Plus500 Interim Results Call – H1 2019 – 13 August 2019

Introduction: Asaf Elimelech, CEO

Good morning everyone, thank you for attending our half year results presentation. I am Asaf Elimelech, Plus500's CEO, and I'm here with Elad Even-Chen, who as you know is our CFO.

For those who have dialled in, this is a listen only conference call, but you will hear the Q&A in the room from the analysts.

As usual we will take the Q&A at the end of the presentation so please hold your questions until then.

Slide 2: Asaf Elimelech

Let's start with the H1 Highlights which we can see on slide number 2 - we are pleased with our performance in what was a difficult period for the entire industry.

As you can see from the slide, we have used H2 2018 numbers as a comparator for this period's results to provide an indication of the momentum of the business, following the impact of ESMA's measures implemented on 1 August 2018.

As we said at the beginning of July, revenue was $148m for the six months, following a much stronger second quarter.

Client Income (representing spreads and overnight charges) was $175m. Operating profit was $64.5m.

The half year was characterised by two markedly different quarters, with very low volatility in financial markets in the first quarter, but better trading conditions for 2 months of the second quarter.

New customer numbers were up and the cost of acquisition was down, as we saw some evidence of a lessening of the competition here.

After a tough Q1, the Business is delivering in line with expectations, which we believe demonstrates our resilience during these quieter periods.

Slide 3: Asaf Elimelech

Tuning to Slide 3, strong shareholder returns remain key for the Board of Plus500.

Today we've announced an ordinary interim dividend per share of just over 27 cents, representing 60% of post-tax earnings.

We've also announced a more material buyback programme of $50 million, commencing immediately, to be executed by Credit Suisse – we believe this is the right thing to do and that it will enhance shareholder value.

Our business model remains strongly cash generative enabling us to maintain our 60% shareholder return commitment. Going forward, we've also updated the policy to ensure that at least half of this core 60% will be in the form of cash dividends.

This allows us greater flexibility to maximise shareholder value by utilising capital in the most efficient way given the opportunities we are presented with.

Slide 4: Elad Even-Chen, CFO

Good morning everyone. I will now run through the Operating Highlights on slide 4 – we remain a market leader in our industry. Some examples of this are the accolade for the 2nd year running of being No.1 CFD provider in the UK, Germany and Spain by number of client relationships, and Australia's best CFD mobile platform.

Q2 saw a marked improvement in the number of new and active customers - the company's strongest quarter for these metrics since the introduction of ESMA's new measures last year.

We remain committed to maintaining this momentum and appealing increasingly to more sophisticated and valuable traders, through continued innovation. For example, we've added sophisticated charting functionality to our Web and iOS platforms.

It is important to diversify revenue away from one jurisdiction or customer group. In the period, non-EEA countries contributed approximately 48% of the Group's revenues.

Customer retention is also improving, with the churn rate down from 25% in the first quarter to 16% in the second – the lowest level achieved by the Group since its IPO.

Customer deposits at the end of the period were up by 41% to around $151 million, which is a good measure of potential customer activity, as trading opportunities present themselves.

Finally, we are the first provider to offer WhatsApp for customer service – it's already very popular with customers and very efficient and cost effective in terms of resolving queries.

Slide 6: Elad Even-Chen

Moving to slide number 6. Looking through the detail of our performance, we've combined the revenue and ARPU numbers on one slide, broken down by region and client categories.

As you can see, Q1 was really very quiet, particularly in February and March – this was a theme across the industry. Overall revenue was down on H2 last year by 42% at $148m.

As we said in the statement this morning, client income was $175m in H1 19 against $193.5m in H2 18, down just under 10%.

The proportion of revenue coming from outside the EEA continues to increase - almost 48% in the period. Australia remains our largest region outside the EEA and the growth here is encouraging, but we are also encouraged by our continued traction in the Rest of World.

Slide 7: Elad Even-Chen

Moving onto New and Active customers on slide 7, you can once again see evidence of the better performance that we saw in Q2 over Q1, with these numbers at their highest since the introduction of ESMA.

Overall, active customer numbers were down just 1%, a strong result given the poor market backdrop.

Very encouraging for the future, new customer numbers grew sequentially from Q4 last year through Q1 this year and into Q2. The results here were particularly encouraging outside the EEA region. New customer numbers here were up by 22% for H1 19 against H2 18.

It is clear that Plus500 remains the leader in the industry, by some way, on new customer recruitment.

There was a lot of work in the period to improve conversion rates, which is paying off. This included improvements to our onboarding process, including enhanced navigation and the addition of more local banking partners to improve the ease and speed of account funding.

