

Interim Results Presentation 2009

IG Group Holdings plc
20 January 2009

Tim Howkins, Chief Executive: Good morning and welcome to people on the phones and apologies for the slightly tardy start. I'm sure you've all seen the statement. Revenue at GBP126 million was up 47%. Of that, 41% growth organic and 6% coming from the acquisition of FXOnline which we made at the beginning of October, so just two months of that in this period.

As you'll have seen, the dividend, we're increasing by a third to 4p, possibly not something you hear said too often in the current round of results announcements. Rather than focusing on this six month period, I thought we'd take a slight step back and look at what progress we've made on our strategy over the last three years. And I've picked a three-year period because we're just coming up to the third anniversary of the launch of our Singapore office, which was the first of the six offices we've opened recently.

At that stage, very much we were saying the strategy was to continue to grow the UK business but to begin to diversify internationally so that, that overseas growth could pick up any future weakness in the UK business. And over the last three years, we have indeed continued to grow the UK business. Over three years, we've delivered 30% compound growth from the UK financial business. And we're now at a point where 50% of our revenue is coming from outside the UK and overseas revenue has grown at 98% compound. So the international strategy going very well but we're not taking our eye off the UK business, which still has plenty of growth in it. And clearly, an important step in that international strategy was the acquisition of FXOnline.

We're going to come back in a few minutes and talk a little bit more about some of the business performance and some of our future plans but first I'll let Steve take you through the results in a little more detail. Thank you.

Steve Clutton, Finance Officer: Thanks Tim and good morning ladies and gentlemen. So, income statement, 47% revenue growth driven by a very strong performance in our financial business. We saw some exceptional volatility during the period, which clearly benefited revenue but also impacted betting duty and provision for doubtful debts, as we've previously reported.

Year-on-year adjusted PBT rose by 24%. The acquisition of FXOnline has a number of impacts on the numbers. We're required to recognize intangible assets on consolidation, principally about GBP41 million relating to customer relationships. And this gives rise to a substantial non-cash amortization charge.

We believe adjusted PBT and adjusted EPS, both being before this amortization charge, better reflects the Group's underlying cash earnings and more detail on how that's all calculated is in one of the appendix slides. So going forward, you'll see us quote adjusted PBT and adjusted EPS. Diluted adjusted EPS grew by 17% to 11.7p. It reflects the issue of about 28 million shares to part fund the acquisition of FXOnline and a 42% tax rate applied to FXOnline's earnings.

The effective tax rate in the first half is around 31% and we expect that to rise to around 33%, maybe 34% in the second half, given that we'll have a full six months of FXOnline's earnings. Turning to revenue by business line, you can see that the financial business grew 54%. There was 34% growth in financial spread betting, reflecting our continued market leadership in the UK and that very high recruitment rate. And there was 55% growth in CFDs, reflecting the acceleration of our international businesses.

FXOnline contributed GBP10 million, including revenue synergy, driven from internalizing a higher proportion of clients' transactions. Excluding FXOnline, financial revenue grew by 41%. Our sports business now only represents 3% of Group revenue. It had a challenging first half and plans are well advanced for a re-launch of the brand in Q3.

We've shown the revenue per client slide on a number of occasions previously, noting the expected convergence trend of newer markets to the UK spread betting average. The first half saw a surge in client recruitment in Q2, which has pushed averages down in the UK and Australia, due to the dilution effect of lots of new extra clients in the latter part of the period. It's had less of an impact in the newer European businesses, which have a smaller client base. A full breakdown of the numbers supporting the chart, is on a slide in the appendix.

As Tim's already mentioned, we have an increasing proportion of our revenue generated outside the UK. The majority of our cost is UK-based, although our principal cost is staff and staff-related, and currently approximately 28% of headcount is based overseas.

The first half did see a benefit from sterling depreciation. Approximately 4% of revenue growth, as shown in the table on the left, on a constant currency basis, was down to the currency effect. The chart on the right just gives a look at the movement on the key currencies for us, Aussie dollar, euro and yen, and how they've trended through the first half and into the second half.

