IG Group plc Full Year Results 2016

Tuesday 19 July 2016

Kieran McKinney, Director of Investor Relations and Corporate Affairs

Morning everybody. Welcome to IG's Full Year '16 Results presentation. This is my second time presenting and the happy arrival of Paul Mainwaring as the new CFO, subject to FCA approval of course, means it's also my last. Paul is in the room, maybe Paul you could just show yourself briefly.

Paul Mainwaring

Morning.

Kieran McKinney

Thank you. Last year, FY16, was a good year I guess by any measure; we're very pleased with the progress we made in the year. We set several new records for revenue, earnings, client numbers, and we also believe we made some very good strategic progress as well. But more on that as we go through. Let's get straight in.

Going to slide four, as a general rule here I'm going to compare against the FY15 numbers, excluding the one-off impact of the Swiss franc. I think it's less flattering for us but it's a much more honest portrayal of year-on-year performance.

So getting straight in, it was a good year on the top line, revenue was ahead by 14% at just over £456m. Profit before tax was up 7.6% at £207.9m. Profit after tax was up 9% to £164.3m, helped by a 1% reduction in the effective Group tax rate, and diluted EPS came in at 44.58 pence, up 8.5%.

Cash generation was once again very strong with own funds from operations at £197.9m. The Board has recommended a final dividend of 22.95 pence, talking the full year dividend to 31.4 pence, up 11.5%, a 70% pay-out ratio as you know in line with the Group's dividend policy.

On to the more detailed picture in slide five. As I said earlier, revenue was ahead by 14%. The second half was 12% ahead of what was already a record first half. The year-on-year performance was driven primarily by the 12% increase in clients. I'll look at this on the next slide but revenue per client was also almost 2% ahead. Between revenue and net operating income, interest on client funds is falling rapidly, I don't think that's too much of a surprise, it's down by £1.1m in the year and I expect this number to fall significantly again this year and to head rapidly towards zero.

Betting duty was high, particularly in the first and third quarters, it was up overall for the year by £5.3m. So after these items net operating income was up by 12.4%. I'll look at costs in more detail in a moment, but overall, operating costs were up by 17% or £33m with the single biggest element of the growth being our continued investment in effective online marketing. The additional depreciation amortisation comes from the write-off of the gTLD assets, an additional £2.7m. We continue to work on this project but in a very targeted fashion. Although this positions us well from the defensive perspective as the internet develops short-term revenue potential simply didn't justify the carrying cost. As I said earlier, there remains downward pressure on the Group's tax rate, primarily from the ongoing fall in the UK corporation tax rate.

So on to the revenue bridge on slide six. The thing that immediately stands out is the contribution from new clients, this has been our best year by some way on client acquisition. £80m of the revenue this year came from clients whose first ever trade with IG was in the FY16 year. This would compare to just over £50m in the prior year. This comes partly through supportive market conditions and partly through the improvements that we're making internally, I guess more from Peter on that later in the business update.

On the right hand side here we show the regional clients over the last number of years. I guess there are three phases in this chart. The growth that you see right up to that stellar 2012 which a lot of you will remember, then the exceptionally dull markets of '13 and '14, coupled with the management actions to raise the quality threshold on clients, followed by the operational marketing improvements in '15 and '16 assisted by more supportive markets culminating in the record client numbers you see this year.

On slide seven I'll look at the revenue mix in a little bit more detail. I believe this is the first time I've seen revenue, client numbers and average revenue per client ahead in all regions, I think it's a great result. We do expect good growth in the newer regions but these results stand out in particular for the strength in the UK and Australia, countries that bears suggested were ex-growth at least five years ago.

The UK is being assisted here by the continued steady progress in stockbroking and the cross-selling this is bringing and we launched this in Australia just a couple of weeks ago, so please don't ask me how it's going so far. On the right hand side you see the continued strength in indices, this is 50% of Group revenue and it remains the default go-to trading product for beginners and experienced traders. I would also note the growth in binaries, predominantly from Nadex but also elsewhere. This is a big market and one that offers significant potential going forward.

