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ITG - Q2 2018 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 2018 Results. My name is Andrew, and I will facilitate the call today.

(Operator Instructions) As a reminder, this session is being recorded. (Operator Instructions)

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

James T. Farley - *Investment Technology Group, Inc. - Managing Director of IR and Corporate Communications*

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

During the call, we will also discuss non-GAAP financial measures adjusted to exclude certain specified items. Reconciliations of these non-GAAP financial measures to the most comparable GAAP measures are available on our website.

Press releases and the PowerPoint slides, which accompany this presentation, are available for download in the Investor Relations section of itg.com. Speaking this morning are ITG's CEO and President Frank Troise; and CFO, Steve Vigliotti.

To start, I would like to turn it over to Frank.

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

Thank you, J.T. Good morning, and thank you for joining us to review ITG's Second Quarter 2018 Performance. We're now 8 quarters into our 10-quarter Strategic Operating Plan. I'll highlight our progress and outline the opportunities ahead. Steve will then take you through our financial results. Finally, we will answer your questions.

First, I will address the SEC matter outlined in this morning's earnings release. ITG is in discussions with the SEC staff for potential resolution regarding operational features of our POSIT alternative trading system in the U.S. and access to U.S. POSIT data, along with related disclosures. Many of the issues on which the potential settlement is focused originated in 2010 or earlier.

Regarding the operational features of U.S. POSIT, the potential resolution is focused on technology used for POSIT from 2010 through mid-2014. This technology affected the ability of mainly clients engaged in low-latency trading to interact with other POSIT order flow. It also focused on a delay feature added to POSIT in 2014 as part of ITG's Liquidity Guard anti-gaming technology, which is designed to prevent latency arbitrage.

Regarding access to POSIT data, the potential resolution is focused on the following discontinued access items: overbroad internal access to U.S. POSIT data and the internal sharing of that data, the external distribution of certain reports on a delayed basis that included anonymized, aggregated U.S. POSIT data and instances of sharing of anonymized U.S. POSIT execution information with clients.

We have no knowledge of any ITG staff intending to mislead clients in the disclosures at issue or using information to harm clients' trading interests. This investigation is focused on U.S. POSIT, not on regional ATSs or other products. As a firm, we are addressing this issue head on. ITG has taken meaningful actions to remediate matters during the course of the investigation. We have completed a comprehensive review of system access and have imposed stricter limits on access to POSIT data. We have also enhanced POSIT's Form ATS and other disclosures and implemented training for all U.S. staff about the proper safeguards for POSIT information.

Based on recent discussions with the SEC staff, we have accrued $12 million for a potential settlement to this matter, reflecting our expectation for a civil monetary penalty without restitution or disgorgement. Resolution of the matter is subject to further discussions with the SEC staff and requires approval by the Commission. As Steve will highlight shortly, we have substantial excess free cash, which we believe will be more than sufficient for any potential settlement of this matter. We're determined to act with the highest level of integrity as we strive to deliver world-class products and client service. This commitment has been a priority since I rejoined the firm 2.5 years ago. We take this commitment seriously, and today's announcement is another step towards putting the past behind us and moving forward.

Turning now to our second quarter results. Revenues were up 6% year-over-year while operating expenses were flat, resulting in an almost 100% increase in adjusted net income versus the second quarter of 2017. Results were driven by strength in international trading, including record market share in Canada, new records for average daily value traded in Alert in Europe and Asia Pacific as well as continued momentum in workflow technology. Our profitability was also enhanced by the cost-savings measures we have implemented over the past 2 years.

In Europe, we performed well despite a drop in market activity. Value traded in the POSIT Alert block crossing system rose 42% compared to the second quarter of 2017, reflecting the impact of the MiFID II dark pool caps. Block trading volume in dark pools, including POSIT, increased significantly during the second quarter, ranging between 35% and 50% of total dark trading. That compares to less than 20% in the year-ago period. We're making progress with introducing conditional orders to POSIT to boost available block liquidity, and we're seeing increased use of POSIT Auction. Overall, European revenues were up 11% year-over-year despite a 1% decline in European daily market-wide value traded.

