



Cost Analysis

Capital Markets Day

May 2018

Part 1

Cost Analysis

Part I

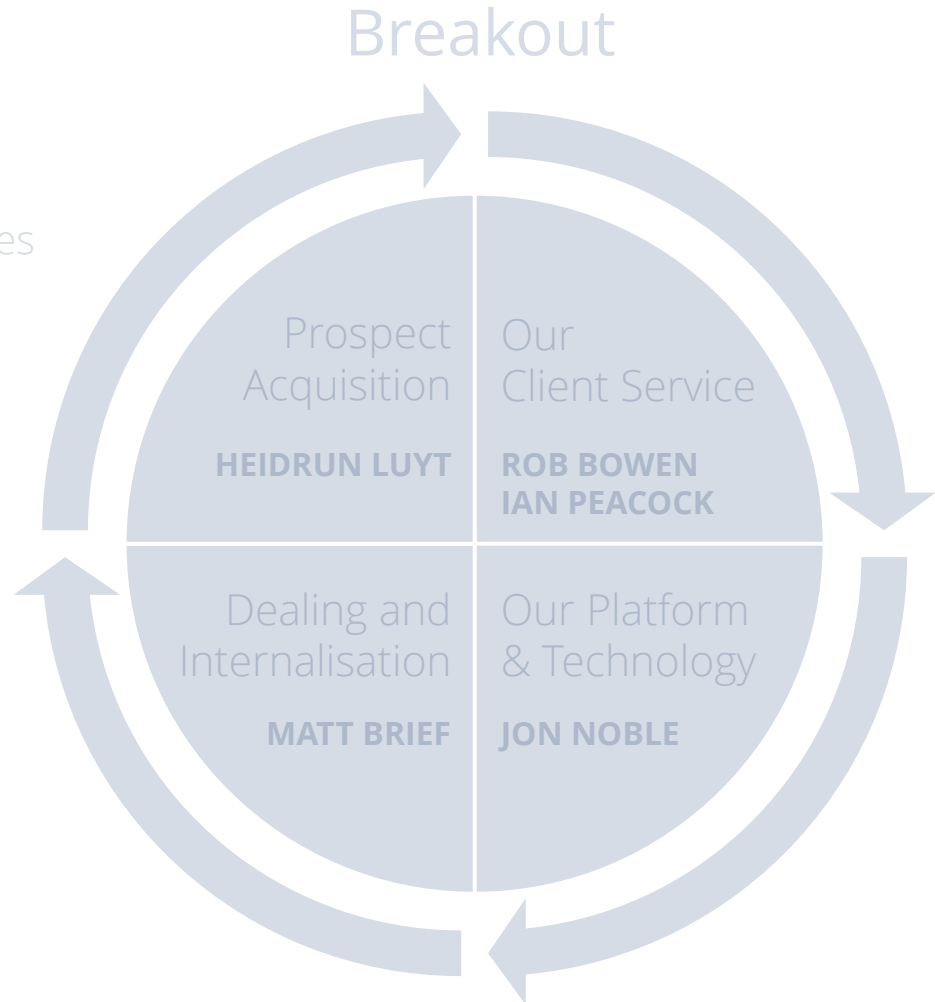
Introduction: Vision and Values
PETER HETHERINGTON

Risk Management
JOE McCAUGHRAN

Cost Analysis
PAUL MAINWARING

Regulatory Landscape
PETER HETHERINGTON

Q&A



Part II

Growth Opportunities
BRIDGET MESSER

Conclusion
PETER HETHERINGTON

Q&A

Summary Income Statement

£m	FY17	FY16	FY15	FY14	Change	CAGR
Net trading revenue	491.1	456.3	388.4	370.4	120.7	10%
Net interest on client money	4.0	3.4	4.5	5.5		
Betting duty and FTT	(7.5)	(11.2)	(6.3)	(3.8)		
Other operating income	1.9	0.6	0.6	2.2		
Net operating income	489.5	449.1	387.2	374.2		
Operating expenses	(252.5)	(211.3)	(197.3)	(154.5)	(98.0)	18%
Variable remuneration	(23.6)	(30.1)	(20.3)	(24.3)		
Total operating costs	(276.1)	(241.4)	(217.6)	(178.8)		
Operating profit	213.4	207.6	169.5	195.4		
<i>Operating profit margin</i>	<i>43.5%</i>	<i>45.6%</i>	<i>43.7%</i>	<i>52.8%</i>		

	FY18 expected	FY19 guidance
Operating expenses	£254m	Higher
Variable remuneration	£36m	Lower
Total operating costs	£290m	≈

