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## Conference Call Transcript

**ITG - Investment Technology Group to Acquire Macgregor for Approximately \$230 Million**

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Jul. 13. 2005 / 9:00AM, ITG - Investment Technology Group to Acquire Macgregor for Approximately \$230 Million

## CORPORATE PARTICIPANTS

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*ITG - Director, Marketing & IR*

### **Ray Killian**

*ITG - President & CEO*

### **Howard Naphtali**

*ITG - Managing Director and Chief Financial Officer*

### **Steve Levy**

*Macgregor - co-Founder, President and CEO*

## CONFERENCE CALL PARTICIPANTS

### **Charlotte Chamberlain**

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### **Ken Worthington**

*CIBC - Analyst*

### **Rich Repetto**

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### **Michael Kubas**

*Piper Jaffray - Analyst*

### **Scott Patrick**

*Morgan Stanley - Analyst*

## PRESENTATION

### **Operator**

Good morning, ladies and gentlemen, and thank you for joining us to discuss ITG's acquisition of Macgregor. My name is Laura Miller, and I will facilitate the call today. (OPERATOR INSTRUCTIONS). As a reminder, ladies and gentlemen, this conference is being recorded. I would now like to turn the conference call over to Maureen Murphy, ITG's Director of Marketing and Investor Relations. Please go ahead.

### **Maureen Murphy - ITG - Director, Marketing & IR**

Good morning. In accordance with the Safe Harbor regulations, I would like to advise you that the forward-looking comments we will be making this morning are subject to a series of risks that may make actual results differ materially from our expectations. I advise you to read about these risks in this morning's press release, as well as in our SEC filings. I would also like to encourage you to visit the Investor Relations section of our Web site, which contains PowerPoint slides to accompany this presentation.

I would now like to introduce ITG's Chairman, President and Chief Executive Officer Mr. Ray Killian.

### **Ray Killian - ITG - President & CEO**

Okay. Thanks, Maureen. Good morning, everybody, and thank you for joining us on such short notice to talk about the acquisition of Macgregor which as you probably are aware is the industry leader in providing trade order management systems to large institutions. And also on the call with me today is Steve Levy, who is the co-Founder, President and CEO of Macgregor, and Howard Naphtali, the Chief Financial Officer of ITG. They will be available to address any questions you might have.

Jul. 13. 2005 / 9:00AM, ITG - Investment Technology Group to Acquire Macgregor for Approximately \$230 Million

First, I would like to give you an overview of the deal and tell you about the many benefits it will bring both ITG shareholders, as well as McGregor/ITG customers. Now as you saw in the announcement we are paying approximately 230 million in cash to acquire McGregor. We are financing the acquisition with a combination of cash and bank debt. And given the expected strong cash generation of the combined operations, we should be able to payoff the acquisition debt within a reasonable period of time.

We expect the acquisition to be accretive in the first quarter of '06 and expect accretion in the range of \$0.06 to \$0.08 per share, excluding any benefits from revenue synergies or cost savings. Cost savings are not expected to be significant, but we can see a lot of potential for revenue growth as we will talk about in a little while.

Now Macgregor is expected in 2005 to generate over 50 million in annual sales, which would be up about 20% over last year, and it is on track to achieve almost 16 million in pretax earnings, which is about double last year. Operating margins are similar to ours, around the 27, 28% range, but most importantly, 85% of McGregor's revenues or \$45 million are recurring in nature. So the key benefits that we are looking at in this deal that gets us so excited is that it diversifies our exposure more towards recurring revenue and less dependency on daily trading volumes, and it is a major advancement of our competitive positioning and ITG's strategic initiatives that we have been talking about for the last year or so.

Let me highlight three reasons why we see this as a transformational acquisition in the context of today's competitive trends. First, it is the opportunity to integrate our combined customers' order management systems with their execution management systems. It is clear that a major trend driving our market today is that institutions are looking for integrated order and execution management system solutions. In a recent industry study, over 80% of institutions said this is the top priority.

Now the integration of Macgregor's order management system with ITG's execution management system and analytical tools puts ITG in a leading position to meet this demand for a best execution order management system.

Secondly, this combination of businesses will maintain broker neutrality. ITG front-end integration with Macgregor's OMS would provide broker neutral services, including direct market access trading by clients to any broker or venue of choice. This model is in line with our long history at ITG. That is a long history of providing our customers with anonymous and confidential trading solutions that are broker neutral.

