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ITG - Q1 2015 Investment Technology Group Inc Earnings Call

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PRESENTATION

Operator

Good morning, and thank you for joining us to discuss the ITG's [First-Quarter 2015] results. My name is Frank, and I will facilitate the call today.

After the speakers' remarks, there will be a question-and-answer period. I will provide further instructions before we take questions. As a reminder, this session is being recorded. I would now like to turn the call over to JT Farley of ITG. Please go ahead, Sir.

JT Farley - *Investment Technology Group, Inc. - Managing Director IR & Corporate Communications*

Thank you, Frank, and good morning. In accordance with Safe Harbor regulations, I would like to advise you that the forward-looking statements we will be making this morning are subject to a series of risks and uncertainties that may cause actual results to differ materially from those statements.

These forward-looking statements speak as of today, and you should not rely upon them as representing our views in the future. While we may elect to update these forward-looking statements in the future, we undertake no obligation to do so.

I advise you to read about the risk factors that may affect forward-looking statements in this morning's press release, as well as in our SEC filings. 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, Bob Gasser, and CFO, Steven Vigliotti. To start, I would like to turn it over to Bob.

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

Thanks, JT, and thank you all for joining us. As you can see, 2015 is off to a great start for the Company. Our strategy of a portfolio approach across our operating regions and product groups continues to drive our financial performance.

Some highlights for the quarter include year-over-year revenue growth of 9% for the quarter to $149.7 million, which included a record quarter for our businesses in both Europe and Asia Pac.

Net income grew 23% to $16.7 million, or $0.47 per diluted share, compared to net income of $13.6 million, or $0.37 per diluted share for the first quarter of 2014. That marks the highest earnings per share since the fourth quarter of 2008.

We reported an annualized return on average equity of 16% in the first quarter, up from 13% in the first quarter of 2014.

We repurchased $16.4 million worth of shares, the highest quarterly amount since the start of our current buyback program in 2010. And our Board, based on a recommendation from our new capital committee, declared a quarterly dividend of $0.07 per share, the first in the Company's history, as part of our continued commitment to returning capital to our long-term shareholders.

Taking a closer look at our regional results, our US average daily volume was 191 million shares, up 1% from the prior quarter and up 16% compared to the first quarter of 2014. This compares quite favorably to US consolidated volume, which was down 1% sequentially and flat versus a year ago.

We did see a mix shift to more sell-side trading volume in the US, up to 56% of total volume in the first quarter versus 53% in the fourth quarter of 2014 and 51% in the first quarter of 2014. This sell-side flow helped increase volumes in POSIT, which had average daily volume of 93 million shares in the first quarter.

We launched two key algorithms in the US in recent weeks -- Dark List, which delivers the aggregation and order protection capabilities of POSIT Marketplace 3.0 to portfolio traders; and Slimit for Retail, which is a new version of our passive smart limit algo designed specifically for retail broker dealers.

ITG Investment Research also had a solid quarter, making alpha generating calls on Chipotle, Harley Davidson, and Coach, and hosting impactful corporate access events with ULTA, ADT, and WWE.

On the energy side, we booked over $1 million in energy transaction advisory revenues, and drew increased interest from distressed debt investors who are analyzing the impact on corporate balance sheets of the plunge in energy prices.

In Canada, we saw good momentum in Q1, with growth in our ETF business and our hedge fund initiative. In local currency terms, it was a strong quarter with revenues up almost 11% over the first quarter of 2014, ahead of the 9% growth in volumes marketwide. Our dark pool MATCH Now had another strong quarter, and now represents 5% of total Canadian volume, single-counted.

In Europe, the momentum continued with first quarter value traded up 37% year-over-year in the local currency terms versus marketwide pan-European value traded up just 18% as measured by BATS.

In addition to setting a new record for quarterly revenues, the first quarter marked our highest ever value traded, and we hit a new daily value traded record during March as well.

We continue to see market share gains led by POSIT Alert, growth in our sell-side business, and an increased trend towards unbundling by European buy-side clients. We also recently introduced a European version of POSIT Marketplace 3.0.

With just over 18 months until the implementation deadline for MiFID II, there are many questions still outstanding, but we are confident that our expertise in reducing trade impact, sourcing block liquidity, and measuring investment performance will enable us to thrive in the evolving European market structure. Our team has worked very hard to give ITG strong optionality to respond to what will undoubtedly be a seismic change in market structure for the region.