Operating expenses - by activity

To give more clarity on our costs, and the drivers of cost, we have split the cost base into the following activities:

Prospect Acquisition

Cost of acquiring new clients, which includes external marketing spend, internal marketing headcount and Daily FX

Sales and Client Service

Cost of servicing and retaining our client base, which includes all sales and client service headcount and retention marketing spend

Technology and Innovation

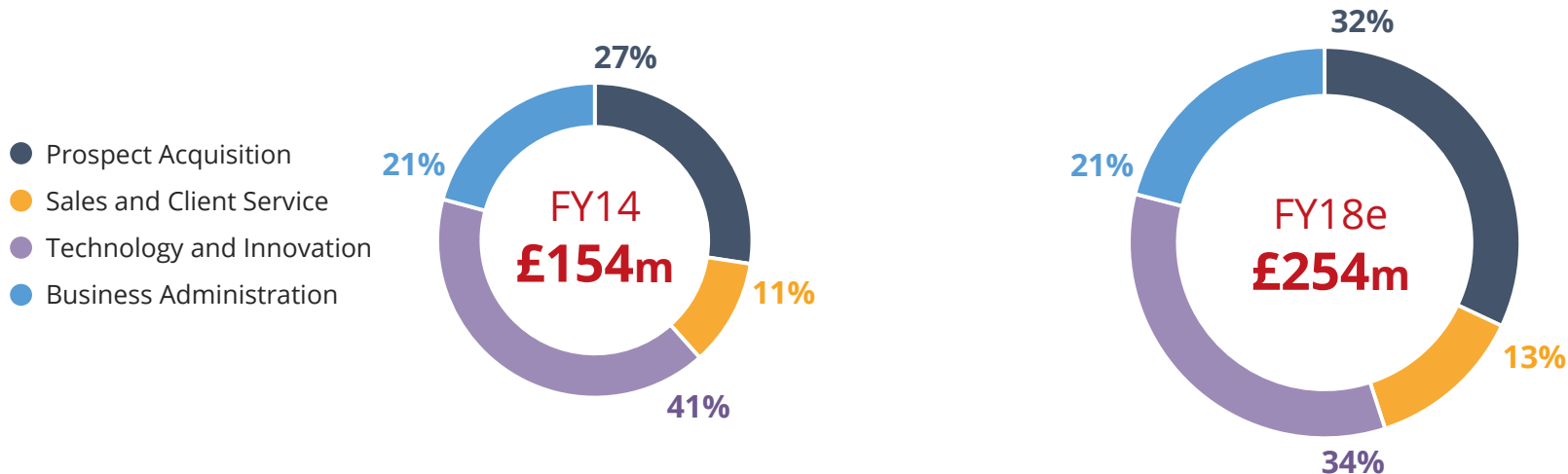
Cost of providing and developing the platform and product, which includes all office infrastructure costs, all IT and dealing costs and headcount, including product and platform development

Business Administration

Cost associated with governance, support and control, including corporate activities

Operating expenses - by activity

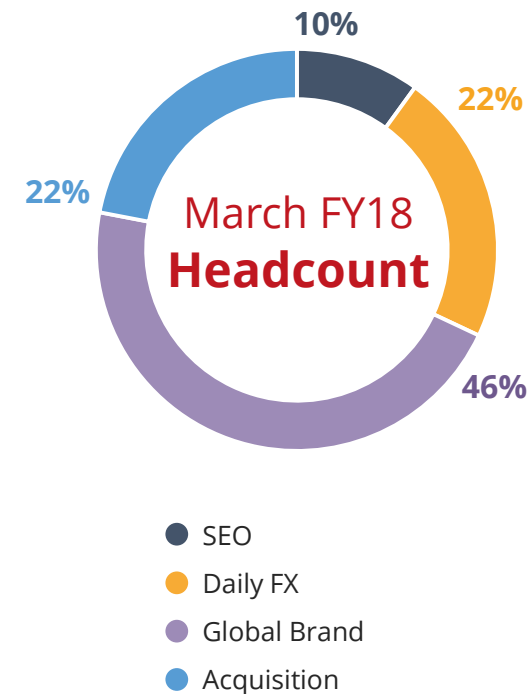
	FY18e		FY17		FY14	
	£m	% of revenue ¹	£m	% of revenue	£m	% of revenue
Prospect Acquisition	82	15%	86	18%	42	11%
Sales and Client Service	33	6%	30	6%	17	5%
Technology and Innovation	87	15%	91	19%	63	17%
Business Administration	52	9%	46	9%	32	9%
Operating expenses	254	45%	253	52%	154	42%



