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ITG - Q2 2014 Investment Technology Group Inc Earnings Call

EVENT DATE/TIME: JULY 31, 2014 / 3:00PM GMT

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PRESENTATION

Operator

Good morning and thank you for joining us to discuss ITG's second-quarter 2014 results. My name is Denise 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 sir.

J.T. Farley - *Investment Technology Group Inc - Media and Investor Contact*

Thank you, Denise, 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.

I would also like to point out that we will be referring to non-GAAP financial measures 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 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 - *Investment Technology Group Inc - President, CEO*

Thanks J.T., and thank you all for joining us to discuss ITG's second-quarter 2014 results.

We are generally pleased with our results for the second quarter. We again demonstrated strong overall performance, particularly in Europe, as well as steady sequential profitability in the US helped by growth in our research, sales and trading business, and improving operating efficiency in the Asia-Pacific region. Portfolio approach we have taken around the four regions and four product groups we operate today continues to drive our earnings growth. While one product group or region may perform better than another in a given period, having a mix of operations across geographies and products provides a platform to outperform over the long run and enhance value for our long-term shareholders.

Also during the quarter, we were more aggressive with our share repurchase program and returned more than our current quarter's earnings to shareholders. We bought back more than $14 million worth of shares during the second quarter, and we have now reduced our outstanding share count, net of issuances, by 20% since the end of 2009.

Even as we pursue share buybacks, we do regularly review potential M&A opportunities and measure those opportunities against the relative value of our stock repurchase program. This week's announcement of the RFQ-hub acquisition as well as our prior investments in investment research are good examples of our willingness to grow our platform in a strategic manner and diversify the assets of the Firm's portfolio.

The benefit of our research investments is evidenced in part by the rebound in our average US revenue per share to 50 mills in the second quarter, the highest level in nearly three years. Research has been the driver of a 20% increase this quarter over last year in the average US high touch trading rate, which in turn has been the primary driver of the increase in our overall average.

In addition, research has had a positive influence on rates earned for our electronic offerings. Research consuming clients pay rates on average more than 30% higher than non-research clients for electronic services.

We also saw a significant increase in transaction advisory services revenue from our energy research team. These improvements led to a pretax profit for our US research, sales, and trading operation equaling 20% of the Firm's total for the second quarter.

On the electronics side of the business in the US, we continue to invest in product, people and technology. These efforts are paying off in performance. In a dark pool study released this month, TCA provider Abel Noser found that POSIT was one of only two large pools that consistently beat execution benchmarks, delivering cost savings to our clients. These findings were consistent with our improvement in the 2014 Greenwich Associates study of electronic trading where we ranked number two overall in electronic trading quality and number one for best protection against toxic counterparties or activities.

Our international investments are also paying off. Taking a closer look at our second-quarter results, our international revenues were up 12% versus the second quarter of 2013 and our international net income was up 77%. This improvement was driven by a 43% jump in European revenues compared to the prior-year quarter.

These solid overall results come despite continued weakness in trading volumes. Market-wide trading activity was down on a sequential basis in all the regions where ITG operates, and only Europe saw an increase compared to the second quarter of 2013.

In the US, overall equity mutual fund flows were positive but domestic equity funds turned negative for the first time in a year according to ICI. International funds had another strong quarter of inflows.

For the quarter, our percentage of US sell-side volume was 49%, steady with the second quarter of 2013. POSIT posted average daily volume of 67 million shares while POSIT Alert buy side block volume averaged 15 million shares. We now post a range of POSIT statistics, including average daily volume and trade size, overall crossing rate, and percentage of midpoint crosses on the transparency section of our website, transparency.ITG.com.

Turning now to Europe, our revenue in the region grew 43% in net income, more than doubled compared to the second quarter of 2013. Average daily value traded in POSIT was $1.02 billion compared with $674 million in the second quarter of 2013. Total average daily value traded through POSIT Alert rose more than 150% in the second quarter of 2014 compared with the prior-year period.

Although market-wide turnover in Europe was slightly lower than the first quarter, we saw a record number of distinct clients trading through ITG, which contributed to our second-best ever quarterly performance. We rank number one for our European electronic trading quality in the UK, and number one among large European institutions according to the latest Greenwich Associates survey.

Revenues in Canada were $17.9 million, down 11% versus the second quarter of 2013. Much of the decline is attributable to foreign exchange impact as the Canadian dollar declined 6% against the US dollar as compared with the year-ago period.