In the Asia Pacific region, we also reported a record quarter, with revenues up 39% compared to the prior-year period, and our first quarterly profit of over $1 million. While our market share is relatively small, we have seen steady growth. Value traded was up 27% year over year in the first quarter of 2015 versus regional value traded up marketwide by just 5%.

POSIT Alert continues to be a key driver of growth in Asia Pacific as new clients come onto the platform, both in the region and outside it, providing a deeper pool of liquidity and a better client experience.

We are also starting to see the benefit of a trend towards the unbundling of research from execution in the Asia Pacific region, motivated in part by the regulatory discussions underway in Europe.

We received several new awards for our product initiatives and technical capabilities during the first quarter. ITG took home two Wall Street Letter awards -- Best Product for our hedge fund solution; and Best IT Initiative for our robust enterprise wide data storage solution. Our execution capabilities also won hard-earned praise. Elkins McSherry recognized ITG as the number one US brokerage from a transaction cost analysis perspective.

Regarding our new product initiatives, we have made progress recently on the foreign exchange and fixed income fronts. In FX, we are completing the integration of our Triton EMS with FX Connect. We also signed an intermediation agreement with a large global bank, which will enable us to deploy our foreign exchange algorithms and to roll out POSIT FX and FX algos in the coming months.

In fixed income, we crossed our first corporate bond trades in POSIT fixed income this month. The trades involve both buy-side and sell-side clients, validating the all-to-all approach we have adopted for our platform. We continue to work on OMS integrations and are adding more clients and liquidity to the pool every week.

Turning to our balance sheet, as I mentioned earlier this morning, we instituted a quarterly dividend of $0.07 per share. This is a new component in our overall capital return strategy where we're targeting the return to shareholders of free cash flow, plus an additional $15 million in 2015, through a combination of increased repurchases and now dividends.

We believe we are striking appropriate balance between providing value for our long-term shareholders, while still maintaining the balance sheet flexibility to capitalize on any potential growth opportunities. We will continue to work with our new capital committee on capital optimization strategies.

Q1 2015 represents a number of profitability and shareholder return milestones for our Company. None of this would be remotely possible without the passion, intensity, and talent that our colleagues bring to their efforts every day. I thank them for their continued good works on behalf of our long-term shareholders.

And with that, I'd like to turn it over to our Chief Financial Officer, Steve Vigliotti, to review the first-quarter financial results.

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

Thanks, Bob, and good morning, everyone.

Record revenues in both Europe and Asia Pacific, and continued solid profitability in North America, pushed our earnings per share to their highest level since the fourth quarter of 2008.

As noted on slide 8, we generated consolidated revenues of $149.7 million during the first quarter, up 1% from the fourth quarter of 2014 and up 9% from the first quarter of 2014.

We posted net income of $0.47 per share in the first quarter of 2015 compared to net income of $0.36 per share in the fourth quarter of 2014, and an income of $0.37 per share in the first quarter of 2014.

Slide 9 presents our consolidated results, along with separate breakdowns of the results from our North American and European and Asia Pacific operations, as well as our corporate activity.

We are now presenting our regional segment results, excluding corporate activity. Corporate activity includes investment income, as well as costs not associated with operating 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, and foreign exchange gains or losses. Previously, the majority of these costs were presented in the US. All prior periods presented have been adjusted to reflect this new presentation.

On a year-over-year comparative basis, consolidated revenues were up $12.1 million, while consolidated expenses were up $8.2 million. Our consolidated pretax margin was 14.9%, up from 11.9% in the fourth quarter of 2014 and up from 13.4% in the first quarter of 2014.

Our consolidated effective tax rate was 25.1% for the quarter, reflecting a regional mix of our earnings. Our North American effective tax rate was 39.8%, and our European and Asia Pacific effective tax rate was 14.5%.

Our North American businesses posted earnings of $0.25 per share in the first quarter on revenues of $99.4 million. And our combined European and Asia Pacific businesses posted net income of $0.29 per share in the first quarter on revenues of $50.1 million. Corporate activity lowered net income by $0.07 per share in the first quarter.

While divergent central bank policies may have resulted in overall market volatility and increased trading activity, the impact of a stronger US dollar on our reported results was significant. On slide 10, you can see the impact of translating the first quarter 2015 income statements of our foreign subsidiaries to US dollars using current exchange rates as compared to exchange rates in effect in the fourth quarter of 2014 and the first quarter of 2014.