On to the operating cost detail I mentioned earlier on slide eight. We did guide here at half year and the only material differences in the second half to what we said then are the additional spend on online marketing and the upward flex in communications cost and variable rem, driven by the outperformance in the top line. The growth in the salaries line is mainly due to the full year impact of hiring in 2015. Marketing is up by just over 30%, or around £12m, this is proving to be very effective and is somewhere we will continue to invest heavily, again a theme that Peter will return to later.

The FSCS levy is in the regulatory fees line and you'll recall the full year number is charged in the second half. You'll see we've broken out irrecoverable VAT from other costs, the main driver of the increase here is the ongoing investment in online marketing.

Looking into FY17, as per Peter's outlook statement this morning, we expect overall operating costs to increase in FY17 by around the same as FY16. So what's driving this? Well there's obviously the normal inflationary pressures across the business. In rem along with inflation and normal growth we have a one-off uplift of around £5m in salary costs to reflect some targeted benchmarking we did and the introduction of flexible benefits. And the largest single uplift is that we currently anticipate increasing online marketing investment again significantly this year. This does assume that the market remains supportive and that the payback remains compelling.

Looking beyond this we're rapidly building capacity in India and Poland and rebalancing our global workforce and I would expect us to begin to take pressure off remuneration increases from the FY18 year.

So to broker margin on slide nine, a look at how broker margin has developed. Just to remind you, this is the margin cash we place with brokers to hedge out the residual client risk. This remains the main use of IG's cash resources and the strength of our balance sheet is a key advantage in our market. Remember, this number partly reflects the overall level of client activity but in the short-term is driven much more by the types of assets clients are trading and how one-sided the opinion is.

It's a spikey picture which can change very rapidly but ultimately the year ended at £228m, just over £20m ahead of last year. As you think about IG's balance sheet and required liquidity some of you will remember that this peaked at about £298m in recent times.

So let me finish with the cash position on slide ten. As usual I try to cut through the noise on the statutory cash statement, so how much cash do we generate and how do we use it? It was a very strong year for cash delivery, you can see that halfway down the left hand side we generated £79.3m of free cash post tax and dividends. IG's own funds at the end of the year stated £587.7m and as you saw on the last slide broker margin requirement at the end of May was £227.6m.

So it takes me up to the top right hand side of the slide. Net of broker margin requirement, at the end of the year we had £360.1m of available funds, of this around £90m is tied up in overseas regulatory and working capital and in funds required for segregation. This is primarily where we segregate cash in transit from clients to allow them to commence trading immediately. Leaving £269m, of this £82.6m was held in gilts as a liquid assets buffer under regulatory requirements under the BIPRU 12 rules and of course the final dividend of £84m is due.

With that I'll hand over to Peter for a business update.

Peter Hetherington, Chief Executive Officer

Thank you very much Kieran for presenting, and in the nicest possible way I hope we won't be asking Kieran to step into the breach any time soon again. Kieran and I will take questions at the end but we also have our Chairman, Andy Green, here and Paul who we just introduced before.

I'll start by saying I'm very happy to take over in such a strong year where the foundations we were building, diversified future growth have started to bear fruit. I laid out in January in our first half results my vision for taking the business forward. That gave us three very clear levers for growth which we'll talk about in this presentation. Firstly, diversifying our product offering, where appropriate, secondly further development within and possibly beyond our geographic footprint, and thirdly maximising the current opportunity, creating additional value by doing what we already do well but better.

So looking at the first, product diversification. We spelt out previously why this is important and what markets we plan to do it in and just to recap, we think this is really important to do in the UK and Australia primarily. We think it's important in the UK, for example, because we are the major player in the market, we have about 50% market share of leveraged trading and we're approximately seven times the size of our nearest competitor. If you look at Australia we're approximately twice the size of our nearest competitor and we have about 40% market share. So in these markets we plan to continue trying to grow our leveraged business but we're also expanding into a non-leveraged offering.

There's a very compelling rationale for why we want to do this, firstly it can be a good business in its own right, stand alone. Secondly it allows us to go to a customer base who we previously would not, fully 70% of non-leverage clients who we attract are entirely new to IG.

