IG GROUP

IG Group plc

FY19 Interim Results

Tuesday, 22nd January 2019

June Felix, Chief Executive Officer

I'm June Felix and this is our CFO, Paul Mainwaring. I'm delighted to be standing here today as CEO of IG Group to share with you our first results.

I'm going to add a few details about my background because many of you don't know me very well, so those will be sprinkled throughout the presentation.

First, these presentations include disclaimers and I'll allow you to read these in your own time, but this is standard practice.

I've been leading IG for three months now and I've been really impressed by the great organisation that we have here that has amazing capability to launch innovative new products at amazing pace.

Now, I've worked for about 30 years for many great companies internationally: Citi, Chase, IBM, building and growing businesses around the world, but I have to say in comparison to those companies this company is extremely agile. It has not only the ambition but also the ability to seize opportunities, pivot its business, change the game and introduce new capabilities at an amazing speed.

I am an evidence-based executive, and I've used these last few months to gather information to help us make informed decisions. The evidence that I've gathered so far tells me that we have a really strong business that's very well-positioned for growth and has a number of major competitive advantages.

Later this morning I'm going to share with you some of those strengths that I see but in the meantime Paul is going to take you through the details of our financial performance. Before he does I would like to share with you from a CEO perspective three things:

Firstly, the impact of ESMA measures is in line with what we expected. IG continues to attract new OTC leveraged clients in ESMA and in the rest of world at the same or even better quality than before.

Secondly, we've been successful in growing our business outside of the ESMA region. We enjoyed particularly strong growth in Southeast Asia and in Japan. In Japan we launched a new product, a Knockout product which is really capturing the market and has resulted in double-digit growth in that particular market.

Thirdly, our clients; they're very loyal. 51% of our revenue came from clients that have been with us for more than three years. Now, this is extremely rare in our industry and it means that we will have sustainable, enduring revenue streams, and it's something which we are particularly proud of.

Everything today that we're going to share with you underpins my confidence that we are really well-positioned for growth, that we can build on the successes of the past and evolve for the future.

Let me now hand you over to Paul.

Paul Mainwaring, Chief Financial Officer

Thank you, June, and good morning everyone. I'm going to take you through, as usual, the financial performance and the business performance of the Group in the first half. I am going to go through more detail on revenue than we normally would, so I'm not going to go through the cash flow and the balance sheet. There is plenty of analysis of that in the announcement and the usual slides on all that are in the appendix.

So, let's start with the summary of our financial performance in the half year. Our net trading revenue was £251m, that's 6% lower than in the first half last year, and that reflects the impact of the ESMA measures which came into effect during the first quarter of the year.

Our operating expenses before variable remuneration increased by 4% up to £122.1m and that reflects, as we guided at the end of last year, the Group's continued investment in product and platform development.

Our operating profit was £112.5m, 18% lower, which gives us an operating profit margin of 44.8%.

Now, last year FY18 was a really strong year for the Group and indeed a tough comparative. The first half of FY18 was a record for both revenue and operating profit, and it was surpassed only by an even stronger second half.

So, looking back over a slightly longer timeframe, comparing our performance with the first half of FY17 in the table, and over five years as shown in the charts to the bottom of the slide, the Group's performance in the first half of this year is strong.

Our revenue, our operating profit and our operating margin are, despite the impact of the ESMA measures, all higher than in the first half of FY17.

Our basic earnings per share of 24.9 pence are 16% lower than last year but are 10% higher than in the first half of FY17.

As we said at the end of last year the Board expects to maintain the 43.2 pence per share annual dividend until the Group's earnings allow the Board to resume progressive dividends. This reflects the Board's confidence that the business is well-positioned to continue to deliver sustainable growth and attractive shareholder returns, and the confidence that we expect a return to growth after FY19. We are, therefore, in line with our previous practice paying an interim dividend equal to 30% of the previous year's full-year dividend, and so for FY19 we're paying an interim dividend of 12.9 pence per share.

Let's start looking at the revenue analysis. And the reason we're going to do this in detail is so you can get a good understanding of the impact of the ESMA measures and of the shape of the business with those measures in place.

Now, for the purposes of this analysis and in order to give you more clarity on the impact of the ESMA measures on our revenue we have split our reporting segment of EMEA into two: the EU which has been impacted by the ESMA measures, and EMEA ex-EU which has not, and aggregating the UK and the EU element of EMEA becomes what we're calling the ESMA region.

Also, as we set out in the pre-close statement, during the first half of the year around 1,200 clients who were previously contracting with an entity in the ESMA region elected to open an account with our bank in Switzerland or the business in Australia. Now, the revenue from those clients is reported in the region in which they are contracted. But as those clients have just switched between reporting segments we're also showing the underlying change in revenue for each region, which adjusts for the revenue generated by those clients in FY19 by adding it back to the UK and EU and deducting it from EMEA ex-EU and APAC.

Our OTC leveraged revenue in the first half was £240.1m, 7% lower than last year, driven by the reduction in the ESMA region which reflects the impact of the measures.

Now, the impact of the measures has been, as we expected, more significant in Continental Europe, which is the EU region, than in the UK. Now, we believe that this reflects the alternative trading products that are available to clients on the Continent that are now more attractive than CFDs.

