This transcript should be read in conjunction with the related Quarterly Report on Form 10-Q, the earnings release, and the earnings presentation, which includes important additional detail, and is provided for the convenience of investors and analysts only. For a full recording of this earnings conference call please see the 2Q23 Earnings Call webcast.

OPERATOR

Good morning and welcome to Tradeweb's second quarter 2023 earnings conference call. As a reminder, today's call is being recorded and will be available for playback.

To begin, I'll turn the call over to Head of Treasury, FP&A & Investor Relations, Ashley Serrao. Please go ahead.

PART I: INTRODUCTION AND DISCLAIMER

ASHLEY SERRAO (Slide 2-3)

Thank you and good morning.

Joining me today for the call are our CEO Billy Hult, who will review the highlights for the quarter and provide a brief business update, our President Tom Pluta, who will dive a little deeper into some growth initiatives and our CFO Sara Furber, who will review our financial results. We intend to use the website as a means of disclosing material, non-public information and complying with our disclosure obligations under Regulation FD.

I'd like to remind you that certain statements in this presentation and during the Q&A may relate to future events and expectations, and as such, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements related to, among other things, our guidance are forward-looking statements. Actual results may differ materially from these forward-looking statements. Information concerning factors that could cause actual results to differ from forward-looking statements is contained in our earnings release, presentation and periodic reports filed with the SEC.

In addition, on today's call we will reference certain non-GAAP measures as well as certain market and industry data. Information regarding these non-GAAP measures, including reconciliations to GAAP measures, is in our earnings release and presentation. Information regarding market and industry data, including sources, is in our earnings presentation.

Now, let me turn the call over to Billy.

PART II: OVERVIEW & FINANCIAL RESULTS

BILLY HULT (Slide 4-6)

Thanks, Ashley. Good morning everyone, and thank you for joining our second quarter earnings call.

Despite the challenging backdrop, we produced a record second quarter. The quarter showcased continued share gains across many of our markets and the scalability of our expense base that allows us to balance investing for growth with margin expansion. Looking ahead, we often get asked by investors and analysts on what the tipping point will be that spurs further electronification across our markets. My response is that sea changes can be hard to spot when you're living through them and behavior doesn't change overnight. Take the iPhone, for example – first introduced in 2007, barely more than 15 years ago, it was hard to know at the time how it would reinvent the relationship between humans and technology -- allowing us to not only make phone calls, but also stream movies, pay our bills or even airdrop pictures from one phone to another.

For Tradeweb, I am an eternal optimist, and I believe we'll see more innovation in our markets over the next 5 years than we've seen over the last 20 years. Electronic trading will continue to play an increasingly important role in helping traders navigate both calm and turbulent markets. We believe this will be led by technological advances, multi-asset class trading driving structural changes to financial markets, traders leveraging technology to maximize client value and data being supercharged by AI and ML. I personally believe that the word "unprecedented" is overused, and as the financial markets become more interconnected, we should expect that the markets will also become even more dynamic and technology will be used to solve the resulting complexity. We believe, the backdrop I just described plays really well to our business model—one that leads with technological innovation, is multi-asset class and rich in data. Combine that with the culture and depth of talent at the Company, and our rich heritage of idea generation, we are in a great position to lead and influence market structure change.

Diving into the second quarter, activity rebounded very nicely from April activity when clients trimmed risk and moved to the sidelines driving a decline in year-over-year total revenue for the first time in years. As the coast cleared, revenues accelerated as the quarter progressed into May and June despite rate volatility remaining elevated. Specifically, on slide 4, record second quarter revenues of nearly $311 million were up 4.5% yr/yr on a reported basis and 4.4% on a constant currency basis and adjusted EBITDA margins expanded by 12 basis points relative to the second quarter of 2022. We continue to balance revenue growth and margin expansion with revenue growth of 5% during the first half of 2023 translating to a 43-basis point increase in our Adjusted EBITDA margin to 52.4% relative to the first half of 2022.

Turning to slide 5, rates and money markets led the way, accounting for 65% and 27% of our revenue growth, respectively, while market data provided 13% of the growth. Specifically, the rates business was driven by continued growth across global government bonds and swaps. Credit was led by strong U.S. and European corporate credit, including record market share in electronic U.S. investment grade during June, but was offset by lower credit derivative industry volumes. Money markets revenues also reached record levels fueled by growth in our retail certificate of deposit franchise and continued organic growth in institutional repos. Equities revenues fell 2%, due to lower industry ETF volumes which were partially offset by higher market share and strong equity derivatives revenue growth. Finally, market data revenues were driven by proprietary third-party data products, which continue to enjoy robust growth and a strong product pipeline.

Turning to slide 6—I will provide a brief update on two of our main focus areas — U.S. Treasuries and ETFs and turn it over to Tom to dig deeper into U.S. credit and global interest rate swaps.