While the environment in that market remains challenging, we are gaining market share in our-sell side dark pool MATCH Now which represents more than 3% of total Canadian trading volume. According to the Greenwich survey, ITG Canada remains the number one electronic broker, continuing an eight-year streak.

In the Asia-Pacific region, our total revenues in the second quarter of 2014 were $12.1 million and our loss narrowed to just $0.2 million, or $200,000. While our road to profitability has been long, we think we are closing in and that Asia-Pacific will ultimately evolve to be a significant contributor to our profitability. The initiatives we are currently taking in the region to improve operating margins are in the early stages of execution.

In addition, market structure is evolving rapidly in AP as client wallets unbundled. Japanese decimalization and the cooperative agreement between the Shanghai and Hong Kong stock exchanges are just two examples of market forces that play to our strengths.

The Asia-Pac market environment is evolving in a manner reminiscent of Europe post MiFID. In July, POSIT Alert had its best month since launch in the region and it is showing good acceleration going into the second half of the year.

During the quarter, we continued to innovate and bring new products to market. We launched expanded multi-broker options capabilities in our Triton execution management system and rolled out ITG Peer Analytics, a set of customizable analytics that draws insight from the industry's largest collection of institutional trading data.

We also launched ITG's first apps, the Equity Trading Cost Index App and the FX Trading Cost Index App. The free apps offer quick insights into trading costs and equities in foreign exchange and provide an introduction to ITG's robust transaction cost analysis capabilities. These capabilities were recognized this month by Waters magazine which named ITG the industry's best TCA systems provider in its 2014 rankings.

ITG Investment Research continued to expand its coverage in the energy, consumer and T&P verticals, initiating coverage on seven companies, including web.com, Urban Outfitters, and Six Flags. ITG IR has also issued 11 research reports on pre IPO companies so far this year, and we are gaining traction with our macroeconomic research, which is informed by much of the data used in our Company's specific research.

And as I mentioned, we just purchased RFQ-hub. While this is not a large acquisition, it helps us further expand our platform beyond equities into the OTC derivatives markets. RFQ-hub serves as a blue-chip community of derivatives dealers and asset managers with a best-in-class trading platform and network that will integrate easily with ITG's platform business. This deal is in line with ITG's key strategic goals looking into 2015 and 2016 -- expansion into new asset classes and new client segments and continued growth of our international businesses. We expect to provide regular updates on our progress towards these goals in the coming quarters.

To wrap up, we are pleased with our second-quarter results and believe that it's been a generally successful first half of the year. We remain confident in our ability to capitalize on the evolution of market structure and equities, diversify our portfolio of products into other asset classes, and most importantly, to serve as a trusted partner to our clients as they invest and execute around the globe.

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

Steve Vigliotti - *Investment Technology Group Inc - CFO, Managing Director*

Thanks, Bob, and good morning everyone.

Continued strength in our European operations, improving operating efficiency in Asia-Pacific, and growth in our US Research Sales and Trading operation fueled solid earnings during the second quarter despite the impact of lower volumes in most of our operating regions.

As noted on Slide 8, we generated consolidated revenues of $138.5 million during the first quarter, up 1% from the first quarter of 2014 and down 1% from the second quarter of 2013.

We posted GAAP net income of $0.35 per share in the second quarter of 2014. This compares to GAAP net income of $0.37 per share in the first quarter of 2014 and GAAP net income of $0.13 per share in the second quarter of 2013.

On Slide 9, we have detailed the nonoperating items included in our GAAP results for the second quarter of 2013. We incurred duplicate rent and office closing charges associated with the move to our new headquarters in lower Manhattan. We also incurred wind down charges and tax charges related to the closing of our development center in Israel. These items were partially offset by accrual reversals relating to restructurings in prior years. Excluding these items, adjusted net income for the second quarter of 2013 was $0.27 per share.

There were no nonoperating items in either the second quarter of 2014 or the first quarter -- first quarter of 2014.

For the rest of this discussion, all references to results and costs for the second quarter of 2013 will be on an adjusted basis.

Slide 10 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 $1.7 million while revenues were down just $800,000. Our consolidated pretax margin was 12.1%, down from 13.4% in the first quarter of 2014 but up from 11.4% in the second quarter of 2013. Our consolidated effective tax rate was 22.5% for the quarter, reflecting the high earnings from our international operations, as our US effective tax rate was 43.3% for the quarter and our international effective tax rate was 14.5%. Given a similar international earnings mix going forward, we expect our international effective tax rate to rise to 21% following the full utilization of net operating losses in the UK.

