ITG

"2013 Third Quarter Earnings Call"

Thursday, October 31, 2013, 11:00 AM ET
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OPERATOR: Good morning and thank you for joining us to discuss ITG's Third Quarter Results for 2013. My name is Chad 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 J.T. Farley of ITG. Please go ahead.

J.T. FARLEY: Thank you, Chad, 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 the 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 or views in the future. While we may elect to update these forward-looking statements in the future, we undertake no obligation to do so. I advise you to read about the risk factors that may affect forward-looking statements in this morning's press release, as well as in our SEC filings.

I would also like to point out that we will be referring to non-GAAP financial measure in today's presentation. Reconciliations of these non-GAAP measures to the comparable GAAP measures can be found in this morning's press release, as well as the press releases covering prior earnings periods. Press releases and the PowerPoint slides which 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, Steve Vigliotti.

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

BOB GASSER: Thanks, JT. And thank you all for joining us to discuss ITG's Third Quarter 2013 Results. This quarter demonstrates that the measures we have taken to roll out our full product capabilities globally and to contain costs are clearly paying off. Even as U.S. cash equity volumes dropped to their lowest level in more than six years, we remain profitable in the U.S., while our European operations reported strong revenues and profitability for the quarter.

Our overall revenue grew almost 7% to $127.6 million, driven by our international operations, while expenses were down about 2%, reflecting the expense discipline we have maintained across the firm. In the U.S. the average daily volume of combined New York Stock Exchange and NASDAQ listed volumes declined 6%, compared to the already low levels we saw in the third quarter of 2012. Domestic equity mutual funds posted less than $3 billion in inflows during the quarter, despite outflows of almost $60 billion from bond funds. International equity funds did benefit for some of this rotation, however, posting inflows of nearly $30 billion during the third quarter.

As you can see on slide six, our average revenue per share has continued to improve, offsetting the impact of lower U.S. volumes. This growth is thanks to more clients paying for research through bundled trading, as well as increased use of higher value added products like POSIT Alert, which is our buy-side only block crossing platform.

Our average U.S revenue per share rose to 49 mills in the third quarter, the third straight quarter of improvement and the highest level since the second quarter of 2011. This improvement came even as the percentage of sell-side volume rose from 49% in the second quarter of 2013 to 51% in the third quarter. As a reminder, our average rate card is heavily dependent on our product mix and will fluctuate from quarter-to-quarter based on this mix.

POSIT Alert volume rose approximately 20% as compared to the third quarter of 2012, while average trade size held steady at 33,000 shares. We also expanded our high-touch sales trading team, bringing on experienced portfolio traders, as well as sector specialists in our consumer and technology, media and telecom sectors. These sector specialists are helping us to expand the distribution of our differentiated research products by deepening our client relationships, amplifying our research call in to buy-side clients and collecting on research obligations at commission rates that are multiples of the U.S average.

As this business grows, it is allowing us to offset the sustained effects of low institutional turnover. During the quarter, we made we made market moving alpha generating research calls on names such as Best Buy, Groupon, JC Penney and Magnum Hunter Resources. We also initiated coverage on Qualcomm. While our revenues held up fairly well in the U.S, we significantly improved our reported U.S profitability during the third quarter over the prior year due to dramatic improvements in our cost base reflecting the impact of restructuring activities we enacted in December, 2012, and our new product approach. The product management teams in each of our operating regions have taken control of their expenses and are now balancing very effectively the demands to improve financial performance with the need to reinvest our capabilities.

Our international results improved significantly during the third quarter led by Europe, where revenue rose to $20.7 million , a 53% jump over the third quarter of 2012. While market conditions were more favorable to our business than a year ago, including institutional inflows into European equities and a greater demand for dark liquidity, our outperformance reflected the impact of the investments we have made in our infrastructure and products to expand our client Add word here and grow POSIT Liquidity.

Average trading volumes in POSIT more than doubled, while European POSIT Alert volumes jumped by approximately by 250%. As you can see on slide eight, ITG now represents more than 13% total European dark trading, up from less than 5% in the first quarter 2011. During that same period dark trading in Europe rose from just over 2% of total value traded to over 5%.

