H1 FY24 presentation script

Slide 1 – Front cover

Good morning and welcome to our FY24 half year results presentation.

I'm Charlie Rozes, CFO and Acting CEO of the Group. As we announced previously, Breon Corcoran will be joining the business as permanent CEO next week, and we look forward to his arrival.

Today, I'll take you through the results for the first half of the year.

Slide 2 – Contents

I'll start by looking at what I consider are the most notable achievements over the first six months of the financial year, then move on to our financial performance.

Following that, we'll look at the progress that we've made on executing our strategy before opening the line for questions.

Slide 3 – CEO reflections

Let me start with a few of our achievements and important milestones in the period.

Slide 4 – Key achievements

In the context of the soft market conditions in the first half, we've nonetheless delivered a robust performance. Volatility, as measured by the VIX, was down 41% on the first half of FY23, while total revenue for the Group was down only 9%, reflecting the benefit of our multiple revenue streams.

tastytrade, our US equities, options, and futures business, delivered yet another, consecutive record half of revenue, up 29% on the prior year on a constant currency basis, and also increased both our market share and brand awareness.

The soft trading conditions in the period sharpened our focus on controlling the controllables. We balanced the management of costs in line with guidance to preserve profit margins, while continuing to commit investment in our long-term growth.

We commenced an operational improvement programme that will streamline the business to provide sustainable efficiencies for the future while also delivering £50 million of annual savings on a run rate basis by FY26.

We've made great early progress with this.

The high quality and strength of our risk management framework was evidenced by a 40% reduction to our regulatory capital requirement, following a review from our principal regulator in the period.

In terms of shareholder distributions, we've increased the interim dividend per share and repurchased over 45 million shares in the past 18 months, over 10% of our share count.

In the first half, we returned £276 million of capital to shareholders, and we've recently started the second tranche of the current £250 million buyback programme.

While delivering attractive returns, strong cash generation means that we're able to continue investing for growth, across our core business, as well as a range of start-ups and incubators which we'll talk more about later.

Slide 5 – Financial performance intro slide

We'll now move on to look at financial performance in the first half.

As a reminder, all figures are presented on an adjusted basis, which excludes certain one-off items and non-cash costs in both the current and prior year periods. These adjustments match our prior disclosure and for completeness, we've included a reconciliation of non-IFRS performance measures in the appendix.

Slide 6 – P&L

As expected, given the soft market conditions and strong comparative, trading revenue was lower than the prior year.

Interest income however, increased significantly, which was driven by higher policy rates. The majority of our interest income is generated out of the US, and our cash balances are diversified across a range of currencies.

Cost growth moderated in the period, increasing 9% on the first half of last year. We expect this rate of growth to reduce even further in the second half, reflecting the progress we're making with the operational improvement programme.

Net finance income rose year over year, reflecting higher interest income on own cash balances while our finance costs remain largely fixed.

We continue to expect our full year PBT margin to be in the mid-to-high 40s, in line with our medium-term guidance and demonstrating our ability to manage costs and preserve margins in more variable or softer market conditions.

The effective tax rate for the Group increased, mainly driven by the significant rise in the UK corporate tax rate from 19 to 25% in April 2023.

Earnings per share was down year over year but benefitted from a lower share count in the period, reflecting our ongoing buyback activity.

The average share count was 6% lower than in the first half of last year.

We'll now move on to look at trading revenue in more detail.

Slide 7 – Trading metrics

Market volatility was significantly lower in the period against a strong prior year comparative.

In the OTC business, this weighed on client trading volumes and revenue per client was down 15%. This also included the effect of client income conversion in Q2, which was toward the lower end of our typical range.

Active client numbers held up well reflecting the continuing high levels of engagement, despite the market backdrop.

Our exchange traded derivatives and stock trading businesses substantially outperformed the drop in market volatility, highlighting the benefit of diversification across multiple product lines.

Slide 8 – Costs

Going down the P&L, we'll now look at costs in the half.

At the last full year, we said that we'd look to taper the rate of cost growth, and I'm pleased to say that we've delivered on this, with first half costs lower than the £284 million we reported in the second half of FY23.