Thirdly we can get great value from these clients, where it's appropriate and where it's appropriate for them by allowing them to cross-sell into our leveraged product offering. Approximately 15% of clients we introduce to our non-leveraged offering end up at leveraged trading accounts that materially enhances the value that we get from them, because leveraged accounts are significantly more valuable to us than non-leveraged accounts.

Finally, it allows us to build a longer term relationship with clients. As we'll see later leveraged trading is generally a relatively high churn activity, if you're investing for the long term in a portfolio of ETFs or an ISA or a SIPP then you're likely to keep the relationship with a company for much, much longer. What that means is that as clients start and stop leveraged trading if we can continue to have a relationship with the client, whether it's only them coming on once a year topping up their ISA and rebalancing their portfolio when they choose later, if they choose later, to restart leveraged trading they'll naturally come back to us and we'll maintain the relationship with that client.

Looking at how we've done this over the past year, we rebranded our stockbroking offering in early 2016 with a simplified price structure. If you look at the graph on the right you can see the number of active clients is growing quite strongly and we're pleased with the growth in number of active clients, so clients actually trading actively in the month, that's not total. We also launched SIPPs in May and rolled out stockbroking in Australia, as Kieran mentioned, back in July. So far we've opened about 11,000 stockbroking accounts in total.

If you look at the strong trajectory towards the end of the year part of that is around ISA season and the end of the tax year but that trend, that strong account opening, has continued through June and July.

If you look at where we go next then I think we need to talk about our investments offering which is coming soon, certainly by the end of this year. Initially it will be passive portfolios of ETFs based on customer's risk profiles and then ultimately we'll end up with customisable portfolios where clients can tweak the standard portfolios.

Moving on to geographic development, you'll recall back in January we used the word, 'development' rather than expansion. We're not ruling out opening in new territories but we're just saying there's a lot more we can do in the places were we already are to get more value and that's what we're concentrating on at the moment.

Looking specifically at Europe, we grew Europe well across the year, we also simplified our offering. We closed our two smallest offices which were in Norway and Holland and we've shifted our European operation into a five sales hub model.

We've done this because as we find we can centralise marketing more and more, we need less physical presence on the ground and we find that we get better benefits by running bigger offices, which are not subscale.

Looking at Dubai and Switzerland, those who have been before will remember this graph on the right. What we do is we plot all our recent offices, again, assuming they all started on the same day, and then you can see very clearly how have they done, albeit in different market conditions, as it goes through.

If you look at the dotted lines, they represent the two newest offices, so the dark blue dotted line is our Swiss Bank which, albeit in a fairly spikey way, has grown well and is clearly trending to be the third best office that we've opened.

If you look at the red dotted line that is our Dubai offering and at current trajectory, it represents the best office that we've opened to date.

It's worth noting that both of these offices are characterised by relatively small numbers of relatively high-value clients. That means you have to expect that these lines are going to be bouncy, because very big clients start and stop trading, and you can see that trend in the Swiss line and we expect to see it in the Dubai line at some point going forward.

Finally, looking at Nadex, our US operation has been profitable now for some months. As you can see, revenue was up 112% and we made just over £11m in the year on Nadex. This is particularly pleasing as Nadex has been a long-term project which we've worked at for a long time and it's taken a while to bear fruit.

Moving on to 'Doing what we do already but better,' I think it's worth talking about marketing effectiveness. We believe our online marketing continues to improve and it's moved entirely from being an art to being a science. It's now a test alone process with a feedback loop.

If you look at first trades on the year, they're up by 29% year-on-year, but the CPA remains stable. If you look at the graph on the left, this tries to illustrate it, so the bars show the numbers of first trades in the quarter and the line shows your marketing cost per first trade. And what you can see very clearly is the number of first trades is going up steadily and the marketing cost per first trade is bouncing around the same sort of number, and that's what we're trying to achieve.

It's worth talking about marketing payback, because we talk a lot about clients paying back the cost of their acquisition in four months. That's true, and if you look at the top right graph, you can see very clearly that for a unit of marketing spend, we expect the client recruited from that spend to pay back the cost of their acquisition in four months, so that's fine.