During the second quarter of 2014, we posted net income of $0.07 per share in the US on revenues of $77.3 million versus $75.6 million in revenues and net income of $0.07 per share in the first quarter of 2014. Other revenues in the US increased to $5.1 million from $2.7 million in the first quarter due to the growth in transaction advisory services revenue generated by our energy research team and higher stock loan income. US earnings were down from $0.12 per share in the second quarter of 2013 due to lower volume levels. Our second-quarter pretax margin in the US was 6%, down from the first quarter of 2014 and the second quarter of 2013.

As a reminder, the US segment bears nearly all of the Firm's corporate cost, which negatively impacts pretax margins reported for that segment. These costs, which are typically $5.5 million per quarter, include, among others, the costs of being a public company, intangible amortization, interest expense and the cost of maintaining our global transfer pricing structure. Excluding these costs, our US pretax margin in the quarter would've been 12.9%.

Our combined international businesses posted net income in the quarter of $0.28 per share on revenues of $61.2 million. Our reported international pretax margin rate was 19.7%.

On Slide 11, you can see that our US expenses declined 5% from the second quarter of 2013 due chiefly to lower transaction processing costs associated with reduced trading activity and with an increase in the amount of passive trading by our clients, and lower market data and connectivity costs. These reductions were offset in part by higher compensation costs as our compensation ratio increased to 44% due in part to improved global profitability. Transaction processing costs as a percentage of revenue were 11.9%, almost unchanged from the first quarter of 2014 and down from 13.5% in the second quarter of 2013.

On Slide 12, we provide a summary of our international results. Revenues were down $800,000 for the first quarter of 2013 and up $6.5 million from the second quarter of 2013. European revenues were up sharply versus the second quarter of 2013 while Asia-Pacific revenues dipped only 5% despite a 32% drop in regional value trading. In Canada, revenues fell 11% compared to the second quarter of 2013 but over half of that figure is due to currency translation.

International expenses were higher than both the first quarter of 2014 and the second quarter of 2013 due largely to higher general and administrative costs. The compensation ratio for our combined international operations was 30.6%, up slightly from the first quarter of 2014 but down from 35.2% in the second quarter of 2013.

Combined international transaction processing costs during the quarter as a percentage of revenue dipped to 17.8% compared to 18.7% in the first quarter of 2014 and 20.3% in the second quarter of 2013, due in part to our efforts to reduce execution costs in the Asia-Pacific region and from lower rates for the clearance and settlement of trades in Canada.

On the next slide, we track the performance of our foreign segments over the past five quarters. Of note this quarter, our Asia-Pacific loss was narrowed to $200,000 while Europe saw its second best quarter on record.

On Slide 14, we offer supplementary information on revenues broken out by our four product groups for the last five quarters. The table also includes a corporate group which primarily reflects investment income that is not directly attributable to any of the product groups.

As you can see from this table, revenues electronic brokerage and research, sales, and trading groups showed modest sequential increases in the second quarter of 2014 while platforms and analytics generally held steady. Compared with the second quarter of 2013, we saw growth in research, sales, and trading of 8% thanks to higher average commission rates on high-touch trading as well as an increase in revenues from energy transaction advisory services.

On Slide 15, we are presenting supplemental pretax income information for our four product groups and for our corporate functions for the second quarter of 2014 along with the margin rates for the first quarter of 2013, year-to-date 2014 and full-year 2013. You'll notice that margins for research, sales, and trading are up considerably over the prior-year level. Substantially all of the profitability from research, sales, and trading is being generated out of the US where we have combined our acquired research offerings with high-touch sales trading. On a combined basis, our international RS&T operations are effectively breakeven.

On Slide 16, we have presented our US volume and rate capture statistics. Our average daily executed volume is down 9% versus first quarter and down 17% versus the second quarter of 2013. Our average overall revenue capture per share rose to 50 mills, the highest level since the second quarter of 2011. As Bob mentioned, the higher rate was driven primarily by increases in rates paid on high-touch trading. The percentage of sell-side volume is 49%, down from 51% in the first quarter of 2014.

