Business Performance Review

Summary Group Income Statement

£ million (continuing operations)	FY23	FY23 Adjusted	FY22	FY22 Adjusted	Change %	Adjusted change %
Net trading revenue[1]	941.8	941.8	972.3	966.5	(3%)	(3%)
Net interest income	80.8	80.8	0.8	0.8	Nm	Nm
Total revenue	**1,022.6**	**1,022.6**	**973.1**	**967.3**	**5%**	**6%**
Betting duty and other operating income[2]	0.8	(2.5)	6.1	4.6		
Net operating income	**1,023.4**	**1,020.1**	**979.2**	**971.9**	**5%**	**5%**
Total operating costs[3, 4]	(584.9)	(541.0)	(501.9)	(464.9)	17%	16%
Operating profit	**438.5**	**479.1**	**477.3**	**507.0**	**(8%)**	**(5%)**
Other net gains/(losses)[5]	(2.6)	(2.6)	11.1	(2.3)		
Net finance income/(cost)[6]	14.0	14.0	(11.4)	(10.4)		
Profit before tax from continuing operations	**449.9**	**490.5**	**477.0**	**494.3**	**(6%)**	**(1%)**

1 FY22 adjusted excludes £5.8 million foreign exchange hedging gain associated with the financing of the tastytrade acquisition
2 FY23 adjusted betting duty and other operating income excludes £3.3 million income for the reimbursement of costs relating to the sale of Nadex (FY22: £1.5 million)
3 Operating costs include net credit losses on financial assets
4 FY23 adjusted operating costs excludes £39.7 million of costs and recurring non-cash costs associated with the tastytrade acquisition and integration (FY22: £33.7 million) and £4.2 million relating to the sale of Nadex (FY22: £3.3 million)
5 FY22 excludes £9.3 million fair value (FV) gain on revaluation of Zero Hash, £4.1 million of gains on sale of Small Exchange and disposal of Zero Hash, and £2.3 million loss from associate
6 FY22 adjusted net finance cost excludes £1.0 million of one-time financing expense associated with the debt issuance

Statutory results

On a statutory basis, net trading revenue from continuing operations was £941.8 million, down 3% on FY22, reflecting a reduction in client activity. The Group's total revenue of £1,022.6 million, increased by 5%, driven by significantly higher levels of interest income. Net operating income increased by 5% to £1,023.4 million (FY22: £979.2 million).

Statutory operating costs, including net credit loss on financial assets, were £584.9 million, 17% higher than FY22. The Group's statutory profit before tax for FY23 was £449.9 million, down 6% on FY22.

The results are presented on a continuing operations basis which excludes items related to the sale of Nadex operations which completed in FY22 and classified as a discontinued operation. In FY23, the Group subsequently disposed of assets related to Nadex.

Adjusted results

The following analysis reflects a continuing operations and adjusted basis, which excludes certain one-off items and recurring non-cash items in order to present a more accurate view of underlying performance. A reconciliation of non-GAAP (Generally Accepted Accounting Principles) measures used in this report is contained in appendix 1.

Business Performance Review continued

Adjusted total revenue by product

	Adjusted total revenue (£m)		
	FY23	FY22	Change %
OTC derivatives	806.3	810.2	–
ETD	186.5	123.1	51%
Stock trading and investments	29.8	34.0	(12%)
Group	**1,022.6**	**967.3**	**6%**

Adjusted total revenue consists of adjusted net trading revenue and net interest income. Adjusted total revenue was £1,022.6 million in FY23, up 6% on FY22. OTC derivatives total revenue was £806.3 million, slightly below that of the FY22 record year for OTC. ETD total revenue was £186.5 million, up 51% on the prior period. Within ETD, tastytrade total revenue was £170.3 million (£120.9 million trading revenue and £49.4 million interest income), up 52% on FY22 and 41% on a pro forma basis which includes a full 12 months of tastytrade revenue in the comparative period, benefitting from both increasing Fed Funds rates and favourable translational foreign exchange, offset by a reduction in net trading revenues. Stock trading and investments total revenue was £29.8 million, down 12% due to a reduction in client trading activity.

