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VIRT - Q3 2016 Virtu Financial Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the Virtu Financial conference call announcing 2016 third-quarter results.

At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will follow at that time.

(Operator Instructions)

As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Mr. Andrew Smith, Head of Investor Relations. Sir, you may begin.

Andrew Smith - *Virtu Financial Inc - IR*

Thank you, and good morning. As you know, our third-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 disclosures in our press release and encourage you to review the description of risk factors contained in our annual report and Form 10-K, and other filings with the Securities and Exchange Commission. In addition to GAAP results, we may refer to certain non-GAAP measures, including adjusted net trading income, adjusted EBITDA, and adjusted EBITDA margin. You will find a reconciliation of these non-GAAP measures to GAAP terms, included in the earnings materials, with an explanation of how Management uses these measures. Speaking and answering your questions this morning 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 now like to turn the call over to Doug.

Douglas Cifu - *Virtu Financial Inc - CEO*

Thank you, Andrew. Good morning and thank you, everybody, for joining our call this morning to discuss Virtu's third-quarter results. This morning, I'm pleased to report that Virtu reported total revenues of $165 million, net income of $33 million in diluted earnings per share of $0.18 for the quarter.

Normalized adjusted earnings were $27 million and $0.20 per share in normalized adjusted EPS. We believe our performance in this challenging environment is a testament to the resilience and durability of our model. The opportunities for most market participants and for market makers were limited by the depressed global volumes and realized volatility in the third quarter.

Despite a brief initial surge of trading activity from the residual impact of the Brexit vote early in the quarter, the volume and volatility environment, which is a good indicator of opportunity for a passive market maker like Virtu, was the poorest we have experienced since our IPO last year. We present global benchmark volume and volatility statistics on our website, but here are some facts which highlight the depressed volume and volatility environment of the third quarter.

Realized volatility of the S&P 500 in the U.S, as expressed as a percentage of implied volatility measured by the VIX was 74%. Realized volatility was similarly muted in Europe and in foreign currency markets, as well.

The average intraday volatility of the S&P 500 during the quarter was 0.69%, one of the lowest quarters on record. In August, the average intraday volatility of the S&P 500 dropped to 0.53%, and then only two days did the intraday volatility rise above 1%.

In fact, S&P's 500's intraday volatility was so low in August that it went 17 straight days of moving less than 0.75% between the day's peak in the days low. This lack of volatility has not been seen on records going back to 1970. In FX, many venues reported their lowest average daily volumes in several years.

Reuters reported the lowest average daily volume since at least 2012. CME reported the lowest daily notional turnover since at least 2013. EBS reported the lowest average daily volume since 2-2-2014, and it's August volumes were the lowest reported since 2007.

Suffice to say, the third quarter presented a difficult near-term environment for a market maker. However, as Joe will discuss in greater detail in a moment, the quarter also demonstrated the strength of our global scale and highly efficient business model. Despite this limited opportunity set, we continue to generate significant positive cash flow and attractive operating margins, and are fully committed to returning our excess capital to our investors as we have continually done since our founding.

Let me review briefly some of the various categories we report. Americas and European equities reflected the limited market-making opportunities generating $24.7 million and $8.2 million of adjusted net trading income. Again, with US volumes down 9% from the prior quarter, which were already at depressed levels, and record low realized intraday volatility, we believe our performance was in line with our expectations, given the opportunities presented in the market.

Our adjusted net trading income in Americas equities was down 19.7% versus a 9.2% decline in equity share volumes. However, to illustrate the impact of volatility, realized volatility of the S&P 500 was down 28% from the second quarter, but implied volatility was down 16%, so our performance decline of 20% was in line with these market declines. APAC equities continues to be a bright spot as our growth initiatives in this region have begun to pay off.

Our $12.6 million of adjusted net trading income outperformed the benchmark compared to the prior year, and was down in line with benchmark volumes versus the prior quarter. Our commodities business outperformed versus Q2 2016, and produced $6.6 million of adjusted net trading income, and our FX business generated $12.9 million of adjusted net trading income. Despite these challenges, we are extremely positive about the prospect for our business, and do not believe that these muted volumes and volatilities are a long-term condition.

Clearly, the uncertainty from the US presidential elections, the UK referendum regarding EU membership, and the interventionist monetary policies of governments globally, have left many investors on the sidelines and contributed to these record low volume and volatility environments. If history is any guide, these conditions will not persist for an extended period. For our core business, I would like to stress that our fundamental market-making business is strong, and our global footprint across multiple asset classes give us a competitive advantage, positioned to benefit from what we believe will be long-term secular trends towards greater volume and volatility.

In fact, we continue to strengthen our core business by expanding the numbers of financial instruments in which we provide two-sided liquidity, and adding new venues and marketplaces for our liquidity. This enables us to continue to grow in areas relative to the opportunities presented. Cost trends remain favorable.

We manage our overhead and personnel costs aggressively, and as of today, we have 150 employees globally. Despite what is frequently referred to as a technology arms race, notably our communications and data processing costs have remained essentially flat for the last three years. Market structure trends are favorable or complementary as well to Virtu's core business

The ongoing US and global equities and other market structure debates have been constructive, an overall positive for Virtu. Here are some recent examples. Preliminary results show that the Tick Pilot which was underway as of October 3, is seeing success and having a positive impact on the symbols covered.

Specifically, we see thicker order books, greater liquidity, and transparency in Tick Pilot names. We have been actively supporting the initiative by making markets in the Tick Pilot names that we did not previously trade. We also fully intend to share our detailed observation with regulators as part of our continuing commitment to improve efficiency and transparency for investors.

We also recently submitted a comment letter in support of the Chicago Stock Exchange liquidity taking access delay proposal. We believe this creative and constructive solution put forth by the Chicago Exchange will promote greater liquidity and price discovery by protecting the market's liquidity from market participants solely seeking to opportunistically profit from short-term price fluctuations. Markets have always provided incentives to market makers, or the provider of valued and trusted liquidity in one form or another, and we applaud this innovation by the Chicago Exchange designed to protect all resting orders on the exchange.

We also see an increased focus from many market participants responding to runaway costs for exchange market data and connection fees. We will continue to be a vocal advocate for fair and transparent pricing of market data and connectivity. We also applaud the SEC's recent approval of FINRA's proposal to require the reporting of transactions in US Treasury securities to TRACE.