Third, the acquisition gives -- creates growth opportunities for ITG trading systems. The opportunity is that integration with an order management system vendor gives institutions easy access to ITG crossing facilities and algorithmic trading strategies. But the decision will clearly remain customer driven with equal access to all venues. ITG still must compete on a nonexclusive and nonpreferential basis with other brokers and venues. Obviously owning this valuable client real estate and connectivity will be a major plus for us.

Now consistent with our strategy, the Macgregor acquisition ties in strongly with what we have been discussing with you in the past year. The integration of the order and execution management systems offered by this acquisition is central to our strategy of expanding our partnership with our clients by providing them with a comprehensive holistic solution across the trading spectrum. Our combined technologies promise to provide our customers with more advanced solutions to integrate their order management systems, controls, analytics, real-time data and trading tools. The breadth and depth of the combined product offering will help both ITG and McGregor in their respective efforts to develop new multi-asset class products, to grow internationally and to attract new customers, including the growing hedge fund market.

Both ITG and Macgregor have been pursuing these strategies independently. With our combined client penetration and broader product offering, we should be able to accelerate our growth in all of these areas.

In terms of diversification of ITG's business model, we mentioned earlier that a large portion of Macgregor's revenues and earnings are recurring and are far less exposed than ITG has been to the volatility of daily trading volumes. As far as their competitive position, Macgregor is an order management industry leader with strong competitive position and has an estimated 28% of market share in the trade order management market amongst large firms, and it has the largest number of installations among large institutions. About one-third of Macgregor's installations are at institutions that do little or no business with ITG at this point.

A key competitive advantage is that Macgregor connects all of a client's internal function including portfolio management, compliance, trading and operations with the client's external partners such as brokers and matching facilities. Internally Macgregor's systems move institutional traders from paper to electronic tickets, automating virtually every step in the investment process with straight-through, integrated order routing and execution. Through the Macgregor financial network, a client's order management system interfaces instantly and seamlessly to analytics packages, accounting systems, custodial banks, prime brokers and settlement systems. This unique technology enables clients to act upon

Jul. 13. 2005 / 9:00AM, ITG - Investment Technology Group to Acquire Macgregor for Approximately \$230 Million

investment information and to execute their trading strategies more quickly, more efficiently and with the best execution and built-in compliance. This all works to cut clients' trading costs significantly and improve their competitive advantage.

As to their technology leadership, McGregor has consistently been one of the industry's top technology developers over the last decade. In 1993 they introduced the industry's first Windows-based trade order management system, Predator. Predator was the first system to integrate internal operations with external real-time market data and connectivity brokers and other sources of liquidity.

In 1997 Macgregor introduced the industry's first FIX network. In '99 they acquired Merrin Financial, further enhancing their technological leadership and scale. In the past two years, they have made a heavy investment in R&D that included the very successful improvements to XIP's functionalities, scope, flexibility and customization. This continuous innovation has been as central to Macgregor's upgrading current customers, winning new clients and displacing competitive systems.

They reported very impressive growth for '04. Sales were up about 20%. Pretax earnings almost doubled. It added 79 new clients, implemented 43 new buy-side order management systems, and established 1700 new buy-side to sell-side network connections. In algorithmic trading, it launched six new trading interfaces and deployed 51 buy-side systems connecting these algorithms.

Macgregor has exciting growth opportunities ahead within the order management systems market with a lot of potential to continue penetrating the institutional market, while many small to medium firms are still mired in inefficient paper ticketing. Macgregor is expanding internationally, and ITG is particularly well positioned to help them with these efforts. Macgregor is growing with the hedge fund segment, which is the fastest-growing asset class in the industry. And as I mentioned, earlier, integration with ITG's execution management systems and analytics creates additional synergies for McGregor's growth in all these areas.

Let me wrap up by saying that we see this deal as a great move for ITG. It brings together two leaders in trading technology. It diversifies our exposure toward more recurring revenues and less dependency on daily trading volumes, and it creates a unique and powerful competitive offering. It enhances our ability to implement our strategies of asset class diversification, penetration of the hedge fund market and international expansion.

Now with that background, we would be happy to take your questions. And operator, if you could just explain the process, please.

## QUESTION AND ANSWER

### Operator

(OPERATOR INSTRUCTIONS). Charlotte Chamberlain, Jefferies & Co.

### Charlotte Chamberlain - Jefferies & Co. - Analyst

First, a housekeeping question. The slides are on your website? Because I cannot see them. There is a slideshow, but it is from June.

### Maureen Murphy - ITG - Director, Marketing & IR

Charlotte, we can certainly e-mail it to you right after this. It is on the website, but my understanding is that it might not be loading very rapidly, so we will get it out to you.

