

GFI Group Inc. Announces Fourth Quarter and Full Year 2013 Results; Declares Quarterly Cash Dividend

Written by Australian Business
Thursday, 13 February 2014 21:15

NEW YORK, Feb. 13, 2014 /PRNewswire/ -- **GFI Group Inc. (NYSE: GFIG)**, a leading intermediary and provider of trading technologies and support services to the global OTC and listed markets, reported today its financial results for the fourth quarter and full year ended December 31, 2013

Highlights of Results

Three months ended

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December 31,

Year ended

December 31,

\$ in millions

2013

2012

2013

2012

Total revenues

\$

202.3

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\$

207.3

\$

901.5

\$

924.6

Net revenues

170.8

173.4

747.0

787.0

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Brokerage revenues

143.5

150.4

645.4

695.5

Software, analytics and market data revenue

24.1

22.5

90.5

84.2

Compensation ratio ⁽¹⁾

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71.9

%

73.2

%

69.2

%

70.2

%

Non-compensation ratio⁽¹⁾

31.1

%

30.5

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%

28.7

%

28.4

%

Non-GAAP net (loss) income⁽¹⁾

\$

(6.6)

\$

(2.9)

\$

9.1

\$

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8.9

Cash earnings (1)

12.4

18.0

87.4

92.1

(1)

Item represents a non-GAAP financial measure; see discussion below, as well as a reconciliation to GAAP.

Colin Heffron, Chief Executive Officer commented: "Challenging trading conditions remained in the fourth quarter due to continued regulatory change, modest trading volumes and low market volatility. Net revenues and brokerage revenues were down 1.5% and 4.6%, respectively. However, GFI's software, analytics and market data revenues were up 7.2%.

"We continue to invest in our electronic trading and Swaps Execution Facility ("SEF") platforms to provide effective trading solutions for our customers. In October of 2013, following the creation of SEFs, the swaps markets began their transformation to more regulated, transparent and centrally cleared marketplaces. This transformation is ongoing, as customers seek

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clarification of certain rules and await the mandated SEF trading deadlines for certain interest rate and fixed income derivative products. We believe that the uncertain impact of ongoing regulatory change continued to negatively impact trading volumes across derivative markets.

"GFI's electronic matching sessions continued to provide substantial revenues in the fourth quarter. In the Americas and EMEA, matching session revenues represented approximately 46% and 21% of fixed income product revenues, respectively. In fixed income products globally, matching session revenues nearly tripled in derivatives and more than doubled in cash products, year over year.

"GFI's Trayport and FENICS businesses had record revenues and profits in 2013 as they leveraged their customer base and expanded their products and services. Trayport's software revenues grew 7% in the fourth quarter and 9% for the full year 2013.

"We remain focused on reducing GFI's overall cost structure and are pleased with the lower, performance-based compensation arrangements implemented over the past eighteen months. GFI's non-GAAP compensation ratio improved despite lower revenues in the fourth quarter, year over year.

"Through the second week in February, GFI's preliminary total revenues are tracking down approximately 4% year over year.

"GFI's fourth quarter cash earnings were \$0.10 per diluted share, or approximately \$12.4 million . We are pleased to declare a quarterly cash dividend to GFI shareholders of \$0.05 per share."

GAAP Results: Fourth Quarter 2013

Net revenues were \$170.8 million, compared to \$173.4 million in the prior year. Our net loss was \$30.9 million, or \$(0.25) per diluted share, compared with a net loss of

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\$11.4 million

, or

\$(0.10)

per diluted share. Compensation and employee benefits expense was 72.3% of net revenues, as compared with 71.8% in the prior year. Non-compensation expenses were

\$75.2 million

, or 44.0% of net revenues, compared to

\$58.3 million

, or 33.6% of net revenues in the prior year.

The fourth quarter 2013 GAAP results include a \$19.6 million charge relating to impairment of goodwill and intangibles, which includes

\$18.9 million

at Kyte. At the time of acquisition, a

\$19.3 million

liability was recorded related to a potential earn out payment to Kyte's selling shareholders, which resulted in a corresponding increase to goodwill. Over time, the

\$19.3 million

estimated earn out liability was written down to

\$0.8 million

through the GAAP results and was removed from non-GAAP results, as this was a non-cash and non-operating item. The impairment of goodwill and intangibles recorded in this quarter likewise has no cash impact and was excluded from non-GAAP results.