In Asia Pacific, we posted revenues $10.5 million, an increase of 13%, while our total loss was cut by one-third over the prior year period. Our average value traded in the region rose 14% versus the third quarter 2012, driven by higher trading activity across most markets and fueled by growing demand for electronic trading and liquidity solutions. Lastly, we won awards for best crossing capability and best price improvement at the Trade Asia 2013 electronic boards.

In Canada, revenues were down 1%, against a backdrop of generally flat overall market activity. Given the difficult market conditions, it's not surprising to see that a number of Canadian firms closed and several foreign brokers pulled out of the Canadian market in the recent months, which underscores the importance of our commitment to our Canadian operations over the past 13 years.

Given the recent decline in energy prices, we believe that Canada will continue to be a challenged market in the near term. Ironically, the difficult market conditions present ITG with opportunities to deepen partnerships within the Canadian brokerage community through technology and execution arrangements with this important client segment. The latest Greenwich Associates survey of Canadian equity markets demonstrates our dominant competitive position with ITG ranked first for overall electronic trading, commission sharing arrangements Algo/DMA penetration, and crossing networks. ITG also received more number one citations than any other firm in the portfolio trading category. During the quarter we also won awards from two key industry publications in London for our best-in-class offerings.

At The Trade Awards 2013, POSIT was recognized best dark pool price improvement, while ITG Algorithms won for best consistency with pre-trade estimates]. And at the Financial News Awards for excellence in trading and technology, ITG TCA was named the best transaction cost analysis product for the second in a row.

These awards demonstrate the strength and breadth of ITG offering for institutional investors, as well as our long track record of innovation. And we continue to add to that breadth. Earlier this month, we expanded our trading capability for Latin American equities, rolling out algorithmic training for Chilean stocks and high-touch trading for Columbian and Peruvian equities. We now have a capability to trade in all the countries in the key MSCI Latin American Index, allowing us to better serve international funds managers who use this as a benchmark.

Turning to our overall cost structure, we continue to focus on expense discipline in order to maintain our profitability in the current difficult market conditions. This focus also improves our operating leverage, so that we are better positioned to capitalize on any uptick trading activity.

Our third quarter results reflect full impact of the cost savings and restructure plan we announced in December, 2012. And as we mentioned previously, we expect our ongoing business unit analysis to yield some incremental cost savings over the long-term which we may use to invest selectively in product development or other growth areas. As we indicated last quarter, we believe we turned a corner with the rationalization of our cost structure and the build out of our global execution capabilities.

ITG is now positioned to withstand the current business environment and maintain our profitability, while at the same time seeking to gain an increasing share of global institutional trading commissions. We plan to continue developing innovative solutions for our clients to fortify our strong position in electronic execution and research. This position is backed up by significant intellectual property. ITG has now more than 60 US, patents with many additional applications pending.

In closing, I like to take this opportunity to thank all of our employees for their hard work and their dedicated focus on improving client outcomes. I would also like to thank ITC board member Bill Burdett, who is retiring after more than twelve years of outstanding service to our firm and its shareholders.

With that, I would like to turn it over to our Chief Financial Officer, Steven Vigliotti, to review third quarter financial developments.

STEVEN VIGLIOTTI: Thanks, Bob, and good morning everyone. Our focus on growing POSIT Liquidity in Europe and on managing expenses enabled us to maintain profitability during the third quarter, despite declining market wide volumes on a sequential basis in all of our operating regions.

As noted on slide twelve, we generated consolidated revenues of $127.6 million during the third quarter, 8% lower than the second quarter of 2013, but 7% higher than the third quarter of 2012. We posted GAAP net income of $0.20 per share in the third quarter of 2013, compared to GAAP net income of $0.13 per share in the second quarter of 2013 and GAAP net income of $0.01 a share in the third quarter of 2012.

On slide thirteen, we have detailed the non-operating items included in our GAAP results for the second quarter of 2013. There were no non-operating items in either the third quarter of 2013 or the third quarter of 2012. In the second quarter of 2013, we incurred duplicate rent and office moving charges related to our new headquarters in lower Manhattan. We incurred a restructuring charge and a one time tax charge related to the closure of our Israel development facility and we had offsetting reversals of accruals related to prior restructurings. Excluding these items, we generated adjusted net income of $0.27 per share in the second quarter of 2013. For the rest of this discussion, all references to results and cost for the second quarter will be on an adjusted basis excluding these items.

