



IG Group Interim Management Statement Wednesday 17th September 2014

Tim Howkins – Chief Executive

Good morning everybody. As usual I'm joined by Chris Hill, our CFO, and Kieran McKinney, who's Head of Investor Relations. I'm just going to say a few words and then I'll hand over to Chris to go through the performance in a bit more detail.

I'm sure it's been no surprise to you that revenue is down year-on-year. You'll remember that Q1 of last year was really quite strong, with June being a particular standout. Last year we had the first tapering comments from the US Fed and growing negative sentiment around the Chinese economy; and both of those things combined to give us a very strong June in 2013. I think it was the strongest month of the last financial year. But I'll let Chris go through performance a bit more in a few minutes.

Turning to some of our key long-term initiatives. You probably detected in July a slight sense of frustration from us that it was taking so long for the Swiss regulator to issue our licence. So, I'm very pleased to be able to announce today that we have very recently received that licence. We've still got to tick a few more administrative boxes and then we expect to be trading in Switzerland within a matter of weeks.

I hope you've seen some of the positive press coverage of our stockbroking launch. We enabled account opening for stockbroking over the weekend and took our first trades on Monday. So, obviously I'm not going to say anything today about how it's progressing, given that the first trade was only two days ago; but it's clearly an important moment in the development of IG as we progressively reposition ourselves as the default choice for active traders.

Stockbroking allows us to engage directly with a much broader audience. It will be a profit centre in its own right, but I think it could also have a very positive impact on our wider business. Within a few weeks from now we'll enable clients to use their equity portfolio as collateral for shorter-term leveraged trades, using either spread betting or CFDs. And over the next year we expect to roll out stockbroking to at least a couple of additional countries.

That's all I'm going to say for now so let me hand over to Chris.

Christopher Hill – Chief Financial Officer

Thanks Tim. Good morning everyone.

As Tim said, Q1 last year really was quite strong. June was a particular standout, both in strength last year but also then in weakness this year. Of the £8m we're off year-on-year, over £6m of this came in June, so July and August were pretty flat on last year.

Against this backdrop I don't think there are many surprises as we look at the numbers in more detail. The UK was off 3%, predominantly caused by fewer active clients in the period, which is no surprise in quiet markets.

As mentioned in the statement, Australia was weak against Q1 last year. We've talked before about economic weakness and the currency translation impact here. Encouragingly though, sequentially it was flat against Q4 last year.

In Europe the key number for me is the continued growth in active clients. The strongest performance is in this metric, and that came from the Netherlands, France and Germany.

The rest of the world, as we said, is a mixed bag. Here the impact of a weak FX market is most felt. As a general rule Japan and Singapore are most heavily skewed towards FX. Before the weakness we've seen over the last nine months or so around 60% of the revenue here was from FX. We did see a little pickup in this asset type towards the end of August, and encouragingly Singapore, Japan and South Africa all posted their best revenue month in August.

Q1 growth was a little slow at Nadex in the US, but client numbers were still over 40% ahead of the same period last year.

In conclusion then overall, as I said earlier, there are no big surprises in these numbers.

With that I'll hand it back to the operator, and Tim and I will be happy to take your questions.

Question 1

Richard Taylor – Barclays

Can you talk a bit more about the stockbroking launch and what sort of marketing effort you've put behind it at this stage? Is it all systems go or are you waiting until other things, perhaps such as funds, are added before you advertise it more aggressively?

Tim Howkins

Certainly at this stage we've got no intention to add funds. The offering is stocks, ETFs and investment trusts, and we think that's a full enough offering for the audience that we're targeting, which is the active trader.

What we've done so far is engage quite actively with the press. And I think we've been quite pleased with the press coverage we've had over the last couple of days, and I think we expect more in the coming weeks. We've done an email to all of our existing clients, including lapsed clients and prospects. Going forward you will see stockbroking as one of the themes of our advertising. But I emphasise one of the themes; it won't be the exclusive thing.

We're very much looking to a progressive build-up of the stockbroking client base. I think the lowest hanging fruit will be from our existing client base. So, I think our initial efforts will be focused on getting our existing client base to take a look at it and we'll build from that.

Question 2

Minh Tran – Liberum

Also on stockbroking I was wondering whether you would be able to share with us any of the initial customer feedback from the pilot programme. And also whether you have noticed any pickup in customer activity in that sample group?

