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Transcription

Title: Plus500 Ltd. Interim Results

Date: 13.08.2018

Speakers: Asaf Elimelech and Elad Even-Chen

Conference Ref. No: EV00077902

Duration: 59:52

Presentation

Operator
Hello, and welcome to the Plus500 Ltd. Interim Results Call. Throughout this call, all participants will be in listen-only mode. And just to remind you, this conference call is being recorded. Today, I'm pleased to present Asaf Elimelech, CEO; and Elad Even-Chen, CFO. Please begin your meeting.

Asaf Elimelech
So good morning, ladies and gentlemen, and welcome to the Plus500 2018 Half-Year Results Meeting and Call. Thank you for attending and dialling in. For the ones on the call, please note that the call is listen-only but you can hear and you will be able to hear the Q&A in the room. We are very pleased with the set of results. They are obviously a record one, and they demonstrate the benefits of our key differentiators, our technology edge, our marketing initiatives and operating leverage. We will now run through the presentation and then take questions at the end. Please, Elad?

Elad Even-Chen
Good morning, guys. Looking at the investor presentation deck on page 2, you can see the very strong start that we've had in H1. The active customer base has increased by 121% to about 248,000 active customers. This was followed by and based on the number of new customers that increased by about 75%, and those strong operational KPIs increase was followed as well by the financial KPIs of the increase of about 200% of the EBITDA and also about 150% of revenues.

Asaf Elimelech
We are proud to share with you that not only that our platform is the number one rated app on the different mobile app stores and Google stores and also the number one app in terms of revenues for mobile devices, but we are also the number one CFD Broker nowadays in the UK, Germany, Spain, in Australia and this is according to the different surveys conducted by Investment Trends' report issued in the past year. This is mainly thanks to the great efforts and investment that we have done to our brand, our marketing initiatives and our operations and technological edge.

During the first six months of 2018, we have seen a strong progress as the number of transactions in the first six months increased by 51% compared to the same period last year. The geopolitical events, you may say the Trump announcement, the US government announced with respect to the tariff rates, the kind of custom wars between the different countries whether we've seen just lately the US announcements with respect to the customs on the recent commodities with Turkey and how it affects the FX market with respect to the Turkish pound, sterling and the US dollar.

It also goes to the tug-of-war between – the economic war between the US and the European economy and how it evolves and how it impacted the market news and the flow of news within the financial market. This obviously attracts high level of trading and volatility within the market, which we see the benefit from higher trading volumes within the platforms and increased number of transactions and higher deposits and – etc. Over the past six months, we've increased our global presence and expansion into new geographies. We have started to operate in Singapore earlier this year and we do see the benefit from that jurisdiction. Singapore is one of core markets that we would like to see going in the future.

We've just set our footprint in Singapore and we plan to increase our brand awareness in Singapore through our marketing initiatives, offline campaigns with Atlético Madrid, and some other marketing channels that we aim to launch in Singapore. As an example, we can look at the Australian operations that we have set our footprint in early 2013, and nowadays we can definitely say that the revenue is more than seven times than the same period last year. And the increase in the number of active customers is more than five times compared to the same period last year.

As one of the main initiatives that we had on our table in the past few years was to complete the move up to the Main Market, which have been accomplished by the end of June this year, and we are pleased to bring this – to present to you that goal and to accomplish it, where you know we discuss it in the past quite a lot and how we are growing, and that we are working in that quarter and it's a long quarter, and note that going forward we are pleased to announce that that has been completed. And hopefully in the future we'll be able to see the benefits from the shareholder – for the shareholder returns and the valuation of the company.

Elad Even-Chen

On the back of what Asaf just mentioned on page 4 on the presentation pack you can see the financial operation highlights there. We started to be very relevant with flex again, if we are the leader in the mobile segment.

We continued to generate a significant amount of our revenue from the mobile devices. You could see that 76% of our revenues were derived from the mobile devices and it's not by coincidence. We put lot of focus on that segment and we are, through the last few years, the leader there. We will touch base afterwards on the elements of the number of downloads there, the rating which is with that compared to our peer and we truly believe that we'll continue to be the leader in that segment going forward as well.

We couldn't extend an exceptional first quarter, obviously, which came across on the back of the increased level of interest there which was over in Q1 on the back of increased level of customers that came across in Q4 '17. Having said that, those customers, as Asaf mentioned before, are after trading the level of financial news which were out there in Q1 and also in Q2 enable us to outperform again in Q2 by third, maybe with lower numbers compared to Q1 but already in Q1 we mentioned it's not the run rate that we believe the company will deliver in the rest of the year.