Slide fourteen, presents our consolidated results along with separate breakdowns of the results from our US and international operations. On a year-over-year comparative basis consolidated expenses were down $2.6 million even as we incurred additional variable costs associated with an $8 million increase in revenues, due in part, to lower telecom and data costs and lower other general and administrative expenses. Our consolidated pre-tax margin was 8.4%, down from 11.4% in the second quarter of 2013, but up sharply from 0.2% in the third quarter of 2012.

Our costs saving initiatives have been providing a boost to our pre-tax incomes throughout the year. On a year-to-date basis, our costs are down by more than $10 million compared to the first three quarters of 2012, notwithstanding the additional variable costs associated with a $16 million increase in revenues.

During the third quarter of 2013, we posted net income of $0.07 per share in the US on revenues of $76.9 million down from $0.12 per share in the second quarter of 2013, due to lower volume levels, but up significantly from $0.03 per share in the third quarter of 2012. Our third quarter pre-tax margin in the US was 5.8%, down from the second quarter of 2013 and up from the third quarter of 2012.

As a reminder, the US segment bears nearly all of the firm’s corporate costs, which negatively impacts pre-tax margins reported for that segment. These costs include, among others, the cost of being a public company, intangible amortization, interest expense and the cost of maintaining our global transfer pricing structure. Our combined international businesses posted solid net income in the third quarter of $0.13 per share on revenues of $50.7 million; our international pre-tax margin rate was 12.2%.

On slide fifteen, you can see that our US expenses declined $4.6 million from $77 million in the third quarter of 2012, due chiefly to lower general and administrative costs, which can fluctuate from time to time, due to efforts to reduce these costs and our efforts to reduce market data and connectivity cost.

Our US compensation expense ratio was 40.7%, up versus the second quarter of 2013, due to the impact of lower revenues and up versus the third quarter of 2012, due to improved profitability. Transaction processing costs as a percentage of revenue were down to 13.2% versus 13.5% in the second quarter of 2013 and 14% in the third quarter of 2012.

On slide sixteen, we provide a summary of our international results. Revenues were down $4 million from the second quarter of 2013 and up $8.9 million over the third quarter of 2012. Our strong European revenues continued to outpace the change in value traded market wide, reflecting our market share gains, while the growth in Asia Pacific revenues compared to the third quarter of last year, lagged broader regional trends due to the outside growth…outsized growth in Japanese trading, which represents a lower portion of our activity relative to other markets in the region.

International expenses were higher than the third quarter of 2012, but were lower than the second quarter of 2013 due largely to the impact of transaction processing, and variable compensation costs on our changing revenue levels. The compensation ratio for our combined international operations was 36.2%, higher than the second quarter of 2013, but down from the third quarter of 2012. Combined international transaction processing costs during the quarter as a percentage of revenue were 19.1%, lower than both the second quarter of 2013 and the third quarter of 2012.

On the next slide we track performance of our foreign segments over the past five quarters. As compared to the second quarter of 2013, revenues were down in Canada and Asia Pacific due to lower market wide trading activity, but Europe outperformed by growing revenues sequentially even as market wide trading activity declined. Revenues were up both in Europe and Asia Pacific versus the third quarter of 2012, and down only slightly in Canada. All the international regions posted higher pre-tax results in the third quarter versus a year ago.

On slide eighteen, we offer supplementary information on revenues broken out by our four product groups, over the past five quarters. The table also includes a corporate group, which primarily reflects investment income that is not directly attributable in any of the product groups. As you can see from this table, electronic brokerage revenues were down compared to the second quarter of 2013, as declines in market-wide trading brought reduced revenues for this group in all regions except Europe. Revenues for research, sales and trading declined sequentially primarily due to declines in Canada and Asia Pacific as revenue levels for this group in the US and Europe were stable.

We continued to generate steady levels of revenue from our Analytics product group, due in large parts of the higher mix of recurring revenues while the Platforms group products saw a modest dip in revenue sequentially due to a decline in commission revenues executed off Triton that the Platforms group shares with third party brokers and with ITG's Electronic Brokerage group.

We plan on making profitability metrics available for our product groups on a global basis once we have a full year under our belt of tracking the performance of these product groups in each of our regions. On our fourth quarter 2013 earnings call, we plan to offer profitability metrics by product group globally for the full year 2013, and we intend to provide this additional information going forward for each quarter starting with the first quarter of 2014.