Starting with U.S. Treasuries—revenues increased by 15% yr/yr eclipsing industry volume growth of 4%. This was primarily driven by the attractive rate environment continuing to propel our retail business where revenues nearly tripled. Our institutional business also had its best revenue quarter ever, led by record ADV across our institutional streaming protocol and growing adoption of our RFQ+ offering. The leading indicators of the institutional business remain strong—we gained share versus Bloomberg and client engagement was healthy with institutional average daily trades up over 35% yr/yr. Automation continues to be an important theme with institutional U.S. Treasury AiEX average daily trades increasing by more than 90% yr/yr.

Turning to our wholesale business, we produced our second-best revenue quarter in our history, led by strong volumes across our sessions protocol and strong streaming revenues which more than offset tough industry conditions across the central limit order book protocol. While our CLOB protocol faced tough market conditions, the team made progress in onboarding liquidity providers, and we expect to onboard more during the third quarter.

Stepping back, we remain focused on driving the off-the-run and the on-the-run markets away from the phone through innovation. In the first half of this year, less liquid off-the-runs represented approximately 40-45% of our U.S. Treasury volumes, and our electronic off-the-run volumes have grown by over 22% per year since 2018. We continue to believe we can make further in-roads across the U.S. Treasury market as we continue to advance automated trading, link markets and differentiate with a complete selection of protocols and liquidity pools.

Within equities, our ETF business outperformed the overall market, but faced a tough industry backdrop given lower equity market volatility and a lack of price dispersion that minimized rebalance activity. However, the diversity of our equity offering was evident this quarter as our other initiatives to expand our equity brand beyond our flagship ETF franchise really bore fruit. Our institutional equity derivatives revenues were up over 40% yr/yr, driven by strong double-digit growth across options and convertibles. Looking ahead, the client pipeline remains strong as the benefits of our electronic solutions continue to resonate. We believe we are well-positioned to capitalize on the long-term secular ETF growth story, not just in equities, but across our fixed income business.

Finally, we are pleased to announce that the Australian Competition & Consumer Commission now provided its approval and indicated that it doesn't intend to conduct any further inquiry into our pending Yieldbroker acquisition. We look forward to closing the transaction in the coming months.

With that I will turn it over to Tom.

TOM PLUTA (Slide 7-8)

Thanks Billy.

As Billy highlighted in his opening, the markets continue to grow more interconnected, and this sets the company up well given our global multi-asset class and multi-client channel focus. Modernization has traditionally been slow to unfold in fixed income, yet we are seeing our clients continue to change their behaviors. Similarly, we continue to remain nimble as a company. Across all our asset classes and geographies, our product and sales teams are increasingly focused on driving a cohesive strategy across client channels, something we believe will pay dividends as the line between these channels continues to blur.

Global Credit

Turning to slide 7 for a closer look at Credit. The underlying trends were mixed as double-digit revenue growth across U.S. and European Credit was offset by softer overall industry trends across munis, China and CDS. Specifically across munis, the unattractive yield differentials between munis and U.S. Treasuries has led to retail clients favoring U.S. Treasuries, though we believe this should change if muni issuance rebounds moving forward. Despite this mixed backdrop, automation continued to surge with global credit AiEX average daily trades increasing nearly 70% yr/yr.

Honing in on U.S. corporate credit, the business grew 10% yr/yr, with revenue growing across all three client channels. Normalizing for the duration-related yr/yr FPM headwinds in our institutional IG business, U.S. credit would have grown by 14% yr/yr. We are pleased to hit a new fully electronic market share record in IG, and we believe further investments in high yield can lead to a similar outcome in the coming quarters and years. Electronically, credit is a young market with plenty of potential for further innovation, and we believe we have a meaningful opportunity to expand our wallet share across RFQ, DRFQ, and all-to-all, and grow our leading footprint across portfolio trading and sessions.

Our institutional business was a tale of two cities—robust double-digit revenue growth in investment grade but lower HY revenues given the 13% yr/yr pullback in industry average daily volumes. Looking at the underlying protocols, our primary focus on growing institutional RFQ continues to pay off with volumes growing 17% yr/yr, with strong double-digit growth across both IG and HY. Overall, portfolio trading volumes fell 7% yr/yr, due to lower European portfolio trading volumes given tougher pricing conditions for dealers, while U.S. portfolio trading volumes grew by 7% yr/yr. In the second quarter, we produced the second highest ADV ever across IG portfolio trading. Retail credit revenues were up low-single digits yr/yr despite advisors focusing their buying in U.S. Treasuries.

