IG Group H1 2015 Results

Tuesday, 20th January 2015

Christopher Hill, Chief Financial Officer

Good morning everyone, welcome to the IG 2015 Interim Results Presentation.

As most of you know, I'm Chris Hill, CFO. Unfortunately, Tim is ill this morning. We hope that he makes a swift recovery and can join us on the roadshow. In the meantime, I have our Chief Operating Officer Peter Hetherington with me, and also our new Chairman, Andy Green, is up at the front here.

As usual, I will work through the detailed financial performance for the year, and then, unusually in Tim's absence, I will also consider some of the initiatives we've been working on over the last six months. Peter and I will take questions at the end.

But before we get into the results for the period, I wanted to address the events of last Thursday surrounding the movement in the Swiss franc.

On slide 3, the chart shows just how violent the move was last week. A movement in excess of 30% in a G10 currency is an extreme event. Not only was it the sheer scale of the move, but the total lack of liquidity through that move.

Going into it, clients were net short the franc by around £162 million, with 715 clients having open positions. Currently, just over 300 clients are faced with debts; we've already begun the process of collecting on these. As we explained on Thursday, we closed out client positions where they had a stop loss in place in an illiquid market and where we were unable to close out the corresponding hedge.

Overall, we've seen a £12 million hit to trading revenue and currently the outstanding debt figure is £17 million. It's hard at this point to predict the collection level due to the extreme nature of the movement.

I'm sure we'll come back to this in Q&A, but for now, let me address the H1 results.

So turning to slide 4. We saw record half-year revenue, £197.4 million, up 8%, and this was after a very subdued first quarter. The second contained a particularly strong October. Within this, second quarter revenue was ahead of the prior year by 25% and ahead of Q1 by just over 30%. PBT was up 2.8% at £101.4 million. On the next slide I'll touch on changes to the FSCS levy accounting.

The Group effective tax rate continues to fall, down to 22.5%. This is a reasonable assumption for the full year, but I would expect it to fall further into FY16. Given this, earnings were up 6%. EPS was up 5.4% at 21.44 pence, and we saw another half year of strong cash generation with own funds generated from operations of £87.4 million, up 10.5%.

And we have declared a dividend of 8.45 pence. You will recall that we put in place a formulaic first-half dividend calculation. It's set at 30% of the prior year total ordinary dividend.

Given that last year's H1 dividend was paid under the previous 60% pay out policy and was previously typically around the 25% of the ordinary dividend in a year, this does give us an unusual one-off increase in H1, up 47%. The ordinary dividend policy remains to pay out approximately 70% of earnings, so this strong mathematical increase in H1 will clearly impact the year-on-year percentage movement in the final dividend.

As usual, a bit more P&L detail here on slide 5, the Income Statement. I've spoken already about the headline numbers, but also of note, after a tough first quarter, when client numbers and average revenue per client were behind by 3% and 6% respectively, things recovered rapidly in the second quarter to leave both clients and revenue per client ahead for the six months.

Interest on client funds continues to fall as interest rates across the globe drop. No surprise here. And this is some way further to fall in the near term before bottoming out. And betting duty was high in the period at £4.5 million. This number is difficult to predict but has tended to rise sharply when volatility spikes, as we also saw back in the first half of 2012.

You know the sports revenue share ended in FY14, so the other operating income line will be negligible going forward.

I said I would speak about the FSCS levy in more detail. An accounting change across the industry, so not of our making, means the whole charge is now booked in the second half, when it is actually paid, instead of being accrued throughout the year. Current expectations for the full year charge are between £6 and £7 million, so op costs are slightly artificially flattered in the first half. The prior year H1 numbers have been restated accordingly, so the year-on-year movement is valid.

Tax I mentioned earlier. The effective Group rate for 2015 I currently expect to be around 22.5%, with this falling again into FY16 to slightly below 22%.

