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NAME: KNIGHT CAPITAL GROUP	SYMBOL: KCG
MARKET CAP (11/20/13): $1.14 BILLION	PRICE PER SHARE (11/20/13): $10
FLOAT: 71.55 MILLION SHARES	AVG VOLUME (3 MONTHS): 296,414

KCG

HISTORY

Knight Capital Group was launched in 1995 as Knight/Trimark Group as a trade execution provider serving global national and regional broker-dealers, online brokers, funds, trusts and endowments.

The firm began trading on the Nasdaq exchange in 1998, changed its name two years later to Knight Trading Group and then again to Knight Capital Group in 2005. Its global markets (trade execution) division, Knight Securities, has headquarters in Jersey City, NJ and offices in 11 other U.S. cities plus London and Singapore, while its asset management (Deephaven) division is headquartered in Minnetonka, MN with offices in Hong Kong and London.

DOMINANT MARKET POSITION

30% of all retail order flow moves through KCG.

KCG executes 20% of all volume across the Nasdaq and Russell, making it #1 in market share.

KCG executes nearly 15% of all volume across the NYSE, making it #1 in market share.

KCG executes 13% of all volume across the S&P 500, making it #2 in market share.

KCG'S UNIVERSE

Owns 15% and 20% of the now combined BATS and DIRECTEDGE ECNs.

Knight Capital Americas LLC ("KCA") is a broker-dealer registered with the Securities and Exchange Commission and a Futures Commission Merchant registered with the Commodity Futures Trading Commission.

KCG Europe Limited ("KCGE") is a U.K. registered broker-dealer that provides execution services for institutional and broker-dealer clients across a broad range of asset classes covering U.S., European and international. markets.

KCG Hotspot FX LLC and its subsidiaries ("Hotspot") provide institutions, dealers and retail clients with spot foreign exchange executions through an advanced, fully electronic platform.

GETCO, LLC (“GET”) and BLINK Trading LLC (“BLK”) primarily trades derivatives for its own account to make markets on national exchanges and other trading venues. GET and BLK are not members of the NFA or CFTC but are subject to rules and regulations of exchanges and clearing organizations of which it is a member.

SELF IMMOLATION

On August 1st, 2012 Knight Capital had a problem:

Knight Capital Group said the problem was triggered when it installed new trading software, which resulted in the company sending numerous erroneous orders in 140 stocks listed in the NYSE. Those orders were responsible for some sudden swings in stock prices and surging trading volume shortly after the market opened Wednesday.

This problem cost KCG $440 million, effectively destroying the firm overnight.

KCG's stock price went from $10 to a low of $2.27 in two trading days.

CUE THE VULTURES

A week after the plunge in KCG's stock price and near death of the firm, a group of institutional investors put together a $400 million rescue package:

Under the $400 million capital infusion for Knight, Jefferies got the biggest piece of the pie, with shares that will represent a 22.8 percent stake in Knight. Blackstone and Getco will each hold a 16 percent stake. The other consortium members are financial services companies TD Ameritrade Holding Corp, Stifel Nicolaus and Stephens.

BEAT IT

The new capital structure that effectively rescued the firm forced current shareholders into massive dilution. The company was and still is a majority insider owned. This is a net positive as a majority of large shareholders are sticky money that are in this for the long haul.

There were plenty of institutions that were eager to dilute the former shareholders. Firms like Citadel and Goldman were all in the mix here. In other words, KCG had no lack of access to capital after their boneheaded software upgrade error.

Why were so many institutions so eager to put money to come to the rescue of KCG?

THIS IS SPARTA!

The fight over KCG that was to ensue was being fought for one clear reason: The technology and regulatory requirements to put together a liquidity provider with any immediate clout in the financial industry are enormous. This “software error” was a chance for a group of investors to take a stake in an established market maker, with an immediate dominant market position that is protected by an enormous technology and regulatory barrier to entry.

KCG's position is essentially unassailable. It cannot be compromised by start-ups or deep pocketed, overly-ambitious, gray haired billionaires.

The investors were gaining a business with a Spartan like army surrounding its gilded walls. And they were getting it cheap.

AND THE WINNER IS....