AllTrade produced a strong quarter with nearly $129 billion in volume. Our all-to-all volumes grew over 60% yr/yr aided in part by our growing dealer-RFQ business which saw volumes grow over 100% yr/yr. The team continues to be focused on broadening out our network and increasing the number of responses on the AllTrade platform. In the second quarter, the number of A2A responders rose by over 10% and responses increased by nearly 100% yr/yr. Our sessions ADV grew over 28% yr/yr despite the continued tough match rates across high yield with elevated one-way flow.

All in, the team continues to focus on increasing our wallet share across protocols with the goal of making further inroads in the block and non-block trading markets. As of 2Q23, our fully electronic IG and HY block share was 6.1% and 3.3%, respectively. Approximately 20% and 40% of our fully electronic IG and HY share comes from the block market, respectively.

Looking ahead, US credit remains our biggest focus area and we like the way we are positioned across our three client channels as we work to further electronify the market. Beyond U.S. Credit, our EM expansion efforts continue to progress steadily--one quarter after completing the first electronic single-name RFM CDS trade, this quarter we executed our first Mexican local currency bond trade. Finally, our soft taxable muni launch continues and we are focused on the integration of taxable muni liquidity across client channels.

Global Swaps

Moving to slide 8, as Billy highlighted in his opening, the second quarter was mixed, and this was particularly evident in our global swaps business that performed well overall despite a challenging macro environment. April was quiet after the regional bank crisis in March as our asset manager and hedge fund clients de-risked their positions. The revenue environment improved in May despite the elevated compression activity, and revenues further increased in June coupled with a pickup in our fee per million. In fact, our June >1 year institutional swaps revenues rose 6% m/m despite ADV falling 11% m/m. Even with the challenging quarter, our global swaps revenues grew low-single digits while market share rose to 16.3% with record share across dollar and EM-denominated swaps.

At Tradeweb, we remain focused on providing our clients with a multi-asset automation solution that we believe is unrivaled in the market. In the first six months of the year, AiEX average daily trades were up over 45% yr/yr across the business, with AiEX having the strongest penetration across European ETFs, U.S. Treasuries, European government bonds, and U.S. Credit.

We are now seeing signs of growing adoption across our global swaps business, especially in emerging markets swaps. Systematic funds that were historically more equity-focused are now interacting with our platform on a more-automated basis. In the first six months of this year, our >1 year swaps AiEX average daily trades were up 40% yr/yr. We continue to expect strong adoption of our AiEX solution across swaps as clients continue to invest in automation.

Finally, we continue to make progress across emerging markets swaps and our rapidly growing RFM protocol. We saw record EM swaps share in the second quarter with revenues increasing over 140% yr/yr, and we believe there is still a lot of room to grow. Across our RFM protocol, we are seeing a further broadening out of our clients that are utilizing the protocol.

Looking ahead, we believe the long-term swaps revenue growth potential is meaningful and we expect revenues to reaccelerate as the environment normalizes. With the market still less than 30% electronified, we believe there remains a lot that we can do to help digitize our clients' manual work flows while the global fixed income markets and broader swaps market grow.

And with that, let me turn it over to Sara to discuss our financials in more detail.

SARA FURBER (Slide 9-13)

Thanks Tom and good morning.

As I go through the numbers, all comparisons will be to the prior year period, unless otherwise noted. Let me begin with an overview of our volumes on Slide 9.

We reported second quarter average daily volume of nearly $1.3 trillion, up 10% yr/yr, and up 11% when excluding short tenor swaps. Areas of strong growth include European government bonds, global swaps, U.S. investment grade credit, equity derivatives, and repos.

Slide 10 provides a summary of our quarterly earnings performance.

- The 2Q volume growth translated into gross revenues increasing by 4.5% on a reported basis and 4.4% on a constant currency basis. We derived approximately 35% of our revenues from international customers, and recall that ~30% of our revenue base is denominated in currencies other than dollars, predominantly in Euros.
- Our variable and total trading revenues increased by 4.2%.
- Total fixed revenues related to our four major asset classes were up 5.2% on both a reported and constant currency basis.
    - And other trading revenues were down 4% -- as a reminder, this line fluctuates as it reflects revenues tied to periodic technology enhancements performed for our retail clients.
- Year-to-date adjusted EBITDA margin of 52.4% increased by 46 bps on a reported basis, and 68 bps on a constant currency basis, from the full year 2022.

Moving on to fees per million on Slide 11 and a highlight of the key trends for the quarter. You can see slide 16 of the earnings presentation for additional detail regarding our FPM performance this quarter.

