



IG Group plc

Q1 FY19 Revenue Update

Thursday 20th September 2018

Paul Mainwaring, Chief Financial Officer

Good morning everyone thank you for joining the call. You've seen today we have issued our scheduled Q1 revenue update, giving you the revenue for the first quarter of our FY19 financial year compared with the first quarter of FY18, with a couple of metrics update on where we are with professional clients and this period also covers the first month of the ESMA measures relating to CFDs coming into effect from the first of August. This is a short statement, I'm sure you've read it so Liz and I are happy to take any questions.

Q&A

Question 1

Haley Tam, Citi Group

Morning everyone. Two questions please. First of all in terms of more than fifty percent of revenue coming from professional clients in Q1. I just wondered whether you had an expectation of that number to go up from here and then secondly, given that shift towards professional clients, I just wondered if you could help us understand the fall in revenue per client for the EMEA clients year on year because I would have expected maybe that to go up like the UK one did. Thank you.

Paul Mainwaring, Chief Financial Officer

Okay. So on the fifty percent from pro, as you remember we've always looked at the historical revenue and said at the end of the period taking into account those clients who are professional at the end of this period how much revenue came from those professional clients, that has as you know been growing over the course of the last few months with more people who have opted up. The extent to which it continues to grow will obviously depend upon how many new retail clients we on board and the level of trading that our retail clients undertake. So that isn't a metric we're going to make a judgement on. But we clearly have got the significant part of our revenue safe harboured through professional clients.

On the second question about the revenue per client, the revenue per client clearly does depend upon a number of factors including the level of activity that the clients undertake and there is no doubt that this quarter has been a more quiet quarter than its comparable period. The reason why the revenue per client is lower in EMEA relative to the small increase in the

UK. I think largely reflects the fact that as a proportion of the UK, there are more professional clients than we have in EMEA.

Haley Tam, Citi Group

That's very clear thank you.

Question 2

Alistair Ross, Investec

Morning guys. Paul just a quick one on the back of that first question. In terms of the fifty percent, what does it look like in the last month? I meant that was over the last quarter. It feels like it should be well over fifty percent and probably trending upwards so if you can comment on that it would be great because you know clearly I think that everyone is focused on that number. Secondly just in terms of crypto, I think Q1 18 was a fairly quiet quarter but you know Q1 19, it feels like it might be even quieter than Q1 18 in terms of crypto. How is that trending and you know what is the expectation for the rest of the year? It feels like that's fallen off a cliff and is isn't due to come back. But if you could comment on whether you've lost those customers, whether they might be trading, you know other products etcetera, whether they've lost all their money and therefore they are not trading anything. And then the last one is just on the ten percent. You comment on the reduction of approximately ten percent on historic revenue. If you could just comment on mitigation. Clearly you guys have looked at mitigation in the past. Stating the sort of the six points of mitigation at the full year results. Clearly is the ten percent pre or post mitigation and you know what should we expect in terms of mitigation if you can comment on that. Pretty sure that you probably can't.

Paul Mainwaring, Chief Financial Officer

Okay so let's take those in turn. Let's take the professional clients. The proportion of our revenue in the UK and EU that came from professional clients in the period after the ESMA measures were introduced, was well in excess of fifty percent, reflecting the impact of the reduction in the volumes undertaken by retail clients. That's absolutely right. There's another metric that we use, which is just looking back at the period prior to the introduction of the ESMA measures and it was fifty percent for that, for that period so, I mean I do appreciate everyone is focused upon that. We are rather hoping that we'll stop using that proportion and we'll simply have to disclose the impact or the revenue that comes from pros or the revenue that comes from retail, which I think we are likely to move to in the future.

On crypto, there was more crypto revenue in Q1 FY18 than in Q1 FY19 by about four million pounds. Look as we've said many, many times, it's really not appropriate to try to read a trend from looking at what happens in one particular part of one asset class, but clearly the excitement and the level of opportunity for clients to trade crypto currencies is lower now than it was and we expect that the run rate that we've got for now is likely to continue up, unless factors change in crypto, I can't see that, that would change significantly, so we are going to be reporting against some periods where the level of revenue related to crypto trading by clients was much higher, particularly in Q3, but clients will trade what's interesting and at the moment, despite all the world events, the markets are generally less interesting for clients than they were this time last year. But as ever, there will be times during the year when it will be more interesting so we'll have to wait and see what happens with that one.

On mitigation, look there's a number of things that clients can do and that we are doing. Our product innovation has not yet really had any significant impact, that there are a number of

things that you know we're doing that will come live, largely in the second half of the year. In terms of what clients do to mitigate the impact upon them, that's really why we're saying it's not possible to draw firm conclusions because it's going to take a little while for clients to fully adapt, fully adjust to the ESMA measures and we see, what clients do in response, we need a little more data to be really able to be, to draw firm conclusions from what we think clients are going to do.

