This transcript should be read in conjunction with the related 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 2Q21 Earnings Call webcast.

OPERATOR

Good morning and welcome to Tradeweb's second quarter 2021 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 U.S. Corporate Development and 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 Lee Olesky, who will review the highlights for the quarter and provide a business update, our President Billy Hult who will dive a little deeper into some growth initiatives and Bob Warshaw, our CFO who will review our financial results. We intend to use the website as a means of disclosing material, non-public information and complying with disclosure obligations under SEC 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 and periodic reports filed with the SEC.

In addition, on today's call we will reference certain non-GAAP measures. Information regarding these non-GAAP measures, including reconciliations to GAAP measures are in our posted earnings release and presentation.

To recap, this morning we reported GAAP earnings per diluted share of $0.27. Excluding certain non-cash stock-based compensation expense, acquisition related transaction costs, acquisition and Refinitiv related D&A and certain FX items, and assuming an effective tax rate of 22.0%, we reported Adjusted Net Income per diluted share of $0.39. Please see the earnings release and the Form 10-Q to be filed with the SEC for additional information regarding the presentation of our historical results.

Now, let me turn the call over to Lee.

PART II: OVERVIEW & FINANCIAL RESULTS

LEE OLESKY (Slide 4-6)

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

We have previously talked about how historical exogenous events like the acceptance of the internet or the waves of regulation that unfolded in the financial markets created opportunities for Tradeweb to drive change. And in doing so, we continued to move markets forward on their journey towards more electronification. This time is no different--more than a year after the pandemic, we believe our second quarter results are a testament to the ability of our people to innovate with our customers and solve complex trading challenges. And more importantly--drive enduring behavioral change. Despite a macro environment that was relatively subdued compared to last year, Tradeweb experienced a record first half notching up four months where clients traded in excess of one trillion dollars on average daily.

Turning to slide 4, this enduring behavioral change I just described was on display as we reported our 2nd best revenue and volume quarter. Specifically, gross revenues of $261 million were up 23.0% yr/yr on a reported basis and 20.2% on a constant currency basis. The three main drivers of our growth in the second quarter were US Credit, global swaps, and U.S. Treasuries. The revenue growth and the resulting scale translated into improved profitability yr/yr as adjusted EBITDA margin expanded by 280 basis points to 50.6%.

Turning to slide 5, this quarter was marked by strong performance across many of our asset classes with credit and rates accounting for 47% and 43% of our revenue growth, respectively. Specifically, credit posted its 2nd best quarter, driven by record U.S. high yield and strong U.S. investment grade and European credit trading. Cash rates revenues were another highlight driven by healthy central bank issuance which continues to fuel global government bond trading, while mortgage revenue growth was flat given subdued volatility and tight spreads which led to muted trading activity. Swaps revenues continued its robust performance hitting another market share record. Equities revenue growth was driven by European institutional ETFs and our efforts to diversify beyond ETFs that more than offset a decline in our more volatility sensitive wholesale ETF business. Money markets performance was fueled by organic growth in institutional repo that trumped continued rate headwinds in the retail sector. Finally, market data saw broad-based growth across our Refinitiv re-distribution license, APA and proprietary data products.

Moving on to slide 6—let me provide a brief update on our four main focus areas.

Starting with interest rate swaps which is our largest and fastest growing rate product— a relatively more challenging macro backdrop versus last year was more than offset by continued organic growth. We continue to attract new clients and deepen our existing client wallet share by introducing new products and protocols—this led to overall swaps volumes growing by 23%. As a result, swaps market share increased to a record 14.7% as measured by Clarus. We believe we continued to gain share versus our closest competitor Bloomberg in both the U.S. and Europe. Longer-term, we remain excited by the multi-year opportunity we believe we have here, as we scale our growth initiatives, the market electronifies and the rate cycle turns. Billy will give you an update on our strategy in a few minutes.

Moving on to U.S. Treasuries— another rates product that continues to perform well with volumes up 16% yr/yr led by both the institutional and wholesale business. Market share rose to a record 16.5% of the U.S. Treasury market. The backdrop of healthy issuance continues to support the institutional channel, and our share gains have been driven by existing clients doing more business, competitive share gains versus Bloomberg and further inroads into the T-bill market.

