CEO REVIEW

Our ambition is to be the world's most trusted, and innovative, liquidity and data solutions specialist.

To achieve this, we are focused on the delivery of three strategic priorities:

> Transforming our business;
> Diversification; and
> Dynamic capital management.

Introduction

We are a world-leading provider of market infrastructure and data-led solutions. We connect institutional clients to global financial, energy and commodities markets, creating deep liquidity, and unique data, in the process.

Our objective is to deliver sustainable shareholder value. We aim to do so through leveraging our strong franchise, and delivering our strategy, which has three key pillars: transformation, diversification and dynamic capital management. We are making good progress on all fronts. For more detail on the Group's three strategic pillars, refer to the 'Our Strategy' section on page 16.

Now is an opportune time to assess (a) our progress in 2023 and (b) delivery of our key 2023 targets and progress since the Capital Markets Day ('CMD') we held in 2020, when we set out the main elements of our strategy. I will cover both of these topics in detail.

Delivering in 2023

Market developments

The era of easy money is over. Interest rates in the US and UK are at 22 and 15-year highs, respectively. Whilst these conditions were favourable for Global Broking, the exceptional trading volumes in 2022 did not recur at the same level in 2023.

Energy markets were buoyant, following a challenging 2022. ICE Gasoil average volatility reduced from 61% (an historic high) last year to 37% in 2023. The Energy Transition gained momentum as well. The International Energy Agency ('IEA') estimates renewables will provide approximately half of the world's electricity by 2030.[1]

Revenue

£2,191m

Adjusted EBIT

£300m

Reported EBIT

£128m

> We will deliver sustainable shareholder value by delivering our strategy, including growing our businesses, and maximising the value of our strategic assets, accompanied by high levels of cash generation, and dynamic capital management.

Our brokers are active across all these sectors – traditional and renewables – so we are well positioned for the future.

Equity market conditions were challenging. Block trading declined in Europe and the US which are key markets for Liquidnet. According to McLagan data, in Q3 2023 the global commission wallet for equities was at its lowest level in over nine years. In the fourth quarter, however, there were signs of improvement. In November, for example, according to the Bank of America Global Fund Manager's Survey, equities allocations were overweight for the first time since April 2022.

The demand for high quality OTC financial markets data is growing. Global spend on financial market data was $37bn in 2022, and industry players forecast that 2023 growth will exceed historical rates.[2] Other key trends include a growing demand for ESG/energy-related data, independent fair valuations of OTC derivatives, and benchmarks and indices.

Read more
Market Trends
For more detail on market developments see page 14

1 World Energy Outlook, October 2023; International Energy Agency.
2 Burton-Taylor Consulting survey.

Business performance

Growing revenues, market-leading positions, tight cost management

Group revenue was up 3%[3] (+4% in reported currency), building on the 7% increase in 2022 (+13% in reported currency). As expected, total revenue generated by Global Broking[4], our largest division, was flat, following an exceptional 2022. E&C delivered record revenue growth of 18%. Double-digit growth was delivered across the three main asset classes: Oil, Gas, and Power.

Liquidnet revenue declined by 1%. Cash equities revenue decreased by 9% in 2023, but grew 13% in the fourth quarter. This trend continued in 2024. The rest of the division[5] performed well, with revenue up 10%, driven by a strong performance from Relative Value.

Parameta Solutions recorded an 8% increase in revenue. The division's growth rate moved up to 11% in the second half, with good momentum in 2024. Parameta is a high-quality franchise with a compelling business model, characterised by 96% subscription-based revenue and a 98% client renewal rate.

All our divisions are market leaders: Parameta, for example, is the leading provider in the OTC data market. In Liquidnet, we hold the number one position in the EMEA 5x Large-in-Scale market. Our share of this market increased from 34.3% in 2022 to 35.9%.[6] Our US market share (top 5 Agency Alternative Trading System venues), where we are the second largest player, also increased (2022: 23.2%; 2023: 24.0%[7]).

Cost management is another important driver of our performance. We delivered £43m in annualised Liquidnet integration cost synergies, substantially exceeding our target (£30m).