Also in the fourth quarter we established a valuation allowance against deferred tax assets in certain overseas jurisdictions. The total valuation allowance taken on these items was \$4.9 million

of

which

\$3.4 million

related to deferred tax assets recognized in prior years.

Non-GAAP Results: Fourth Quarter 2013

Revenues

Net revenues were \$171.4 million, as compared to \$174.9 million.

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Brokerage revenues were \$143.5 million, compared to \$151.0 million. Revenues from fixed income, financial, commodity and equity products were down 1.2%, 2.0%, 4.5% and 14.3%, respectively. By geographic region, brokerage revenues decreased 0.3%, 8.7% and 4.1% in the Americas, EMEA and Asia-Pacific, respectively.

Revenues from trading software, analytics and market data products were \$24.1 million, up 7.2% from \$22.5 million, in the prior year.

Expenses

Our compensation and employee benefit expenses were \$123.3 million, or 71.9% of net revenues, compared with \$128.0 million, or 73.2% in fourth quarter 2012. Non-compensation expenses were \$53.2 million, or 31.1% of net revenues, compared with \$53.3 million, or 30.5% in the prior year.

Earnings

GFI's net loss was \$6.6 million, or \$(0.05) per diluted share, compared with a loss of \$2.9 million, or \$(0.02) per diluted share, in the prior year.

The effective tax rate for 2013 was approximately 36.0%, as compared to 11.9% in 2012. The increase was primarily driven by valuation allowances recognized in the fourth quarter of 2013

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on certain non-U.S. deferred tax assets, as well as the release of a tax liability in 2012 which reduced that year's effective rate.

GAAP Results: Full Year 2013

GAAP net revenues were \$747.0 million for the full year 2013, compared with \$787.0 million in 2012. GAAP net loss was \$20.0 million, or \$(0.17) per diluted share for 2013, compared with a loss of \$10.0 million, or \$(0.09) per diluted share in 2012. The compensation and employee benefits ratio in 2013 was 69.1%, down from 69.4% in 2012. Non-compensation expenses, for the full year 2013 were \$252.1 million, or 33.7% compared with \$241.8 million, or 30.7% in 2012. Non-compensation expenses include a \$19.6 million non-cash, pre-tax charge for the impairment of goodwill and intangible assets, primarily relating to GFI's Kyte subsidiary.

Non-GAAP Results: Full Year 2013

On a non-GAAP basis, net revenues for the full year 2013 were \$745.5 million, compared to \$781.5 million in 2012. Net income was \$9.1 million, or \$0.07 per diluted share, for the full year 2013, compared with net income of \$8.9 million, or \$0.07 per diluted share, in 2012.

Dividend Declaration

The Board of Directors of GFI has declared a quarterly cash dividend of \$0.05 per share payable on March 28, 2014 to shareholders of record as of March 14, 2014.

Marc

Non-GAAP Financial Measures

To supplement GFI's unaudited financial statements presented in accordance with GAAP, the Company uses certain non-GAAP measures of financial performance. The presentation of these non-GAAP financial measures is not intended to be considered in isolation from, as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP, and may be different from non-GAAP financial measures used by other companies. In addition, these non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP. The non-GAAP financial measures used by GFI include non-GAAP total revenues, non-GAAP net revenues, non-GAAP provision for or benefit from income taxes, non-GAAP net income, non-GAAP diluted earnings per share, cash earnings and cash earnings per share. These non-GAAP financial measures currently exclude from the Company's statement of income amortization of acquired intangibles and certain other items that management views as non-operating, non-recurring or non-cash as detailed in the reconciliation included in the financial tables attached to this release.

In addition, GFI may consider whether other significant non-operating, non-recurring or non-cash items that arise in the future should also be excluded in calculating the non-GAAP financial measures it uses. The non-GAAP financial measures also take into account estimated adjustments to income tax expense with respect to the excluded items.

