



*cutting through complexity*

# Alpari (UK) Limited

Information Pack

21 January 2015



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# Investment highlights

A rare opportunity to acquire one of the largest global Metatrader 4 (MT4) brokers

Global operations spanning UK, Europe, Middle East, Africa and Asia

Direct retail client concentration above industry averages (approximately 75%)

Diverse client base with 116,000 clients as at December 2014, of which 27,000 are active

Advanced technology that can accurately predict churn patterns with c. 90% confidence level

Regulatory licences held in the UK, Japan and Germany

Expert Advisors (EAs) allow automated, independent trades in the MT4 platform

ID3 auto-approval KYC software operational in 18 jurisdictions

Source: Company Information

# Business overview

## Business overview

- Founded in 2004, headquartered in London
- Online trading broker of foreign exchange, precious metals, Contract for Differences (CFDs) and financial spreadbetting<sup>(1)</sup>
- Operating in the B2B and B2C space
- Offices in London, Shenzhen, Shanghai, Frankfurt, Riyadh and Dubai
- 170 employees at its London office
- 42 employees at its official partner Alpari ME DMCC, Dubai
- 19 employees in Japan
- The company used Citibank as its prime broker
- Alpari was profitable in 2014
- The business suffered a c. \$36 million loss due to the Swiss National Bank's decision on 15 January 2015 to remove the informal peg to the euro
- The customer base is dominated by direct retail customers from over 160 countries worldwide
- Operates on MT4, MT5, Currenex and PrimeXM

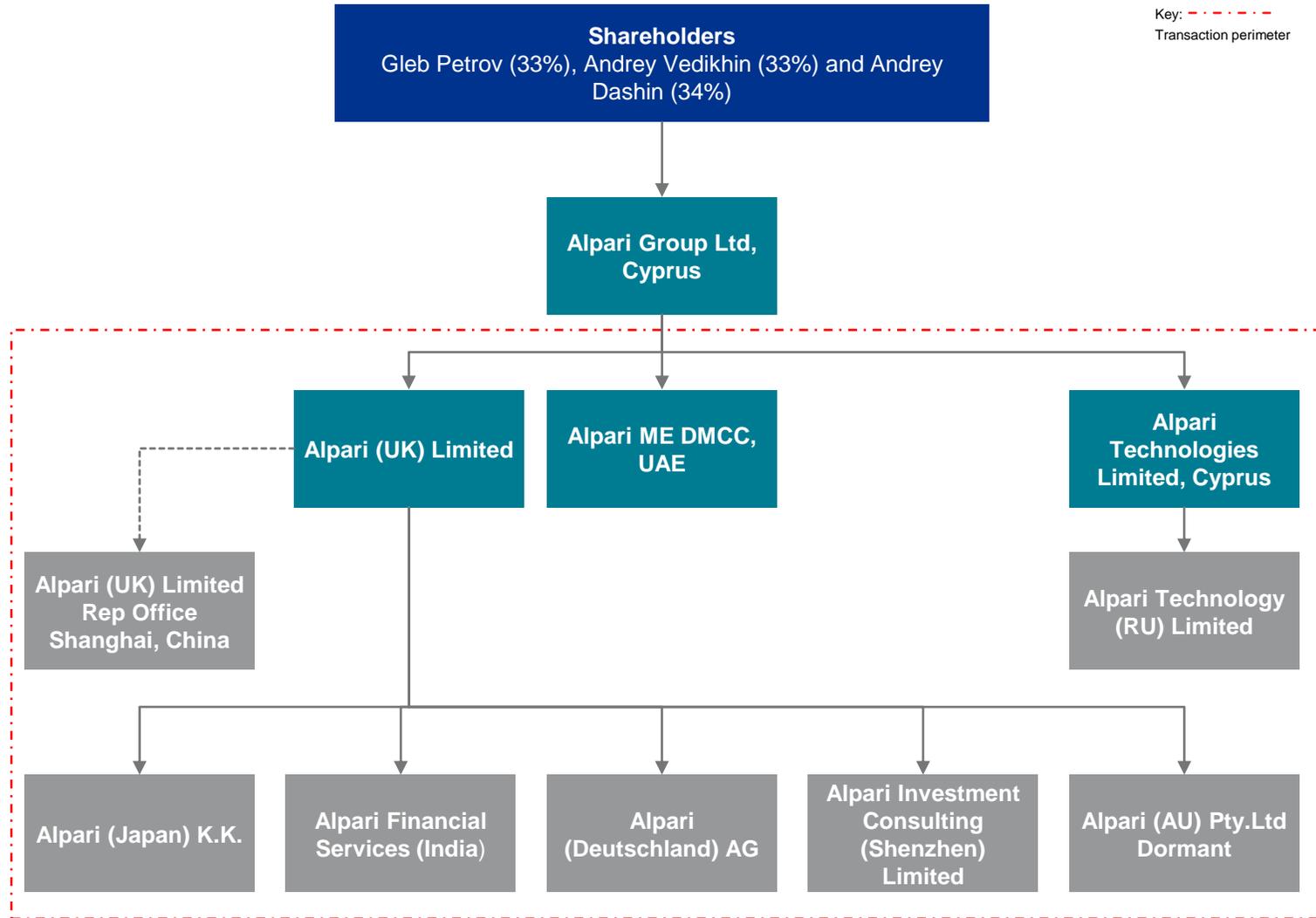
Note: (1) Residents of UK only.  
(2) Fully in accordance with CASS