So to the revenue bridge, slide 6. Here I show the drivers of the change in revenue in the half year, and to help see the shift, I show the drivers in the first half of last year also. What you see here is the difference between moving from a noisy period to a quieter period, which are the top columns on the left, and moving from a quiet period to a noisier period.

The most notable difference is how the installed clients respond. That is those who traded in the period in question and the prior period. In H2 2014, at the top, they traded less by £12.9 million, whereas in the H1 this year they traded more by £2 million.

Also, if we simplistically consider the second column to be indicative of churn, i.e., existing clients not trading, and the next two to be indicative of new activity, we see a net £7.8 million positive movement in this half. This is then supported by the right-hand chart, which shows a marked uplift in active clients in the second quarter, back up at levels last seen in FY13, before we made some changes to discourage some of the very lowest value clients.

Turning to slide 7, this is a busy one, apologies, but I think you'll see we've provided some very useful additional detail here for you to glance through at your leisure. What I would point out is of the regions, the UK and Australia had the greatest revenue growth. You see clearly here the strength in the installed base in the more mature markets. They respond to a greater degree and more rapidly to movements in volatility.

Total client numbers were slightly down in both areas, though markedly up in the second quarter, but the change comes through in average revenue per client as the more established clients trade more.

Revenue growth in the big European economies was weaker than we would have anticipated, but client numbers in Europe were up 9%, and I will pick up on this a little bit later. The marked difference between the quarters stands out also, with Q2 ahead of Q1 by 30% and with significant growth across all regions.

On slide 8 we look at the asset mix in the revenue. I don't think there are any big surprises here. All asset types were up Q2 on Q1, but you see the particular strength in indices and FX. The FX strength in the second quarter explains the significant quarter-on-quarter pick up in the rest of the world where this is the predominant traded asset for clients. There was a marked shift in volatility around the major indices, and you see that the single biggest traded asset continues to be indices, accounting for over half of Group revenue in the period.

On slide 9, once again you see the tight distribution of daily revenue in the period. Notwithstanding what I said about last week's incident with the Swiss franc, IG's risk management has tended to produce consistent results. What you see here is low levels of variability as the fundamental driver of revenue in IG remains the level of client activity. This clearly fluctuates short-term around a mid-point as volatility comes and goes.

Turning to the operating cost detail on slide 10, once again, I'm obliged to remind you about the change to the FSCS levy accounting. You'll see we reconciled last year's numbers on the slide pre-restatement. This alone will add £6 to £7 million to the equivalent H2 operating costs. As you know, we are in a heavier investment phase in IG: investment in future growth, as we expand further geographically, roll out stockbroking internationally, and develop the new suite of mobile apps aimed squarely at client acquisition. Again, I will return to that later.

We will increase our marketing push in the second half also as we improve our conversion process, and to support the new mobile apps. Also the run rate exiting the first half is, of course, higher than the period in total would suggest.

Putting all of these things together, I continue to expect underlying operating costs, i.e., before additional bad debts, to be around £20 million higher than the £169 million last year.

Here on slide 11, you see the movement in broker margin requirement. There was a marked shift at downwards in broker margin at £188 million, well down from recent highs which were closer to £300 million and off £97 million since the end of FY14. You'll recall that this is a point in time number and open to quite rapid movements in both directions. You can see here how this has progressed in recent years. You'll see a similar sharp decrease back in the volatility of August 2011, before it headed back up.

During this half we did see some reduction in broker margin rates, but the big drivers of the drop in margin were a significant decrease in client short positions on indices, bringing this more into balance, and the reduction in the single equity positions and a corresponding shift from small CAP to large CAP, where margin rates for IG are lower.

So on then to slide 12 to see the impact of that on the Group's cash position. It was another good period for cash generation and conversion. Owned funds generated from operations was up by 10.5% to £87.4 million. Working capital tends to flow out in the first half and in in the second half. We see the first half movement here. This is predominantly down to the full cash payment of last year's bonus, while only accruing half of this year's anticipated number. Pre-dividend, owned funds were up by £64 million. We then paid out the final dividend from last year, £81.9 million. This was based on the increased pay-out ratio of 70%, and also included the catch-up from H1 last year, as we upped the pay-out ratio halfway through the year. Owned funds ended the period at £471 million.