GETCO LLC in a deal that values KCG at $1.4 billion. General Atlantic (private equity firm) and Jefferies become the largest institutional shareholders.

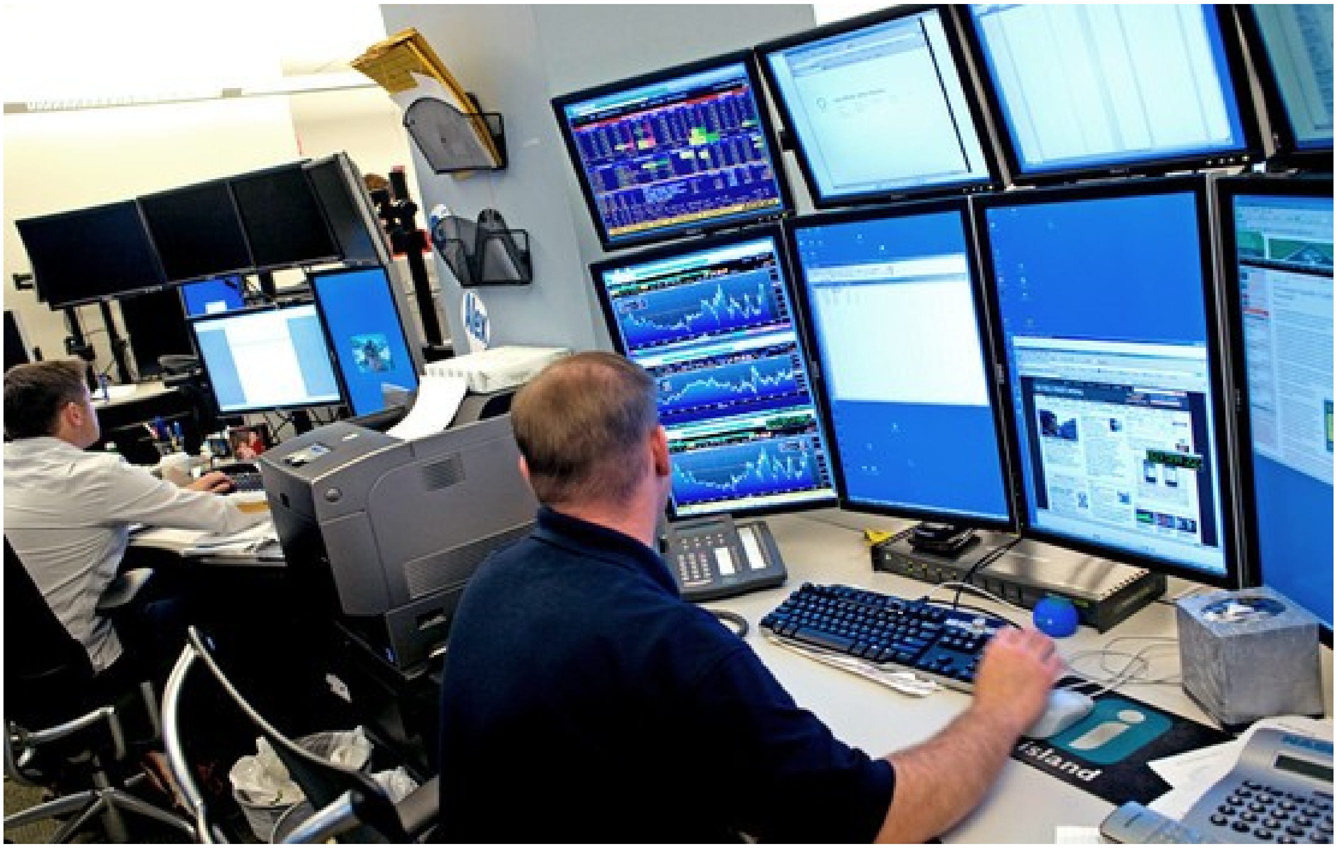
WHO THE HELL IS GETCO?

Via WSJ:

At Getco, traders stare at enormous high-definition screens stacked to the ceiling that display trades in virtually every financial instrument traded electronically on exchanges. Large white boards, thick with scribbled formulas and intricate diagrams, line the walls of its expansive trading hub on the second floor of the office tower that houses the Chicago Board of Trade.

