IG Group

Trading Update   Thursday 22nd May 2014

Christopher Hill, Chief Financial Officer

Good morning everyone. I'm Chris Hill, CFO; I'm here with Kieran McKinney, Head of Investor Relations.

As we said in the statement, this call is very much about being available to you rather than having any particular additional context to add. This is, by its very nature, a directional trading update, and so you'll excuse me if I want to leave the detail until the results in July, but I will make a few comments.

It's been a reasonably quiet quarter, and progressively so as we've moved through it. I think it's well known that FX has been particularly quiet of late, and you saw this with other results and data points in the last few weeks. Traditionally, FX trading makes up between 20% to 25% of our revenue and this proportion is higher in certain parts of the business, most notably Asia Pacific.

So although there are still a number of trading days to go, and therefore some flex, I do expect full year revenue to be a little behind consensus, but it will be, under any scenario, ahead of last year. But as we said in the statement, the rest of the P&L is on track, with costs a little lighter, reflecting the lower revenue, and cash generation is robust.

With that, I'll ask if there are any clarifying questions, and I will do my best not to say, 'Can I leave that until July?' to all of them.

Question and Answer session

Question 1

Cormac Leech – Liberum

Hi there, good morning. I think at the 3rd quarter MS you had mentioned that while year-on-year the active customers were declining because you were deliberately shedding some of the very, very low value customers, but sequentially, the active customers have started to actually stabilise or increase. I'm just wondering if that continued into the 4th quarter, the sequential Q-on-Q increase in active customers.

And then I was wondering if I could encourage you to talk a little bit about the cost run-rate. I mean I think previously you'd guided that you were going to set up a Swiss office, which I think you said was going to start operating from the beginning of 2015, and I'm just wondering, are the costs for that already embedded in the run-rate in the 4th quarter?

And then I was also wondering just about how much we could see the cost run-rate increasing for any other initiatives, like the stock broking initiative? I'm just trying to get a sense of where the cost base might go in the coming quarters. Thanks.

Chris Hill

Thanks, morning Cormac. As far as clients are concerned, yes you're right, certainly in the last few quarters, because of our de-emphasis on lower value and emphasis on actually getting clients who will achieve a certain value for us and a certain level of trading activity, which included, for us, putting things up, doing things like increasing the minimum deposit with cards, etc, and that had an impact on the value of clients that we were seeing. Therefore, we've seen a year-on-year reduction in clients, but the point, you're right, that I did make in the 3rd quarter, that you were seeing that stabilising, we continue to see that stabilising and I think it will still take us a few more quarters to see that wind all the way through. So, essentially, there's no change there to what I said back in March.

And then I think your next point was around the Swiss office, which we are in the process of setting up. Yes, the costs have been going in there; we've hired the team and we are progressing with the application.

And then in terms of what does that mean for the run-rate of cost, well yes, going into next year, you do have an annualisation of that, and there are other investments that we put in to this year, and that again will have an extrapolation out into next year. So looking at where expectations are for costs next year, they are looking to go up, and I think that's right. I think we have got a number of investments that we put in the back end of the year and that will push it up slightly higher.

Cormac Leech

And I think in the 4th quarter, because the revenues, well, I'm not sure if it's related to the revenues being slightly disappointing because of low volatility, but I think you're essentially saying you're still comfortable with consensus for the bottom line because the costs haven't been as high as consensus was expecting in the 4th quarter, or rather for the 2nd half. Is it fair to assume some of those costs just get shifted into 2015, or is it more like just the overall trajectory for costs is a bit lower than consensus was thinking?

Chris Hill

The point is, there's no new guidance here for 2015, Cormac, but my comments around the bottom line are, particularly because at this revenue point there's a lot of gearing, especially through the bonus. So if revenue is low on the mid-case, you get some protection on the bonus pool. If it's high on the mid-case, then the bonus flexes up. And the bonus scheme does provide some protection for shareholders when revenue is lower, and I've always been clear on that. There's gearing in the cost base, primarily through the bonus, the share schemes, but also through marketing and market data, which is activity-driven.

Cormac Leech

I've got it, yeah, that makes sense. Thanks.

<u>Question 2</u>

James Hollins – Investec

Good morning. I'm just wondering if, and I'm being a bit picky here, you could just quantify revenue shortfall, whether we're talking a few million, ten million, a bit of extra data on that?