While we agree with many market participants that the proposal's scope needs to expand, we view the recent approval as a large step forward towards bringing much-needed transparency to the US Treasury market. We believe that increases in transparency are virtuous for investors and also benefit Virtu. Transparency enables investors to conduct data-driven analysis of their executions, and ultimately demand competitive sources of liquidity.

As the demand for competitive liquidity grows, the scale that Virtu has achieved will become increasingly valuable. Globally, we believe the regulatory trends are equally favorable, with recent studies by the Bundesbank and the ECB suggesting that passive market makers like Virtu contribute a significant amount of overall liquidity and price discovery. Specifically, the Bundesbank study highlighted the importance of incentivizing, "passive HFT market makers to keep up liquidity provision."

The long-term market trends favor our model. Regulatory changes impacting traditional dealers and their ability to make markets globally continue trends towards transparency, centralized clearing and fair and open markets, all benefit Virtu. Let me briefly update you on our various strategic initiatives.

Our agency business offering is progressing on schedule. In the US, we have onboarded having testing, and in our pipeline, significant additional customers. The feedback from those using our routing capabilities has been excellent.

Domestic and international interest in our offering remains strong from the buy side, and as well from certain parts of the sell side. As announced previously, our trading and technology agreement with JPMorgan is finalized, and we have begun the initial technology and development work to partner with JPMorgan in the US Treasury dealer-to-dealer marketplace. This partnership continues to progress according to plan.

We also continue to engage in active discussions with multiple market participants about creative ways to leverage our state-of-the-art technological infrastructure. We remain confident in our ability to achieve the firm's growth and profitability objectives through organic growth, and we continue to engage in select strategic opportunities. With regard to corporate finance, I would note two things, and Joe will provide more detail in his remarks.

First, we took advantage of extremely favorable market conditions for issuers in the corporate debt market and refinanced our existing long-term debt. This transaction was a huge success, representing a significant vote of confidence in Virtu. We extended our maturities several years while lowering our interest costs.

We're also providing today supplemental materials on our website to demonstrate that despite recent difficult market conditions, Virtu's ability to generate cash earnings is strong and sustainable. We set our $0.24 quarterly dividend, based on our confidence in our ability to generate significant cash flows over the long term and to pay these cash flows out to our shareholders. Based on our performance since the IPO, we have no reason to change this policy.

In fact, since our IPO, we have generated $1.77 per share of normalized adjusted free cash flow, which is $0.33 greater than the amount we have paid out of $1.44. Joe will discuss additional details regarding the favorable impacts of these cash adjustments. I'm also pleased to announce that our Board of Directors has declared a regular $0.24 quarterly dividend, payable on December 15 to stockholders of record on the December 1.

I will now turn the call over to Joe. Joe?

Joseph Molluso - *Virtu Financial Inc - CFO*

Thank you. I will provide additional details on our results, review some critical transactions this quarter and the supplemental materials we have provided, and then we will take your questions.

Our GAAP net income before attribution to non-controlling interest was $33 million, which equates to $0.18 per share of diluted GAAP EPS. Consistent with our financial presentation and our quarterly and annual results since our IPO, we provide non-GAAP financial information to supplement our presentation. On a non-GAAP basis, our normalized net income was $27.3 million for the third quarter, assuming $139.7 million fully-converted shares outstanding, this equates to $0.20 per share in normalized adjusted EPS.

Our adjusted EBITDA, which excludes the impact of stock-based compensation was $56.9 million for the quarter, with a corresponding margin of 58.6%. Now, let's turn to adjusted net trading income and the various categories.

With regard to the third-quarter results, our total adjusted net trading income was $94.2 million, down versus the third quarter of 2015, which included the stock market turmoil of August 24, by 32% and 20% year to date versus 2015. These declines reflect the limited opportunity due to the depressed volume and volatility environment, as previously mentioned. Our adjusted net trading income was down in all categories versus the third quarter of 2015.

Year-to-date 2016 versus year-to-date 2015, adjusted net trading income was down in all categories except APAC equities, which showed an increase of 14%. On a daily basis, adjusted net trading income was $1.473 million per day, down 32% from the same period one year ago. Year to date, we're running at $1.661 million per day, a 19% decrease from the year-to-date amount at this point last year.

In general, depressed volume volatility is the reason for these declines. For example, Americas equities results were impacted negatively by a decline in share volume of 10% in consolidated US equity volumes and 15% in notional dollar volumes, compared to the third quarter of 2015, however, the impact of these volume-based measures were exacerbated by persistently low volatility. Volatility, as implied by VIX, was down 32% compared to the third quarter of 2015.

Actual or realized less volatility, a better measure of opportunity for a market maker like Virtu, was down 53%. Intraday volatility was 0.69%, one of the lowest quarters in years. European equity volumes declines were similarly dramatic compared to the third quarter of last year, with declines of 6% and 20% in share volume and euro-denominated notional turnover.

The realized volatility of the VSTOXX index was down 47% compared to the third quarter 2015. Again, the lack of volatility in the US and Europe impacted severely on the lack of market-making opportunity in this quarter. In the APAC region, TSE volumes were down about 21% in share and notional terms, and our results were down 4% versus Q3 2015 on a total basis, demonstrating the investments we have made in this region continue to pay off.

With regard to global currencies, there are a number of market metrics we use to benchmark performance, CME FX futures volume is one measure, and compared to the third quarter last year, the FX futures contract and notional volume on CME was down 10% and 12%, respectively. To better reflect the broader nature of our business, we also look closely at spot foreign exchange volumes across representative third-party platforms. In reviewing these, we find that volume declines were more dramatic, with platforms such as Reuters and EBS down 17% and 16%, respectively, versus Q3 of 2015.

Again, volatility is a major driver of market volumes in our market-making opportunity, and in the third quarter, volatility measures and FX were mixed, but largely muted on a sustained basis. With regard to global commodities, we saw a decrease of 6% versus the third quarter of 2015 and a decline of 14% in a year-to-date comparison. Compared to the third quarter of 2015, total CME and ICE energy volumes were up 17% and 3%, respectively.

