

LMAX | Group.

# LMAX Group

A firm that has built success upon transparency, precision in execution and its distinctive All Market Access model

LMAX Group is a global financial technology company and the leading independent operator of multiple institutional execution venues for FX and cryptocurrency trading. It operates a global marketplace for FX - enabling transparency, open access and a level playing field for all market participants. One of the fastest growing FinTech companies in the world, the firm now has a solid presence and exchange infrastructure in all major global FX markets including Europe, North America and Asia-Pacific. e-Forex spoke with its CEO, David Mercer, to discuss the group's performance over the past year and his strategic plans for the future.

David Mercer

**David, 2019 was a good but a challenging year for the financial services industry. How did LMAX Group perform during this period?**

2019 was a challenging year for the market, which was characterised by low levels of volatility and pervasive geopolitical uncertainty caused by trade wars, Brexit and an interest rate stalemate. Against a challenging market backdrop, where volumes at most major venues have declined and margins have contracted for institutional-only market players, LMAX Group had an excellent year.

We continued to grow our market share and achieved record financial performance, a testament to the resilience of our business model – focused on delivering efficient market structure and transparent,

precise, consistent execution to all market participants. For example, net revenues went up 27%, reaching US\$56.3m, whilst total FX trading volumes were in excess of US\$3.5 trillion, up 15% from the previous year. EBITDA increased by 30% from last year to US\$26.2m, making LMAX Group one of the most profitable exchange operators in the market, with an EBITDA margin of 47%.

Our success is a reflection of the genuine shift that the industry has undergone in the last few years: clients from all FX market segments are trading increasingly more on order-driven firm liquidity and requiring transparent, precise and consistent execution.

**Please remind us about the constituent entities of LMAX Group.**

LMAX Group is the leading independent operator of institutional execution venues for FX and crypto currency trading.

The Group's portfolio includes LMAX Exchange (institutional FX exchanges and FCA regulated MTF), LMAX Global (FCA and CySec regulated brokers) and LMAX Digital (GFSC regulated institutional spot crypto currency exchange).

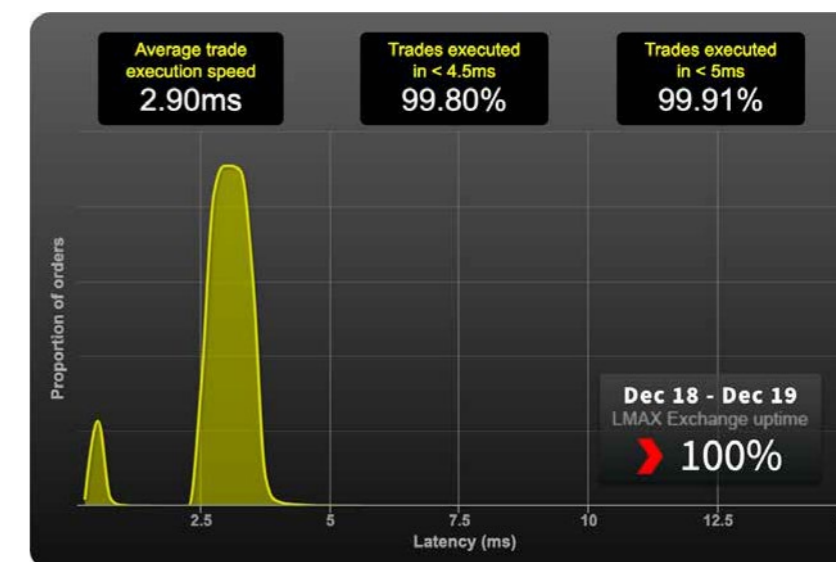
**What is your view on the performance of other exchanges who have entered the FX space over the last few years and what makes LMAX Group's USP so unique and consistently successful?**

During the last three years we have seen a series of acquisitions of

electronic FX trading venues by equity exchanges. However post-transaction, at best we have seen static trading volumes by acquired FX platforms, so evidently these deals haven't had the impact that these companies might have hoped for. Bottom line performance is even more challenged with the additional costs that naturally come with larger exchange groups.

The lack of growth among these FX players has highlighted the limitations of monoline institutional transaction businesses. It's very hard to run an efficient and profitable business with a purely transactional model that only serves the institutional market, which already benefits from some of the lowest transaction fees in capital markets. It's natural for transaction fee or commission-only models to be challenged in low volatility environments, which we have seen for much of 2019. The large exchange groups who have purchased FX trading venues need to expand the footprint of their new acquisitions to add significant corporate value.

In the current market, only two business models generate sustainable revenues and shareholder returns:



LMAX Exchange execution speed

All Market Access and Market Data models:

- All Market Access offerings deliver the same execution and liquidity access to all FX customer segments;
- Market Data focused models are characterised by primary FX venues used for price discovery; recurring market data revenues for some can be as high as 40%-50% of the total business.

It also needs to be stressed that market data based on 'last look' prices is much lower in value, which

is why some recent FX platform acquisitions have not worked and have failed to generate recurring revenues associated with exchange type, order driven market data offerings.