But rather Q2 by itself was and is a record quarter with an amazing set of results and $68 million as revenues and a very strong set of EBITDA to deliver. You could have seen that we improved the level of margins, that's about 75% in H1. We've never been to that kind of environment that we delivered and with above our marketing expectation. Yes, indeed it's above what expect and it means that there we could have maybe even outbid on the marketing spend, and this is what they would start to do in Q2. So the element of the bidding, we increased them a bit in Q2 to enable us to see an increased level of outcomes, new customers also going forward in the remainder of the year. And this is – was and is our strategy since the beginning of the business.

Asaf Elimelech

You could also see that we came across with a very strong dividend. Shareholders return was always in our spotlight, while of course ESMA and the regulatory changes are in the spotlight. We feel very confident with the shareholders' return that there we can deliver. We have a very strong balance sheet. This will touch base soon. But we don't have any debt, no loans. And through the last few years, we delivered our shareholder since the floatation of the company about $700 million from revenues of about $1.8 billion since floatation.

Flipping some pages over like to page 8 as a summary to what we just mentioned from a dividend point of view. There is a nice kind of flow from revenue of about $1.8 billion and net profit of about $800 mil with distributing the significant demand during the last five years. Another KPI which we found to be very relevant this time due to the level of volatility and fluctuations in the market is actually the risk methodology, which we will touch base in the next few slides. But if you kind of sum up, we were profitable – 94% of the days were profitable. Only 6% which is 11 days in the whole first half of '18 were losing days and we also split it kind of for the first time the ranges of the absolute amount between those days. So you could see that the amount itself is quite modest. We had only one day that we lost more than $1 million, and of course with the balance sheet of more than $0.5 billion, we could afford it.

Elad Even-Chen

So flipping to page 9 just to go over the business model which haven't changed throughout the years and we're still focused on one product, which is the CFD, which allows us to put us focus at the customers – at the service that we provide to our customers to enhance the user experience of our customers to enhancing and doing the next edge to the trading platform, increasing the level of instrument that we are having on our trading platform and fulfilling the needs of our customers by adding new instruments as requested by our customers and as we see appropriate throughout that period.

Just as an example, we've added new instruments whether the new IPOs such as 45 Radian[?], and some other IPOs that we have seen taking place within the market in the recent months. Also what is new, you may say crypto currency, or new commodities that we see the interest from our customers and we collect those searches and we collect those comments and requests from our customers and we aim to add in order to provide better service to our customers.

Needless to say that all of our technology is our own proprietary technology, everything is being developed in-house. And now with the opportunity to say welcome to our new CTO that has joined Plus500 just recently and we can say that from now on the entire management of Plus500 is not being dependent on the founders and professional management. The new CTO comes from Google is the next Google, one of the senior team members – used to be senior team member within the Israeli Google R&D Centre and he is now with us, contributing from his knowledge and bringing his new initiatives and ideas from that – and his experience that he gathered throughout the years to Plus500.

Page 12 gives you a more detailed KPIs metrics. If we look at the H1 numbers not the Q2 more specifically, we could see that the growth in active customer base was indeed in the whole H1 on the basis of Q1 but as well with Q2. You could have seen 28% increase on active customer base in Q2 to more than 100K. ARPU level has increased by 19% specifically in Q2 and this is something which is very supporting, which is in line with our strategy to put more focus in our core markets, which are the UK, Germany, Australia and many more. And it's aligned with the actual AUAC, which has increased in Q2 as just mentioned. We wanted to see an increased level of number of customers, especially ahead of the ESMA's changes to see those new customers coming along in the remainder of the year and going forward.

As you know, we are offering an unlimited demo account where customers in many are using it and becoming real customers as time goes by. So it does say or it doesn't mean to say that we didn't convert the customer immediately but we want to see the impact or the benefit going forward. There is a very interesting slide that we touch base very soon with respect to that kind of methodology on the investments, which we've had in 2014 from a marketing point of view and the revenues and the profits which we've generated along the years until today.

If we also look at the number of new customer, as just mentioned, on the overall H1 numbers, they've increased 75% with a decrease of above 33% in Q2. But as just mentioned, yes, indeed the level of volatility or financial news was a bit lower in Q2 if it's due to the cap gains which were out there, and if you could have confer this kind of exercise four years ago, you could see that it's the same trend, so it's nothing too substantial for us.

Going further to page 13, the kind of the first time we're including this specific table with a breakdown of geographical split more specifically with the UK definitions, the other EEA jurisdictions, Australia as a standalone not the operation as a whole of APAC, and the other jurisdictions being catered by Plus500. So the main items there which you could find in this table is the fact that we are very dominant and the growth in the UK is substantial. As mentioned before, we became the leader by the number of customers in the UK by itself.

The journey that we've done in the level of ARPU and the lifetime value more specifically, which is not included here is the potential. The overall benefit of those UK customer obviously much higher compared to other jurisdiction where we're more dominant maybe five, six years ago. But today the focus is definitely on those Western European markets including Australia and Singapore.

Australia, as I mentioned before, kind of more than delivered and the performance was above our expectation, about seven times compared to where we've been last year and five-fold compared from active customer base compared to last year, as well.