And it was in anticipation of this that we have taken action to introduce new products other than CFDs into the EU market, and June will take you through our European strategy later in this presentation.

Our OTC leverage in the rest of the world was up by 14% as reported, and 7% underlying. We've also delivered growth in revenue from NADEX and from the Group's share dealing and investments business.

Now, before we get into more depth on the revenue changes by region let's have a look at the make-up of the OTC leveraged revenue by asset class.

As we've said many times before clients trade what is interesting and they trade when there are opportunities to trade, and this drives both the absolute level of revenue and changes in the mix of revenue by asset class. In addition in the first half of this year the mix of revenue has been impacted by the ESMA measures which has changed the relative attractiveness to ESMA Retail clients trading in different asset classes, and which has constrained the absolute level of trading by those clients.

So, in this half year revenue from clients trading indices and single-name equities increased by 8% and 12% respectively, and revenue in those asset classes accounts for around two-thirds of the Group's OTC leveraged revenue in the first half.

Our revenue from clients trading FX was 12% lower, all of that reduction is due to lower revenue in FX from ESMA region clients. FX revenue from clients in the rest of the world was slightly higher.

Our revenue from clients trading commodities was down by 28% largely due at lower levels of volatility.

Our revenue from clients trading options, which includes binaries, has nearly halved, and that's due to the prohibition on offering binary products to Retail clients in the ESMA region which came into effect after one month of this reporting period.

And revenue from clients trading cryptocurrencies was down by 62%, which reflects the waning of client interest in crypto compared with the excitement in FY18. So, revenue from clients trading crypto in the first half was £5.2m compared with the £13.6m in the first half last year.

We expect that the run rate of revenue from crypto will remain about the same in the second half of this year as in the first half of this year. And I'll remind you that in the second half of last year when interest in crypto was at its peak that the revenue from clients trading cryptocurrencies was £22.8m.

This next slide shows the total Group revenue splitting the half year into the two quarters. I'm going to focus here on the second quarter which is the first reporting period when the ESMA measures were in effect throughout and which, therefore, shows how the businesses performed under those conditions.

In the second quarter the Group's revenue was £122.1m, 8% lower than in the second quarter in the prior year. In the ESMA region our revenue was 23% lower as reported, with an underlying reduction of 18%. We had underlying growth in OTC leveraged revenue in the rest of the world in the second quarter of 9%.

We believe that we have successfully navigated the introduction of the ESMA measures as a result of the actions we had taken in preparation and that the impact of the measures overall, as June has said, has been in line with the Group's expectations. And I'm going to take you through that in a little bit more detail in a moment.

And then one of the most important actions that we took in preparation of the introduction of the measures was the launch in November 2017 of our online process to allow clients to request to be categorised as an elective Professional. Now, remember ESMA's measures apply only to clients categorised as Retail under MiFID and not to natural persons who are categorised as Professional.

At the end of November 2018 the Group had received nearly 23,000 applications from clients requesting to be categorised as an elective Professional. Of those applications 5,675 or 25% have been accepted. 60% of the applicants who were not accepted as Professional have continued to trade with IG, but 40% have not. Around half of those clients who have not traded with us are based in the EU, which we believe is further evidence of the switch to alternative products.

Now, we have over the last 12 months been asked why we would choose to establish procedures that would result in 75% of applicants not being accepted. And the reason is that the rules are clear, and we believe it is in clients' best interest to apply the rules properly. We have and we will continue to lead the way in the industry with respect to good conduct and due to our adherence to the highest regulatory standards. Our procedures to assess clients who apply to be categorised as Professional are therefore appropriately rigorous and are fully aligned with ESMA's guidelines. This reflects our value to champion the client and we believe that this approach is an essential part of running a sustainable business.

The chart on the right shows the number of Professional clients who actively traded in the last four quarters since we introduced the process. And that number has risen each quarter.

And it isn't just the quantity that matters as quality matters too. This slide which analyses the ESMA region revenue in the first half between that generated from Professional clients and that from Retail clients shows that we have a really high quality client base, with 5,500 unique Professional clients trading in the half, with the average revenue per Professional client at over £15,000. And we also serve nearly 61,000 Retail clients in the ESMA region with an average revenue per Retail client of just under £1,000.

The overall revenue per client in the ESMA region at nearly £2,200 has little changed compared with the prior year, but the total number of active clients in the ESMA region has fallen. We believe this shows that the ESMA measures have made the OTC CFD product less attractive for the Retail market, and that many Retail clients have either simply stopped trading or are choosing to trade using other products which are now more attractive than CFDs.

We are, therefore, excited about our plans to broaden our product range to serve Retail clients in the EU, which is one of the factors behind our confidence that we will return to growth after FY19.

Now, this slide takes that ESMA region revenue and splits it into the two quarters. And it shows that in addition to the impact on the number of active traders the ESMA measures have also reduced the volume of trading by the average active Retail client.

This is reflected in the reduction in the average revenue per Retail client which was £771 in the first quarter, and that reduced to £453 in the second quarter when the measures were in effect throughout.

Importantly the proportion of our ESMA region revenue which is now generated from Professional clients, who are the most valuable and the most loyal, was 69% in the second quarter. And although the revenue per Retail client is lower as a result of the ESMA measures it was still over £450 in the second quarter.