CBOE energy sector volatility was down 26%, consistent with the global trend in volatility. We view these muted volume and volatility conditions as cyclical, Virtu has performed consistently well on a sustained basis in periods of normalized volumes and volatility and benefited from cyclical and secular increases in volumes due to regular recurring macro events, such as central bank meetings and policy changes, geopolitical events, like elections and ordinary economic data releases that have an impact on the market.

While we can never predict the timing or frequency of what we refer to as unscheduled events, we expect fully that these events will occur. And when they do, Virtu's global cross asset market making platform will be poised to benefit. Our expense management continues to reflect our discipline and our ability to adjust to the environment.

Our core expenses, which we include as communications and data processing, employee compensation, operations and administration, and depreciation and amortization, are down 2.5% versus the third quarter of last year, and 1.6% on a year-to-date basis. Our employee compensation expenses are down 10% versus the third quarter of 2015, and down 2% year to date. If you exclude stock-based compensation from the expense figures quarter to quarter, we are down 20% and year to date we are down 7%.

As mentioned earlier, our Board of Directors has authorized a regular quarterly distribution of $0.24 per share, payable December 15 to shareholders of record December 1. To further an understanding of Virtu's structure and cash flows, this quarter we are providing supplemental information, which we have posted on our website. The presentation highlights some of the key themes regarding our financial model.

Now I'm turning to the slides which should be on our website, labeled Supplemental Information. Slides 3 and 4 look at the quarters we have reported since becoming a public company. As you know, we report normalize adjusted net income and EPS to assume that our company is a fully-taxed C corporation, with all of the common units exchange for class A and B shares in the public company, we feel this is a helpful presentation.

In order to get a picture of our cash-based results, on slide 4 we have adjusted various items that generate our used cash. As you can see, the cumulative impact is that our normalized adjusted free cash flow has been better than our normalized adjusted earnings. We generated $1.77 per share of normalized adjusted free cash flow and declared cumulative dividends of $1.44 per share.

Our model generates substantial cash flow from operations. On a normalized adjusted EPS basis, we have paid out 86% of our pro forma earnings since IPO. If we cash adjust these earnings as we do in these materials, we have paid out 81% of our normalized adjusted free cash flow.

When discussing our payout during our IPO, we communicated our intent to keep the payout at least 70% of our earnings. So, we have kept our promise and see no reason this will change in the future. This is due to the following reasons.

One, given our market neutral passive market making approach, our working net capital needs are modest and consistent. Additionally, our revenues translated to cash on settlement date cycles, typically one to three business days. Two, our capital expenditures are equally modest and generally run below our depreciation and amortization expense. Three, with regard to our corporate tax structure, we are paying corporate taxes in Dublin and Singapore for our non-US businesses.

Our public company is our only corporate taxpayer in the US, and it benefits from a tax savings generated when pre-IPO common unit holders exchange their partnership interests for shares in the public company. This is not unique to Virtu, and it is a common practice among company structured as UP-C's, as we are. 85% of these benefits are returned to the common unit holders in accordance with our tax receivable agreement.

It is important to make clear, then, that the tax receivable agreement, as it is for similarly-situated companies, is a net positive from a cash flow standpoint to the public company. For every one dollar we save in corporate taxes, we pay $0.85 under the tax receivable agreement. Virtu's shareholders benefit by retaining the difference.

We demonstrate this in the cash adjustments on slide 4, as well. And four, our overall cash position is strong. As of September 30, we have $146 million of cash in our balance sheet, and that's not counting $37 million of additional cash from our debt refinancing, and our trading capital was $370 million at September 30.

This amount of cash in capital is more than adequate to run and grow our business and meet all of our obligations. Viewed over the long term, we're confident in our decision to commit to pay at least 70% of our earnings out to shareholders. While it is true that the market-making opportunity in Q3 was limited by reduced volumes and volatility, our ability to generate cash flow, our efficient capital management, and our strong liquid balance sheet allow us to be confident that we can more than satisfy all of our obligations on a sustained basis.

I'm going to turn to the other slide, slide 7, that reviews the debt refinancing we undertook a little while ago. As Doug mentioned, we took advantage, like many corporate debt issuers, of favorable corporate debt market conditions and refinanced our term loan. This transaction was hugely successful.

Some key points to review. One, we lowered our spread to LIBOR by 75 basis points. Two, we lowered our LIBOR floor by 25 basis points.

Three, we reduced our cash interest expense run rate by approximately $2.5 million pretax. And four, while keeping our debt to EBITDA the same at 1.5 times, we actually have an additional $37 million cash in our balance sheet, as a result of the financing.

So, we lowered our interest costs, have more cash, and extended our maturity by several years. So, that was a hugely successful transaction. Now, I will turn the call back to the moderator for Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Rich Repetto, Sandler O'Neill & Partners

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

Yes, good morning, Doug, good morning, Joe.

Douglas Cifu - *Virtu Financial Inc - CEO*

Good morning, Rich.

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

The first question is, you don't differentiate in the model. Some of your peers reported losses, and you, although the net trading income was impacted still had what we think is around low-40% or mid-40% pretax margins. The comparable talked about September being extremely weak, and again, their market-making results were unprofitable, so I guess the question is, can you sort of compare or contrast what you think is going on or how you stay profitable versus some of your peers being below the line?

Douglas Cifu - *Virtu Financial Inc - CEO*

Sure. I mean, obviously, I can pretty much just obviously talk about Virtu. I've never worked anywhere else, but I can give you my theories on it.

We saw September, frankly, better than August and not much different than July in terms of volumes of volatility, so there is no difference between the three months. So, I'm not quite sure what the competitors that you are referring to were looking at, but really what it comes down to is just business model. We're a passive market maker, we don't do statistical arbitrage, we don't hedge with some of the basket of instruments, and as I always tell people, if I don't understand the hedge and I'm not the smartest guy in the world, we don't do it.

We trade ETFs against futures, we are a basic single-hitting passive market-making firm, that's our model. I'm not sure that there's another firm out there that is as consistent and I'll say risk mitigating as Virtu, and so, it really comes down to, Rich, as you know very well, like what's the opportunity set out there in the marketplace? If there's more volumes and the realized volatility, which is really just the bid offer spread that investors are willing to pay to get in and out of positions is larger, then we're going to have a greater opportunity to collect that bid offer spread and be more profitable.