Getco depends on the success of its proprietary complex algorithms to help it make money on the transactions more often than not. It also can pick up tiny rebates that some exchanges offer to firms willing to take the other side of trading orders.

GETCO THE COMPANY



As a company, it would seem that GETCO saw its best years leading into 2008, when it had net income of $430 million. Income declined dramatically from that point to under $50 million in 2012. The competition among the HFT organizations squeezed profits as every major fund started competing for nano-pennies in the market.

The key advantage of merging GETCO with KCG was not for financial reasons, but for technology reasons. GETCO's trading technology immediately compliments KCGs. Additionally, GETCO had been spending large amounts on upgrading its technology infrastructure leading up to the merger. In 2008, technology spending was 1% of revenues. By 2012, it was near 20% of revenues. The merger creates a decisive technology based barrier to entry for competition.

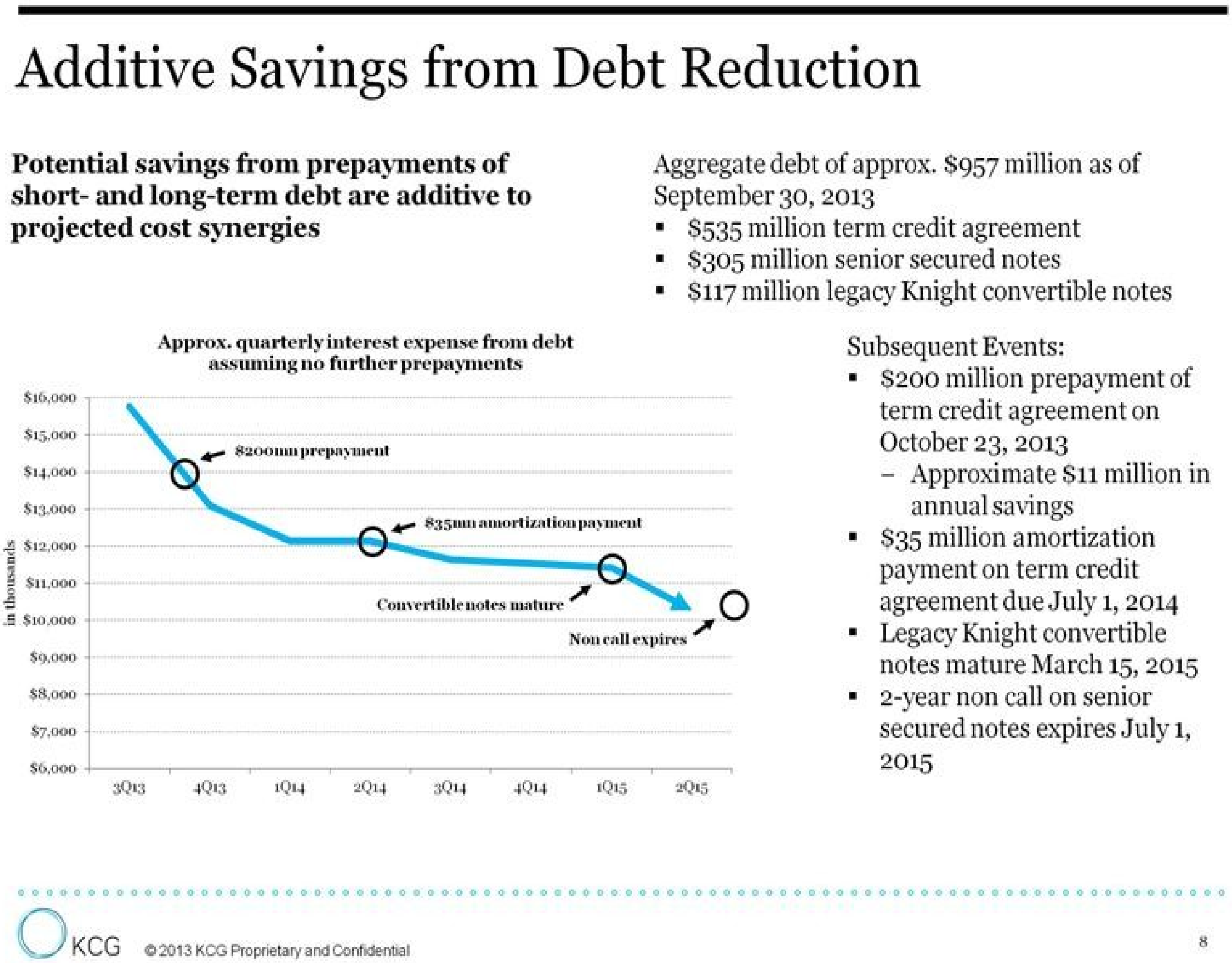
PRIORITIES

1. Decreasing debt through utilizing existing cash flow to aggressively pay down nearly $1 billion debt, with the goal of cutting interest expense in half within 3 years.

2. Incorporation of new trading technologies and intellectual capital from market making to increase reach and scale