LMAX Group is unique in the industry as we offer market and technology access to all customer segments from institutional (HFTs, banks), retail brokers and all the way through to asset managers via the banks. We target every FX client segment. If you operate only in the bank space or the HFT space, it's hard to have a viable business model particularly in low volatility environments. So first of all, you need distribution capabilities to all segments of the market and then have some part of your business that is recurring – and the recurring revenue that you see in the big exchange world is market data.

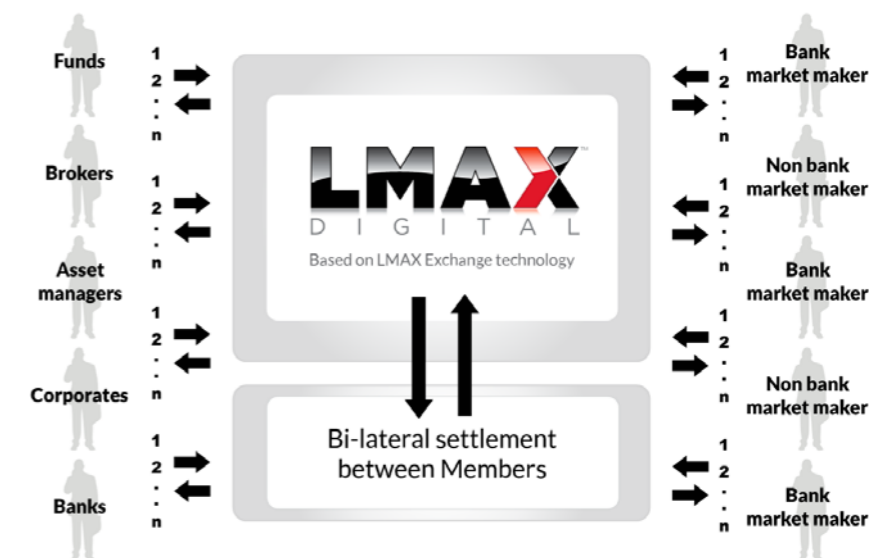
**LMAX Global, a regulated broker and part of the LMAX Group, offers retail brokers and professional traders execution services and exchange access to the LMAX Exchange central limit order book. How important are Retail FX brokers to the future strategy you are working on for this execution venue?**

over the last five years, so hats off to everyone involved.

It has made it harder for LMAX to compete because hold times are shorter and there's no pre-trade hedging in the 'last look' window, but I still fundamentally believe as long as there is a speed advantage and as long as the customer keeps writing options to liquidity providers, they will be disadvantaged.

We shouldn't believe the smokescreen that we need 'last look' for credit checks – a pre-trade credit check on LMAX Exchange takes about 100 microseconds. So if you haven't done the credit check by then, waiting 10 milliseconds isn't going to help – in fact it's going to make it more difficult because more orders have gone through.

So that argument is flawed – it's relatively simple to build technology for 'last look', it's harder to build



LMAX Digital Execution Schematic

it for central limit order book with streaming firm liquidity only.

So my view hasn't changed on 'last look' but I am a realist and I have to exist in a market, especially in the US, that is driven by that optionality. All we can do is continue to impress on our clients the reality that trading is more cost effective without 'last look'.

**Let's discuss LMAX Digital which has become the leading institutional spot crypto currency exchange. Why did you launch it?**

The rationale behind everything we do at LMAX Group is to service our clients and LMAX Digital was launched in response to client demand. Our client base recognises that the global crypto currency market is at a nascent stage of its development and that institutions need a legitimate and regulated platform on which to acquire, trade and hold crypto currencies securely with high quality, deep institutional liquidity. That's ultimately why we launched the first trusted, secure and robust crypto platform.

We built LMAX Digital based on our proven, trusted proprietary FX exchange technology, which processes over 1 billion of orders per day and trades over \$3.5 trillion FIAT per year. In April 2019, LMAX Digital was granted a license as a Distributed Ledger Technology (DLT) Provider from the Gibraltar Financial Services Commission (GFSC).

In just over a year and a half since launch, LMAX Digital has become the leading institutional crypto currency

Retail FX brokers are an important customer segment in the FX ecosystem we service and offering them access to our best-in-class technology and deep institutional liquidity is core to the Group's strategy.

In 2019, the Group saw a 23% increase in revenues from the retail broker segment. In the last 12 months, we have significantly deepened our distribution capabilities in this segment and have invested in overseas expansion with the acquisition of our CySec regulated broker.

Through this acquisition, we have expanded our presence in Southern Europe where, in Cyprus alone, there are over 200 regulated brokers.

**LMAX Group was an early adopter of the FX Global Code. How successful do you think this initiative has been and what still needs to be done?**

Whilst the code has clearly delivered some positive developments for the marketplace, we're of the opinion that it could and should have gone further, something we were key advocates for during the consultation period. Nonetheless, we welcome the progress that has been made and, as an industry, we are certainly in a better place and have better standards. This said, there is still work to be done to improve the Code and to address some FX practices that are open to market abuse. Some suggestions around the use of 'rejected order' information and

standardisation of hold time duration within the 'last look' window would be beneficial. I hope that the next draft of the Code will address all or some of these points.