Increases in fixed rem and headcount reflected hiring made during FY23. At this point however, we expect headcount to start coming down through the operational improvement programme we announced at the end of Q2.

Marketing costs were flat on the prior year.

Within this, acquisition spend was intentionally reduced, reflecting lower demand. This was offset by a shift towards investment in brand building in markets where we see attractive long-term growth potential, such as the US, Germany, and Japan.

Revenue related costs were up due to an isolated bad debt charge in the period, offset by lower volume related trading costs.

Within the operational improvement programme, we expect to deliver £50 million of savings by FY26, equivalent to nearly 10% of our FY23 total cost base. While the programme delivered some benefits in the first half, we expect these to ramp up from the second half of this financial year.

I'll talk more about the rationale behind the programme, and progress so far, later in the presentation.

Slide 9 – Regulatory capital

Taking a look now at the Group's regulatory capital position.

In September, we announced that our minimum regulatory capital requirement had reduced by over 40%, dropping from 497 million to 290 million pounds, following a detailed review by the UK regulator.

This outcome represented the culmination of many years of steady investment in our global risk management framework, including our systems and people.

From the full year FY23 position, the regulatory capital resource reduced due to the timings of dividend payments and share buybacks.

At the end of the first half, £122 million remains to be executed on the current buyback programme, which was deducted from capital resources, in line with regulatory guidance.

This reduced our headroom at the half by a further £100 million.

Setting these timing factors to one side, we expect capital generation to be stronger in the second half, thereby increasing the anticipated headroom at the year end.

Both our capital and liquidity positions remain strong, providing flexibility for how we use capital. We'll continue to allocate capital in line with our framework.

Slide 10 – Strategic progress intro slide

We'll now move on to look at strategic progress.

Slide 11 – Group strategy

We've continued to deliver an attractive profit margin despite challenging market conditions in the first half. This was supported by the strategic progress we've made in recent years.

Four years ago, in 2019, we launched our strategy of growth through expansion and diversification by product and geography.

This involved both continuing to grow our world-class OTC business and penetrating new markets, in natural adjacencies such as exchange-traded derivatives and equities.

This strategy has been very successful and is starting to prove its value.

From FY19 to FY23, through organic and inorganic means, and a range of market conditions, we've delivered a compounded annual revenue growth rate of 21%.

The OTC business, which is the core of the Group, has driven the most additional revenue, organically adding almost £350 million to the top line in comparison to FY19.

Prior to the launch of our strategy, exchange traded derivatives was a small and niche business. Now, it comprises tastytrade in the US, which we acquired in 2021, as well as Spectrum in Europe, which we built organically.

Today, the exchange traded businesses make up over 20% of Group revenue, up from 3% in FY19.

Our stock trading business has more than doubled the client base during the period, which has resulted in adding over £20 million of incremental revenue.

We've also made great strides from a geographic perspective.

We're now larger in every single geography than in FY19.

We've seen significant growth in key markets such as the US and Japan, as well as delivering in our traditional markets like the UK and Australia.

US-generated revenues, for example, now drive 22% of total Group revenue, up from 4% in FY19.

We've delivered these results through a range of market conditions, including very different volatility, interest rate, and inflation cycles.

We're confident in the future success of the business, which is underpinned by the structural growth of self-directed trading and investing around the world.

The evolution of technology, content and education, and better, cost-efficient access to global financial markets is fuelling this trend, which we strongly believe will continue.

We'll now move on to talk about the drivers of our long-term, sustainable growth.

Slide 12 – Core Markets+ growth

This slide shows the growth levers for our Core Markets+ segment, which broadly represents our OTC businesses.

In the first half, we saw a number of these levers in action.

Interest income grew strongly reflecting higher interest rates across many geographies.

From a client standpoint, over 60% of revenue was generated from clients who've been trading with IG for over 3 years. Our track record around client retention is very good, driven by superior trade execution and client service. High levels of retention will continue to drive the performance of our highly cash generative business, and also help support future growth in the client base.