I said earlier that we believe we have successfully navigated the introduction of the ESMA measures and that the impact of the measures overall has been in line with the Group's expectations. Now, this slide sets out a comparison of what we expected the impact on historic revenue to be with the actual outcome. We are using the second quarter for this analysis as it is the first reporting period when the measures were in effect throughout.

Now, you may recall the calculation of the expected impact on historic revenue that we set out at the Capital Markets day. We expected 5% of the historic ESMA region revenue to contract outside the region. So, for the historic Q2 we would have expected £4.4m of revenue to move outside the region, and £4.2m has done so.

Of the remaining revenue we expected a 50/50 split, doing that from Professional and that from Retail clients, and a 34% reduction in Retail revenue. We, therefore, expected the reduction in the remaining revenue to be 17% which compares with the actual underlying reduction of 18%.

Now, this analysis does assume that all other things are equal in the two periods being compared, but this is the best analysis we can provide without making subjective judgements to adjust for other factors.

And we’re saying that the impact of the measures overall has been in line with our expectations because the proportion of ESMA region revenue generated from Professional clients has been higher than we expected and the impact of the measures on Retail clients has been greater than we expected.

So, moving away from ESMA and looking at the OTC leveraged business in the rest of the world. Our revenue in EMEA ex-EU, which is revenue from clients contracted with our businesses in Switzerland, Dubai and South Africa, increased by 18% as reported, up to £20.6m, and by 4% underlying.

Our revenue in APAC, which is revenue from clients contacted with entities in Australia, Singapore and Japan, increased by 12% as reported, up to £74.1m, and by 8% underlying. And within these regions, as June has said, we would highlight our strong performance in Japan, which was driven by the introduction of a new product that is particularly well-suited to that market. Our market share in Japan, which is a big market, however remains low, which is something we would like to remedy.

Our revenue from NADEX, our exchange traded derivatives business in the US, was up by 15% to £8.4m. The 16% reduction in the number of active clients was expected and reflects our decision to reduce new client recruitment and to pursue a focus on fewer but more valuable clients.

Average revenue per client has increased by 37% which has more than offset the lower client numbers.

And revenue from our share dealing and investment service increased by 39% to £2.5m. And the number of active clients increased by 27% to 37,000.

The share dealing product continues to provide a good acquisition channel to attract clients for whom it is appropriate to trade OTC leveraged products. And the number of multi-product clients who trade both OTC leveraged products and also hold a share dealing or investment account has increased by 10% to 5,700. Multi-product clients are significantly more valuable and trade for longer than the average single product client.

The number of new OTC leveraged clients is one of the key drivers for future revenue growth. In total, 14,626 new clients made their first OTC leveraged trade in the period, generating £21.8m of revenue, with an average revenue per client in the period of £1,492.

New client recruitment in the ESMA region was, as you might expect, given the introduction of the measures and our lower marketing spend in the region, lower than last year. But the level of new clients in the rest of the world was similar to last year.

So, although in the first half of FY18 we attracted more new clients, the average revenue generated by those clients was lower, and so the total revenue generated by new clients in each half was similar. And remember, each client cohort that we recruit has an enduring value for IG and generates revenue year after year for many years.

Now you may remember these charts on the right that we used at the full year results presentation in July which showed how the revenue from the FY14 client cohort had developed over the first five years of their trading, and the revenue from the FY10 client cohort in year six to nine of their trading. We expect that the revenue from clients onboarded in the first half of FY19 will develop in a similar way.

And that ongoing revenue from each client cohort is reflected in our industry leading client tenure, which is another key factor in creating a sustainable business, and is another measure of the quality of our client base. 51% of our OTC leveraged revenue in the first half came from clients who've been trading with us for more than three years. And the tenure of our highest value clients, and here we're using the proxy of the ESMA Professional clients, is longer than that of the average client. Within the ESMA Professional client category 61% of the OTC leveraged revenue in the first half was generated from clients who'd been trading with the business for over three years. We have a large, valuable and loyal client base.

On expenses, as we've done previously, we disclosed the operating expenses by cost type and by activity category. The changes in the expenses are discussed fully in the announcement, so my comments here are going to be brief. Our operating expenses increased by 4% in the first half, up to £122.1m, reflecting, as I said, our continued investment in product and platform development. That investment is seen in the increase in our fixed remuneration costs, which increased by 12% to £51.7m. And that increase is driven by the higher head count which at the end of the period was 1,810, 15% higher than a year ago and 8% higher than at the year end.

Our external advertising and marketing spend was 8% lower at £25.6m, as our marketing plans were adjusted for the post ESMA marketing landscape. Our other costs are up by 3%. We gave guidance at the year end that we expected our total operating costs, including variable remuneration to be similar to the £290m in FY18. That guidance remains unchanged.

So to come to a close, I want to show you the full income statement. As I said at the start, the 6% reduction in revenue and the 4% increase in operating expenses result in an 18% reduction in operating profit to £112.5m. We did earn a small amount of net finance income in the half year, despite the cost of the term loan, but we expect a net finance charge of between £1m and £2m in the second half.

The effective tax rate of 19.1% reflects the forecast full year effective rate for FY19. Our tax rate is dependent on a mix of factors and can therefore change, but for now I suggest you use 19.1% as the tax rate going forward.

