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ITG - Q4 2014 Investment Technology Group Inc Earnings Call

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CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

Ken Worthington *JPMorgan - Analyst*

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

Chris Allen *Evercore ISI - Analyst*

PRESENTATION

Operator

Good morning and thank you for joining us to discuss ITG's fourth-quarter 2014 results. My name is Maureen, 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.

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

Thank you, Maureen, 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 these 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 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 - *Investment Technology Group, Inc. - CEO and President*

Thanks, JT. I think all of you for joining us. As you can see in our fourth-quarter and full-year 2014 results, our strategy of measured investment across our four operating regions and four product groups continues to drive improvements in our financial performance.

We posted a strong increase in North American profitability during the fourth quarter, complementing solid performances in Europe and Asia-Pacific.

Our results also demonstrate the operating leverage we've built into our model. For the fourth quarter, our consulted revenues rose 13% compared to the prior year, while our net income rose 34%. For the full year, our revenue rose 5%, which resulted in a 37% increase over adjusted net income

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in 2013. Our return on equity rose from 7.6% in 2013, using GAAP net income to 12.2% in 2014. This is a strong showing, but we believe there is more room for improvement ahead.

Digging into the fourth quarter results in more detail, we saw a rebound in our US volumes, which were up 29% versus both the third quarter of 2014 and the fourth quarter of 2013. Sell-side flow comprised 53% of our total US trading volume in the quarter, down from 56% in the third quarter of 2014, but almost unchanged from the fourth quarter of 2013.

Both POSIT and POSIT Alert saw strong volume increases in the US in the fourth quarter at 90 million shares and 16 million shares of average daily volume respectively.

ITG investment research continues to gain traction with US investors, attracting more than 200 public and private equity investors to our Houston Energy Conference last month.

During the quarter, the ITG IR team issued a detailed early look at the Apple Pay mobile payment solution, as well as alpha generating research calls on Best Buy, Facebook and lululemon.

In Canada we posted record revenues, up 22% versus the fourth quarter of 2013, despite weakness in the the Canadian dollar. In local currency terms, revenues were up 32% compared to a year ago.

Our sell-side dark pool match now posted another quarter of strong gains and now accounts for approximately 4.5% of total Canadian trading volume single counted.

Turning now to Europe, revenues were up 21% from the fourth quarter of 2013. Average daily value traded in POSIT was up 29% year over year, while average daily value traded through POSIT Alert rose more than 53%. We reached a record number of clients trading European equities with ITG, executing trades from more than 400 institutional investors.

In the Asia-Pacific region, revenues rose 12% compared to the prior year period. We posted a second straight quarter of profitability, despite incurring $0.5 million in employee termination charges to lower our local cost base going forward.

POSIT Alert remains a key driver of growth. Value trading alert has increased for six straight quarters and was up 25% compared to the third quarter of 2014.

Entering 2015, Alert remains core to our growth strategy in the region.

During the fourth quarter, we received some recognition for our work in Asia-Pacific. We won a Trade Asia algorithms award, the best algo for reducing market impact, while the buy side voted us number one in the Greenwich Associates Survey for overall Asian equity electronic trading quality. Greenwich estimates that only 27% of trading in the Asia-Pacific region is now done electronically. So there is room for growth in the region. This compares to over 40% in North America and 32% in Europe.

Looking into 2015 and beyond, we remain focused on three key initiatives in order to grow revenues and create shareholder value: expanding our client base, particularly into more hedge funds; expanding our geographic reach; and expanding into new asset classes.

Regarding hedge funds, we have built a strong offering over the past few years, starting with alpha-generating investment research and one of the industry's leading CSA programs, and then adding Triton Black, the single stock-focused version of our Triton Execution Management System, as well as ITG Position Manager, a multi-prime, multi-asset order management system specifically tailored to the needs of hedge funds.

I am pleased to report that we now have eight clients up and running on an integrated Triton Black Position Manager system, along with ITG net FIX connectivity, and we have a solid pipeline of additional clients to come on board over the next several months.

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We plan to expand our geographic reach in 2015. We now have POSIT Alert block crossing in 34 countries, and we expect to roll out Alert in a large Asian market during the first half of the year.

We also recently hired an experienced sales team-based in Paris to expand our reach among French asset managers.