If you look at it on the bottom one you get a different picture, though. This graph assumes that you increase your marketing spend by a million pounds a month, each month for the first year, so you spend an extra £12m, and you increase it by £2m a month each month in the second year, so you end up having spent an extra £36m on marketing. There you can see with the same payback curve, you find that clients recruited don't fully cover the cost of your increasing spend until you're well into the second year, so there is a lag on this basis.

In summary, we're increasing costs and diluting margins in the short-term through marketing spend in order to drive long-term growth and shareholder value. We expect costs to continue to grow, if the payback remains compelling, and that's the key point. We can rack very clearly about whether this is working and we can adjust very easily, if marketing effectiveness declines. It's not a fixed line you're hitting, because, depending on market volatility and market conditions, the demand for the product changes, so it's not like you can set it up and leave it to run, it's a continual process.

Moving on to acquisition and conversion. Applications continued to show strong growth and you can see here, looking at the graph on the left, the pale blue line shows the number of applications. If you look at the second half of 2016, you can see we had more than 100,000 applications, which is more than double where we were even in the first half of 2015. But the rate of change of applications has not been fully mirrored through into the accounts being opened, nor the number of first trades.

We consider this a high-class problem to have because it’s entirely within our control. So what we’re finding is we’re finding no problem at all driving applications to IG, driving demand for the product, but we think we’ve got quite a lot of work to do to improve the number of first trades so that it moves more in lockstep with the increasing number of applications.

Looking at why we’ve found it tough to get the same percentage of people through to first trade, I think you’ve got to start by looking at the application source.

The graph on the right shows you what percentage of people applied on a desktop type device and what percentage on a mobile device. Just two years ago, 70% applied on a desktop, and now you’re down literally 50/50 between desktop and mobile.

Mobile is tougher for two principal reasons. Firstly, you’ve got less real estate to play with, therefore it’s hard to make a slick process without friction. Secondly, the level of commitment which your clients show if they’re applying on a mobile device tends to be lower and your frame of mind tends to be less committed than you’ve actually said, “Right, I’m going to apply and I’m going to sit down at my desk and I’m going to do it in that way.”

So that hasn’t helped us but, frankly, we’ll take applicants any way they want to apply and we’re certainly not going to say we don’t want to take applications on mobile, we just need to make our processes better so that more of them get through.

There’s also lots and lots of work going on across all our 15 different sales offices and all the countries they support, to make each individual funnel work as well as possible. That’s work on application forms, it’s electronic ID verification, it’s dynamic KYC, it’s document upload. Everything is now done in a test and learn AB test route, where you try the old version, the new version, you let it run for a while until you’ve got enough data to be statistically significant, and then you decide whether things work or not. Lots of what we try doesn’t work and lots of what we try does work, you just keep learning, keeping rolling it out, and then roll it out and on and on.

So it’s just incremental change on incremental change. Almost imperceptible someone said, and it’s probably right, we’re doing lots and lots on this all the time and it’s a long process which we’re very committed to and which we think will really drive value going forward.

Looking at client activity and how we retain our clients. People often say spread betting and CFD’s industry is characterised by being a relatively high-churn industry, and that is true and it’s one of the reasons why we’re doing the investment piece.

However, it’s worth looking at this table on the left and you can see fully 74% of the revenue we got last year came from clients who had been with us for more than a year and fully 54% of revenue came from clients who had been with us for more than three years. I think that’s a really good stat and shows that if you look after your clients and behave appropriate to them, they will stick around with you and that’s how you drive long-term value.

If you're outside of the room, please bear with me for a couple of minutes while I attempt a quick demo, and it might be very quick if it doesn't work, and then we'll continue with the story.

We talked back in January about 'My IG'. 'My IG' is the portal we use for all of our existing clients and it's gradually being rolled out and we use it as the place where clients can do all their account admin, where they can spawn extra accounts, stockbroking accounts, SIPPs, whatever, and where we can attempt to cross-sell. And you can see here very clearly, you've got a bunch of leveraged accounts, a bunch of share dealing accounts and then demo accounts down the bottom, and this is a very typical client set-up. It's actually my demo but it doesn't matter. You can also see how you can open the dealing platform and you can see on the spread betting platform we've now got our new platform out in beta, which is what I wanted to demo very quickly.