Earnings per share were 24.9 pence for the first half and we will pay the interim dividend of 12.96 pence per share at the end of February.

So, in conclusion, to summarise the FY19 outlook. As we have previously set out, we expect our revenue in FY19 will be lower than in FY18. That reflects the impact of the ESMA measures and the exceptional performance in the second half of FY18 when revenue was boosted by the heightened level of interest in cryptocurrencies which has now waned. And we continue to expect that our total operating costs, including variable remuneration will be similar to the £290m in FY18.

So, let me hand back to June who's going to take you through our key strengths and growth opportunities.

June Felix

Thanks, Paul.

Key strengths and growth opportunities. At the core of our strengths is our purpose. Our purpose is to empower ambitious self-directed investors to access the financial markets. This is what has really stood the company in great stead over a long period of time, and it is going to be the base for our future growth and shareholder value.

During the period of my analysis we've seen that there are many strengths, and I'm going to give you my view of some of them.

First, our brand. Our brand and our reputation. This has been built over 44 years. Time and time again, as I've talked to dozens and dozens of clients, they tell me the same thing: they trust us more than other providers. This is a significant asset, and this is something that is a competitive advantage that we can build on.

Our business model. It ensures that our interests are aligned with our clients'. We are not taking the other side and generating revenues from taking the other side in trades. This is rare within our industry. This is key to our brand and our reputation.

Our strong working relationships with regulators. In my experience working with regulators in the US, Asia and Europe, having constructive relationships with regulators is fundamental, and is a critical advantage. For example, I was APAC leader for Chase of several businesses, and we were able to develop that business and grow it by double digits. In fact, doubled it in three years, because of the constructive relationship we were able to create with the Monetary Authority of Singapore. I've already met with a number of the regulators for IG, and this is an area I'm going to focus on going forward.

The quality and loyalty of our clients. You heard from Paul some of the statistics. Now, I'm passionate about client focus. I'm very proud of the fact that in my experience as an executive for Citi Bank we launched a digital consumer healthcare business that won awards, and really served the needs of clients. For businesses to succeed they must know and understand those clients well, they must serve and provide things that they value, and IG knows that. And this is demonstrated by the wonderful loyalty that we enjoy of 51% staying with us for more than three years. And this again provides us with stable, recurring revenues, which is a great asset to build on.

Our people. We have a strong management team with over 80 years of experience. Our team, working with the talented force of people of 1,800 people across the world has really created a fabulous foundation for us. It is their insights of our clients, their ability to mobilise technology in intelligent ways that have given us this very strong reputation and foundation on which to build. I've really enjoyed working with this team as we frame up all the opportunities that we see in front of us, and we expect to come back to you very shortly.

Our technology and commitment to innovation is something we're all very proud of. One of the most exciting discoveries that I've made is the malleability, flexibility of our proprietary technology platform. We have an asset that is incredibly valuable. As an executive at IBM where I actually advised many of the world's largest banks, brokers, exchanges, I know what a competitive weapon it can be if you can use technology in a cost effective way and do so nimbly and create new products at pace. IG has clearly done that, and this is something we will capitalise on.

Now, as a reminder, IG already has a share dealing platform, CFDs, spread betting, a robo adviser, an exchange, a bank, as well as multiple educational and news resources. This would simply not be possible at the margins we enjoy without having this type of technology asset. Our technology is really going to be a fundamental base on which we're going to build under my leadership.

The exciting initiatives that we have undergone, and really are in the process of launching right now, are very exciting and we want to share with you some of those right now.

First of all, our professional client base. We have the highest quality client base in the industry. Why? Because we have always targeted the sophisticated client. Our platform is designed to their needs. Over 99% of our trades happen without any intervention by the trading desk. We execute clients' orders at the price they see or better. We pay our clients positive slippage on limits. With over 15,000 markets and deep liquidity our clients have confidence that they can trade the market they want when they want at the price that they see.

We offer a personalised service through our premium client managers who are very focused on answering all of those needs of those clients, and respond at pace to their demands. We're also able to offer quality service through the rest of our platform because of the enterprise technology that we can deploy and offer that at service levels that are appropriate.

We believe we are the natural home for the sophisticated investor and trader, but we don't take any of this for granted. What are we doing? We have deployed our in-house data scientists to study the data, to look at the needs of these clients, and based on their analysis we've been able to identify a number of areas that we're going to improve and make an even more compelling offering.

We're revising our pricing and offering preferential rates for our most valuable clients. We also have formed an exclusive partnership with Real Vision, which offers really compelling content for these sophisticated clients, in fact it gives access to the most sophisticated traders in the world, and provides trading strategies that our clients have found really compelling.

Furthermore, we are improving the service that we provide. 90% of our clients will have their calls answered within four seconds. We don't want any of our professional clients to miss any opportunity to trade. We believe this will give us the strongest professional client offering in the market, and this is not only to retain our existing clients, but also to attract switchers.

Let's talk about Europe. Here we see a great opportunity to not only mitigate risk but maximise opportunities. Despite the implementation of ESMA we remain focused on this important market. We intend to continue to grow our base there. Over the last few months we've taken a few measures and implemented the following.