Additionally, we have been working on our initiative to expand into new asset classes. We are making progress in our integration of Triton with FX Connect, the global multibank foreign exchange platform. This marks the first true integration of an EMS in an FX portal in the marketplace and will make Triton a truly multi-asset platform. We have done some test trades and expect the integration to be live with our first set of clients by the end of the first quarter.

FX TCA continues to gain client traction with the introduction of peer group data and pre-trade products in Q1 2015 as well.

In fixed income, we are making progress with client onboarding and client OMS integrations for POSIT Fixed Income, our all-to-all dark pool for US corporate fixed income.

Over time, we believe POSIT Fixed Income will help reduce the liquidity shortage in both investment-grade and high-yield corporate bonds, and we are looking forward to partnering with our clients in this new asset class.

Turning to our balance sheet, during the fourth quarter, we continued our active share buyback program, purchasing 637,000 shares for $12 million. We expect to continue using share repurchases as a way of managing our capital and growing shareholder value.

We also are maintaining our expense management discipline. As we mentioned in our earnings release, we incurred $2.1 million in employee termination expenses in the US and Asia-Pacific during the fourth quarter. While these cuts were painful, the lessons learned from operating the product group model these past two years are helping us identify areas where we can create more efficiencies and help fund investments we are making in our growth initiatives. Learned experience leading to continuous operating improvement is a theme that will persist for ITG in 2015.

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

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

Thanks, Bob and good morning, everyone. Our strong performance in North America, including record revenues in Canada and improved volumes in the US, drove a solid increase in profitability in the fourth quarter.

As noted on slide 7, we generated consolidated revenues of $149 million during the fourth quarter, up 11% from the third quarter of 2014 and up 13% from the fourth quarter of 2013. We posted net income of $0.36 per share in the fourth quarter of 2014 compared to net income of $0.32 per share in the third quarter of 2014 and a net income of $0.26 per share in the fourth quarter of 2013.

Please note that while we're not carving any items out from our reported results for any of the periods presented, there are a number of items worth calling out.

Our fourth-quarter 2014 net income included employee termination charges in the US and Asia-Pacific, totaling $2.1 million or $0.04 per share. Third-quarter 2014 net income included a net tax benefit of $2.4 million or $0.07 per share from resolving a multiyear contingency in the US, and fourth-quarter 2013 net income included a tax benefit of $900,000 or $0.02 a share from resolving a contingency in the UK.

Slide 8 presents our consolidated results along with separate breakdowns of results from our US and international operations. On a year-over-year comparative basis, revenues were up $17.1 million, while consolidated expenses were up $9.9 million. Our consolidated pretax margin was 11.9%, up from 9% in the third quarter of 2014, and up from 8.1% in the fourth quarter of 2013.

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Our consolidated effective tax rate was 27.1% for the quarter, reflecting a regional mix of our earnings. Our US effective tax rate was 42.7%, and our international effective tax rate was 20.6%.

During the fourth quarter of 2014, we generated revenues of $81.4 million and posted net income of $0.08 per share in the US, including the impact of employee termination charges of $1.6 million or $0.03 per share after-tax. This cost reduction measure will help offset the impact in 2015 of higher deferred stock compensation and investments in growth initiatives.

The US results compare to $72.5 million in revenues and net income of $0.08 per share in the third quarter of 2014, including the $0.07 tax benefit mentioned earlier and $75.3 million in revenues and net income of $0.01 per share in the fourth quarter of 2013. Other revenues in the US were $1.3 million, down from $3.4 million in the third quarter of 2014 and $4.3 million in the fourth quarter of 2013.

The drop in other revenues reflects in part lower transaction advisory services from our energy research team.

Our fourth-quarter pretax margin in the US was 6.4%, up significantly from both the third quarter of 2014 and the fourth quarter of 2013.

Please recall that the US segment bears nearly all of the firm's corporate costs, which negatively impacts pretax margins reported for that segment. These costs, which total approximately $5 million per quarter, include among others the cost 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 fourth quarter would have been 11.8%.

Our combined international businesses posted net income in the fourth quarter up $0.28 per share on revenues of $67.6 million. Our international pretax margin rate was 18.6%.

On slide 9 you can see that our US expenses rose 2% for the fourth quarter of 2013, due chiefly to higher transaction processing costs associated with increased trading activity, higher compensation costs, including the $1.6 million in employee and termination expenses.

These increases were offset in part by lower occupancy and equipment and general and administrative costs as compared to the fourth quarter of 2013.