GFI believes that these non-GAAP financial measures, when taken together with the corresponding GAAP financial measures, provide meaningful supplemental information regarding the Company's performance by excluding certain items that may not be indicative of

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the Company's core business, operating results or future outlook. GFI's management uses, and believes that investors benefit from referring to, these non-GAAP financial measures in assessing the Company's operating results, as well as when planning, forecasting and analyzing future periods. These non-GAAP financial measures also facilitate comparisons of the Company's performance to prior periods.

In addition to the reasons stated above, which are generally applicable to each of the items GFI excludes from its non-GAAP financial measures, the Company believes it is appropriate to exclude amortization of acquired intangibles because when analyzing the operating performance of an acquired business, GFI's management focuses on the total return provided by the investment (i.e., operating profit generated from the acquired entity, as compared to the purchase price paid) without taking into consideration any charges for allocations made for accounting purposes. Further, because the purchase price for an acquisition necessarily reflects the accounting value assigned to intangible assets, when analyzing the operating performance of an acquisition in subsequent periods, the Company's management excludes the GAAP impact of acquired intangible assets on its financial results. GFI believes that such an approach is useful in understanding the long-term return provided by an acquisition and that investors benefit from a supplemental non-GAAP financial measure that excludes the accounting expense associated with acquired intangible assets.

A reconciliation of these non-GAAP financial measures to GAAP is included in the financial tables attached to this release.

Conference Call

GFI has scheduled an investor conference call to discuss its fourth quarter results at 8:30 a.m. (Eastern Time)

on

Friday, February 14, 2014

. Those wishing to listen to the live conference call via telephone should dial 1-877-870-4263 in North America

and +1-412-317-0790 outside of North America

, and ask for "GFI".

A live audio web cast of the conference call will be available on the Investor Relations section of

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GFI's Website. For web cast registration information, please visit: <http://www.gfigroup.com> .
Following the conference call, an archived recording will be available.

Supplementary Financial Information

GFI has posted details of its historical monthly brokerage revenues on the Investor Relations page of its web site under the heading Supplementary Financial Information. The Company currently plans to post this information quarterly in conjunction with its announcement of earnings, but does not undertake a responsibility to continue to provide or update such information.

About GFI Group Inc.

GFI Group Inc. (NYSE: [GFIG](#)) is a leading intermediary in the global OTC and Listed markets offering an array of sophisticated trading technologies and products to a broad range of financial market participants. More than 2,600 institutional clients benefit from GFI's know-how and experience in operating electronic and hybrid markets for cash and derivative products across multiple asset classes, including fixed income, interest rates, foreign exchange, equities, energy and commodities. GFI's brands include Trayport®, a leading provider of trading solutions for energy markets worldwide and FENICS®, a market leader in FX options software.

Founded in 1987 and headquartered in New York, GFI employs over 2,000 people globally, with additional offices in London, Paris, Nyon, Dublin,

Madrid
, Sugar Land (TX),
Hong Kong

,
Tel Aviv

,
Dubai

,
Manila

,

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Seoul

,

Tokyo

,

Singapore

,

Sydney

,

Cape Town

,

Santiago

,

Bogota

,

Buenos Aires

,

Lima

and

Mexico City

.

Forward-looking Statement

Certain matters discussed in this press release contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used in this press release, the words "anticipate," "believe," "estimate," "may," "might," "intend," "expect" and similar expressions identify such forward-looking statements. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained herein. These forward-looking statements are based largely on the expectations of GFI Group Inc. (the "Company") and are subject to a number of risks and uncertainties. These include, but are not limited to, risks and uncertainties associated with: economic, political and market factors affecting trading volumes; securities prices or demand for the Company's brokerage services; competition from current and new competitors; the Company's ability to attract and retain key personnel, including highly-qualified brokerage personnel; the Company's ability to identify and develop new products and markets; changes in laws and regulations governing the Company's business and operations or permissible activities; the Company's ability to manage its international operations; financial difficulties experienced by the Company's customers or key participants in the markets in which the Company focuses its brokerage services; the Company's ability to keep up with technological changes; uncertainties relating to litigation and the Company's ability to assess and integrate acquisition prospects.