Slide 8: Elad Even-Chen

Slide 8 breaks down the cost base, showing how a lean and flexible cost structure allows us to maximise returns.

Broadly speaking, less than 30% of our cost base is what may be defined as fixed, i.e. not flexing rapidly with the movements in top line revenue.

Marketing cost remains our single largest item of expensed investment – although this is entirely discretionary, this is an investment in the future – we assess its level and expected and actual returns in the same way as we would for any investment.

Our ability to flex this rapidly to respond to market conditions remains a significant driver of our competitive advantage.

In H1 we had the positive combination of more new customers and a lower cost of acquisition, with the result being lower total marketing costs. The lower costs of acquisition reflect both decreased competition and ongoing improvements to our marketing capabilities.

Slide 9: Elad Even-Chen

Slide 9 demonstrates the revenue split by customer tenure and professional vs retail.

Contrary to popular belief, the majority of Plus500's revenue comes from loyal customers, who have traded with us for some time.

In the first half of this year and the whole of 2018, 73% of the Group's revenues came from customers who have traded for more than one year, reflecting: the regard for the brand; the quality of our trading platform; the positive customer experience; and the success of our ongoing customer retention initiatives.

As you can see in the pie chart at the bottom, 99% of the revenue from the Group's professional clients in Europe, came from those who have traded for more than one year, and 23% from those who have been with us for more than five years.

Further improving these metrics is a key work stream in Plus500 – but you should be aware that having a higher proportion of revenue coming from newer clients is not a bad thing – it indicates our ongoing success in new customer recruitment and reflects our initiatives to attract more valuable and sophisticated customers.

Slide 10: Asaf Elimelech

Slide 10 goes into more detail on the returns on our marketing investment. This has always been key to the Group and is where we continue to see a high return on our focussed spend.

This slide supports our earlier comment that marketing is an investment, not just a cost. We treat it as such and assess its effectiveness as such. As you can see, the vast majority of our investment remains online.

In addition, our successful partnerships as official main sponsors of Club Atletico de Madrid and the Plus500 Brumbies also continue to raise our brand awareness worldwide both on and offline.

Our leading-edge technology makes us an industry leader. Our marketing is centralised and data-driven.

We show you here the returns we have achieved from 2 previous investment years, 2015 and 2016.

The cumulative marketing investment of $229m in these years had reaped $562m of revenue over the first 3 years and continues to deliver benefits beyond that – another almost $100m visible here.

Going forwards, it would be reasonable to assume in regions where lower leverage is available, that we will see the revenue spread over a longer period of time.

And we would expect our recent success in Customer acquisition to provide incremental revenues in due course.

Slide 11: Elad Even-Chen

Here, on slide 11, I wanted to provide some additional clarity and context around our business model with regards to customer execution and how we manage risk.

Let's be clear, Plus500 is no different to our peers, in that we act as a principal to the customer trade.

Our business model is primarily designed to generate revenue through collecting dealing spreads and overnight funding charges from clients.

At Plus500, we have no opinion on the direction of market movements – our exposure is dictated by our customers' views of the market.

We internalise customer positions, offsetting longs and shorts, with the ultimate resulting exposure being controlled with pre-set symmetrical risk limits. This is common practice in the industry.

We treat all clients equally. For example, unlike some peers, our model allows us to offer a no-negative guarantee to all customers, irrespective of whether they have elected to trade under a Professional status or originate from a jurisdiction which doesn't require this through regulation

Plus500 is symmetrically exposed to clients trading well or badly – as I said, the model is, at its core, designed to allow clients to make their own trading decisions and to facilitate these in retail size, generating revenue by collecting dealing spreads and overnight funding charges.

Revenue generated from the outcome of client trading is assumed to be broadly neutral over time – in total it has contributed just 1% of revenue over the past five years.

Decisions to hedge or not to hedge have no impact on client outcomes, only on shareholder returns.

Slide 12: Elad Even-Chen

On slide 12, we analyse the movements in customer churn rates. We touched on this earlier, so I will keep this slide brief.

We are extremely pleased that customer churn has fallen to 16% in Q2 – this is the lowest level achieved by the Group since its IPO.

I will go through some more detail on the next slide and we will show you some of our technology in operation in a few minutes, but a key theme for us has been improving the platform and making it work for both the broader retail customer set and more sophisticated professionals.

To this end we have added charting functionality which we believe moves us into line with some of the other high-end offerings in the market.

Inevitably lower churn is also driven partly, as we predicted, by reducing leverage in the EEA region. This shows that lower leverage is not necessarily a bad thing in the longer term, as long as you have the scale and capital to come through the transition, like Plus500.