Contribution up, increased profitability

Our Group contribution margin[8] increased to 38.7% (2022: 37.6%[9]). Adjusted EBIT was up 8%, or 9% in reported currency, to £300m (2022: £277m), the highest ever level, and a significant Group milestone. This was driven by a 8% uplift in Global Broking through a greater focus on contribution, and a reduction in average broker headcount. GB revenue per broker was up 5%; broker contribution increased by 12%[10]. Double-digit revenue growth in E&C generated a substantial 45% increase in its adjusted EBIT.

Group adjusted EBIT margin increased to 13.7% (2022: 13.1%). Reported EBIT, including a £76m Liquidnet impairment (non-cash, net of £10m tax relief), was down 21% to £128m (2022: £163m). The impairment in the carrying value of Liquidnet goodwill and acquired intangible assets primarily reflects challenging block equity market conditions, and an increase in the discount rate used to value the business, in line with higher interest rates[11].

Transformation

Fusion on track

Fusion, our electronic platform, provides best in class functionality, and connectivity, via a single portal, to our deep liquidity pools. Clients use Fusion for aggregated liquidity, price discovery, and seamless execution.

The Fusion roll-out is on track: it is now live on 44% of in-scope Global Broking desks. Key desk launches in Rates included Interest Rate Options, ICAP European Government Bonds and ICAP Inflation. In FX, Fusion was implemented in one-month Non-Deliverable Forwards and FX options.

In E&C, we are consolidating Energy Transition products liquidity onto one screen. Fusion is live in the green certificates market, the voluntary carbon market, and the Australian renewables/gas markets. The use of technology in the highly mature OTC Oil market is more nascent. There is client demand, however, for real-time pricing screens. We are expanding our capabilities by partnering with a third party technology company to deliver these screens.

Adoption of Fusion

Our brokers are driving client adoption. Our sales team adopt an agile approach throughout this process. They determine the critical success factors for each desk rollout, including client demand, market maturity, market conditions, and liquidity profile. The pace of client adoption is encouraging. The number of unique client logins for Rates, our largest Global Broking asset class, increased by 24% in 2023, while FX was up 16%.

Clients are increasingly moving away from web-based connectivity. Responding to this feedback, we focused on delivering API connectivity, and other protocol enhancements, to Fusion-enabled desks. API integration and Straight-Through-Processing ('STP') further cements the client relationship, and ensures a seamless rollout of future platform enhancements. In 2023, 43 of our top 50 clients were fully integrated into Fusion via an API connection.

An important element of the process, therefore, is gathering client feedback to better understand future requirements. Other examples include chat-based systems, 'click-to-trade' functionality, workflow automation and data aggregation. Responding to these needs, we purchased a minority stake in ipushpull, a UK fintech firm and our strategic Fusion partner.

Diversification

Our diversification strategy means winning new clients, expanding into different asset classes and geographies, and generating more non-broking revenue.

3 All percentage movements within the CEO review are in constant currency, unless otherwise indicated.
4 Liquidnet Credit (both primary and secondary market trading protocols, including Dealer-to-Client ('D2C')) is now reported as part of Global Broking. FY 2023 disclosures are on this basis, with FY 2022 results restated, to ensure a like-for-like comparison year-on-year. £9m of Credit revenue in 2022 have been reclassified from Liquidnet to Global Broking.
5 Multi-asset (equity derivatives, rates, futures and advisory services) Agency Execution offering, including COEX Partners, MidCap Partners, and Relative Value desks.
6 Source: Bloomberg.
7 Source: Financial Industry Regulatory Authority ('FINRA').
8 Refer to page 206 for Appendix – Alternative Performance Measures.
9 Prior year numbers have been restated to reflect a £32m reclassification of technology costs from front office costs to management & support costs, to better reflect the nature of these costs. The reclassification impacts Liquidnet (£26m), Global Broking (£6m) and Group only.
10 Contribution per broker increased by 7% when excluding Russian provisions in 2022.
11 For more detail, please refer to page 38 of the Financial and Operating Review, and page 164 of the Notes to the Annual Financial Statements.

Energy & Commodities ('E&C')

Well positioned in mature and transitional markets

E&C is the leading OTC broker. We serve a diverse client base, through our multi-brand approach: Tullett Prebon, ICAP and PVM. We are well placed to maximise the expected growth in traditional sectors, like Oil and Gas. Global demand for oil is increasing – the IEA forecasts demand will grow by 6% from 2022 to 2028[12].