We've noted the average exchange rates that we used in the first half there. And looking forward, if we were to see sterling continue at its current depressed levels, we would expect to see a higher currency benefit in the second half.

A quick look at interest rate sensitivity - the general downward trend in interest rates will impact the return on cash balances in the second half. Currently we pay interest on approximately 45% of client balances, with clients typically receiving 50 basis points to 100 basis points below the relevant benchmark rates.

There'll also be the impact of falling client balances, which during the first half fell by some GBP160 million. Excluding FXOnline, the fall was about GBP230 million. And that fall reflects the general shift in asset mix away from single stock positions, which require a higher margin to be deposited with us. And it also reflects a reduction in the number of large equity position clients. And just a note that we used about GBP35 million of our own cash in the FXOnline acquisition.

Turning to costs, year-on-year increase in costs was clearly impacted by the exceptional doubtful debts charge - I'll talk a little bit about on the following slide. Excluding that charge and the GBP3 million of FXOnline costs during the period, underlying cost increase was 31% on the first half of last year, reflecting the fact that we started four new businesses in France, Spain and the USA, effectively at the beginning of the second half of last year. And an increase of about 8% on second-half costs of last year, reflecting effectively growth in volume.

Looking forward to the second half of this year, comparing to the first half actuals, and if you put aside the performance-dependent bonus and LTIP costs and the doubtful debts charge, we expect costs in the second half to grow by about GBP10 million, and that's really down to around GBP7 million for FXOnline in for a full six months, and the remainder reflecting increased marketing spend and flow-through of cost run rate.

So the impact of extreme volatility that we saw in October certainly drove client recruitment and revenue, but also gave rise to an increased doubtful debt provision. We've talked extensively in the past about how that situation arose in our trading update, so I won't say any more about that at this point.

More importantly, what have we done to reduce future risk? Since October, we've taken a number of steps. We've increased margin rates, we've been progressively reducing exposure to larger clients, and we've been making better use of customer relationship management systems to manage client contact. But most importantly, we've changed our approach to

managing client credit risk, whereby we've automated the margin calling process for the vast majority of clients on call such that they're closed out before going into deficit, assuming they don't pay their margin.

The slide shows the close-out monitor stats for January 14, which was quite a volatile day with an intra-day fall of about 6.5%. Clients get the first margin call email at the point their margin dips below 100%, of the requirement and a follow-up email is sent at the 75% threshold. And then they're subject to being closed out if their margin falls below the 50% threshold.

We first introduced this new approach in the UK in early November and finished rolling it out across all markets in Australia yesterday. And you can see from the stats that on that day last week, about 1,000 first-call emails were sent but only 75 clients needed actually to be closed out, meaning that the vast majority of clients either paid margin or reduced their positions, or closed them. The total debit balance that arose from closing out those 75 clients was less than GBP300, so hence no bad debt.

Bringing that right up-to-date, yesterday we saw the kind of extraordinary volatility in certain UK and Irish bank stocks that we saw back in October; RBS dropped over 60% on the day, I think, following a 25% fall last Friday. The automated margin call and close-out process worked extremely well; effectively we didn't have any deficits on clients that are on that system.

The clients that we choose not to put on that process, and that's effectively the clients we know a lot more about, or the larger clients, are given 24 hours to pay margin calls before we close their positions. And as at close yesterday, we had approximately GBP2 million owing and we expect to collect a good proportion of that by 3 pm today and thereafter.

By contrast, the accounts in deficit at the height of the October market turmoil amounted to around GBP35 million. So we're very pleased with the changes that we've made and the fact that, that has clearly reduced our credit risk going forward. At that point, I'll hand you back to Tim. Thank you.

Tim Howkins: Thanks, Steve. So a common question we get asked is, we've now got both market turmoil and economic downturn; what impact is that having on your clients' behaviour? As we've said several times, we've seen a progressive shift of clients out of trading single stocks, the bit of the business which grew fastest through the equity bull market, up-shifted into indices and currencies, and now currencies and indices account for almost 70% of revenue.