Slide 13: Elad Even-Chen

So, to slide 13, and turning to the operational progress I mentioned just now.

We do not stand still – we are continually innovating and investing to improve the platform and the service we offer our customers.

In the period we added over 100 new CFDs to the platform. Not just random markets, but markets which reflect customer demand and rapidly respond to external news flow. For example, we launched a number of new indices to allow customers to trade a trend rather than be forced to choose individual stocks, with the additional risk this brings.

We are committed to providing excellent customer service and customers are demanding faster, written communication channels which reflect how they live their daily lives.

We introduced WhatsApp during the period and this is already overtaking email as a channel of choice and providing faster response time for customers.

As I mentioned earlier, new customer numbers are up and the cost of acquisition is down. As well as the impact of reduced competition post ESMA, this reflects the internal efforts to improve our targeting and to make it easier for customers to fund their account and start trading.

Slide 15: Asaf Elimelech

Let's now look at market share on slide 15.

Based on the only broad industry research, Investment Trends, for the second year we remain the #1 CFD provider in terms of customer numbers in the UK, Spain and Germany.

And in Australia, clients rated us as having the best mobile platform – a key area of competitive advantage in a changing world.

I mentioned earlier our commitment to great customer service – we see evidence of our success here in Plus500 winning 'best online chat' in the UK.

Slide 16: Asaf Elimelech

On slide 16, we look at where we go from here – the opportunities available to Plus500 to grow.

Firstly, do not underestimate the potential from continuing to do what we already do and doing it better. We lead the industry in customer acquisition and we are clearly improving our engagement and retention rates. This will provide core growth for the business.

We are also constantly seeking and learning ways to grow faster in some of our newer markets. The Plus500 brand is getting stronger among active traders and we are investing in it to further improve this.

As we said before, we are actively working on new licence applications to open or reopen some markets where Google advertising has been restricted.

There are additional global markets where we are either not present or have a very small share of a market with great potential. We will seek to leverage our current capabilities or form partnerships in order to access this demand.

We have built the business by focussing closely on CFDs, but our technology could enable us to expand our product offering. This may provide an opportunity to enter additional markets or to further engage our current customer base to extend the life cycle or deliver additional revenue streams.

And targeted acquisitions are not off the table. The recent regulatory changes have produced a more difficult backdrop for some providers of product or technology, and the Board will carefully assess any options to accelerate growth rates, whilst always being aware of the value of returning capital to shareholders.

Slide 18: Asaf Elimelech

Slide 18 is a reminder of the breadth of our regulatory framework.

Plus500 is overseen by some of the world's most demanding regulators and is determined to operate to the highest standards.

As a 'lean' operation, we are always considering the costs of doing business against the size of the opportunity – as a result of this ongoing review, we decided recently to relinquish our local South African licence and expect this to be finalised in the coming months. – we are currently awaiting approval of the South African regulator, with the activities expected to be operated via Plus500's Australian subsidiary.

Slide 19: Asaf Elimelech

On slide we lay out our compliance principles and draw your attention to some recent or upcoming developments.

We have adjusted the business well to the implications of the ESMA intervention measures in 2018.

ESMA has now decided not to renew its temporary intervention measures, but only because individual EU National Regulators have reflected these measures in local law. Plus500 will continue to operate within the all applicable laws in each state.

You'll be also aware that ASIC in Australia recently acquired powers of intervention – which are common elsewhere. Although this was not directly in response to the CFD market, we expect them to review the workings of our market at some point and to propose an enhanced set of regulations.

As with all such intervention measures, ultimately, we believe these are to the benefit of both customers and to the larger more compliant operators.

It does take some time to interpret and adjust to new regulatory guidance, but, in summary here, Plus500 seeks to respect and operate within all global regulatory standards.

Slide 21: Elad Even-Chen

Moving onto our financials in more details on slide 21 in this section. First our income statement.

Even in a period marked by reasonably low volatility the Company delivered relatively strong EBITDA margins; 44% in the six months and 57% in the second quarter.

Costs remained very flexible and well-controlled, while keeping marketing investment high and very effective.

The efficient management of financing expenses is clear from the much reduced level from last year. And our guidance on tax rate from here is around 23%.

Slide 22: Elad Even-Chen

In terms of the balance sheet on slide 22, we remain a debt free business, with a strong balance sheet, which has enabled the consistent dividend payments and the choice of the Board this time to allocate an additional $50m to an immediate Buyback programme.

As always, these amounts exclude client funds which are held in dedicated and segregated accounts with Tier 1 banks, in line with industry best practice.