**You have always taken a strong position against "last look". Are your views on that changing in any way?**

No, I haven't changed my view. I still don't believe in 'last look', I don't believe an efficient capital market needs 'last look'. I believe the best way for anyone to trade is on firm streamed limit orders, but I can't be the lone voice and the global FX committee has come up with a Code that legitimises 'last look'. It is what it is. What I would say is that 'last look' abuses have declined dramatically



trades. With a monthly record high of \$8.6 billion traded in spot volumes in June 2019 and daily record high of \$1.25 billion traded on June 27th, LMAX Digital has become the leading spot crypto currency exchange globally and it is our fastest growing exchange. Furthermore, the exchange has been averaging \$250m in daily spot volumes over the last few months.

**In November last year LMAX Digital started publishing its daily trading spot volumes on the exchange's website, www.lmaxdigital.com. What impact do you think this will have?**

In addition to publishing daily trading spot volumes on our website, LMAX Digital is already providing real-time market data to some of the industry's leading reference rate indices as well as contributing our real time volume data feed to major institutional analytics providers.

Providing the investment community with access to our trading volume data, in addition to real-time market data, is an important milestone for the industry. LMAX Digital is proud to lead the way in creating more transparency and enabling a clear picture of the true size of the spot crypto currency market.

**What role do you think LMAX Digital will play in the future of the crypto market and how do you see that evolving?**

I am certain that LMAX Digital will have a large part to play as the crypto market moves into the mainstream and large institutional investors start trading digital currencies, bringing more liquidity to the market. I believe crypto is the future of money and has the potential to change capital markets. My view is that as you

exchange with over 20% share of the global spot market according to the latest market research published by the analytics provider, TradeBlock.

LMAX Digital's rapid growth has exceeded all our expectations - the exchange became profitable in just five months after launch. In 2019 alone LMAX Digital traded over \$53 billion in spot crypto currencies and completed more than 20 million

**Has the crypto side of your business grown as you expected?**

THE E-FOREX INTERVIEW



LMAX Exchange empowers traders to understand 100% of execution costs



**LMAX Exchange Group is uniquely positioned to offer market and technology access to all customer segments in FX**



With clients in 100 different countries and 11 offices worldwide, we remain in expansion mode

see more initiatives around using the blockchain technology itself, you will need digital assets to be transferred on those blockchains. But that's not going to happen overnight and it might be five years until we see this happening. I honestly think we will all be trading digital dollars, digital yen, maybe bitcoin in five years from now, and using blockchain technology.

LMAX Digital has already been leading the charge and allowing institutional participants to enter the digital currencies market through a regulated and safe trading

environment. As the market grows, we will continue to grow and ultimately, I would like to see LMAX Digital becoming the primary price discovery venue for crypto currencies, as more institutions pivot and hold more capital in crypto currencies.

**Let's turn our attention to a few other key topics for investors and FX market participants. Is the FX liquidity landscape as fragmented as many maintain?**

In our opinion liquidity is only "fragmented" if you consider the

multitude of 'last look' feeds to be unique liquidity – mostly they are purely re-vended quotes. LMAX Exchange has more liquidity than at any other time in our history and together with the other true CLOBs you could argue liquidity is better than ever. The perceived fragmentation is just some clarity of the liquidity mirage we have seen develop through a last look haze in the last decade.

**What are your expectations regarding the future availability and cost of market data?**

The FX industry is a laggard in this sense, compared to the equity and bond worlds, but I am of the opinion that market data will come to the forefront of the industry, as businesses such as ours and the other major players in the market seek to capitalise on its availability and potential. The fact that we gather firm liquidity market data from all client segments, often not accessible through primary venues, puts us in a differentiated and advantageous position compared to other players. This will be a key growth story for us in the next decade.

**What work have you been doing to develop a global growth agenda focused on the wider institutional segment and how important will attracting the right people be in helping you to achieve this?**

With clients in over 100 different countries and 11 offices worldwide, we remain in expansion mode and have built out our multi-hub offering which positions us to maximise our global growth potential. Our focus is well and truly on delivering our best-in-class services to all segments of the institutional market.

We are extremely excited for our the years ahead and expect our core businesses to continue their growth trajectory. We are entirely focused on our mission to continue to deliver a transparent, neutral, global marketplace for all participants.

We are seeing more clients value the quality of the market data provided by our order-driven firm liquidity. Our ability to provide true price discovery and liquidity from all market segments means that we can capture

greater insights that help our clients when making investment decisions. Consequently, we expect our market data offering to become a key differentiator among FX execution venues and an area for future growth for our business.

As a result, our business model enables us to continue the upward growth trend; we are planning to build on this momentum by investing in our business to expand and deepen our client relationships across the globe, whilst continuing to deliver an optimal experience for the 600-plus funds, banks, asset managers and brokers that make up our global client base.

We put emphasis on our performance and believe that our unique proposition will help LMAX Group continue its growth path over the coming years.

In 2021 we will reach the 10-year anniversary of the implementation of the current strategy that has seen LMAX Group become one of the most profitable operators of global venues for electronic institutional FX trading.