Asia Pacific had a strong quarter with revenues up 42% compared to the second quarter of 2017. Daily value traded rose 53%, well ahead of the 19% increase in market-wide turnover. Growth was driven by another quarter of record activity in POSIT Alert, increases in algo trading and higher commission sharing revenues from trading through Triton and Algo Wheel. We continue to see benefits from the global effects of MiFID II in the form of increased client demand for solutions which measure best execution.

In Canada, we set a new market share record with average daily executed volume up 16% versus the second quarter of 2017 despite a 6% decline in market-wide trading volumes. The latest Greenwich Associates results for Canada show ITG is again the clear leader in electronic trading. ITG was ranked #1 in algo trading, electronic trading client service and platform reliability. In this survey, we earned top marks for best analytics and most valuable market structure content.

In the U.S., our pretax loss narrowed on a sequential basis from $1.4 million to just under $1 million. Second quarter pretax loss resulted from a challenging April as our U.S. operation was profitable in both May and June. Market share in the second quarter improved sequentially to 1.93%, up from 1.8% in the first quarter of 2018. In addition to rebalance activity in June, market share gains were driven by trading by new hedge fund clients.

The intensity of our client engagement is starting to pay off. During the second quarter, Institutional Investor ranked ITG the #2 firm for U.S. electronic trading, according to their poll of more than 350 buy-side investors. And last month, Greenwich Associates named us as a top quality leader for

U.S. equity commission management service and execution quality. While we're proud of this recognition, we are not satisfied with our financial results. Achieving consistent U.S. profitability through continued client engagement and innovative technology-enabled solutions is a key priority. As we work to achieve profitability in U.S. execution services, we're maintaining cost discipline across the franchise.

Overall, since the launch of the Strategic Operating Plan in July of 2016, we have implemented annual cost savings of more than $30 million with most of the savings in the U.S. These savings have fully funded investments in core capabilities, including those we are making as part of our 10-quarter Strategic Operating Plan. As a reminder, our plan calls for investments of $40 million in people and technology through the end of 2018. More than $32 million has been invested over the past 8 quarters. We have recruited approximately 50 professionals under the plan in client service, technology development and product management. Even with this recruitment, we made targeted reductions, bringing headcount down from 963 at the launch of the plan in July of 2016 to global headcount of 880 today.

The goal of the Strategic Operating Plan is to deliver unmatched client service and best-in-class products in our 4 key offerings: liquidity, execution, workflow technology and analytics. In liquidity, we're making progress in the rollout of the POSIT Alert ticket, which provides streamlined access to global blocks, customized workflows and the ability to use block crossing alongside Algo execution. 260-plus users at more than 100 clients are now live using this new technology, and we plan to deploy it globally by the end of 2018.

In execution, more than half of U.S. clients now have access to our flagship implementation shortfall algorithm, ISAI, which employs artificial intelligence to improve execution performance. We have started client pilots in Canada and Europe with Asia Pacific to follow by year-end.

In analytics, we're expanding multi-asset coverage, rolling out transaction cost analysis of futures products in key developed markets in the second half of 2018. We are also making progress on the new state-of-the-art client portal, which will provide a streamlined single access point for ITG's robust analytics, data and execution capabilities. We expect client data testing of the portal to begin in the fourth quarter with broader access planned through 2019.

And in workflow technology, we are reinforcing Triton's position as the leading multi-asset execution management system. We have momentum in winning client mandates with both large international asset managers and hedge funds. Algo Wheel, our technology-enabled best execution solution, which enables objective, auditable measurement of algos, continues to gain ground. This solution now has nearly 40 installations worldwide. The growth of Algo Wheel is a key driver behind the increased profitability in our workflow technology operation, which had pretax margins of almost 24% in the second quarter, the highest level since we began breaking out quarterly product group margins in 2014.

We intend to complete our investment in people and technology under the Strategic Operating Plan through the end of this year. We're also open to potential opportunities to add scale through acquisition, provided these opportunities are in line with our core product offerings.

Now Steve will discuss second quarter financial results. All yours, Steve.