1 - Assuming revenue of £565m

Prospect Acquisition

£m	FY18e	FY17	FY14
Headcount at year end	200*	191	126
Fixed remuneration	10	11	5
Advertising and marketing	59	63	32
Irrecoverable sales taxes	9	10	5
Amortisation (Daily FX)	4	2	-
Total	82	86	42



John Austin, Chief Analytics Officer

“ We apply science and data analytics to target and to optimise our investment in prospect acquisition. The leads we generate result in high quality new clients, who we expect to trade with IG for a number of years. ”

* March FY18 headcount

The numbers presented have been rounded, this may lead to differences between subtotals and the sum of individual numbers

Prospect Acquisition

Cost per first trade efficiency and effectiveness metrics

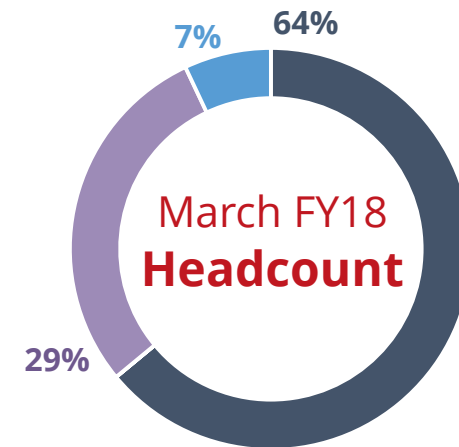
Cost per first trade £	FY18e	FY17	FY16
Efficiency metric			
All accounts ¹	1,000	1,200	1,200
OTC leveraged equivalent accounts ²	1,400	1,400	1,300
Effectiveness metric			
OTC leveraged equivalent accounts ³	1,700	1,650	1,600

Cost per first trade definitions

- 1) Total external marketing spend including irrecoverable VAT divided by first trades in the period (excludes Nadex)
- 2) Total external marketing spend including irrecoverable VAT divided by first trades in the period, down-weighting non-leveraged first trades to 0.2 in the denominator to reflect the lower value of these clients (excludes Nadex)
- 3) Total prospect acquisition cost divided by first trades in the period, down-weighting non-leveraged first trades to 0.2 in the denominator to reflect the lower value of these clients (excludes Nadex)

Sales and Client Service

£m	FY18e	FY17	FY14
Headcount at year end	474*	441	316
Fixed remuneration	24	24	16
Advertising and marketing	1	1	-
Payment charges	7	4	1
Total	33	30	17



- Client relationship management
- Sales and conversion
- Client strategy, communications and research

Bridget Messer, Chief Commercial Officer

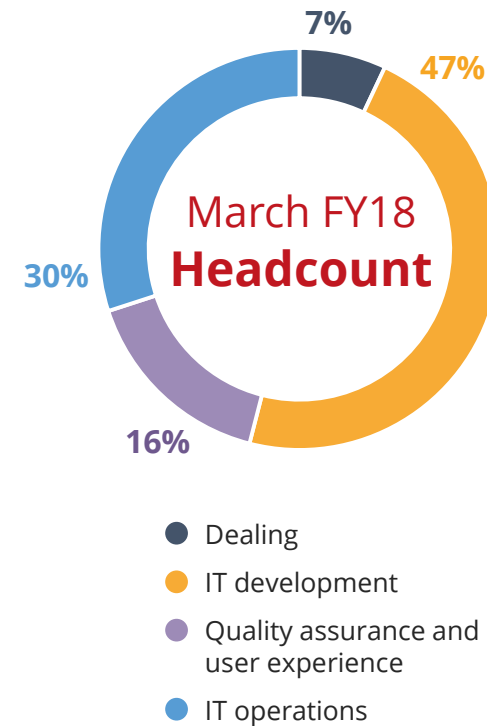
“ I am proud that one of our values is to champion the client. High quality client service is part of the DNA of IG and we aim to instill that value in to all our staff. ”

* March FY18 headcount

The numbers presented have been rounded, this may lead to differences between subtotals and the sum of individual numbers

Technology and Innovation

£m	FY18e	FY17	FY14
Headcount at year end	741*	684	562
Fixed remuneration	40	40	30
IT maintenance and communications	13	14	8
Premises	13	13	10
Market data	9	10	6
Depreciation and Amortisation	12	14	9
Total	87	91	63



Jon Noble, Chief Information Officer

“ The quality and sophistication of our proprietary platform, and our market leading product coverage, are key competitive advantages. Our resilient technology and speed of execution is critical to our internalisation and hedging model. ”