First, we obtained a licence from BaFin for our IG Europe subsidiary. This is an important Brexit mitigant and it not only ensures that we'll be able to continue to offer the products that we do today without any disruption, IT Europe also allows us to offer new products and also remove the threat or the potential problem of removal of passporting rights from the UK.

IG Europe also will allow us, as I said, to introduce new products like CFD options and turbo warrants. Turbo warrants is a market that is twice the size of the CFD market, £1.6bn and clients will be able to trade our turbos through a broker relationship with IG's multilateral trading facility.

Spectrum trailer video played

June Felix

Spectrum is a new trading venue for our European clients. They're specifically targeted to the European retail clients that were most impacted by ESMA measures, and we expect that this will help position us for a greater share of this client's pool, as well as attract new ones. We built the MTF while continuing to onboard clients onto our core product. Our existing scalable technology makes this possible. We have 44 years in pricing markets, as well as hedging market risk. We've also shown through NADEX that we can run a fully functioning exchange.

We will have full control of the value chain, and the reason that's important is it provides an opportunity for us to innovate at pace for our clients, it also ensures that we are able to provide cost effective trading options for our clients, and it provides better shareholder value.

We believe we will succeed in this space because we offer things that the clients have told us they want. First of all, a much more intuitive user experience, much easier to buy and sell turbos, 24/5 trading access, and of course, IG quality of customer experience.

We will also seek to expand our distribution channels. Other brokers who have not chosen or don't have the capability to offer an exchange have decided that they would really be interested in partnering with us, and we believe this creates great chances for us to capture more share more quickly, and accelerate retail adoption.

It also provides a platform on which we can build additional products in the future for the European market, and this is something we're very excited about. The utilisation of our strength to develop products at pace that meet the needs of local clients and comply with different regulatory regimes will continue to be a focus area under my leadership.

We're also looking beyond Europe. The US. The US offers significant potential for growth in the FX market. Regulations have stabilised, opportunity is considerable, and there's limited competition because the regulators have eliminated some of the marginal players.

We received our licence to create a retail foreign exchange dealer in October 2018. This enables us to offer spot FX and options.

Based on market research we have an advantage position. Technology as well as client service against all other competitors as well as we can offer very attractive spreads.

In addition we're exploiting all of the reach and capability of Daily FX. This is a leading FX website and it provides over a million unique views per month on a global basis and in the US alone several hundred thousand. We will use this unique asset to attract clients to this business.

The US is a complex and highly regulated market. IG has exploited its experience in dealing with regulatory regimes and our strength of being able to work with them and collaborate with them effectively.

We’ve also used our scale as well as our strength of the balance sheet to make sure that all the operational requirements are met to launch this business.

This exciting business is going to launch this month and we believe this delivers a very important milestone in the evolution of IG and expansion in the US market.

We’ve talked about what we are delivering now and how we’re seizing opportunities. Now let’s look to the future. IG has grown successfully based on the core offering providing CFDs to Retail clients across our European base. This remains important to us now and also in the future.

As you know the market is changing. We are seeing regulatory pressures in our core geographies. Macro changes are occurring in wealth and there's continued growth in self-directed investing as well as trading around the world.

We see these as opportunities to continue to grow IG has several assets and capabilities that we will exploit.

First technology, we have a fantastic scalable technology platform that lends itself to innovating at speed and cost effectively. As we’ve said it would be hard for our competitors to match this.

Product innovation. We’ve proven our capability to build products quickly, tailored to local markets as evidenced by Knockouts in Japan, OTC FX for the US and turbos for Europe.

We will continue to leverage this agility, exploit our capability, to create more innovative products going forward. And that's part of our DNA.

New markets. In our industry we’ve a strong foothold in many countries but it has been developed from a Eurocentric perspective with this principally a single core product. I'm confident that as we expand and look into other geographies we’ll be able to find customer segments and situations where we can really seize and take the advantage of that as an agile company like IG.

New distribution channels. IG has been focused on the business to consumer approach. We are starting to look at business to business and business to business consumer through our MTF that we’re launching in Europe; and as somebody that's worked across multiple channels throughout my career I think that IG has a significant opportunity here to take advantage of this.

These are some of the many reasons why I'm very excited about the opportunity for IG and why I believe in our future. In a rapidly changing world where we face market uncertainties our core business is very strong and we see there are further opportunities to build and develop off of this great base.

I believe that IG’s capabilities are that we can adapt very quickly and not only adapt but thrive as the world changes because of the size and quality of our client base, the nimbleness and effectiveness of our people and the excellent platform which I've talked about.

This is a tremendous base for sustainable growth and continuing shareholder returns in the medium term.

I want to reiterate my confidence in the future of IG. It will be one built on leveraging the past successes as well as evolving for the future. I'm very excited to work with this very talented team and we believe that as we look into these opportunities we'll have a chance to systematically review them and prioritise them and come back to you before the end of the fiscal year and share some of those plans with you.

As I said I'm an evidence-based executive. As further evidence of our confidence in the business and our return to growth in FY20 we will be issuing a dividend of 12.96 pence and the Board reiterates its confidence and its commitment to delivering the full year dividend at the level paid out in FY18 until the Group's earning allow for a progressive dividend as we have in the past.

Thank you. Paul and I will be pleased to take questions now and if there's time we will also take questions from the phone. Please do introduce yourself if you have any questions.