## Clients

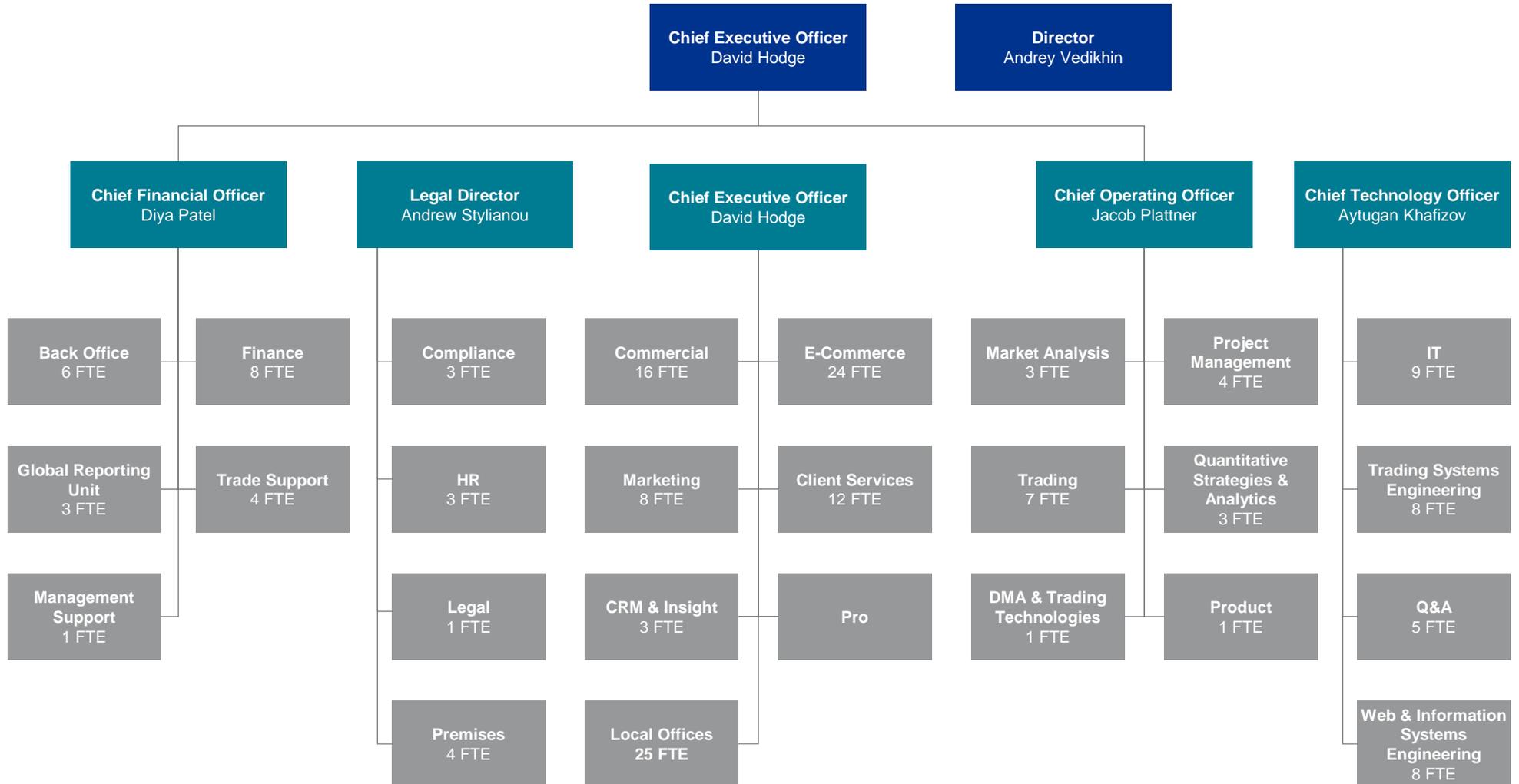
- Alpari is predominantly a retail broker, although it serves 20 professional clients
- Over 116,000 clients, with 27,000 being active in the last 12 months, 22,000 active within the last six months and 12,000 active within the last month
- Includes individual traders, money managers and institutional clients worldwide
- Holds \$98.5 million segregated retail client money<sup>(2)</sup>, \$15 million professional client money
- Retail clients utilise the Metatrader platform, the preferred platform for a large variety of brokers around the world
- Professional clients use either Currenex, PrimeXM or MT4 platforms

