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VIRT - Q4 2015 Virtu Financial Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Virtu Financial conference call announcing 2015 fourth-quarter results. At this time, all participants are in a listen-only mode. (Operator Instructions). I would now like to introduce your host for today's conference, Mr. Andrew Smith. Sir, you may begin.

Andrew Smith - *Virtu Financial, Inc. - SVP, Head of IR & Corporate Strategy*

Thank you, Laura. Good morning. As you know, our 2015 full-year and fourth-quarter results were released this morning and are available on our website. Today's call may include forward-looking statements, which represent Virtu's current belief regarding future events and are therefore subject to risks, assumptions and uncertainties, which may be outside the Company's control and our actual results and financial condition may differ materially from what is indicated in these forward-looking statements. It's important to note that any forward-looking statements made on this call are based on information presently available to the Company and we do not undertake to update or revise any forward-looking statements as new information becomes available. We refer you to disclaimers in our press release and encourage you to review the description of risk factors contained in our final S-1 registration statement and other filings with the SEC.

In addition to GAAP results, we may refer to certain non-GAAP measures, including adjusted net trading income, adjusted net income, adjusted net income margin, adjusted EBITDA and adjusted EBITDA margin. We believe these non-GAAP measures are more reflective of our operations and core business performance. You'll find a reconciliation of these non-GAAP measures to GAAP terms included in the earnings materials with an explanation of why we deem this information to be meaningful, as well as how management uses these measures. When used on this call, adjusted net trading income refers to our trading income net of all interest and dividend income and expenses and all brokerage clearing and exchange rebates and/or fees.

Speaking and answering your questions today are Mr. Douglas Cifu, our Chief Executive Officer and Mr. Joseph Molluso, our Chief Financial Officer. They will begin with prepared remarks and then take your questions. I would like to now turn the time over to Douglas.

Douglas Cifu - *Virtu Financial, Inc. - CEO*

Good morning and thank you for joining our call this morning to discuss Virtu's full-year 2015 and fourth-quarter results. 2015 was a record year for Virtu. We realized $511 million of adjusted net trading income and technology services revenue and $352 million of adjusted EBITDA, both record performances for our firm and up 15% and 21% from the prior year.

As we have explained in prior calls and in meetings with our investors, Virtu was built to deliver consistent financial results across all types of market environments, performing well in quarters with a baseline of activity such as the second and fourth quarters of 2015 and delivering outsized performance in market environments with greater amounts of volume and volatility such as the first and third quarters of 2015.

While it is always difficult to predict when and where volumes and volatility will increase, our global footprint ensures that Virtu will be there to provide liquidity and facilitate risk transference for market participants in all kinds of environments. As global macro and regional opportunities fluctuate with volume and volatility from quarter to quarter, we continue to encourage our investors to take a long-term view of the growth in our operating results.

We continue to grow the firm's business in 2015 as we ended the year with our global technology platform connected to over 230 unique venues in 35 countries. In addition, we're able to expand the provision of our market-making services to over 12,000 financial instruments during 2015 and our robust technology and risk platform allowed us to do this with 148 employees in our four trading centers around the world.

In 2015, we generated adjusted net trading income of $501 million, an average of $1.987 million per day, a record performance for Virtu and an increase of 15% year-over-year. The distribution of our performance across our six categories continues to reflect the diversity of our business. In 2015, the largest category was Americas equities at 27%, followed by global commodities at 23%, global currencies at 22%. Non-US equities, including Europe and Asia, comprise 21% of the total. All of these categories delivered record performances.

Looking at the individual categories versus selected market benchmarks, our business performed very well and reflects solid underlying growth. US equity volumes were up 8% in 2015 versus 2014 and our Americas equities category was up 20%. EU equity volumes were up 7% in 2015 and our European equities category was up 14%. Tokyo Stock Exchange volumes were up 1% in 2015 and our Asian equities category was up over 50%. CME energy contract volumes were up 21% and our global commodities business was up 21%. CME FX futures volumes were up 7%; however, spot FX volumes were down 4%, including HotSpot down 11%, Reuters FXAll down 6% and EBS up 3%. Our global currencies category was up 1% year-over-year.