Question and Answer session

<u>Question 1</u>

Haley Tam, Citigroup

Can I ask two questions please? First of all sorry Paul you're not going to get away with it, I'm going to ask about the balance sheet and the capital if that's all right. So I saw on Slide 36 your regulatory capital requirement seems to have gone up from 19% to 20% so I just wondered whether you had any expectation of that continuing to rise given the mixed business mix change that's happening or whether there's any discussions from regulators? And I guess coupled with that just to confirm the £25m IFRS 16 impact should we knock that off going forwards.

Paul Mainwaring

Just pause at that one, have you got the appendices in the pack on the screen? Can we go to 36? If we haven't don't worry. I'm sure you'll all have read these in detail but let's go to that one.

So the increase in the requirement simply comes from the increase in the combined buffer for the regulatory requirements so we have to hold a minimum of 80% of the risk exposure, we then then have our individual capital guidance of 9.4%. And then we have to hold this combined buffer and the combined buffers are being phased in over time.

Now Matt isn't in the room but I think we are at the end of the phasing in - I'm trying to find a face to nod vigorously at me – of the combined buffer, so I don't think it's going to change significantly from here in terms of the requirement.

That requirement is then applied to the risk exposure amounts. The risk exposure amounts do depend on the size of the balance sheet so that's that line called total Pillar 1 REA which is slightly lower at the end of November this year than it was at November last year simply because the size of the balance sheet to the end of that month was lower.

So actually the headroom, down at the bottom there at the end of the half is £240m, so £60m more than it was a year ago. And the IFRS 16 asset will be about £25m and we'll take the usual charge against the tangible asset of that, it won't make any significant difference to that number.

Haley Tam

Thank you that's great. Slide 10 then, I can ask my second question, I just wanted to see if I could understand you've told us you've accepted 5,675 new Professional clients and yet the change from Q3 last year to Q2 this year is maybe 3,000. So I just wondered if you can tell us how many of the current active Professional clients are the new ones you've accepted? I'm really just trying to get a feel of whether there's perhaps a tailwind here we should think about and try and understand the dynamics? Thank you.

Paul Mainwaring

No, no tailwind. I mean the people who apply to elect to be categorised as Pro are the most engaged so the majority of them will trade. We did have a number of Professional clients before the process first started, but I'm going to have to guess but I'm going to say the vast majority of the 5,500 who traded in the month have applied to become Professional since the process started plus we'll have a handful of the institutions who are already Professional in there as well Haley but there's no…and there is a limit as to how many people are going to be able to elect to be categorised as Professional because there are the hurdles that are set out. So as you see the pace of the increase has slowed but that's just from our existing client base, as June has said we're going to be targeting or tailoring our pro client offer to target switchers so we would wish that number to increase.

<u>Question 2</u>

Paul McGinnis, Shore Capital

Thank you for the additional disclosures around Q2 specifically Paul in terms of some of that revenue detail. I was wondering would you be able to characterise for us, accepting that all things are never equal, but characterise whether this particular period you would have regarded as a kind of normal quarter if there is such a thing for IG. And also the statement was kind of silent on the immediate aftermath in terms of December and January specifically? I was just trying to get a feel for whether Q2 in your attempt to show us what the like-for-like is versus a period that wasn't under those regulations was benefiting from, particularly good trade conditions?

Paul Mainwaring

Yes I mean there wasn't a huge amount of choice in the period really. We decided not to go for a four month reporting period and do a comparative; we would have set ourselves a horrid burden for the next couple of years. So we didn't we decided we'd just run with the quarter. So it's not entirely like-for-like because ESMA measures were in place for one month for Q1 and you're comparing Q2 and Q1 looking at the revenue per client and there's some impact in the first quarter.

In terms of comparing to the prior year I mean we looked at it in any number of ways to try to see whether that was a fair comparison and I've got to say we decided that it was and there are lots of factors one can adjust for, one can seek to adjust for volatility and/or the crypto. And so there's any number of things. We decided overall it kind of balanced out. So, as I say, it's the best we can provide without making subjective judgements and overall I think pretty much all the way through we are pretty confident that the calculations that we have made overall are right but with direct knowledge that the impact on retail has been more significant than we expected.

Paul McGinnis

Thank you and just a follow-up you said you were going to adjust pricing for Professional clients as a part of a new offering for them; just given the relative size of their revenue stream at 70% of that UK revenue if nothing else changed in terms of churn on new recruitment on it what would be the revenue impact of those changes?

Paul Mainwaring

Could I take that one? It'll go up. The reason we do, and it really surprised me when I first started here that people were talking about pricing and they were talking about putting it down and coming from an industry which you only ever wanted to put the prices up, but it gets reflected in higher volume. So the purpose of the pricing benefits that we're seeking to introduce are to entice people or make it even more enticing to come to the natural home for professional clients and give them no reason to wish to trade anywhere else. And we expect the volume to go up.

<u>Question 3</u>

Ben Williams, Liberum

For the first time you've given us this fabulous split out of ESMA professional revenues, as I understand it, and particularly the customers who have got to three years which is the flat part of the customer attrition curve. From the previous cohorts, and you've given us that fabulous multi-coloured line chart previously, it looks as if from Year 4 to say Year 9 you've only got about another sort of 15% attrition. Is there any reason why when we look at that 61% of ESMA professional revenues from customers who have been with you for more than three years, is there any reason to think that attrition from those customers going forwards would be any worse than we've seen?