Please note that we are still primarily organized by geographic regions for the purpose of allocating resources and measuring performance, and thus expect to continue to use geographic segments as our reportable segments. We will however, be providing supplementary product financial information to provide more transparency into the drivers of our business.

On slide nineteen, we have presented our US volume and rate capture statistics. Our average daily executed volume was down 10% versus the third quarter of 2012; while New York Stock Exchange and NASDAQ combined average volume decreased 6%. Our average overall revenue capture rate per share rose from 48 mils in the second quarter of 2013 to , even as the percentage of buy-side volume declined, due in part to increased activity in POSIT Alert and clients paying for research through bundled research arrangements.

We ended the quarter with $261.6 million of cash and cash equivalents on our balance sheet, up from $259 million at the end of the second quarter of 2013. Our excess cash at September 30 over and above what we need for regulatory capital debt payments and compensation liabilities was up from the second quarter at approximately $60 million. During the third quarter, we repurchased 370,000 shares for $6.1 million or $16.38 per share, this amounts to 79% of our earnings during the quarter. As a reminder, our buyback program has reduced shares outstanding, net of issuances by 17% over the past three years.

Looking forward, I would like to offer the following observations. As a reminder, we plan to repurchase shares on a regular basis in order to return capital to shareholders; however, our repurchases will depend on market conditions and the prevailing price of our stock and our activity level may not be directly tied to our level of earnings each quarter. As of September 30, we had 3.7 million shares available for repurchase under our current buyback authorization.

Regarding current business conditions, our US average daily volume for October was approximately 150 million shares, at an average rate generally in line with our third quarter 2013 average. In our combined international business, our average daily commissions in October were approximately 5% better than our third quarter average.

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

Q&A

OPERATOR: Thank you. We will now begin the question and answer session. To ask a question you may press "*" then "1" on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys, to withdraw your question, please press "*" then "2." At this time, we will pause momentarily to assemble our roster. Our first question comes from Chris Allen with Evercore. Please go ahead.

CHRIS ALLEN: Good morning, guys.

BOB GASSER: Good morning, Chris.

CHRIS ALLEN: I guess if we can just start a little bit on the capture rate, obviously you see continued improvement there. Maybe you can give us an update in terms of the client's transitioning to bundled research, kind of, what inning are you in, how many more clients potentially have room to transition there? Just trying to think about where the capture rate can go moving forward, and what's maybe somewhat structural within your client base and then also cyclical just in terms of building the research revenue base in general.

BOB GASSER: Sure, well, I think I would say we are probably in the third or fourth inning. I think that as we think about the product in the sequence of the last three years we bought two independent research providers, combined them into one under the kind of the ITG investment research moniker or flag, and over that time we have also invested in research sales, and most recently we have invested in desk analyst and sector traders and portfolio trading. All the component pieces now are in place, in terms, I always think about it as a three legged stool, you have got the research and the content, which I think is very high quality, and continues to rise in the voting lists and all the metrics that you guys, I know, would look at every day. You have got a, I think a very high quality research sales force that is now spread throughout the US and Canada, and even has a point of presence in London at this stage of the game.

And then that third leg of the stool is a very high quality cash register on the trading side, I think we've now have in place. So we have got the three component pieces that are necessary, I think to continue to grow the rate card, continue to penetrate the client base and continue to monetize the product suite that we have invested in. So, I think we are in a good place we continue to I think add names under coverage, we continue to acquire data sets. I think as we have said repeatedly in the past, we don't see the need to expand beyond Consumer Energy and TMT from here. We think those three major S and P sector groups give us plenty of runway to continue to grow the product and the business.

CHRIS ALLEN: And then obviously you are seeing great growth over in Europe, POSIT Alert continues to expand at a very rapid pace. Maybe you can give us some color in terms of how to think about that product moving forward, kind of like, where you are in terms of penetration of the customer base over there, future plans for growth?