That really doesn't change month to month, day to day and quarter by quarter the way that -- or the style at which we trade, and so we don't have overnight P&Ls, we don't have hedges that blow out or go the wrong way. That kind of thing. So, it's a very different, I think, style firm from others.

I'm not suggesting that those other firms are "market-making firms," they just have a different way of hedging or providing that liquidity. We're a basic blocking and tackling singles-hitting market-making firm that will not have those levels of volatility in our earnings.

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

Seems like they employed more of a reversion and they acknowledged the reversion to the mean sort of type strategies.

Douglas Cifu - *Virtu Financial Inc - CEO*

Yes, we don't do any of that. We don't do any that.

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

Okay, and my one follow-up would be, thanks for -- appreciate the clarification and showing the cash flows and the differences between cash and the adjusted earnings. I guess the follow-up question would be, Joe, you mentioned about, I think it was $37 million or -- An additional $37 million in debt refinancing adding to cash, and I know you raised $530 million, and I know that was greater than what you had on the balance sheet prior, but I thought some of it was -- what you call targeted towards Japan next, so is that not the case?

I see that Japannext gave you some financing, as well. The $37 million, in the long-winded way of asking about, where is that coming from?

Douglas Cifu - *Virtu Financial Inc - CEO*

Yes. I'll answer just real quick, then turn it over to Joe.

We had an obligation to offer to repay them, so we had as part of the agreement we had with SBI, which was the provider of the financing of the Japannext transaction, so we had to put on the cover of the $540 million and raise that much and offer it, and they've turned it down. Which I guess is another vote of confidence in our model long term.

And so, as a result, our net debt didn't go up, because we just put the excess cash on our balance sheet, Rich. Joe, did I answer that correctly?

Joseph Molluso - *Virtu Financial Inc - CFO*

Yes, and Rich, you know, the Japannext transaction, as you know, closed, and they were the ones who said, hey, when we put the deal together they basically gave us the money to buy the stake. So, the terms that they offered, we thought it was extremely attractive and we didn't even think about that as incremental debt. We've got a great asset, and then they basically gave us the money to buy it, so as Doug said, when we did this transaction, we had to offer, so we went out the demand for this was 2X what we went out with. So, that was an easy call. We keep all of our credit statistics the same, we lower our interest costs we keep our maturity, and we actually wound up with $37 million more cash. And this is a regular term loan, you know, style loan, so we can repay it at any time. We can adjust accordingly, but we are very comfortable with where we are.

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

That additional cash can be used for paying dividends or other -- (multiple speakers)

Joseph Molluso - *Virtu Financial Inc - CFO*

Corporate purposes -- (multiple speakers)

Douglas Cifu - *Virtu Financial Inc - CEO*

Is unrestricted. We can do anything we want with it.

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

Understood. Thanks, guys. Appreciate it.

Operator

Ken Worthington, JPMorgan.

Ken Worthington - *JPMorgan - Analyst*

Hello, good morning. Maybe first, we're hearing from exchanges about increases in data revenue and there's anticipation that data revenue will continue to rise. It's not obvious that this is impacting Virtu.

I can't imagine it's not. So, maybe, how are these costs kind of filtering through Virtu?

Again, it doesn't seem material, but is it material to you? And to what extent are you able to use your size and prominence maybe to push back effectively when maybe others are not?

Douglas Cifu - *Virtu Financial Inc - CEO*

Yes. Great and very topical and timely question. It's a little bit of a passion piece of myself.

We've done everything we can to manage our data cost. I talked about that in the script, how over the last three years we've kept it flat, and a lot of that has just been through efficiencies, and you're right, trying to use some of our buying power with various venues around the world. It's not just market data costs, as well, just so everybody is clear.

There's a hidden cost or a large cost for connectivity. Ports and sessions and connections, and when you're a large market-making firm like Virtu is, you have a lot of connections to exchanges. I think, look, there's been a lot of press about this lately, some of it I have been quoted in, and, frankly, I'm a big believer in this.

I think there is going to be increased focus on market data and port and session cost by, particular US equities exchanges. The real question is, you know, is there really a competitive marketplace for us? Do we really have a choice but to buy these proprietary market data feeds, and it's not just market makers that are saying this.

That's the key thing. It's really all market participants are finally looking at this and saying, you know what? In periods of low volumes and volatility, is this tax on the industry, that frankly we just pass along as part of a bid offer spread, right, because we're going to try to maintain our profitability -- is it justified, given the fact that the cost of providing data in just about every other marketplace business you can think of has gone down?

Is it simply the for-profit exchanges, and I don't blame them, trying to increase their subscription business model, if you will, and not -- and steer away from that transaction model. You guys cover all those exchanges and you give them, I guess, better credit for a subscription business and so therefore, they're trying to drive those revenues as opposed to focusing on their transaction revenues. So, the question is, will regulators look at this?

There's a court case pending in front of the SEC right now. Is this a political issue that Congress would be interested in? Have we reached that moment where we've all kind of jumped the shark, if you will, on the cost of this.

I think, Ken, there is a lot of market participants that I've spoken to, competitors, banks, retail brokerage shops, that are all sort of getting fed up by the rising costs that don't appear to be justified. I think one of the knock-on benefits, frankly, of IEX becoming an exchange is that they're going to bring transparency to this. They're going to have to -- they're providing the same proprietary market data feed.

What's it cost them to provide this and disseminate it to the marketplace? How are they going to charge for it? What's their business model?

So, I'm hopeful that there will be rationality, and we certainly have tried to use our market position to try to rein in some of these costs, but at the end of the day, these are businesses that know that we have to pay and buy for proprietary data feeds, because as a market maker, we need full depth of book, and we need it as low latent as possible, and there are literally hundreds and hundreds of other market participants that are in similar situations. You know, I submitted a comment letter, we submitted a comment letter on this to the SEC on a particular item that NASDAQ had put in for that we thought was wholly unjustified. So, we'll see how the regulars play out on this, but I think this is a topic that is going to play out over the next months and years, because I think there's just a lot of angry people out there that are fed up with paying way too much money for market data and port and session fees and costs.