So if you look at our existing platform, most of you who will know it, we consider it a really good platform that is visually somewhat obsolete. And that's one of the reasons - one of - why we've developed a new platform. Trading on it works well and you can see very clearly, you move around, you put some things in, you then get a trade, and then it appears in your open positions, so we all know that platform.

You then jump on to our new platform. And I think firstly I'd say it's just cleaner and crisper and looks more modern, which is great. Secondly, it's much easier to deal, it's very quick. You can see you Trade, your position appears on the right-hand side, you want to close something, you keep on trading, it's very easy and you can close a bunch of positions, you can see that's going on, it's all there, it's all clean, and it all works.

It's also important for a couple of other reasons. We can deliver this daily, we don't need to wait for a monthly release cycle. You can deliver this continuously, which makes it much easier for IT teams to work better. Also, the old platform is our last platform, the last bit of IG infrastructure that doesn't run through our standard APIs. Standard Application Programming interface allows the applications you develop, whether they're mobile or anything else, to use a common set of ways of talking to the rest of the IG system.

PureDeal, the old one, is hard-wired into our back-end, and this one again uses the API. It will make it much easier to roll out features developed on this on to other platforms, other apps, whatever else we do, or to allow clients to trade through the API we make for clients, and so on. So it's the last piece of bringing everything that IG does through to the same standard, which is why it's important.

There's nothing wrong with PureDeal, it's a good platform, it's really popular. We're not going to push this too hard or too fast. We're happy for people to use it and we're going to roll this out gradually, so don't expect us to come back in six months and say, "We've finished the rollout." We have no need to do that and we don't want to lose any clients in transition.

Going back to the presentation, apologies for those who may have missed that on the line. We introduce, this coming weekend, Limited Risk Accounts, which are a really big change for IG. At the moment, we reject about 30% of people who apply for an account for us, either as being too poor or too inexperienced to have an account at IG. The introduction of Limited Risk Accounts will us to accept some of those accounts who formerly we would have rejected.

So partly, it's around accepting people and giving them an account, on which, as the name suggests, you can never lose money which you have not already put on the account, and that is guaranteed. It's also around attracting a different type of client, clients who are put off by the potential for unlimited liability, which a normal account does have, and therefore we expect it will both allow us to convert more of the existing applicants and appeal to some people who would not formerly have applied to us at all. And that goes live in the UK this coming weekend, which I'm pleased about.

Moving on, revenue maximisation. I think the history of IG is that we've been absolutely committed for a long time to having low variability of revenue. If you look at the chart on the left, most of you will have seen it before. What this shows you on the dark blue line is a rolling 60-day average revenue, going back to 2009, and you can see it's generally trending up fairly consistently.

Also plotted in the pale blue line is the variability, how volatile our results are. And it's worth saying here that at IG we've had three losing trading days in the last five years. So we're committed to growing daily revenue with low volatility of earnings.

Thinking about how we do that, if you look at the graph on the right, you've got three lines on it. So the first pale blue line shows you what our clients pay us monthly in terms of spread and commission.

The grey line at the bottom shows what we would have made were we to fully hedge each and every trade that the clients did, to act as a broker for each of those trades.

And the dark blue line shows you our actual result, how we actually performed, and that's the number we report as revenue, which you could say was more like net revenue.

The hatch line, the shaded area, shows you the benefit that we get from internalisation. So if we can get one client to buy a market and another client to sell the market, we have, therefore, no market exposure, we have credit exposure to both of those clients, and we have systems to make sure that we close clients out before they run out of money. But what you're seeing there is the benefit from internalisation.

And what we try to do, and what we are trying to do, is to get the dark blue line as close as possible to the pale blue line without increasing the variability, the volatility of our results, the coefficient of variability shown on the left-hand graph. It's one of the things which at IG I think we really are genuinely world-class at doing and it's something we continue to work on and I'm proud of how we do this.

Looking at the Traditional Regulation slides, quite a lot on it, I'll try and concentrate on the important things.

I'm pleased to say the Bank Corporation tax surcharge, which we talked about in January, we've now had confirmation that this will not affect IG and we've reversed our provision for it.