Current exchange rates lowered consolidated net income by $900,000, or $0.03 per share, as compared to rates in effect in the fourth quarter of 2014. And lowered net income by $1.6 million, or $0.05 per share, as compared to exchange rates in effect in the first quarter of 2014. You can also see the larger impact on gross revenues and expenses.

On slide 11, we break down the performance of our North American operations between the US and Canada. During the first quarter of 2015, we generated revenues of $80.5 million with a pretax margin of 13.7% in the US. This compares to $81.4 million of revenues with a pretax margin of 11.7% in the fourth quarter of 2014, and $75.6 million of revenues with a pretax margin of 13.6% in the first quarter of 2014.

Recurring revenues in the US of $20.0 million were up compared to both the fourth quarter of 2014 and the first quarter of 2014 due to a higher attribution of revenue from global connections, which added approximately $900,000 of recurring revenue to the US from other regions, and a shift in the recognition of corporate energy research revenue to the US from Canada, adding approximately $400,000 in recurring revenue.

Other revenues in the US were $2.0 million, up from $1.3 million in the fourth quarter of 2014, but down from $2.6 million in the first quarter of 2014. The increase over the fourth quarter reflects higher transaction advisory service revenue, while the decrease from the first quarter of 2014 reflects lower stock loan revenue.

Our US expenses rose 6% from the first quarter of 2014 due chiefly to higher transaction processing costs associated with increased trading activity, and a higher proportion of transactions from sell-side clients that took liquidity, and higher compensation costs.

Our compensation ratio was 42.0% in the first quarter of 2015 as compared to 43.2% in the fourth quarter of 2014 and 41.2% in the first quarter of 2014. The higher rate in the fourth quarter of 2014 primarily reflected the impact of employee termination costs of $1.6 million.

Another strong quarter of electronic brokerage activity in Canada was offset in part by the impacts of currency translation, as previously discussed, the shift in recording more of our recurring global connectivity and research subscription revenue to the US, and the impact of mark-to-market adjustments on cash settled stock awards to our employees from the rise in our stock price.

Global connectivity revenue and corporate energy research revenue were lowered by $500,000 and $400,000 respectively from the accounting changes previously described.

Movements in our stock price drove Canadian compensation expense on liability awards higher by $1 million in the first quarter and $1.3 million in the fourth quarter of 2014, and lower by $600,000 in the first quarter of 2014.

On slide 12, we break down the results of our European and Asia Pacific businesses. European revenues were up 12% over the first quarter of last year to a record $36.6 million, even with the negative impact of currency translation. Our European margin was a strong 30.4%, reflecting sequential improvements in both our compensation and transaction processing cost ratios.

Asia Pacific revenues surged 39% over the first quarter of 2014 to a record $13.5 million, reflecting in part growth in POSIT Alert and the impact of a $900,000 accommodation loss in the first quarter of last year.

Our Asia Pacific compensation ratio dropped significantly from the fourth quarter of 2014, reflecting the scale we were able to realize with revenue growth, and the impact of employee termination costs of $500,000 incurred in the fourth quarter. This improved scale pushed profitability above $1 million for the quarter; our third consecutive quarter of profitability in the region.

On slide 13, we offer supplementary information for the last 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 the electronic brokerage and research, sales and trading product groups increased on both a sequential and year-over-year basis, reflecting the improved trading environment.

Platforms revenues increased on a year-over-year basis, while analytics revenues held steady.

On slide 14, we present supplementary pretax income information for our four product groups and for our corporate activity for the first quarter of 2015, along with the margin rates for fourth quarter 2014 and full year 2014.

Electronic brokerage, platforms, and research, sales and trading all increased their margins over fourth quarter 2014 levels due to higher trading volumes, while the analytics margin was also up slightly.

On slide 15, we have presented our US volume and rate capture statistics. Our average daily executed volume was up 1% versus the fourth quarter of 2014, and up 16% versus the first quarter of 2014.

As you can see on this slide, our average overall revenue capture rate per share rose slightly on a sequential basis to 45 mils. The drop from 47 mils in the first quarter of 2014 was due in large part to an increase in the proportion of trading activity by sell-side clients, along with a decline in the average revenue capture rate from sell-side clients.