As I noted earlier, we've emphasized the need to review our performance over a longer period than individual quarters to understand how we perform in a variety of market conditions. When there are sudden changes in market volatility, whether driven by singular market events such as the Swiss National Bank de-pegging as we saw in January 2015 or the global equity market volatility we saw in August 2015, the demand for our liquidity increases driving outsized performance. There are also dozens of other scheduled and oftentimes surprise events such as central government rate or monetary policy announcements, jobs reports, geopolitical events, etc., that drive other's trading decisions, which impacts our operating results.

It's important to note that traditional market-makers like Virtu are continually required even when markets are less volatile or market volatility is relatively constant. It is our scale and diversity that allows Virtu to generate consistent returns in these quieter periods.

The ability of Virtu to remain profitable in all market environments is also attributable to our disciplined expense management philosophy. Our profit margins have remained at best-in-class levels in our industry and we're particularly proud of the fact that, as our firm has grown and achieved record levels of revenue and profits, we have remained very disciplined with regard to expenses.

In 2015, our overall adjusted EBITDA margin was 68.9%, another record and up from 65.5% in 2014. In addition to expenses, we are very prudent managers of capital. We measure returns on capital by looking at the amount of trading capital we have deployed at various clearinghouses and prime brokers at any time. By this measure of capital deployment, in 2015, we again generated adjusted EBITDA in excess of 100% of deployed capital.

In 2015, Virtu also participated in the evolving discussions around market structure. We applaud all regulatory efforts to promote full disclosure and maintain a level playing field. As we have consistently said, Virtu does well in markets that are open, competitive and transparent. We have been early and consistent supporters of reforms that enhance transparency, improve efficiency, require adequate registration and regulation.

We have also advocated for stronger obligations on market-makers. We've submitted public comment letters reflecting our views on a range of regulatory reports and proposals, including the IEX exchange application, the SEC's proposal to amend Reg ATS, the CFTC's regulation automated trading and on the NMS plan to implement a tick size pilot program.

Now let me turn to the fourth-quarter results. Our results in the fourth quarter reflect a consistent and strong financial performance by Virtu. While the fourth quarter lacked some of the significant volume and volatility activity of the third quarter of 2015, I am very pleased with our overall performance. Reflecting this relatively quiet environment, together with our focus on cost control and leveraging our global technology platform, we generated a 65% adjusted EBITDA margin.

Normalized adjusted EPS came in at $0.27 and our adjusted net trading income was $107.8 million. Notably, the environment so far in 2016 has been very favorable. The sustained elevated volatility and corresponding volumes in the US equities markets in particular have impacted many asset classes and corresponding results in January have been better than the fourth quarter.

I will focus the bulk of my remarks here on adding some color around the performance of our business in Q4. As you know, market volumes are the primary driver of our revenues. Q4 volume benchmarks were mixed at best and in many cases volumes decreased from the third quarter. Americas equities delivered $33.4 million of adjusted net trading income, a strong performance given that US equity volumes declined 4% versus the prior quarter.

European and Asian equities categories together generated $23.6 million of adjusted net trading income. Again, we've made significant progress in building strong franchises in Europe and Asia and these results reflect a less robust volume environment than the fourth quarter as compared to the third quarter.

Our commodities category generated $22.1 million of adjusted net trading income, down 21% versus the third quarter of 2015. Although industry volumes were up modestly in crude and natural gas versus the third quarter, our performance was impacted by muted volatility across the energy sector. Our global currencies category generated 20.3 million of adjusted net trading income, down about 13% versus the prior quarter, which we view as generally in line with the continued lackluster volume and volatility environment for foreign exchange.

CME FX contracts were down 9% over the same period. More importantly, looking at dollar notional value at volumes on various ECNs, which during certain periods is more comparable to our business, average daily trading decreased 13% overall, including declines of 9%, 14% and 13% on HotSpot, EBS and Reuters FXAll respectively.

Turning to some other matters that occurred this quarter, you'll note we reserved $5.4 million for a legal settlement related to a sanction by France's AMF. On December 4, the AMF enforcement committee imposed a monetary fine of EUR5 million on Virtu and Euronext for activity from 2009 conducted by a Madison Tyler subsidiary, which was the predecessor company acquired by Virtu.

While we are extremely disappointed with the outcome and believe the claims to be without merit and wholly unsupported by French law, we're required to reserve the amount of the sanction while we appeal, which we're doing at this time. To date, we have not received any notice from the AMF to pay this fine, nor have we paid any amount to the AMF.