Our compensation ratio was 45% in the fourth quarter of 2014 as compared to 44.7% in the third quarter of 2014 and 42% in the fourth quarter of 2013. Excluding the employee termination costs, our US compensation ratio was 43% in the fourth quarter.

On slide 10 we provide a summary of our international results. Revenues were up $5.3 million from the third quarter of 2014 and up $11 million from the fourth quarter of 2013. European and Asia-Pacific revenues were up significantly versus the fourth quarter of 2013, while Canadian revenues were up 22% to a new record high of $22.9 million, despite a $1.7 million negative impact of currency translation from a weaker Canadian dollar.

The overall foreign exchange impact on our international net income was $500,000 or $0.01 per share during the quarter.

International expenses were higher than both the third quarter of 2014 and the fourth quarter of 2013, due largely to higher transaction processing and compensation costs.

The compensation ratio for our combined international operations was 33.8%, up from 32.1% in the third quarter of 2014 due to higher variable stock-based compensation costs on liability awards in Canada and $500,000 of employee termination costs in Asia-Pacific. And the rate was almost unchanged for the fourth quarter of 2013.

The cost reduction measure in Asia-Pacific is expected to lower local costs by $500,000 in 2015 and by more than $1 million in 2016.

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Combined international transaction processing costs during the quarter as a percentage of revenues was 19.3%, up slightly from 18.8% in the third quarter of 2014 and unchanged from the fourth quarter of 2013.

On the next slide, we track the performance of our foreign segments over the past five quarters.

Of note, Asia-Pacific was profitable for a second straight quarter, even with the employee termination charge and posted its second best revenues ever. And as mentioned, Canada posted record revenues.

On slide 12, 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 in the electronic brokerage platforms and research sales and trading product groups all increased on both a sequential and year over year basis, reflecting the improved trading environment, while analytics revenues held steady.

On slide 13 we are presenting supplementary pretax information for our four product groups and for our corporate function for the fourth quarter of 2014, along with the margin rates for the third quarter of 2014, full-year 2014 and full-year 2013. Both the electronic brokerage and platforms increased their margins over third-quarter 2014 levels, despite the impact of employee termination costs in both groups due to higher trading volumes.

The analytics margin declined due in part to investments in new products, while research, sales and trading margin was lower due to higher international costs for compensation, including variable stock-based compensation in Canada and higher international transaction processing costs.

Even with the additional international costs in the fourth quarter, the research sales and trading margin was well ahead of 2013 levels.

On slide 14, we have presented our US volume and rate capture statistics. Our average daily executed volume was up 29% versus the third quarter of 2014 and the fourth quarter of 2013.

As you can see on this slide, our average overall revenue capture rate per share dipped to 44 mils. The drop from 46 mils in the third quarter of 2014 is due to an increase in trading activity by lower rate quantitative clients, as well as a higher seasonal index rebalance.

The decline from 47 mils in the fourth quarter of 2013 relates to increased trading activity for lower rate quantitative clients, along with a decline in the average commission rate paid by sell-side clients.

We ended the quarter with $275.2 million of cash and cash equivalents on our balance sheet, up from $228.5 million at the end of the third quarter due to a reduction in cash tied up in settlements as business levels were slower the last few days of the year, as well as due to growth in unpaid incentive compensation.

Our excess cash on December 31 over and above what we needed for regulatory capital and compensation liabilities was $50 million, up from $45 million at September 30. We were active with our repurchase program again and bought back 637,000 shares during the quarter for $12 million.

For the full year, we repurchased 2.7 million shares for $48.2 million at an average cost of $18.03 per share.

Since the beginning of 2010, our buyback program has reduced shares outstanding net of issuances by almost 22%.

Looking forward I would like to offer the following observations. Our US average daily volume for January is approximately 179 million shares at an average rate slightly above our fourth-quarter average. In US dollar terms, our combined international businesses' average daily commissions in January were approximately 1% above the fourth-quarter average and 4% above the average in the first quarter of last year.

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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) Niamh Alexander, KBW.

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

Congrats on a strong quarter. If I could just go back to, I guess, POSIT Alert seems to be powering ahead and taking quite a bit of market share overseas. I'm just trying to get a sense of the competitive landscape there. Have there been some upgrades to the platform? Have you signed up some big new customers, or is it just generally better acceptance, and then where we are going with it is, is there more run rate? Can it keep up this pace of growth and pace of gain?

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

Yes, I think that's one of the reasons we talked about the European customer base. We traded with over 400 accounts, and I think that speaks to the breadth of the European business both in the UK and the continent.