If we're looking at the overall churn level. So on the left side which was always within our investor presentation pack, you could see that from H1 perspective, there is a small decrease on the churn level, and an increase on the churn level on Q2. As always mentioned, and it's important to mention that those are not churn customer and rather dormant customers, okay. We don't see those customers just disappearing or closing their accounts but rather being on the sense looking or waiting for investment opportunities. This was always the performance behind the scene in the trading platform and those customers that may come, that we've stopped[?] mentioned initially, thanks to what is translate within the market on the movements on the FX prices or indices or commodities.

The right side of the page reflects the 12 months rolling churn, which is very interesting. We haven't disclosed it in the past. And you could get lots of understanding that actually there is a decrease of that actual churn behind the scenes. So while you have the left side which gives you kind of an indication to the ongoing period-on-period, this is the actual 12-month session and we put lots of efforts more specifically on this rather than on the left side.

Asaf Elimelech

So going into the next slide on page 15, we provide the new details about the revenue split of our customers saying that 45% of our revenues come from 1% of the customers, where about 90% of the revenues comes from about 10% of our customers. This is in line with the industry practice and what has been disclosed with our peers saying that we don't want to rely on the majority of our customers in order to generate the vast majority of the revenues that goes hand in hand with the previous slide that's a large extent about the churn, but also where the churn is you may say is a bit higher than the industry level and you do see the trend, positive trend of reducing that churn. We do say that the relevant portion of our customers are the most stickier and that leaves us to the right side of the slide where 37% of the revenues comes from customers who are more – who are with us for more than one year, especially when you take the period of time where we're on board on Q4, 150,000 new customers. And on the first – if you take the first quarter and the first six months, you talk about almost more than 250,000 customers joined in the past nine months.

Obviously they contribute to the revenues and that's why we see the higher portion of those revenues come from customers, young customers you may say where we will be able to see the benefits from them onwards in the years. And you also can see that the revenues contributed from customers that are with us for more than five years has increased compared to the previous period last year. In June 2016, it was 2%. June 2017, it was 4%. And now it's over 5% of revenues come from customers that are with us more than five years.

On the next slide to comment on page 15 specifically, on the left side, you could take into consideration or an element which is quite important to say if we're not being dependent on one specific customer. So if in 2017, the biggest customer was about 0.4%, this – during the first six months, the biggest customer contribution was 0.2%. Okay. So we're very diversified from that point of view and we don't have a concentration risk with respect to the customer base.

An additional point is it goes hand with hand with the element of the professional categorisation side. It is important to understand that, yes, you have those little customers. You have those professional ones. And while you understand that 1% of the customer produce about 45% of your revenues, you are in a position most likely to go and have them under your scope of professional customers rather than retail, of course subject to their skills and compliance approval and everything needs to be approved according to the DD[?] session, but it's more likely that those will be aligned with MIFID requirements rather than the resources.

Page 16 is a kind of reference to what Elad mentioned earlier, how we can see the benefits from our customers when we put our marketing initiatives, how the – it's not necessarily that we see the conversion as an immediate one. So throughout the years, you can see on the left side of the slide, the investment that was done in our marketing efforts whether it's to the online, offline and affiliate channel. Just taking as an example 2014 where we invested more than $60 million, $61 million as marketing initiatives, throughout the years the return got to be $267 million. So first and still counting as those customers – some growth customers continue to trade and we do see the benefit from them.

So you can do the math and calculate within yourself where on the investment on $60 million, we saw so far $267 million as a return. Those customers – some of those customers are the ones who would be the stickier ones. And as we mentioned and referred to the previous slide, those are the ones that we consider and we'd like to maintain for future years to be able to generate further revenues for us. When we take for the marketing – when we do the marketing, we do the online mainly. You pay for the cost-per-click and then the customer is registered to the system. It's not necessarily that he is being converted into real money account and this may be – there may be a lag of time till you see the benefit and you start to see the return.

So for some of the registration that you had in 2014, they may convert into a paying customer in 2015 or even 2017 or 2018 where there are some market news that keeps to the interest and then when you start to see the benefit and the revenue and the return from that specific customer. So it's not cost if you pay first week and you head higher cost during that period. It may be the case that the benefit will come in future years and that is being demonstrated to that returns.

In page 16 in a way is a great reflection to understanding how we, as management, look at the business, because behind the scene of course you know how much you're going to spend, how much you spend during the year. But we also know the potential driven volume or value of those customers. We have our kind of statistics and understanding how much they are supposed to produce for us. If it's split by geography, if it's split by the segments of those specific customers. There are historical similar performance from each campaign how much the campaign produced for us, i.e. if the customer came from a key word of oil versus CFD one or from a mobile device, if it's an iOS one versus an Android one, and so on and so on.

So the overall kind of statistic parameters are being included within this kind of slide and enables us also to forecast and get the confidence for a future period.