June Felix

No

Ben Williams

That's what I thought.

June Felix

We have no reason to believe that. The principal reason is if you think about it, first of all they choose our platform; there are other options out there. They had to go through such a rigorous process to actually be qualified in that regard. So there's a commitment to continuing. And we've actually seen very good evidence as volatility returns, they continue to trade. They love what we have and we continue to improve it. So our confidence is that what we've experienced in the past there's no reason to see that changing.

Question 4

Anthony Da Costa, Peel Hunt

Just one question around turbos. So you mentioned that the size of the turbo market within Europe was £1.6bn which is double the leveraged number, is that the double of the European market?

Paul Mainwaring

Yes double the EU market.

Anthony Da Costa

And then what is the regulatory threat around turbos in Europe? How is it currently regulated and why don't we do turbos in the UK?

June Felix

Turbos in Europe are a very well established product. They were introduced originally in Germany in 2001 and very large players like Deutsche Bank and SocGen offer them to their clients. So very well established. BaFin has recently come out and also said turbos are fine so we believe that this is a great opportunity to trade leveraged products for our clients who are sophisticated and also understand how to use these products. We're just creating a venue by which they can now access them.

We're also creating a much better user experience. If you can imagine a typical bank platform, really, really complicated, extremely non-intuitive, we're bringing the simplicity as well as the cleverness of our team, to make it easy.

And then we're also adding 24/5 trading which is also a very big distinction. And we know how to work with retail clients in a very straight through and very collaborative and helpful way, which is demonstrated by our core business.

Anthony Da Costa

That's clear and within the UK there won't be a turbo market?

June Felix

Luckily we're not planning to introduce turbos here. It's not something that the market really knows very well anyway.

Question 5

Richard Taylor, Barclays

Just one question please. Can you talk about marketing? I see your income from new clients is pretty stable year-on-year, because I've seen a move in revenue per client as the mix has changed but can you talk generally about the efficiency of marketing? As the industry has contracted are there fewer people bidding on these sort of key search terms; or have you had to work harder to recruit those customers because I see the overall pound value of marketing has gone down a little bit year-on-year? Thank you

June Felix

Well marketing is an incredibly important and valuable tool for us. We're really lucky to have some of the brightest people in search engine optimisation that can help us really make sure that our marketing is constantly tailored for the specific needs of these sophisticated clients. And what we're looking at is client acquisition more broadly. So we're not just saying, okay are we doing paid search versus brand, we're looking at also the premium client managers that we have because there's a term, 'birds of a feather flock together', I mean people know each other right and what we're finding is if you are a person that is an active trader you have other people who are part of your friends, family etc., that also feel the same way about and are deeply interested in markets. So for us marketing is a broader term. We're looking at it holistically on a global basis to look at levers by country, levers by client segment, in a much more sophisticated way than just blasting out in a loud noise.

<u>Question 6</u>

Portia Patel, Canaccord

I just wondered if you could clarify for me regarding your optimism about return to growth from FY20 onwards, how much of that is predicated on the success of your new initiatives and how much, if any, is predicated on a return to growth from the OTC leveraged business?

And secondly, regarding the two new growth initiatives can you just give us an idea of the costs associated with each one of those?

June Felix

So let me take your first question first. So what we see is, first of all, we are growing outside of the ESMA impacted region and we're growing very strongly. So that actually gives us really a confidence in terms of growth.

As Paul said we participate in a tiny fraction of the Japanese market today and what we've found through very little marketing investment, back to what we were saying before, because we have a unique product we're capturing the market by storm. So, a very tiny market share in a huge market, just as a fact.

In addition, we do have several initiatives. One is the MTF, the US RFED, as well as we're launching options in Europe too, so we have a whole number of capability. And as we know there can be in times of turmoil flight to quality. And we believe what we're providing is an exceptional quality service and offering for the traders that really matter.

So, that's the basis of my optimism, not just the new things, but our core business first of all has growth in many markets that haven't been impacted by ESMA, but also the fact that off of the same platform we continue to be able to create innovative new services.

Portia Patel

Thank you. And the second question regarding costs?

June Felix

Oh sorry, I forgot that question.

Paul Mainwaring

Most of the costs of the build go through the P&L, so that's all been expensed I would say by now. There may be a little bit of run on, but it's not very much, so you've had that and it's gone.

The marketing their launches are built into the plans for the second half and were taken into account obviously when we determined the guidance for the operating expenses for the full year. So, everything is in what we originally expected to do so that's not going to move those numbers.

<u>Question 7</u>

Sami Cheikha, Kairos

Just a few questions on my side. First of all can we talk about the headcount: where do you see this going for the full year and maybe next year?

Also on the migration of Retail clients that choose to contract with a non-ESMA entity, how easy is it for them to do so? And in that case is the regulator okay with it?

Finally, what is the regulatory risk from non-ESMA geographies at the moment?

June Felix

Three questions and maybe I can start with the last question first.