Finally, I want to mention that JPMorgan Chase recently selected Virtu's DMM unit to be the designated market-maker in JPM on the floor of the New York Stock Exchange. While the financial results of our DMM unit do not have a material impact on Virtu, we're particularly proud that, after a thorough selection process, one of the most prominent sophisticated and respected global banks in the world chose Virtu as their DMM.

I want to conclude my remarks by noting that although it is still early in 2016, the outlook for our business remains positive with January results looking relatively strong.

To summarize, 2015 was a record year for Virtu in nearly every measurable financial category. We continue to focus on the long-term growth of our business and remain excited at the prospects for Virtu in 2016. Now I will turn the call over to our CFO, Joseph Molluso, to review the financial results in detail. Joe.

Joseph Molluso - *Virtu Financial, Inc. - EVP & CFO*

Okay, I will review a summary of our results and point out some financial highlights before we open it up to questions. For the full-year 2015, our adjusted net trading income was $501 million and adjusted net trading income plus technology services revenue was $511 million, both record performances, as Doug said. Our GAAP net income before attributions and non-controlling interest was $197.5 million for the entire year and $42.9 million for the fourth quarter. Consistent with the financial presentation in our S-1 registration statement and recent quarterly results, we provide non-GAAP financial information to supplement our presentation.

On a non-GAAP basis, our normalized net income, excluding mainly the impact of stock-based compensation, investing of stock-based awards granted at the IPO, as well as other one-time items, was $291.2 million for the full year and $57.1 million for the fourth quarter. Assuming a normal tax rate of 35.5% and 138.9 million fully converted shares outstanding, this translates to $0.27 per share in normalized EPS for the fourth quarter.

Our overall performance in 2015 is especially impressive when viewed against the long-term growth of Virtu. Since 2012, Virtu has grown adjusted net trading income at an 11% compounded annual growth rate. Adjusted net trading income in technology services revenues have grown at a similar CAGR over the same period. We achieved this growth while maintaining impressive overall margins. Our adjusted EBITDA margin for 2015 was 68.9% expanding from 65.5% from the prior year reflecting the scale in our business model. On a daily basis, adjusted net trading income was $1.685 million per day for the fourth quarter. For all of 2015, it was $1.987 million per day, up 15% from 2014 and another record.

On the expense side, our full-year and fourth-quarter results continue to exemplify our disciplined approach to costs. Our largest fixed expenses are communications data processing, compensation and overhead, as well as depreciation expense.

I will turn first to communications and data processing. This expense category includes all of our technology and connectivity expenses, as well as our market data. Our full-year expenses versus 2014 were flat, actually down 0.3%. We're particularly proud of this because, as you may know, the underlying drivers to this expense include technology buildouts and market data expenses for which there have been increased industry demand and pricing increases. While we cannot assume that this expense will be flat next year, we will continue to focus on scaling our existing technology footprint.

In terms of people costs, we currently employ 148 people globally, the same number as we did in 2014. Our fully loaded compensation expenses, excluding IPO-related option, as well as severance, was 16.4% of adjusted net trading income and 23.3% of adjusted EBITDA, both down from 18.3% and 27.4% in 2014, further demonstrating operating leverage. We achieved this result and continue to retain and competitively compensate the talented professionals at Virtu by keeping headcount at appropriate levels via automation and efficiency. Notably, Virtu manages compensation expense on a bottoms-up basis and does not target a particular comp-to-net revenue ratio. Finally, overhead crept up modestly from $21.1 million to $23.2 million, mostly reflecting new public company costs.

Taken together, these major expense categories were flat versus the fourth quarter of 2014 and up 2.7% from 2014 to 2015, consistent with guidance we have given around anticipated overall growth in core expenses. Our focus on expense discipline allows us to achieve superior margins. Our margins remained strong in the fourth quarter with adjusted net income margins and adjusted EBITDA margins at 47.6% and 64.9% respectively.

For the full-year 2015, we achieved a 53.3% adjusted net income margin and a 68.9% adjusted EBITDA margin. Consistent with our policy of returning free cash flow to our shareholders, our Board of Directors has authorized a regular quarterly distribution of $0.24 per share payable March 15 to shareholders of record on March 1.

Finally, looking at our Company as a fully taxed C-Corp with all of our Class C and D shares converted to the public company Class A and B shares, our fully-taxed adjusted net income would have been $36.8 million, or $0.27 per share for the fourth quarter assuming 138.9 million shares outstanding. Now I'll turn the call back to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Chris Allen.