Non-OTC revenue made up 21% of total revenue in FY23, considerably up from 16% in FY22 reflecting the continued diversification of our revenue.

Adjusted net trading revenue

Adjusted net trading revenue was £941.8 million, 3% lower than FY22 as the challenging macroeconomic environment impacted trading activity.

Net trading revenue performance by product

	Adjusted net trading revenue (£m)		
	FY23	FY22	Change %
OTC derivatives	782.0	811.5	(4%)
ETD	137.1	121.2	13%
Stock trading and investments	22.7	33.8	(33%)
Total net trading revenue	**941.8**	**966.5**	**(3%)**
Interest income	**80.8**	**0.8**	**nm**
Group total revenue	**1,022.6**	**967.3**	**6%**

	Active clients (000)			Net trading revenue per client (£)		
	FY23	FY22	Change %	**FY23**	FY22	Change %
OTC derivatives	189.5	199.8	(5%)	4,126	4,063	2%
ETD[1]	91.6	104.5	(12%)	1,490	1,142	31%
Stock trading and investments	90.8	93.2	(3%)	250	363	(31%)
Group[2]	**358.3**	**381.5**	**(6%)**			

1 ETD revenue per client calculation excludes revenue generated from the Group's market maker on Nadex
2 Total Group active clients have been adjusted to remove the clients who are active in more than one product category (multi-product clients) to give a unique client count. In FY23, there were 13,700 multi-product clients, compared with 16,000 in FY22

Business Performance Review continued

OTC derivatives

OTC derivatives net trading revenue of £782.0 million, was down 4%, reflecting a 5% reduction in active clients (FY23: 189,500) as client activity moderated against a more difficult macroeconomic backdrop year over year, particularly in Q3. Net trading revenue per client increased 2% on the FY22 average, reflecting the high quality of our client base.

UK and EU OTC derivatives revenue was £397.9 million, down 8%, with almost all of the year-on-year difference driven by a difficult comparison to an exceptionally strong Q3 in FY22. Q4 revenue however increased 16% on Q3, as client trading activity increased. Active clients in the year declined 6%, with a 2% lower average net trading revenue per client.

Japan OTC derivatives revenue was £99.3 million, up 1% on the record FY22 performance, with active clients increasing 10%, and average net trading revenue per client decreasing by 8%. We continue to see exciting opportunities to grow this business further through the launch of new products and effective marketing programs.

Australia OTC derivatives revenue of £95.2 million increased 8%, with average revenue per client up 29%, more than offsetting a 16% decline in the active client base.

Institutional OTC derivatives revenue was up 35% at £13.3 million with a significantly higher net trading revenue per client and active client numbers remaining level.

US OTC derivatives revenue increased 17% as net trading revenue per client increased 31% year on year benefitting from the increasing quality of the client base and some translational foreign exchange benefit.

Exchange Traded Derivatives

Net trading revenue from ETD was £137.1 million, up 13%, and 6% higher than FY22 on a pro forma basis, which includes a full 12 months of tastytrade revenue in the comparative period.

tastytrade's net trading revenue in the period increased 10% to £120.9 million, and 2% on a pro forma basis. Active clients reduced by 16% on a pro forma basis, reflecting normalisation against the higher levels of activity in FY22 and lower levels of new client acquisition in the period. The decline in active clients was more than offset by increased revenue per client, up 22%, due to improvements in the client mix and favourable translational foreign exchange rates.

Spectrum's revenue was £15.7 million, up 68%, as revenue per client increased significantly to £2,286, up 67%, as the exchange onboarded Societe Generale and UniCredit as new issuers.

Stock trading and investments

Net trading revenue from stock trading and investments was £22.7 million, down 33%, reflecting a 31% reduction in average net trading revenue per client as trade frequency per client reduced. The number of active clients reduced slightly and assets under management at the end of the period remained in line with FY22 at £3.3 billion.

Net interest income

Net interest income on client balances was £80.8 million increasing significantly from £0.8 million reported in FY22. Interest on client balances made up 8% of total revenue in FY23, increasing from 5% in H1 to 11% in H2. This increase reflected the rising interest rate cycle and the significant client money balances held throughout the year.