So I think it is a work in progress still in Europe. I think we still have runway there. And yes, as you guys know, we did upgrade to what we call NexGen, which is the next-generation customer interface over the past couple of years, and I think we got the full benefit of that in 2014 in terms of the existing customer base. And now with runway for new customers in Europe and Asia-Pacific in places like Latin America even, I think there still is room to grow. And Asia-Pacific is really -- this is really the key to our growth there in the region. And that notion of block crossing sweeping of blotters and that customer interaction is very new to the region, but one that we think will be accepted just as it has been in the Western world.

And I think consistent with that is that the guys that we are touching now in Asia are just -- are the Asian regional businesses that are attached to bigger global asset managers. So there is experience there. There is technological integration, and there is, I think, an acceptance and a discipline around best execution that is being implemented in Asia-Pacific at this stage of the game.

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

So you still have -- in Asia, for example, you still have quite a few big customers, shall we say, that you need to sign up or get used to using the system you feel like there is good runway there?

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

Absolutely. Yes, it is probably -- it is a small fraction of the installed base in Europe and the US still.

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

Okay. Okay. Fair enough. Thanks. And then just on the Canadian commission, I know trading was pretty strong, especially with everything going on in energy as well. But just kind of thinking about modeling going forward, is there also some FX trading revenue or something there in that very strong commission line that might be a bit unusual in the quarter?

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

There is FX trading revs, not in the revenues -- not in the -- in other revenues there is, but not in the revenues, not in commission revenue that Steve quoted in his prepared remarks. But we do have FX revenues in the other line in Canada. That's a part of our north and southbound flows in terms of the execution of dually listed shares, right? So FX is deeply integrated in all of that. And so, yes.

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

Okay. Fair enough. But it's not, I see, in the commission line when we look at the Canadian commissions. That's just pure equity trading commissions?

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

Yes. It's in the revenue line, but it's in other revenues, not in commissions.

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

Fair enough. Okay. That is helpful. Thanks. And then just going back to the rate card a bit, you had given us a signal with the releases that the sell side mix was going to put pressure a little bit. But you also mentioned how research you had some good attendance at the conference and good uptake.

I'm just wondering have you kind of reached a point where the customers that you tried to move over to commission based off a subscription base, has that kind of leveled out now? So we shouldn't really be looking much more of a benefit from a mix shift of those customers coming off subscription?

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

I think there's still room to grow there. There's still room to bring on new customers. There is room to penetrate the existing customers that are paying us with trading commissions, and there is room to coordinate and integrate around the rate card from both the electronic and the high touch side of the house. And so I think the US high touch business has done really, really well this year, and we are very pleased with its performance, and we think there is runway for growth there. I certainly am not capitulating on the institutional rate card that is for sure.

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

And Niamh, as we have mentioned, it typically comes down to mix. It is not always just the sell side, the buy side mix, but often even inside those segments, there is different mix of businesses, right? So, as we called out this quarter, due to volatility we saw more activity from more quantitative accounts this quarter than we had seen in the past, and fourth quarter is also typically a season of index rebalance activity. We see that pick up as well. So, again, inside the buy side mix sometimes, we see different mixes in there as well that will affect rate.

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

Okay. Fair enough. I will get back in line. Thanks.

Operator

Ken Worthington, JPMorgan.

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Ken Worthington - *JPMorgan - Analyst*

On the severance, can you talk a little bit more about what you actually restructured so it's both in the US and in Asia? And then more flavor on how it changes the expense outlook? I couldn't tell from your comments whether this money is being reinvested or falling to the bottom line. I think you said in the US it would help offset a couple of things, but I couldn't tell whether -- what was going on there. And then you mentioned savings in Asia, but again I couldn't tell if that drops to the bottom line or gets reinvested elsewhere.

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

Right. So Ken, I will take the Asian piece, and I will turn it over to Steve on the US piece. But on the Asian peace, as you guys know, probably dating back a couple of quarters, we have been very focused on the profitability of the region, and that started early in 2014 and I think coming out of 2013, some more experience operating the four regions in the four business units.

And so that was iterative over the course of the year. I think we came to the conclusion that there were some things that we could centralize within the US to the benefit of the Asia-Pacific region and its profitability. As you know, we have the positive tax consequences there, and what we decided to do was to reduce our footprint in Melbourne, Australia.

