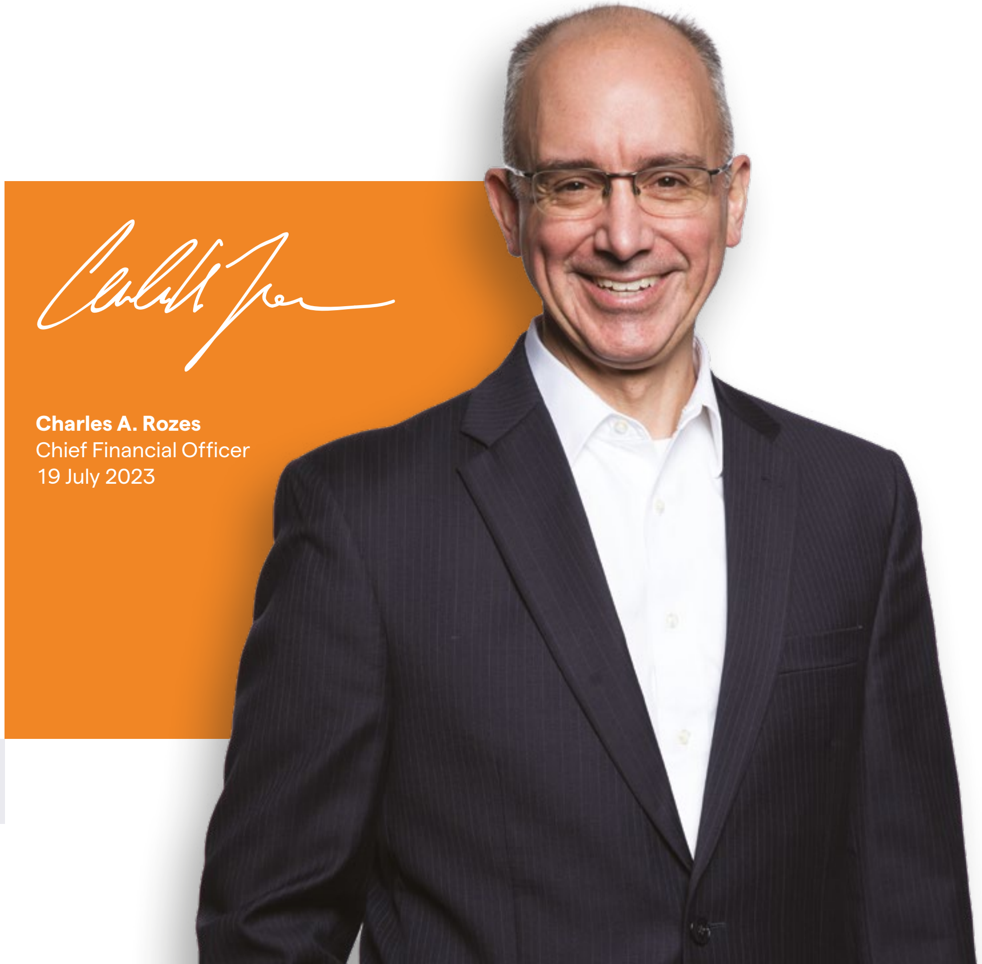
Chief Financial Officer's Statement

"A fourth consecutive year of **record total revenue.**"



Charles A. Rozes
Chief Financial Officer
19 July 2023

Performance for the year

I am delighted to report another successful year for the Group. We have recorded a fourth consecutive year of record total revenue, and good cost control has ensured that we continue to deliver a high profit margin. A key strength of our business is that the amount of cash that we generate allows us to both invest for growth and deliver attractive and sustainable distributions for shareholders.

Total revenue of £1,022.6 million is 6% up on prior year and represents the first time that the Group has reported a total revenue of over £1 billion, which is a significant milestone for the business and our strategy. Our performance this year reflects two important factors. First, we have broadly maintained our trading revenue and avoided a significant decline following the pandemic, something that has been seen by many others in the industry, and second, we are well positioned to generate significant growth in interest income.

As we projected last year, interest income was the principal revenue growth driver in FY23 due to the significant client balances we hold. This generated £80.8 million in FY23, in comparison to just £0.8 million in FY22. The increase in interest rates has also meant that our net finance income line is now a positive, as the return from our corporate cash outweighed the cost of the small level of issued debt and our revolving credit facility, which remained undrawn as at 31 May 2023.