As you saw on the last slide, broker margin requirement was down by £97 million. Net owned funds available after posting broker margin were therefore £282.6 million, and on the right we show how this is put to use.

Overseas regulatory and working capital is up since last year to almost £43 million, due to the additional capital required in Switzerland. And after funds required for segregation, which is primarily a time difference on card funding, owned funds are at £212 million. The liquid assets buffer is currently at £83 million and this hasn't moved materially since the end of last year.

So to regulation on slide 13. In Europe, I would describe the FTT debate as going somewhere slowly. There remains no clear agreement on scope, use of proceeds, or timeframe, but we continue to assume that there will be some sort of tax eventually, which will not have a material impact on the business. We saw the MiFID II technical advice published in December, as we expected when we last updated you in July, and we have no material concerns with what we've seen.

On EMIR, we are complying with all the current requirements, primarily surrounding trade reporting. The position on Singapore hasn't changed. We continue to assume the FX leverage reductions will happen at some point, but we are confident the mitigating factors built into the legislation will minimise the impact.

The US FATCA regulations have put some grit into the account opening process, but we are fully compliant, and this is another example of a regulatory shift which creates an additional barrier to entry in our market.

And similarly the Common Reporting Standard, sometimes referred to as 'Global FATCA' we've responded to the consultation on the implementation in the UK.

So on the summary on the numbers on slide 14, the second quarter was a return to form after the very subdued first quarter and the business and our people responded exceptionally well to the sharp increase in client activity. The increased revenue flowed cleanly through to both profit and cash. The new ordinary dividend level is well supported by our cash flow and balance sheet, and as I said earlier we are in a heavier investment phase and will continue to invest through the second half and into next year to support future top line and earnings growth.

So now let me give you an update on some of the initiatives that we're working on. Turning to slide 16 some time ago we set ourselves five very clear objectives to deliver our aim to become the default choice for active traders globally. All of the initiatives that we're pursuing fit within one of these strategic objectives.

On slide 17 you can see the early progress that we're making on stockbroking. Let me remind you of the rationale for becoming an execution-only stockbroker and why our offering should appeal. This can be a good revenue and profit stream in its own right. You will recall that we said that we would be content if it delivered by itself 5% of Group revenue in five years' time. But more importantly perhaps it allows IG to appeal more easily to a much broader audience. And for a proportion of this audience our leveraged product set will ultimately be an attractive option.

IG's stockbroking proposition brings far superior technology to this industry offering clients real time tradable prices, direct market access and very transparent and market leading foreign exchange rates when buying overseas shares.

Here you can see the early growth of the stockbroking client base. It was extremely difficult to estimate how this might grow but we're pleased with the early take up. Having launched from scratch only in September we already have around 1,700 funded accounts. And we didn't launch the collateral service until late November. This allows clients to use their buy and hold portfolio as margin for their leverage trades. The very early take up here has also been encouraging with well over 200 clients having already enabled this service on their account.

At this point a couple of specific things stand out for me. The proportion of new versus existing clients has been a positive surprise. I expected the early take up to be heavily weighted towards existing clients. You see here that more than half of the accounts so far have come from new clients.

Also I talked about a large part of the rationale being the cross-sell potential, this was a perfectly logical assumption to make but you only find out if you're right when you launch. For new clients whose first stockbroking trade took place in September 28% of them had gone on to trade with a leveraged product within three months, and this percentage has risen each month so I think the ultimate cross-sell will be higher. On the school report card I think we get at least a 'so far so good.'

Next we'll take the UK offering and we'll roll it out to at least two of our other countries during the course of 2015. I won't be specific on which ones at this stage.