Ken Worthington - *JPMorgan - Analyst*

Awesome. Thank you. Maybe Joe, given the focus on cash in cash flow, any material pending expenditures, obligations, payments that we should be aware of over the next year?

Apart from operating costs in dividends. Just as we think about it, like, what are the kind of unusual costs or cash flow expenditures that we should be anticipating as we build our cash flow models?

Joseph Molluso - *Virtu Financial Inc - CFO*

There are none. Ken, we do extensive cash planning, we have a very detailed internally review of cash sources and uses. You know, I've laid out the worksheet here that shows cash adjusted earnings.

You know if there is a cash item in that we are -- is not currently payable, we always make sure we have a reserve for things. We, I put in the supplemental materials in the index, our cash our net cash number, but also our capital number, which for us is effectively cash, because it translates into cash in a trade day settlement date cycle, so there is nothing on the horizon that --

We always have quarters where we use more cash, right. We pay bonuses at the end of the year, so we accrue that throughout the year, but there is nothing that is out of the ordinary that we haven't planned for or don't anticipate.

Ken Worthington - *JPMorgan - Analyst*

Awesome. Thank you very much.

Joseph Molluso - *Virtu Financial Inc - CFO*

Thanks Ken.

Operator

Warren Gardiner, Evercore.

Warren Gardiner - *Evercore ISI - Analyst*

Great. Thanks a lot.

It sounds like the effort and the opportunity to develop additional relationships similar to what you have with JPMorgan and T Rowe are going pretty well. So, I was just wondering, was you guys have continued to develop these relationships and going through this process over the last few quarters, any change to your view, your level of conviction or timeline in terms of getting to that sort of 10% of 2015 trading income?

Douglas Cifu - *Virtu Financial Inc - CEO*

Really good question. Actually, I've been very pleasantly surprised by the, I'll say influx of inbound calls, frankly. I guess it helps a lot when we do these calls and there's press reports, and then there was a press report in Europe about a very large European investor that frankly on its own volition decided to go and talk to a reporter and give them a nice quote about Virtu, so in a way, that's kind of like a virtual salesforce I guess we have out there.

So, yes, I'm very bullish on the business. I think we have a unique product. I think with MiFID II and the unbundling of services that you fellows know very well is on the horizon, I think there's going to be a more and more of a trend towards firms that can provide, frankly excellent execution services.

And more importantly, what we do provide is 100% full transparency about routing of orders, and frankly, tools that give an investor a real-time view as to where their order was sent, which is I think fairly unique in the marketplace. So, to answer your question, we're not going to ramp up and hire 20 salespeople, and try to get a whole bunch of business next quarter, because I don't think that's the right way to grow the business, Warren. I think the right way to grow the business is to have a great product, and to [indiscernible] these investors one by one to make sure that they are sticky.

Because it's a very competitive marketplace, to make sure that they feel like they are getting a good value for the services, or for the price, excuse me, that we are providing them and so, at the end of the day, I'm -- in the long term, I think this will be a significant part, or as you said, the 10% part of what we do. It's not going to happen next quarter, but I'm very, very pleased where that part of the business has ended up on the -- you also asked about the JPMorgan type of relationship, clearly that announcement to the extent, you know, people read and whatnot, you know, raised a lot of eyebrows, I'll put it that way, around Wall Street, so we've had a number of inbound calls from not surprisingly large sell side institutions that wanted to understand what it's all about and there's a little bit of, hey, if it's good for those guys why wouldn't it be good for us as well.

So, nothing to announce, nothing probable. But at the end of the day, I think we're very well positioned as a financial technology company that really understands market structure, because we trade it. That's really uniqueness of Virtu, which is there's a lot of great financial technology companies.

There's a lot of great trading companies. There aren't that many companies that combined the two and are willing to be transparent about how they make money and willing to share that technology, because we don't view this at all as being competitive to our business. We view it as a really nice synergistic way to complement our existing revenue stream.

Warren Gardiner - *Evercore ISI - Analyst*

Great. Thank you.

And then I guess I'll just touch on the other sort of big agreement you guys have. SBI sounds like it's working well. Just wondering if you guys are seeing any similar opportunities there, like the one you struck with SBI, in terms of other asset classes or regions.

Douglas Cifu - *Virtu Financial Inc - CEO*

It's a very good question. I think the interesting thing about that agreement is, I'm sure you know who SBI is and their profile if you will or their role in the Japanese retail scene. So, again, I have to be a little vague about how I answer this, because we have nothing to announce, but certainly, we're very encouraged by that relationship.

Again, I think it's a significant knock-on effect, and frankly, it being a public company, it being transparent, that there are institutions out there that control a significant amount of retail and/or institutional flow that want a way to make sure that their customers are satisfied with a counterparty that they can trust. And that's ultimately our business model, and that's one of the reasons why we been very transparent about what we do, why we think we have been on the right side of a lot of these market structure issues, why we believe in transparency, why we believe in, you know, being regulated and having more regulation in the world to make investors feel confident about who the counterparties that they're dealing with.

So, yes, are we in discussions with other large institutions about perhaps doing some bespoke routing or liquidity provision opportunities? Absolutely.

Does that mean we're going to be investing in dozens of exchanges around the world? I think the answer is probably no to that.

I think this is a unique situation where we thought we could really add a lot of value. I was in Japan, gosh, just a couple of weeks ago.

The level of involvement we now have in that marketplace, given that we're a smallish American company, is fairly extraordinary. So, that was a very important strategic investment and relationship for us, and certainly, one of my jobs, one of my main jobs as CEO is to be the guy out there beating that drum and trying to develop those relationships.

Warren Gardiner - *Evercore ISI - Analyst*

Great. Really helpful. Thank you.

Operator

Ashley Serrao, Credit Suisse.

Ashley Serrao - *Credit Suisse - Analyst*

Good morning. First, I just wanted to clarify on the disclosure. Is the unallocated net trading income the same as the trading settlement income that is being backed out of results?

Joseph Molluso - *Virtu Financial Inc - CFO*

No, Ashley, it's not. The unallocated is the same as it is every quarter, there's some timing difference. The amount that we are backing out conservatively, you know, we received a settlement from the Amaranth trading activity.

Ashley Serrao - *Credit Suisse - Analyst*

Okay.