Steven Richard Vigliotti - *Investment Technology Group, Inc. - MD, CFO & Chief Administrative Officer*

Thank you, Frank, and good morning. Second quarter results were strong, with record block crossing activity in Europe and Asia Pacific, record market share in Canada and continued growth in global commission share revenues from our workflow technology products. And while market activity declined sequentially, we narrowed our loss in the U.S. from the first quarter of 2018 as a result of improved market share and the impact of cost-reduction measures.

In the second quarter, revenues were $128.5 million and our GAAP net loss was $3 million or $0.09 per share. This compares to revenues of $131.5 million and GAAP net income of $4.4 million in the first quarter of 2018. Second quarter 2017 revenues were $121.6 million, and net income was $4.6 million or $0.14 per share.

On Slide 8, we detail nonoperating items that are in GAAP results for the second quarter of 2018 and the first quarter of 2018. There were no non-GAAP adjustments in the second quarter of 2017. Second quarter 2018 results include a $12 million accrual for the potential SEC settlement, together with related legal expenses of $200,000, for a combined charge of $12.2 million after taxes or $0.36 per share. Excluding this combined charge, adjusted net income in the second quarter of 2018 was $9.2 million or $0.27 per share. For this discussion going forward, all references to second quarter and first quarter 2018 results in costs are on an adjusted basis, excluding the items listed on Slide 8.

Slide 9 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 second quarter of 2017, consolidated revenues were up $6.9 million while consolidated expenses were flat. Consolidated pretax margin was 9.3%, down from 9.9% in the first quarter of 2018 and up from 4.2% in the second quarter of 2017. These results were achieved even with the impact of the new revenue recognition accounting standard.

Under this required standard, $1.1 million of commissions attributable to bundled arrangements for analytics products were deferred in the second quarter. In addition, we accelerated the recognition of $400,000 in software license revenue. The net reductions to second quarter 2018 global revenues of $700,000 reduced after tax earnings by $0.02 per share. The revenue commission deferral in the second quarter, together with the $3.8 million commission deferral in the first quarter, are expected to reverse in the second half of the year.

For the second quarter of 2018, North American businesses posted net income of $0.03 per share on revenues of $65.8 million. Combined European and Asia Pacific businesses posted net income of $0.37 per share in the second quarter on revenues of $62.3 million. Corporate activity lowered net income by $4.4 million or $0.13 per share.

Slide 10 details exchange rate impacts on results of foreign subsidiaries. Currency changes decreased profitability by $500,000 when compared to rates in effect in the first quarter of 2018 and increased profitability by $900,000 when compared to rates in effect in the second quarter of 2017. You could also see the larger impact on reported revenues and expenses.

On Slide 11, North America operations are broken out between the U.S. and Canada. During the second quarter of 2018, U.S. revenues were $48 million, with a pretax margin of negative 2.1%. This compares to $52.8 million in revenues with a pretax margin of negative 4.5% in the second quarter of 2017. U.S. commission revenues declined 2% sequentially, reflecting lower market-wide trading, largely offset by an increase in market share. We continue to generate strong levels of commission share revenues from workflow technology products in the U.S., up 15% from the prior year period.

U.S. expenses were down 2% sequentially, reflecting reduced transaction processing cost and lower compensation. The sequential decline in U.S. compensation cost reflects the headcount reduction in March, offset in part by the impact of adjustments made in both the first and second quarters. In addition, a portion of the savings was realized in the first quarter and a portion will be realized later in the year. Expenses were down 11% compared to the second quarter of 2017, largely due to lower transaction processing, compensation and occupancy costs.

Canadian revenues were down only 2% sequentially, outpacing the 11% decrease in market-wide trading. As compared to the second quarter of 2017, Canadian revenues were up 11% versus a 6% decline in market-wide trading.

Slide 12 is a breakdown of European and Asia Pacific results. European daily value traded in the first quarter was down 7% sequentially versus a 4% decrease in daily market-wide trading. This reflects the impact of a full quarter of the MiFID II dark pool volume caps, which went into effect in mid-March. Europe set a new record for trading activity in POSIT Alert as clients turn to dark block crossing in the wake of the caps.