And then just a follow-up to what you just said there, where were the costs better than expected to get you to reach PBT, is it all within the bonus line, or has there been slightly less marketing?

And then just a clarification; I had in my mind that cash equities and Switzerland, both launching in your H1 2015, is that still on track? Thank you.

Chris Hill

Morning, thanks James. So the point around revenue, we haven't finished the year yet, but the numbers that you'll know, consensus of 379, and last year we did 362. So under any scenario, we're ahead of last year. What does slightly below mean? I suppose 5 to 10, depending upon how May plays out, so a strong finish would put us at the top end of that, a weak finish at the bottom end.

And then at this revenue point, there is the gearing in the bonus, and that's really where a significant part of the gearing in the P&L is, but there are things that are then activity related, and if we're seeing lower activity in the markets, then some of our Pay per Click, that sort of marketing activity will therefore be lower. And if clients aren't using data so much, you see something lower in the market data costs. So there are some other elements to the P&L that add gearing, but primarily, at this level of revenue, it's around the bonus pool.

And then this is a trading update, there's no new guidance about next year. The initiatives that we've put in place are all running to track, so Switzerland is set up and we continue with the stockbroking, we said we were going to take the summer to do testing, and that's what we're working on right now.

James Hollins

That's very useful, thanks very much.

Question 3

Hugo Mills – Citigroup

Hi there guys. I'm sorry to labour the cost question for next year but I'll have another crack as well. Basically, when we're thinking about Q3, obviously you were running ahead, you had good momentum and stuff like that in the markets, and it felt like your guidance was you would be investing in costs for 2015. When I look at it now, I mean if this is a quieter summer from here, do you have some flexibility on the marketing cost as well, as we look into next year, and I appreciate you're not necessarily going to give definitive guidance, but I'm just trying to think about does your view change on costs at all if you had a prolonged period of a quieter market?

Chris Hill

Well, I suppose two things. Number one is, I don't think you judge this business on a quarterly performance, and this business has never, I don't think we've ever had four strong quarters. In a year you'll always have a quarter that is quiet. And I wish it wasn't the case, but unfortunately in this quarter it is the case. But there's nothing going on in the business that means that we are changing our plans for next year. And so all of the investment that we've lined up, the discretionary spend that we have, we are planning to roll that out. If you get to a situation where things are much, much quieter, and we've done it before, you have to think about the cost base. I don't think we're there at this particular stage, but I think we have got some significant areas that we are focusing on, significant in terms of focus, such as a new country roll-out, meaning Switzerland. Also, we talked about another one that we're thinking about, so you have to think about investment for that. We've got the continued investment in marketing, the shift that we're seeing more and more to the mobile business.

So there are all things there that are things that we want to invest into, and that goes through into next year, but there's no sense of any change just because we've got a particular quarter that is quiet. And one of the things that you do have in this business, is because we trade across the different asset classes, okay that's fine you have FX, which is having a particularly quiet quarter, but you have got some support from the other areas, and beneath all of that, the cash generation is strong.

Hugo Mills

And a second question, and I think you've given us a steer on Asia, but Europe, has that been a growth market still in this quarter, are you able to give any colour on how that's been trading?

Chris Hill

Hugo, I think that I will push to July. We haven't finished, we're going through the final month, the final quarter, we've got a few days left. This is a trading update, so I'm emphasising the bits that I think are really pertinent in terms of revenue, which is driven by FX. And that is, rightly as you say, driven by those areas in which FX is a lot more of the proportion of their income.

<u>Question 4</u>

Arun Melmane – Canaccord

Morning gentlemen. I just have a question on what else are you doing in terms of innovation. If you've got headwinds in terms of lower volume trades, what are you doing in terms of innovation to offset that? I think particularly I'm interested in the share dealing account that you were talking about and being able to offset collateral for customers, how has that progressed? Thank you.

Chris Hill

Arun, all of those subjects we'll cover in the July update. I think that's much more to do with the strategy, and what I'm trying to do this morning is just focus on an update for the trading performance.

Concluding comments: Chris Hill

Okay, I think we'll end it there. As always, Kieran and I will be available for the rest of today if there are any follow-up questions, but thank you very much for your time this morning.