There is a substantial opportunity to grow our revenues through an even greater focus on Energy Transition products: renewables, battery metals, carbon credits etc. McKinsey estimates that demand for carbon credits could increase by a factor of 15 or more by 2030. The expected growth in battery metals, to support the electrification of transport, is an exciting opportunity. The IEA has predicted growth could increase by a factor of more than 40 between 2020 and 2040[13]. To capitalise on this opportunity, we are launching a Battery Metals desk, and have recruited one of the most experienced brokers in this sector to lead it.

E&C is working more closely with Parameta Solutions to monetise more of its data, in particular the data being generated through the Energy Transition. Fusion is integral to this accelerated collaboration.

Parameta Solutions: the market leader

Parameta Solutions is the world leader in the provision of OTC data and analytics.

Strategic developments

The consolidation of the various Parameta Solutions companies under a single legal structure will be completed once we have received the necessary regulatory approvals. This new structure enables us to explore options to unlock value, and will also benefit the division commercially, by making it easier to enter into data contracts with third parties, which is a key growth focus.

We are focused on optimal shareholder value creation, including in relation to Parameta Solutions. We believe that the intrinsic value of Parameta is not appropriately reflected in our share price, and are therefore exploring options to unlock value for shareholders, whilst retaining ownership of the asset, which include a potential IPO of a minority stake in the business.

Business developments

The business is expanding its product range, diversifying its client base, and broadening its distribution channels – all exciting growth prospects. A good example is the launch of Liquefied Natural Gas Indices, in collaboration with E&C and General Index, a leading energy and commodities data provider. Parameta already administers nine TP ICAP Interest Rate Swap benchmarks, and recently launched Interest Rate Swap Volatility indices, in partnership with Global Broking. An Historic Risk Free Rates product for successor rates to LIBOR was launched during the year, while the E&C product suite was expanded to include ICAP Australia and PVM US Domestic Crude Oil. Parameta Solutions is leveraging Fusion as a direct distribution channel.

Liquidnet division

Liquidnet is a global, multi-asset, technology-led agency execution specialist, operating across 49 markets. It consists of a cash equities franchise (acquired by the Group in 2021), as well as a multi-asset agency execution offering. A leading buy-side player, Liquidnet provides the group with client and product diversification. We have rightsized the cost base and strengthened our operational leverage. The cash equities franchise is ready for any market normalisation. The division ended the year with an adjusted EBIT of £10m (2022: £2m), driven by the strong performance from the multi-asset offering (Relative Value in particular).

Diversifying cash equities

Liquidnet cash equities is pursuing an 'all weathers' strategy. This means growing its client base, and product capabilities, in algorithmic trading, programme trading, and inter-region trading. We added 100 new clients and grew programme trading revenue by 26%. Of our clients that traded with us in 2022, 93% were retained in 2023. We also enhanced our algorithm offering. For example, we launched Surge Opportunity, which enables clients to identify block trading opportunities through regular alerts. In turn, we marked our entry into the listed derivatives market by launching a pre-trade analytics offering.

Liquidnet Credit

Strategic developments

We made a commercial decision to merge the Group's Credit activities. As a consequence, the Liquidnet Credit business, including the D2C proposition, is now led by Global Broking[14]. This enables the business to more effectively leverage GB's deep sell-side relationships, and accelerate connectivity: key growth drivers.

Business developments

The target addressable market in Credit is substantial, and a major opportunity. Electronification is growing at pace, with electronic investment grade corporate bond trading volumes having doubled in five years, whilst high-yield volumes have almost trebled. Electronic trading accounts for c.40% of the US market and c.55% in Europe[15].

Connecting dealers to the platform is central to growing liquidity. We now have seven sell-side institutions connected across the various secondary market platform protocols, including two major banks connected on our D2C workflow, with a further two added to the pipeline. A unique D2C protocol called 'Targeted Axe' is currently in pilot phase, providing dealers with a targeted way to source buy-side liquidity. We also partnered with bondIT, a leading provider of next-generation investment technology, to integrate their credit analytics into our platform. This enables traders to anticipate market trends, mitigate credit risk, and make more informed decisions faster.

