IG Group plc

Q1 Trading Update

Tuesday 20th September 2016

Peter Hetherington, CEO

Good morning everyone, welcome to the call. I'm Peter Hetherington, Chief Executive, and I'm joined by Paul Mainwaring, CFO, and Kieran McKinney, Head of Investor Relations.

I'm going to keep the formal monologue quite short. We are after all only three months into the year. Paul and I will then happily take your questions at the end. So, getting straight in.

The first three months were not amazing from a revenue perspective but revenue was ahead by just over 5% at £111m. This was the fourth best quarter in IG's history.

June was obviously a very interesting month in the market. We clearly saw some pretty big swings around the EU referendum. But as we said in our announcement the day after the vote, we chose to prioritise long-term value over short-term upside. We raised client margins well ahead of the vote and kept them elevated after the vote until the markets settled down. This heavily constrained client trading during this time, although June was still, in absolute terms, a good month.

Although FX was interesting for a while, the equity market did become increasingly dull through July and August. There are a raft of stats which support this. A couple of examples are: the intra-day ranges on the FTSE index were the lowest they've been since very early in 2015. The SNP range over the six weeks from mid-July was its tightest in 50 years. And you can see that the classic VIX, the Volatility Index, closed in August as low as 11 against a long round average of around 20.

So, the backdrop wasn't a great one for industry, but against that we performed well. The first quarter brought both our highest ever number of active clients and our greatest new client recruitment, both by some measure. And, unsurprisingly, client money balance is at an all-time high.

The UK average revenue per client was down over 20%, but this is really just the impact of the actions we took in June followed by dull markets. It was also exacerbated by the mathematical impact of such an uplift in new clients towards the end of June. Firstly, they've not been trading for the whole quarter; and secondly, the two months that they did trade for were unexceptional.

In the quarter we did also make some good strategic progress. We have now rolled out our Limited Risk Account across the globe. You will recall, this gives clients an absolute guarantee of no debt. As part of this process, we altered the way we charge for guaranteed stops across the board. Clients don't need to pay upfront, they now only pay if a stop is actually hit. We believe this is unique in our industry.

Stockbroking continues to go well in the UK and it went live in Australia in July. It's very early days here but we have no reason to believe that it won't follow the more recent UK pattern. As I said, we're only three months into the year so I'll finish there and ask the operator to open up the lines to any questions. Thank you.

Q&A session

Question 1

Paul McGinnis, Shore Capital

Good morning guys. I have three quick questions.

Just with respect to online marketing spend, given the last couple of months have been slightly duller, is that something that you've now currently scaled back on? That's the first question.

The second one was at the final results presentation you referenced the rollout of a newly redesigned platform. Have you had any initial feedback on that?

And then finally, you just mentioned the Limited Risk accounts. Are you able to give us an update on what the uptake of those has been so far? Thank you.

Peter Hetherington

Hello Paul, it's Peter. I'll take them in order.

So, online marketing first. As many people know, we target recruiting clients who pay back their cost of acquisition within four months of their trading. So clients, on average, trade with IG for about 20 months. We target a four month payback and we recruit as many clients as we can, basis a four month pay back. That means our marketing spend does flex over time, depending on how efficiently we can recruit clients. You can see the numbers; you can see how many accounts we recruited in the quarter. You can assume that we actually have, as we said, recruited clients efficiently, therefore you can work back from that to work out, with a reasonable degree of accuracy, what we will have spent in online marketing.

On the second question, the new platform, we continue to roll it out and it's available to a lot of clients in the UK as a beta. Take up is increasing on it. We are honestly getting quite a lot of feedback on it and we're happy. That's the whole point of having something in beta; it's to get feedback to allow us to improve the platform. We don't have all the features we want in it yet. I think the key point will be when we start giving new clients only access to the new platform, but we're not ready to do that yet, but we're continuing to make progress. We are getting lots of feedback, lots of positive and some suggestions on how to improve it. It's a big programme of work which we're determined to get right and not force out before it's absolutely ready.