In terms of hedging efficiency, we've got a new and advanced set of capabilities coming online shortly which will help improve hedging efficiency without increasing our market risk profile. We mentioned these last summer and they're now in the final stages of testing.

We have a number of markets where we're underweight and have lots of room to grow.

For example, in a few weeks, we'll be announcing a major long-term marketing sponsorship in Japan to help grow the awareness and strength of our brand. This demonstrates our commitment and belief that Japan is a market that offers IG huge growth potential on top of what we've achieved there already.

Lastly, we're continuing to invest in new products, something which we'll cover later in a bit more detail.

Slide 13 – High Potential Markets growth

Moving onto our High Potential Markets segment, we also saw a significant increase in interest income reflecting higher interest rates, and client money balances which grew steadily through the half.

tastytrade grew retail market share against the prior period and throughout the first half, as our national marketing campaign, our focus on switchers, and major platform enhancements that were launched in Q4 of last year have started to deliver results.

To further accelerate the growth of the business, we continued to develop our plans to grow tasty internationally, with Singapore and the UK our first targets. We're applying for regulatory licences in both countries and expect to launch in the first half of FY25.

Once live, these markets will pave the way for additional international launches as we take US equity, options, and futures trading to a global market that will deliver to our clients a much broader trading offering.

Our foreign exchange trading business in the US and Spectrum will continue to support the growth of this portfolio, and both struck meaningful broker partnerships in the period, to support hedging efficiency and the expansion of the client bases.

Slide 14 – tasty performance

We'll now take a closer look at tastytrade. The US options market is large, exciting and vibrant, and has continued to see growth through the pandemic and a subsequent period of lower market volatility.

As we've said before, this is partly driven by the popularity and access by individual traders to the equities market, which is a gateway then to options and futures.

Our award-winning business, which offers all three of these products, is taking full advantage of this opportunity and has been growing both in brand awareness, and market share over the last 6 months.

tasty delivered another record half of total revenue, something which we've now achieved for the last 3 consecutive half year periods. Revenues in the business have grown by nearly 70%, on a constant currency basis, from when we acquired it in 2021.

One of the more recent drivers of revenue growth has been interest income as rates have increased. Client money balances have also remained stable.

But perhaps more importantly, we also saw growth in trading revenue in the first half, despite lower market volatility.

This represents the success we've started to have in both our national marketing campaign, along with our focus on opportunities resulting from platform consolidation at competitors across the industry.

As you can see from the chart in the bottom left, we've had notable success in attracting clients and balances from competitors, with a net amount of over $200 million transferred onto our platform in the half.

tasty now has three distinct revenue sources, with commissions from clients and interest income making up the majority. All of these are an integral part of the revenue model and will continue to contribute to future growth overall.

Slide 15 – tasty trends

As well as a record performance delivered in the half, we've seen strong progress throughout the period on both client equity, which is a driver of interest income, and market share.

Since the acquisition, we've focused on leveraging and integrating the Group's marketing capabilities into our tasty business as well as building a US marketing team. This has played a role in attracting and acquiring high-quality clients, as we've done across all of IG.

We can see in both charts the success we're starting to have in these areas.

Our retail options market share has been growing and finished the period at over 3%. Total client equity balances, which includes open positions and free cash, reached a record high in November and this was exceeded again in December.

We believe that these are excellent proof points of the direction of the business in the US. The expansion of tasty to an international audience will further support the growth of this exciting business.

As well as investing for the future through these two segments, we're managing costs carefully across the Group. We'll now look in more detail at the operational improvement programme which was launched in the period.

Slide 16 – Cost programme - strategy

The operational improvement programme will streamline the business for the future. The Group has seen significant growth in recent years, more than doubling revenues since FY19, but increasing in complexity with multiple product offerings worldwide.

To ensure that the business remains scalable and agile, we identified 4 key actions:

First, there are areas across the business where we're 'de-layering' the organisational structure, specifically reducing the number of management tiers between the executive committee and our clients. While maintaining appropriate governance, this will allow us to improve the speed of decision making.