Flipping to the new additional slides which we've produced here on page 19 going forward is in a way just a matter of recognition that Plus500 is now the biggest CFD provider in its core market. So on page 20, you could see the actual results from Investment trends, which obviously you're familiar with and being referred by the other peers as well. Those are copy paste from their studies, we didn't touch, of course, and it's a reflection to where we are compared to the peers with an understanding that in the UK market alongside with the German one and the Spanish one, we are the leaders.

On page 23, you could see the split again of the marketing channels how we bring across, how we brought the customers with the last few years and specifically age one. The difference on the online was kind of shifted to the affiliate. The affiliate obviously was very efficient for us on the back of an amazing return in Q4 '17 and then in Q1 and Q2. The overall kind of segments are in line with our expectations and always you're in a position to optimise this even more.

Even though there was a shift between the different channels, there was an absolute growth in all of the channels whether it's the affiliate or clients and the [inaudible] code where we say the customers Plus500 in terms of absolute numbers, there was a significant growth in all channels.

Going into the regulatory area, I guess, we need – we must touch base and it's one of the more important items that we have to disclose here in line with the recent changes whether it's MIFID, the GDPR changes and there is new set of rules set by ESMA.

On Page 25, slide 25 we just name the different regulated subsidiaries. We have six different regulatory subsidiaries in the UK, Australia, Cyprus, Israel, Singapore and South Africa, where we operate our – focus our regulated services from those jurisdiction.

Going into page 26, we describe our compliance approach and principle and how we apply best practice and we see that what we do is real best practice as we always offer negative balance protection and initial margin and maintenance margin levels that were set as part of the requirements set by ESMA earlier this month, August 1. Obviously and as demonstrated in the next few slides, we adopted all regulatory changes in each jurisdictions where we operate.

We've implemented – on page 27, you could have seen that we've implemented all the latest regulatory changes, having made a required adjustment to comply with the MIFID II changes and set of full, the GDPR, General Data Protection Rules that were applied earlier in this six months, in 25th May. And the ESMA a new set of rules that were announced on June 1 and it came into force August 1 this month.

Apart from that, we maintained and we focused on our human resources and our key employees to focus on the compliance and regulatory, we employed about 250 compliance employees during account opening processes and maintaining best practice within the changes that are needs to be done monitoring those changes and applying further enhancements as required as we see for example with ESMA issuing a further a new set of Q&A updating the guidelines. We remain on top of those changes in order to apply and to comply with those required changes.

We will maintain open dialogue with the different regulators and we can definitely say that there are no field restrictions with any of the group regulated markets or the regulators that we are operating and working in relation with.

On the next slide, there is the table that we've disclosed and discussed in previous meetings and we've added what was our position prior to EMSA changes, what is our stand for ESMA changes and what is the potential impact following those implementation. We can definitely say negative balance protection initial maintenance margin, binary options, no bonuses and no call centres. We're always proud of our call. We didn't – we always comply with those requirements. We've applied the new risk warning into our platforms, websites, and all marketing communication, also reduce the levels as required by the different regulators according to the ESMA set of rules, where we may see some of the potential impact over the revenues in the future.

However we can definitely discuss on the next slide what are the measures that we have in place in order to mitigate such impact. And that as Elad described earlier, our positioning within the industry within the market allows us to increase our marketing efforts and to position ourselves as the number one international CFD broker, not only in the UK and Germany. So we would like to go and to be the number one trading app in the other Western European countries such as Spain, Netherlands – Spain, we're already there. Netherlands, Italy and some other Western European countries. We'd like to increase our footprint outside the EEA countries, such as Singapore. Not by coincidence, we just started to operate in Singapore earlier this year where we will be able to extend our operations. You have noticed, and as Elad reviewed, our exponential growth in Australia and how we can demonstrate that we can grow the business outside the EEA countries, we don't say just broad, we also deliver results when we say that we are going to increase our footprint outside EEA countries, and this is a good demonstration by obtaining licence in Singapore and exponential growth in our market outside specifically in Australia.

Revenues from the non-EEA countries represent nowadays about 29% of the revenues of the group, and we expect to increase it. We can discuss the elective professional customer process that we have in place. As I mentioned, we've upgrading and enhancing the process as we go according to the different guidelines set by ESMA and the different regulators. So far about 5% of our customers in the EEA countries has elected to become professional customers. Those guys are responsible for about 20% of the revenues from the EEA countries and we expect to see that grow as we go. Therefore we can say that the categorisation process of the classification processes start for professional customers is in line with our expectations and we hope aim to see more of those.

That together with our technological edge and to bring further developments and enhancements to the user experience and to allow more – to allow customers to trade on higher volumes and to increase the trading volumes of our customers, that is part of our core focus in the future in order to compensate on the reduced leverage ratio.