# Transaction perimeter

- The Ultimate Beneficial Owners (UBOs) are: Gleb Petrov, Andrey Vedikhin and Andrey Dashin
- Alpari UK is authorised and regulated by the Financial Conduct Authority (FCA)
- Alpari Japan is regulated by the Japanese Financial Services Agency (JFSA)
- Alpari (Deutschland) is regulated by Federal Financial Supervisory Authority (BaFin)
- Alpari ME DMCC is a member of the Dubai Gold and Commodities Exchange (DGCX) as well as holding a licence for the UAE Securities and Commodities Authority
- Alpari Technologies Limited holds a large proportion of the IP and technology, including the Metatrader licence
- Alpari (India) closed in 2014, and is in the process of deregulation
- Alpari Australia is a dormant entity
- Trademarks are held by Alpari (UK) Limited



# Organisational chart (170 FTE)



Source: Company Information

# IT platform and infrastructure

## Trading systems overview

- Alpari's Electronic Communication Network (ECN) system is modular – core components, matching engine, price module, reporting server, fix connectors are integrated
- ECN is part of Alpari Technologies Limited, Cyprus and was developed by a team in Russia
- Reduces latency and round trip time
- Heavily optimised to work under huge load using low latency code written on C++

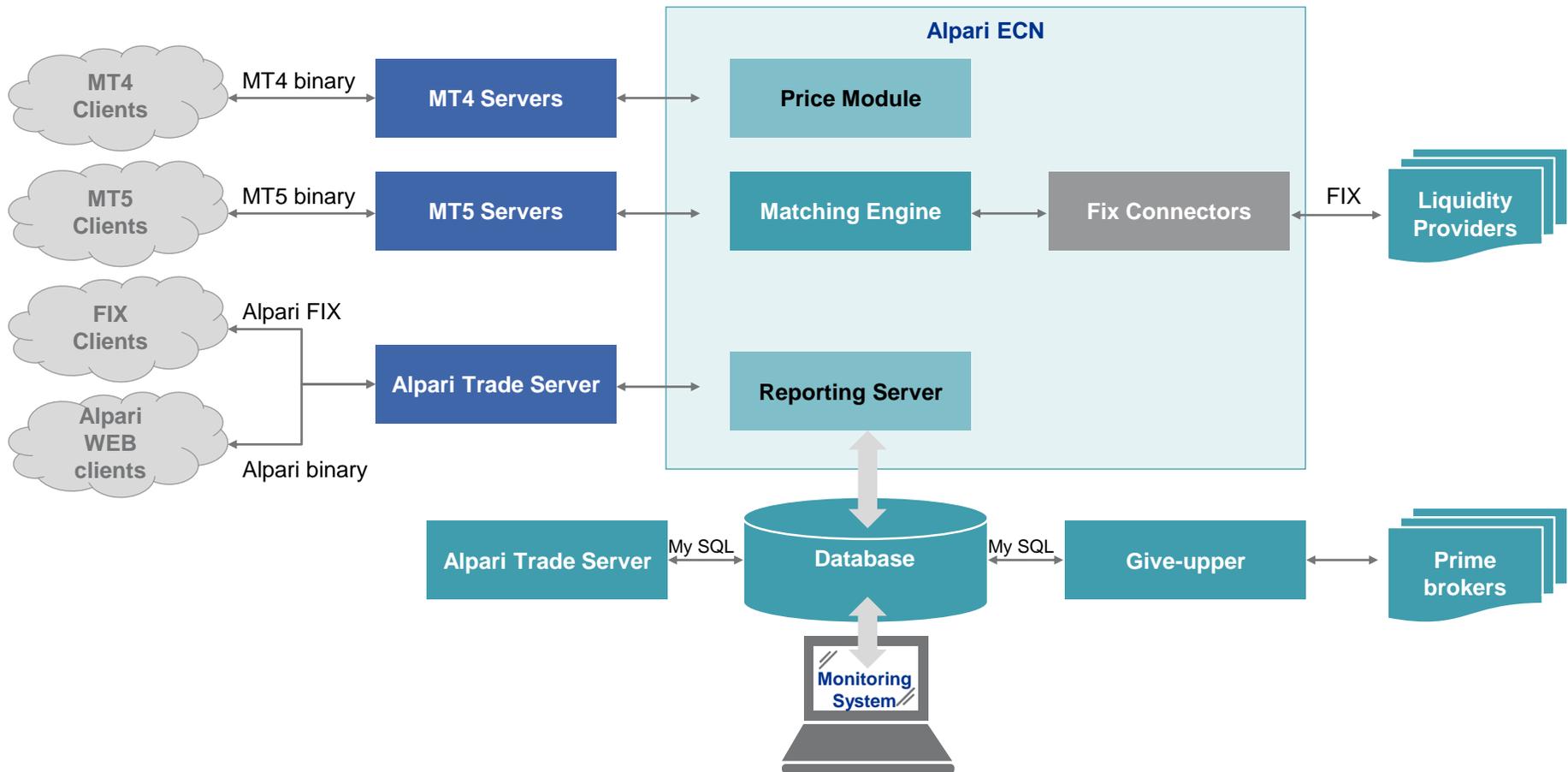
## Trade servers

- Multiple trading platforms including MT4 and MT5 (retail clients) as well as Currenex and PrimeXM (professional clients) facilitate product diversification opportunities
- MT4 and MT5 servers were developed by MetaQuotes software corporation and are licensed by Alpari Technologies
- Alpari Technologies rent these licenses to Alpari (UK)
- Alpari trade server is an internal server created by Alpari C++ developers
- Alpari Technologies has 18 licences for MT4 servers and one active MT5 'Standard' license (up to 50,000 live accounts) and one inactive MT5 'Entry' licence (up to 1,000 live accounts) that can be converted to live

## Infrastructure

- Five datacentres – US, Japan and three in the UK, London (Telehouse West, Equinix LD4 and LD5)
- Core ECN systems are located in London
- Liquidity Providers (LPs) connectors and distribution services for trading servers are located in the US and Japan datacentres
- Alpari (UK) has an integrated ID3 auto-approval KYC system, which is active in 18 jurisdictions
- Sugar CRM and Tableau reporting for business intelligence