We ended the quarter with $239.1 million of cash and cash equivalents on our balance sheet, up from $222.7 million at the end of the first quarter. Our excess cash at June 30, over and above what we need for regulatory capital and compensation liabilities, was $60 million, a slight decrease from March 31 due to higher capital requirements in Europe due to increased activity.

We were active with our repurchase program again and bought back 771,000 shares during the quarter for $14.3 million, representing 111% of our net income for the quarter. Our buyback program has reduced shares outstanding net of issuances by 20% since the end of 2009.

Looking forward, I would like to offer the following observation. In July, we are seeing a seasonal slowdown in market-wide trading activity. Our US average daily volume for July is approximately 140 million shares. In our combined international businesses, our average daily commissions in July were approximately 9% below our second-quarter average. The decline in our trading activity in July is in line or in some cases less than the decline in wide trading activity.

As we reported yesterday, we have just completed the acquisition of RFQ-hub, a Paris-based request for code technology platform for global listed and over-the-counter financial instruments. Roughly 90% of the $6 million of expected revenue for full-year 2014 are from European clients and roughly 85% of the revenue is recurring.

From a product perspective, this business will fall within our platforms group. The total purchase price of approximately $20 million net of acquired cash was funded by our excess cash. We expect this investment to be neutral to earnings for the remainder of 2014 and to be modestly accretive in 2015.

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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

(Operator Instructions). Patrick O'Shaughnessy, Raymond James.

Patrick O'Shaughnessy - *Raymond James & Assoc. - Analyst*

Good morning guys. I was hoping you could maybe take this time to take a step back and assess your corporate strategy, the decisions you've made over the last few years, and how you think those have played out for you guys.

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

Yes, I think this is a quarter where I think our corporate strategy and the benefits of the portfolio approach that I alluded to earlier are kind of in full bloom from the perspective of the rate card and from the perspective of the European contribution. We think there's a lot more runway to go, particularly in a place like Asia-Pac. We do think we are getting sharper and more focused around the Firm's value proposition and how we collect on that, and I think that's reflected in the rate card.

And the strategy around diversification in the multi-asset I think is a clear one. We've studied these markets. We are now ready to act and you've started see that in FX TCA. And there's a lot more to come in the next weeks and months in terms of announcements around those initiatives.

RFQ-hub I think is going to be a fantastic addition to the Firm's portfolio from the perspective of easily integrated into Triton, helps us leap-frog I think the competition in terms of functionality and asset class diversification there. And we joined up with a really, really sharp management team and great domain knowledge in the space that we think will help us evolve into the RFQ of choice in the global OTC derivatives space. So, certainly market access has done a great job in the fixed income space, particularly US corporates. Tradeweb does a great job in the govies and the agency space. And RFQ-hub is the early leader, the first out of the chutes into the OTC derivatives space, which is changing dramatically as a result of Dodd-Frank, EMIR, and a lot of other regulatory initiatives throughout the globe.

Patrick O'Shaughnessy - *Raymond James & Assoc. - Analyst*

Got you, appreciate that. Secondly from me, can you just provide an update on where you see the equity market structure conversation going in the US? Certainly, we've had a lot of panel discussions and things of that like during the second quarter. IEX seems like it's gained a fair amount of market share as a dark pool with a somewhat similar value proposition to yours. So how do you see things developing at this point?

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

I think it's early. There's a lot of electricity in the air. We certainly have tried our own course around transparency, as you have guys seen on our website, and I think that will continue on in terms of more and more data provided for not only clients but for the investing public. We are certainly deeply, deeply engaged in these conversations not only on Capitol Hill but with the regulators, with the SEC, with commissioners, with their staffs. And as always, I think our approach is very empirical. It's very data-driven. It's based on performance, and clearly we do think that some of the pilots that have been announced are a good idea. It's good to measure them. It's good to see what the influence of trade at in minimum increments, change in minimum increments will be in terms of liquidity and overall market structure and market performance.

So, I think, as I said, we are deeply engaged. We are an active participant. We think POSIT is right for the times, certainly as a dark pool and as a significant instrument in terms of overall execution quality.

So when you look at Alert and you look at the block size execution we provide there and the TCA data that goes along with it, a TCA competitor like Abel Noser putting out that piece last week I think speaks volumes about the quality of what we do and the durability, despite any changes that may come down the pike in US market structure or global market structure for that matter.