12 Oil 2023, Analysis and forecast to 2028 – IEA June 2023.
13 The Role of Critical Minerals in Clean Energy Transitions, IEA 2021.
14 Liquidnet Credit (both primary and secondary market trading protocols, including Dealer-to-Client ('D2C')) is now reported as part of Global Broking. FY 2023 disclosures are on this basis, with FY 2022 results restated, to ensure a like-for-like comparison year-on-year. £9m of Credit revenue in 2022 have been reclassified from Liquidnet to Global Broking.
15 Financial Times, 26 April 2023.

Dynamic capital management

Dynamic capital management is a key priority. This means reducing our debt, and returning surplus capital to shareholders, subject to our ongoing investment needs and balance sheet requirements.

Reducing debt and leverage

We freed up £100m of cash before the end of 2023, ahead of schedule. Sources of the freed up cash included the remittance of the pension surplus, following the wind down of our Defined Benefit Scheme, and the capital released from the consolidation of US broker-dealer entities.

This cash is being used to reduce debt and other financing obligations, lowering our future net finance costs, and increasing our investment grade headroom. Paydown of debt and other financing obligations to date of £88m includes the outstanding part of our 2024 bond (£37m, paid in January 2024) and Liquidnet deferred consideration (£51m, paid in February 2024). The Group's 2023 leverage ratio[16] is 1.9 times (31 December 2022: 2.0 times). The leverage ratio is expected to reduce further at our HY 2024 results in August.

Clear dividend policy

We are committed to our dividend policy: a 50% pay-out ratio of adjusted post-tax earnings for the year as a whole. The Board is recommending a final dividend per share of 10.0 pence (up 27%). This would bring the total dividend to 14.8 pence per share, up 19% (2022: 12.4 pence per share). The final dividend will be paid to eligible shareholders on 24 May 2024, with an ex-dividend and record date of 11 April 2024 and 12 April 2024, respectively.

Further buyback programme of £30m announced; £30m buyback completed

Starting on 12 March 2024, we commenced a second buyback of £30m. A separate RNS is available on our website at https://tpicap.com/tpicap/regulatory-hub/regulatory-news.

The £30m share buyback programme we announced at our HY 2023 results on 9 August 2023, was completed on 3 January 2024. A total of 16,925,189 shares were bought back at a weighted average share price of 177.25 pence per share. Shares bought back are not included in the share count for earnings per share and dividends per share purposes.

Subject to our balance sheet and investment needs, we are assessing opportunities to free up more cash and pay down more debt, and/or return additional capital to shareholders.

Delivering our Capital Markets Day strategy

At our CMD in 2020, we set out a strategy to deliver two key objectives: (a) future-proof our broking businesses, and (b) grow the Group, diversify, and generate more cash.

Future-proofing our broking businesses

Our starting point back in 2020 was clear. Our broking markets were changing rapidly, driven by regulatory change, greater competition, and technology. We aimed to embrace those changes – and transform Global Broking – through a range of initiatives, including Fusion, our electronic platform.

Global Broking productivity, with Fusion a contributory factor, has grown by 23% since 2021. Desks with Fusion tend to be more productive, and have a higher contribution.

Growing and diversifying

Global Broking and E&C, are market leaders. This was a strong starting point when we launched our CMD strategy. But, it was not enough. We knew it was important to grow our top line, bulk up our non-broking businesses, and generate more cash. I am pleased to say we have done so.

Group revenue has grown on average by 5% a year since 2019.[17] Non-broking revenue, with Parameta Solutions a key driver, has more than doubled: 11% of total revenue then, and 23% now. The quality of that revenue is another point to bear in mind. Parameta's revenue base – up 40% since 2019 – is subscription-based, with high client retention. The Group's cash conversion ratio has improved from 61% in 2019 to 124% in 2023 (2022: 156%).

The acquisition of Liquidnet provided a valuable buy-side diversification opportunity and the potential to grow in Credit, especially D2C. The backdrop has been challenging since the acquisition, however. I would like to acknowledge the support, and constructive feedback, we have had from shareholders since then. The Liquidnet Cash Equities franchise is a stronger business now, with a more developed franchise and better operational leverage.

Delivering our key financial targets, including more cash generation

At our FY 2022 results, we revised our 2023 targets to reflect the impact of the pandemic, and difficult stock market conditions[18] impacting Liquidnet. I am pleased to note that we have met, or exceeded, the majority of these revised targets, with some highlights below.

Highlights:

Global Broking[19]:

> Contribution margin of 39.8% (2023 target: 39% to 40%);
> Adjusted EBIT margin of 17.8% (2023 target: 17% to 19%).