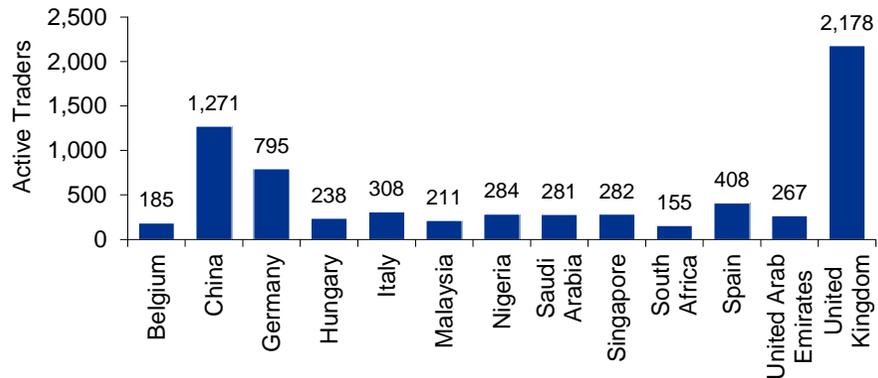
# Trading systems – overview



Source: Company Information

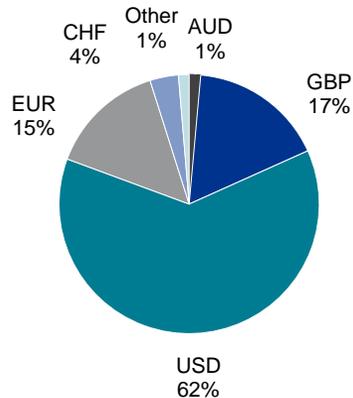
# Client funds – Retail

## Number of retail customers trading in January 2015 by geography



Note: A client may have more than one trading account.  
Source: Company Information

## Segregated funds by currency, 15 January 2015



Note: All funds converted into USD  
Source: Company Information

## Client funds

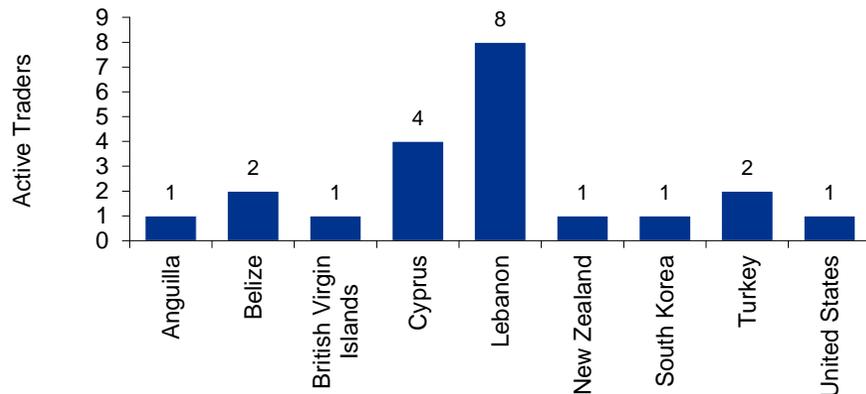
- Approximately 12,000 active users in January 2015, traded at least once within the last month
- Predominantly European users
- The UK represents 22% of total active retail customers worldwide
- The Asian market is the second largest, followed by the Middle East
- China is the second largest retail market contributing 13% of active users
- Western Europe, China and the Middle East have the fastest growing retail markets since 2012
- Retail customers have increased 14% since 2013

## Segregated funds

- In accordance with the Client Asset Sourcebook (CASS) Alpari is obliged to segregate all its retail clients' funds from its own funds. These funds are held in separate bank accounts with Barclays, Bank of America Merrill Lynch, Royal Bank of Canada and Allied Irish Bank.
- The majority of segregated funds are held in USD, accounting for 62% of all client funds held
- Both sterling and euro accounts account for around 15 to 20% of all funds deposited
- The Swiss Franc accounts for 4% of segregated funds