Patrick O'Shaughnessy - *Raymond James & Assoc. - Analyst*

Got you, appreciate that. And the last one for me before I jump in the queue, so obviously very aggressive with the share repurchases this quarter. As more and more of your earning start to come from outside the US, does the amount of US cash that you have available for repurchases start to become an issue, or is the way you're structured in such a way that you will still have plenty of cash in order to do repurchases going forward?

Steve Vigliotti - *Investment Technology Group Inc - CFO, Managing Director*

Yes. It's Steve. Our corporate international structure is efficient in that we'll be able to repatriate income to the US to fund the repurchase program for a sustained period of time without incurring any additional tax loss.

Patrick O'Shaughnessy - *Raymond James & Assoc. - Analyst*

All right. Great. Thank you.

Operator

Ken Worthington, JPMorgan.

Ken Worthington - *JPMorgan - Analyst*

Hi, good morning. I want to -- good morning -- dig into the research revenue. And you attributed a portion of the higher revenue to higher rates. How is that taking place? If volumes are down, is there business that is still being repriced higher, or is it just a function of as volumes are shrinking, the low fee volumes are shrinking more quickly than the higher rate volumes?

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

I think it's a function, as I alluded to in my prepared remarks, it's a function of client engagement. Whether or not it's an electronic product or it's a high touch product, whether or not it's Alert or an algo. It's really about the way we engage clients. And I think we are getting sharper in terms of approaching the client not only with best-in-class electronic offerings, but research that is generating alpha and continues to climb in the research votes of a lot of major institutions.

And as volumes have shrunk, it requires us to look at the other piece of the equation or the other variable, which is rate card. So, I think, in a lot of circumstances, we've had the pricing power to raise that rate card above and beyond what it would have been if we were a purely agent and electronic broker. And so that is having a profound impact on the mix of the business, on the revenue contribution, and on the profitability of the US RS&T business. So it really is about client engagement, and I think it's about partnership with those clients in thinking differently about ITG and its business mix and the way it preserves and generates alpha on their behalf.

Ken Worthington - *JPMorgan - Analyst*

Okay, thanks. And for Steve, I think you hit this quickly and I wanted us to revisit it. The other revenue increased $2.7 million to $5.1 million. I think you said was the energy research team. I'm sorry, can you flesh that out more, please?

Steve Vigliotti - *Investment Technology Group Inc - CFO, Managing Director*

Sure, yes. So during the quarter, we recognized $2.5 million worth of transaction and advisory services revenue from our energy research team where the team is providing valuable insights to potential purchasers of energy investments.

Ken Worthington - *JPMorgan - Analyst*

Okay. Is it one-time, or is that going to recur?

Steve Vigliotti - *Investment Technology Group Inc - CFO, Managing Director*

It's part of the business model. It's not "recurring revenue", which is why we have it in other revenue, but it is part of the business model.

Ken Worthington - *JPMorgan - Analyst*

Okay. And are there direct expenses associated with that, or does that really fall to the bottom line?

Steve Vigliotti - *Investment Technology Group Inc - CFO, Managing Director*

There is associated compensation. From time to time, there may be some consulting support behind that, but for the most part it's directly by our team.

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

Yes, and Ken, I would just highlight the fact that it's a corporate segment in terms of the client base, so there again a diversification of the client segments which I think has been additive. We've certainly empowered the energy research folks to go after corporates and not only provide them with research but provide them with potentially very powerful strategic advice as well.

Ken Worthington - *JPMorgan - Analyst*

Okay. And then lastly, on the recurring revenue side, a couple quarters in a row of declines there. I assume that's largely still MacGregor. What's happening to drive the decline, and does that bounce back as well?

Steve Vigliotti - *Investment Technology Group Inc - CFO, Managing Director*

You're right. That is largely the lagging impact of some previous attrition off the platform, but we think that's still in a very stable place and we are optimistic about our ability to continue to grow connectivity revenue off the Triton and Triton Black platform.

Ken Worthington - *JPMorgan - Analyst*

Okay, great. Thank you very much.

Operator

Niamh Alexander, KBW.