Asia Pacific set a new record for both POSIT Alert activity and revenues and strongly outperformed the market. Regional revenues were down only 1% sequentially despite a 15% drop in daily value traded across the region. Revenues were up 42% year-over-year.

Slide 13 provides supplementary information on product group revenues and investment income, which we categorize as corporate. Execution services revenues decreased 5% versus the first quarter of 2018, reflecting lower market-wide trading activity and a full quarter's impact from the derivatives spinout. Revenues increased 4% year-over-year, fueled by higher global Alert revenues and market share gains in Asia Pacific and Canada. Workflow technology revenues rose 2% sequentially and 16% year-over-year, driven by higher commission share revenues where Algo trades with third-party brokers executed via Triton and the Algo Wheel. Analytics revenues were up 10% versus the first quarter of 2018 and were flat year-over-year.

Slide 14 presents supplementary pretax income information for 3 product groups and for corporate activity. Pretax margin for execution services was down sequentially, but up versus the second quarter of 2017. Pretax margin for workflow technology rose sequentially and doubled the margin from the second quarter of 2017 to 23.7%. In analytics, we returned to profitability in the second quarter with pretax margin of 6.5% due to the timing of report deliveries, which impacts revenue recognition, as well as the impact of cost-savings initiatives. Pretax loss from corporate activity was $4.5 million, down from $6 million in the first quarter of 2018 and $5.4 million in the prior year period, due primarily to lower legal costs.

As we have said on prior calls, corporate expenses, including legal costs, vary from quarter-to-quarter as we work through litigation, regulatory and other corporate matters. Corporate expenses will likely increase in the third quarter as we work towards a potential settlement. We do, though, expect to carve those settlement-related costs out from adjusted expenses.

Slide 15 presents U.S. volume and rate capture statistics. Average daily executed volume was down 3% sequentially in the second quarter and down 10% year-over-year. Average U.S. revenue per share was down 4% from the first quarter to $0.0035 due in part to a higher mix of market on post-trading associated with index rebalances. The percentage of traded volume from sell-side accounts declined from 54% to 49% quarter-over-quarter.

We ended the quarter with approximately $236 million of cash, up from $230 million at the end of the first quarter. This increase was due to our free cash flow, which exceeded capital returns, and a decline from foreign exchange changes. Excess cash at June 30 over and above what is needed for required regulatory capital and other compensation liabilities was approximately $65 million, down from $70 million at the end of the first quarter. This decline primarily resulted from the recording of the $12 million settlement accrual, which reduced the regulatory capital in our U.S. broker-dealer entity as of June 30. The impact of the accrual was partially offset by an increase from the excess of our free cash flow over capital returns. Our excess cash position is more than sufficient to continue to invest in our business.

Regarding capital returns. Last week, we announced our regular quarterly cash dividend of $2.3 million or $0.07 per share. Second quarter stock repurchases totaled nearly 103,000 shares for approximately $2.2 million or an average cost of $21.09 per share. Year-to-date, we purchased 283,000 shares for $5.7 million. We have suspended share repurchases until we reach a final settlement with the SEC in the U.S. POSIT matter. Our long-term share buyback guidance remains the same. We intend to repurchase shares in an amount sufficient to offset all dilution from share issuances on the vesting of stock awards during the year. We may purchase shares in excess of this amount on an opportunistic basis, depending on market conditions.

Here are a few closing observations. We invested $5.6 million in the Strategic Operating Plan during the second quarter. Approximately $32 million has been invested since the launch of the plan in July 2016. We expect to complete the balance of the $40 million investment in the back half of 2018 with roughly half of the remaining investment expensed and half capitalized.

Looking at current business activity levels. Our trading in July significantly outpaced the reduction in global market-wide trading activity. As we noted in our volume release this morning, U.S. average daily volume in July was 127 million shares for a market share of 2.08%. Revenue per share was approximately 5% higher than the average in the second quarter of 2018. July combined average daily commissions in Canada, Europe and Asia Pacific were 2% lower in U.S. dollar terms than the second quarter of 2018. On a blended international basis, there are approximately 22 trading days in July.