Turning to slide 18 I showed you earlier the detail on the European office performance over the period, I think the performance in the first half was a little disappointing. But the opportunity in Europe won't be gained or lost over a six month period.

You can see here our progress over a number of years even into the headwind of the economic crisis and the last couple of years were also marked by extremely low market volatility. There's absolutely no reason to believe the size of the opportunity is anything other than very significant. For all the growth we have achieved here the revenue of our entire European segment is still less than half that of the UK.

There's no doubt that reasonably recent economic weakness in Germany and France has impacted us and the broader industry. Here revenue was slightly down on the same period of 2014 and 7% behind the second half of last year. There is some encouragement in the numbers: client numbers were up in Europe by 9% and the second quarter revenue was ahead of Q1 by 20%. But I think we should be growing here much more rapidly.

The process of converting clients is definitely structurally more difficult in Europe and this is exacerbated by the shift to mobile. For example, until very recently in Germany it was necessary for a client to verify their identity by physically going to the post office to acquire what's called a 'post ident'. As you can imagine if you come through the mobile route this is going to seem extremely strange and is a major barrier to trading. We've worked with the regulator to enable us to verify identity and the relevant papers using Facetime. And we're trialling an electronic service provider to make the process even more slick.

I mentioned then the challenges with mobile. This is increasingly becoming the route through which a new client will join us, but the conversion rate from first click through to a completed application and ultimately to trading is significantly lower on mobile than on the browser, and this drop off is most marked in Europe. I see this as both a current challenge which we're addressing, and also a considerable opportunity if we can get it right.

On slide 19 then you see our initial response. We said back in July that we'd set up an IT development operation in Eastern Europe dedicated to building a suite of mobile apps aimed specifically at client recruitment and developing the marketing infrastructure to maximise their impact globally.

We launched the first of these apps in the UK in December - IG Major Markets for the iPad. Getting this right will be an iterative process of development and fine tuning but the app is already ranking extremely well for key search terms in the App Store.

The Major Markets app is aimed squarely at attracting and for converting clients. It's designed from scratch for that purpose. It will appeal much more to early stage traders. It contains only the major markets that clients trade, particularly new clients. We will iterate it as we learn more about the journey clients are taking to and after their first trade.

Through 2015 we'll roll this app out to the other operating devices, iPhone, Android phone and tablet and Windows. And progressively we will launch it in all of our geographic regions.

Alongside we continue to develop the established app. This continues to be extremely popular for more experienced traders. We will add additional features here to close the gap between the functionality available on the app and that on the browser. We'll encourage those who learn to trade on the Major Markets app to progress onto the established app, although we won't force the switch in any way if clients are content on the Major Markets app.

Turning to slide 20 we have continued to make progress internationally. We finally began trading in Switzerland in October, it's still very early days so unfortunately I have very few insights for you at this stage. Our status there as a bank enables us to offer the full product set. The sign up process is a little more difficult and can't be done fully electronically – it requires some manual intervention, but we are signing up clients and they are trading. This early stage development looks very much like any other European office we've set up. The only difference we're anticipating is the possibility of having a greater proportion of the revenue ultimately coming from institutional introduced business due to the huge number of private wealth managers in Switzerland.

In the US Nadex continues to grow. Revenue in the half year was 41% up on the same period last year. We broadened the product set in December to offer additional short term binary contracts and our external market maker continues to be very active. The client base grew through the period. In December we had just over 2,500 members actively trading on the exchange, although our ambitions do, of course, remain considerably in excess of this. We still consider Nadex to be a very interesting option for IG and we will continue to look for ways to accelerate this growth.

On slide 21 as I've said before our international expansion from this point forward will be tightly targeted. We're making very good progress in Dubai. We've appointed an office head, we've secured premises and have identified the additional staff required, and we've worked through a number of the challenges such as appropriate adjustments to the product set, an Arabic website, and the arrangements to enable Sunday trading. The licence application is entering later stages and we anticipate that we'll open here towards the end of this financial year. We do have medium-term ambitions in this region beyond Dubai but we will bed down the operation there first before we consider our next step.