Niamh Alexander - *Keefe Bruyette & Woods - Analyst*

Thanks for taking my question. When I look at the growth, you've really kind of managed it to bring down the taxes really effectively, because it's tough to grow to revenue in this environment and there hasn't been a lot of year-on-year growth, but you've got good earnings growth. So maybe I'm asking you to repeat yourself, Steve, because you kind of gave some guidance on the taxes. But I thought you were kind of just starting to hit maybe benefiting from sort of net operating losses in Asia. But did I hear right that the tax rate should go up overseas? Help me understand maybe what --

Steve Vigliotti - *Investment Technology Group Inc - CFO, Managing Director*

Sure, yes. Happy to provide some clarity on that. So following a tax restructuring we implemented a few years ago, we actually built up some NOLs in the UK. And as you know, recently, we've had some pretty good growth in the region and as a result have utilized those NOLs, so now on a going-forward basis we will be incurring a UK tax. So the 14.5% of international -- rate on our international earnings this quarter, given a similar mix of earnings from the international groups, would rise just to just over 21%.

I think the point you're trying to make, and it's a good point to keep in mind, is that our international tax rate will decline when we achieve profitability in Asia-Pac due to the fact that we do have fully reserved NOLs there.

Niamh Alexander - *Keefe Bruyette & Woods - Analyst*

Okay, so the 21% doesn't assume kind of moving into profitability or anything like that yet?

Steve Vigliotti - *Investment Technology Group Inc - CFO, Managing Director*

Yes, I just assume a similar -- the exact same mix of earnings go-forward, what with the impact on the tax rate. Obviously if we have -- when we have earnings from our Asia-Pacific segment, that will lower the tax rate.

Niamh Alexander - *Keefe Bruyette & Woods - Analyst*

Okay, fair enough. That's helpful. And then -- and the compensation ratio, it's picked up a little bit here and I see kind of overseas looks like -- or the US was 44% but you said it was to do with global growth. Help me understand about -- help me understand what's a good ratio to think about.

Steve Vigliotti - *Investment Technology Group Inc - CFO, Managing Director*

I think these, at revenue levels, that's a good ratio to think about in the US. A good number of the management team that's incentivized to manage the global operation is located here in the US, and that cost is reported in that region. So, again, on similar revenue levels, I would expect a ratio around where we are now. When revenues improve, I would expect that to scale a little bit and that rate come to down a little bit.

Niamh Alexander - *Keefe Bruyette & Woods - Analyst*

Okay, fair enough. Thanks. And then just on FX, you've been kind of working on something for quite a few years. You've rolled out a TCA product. Help me think about the revenue opportunity for you there. Where are you relative to where you think you can get, and is TCA kind of the first of maybe a few different things you could do with this business?

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

Yes, TCA is clearly the first of I think a series of things we want to do in FX. Certainly, I think some of the barriers to entry really focus around the fact that we are not -- we don't have a large balance sheet and we don't look like a traditional FX counterparty. So there have certainly been some challenges there in terms of growing into for instance the electronic brokerage business into the FX space.

On the platform side, I think there'll be some more news to come there in the coming weeks and months. And we view FX as a key part of the multi-asset class diversification and the functionality of the platform business. So, when you think about stacking all this stuff up together, we believe, going forward, that with the addition for instance of RFQ-hub and other asset class capabilities we are building into Triton, that we will leap-frog the competition pretty forcefully in terms of the ability to not only serve the equity desks on our constituent client trading desk, but also the other side of the shop whether or not it's fixed income FX or the derivatives side.

Niamh Alexander - *Keefe Bruyette & Woods - Analyst*

Okay, interesting to think about. And then I guess lastly, on the investor presentation that we saw last week and the SEC filing, have other investors expressed similar concerns, or what can you share there?

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

No, I would say that we certainly have digested the presentation. We continue to focus on a lot of the things that are pointed out there. We agree with some of the points. We certainly disagree with some others. We certainly have a very active dialogue with our largest shareholders and certainly we expect that to continue.

And I think that the thing we're focused on right now is execution, is geographic diversification, asset class diversification, and continued operating performance improvement. And I think it's flowing through to the bottom line.

Really, what we're focused on is continuing this streak of beating consensus earnings I think it's six quarters now. And we want to continue -- certainly want to continue that batting average.

Niamh Alexander - *Keefe Bruyette & Woods - Analyst*

Okay. I'll get back in line. Thank you.

Operator

Patrick O'Shaughnessy, Raymond James.