3. Gaining further synergies from new capital and corporate structure

DEBT PICTURE



(source: Knight Capital Group)

From Q3 2013 conference call:

These three debt instruments totaled $950 million and comprise substantially all of KCG's long and short-term debt. The corresponding interest expense on this debt in the third quarter was approximately $16.2 million. We are committed to aggressively reducing the debt. Last week KCG completed a prepayment of $200 million on the first lien debt. As a result we will save roughly $11 million in annual interest expense.

FUTURE CASH FLOW POWERHOUSE

Put aside for a moment the dominant position KCG enjoys in the markets. And never mind the fact that all of KCG's competitors are enjoying tremendous gains in the market currently, which I will get to shortly.

There will be four drivers of future cash flow for KCG:

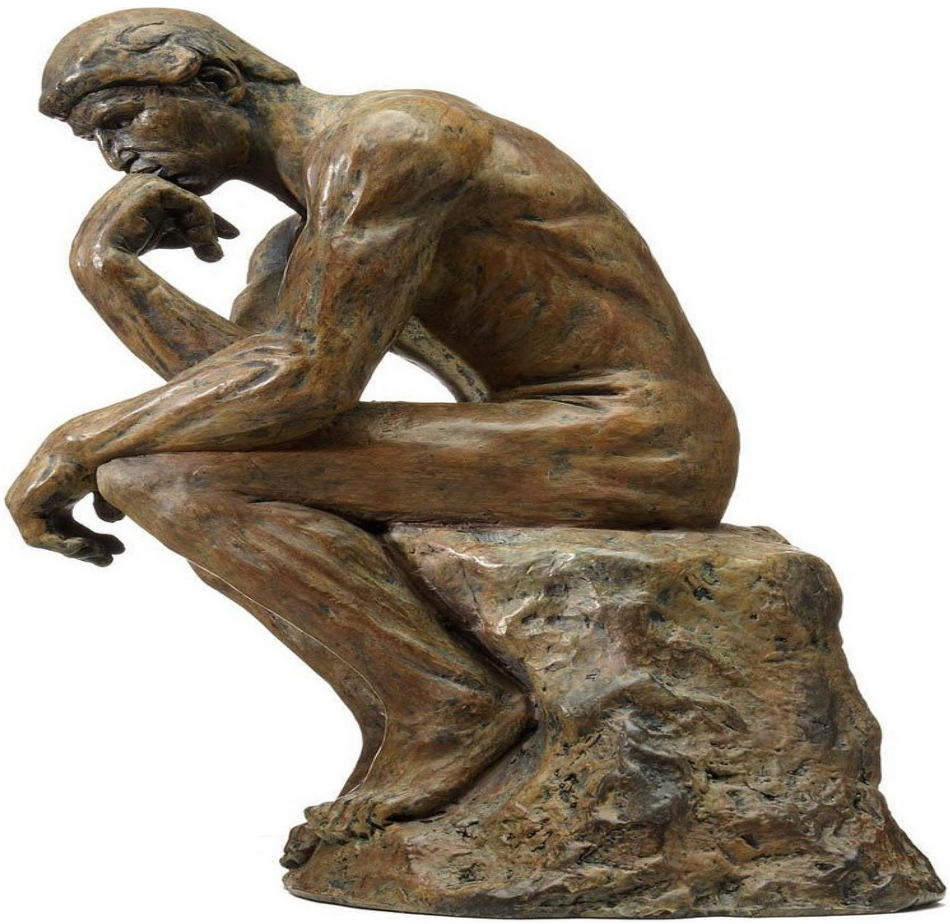
1. Increasing volume in the equity markets as investors continue to warm up to the fact that their decade of enslavement to the wrathful forces of debt defaults, imploding assets and carnivorous volatility has come to an end.
2. Continued synergies into 2015 between GETCO and Knight resulting in tremendous operating efficiencies
3. A dramatic reduction in interest expense going forward
4. Tax efficient operating structure

