Virtu Financial, Inc. Agrees to Acquire KCG Holdings, Inc. Transcript

Virtu Financial, Inc. (NASDAQ:VIRT)
Virtu Financial, Inc. Agrees to Acquire KCG Holdings, Inc. Conference Call
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Executives
Andrew Smith – Investor Relations
Douglas Cifu – Chief Executive Officer
Joseph Molluso – Chief Financial Officer

Analysts
Warren Gardiner – Evercore ISI
Alex Kramm – UBS
Christian Bolu – Credit Suisse
Chris Allen – Buckingham

Operator

Good morning. My name is Ana and I will be your conference operator today. At this time, I would like to welcome everyone to the Virtu Financial Conference Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Mr. Andrew Smith, you may begin your conference.

Andrew Smith

Thank you, Ana. Good morning and welcome. Today's call may including forward-looking statements, which represents 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 result and financial condition may differ materially from what is indicated in these forward-looking statements.

It is 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 releases and encourage you to review the description of risk factors contained in our final S1 Registration Statement 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 net income, adjusted EBITDA and adjusted EBITDA margin. We believe these non-GAAP measures are more reflective of our operations and core business performance. You will 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 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 fees and/or rebates.

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 some prepared remarks and then turn the time over to the operator to take some of your questions.

Now, I would like to turn the call over to Doug.

Douglas Cifu

Thank you Andrew and thank you all for joining us today on such short notice. I am extremely pleased and humbled to announce today that we have signed a definitive agreement to acquire KCG Holdings. KCG is a prominent and unique franchise that has served the needs – of an impressive array of customers for decades. This is a transformative acquisition for Virtu and represents a natural evolution for our company. Our scale, efficiency and advanced order routing capabilities will now be married with KCG's extraordinary client franchise and KCG's hundreds of talented employees and will allow Virtu to accelerate its strategic priorities.

Importantly, this transaction takes place that what we believe is an opportune time to be investing in the market making and agency businesses given historically low points in global realized volatility, which are naturally cyclical. Finally, we will be able to achieve meaningful cost and capital synergies that will create significant value for Virtu's shareholders.

I will go through some selective slides in the presentation that we have distributed this morning and discuss the strategic rationale and why this transaction is a unique opportunity that will expand, strengthen and diversify the combined platform and set us up for future growth. Then I will turn the call over to Joe to discuss select key terms and review detail around significant expense and capital synergies in this transaction.

While on a standalone basis Virtu's role as the leading liquidity provider across asset classes in 36 countries continues to grow, simply put this transaction will allow us to access for the first time customer order flow in our Americas Equities business and accelerate our growth in our agency execution segment. As outlined in the Slide 4, we will leverage Virtu's scale, geographic reach and micro market structure expertise to interact with order flow that KCG receives from its customer franchise.

We believe we can enhance the customer experience and improve profitability by trading more efficiently and using Virtu's advanced order routing capabilities. Our experience outside the United States, where we interact with retail and institutional order flow in a segmented manner is that our execution quality and profitability while interacting with this type of flow is significantly enhanced and we are very excited about the opportunities presented.

As you know offering Virtu's superior routing capabilities and post-trade analytics to select buy side clients has been a strategic priority and we have received tremendous feedback. KCG has built a marquee franchise in global execution services with connectivity to hundreds of buy side and sell side financial institution in an impressive suite of algorithmic products. These established relationships will provide immediate and significant growth opportunities as we marry Virtu's competencies with KCG's preeminent franchise.

Further, we believe the breath of the combined companies geographic and asset class footprint will strengthen our position as the leading partner for buy side and sell side institutions for infrastructure and agency execution services. We will also generate significant value creation in this transaction. We anticipate approximately $208 million of fully phased-in pretax net synergies in a transaction that is over 25% accretive to Virtu's EPS on a run rate basis. Joe will provide details on these figures including the transaction details in Slide 5.

However, I do want to note that this transaction is financed partially with a $750 million equity investment from a mix of old and new shareholders including Temasek as well as our new partners at North Island led by Glenn Hutchins and Bob Greifeld, who are supported by PSP Investments, one of Canada's largest pension funds, and GIC, a sovereign wealth fund of Singapore. The debt component is supported by a commitment from our partners at J.P. Morgan to provide up to $1.65 billion in debt financing for the transaction.

