Tradeweb 3Q24 Earnings Conference Call Script

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 3Q24 Earnings Call webcast.

OPERATOR

Good morning and welcome to Tradeweb's third quarter 2024 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 our business results and key 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, earnings 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 earnings 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 4-8)

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

This was another record quarter with revenues surpassing our previous best by nearly 10% to approach almost $450M in revenue. Stepping back, the themes driving our results over the last few years remain unchanged. First, we continue to drive our market share higher in many of our markets as we collaborate with our clients to electronify and change behavior – be it our flagship swaps, surging US credit or rapidly expanding EM offerings. Second, we continue to capitalize on the trend of multi-asset class trading—almost 50% of our revenue growth continues to be generated away from our cornerstone rates business. And third, we continue to accelerate growth with targeted acquisitions and strong execution. On this note, we closed the ICD acquisition in August and formally welcomed the ICD team to the Tradeweb family. They have hit the ground running and early client feedback has been resoundingly positive. Both Yieldbroker and R8fin revenues are tracking ahead of plan and we completed the integration of Yieldbroker this month, five months ahead of schedule.

We continue to think it's a great time to be in the risk intermediation business as central banks retreat from our markets, global monetary policies diverge, elections loom and fixed income markets continue to grow. This creates lots of opportunities for our clients to trade and make money. While the environment fluctuates, we remain focused on driving durable growth by investing in our future by hiring the best talent, deepening our client relationships and enhancing our technology.

Diving into the third quarter, strong client activity, share gains and a risk-on environment drove 36.7% yr/yr revenue growth on a reported basis. We continue to balance investing for growth and profitability as Adjusted EBITDA margins expanded by 154 basis points relative to the third quarter of 2023.

Turning to slide 5, our rates business was driven by continued organic growth across swaps, global government bonds and mortgages and was also supplemented by the addition of r8fin and Yieldbroker. Credit was led by strength in U.S. and European corporate bonds, with our 2nd highest quarterly market share across electronic U.S. high grade and high yield, and was aided by strong growth across credit derivatives, municipal bonds and China bonds. Money markets was led by the addition of ICD and aided by continued growth in U.S. and European repos. Equities posted double-digit revenue growth primarily led by growth in our global ETF business whereas our equity derivatives business also posted solid growth. Finally, market data revenues were driven by growth in our LSEG market data contract and proprietary data products.

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

Starting with U.S. Treasuries—record third quarter revenues increased by 33% yr/yr led by records across our institutional and wholesale client channels. Our institutional business saw growing adoption of our streaming and RFQ+ protocols while the leading indicators of the institutional business remain strong— we gained share and achieved record quarterly market share of over 50% in U.S. Treasuries versus Bloomberg, our 2nd consecutive quarter above 50%. Automation continues to be an important theme with institutional U.S. Treasury AiEX average daily trades increasing by nearly 30% yr/yr.

The wholesale space remains a key area of focus, and we continue to prioritize onboarding more liquidity providers and enhancing our various liquidity pools as we deliver on our holistic strategy. The wholesale business produced record volumes led by record streaming volumes and growing adoption of our sessions protocol and the contribution of R8fin. Other protocols also saw double-digit volume growth, particularly our CLOB which continues to trend higher.

Within equities, our ETF revenues grew over 20% yr/yr. Our efforts to expand our equity brand beyond our flagship ETF franchise continue to bear fruit with third quarter institutional equity derivatives revenues increasing nearly 20% yr/yr. Looking ahead, we continue to make inroads by integrating new clients and 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.

Global Credit

Turning to slide 7 for a closer look at another strong quarter for credit. Strong double-digit revenue growth was driven by 37% and 14% yr/yr revenue growth across U.S. and European Credit, respectively. We also achieved strong double-digit revenue growth across credit derivatives, munis and China Bonds. Automation continued to surge with global credit AiEX average daily trades increasing over 25% yr/yr.

We achieved our 2nd highest fully electronic market share across U.S. IG helped by IG block market share of over 8%. We also achieved our 2nd highest fully electronic HY market share with record HY block market share of nearly 5%. During the quarter, we achieved a new monthly HY record of 9% in July. Our institutional business continues to scale as clients adopt our diverse set of protocols. Year to date, we estimate over 40% of our U.S. institutional variable revenue growth was driven by non-market factors, mainly market share.

Our primary focus on growing institutional RFQ continues to pay off with ADV growing over 45% yr/yr, with strong double-digit growth across both IG and HY. Moreover, portfolio trading ADV rose over 50% yr/yr with growth of over 70% across IG PT and over 20% growth across HY. We continue to focus on leading with innovation, and this is resonating with our clients leading to user growth of over 20% yr/yr. Retail credit revenues were up over 15% yr/yr as financial advisors continue to allocate investments towards credit to complement their buying of U.S. Treasuries and retail certificate of deposits.