One of the changes that was requested and required by ESMA is to disclose – and that's on the next slide on page 30, is to disclose the loss ratio of our customers. So that was available to our customers and to the public since 1st August, with 80.6% of our customers are loss making, which is you may say in line with the industry standard, with our peers ranging between 78% to 85%.

However we can say and we can know that those losses are relatively small, whereas 50% of those losses are less than $650, i.e., about $500 and the average win and the average profit is above – per user is about $1,000. So when you take that into account, you see that the majority of the loss-making customers are mainly losing less than $650, which is you may say will be mainly the spreads and others is that is being taken into account as part of this calculation regardless whether it was a winning position or not, by the way most of more than half of the positions are winning positions.

Elad Even-Chen

Page 31 reflects the risk methodology, which was always in place for us, and in H1 continues to be very strong. The average daily loss in H1 '18 was about $0.5 million. It was a very good result when we kind of put additional focus in H1 for those specific thresholds; for instruments we added new kind of features and channel features to our risk methodology, which was catered already kind of by the end of Q4 '17 and continued with us for the remainder of the year in 2018.

We have a very good and strong confidence with the ability also to continue to offer those instruments in very volatile events if it's due to the US-China trade war or other volatile events which may come into force from Telegram ICO and some others later this year.

Moving to the financial side on page 33, the income statement reflects a very strong growth from the top line itself, $465.5 million, aligned and above our expectations at the initial stage of the year. It's an amazing year for us that we upgraded the forecast already three times this morning again aligned in the top line and also EBITDA-wise, $30 mil or so by the analyst of the revenues and above $20 mil on the EBITDA for 2018. It reflects great level of confidence from management point of view and also how we look at the future from that side.

EBITDA-wise, as mentioned, became and brought us to an area that we didn't really believe even that we are capable to deliver. The 75% is something doable but it's not sustainable. Let's be frank about it. If you like to see an increased level of operation going forward, we are targeting more than 65% something like that and this is aligned with the analysts' forecast as well, is just to continue to deliver strong numbers also going forward and with the new operation in Singapore and new additional markets, which may come into force.

The lean cost structure was always in our spotlight and it has continued to be there also in H1. About 65% of the overall cost base of Plus500 is being dependent on variable cost, i.e., the advertising and marketing spend alongside the processing cost. Those two items, as you know, are being driven by volume. So if for instance, there is less financial news, less interest in the market, less people will click on those adverse in the search engine and then you'll spend less. Aligned also with the processing cost, those kind of performances are going hand with hand with actual deposit level of the customers, we could have seen an increased level of 130% of the actual deposit amounts in H1 compared to last year and this is an amazing KPI because it gives us the confidence for the capabilities of the customer going forward.

If you continue to the other items that was included obviously, the reflection to about $4 million relating to the Main Market move-up event included within the legal and professional regulatory fees. The balance sheet was and is stronger than ever. We had more than $0.5 billion as cash. Obviously we've distributed $165 million as dividend, and which was paid in July 23. On the back of today's announcement obviously we'll distribute another $157 million but with a continuous cash generation, the cash conversion was in H1, 96%, a very impressive figure, especially if you take even if you deduct the element of the tax, there is an improvement there from a cash flow point of view on page 36 by about 7% from 71% in H1 '17 to 78% in H1 '18.

Dividend distribution model, you're all familiar with the fact that on page 37, we are aligned with our shareholders. We will always align with our shareholders and we try to optimise our position as time goes by. We have set of course our interests, our needs from capital adequacy point of view, which regulatory capital required to have. And on the back of that, we have a very healthy working capital to enable us to continue the operation in any case.

And then on the back of that, we assess which amount we can distribute to our shareholders. Those assessments have been in the past and will continue to do that to have them by the end of the year with respect to the final dividend amount, the special pay, i.e., the final should reflect as well with 60% aligned with the dividend policy of the company.

Page 39 from current trading point of view, so Q3 2018, we mentioned here which is aligned our market expectation but it's highly important to mention the numbers were upgraded this morning. So while it says aligned, it's with respect to the revised figures, which were issued this morning. And we have also confidence that as the board as a whole and management point of view to continue to deliver with strong set of results if it's from the operational figures and the financial ones as well, it's the combination, which is being supported by the technology.

We found as well, very relevant to reflect and referred to historical events if it's in Japan or Singapore, which came across due to any regulatory changes. So you're all familiar with what happened back then a few years ago in Japan. And as you could see here, based on eight groups analysis, which is based on actual numbers in the market, those kind of fluctuations or changes have been in effect for a couple of quarters, three quarters or so ,and this is where we are coming from with an ability to also increase the level of market share and to increase our proposition within those core markets. So the technology edge, together with actual proposition is the one to continue to.