We ended the quarter with $205.8 million of cash and cash equivalents on our balance sheet, down from $275.2 million at the end of the fourth quarter, due primarily to payment of 2014 incentive compensation, higher required clearing deposits in Europe and Asia Pacific, net settlements of employee stock awards, and the impact of currency translation.

Our excess cash on March 31, over and above what we need for regulatory capital and compensation liabilities, was $45 million, down from $50 million at December 31, 2014, due to higher capital needs in Europe and Asia Pacific.

We were active with our repurchase program again, and bought back 692,000 shares during the quarter for $16.4 million, at an average cost of $23.73 per share. Since the beginning of 2010, our buybacks have reduced shares outstanding, net of issuances, by nearly 22%.

We expect our capital return activity to increase during the remainder of the year to achieve our enhanced capital return target through a combination of increased share repurchases and our recently announced quarterly dividend program.

Our capital return activity is expected to still be heavily weighted towards share repurchases, but the increased cash flow generation we have established in our business model over the past five years has enabled us to incorporate a modest regular dividend program.

Looking forward, I would like to offer the following observations.

Our US average daily volume for April is approximately 181 million shares at an average rate below our first quarter average due to a further increased shift in the mix of volume to sell-side clients.

The average daily commissions in April in our Canadian, European, and Asia Pacific businesses was down a combined 2% compared to the first quarter, but was up 13% over the second quarter of 2014.

And with that, I would like to open the call to Q&A. Operator, please open up the lines for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Chris Allen, Evercore.

Chris Allen - *Evercore ISI - Analyst*

Wonder if you just walk through the process of how you guys thought about implementing the dividend, how you kind of stack rank capital deployment opportunities at present. And I'm going to follow up with some others after that.

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

Yes, I think it was, the thought process was really I think happening at the capital committee level; the new capital committee that we've established. Certainly it is subsequent to the commitment we've made to return free cash flow plus 15 to our shareholders. And as I said, we're absolutely committed to doing that this year.

I think it was also recognition is I think Maureen's quote in the press release this morning indicates that we feel very, very strongly about our future prospects. This is a modest number, and does not at all constrain our balance sheet or our flexibility to consider a strategic opportunities, growth opportunities, continued commitment of capital to the regions when they need it. And as I said at the outset, continues to put us in good position to do as we committed to do, which is to return free cash flow plus 15 to shareholders.

Chris Allen - *Evercore ISI - Analyst*

Got it. So just to clarify, the buybacks plus the dividend will equal free cash flow, and then plus 15 this year.

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

Exactly, exactly.

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

It's part of reaching that overall target, Chris. That's correct.

Chris Allen - *Evercore ISI - Analyst*

Got it, okay. And then from a growth opportunity standpoint, are you guys seeing any opportunities from an organic -- any incremental opportunities from organic perspective currently, or is there anything that looks attractive externally as well?

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

Organically, we're seeing a lot of good growth opportunities. I think the most prominent of which I think which was on full display this quarter was POSIT Alert in Asia Pac. It has been a great generator of growth for the region. It is now I think becoming more and more embedded into the product suite, into the brand within the region.

We certainly were helped by the unbundling of research, which certainly has emanated from Europe but now is spreading into other regions. So we see great opportunities left that are available to us in Asia Pac.

I think we see some great opportunities to continue down the path of our hedge fund initiative. We're onboarding our first Canadian clients, our first Asia Pacific clients. We now have reached mid-teens in terms of our OMS/EMS offering that is now in production with hedge fund clients, and we --.

A lot of runway there. Great pipeline. And we're establishing great relationships with the prime brokers, and I think are becoming a referenceable competitor in that space.

We also see good opportunities in fixed income and FX. It's exciting for us to put up our first trades in fixed income POSIT to start the all-to-all model. We do think it's a noisy space right now, but as you guys have seen in terms of our European and our Asia Pacific initiatives, we're persistent. We're going to get it done. We've got the balance sheet, we've got the technological capability. We've got the domain knowledge now that we've hired. And we have the persistence to make that a reality.

On the FX side, this is a milestone for us to have settled on an agreement, a commercial agreement with a large money center bank active in the FX space that will allow us to implement our FX algos and FX POSIT under the umbrella of their credit agreements with both dealers and the asset management community. So yes, we view target-rich in terms of the organic growth opportunities.

And on the inorganic opportunities, obviously I can't comment on M&A, but we continue to be open to the possibility of doing things in the space.