Slide 23: Elad Even-Chen

On slide 23 you will see that Plus500 is a low expenditure, low capital-intensity business. All internal investment spend is expensed and profit is converted rapidly to cash. During the period, we delivered 68% conversion of operating profit to cash flow.

Slide 25: Asaf Elimelech

On slide 25, I want to remind you that Plus500 is, at its core, a technology business. We have applied our technological advantage to providing our customers with a market leading trading experience and platform and, in a moment, I will show you some of our recent developments.

The platform solution is proprietary, which allows rapid development and enhancement.

The end-to-end technology suite replaces the costly manual interventions you see at some of the more, shall we say 'established', providers.

It pays to have a broad skill base in your engineering talent pool, because it not just about understanding financial trading and financial markets, it is about understanding how people think in this connected world – this helps us design efficient and intuitive interfaces and processes.

The strengthened R&D team is quickly delivering on new products, processes and systems that have already positively impacted our metrics.

These include upgraded functionality and appearance of the trading platform to both improve retention of current customers and appeal to higher value customers. We also added an analysis package to the iOS platform, including volume indicators, drawing tools and an extensive range of technical analysis.

In response to demand, traders can now also alter the appearance of the WebApp platform to select light or dark, with dark mode quickly becoming popular.

I want to show you a quick video now. If you haven't experienced the Plus500 trading platform recently, you may have missed some of the changes. Make no mistake, this is not a game, this is a serious trading platform for serious traders and sophisticated ones. This is going to go quite quickly, so don't try to keep up – there won't be a test afterwards and you can then check it out yourself at your leisure.

TWO SHORT VIDEOS WERE PLAYED showing some recent developments in the Web Trader and the iOS platform, including Dark Mode, volume indicators and a broad range of trading tools including an extensive set of technical indicators.

Slide 28: Elad Even-Chen

Just before we wrap up, I wanted on slide 28 to re-emphasise the core elements of our business model, the financial and operating discipline which has underpinned our success to date.

- We adhere to an entrepreneurial approach, adapting rapidly and grasping opportunities
- We will continue to recruit and retain the best people
- We will maintain the lowest cost to income ratio, well below the peer group
- We'll continue to lead the industry in both the absolute level of our marketing investment and in its effectiveness
- And perhaps most importantly, as demonstrated today, we will continue to balance maintaining a robust financial position with delivering good shareholder returns

Slide 29: Asaf Elimelech

So, in conclusion, on Slide 29.

I believe these were good results during a relatively difficult period for the industry

Plus500 remains very much on track to deliver against current expectations

We are executing well:

- Our customer acquisition rates remain well ahead of the industry
- Customer engagement and retention continues to improve
- We are evolving the platform and upgrading the trading experience to appeal to more sophisticated and valuable traders

We are also prioritising returns for shareholders through both a 60% dividend payout and a $50 million Buyback programme.

While retaining our commitment to paying out at least 60% of net profits, we have adjusted our policy to allow us to maximise the impact through a mix of dividend and buyback, while ensuring that at least half of the core 60% will be distributed by way of cash dividends. We will consider additional returns to shareholders in future, alongside other uses of cash to grow the business.

Last, but not least, we remain optimistic about our future prospects and confident about the future of Plus500.

We will now take questions from the room.

Question and Answer Session

<u>Anthony Da Costa: Peel Hunt</u>

Question: Given the potential for consolidation in the industry, is there an appetite for Plus500 to do M&A and, if so, what would you be looking for?

Answer: CEO: There is an appetite for Plus500 to go for M&A. Obviously it depends on the target or opportunity that stands out. We could look for something that complements Plus500, where we could expand our operations, or reach new territories or acquire new technologies which we would like to have - we will look at it.

Question: How is it going in Singapore?

Answer: CEO: It's our second year operating in Singapore. It's a very competitive market, so not easy to get a footprint. However, we are seeing growth and taking steps forward, so we are encouraged with the operations here so far.

Ian White: Autonomous

Question: Firstly, on Guidance – You say you are in line with consensus for FY 2019, which implies a material uplift in quarterly revenue run rate relative to 2Q '19, how does this fit with the possibility of regulatory intervention in Australia, which could come later this year as I understand?

Answer: CFO: There are obviously different analyst expectations. Overall consensus is reflected in Bloomberg and in the Liberum update this morning which was approximately $360m for Revenue and approximately $180m EBITDA – this is what we are in line with. Yes, this takes in consideration an increase in the run rate from the first half. The second quarter was up on the first quarter and it did contain one weak month, in April, and progress to date in the third quarter gives us the confidence we can deliver.

Question: What % of Australia revenue is earned from clients that you would to reclassify as wholesale clients under the ASIC designation?

