IG Group

Q3 Trading Update

Tuesday 17th March 2015

Tim Howkins, Chief Executive

Good morning everybody. As usual, I am joined by Chris Hill, our CFO, and Kieran McKinney, Head of Investor Relations. I'm going to talk for a few minutes about the performance this quarter and particularly about progress we've made on some of our initiatives, and then hand over to Chris to talk about the financials in a bit more detail.

We obviously talked about the Swiss Franc event when we announced our results in January, and Chris will return to that subject in a few minutes time. It does obviously have a material impact on the financials for this quarter. But for now let's put that to one side. On an underlying basis the trends were strong, both revenue and active client numbers up by 7%. But I think more important than any one quarter's results for me is that we continue to make good strategic progress.

The UK stockbroking business we launched six months ago now, and that continued to grow well in the period. We now have around 2,600 funded accounts. You will remember when we launched we did an initial launch marketing campaign, had some good initial PR coverage, and we ran an introductory commission free offer which came to an end at the end of December. The momentum of account opening has continued at very similar levels after those launch initiatives came to an end, and as you might have seen in the last few days we're now giving stockbroking another marketing push as we approach the end of the tax year and are therefore in ISA season.

Roughly 70% of all funded stockbroking accounts are clients who were new to IG, and we continue to see a good flow across from stockbroking into our leverage products. We anticipate that over the next 12 months we'll roll stockbroking out to at least three more countries, and I would hope that the easiest one of these will be complete before the end of this financial year.

We've now rolled the major markets iPad app out to a number of additional countries, and more recently we've added an Android phone app. All of these apps remain at a fairly early stage in development and we plan to significantly develop them from here to add further functionality to encourage account sign-up and conversion into trading accounts, and to reflect the learnings that we make along the way on client behaviour. And this is really just one part of a broader focus on streamlining the client journey from first engagement, first click, through to first trade.

Our Swiss business, which we opened in October, is progressing very much in line with our expectations. And then finally from me, dialogue with the regulator in Dubai continues on a positive note, and I am hopeful that we should be licensed and up and running before the end of May. And with that I'll hand over to Chris.

Christopher Hill, Chief Financial Officer

Thanks Tim. Good morning everyone. As Tim said, Q3 was really quite a strong quarter on an underlying basis. I say underlying because there is obviously the one-off impact, the Swiss Franc move. The incident itself is well documented, but more important for now is the impact on IG this quarter. As we say in the Statement, trading revenue is negatively impacted by £11.8m. We provide all of the geographic numbers in the Statement, but at a Group level it does mean that trading revenue was down by 5%. Excluding this impact, revenue was ahead of last year by 7%. December was unseasonably strong - we mentioned that at the Results in January - and this strength continued into January and early February before softening through to the end of February. We do say in the Statement that trading has been good again in the early part of March.

The Swiss Franc did leave us with £18m of client debt. We've begun the collection process and have now cleared the balance of exactly half of the indebted accounts. But we also make it clear that this is a fairly small portion of the absolutely pounds million debt, and we have to be realistic about how collectable the remaining debts will be. We believe the majority of the remainder will simply not have the assets to be able to settle their debt in full. And we have encouraged affected clients to contact us so that we can properly assess things and reach the right conclusion as quickly as possible.

So looking at the revenue and client numbers, client numbers are encouraging. Active clients were ahead in every country except Japan, and here they were just down 2%. The revenue performance was strong in the UK, Australia and rest of the world, ahead by 9%, 16% and 9% respectively. I spoke in January about the weakness in Europe, and once again we saw that in this quarter with revenue behind by 3%. Although client numbers were ahead by 13%, revenue per client was down by 15%, with a mix of factors. The weak Euro accounts for around a third of this movement, but there are some other factors, including spread changes we made to a couple of indices and the ongoing replacement of some of the earlier adopter high value clients. If the Euro remains weak this impact will roll on for a while, but I expect the others to moderate more quickly.

Looking to the full year, the impact of the Swiss Franc is already in market expectations, Q3 was actually quite strong on an underlying basis, and as we pointed out in the Statement, Q4 has begun well, although it's obviously very early. So I think the business is well positioned at this stage for the full year.

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

Q&A session

<u>Question 1</u>

Arnaud Giblat, UBS

A couple of questions please. First on the change in leverage ratios you've applied to your FX accounts. I'm wondering if you could give us a bit of an early indication as to how that has or hasn't impacted trading appetite?

And secondly on Europe understood the three factors which are affecting your revenues per client, I was wondering, aside from the weak Euro, if you could give a bit more colour around the two other factors?

Christopher Hill

The change in leverage ratios that we've made have been on what we would call some of the artificial prices, so it's the Danish Krone, the Singapore Dollar, we've also looked at the Ruble, we've also looked at the Yen. These are rather esoteric markets, so we don't see a great deal of activity coming through on those, so I'm not sure there's much of an impact to talk about on those. As far as the major currencies are concerned, a lot of the competition have moved their margins and we are looking at that and considering what we will do. But I certainly don’t feel a need for any knee-jerk reaction on those.

Then your second question around Europe. I talked about three factors, one being FX; the other one which was one I talked about in January, which was the ongoing mix impact. The value of new clients that we're bringing on in Europe is less than the existing book, which one might expect to have over time as the earlier adopters roll off. But the quality of the new clients that we're bringing in themselves is not deteriorating. But that mix effect will continue to come through, I think, for a while.