Looking ahead, we continue to invest in driving the adoption of our early-stage institutional streaming protocols like Tradeweb+—volumes here rose substantially versus last year. Our wholesale U.S. Treasury offering, which has been centered on disclosed streams and session trading, posted another strong quarter. We continue to onboard new clients, and take share from streaming platforms. We believe our efforts to lead with proprietary technology and really understand what our clients want are paying off.

We are excited about the next chapter of our wholesale business with the closing of the Nasdaq U.S. fixed income acquisition on June 25th, and the integration is proceeding as planned. Clients are looking for more competition in the CLOB space, and we believe we can be an ideal partner as we leverage our DNA in US Treasuries to revitalize the business. We believe the central limit order book, which today represents approximately 70% of the wholesale market, will remain an important protocol. Our clients now have the ability to complement their streaming activity with a liquid CLOB, especially in more volatile environments. We believe we will also be able to lower their connectivity costs, and enhance our U.S. Treasuries data offering with a depth of book. As a reminder, this transaction is accretive to adjusted earnings, and we believe we can improve EBITDA margins to at least Tradeweb's adjusted EBITDA margin exiting the first year of a two-year integration period.

Shifting to Credit, this was another great quarter as our business continues to surge ahead generating more than $72 million in revenues. Our first half revenues of $146M nearly matches what we did in the first three quarters of last year. It's amazing to see the consistent share gains being made in IG credit with electronic share reaching a record 13.1% in June . It is also encouraging to see the progress being made in HY with electronic share eclipsing 5% for the first time in June. Looking ahead, we believe we continue to see a lot of opportunity in credit as our platform continues to scale and when retail activity eventually normalizes in a higher rate environment. Billy will dive into more details on our strategy momentarily.

Finally, within equities, institutional ETFs produced a healthy quarter with ADV up 29% yr/yr as new client wins more than offset the substantial pullback in US & European ETF industry activity. During the quarter, equity ETFs comprised 62% of our global volume with fixed income contributing 32%. Our other initiatives to expand beyond our flagship ETF franchise are also bearing fruit with momentum continuing in equity derivatives. Specifically, revenues in these newer growth products were up 51% yr/yr. Looking ahead, we believe we remain well-positioned to benefit from the continued growth in ETFs globally, our newer product additions and expanding client footprint.

With that I will turn it to Billy.

BILLY HULT (Slide 7-8)

U.S. Credit

Thanks Lee. Turning to slide 7 for a closer look at Credit.

We produced another very strong quarter with both IG and HY hitting new records for revenue and share. Our formula remains the same—listen to our clients, offer a variety of execution protocols and relentlessly innovate to shape the future of credit trading. Clients have responded to our brand of innovation by increasingly adopting AllTrade, portfolio trading and net spotting.

Equally important to the growth of our U.S. credit business, has been the rapid increase in RFQ activity as we cross-sell and continue to gain more wallet share. RFQ is our biggest institutional protocol, with volumes growing 39% yr/yr during the second quarter.

The strong growth in credit goes beyond our institutional channel. Our fast-growing wholesale and retail middle market businesses continue to perform well with revenues up significantly yr/yr. Stepping back, the diversity of our credit growth has never been stronger and while we are pleased with the progress made so far, we strongly believe that we have the potential to do even better.

Portfolio trading, which I refer to as a light bulb solution has become synonymous with Tradeweb. It is a prime example of the strong feedback loop we have with our clients. It's a great protocol that has cemented itself as an efficient risk transfer solution by improving upon some of the limitations of list trading using traditional RFQ and all-to-all. Portfolio trading is structurally changing client behavior and demand continues to build. Tradeweb facilitated a record $74B in portfolio trades in the second quarter of 2021, an increase of more than 125%. Clients are also increasingly putting dealers in competition---our in-comp portfolio trading reached record levels comprising 73% of volumes, up from 39% in the second quarter of last year.

In the U.S., we estimate industry portfolio trading now regularly makes up 5% of TRACE volume versus 2% at the beginning of 2019 with June hitting a new record. A recent survey of the buy-side by Aite Group expects portfolio trading to grow to 10% of TRACE volumes within the next 12 months. Moreover, a number of large asset managers expect portfolio trading to comprise up to 25% of their future trading activity. In response, dealers have built out dedicated portfolio trading desks anticipating future demand. We continue to leverage our first-mover advantage and launched the next generation of our portfolio trading solution a few days ago.