We've talked before about opportunities in other markets and we do have a regular dialogue with regulators in other jurisdictions. You'll recall that we set up our original China representative office in Beijing almost exactly five years ago. Recently we have observed more encouraging signs from the regulator in China. Our view is that the regulatory environment is not supportive of a direct offering and is unlikely to be explicitly so for some time. However, we are exploring routes to enter the market here in some form through partnership arrangements. The precise nature of any such arrangement is uncertain at this stage and the magnitude and timeframe of the opportunity is unclear but we will actively pursue any route which presents itself.

So in conclusion on slide 22, I'm delighted that we successfully launched our stockbroking offering in the UK. This is possibly the most significant strategic development for IG in recent years and presents a real alternative for active investors in the UK. We're now preparing to launch in some of our other markets.

I said that European performance in the period was a little disappointing, we did expect more revenue growth but this in no way changes my view of the ultimate size of the opportunity here.

We are in a heavy investment phase currently and will remain so at least until the end of the 2016 year. I believe that this will deliver the next phase of revenue and earnings growth. In the second half of this year we will launch additional versions of the Major Markets app for other devices and iterate the functionality as we see how clients are using it. We expect also to open our office in Dubai and we'll continue to seek additional geographic opportunities.

Notwithstanding the events last week surrounding the Swiss franc, general trading performance has been strong since the end of November, and the financial markets are presenting more opportunities for clients. And I would remind you that we have in place a progressive dividend policy which remains well supported by the strength of the Group's cash flow and balance sheet.

With that I will throw it open for questions. Please will you wait for a microphone to arrive and then state your name and institution before asking.

<u>Q&A</u>

<u>Question 1</u>

Paul McGinnis, Shore Capital

Would you expect the events of last week to have any ongoing impact on clients' either reluctance or indeed encouragement to trade more either in the next six months, the rest of this financial year, and perhaps ongoing? I'm thinking particularly here about perhaps the high roller clients who I suspect are a disproportionate amount of the bad debts here in terms of do you think it will have spooked them in some way?

Christopher Hill

I think history suggests that after you have a significant crash like this that actually the client base is quite robust and comes back quite strongly.

I think the other point is the page that I showed when you look at FX being only 20% of our business, and also I talked about only about 700 clients had positions in the Swiss franc at that stage. So in reality I think the impact of last week directly won't be so significant. I think what's more interesting for our client base is that the markets are very volatile at the moment and then there's much opportunities for them to trade and that's the level of activity that we're seeing.

Paul McGinnis

Sorry could I just have one follow up? You mentioned on Europe that client sign ups had actually been quite strong but that revenue hadn't, was there anything in particular going on as to why revenue per client was so weak within the European markets?

Christopher Hill

I think we've seen a relative decline in revenue per client in Europe over a period, I think some of that you can attribute to underlying economics. Also you've got the relative mix of clients that you have, the more active, more valuable initial clients who will disappear over time which is then replaced by a level of clients that are coming on to trade. But those new level of clients isn't declining so we're seeing a more constant level of revenue per client for those new ones that we're bringing on. Peter, do you want to give a bit more context in terms of what we're looking to do in Europe?

Peter Hetherington, Chief Operating Officer

In terms of the new apps?

Christopher Hill

Yes.

Peter Hetherington

It is notable if you look at the European applications, that the likelihood of actually completing the application process, depending on which device you apply on, is markedly different by country. So in the UK it doesn't make a huge amount of difference what type of device you use to apply to us, your likelihood of going on to trade is roughly the same. In Europe it's extraordinarily different and your likelihood of completing the process, if you apply on a mobile device, is much lower, and that in short is why we're doing so much around the mobile sign-up to actually try to address that. We're getting plenty of applications; we're just not terribly good at turning the mobile applications into trading accounts.