### Charlotte Chamberlain - Jefferies & Co. - Analyst

Okay, fine. Okay, congratulations. It sounds like a great move and certainly a very good use of your cash. When I did the back of the envelope math I got it to be more accretive, but maybe I'm assuming that you are using more cash and less debt. I assumed 130 million in debt. Is that about right?

Jul. 13. 2005 / 9:00AM, ITG - Investment Technology Group to Acquire Macgregor for Approximately \$230 Million

**Howard Naphtali** - *ITG - Managing Director and Chief Financial Officer*

It is going to be a good deal more than that. I mean we're talking probably 175, 180 million right now, but again there are three months to closing. There may be other uses of cash, so it's a variable number. I can't --

**Charlotte Chamberlain** - *Jefferies & Co. - Analyst*

But you generate what, about 40 million in free cash a quarter?

**Howard Naphtali** - *ITG - Managing Director and Chief Financial Officer*

40 million a quarter? No, we generated about 15 million the first quarter in cash flow.

**Charlotte Chamberlain** - *Jefferies & Co. - Analyst*

Okay. Okay. And presumably would this be like a revolver, or would this be more like (technical difficulty)-- term financing?

**Howard Naphtali** - *ITG - Managing Director and Chief Financial Officer*

We have gotten the commitment for a syndicated bank debt. It is going to be co-lead by J.P. Morgan Chase and Bank of America. There will be a term loan element, and there will be a small revolving credit element, and again those will be worked out in the next few months.

**Charlotte Chamberlain** - *Jefferies & Co. - Analyst*

And is assuming like 5% reasonable?

**Howard Naphtali** - *ITG - Managing Director and Chief Financial Officer*

We will come back to you on the rates. Again, you can see what the market rates are. There is some variability in that, too.

**Charlotte Chamberlain** - *Jefferies & Co. - Analyst*

Well, I mean (inaudible) equity owns that don't really price bank debt.

**Howard Naphtali** - *ITG - Managing Director and Chief Financial Officer*

Just think of it as a LIBOR-based debt right now.

**Charlotte Chamberlain** - *Jefferies & Co. - Analyst*

Okay. It is LIBOR-based off what maturity? Two years, three years?

**Howard Naphtali** - *ITG - Managing Director and Chief Financial Officer*

Again, it could be -- we can price it, and again some of these things are going to get cleared up between a one, three, six month LIBOR on a rolling basis.

**Charlotte Chamberlain** - *Jefferies & Co. - Analyst*

Jul. 13. 2005 / 9:00AM, ITG - Investment Technology Group to Acquire Macgregor for Approximately \$230 Million

Okay. So it is going to be -- it is going to be short -- it is going to be off the short end of the curve?

**Howard Naphtali - ITG - Managing Director and Chief Financial Officer**

Yes but it will still be a term loan with --

**Charlotte Chamberlain - Jefferies & Co. - Analyst**

Yes, yes, yes, but it reprices every six months or something?

**Howard Naphtali - ITG - Managing Director and Chief Financial Officer**

It will.

**Charlotte Chamberlain - Jefferies & Co. - Analyst**

Okay. Then, I guess the other more strategic issue, is there anybody else that has integrated both execution and order management?

**Ray Killian - ITG - President & CEO**

No.

**Charlotte Chamberlain - Jefferies & Co. - Analyst**

So you will be the first?

**Ray Killian - ITG - President & CEO**

To our knowledge, yes. There are only half a dozen out there, and they are all independently owned right now.

**Charlotte Chamberlain - Jefferies & Co. - Analyst**

I'm sorry. There are a half dozen companies that have integrated order management?

**Ray Killian - ITG - President & CEO**

No, there are a half dozen order management system companies in the marketplace, but there are none that have integrated execution tools with OMS to my knowledge. Now Steve Levy is on the call. Steve, do you view that any differently?

**Steve Levy - Macgregor - co-Founder, President and CEO**

No, I do not. I think that is exactly right.

**Charlotte Chamberlain - Jefferies & Co. - Analyst**

Okay. Now does this really play to Hoenig, or is this more to your general client site kinds of operation?