Now I will turn the discussion back to Frank.

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

Thank you, Steve. We're entering the final 2 quarters of the 10-quarter Strategic Operating Plan. International operations are performing well, and we are narrowing the profitability gap in the U.S. We are encouraged by our interactions with clients and the feedback on the investments we've been making.

Regarding the potential SEC settlement, we have taken meaningful actions to remediate matters during the course of this investigation. We're committed to managing our business with the highest legal, ethical and compliance standards. ITG has demonstrated this clearly in actions we have taken over the past 2.5 years, including the: appointment of a new Chairman and 3 new independent directors to the board; hiring new compliance management, including the Head of Compliance for the Americas and adding additional resources to our legal and compliance teams; strengthening our risk and control agenda, including the creation of a global risk committee and engaging an independent compliance consultant to ensure that our approach is sound; appointing new leadership across all U.S. businesses, including sales, product and technology. In taking these important steps, we have been consistent in our determination to build a culture of integrity in innovation, to focus on serving clients and striving to be the best operator in the 4 key business areas: liquidity, execution, workflow technology and analytics.

Now Steve and I will answer your questions.

QUESTIONS AND ANSWERS

Operator

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

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

I guess the first question is around the SEC fine. And thank you for the closing comments, because I think it puts a little bit more perspective on it. But I guess the big -- the 2 questions today related to it is, one, what do you think the impact on clients will be? Will you think you'll be able to separate this from -- certainly, we could see the difference from the proprietary trading issue. But do you think there's enough separation? And then in regards to the safeguards and the issues with low-latency trading, I was just a bit confused because it appeared that you have kind of protected the venues from late high latency trading -- low-latency trading. And -- but just trying to understand, what were the features that were not found that you could continue on with it, the SEC found forward?

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

Okay. Let me start with just a couple of questions in there, one is the impact on clients. And Rich, we have a well-prepared client outreach program. We've been making significant progress here in the U.S. We've been delivering value as an end-to-end financial technology solution provider. In the outreach program, we will communicate that we've stepped up. We've taken accountability for the issues, many of them go back as far as 2009, 2010. We have been remediating the matters throughout the investigation, and this is another step toward marching forward. From the standpoint of separation from prior issue, the Omega issue, in the summer of '15, this is night and day. This does not involve proprietary trading. This is related to operational issues and data access. We talked about some from the safeguards, and you asked a question about some of the more technical specificity. One operational issue is related to our technical architecture and how our technical architecture was set up between the years 2010 and 2014 with respect to our ATS and was done from the standpoint of looking to ensure reliability and stability to the POSIT ATS technology as the firm added new liquidity providers, electronic market makers. That's the overview.

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

Okay, okay. And I guess a follow-up would be on the U.S. profitability, I guess more for Steve. When we took a look or -- I guess some of the things that weren't in: the headcount reduction that you announced in the first quarter, and it's supposed to save you, I believe, $8.5 million on an annualized basis; also, the elimination of Matrix. I know that was only for -- compared to the first quarter, only 50% of that, but we were looking more for expenses. If you look at those things, if you take the quarterly impact and then adjust more for $2.5 million to $3 million decline, when you only saw $1 million decline in overall expenses and compensation as well, so I guess were we looking at it incorrectly, Steve? Or were the -- I think you said there was an adjustment to compensation in the quarter. I didn't -- could you sort of bridge the gap there, why expenses went down in the U.S. as much as what -- from the headcount reduction and the matrix?

Steven Richard Vigliotti - *Investment Technology Group, Inc. - MD, CFO & Chief Administrative Officer*

Yes. In terms of the U.S. headcount reduction, Rich, I noted in my comments that in addition to the savings from the headcount reduction, some of that was offset by a couple of matters. We did have adjustments to our compensation expenses a little bit in the first quarter, which lowered expenses, and a little bit in the second quarter, which increased expenses. The overall impact was a reduction of about $200,000 in first quarter and an increase of about $300,000 in the second quarter. Just routine comp adjustments, nothing material to note there. So that absorbed some of the savings. Some of the savings from the headcount reduction was also realized in the first quarter, about $200,000 was realized in the first quarter. And then we do project roughly about $300,000 or so to kick in, in the second half of the year.