Tim Howkins

Certainly we've had one or two clients in the pilot group who have been very active in the stockbroking pilot. I think generally the feedback is that people are pleased to see the technology that they've been used to for spread betting and CFDs translated into our stockbroking offering.

Obviously we haven't yet given clients the ability to use stock as collateral. You wouldn't yet expect to see an increase in their spread betting and CFD activity. I think that will come once we have the collateral service in place.

Question 3

Cormac Leech – Liberum

You may not want to comment at this point, but I think previously you'd given guidance that the stockbroking might add about 5% to your revenues a few years out. I appreciate this is trading statement so maybe you want to restrict your focus to this quarter; but is it fair to assume that there might be upside risk to that estimate? Because it seems quite a modest increase given the strategic scope of what you're doing. There seems to be an obvious synergy between stockbroking services and CFDs; it seems like there may be upside risk to that 5%. Can I invite you to comment on that or would you prefer not to?

Tim Howkins

Certainly two days into our stockbroking launch I think it would be premature to change any guidance that we've given. In terms of that guidance I think I was at pains to emphasise that that was an indication of a level of stockbroking revenue that we would be happy with, and didn't take into any account the cross-selling opportunity of bringing in people as stockbroking clients and then introducing them to spread betting or CFDs, or the potential uplift in spread betting and CFDs from allowing people to use their stockbroking account as collateral.

I would just emphasise that that 5% was a stockbroking figure; it wasn't a total impact on the business figure.

Question 4

Hugo Mills - Citigroup

I wonder if you could just talk behind the UK and the revenue per client dynamic there, and what you've been seeing through the quarter. Adding onto that, have we seen an end to the washing through of clients; we'd expect an annualisation to come through now as we look forward in this quarter. Is that fair?

Christopher Hill

With respect to the UK there is still some impact of the de-emphasis of the lower value client; that will come through over I think the next couple of quarters. So, I think some of that still has to come through. However, I'm also clear in the UK performance it's very reflective of quiet markets, and in quiet markets you see less clients trading, you see less transactions and less transactions per client. But actually revenue per trade has been reasonably strong. I think some of that is mix, because with less FX business again you have a mix on the revenue per trade. So, FX is a story that plays through in the UK so that is definitely quiet. Certainly when I look at it sequentially quarter on quarter, you've got the client behaviour being very what we would expect in terms of quiet markets.

Question 5

Arun Melmane – Canaccord

I had just a follow up on the Switzerland office opening. How big do you see the opportunity and how long would it take to ramp up to that?

The add-on to that would be: do you have a pipeline of other office openings? Would you care to discuss that today?

Tim Howkins

What we've seen in similar sized opportunities, so if you take somewhere like Italy or Spain, which I think are probably markets of similar sort of potential scale, we've seen that it takes maybe three or four years to get up to about £10m of revenue. And I think that would be the sort of expectation we might look for in Switzerland. But obviously every country is a little bit different, and it also depends on the market backdrop and the economic backdrop, quite how fast a country goes.

In terms of pipeline of new offices, I wouldn't quite describe it as a pipeline; we're working on one other, which is Dubai. We are always in talks with regulators and other third parties, potential partners, in various countries around the world, and we are in those sorts of discussions in a number of places; but nothing is obviously the next one in the pipeline after Dubai yet. But I'm sure at some stage there will be a next one.

Arun Melmane

Have you added anything in terms of your product offering, apart from the stockbroking, in terms of new markets or new product type onto your platforms this quarter?

Tim Howkins

Nothing of any significance. Obviously we're always adding new features to the platform. We've recently introduced improved signals. We've made various additions to the platform but not actually new products, no.

If we have no further questions from anyone on the call just in conclusion: nobody asked about current trading. I'm not going to say very much about that. It clearly would be wrong to interpret too much into two weeks of September.

If you go back to August, halfway through August it was feeling like August would be a very strong month and then the second half of August was quite quiet. I think we're in the same position, that halfway through September it feels like it's going to be a reasonably good month; but two weeks is far too early to call a month, let alone a year.

That's it from me. Chris and Kieran and I will all be around for the rest of the day if anyone has got any further questions. Thank you.