Jul. 13. 2005 / 9:00AM, ITG - Investment Technology Group to Acquire Macgregor for Approximately \$230 Million

**Ray Killian - ITG - President & CEO**

It is a reaction to the realities of the marketplace, Charlotte, and it fits the overall strategy of ITG. As you know, we talked about this, the institutions today are directing more of their order flow right off their desks. And that is one driver. The technology is available for them to intermediate the broker-dealer by directing the orders right from the buy-side client site, and the transaction measurement tools are in place. So all the tools that the client needs to handle his own orders as opposed to sending a list to a broker-dealer to execute are in place, and this is playing in that direction. I might add that the compliance technologies that Macgregor has is among the best in the industry, and that is a big driver of the OMS business in these days.

**Charlotte Chamberlain - Jefferies & Co. - Analyst**

Yes, I was just wondering does this give Hoenig a better opportunity when they look for hedge fund clients to be able to offer? (multiple speakers)

**Ray Killian - ITG - President & CEO**

I think that is true. The Hoenig salesforce, as you know, is a pretty efficient group of guys, and to give them one more arrow in their quiver like this is pretty significant.

**Charlotte Chamberlain - Jefferies & Co. - Analyst**

Okay. Well, again congratulations. Thanks.

**Operator**

Ken Worthington, CIBC.

**Ken Worthington - CIBC - Analyst**

I guess you have partnered with Macgregor in the past, and even with that partnership, there were a number of Macgregor customers who are not using the ITG tools. Given this acquisition, what is going to make them want to sign up now when they did not in the past?

**Ray Killian - ITG - President & CEO**

You mean besides our charm and grace?

**Ken Worthington - CIBC - Analyst**

And good looks.

**Ray Killian - ITG - President & CEO**

Yes, I think, well, the latter I did not include. But I think the opportunity to go in and to sell a totally integrated solution is going to be a positive factor. You know for whatever reason we don't do those accounts we are going to have to change the way we do some things. I think the combination of skills sets -- I mean we are both -- ITG is very well-known, and some recent surveys we did here I think one of our greatest attributes was our dedication to client service, and that is very important in the OMS space. So I think we are going to be able to go in and capture some of that business based on reputation and technology. I think when you look at the total solution it is a compelling story.

**Ken Worthington - CIBC - Analyst**

Jul. 13. 2005 / 9:00AM, ITG - Investment Technology Group to Acquire Macgregor for Approximately \$230 Million

So the ownership actually is going to far broaden the products you can offer that you could not get without the partnership?

**Ray Killian - ITG - President & CEO**

Yes, absolutely.

**Ken Worthington - CIBC - Analyst**

Okay. To what degree, do you anticipate that this will increase liquidity at ITG? I guess does the transaction give you greater access to current Macgregor customers who already do business with ITG, or is it more about really penetrating new customers or I guess new customers that ITG had not been working with in the past?

**Ray Killian - ITG - President & CEO**

I think it is both. I think the ease of access is certainly an issue. When a client can get at our crossing system easily, can get to the point of execution easily, it makes it a lot easier to get the order flow through the system.

**Ken Worthington - CIBC - Analyst**

Okay. Is this a bigger deal for POSIT, or is it a bigger deal for the client-based businesses?

**Ray Killian - ITG - President & CEO**

I think it is spread -- we analyze this as being positive for POSIT, no pun intended, and obviously client site products should benefit from this because one of the directions that the OMS vendors had been heading in was to integrate the front end technology with the OMS offering.

Now with Triton and Radical, you get an automatic integration. They don't have to build them. We can take some conversion, but again that is a point that Steve might want to comment on.

**Steve Levy - Macgregor - co-Founder, President and CEO**

Yes, as I think on it further, Ray, as a general rule when you integrate the trading platforms and the execution platforms with the order management systems, you tend to keep these at arm's length and have a generic interface.

One of the things we will be able to do now is consolidate the order management blotter with the execution blotter to have a single blotter that offers both sets of capabilities. That is going to be unique, and that is going to drive people to use those venues, those trading channels far more aggressively than I think they otherwise would.

**Ken Worthington - CIBC - Analyst**

Now is this going to be better for brand-new, like, say, new hedge funds popping up that don't have any order management system or any execution system? How difficult is the conversion for existing customers to use this future integrated product?

**Ray Killian - ITG - President & CEO**

Well (multiple speakers) go ahead, Steve.

**Steve Levy - Macgregor - co-Founder, President and CEO**



Jul. 13. 2005 / 9:00AM, ITG - Investment Technology Group to Acquire Macgregor for Approximately \$230 Million

I think it will be -- the way we have architected our XIP platform, after we have gotten the integration done, it will be relatively simple to upgrade people into that version if they are on XIP. We ourselves are going through an upgrade process of older technology to newer technology, and as people come and get up and running on XIP, deploying this version that has the Triton or Radical or other capabilities integrated right into the platform will be quite easy.