Second, de-centralisation will move decision making closer to our clients. We've moved some of our central technology and product teams under regional management to enhance product development, speeding up feedback loops and driving product localisation.

Next, we're continually looking for ways to enhance our use of technology and data across the business. An example of this is a programme launched six months ago that runs continuous experimentation to investigate the potential of AI in the business.

This initiative has helped prioritise the implementation of new ways of working to create sustainable efficiencies in areas of our business such as marketing.

And finally, we're leveraging our international footprint and global workforce to drive further efficiencies. We have 3 global service centres, or centres of excellence as we call them, each with talented individuals and specialisms to support different areas of the business.

For example, we're expanding our tech capabilities in India and relocating various disciplines in our marketing function to South Africa, Poland, and India. We've been investing in these geographies for a number of years, and are now progressing our plans, some of which were paused as a result of COVID.

We're confident that focusing on each of these areas will make us stronger, faster, and leaner, creating a more scalable platform for future growth.

Slide 17 – Cost programme - execution

As we announced at the end of October, the programme will deliver run rate cost savings of £50 million by FY26, phased as a £10 million saving in FY24, a £40 million saving in FY25, and the full annual saving of £50 million delivered in FY26.

This'll be achieved through a mixture of net headcount reduction of around 10%, the relocation of roles, and adapting our marketing spend in line with demand.

The anticipated cost of execution is around £18 million.

Most of this is made up of redundancy charges and dual running costs where a role or process is being relocated. Given the good progress we've made already, we now expect a majority of the execution costs to be incurred in the current financial year. Given the non-recurring nature of these charges, they've been classified as an adjusting item, details of which can be found in the appendix.

Since the launch of the programme through to the end of December, headcount has reduced by over 160, which is in line with our plans at this point in time, and good progress toward the anticipated headcount reduction of 300.

Earlier this month, we completed a UK consultation process, as required by UK law, with an expected further reduction in headcount in the second half of the year.

Although these have been difficult decisions to take, they've been necessary, as these changes will set the business up for the next stage of growth.

The programme at hand is extensive and covers all departments within the Group, and we're completely focused on achieving its objectives.

Nonetheless, we'll continue to look for opportunities to improve efficiency even further as we go forward while protecting our unwavering commitment to continue to deliver an exceptional trading experience for our clients.

Slide 18 – Client cohorts

Turning now to our client base.

We often talk about the number of active clients, and these are clients who were trading in the period, but they're actually just a fraction of our total client base.

Our total client base consists of actives in the period as well as semi-active clients who didn't trade in the period but remained engaged on their accounts. This total number of clients is actually double the number of actives in a given period.

These semi-active clients have passed through our onboarding process and are ready to trade as they see opportunities.

We tend to see clients resume trading when volatility increases, however we also proactively engage with our clients.

We provide timely updates to make them aware of trading opportunities, new products, functionality, or content. We use data analytics to ensure that we present them with content that is tailored to their interests.

Engaging our loyal client base is as important to us as is attracting new clients to our platforms.

Slide 19 – Client assets slide

Moving on, we'll now take a closer look at the assets that our clients place with us, as this is a good indicator of their propensity to trade in the future.

The chart shows the different types of client assets held throughout the Group, including segregated client money, client money that we recognise on our balance sheet, stock trading assets, and total client equity in our US exchange traded business which comprises free cash and open positions.

The total balances now exceed £9 billion, which is a record high.

Within this total assets balance is over £4 billion of client money in aggregate at the period end.

This points to the quality of our client base, and their interest and propensity to trade financial markets.

Slide 20 – Client survey

That propensity to trade is also regularly reflected in our client surveys.

Our most recent survey was conducted last month and covered around 3,000 clients across many of our key markets.

More of our clients expect to increase their future trading activity compared to our last survey 6 months ago, as we head into a year which looks to be dominated by elections around the world and changing interest rate expectations.

Our clients also expect to continue trading far into the future. This speaks to the high-quality and long tenure of our unique client base.

We also use these surveys to ask our clients what else they'd like to see from IG, and a resounding 82% said that they'd be interested in trading other products with us.