Chris Allen - *Evercore ISI - Analyst*

(Inaudible), thanks.

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

Thank you.

Operator

Rich Repetto, Sandler O'Neill.

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

I guess the first question is on the new presentation where you have US and Canada, or North America now combined, can you explain it a little bit more about the reasoning behind it? I know it does even out the margins a bit. I'm just trying to see a little bit more what was the rationale behind doing that.

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

Yes, sure. Obviously we still provided probably I think even more levels of transparency this time in our earnings slide presentation by giving all four regional P&Ls broken out as opposed to just the US and a combined international presentation.

But we looked at it, and a lot of the drivers of the Canadian business, and some of the drivers in the US business, they tend to move together. At time to time, there's a lot of sharing of clients who trade across borders, so it just made sense to us to kind of group those together as opposed to group Canada with the Europe and Asia Pacific region.

Again, we still manage that as a separate region, and it's still performing well for us, and we're very pleased with production there.

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

So I guess it had nothing to do with actually the management of the individual -- the countries, but more just the presentation.

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

It's just a grouping presentation thing. That's all it is, Rich, yes.

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

Okay. And then I guess the next question is back to the capital return maybe a little bit more aggressive. Now you do have this more aggressive free cash flow plus 15, and you're sort of behind already. And you said in the prepared remarks you'd ramp the buyback along with the dividend.

I guess, just to be direct and blunt, there is potentially a certain lack of transformative deals in this space. Can you talk about, does any of this impact your views on, again, maybe not the small deals but transformative deals?

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

Yes, I think the short answer to that question -- well, two answers to that question. One I can't comment on any M&A activity. And two, there's nothing in today's release, or the actions of the capital committee, that in anyway precludes the firm from using its balance sheet, which is in strong shape; the strongest it's probably it's ever been.

So I don't want any -- I certainly don't want to leave you with the impression that we've somehow handcuffed ourselves here. We haven't. We just think it's -- when you think about the obligation that we have to return free cash flow plus 15 to operate our businesses, and in all those -- in the context of all those things, we believe that we have extraordinary flexibility to continue to do a range of things and commit ourselves to a range of options.

The one that we have right in front of us right now is to return capital to shareholders. And we believe that a dividend is an intuitive part of that, given I think the significant progress that the Company has made in the past three years in terms of profitability, and certainly a focus on the long-term shareholder.

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

Yes, clearly we get the point -- the dividend is a little more of a commitment, if you will, to --

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

Exactly.

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

-- regular returns, which is why we did it. And we did it at a level that we all feel is pretty modest, relative to our cash flow. And therefore, we don't think it'll have any impact in our ability to invest organically in other parts of the businesses. Were we to take on debt, we don't think it'd be at a level that would trip up any covenants or anything like that. So we're very comfortable with the level that we put out relative to the dividend.

And on the buyback, Rich, you saw in our language from the release that were something to happen, we'd have to take a look at our, going forward, what our guidance would be on the buyback. But as we stand now, we're comfortable with what we put out.

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

Got it. And I would say -- I'm joking here -- but the buyback is sort of a commitment, too. But I get your point; the difference between a dividend and the buyback.

But one last quick question. The unbundling momentum is clear in Europe, and as you explain or talked about in Asia as well. And I guess the question, we're hearing that, again, we don't think the momentum is going to shift in reverse, but there's potential for at least for some of the rules to be maybe diluted a little bit in Europe. And I'm just wondering whether you're hearing the same thing. Again, I fully believe the unbundling momentum will continue overall.

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

Yes, I think that train has clearly left the station, and I think it's now starting to permeating its way through Asia Pacific, which I think has been, as we've talked about in the past, has been the most, historically most bundled region.

I was in Paris a few weeks ago, Rich, and we hosted a dinner with clients and regulators. It was an extraordinary opportunity for us to facilitate what was a really interesting conversation around it, the business realities of MiFID II.

One thing I think that could happen is that there could be some stratification geographically in terms of where things land. The FCA has one very strident view of the world. ESMA and the Continent have I think a less strident view of the world. So there could be some geographic disparity in terms of implementation in the regulatory environment going forward for broker inducement.

But in all circumstances, it's very, very clear that the unbundling that has started will continue on. At the very least, CSAs are a best practice at this stage in the game.

Rich Repetto - *Sandler O'Neill & Partners - Analyst*

Understood. Very helpful. Thanks, guys.