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**Ken Worthington - CIBC - Analyst**

Okay. My final question is just on the order management system, how does that make money? Is it based on customer assets? Is it based on transactions? Is it all fee-based? How does it work at Macgregor?

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**Ray Killian - ITG - President & CEO**

Well, let's see, all of the above I would say.

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**Steve Levy - Macgregor - co-Founder, President and CEO**

Yes, very good. The historical role and a fairly large segment of the revenue comes from just essentially term software licenses or what we call subscription licenses for the software. But our process (technical difficulty)-- is unique in that we have really focused a lot on taking the software and integrating it with parties outside. Software tends to help people automate their internal functions. These combined it with the network to let people integrate it with external functions provided by broker-dealers, custodians, data providers and so forth. And a lot of our revenue comes from the links to those outside providers. Those links can either be paid for or charged on a recurring monthly basis, or they can be from some sort of a revenue share as we have done with a lot of the broker-dealers for algorithmic trading and so forth.

So we see revenue streams from revenue-sharing on commissions, from recurring monthly fees for use of the software, reoccurring monthly fees for connectivity to various services. It is a broad spectrum that we would have to go through.

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**Ken Worthington - CIBC - Analyst**

Excellent. Thank you very much.

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**Ray Killian - ITG - President & CEO**

I can tell you that is not a theoretical response either because I was writing checks every month to Steve Levy for that connectivity.

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**Steve Levy - Macgregor - co-Founder, President and CEO**

I'm going to be sorry to lose those, Ray.

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**Operator**

Rich Repetto, Sandler O'Neill.

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

First question is a little bit on the debt, and I'm just seeing if it is 16 million pretax and I'm just taking that 175, 180 and just putting rates even as high as 7%, and it still looks like it would be accretive right off the bat. Am I missing charges?

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**Howard Naphtali - ITG - Managing Director and Chief Financial Officer**

Jul. 13. 2005 / 9:00AM, ITG - Investment Technology Group to Acquire Macgregor for Approximately \$230 Million

Yes, there may be some additional short-term investments we would make, and there is also amortization of technologies that we put in some estimates, and we obviously have to get independent appraisals of the technology for the next few months or at closing. And that will amortize out over a three to five-year period through the P&L and obviously reduces the accretion benefit.

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

Okay. So the 16 -- basically the 16 -- well, I don't know which side it goes on, but I guess the magnitude -- do you have any feel for the magnitude of those expenses other than (multiple speakers)?

**Howard Naphtali - ITG - Managing Director and Chief Financial Officer**

The 16 (multiple speakers) is a pretax -- the 16 you are talking about is a pretax number. (multiple speakers). You're definitely getting into like 9.5 or so after-tax. You also are going to have a few million of technology -- sorry -- of amortization charges relative to capitalizable technology potentially branded, etc., sorted out in the purchase accounting, and that is the large part of your delta, plus near-term investments that we may make that will run through the P&L.

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

Okay. So I guess my take-away would probably be in relatively conservative on the accretion side there?

**Howard Naphtali - ITG - Managing Director and Chief Financial Officer**

We tend to be conservative by nature, but yes, we are very confident it will certainly be accretive next year. No question very early from the get-go.

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

And then the next -- (inaudible) followed up on the subject of disclosure. How will this revenue be reported? Will it be a separate line item for sort of a fee or some --?

**Howard Naphtali - ITG - Managing Director and Chief Financial Officer**

I think we're going to have to have a call it subscription or whatever the caption will be, but it is material enough inasmuch as it's going to be more than 10% of consolidated revenues. So yes, there will be another line item in the P&L.

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

Okay. And then for I guess Ray or Steve, when we first just talking about customers, you know it appears the business is growing. Could you talk about how you are making out with customers? Are you increasing customers in general, and or is it a growth in just sort of a segment like the hedge funds? Just a little bit more color. Because we hear it is a very competitive space, the OMS is.

**Ray Killian - ITG - President & CEO**

All right. They have had pretty significant growth. Steve, you are more familiar with the numbers. Why don't you give that a shot?

**Steve Levy - Macgregor - co-Founder, President and CEO**

Jul. 13. 2005 / 9:00AM, ITG - Investment Technology Group to Acquire Macgregor for Approximately \$230 Million

Sure. We are seeing growth across the board. We are seeing the fastest growth on our client base amongst hedge funds and amongst the broker-dealers that are connecting onto the network.