In our US businesses, client balances at the end of the year were $1.9 billion (31 May 2022: $2.0 billion). This contributed £50.4 million of interest (FY22 £1.9 million).

Outside of the US, client balances of £2.7 billion were down 12% (31 May 2022: £3.1 billion). This included £420.4 million of client funds on the balance sheet (31 May 2022: £519.4 million) for which the interest is recognised within the net finance line. Interest income recognised on the remaining segregated client money balance was £30.4 million compared with a net interest cost of £1.1 million in FY22.

Operating costs

Total adjusted operating costs for FY23 were £541.0 million, 16% higher than FY22. The increase reflected approximately £16.2 million of translational foreign exchange headwinds, inflationary increases, the £4.0 million pledge to charitable causes, and higher technology-related costs as we continue to invest in innovation and resiliency.

Business Performance Review continued

Adjusted operating costs from continuing operations

£ million	FY23	FY22	Change %
Fixed remuneration	188.5	150.1	26%
Advertising and marketing	93.5	87.1	7%
Revenue-related costs	47.9	45.3	6%
IT, structural market data and communications	42.5	35.0	21%
Depreciation and amortisation	29.6	28.5	4%
Legal and professional	25.9	16.8	54%
Other costs	63.1	44.2	42%
Variable remuneration	50.0	57.9	(14%)
Total operating costs	**541.0**	**464.9**	**16%**
Average headcount	**2,616**	**2,408**	**9%**

FY23 fixed remuneration was £188.5 million, up 26%, reflecting increased headcount, translational foreign exchange on non-GBP salaries, salary increases driven partly by inflation, and a one-off cost of living payment to around 70% of our people. Headcount growth was primarily in technology areas and reflected continued investments in new development projects and the running of our global trading platforms and infrastructure.

Advertising and marketing spend increased by 7% to £93.5 million. This reflected marketing investments in Germany and tastytrade to support our strategic goal of growing our ETD business and diversifying the Group's revenue base.

Revenue-related costs include market data charges, client payment charges, provisions for client and counterparty credit losses and brokerage trading fees. Although net trading revenue was lower in FY23, revenue-related costs increased by 6% to £47.9 million reflecting a change in revenue mix, in particular higher brokerage trading fees due to a larger volume of US index options traded by clients.

IT maintenance, structural market data charges, and communications costs were £42.5 million, an increase of 21% reflecting increased investments in technology to expand infrastructure capacity to support future growth and periodic spikes in client trading.

Depreciation and amortisation costs increased 4% to £29.6 million. Legal and professional fees were £25.9 million, an increase of 54%, reflecting higher costs in relation to strategic and operational projects.

Other costs, which include staff-related costs (such as travel and entertainment), regulatory fees and irrecoverable VAT, increased by 42%. Also included was the £4.0 million pledge to charitable causes, representing 1% of FY22 adjusted profit after tax, which was approved by the Board in September 2022. Additionally, other costs increased due to higher travel and entertainment as staff returned to the office and travel frequency increased.

Within variable remuneration was the general bonus accrual, share schemes and sales bonuses. The charge for the general bonus pool was £27.6 million, down 15%, reflecting a lower level of outperformance to internal targets relative to the comparative period, offset by increases due to headcount growth and salary inflation. Share schemes costs relating to the long-term incentive plans for senior management reduced by 6% to £16.8 million (FY22: £17.8 million) reflecting the lower share price, and lower levels of performance against internal targets in comparison to prior year. Sales bonuses decreased by 25% to £5.6 million reflecting lower commission payments to sales staff.

Net finance income

Net finance income in the period was £14.0 million, up from a £10.4 million adjusted cost in FY22. Within this, finance income was £30.2 million (FY22: £3.4 million), offset by finance costs of £16.2 million (FY22: £13.8 million). Group finance costs are fixed, however, the finance income, which reflected the interest earned on corporate balances including client funds on balance sheet, benefitted from the rising interest rate cycle.

