

Securities

Key Financials

	2022 £ million	2021 £ million	Change %
Operating income	95.2	182.0	(48)
Operating expenses	(81.1)	(121.2)	(33)
Impairment gains on financial assets	–	0.1	n/a
Operating profit	14.1	60.9	(77)
Average bargains per day ('000)	81	101	
Operating margin	15%	33%	
Return on opening equity ¹	10.5%	63.5%	

¹ Reflecting increase in capital base in financial year 2021.

Cyclicality in the Trading Business Impacted Performance; Well Placed for When Investor Appetite Returns

Winterflood is a leading UK market maker, delivering high quality execution services to stockbrokers, wealth managers and institutional investors, as well as providing corporate advisory services to investment trusts and outsourced dealing and custody services via Winterflood Business Services ("WBS").

Global geopolitical events, in particular the ongoing conflict in Ukraine, energy

and commodity price rises, supply chain issues, new Covid variants and the resulting restrictions, have all negatively impacted market conditions in the 2022 calendar year. Tightening monetary policy to combat inflation and concerns over slowing economic growth have also resulted in a risk-off sentiment for markets, further subduing investor risk appetite.

Cyclicality seen in the trading business negatively impacted Winterflood's performance, with a significant reduction in trading opportunities, exacerbated by periods

of volatility in falling markets. Following the exceptionally strong trading performance and elevated market activity experienced during the prior year, operating profit was down 77% to £14.1 million (2021: £60.9 million).

Operating income decreased 48% to £95.2 million (2021: £182.0 million), primarily driven by a market-wide slowdown in trading activity and a change in the mix of trading volumes, exacerbated by falling markets.

We also saw a decline in fees generated from corporate activity, although WBS continued to generate increased levels of income, up 12% to £10.2 million on the prior year.

Trading volumes have reduced, with average daily bargains at 81k (2021: 101k), but they remain elevated on pre-Covid levels (2019: 56k). However, there has also been a change in the composition of trading volumes, with volumes in the higher-margin markets of AIM and Small Cap both down on the prior year, as retail investor appetite has fallen, and retail-driven trading opportunities have reduced. As a result, trading income has declined to £80.7 million for the year (2021: £164.1 million).

Winterflood Business Services

WBS provides outsourced dealing, settlement and custody services to asset managers, wealth managers and retail platforms.

WBS has been operating for more than 10 years and provides services to over 150,000 retail clients and over 50 institutions on its platform. It has a sticky annuity style income stream based on assets under administration fees and dealing commissions, a key differentiator to our core trading business. WBS has grown significantly in the last few years and had assets under administration of £7.2 billion at 31 July 2022. We continue to see significant growth potential in this business, with a solid pipeline of clients. Our award-winning proprietary technology developed in house is highly scalable and allows us to design bespoke solutions for our customers that support the growth in assets and trading volumes.

✓ Diversification of client base

✓ Fee-driven revenue model, greater predictability from fees and trading volumes

✓ Sticky annuity style income stream

✓ Strong growth potential

WBS Income

£m	
2022	10.2
2021	9.1
2020	6.5

WBS AuA

£bn	
2022	7.2
2021	6.2
2020	4.1

WBS Clients



AVIVA

moneybox

novia

WEALTH at work
KNOWLEDGE | EXPERIENCE | OPPORTUNITY

wealthify

Global equity markets have experienced substantial volatility in the past six months and indices have suffered, with US stocks recording their worst first half in more than 50 years, the FTSE 250 losing 14% and the AIM index down 24% this year. We have navigated the volatile intraday trading well, benefiting from the expertise of our traders and our strong focus on risk management, which has resulted in eight loss days for the year (2021: one loss day), of which seven occurred in the second half of the year.

Operating expenses decreased 33% to £81.1 million (2021: £121.2 million) driven by the variable nature of Winterflood's cost base, as the reduced revenue performance and trading volumes led to lower staff compensation and settlement costs. The expense/income ratio increased to 85% (2021: 67%) as the reduction in income was not fully offset by the corresponding decrease in variable costs. The compensation ratio fell to 47% (2021: 48%).

WBS, which provides outsourced dealing and custody services, has delivered another strong performance, generating £10.2 million of income (2021: £9.1 million) and growing its assets under administration to £7.2 billion (31 July 2021: £6.2 billion). Net inflows over the period were £1.3 billion (2021: £1.2 billion). We see significant growth potential in this business, with a solid pipeline of clients expected to increase assets under administration in excess of £10 billion in the 2023 financial year.

As a daily trading business, Winterflood is sensitive to changes in the market environment but remains well positioned to continue trading profitably, taking advantage when investor appetite returns. Winterflood continues to diversify its revenue streams and explore growth opportunities, balancing the cyclical nature seen in the trading business. Our recently appointed new chief executive, Bradley Dyer, will be well placed to lead Winterflood in the next stage of its growth and development. We would like to thank Philip Yarrow for his significant contribution to the group and to Winterflood following his decision to retire as chief executive.

WELL PLACED FOR WHEN INVESTOR APPETITE RETURNS