Some of our most active clients outside of the US, for example, are keen for us to add options and futures.

Our clients also expressed interest in ETFs as well as stock trading in regions where it's not currently offered.

We listen carefully to our clients and reflect their feedback in our product development pipelines.

Slide 21 – Innovation slide

To ensure that we continue to anticipate and meet the needs of our clients, we have a portfolio of incubators which are under development. These are at different stages of the product lifecycle, and some are more experimental in nature, however, we believe that a number of these will be a big part of our future.

Spectrum will be known by many of you. In September we announced that Directa, an Italian broker, had joined the exchange. It's one of the largest members of the platform to date, with over 60,000 clients and £3 billion of assets under custody. Our primary goal is to increase liquidity on the exchange and add issuers and brokers to increase our product range and distribution.

The middle three businesses on the slide are newer to the portfolio but provide great potential.

tastycrypto is our self-custody digital asset wallet, which allows clients to store, transfer and trade digital assets. We're developing new capabilities to satisfy the growing demand for decentralised finance and aim to become a trusted leader in the industry.

BadTrader is a fusion of trading and social networking and has been developed to help a new generation of traders understand and manage risk.

The Small Exchange is a CFTC licensed futures exchange which we plan to use to drive innovation in this market.

Now the latest addition to our portfolio is our next generation global stock trading platform which will launch in phases, beginning with Singapore in the summer, followed by the UK. This will transform our existing stock trading offering, which is already used by around 90,000 clients, but is only available in three countries.

We're excited to talk more about this one in the coming months.

Overall, we think programs such as the ones shown here provide further evidence of our culture of innovation and investment in the future of the business, all delivered within our current cost guidance.

Slide 22 – Investment case

Finally, I'd like to summarise the points that we've covered today.

We've controlled the controllables, delivered an attractive margin, returned significant capital to shareholders, and continued to invest in the future of the business.

As we turn to the outlook for the rest of the year, market conditions at the start of our Q3 have been similar to the first half, but in periods of lower volatility, the benefits of our strategy become more apparent. Our focus on operational efficiency and sustainable cost management allows us to maintain profit margins and continue to invest in our long-term growth.

As the home of active traders worldwide, we're well positioned to benefit from the structural growth of self-directed trading and investing. We have a strong and scalable competitive position in large and growing markets.

We have a differentiated client centric business model, multiple levers for growth, and a commitment to innovation, the combination of which will serve IG well in the years ahead. As we move into 2024, we're confident about our future prospects and look forward to pushing onwards in our second half.

Slide 23 – Q&A

Thank you, and we'll now open for questions.

Ben Bathurst (RBC):

Good morning, I have questions on three areas, if I may? Starting on credit loss increase in the first half, I just wondered can you talk more about the composition of that loss, for instance, how many clients does it relate to and is there any reason to think that could be more of a feature of the results looking forwards?

And secondly on capital, you announced a material reduction in requirements in Q1, just assuming that surplus restores with stronger capital generation as you've guided to in H2, should we view that increase in free capital as completely fungible and therefore potentially returnable to shareholders?

And then thirdly, on costs in tastytrade, you mentioned Charlie in your remarks 70% revenue growth since acquisition. I just wondered could you give an indication of the order of magnitude of cost growth over that time and is it fair to assume that the profit margin has improved over that period.

Thank you.

Charlie Rozes (IG Group):

Hey Ben, thanks a lot for the questions. I'll take them in the order that you put out there.

So, in terms of credit loss and specifically the bad debt charge that we took in the period, so we took in what I would consider to be an isolated charge in the period of about 10 and a half million pounds.

Now that arose from a small number of professional clients who were trading certain US equities. I don't believe there's anything systemic. I also don't think it represents a turn in credit risk for us. I mean, as you know, our bad debt charges are typically very low. Last year they were I think £1 million, and I would expect that to remain the norm going forward. So, I don't think there's anything to read into what we saw in the first half.

In terms of capital, your question about surpluses and, is that fungible or not?