The slide here just gives you two snapshots of things you might be concerned about. On the left, we look at median client balances and overall, over the last year or so, those figures really very little changed. If you can pick out a trend in that, we've teased apart newer clients, i.e. those that opened their account within three months, and more established clients, there's a very definite upward trend in newer client median account balance. And I think that reflects both generally higher margin rates in recent months and also clients keeping more money on their account in order to avoid the risk of being closed out in severe market moves.

And I think over the year or so that we're showing here, newer account balance median has gone up by about 15%, whereas more established clients has come down by about 2%. If there's any reason for that, other than just random fluctuation, I think it's the fact that the more established clients were historically more biased towards single stocks, which have higher margin requirements, and generally larger cash balances on account. And over time, as that has reduced, the median has reduced very slightly.

And then on the right, we show average daily revenue and these figures exclude FXOnline, because we've gone back to September and we didn't have that business in September. As you can see, average daily revenue peaked in October with the extreme volatility of that month. January so far, and that's up to Friday of last week, the average is certainly well above

that achieved in both September and November and actually not far short of the record levels seen in October. So, so far this month, January is going extremely well in terms of revenue. So I think all we can say about both economic conditions and market conditions is, so far we're not seeing any dramatic change in client behaviour or indeed in client recruitment, which is my next slide.

This is a chart you've seen before, but we've given slightly more detail here. So this shows quarterly account recruitment split between the main segments of the business. So UK spread betting - working up from the bottom, UK spread betting, UK CFDs, Australian CFDs, the six newer offices that we've opened in the last three years and two months' FXOnline. And as you can see, even excluding the benefit of FXOnline, account opening for the last quarter, double what it was in the corresponding quarter a year ago.

Some of that is the benefit of volatility, particularly in October. The week of most extreme market chaos in the second week of October, in the UK we opened about 1,100 UK spread betting accounts, which compares to a typical run rate through the year of more like between 450 and 500. That settled down a bit as volatility returned to more normal levels. Again, just to bring that number right up-to-date, last week we opened just over 600. So again, comfortably over the average through 2008. In the last quarter, all of our geographies hit new records for account opening and I think you can see that coming through all of those.

Again a chart you'll be familiar with, and this is comparing the development of the client bases of each of our seven overseas offices. And the clear trend is still there, that each of the six newer ones are growing at a faster pace than we saw in the early days of Australia. That's most noticeable in the case of France and what we now call our Iberian office; the office formerly known as Spain, but since we opened a Portuguese desk there we have to call it Iberia now. And for the first time, the US is appearing as the yellow line on that chart. And you can see that's really tracking the performance that we saw in Italy, in Singapore and in Germany in its first six or seven months, despite the fact that actually there we spent significantly less on marketing than we have in some of those markets. And that's a subject I'll come back to in a few minutes.

Overall, the six newer offices that we've opened in the last six months, sorry, last three years, contributed GBP18 million of revenue in the six months. That's up from less than GBP3 million a year ago; an increase of over 600%.

The effect of that is that the business is becoming increasingly internationally diversified. For the period as a whole, GBP48 million of revenue or 39% financial revenue coming from outside the UK. And actually in the last two months, which is what the pie chart on the right-hand side shows, following the acquisition of FXOnline at the beginning of October, pretty much exactly half of our financial revenue coming from outside the UK; that includes a third of financial revenue coming from the Asia Pacific region. So we now have a significant presence in that part of the world, which I think will be increasingly important for us going forward.

So FXOnline; still early days, but in the first two months of our ownership it delivered over GBP10 million of revenue. That figure does benefit from extreme volatility in the yen and, of course, a Japanese Forex client base predominantly trades the yen. So October was extremely strong and settling back to more normal levels in November and subsequently. Within that GBP10.2 million figure is a little over GBP1.5 million of revenue synergies, which is the benefit of putting their FX flow on to our hedging model rather than their existing rather inefficient hedging model. That doesn't increase our overall market risk. We haven't increased our risk limits; we're simply putting more throughput through the existing model.