Energy & Commodities:

> Contribution margin of 33.6% (2023 target: 33% to 35%);
> Adjusted EBIT margin of 15.5% (2023 target: 13% to 15%).

Group cash conversion[20]:

> 124% in 2023 (2023 target: c.80%).

Delivering sustainable shareholder value

The discipline underpinning our 2020 CMD strategy is embedded across our Group. So too is a clear approach to delivering sustainable shareholder value by: (a) Investing in key businesses and maximising our strategic assets, and (b) strong cash generation and dynamic capital management.

16 Total debt (excluding finance lease liabilities) divided by adjusted EBITDA, as defined by Rating Agency.
17 Excluding the Liquidnet acquisition, Group revenue grew on average by 2% a year since 2019.
18 Group adjusted EBIT margin target updated from 18% to 14% at FY 2022 results, to reflect pandemic impact, and difficult stock market conditions. All other 2023 CMD targets unchanged, with updated guidance in relation to each target provided at FY 2022 results.
19 For comparison with 2023 CMD targets, Liquidnet Credit is excluded from Global Broking, to ensure a like-for-like basis. The contribution margin also excludes the 2023 reclassification of technology costs (£6m) from front office costs to management & support costs.
20 Defined as free cash flow divided by adjusted earnings attributable to the equity holders of the parent.

Investing in key businesses for growth, maximising the value of strategic assets

We are the number one player in Global Broking, E&C, and OTC data. In Global Broking, our biggest business, we are in the final phase of our Fusion rollout which will be completed by the end of 2025. We will increase the proportion of Fusion-derived revenue with, we believe, a positive impact on productivity and contribution. Fusion is also central to our data ambitions with Parameta Solutions. The more business we transact through Fusion, the more data we monetise.

We will continue to invest in our E&C and Parameta Solutions businesses. As the leading Oil and Gas broker, E&C is ready to leverage the IEA's forecast growth in Oil, mentioned earlier. Energy Transition products, another key area, are anticipated to grow even more. Parameta Solutions is positioned to reap the benefits from the significant increase in Fusion-generated data.

We aim to maximise the value of our strategic assets. That is why we are actively exploring options to unlock value in Parameta Solutions, including a potential IPO of a minority stake of the business.

Strong cash generation and dynamic capital management

We will maintain our high profit to cash conversion. Our diversified model – 65% of revenue is generated outside the UK, 60% is US Dollar denominated – is a key enabler in this respect. That focus on cash generation is coupled with our commitment to returning more cash, where possible, to shareholders, subject to our investment needs and balance sheet requirements. Our clear dividend policy is very much in place.

We will deliver sustainable shareholder value by delivering our strategy, including growing our businesses, and maximising the value of our strategic assets, accompanied by high levels of cash generation, and dynamic capital management. We look to the future with confidence.

Dynamic capital management is a key priority. This means reducing our debt, and returning surplus capital to shareholders, subject to our ongoing investment needs and balance sheet requirements.

Final dividend
pence

10.0p

Total full year dividend
pence

14.8p

Outlook

As ever, our outlook is largely subject to market conditions. Whilst we expect interest rates to decrease during 2024, we believe they will remain elevated versus recent history. This, combined with uncertainty around the pace and quantum of interest rate cuts, elections globally, and ongoing geopolitical events, will continue to drive volatility that is supportive of our Global Broking and E&C businesses, where we anticipate trading volumes to remain solid. Liquidnet and Parameta Solutions showed an improving growth trajectory in the second half of 2023 – providing good momentum into 2024.

The movement in foreign exchange rates, in particular Sterling vs US Dollar (60% of Group revenue/40% of Group costs are US Dollar-denominated) will continue to impact our results – with GBP strengthening having a negative impact, and vice versa.

Against this backdrop, we will stay focused on developing, and growing, strong client franchises; transforming and diversifying the Group; and managing our capital dynamically. Tight cost management will continue to be a core focus. We expect that growth in management & support costs (excluding FX gains or losses), will broadly track the level of average UK inflation expected in 2024. Consequently, we anticipate remaining well placed to deliver sustainable shareholder value over the medium term.

Trading in the first two months of the year has been good. We remain comfortable with current market expectations for full year 2024.

Nicolas Breteau
Executive Director and Chief Executive Officer
12 March 2024