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

Thank you.

Operator

Niamh Alexander, KBW.

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

Hi. Thanks for taking my questions, and congrats on the quarter. So M&A, can you talk to me about the industry environment, for example, right now? Do you feel like you're seeing as many opportunities, and the ex-seller versus buyer expectations are as good or aligned as they've ever been before, or how are you feeling about that right now?

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

Yes, I think it's difficult to comment on that one, Niamh. I would say that we feel as good about our business as we have in a very long time. Strongest earnings since Q4 of 2008. If you guys dialed back the clock to Q4 of 2008, it was a much different environment than the one we're operating in today.

So I think the firm and the transformation of the firm in the last three years has done quite a bit to improve our, the durability of our franchise. And that's really key. You want to be -- you want to have a durable franchise that can endure and thrive. And so I can't comment on the M&A environment, but I can say that we feel as good about our business and the things we can control as we have in a very, very long time.

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

Okay. Fair enough, Bob. And then just the -- I guess with respect to the balance sheet and the leverage, I know some have been kind of suggesting maybe you should borrow for share repurchases. I don't necessarily agree or not, but I just wondered if you could update us on that. I feel like I'd rather see you kind of keep the capacity there for an accretive deal or something like that, but what is the Board's position, what's your position on that?

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

I think I'm going to defer to the capital committee of the Board, and certainly we're having increased interactions with those guys and obviously the broader Board. So everyone's engaged. And I think that we continue to explore every alternative available to us.

We do have growing international businesses that do have the potential to consume more capital. We have an obligation to return free cash flow plus 15, which we will do. And so in the balance of all those things, the balance sheet and the capital structure are under constant scrutiny.

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

Okay. So right now, there's no plans to borrow for share repurchases, it sounds like anyway.

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

That's correct.

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

That's correct.

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

Okay, fair enough. And then I guess back to Rich's topic, too; the CSAs and the unbundling. And I think (inaudible) is helping as well with that team. Not that we all like to hear about it.

But can you help me understand where do you feel they are? I know the train's at the station, Europe's already started to move, the CSAs, shall we say, have been blessed as it were. But where do you are in terms of maybe market share and acceptance and understanding of what your offering is versus where it could be? Where are you in terms of getting traction there, getting more clients on?

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

I'll really focus on Europe and Asia Pac. I've said it before, I'll say it again. I think that MiFID II is on balance as we try to game theory everything and try to predict the unintended consequences here and the intended consequences. Our view is that we have a lot of optionality and a lot of runway left in Europe.

Asia Pacific, I think you guys are now starting to see the green shoots that are coming from structural change, both market structure and commercially, between dealers and clients.

And so we've been there a long time. We've invested heavily. I won't go back through the history of it blow by blow, but we've put ourselves in a position to generate returns in Asia Pac that are competitive with any other region around the globe. And so we believe that that really is the big delta here in terms of CSAs and unbundling being pushed very aggressively into the global client base.

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

Okay, fair enough. Thanks so much.

Operator

Ken Worthington, JPMorgan.

Will Cuddy - *JPMorgan - Analyst*

Good morning. This is Will Cuddy filling in for Ken. Ken apologizes for not being on the call today.

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

Good morning, Will.

Will Cuddy - *JPMorgan - Analyst*

Hi. I know you guys had a couple questions on the dividend already. I'm just asking more details about the motivation for it. Is this something that shareholders are asking for, the dividend preference over the share repurchase?

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

I think over time we've had engagement with shareholders who've asked us the question repeatedly. Why not a dividend, why not a balance, why not --? How do you guys feel about your business? Why wouldn't you? That kind of thing.

And I think what the capital committee has done is they've struck the right balance. It's modest, but it also I think rewards long-term shareholders. It sends the right message and a signal to the market in terms of the durability of our firm and our belief in our future growth prospects and our ability to maintain that.

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

But even with that, Will, our expected capital return is still going to be heavily weighted toward share repurchase.

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

Yes, exactly. This will end up being a very, very small proportion of the capital return plan this year.

Will Cuddy - *JPMorgan - Analyst*

Great, thank you.

Operator

There are no more questions. This concludes our question-and-answer session. I would now like to turn the conference back over to Bob Gasser for any closing remarks.

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

So, thank you all for joining us today. We look forward to reconnecting with you after Q2 earnings.

Operator

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