Looking at Europe, there has been no explicit progress on the proposed European financial transaction tax. We continue to monitor the situation, it might change.

MiFID II, as all of you will know, has been delayed again, this time until January 2018. When it's introduced, it will offer product intervention powers to national competent authorities, so regulators in individual European countries can choose to intervene against a product if they choose to, if they don't like it, so it changes how people can work.

Looking at the result of the EU Referendum we're very much at the planning and monitoring stage. Nobody knows whether the passporting regime will continue, but we're planning in case it does not. Should it prove necessary we don't believe it will be overly onerous to turn one of our existing European branches into a subsidiary and to use that to passport from into the rest of the EU. We've got big experience of setting up subsids; we've done two in the last couple of years: we opened a bank in Switzerland and we opened a subsid in Dubai. So, we believe we're experienced at doing this should we need to, which we might not.

Looking at the AMF and France, as we said back in March France is likely to announce to implement the Sapin 2 law which bans the electronic advertising of derivative products to retail clients. We expect the law to be enacted by Christmas. We're waiting for the law to be finalised before confirming our response, but we're investigating possible actions to alleviate any impact.

On CRD IV we're waiting for final confirmation effect on IG, but as you've seen from Kieran's slides we're in a strong capital and liquidity position.

The Singapore bullet I think has been on there now for four years. There is still a proposal out there by MAS to reduce the leverage you can use in FX. It's been there since 2012, there has been no progress but we'll continue to leave it there until it either is enacted or withdrawn.

Looking at Australia, ASIC now fully supports the segregation of all client money. We for a long time have segregated all client money in Australia, and we hope the new Australian government will push through law change to actually force this to happen. We're very supportive of this change.

Finally in terms of binaries in the UK we welcome the plans for the FCA to take over the supervision of binary products from the Gambling Commission.

In conclusion, it's been a good year for IG with strong top-line growth leading to good earnings growth. We remain highly cash generative and our balance sheet is strong. The current heavy project build phase is coming to a close and our investment is starting to pay off. Our new offices are performing well and our stockbroking relaunch is promising. We certainly see great potential as a proportion of clients are going to use both our leveraged offering and our stockbroking offering.

Our online marketing continues to improve and we've seen no shortage of demand for our product. Our issue is around conversion, which we'll remain focused on and which we can control.

As we said in our outlook statement, we anticipate continuing to increase our marketing spend, so long as it produces a compelling return, while applying sensible controls to other costs.

We've lots of exciting things to come: stockbroking in Australia was launched a couple of weeks ago; investments in the UK is coming soon; limited risk accounts go live in the coming weekend.

And finally, our new platform which we've been building for a while is in beta and will be rolled out in the coming year. I'm looking forward to the coming year; it offers a lot of promise as we position IG for long-term growth.

Thank you very much for your time. Kieran and I will be happy to take any questions.

Question 1

Paul McGinnis, Shore Capital

A couple of questions. The first one, you put out a statement to say how well you'd coped in the immediate aftermath of the Referendum vote; was there a particular windfall benefit in that time in terms of a huge spike on trading and any persistence that had in the following days?

The second question was just in respect of FX with obviously around half of the revenue being UK, can you just give us a steer of what proportion of the cost base is actually in sterling and whether there's any hedging we need to take into account?

Peter Hetherington

I'll take the first question and I'll let Kieran handle the second question.

At times of significant market volatility you tend to get the same two outcomes for a business like IG. The first outcome you get is that you tend to get a spike, sometimes a very significant spike in terms of account opening and account recruitment. That indeed happened over the EU Referendum vote and account opening has stepped up significantly.

In terms of trading you have to remember that we took a very conservative approach and reduced the leverage that our clients could use in the run up to the EU Referendum. And we reduced leverage in three steps, three times over the preceding three weeks, and then it took us about ten days to remove the enhanced margin that we were asking clients to produce.

So, whilst it was certainly a good time for us, because we were asking for in some cases for up to 12 times as much money as we previously would have done, that limited the amount that clients could trade.

So, yes it was good; no it wasn't absolutely amazing. We think we did the right thing by actually reducing leverage because the markets were moving plenty far enough, and so massive leverage as well wasn't necessary.