Chris Allen - *Evercore ISI - Analyst*

I might have missed this because I am jumping back and forth between earnings reports right now. I was just wondering if you could give us any color specifically within commodities. It was kind of the one surprise from a trading perspective just given the volumes we saw in the quarter. Not sure if there's a dipdown in maybe metals or some other areas. Any color there and I apologize if you guys already covered it?

Douglas Cifu - *Virtu Financial, Inc. - CEO*

Not at all. Good question. Thank you. Yes, it wasn't metals; it was really crude. The volatility -- we're a market-maker throughout the curve. We go out a number of years in crude as we do in a lot of products and the volatility in the fourth quarter in crude in particular was a bit of a challenge for our market-making algorithms and so our crude numbers in particular, which are, as you can imagine, a large subset of what we do in commodities, struggled. We were profitable. We made money. But as a measure of volume, obviously, you see the metrics, we were down. So it was really just the character of the volatility.

As I've said many times, volume is a good thing. As a general matter, volatility is our friend. There are certain types of volatility, particularly when you are trading a curve, that can be a bit of a challenge for us to handle and that was really the issue. The good news is, in January, the curve has straightened, if you will, in a manner that's beneficial to us. So we should be bouncing back in the first quarter in commodities.

So again, I've always said to investors and I've said to you guys that I'd like to look at Virtu as a longer period than quarter by quarter, so we're going to have blips like this. Certainly we have them week by week and month by month and when they tend to be elongated like this one, it obviously is reflected in the segments that we report. So that's the answer.

Chris Allen - *Evercore ISI - Analyst*

Got it. Any kind of volatility anomalies you point to to start 2016, or is it what you would consider more volatility is more your friend right here across your asset classes?

Douglas Cifu - *Virtu Financial, Inc. - CEO*

Yes. No, volatility has been our friend across asset classes. As I said in the script, I'm very pleased with what we're seeing in January. I think it's the type of volatility that isn't as sharp and is associated with significant volume. I think yesterday we traded something in the magnitude of 10 billion shares in the US equities market and so that's a very positive development for us. So when you've got volatility that is associated, Chris, with sustained volume activity, particularly obviously in US equities, which has been our largest category in the last three, four, five quarters, that's a good thing for Virtu. So we're off to a really nice start in 2016.

Chris Allen - *Evercore ISI - Analyst*

Got it. Any update in terms of how you guys are thinking about the distribution going forward? You have very healthy cash balances on the balance sheet right now consistent with prior -- your prior thoughts or any thoughts to maybe distributing excess cash on an annual basis or anything along those lines?

Douglas Cifu - *Virtu Financial, Inc. - CEO*

Yes, what I will say is what I've said all along is, look, the folks that manage this business, myself included, we get compensated. We're large shareholders. And so our interests are 100% aligned with all of our investors. So our philosophy at Virtu has been let's distribute as much as we reasonably can and obviously be cognizant of our capital liquidity needs across asset classes.

So that being said, when we went public, we announced a pretty robust dividend of $0.24 a share and we've spoken with investors over the six, nine months that we've been public and I think our sentiment is, if we're going to do something, we would probably follow the CME methodology I guess is the best way to describe it, Joe, of doing an incremental special dividend or a significant dividend maybe at the end of the year. So obviously our Board will assess that, Chris. It's just early February so it's a little hard to see where the rest of 2016 comes out. But we're very, very big believers in returning excess non-necessary trading capital to our stakeholders.

Chris Allen - *Evercore ISI - Analyst*

Got it. Thanks a lot, guys. I'll get back in the queue.

Operator

(Operator Instructions). Rich Repetto, Sandler O'Neill.

Rich Repetto - *Sandler O'Neill - Analyst*

So I guess my question first is on the capital you employ. You've been very efficient with the amount of capital to run the business and I'm just trying to see whether the changes in volatility, whether it be 3Q volatility down in 4Q or even the uptick so far this year, how was the capital employed. Has that been steady or has that moved with the amount of trading that you've done?

Joseph Molluso - *Virtu Financial, Inc. - EVP & CFO*

You know, Rich, the good thing about our model is that, in periods of greater volatility or activity, it really does not cause us to deploy any more capital. So we -- as you know, we're hedged and we're not dispositional, so we're not required to put up risk capital. We're self-clearing in US equities. We have to post initial margin and variance margin with our prime brokers, so it really does not fluctuate. It remains pretty constant.