Cost management remains of high importance on my agenda. We are an innovative business, and one of the key decisions we make during the year is deciding how much capital we should allocate to developing new ideas. We have an effective incubator process which helps develop some of these projects and has produced businesses such as our OTC business in the US and our EU ETD business in recent years. It is important that we continue to allocate sufficient capital to foster innovation and organic growth.

This year, we have had the challenge of high levels of inflation across many of our regions. This impacts some of our supplier costs, but also impacts our people, and we have taken steps to ensure that we are financially supporting our people globally.

Looking at the bigger picture, we always aim to balance the correct level of investment for the future with our profit margin. Our adjusted profit margin for the year was 48%, down slightly on our prior year margin of 51% but well within our guided range. We have managed to grow the business at an impressive rate over the past 20 years, at consistently high margins, something that we will continue to do in the future.

Our effective tax rate was higher than prior year at 19% versus 17% in FY22. This is due to some one-off adjustments in the prior year, and the impact of the increased UK corporation tax rate which moved from 19% to 25% in April 2023.

Earnings per share were down slightly year on year, which includes a few moving parts. Profit before tax was down marginally, and the Group effective tax rate was higher. This was partially offset by a reduction in the number of shares in issue, which is a result of the ongoing share buyback programme. We would expect the share count to continue to fall, as we continue to execute the buyback programme.

Chief Financial Officer's Statement continued

"What I find the most remarkable thing about our business is that the amount of cash that we generate allows us to **both invest for growth and create attractive returns for shareholders**."

Total revenue

£1,023m

(FY22: £967m)

Capital and liquidity

Our FY23 results announcement marks the one-year anniversary of the publication of our Capital Allocation Framework. The framework has been well received by all our stakeholders, and our Board has been embedding it internally as we continue to evaluate the most effective uses of capital.

Our first priority of course is ensuring that we meet our regulatory capital requirements. In January 2022, the Group transitioned to the Investment Firms Prudential Regime (IFPR), and has since been on a static, transitory capital requirement.

Our commitment to supporting charitable causes, with a focus on empowerment through education, remains unwavering. In FY22, we pledged to allocate 1% of post-tax profits to these causes, and we intend to fulfil this commitment again this year with an additional pledge of £4 million.

Our proposed final dividend of 31.94 pence represents a total dividend for the year of 45.2 pence, an increase of 1 pence on the prior year, reflecting a progressive, sustainable dividend. During the year, we considered inorganic growth opportunities to accelerate progress on our strategy but did not identify anything which met our range of criteria. We will continue a disciplined approach towards all of our capital allocation.

Due to the amount of profit accrued in the year, and having considered all other uses of capital, we are in the position to be able to announce an additional distribution for our shareholders, in the form of a share buyback for an amount of £250 million. We would expect this to be substantially completed within FY24. The Board has concluded that a share buyback is the most value-accretive form of additional distribution at this point in time.

The announcement of our new share buyback programme is further evidence that the Group is able to invest in the continued growth of the business and provide attractive returns to shareholders.

Liquidity management has also been a strong point during the period. The peak broker margin requirement during the year was £757.5 million (FY22 peak margin: £774.7 million). With such a robust organic liquidity position, we have significant capacity for further business growth, supporting client trading across a variety of market conditions. The broker margin requirement at the period end was £678.2 million, leaving an available liquidity balance of £792.9 million. Adjusting for the working capital set aside for the broker margin movements, our liquidity surplus at the period end was £792.9 million.

Guidance

The medium-term guidance that we set out in July 2021 was that we would anticipate total revenue growth of 25–30% in our High Potential Markets from FY21, and total revenue growth of 5–7% in our Core Markets+ portfolio from FY22. We are reiterating this guidance, and we are confident that we will be able to deliver against this guidance.

We anticipate that interest income will continue to be a material stream of revenue within our total revenue line. In the US, we reiterate our guidance that for every 25 basis points rise in the Fed funds rate, we would expect an additional $4 million of revenue on an annual basis. For interest income outside of the US, and net finance income, we expect higher income in FY24 than in FY23, reflecting the annualisation effect of rate increases last year and projected interest rate increases in FY24.

On profit before tax margin, we are reiterating our guidance that we would expect to achieve a margin of mid-40s over the medium term.

On effective tax rate, as the majority of the Group profits are taxed in the UK, the UK corporate tax rate change will cause further upwards pressure going forward, though we anticipate the Group effective tax rate to run at around 24%, due to tax incentives we receive for technology development spend.

In summary, another consecutive record year of total revenue, good cost management and a strong balance sheet puts us in an excellent position to be able to invest in the business, execute on our strategy, and provide attractive returns to our shareholders.