Kieran McKinney

On the second part, I won't give you precise numbers but your point is right. If you look at the balance of the group in terms of revenue and cost ex-UK there's a skew towards revenue versus cost. So, we are seeing some short-term benefit from the exchange rate movements since the EU Referendum.

Peter Hetherington

We've got more revenue outside the UK and more cost in the UK.

Question 2

Justin Bates, Liberum

Could you give us an indication of how you expect the revenue model to develop in the ISA offering and ETFs, and if you could give us some sort of indication of what sort of size you think that business might become over the next three to five years?

Kieran McKinney

It's fair to say we're still working on it, Justin. So I expect the ETF product, we do ETFs today on the platform as they stand, leveraged and unleveraged, but you're thinking about the portfolio based product we'll roll out this year, I think we'll have that in place certainly before the end of this calendar year and hopefully sooner. We're still working through the pricing model. I suspect the pricing model initially will be an AUM-based structure, so we've certainly done our planning and analysis around that.

I think it will be quite a slow burn so I wouldn't get overly excited on the revenue coming from that product. I think in the short-term I'm much more excited about the impact it will have on the current base and the reduction in attrition and churn in the current base. But certainly the working assumption is that as we go forward we will use an AUM-based fee structure, with some benefit in there for people who are using both products. So, quite a similar structure as we're using to the current stockbroking.

You said ISA as well. The ISA model today is platform fee free, so it is an activity based pricing structure as it stands, in the same way the stockbroking model is today.

Peter Hetherington

I think it's worth saying that we launched stockbroking for the first time in September 2014. We weren't delighted with how were performed on it initially, and then we recut what we were doing early in 2016. Much as I'd love to say we'd guarantee to get it absolutely right first time I think that graph shows you quite clearly we didn't get it right perfectly. We did okay. We learnt from it; we relaunched it; we're doing much better now. So, don't expect miracles.

Kieran McKinney

The numbers here are beginning to look interesting. I guess the key number that always stands out for me is if you look at those clients that have come in as a stockbroking client, gone on to use a leveraged product, so Peter said 70% are brand new, of which 15% are going on to use a leveraged product, so 15% of 70%, the leveraged revenue that comes from that base exceeds the entire stockbroking revenue from the total stockbroking base. So, some really interesting dynamics in the way that model works.

<u>Question 3</u>

Steve Keeling, Liberum

You're obviously spending a lot of money on advertising and marketing; you've been at great pains to indicate the payback time on that. Would you not also consider acquiring books of business for instance in the SIPP market? How do you think about acquisitions versus organic versus payback time on this money that you're investing?

Peter Hetherington

We do consider and it’s something we do look at as a Board. It’s a different way to get growth; whether you grow organically or whether you grow through acquisition is an interesting question. I think the problem with books of business is the conduct risk that you also end up buying, and we’re very proud of our record with regulatory compliance and so forth and very defensive of that. So, I think yes, it’s certainly possible and yes it’s certainly something we’ll look at, but I think we’re also very conscious that you’re buying conduct risk, depending on how the transaction is structured, and therefore you need to be quite careful.

Steve Keeling

So, that would be a no?

Peter Hetherington

No, it’s not a no.

Question 4

Peter Lenardos, RBC

Could you just confirm, based on the guidance you’ve given on costs, that you expect operating costs in fiscal 2017 to be around £260m?

Kieran McKinney

Yes, that’s right. If you look at the cost growth, take DNA out and just look at operating costs ex-DNA in 2016 what we’re saying is the growth in 2017 will be similar to the growth into 2016 on an underlying basis. That growth into 2016 was £33m.

Peter Lenardos

Is that on an absolute basis not on a percentage basis?

Kieran McKinney

It’s on an absolute pounds million basis.

Question 5

Richard Taylor, Barclays

Slide seven shows indices, binaries, commodities have gone well over the years or growing; but forex and shares have gone sideways. Why is that? Are you losing share there or just are clients just less interested?

Secondly, how is the affiliates’ programme going please and is that going to form part of your marketing of the limited risk accounts?