The participation of the sophisticated global investors in our due diligence and structuring of this transaction is humbling and a tremendous vote of confidence in Virtu. Following the close of the transaction, I will serve as CEO of the combined company and Joe will remain the CFO. We are very excited and look forward to working with the talented world-class employees of KCG, who share our values and a culture of innovation and we are committed to realizing the full benefits of this transaction.

Additionally, two members of the Board of Directors will be added to our current board for a combined board of ten. I'm thrilled to announce that Bob Greifeld and Glenn Hutchins will both join us as partners and board members. Both have decades of experience in the financial services area and were pioneers in the first stage of electronification of the U.S. equity markets. They share our vision that as markets become more competitive and expensive to access only integrated financial services firms with true global scale will be capable of offering a superior two-sided price to end users and be consistently profitable.

Turning to Slide 6, I wanted to highlight how the strategic objectives we have identified to create long-term shareholder value for Virtu are accelerated in this transaction. We have said since our founding that our mission is to be the best fit and offer in all of the over 235 markets in which we participate in 36 countries globally. This transaction will allow us to move upstream and interact with order flow that prior to this transaction Virtu was not able to interact with in the United States and offer the enhanced value to these customers.

As I noted above, for us this is an extraordinary opportunity. Virtu has built a thriving business in U.S. equities based on market making without any customer flow. Now as we do in other parts of the world, we will be able to provide Virtu's broad liquidity to wholesale order flow that tends to be non-correlated. So this in no way represents a new business for us, it is simply market making upstream by interacting with segmented retail and institutional and order flow. As a firm, we are very excited about these prospects.

Turning to Slide 7, I want to point out that this combination we believe will enhance the market making and agency business of Virtu and KCG in a way that neither of us could achieve on our own. KCG and Virtu each have unique strengths that can be levered to benefit the wholesale, principle and agency offerings. Before turning this over to Joe and for Q&A, I want to thank the many team members at KCG and Virtu as well as our respective advisors, who helped bring us to this point. In particular, I've got to know very well and respect KCG's talented Chief Executive Officer, Daniel Coleman throughout this process and my personal thanks to Daniel for shepherding this process through. Joe?

Joseph Molluso

Thank you, Doug. I will pick up the slide deck on Slide 8, which shows the enhanced diversification to our revenue stream this transaction will bring. Based on 2016 numbers, this transaction will increase Virtu's non-market making net revenues from 2% of the total to nearly 20%, an important and strategic diversification. Slide 9 reviews the expense synergies. There will be significant value creation to Virtu's shareholders derived from achievable expense synergies. Through identifying redundant operations and consolidating businesses, trading desks, office facilities and other identified savings, we believe we will achieve run rate net expense synergies of $208 million over the first 24 months post-closing.

In addition, we believe these efficiencies, which we have identified will concurrently results in the reduction of capital usage for the combined company by $440 million, which will be used to rapidly pay down debt and return the combined company to its current capital structure on a pro forma basis. Slide 10 is an attempt to demonstrate the powerful impact the transaction will have on our after-tax earnings. What we have done here is attempt to provide you with the pieces needed to understand how accretive this transaction is to Virtu.

When you look at a fully phased-in, in this case, year two of the transaction, in this case, 2019, you see that after-tax synergies, net of revenue dissynergies are $129 million. After applying the proceeds from debt reduction and other cash flows to pay down debt to current combined company levels, we're assuming incremental $5 million in interest expense after-tax. You can then model across a variety of scenarios for KCG's standalone contribution and therefore we expect over 25% earnings accretion across a range of scenarios.

Finally, I wanted to note on Slide 11 a significant unmodeled upside potential not included in any of the synergy estimates we have shared with you this morning. As you know with significant volumes, we're able to achieve higher fee tiers at the venues on which we trade. We can estimate this figure today at $10 million to $15 million. Given the scale of the combined operation, we will be able to internalize more order flow which will allow greater profitability, reduce transaction costs and better performance for the end customer.

We believe there will be network effects and enhanced trading opportunities from combining both firms intellectual property. Virtu experiences a similar phenomenon when it merged with Madison Tyler in 2011. The combined business will benefit from KCG and Virtu's work in building out low latency networks and will benefit from increased order execution efficiency as a result of this.

We believe these elements of conservatism allow us to be very confident that this transaction will be significantly accretive and create value for Virtu's shareholders. We expect to continue to generate strong cash flows from operations. We mention that we will incur an incremental $600 million of new borrowings at the outset on a pro forma basis. At the time of the close, we expect the combined company to have total leverage of 5.1 times trailing 12 months combined pro forma adjusted EBITDA.