Tim Howkins

Then the other one is some changes to spreads that we made, which is reverting something we did a year or so ago. A year or so ago we moved to what we call differential pricing. So on the DAX contract we actually have two different sized contracts: the main contract; and a mini contract, which as the name suggests is smaller. A year or so ago we moved to differential pricing where we made the mini contracts more expensive in the hope that that would drive clients to trade in larger size on the main contract.

Having trialled that for a while we decided that it hadn't had the desired effect, it hadn't had any beneficial impact on revenue, it had just had the effect of discouraging some small clients from trading at all. So at the beginning of December we reversed that and brought the pricing on the mini contract back in line with the main. That will have had some short-term impact on revenue per client. We would expect that over the course of a few months that would normalise, and we’d recover the revenue as we bring back more clients trading on the mini contract. So I think that’s a temporary effect.

Arnaud Giblat

That's very well understood. And secondly, maybe on Europe again, are you seeing evidence of people switching out of other leverage products like warrants and call options or whatever into CFDs?

Tim Howkins

Certainly in all of the markets where those sorts of products exist there’s been a steady move into our products. That's probably most marked in Germany, which is also the market we’ve been in longest in Europe, where there are two principal products: warrants and certificates or per certificates, and the active trading audience for those have certainly progressively migrated towards our products. However, there is still a large audience trading both products, and we think that’s a very fertile hunting ground for us to continue to recruit clients.

Question 2

Arun Melmane, Canaccord

I just have two questions. One was on the stockbroking business, you talked about 2,600 funded accounts, would you be able to tell me how much of those are actively trading? Are you monitoring that, or is it just funded and waiting for a trade?

Tim Howkins

The vast majority of those are trading. Not every client trades every month. But we have very, very few accounts who are funded but not yet traded.

Arun Melmane

Sorry, say that again, it's very few accounts?

Tim Howkins

Very few accounts would only have funded and not have traded. Probably of the order of 90% of the clients would have traded.

Arun Melmane

The second one is on costs. You talk about international roll-out of at least three more countries in the next 12 months. Are you willing to give us a cost guidance on that, or is that already baked into consensus?

Tim Howkins

It's baked into the guidance we've already given on costs. There will be a small amount of additional cost specifically related to that, but in a Group context it's de minimis.

Question 3

Philip Dobbin, Jefferies

Just a quick question on the outlook for Q4. When you say good trading, do you mean more a return to the kind of conditions you saw at the beginning of Q3 after the slow down towards the end?

Christopher Hill

Yes. In the Statement we said unseasonably strong December, good levels of financial market incline activity in January, then went quiet towards to the end of February, and in March we're back to what we would describe as being good.

Philip Dobbin

So we take that as a middle month of the previous quarter.

Christopher Hill

Say it again?

Phillip Dobbin

So more like the middle month of the previous quarter?

Christopher Hill

Yes.

Philip Dobbin

Just a quick question on marketing spend. You say you'll be marketing more heavily at the end of Q4. Again, could you give us some sort of guidance as to the extent of that spend?

Christopher Hill

I'm not putting out anything today that would change any of the guidance I've given before on costs for this year. So I don't think it's any new news from that perspective.

Tim Howkins

There's nothing specific about Q4. The reference I made earlier to giving stockbroking another marketing push, that's very much an allocation of UK marketing budget rather than out existing budget.

<u>Question 4</u>

Paul McGinnis, Shore Capital

A quick one in respect to the stockbroking again. Were you surprised that 70% of the 2,600 were actually new clients? I seem to remember the initial marketing was targeted at the existing accounts, so that seemed like a particularly positive result. Then I think when you refer to them trading, do you mean trading leverage products or just trading their existing equities?

Tim Howkins

Certainly prior to us launching stockbroking our assumption was that initially we'd have more traction with our in-store client base than we would externally, and I think it's been a very encouraging sign over what's now six months that we continue to recruit a very strong level of new clients to IG. Given that was the long-term strategic objective of the whole initiative, yeah, I think it's a very encouraging start.

Sorry, your second question was?

Paul McGinnis

It was more when you referred to the fact that 90% of the funded accounts are trading, by trading did you mean in leverage products or did you mean in existing equities?

Tim Howkins

No, trading in cash equities and then a proportion of them have gone on to trade in leverage products.

Paul McGinnis

Are you willing to say what kind of proportion that is at this stage?

Tim Howkins

It's still building. If you look at the clients who joined us in September, over a quarter of those have now gone on to do leveraged. It's a progressively lower percentage for each subsequent month, but I don't think that's because there's any inherent difference in each cohort of clients, I think it's simply that less time has elapsed. I guess my instinct is that it will settle maybe a little bit lower than that quarter, it might be more like 20%.

<u>Question 5</u>

Richard Taylor, Barclays

A quick question on active growth in the quarter, 7%, it's the best it's been for a while. How much do you think that is down to the environment being quite conducive to sign-ups, and how much is it down to your own initiatives that you've been working on - products, mobile and so forth?

Christopher Hill

I think a large part of that is to do with markets being much more interesting and that therefore drives account opening, and you see that in UK and Australia which are our mature markets that certainly still demonstrate that there is incremental demand out there. Europe at 13%, when I talked to the half year it was only at 9% growth, so it has picked up a bit, but the initiatives that we got in order to improve our conversions, and with what we're doing in terms of the mobile apps, I think all of those are very, very early stage. So I think it would be wrong to claim credit on that as yet, but we've certainly seen a pick-up in the level of account opening quarter-on-quarter.

Concluding comments: Tim Howkins

Thank you everybody. As always, Chris, Kieran and I will be around for the rest of the day if you have any further questions you want to ask on a one-to-one basis. Thanks for listening today. Thank you.