Patrick O'Shaughnessy - *Raymond James & Assoc. - Analyst*

Yes. So just a follow-up on your revenue capture. I feel like, in previous quarters, we've kind of asked how much more runway do you have to increase your revenue capture, and the commentary has been maybe a little bit, but maybe not too much more. And then you continue to ramp it up. So as I kind of think about the next year to 18 months, do you think there is still a fair amount more room that you can go with the revenue capture as you continue to have these conversations with your clients?

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

Yes, I think our success on that front I think will require continued maturity in terms of the Firm's ability to engage clients, as I discussed. And the trend line is a good one. I think we continue to influence a lot of stocks. We continue to generate and invest in first-class equity electronic brokerage products globally. And so I think if we continue to do that and continue to engage the clients effectively and strategically, I think that we have got some runway. But I probably don't want to comment on exactly what that is.

Patrick O'Shaughnessy - *Raymond James & Assoc. - Analyst*

Appreciate that. And then Asia-Pacific, you mentioned that industry-wide volumes were down quarter-over-quarter yet your revenues were up a pretty substantial amount. Can you kind of talk about what's going on in MAP? Was it just a lot of market share gains from you guys, or just a specific market that you are in? What was the big driver for your success there this last quarter?

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

I think the product is coming together. I think -- well, I talked about the client wallet being unbundled, in other words separating out execution and research. We are seeing the growth in our CSA businesses in Asia-Pac. We are seeing clients evolve in terms of the way that they look at market structure there.

Japan certainly I think is a very exciting place right now in terms of decimalization in lower latency trading. There is I think a significant liquidity management opportunity there for our firm going forward.

And as I alluded to in the remarks, it feels very kind of Europe post MIFID in terms of things I think we can continue to do with our existing product suite that don't require a lot of incremental investment to capitalize on those changes.

Alert, as you guys know, has really been kind of the foundational element of what we consider to be the biggest growth opportunity in Asia-Pac. And now that it's deployed, it really is gaining some momentum. And I think, going into the back half of the year, it will become a meaningful contributor to the revenues in that region. And so we are live in Alert in places like Malaysia and Korea, Japan, Australia, Hong Kong, Singapore, Indonesia. So, I think we -- and we've got some more geographies to add to that mix.

When you think about our buildout of algos and direct market access into virtually every market of consequent in Asia-Pac, it's now starting to gel and starting to coalesce. And at the end of the day, as I said earlier, it doesn't require a lot more incremental investment from here, just execution.

Patrick O'Shaughnessy - *Raymond James & Assoc. - Analyst*

Got you. And then you touched on unbundling. In the UK, the FCA seems to be really getting aggressive with its interpretation of unbundling and how it's reviewing large asset managers. And certainly there's some language in MiFID too about unbundling. So how do you see that playing out in Europe? And kind of what inning of the whole unbundling trend do you think we are in in Europe right now?

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

I think most importantly -- well, I think we're at a pretty advanced stage already in Europe. But most importantly, it has global implications, and that is most of the institutions that are operating in the UK have global enterprises, have global capability, the ones of size. And certainly I think it's going to have a potentially profound influence on their global operations, not just on their UK-based operation. So as a result, when I talk about the client unbundling in Asia-Pac, I wouldn't discount the fact that there are other things going on in other jurisdictions that might potentially influence the pace of that.

Patrick O'Shaughnessy - *Raymond James & Assoc. - Analyst*

I got you, appreciate that. Then the last one for me, GFI Group is selling Trayport to FENICS. B2C partners obviously had a lot of success selling its ESP asset. When you look at your product portfolio, do you think there are any assets that could potentially be carved out and achieve a higher valuation independent of you guys than as part of you guys?

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

We think today that the four business units or product segments hang together very nicely. They coalesce very nicely within our Firm. I think you see that, as I said earlier, the portfolio approach to regions and product I think is working well for us. I would say that we've even come close to a place where all of those things are hitting on all cylinders. But there's I think a good improvement in the overall average, certainly year-over-year.

And so I think one of the things that we have done I think -- and hopefully it's helpful to you all and to shareholders -- is we have broken out the results, and we have operated these segments I think not only pretty efficiently but very transparently. And I think that gives you an opportunity to compare the valuation of the ITG portfolio against some of these single assets that are trading in the marketplace today.

But today, I would tell you that the portfolio coalesces. It hangs together well. It certainly engages the client very effectively. And we don't have any plans to spin any of these assets off, but we are watching, as we always do, what's going on in the marketplace around us.

Patrick O'Shaughnessy - *Raymond James & Assoc. - Analyst*

All right, appreciate it. Thanks for taking all my questions.

