IG Group

Q3 Trading Update

Tuesday 22nd March 2016

Peter Hetherington, CEO

Good morning. Welcome to the call everyone. I'm Peter Hetherington, Chief Exec, and I'm joined by Kieran McKinney who is our Head of Investor Relations. This is my first of these calls so apologies if I don't get all the points out – we can fill any gaps in during the Q&A.

I will take you quickly through the salient points in this quarter's performance and then throw it open to questions.

Looking at both the numbers and the general business performance this was a good quarter by any measure. Group revenue at £122m was ahead of last year by 18% and up materially in every region. Client numbers were well ahead in every region. And revenue per client was also up across the board.

I appreciate revenue per client jumps around a bit so we also provided clarity that it is flat year to date in every geography, except what we call 'the rest of the world' where it is ahead by around 6%.

We set a number of records this quarter: revenue, active clients and first trades all reached new highs this quarter.

There was reasonable volatility throughout the period but the performance was about a lot more than that. This quarter didn't actually contain the highest month ever for revenue, that still belongs to Q2 last year.

I'm particularly pleased with the first trades number. I think this is the best proxy for new clients: it's not when they complete an application form or when they fund the account but when a client actually places their first trade. First trades was above last year by 26% and last year was a strong comparator in this metric, being the quarter of the Swiss Franc depeg and the volatility associated with that event.

We've taken the opportunity in this statement to point out the betting duty charges are continuing to run at the first half level, around £6.5m. And you will recall we talked in January about being technically caught by the Bank Corporation Tax Surcharge from the 1st January 2016; as we hoped the rules here now have greater clarity and we are now confident of being exempted. Better still we believe this will apply retrospectively, which we did not expect.

In our outlook piece we highlighted even more clearly the situation in France. The regulator has been considering for some time its position around direct acquisition marketing of our products. While the precise outcome is still not certain the discussions have moved forward rapidly over the last week or so and we now believe the likelihood of some restrictions has increased materially. While we do recruit clients through several routes we have to be realistic and say that at least some of these would be impacted by restrictions.

We are engaged in the debate and once the situation is clear we will consider whether or not we have to alter our approach to this market going forward. Our expectation at this point is that if some channels become unavailable to us we will substitute that spend to other countries or different channels. It is likely that this substitution will be somewhat inefficient.

We were at pains to say that we can never be sure what the financial markets hold in Q4 and how this will impact client trading but the business is in good shape and performing well. A point of detail perhaps, but I must just point out whilst operating costs remain in line with guidance certain items, discretionary remuneration and marketing spend do flex with revenue and therefore will be dependent on the Q4 outturn.

I'll finish by saying that I'm personally pleased with the way IG is performing and executing at present and I believe we have a very clear strategy to grow from here. So with that I'll ask the operator to open up the call and Kieran and I will be happy to take your questions.

Q&A

Justin Bates, Liberum

Good morning gents, could you just elaborate on the 26% growth in the first trades, how you're achieving that because that's an encouraging number it seems so just understanding what you're doing differently now versus this time last year would be helpful?

Peter Hetherington

It's two different things. When underlying markets are volatile, clients are more likely to want to open an account and therefore more likely to end up deciding to trade. So that's part one.

Part two is we believe our capabilities in terms of online marketing, whether that's actually paying for advertising or putting new stories on media sites or natural search or any other form of online marketing is improving. We also believe that our ability to convert people who get to our website, the process by which we turn them into trading accounts is also improving.

So it's a two part answer. When markets are volatile advertising becomes more efficient because clients are searching for trading opportunities more, therefore account opening always goes up with volatility, partly that. Partly also the fact that we believe we're getting significantly more efficient at the whole conversion journey all the way from online marketing right through to how easy it is to fund your account and trade.

And I can't actually break out for you a percentage as to how much of the improvement is each except to say it's got to be some of both.

Justin Bates

That's helpful thanks. So is there an actual inference from that as well that the cost of acquisition is declining?

Peter Hetherington

Yes the cost of acquisition has declined somewhat but our spend has also increased in that. We’re actually trying to hold the acquisition cost broadly flat and, as most people know, accounts we recruit pay back the cost of their acquisition in about three months. That's how we’re targeting online acquisition and we’re trying to recruit clients up to the point where the payback goes to three months.

It’s not an exact science and you can't flex spend that much. So whilst the markets were volatile our payback actually fell: so clients were paying back the cost of their acquisition in sub three months because we were unable to increase spend as much as we wanted.

Kieran McKinney, Head of Investor Relations

On that basis I think we’ll finish up. Guys thank you very much indeed for listening. It’s Kieran here, I'm around all day obviously if anybody has any specific queries please give us a buzz. But thank you very much indeed for listening.