Including the achievable synergies, this leverage ratio would be 3.3 times less than a turn of EBITDA more than we have today. We intend to delever using significant pro-forma cash flow as well as the aforementioned $440 million in capital usage to pay down debt. We expect to delever to a ratio similar to our current level of debt within 12 to 18 months after the close of this transaction.

Finally, we've included a synopsis of preliminary Q1 numbers for Virtu. We will announce Q1 earnings on May 4th and have a full press release. The same environment that is impacted KCG's Q1 earnings mainly historic lows and intra-day volatility and realized volatility has also impacted Virtu's results. For the quarter, we expect to report adjusted net trading income of $79.4 million and adjusted EBITDA of $47.6 million. Getting back to the transaction, we expect the transaction to close in the third quarter of 2017 upon receipt of regulatory clearances and approval of stockholder votes . Once this transaction closes, we will begin implementing the detailed integration plan to bring these two great companies together. Both the KCG and Virtu teams are confident in our ability to consummate successful transaction.

With that I will turn the call over to the Q&A session.

Question-and-Answer Session

Operator

[Operator Instructions] And your first question comes from the line of Warren Gardiner [Evercore ISI].

Douglas Cifu

Good morning, Warren.

Warren Gardiner

Can you may be just dig into the $42 million of revenue dissynergies a bit more like kind of where that comes from and what are some of the assumptions behind that number?

Douglas Cifu

Sure, I think it's really twofold and Joe can help you with all the details, but it's – we assume that there's going to be some books of business that are capital inefficient if you will that we will reduced positions and then get out of and so there's some revenue loss there, but significant capital pickups. And as well we assume that there'll be some, in the transition that there'll be some revenue loss from customers that trade away for a time period, but would come back.

So I would argue – I would think that those numbers are conservative, but we wanted to make sure that they were included in the model from the get go. We think we can ultimately outperform that, but we wanted to be conservative with our revenue dissynergies. Joe?

Joseph Molluso

Yeah, that's right. I mean we are trying to be quite conservative as Doug said as we look at businesses where capital does not – the current level of capital does not supported by the profitability and obviously we dug into all this in due diligence. We want to be – part of the good thing about being in this business today is that we feel we can migrate a lot of the revenues and obtain the capital efficiencies, but we're trying to be very conservative around that. So we've made some very, very detailed bottoms up assumptions and across a variety of desks and that – generate that number, Warren.

Warren Gardiner

Okay, thank you. And then I guess obviously some real benefit from moving upstream on the retail front, I mean any sense how should we maybe thinking about I guess sort of the accretion of the capture rate if you will on Americas Equities and then also maybe some color on – in Europe I know there's sort of an effort on KCG's front there as well with respect to retail over there.

Douglas Cifu

Yeah, it's a great question. And as I tried to note in my prepared remarks, this is not like a new business for us. Really what happened globally is you have segmentation of order flow and it's done by different mechanisms and different regulatory regimes. In the United States, you have this well-oiled machine if you will some people call payment order flow or wholesale market making whatever is and in Europe and in Asia it's done differently. So we participate in segmented markets globally in Europe and in Asia in particular. And in those markets while we don't disclose individual capture rates for an all to all market as opposed to a segmented market we can tell you just episodically if you will and obviously we track this by venue and by strategy that there is a meaningful difference as to how our strategies perform not surprisingly when they're not in an all to all market but they're in a segmented market.

And so translating that to the United States and to the KCG business, we're obviously very optimistic that having access to that order flow with our partners and new friends at KCG that we can significantly augment the experience that the customer has and also maximize our profitability as we interact with that. I would also point out that the thing that we have done very well as a firm is really hone our entry and exit of positions. When you don't have the benefit if you will of customer and institutional order flow when you're fighting in the all to all market, you've got to be very acute and very good around technology, understanding market structure and you have to have a low cost environment. That's really been the Virtu's story, right.

We don't have a competitive advantage in terms of having institutional and retail order flow on a large scale basis and so we've spent the 10 years since we started this firm really doing that. That's the DNA of this firm, micro market structure scale efficiency. KCG comes at this from a different point of view right, which is they've got this great customer franchises, institutional and retail franchise that they've had for two decades and they do a fantastic job at it. In due diligence and just around the market, they're kind of the platinum standard if you will customer service.