Earnings per share (EPS)

£ million (unless stated)	FY23	FY23 Adjusted	FY22	FY22 Adjusted	Change %	Adjusted change %
Profit before tax from continuing operations	**449.9**	**490.5**	477.0	494.3	(6%)	(1%)
Taxation	(86.2)	(94.0)	(80.9)	(83.8)		
Profit after tax from continuing operations	**363.7**	**396.5**	396.1	410.5	(8%)	(3%)
Weighted average number of shares for the calculation of EPS (millions)	418.7	418.7	426.3	426.3	(2%)	(2%)
Basic EPS (pence per share)	**86.9**	**94.7**	**92.9**	**96.3**	**(6%)**	**(2%)**

Profit before tax was £449.9 million in FY23, and £490.5 million on an adjusted basis, 1% lower than FY22.

The effective tax rate (ETR) was 19.2% based on profit before tax from continuing operations (FY22: 17.0%). The ETR was lower than the average main rate of UK corporate tax in the period of 20%, where the majority of the Group's profits were taxed, primarily as a result of standard UK tax incentives and adjustments to prior year estimates. The ETR for FY24 is anticipated to be around 24% on an adjusted basis, due to the sharp increase in UK corporate tax rate from 19% to 25% from 1 April 2023. The ETR is dependent on several factors including taxable profit by geography, tax rates levied in those geographies, and the availability and use of taxable losses. The future ETR may also be impacted by changes in our business activities, client composition and regulatory status, which could affect our exemption from the UK bank corporation tax surcharge

Profit after tax was £363.7 million, down 8% on FY22, and 3% lower on an adjusted basis. Basic EPS was 86.9 pence, down 6% on FY22 and 2% lower on an adjusted basis due to the reduction in profits, partly offset by a lower share count reflecting our share buyback programme.

Dividend

The final dividend for FY23 of 31.94 pence per share was proposed by the Board. This will be paid on 19 October 2023, following approval at the Company's Annual General Meeting, to those shareholders on the register at the close of business on 22 September 2023. This represents a total FY23 dividend paid of 45.2 pence per share (FY22: 44.2 pence per share).

Business Performance Review continued

Summary Group balance sheet

The balance sheet is presented on a management basis which reflects the Group's use of alternative performance measures to monitor its financial position, with particular focus on own funds and liquid assets, which are deployed to meet the Group's liquidity requirements. These alternative performance measures are reconciled to the corresponding International Financial Reporting Standards (IFRS) balances in the Appendix.

£ million (unless stated)	31 May 2023	31 May 2022	Change %
Goodwill	611.0	604.7	1%
Intangible assets	276.5	292.1	(5%)
Property, plant and equipment[1]	17.6	16.7	5%
Operating lease net liabilities	(2.2)	(2.0)	10%
Other investments	1.2	–	nm
Investments in associates	12.5	14.8	(16%)
Fixed assets	**916.6**	**926.3**	**(1%)**
Own cash	730.2	1,245.9	(41%)
Issued debt and notional pooling	(299.3)	(299.2)	–
Client funds held on balance sheet	(420.4)	(519.4)	(19%)
Turbo Warrants[2]	(2.7)	(1.5)	80%
Net amounts due from brokers	825.3	657.1	26%
Own funds in client money	75.1	64.2	17%
Financial investments	234.1	–	nm
Liquid assets threshold requirement	65.0	106.7	(39%)
Own funds	**1,207.3**	**1,253.8**	**(4%)**
Working capital	(74.4)	(82.5)	(10%)
Net current assets held for sale	–	0.4	(100%)
Tax payable	2.7	(20.5)	(113%)
Net deferred tax net liability	(37.6)	(49.7)	(24%)
Net assets	**2,014.6**	**2,027.8**	**(1%)**

1 Excludes right-of-use assets
2 Recognised in client funds held on balance sheet in the prior year

During FY23, Group's fixed assets decreased by £9.7 million. The decrease in fixed assets was driven by annual depreciation and amortisation of £61.8 million offset by additions of £26.2 million in intangibles and property, plant and equipment, £8.7 million on the Small Exchange acquisition, £7.6 million lease payment and a £10.8 million increase from foreign exchange. The Group's working capital increased by £8.1 million, which was primarily driven by a lower general bonus accrual compared to prior year.