In terms of regulatory risk I would say that what we see is that we are working very actively with all of the regulators that are in every country that we are currently participating in as evidenced, and have been very successful as evidenced by the BaFIN subsidiary, the MTF approval, the US OTC new FX launch. And frankly that was one of the first licences that's been granted in some time in terms of Retail Foreign Exchange Dealer.

That all says to me that first of all we know how to deal with regulators; I have a lot of experience dealing with them to ensure we have very constructive conversations. I think that one of the key things is being able to engage with them about what's happening, and we have people very, very deeply knowledgeable about those factors.

So, my view is we've navigated ESMA very well as evidenced by the outcome that we have here, which is in line with what we've said. So, that's the regulator part.

In terms of Retail clients, the Retail clients in Europe didn't really have to do anything because essentially there are new rules. We had to make some changes to make sure that the margin or leverage that they were limited in their capability to take more leverage than they are used to in the past. Some of them went to other products, which is why we're launching the MTF. So, from their perspective there wasn't work for them to do.

And then your first question, working back?

Sami

The headcount.

June Felix

We have, as Paul said, built all the headcount into our P&L; we've done so very, very effectively. And that's the basis on which we have the new products that we're launching. They don't come out of the air they also require some capability and skills.

Of course we take cost measures very, very seriously. It's part of being just a responsible business. But more importantly as we look at our many growth opportunities we'll be looking at them very carefully going forward to optimise them.

Paul Mainwaring

Can I just add a couple of comments? On the clients who have chosen to open accounts outside of the ESMA region they have to do so on their own and independently. We do not help them. We allow people to do it. We absolutely do not promote it.

The FCA have had a good look at the materials that are available on our website that give information to clients, and we got the feedback a week ago, two weeks ago, they have absolutely no problem at all with the materials we've got on the website.

So, we do not promote it. People have to go and open an account as if they were just opening an account straight from scratch. No transfer of money, no help with information, they have to do it themselves.

On the headcount we do manage it and we put it where we need it to go. When you look at where we've put the headcount over the last 12 months: a) all of the increase is not in London, all of the increase is in the lower cost centres, in Krakow, in Bangalore and in Johannesburg. And it has gone into those areas of the business where we required that headcount to be. So, an awful lot of that increase has gone into technology and innovation, which is the development of new products; an awful lot has gone into the search engine optimisation team in marketing, which we've rebalanced by adjusting the spend in other areas.

And we do this quite regularly, and I suspect more regularly than the people who control the headcount would wish, to review how much we have, where it should be, what it's doing and what the priorities are. And we'll continue to make that assessment for the next period as we normally do.

I will just remind you that we have kept our operating expenses at the same level for the last three years. Where it goes in the mix will depend upon the nature of the task in hand.

<u>Question 8</u>

Justin Bates, Canaccord

Could you just tell us how far through the EPC process you think you are in terms of further gains there?

Secondly, number of new clients per geography per quarter, if you have that data you could share with us?

And then finally, if you could help us think about the revenue model of Spectrum and assumptions re new clients and ARPU and how that compares to the existing leverage business that would be helpful?

Paul Mainwaring

Let's do that last one first because we're not going to do that today. We will set out when we give the update later in the financial year for how the revenue model works, how the product works and the platform demo and all that kind of stuff. So if this can wait till then that would be good.

On the elected Professionals I'll let June take it, but we are still getting people who are both electing to upgrade and coming in straight as new. But it's nothing like the level that it was when you see the uplift from Q3, Q4 last year to Q1 and Q2 this year. That rate of increase will not be maintained, but we are still getting new Pros.

June Felix

So, 69% of our revenue in ESMA was from Pros, so that's a very, very strong franchise on which we're building. And if you look at how we performed in other markets we continue to add new clients in every single geography that are Professionals.

So, what we're confident in is that the measures that we've taken into position, not only the existing platform and the offer but all the additions that we've just talked about, are going to accelerate that. And in addition, as we said, there are a lot of people that are very interested in the quality provider and we expect to grow share.

Paul Mainwaring

And your middle point, we've got the active client numbers by quarter and by region in the appendix.

Justin Bates

Yes sorry, the number of new clients?

Paul Mainwaring

No, we're not going to show that.

<u>Question 9</u>

Anthony Da Costa, Peel Hunt

We're six months in and I'm interested to know whether you've noticed any behaviour changes for those Retail clients who still trade, the ESMA affected Retail clients, are they depositing more? Are they trading more often? Have you noticed any changes in their behaviours?

June Felix

The numbers would suggest, if you look at just how much in the first quarter versus the second quarter, they're trading less. But it's still early days.

I think we've also had a market situation which has been volatile, but that doesn't always play well for Retail traders that are settling in to new leverage limits and also looking at the wild volatility that's in the market.

Paul Mainwaring

That's right they've obviously traded less. As to whether they have changed their view on the headroom that's required we think not yet. We haven't seen a change, if you compare the total aggregate client money for Retail clients with the minimum margin requirement, the multiple is still the same as it was before the mergers came into place. So, we haven't seen people adjusting their behaviour, recognising that some of the headroom is now built into the minimum margin requirement. So, that may take some time to play out.

June Felix

Any other questions? Well, thank you very much. We really appreciate your attendance, your participation and your support, and we're looking forward to seeing all of you again soon. Thank you.