And so they're providing a service on the market making side. We're providing a service if you will on the market making side and they're coming from the north, we're coming from the south and we're sort of meeting at the equator right because at the end of the day you've seen this conversion of technology and efficiency in the marketplace. And we think by combining the two, we're going to get one plus one equals three. And that's really kind of the main strategic rationale for doing it. Certainly, there's a lot of financial components and Joe will go through all those and we put a lot of those in the deck, but strategically this is a very important transformative situation for Virtu.

I also would say on the agency side, you mentioned Europe, one of the key motivators for us wanting to get into the agency execution business was obviously our experiences with order routing for our own selves and how that that value proposition really translated to the agency business. Now with the advent of MiFID II and unbundling it, it just seems like the time is really right for a superior execution only agency offering really to be well accepted by the buy side. And again through our due diligence and understanding the market and talking to customers and what not over the years, we have a great deal of respect for the products that KCG has.

We developed some of our own products, some of our proprietary TCA and transparency products into the way that we route. And we think again by marrying their great institutional client base and the great talents and skills that they have with our technologically advanced if you will order routing capabilities, again we think on that side of the house we can develop a terrific product as well.

Warren Gardiner

Great, thanks. That's really helpful. That's really helpful color. I think just lastly for me. I just think the answer is no, but should we be thinking about any change to the dividend you know as you guys are sort of delevering or not is related but the tax structure as well?

Douglas Cifu

Yeah, great question. The tax structure will say the same and I think we put in the press release that there's no plan for changing dividend as well.

Joseph Molluso

Yeah.

Douglas Cifu

That's obviously…

Warren Gardiner

Okay, I got…

Douglas Cifu

We've dealt with that in the capital structure and the – and our partners of J.P. Morgan – and formulating the credit make sure that we have the ability to continue to pay the dividend.

Warren Gardiner

Great, thanks a lot. I appreciate it.

Douglas Cifu

Thank you, Warren.

Operator

[Operator Instructions] Your next question comes from the line of Alex Kramm [UBS].

Alex Kramm

Yeah, good morning everyone. Just wanted to come back to you guys entering the retail market making space. Maybe you've mentioned this at the beginning, but obviously you're entering this business at a time where there's lot of price competition at the end market, you're seeing Schwab and others lowering fees a lot. And obviously that's the lost revenue opportunity for those guys and you could argue that at some point that could trickle through to the market making community and in particular if you think you're going to make more money in trading the order flow, some of those guys might want to share the upsides, right. So how do you feel comfortable that that business is not a race of zero in particular there's competition in the end market?

Douglas Cifu

Yeah, it's a great question. And I think the way we do business is to be transparent and collaborative with our business partners. We've done that throughout since we started Virtu. So obviously I need to get to know these folks. I know some of them very well. And I know the great folks at KCG that have interacted with them, for years I have a terrific relationship with them. I think this is a win-win for those customers because at the end of the day we're going to bring the efficiency and scale that Virtu is known for to that business. And so we can make that a more efficient business and make it a better experience. At the end of the day is there going to be an adult conversation about how does that shared and ultimately how does the end use of the retail and the institutional investor that are using the services of a Schwab or et cetera, how are they going to benefit from this. That's really the most important thing.

We think we can drive execution quality. We think we can continue to reduce cost because that's what we did – already kind of what we do. We've been one of the proponents of competing at lower spreads and dealing with rising costs in the competitive all to all market. So we think that this is a key moment in time for this segment of the business to get more efficient and to hone in skill. So look at the end of the day, we're all adults, we're all in business to make money but at the end you need to provide a superior product to the end user and I'm very confident that this will be a win-win for the fantastic customer base at KCG.

Alex Kramm

Alright, thank you. That's helpful. And then just secondly, I guess this is for Joe. Can you talk a little bit more on the technology synergy as the roadmaps there? I don't know KCG that well anymore, but I feel like there were a lot of acquisitions and obviously GETCO KCG coming together a few years ago, but from what I understand not much more integrated maybe they're like four different training platforms or more. So where are you heading I mean is the roadmap to find already, is this going to be a Virtu backbone over time or is one of those situation both wake up and you actually realized you can't integrate as much because you don't know what happens when you shut down one system and there's a lot of risk involved. So how comfortable are you with the technology movement? And actually what are you seeing there internally that might be very efficient?