We're still using FXOnline's platform, but in December we moved it to run on servers sitting within our own data centers which gives us much greater control over that software. And that produces a cost synergy from the middle of December, because we reduce our payments to the third-party software provider, and that cost synergy increases with time as we begin to move clients on to PureDeal. That move on to PureDeal starts in a few weeks' time in February and also in February we'll be launching CFDs.

I think there's a big opportunity there, both introducing a more sophisticated platform and also offering CFDs, which is really a brand new product in Japan. So we will be supporting that launch with quite a significant marketing campaign through March, April and early May. But that's in the cost guidance that Steve's already given you.

And then finally white labels, which again is a subject I'll come back to. We've been talking to a number of potential partners, both in Japan and in some of the nearby, or at least one of the nearby countries in that region, for some months now. The nature of white label conversations is, they tend to be quite protracted. Some of these conversations started back in June or July of this year -- of last year and they're still ongoing. But we're hopeful that some of those will come to fruition reasonably soon in terms of concluding a deal. But even once you've concluded the deal it takes some months to implement that. So this is really a subject much more for the next financial year than it is for the second half.

The US business - you'll recall that we've got two businesses there, IG Markets Inc. and Hedge Street, and the yellow line that we showed you earlier of clients trading is for IG Markets. And that business at the moment is just a business of OTC Forex and has grown, as the chart showed you, at a very similar rate to some of our European offices, for instance Italy. And that's despite really significantly lower marketing spend in the US than we had to commit in some of those European countries. And I think the reason for that is that the Forex product that we're offering is very well established in the US, so we're not doing a consumer education job, we're merely recruiting clients who are already aware of the product. Whereas in Europe, we're having to educate clients about something that they've never heard of before.

Having established that there is demand in the US, and that we're able to service those clients well, we are planning to test higher levels of marketing in that market in the second half with a view to setting out budgets for the following year. Again, the impact of those tests included in the cost guidance that Steve's given you, but it won't be that much.

Hedge Street is still a slow burn; we are progressively extending the product set. We've added both binaries and bungees, based on the FTSE and DAX indices, and we've got another suite of indices to come. We're in the process of concluding a licensing deal with another exchange, which allows us to offer another range of equity indices. And at that point, we will have quite a full product set and you'll be able to trade them in two forms; both as a binary option and also as a bungee.

Some of you will have heard me talk about brackets before, and a bracket is a scalar product but with effectively a stop-loss and stop-win at either end of the scale. And that stop-loss and stop-win can take two forms; it can be a hard knock-out or it can exhibit bungee characteristics. In other words, if you go through the stop but then come back within it, you're not closed out. You're only closed out if, at the settlement date and time, it's through the stop. The next step is to give IG Markets Inc. the ability to offer the Hedge Street product set and PureDMA, which is a new platform which we're about to launch, gives us the technology to allow us to do that. So once IG Markets Inc. has PureDMA, it will be able to offer both its existing OTC Forex product set and the Hedge Street on-exchange product set traded direct market access.

That will start some time in April of this year and at that point we've really got an offering in IG Markets Inc., which is not the full product set that we're offering in the rest of the world, but it's actually getting quite close to it. So you've got a decent set of Forex and indices products both in a scalar form and in a binary option form.

So, for the future, our immediate focus for the next six months is going to be growing all of the existing markets, in particular the newer offices which clearly still have the ability to achieve very high levels of growth. And that's about all those good subjects; marketing, public relations and client education. And those will continue to be the main focus in all of those markets for the foreseeable future.

The one new market that we're most advanced with is Sweden. Again, that won't launch in the next six months but will open very early in the new financial year and that's probably the last of the new territories that we'll do in Europe, at least for now.

We know that one of our competitors has had some success in that market. It's certainly a market where there is a very large appetite for trading financial products online, so we think that can be another good market for us, despite its relatively small size.