Asaf Elimelech

On slide 40 and 41, we share with you our future long-term focus and where we'd like to see ourselves in the next few years. Obviously, the first and most important one is our customer needs. We put our customers at first, not – we always aim to offer the best protection combined with the best trading platform to our customers. This is why we also offer negative balance protection and maintenance margin not only to our retail customers also but also to our professional customers not by coincidence our technology 10 years from our foundation, it means the edge and provides the significant competitive advantage on top of compared to our peers and allow us to expand our operations and to become the leaders in those jurisdictions where we operate.

We maintain, as Elad mentioned, low cost and low risk and low capital-intensive business model and financial model. We aim to maintain flexible business models to allow us to diversify our expenses and to decide where we would like to put a focus as part of our business performance in the future years. We focus on the regulatory side, whether it's to allow customers to become professional customers whether it's to obtain new licenses whether it's new or outside of the EEA countries and to obtain new countries where we can operate in the next years to come.

Our strong organic growth together with our forecast for professional customers will allow us to increase our brand awareness to increase the revenues from different jurisdictions whether that's from our core market within the European market and outside European market to increase our brand awareness and footprint in those jurisdictions. The premium listing, the main list, the move up that we completed earlier this year, will allow us to provide improved liquidity and valuation and to focus on the best return to the shareholders and to continue and maintain the dividend policy that we have in place; as we've disclosed already we declared a dividend and we maintain and we assume that we are going to maintain the dividend policy of 60% payout and on top of it, a special dividend at the end of the year as appropriate.

I guess that's about it, but we can move to questions that you have, and –

Q&A

Nick Batram
Nick Batram from Peel Hunt. I have three questions. First one just the EEA split. You took up the UK. Obviously very large percentage which is from the UK. So where is the majority of – where is the bigger chunk of revenue coming from Europe, basically?

Elad Even-Chen
Germany is a special market for us. Spain, Netherlands those are very core markets. Of course you have, well, the Nordic countries as well. So the Google trends kind of independent analysis we put it on the international level. You could break it afterwards independently Google like jurisdictions, you'll find where we are the leader. It will give you additional visibility. But Germany is an amazing market for us, not by coincidence, we are the leader. Netherlands by itself. Spain, Italy and so on. So this is where the main proposition.

Nick Batram
So in terms of the UK, that's sort of going through the UK regulator –

Asaf Elimelech
Key customers.

Nick Batram
Your key customers.

Asaf Elimelech
As well as with Australia. We identified it with the country itself not by the operation.

Nick Batram
Okay. And the next thing was on the mixed professionals. You sort of mentioned how the sort of approach was I think 5% of the EEA.

Asaf Elimelech
Customers.

Nick Batram
That's part of, what was it, 3% of the revenue?

Elad Even-Chen
20%. Yeah, we mentioned.

Nick Batram
Has there been sort of increasing queries post the sort of rule change and how do you sort of gone about the sort of process, you need to sort of converge what's sort of your guidance to that sort of customers?

Asaf Elimelech
On that aspect, as we've mentioned, obviously you could expect to see a pickup in application following the rules taking effect. Obviously you don't – if there is no change to the rules till 1st August, most of the customers don't really take an action. However you could have seen the tick in the application – that number of applications. The process that we apply is in line with the requirements of ESMA. There is an online form that needs to be filled in taking – we are collecting the data that is required whether it's in the financial portfolio of the customer, the work experience, their trading activity that the customer may have with other providers.

Following those, data is being provided. There are some questions about us and the customer needs to respond. Following that, he will need to provide the relevant documentation in order to complete the application. Then it's being assessed to the process each part of the – each stage of the process, there is an assessment that is being conducted by the compliance team. Some of it is automated. Some of it is manual; where the final decision is a manual decision following a review of all the data and information provided and the documentation, that needs to be provided in order to approve such application.

Elad Even-Chen
One comment is just it is important to mention that we don't have it in our call centre and we don't use any element of solicitation and that's why we anticipated that those kind of level of application will increase following the ESMA, like the effective date of 1st August, rather than before then. We didn't act on actively basis to approach those customers and so on. And this is where we are coming. A very downward approach on compliance perspective, a very cautious one without any elements, solicitation and then the customers are the ones who decide if they would like to take the lead from the professional segment or to keep themselves.

Asaf Elimelech
Even if you go to our website, you won't see big headlines or banners on the website which says asking you inviting you to let. It's self-execute – the same way that our trading platform is self-execution trading platform where the customer needs to transact on his behalf and you working dues or incentive customer to do something, the same way with that process. If the customer would like to do so, he will find a way to contact us or the way to find it on the website or on the trading platform in order to apply for such an account. We do not have banners or things like that offering on the website to come and become to do that process.

Elad Even-Chen
And proposition-wise also important to mention that we don't take any additional costs from the customers for instance who became professional in order to get the negative balance protection so on as opposed to some of our peers. So we continue to offer the same level of protection without any additional cost.

Nick Batram
You mentioned that you are al involved in [inaudible]. Are they all sort of located in Israel or on global?