Alistair Ross, Investec

And just in terms of that, so things that come live in H219, are you referring to self-help in terms of MTF and US retail FX.

Paul Mainwaring, Chief Financial Officer

Yes, US retail FX, we expect to come live, we hope that the MTF will be live by the end of the financial year. And we've got a number, as always, we're always looking at offering new markets to clients and interesting and innovative instruments through which they can trade and we will be launching different venue types of products during the year as well.

Alistair Ross, Investec

And just in terms of that run rate for crypto because just for the week in week we can model the 36 falling to X if we do take a run rate. What is the run rate revenue or what is the Q1 19 crypto

Paul Mainwaring, Chief Financial Officer

I'm just going to find my, yes I think, I would expect that our crypto revenue, if I were to extrapolate, Q1 FY19 would be about ten million quid.

Alistair Ross, Investec

Brilliant thank you.

Question 3

Anthony Da Costa, Peel Hunt

Morning everyone, so two questions if I may. The first is on some client numbers, if you could just give us some more flavour about sort of the fall and what sort of is leading to the attribution of the fall. I'm assuming it's got to do with crypto and sort of retail activity going down potentially, and then the second question is on retail client behaviour, I know it's still early but what sort of behaviours have you noticed in the last month. Thank you.

Paul Mainwaring, Chief Financial Officer

Okay so on client numbers, what we show is the number of clients who are active in the quarter, but that's not an indication of the number of people who could trade, it's the indication of the number of people who have traded, and we do find that when there are fewer opportunities in the market that clients are interested in, they, we tend to see lower client numbers, as well as lower revenue per client, so there's no particular trend that we would withdraw from that. We have recruited our new clients to a similar level to the past in the

quarter. I think that that is a reflection of what opportunities clients could see in the market. Remind me of the second question.

Anthony Da Costa, Peel Hunt

The second question is what sort of retail client behaviour have you seen since August, what are they doing, are they posting more margin, are they just sort of leaving things as it is? What behaviour has sort of been shown so far?

Paul Mainwaring, Chief Financial Officer

Well that's where we are not yet drawing our conclusions because we think it would be, we're likely to be incorrect if we simply take the behaviour of clients in August so one factor is, there are some retail clients who were unable or unwilling to wish to elect to be a professional and some of those clients have taken action by opening accounts with other entities in the group. It's too early for us to say or to set out what retail clients, contracting to EU and UK entities have done. We think we need another month, couple of month's data to be able to be clear.

Anthony Da Costa, Peel Hunt

And was there sort of noticeable uptake in client enquiries to turn to professional following the rules just because they would have seen the impact?

Paul Mainwaring, Chief Financial Officer

I don't exactly have the application numbers in my head or in front of me but there certainly was an increase in applications for people to elect to be a professional in the immediate run up to the rules becoming effective and we continue to see a steady stream of applications.

Anthony Da Costa, Peel Hunt

Thank you very much.

Question 4

Paul McGinnis, Shore Capital

Morning Paul, it's kind of a question along similar lines, sorry I did join the call slightly late so apologies if this has been asked already. But within your sort of minus ten percent of like for like guidance sort of within that was a figure specifically for retail clients who don't or can't convert across of minus thirty four percent. It might be because August is such a short period that you don't want to share whether that has or hasn't proved to be a reasonable stab so far and then just added on to that is there anything so far that has surprised you positively or negative as a group since the first of August?

Paul Mainwaring, Chief Financial Officer

You're right about the thirty four percent in terms of those who aren't aware or familiar with that in the Capital Markets Day presentation help within the regulatory landscape section, that is set out on slide thirteen of that section which is on the website for those who want to see the calculation and you are right that we are not yet drawing conclusions about the thirty four percent relative to what happened in August. So either way, we wanted to get more data to be able to understand what we really think is happening there, to be able to draw a firm

conclusion and the answer to the second question is no. Nothing really, we expected what happened. We always anticipated that there would be a reduction in the level of trading undertaken by retail clients, hence the thirty four percent. But the thirty four percent is not measured on one day or on one month, it's measured as the impact that we think would have happened to a historical period and we just simply have not got enough data and we also have to try to disentangle the effect of market conditions on opportunities to trade and we just have not got enough data yet to be able to ascertain where we are with that. I mean it has been a quieter period generally than last year. We are going to need a bit more data to be able to give you a better understanding of what has actually happened as a result of ESMA.

Paul McGinnis, Shore Capital

Okay thanks Paul.

Question 5

Arathy Nair, Thomson Reuters

Hi this is Arathy, Hello.