There are several new product and platform initiatives too. The only one I'm going to mention is PureDMA, which is a direct market access version of our PureDeal platform. Most of you will know we already have a DMA platform, L2, but that is aimed very much at the sophisticated professional trader. PureDMA will be a much simpler form of DMA trading with only the most basic order types, very much aimed at a retail market. And that, we think, will be particularly popular in Australia where, for various historic reasons, there is huge demand for DMA trading. It launches in Australia next week and then will be progressively rolled out, in a slightly lower key way, around the world.

And then finally, just to return to the white label subject. This is a relatively new subject for us because we've historically not pursued white labels in the UK market, given our dominant market share in that market. However, we think it's a very good way of entering new markets, either where we don't have a physical presence or where we haven't yet established our brand to any great extent. And we are, therefore, talking to most of the main online stock brokers around Europe and in several places in Asia Pacific. We've already signed up one or two of those. The only one I can actually mention by name is Bourse Direct, which has been live now for a couple of months. They're the fourth largest online stockbroker in France. They started marketing their CFD offering, or our CFD offering, literally last week, so it's very early days there. But there are many more of these deals in the pipeline.

As I said, these tend to take a little while first of all to get to agreement, and then once you've reached agreement, to be implemented. So, I think this is more a subject for the next financial year than it is for the second half. To give you some sense of the current scale, we generated 1% of our revenue in November from white labels. That is admittedly small, but that's up from 0.5% in September, so it's growing at a decent rate.

So, in summary, all of our financial businesses are growing and some of the newer businesses in particular are growing at extremely strong rates. That growth driven by record levels of account opening and that continues to be, in our view, the best lead indicator of the future prospects of the business.

As Steve's mentioned, we've taken significant steps in changing our approach to managing credit risk. And that's dramatically reduced the incidence of bad debts, since it's been in place, despite some very, very chaotic markets in banks over the last few days.

Overseas businesses are now contributing very strongly to the business and we see that growth continuing. Current trading is very strong, both in terms of revenue and in terms of account opening.

And with that, I'll hand over to you and we'll start, I think, by taking questions from the phones, if we have any.

Question and Answer Session

Question 1

Gurjit Kambo, Numis: Just in terms of Japan and your CFDs you're looking to offer them next month, have you any initial feedback on the demand or appetite? And are there any other competitors who are looking to offer similar products?

Answer: You've got several competitors taking their first steps in that market. CMC have an office there, Saxo have an office there, ODL have an office as well. None of those have been going very long. I think it's too early to judge what client appetite is. All I can say at this stage is we are seeing huge interest from the online securities firms. Quite often it's them approaching us rather than us having to go and knock on their doors. I think that's an indication that at least they think the CFD product will over time be [successful].

Question 2

Katrina Preston, Canaccord; Hi, Katrina Preston from Canaccord. I've got another question on Japan, which is the -- have you got any guidance on run rate operating margins because the operating margins looked like there was about 70% from that business in the first half? I don't know how much of that was from exceptionally high revenues and whether, longer term, we can still expect that business to generate higher margins than the rest of the Group on the basis of synergies?

Answer: I don't think it would be realistic to expect that we can sustain the 70% margin. I think you should expect that margin to come downwards. Not least because we're going for quite a big marketing splurge on the back of launching CFD. So there's going to be a bit of lag of costs going in before revenue.

The business has not quite been run on a shoestring, but it's certainly been run pretty lean for the last couple of years. So we're having to move to new offices as we expand customer service and some of those support missions. So I think, generally, not just marketing but general operating costs will go up a bit over the next year.

Further Question: So structurally there's no reason why it should generate a different level of profits from the other businesses?

Answer: No.

Question 3

Patrick Hargreaves, Goldman Sachs: Yes, morning, it's Patrick Hargreaves from Goldman Sachs. Three questions if I may? Firstly on the bad debt issue; obviously the situation's improved markedly post period-end. On the basis of what you've seen so far since your auto stop-loss implementation policy has been rolled out, would you expect bad debts in the second half to come in at or below the historical norms ex-ing out October? Or do you think we're going to see a slightly higher structural level just because of the volatility in the markets?