Asaf Elimelech
So our operation is diversified. We have local teams, compliance teams, whether it's in the UK, in Cyprus, in Australia, in Singapore as well as in Israel within our regulated subsidiary. We have also a team of compliance customer. Israel is part of the headquarter that is more responsible for the operational compliance area to ensure that all of our operations whether it's a new feature that goes out of the R&D team is compliance and is being tested to ensure that it is compliant with the relevant requirement. There is an open dialogue and communication between the different compliance team whether it's between –

direct communication between the compliance team in the UK and Cyprus and Australia, they share the knowledge and that's how we operate in order to increase the experience and the knowledge within each compliance team.

Elad Even-Chen

Just so with respect to actual number-wise, so we have about on a high level 20 members – 20 employees in the UK, 20 in Cyprus, 20 in Australia and about 200 in Bulgaria roughly speaking.

Nick Batram

Then the final question was, you don't do the product splits, if I reckon, for cryptos. Can you –

Asaf Elimelech

Not today. It is a key message obviously which we always deliver it. We're not being dependent much category. There is no actual reason not to give that kind of split but we prefer to keep the numbers just from that point of view to ourselves. But the overall understanding is that, yes, you do have those kind of segments or category levels, which are a bit more attractive or interesting during this time period and then the others. Crypto by itself is quite modest at the moment. We do see a level of trading but definitely not share 50-40 or 30%.

Nick Batram

Perfect.

Asaf Elimelech

More questions? No one else want to ask any questions?

Speaker

How do you guys calculate the ESMA FCA impact? I mean, obviously you look at sort of the elective professional base but how do you go by actually calculating what the impact might be and what is the impact in your view?

Elad Even-Chen

So with that respect, we take into consideration two parameters. The easy one is the segment, which is outside of the EEA client base. So those are 30% less than the actual [inaudible]. 20% are already being elected to be as the professional customers. So they are continue to trade as before then. With the current run rate of the applications, the level of trading within our systems, we have the confidence that will come for us about 70% of the revenues –

Speaker

70% of that.

Elad Even-Chen

Overall. 70% of the group. So 30% we excluded, then we're coming first with another 40% from the EEA, which we're saying 30 plus 40% and the 40% from the EEA we're saying, yes, it will come into that tail not tomorrow but in the next few months or so when the market will stabilise from our taking into consideration, as we just mentioned, we didn't act on active approach or solicitation and we didn't charge the cost of the [inaudible] in 2017 when it comes to the maintenance some of our peers and we're doing. So we were – we waited to see the actual set of results and the decision from the regulator and then we started somewhere around the end of Q1.

With a better understanding on the back of the actual performance, they are saying overall, such bids are being[?] protected, okay. With respect to the remainder of the 30%, we're staying of course you could model few times ranges more severe downgrade scenario and moderate one and more kind of optimistic one. The current that is of expectations which were delivered this morning by the analysts of course Liberum and Berenberg and also took into consideration our view of course based on our calculation and the level of spreads and the level of deposits and the interest level of cooperation guidance as well. So in conclusion, yes, indeed, you are having a general level of beginning or area which you don't see the immediate final stage of results, but it will most likely come into a stabilised position in the next few weeks, months and this is how it is.

Speaker
Okay. Why is it that you guys don't often split that, given the capital gains benefits of the UK customers?

Asaf Elimelech
It's a good question and it was always as part of our plan of internal discussion. However we don't see or find ourselves just as a UK provider but rather as an international provider. It provides us a greater level of confidence from our customers. We have one such offering and it's very straight forward to the customers. They are not in a position to be confused if it's fair betting[?] or not. The UK, as you know, is only the one to cater the spread betting from the capital gains exemption point of view. And as we are seeing and having a rough range of revenues outside of the UK, it's not as if we're being independent as opposed to some of our peers 50%, 60% of the revenues just on the UK because this was the case obviously the offering would have include spread betting while for us it's only about 16% to 18% of revenues. So it doesn't gives you any additional benefit to have also in the segment[?], that's expected.

Speaker
Okay.

Asaf Elimelech
Also take into consideration there is a benefit for having a CFD for instance you would like also to transact –

Speaker
In terms of back to sort of ESMA FCA, those customers who are trying to be an active professionals and are not allowed by all standards, are you seeing those customers trying to on board through other jurisdictions?

Elad Even-Chen
At the moment, we don't have such process to allow EU customers or EEA customers to on-board outside the non-EU entities, i.e. the seven[?] entities. There is no such further complaint[?], those customers if they sell the EPC process, they can continue and trade as a legal customer and that's how we apply it in a very well scenarios where the customer approach and demand. We may allow the demand to grow for higher levels of leverage. And it happens handful of stands for so to allow the customers to have an account non-EU.

Speaker
So if I wanted to onboard, if I wasn't a customer at all and I wanted to onboard through Australia.

Elad Even-Chen
You won't be able to do so. You must go through an EU entity.