The Group recognised a £13.2 million decrease in net assets during the period driven by a £46.5 million decrease in own funds offset by a reduction of £35.3 million in tax and deferred tax liabilities.

Business Performance Review continued

Liquidity

The Group maintained a strong liquidity position, ensuring that it had sufficient resources under both normal circumstances and stressed conditions to meet its working capital and other liquidity requirements, which included broker margin requirements, regulatory and working capital needs of its subsidiaries, and funding of adequate buffers in client money accounts.

The Group's available liquidity comprised assets available at short notice to meet additional liquidity requirements, which were typically increases in broker margin.

£ million (unless stated)	**31 May 2023**	31 May 2022	Change %
Own cash	730.2	1,245.9	(41%)
Net amounts due from brokers	825.3	657.1	26%
Own funds in client money	75.1	64.2	17%
Financial investments	234.1	–	–
Liquid assets threshold requirement	65.0	106.7	(39%)
Liquid assets	**1,929.7**	**2,073.9**	**(7%)**
Broker margin requirement	(678.2)	(629.5)	8%
Cash balances in non-UK subsidiaries	(383.5)	(342.9)	12%
Own funds in client money	(75.1)	(64.2)	17%
Available liquidity	**792.9**	**1,037.3**	**(24%)**
Of which: Held to meet regulatory liquidity requirements	65.0	106.7	(39%)
Dividend due	130.6	134.8	(5%)

The composition of the Group's liquid assets changed during the period, with more liquid assets held as financial investments (UK Government securities) rather than cash. This was a result of changes in regulations that require the Group to post securities into segregated accounts instead of cash to meet initial margin requirements at certain brokers. The impact on the Group's liquid assets was that the UK Government securities held by the Group increased by £210.3 million, with a corresponding reduction in the cash balance at 31 May 2023. The Group held £372.3 million of UK Government securities to satisfy margin requirements. The Group's cash balance also reduced as a result of dividends paid during FY23 of £188.1 million, share buyback of £175.2 million and tax paid of £116.6 million, offset by cash generated by operations of £296.2 million.

Net amounts due from brokers increased by £168.2 million. The balance comprised open derivative positions, cryptocurrency assets, cash and UK Government securities held on account by the Group's hedging and execution counterparties. The broker margin requirement at 31 May 2023 was £48.7 million higher than the requirement at 31 May 2022. The maximum margin requirement during the period was £757.5 million in August 2022, lower than the Group's highest broker margin requirement of £774.7 million which occurred in H1 FY22.

The Group's available liquidity reduced by £244.4 million during the period, which was more than the overall fall in liquid assets of £144.2 million. This was driven by an increase in broker margin requirements and the Group holding higher cash balances in non-UK subsidiaries to meet local cash requirements at the end of the year. The Group regularly repatriates cash from its overseas subsidiaries, and for liquidity management and planning purposes the Group excludes cash held by non-UK subsidiaries from available liquidity. The amount of cash held in entities outside the UK was £383.5 million as at 31 May 2023 (31 May 2022: £342.9 million).

The Group's available liquidity is subject to meeting other requirements including regulatory liquidity requirement within the IFPR. IFPR has a basic liquid assets requirement and a liquid assets threshold requirement, which can be met with both cash and certain financial investments. As at 31 May 2023, £65.0 million was held as liquid asset threshold requirement, 39% lower than 31 May 2022 due to removal of the transitional IFPR arrangement.

In addition to cash recognised on the balance sheet, as at 31 May 2023, the Group held £2,303.9 million (31 May 2022: £2,577.9 million) of client money in segregated bank accounts, which is not recognised on the Group's balance sheet. These client funds are held separately from the Group's own cash balances and are excluded from the Group's liquid assets.

Business Performance Review continued

Own funds

The Group measures the strength of its liquidity position using an "own funds" measure, instead of just cash, as it is a broader and more stable measure than cash. Own funds include liquid assets, less issued debt, turbo warrants and client funds on the balance sheet. As at 31 May 2023, the Group had a cash balance of £730.2 million (31 May 2022: £1,245.9 million) compared with an own funds balance of £1,207.3 million (31 May 2022: £1,253.8 million).