<u>Question 2</u>

Arnaud Giblat, UBS

Three questions please. Firstly, on the exposure. You indicated several hundred clients impacted by the Swiss Franc. What proportion of revenues would those clients be?

Christopher Hill

The proportion of revenue is only a small proportion of the 20% that I called out beforehand, so that's not a significant concern.

Arnaud Giblat

We've seen several announcements from other brokers being impacted. Firstly, do you see potential for acquisitions on the back of this? Secondly, is there any potential risk or opportunity of regulators looking more at capital requirements and leverage ratios on the back of this?

Christopher Hill

Two things there. One is, do I think there might be opportunities? Yes. Is IG interested in those opportunities? Yes. I don't think we've seen all of the fallout from last week actually come through; and as you can see we are well positioned financially and therefore we're well positioned to take advantage of any opportunities as they arise and we'll look at them as they arise. The second thing, in terms of what I think may happen, I'm not going to make a call on what I think regulators are going to do. You saw how we reacted on Thursday. I think our systems responded extremely well. We were very prompt in getting information out there. We were very quick to understand the impact on our business, and we were very clear on how our conduct came out as far as we're dealing with clients and those with stock losses. So we are absolutely open to talking with the regulators and explaining to them the way that our business model works. But I'm not going to make a call on what I think the regulators are going to do.

Arnaud Giblat

Maybe if I can just follow up. Have you seen an influx of interest from clients/from other brokers coming towards you on the back of it.

Christopher Hill

As soon as it happened we up-weighted our marketing, so you'll see a very strong level of marketing spend from IG since Thursday, and you'll see us bidding on a number of particular words and you'll see IG coming through promoting as a very strong resilient provider. Clients out there will understand and see that IG didn't shut down, we continued to trade, we've honoured client positions, client segregation monies are safe.

Question 3

Arun Melmane, Canaccord

Can we just talk a little bit about risk management systems. You talk about lessons being learnt. What are they, or is still too early in the scheme of things to learn the lessons? The second bit is, on the £161m of FX exposure that you had on that day, what is that as a percentage of positions opened on asset classes? Is that typical? Is that heavily weighted against the Swiss franc? What does that look like on a typical day?

How did you break down the £30m between £12m of losses in the market? I presume that's the hedge loss, and the £18m that you had which is the credit loss. So then does IG prove totally to be an agency provider or is there some element of balance sheet being given to clients? Because if your systems were to take the stop loss off quickly then technically the exposure shouldn't be £18m. So I wondered what you thought about that?

And finally the last point would be, if you allow clients to put up stock as collateral for instance, and if you saw what the Swiss stocks did on that day, does that have implications for margin and what you would look at when you went through? Because the Swiss stocks were down 15%, too so your collateral would not be as much worth as it were when you started off.

Christopher Hill

You've asked too way many questions for me to grasp all of those, so I'll deal with the ones that I can. Did I think the position of clients going into the move on Thursday was necessarily unusual? No. We monitor our exposure all the way across. No, it wasn't unusual. And certainly in terms of proportion of all the clients' notional positions, it's not a significant sum. I think you answered your own question in terms of how that £30m breaks down. The market loss came from us closing out client positions at their stop level. We were unable to trade in a market at that level, and so effectively you have a hedged position, you take out the client and then you result in a market loss that you have to close out.

Arun Melmane

Which is the £12m, right?

Christopher Hill

That's correct, that's the £12m. Your other point was does that imply some sort of book running by IG? We're very, very clear as to how IG runs its business; and that page that I showed you in terms of the variability of daily revenue demonstrates that actually what drives our revenue is clients and client activity. We hedge that position and it makes sense for us to aggregate and hedge that position, but we are not actively running a proprietary view.

Arun Melmane

But the £18m, does that mean you provide some kind of leverage for the client?