Joseph Molluso

Yeah, look – when you look at how we've detailed the synergies, we've broken out 70 million of technology communications and data processing synergies. The first step there is just kind of identifying redundant paths – redundant telecommunication paths around the globe. KCG has done a great job managing that and I think we've done a great job managing that. And this is an area where you can literally look at contracts and services and data contracts and what they pay for market data, what we pay for market data and there are just direct redundancies there. And that's what's represented in that number.

So that $70 million that we called out is just cost savings associated with redundant technology infrastructure data processing that we think is very achievable. It's very similar to what Virtu did when it acquired Madison Tyler in 2011. I think to your point though about the overall technology platform and systems, I think that will be a phased process. I think ultimately the goal is to have one technology platform, but there are a lot of different areas to look at. And I think they will build the benchmarks within 6 months, 12 months, 18 months, 24 months, but I think from the customer experience at KCG there's not going to be anything that changes in the near-term or the intermediate term like there will be no overhaul of technology immediately that will change anything related to the important customer franchise.

Douglas Cifu

Yeah, I think that's the most important point that Joe just made, which is as far as the customer experiences. We get how important that is and that the interaction with the KCG environment right now is superior and we don't want to change that. What happens behind the scenes if you will as behind the wall? And we really always pride ourselves as you all know in having a single integrated platform that's multi-asset class, multi-currency and you can – all of our offices in the way we operate are 100% seamless and interchangeable. We're going to bring that scale and efficiency to what KCG has to offer to the customers. That will be behind the scenes if you will, but absolutely at the end the day that's why we have been able to be as successful as we are in terms of having a scale plan.

Alex Kramm

Okay, so if I hear you right the $70 million in technology savings is really just I guess the duplication in market data and there should probably be upside if we actually end up cleaning up the backbone. Did I hear you right there, Joe?

Joseph Molluso

It's duplicated market structure and its duplicated telecommunications. Yes.

Alex Kramm

Okay. And then just one quickly at the end here as well, in terms of the leverage, you said you can delever quickly. What do you think long-term this company should be running at in terms of leverage in multi…

Joseph Molluso

I think that today we're around 2.25 to 2.50 and that's where we think we had to.

Alex Kramm

All right.

Joseph Molluso

So based on – if you look at our leverage profile today, we did a refinancing of our debt in the fall. And our message was that this is the right long-term leverage level for the company. And I think what we've identified is a 12-month path here, 18-month path where we can return to that proper capital structure.

Alex Kramm

All right that's it from me then. Thank you.

Douglas Cifu

Thank you very much.

Operator

And your next question comes from the line of Christian Bolu [Credit Suisse]

Christian Bolu

Hello.

Joseph Molluso

Good morning, Christian.

Christian Bolu

Good morning. Apologies if I missed this, but could you talk about what the cost to achieve synergies and then fully integrated KCG are?

Joseph Molluso

Yeah, the cost to achieve synergies here we haven't outlined them. We will naturally be – as we achieve these synergies around telecommunications, around occupancy and leases, we're going to be having kind of a one-time write-off. So we haven't fully identified the total charge and separated that between cash or non-cash. But I will tell you as a rule of thumb something that is in between half and 50% and 100% of the fully phased-in run rate as a one-time charge would not surprise me.

Christian Bolu

Okay and that's a cash charge that that…

Joseph Molluso

No, it will be cash and non-cash. It will be cash and non-cash.

Christian Bolu

Can you give the splits of cash and non-cash? I'm really trying to understand the cash bit.

Joseph Molluso

We'll be providing more detail on that. I think the non-cash part will be the greater number.

Christian Bolu

Okay.

Joseph Molluso

Non-cash part will be the greater number just because as you capitalize long-term leases and as you capitalize real estate and things like that, those numbers tend to be bigger. And then as you cancel contracts or if you have any reductions in force, the way we've modeled it anyway that's the smaller part of it and those tend to be the cash items.

Christian Bolu

Okay, thanks. And can you just help me understand why you raised $750 million equity and $1.65 billion in debt to fund $1.4 billion deal. What's the delta between…

Joseph Molluso

Delta is our – we're refinancing. So the delta is that two companies have $1 billion of debt on them today. So we have to refinance both of those pieces of debt. And so the incremental – so you have your numbers right Christian, but just think of the debt as an incremental $600 million.

Christian Bolu

Got you, okay. That's helpful. And then the 25% accretion just so I am clear, that does include – that does factoring the impact of the equity offering, right.