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Further information about factors that could affect the Company's financial and other results is included in the Company's filings with the Securities and Exchange Commission. The Company does not undertake to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

- FINANCIAL TABLES FOLLOW -

GFI Group Inc. and Subsidiaries

Consolidated Statements of Operations (unaudited)

(In thousands except share and per share data)

Three Months Ended

Twelve Months Ended

December 31,

December 31,

2013

2012

2013

2012

Revenues

Agency commissions

\$ 103,278

\$ 104,110

\$ 461,691

\$ 484,386

Principal transactions

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40,246

46,329

183,714

211,159

Total brokerage revenues

143,524

150,439

645,405

695,545

Clearing services revenues

28,911

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29,704

139,136

118,011

Interest income from clearing services

570

639

2,193

1,964

Equity in net earnings of unconsolidated businesses

1,241

2,327

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8,166

8,569

Software, analytics and market data

24,100

22,482

90,538

84,153

Other income, net

4,001

1,703

16,012

16,345

□□□ **Total revenues**

202,347

207,294

901,450

924,587

Interest and transaction-based expenses

Transaction fees on clearing services

27,213

28,738

134,165

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113,726

Transaction fees on brokerage services

4,183

4,831

19,755

22,843

Interest expense from clearing services

180

293

570

973

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Total interest and transaction-based expenses

31,576

33,862

154,490

137,542

Revenues, net of interest and transaction-based expenses

170,771

173,432

746,960

787,045

Expenses

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Compensation and employee benefits

123,485

124,574

516,222

546,501

Communications and market data

12,798

14,131

53,875

60,760

Travel and promotion

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7,555

8,503

30,853

35,850

Rent and occupancy

6,228

2,908

28,380

23,667

Depreciation and amortization

8,333

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9,122

33,295

36,624

Professional fees

5,703

5,768

24,527

23,238

Interest on borrowings

7,822

6,805

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30,297

26,885

Impairment of goodwill and intangibles

19,602

-

19,602

-

Other expenses

7,116

11,047

31,254

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34,777

□ □ Total other expenses

198,642

182,858

768,305

788,302

Loss before provision for (benefit from) income taxes

(27,871)

(9,426)

(21,345)

(1,257)

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Provision for (benefit from) income taxes

2,994

1,688

(2,273)

8,387

Net loss before attribution to non-controlling stockholders

(30,865)

(11,114)

(19,072)

(9,644)

Less: Net income attributable to non-controlling interests

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37

258

926

309

GFI's net loss

\$ (30,902)

\$ (11,372)

\$ (19,998)

\$ (9,953)

Basic loss per share

\$ (0.25)

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\$ (0.10)

\$ (0.17)

\$ (0.09)

Diluted loss per share

\$ (0.25)

\$ (0.10)

\$ (0.17)

\$ (0.09)

Weighted average shares outstanding - basic

121,765,553

115,837,632

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119,052,908

116,014,202

Weighted average shares outstanding - diluted

121,765,553

115,837,632

119,052,908

116,014,202

GFI Group Inc. and Subsidiaries

Consolidated Statements of Operations (unaudited)

As a Percentage of Net Revenues

Three Months Ended

Twelve Months Ended

December 31,

December 31,

2013

2012

2013

2012

Revenues

Agency commissions

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60.5%

60.0%

61.8%

61.5%

Principal transactions

23.6%

26.7%

24.6%

26.8%

Total brokerage revenues

84.1%

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86.7%

86.4%

88.3%

Clearing services revenues

16.9%

17.1%

18.6%

15.0%

Interest income from clearing services

0.3%

0.4%

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0.3%

0.2%

Equity in net earnings of unconsolidated businesses

0.7%

1.3%

1.1%

1.1%

Software, analytics and market data

14.1%

13.0%

12.1%

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10.7%

Other income, net

2.4%

1.0%

2.2%

2.1%

□□□ **Total revenues**

118.5%

119.5%

120.7%

117.4%

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Interest and transaction-based expenses

Transaction fees on clearing services

15.9%

16.6%

18.0%

14.4%

Transaction fees on brokerage services

2.5%

2.8%

2.6%

2.9%

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Interest expense from clearing services