Paul Mainwaring, Chief Financial Officer

Hi.

Arathy Nair, Thomson Reuters

Hi, so I just had a couple of quick questions my first one I wanted to get across was are you looking to focus on any other geographies given the trends in EU and UK?

Paul Mainwaring, Chief Financial Officer

Yes absolutely, we are a global business, because of the changes in the regulatory landscape, we have spent an awful lot of time talking about the UK and EU for the past couple of years. We have a very substantial business in Asia-Pacific, which we continue to focus on developing. We will open our US retail FX business. I think early in H2, I think is our expectation and we continue to look for opportunities to market our product where we have the licence and is correct to do so in other territories around the world. And we establish separately regulated legal entities in places like Switzerland and in Dubai. We're in South Africa so we are always looking to expand our services to all the geographies where we think it's suitable.

Arathy Nair, Thomson Reuters

Alright, perfect, thank you and just on Brexit as well I see that the licence to the German subsidiary has been received and I was wondering have you been taking any other measures, are you prepping in any other way besides the subsidiary of course for Brexit?

Paul Mainwaring, Chief Financial Officer

In terms of how we operate the business, having the subsid within the EU, because currently all of our European business, all of our EU business, I beg your pardon, is conducted through IG markets, which is the UK legal entity through the passporting regime so the purpose of the subsid in Germany is so our clients can contract with an EU headquarters subsidiary. That's the main issue that we need to deal with and just to be clear we've received a licence in principle it's subject to us satisfying three very standard conditions and so it will happen, we haven't actually got the licence yet, and the subsidiary isn't yet open, but that's our Brexit action and that's all that we think we would need to take, obviously in the event of a hard Brexit, whatever that might mean, there may be some other actions that we choose to take, but we're not planning on that right now.

Arathy Nair, Thomson Reuters

Alright sorry, what sort of other actions could these be in trying to get a sense of what these are?

Paul Mainwaring, Chief Financial Officer

Well we have all kinds of different contingencies that we could operate. We have our strategy in place so that we have an EU subsidiary for clients to contract to, if we find that we want to move existing clients, then that's one of the contingencies that we might chose to take. It will absolutely depend upon the range of the acts, the depths of the acts will depend upon the terms on which we leave.

Arathy Nair, Thomson Reuters

Alright, alright thank you so much.

Question 6

Ian White, Autonomous Research

Hi morning Paul, thanks for taking my question. Just a simple one from me please. Previously you've given some sort of a heads up on where you see the regulator going next in terms of what's on ESMA's agenda. Are you able to give us any colour at this stage? Presumably the expectation remains that the leverage trading restrictions will be renewed and I think you said previously you expected the regulator to conduct a deep dive on pro client classification. Is there anything further to say there please? Thanks.

Paul Mainwaring, Chief Financial Officer

No none of that's changed. We are fairly planning on the basis that these measures are in effect on an ongoing basis, whether that's through ESMA rolling the product intervention measures or through individual NCA's within the EU adopting them in their own rule book, but we are expecting that this is the environment in which we will be operating and no we are not aware of anything else that ESMA might do. We do expect that our supervisors in the national competent authority will, as they do on a regular basis undertake reviews of how we are conducting our business and we think that one of those is likely to be a review into how we have gone through the process of reviewing client applications to be professional and we would expect that to be the case. We're not aware that they are going to do that, but we would expect that is certainly something they are likely to want to do.

Ian White, Autonomous Research

Understood thanks

Question 7

Ben Williams, Liberum

Morning Paul, Hi. A super boring question Mr McGinnis referred to your slide thirteen from the Capital Markets Day presentation with the minus thirty four percent remember. Can you just remind us how much of that is binaries please?

Paul Mainwaring, Chief Financial Officer

It is inherently included within it. We haven't actually split out the effect of not offering binaries, it's all within that thirty four.

Ben Williams, Liberum

And I see to remember that you said that there were just under five percent of revenues from the previous full fiscal year is that right?

Paul Mainwaring, Chief Financial Officer

For which geography?

Ben Williams, Liberum

I think that was a group number.

Paul Mainwaring, Chief Financial Officer

Yes so the binaries and options revenue that we disclosed, would cover the world if you are looking at the asset, at the revenue by asset class disclosure that we've done. That option of revenue is for the world rather than just the UK and EU. I mean look the withdrawal of binary options to a retail client. It's not a big deal, I mean it's nothing like as significant as the leverage restrictions

Ben Williams, Liberum

Understood. Thank you very much.

Conclusion

Thank you guys all very much. Thanks for joining, as ever if you have any further questions or follow ups do please get hold of Liz.

Yep I'm round all morning.

All morning and thank you.

Thank you.