The use cases for portfolio trading continue to multiply as sophistication around price discovery and portfolio construction increases. Examples include a fund managing large inflows or outflows or a long/short systematic fund buying and selling bonds at the same time. Another use case relates to active managers looking to tilt a portfolio towards a specific duration, credit rating, sector or region. Portfolio trading is also replacing smaller size RFQ lists for clients that value the certainty of execution given hit rates in excess of 95%. It is also allowing clients to trade large blocks—in fact our largest multi-dealer trade during the quarter exceeded $2 billion. That is a significant amount of risk being transferred electronically and speaks to how portfolio trading is quickly becoming a table stakes protocol in credit.

AllTrade, the broadest suite of anonymous protocols on the market today connecting liquidity between our three sectors, also reached record levels. Clients traded more than $88 billion--an increase of over 135% yr/yr, as our investments to grow our all-to-all network, integrate AiEX, and improve responder functionality continue to pay-off. Session trading, another key AllTrade protocol, also hit a new record. Our newest innovation, ReMatch, is still early in its rollout, but is seeing growing adoption.

Finally, our advanced net spotting offering saw another solid quarter with over $107 billion in volume, up 9% yr/yr. On busy days, we are seeing thousands of trades across clients, dealers and protocols that are benefiting from our net spotting functionality. We recently rolled out our Multi-Client Net Spotting offering in 1Q, which we believe further extends our lead against competitors. Since then, we have onboarded the majority of our largest clients who have increased their savings by over 10% versus traditional Net Spotting.

Turning to the rest of our credit business, we achieved record revenues across European Credit and institutional Munis. Our CDS revenues also grew yr/yr despite volumes falling 15%, led by growth in EM CDS.

In sum, the diversity of our business shined through in the quarter, not only by product but also by protocol, geography and client type. We believe this diversity provides us with tremendous room for growth and we have an exciting roadmap to lead innovation across the credit markets.

Global Swaps

Moving on to swaps, the biggest driver of our rates franchise. The multi-year growth story continued as swaps registered its second-best revenue quarter despite industry volumes falling to the lowest levels seen since 3Q17. Variable revenues grew 50%, driven primarily by market share climbing to a record 14.7% and increased trading in higher fee per million protocols.

The low interest rate and volatility environment pressured industry volumes in the quarter which were down 19% yr/yr. The lower industry volumes were driven by a decline in FRA and overnight index swaps. Macro conditions remain in flux as client debate continues regarding inflation expectations and the shape of the yield curve while the overall rate picture acts as a headwind for the business.

We continue to focus on the things in our control. Specifically, we are driving our market share higher by innovating across products, protocols and geographies. The market share increases in the quarter were driven by broad gains across our three products, with June overall market share climbing to a record 16%, as measured by Clarus. On a currency basis, our momentum in major currencies continued with record share in USD and GBP denominated swaps.

We continue to respond to structural changes in the swaps market, such as the growth of EM swaps clearing or the transition to alternative reference rates. In fact, in the second quarter, we saw record EM and RFM activity, and the first electronic SOFR swap spread and Japanese TONA switch trades. On the EM front, we added the Brazilian Real in April and continue to onboard additional dealers and clients and deepen our liquidity pool.

Looking ahead, we believe the long-term swaps revenue growth potential is meaningful. With the market still only 25-30% electronified, there remains a considerable amount of business done via voice and that's our opportunity—innovating to digitize manual flow while the global fixed income markets and broader swaps market continue to grow.

AiEX

Finally, we continue to invest in our leading automated trading capability, AiEX. This tool lets clients streamline their workflow, identify cost saving opportunities, and free up time to focus on managing more complex trades and client relationships.

Adoption continues to increase as clients get increasingly comfortable with low to no-touch trading. The number of AiEX trades grew by 81% yr/yr in the second quarter, with growing usage across Rates, Credit and Equities.

