# ALLEGRO: A 30-YEAR INDUSTRY PIONEER, WITH A START-UP MENTALITY

Allegro Development has recently been recapitalised by Vector Capital and Cerium Technology. *Energy Risk* talks to management about the big picture and where the company is focusing its efforts

***Energy Risk*: Following Allegro's recapitalisation and changes to senior leadership, how will the company's strategy develop?**

**Jason Liu (JL), Executive in Residence, Vector Capital:** Even before the recent announcement, Allegro was already a very exciting and fast-growth company, that grew by 30% in 2013 and won countless awards as an innovative software leader. This momentum is continuing into 2014 as we have just reported 32% growth for the first half of the year.

Vector was attracted to Allegro's position in the market, and our goal is to build upon its strong foundation and help the company with global expansion. Vector is one of the top private equity funds in the technology industry, with more than $2 billion in capital, and its plan for Allegro is to invest in research and development, build on existing strengths and expand domain expertise. We have ambitious growth plans in our core markets and also in adjacent markets – across the entire commodity life cycle.

We have a strong North American and European presence; and we have grown our Asian client base, recently signing a flagship account in China. We are also expanding our footprint in Latin America through strategic partnerships.

***Energy Risk*: Which 'adjacent markets' are you considering expanding in?**

**Michael Hinton (MH), Chief Customer Officer, Allegro:** We are looking to expand in the agricultural commodities space – grains, oilseeds and soft commodities. Our focus on these areas is from a product and geographic standpoint. We have clients already in the grains market, but we have not actively marketed to this vertical, so this will be a strategy we will focus on in the short term.

***Energy Risk*: The North American energy landscape has seen enormous changes in the past few years. How is your offering being affected?**

**MH:** Our offering is positioned very well to address what is going on in the US, particularly with the boom in shale markets around both crude and natural gas. Being born from the physical side of the energy markets, we have tools in place that handle everything from the deals to logistics and settlement of trades.

Unconventional drilling – and the discovery of energy in places they never thought it would exist – is creating a set of logistical problems the industry is trying to solve. Our toolset gives clients the visibility they need – where the positions and the potential markets are, and minimises the cost of taking commodities to the market.

Allegro's proven solutions for physical trading helps clients understand how to hedge their positions and lock in the profits associated with that activity. There are new players looking for solutions and it is a great time for Allegro to seize this opportunity.

***Energy Risk*: These shifts seem to be driving greater demand for fundamental data. Is that something you're seeing among your clients?**

**MH:** Absolutely. There are more choices and optionality embedded in what our customers are facing so, as a result, they need data to make the right decisions. That is coupled with the changing granularity of the markets and commodities themselves.

Jason Liu

Historically, commodities traded in very long terms around a quarterly or monthly expiration. Now, the markets have moved into daily, hourly and even sub-hourly terms, creating a massive amount of data and information customers need to understand, visualise and make decisions about.

***Energy Risk*: To what extent do your capabilities cover areas that are benefiting from changing fundamentals, such as liquefied natural gas (LNG) and natural gas liquids (NGLs)?**

**MH:** Allegro has been in NGLs since the mid-1990s. We have solutions that support everything from crude oil to NGLs to refined products and even LNG – and we continue to enhance that, because we see growth and opportunity in those particular areas, not just in North America.

Just recently, we signed one of the largest oil and gas majors in China, and it is using Allegro to manage LNG trading globally. We have a lot of interest from Japan around LNG as well.

***Energy Risk*: In which countries or sectors are you experiencing particular growth?**

**MH:** We see growth from the entire spectrum: exploration and production (E&P) companies, producers, processors, refiners, utilities and even consumers. We are having tremendous success in North American and European utility markets and fair success among E&P companies in the US, where the shale boom is taking hold. With our partner channels, we're also having success in Latin American markets. We see interest from clients across the board and tremendous opportunity, both upstream and downstream. Another place we're seeing great success is Germany, where we've done a number of big deals with utilities.