Douglas Cifu - *Virtu Financial, Inc. - CEO*

Yes, I would also add, Rich, we try to keep a significant amount of cash on the balance sheet and so we can deploy that and move that around. Think of that as almost like flex funds, if you will, that we can move from asset class to asset class. So clearly, like in the third quarter when there's a lot more volatility in US equities, for example, and we need to post more margin at the clearinghouse, we can do that. I think we ended the year with something like $163 million of excess cash, plus we have a $100 million undrawn revolving credit facility. So we really have access to nearly $260 million of liquidity, which we can use to post margin to the extent we see trading opportunities.

Rich Repetto - *Sandler O'Neill - Analyst*

Got it, got it. And I guess my one follow-up has to do with opportunities going forward, growth opportunities. And it was reported in the media that a prominent institution, T. Rowe Price, was testing your algos, or working with you, as well as another firm. I actually had an opportunity to talk to them directly. The feedback was very positive about the performance and I guess I know you've done some hiring there. Can you talk about it? How would you rank that with China, India as a growth opportunity? Any plans given how -- again, the feedback that I've received was it was very positively received -- your performance.

Douglas Cifu - *Virtu Financial, Inc. - CEO*

Good question. Obviously, there was a Wall Street Journal article about a year ago which talked about this experiment we were running with a large buy-side institution and another broker dealer around agency execution and it's a little bit of an accident, if you will. We do a lot of outreach to the buy side and to others about what it is we do to try to debunk some of the nonsense around HFT and whatnot and as part of that, we showed this one particular buy side firm, as we have shown others, our execution capabilities and our technology and our understanding of market structure because that's what market-makers do.

And the upshot or the outtake, if you will, from that conversation was, hey, would you guys consider doing this as a business, or could you execute for us. So we entered into what I would describe as a routing experiment with that one particular buy side firm and I guess you've done your homework, as you always do, so sounds like the potential client here is very satisfied.

So to me, it's a unique opportunity. I think what we have at Virtu is a technology plant that is multi-asset class, multi-currency and very low latency and very efficient and very scaled. And so to the extent we can use that asset and leverage that asset into what I will call related and ancillary businesses, but do it in a Virtu way -- I will come back to that -- I am very open to it.

And so you're right. We had a great guy named Steve Cavoli join us from Morgan Stanley. He was going to join us anyhow after we had a departure to buttress our equities capability, but Steve has a long institutional knowledge of agency execution and he was convinced and I became convinced that we could build what we'll call a velvet rope agency offering and offer it to a select few buy side institutions.

And so we're going to do that in 2016. It will probably be something that will be launched in the second quarter of 2016, Rich. Again, we're going to do it the Virtu way, so we're not going to become a commoditized agency broker. We are not going to add any employees. We are not going to add additional infrastructure. We've got broker dealers in place. We've got all the regulatory filings and structure in place and so it'll be similar margin dollars to -- it's not higher-margin dollars from our base market-making business because I'm not going to change this firm into a 1000-person organization with commoditized algo offerings, but if there's an opportunity to use the assets that we have to generate incremental revenue, I'm going to do that, like we did a couple years ago. You'll see we've got a technology services segment where we provide the base infrastructure to a large New York-based financial institution for their currency trading and that's just incremental dollars against which candidly we have little to no expense.

So we're going to do it in a Virtu-like way where we've got an asset or assets that are very scalable and very leverageable.

Rich Repetto - *Sandler O'Neill - Analyst*

Great. Thank you for the update, Doug.

Operator

Alex Blostein, Goldman Sachs.

Alex Blostein - *Goldman Sachs - Analyst*

Good morning. I want to spend a minute on the currency business for you. I guess the results this quarter were maybe a little bit softer. You kind of mentioned a couple of different benchmarks like you've done in the last couple of quarters that you are looking against when you assess your revenues there. But I guess help us understand a little bit better maybe what's going on with the organic side of the picture because you talked about the partnership with banks numerous times and I would have thought that, given the opportunity set there, revenues would hold up maybe a little bit better despite a more -- a little bit softer construct on the broader volumes.

And I guess bigger picture, should we just basically start thinking about the not so much the CME effects and the other benchmark and it sounds like for the last couple of quarters, you found that to be a better proxy for your currency business?