TAX EFFICIENCIES

KCG possesses significant tax loss carryforwards (NOLs) that will be utilized to offset profits in the years ahead. This from the 10-Q dated March 31, 2013:

A significant portion of the company's 2012 U.S. federal net operating loss has been carried back against taxable income earned by the company in 2010 and 2011, which will result in a refund of U. S. federal taxes that the company previously paid in such years. For the year ended December 31st, 2012 the company's taxable loss was $358.2 million.

VALUATION



KCG is the only company in its segment to be trading at a discount to tangible book value. Tangible book value is currently $10.63 per share.

On average, competitors are trading at 3-4 times book value, with some companies trading higher than 10 times.

KCG is trading at less than 2 times sales while peers are trading at an average of 8 times revenues.

On an EBITDA basis, peers are trading, on average, in excess of 15 times current EBITDA, while KCG is trading at 3 times EBITDA.

COMPETITIVE LANDSCAPE

SYMBOL	MKT CAP	P/BOOK	P/SALES	P/EBITDA
CME	28.12 BIL	1.27	9.65	15
ICE	15.85 BIL	3.89	11.37	15
NDAQ	6.64 BIL	1.08	2.09	7
CBOE	4.75 BIL	14.54	8.43	15

KCG	**1.22 BIL**	**0.8**	**1.72**	**3**

STOCK PERFORMANCE OF PEERS SINCE JAN 2012

CBOE	111.00%
ICE	81.00%
CME	72.00%
NDAQ	62.00%

It should be noted that KCG is essentially trading at its **pre-merger** valuation when you strip out what GETCO brought to the table. This is for a company with multiple bidders to choose from during the merger process.

It should also be noted that KCG opened trading on July 5th as a merged entity at $12.15 per share. Pressure on the shares was predictable as there were pre-merger shareholders as well as institutional holders who were instrumental in the bailout deciding to take money off the table, pressuring shares for some months.

AN INSIDER STRIKES

Former Freddie Mac CEO Charles Haldeman was named non-executive Chairman of the Board on October 30th. His first course of action was to put to work approximately $500,000 into KCG stock in open market transactions.

Charles Edgar Haldeman, Jr. was the CEO of the Federal Home Loan Mortgage Corporation, known as Freddie Mac, a publicly traded company that is the second largest source of mortgage financing in the United States. On the 26th of October 2011, it was announced that Haldeman would retire, but he agreed to stay until a successor was found. Haldeman is expected to be leaving Freddie Mac somewhere in 2012. He is the former President, CEO, and chairman of the board of directors, of Putnam Investments, a mutual fund company based in Boston, MA. Since 2007, he has served as chairman of the Board of Trustees for Dartmouth College.

WHAT COULD POSSIBLY GO WRONG?

There is a great deal of technology risk that KCG faces, as demonstrated last year. Additionally, the company's fortunes live and die with how fresh the roses smell in the equity markets. Needless to say, KCG isn't a stock that should be owned during a prolonged bearish affair.

The debt load, in case of interrupted cash flows, can become burdensome. The company is dependent on maintaining generous cash flows in order to service debt.

THE END IS NIGH

A global liquidity provider that has been recapitalized, reorganized, restructured and improved greatly is being offered here at an attractive price relative to any peer in the industry. Not only that, but the offer is being made during a liquidity driven bull market that shows no signs of slowing down in the near future.

KCG's place within equity market infrastructure has already been cemented. Now it is up to Wall Street to realize the profit potential that comes with such a dominant market position at such a place in history for the financial markets.

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