AllTrade produced a solid quarter with over $185 billion in volume, up over 35% yr/yr. Specifically, our all-to-all ADV grew over 20% yr/yr and our dealer-RFQ offering grew over 25% yr/yr. The team continues to be focused on broadening out our network and increasing the number of responders on the AllTrade platform. In the third quarter, the average number of responses per A2A inquiry rose over 10% yr/yr. We also continue to increase our engagement and wallet share with ETF market makers with ADV up over 45% yr/yr. Finally, our sessions ADV grew over 45% yr/yr.

Looking ahead, US credit remains a key focus area and we like the way we are positioned across our three client channels. We believe we have a long runway for growth with ample opportunity to innovate alongside our clients. During the quarter, we enhanced our multi-client net spotting offering based on client feedback, expanded our PT offering to include auto-send capabilities, and continued to see growing adoption of our RFQ Edge offering. In light of Basel 3 considerations, we are also focused on partnering with our dealer clients to help them more efficiently recycle their own balance sheet risk and earn more money.

We also remain very focused on chipping away at high yield, and we believe we are well positioned to replicate the success we’ve had in IG. We’re making progress on sales hiring efforts, and we have a strong pipeline of asset managers, hedge funds, ETF market makers, and insurance companies that we are focused on. With Aladdin, we’re still in Phase 2 of the integration, which is focused on the responding and initiating of A2A and RFQ inquiries on the Aladdin screen. Early client feedback has been positive, particularly around the enhanced integration that allows our clients to more easily monitor A2A and dealer liquidity opportunities.

Beyond U.S. Credit, our EM expansion efforts continue with early client success across Latin America and the Middle East. As we enter each region, our global product offering is proving to be a key way to develop relationships with clients and dealers. On the product side, we remain focused on leveraging our diverse product expertise, enhancing our integration with FXAll and continuing to build out our holistic emerging market functionality.

Global Swaps

Moving to slide 8, global swaps produced record revenues driven by a combination of strong client engagement in response to the macro environment, continued market share gains, and better mix shift towards risk trading. Strength here was partially offset by a 1% reduction in weighted-average duration though we are seeing positive signs on that front given the changing macro environment. All in, global swaps revenues grew 51% yr/yr and market share rose to 22.4% with record share across G-11 and EM-denominated currencies.

The global macro backdrop continues to be in flux. During the third quarter, we saw global yields fall given the expectations for central bank rate cuts. For example, U.S, German, and Japanese 10-year yields fell 20-60 basis points during the quarter. Yet in October, we have seen those same yields rise significantly from the end of the third quarter. This level of uncertainty continues to drive strong client engagement across our global suite of currencies and continued market share gains with our clients continue to pay off. During the third quarter, we had 11 swaps currencies that saw yr/yr volume growth of over 100%. We had another 12 swaps currencies that saw volume growth between 50% and 100%. In addition to the favorable macro, year to date, we estimate that over 60% of our institutional variable swaps revenue growth was driven by non-market factors, mainly market share.

As short term rates are expected to fall further and as the yield curve steepens, this should provide a tailwind to our risk-based volume fee per million. As a reminder, our pricing is based on the amount DV01, or the risk a client is putting through the platform which is driven by two factors, the level of yields and duration. As rates fall or duration increases, the DV01 of a trade increases. Based on the current rate environment, if we saw a 100 basis point drop in rates, this could lead to risk-based fee per million increasing by 5-6%. Additionally, our current risk-based duration is about 6 years. Based on historical FPM levels when our duration was about 7 years, we could see a 6-7% increase in our risk-based FPM if duration extends by about 1 year.

Finally, we continue to make progress across emerging markets swaps and our rapidly growing RFM protocol. Our third quarter EM swaps revenues rose over 80% yr/yr, and we believe there is still significant room to grow given the low levels of electronification. Our RFM protocol saw ADV rise nearly 150% yr/yr with adoption picking up.

Looking ahead, we believe the long-term swaps revenue growth potential is meaningful. We are looking forward to providing solutions for more parts of the swaps market. The team is actively partnering with key buyside and sellside clients to make further inroads into the cleared swaps market, and initial inroads into the bilateral swaps market. With the overall swaps market still about 30% electronified, we believe there remains a lot we can do to help digitize our clients’ manual workflows 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 9-12)

Thanks Billy and good morning.

As I go through the numbers, all comparisons will be to the prior year period, unless otherwise noted.

Slide 9 provides a summary of our quarterly earnings performance.