Again, you may recall me, we implemented a capital allocation framework in 2022 and we've been thinking about capital allocating it on that basis since then. I think within that we're pretty clear where we stand on distributions, both regular distributions and additional distributions. Of course, today we did increase the interim dividend in line with the framework itself and the £250 million buyback that we announced back in the summer. Of course, that's under way and we're just over halfway through that, so that's still has some ways to run.

Now, I think as we approach the end of that program, the Board will assess the capital position of the group, I think they'll make any decisions to determinations around investments or any further surplus releases.

For me, I think it's important to maintain a strong balance sheet as well as prudent, but not excessive headroom above our regulatory minimums. But I think today, we have a lot of flexibility with regard to capital and the Board in turn will decide how best to use that.

And then on your last question about costs and tastytrade.

The costs around that business are within our expectations, they're within the plans that that we've set. We had anticipated when we acquired the business that we would need to put more money into the business, particularly around marketing and also just risk and compliance and a few other areas, and that's all remained within the guidelines that the estimates that we had at the time, we haven't made a specific disclosures around this. But with the significant rise in revenue that we've seen, obviously parts of that are interest income related. But no, I'd say the margins of the business are not dissimilar from where they were from the point that we acquired the business.

I would expect though that as the business builds at scale and as it grows, particularly internationally, that we would start to see margin expansion within the business as it hits full stride.

Hope that helps.

<u>Kim Bergoe (Deutsche Numis)</u>

Morning Charlie. A couple of questions already answered, but if you could touch a little bit on general market shares, you talk about your market share for tasty having gone up, but sort of generally across markets, how do you see your market share progressing? What are the key drivers out there would be good?

And also, if you talk a little bit about the use of the platform, the use case, why are people using it, the betting versus trading and self-directed investment? Where do you see the shift there and what is driving those? If you could just add a little bit there that would be great, thanks.

<u>Charlie Rozes (IG Group)</u>

So obviously in my remarks I have talked about where we are with tasty, which we feel really good about. In terms of market shares, just more broadly, and in other parts of the world. Market shares for the group broadly have been maintained in the period itself. In the OTC space specifically and of course the part of the market that we're focused on, we've maintained what is typically a number one or a number two market share. So, we haven't seen any significant shifts in that.

In terms of the use case for our platform, when I think about the clients again that we're catering to, as I said, we see ourselves as the home of active traders worldwide. People for whom trading is a daily activity, something that's very important to them. They're very discerning with the platforms that they trade on, etc.

When I look particularly at our OTC platform, which I would consider to be world class, we offer superior trade execution. We offer a very wide range of products and asset classes to trade. And our customer service, I think is great. Our clients do have choices, they can walk, they can go other places, so we're quite cognisant of that.

But I think their decision to use us over others, again, I think over time has spoken for itself. We continue to invest in all of our platforms. We keep them at the cutting edge. We're really good at technology, obviously. And so, yeah, I think it ultimately comes down though to the trade execution and I'd say probably the reliability of the platforms is what they value most.

<u>Ian White (Autonomous)</u>

Hiya, yeh thanks for taking my question. A few from me please.

Could you share some specifics around revenue retention in the quarter? I've got in mind that 70-75% is the normal range, so maybe if you could just tell us where we were for the second quarter specifically, please?

Secondly, maybe just a couple of parts here. How much investment might be needed in marketing and technology upgrades for the enlarged product set that you talked about for Singapore and the UK? I'm trying to understand what's the marginal cost for providing that for those clients. And just to clarify, is tastytrade going to be expanded into those markets as well, or is it the ETFs and mutual fund offering, that is first and foremost for those segments, please? Thanks.

<u>Charlie Rozes (IG Group)</u>

Sure. So let me start with the first one in terms of revenue retention or client income conversion and what we saw there. So, client income conversion in the second quarter was a bit lower and I think as you know, the efficiency or the cost efficiency of our hedging activity varies significantly by the product mix that's being traded in a given period and also the clients, the type of trading that's actually being done.

We had a combination of those two things in the second quarter that brought the conversion rate down a bit. We typically see a range, in the mid-70's as you say, somewhere there in the period or in the first half, we were around 71/72%.