We are seeing growth as well with institutions. I would say midtier institutions that if you go out there and look at it, it is surprising how many people still do a bunch of things on papers or on spreadsheets. So we are still seeing significant growth there. And the attractiveness of the offering has strong electronic connectivity and as well as fixed-income support, and support for the entire investment process across the board is making it still a very competitive offering.

So we are seeing pickups there. In our marketshare, we are seeing an increasing win ratio versus the competition over the last little while. One of the key drivers there, as Ray had mentioned earlier, we have a new compliance product that has just been released, and it is gaining a lot of attention.

So it's a very competitive space. We are seeing growth -- the biggest growth in the hedge fund segment. We are seeing growth across the board and improving win ratios, and we are also seeing a lot of interest in people who are interested in using the systems for separately managed accounts.

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**Ray Killian - ITG - President & CEO**

Real interesting. To give a little perspective from the broker-dealer side of things, as a broker-dealer with an algorithmic suite and processing systems, etc., it is extremely efficient for me to rent space on the Macgregor financial network as opposed to going out and trying to do separate connectivity client by client. So brokers are willing to pay a fee for that. That is a new revenue source.

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

Understood, understood. And the very last part of my question is for you or Steve would be, I guess when you said there is no other execution tied into the OMS systems, I guess you put -- do you put Liquidnet and Pipeline in a different category? That would be one. And then the last part would be, I know Charles River has it, but who are the main competitors that you do run into on the OMS system out there, Steve?

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**Ray Killian - ITG - President & CEO**

Go ahead, Steve.

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**Steve Levy - Macgregor - co-Founder, President and CEO**

Answering from the tail-end there, the main competitors we run into clearly are Charles River on the institutional side. We see a little bit of a company called Latent Zero and a little bit of a company called Linedata, which acquired a company called LongView a while back. That is the institutional side.

On the hedge fund side, the primary competitor is a software company called Eze Castle Software, and we see a little bit of Advent with their Moxie product. Those are the competitors out there.

But I would say if I had to choose one for each category, Charles River on the institutional side and Eze Castle on the hedge fund side.

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**Ray Killian - ITG - President & CEO**

And, Rich, Liquidnet and Pipeline are clients of the system.

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

Right. I guess it is just how you categorize them. Because whether you actually say they are executing or whether they are --?

Jul. 13. 2005 / 9:00AM, ITG - Investment Technology Group to Acquire Macgregor for Approximately \$230 Million

**Ray Killian - ITG - President & CEO**

Yes. As opposed to a front end system like Triton or Radical, these are execution destinations.

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

Understood. Okay. Thank you much.

**Operator**

Daniel Goldberg, Bear Stearns.

**Daniel Goldberg - Bear Stearns - Analyst**

You mentioned in the prepared remarks about the lack or not much expected in terms of expense saves. Can you just talk a little bit more about that, why you might not be able to eliminate some from the cost side?

**Ray Killian - ITG - President & CEO**

Sure. This is a technology company. More than half of it or roughly half of the expenses are all about technology, and that is an investment we're going to make and a growth story. The only potential for cost savings is in the backoffice area. This is a private company, and it is not heavily staffed there.

**Daniel Goldberg - Bear Stearns - Analyst**

In terms of headcount, how many people?

**Ray Killian - ITG - President & CEO**

190 people.

**Daniel Goldberg - Bear Stearns - Analyst**

Okay. You mentioned also asset class diversification. Any further comments or thoughts there strategically?

**Ray Killian - ITG - President & CEO**

Well, I think from a strategic perspective it is clear to see that the institutional clients want multi-asset execution capability, and that means the front ends that we put in place are going to have to deal with equity execution, with options execution, FX derivatives. We are going to have to migrate these system towards full multiclass systems all the time. You know we've always had an interest in diversification as you know, and I think this is another one of those opportunities to learn a little bit about each of these businesses and move in that direction.

**Daniel Goldberg - Bear Stearns - Analyst**

Okay. And then also you talked about international opportunities. Maybe a little bit more color there?

**Ray Killian - ITG - President & CEO**

Jul. 13. 2005 / 9:00AM, ITG - Investment Technology Group to Acquire Macgregor for Approximately \$230 Million

Yes. In my recent travels, I have seen the demand or heard the interest in order management systems, compliance capability everywhere I have gone and recently in London, Scotland and recent past in Asia as well.

Macgregor's operation in London is small. We have a few clients overseas right now. We've got a very robust sales operation in London that should be able to assist in this activity. We will be housing them with our staff in the London office on Finsbury Circus as soon as we close the deal. So we think we can give them a shot in the arm overseas.