Institutional clients love the data-driven intelligence that AiEX is able to provide. They face zero technology build costs, and can fine tune more than a 100 pre-trade parameters. They can choose to have their flow interact with several of our protocols, such as AllTrade to maximize the probability of finding a match, or RFQ to minimize information leakage. Post-trade, clients can quantify transaction costs using our proprietary TCA tool. This solution, which automates the entire trade lifecycle, is really resonating with clients and we expect momentum to continue to build from here.

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

BOB WARSHAW (Slide 9-14)

Thanks Billy 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 our 2nd highest quarterly average daily volume of $976 billion, up nearly 26% yr/yr, and up 25% when excluding short tenor swaps. Areas of notable growth include U.S. government bonds, European government bonds, Swaps greater than 1 year, U.S. Corporate Credit, European corporate credit, institutional U.S. ETFs, and Repos.

Slide 10 provides a summary of our quarterly earnings performance.

- The 2Q volumes translated into gross revenues increasing by 23.0% on a reported and 20.2% on a constant currency basis. We derived ~37% 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 revenues increased by 33.7% and our total trading revenue increased by 24.4%.
- Total fixed revenues related to our 4 major asset classes continued to grow, up 7.9% and 4.4% on a constant currency basis. Credit fixed revenue growth was primarily driven by the addition of new dealers in U.S. credit and additional clients in Chinese bonds. Equities fixed revenue growth was driven by the addition of new dealers and the impact of FX. Other trading revenues were up 2.5%, and as a reminder, this line item is lumpy and is affected by periodic revenues tied to technology enhancements performed for our retail clients.
- Market data increased by 8.2% due to growth in Refinitiv, APA and proprietary data products.
- Adjusted EBITDA margin came in at 50.6%, and expanded nicely by 280 basis points relative to 2Q20 as we continued to benefit from scale.
- All in, we reported Adjusted Net Income per diluted share of $0.39.

Moving on to fees per million on Slide 11. The trends I am about to describe are driven by a mix of the various products within our four asset classes.

- In sum, our blended fees per million increased 5% yr/yr; primarily as a result of stronger growth in higher fee per million Credit and improving fee per million in greater than 1-year swaps due to the previously stated growth initiatives in EM IRS and RFM. Excluding lower fee per million short tenor swaps and futures, our blended fees per million was up 6%.
- Let’s review the underlying trends by asset class.
- Starting with rates
    - Average fees per million for rates was up 12%.
    - For cash rates products, which include government bonds and TBAs, fees per million was up 4% primarily due to growth in higher fee per million US Treasuries.
    - For long tenor swaps, fees per million was up 25% primarily due to growth in EM swaps and RFM.
    - In other rates derivatives, which includes rates futures and short tenor swaps, average fees per million increased 52% due to growth in FRAs which carries a higher fee per million than OIS.
- Continuing to credit
    - Average fees per million for credit increased 48% as higher fee per million cash credit products saw strong growth with record volumes in U.S. High Yield, while lower fee per million CDS activity declined compared to a volatile second quarter in 2020.
    - Drilling down on Cash Credit, average fees per million increased 3% due to stronger growth in US High Yield, which carries a higher fee per million than overall Cash Credit.
    - Looking at the Credit Derivatives and electronically processed US Cash Credit category, fees per million increased 8% driven by growth in US High Grade electronically processed volume which carries a higher fee per million than the credit derivatives average.

- Continuing with equities
  - Average fees per million for equities was down 30% overall.
  - For cash equities, average fees per million decreased by 15% due to a decline in fee per million within US ETFs. This was driven by rising asset values inflating notional traded. Recall in the US we charge per share and not for notional value traded.
  - Equity derivatives average fees per million decreased 41% due to growth in US and European Derivatives and US Equity Futures, which carry a lower fee per million than the equity derivatives average.
- Finally, within money markets
  - Fees per million decreased 26%.
  - This was primarily driven by growth in repo, which reached record levels. Repo carries a lower fee per million than other money market products. In addition, the higher fee per million retail money markets business remained pressured by the low interest rate environment.