Finally, on limited risk, we have got some stats but we're not going to share them at this stage. The rollout was in the UK in July and then for the rest of the world in August, and we just think it's too early to share the feedback because the numbers, the law of small numbers is always that the percentages bounce around. What I can say is, clients who formally would have been given a full account appear to be every bit as valuable as they formally were when they used to have a full account. Clients who we would formally have rejected appear to be somewhat less valuable, but they were accounts who we wouldn't hitherto have had at all, so we're happy with the increment on them.

Question 2

Peter Lenardos, RBC

Just a question on the regulatory environment. I was curious if there have been any changes or updates in your regulatory environment in any of the geographies? Thanks.

Peter Hetherington

We've flagged this a couple of times now in I think our last two or three most recent statements that the regulatory outlook in Europe is quite challenging, and that's particularly true because of some of the behaviours of unregulated, or barely regulated, operators selling binary products into Europe. And our view is that continues to be the case and there continues to be a growing backlash by European regulators, really quite a lot of European regulators, against some genuinely pretty reprehensible behaviours from these barely regulated or unregulated firms.

To be honest I think it's more of the same. I think it's a growing thing and I think it will continue. And I don't think the outlook from a regulatory perspective in Europe, if you are selling the sort of extraordinarily speculative binary products, is very good at all. But I don't have any problem with that because it's not what we are and it's not what we do.

I think the danger is that there's some sort of contagion across the fairly representable behaviour of some firms into the more end of the industry that we operate in. But we've got nothing further to say than we actually said in our last few statements on this.

Question 3

Haley Tam, Citigroup

Can I just ask a question about the strong growth in client numbers that you've seen in the quarter? Can you give us some colour in terms of the timing of when those clients came on? And if current trading activity remains quite subdued whether this is something we can expect to see repeat or whether it really was a one-off in the quarter? Thank you.

Peter Hetherington

Account recruitment over the EU Referendum was extraordinarily strong, and that was heavily weighted towards the UK in a way that you would quite naturally expect. There was also patchy uplift around the rest of the world. Then account recruitment slowed down, but not very quickly, throughout the rest of the quarter. Then in terms of trading activity, as we said in the statement, June was relatively strong, although we constrained it through increasing margin. July and August were quieter because of the lack of volatility, the lack of market movement.

Looking forward I think a very good proxy for us is always how active markets are, how much they trade and what volatility and ranges on the day are, and that's a very good proxy. As everyone knows September has become significantly more interesting.

Question 4

James Spalton, Odey

A couple of questions actually if that's all right. The first one was within the client activity: I wondered if you could comment on how it varies between your largest clients through the period and some of your smaller clients, just to understand whether the slowdown has been across the piece or whether it's in one specific bucket or not.

The second question I had was: with the US election coming up whether you were expecting to put in place similar controls, risk measurements or indeed recruitment initiatives as we saw through the Brexit period? Thank you.

Peter Hetherington

In terms of the client mix I'm afraid I genuinely don't know. I don't think there's anything exceptional around the mix of who is trading and how they're trading. But I don't have any specific data on that point, sorry.

Then on the US election we're actively debating it. It's a subject we're doing at the Exco and we're debating it quite seriously about whether or not we need to do anything. I think a lot of it depends on how the race unfolds in the US and I think we'll take a decision nearer the time depending on how things are looking. I think there's a possibility that we do something, but not a probability at this stage.

James Spalton

And would your sense be, would you be looking at it as a period that needs risk control and client protection, or as a period where you could potentially stimulate client activity both for new clients and active clients?

Peter Hetherington

Certainly the latter. I think it would be extraordinary if a big macro event like that didn't generate interest in the markets and interest of people wanting to trade. And we certainly would intend to try and exploit that. So, definitely the latter, possibly the former. A bit early to say. Decision nearer the time.

Closing Comments

Okay everyone, I think that's it. Thank you all very much for your time. I look forward to talking to you soon. Any further follow-up please do feel free to contact Kieran. You all know how to get hold of him and follow up with him if you need to. Thank you for your time.