Answer: No, we'd certainly expect it to be below historic levels.

Further Question: Okay, good. Secondly, sports betting obviously a small part of your business, but I was just wondering if you could give some colour on what you're seeing in terms of demand? Why you think demand has fallen off and what your expectations or hopes are for the re-launch later in the year?

Answer: I think the slowdown is a combination of things. In terms of our offering, what we've been offering for the last few years is very much our old financial platform with sport crammed into it. And it looks very much like a financial dealing platform rather than a sports dealing platform. And that's what we're addressing with the new launch in March as part of what we're addressing.

You've also got two separate businesses, Extrabet, which has quite a flighty client base, a lot of clients who come along and do one or two bets and then disappear. And then you've got the spread betting client base which is characterized by very low recruitment of new clients and just a long-established, very loyal client base.

Curiously, that client base has been much more affected by financial market turmoil than the financial client base. And certainly we know there's a number of our bigger sports betting clients aren't betting. And the reason for that is they've lost a lot on the financial markets.

The future for that business, yes, it's never a business that's going to achieve the sorts of growth rates that we're consistently delivering in the financial business. So it will progressively become a smaller percentage of the whole. I do think, with the re-launch we're doing in March, we can do something to reinvigorate it. But that's probably getting it back to high, single digit growth, it's not getting it up to the sorts of growth we're seeing in the financial business.

Further Question: And finally, just to revert to Japan again; apologies for this. But obviously you say you benefited from the exceptional volatility of the yen during the period. If you were to be able to somehow disaggregate that, what do you think the revenue run rate is? Because obviously GBP5 million a month for the first couple of months are well ahead of where we were before. Is the underlying run rate actually nearer GBP4 million? What's your view of the underlying rate for the second half?

Answer: Yes, it's quite hard to come up with a run rate based on two or three months of ownership. But the underlying run rate is probably more like GBP3.5 million to GBP4 million than it is GBP5 million.

Question 4

Sarah Ing, Singers: Good morning, Sarah Ing from Singers. Just on the balance sheet, I notice a big reduction in trade debtors and trade payables. Could you comment on that and if those changes are thought to be permanent or whether there might be any reversal going forward?

Answer; Yes, it's really a reflection of the shift in mix of what clients are trading. We've mentioned that, I think last year, a rough split of businesses was about 35% was single stock equity positions. That dropped to something like 18% in the first half of this year. And there's also been a move away, partly instigated by ourselves, of clients with large, single stock positions.

And that flows through to overall client balances that we show in creditors, and the trade debtor, i.e. the money that we have with our hedging brokers. So in essence it's a reflection of the mix of the business. And, as Tim mentioned earlier, the medium balance on client accounts hasn't really changed during the period.

Question 5

Richard Taylor, Citigroup: Yes hi, it's Richard Taylor from Citigroup. I think you've answered most of this through the presentation, but can you just give us a split in the first half of Forex indices, single stocks, and then whatever's in the tail?

Answer: Yes, first half was about 40% indices, 28% FX, 18% shares, about 7% commodities, 3% sport.

Further Question: Does that include FXONLINE or not?

Answer: Yes. But only for two months. So if you look at that on a run rate basis, FX is going to be up at 30%, 35%.

Question 6

Martin Price, Merrill Lynch: Good morning, Martin Price from Merrill Lynch. I was just wondering if you could say anything about the change in concentration of revenues amongst the client base over the first six months of the current financial year? And how that's evolved since period-end?

Answer: We're not actually seeing that much change in concentration across the period. We do have some larger clients; the top 10 probably account for around 7%, 8% of revenue. In there there's a small competitor that hedges with us, but thereafter it falls off pretty quickly. And certainly the last time I looked at this, two or three months ago, there was very little move in that concentration, some of the actual names have changed. Some of the clients who were big equity traders have disappeared and they've been replaced by people who are big FX and indices traders.

Any more? Good. If there are no more questions then thank you very much. Obviously, as usual we're happy to stay around without microphones and answer any other questions you have.