* March FY18 headcount

The numbers presented have been rounded, this may lead to differences between subtotals and the sum of individual numbers

Business Administration

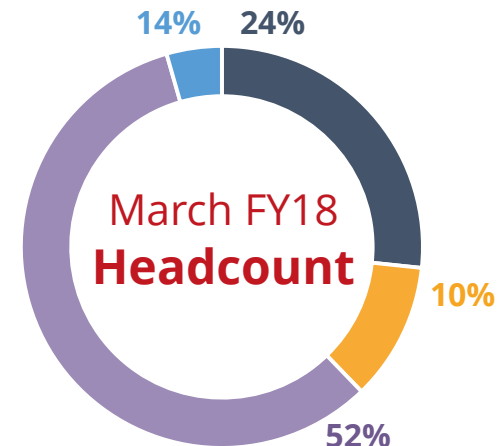
£m	FY18e	FY17	FY14
Headcount at year end	255*	230	149
Fixed remuneration	20	21	13
Regulatory fees	6	2	5
Legal and professional fees	8	8	4
Staff expenses, travel and training	8	6	5
Irrecoverable sales taxes	4	4	3
Other, including bad debt provision	5	4	2
Total	52	46	32

Joe McCaughran, Chief Risk Officer

“ IG Group recognises the value that good governance, and good risk and control functions bring to the business. We aim to provide a strong foundation for the business to develop and grow, and to give confidence to all our stakeholders that we have effective controls over our risks. ”

* March FY18 headcount

The numbers presented have been rounded, this may lead to differences between subtotals and the sum of individual numbers



- Risk and compliance
- Other corporate
- Finance
- Human resources

Variable remuneration

£m	FY18e	FY17	FY16	FY15	FY14
Share based compensation	9	8	8	7	7
Sales bonuses	5	4	3	3	3
General bonuses	22	13	19	14	14
Total variable remuneration	36	24	30	24	24

The numbers presented have been rounded, this may lead to differences between subtotals and the sum of individual numbers

Headcount and location strategy

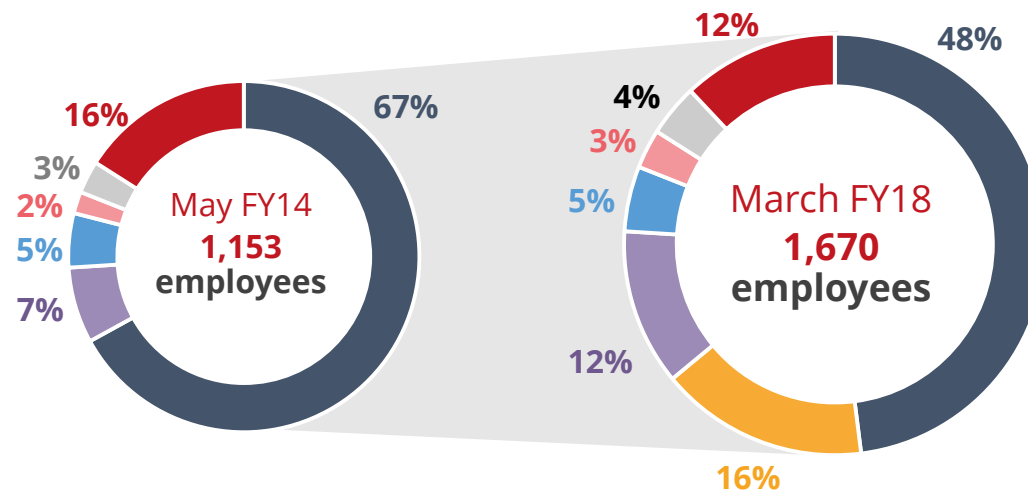
Operational Hubs	London	Krakov	Bangalore	Melbourne	Johannesburg	USA	Sales offices
Client recruitment	91	33	0	10	3	24	39
Sales and client service	143	53	31	56	39	36	116
Technology and Innovation	436	125	161	13	0	3	3
Business administration	130	62	9	14	1	1	38
Headcount by location: March FY18	800	273	201	93	43	64	196
Total May FY14	775	0	76	58	23	39	182

Operational Hubs:

- London
- Krakow
- Bangalore
- Melbourne
- Johannesburg

Other:

- USA
- Sales offices



Conclusion

- We manage our costs to strike a balance between short term and long term value
 - a significant proportion of our costs drive benefits over many years
- We manage our costs to ensure the spend is effective in:
 - driving future growth
 - providing an excellent client experience
 - maintaining and extending our competitive advantage
 - ensuring our business is sustainable
- Over the medium term we expect our costs to increase at a slower rate than revenue