Joseph Molluso - *Virtu Financial Inc - CFO*

We concluded that was -- the adjustment in the trading income was the proper place to put it, because it was trading related, but it is not in the $0.20, I want to stress that. It is not included in the $0.20. If we included it in the $0.20, we would have been at $0.215, so.

Ashley Serrao - *Credit Suisse - Analyst*

Okay. And then I guess just some thoughts on the competitive landscape and how you view some of your initiatives and maybe expanding into fixed income ongoing, and whether you think some of the various pending regulatory changes and the increased disclosure or transparency. How do you exactly plan to take advantage of that?

Douglas Cifu - *Virtu Financial Inc - CEO*

Well, it's a good question. I think, as we've always said, I view increased regulation as a competitive advantage of ours, and people always scratch their head when I say that. Let me give you some concrete examples.

Like, in Europe, as you know very well, and I was just over there, actually this week, I view MiFID II as 100% a tailwind to Virtu. People talk about the germination of [T law] and firms need to be registered and they need to tag their algorithms, we do all of those things. We've been in Ireland and regulated by the Central Bank of Ireland since 2010.

We're very fortunate that's an EU jurisdiction, and so we are able to passport into every one of the EU countries without limitation, and so therefore we are regulated investment firm in every one of the EU jurisdictions, and we can trade there freely. When the CFTC put out a proposal suggesting that firms that have direct market access be regulated, we have been putting comment letters into that effect since 2010 or 2011. The point being that we are a firm that, one, embraces regulation, and two, has the infrastructure to know how to be regulated.

We've got a full compliance department here. We've been members of exchanges around the world since our founding. We've got not one, but two licensed broker-dealers, we have got an investment firm I just mentioned in Europe, we're regulated by the monetary authority in Singapore, by the ASIC in Australia, you kind of get the point, which is those are all things that benefit us.

You also asked about fixed income, you know, obviously, I think the JPMorgan trading relationship is symbolic of the fact of how much that marketplace has changed. You know, three years ago it would've been unfathomable that an institution of that size and quality and heft would want to partner with a proprietary market-making firm in order to access the US Treasury market. It just shows you how much that marketplace has evolved.

So, people have asked me over the years about interest rate swaps and the rest of the fixed income market, and when is that going to happen? The answer is, it will happen when big market participants that have natural investors that have significant portfolios of interest rate swaps want those traded on a swap-execution facility. You know, might that be when the Fed starts raising rates and there's more excitement in the fixed income market?

Yes, that's probably going to be a driver, as well. So, the issue I have is I can't sit here today and credibly tell you that's going to happen next quarter or the quarter after that. Again, we didn't build this firm, you know, to have quarter-by-quarter results.

We built this firm for the next 10 years or so, and so, we think at the end of the day that transparency brings opportunity. We don't make money in this firm because of inefficiencies. We don't make money because we get some proprietary access to order flow that we pay for otherwise.

We make money because we are the most efficient provider of the two-sided quote. That continues to be the case, and if I have anything to do with it, that will always be the case.

Ashley Serrao - *Credit Suisse - Analyst*

Okay. Thank you for the colors there. And then just final question, just broader capital management philosophy in how you're thinking about debt over time. And whether you have any intention to reduce it and also any thoughts on maybe using M&A as a tool to grow.

Douglas Cifu - *Virtu Financial Inc - CEO*

Sure. I'll answer first, and I'll throw it over to Joe, who is a little more adroit with the balance sheets than I am. Look, we're very comfortable at the debt level.

We've had it since 2012 or 2013. Our numbers always been, keep at or around 2 times adjusted EBITDA, which is kind of where it's at right now. Look, we took advantage, frankly, of very frothy debt capital markets.

Our friends at JPMorgan did a phenomenal job. We got ourselves upgraded in some of the ratings, we got rated by Fitch, we extended our maturity out three more years, and so, that term loan is very comfortable for us. We can service it, no problem.

It provides just like the prior one did for only a 1% principal amortization per year. We reduced our coupon with the LIBOR floor by 100 basis points, and so it was a huge win-win for us, and it's just a way, you know, we're just trying to obviously manage our balance sheet appropriately for the next couple of years, so I don't see any reason, frankly, to you know, accelerate amortization of a term loan that has now got a, I guess, a six-year maturity to it and a very, very attractive coupon. In terms of M&A, we've always said that was one of the reasons why we wanted to go public.

Certainly, there are firms that I'm sure are out there that are having significant struggles. And if you think about the scale that we have and the number of employees that we have, think about competitive firms and some of them are public and you guys can look at the results, but think of other competitive firms that have in two or three or in some cases four times the number of employees that we have, and frankly, don't even trade the number of symbols and aren't in as many markets as we have. So, they've got to be struggling in these marketplaces, because the volumes and the volatility kind of are what they are.

So, we're always going to look at those opportunities. I've said many times, we're only good at things that we feel really good about from a cultural perspective, from the fit perspective in terms of where the synergies can come from, and then obviously, from a financial perspective, to make sure that they're accretive to all of our shareholders. Joe, what did I miss?

Joseph Molluso - *Virtu Financial Inc - CFO*

No, nothing. We are very comfortable with where we are.

Ashley Serrao - *Credit Suisse - Analyst*

Okay. Thanks for taking the questions.

Douglas Cifu - *Virtu Financial Inc - CEO*

Thank you, Ashley.

Operator

William Katz, Citigroup.

Jack Keeler - *Citigroup - Analyst*

Thanks for taking my questions. This is Jack Keeler filling in for Bill. Just a question around some of the technology services deals that you have.

Just wondering on the current base, if you can kind of size how much of that revenue is performance related versus how much of that is fixed fee. And then, can the current environment, does that kind of raise your appetite or show some more interest in these avenues that are more fixed in nature, just to give you kind of a base run rate, kind of with the exchange they're doing with market data?

Douglas Cifu - *Virtu Financial Inc - CEO*

(Laughter)

That's kind of an ironic question given the answer I gave to the prior question. Sure, obviously, look, we're cognizant that, you know, you all and investors, and we totally get it, are more responsive to more predictable, I'll put it, revenue sources. We're not, you know, I'm not militant and saying I don't want subscription revenue.