Christopher Hill

Our model is a leverage model. You have a 1% margin on FX. You have the currency move by 30%. It's inevitable therefore that you're going to end up with a degree of loss. And if the market is illiquid during that period, we've always been very, very clear on that gapping risk, you've effectively got a market that then has gapped, you close the clients out and that's the resultant loss. So therefore we've got £18m of debt that we're then seeking to recover.

Arun Melmane

And the collateral point in terms of the stock, if you were to allow stocks to be collateral then...?

Peter Hetherington

The way that we've set up the collateral service, which is only live in the UK at the moment, is that you only get a proportion of the value of the stocks that you've set up in your portfolio. Then depending on what they are, how concentrated they are, how blue chip they are, we attribute you an amount of value which is a proportion of the current value of your portfolio. The more diversified it is then the higher that figure will be. But you never get all of the value, so you're easily able to cope with a move of, say, 15% across a portfolio, because the amount which you will have been haircut by is greater than that. So whilst obviously not being guaranteed to be infallible, we have thought about this quite hard in terms what percentage of the collateral you should allow people to have against that, and that's what the system is built for.

Arun Melmane

And that changes but based on different clients, does it?

Peter Hetherington

It changes minute by minute based on your exact portfolio at that moment.

Christopher Hill

Don't lose sight of the fact that – and Peter could probably give more colour to this than I can – we haven't seen a major currency move more than 30% in 30 years.

Arun Melmane

I agree. I just wondered what the lessons were and what does that mean for risk management going forward?

Christopher Hill

It's certainly too early for us to comment on that, and also I'm not sure necessarily would comment externally in terms of what we would do. But we'll certainly think about pegged currencies, we'll certainly think about the level of margin tiering that we have.

Peter Hetherington

If I could add on that. I've been involved in this business for over 20 years, almost all of that associated with dealing and ops and subjects such as that, and this was genuinely an edge case example; not just because of the quantum of the move of the currency, but also because of the unique circumstances of having a market which is open and moving but which we're unable to actually close our hedges in. That I have never seen before and we have never seen before. Yes, there will be lessons to be learnt from it, we're not arrogant about it, but as Chris said, it's way too early to talk about what those lessons are.

<u>Question 4</u>

Haley Tam, Citigroup

I have a couple of follow up questions please. You did mention your key word searches on Google, and I did notice that when I typed in certain other company's names you did pop up at the top as a nice banner encouraging me to trade with you instead. With that in mind, could you give us some colour in terms of £20m additional spending costs this year in investment, is that going to be affected by your higher marketing spend at all?

Also, you have mentioned that investment continues into 2016, how you would encourage us to think about that, is it another £20m, or is it just the run rate that we're keeping on the cost front?

Then I suppose a related question just on possible M&A opportunities. Forgive my lack of understanding here, but why would you look to buy somebody else's business? What would be the difference versus just attracting it yourself?

Christopher Hill

I'll take the last one first in terms of why would we be interested. I don't think we'd be interested in systems per se, it would be the clients that we would be interested in, and therefore that would affect possibly the way that you would think about whatever the transaction might be.

Your question surrounding going into the second half and where the cost increased, we have further increase coming through from Eastern Europe, we've got the opening of Dubai. Your question was particular to marketing, and we planned anyhow to up-weight the marketing into the second half. As to how that balances through the second half and given the up-weight that we've had over the weekend, over the weekend the impact is £0.5m, it's not so significant, but we're certainly planning on marketing to support the rollout of the Major Markets' app that we talked about. Then the cost going through into next year in terms of investment, I think £20m is possibly too high, but certainly double figures.

Haley Tam

Thank you. If I can ask a very cheeky extra question. One of your smaller competitors deferred a statement last week saying they'd seen no material impact from the Swiss franc move, and I just wondered if you had any commentary on why you thought that might have been?