- As Billy recapped earlier, this quarter we saw record revenues of $449 million that were up 36.7% yr/yr on a reported basis and 36.5% on a constant currency basis. We derived approximately 38% of our 3Q revenues from international clients, and recall that ~30% of our revenue base is denominated in currencies other than dollars, predominantly in Euros.
- Our variable revenues increased by 50% and total trading revenues increased by 37%.
- Total fixed revenues related to our four major asset classes were up 2.4% on a reported and constant currency basis.
    - Credit fixed revenue growth was primarily driven by increases to our subscription fees, and by the addition of new dealers this year.
- And other trading revenues were up 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 53.5% increased by 111 bps on a reported basis when compared to our 2023 full-year margins.

Moving on to fees per million on Slide 10 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.

- For cash rates products, average fees per million were up 1%, primarily due to an increase in Australian Government bonds fees per million.
- For long tenor swaps, average fees per million were up 17%, primarily due to a decline in compression activity. Duration in 3Q24 was relatively in line with 3Q23.
- For cash credit, average fees per million decreased 6% due to a mix shift away from munis.
- For cash equities, average fees per million increased 9% due to a mix shift towards EU ETFs which carry a relatively higher fee per million.
- Finally, within money markets, average fees per million increased 55% due to inclusion of ICD and a slight increase in US Repo FPM.

Slide 11 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—we have maintained a consistent philosophy here.
- Adjusted Expenses for 3Q increased 30.4% on a reported basis and 31.5% on a constant currency basis.
- Adjusted compensation costs grew 36%, the vast majority related to variable or discretionary spending. Just over 50% of the increase was performance-related expense and nearly 20% from new hires in 2024 and the addition of ICD.
- Technology and communication costs increased 23% primarily due to our previously communicated investments in data strategy and infrastructure, which we intend to accelerate to support our technology efforts as we continue to grow.
- Adjusted professional fees grew 26% mainly due to an increase in tech consultants as we augment our technology operations and build incremental scalability. We expect professional fees to continue to grow over time as we spend more on technology consulting to support our overall growth.
- Adjusted general and administrative costs increased 22% due to a pickup in travel and

entertainment, and marketing expenses, which was offset by favorable movements in FX that resulted in an approximately $400K gain in 3Q24 versus a $1.5M loss in 3Q23.

Slide 12 details capital management and our guidance

- On our cash position and capital return policy
  - We ended 3Q in a strong position, with $1.2 billion in cash and cash equivalents and free cash flow reached approximately $800 million for the trailing twelve months.
  - Our net interest income of $15.2 million decreased due to lower cash balances as we funded our recent ICD acquisition with $771 million of cash on hand. Additionally, our net interest income was impacted by $970k in accrued interest expense related to a TRA payment. Excluding this interest expense which occurs sporadically based on the timing of TRA payments, our net interest income would have been ~$16.2 million and our adjusted EPS would have been $0.76.
  - With this quarter's earnings, the Board declared a quarterly dividend of $0.10 per Class A and Class B shares.
- Turning to updated guidance for 2024
  - In light of the continued strong business momentum, we are increasing our adjusted expense guidance to $855-875 million, we are currently trending towards the midpoint of the range.
  - Overall, we are seeing increased opportunity to invest for future growth and continue to expect accelerated investments going forward.
  - All in, with these investments, we continue to expect our 2024 adjusted EBITDA margin expansion to exceed 2023 levels.
  - We continue to expect our capex and capitalized software development to be about $77-85 million for 2024.
  - Acquisition and Refinitiv Transaction related D&A, which we adjust out due to the increase associated with pushdown accounting, is now expected to be $158 million.
  - We continue to expect 2024 and 2025 revenues generated under the new master data agreement with LSEG to be ~$80M and ~$90M, respectively.

Last quarter, we signed a 16-year lease for our new NYC headquarters, which is expected to commence in July 2025. Including expected double rent from our existing NYC office and other anticipated leasing activity in the second half of 2025, we expect our occupancy expenses to be approximately $7 million higher than the second half of 2024.

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

BILLY HULT

Thanks, Sara.

As a technology company focused on the financial markets, we thrive in change and complexity. We believe in a strategy of evolution and balance, not revolution. We are excited about the opportunities to engage with our clients to expand our multi-asset class footprint, and we feel good about our long-term future growth outlook.

With a couple of important month-end trading days left in October which tend to be our strongest revenue days, October revenues are trending at record levels, up approximately 30% relative to October 2023. The diversity of our growth remains a theme. We are seeing strong volume growth across global government bonds, mortgages, repos, and corporate credit. Our October IG and HY share are both trending lower than

September levels. Our IG and HY share are mainly being impacted by lower levels of industry PT so far in October.

I would also like to welcome Daniel Maguire to our Board of Directors. Dan brings more than 25 years of experience in financial services. Having known Dan for a long time, I think very highly of him. I am confident that he will make a significant impact as we expand our footprint and broaden the boundaries of innovation at Tradeweb.

Finally, 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 the record quarterly 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. Operator, you can now take our first question.

THANK YOU

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