Operator

Rich Repetto, Sandler O'Neill.

(Operator Instructions). I show no further questions at this time. I'd like to go ahead and end the Q&A session and turn the call back over to management for closing remarks.

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

Operator, is there anyone else from Sandler on the line? Collin Cook, I think there are audio issues not on Sandler's part.

Operator

I'm sorry, yes, he just prompted in there. Collin Cook.

Collin Cook - *Sandler O'Neill & Partners - Analyst*

Can you hear me? Okay. Rich, I've them on my line. Rich.

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

Can you hear me? We just battled with your conference call company for the last 15 minutes, but that's beside the point here.

Anyway, I guess first question is someone already as this, but on the energy transaction, I know you said it seems -- they asked whether it's occurring, and it's part of the business model, but is this -- can you expect this sort of up every quarter, or is this a one -- was it a one-time payment? And sort of the same goes for the revenue capture as well, the improvement.

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

Yes. We certainly have I think -- no pun intended here, we've got a pipeline of transaction advisory assignments that we are focused on. We don't expect it to be recurring, as Steve said, so it's not going to be a steady line but it could be chunky from quarter to quarter. But we do view it as actually a very nice way to leverage the Energy Research asset into a client segment that historically the client -- the firm has really not had a lot of exposure to. So the energy asset is a fantastic one traditionally used by not only asset managers but private equity firms, but also now entering the corporate space. We think it's got some good runway in a market that obviously has a very, very positive secular trend.

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

Thanks. That helps a lot. I guess just one -- what do you call it -- just an accounting question. Can you give us the CapEx and the non-cash comp? Steve?

Steve Vigliotti - *Investment Technology Group Inc - CFO, Managing Director*

Yes, just one second. I do have that -- I do have that handy. CapEx similar to Q1. We are down from the prior-year period. As you know, in prior-year periods, we have made some meaningful investments in our infrastructure with our new offices -- bear with me one second here. I thought I had it here.

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

I'm happy to ask the last question.

Steve Vigliotti - *Investment Technology Group Inc - CFO, Managing Director*

Do that while I dig around for a little bit.

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

Okay. I guess, Bob, the last question is the bigger question, is you did address the Philly Financial, you did comment on it. But I guess can you be more specific? What are the points that you agree with? What are the points you disagree with? And what is the plan of action to deal with this? Do you expect to respond to it? Just so shareholders and analysts can see what's your views on this.

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

Yes, I think our plan of action at this stage of the game is to let the results speak for themselves, which we have. And I think, certainly, I think a lot of the -- in the current quarter, a lot of the things that were pointed out in the deck I think are addressed with performance, will continue to be addressed with performance. We're focused on execution, plain and simple. So that's my response to that question.

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

And like you did say there were certain points you agreed with, would -- could you elaborate?

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

No, we certainly agree that there's a significant imperative to diversify the Firm, to continue to invest in technology, which we have. When you look at the Greenwich survey and you look at -- I think it's probably the most rigorous scientific survey out there on a global basis of the electronic brokerage community. Certainly it looks at a lot of segments in our business and our leadership is unquestioned. I think we would all agree that this is a significantly competitive market where we go up against very strong competitors with very strong balance sheets, very strong bench strength, and we succeed. And so the track record there again I think speaks for itself.

So I think we agree that you have to continue to invest in this business. You need to diversify into other asset classes, and the imperative to bring Asia-Pac over the goal line into profitability. And we are astoundingly close.

So with that, I'll turn it over to Steve.

Steve Vigliotti - *Investment Technology Group Inc - CFO, Managing Director*

Yes, sorry for the delay, let me get back to you on your question. So in terms of non-cash stock comp, that was just under $4 million for the quarter at $3.9 million. And for capital expenditures for the quarter, we spent $3.4 million. That puts us just under $6 million on CapEx on a year-to-date basis. And our capitalized software expenditure this quarter was $6.9 million, which puts us at $13.6 million on a year-to-date basis.

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

Okay, thanks. And glad I could finally get my questions in. Thanks.

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

Sorry about that, Rich.

Operator

I'm showing no further questions at this time. I will conclude our question-and-answer session. I would like to turn the conference back over to management for closing remarks.

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

Thank you once again for joining us for the quarterly call, and we look forward to speaking with you all in October. Have a great summer.

Operator

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