Joseph Molluso

It does. It does.

Christian Bolu

Okay, perfect. And just lastly – and I think you tried to mention – you did talk about this earlier on. I guess one could argue GETCO had exactly the same thesis or very similar thesis to you when it took on

KCG and profitability has been somewhat tough. Maybe just help me understand very big picture wise what's different this time? How you'd approach the integrating Knight to come to a better or long-term outcome?

Douglas Cifu

I wasn't there and I have no real idea. Obviously, I read from the news clippings and things like that that you did. All I know is how we operate and how I'm going to approach this transaction. And to be blunt, we have a lot more to learn from KCG then KCG has to learn from us. And these guys have been in a tremendous business and have served the market ably for two decades. And so we're going to go in there very humbly and say guys we really want to understand how you all operate. We think we can help you make it better and let's be collaborative and work together.

We are a lean and mean management team here. It's Joe and myself and some other folks sitting in this conference room. We're not going to go in there, guns blazing and say it's our way at our highway. We're going to go in and really try to learn and be collaborative. I'm 100% convinced that there are literally hundreds of very, very talented people at KCG that will kind of get the way that we want to run this business. We'll be excited about creating a truly integrated financial services firm. And we think that we can build the best-in-class market-making and agency business that can be competitive and that can be sustainable and can provide a better customer experience. And most importantly for our investors, we'll continue to drive significant margins and profitability.

So that's kind of the best that we can do, which is to be humble, to try to learn and try to get the best out of both firms and integrate them in the right way. We've had the experience of doing that with Madison Tyler, which was a very significant market-making firm that we merged with in 2011. And the most important thing that I learned from that transaction is it's not often that – it's not Virtu and Madison Tyler, it's us. And so at the end of day, it's not going to be Virtu and KCG and I don't care where you came from, the best people will be promoted, the best people will be on the management committee and the best people will continue to grow and learn with the firm as I will. So we're really looking forward to the experience.

Christian Bolu

Okay, thank you very much for the detailed answer.

Douglas Cifu

Thank you.

Operator

And your next question comes from the line of Chris Allen [Buckingham].

Chris Allen

Good morning guys.

Douglas Cifu

Good morning, Chirs.

Joseph Molluso

Hi.

Chris Allen

Apologies if I missed – missed some of this if it is redundant, but I just had a couple of different questions. One, the 25% accretion is that for fiscal 2018 or 2019, I am just trying to…

Joseph Molluso

The way we presented here in the deck, Chris, is really what we've tried to do is say look you have your own view of Virtu, you have your own view of KCG, no matter what scenario you model. The moving pieces are going to be kind of what is the net cost savings and what is the incremental interest expense.

So naturally if you modeled it right out of the box where we haven't paid down net debt in the first quarter it's still accretive, but what we've done here is say look on a fully phased-in what's the right capital structure scenario, it is over 25% accretion. So the example we've given on Page 10, it says its 2019, we chose 2019 just because it's the full second year and we're assuming we closed in Q3, but it doesn't have to be. You can pick any year. You can plug-in any numbers you want that you'll come up with for KCG and Virtu. And when you plug-in the synergy number even with higher amounts of incremental interest expense, it is meaningfully accretive.

Chris Allen

So you're using 2019 consensus. Is that right for the 25%?

Joseph Molluso

Yes, I mean, if you're plugging 2019 consensus, I think you're going to get something even higher.

Chris Allen

Okay. And then just kind of the – I know it's two years the fully phased-in synergies, I'm just trying to think about how that kind of liked that in over those two years kind of – I mean how long is the development work needed on your side to be able to implement the KCG strategies or are do you utilizing some of those? I'm just trying to reconcile that to kind of make sure we're not going too quickly in terms of the synergy build outs.

Joseph Molluso

I think just in terms of the actual number that that we put out there it's like Chris simplifying assumption that that would work is just 50:50, 50% year one and then 100% in year two.

Douglas Cifu

And Chris just a little more color on. I think there are a lot of things that are going to be day one like we obviously don't have to pay, my favorite topic, market data fees and things like that. Those are day one tiering benefits. Those are day one consolidating flow within legal entities to reduce brokerage costs. Those are all day one. We've a lot of experience from having done that in the Madison Tyler Virtu transaction where we saw a lot of those day one synergies.