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**Daniel Goldberg - Bear Stearns - Analyst**

And regulatory wise, do you see anything or just the typical approval necessary?

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**Ray Killian - ITG - President & CEO**

Typical. We don't see any problems.

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**Operator**

Michael Kubas, Piper Jaffray.

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**Michael Kubas - Piper Jaffray - Analyst**

I was wondering if you guys could give us a little bit more color into the 100 Macgregor customers in terms of which portion or maybe hedge fund or mutual fund clients, etc.?

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**Ray Killian - ITG - President & CEO**

Go ahead, Steve.

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**Steve Levy - Macgregor - co-Founder, President and CEO**

Certainly. The hedge fund customers, most of them are relatively recent as we have changed the packaging and sales approach of the product back in 2004. It would say it was probably between a dozen and 20 hedge fund customers in total, and the rest are traditional institutional customers. Those institutional customers, many of them have mutual funds, but the mutual funds are -- or institutional money management.

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**Michael Kubas - Piper Jaffray - Analyst**

Okay, great. That is helpful. Is there any very large clients that are maybe over 10% of revenue for Macgregor?

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**Steve Levy - Macgregor - co-Founder, President and CEO**

No, there is no customer that is over 10%.

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**Michael Kubas - Piper Jaffray - Analyst**

Okay, thank you. Could you give us an idea or would you be willing to share the total volume that went to the Macgregor platform on an annualized basis?

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**Steve Levy - Macgregor - co-Founder, President and CEO**

Jul. 13. 2005 / 9:00AM, ITG - Investment Technology Group to Acquire Macgregor for Approximately \$230 Million

Well, what I can do is give you the best data that we have, and the data is not quite anecdotal but it is indirectly measured. We do not monitor the trading activity that flows through our system directly. So all I can do is give you the sort of -- when we do check points of what is going through by triangulating the data that our customers give us and so forth, the number ranges anywhere from 300 to 500 million shares a day.

**Michael Kubas - Piper Jaffray - Analyst**

Okay, that is helpful. And just a quick last question. What percentage of the Macgregor customer base was actively using an ITG execution venue in the past?

**Ray Killian - ITG - President & CEO**

65%.

**Michael Kubas - Piper Jaffray - Analyst**

And, Ray, would you be willing to share with us how much of your volume that represented?

**Ray Killian - ITG - President & CEO**

I don't have that number right in front of me.

**Michael Kubas - Piper Jaffray - Analyst**

Is it material, or is it a relatively small portion?

**Ray Killian - ITG - President & CEO**

Yes, some of the Macgregor accounts are very significant accounts with us as well. A major league account.

**Operator**

Scott Patrick, Morgan Stanley.

**Scott Patrick - Morgan Stanley - Analyst**

Most of my questions have been answered. But just in terms of the integration of ITG's products into the Macgregor systems, can you talk a little bit about how the process will progress, how long that will take? You know, that is when it happens right out of the blocks, or is there a time delay in getting to that?

**Ray Killian - ITG - President & CEO**

Well, it is going to be as aggressively as we can possibly do it. I know Steve and his team were putting plans on the drawing board for front end systems to be integrated in the system. We will stop and suspend that activity, and we will go right to the Triton/Radical solution. Over the next 60, 30 to 90 days, I should say we have an integration team, which will be in place at Macgregor. We will work out a joint operational plan as to how we go through that, so that will become clear over the next two to three months.

**Scott Patrick - Morgan Stanley - Analyst**

Jul. 13. 2005 / 9:00AM, ITG - Investment Technology Group to Acquire Macgregor for Approximately \$230 Million

Okay. And just -- I may have missed this -- but you talked about the recurring revenue streams. What portion of Macgregor's revenues are recurring?

**Ray Killian - ITG - President & CEO**

85.

**Scott Patrick - Morgan Stanley - Analyst**

85?

**Ray Killian - ITG - President & CEO**

85%.

**Scott Patrick - Morgan Stanley - Analyst**

Okay.

**Ray Killian - ITG - President & CEO**

That might vary from year-to-year, but that is it now.-- (multiple speakers).

**Steve Levy - Macgregor - co-Founder, President and CEO**

It gives you an order of magnitude though where we are now.

**Ray Killian - ITG - President & CEO**

Yes.

**Scott Patrick - Morgan Stanley - Analyst**

Okay. And I guess the only other question, just on the sell-side of the business, can you talk a little bit more about the customer base that Macgregor has on the sell-side?