Christopher Hill

It's interesting some of the comments that you see come out, and it's difficult to get a definitive understanding of what's behind those because we can't understand what their positions are. I think what's very clear, and giving the explanation that I gave just across here, that if you are hedging you are likely to run into a market loss. If you were not hedging, then you were probably not likely to get a loss. Also, it depends on which way the clients were, because if you've got clients all going one way but the clients are losing, or the clients are all one way and they're not making any money at all, you don't have an exposure. So it's very difficult to see that. But I think the key difference is the level of hedging and the way that our model works.

<u>Question 5</u>

Richard Taylor, Barclays

Just a quick question on stockbroking. You've shown us some of the early client take up. Can you share with us some of the client feedback on the platform? Also, bearing in mind that feedback, is the product suite now complete, or are you going to be forced to add funds or something like that to get people across to the site?

Peter Hetherington

Feedback from the clients has been wanting extra features, can I have SIPPs, will you offer funds, of that nature? So that I think has been the negative. Before we turned on the collateral service there were a lot of people asking for collateral as an obvious add-on, so that one we were able to address as planned quite quickly. On the positive side, the offering is quite different from a traditional stockbroker where traditionally you will get a screen which gives you an RSP quote with 15 seconds to choose whether to execute at a quote or not whereas our offering is giving you a streaming price. So it's conceptually a little bit of a different offering.

And as Chris said earlier we are rolling out to other countries at the moment, and we do have an internal conflict between whether to enhance the offering in the UK, or to go faster rolling out the international offering. And that, depending on which part of the business you're representing, gives everyone their own wish list – and everyone wants everything now and you can't have it. So we are trying to balance that obvious need to add in features to the UK offering balanced against the desire to roll it out internationally and having a finite amount of IT resource available.

Does that answer that?

Richard Taylor

Yes. Just as a follow up: so adding the funds may happen in the future; it's just a conflict of how to allocate resource and where to allocate it first?

Peter Hetherington

Yes.

Richard Taylor

You're not saying it's not going to happen?

Peter Hetherington

I'm not saying it's not going to happen. I'm also not saying it's happening right now.

<u>Question 6</u>

Mike Cuthbert, Canaccord

Does that mean at the moment the stockbroking offering doesn't offer any wrap products? You can't move ISAs? You mentioned SIPPs.

Peter Hetherington

You can move your ISAs. You cannot move your SIPP today.

Mike Cuthbert

Right, but there's potential in the future. Thank you.

<u>Question 7</u>

Minh Tran, Liberum

Just a quick follow-up question on stockbroking. Could you give us some more colour on what sort of revenue you have generated from the stockbroking over the last three months?

Secondly, on the mobile development initiative, isn't this initiative a bit targeting again the lower-value client that you were turning away in the first place?

Christopher Hill

Two things. We've only just launched stockbroking. The levels of revenue coming from stockbroking, disclosed in the accounts you'll find a dash because it's rounded to less than 100,000. Given the fact that we started with commission free etc. there isn't a great deal to read into that – which is the point that I made upfront. I don't want to try and extrapolate anything as far as that is concerned.

The key point is we're happy with how this is rolling out and we're happy with some of the signs that we're seeing. I gave you two of the key pointers as to where that is coming from.

Then your point around mobile, you're talking about value of client we're talking about directing to a market. We see there are more and more people coming to us via mobile. We are very clear that the current suite of apps that we have are the trading apps, they aren't used to guiding a new client on that journey that gets them signed up and opened and trading. And that is what we're looking to optimise.

Peter Hetherington

On that, if you accept that approximately half of all searches are done on things like pc's and half of all searches are done on mobile devices, unless you're going to take a leap and say the people on mobile devices are worth less – which I don't think you can justify – I think you have to say you want your offering to serve people regardless of how they happen to find you. And that's not making any statement about the likely value of that client.

Concluding comments: Christopher Hill

If there are no more questions then thank you very much all for coming this morning. Obviously Kieran and I are available if you have any follow-up questions. Thank you, and thank you to everyone on the phone who has dialled in.