Douglas Cifu - *Virtu Financial, Inc. - CEO*

Yes. Let me address the second part first because I think it's actually an interesting point. We use the CME proxy just because they are obviously publicly disclosed and you all are very comfortable with them, but a lot of the trading that we do, in particular like in emerging markets and pairs that frankly either don't trade at all in the CME or if they do, they are very, very small volumes, so like the Russian ruble would be an example.

And so what we have found in our own internal correlations, Alex, that we look at, the main spot platforms because, to the extent people are -- if you are a bank doing a hedging or if you are otherwise transacting in those particular pairs, you are going to look obviously not for the CME where there is virtually no liquidity, you are going to look to the spot platform. So we have found that that's a better proxy, if you will, for our overall business. The problem being that obviously they report in different formats and maybe not as efficiently as the CME. So we do that internally. So I would encourage you all to do that.

With regard to the fourth quarter, I was pleased with the results. I just think that there was a general softness and lack of volume and volatility in the fourth quarter. I can't attribute it to anything other than maybe the rate increase, sort of much ado about nothing. It was baked in. Maybe uncertainty in China. Difficult for me to -- I'm not a great macro guy. I'm obviously a microstructure guy and we can only react to the inputs that we have.

Our business, if you will, of interacting directly, which we call VFX, directly with large financial institutions continues to grow and continues to be robust. We added counterparts in the fourth quarter -- counterparties, excuse me -- in the fourth quarter. So I'm not at all troubled by that. I just think, Alex, it was really a question or a situation rather of softness in the global currencies market in the fourth quarter.

Again, I'm encouraged by what we're seeing in January. I'm encouraged by our ability to get into making markets in NDFs around the world, which I think is going to be a growing area of interest for restricted currencies and we're now trading over 90 different currency pairs where, at this time last year, we were doing something in the low 70s. So we've grown that business. Again, we're going to have up and down quarters based on volumes and volatility and I think this is just a situation where the fourth quarter had very muted volumes and volatility globally.

Alex Blostein - *Goldman Sachs - Analyst*

Got it. Thanks for the detailed answer there.

Operator

Ken Worthington, JPMorgan.

Ken Worthington - *JPMorgan Chase - Analyst*

Good morning. I was hoping you could go back to some earlier comments you made on volatility. You mentioned kind of there's good volatility and there's maybe not so good volatility. Can you give us a better sense of what makes for good volatility and what makes for maybe less profitable volatility? I'm sure it varies by product, but any broad-based comments would be helpful.

Douglas Cifu - *Virtu Financial, Inc. - CEO*

That's a great question. And the answer is -- you sort of almost gave the answer. It really varies by product and asset class and then within the product and asset class what the trading strategy is. So I will give a simple example since you know the firm; we've talked about this publicly. When you're trading a single object and just trying to be a two-sided market-maker with respect to a single object, whether it's a share of JPMorgan or whether it's a spot crude contract or whatever it is we do around the world, sharp volatility obviously in that situation can be a challenge. You're posting bids and offers and if there are sharp sudden moves, you are going to get swept and our risk controls can, as you know very well, will kick in and we're not going to sit there and hold a position and hope for mean reversion. It's just not what we do. We're not a hope and pray type of firm. So that can be a challenge.

That type of volatility where you've got sharp moves, however, where you are trading a one-to-one strategy where you are trading a future against an ETF or an ETF even against its components, you will see opportunities because there's price dislocations. And what we do is, as a market-maker, is obviously harmonize prices across clearinghouses, asset classes -- you know the story very well. So that type of volatility could be beneficial to an ETF market-making strategy, for example.

In commodities and in crude in particular where you are trying to trade or you're trying to provide liquidity, if you will, across a curve, that will be a year or two, and in some cases three depending on the product, we go pretty far out the curve as a market-maker. When you've got a steepening of the curve and you've got volatility, which means that the prices between spot and next months, if you will, going out the curve have widened, that makes it more difficult to try to be a market-maker in that particular curve. It doesn't mean we don't make money, but it means our capture rate with respect to that product and that asset class will decrease. So it could decrease by almost 2 times depending upon what the steepness of the curve looks like because, as a market-maker, you need to be in the game.

So did we make money being a market maker in crude products in the fourth quarter? Of course we did. Did we make as much money? No, so our capture rate went down in that particular instance and that has a magnifying effect on this category, commodities, because obviously what we do in crude and Brent and WTI around the globe is a significant portion of that category. So I hope I answered your question. I tried to be as specific as I could.