BOB GASSER: Yes, I think we've been saying, at least I have been saying since the beginning of the year that this was the year of Europe. And I think, the reason we felt so strongly about Europe as a region is that…we had made significant investments over the past two or three years that we think are sustainable in terms of the return on that investment going forward. So there again, I think we still see a room for growth, we are out to…I think Steve alluded we are off to a very good start in Q4, and we continue to take market share across the region, I think the product continues to do well, we continue to penetrate, it's really blocking and tackling at this stage. I mean, the big sunk costs of investing in infrastructure, data centers, market data, domain knowledge, intellectual capital that we have been doing for the last, as I said three to four years, are really starting to pay off at this stage of the game, and I think we have got great momentum that will continue into the New Year. But we…I mean, I am very…continue to be very, very optimistic about Europe and its ability to gain market share across all the business segments that we care about.

CHRIS ALLEN: Got it. And then just a quick one…on the build-out of research sales and desk analysts and some of the other higher touch people; is that already embedded in the run-rate or is there more to come on that and I mean, obviously you saw the comp to revenue ratios tick up a little bit in the US this quarter. Obviously some of that's being driven by the market conditions and the top-line production. So any color on that would be great.

BOB GASSER: Yes, it's embedded completely.

CHRIS ALLEN: Okay, thanks guys.

BOB GASSER: You got it. Thanks Chris.

OPERATOR: Our next question comes from Rich Repetto with Sandler O'Neill.

RICH REPETTO: Yes, hi Bob, hi Steve.

BOB GASSER: Good morning, Rich.

RICH REPETTO: Good morning. And you know, just to highlight again, Europe growth has been significant, material. So I guess the question is on POSIT Alert, can you give us a feel how much of, you talked about POSIT volumes and you talked about POSIT Alert growth, but how much of POSIT is POSIT Alert, what US and Europe, ballpark even?

BOB GASSER: Yes, I don't think we have disclosed that, although I would just tell you that one of the things we talked about in the call last time in August was we talked about the global deployment of our next generation Alert technology. And one of the most important things about that technology is, it gives the client one point of entry to the four regional Alert instances. So the ability to go in through one piece of software and hit the US, Canada, Europe and Asia Pac. Asia Pac we are still at the very, very early stages, it's a big part of the plan in 2014. Europe, I think we are absolutely coming into our own. In the US, obviously we have an established presence, and in Canada we have a presence that I think has potential to grow from where it is today certainly. So that deployment has been very, very important strategically and now we are starting to see the benefits of it in a very real way in the European region.

So as I alluded to on the call in August, we were in-flight making those changes, making those…doing those integrations on-site at the client, and all the things that are necessary to bring those things live. And I think we are at a stage now, where…the reason I feel so confident in the European momentum is we are still, I wouldn't say early stages, but we are at the intermediate stages of rolling all that out.

RICH REPETTO: Yes, because the way you describe it, Bob, that like these improvements to POSIT Alert might be more impactful to global players, and but you also did say earlier to the earlier questions about the investments just in Europe, and that's what…probably a little bit both is that…?

BOB GASSER: It is, it's certainly a little bit of both, and then you know, the Holy Grail is when you can get both the global players and the local players to interact with each other seamlessly. And I think that's the stage we are at now.

RICH REPETTO: Okay and I guess the next question is on Canada, and I know you said some things in the prepared remarks, but we know there have been market structure changes on internalization as well as message traffic. And I guess the point is, that's the only region you are down year-to-date, year-over-year. And is it a pure thing of volumes and just more color on how these…the structural regulatory changes up there are impacting you.

BOB GASSER: Yes, I think it's more fundamental than that, Rich. I think it's not the structurals, which we haven't seen the structural issues pass through in terms of negative effects on our business. In fact, MATCH Now's volumes are probably at or…close to their highs in terms of market share. That's our dark pool…multilateral dark pool; it's a little different than anything else we do in the rest of the world. But I think it's more fundamental than that, and I have been saying since the beginning of the year, that I was concerned about Canada, I think that Canada in terms of its weighting from global investors has been in decline. I think and so for us, that's obviously…that's the more significant event, in that. I think structurally we are fine, I think it's more of the macros that are working against the Canadian business at this stage of the game. The one thing I do want to highlight, however and say it again, because in the prepared remarks is that the persistence that we have had in Canada over thirteen years, as you guys have seen maybe not this year but in other years, has really paid off. And we consider this to be a low point in the cycle. We will create opportunities for ourselves though at this stage of the game as international firms pull out, as some of the Canadian players, domestic players probably fold. We do think there will be opportunities to be a sell-side provider, a subcontractor, if you will, to firms that are no longer domiciled in Toronto, but need the opportunity to basically fill out all the gaps in their global offering.