Of course we do, and you've seen it has grown and it includes now some of our agency trading and whatnot. It will soon start including the results of the JPMorgan partnership, and as we grow our agency business, that line, which is, you know roughly, 2% odd of our revenues will grow, and I've kind of sized the opportunity. So, look, I get it.

I think it's attractive revenue. If we can do it consistent with our operating margins and how we run the firm, we're going to do it. So, I said in answer to the question earlier, I'm very excited about the agency business. I think it's something that we can really differentiate ourselves and offer product.

I'm obviously over the moon about the JPMorgan relationship. I think it's very significant and we're excited about how that can grow.

Are there other opportunities out there? Absolutely.

Have we have been approached by other large institutions about doing strategic things? Absolutely.

And so, we're going to, you know, consistent with our fiduciary obligations and just kind of common business sense, we're going to approach all those and see if they fit into the culture of this firm, the margins we demand for ourselves, and can we differentiate and add value? Joe, what did I miss? Did I --?

Joseph Molluso - *Virtu Financial Inc - CFO*

No, we're open to all kinds of structures, again, as Doug said, we're not biased one towards the other. You know, we've had a relationship in place for a long time, which is predominantly fixed, and as we had said in the last call, the JPMorgan arrangement is both fixed and variable. So, they will all be different.

Jack Keeler - *Citigroup - Analyst*

Great. Thanks for that. And then just as a follow-up, you spoke about a number of opportunities that you're seeing in the marketplace.

If you remain in the low volatility and low volume world, how do you kind of weigh taking advantage of those opportunities versus maintaining your current dividends, and I guess the payout versus spending for growth dynamic? And then how much you've shown strong expense flex quarter to date, is there any more flex you have if you remain in this environment going forward? And is there any kind of offset you could do in comp in terms of, up in the non-cash component.

Douglas Cifu - *Virtu Financial Inc - CEO*

Good question. I'll answer the first part, then I'll throw the expense part of it to Joe, he's much better at that stuff than I am. We're committed to our dividend.

We've said that in our IPO, we've given supplemental disclosure that shows the strength of the cash flows and the bank, if you will, of excess cash that we've generated since our IPO. So, I see no change to that, our Board is committed to it, I'm committed to it. I think there's been a lot of talk out there in the marketplace about the UP-C structure and how that's going to cause a cash surge.

Actually, the opposite is true, so I think the reason we put the supplemental material out there is to make sure that there's not misleading information out there, then you guys really understand how the cash flows work. It's a little bit of a complicated structure, but it's structure that takes advantage of, you know, US tax code in a way that makes a lot of sense. And actually adds to the benefit or adds to cash cushion that we have around our dividend, so I see no reason why that's going to change.

We're 100% committed to returning capital to our investors. It's what we've done since we started this firm.

We've got a long track record of doing it since even before the IPO. And obviously, you know, it is something that our Board and our senior Management team is very committed to. In terms of expenses, Joe, I'll ask you to answer that.

Joseph Molluso - *Virtu Financial Inc - CFO*

Sure. You're right, we flexed the employee comp, you can see year to date and quarter over quarter the nominal dollar amount accrued is down. It's down 2% versus the prior year to date, and then it's down 10% versus the prior quarter.

Is there more flex? I think we're comfortable where we are. There's always more in terms of being able to manage the business and the mix of cash and stock.

We view equity incentive as very important. We've always done it, even before the IPO. And so, it is something we're committed to.

And, you know, we want to balance that with being fair and paying everyone very well and according to the market. So, I think we're comfortable with where we are in terms of cash of our stock as well, but as you point out, there's always more that you can tweak.

Jack Keeler - *Citigroup - Analyst*

Great. Thanks for taking my questions, guys.

Douglas Cifu - *Virtu Financial Inc - CEO*

No problem thank you.

Operator

(Operator Instructions)

Chris Allen, Buckingham.

Chris Allen - *Buckingham Research - Analyst*

Good morning, guys how are you doing?

Douglas Cifu - *Virtu Financial Inc - CEO*

Good morning, Chris.

Chris Allen - *Buckingham Research - Analyst*

Wonder if we could talk a little bit just about how the fourth quarter is shaping up. Appreciate the extra disclosure on covering the dividend, but I think people are just looking at it like, okay, bad environment third quarter, October has been no great shakes. Seems like November is getting a little bit better, but just talking to investors' concerns, I'm like, okay, if you have a couple of bad quarters, even though you have some cash cushion it's going to end up getting cut.

Any color, just in terms of how we're shaping up here? Maybe is October similar to kind of July-September, and November is starting to look better? That's how I was thinking about it looking at the numbers.

Douglas Cifu - *Virtu Financial Inc - CEO*

Yes, you answered the question pretty well, Chris.

(Laughter)

If you look at the numbers, they reflect the opportunity set. October was not significantly different than the third quarter. Yes, and November is shaping up a little bit better.

I would point out there's a jobs report today out, in I think three or four minutes. There is a little event called the US presidential election on Tuesday, and so, I'm sitting here thinking, okay, well, if one candidate wins and another doesn't, it could change the entire dynamic of what November looks like and what the fourth quarter looks like.

That's the great thing about this firm. If you'd asked me on January 14, 2015, what's the first quarter going to look like? I would have given you an answer that in hindsight would've been absolutely idiotic.

Because I didn't know the Swiss were going to de-peg their currency the next day. Sitting here today, it's difficult to, again, put a prognostication on what the fourth quarter is going to look like. Certainly, October was no great shakes as compared to the third quarter.

And again, going back to the dividend thing, I really think that there's been way too much chatter about this. We're very comfortable with where the dividend is. The TRA, the tax receivable agreement, actually is a net provider of cash, not a net deficit of cash, and I understand there's been some significant misinformation about that out in the marketplace.

I think people need to just review the supplemental materials, understand that you've got a Management team and a Board that is committed to capital return. As Joe said, when we went public, we said we're going to distribute somewhere between 70% and 100% of our free cash flow to investors, and we are at 81% right now.

So, we're very comfortable with where we were at. We had a quarter where we made $0.40 odd, right, Joe, $0.41?