£ million (unless stated)	31 May 2023	31 May 2022	Change %
Liquid assets	1,929.7	2,073.9	(7%)
Client funds on balance sheet	(420.4)	(520.9)	(19%)
Turbo warrants	(2.7)	(1.5)	80%
Issued debt/long-term borrowings	(299.3)	(299.2)	–
Own funds	**1,207.3**	**1,253.8**	**(4%)**

Client funds on balance sheet are funds on deposit with the Group's Swiss banking subsidiary, IG Bank SA, and client funds held by other subsidiaries which are not subject to the same legal or regulatory protections as client money held off balance sheet, including funds held by the Group under title transfer arrangements.

The Group has £300 million, 3.125% senior unsecured bonds due in 2028. The Group also has access to a £350 million revolving credit facility which was undrawn at 31 May 2023 (31 May 2022: undrawn). The Group has the option to request an increase in the revolving credit facility size to £400.0 million. The total available credit facilities have risen from £600 million as at 31 May 2022, to £650 million as at 31 May 2023, with the potential to rise to £700 million if the new revolving credit facility is increased in size.

Own funds flow

£ million	FY23	FY22
Own funds generated from operations	**467.5**	**536.5**
As a percentage of operating profit	107%	112%
Taxes paid	(116.6)	(99.2)
Net own funds generated from operations	**350.9**	**437.3**
Net interest and fees received	10.2	(13.2)
Capital expenditure and capitalised development costs	(26.2)	(17.5)
Net own funds movement from acquisitions and disposals of subsidiaries and investments in associates	(2.8)	(14.7)
Purchase of own shares held in employee benefit trusts	(14.6)	(6.7)
Pre-dividend increase in own funds	**317.5**	**385.2**
Cash paid for share buyback	(175.2)	–
Dividends paid	(188.1)	(186.2)
Increase/(decrease) in own funds	(45.8)	199.0
Own funds at start of the period	**1,253.8**	**1,058.5**
Increase/(decrease) in own funds	(45.8)	199.0
Impact of movement in exchange rates	(0.7)	(3.7)
Own funds at end of the period	**1,207.3**	**1,253.8**

Business Performance Review continued

Own funds decreased by £45.8 million, excluding the impact of foreign exchange rates. This was driven by share buybacks completed in FY23 of £175.2 million, dividends paid of £188.1 million, purchase of own shares held in the Employee Benefit Trust of £14.6 million and capital expenditure of £26.2 million, offset by net own funds generated from operations of £350.9 million.

Regulatory capital

The Group is supervised on a consolidated basis by the Financial Conduct Authority in the UK, which requires sufficient regulatory capital at both Group and individual entity levels to cover risk exposures, valued according to applicable rules, and any additional regulatory financial obligations imposed.

The Group's regulatory capital resources, which totalled £996.3 million as at 31 May 2023 (31 May 2022: £1,025.6 million), are an adjusted measure of shareholders' funds taking into account FY23 profits which are included in the regulatory capital calculation once signed off by the auditors. Shareholders' funds comprise share capital, share premium, retained earnings and other reserves, and as at 31 May 2023 totalled £2,014.6 million (31 May 2022: £2,027.8 million).

The Group's regulatory capital requirement as at 31 May 2023 was £497.4 million (31 May 2022: £497.4 million). The Group's capital headroom was £498.9 million (31 May 2022: £528.2 million), demonstrating the solid capital base.

£ million	31 May 2023	31 May 2022
Shareholders' funds	**2,014.6**	**2,027.8**
Less foreseeable/declared dividends	(127.6)	(134.8)
Less remaining share buyback not recognised	(22.5)	–
Less goodwill and intangible assets	(829.9)	(833.7)
Less deferred tax assets and significant investments in financial sector entities	(23.2)	(17.5)
Less significant investment in financial sector entities	(13.7)	(14.8)
Less value adjustment for prudent valuation	(1.4)	(1.4)
Regulatory capital resources	**996.3**	**1,025.6**
Total requirement	**497.4**	**497.4**
Capital headroom	**498.9**	**528.2**