That's the primary impact there. But, as I said, it is part of an overall learned experience leading to continuous improvement. And so yes, there will be benefit to 2015 and 2016 numbers, and we believe that this is just part of bringing the Asia-Pac over that line of from the red to the black. And consistent with Steve's comments, fourth quarter was a profitable quarter, a nice increase over Q3 before the impact of the write-down there. And I will turn it over to Steve on the US side.

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

So we do, Ken, expect savings in the Asia-Pacific region. We are targeting around $0.5 million in 2015, and based on timing, we expect that to double in 2016.

As you pointed out in the US, yes, we do expect savings from the measures that we took to downsize a little bit some of our areas here in New York. But the impact of that is you probably are not going to see flow-through on the US top line too much because we have a couple of headwinds that's going to offset. One is increase in what we are going to recognize in 2015 for deferred stock compensation.

So, as we have performed better in 2013 and 2014, the awards that were granted to our staff get expensed in future periods, so that will uptick a little bit in 2015. And, as you know, we are making investments in some really important growth initiatives. So the savings from the measure we did in the US will go to partly offset some of those increases.

Ken Worthington - *JPMorgan - Analyst*

Okay. Great. More clear. And then you used to talk a lot about mutual fund sales, and that slide got taken out, I think, last quarter. Fund sales continue to stink. Your business is looking much better. Is this metric just less relevant now than it used to be because the business has really changed and evolved, or does that just offer upside from the current picture if the fund sales come back? So just kind of thoughts around that?

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

I think it may be reflective of the fact that the business mix both at ITG and throughout the investing world has changed. So I think we are a much more global firm. The fund flows are much more global and fungible between regions at this stage of the game, even down to the individual investor as we see it. Yes, it would be helpful if there were some positive fund flows in the mutual funds. ETFs are still very active, and certainly a lot of the ETF sponsors are core customers. Indexers are core customers of ours.

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So I guess we might have gotten tired of the negativity, to be honest. So I do think that there is a lot more going on around the world than US domestic fund flows, and I think the firm is participating in that. So that's probably about the net of it.

Ken Worthington - *JPMorgan - Analyst*

Okay. Great. Thanks very much.

Operator

Rich Repetto, Sandler O'Neill.

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

I guess the first question, Bob and Steve, is the cash is building, $275 million. I know you returned on net income, but it seemed like the cash flow is still well above net income. So can you give us any color on what you would do with excess cash as it continues to build here?

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

First, let me address the cash balance. So it's not unusual for a cash balance to hit a peak level at year end, particularly given a couple of things.

One, you've got a full year's worth of accrued compensation liabilities that haven't been paid out that will be paid out in the first quarter. As well as the fact that the last few days of the year are typically less active trading days for us. So, as a result, we have less cash tied up in the settlement process for things like sales and short settlements and things like that.

So you will see even last year a higher year-end cash number than you saw throughout the course of the year. So that is not unusual.

I think the important metric there, Rich, is what we calculate as our excess cash, and that is the amount of cash we have over and above our regulatory capital needs. And what we will need for compensation liabilities, and that ticked up a little bit in the quarter from $45 million at September 30 to $50 million at year end.

In terms of -- on free cash flow, if you mean like the difference between our depreciation expense and our capital expenditures, those levels were pretty flat in the fourth quarter, and that is going to vary from period to period, depending on the timing of when we do some capital investments in the business. For the year, it was a net positive of about $9 million, but again for the quarter it was -- those two were pretty flat.

But keep in mind, in addition to obviously funding the buyback with just about all our net income, we have other calls on cash. We certainly are paying down the small amount of debt we have on our balance sheet. We have to net settle employee stock awards.. Both those two combined are about a $20 million a year outlay in cash, and from time to time there could be upticks in the capital needs as our international businesses grow in Europe and Asia-Pacific. So that's kind of what the delta is, what we do with the cash over and above net income. Things like stock comp and things like that.

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

Okay. That's very helpful. And then Bob, you mentioned Asia-Pac and the things you're doing in Australia, but I guess more specifically you also mentioned the NOLs. And I am just trying to see any more detail -- you have been positive there now for a couple of quarters. So when can you use the NOLs, what triggers them, and how could we model this out going forward? Are you using any right now?

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

I'm going to defer to Steve.

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

I think we have talked about we have approximately $35 million of gross loss carryforwards in both Hong Kong and Australia. So that's $70 million combined, and as we continue to generate profits, you will see that pretax income number more or less drop right to the bottom line.