0.1%

0.1%

0.1%

0.1%

Total interest and transaction-based expenses

18.5%

19.5%

20.7%

17.4%

Revenues, net of interest and transaction-based expenses

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100.0%

100.0%

100.0%

100.0%

Expenses

Compensation and employee benefits

72.3%

71.8%

69.1%

69.4%

Communications and market data

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7.5%

8.1%

7.2%

7.7%

Travel and promotion

4.4%

4.9%

4.1%

4.6%

Rent and occupancy

3.6%

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1.7%

3.8%

3.0%

Depreciation and amortization

4.9%

5.3%

4.5%

4.7%

Professional fees

3.3%

3.3%

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3.3%

3.0%

Interest on borrowings

4.6%

3.9%

4.1%

3.4%

Impairment of goodwill and intangibles

11.5%

0.0%

2.6%

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0.0%

Other expenses

4.2%

6.4%

4.2%

4.4%

Total other expenses

116.3%

105.4%

102.9%

100.2%

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Loss before provision for (benefit from) income taxes

-16.3%

-5.4%

-2.9%

-0.2%

Provision for (benefit from) income taxes

1.8%

1.0%

-0.3%

1.1%

Net loss before attribution to non-controlling stockholders

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-18.1%

-6.4%

-2.6%

-1.3%

Less: Net income attributable to non-controlling interests

0.0%

0.2%

0.1%

0.0%

GFI's net loss

-18.1%

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-6.6%

-2.7%

-1.3%

GFI Group Inc. and Subsidiaries

Selected Financial Data (unaudited)

(Dollars in thousands except per share data)

Three Months Ended

Twelve Months Ended

December 31,

December 31,

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2013

2012

2013

2012

Brokerage Revenues by Product Categories:

Fixed Income

\$ 38,788

\$ 39,090

\$ 175,691

\$ 188,328

Financial

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40,806

41,627

191,836

185,062

Equity

26,391

30,780

116,579

135,826

Commodity

37,539

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38,942

161,299

186,329

Total brokerage revenues

\$ 143,524

\$ 150,439

\$ 645,405

\$ 695,545

Brokerage Revenues by Geographic Region:

Americas

\$ 58,985

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\$ 59,171

\$ 260,503

\$ 274,498

Europe, Middle East, and Africa

69,950

76,054

314,417

345,069

Asia-Pacific

14,589

15,214

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70,485

75,978

Total brokerage revenues

\$ 143,524

\$ 150,439

\$ 645,405

\$ 695,545

December 31,

December 31,

2013

2012

Consolidated Statement of Financial Condition Data:

Cash and cash equivalents

\$ 174,606

\$ 227,441

Cash held at clearing organizations, net of customer cash

52,414

19,636

GFI's total balance sheet cash

227,020

247,077

Balance sheet cash per share

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1.84

2.11

Total assets (1)

1,161,542

1,180,061

Total debt

250,000

250,000

Stockholders' equity

407,276

425,082

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Selected Statistical Data:

Brokerage personnel headcount (2)

1,121

1,188

Employees

2,087

2,062

Broker productivity for the period (3)

\$ 127

\$ 125

(1)

Total assets include receivables from brokers, dealers and clearing organizations of \$295.7 million and \$

(2)

Brokerage personnel headcount includes brokers, traders, trainees and clerks.

(3)

Broker productivity is calculated as brokerage revenues divided by average monthly brokerage personnel

GFI Group Inc. and Subsidiaries

Reconciliation of GAAP to Non-GAAP Financial Measures (unaudited)

(In thousands except share and per share data)

Three Months Ended

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Twelve Months Ended

December 31,

December 31,

2013

2012

2013

2012

GAAP revenues

\$ 202,347

\$ 207,294

\$ 901,450

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\$ 924,587

Mark-to-market loss on forward hedges of future foreign currency revenues

590

734

744

1,021

Fair value mark-to-market gain on future purchase commitment

-

(447)

(2,203)

(9,545)

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Fair value mark-to-market loss on warrants on investee shares

-

638

22

2,475

Trading losses from start-up operations

-

539

-

539

Total Non-GAAP Revenues

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202,937

208,758

900,013

919,077

GAAP interest and transaction-based expenses

31,576

33,862

154,490

137,542

Non-GAAP revenues, net of interest and transaction-based expenses

171,361

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174,896

745,523

781,535

GAAP other expenses

198,642

182,858

768,305

788,302

Amortization of intangibles

(2,332)

(2,531)

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(9,640)

(11,293)

Impairment of goodwill and intangibles

(19,602)

-

(19,602)