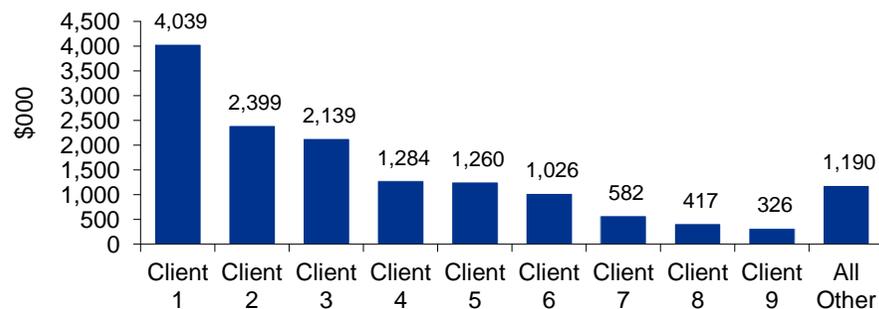
# Client funds – Professional

## Number of active professional customers trading in January 2015



Note: A client may have more than one trading account.  
Source: Company Information

## Professional non-segregated funds per client, 15 January 2015



Note: All funds converted into USD  
Source: Company Information

## Professional client funds

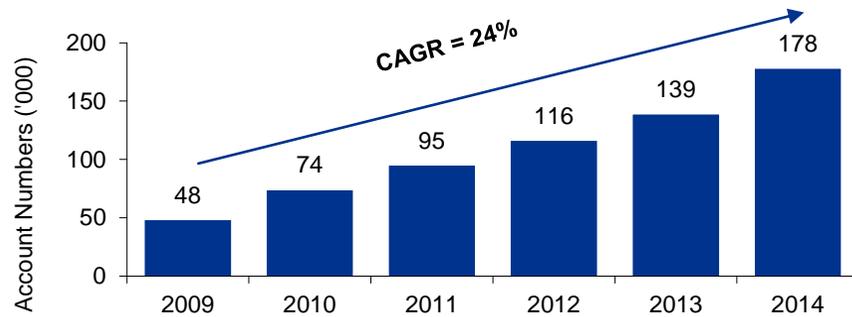
- \$15 million professional client funds on deposit
- 58% of non-segregated funds originate from the largest three clients
- Approximately 20 active users in January 2015, traded at least once within the last month
- Lebanon accounts for 38% of all professional customers
- The majority of professional client funds are held in US Dollars

## Professional client funds

- Regulators do not require professional client funds to be segregated
- Such funds are dealt with under the Title Transfer Collateral Arrangements (TTCAs)
- As such, Alpari are entitled to utilise these funds at their discretion

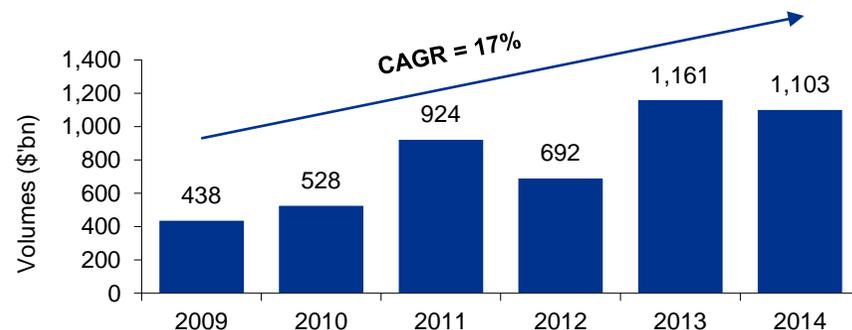
# Key performance indicators (KPIs)

## Number of trading accounts



Source: Company Information

## Trading volumes



Source: Company Information

Alpari has seen the number of trading accounts nearly quadruple since 2009

Trading volumes have increased 2.5 fold since 2009

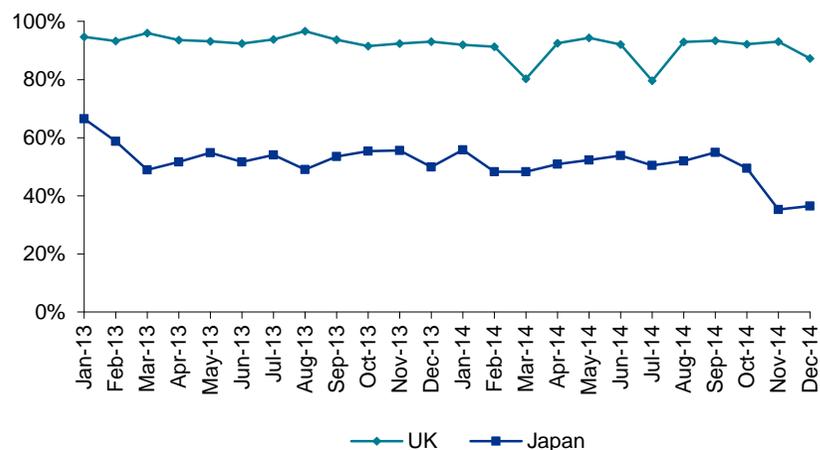
The Compound Annual Growth Rate (CAGR) for both KPIs are between 15% to 25%