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

Okay, okay. And last one quick one. And I think -- Frank, I just love to get your opinion on the recent transaction that occurred in the space, State Street buying Charles River and SS&C buying Eze. How do you view that versus your workflow technology segment? And anything you could garner from those transactions?

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

Well, I think it speaks to the value in our workflow technology business. This is an industry that, from a financial technology standpoint, is -- we've talked about, ripe for consolidation. And those 2 transactions, I think, really point out to the type of value that can be unlocked in our workflow technology business between Triton, the network, the Algo Wheel.

Operator

The next question comes from Ken Worthington of JPMorgan.

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

I'm going to follow up on a bunch of what Rich had asked. So on the SEC investigation, are there changes that you have been making to POSIT more recently because of the SEC investigation? Like you mentioned that the issues were all 2010 to 2014. But are there things that you're actually changing now to address issues that were introduced back then? I couldn't tell if that was the case or not. So I guess that's question number one.

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

Ken, we remediated the matters throughout the investigation. Some of the remediation was related to disclosures. We've updated our Form ATS throughout the investigation, and we have laid in a significant number of changes in our risk and control environment.

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

Okay, okay. Maybe number two, as the Strategic Operating Plan comes to a conclusion, how do we think about expenses in 2019? So I guess what I'm trying to figure out is, some of the investments or the cost around the investments will fall off, others will persist. Of what has been expensed or continues to be expensed, what is likely to persist? What actually falls off as we turn the corner into '19?

Steven Richard Vigliotti - *Investment Technology Group, Inc. - MD, CFO & Chief Administrative Officer*

Yes. So well, there'll be continued investment in our business beyond 2018, even as we complete the Strategic Operating Plan. We'll be looking at other opportunities and areas to invest as well.

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

And yes, we are going to come back to investors on the next earnings call with what's next post the Strategic Operating Plan. We are open to inorganic opportunities. The SOP has been an organic set of investments to tune-up our technology infrastructure, to build a world-class management team. We're now ready on the back of the Strategic Operating Plan to evaluate more and more inorganic opportunities. As well, you can expect to see greater monetization of the capabilities that we've been building in the Strategic Operating Plan. You can expect to see an investment in asset class extension in areas that we believe are commercial and practical, analytics and workflow technology. And we'll be looking to take the capabilities of a significant inherent scale on our business. We'll be looking for margin expansion into the future.

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

Okay. That segues into, I guess, my final question. If the trading environment -- the trading environment has clearly been challenged in the U.S. If the trading environment improves in the U.S. and we start to see better sort of industry volume and activity levels, how should we think about expense growth in a truly better environment? You've tightened -- you've done a tremendous amount of belt tightening. If it gets better, how do expenses -- or how do incremental revenues flow through the P&L on the expense side? I don't think you guys think about it this way. We on the buy-side and sell-side do. So if we think about incremental revenue, how should incremental expenses look in a better world?

Steven Richard Vigliotti - *Investment Technology Group, Inc. - MD, CFO & Chief Administrative Officer*

Yes. I think, Ken, we've previously guided, and I don't think anything would change, that you should expect incremental margins on new revenue to be north of 50%. I think we guided that one when we launched the plan, and that target remains the same. In terms of -- just to follow up on your question earlier, I just want to clarify one thing. On the investments we've made to date, roughly $32 million in the Strategic Operating Plan, a significant amount of that, about 2/3 of that, has -- was capitalized either in the form of developer time to build new products or in equipment. So that'll continue to be depreciated throughout 2019. And we'll -- like as Frank said, we're going to look sharpen our pencils and look at other initiatives going forward.

Operator

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

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

Thank you for your questions. On our next earnings call, we'll look forward to discussing our continued progress and sharing details about our focus and priorities for 2019 and beyond.

Thank you, again, for joining us this morning.

Operator

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