**Ray Killian - ITG - President & CEO**

The customer base on the sell-side, and, Steve, you jump in anytime you want here, the flavor there is that the major broker-dealers who are offering algorithmic servers are execution venues, ECNs, the Liquidnets and the Pipelines of the world. Those are the kind of people that are generating fee revenue for Macgregor.

**Scott Patrick - Morgan Stanley - Analyst**

And there are roughly 300 of those?

**Ray Killian - ITG - President & CEO**

Jul. 13. 2005 / 9:00AM, ITG - Investment Technology Group to Acquire Macgregor for Approximately \$230 Million

280 I think, 280 plus. Is that the number, Steve?

**Steve Levy - Macgregor - co-Founder, President and CEO**

That is correct.

**Operator**

Charlotte Chamberlain, Jefferies & Co.

**Charlotte Chamberlain - Jefferies & Co. - Analyst**

Just a little bit of color. Can you give us an idea of relatively how much of your business is, Steve, is equities versus derivatives, fixed-income, foreign exchange? (multiple speakers) How much your customers I guess transact in nonequity products?

**Steve Levy - Macgregor - co-Founder, President and CEO**

So how much of our business today is equity versus other asset classes? It is predominately equity. We have been growing the other asset classes by improvements to the product over the last 24 months, but it takes some time to roll that out.

In terms of how much our customers use those other products, I think it is very significant. We have some very large asset management players, and they clearly did invest it across a fairly wide spectrum of asset types. Their intention is in many cases to roll this out on a global basis. But the product suite needs space to get to that point.

One of the things about these systems, as Ray showed in the chart earlier, is that the solution cuts across the entire spectrum from the moment you make an investment decision through to the end when you settle the trade. And when you look at things like compliance, one of the reasons we made the big investment in compliance is that those things need to be done across the full range of asset types. So the solution naturally progresses towards that. Our customer base is looking to try and take advantage of that, but today it is a small portion.

**Charlotte Chamberlain - Jefferies & Co. - Analyst**

Okay. So just to be -- just so I understand it -- your client -- say just to throw out a name. Say it is Fidelity. Obviously they do huge business in fixed-income and all of that. So let's assume that they are customers. They primarily do equities and very little in terms of anything else through your order management. Is that what you said?

**Steve Levy - Macgregor - co-Founder, President and CEO**

Except for a handful of customers, that is correct.

**Charlotte Chamberlain - Jefferies & Co. - Analyst**

Okay. And so really that is to the extent that ITG can connect executionally to -- well, let me just ask. Ray, in the nonequity space, is there any particular area that is front and center for you, or is that still really in kind of an R&D phase?

**Ray Killian - ITG - President & CEO**

It is still in R&D, but the spaces that do sort of offer some promise on that area are equities, FX and options.

**Charlotte Chamberlain - Jefferies & Co. - Analyst**



Jul. 13. 2005 / 9:00AM, ITG - Investment Technology Group to Acquire Macgregor for Approximately \$230 Million

And equity options?

**Ray Killian - ITG - President & CEO**

Yes.

**Charlotte Chamberlain - Jefferies & Co. - Analyst**

Okay. And then the final question, Steve, if you can just kind of go through just in general terms, why sell now? Was it a personal decision or just why sell now?

**Steve Levy - Macgregor - co-Founder, President and CEO**

Well, broadly we have known ITG for a long time, and we have seen some of the opportunities as have they. If we look at what was happening, we saw that when ITG looked at what they wanted to try and accomplish we saw a great fit. We saw a great fit in terms of the vision, the combined execution/OMS platform. Culturally it is a great fit. The products are going to work altogether to develop a strong competitive position, and we could not choose a better partner at something like this than ITG. The message of broker neutrality, which is very important for an OMS, is very strong within the ITG culture and within their customer base.

So we had found the right partner. We found a situation where that can simply accelerate where we are from a variety of positions. It clearly being partnered with a public company and its access to capital and so forth helps us even further with the customer base. So I can only summarize it as a great fit among multiple dimensions.

**Charlotte Chamberlain - Jefferies & Co. - Analyst**

Okay. All right. Thank you.

**Operator**

With that, we will conclude our question-and-answer session. I will now turn the call back to our presenters for any additional or closing remarks.

**Ray Killian - ITG - President & CEO**

Okay. We have nothing additional here and thank everybody for -- thanks, everybody, I should say for coming on such short notice. Thank you, operator.

**Operator**

And that will conclude today's conference. Thank you, everyone, for your participation.

Jul. 13. 2005 / 9:00AM, ITG - Investment Technology Group to Acquire Macgregor for Approximately \$230 Million

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