Peter Hetherington

Looking at the asset classes IG prides itself on being a generalist player in this market and we offer all of the asset classes and we let clients choose which asset class is most interesting to them. I think it’s safe to say forex hasn’t been the most exciting asset class for the last few years, and whilst the percentage has stayed and revenue has broadly stayed flat, so yeah, it hasn't been the most exciting. There are FX specialists out there who arguably you could say are doing slightly better, but I'm not sure they're growing that fast. So I think we just say we're a generalist: we offer all the asset classes and we let the clients choose what they want to trade. Binaries clearly have been growing pretty fast though.

Kieran McKinney

We reduced some of our pricing in FX just three weeks ago, so we're certainly aware of the fact that we think we have an excellent FX offering, which isn't necessarily going to come through in some of the regions. So, we have reduced some of the headline pricing in there.

Peter Hetherington

And looking at affiliates yes, we launched it a few months ago. It's going reasonably well; we're happy with the progress. We expect our affiliates to push limited risk accounts in the same way they push other accounts.

Kieran McKinney

I think with affiliates we're just being cautious – I think our Affiliates Manager is here in the room somewhere so I won't point him out – we're being cautious how we build that. It's a slightly more, let's call it entrepreneurial method of getting to clients, so we're just being cautious how we progress that, making sure we keep all of our regulatory standards high on that one. Just being slower than maybe some would build it.

<u>Question 6</u>

James Hamilton, Numis

On the 30% that don't make the cut for wealth or experience, what proportion of that 30% would be appropriate for the limited risk product? I assume you've done the analysis?

Peter Hetherington

We have. I don't think we've shared it.

Kieran McKinney

No, we haven't shared the number have we? Let's say less than half we think. As we say, suck it and see, we're going to have to suck that one and see to some degree. But certainly there's a level at the top end of that that we think limited risk would be entirely appropriate for.

Peter Hetherington

There's also the bottom of the level which cleared into a full account previously. We're moving up those thresholds as well to make a bigger band. So, we were splitting everyone binary: above or below a line. We've now got two lines, so we've moved the middle line up a bit and we've moved the lower line down a bit to make a proper middle zone, and we think that's the right thing to do. So, a slightly complex answer.

Kieran McKinney

We'll also let our current clients move into limited risk if they want to move that way as well. We're quite happy for current clients to choose. We won't force them to do it but we'll certainly allow them to move across should they wish to. I suspect not that many will choose to.

Peter Hetherington

There's also a thing: we've changed the way limited risk trades work. The way it used to work at IG, and existing accounts were always able previously to do limited risk trades, and the way it used to work is you paid a premium upfront for your stop to be guaranteed. We've now changed it so the price you pay on opening remains the same whether it's limited risk or not. And if you close the position out yourself without the stop being hit then you don't pay anything for it at all; and you only pay something if you're stop is actually hit. And we think that will change dramatically how attractive these stops are and these accounts are for clients because they used to feel they were paying for a stop even if you didn't need it.

James Hamilton

Secondly, on the client retention and product diversification I completely understand that there's much more vol in leverage trading than there is an ISA or SIPP or trading account, but from what you've seen so far what proportion of people who blow their brains out on the trading side decide to close their other accounts?

Kieran McKinney

I wouldn't say it's too early to say. Not many. They do appear to look at them in very, very separate ways, they do appear to.

Peter Hetherington

People start and stop leveraged trading. You can see how clients we've been with for a long time make up most of the value we generate on leveraged trading. But people aren't going to trade on leverage all the time. And so frankly, we don't know. If someone just stops trading, we don't advise them, we don't tell them what to do. They might just stop, just keep their positions in the SIPP and come back some time later. What we're trying to do is make everyone feel they've got an account and an existing ongoing relationship with IG rather than the relationship dying when you don't have a leveraged position open.

Kieran McKinney

You don't get continuous active trading in the stockbroking account. What you tend to see people coming in, doing some active stuff in the first month or two and then going quieter. Still more active than a classic stockbroking client elsewhere, but they don't remain really active in the stockbroking account over time. They either move in to leveraged to do it there or they return to a more normal.

Peter Hetherington

You can see it there: we've opened 11,000 stockbroking accounts and we're active in a month you're talking 2,500. So, it's that sort of order.

Thank you all very much.