So, as I said, we were at the lower end of the range that we typically see, which was a function of, as I said, product mix and some of the trading the types of trading that our clients were doing.

As I said in my remarks, we're always trying to, we're investing in this space, innovating in this space, trying to be as cost efficient as we can with our hedging activity.

We do have some new capabilities that are coming online here shortly, I referenced those back in the summer, but I think these will be among the things that will help us over time, keep us in the typical range that we see. But in the first half, though, it was a bit lower than what we typically see.

In terms of your second question around levels of investment required marketing spend and the like for some of the product set expansion.

Just to be clear, so in both Singapore and the UK, in the course of the next year, we will be looking to launch tastytrade in both Singapore and the UK.

We will also be launching our next generation stock trading and investments platform, which we see as a significant upgrade over our current capability that's available largely to our OTC clients and that will be launched again in Singapore in the UK as well.

As far as marketing those things and bringing those to market, all of that is within our current cost guidance, margin guidance, and outlook.

So, I don't see anything currently for the launches in those markets that would be above and beyond what you have seen again out of our guidance and in some of our run rates.

Ian White (Autonomous)

Got it yeh, that’s helpful, thank you. Maybe just one short follow up, in terms of the Canada expansion for tastytrade. I know this has been discussed, I think it was the first expansion a couple of years ago. Could you just provide an update on that please? Is that going ahead at all, or is this going to be shelved now in favour of Singapore and the UK? And if it’s not going ahead, why has that been changed please?

Charlie Rozes (IG Group)

No, it is going to go ahead. It has gone much slower than, frankly, we would have liked, but we think there's a lot of demand up there. We are going to launch it again in the coming year.

I think we've spoken before about, the level of international demand that we see around US options and futures and in this period, much as we've seen in previous periods, this has been true really since we acquired the business. But almost 1/3 of new accounts come from outside the US, they come from overseas. And again, we've seen that consistently over the last few years and that continues to tell us that we believe there's a lot of demand to trade in the US market in options and futures and through the work that we're doing now, Singapore, the UK, Canada, etc., and beyond, we will meet that demand.

Hope that helps.

Vivek Raja (Shore Capital)

Good morning, everyone, good morning, Charlie. I think most of my questions have been asked. Just one clarification please, Charlie. On the revenue retention, I note your reference to the mid-70s as the typical range. Specifically on the enhancements that you’re making on risk, would you expect to be able to improve that revenue retention over time, once those measures are in place? And what exactly, can you just talk a little bit more about what exactly you’re doing in terms of the risk framework? Are you adding more prime brokers and looking for better prices there, or is it actually about how you manage flow? Just talk a little bit more about it, and what the potential could be to improve the revenue retention. Thanks.

Charlie Rozes (IG Group)

Thanks. So, around this topic, I said the first point I would make is around the market risk exposure, that we have in our market risk limits. Those have remained unchanged, and they remain unchanged in the period.

I think we and the Board believe we've got those calibrated in a sensible place.

The cost of running this programme, the hedging programme for us is obviously quite important to us. We're always looking to try to get the best possible pricing that we can with counterparties and otherwise.

But in terms of some of the things within our control, looking at some of the algorithms that we use to determine, when we should be hedging and the amounts we should be hedging etc., we're always looking to improve that. Within some of the capabilities that we'll be bringing online shortly. We we've got two, I'd say, that are probably closer to the top of the list.

One is looking at our ability to more cost efficiently hedge large block, blocky-type trades that some of our clients do. Those can be very expensive for us to hedge and with some of the new algorithms that we'll be putting in place, we believe we can handle that type of particular trading activity more cost efficiently than we're currently able to.

And the second is helping us with the timing, the precise timing of some of our trades and when we should put those on and take those off etc. And again, I think both of those things will be good improvements or enhancements to us. I think perhaps over time it would allow us to probably sit closer to the higher end of that typical range. But as you know, we don't target a specific number.

We use this as a bit of a health check as to how cost efficiently we're hedging. But I would say implementation of these types of capabilities and some other ones that we're thinking of overtime. Yes, I think we would hope to be more consistently at the higher end of that typical range.