Ken Worthington - *JPMorgan Chase - Analyst*

No, that was great. That's what I have. Thank you very much.

Operator

William Katz, Citigroup.

Jack Kelleher - *Citigroup - Analyst*

It's actually Jack Kelleher filling in for Bill. Just a quick question on payment order flow. I know it's something that historically you guys haven't participated in, but it seems like the SEC might be taking another look at it. Just kind of curious on, A, your view on the practice and then, B, if there's potential benefits to Virtu if that were to go away.

Douglas Cifu - *Virtu Financial, Inc. - CEO*

Well, you're right. We have zero payment for order flow anywhere. Those that know me very well -- I have no religion around market structure topics. The only religion I have is Virtu and I just want to make my firm better and make our firm more profitable. So I don't have a particular religious, if you will, view on payment for order flow. It's something that's been in place for an awfully long time. The SEC has looked at it and blessed it many, many, many times and I see the positive benefits to it. There are competitor firms, you know their names, that are providing prices, if you will, in 3000, 5000, 7000 US names and in OTC names and that's not a lot of fun and we don't have the infrastructure to do that and I have no interest in being in that business.

So it's a service that is being provided by market-makers. I understand the critics talk about price improvement and this and that and opacity of the orders and those orders never see the light of day. Again, I'm not going to get into that fight because I frankly don't have a dog in it and even when I have a dog in fights, I try to deal with them privately, so I'm not going to get into that contest, if you will, of will.

That being said, obviously, if payment for order flow were to disappear off the planet Earth tomorrow, that's not a bad thing for Virtu. Those orders need to be serviced somehow. They will end up in an ATS or an exchange where we have access to them. So sure, if I was a different kind of cat, I would probably be at the SEC and submitting comment letters about the evils of payment for order flow, but I don't believe that and I'm not going to do that.

The SEC has got a lot of smart people, smarter than I, that have dealt with this issue for a long time. I'll let them sort it out with my friends in New York and Chicago that have a vested interest in it. I see both sides of the argument, but, at the end of the day, Virtu does really well when orders are accessible in pools of liquidity that obviously we're members of. So ATSs and exchanges. So I'd love to get access to all the TD Ameritrade and Schwab and E*TRADE and all these other wonderful retail brokers' order flows, but I'm not set up for that. But if they want to knock on the door and send them to an ATS that we're members of, we're more than happy to service them.

Jack Kelleher - *Citigroup - Analyst*

Great. Helpful. Thanks. And just as a follow-up, with potential expansion into India or China or new markets, is there a significant incremental headcount that would be needed? I guess you are flat year-over-year, but if you move into those markets, is there a big shift upwards, or pressure upwards on that number?

Douglas Cifu - *Virtu Financial, Inc. - CEO*

No, it would be zero is my goal. We don't need to add headcount to expand this firm. That's the mantra. I think we went from 150 people to 148 through some attrition and so we don't need to expand this firm. To the extent there are regulatory reasons to have a person or two on the ground and we're required to do it, clearly I will do that. But we have no need to have an office in Shanghai or in Mumbai or in Hong Kong or any other market. All of those markets can and are being accessed by our trading center in Singapore. That's the model. Obviously, we'll need more gear there and so there is an immaterial incremental capital expenditure that we'll need to make, but this firm is not about headcount.

I was asked during the roadshow in the prep what do I anticipate my headcount to be a year from now and I kind of flippantly said in my manner I hope it's a little bit less than it is today and that's where it is. So the goal would be zero. To the extent it's regulatorily required, obviously I'm a rule-follower and we'll follow the rules.

Jack Kelleher - *Citigroup - Analyst*

Got it. Thanks.

Operator

At this time, I'm showing no further questions. I would like to turn the call back over to Mr. Douglas Cifu for closing remarks.

Douglas Cifu - *Virtu Financial, Inc. - CEO*

Thank you very much, operator. Again, 2015 was a record year for the firm. We're very, very excited with what we accomplished. Generating over $500 million of adjusted net trading income is something that if you had asked me in December of 2014 would that be possible, I would have said, well, obviously, that's what we strive for, but that would be a very, very aggressive projection of where we think we end up considering in 2014 we did $434 million of adjusted net trading income.

So exciting year. I want to thank all of my wonderful colleagues, the 147 other people that I work with who work a lot harder than I do to make all that happen and thank you everybody for taking the time to listen today. Thank you very much.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program. You may all disconnect. Everyone, have a great day.