RICH REPETTO: Got it. And just one quick follow-up back on the POSIT again, I guess can you just comment on the POSIT Alert revenue capture, I guess relative to POSIT, I would assume that it's a positive mix impact?

BOB GASSER: It's multiples higher than the average.

STEVE VIGLIOTI: Which is why we noted that the growth in that activity has helped improve the overall rate for it.

RICH REPETTO: Okay, All ready. Thanks and congrats on a solid quarter

BOB GASSER: Thanks, Chris.

STEVE VIGLIOTTI: Thanks, Chris.

OPERATOR: The next question is from Ken Worthington with JPMorgan.

KEN WORTHINGTON: Hi, good morning.

BOB GASSER: Good morning, Ken.

KEN WORTHINGTON: Maybe first on page fourteen, something kind of struck me, and I know it's just one quarter, but the US had about, I am using rough math, 50% greater revenue than international, but 50% less adjusted net income, again rough math, than the international. So the question is, does this mean that there is still more room for efficiencies to be extracted in the US or may be on the other side, may you need to start to ramp up investment internationally as that business continues to grow?

STEVE VIGLIOTTI: Hey, Ken this is Steve. So we…I think I alluded to in my remarks. When you look at the US segment on a standalone basis, you need to keep in mind, that it does carry all the other firms corporate costs, right, which average around $5 millionish a quarter, and plus there are other sort of home office costs, that are in the US numbers as well, but don't necessarily to get pushed to each of the regions. So that may be some of the comparative differences you are seeing from US to international.

KEN WORTHINGTON: Okay, and nothing obvious on the investment front globally?

BOB GASSER: No, I think to a large extent, and now we are starting to, as I said in the remarks, we are starting to knock down places like Chile and Peru and Colombia. I think we are at a stage now where we cover Latin America, obviously we cover Canada very effectively; we cover the Asia Pac region across the region. There are very few markets…relevant markets if any, that ITG doesn't have a product capability and geographic reach. So at this stage of the game with the exception of may be a few tuck-ins like Asia-Pac Alert , I think there really is not a lot of investment required to broaden our international capability.

KEN WORTHINGTON: Ok, and you touched on this, I think to Richard's question, but I thought it was an interesting point. So you have a strong POSIT platform, US and Europe. You are building Asia and Lat Am. Outside of the technology development and kind of branding costs, are there liquidity advantages from running the various pools. In other words, does a US customer benefit from increased participation by a Lat Am, Asian and European customers? You kind of mentioned that it's, there is global… local customers trading with global customers. I love to hear more about that, because it seems like it could be a big deal longer-term?

BOB GASSER: No, I think it's in the press release, we talked about cross border flows right, and that really is…primarily about the US outbound to these various regions. And I think we are getting better and better, I think the technology that we are deploying is getting more and more efficient. We are getting better and better at seeding the regions from the US, than we have ever been. So I think that is very, very important to have one global seamless capability to create pools that are diverse in terms of they are domicile, they are client type, whether or not they are a transition player or portfolio player or single stock player, all those things work for you when you diverse. They work against you when you are not diverse. And so, I think there is lot of benefit to that.

KEN WORTHINGTON: And do the metrics start to improve as well, so for example, you talked about trade-size, you can also talk about percentage of orders that actually get executed. Do those type of metrics start to improve as we see the local and the global interact more. And I assume at some point you get to a true tipping point where liquidity really starts to beget liquidity and the value proposition starts to max out. Is all that kind of in theory?

BOB GASSER: You just…I mean you just hit the nail on the head in terms of what Europe is, right. So Europe, we got into that place where we are internalizing a very, very strong percentage of our diverse liquidity coming in from various regions from Continental Europe, from UK, from the US, from Canada. So that is…in a place like Europe where clearing costs are also extraordinarily important to focus on, the transaction processing line has been a big point of operating leverage for the firm. So as we internalize, as volumes grow, as these diverse sources of liquidity come together, the European margin story is the perfect example of what you just articulated.

KEN WORTHINGTON: Okay, great. Thank you very much.

OPERATOR: Our next question comes from Niamh Alexander with KBW.

NIAMH ALEXANDER: Hi, thanks for taking my questions. And congrats for the quarter.

BOB GASSER: Hi, Niamh.