Richard Taylor (Barclays)

Good morning, I've got a question on new customers, or first trades please. I think it's the first time you've mentioned this in a while. So, I can see that it fell a bit, H1 on H1. Firstly, would you mainly put this down to market conditions, or is it anything in terms of your ability to recruit clients? Secondly, can you just comment on the quality of the clients that you've acquired here. Because I know that there is quite a big concentration amongst clients so I am just keen to understand what the quality of this cohort is like versus the existing client base and previous cohorts that you've recruited?

Charlie Rozes (IG Group)

So, in terms of trends around client acquisition and first trades, I think we're probably at more normalized levels, similar to what we would have seen pre-pandemic. We've obviously been in quite a lacklustre market in terms of trading opportunities.

The way I think of it is that client acquisition is really just the conversion of demand and at the moment, and in this period there hasn't been as much demand from clients and potential clients as we would typically see over the last couple years.

But nonetheless, I think what we've shown in the period is that even during a low volatility environment such as this, we can nonetheless, successfully recruit and onboard a good number of clients to the platform such that I do believe that over time we will be able to broadly maintain the size of the active client base. So, the trends have come down from what they were certainly in FY21 and 22.

But if you look back to where we were in FY18 and 19, I think we're more consistent with the trends we saw before. So, it's kind of more reversion to that and we can grow the business off the back of these types of levels.

In terms of the quality of clients, they continue to be, as good as high as what we've always seen. As I think we've discussed a few times before, we haven't changed our client segmentation or our targeting criteria. We set ourselves out to appeal to active, typically more sophisticated traders who want to trade a variety of markets around the world, a variety of asset classes, and so the quality that we're seeing continues to be very high.

So we haven't seen any degradation or erosion in the quality of clients, and I think when you look at the retention curves that we often show, those continue to be near identical to one another, which again I think speaks to both our disciplines around clients segmentation, but then also the quality of the clients we're attracting onto our platforms. And that applies not just in OTC, but across the exchange businesses as well.

Justin Bates (Canaccord)

Good morning, Charlie. I think you may well have covered this, and apologies if you have, but I'm still a little unclear on the net trading income in Q2 being below that of Q1, particularly when the VIX increased in Q2 albeit, I appreciate still at relatively low levels, but ordinarily I would have expected net trading income to have been higher in Q2 versus Q1.

Could you just elaborate on that point, please? And apologies if you're going over ground already covered.

Charlie Rozes (IG Group)

No, it's a good question. Let me reference the VIX because I think that's the most commonly cited or maybe externally referenced point on this. Over time, I would say our revenues don't directly correlate to the VIX.

When I stand back and look at the groups trading revenues over a long period of time over several years, you'd be hard pressed to really find when or where the VIX was up or down, or GDP growth was up or down, or interest rates are up or down or whatever they are.

Because ultimately, what matters most over time for us is the size and the quality of the active client base. And that's something where our track record around retentions and the like and acquisition I think is very good.

Now in the second quarter itself, specifically, that said, though, the VIX was up slightly Q2 versus Q1, it wasn't significantly so. We didn't see a huge shift across the two quarters, certainly from a client's perspective sufficient that they saw big trading opportunities or anything like that. So, though it was up one period to the next, it wasn't massively so.

So again, I think when I look at where our clients are today, what they're thinking of, whether that's, as I said looking at the election cycle that's coming up across, virtually all of this year trying to make a prediction on whether we're at a turn in the interest rate cycle that could make certain asset classes in the coming year more interesting than others.

I think there's a lot of things on their mind, but I do take encouragement with the fact that client money balances, their engagement in the platform, continues to remain quite high.

So I think it's left us, I think, in actually quite a good position to take advantage of any upside that that we see in the markets, whether that's from a rise in volatility in the short term or more interesting markets, or some improvements in client income conversion for as we've talked about on the call already.

Well, again, thank you very much everybody. Thanks for your time today and we'll be coming around to see a number of you shortly.

Thank you very much.