Obviously terming out telecommunication lines and colos and whatnot reducing footprints, migrating strategy on to a single box, so that you can reduce a footprint in a very expensive colo. Those aren't necessarily day one, maybe they are day 30 to day 90 depending upon the term of the actual lease or co-location facility, but they're easily identifiable. In terms of technology and re-platform, what I would point out is that here at Virtu we have a lot of experience being a technology service provider we have an arrangement with a large financial situation on the FX side and then our much ballyhooed arrangement with J.P. Morgan, where effectively we are routing risk for J.P. Morgan in the fixed income world and the U.S. Treasury’s world, right.

So it's not entirely dissimilar to the situation that we're going to be faced with from an architectural perspective in the KCG environment where they've got this great host of strategies that are very, very complementary to what we do in the customer market making segment. They access the market in a particular way. We are very good at accessing markets. We’re really fundamentally a terrific smart order router as a firm. So taking those intentions, those orders from KCG and routing them through a Virtu environment is something that will be very high on our list and we have real-time experience if you will by doing that as a technology provider already with our friends at J.P. Morgan, so they were terrific test case in terms of how do you access the market when your strategy if you will is now actually coming up with the idea to place a particular order on a particular side of a particular product.

So it's going to take a little bit of time to do that, but we're very confident in our ability to do that. We've already done that as I said before with Madison Tyler and we've done it with a large global financial institution. So in looking at the architecture KCG, we think we can get that done relatively quickly.

Chris Allen

Got it. And then just digging a little on the $440 million of capital synergies, you talked about rationalizing non-core businesses. Does that include potential sale of BondPoint?

Douglas Cifu

No, and to be blunt I mean I don't know a lot about BondPoint other than obviously what I've read. I haven’t met the people and strategically I have to really understand how it fits in to their customer base and how it makes sense. I mean it's a terrific asset. Obviously, I don't know if they do separate financials on it, whatnot. So I’m not going to talk about those here, but the results that I have seen and the growth that I have seen is really a terrific asset and a great product. I understand the market somewhat in terms of credit and credit platforms. I think it's a market leader and what it does I think it's got a lot of potential.

Can we augment the customer experience this through technology through this, that or the other thing I'm not sure. But Joe, myself, the guys at Virtu, we will be very collaborative with the folks at KCG that have the most experience. In particular, we never want to do anything that that has any impact at all in the negative fashion on the customer segments they have. So do their customers rely on it how important is that? So we're going to make that strategic assessment. All I know is it’s a very, very impressive asset and these guys have done a great job running it, they really have.

Chris Allen

Okay and then putting that aside then the $440 million of capital synergy seems to be a pretty big number to me.

Joseph Molluso

Yes.

Chris Allen

Joe you can buckle down between the three bullets you kind of listed in the Page 12 like what's – how that’s broken down between those just I mean if we were to sell BondPoint I would say no problem, you can get it done very easily, but kind of question that number now a little bit.

Joseph Molluso

Yes so just to complete the BondPoint answering, BondPoint really doesn't use any meaningful capital.

Chris Allen

All right, no it just – it can be sold for decent amount of money, so…

Joseph Molluso

Yes, so – no, no, yeah. So that's not included here. And look – Chris, a lot of this is kind of in a very, very detailed due diligence, but there are a number of areas. We've got consolidating businesses within Virtu. I think what that means is kind of we’ve got legal entities – regulated legal entities in Europe and in Asia and in the U.S. as they do, right. So you achieve capital synergies when you move businesses into our own legal entities, all right. We got a separate legal entity setup for proprietary trading and agency trading in Europe, all right. We're going to achieve capital synergies there.

There are a number of things that we dug into in terms of how much capital is used to support different desks and different businesses that are going to be consolidated or rationalized and we've done a very granular, very kind of position by position bottoms up analysis of capital usage and the impact on revenue. So some of that revenue dissynergy is a result of this, but we’ve applied a very kind of Virtu like lens in terms of appropriate returns on capital. And this is what we've come up with.

Chris Allen

Okay, that’s it from me guys. Thanks.

Joseph Molluso

Thank you, Chris. I think operator anymore questions, I don't believe there are.

Operator

There are no further questions at this time, sir.

Joseph Molluso

Great, thank you everybody. We appreciate everybody assembling on such short notice. And again we really look forward to continue to discuss how this important and accretive transaction will evolve Virtu. And for my friends at KCG, I will be down there later today. I look forward to meeting a lot of you in person. Thank you all.

Operator

And this concludes today's conference call. You may now disconnect.