## Comments

- There have been significant rises in both trading volumes and the number of trading accounts since 2009
- The expansion has been primarily driven by retail clients
- This growth has been most pronounced in the Middle East and China
- Retail clients make up 73% of total trading volumes, such accounts are higher margin than professional accounts

# Key performance indicators (KPIs) (cont.)

## Total completed applications converted to approved accounts



Source: Company Information

The UK<sup>(1)</sup> has an average approval rate of 90% for completed applications

The median application approval time was 16 hours in 2014

The median application approval to traded time was 199 hours in 2014

## Comments

- UK conversion rates are consistently high, averaging over 85% per month
- UK approval rates are higher than Japan due to the integrated auto-approval KYC system
- There is a 38% auto-approval rate for Alpari (UK) Limited in 2014
- UK approval to funding is far more stable than that of Japan. It is unclear if there is an underlying cyclical pattern in Japan
- The average time taken from account approval to funding deposits was 141 hours in 2014

Note: (1) UK residents only.

Source: Company Information.

# Licences and regulatory permissions

## Licences

- Alpari Technologies has 18 licences for MT4 servers and one active MT5 'Standard' licence (up to 50,000 live accounts) and one dormant MT5 'Entry' licence (up to 1,000 live accounts) that can be converted to live

## Regulatory

- Alpari (UK) Limited is authorised and regulated by the Financial Conduct Authority (FCA) and has a C3 Conduct and a P3 Prudential categorisation
- All retail client funds are segregated in accordance with CASS rules
- Professional clients funds are not segregated and are dealt with in accordance with the Title Transfer Collateral Arrangements (TTCAs)

## FCA regulatory permission

- Alpari FCA permissions are currently frozen

# Capital shortfall

	14-Jan-15	16-Jan-15	Proforma Position 1	Proforma Position 2	Proforma Position 3
Capital	GBP	GBP	GBP	GBP	GBP
<b>CET1 Capital</b>					
Share Capital	4,484,532	4,484,532	4,484,532	4,484,532	4,484,532
Capital Injection	0	0	15,100,000	20,000,000	25,000,000
Share capital	0	0	0	0	0
Retained Earnings	22,118,613	22,118,613	22,118,613	22,118,613	22,118,613
<b>CET1 Capital</b>	<b>26,603,145</b>	<b>26,603,145</b>	<b>41,703,145</b>	<b>46,603,145</b>	<b>51,603,145</b>
<b>Current year profit/(loss)</b>					
Current year profit/(loss)	689,913	(23,993,075)	(23,993,075)	(23,993,075)	(23,993,075)
<b>Total - Current year profit</b>	<b>689,913</b>	<b>(23,993,075)</b>	<b>(23,993,075)</b>	<b>(23,993,075)</b>	<b>(23,993,075)</b>
<b>Capital Deductions (other)</b>					
Intangible Assets	(76,273)	(76,273)	(76,273)	(76,273)	(76,273)
Subordinated Loan	0	0	0	0	0
Deferred Tax	0	0	0	0	0
Investments	(1,009,522)	(1,009,522)	(1,009,522)	(1,009,522)	(1,009,522)
<b>Total - Capital Deductions (other)</b>	<b>(1,085,795)</b>	<b>(1,085,795)</b>	<b>(1,085,795)</b>	<b>(1,085,795)</b>	<b>(1,085,795)</b>
<b>Total Capital After Deductions</b>	<b>26,207,263</b>	<b>1,524,275</b>	<b>16,624,275</b>	<b>21,524,275</b>	<b>26,524,275</b>
<b>Capital Requirement</b>					
Credit risk	1,349,876	1,225,344	1,225,344	1,425,506	1,425,506
Counterparty risk	2,086,406	1,050,412	1,050,412	1,057,399	1,057,399
Operational risk	5,412,365	5,412,365	5,412,365	5,412,365	5,412,365
Market risk	8,959,450	8,959,450	8,959,450	8,959,450	8,959,450
<b>CET1 Capital</b>	<b>17,808,097</b>	<b>16,647,571</b>	<b>16,647,571</b>	<b>16,854,720</b>	<b>16,854,720</b>
<b>Capital Buffer / (Shortfall)</b>	<b>8,399,166</b>	<b>(15,123,296)</b>	<b>(23,296)</b>	<b>4,669,555</b>	<b>9,669,555</b>
<b>Solvency ratio</b>	<b>147%</b>	<b>9%</b>	<b>100%</b>	<b>128%</b>	<b>157%</b>