Answer: CFO: We are assessing internally the profile of the customers and the legislation as it progresses – if and when any legislation is finalised, we will update the market.

Question: What was the overall revenue contribution from crypto CFDs in 2Q '19? What %age of new clients traded Cryptocurrency CFDs?

Answer: CFO: Revenue contribution from Crypto in the first half of the year was approximately 2%. Crypto can have its own benefit, mainly from a marketing point of view rather than from a revenue standpoint. You could see that during the more relevant periods at end of 2017 and early 2018, this was about 15% of revenue at max. Definitely nowadays the range is much lower, we're speaking about single digits, based on the level of interest and the movements in the market.

Question: For your forecasting assumptions, are you run-rating from the May, June period, on the basis that April was poor and then assuming no impact from Australia?

Answer: CEO: Yes, and we do expect to see growth

Justin Bates: Canaccord

Question: Can you just remind us what the market p&l was in the first half of last year?

Answer: CFO: We have also disclosed this on a quarterly basis as well. The p&l was approximately $100m in the first half of 2018. The time periods here are very relevant, i.e. the last quarter of 2017 and the first quarter of 2018 broadly netted each off.

Question: Can you give us an assessment of what % of retention improvements is driven by the ESMA leverage restrictions?

Answer: CFO: Churn has been reduced significantly, thanks to a combination of things; over the last couple of years we have been improving the technology assisting retention initiatives and the marketing machine. The ability to see the whole funnel through in-house systems helps here and enables you to see the returns. We do believe that lower levels of leverage, based on the ESMA legislation, also helped customers to keep more value. Also, customers are holding positions longer.

Mark Thomas: Hardman

Question: On the number of Professional customers, the ARPU levels imply that these numbers are flat across the 2 quarters? Can you give an idea of how many are coming in, and what the churn is here?

Answer: CEO: So, the application is online, it is discretionary process that the customer has to decide to initiate – there is no interaction between customer and the company. Sign up is at the customer's own discretion.

As we have mentioned in previous presentations and discussions, most of the existing professional customers applied during the third quarter of 2018 when they felt the impact of the regulatory changes in their account.

Since then we have seen a steady run rate of approving professional accounts, at the level of 60-100 on a monthly basis. We have maintained that run rate since.

Anthony Da Costa: Peel Hunt

Question: In Online marketing, have you noticed less or more competition in Google pay per click from the industry in general? First, you noticed more competition, has that reduced now?

Answer: CEO: Obviously, the Internet is a big thing, you need to break this down by market. If you are looking at Australia, definitely there is increasing competition. If you look at other markets e.g. Italy, Poland, UK, you can see different situations, because of the cost of doing business there is lower competition there, because not everyone is able to compete and to stay profitable in those jurisdictions. In some other markets, where it has become more expensive to do business, you may see other providers bidding less or not bidding for certain keywords as a result. This gives the ability to take market share.

Each market has its own characteristics. This is how the marketing machine works – it tracks and analyses the changes and adjusts the bidding on an ongoing basis.

Answer: CFO: Also take into consideration the journey – first you build a brand, brand awareness is crucial – you can see from the market share information how we have achieved this in certain jurisdictions - then you optimise the conversion funnel and how you onboard the customers from the ease of use and the technology you offer. This puts you in a better position to bring more customers to the platform, average acquisition cost fall and this feeds into the bidding process. It's an evolving process.

The beauty here is that we are doing everything inhouse and you have full visibility on the improvements, as opposed to a provider which is using external parties and doesn't have this visibility of what's going on with specific items in the funnel.

Ben Williams – Liberum

Question: You've given us new cohort data on 2015 and 2016. The runrate return for 2016 is 2.7 times the investment that is going in. 30% of H1 business was EEA retail, where you believe you'll get similar lifetime values, with the revenue is spread over a longer period of time due to lower leverage. For the other 70% of your business, what do you think the return is on the marketing $s you put in to the business over the first half?

Answer: CFO: We didn't change our analysis with respect to the life time value of the customer. We continued to bid assuming the same value as before.

Definitely, in certain jurisdictions the value has increased due to improved brand recognition and the increased value of the customers we are bringing.

So, a typical UK client for Plus500 is not the same now as it was 5 years ago – the value is greater, as reflected in deposits. In 2017, total deposits were $1bn, in 2018, it was $1.3bn. Going country by country, we can see the benefits.

There was a substantial improvement in the second quarter compared to the first; this was the same for the whole industry.

There was a 40% increase in client account balances. This reflects the opportunity and goes into our bidding process.

Wrap Up:

Thank you all for attending and thanks to those on the call. Have a great day.