-

Modification of stock awards for departing executive

(227)

-

(227)

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-

Expenses from start-up operations

-

(4,803)

(8,573)

(4,803)

Duplicate rent

-

-

(345)

-

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Writedown of available for sale securities

-

-

-

(5,362)

Adjustment of sublease loss accrual

-

3,215

-

3,215

Costs associated with Hurricane Sandy

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-

(904)

-

(904)

Closure of certain desks in Asia

-

-

-

(1,578)

Change in estimate - Kyte opening balance sheet liability

-

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3,474

-

3,474

Non-GAAP other expenses

176,481

181,309

729,918

771,051

Non-GAAP pre-tax (loss) income

(5,120)

(6,413)

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15,605

10,484

Income tax impact on Non-GAAP items

64

(3,649)

6,821

2,616

Plus: Valuation allowance on prior year non-U.S. deferred tax assets

(3,413)

-

(3,413)

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-

Plus: Adjustment to acquisition-related deferred tax liabilities

1,820

-

1,820

-

Plus: Non-operating adjustment for the recognition of a tax (benefit) provision related to interest income

-

(44)

2,655

(2,655)

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Plus: Non-operating adjustment for the recognition of a tax benefit related to the repatriation of international

-

(1,813)

-

(7,097)

Non-GAAP provision for (benefit from) income taxes

1,465

(3,818)

5,610

1,251

Less: Net income attributable to non-controlling interests

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37

258

926

309

GFI's Non-GAAP net (loss) income

\$ (6,622)

\$ (2,853)

\$ 9,069

\$ 8,924

Non-GAAP diluted net (loss) income per share

\$ (0.05)

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\$ (0.02)

\$ 0.07

\$ 0.07

Pre-tax adjustments to arrive at cash earnings

Amortization of RSUs

6,951

7,732

29,323

32,365

Amortization of prepaid sign-on and retention bonuses

6,038

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6,540

25,366

25,472

Depreciation and other amortization

6,001

6,591

23,655

25,331

Total pre-tax adjustments to cash earnings

18,990

20,863

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78,344

83,168

Non-GAAP pre-tax cash earnings from ongoing operations

13,870

14,450

93,949

93,652

Non-GAAP provision for (benefit from) income taxes

1,465

(3,818)

5,610

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1,251

Less: Net income attributable to non-controlling interests

37

258

926

309

GFI's Non-GAAP net cash earnings from ongoing operations

\$ 12,368

\$ 18,010

\$ 87,413

\$ 92,092

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Non-GAAP cash earnings per share

\$ 0.10

\$ 0.16

\$ 0.69

\$ 0.75

Weighted average shares outstanding - diluted

121,765,553

115,837,632

127,418,193

123,455,160

GFI Group Inc.

Adjusted EBITDA

(\$ in '000's, except share and per share amounts)

4Q12

1Q13

2Q13

3Q13

4Q13

Last twelve months (LTM)

Net (loss) income per U.S. GAAP before attribution to non-controlling interests

\$ (11,114)

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\$ 4,954

\$ 6,868

\$ (29)

\$ (30,865)

Plus: Net income attributable to non-controlling interests

(258)

(280)

(177)

(432)

(37)

GFI's net (loss) income

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(11,372)

4,674

6,691

(461)

(30,902)

Plus: Extraordinary and other non-recurring pretax items (i.e., non-GAAP adjustments)

3,013

9,220

1,491

3,488

22,751

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Plus: Interest expense

7,098

7,848

7,262

7,755

8,002

Less: Interest income

(849)

(928)

(579)

(630)

(773)

Plus: Income tax expense (benefit)

1,688

(4,859)

719

(1,127)

2,994

Plus: Depreciation and amortization expense (excluding intangibles)

6,591

5,810

5,863

5,981

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6,001

Plus: Amortization of RSUs

7,732

8,142

7,360

6,870

6,951

Plus: Amortization of prepaid sign-on and retention bonuses

6,540

6,112

7,278

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5,938

6,038

Adjusted EBITDA

\$ 20,441

\$ 36,019

\$ 36,085

\$ 27,814

\$ 21,062

\$ 120,980

Weighted average shares outstanding - diluted

127,418,193

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Adjusted EBITDA per share (pre-tax)

\$ 0.95

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