- For the days preceding 15 January 2015, the solvency ratio was stable at between 130% to 150%
- The SNB's decision to remove the peg between the Swiss Franc against the Euro caused Alpari to suffer an extraordinary loss of £24m
- This loss resulted in a regulatory capital shortfall of £15.1m
- It is estimated that c. £25m cash injection is required to replenish regulatory capital with an adequate buffer

# Cash, working capital and creditors

## Alpari (UK) Limited cash available

	£	\$
House balances	8,427,923	12,641,885
<b>One month outflows</b>		
IB payments <sup>(1)</sup>	(1,205,155)	(1,807,732)
Salaries	(550,000)	(825,000)
PAYE	(420,768)	(631,152)
Pension	(67,000)	(100,500)
Invoice / suppliers <sup>(2)</sup>	(528,754)	(793,132)
Alpari Technologies	(131,290)	(196,936)
Alpari Emirates	(227,697)	(341,545)
Buffer	(100,000)	(150,000)
<b>Total outflows</b>	<b>(3,230,664)</b>	<b>(4,845,996)</b>
<b>Largest creditors</b>		
Citi PB	(5,866,667)	(8,800,000)
Professional clients	(9,517,637)	(14,276,455)
FXCM	(1,666,667)	(2,500,000)
<b>Total</b>	<b>(17,050,970)</b>	<b>(25,576,455)</b>

- House balances are liquid cash mainly held with Barclays and Bank of America
- Citi has indicated flexibility around amount and timing of repayment
- \$1.8m of cash sitting in client accounts which were due to be transferred to the house balance but currently cannot be distributed
- Trades were closed on Thursday 15 January, settled two working days later on Tuesday 20 January since Monday was a bank holiday in the US
- Rebates in terms of profit share arrangements on the underlying accounts are estimated to be \$816k for the period 1 January to 16 January 2015
- The profit shares with Alpari Japan and Alpari US are yet to be calculated
- Negative balances on accounts which traded the Swiss Franc are c. \$31m however some clients may have other accounts with Alpari which are positive
- Half of these losses are made up by 9 customers

Note: (1) Introducing broker arrangements  
 (2) Invoices up until 15 January 2015

# Additional income generation from Alpari assets

1

**Japan subsidiary** – it is assumed that the Firm would be able to dispose of its investment in Alpari Japan, as a going concern. This is based on the fact that the business has client equity of \$30m, with trading volumes in the region of \$10bn - \$12bn per month and over 2,000 active clients as at 19 January 2015

2

**Quantitative and statistical analysis models (QSAs)** – This is a predictive model to assist with propriety trading / hedging. The models are currently been implemented, in order to access the value of this model the human capital (currently 4 FTEs) would also be required

3

**RFVM Models** – This is a predictive model to anticipate client churn. The research and development highlights include the ability to segregate client data into revenue, frequency, monetary value and volume in order to develop sophisticated programmes with tailored products for different client groups, rewarding recurring business. Initial testing suggests it can predict churn rates with 90% confidence levels. In order to access the value of this model the human capital (currently 2 FTEs) would also be required

4

**201 Bishopsgate lease (including desks and fixtures & fittings)** – Unexpired term of 9 years with a break clause in the lease in 2018



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