***Energy Risk*: Given the recent turnover at the most senior level of your company, can your clients be assured they will continue to receive the same level of service?**

**JL:** Vector's involvement will help boost the level of customer service. Its financial capabilities and operational resources should help improve Allegro's processes on a global level. Vector is not only a private equity investor, but also adds value with operational experience of senior management in the technology sector and a successful track record of growing technology companies in Europe and Asia. Vector's strategy has a five- to seven-year time horizon and aims to grow and make companies that are world class.

***Energy Risk*: A big issue for many energy companies is the US Dodd-Frank Act. What is Allegro doing to help its clients deal with the legislation?**

**MH:** We responded by developing a new component in delivering capabilities to our customers to meet their Dodd-Frank compliance needs called Allegro Derivative Regulation. What enabled us to do that is the architecture of Allegro, which is component-based. Our philosophy in developing this was to do it in a collaborative way, with our clients and partners utilising 'Agile' principles. So, we were able to create a solution, put it in the hands of clients and allow them comply with the Dodd-Frank requirements. Even while rules were being defined, we were delivering products to clients to meet their needs in a very dynamic environment.

Allegro was recently named one of the top 20 regulatory solutions by *CIO Review* magazine.

***Energy Risk*: What particular areas of Dodd-Frank are you assisting clients with?**

**MH:** The current Allegro solution allows clients to aggregate all of their transactions and positions – not only in the Allegro environment, but through its connectivity you can reach into other trading platforms, or even spreadsheets, and bring all the various swaps into a single repository. It then normalises the data and assists the sending of that information to the various [swap data] repositories and connects to all three of the repositories in North America. It does that in an amalgamated fashion, streamlines it and creates a consistent solution and process for the submission of that information for reporting and reconciliation purposes.

***Energy Risk*: In Europe, similar rules are being put in place under the European Market Infrastructure Regulation (Emir) and the Regulation on Wholesale Energy Market Integrity and Transparency (Remit). Have you also been addressing these?**

**MH:** Part of the global Derivatives Regulation solution we built keeps in mind the requirements of Europe, along with other areas. For example, Canada is looking at developing its own rules similar to Dodd-Frank. We are validating the solutions, with new customers ensuring that reporting requirements around Emir and Remit are met to clients' satisfaction.

**JL:** One of the reasons we were able to act quickly, ahead of our competitors, is that the architecture of the product is very adaptable and flexible, allowing it to rapidly adjust to changing regulation and incorporate such changes into the workflow. So it is not an accident that we have been leading the industry in being able to react to those legislative changes. It is a result of how flexible our architecture is.

***Energy Risk*: Now that many Dodd-Frank rules have bedded down, are you beginning to see clients attempting to consolidate and tidy up their internal systems?**

**MH:** It is a natural process we have been seeing for a while – not only in the US, but also globally. People want to have a single repository where they can see what the risk is across the various commodities in which they deal. Most importantly, it gives

Michael Hinton

them tools to manage their day-to-day business processes in a more efficient manner and attain greater risk visibility on a corporate basis. So yes, the trend is to move that way.

***Energy Risk*: Energy trading firms say low levels of standardisation is one of the things holding the industry back. Would you support a drive for greater standardisation?**

**MH:** We support standardisation, but it is like a utopia. The industry has tried to standardise for years and years, but it has not been successful. Allegro would support such an effort in creating standardised data sets and requirements. But the actual proof and execution of that standardisation remains to be seen. Europe is a little further along in standardising its markets and the data sets associated with them. In the history of the energy industry, we have seen many attempts that never came through – whether it was the Federal Energy Regulatory Commission or the North American Energy Standards Board or anybody else – so we continue to watch this closely.

***Energy Risk*: If you wanted to create greater standardisation in energy trading, how would you go about it?**

**MH:** It has to come from market participants. If they truly embrace it and push it upon other entities they are dealing with, reporting to and transacting with, then that is what would create the groundswell to really embrace standardisation. For example, in North America we have been trying to standardise the submissions of nominations to natural gas pipelines for years. It started out as a top-down approach but the pipelines never really embraced the standard that was put in place. So it's a standard that nobody really adopted. The only way for something like that to be adopted is if shippers push really hard on the pipelines to comply with such standardisation.

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