are highly profitable business when you lose $3 million pre-tax.

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

So I'll start with that the capital one first. These businesses did not use a material amount of capital -- will be probably less than $1 million on the combined basis, so nothing material, nothing material there. With regard to the closing, I think this is as Frank mentioned, it's a part of really honing in the business and the focus on the core operations that can be scaled through technology. And as part of the review, we didn't see that and you can see by having inquiries that these types of things can create administrative distractions where you could be focusing on businesses that can grow with scale over time.

Rich Repetto - *Sandler O'Neill - Analyst*

And just the last part of this is if it's -- I understand it's not core, but the profitability level, does that start coming out of the run rate in 2Q? And I guess the question what is you're trying to balance core versus profitability here.

Frank Troise - *Investment Technology Group, Inc. - President and CEO*

We think we have, Rich, other opportunities to grow our business and to ramp up our margins. And we'll be communicating that as part of our end-to-end business review.

Rich Repetto - *Sandler O'Neill - Analyst*

Okay. Thank you very much.

Frank Troise - *Investment Technology Group, Inc. - President and CEO*

Okay.

Operator

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

Frank Troise - *Investment Technology Group, Inc. - President and CEO*

Thank you for joining us today. I look forward to speaking with you again and sharing details of our business review on our second quarter earnings call in July. Thanks again.

Operator

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