- Overall, our blended fees per million decreased 7% yr/yr, primarily due to a mix shift away from Credit, and a decrease in long tenor swaps fee per million. Excluding lower fee per million short tenor swaps and futures, our blended fees per million were down 7%.
- For cash rates products, fees per million were up 8%, primarily due to a positive mix shift towards higher fee per million U.S. Treasuries. U.S. Treasuries fees per million were also aided by the continued pickup in our retail channel.
- For long tenor swaps, fees per million were down 20%, primarily due to an 18% decline in duration yr/yr and an increase in compression trades. This was partially offset by growth in EM swaps and our RFM protocol.
- For cash credit, average fees per million decreased 2% due to a mix shift away from munis partially offset by strong growth in our fully electronic U.S. High Grade volumes.
- For cash equities, average fees per million decreased by 9% due to a mix shift away from higher fee per million European ETFs.
- Finally, within money markets, average fees per million increased 30% driven by a mix shift towards U.S. CDs and away from global repos.

Slide 12 details our adjusted expenses

- At a high level, the scalability and variable nature of our expense base allows us to continue to invest for growth and grow margins—there has been no change in our philosophy here.
- Adjusted Expenses for 2Q increased 4.7% on a reported basis and 4.3% on a constant currency basis.
- Compensation costs increased 0.7% due to increases in headcount and salaries, which were mostly offset by lower accruals for performance-related variable compensation.
- Professional fees increased 11.3% mainly due to higher technology consulting expenses.
- Technology and communication costs increased primarily due to higher data fees, and our previously communicated investments in data strategy and infrastructure.
- Adjusted general and administrative costs increased due to the absence of a tax credit that we had in 2Q22 and a pickup in philanthropy. Excluding the tax credit in the year ago period, adjusted G&A grew 7.6% yr/yr.
    - In addition, unfavorable movements in FX resulted in a $0.1 million loss this quarter versus a $1.0 million gain in 2Q22. Using FX rates as of June 30th, FX losses would be ~$1.4m and $1m in the third and fourth quarter of 2023, respectively. Recall in 2H22 Adjusted G&A expenses were reduced by $5 million in FX hedging gains.

Slide 13 details capital management and our guidance, which remains unchanged

- On our cash position and capital return policy
    - We ended the 2Q in a strong position, with nearly $1.4 billion in cash and cash equivalents. Free cash flow reached approximately $635 million for the trailing twelve months, up 18% yr/yr. As a reminder, we will be funding our pending Yieldbroker acquisition with cash on hand.
    - Our net interest income of $15.1 million increased due to a combination of higher cash balances and interest yields. This was primarily driven higher by recent Fed hikes and more efficient management of our cash.
    - Capex and capitalized software development for the quarter was $15.0 million, a decrease of 1% year over year, primarily due to timing of our investment spend.
    - With this quarter’s earnings, the Board declared a quarterly dividend of $0.09 per share of Class A and Class B common stock.

- And finally, we spent approximately $8 million under our share buyback program, which included opportunistic and planned repurchases to offset dilution from stock-based compensation plans, leaving approximately $245 million for future deployment at the end of the quarter.

Now I'll turn it back to Billy for concluding remarks.

BILLY HULT

Thanks, Sara.

As I wrote recently, change happens at a slow pace, until it doesn't. Trader's skills and capabilities will continue to evolve as technology takes on more mundane tasks, increases efficiency and enables traders to focus on higher value activities. The future will be quants, coders, and portfolio managers all wrapped up inside one trader. We believe technology will create opportunities for current and future generations of traders, allowing them to be not only the alpha generators, but also skilled relationship managers and even marketers. The combination of these themes sets the stage for a period of significant transformation over the next five years, and we look forward to helping our clients drive that change.

With a couple of important month-end trading days left in July which tend to be our strongest revenue days, overall revenues and volumes are up double digits relative to July 2022. The diversity of our growth remains a theme as we are seeing strong volume growth across global government bonds, global interest rate swaps, and corporate credit. Our IG share is higher than June levels while HY share is relatively in-line with June levels.

I would like to welcome Catherine Johnson to our Board of Directors. Catherine brings more than 25 years of legal, compliance and global markets experience to our Board. Finally, I would like to congratulate Jacques Aigrain on his appointment as Board Chair and Lee Olesky on his retirement from the Board. I truly appreciated the close collaboration and friendship that I've had with Lee over the last 20 years.

I would like to conclude my remarks by thanking our clients for their business and partnership in the quarter, and I want to thank my colleagues for their efforts that contributed to our best second quarter revenues and volumes at Tradeweb.

With that, I will turn it back to Ashley for your questions.

ASHLEY SERRAO

Thanks Billy. As a reminder, please limit yourself to one question only. Feel free to hop back in the queue and ask additional questions at the end. Q&A will end at 10:30 am Eastern time. Operator, you can now take our first question.

THANK YOU

Ashley Serrao, CMA, CFA
Head of Treasury, FP&A & Investor Relations
Tel: 646-430-6027
Email: ashley.serrao@tradeweb.com

Sameer Murukutla, CFA
Director, Investor Relations
Tel: 646-767-4864
Email: sameer.murukutla@tradeweb.com