Now at some point, Rich, if we have got a sustained period over a longer period of time of generating profits, we may have to work with the auditors and actually put up a deferred tax asset for the NOL, at which point thereafter we would then have to expense the deferred tax asset as we offset our earnings level, but right now in the early days, certainly if you look for our pretax income and the region just drops to the bottom line.

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

Okay. So you are using NOLs as we go right now?

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

Yes. We had a small -- we had a few hundred thousand dollars of profit last quarter, $100,000 this quarter. So it's relatively small levels at this point. But as that grows, we will continue to -- (multiple speakers)

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

Yes, $100,000 after the charge.

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

Correct.

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

So, with the charge, it was 600. So a good sequential increase there.

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

Okay. And then my last question is, on the research side, I know you did talk about some of the expenses. But when you look at the quarter over quarter comparison, it looks like the expense levels went up more than the revenue did quarter to quarter. And so I guess can you give us a little bit more explanation? I know you talked about transaction costs and another cost, but we didn't see any at least sequential leverage. And can you talk about headcount there in the research side as well?

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

Yes, I will talk about the expense base and kind of elaborate on my earlier comments, Rich.

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So really the growth and expenses for that product group was almost entirely from the international regions. So in Canada, this has been sort of a legacy accounting issue we've had. We've had the historical stock comp that we have given to staff for as part of their annual incentive compensation. They have been cash settled.

So, as a result, we have to mark those to market as the stock price moves up and down. This quarter the stock price rose. So a lot of the Canadian staff who were on the desk who had stock awards, we had to mark those up so that caused our compensation, for example, in Canada to go up by $400,000 to $500,000 just alone for that product group.

We also talked about in my remarks the international cost for transaction processing. We had higher costs really both in Canada and Europe, mostly in Europe, around some of our routing that we did during the quarter. Again, we think both of these are temporary in nature, and we should see similar revenue levels. Those margin rates come back in line with what we saw earlier in the year.

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

Okay. And just the headcount on the research side?

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

Yes, headcount on the research side is flat. Really nothing has changed there.

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

Okay. All right. Congrats on a good quarter, Bob and Steve. Thanks.

Operator

Chris Allen, Evercore.

Chris Allen - *Evercore ISI - Analyst*

Just wanted to touch on Europe. We were just looking at POSIT and market share there, which had been trending up over the course of the year. It came back in in the fourth quarter. It looks like it has continued to come back in in the first quarter, as a percentage of the overall market but also as a percentage of dark volumes. So I am just curious what you guys are seeing there and what is driving that?

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

Yes, certainly volatility is very positive for the high-frequency trading community, and so you have seen a significant uptick in activity there. I mean POSIT doesn't participate in that. So I think at this stage of the game, POSIT is more than holding its own from our perspective. But there is a significant amount of volatility and a significant uptick in HFT in the region.

Chris Allen - *Evercore ISI - Analyst*

Got it. And any color in terms of why the market share would be slipping as a percentage of overall dark volume, which would be -- (multiple speakers)

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

Yes, I think it is probably a component mix of our clients versus some of the other pools in the space.

Chris Allen - *Evercore ISI - Analyst*

Got it. Okay. And then you talked a little bit about the January international activity relative to the fourth quarter, up 1%. Are you seeing any differentials in terms of the different regions there? I'd say the general outlook for Europe is a little bit more challenging right now, just given the economic trajectory relative to maybe some other regions? Like any color in terms of how you guys think about the different opportunities within regions would be helpful.

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

Yes, I think it's almost a replay in terms of the proportionality in Q4, and -- but I tell you volatility and volume are just about -- we couldn't ask for more. It's good solid institutional activity, cross-border activity, the things that you hope and wish for in this business, quite frankly. But we are well-positioned in all four regions at this stage, I think, to trade those flows and to execute on behalf of clients. I think the product suite is in as good a shape as it has ever been. Alert is competing heavily for this business and continues to expand its geographic reach, so it is kind of steak and potatoes, right? There is not a lot of insight I can provide in addition to all that.

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

And, again, Canada and Europe continue to be very active, and we're doing a good job of holding share there. And our revenue number is good, even with the impact of continued decline in currency levels, quite frankly.

Chris Allen - *Evercore ISI - Analyst*

All right. That's it for me, guys. Thanks a lot.

Operator

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

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

Thank you, operator, and thank you all for joining us. We look forward to our Q2 call in April.

Operator

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

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