And we distributed $0.24. So, we've built this firm not for quarter-by-quarter results and not for quarter-by-quarter dividends, we've built this firm for the long term, and that's how we're going to continue to run it, so I see no reason to change that policy at all.

Chris Allen - *Buckingham Research - Analyst*

And then just any color just in terms of what drove the strength in commodities this quarter? I might have missed it, I'm just not sure if it was kind of on the energy side or metal side.

Douglas Cifu - *Virtu Financial Inc - CEO*

Joe, you want to answer that one? I can do it.

Joseph Molluso - *Virtu Financial Inc - CFO*

Sure.

Douglas Cifu - *Virtu Financial Inc - CEO*

It was really a combination of both, Chris. I mean, you know our commodities business has had its ups and downs, and this quarter in particular, we focused on some of the precious metals, and there was some real significant interest, although it got lost in the greater muted volumes and volatility in third quarter, significant interest in gold.

And so, we had some outside date in gold in particular, and some of the other precious metals, and as I've said, a lot of times on these calls and my travels around the world, you know, we're a very significant market maker and global dealer in gold. And so, we're trading that 24 hours a day in a number of different trading centers, as either an ETF, a future, spot gold, and so I don't think it's aberrational.

I think this is really the opportunity set, and we've also worked on some things in the energy complex to make our trading better there. It helps that there's probably been a little bit of a rally in crude. We can do better in a rising market, I think investors will end up paying more bid offer spread, and there's a lot more interest out for the longer end of the curve, where we are providing liquidity out a couple of years in the curve, as well.

So, I think it was really just a combination of those couple things in sure And yes, sure, it was definitely a bright spot in a quarter. And as well, I think we did pretty well in Asia this quarter as well, and I think that's driven by some of these opportunities that we have with SBI and with other great strategic partners that we've done business with in Asia.

Chris Allen - *Buckingham Research - Analyst*

Last one for me, and this is kind of a bigger picture question. Any thoughts, just in terms of how the shift towards passive investing in this particular in equities has an impact on volatility in spreads from an overall industry perspective?

Douglas Cifu - *Virtu Financial Inc - CEO*

Yes, it's a great question. I've done a lot of thinking and reading about it, and clearly, there are a lot smarter people than that focus on that. I see it as a positive and a negative.

I think the positives are obviously, you know, ETF is an opportunity for us. Somebody's got to be a market maker in it, they need an authorized participant, they need an LMM, whether it's in Asia, Europe or in the United States.

And we've got a scaled business that automated, that can price in an automated fashion and trade, literally, thousands of ETFs with zero incremental dollars. We're not a relationship business, so we don't need to go out and schmooze some asset manager to trade a new ETF. We're going to be there on the bid and the offer, electronically.

So, that trend is a good thing. You can make the argument, Chris, on the other side is, when you move from passive -- from actively managed funds to passively managed funds, is there less turnover in the marketplace, because the portfolio managers are actively managing positions and they are paying bid offer spread to turn over their portfolios. You know, so I've seen some data on that.

Again, I'm a big believer in the growth of ETFs, there's been a lot of great research by you all and other shops in terms of what the growth, the proliferation of ETFs will mean. I think in the long term, that's a great trend for Virtu. I think in the long term, there is a move towards more transparency and electronification of those markets, particularly in Europe.

And so, I think MiFID II, again, is going to be a driver of that, and we're all set up for that. I think in the long term, our market share in Europe will grow just because of the pie that is traded electronically, as compared to the slice of the pie that is traded OTC will shift more towards electronic. So, I like all those trends.

Chris Allen - *Buckingham Research - Analyst*

Thanks guys.

Douglas Cifu - *Virtu Financial Inc - CEO*

Thanks.

Operator

Rich Repetto, Sandler O'Neill & Partners

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

I am good, guys. My question was asked and answered. Thank you.

Douglas Cifu - *Virtu Financial Inc - CEO*

All right. Best question I got today, Rich.

Operator

Ashley Serrao, Credit Suisse.

Ashley Serrao - *Credit Suisse - Analyst*

Hello, guys, again. So, I know you encouraged us to look at net trading income, but when you look at the components that get there. It just feels like the net interest income costs has been increasing so far this year.

Especially as it's probably the highest it's been in a while this quarter. So, just curious, if you could give us some color there, and any thoughts on the sensitivity of that line to higher interest rates.

Douglas Cifu - *Virtu Financial Inc - CEO*

That has absolutely nothing to do with interest rates. That's -- it's really just our cost of borrowing short positions and whatnot, so Joe's going to pull up the data.

But like I said, it has absolutely nothing to do with interest rates, whatsoever. It just has to do with the mix of portfolio of securities that we're borrowing, so it's really going to just flex the trading.

Joseph Molluso - *Virtu Financial Inc - CFO*

Yes, and we consider the cost of financing in how we trade, so if it goes up, it doesn't mean that there's more unprofitable trades at all. In fact, it generally means that the cost of financing is probably helping, helping us. So, we encourage you to look at adjusted net trading for a reason, because that's the number that matters.

Douglas Cifu - *Virtu Financial Inc - CEO*

Right.

Joseph Molluso - *Virtu Financial Inc - CFO*

The individual components are really less important.

Douglas Cifu - *Virtu Financial Inc - CEO*

Right. You should read absolutely nothing into that, because to Joe's point, what that reflects is, if we're going to go long in ETF and short the components, we're going to understand what the borrowing costs of all those components are before we put on that position. So, we're not incurring that interest unless it's a profitable trade --

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Joseph Molluso - *Virtu Financial Inc - CFO*

And expected.

Douglas Cifu - *Virtu Financial Inc - CEO*

And we hold it for T plus 3, and then we settle the position. So, it is just 100% reflective of the opportunities and the trading during the period ahead.

Absolutely zero to do with interest rate costs. Frankly, I don't think you should focus on that at all.

Ashley Serrao - *Credit Suisse - Analyst*

All right, thank you for the clarification.

Douglas Cifu - *Virtu Financial Inc - CEO*

Operator, are there any other questions?

Operator

I'm showing no further questions at this time.

Douglas Cifu - *Virtu Financial Inc - CEO*

Great. Well, thank you, everybody, for your interest in Virtu and the very instructive questions. We look forward to speaking with you at the end of the year, and thank you again for your time and consideration.

Operator

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