Asaf Elimelech
Were you familiar with that approach? When you are familiar with that approach, you know some of that we are not there. From a legal perspective we can shift it but we're yet to be there. It's another you may say a measure which you could use but we're not there, not at this stage.

Elad Even-Chen
We believe in our capabilities to deliver the results and to deliver the performance and to allow our customers to benefit from trading and get the protection that they can from one regulator and we don't see the need at the moment to go to that. So even though you may say some people are doing that and you may say that there is no at the moment really one can do so.

Speaker
Is there a reason for you going sort of 62% versus revenue up 52%? I mean, is like there a sort of a lagged effect marketing or are you going to tail that marketing or how we should we think about that?

Asaf Elimelech

So usually in those periods where the level of financial use or volatility is lower, there is less. For instance, very volatile period such as Q4, Q1 and they believe to see the return immediate, the majority of spending for bringing those 150,000 customers already what's compared it into real EBITDA and revenues and so on. However where you are in a position to have less financial use, there is a lag of time but you have the confidence that you'll see based on your statistics and your analysis you will see the return going forward. More specifically as mentioned initially and we've took the decision in some areas to increase the level of bidding because we wanted to see the return going forward in a more hard-coded exercise rather than just a machine by itself. Historically it made a sense to us. You could have seen the results.

Speaker

And then just last question, you mentioned just in terms of the revenues split. What geographic split should I say – just in terms of Nigeria and Russia, what level?

Asaf Elimelech

We do not operate in those countries. We don't have a single customer neither from Nigeria, nor from Russia.

Elad Even-Chen

It's a statement.

Asaf Elimelech

It's statement.

Elad Even-Chen

We don't operate in China for instance.

Asaf Elimelech

We can understand the confusion and we can take it afterwards to explain where this assumption comes from. But as a statement, we can definitely say that we don't have even a website that is available in those countries. We do not operate in those countries. We do not have even a single customer from those countries.

Speaker

Okay. Have the usual back. Say that you're in line with the revised guidance, can you actually give us the number of revenue and EBITDA you're comfortable you're in line with?

Elad Even-Chen

So as you could see here from the group's point of view.

Speaker

Not you're going to see that.

Elad Even-Chen

Sure. So revenues of 2018 are fairly at the level of above $265 million, and '19 $582 million and 2020 $655 million, with an EBITDA of $425 million for '18, $385 million for '19 and $419 million for 2020. It is reflected of the ongoing growth of the business with the level of some cautious approach as was always with us during the last five years.

Speaker

Could you give an indication of some number of crypto currencies that initially accustomed to originally try these crypto currencies that are now actually trading in other products, so people came on board and actually you trading on the products?

Asaf Elimelech

We didn't refer specifically by numbers. But we can say that majority of the customers came in Q4, majority of those customers have continued to trade in the traditional instruments. We referred to it as well part of the Q1 announcement and this was the case how those revenues in Q1 were generated. Initially when we brought that significant amount of customers there was a fear or kind of an element of non-understanding if we'll deliver according to our right level based on their just crypto profile. We've seen that, yes, those customers are becoming also and trading on the traditional instruments as time goes by.

Speaker

And finally just really on the slide where you've got your revenue concentration by customers. I'm trying to sort of get my head around the business, and yeah, about your less mature business compared to some, and what would you expect that chart to look like in two to three years? Has it changed materially or do you think that yeah, 90% of revenue from 10% of customers –

Elad Even-Chen

That is amazing, that the left [inaudible] is aligned with the market a lot like what is within in the industry kind of reflection. So this is where we are and this is what we would like to see in the future, as well. It's not different to what you see in the market?

Speaker

Your mature-tier customers are significantly different, so you might have expected the different concentration risk in terms of revenue. So, I mean, so as you're costing –

Asaf Elimelech

You know, for the customer base and you take 1% out of the very small portion of customer base, the operational risk is not fully out there. 1% of about 250,000 active customers six months, it's quite a nice portion and you can see that the revenues that come from customers that are the more relevant and the more stickier from outside, which are more than five years, which is 5% and that portion is consistently growing and you can obviously see the churn during the past few years.

Elad Even-Chen

But your comment is correct and it's being based on the perception that before we issued or we kind of reflected those numbers that our customer base is not mature enough to be aligned with industry best practice, so indeed it is and the rolling 12 months churn get over those kind of charts reflect that we are aligned with what is put in the market? Yeah, sorry.

Asaf Elimelech

Unless, I guess you have further questions, I'd like to thank you all for coming and dialling in. If you have further questions or would like to have a meeting, feel free to contact us or MHP. Thank you all for dialling in. The meeting I think is adjourned. So have a great morning and a perfect day.

Elad Even-Chen

Thanks a lot. Thank you very much.

Asaf Elimelech

Thank you.

Operator

And this now concludes the conference call. Thank you all for attending. You may now disconnect your lines.