NIAMH ALEXANDER: And on the expenses, just to, kind of get back to it because that’s where kind of you certainly beat ours. And this is kind of still the benefit of the restructure and kind of given the different segment managements, kind of autonomy over their expenses as well as the revenue. Is there still a little bit more to come or kind of how we gotten there because this is primarily non-compensation you saw the big drop there and is that something that we should think about as kind of sustainable, this is a good run rate going forward, to think about those non-comps?

STEVE VIGLIOTTI: Sure. I think we will go through it and just take off a few of them, Niamh. So the G&A, that's an expense that can vary from period to period. And based on the timing of when we engage, if it is a recruiter or professional service or things like legal or tax advisors, we roll out a marketing campaign et cetera. My gut on that… is the run rate likely varies between the Q2 and the Q3 level, but having said that, the savings we have from the prior year are absolutely sustainable due in large part to some of the reductions we've seen there in software amortization. Telecom and data processing, I think we see continued…we’ve seen continued reductions in market data and connectivity cost, that's probably I think reached a good point there, I think that's fairly sustainable as well.

And then, with occupancy and equipment, we've seen kind of offsetting…we see offsetting things with increases from our facilities cost from the headquarters move potentially offsets some future savings in next year on some other cost reduction which we have.

NIAMH ALEXANDER: Okay, that’s helpful, thanks very much Steve. And then, I guess on some of the segment businesses, and if you look at your slide eighteen there…the revenue, you’ve got a kind of a good time series trend there and I know it's still only kind of six quarters. But the platform and the analytics businesses, they're not really growing. And so help me think about where the growth comes from or how you drive growth or what you are doing to maybe drive some growth in those businesses?

STEVE VIGLIOTTI: Yes. As I mentioned in my prepared remarks Niamh, in terms of quarter-over-quarter the platforms, product group was down primarily because of a reduction in the amount of commissions that group shares with third-party brokers and with the ITG Electronic Brokerage Group, primarily is a result of just market wide or volume decline quarter-over-quarter. If you look at a year-over-year…

NIAMH ALEXANDER: Yes. I mean year-over-year and then just over the last several quarters, they haven't really moved those revenue lines that much. So I'm just wondering is there something outside of the environment or cyclically, is there something you're doing there to needed to improve the products or what not to get some growth?

BOB GASSER: Yes, I think it's not so much, I think that the seasonal equity market is what it is, right. And I think that as Steve alluded, we've got a lot of…in that business we have exposure to institutional volumes. And so, in the last quarter, I think that was…that tells the story. But I think going forward in terms of growth for the platform business, we are focusing on a number of things and I think we will be out- loud on them in the not too distant future in terms of client segments and asset classes that I think would help us…I think more clearly articulate a growth strategy for the business. But we are certainly…there is a lot of things on the drawing board.

STEVE VIGLIOTTI: And as we disclosed in filings, we have seen a reduction in OMS clients. So that's a portion of the recurring revenue we see in that business as well.

NIAMH ALEXANDER: Okay, that's helpful, thank you. And then, I guess before I get back in line, sorry if I missed it earlier, but the tax rate, did you…that the U.S. tax rate dipped a bit, is that kind of a good level to think about going forward or did you give some guidance on it?

BOB GASSER: Sure. The U.S rate is probably a little lower than I would expect going forward, there is about a couple $100,000 worth of adjustments. This is normal recurring type of things that happen from time to time that hit the quarter. So I would expect something in a low to mid 40s in the U.S. Niamh.

And then, on a global basis, the international came in pretty much consistent with where we were in the second quarter. And again, driven a lot by the strong European revenues where we have a favorable tax treatment and loss levels in APAC that are down from historical levels. As you know there, we don't have a benefit that we are booking there, so that helps the international rate as well.

NIAMH ALEXANDER: APAC's getting pretty close, is that…I mean that could really kind of move the tax rate a few points lower once you start to kind of hit the black there?

STEVE VIGLIOTTI: It certainly would, yes.

NIAMH ALEXANDER: Okay. I'll go back in line, thanks.

OPERATOR: This actually concludes the question-and-answer session. I would like to turn the conference back over to management for any closing remarks.

BOB GASSER: Well, thank you for joining us today to review the third quarter and we look forward to speaking with you in February, I believe. Thank you.

STEVE VIGLIOTTI: Thank you.

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