Slide 12 details our expenses

- At a high level, we continue to invest for growth—there has been no change to our philosophy here.
- Since going public in early 2019, we have now grown quarterly revenues by 40% and expanded adjusted EBITDA margin over 750 basis points. And we continue to believe there is more revenue and margin upside from here.
- Adjusted Expenses for 2Q increased 15.6% and 12.8% on a constant currency basis. Recall ~15% of our expense base is denominated in currencies other than dollars, predominantly in Sterling.
- 2Q21 adjusted operating expenses were higher as compared to 2Q20, primarily due to increased employee compensation, G&A, and technology and communication.
- Compensation costs increased 14.0% due to higher headcount to support our growth, as well as higher performance related compensation.
- Adjusted non-comp expense increased 19.1% on a reported basis primarily due to G&A and technology and communications and unfavorable movements in FX. Adjusted non-comp expense on a constant currency basis increased 15.4%.
- Specifically, technology and communication costs increased primarily due to higher clearing and data fees as a result of higher AllTrade volumes in credit and streaming U.S. Treasury volumes which continue to grow. In addition, this quarter also saw the continued impact of our previously communicated investments in data strategy and infrastructure.
- Adjusted general and administrative increased primarily due to an increase in travel and entertainment as we gradually recover from the pandemic, higher marketing spend, and unfavorable movements in FX which resulted in a $0.3 million realized loss in 2Q21 versus a $0.2 million realized gain in 2Q20. Recall, we adjust out unrealized FX hedging gains or losses and the impact of FX on our cash balances.
- Professional fees increased 12.0% due to increased consulting fees related to our investment in data strategy and infrastructure technology.

Slide 13 details capital management and our guidance

- First, on our cash position and capital return policy
  - We ended 2Q in a strong position, holding $680 million in cash and cash equivalents, subsequent to NFI acquisition, and free cash flow reached $434 million for the trailing twelve months.
  - We have access to a $500 million revolver, that remains undrawn as of quarter-end

  - Capex and capitalized software development for the quarter was $12.9 million, an increase of 19% year over year, primarily due to timing of investment spend.
  - With this quarter's earnings, the Board declared a quarterly dividend of $0.08 per Class A and Class B share.
  - We spent $59.7 million offsetting equity dilution during the quarter. Specifically, we spent $52 million under our regular share buyback program leaving $98 million for future deployment at the end of the quarter. In addition, we withheld $8 million in shares to cover payroll tax obligations upon the exercise of stock options. As a reminder, we plan to use our share repurchase authorization to mostly offset ongoing equity compensation. On slide 14, we have updated our quarterly share count sensitivity for 2021 to help you calibrate your models for fluctuations in our share price.
- Turning to other guidance items for 2021
  - We will continue to invest in 2021, and are now expecting Adjusted Expenses to range from $565M - $580M which incorporates our recent NFI acquisition, an expectation of a strong revenue environment in the back half of the year, and increased investments to support our growth businesses.
  - We continue to believe we can drive substantial operating margin expansion compared to 2020 at either end of this range.
  - For forecasting purposes, we continue to use an assumed non-GAAP tax rate of 22% for the year.
  - We expect capex and capitalized software development to now be $49 to $53 million given the NFI acquisition.
  - Acquisition and Refinitiv Transaction related D&A, which we adjust out due to the increase associated with pushdown accounting and the impact of the NFI acquisition, is expected to now be $124 million.

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

LEE OLESKY

Thanks, Bob. The operating market remains subdued. Low credit volatility and low rates are certainly not supportive. However, we continue to focus on helping our clients digitize their workflows to drive market share growth and what we believe is shaping up to be another record year for Tradeweb. This focus coupled with the multi-year secular trends powering electronification and automation point to potential for a long runway for growth. We are moving forward to capitalize on these trends, as Bob mentioned by continuing to invest in our people, technology and network. In addition to organic growth, we continue to spend time evaluating potential M&A opportunities that we believe would further augment our network given our cash position.

With a couple of important month-end trading days left in July, momentum from the second quarter has continued with overall volumes up double-digits relative to July 2020. The strong volume growth is being led by all asset classes. Electronic IG credit market share is running in-line with last quarter while electronic HY credit share is running higher with notable strength across portfolio trading and AllTrade.

Before I conclude, I would like to welcome Balbir Bakhshi to our Board of Directors. Balbir brings an enterprise perspective shaped by a wide range of risk management roles. As we continue to grow and broaden our reach, this perspective will be vital to our board and management team. I would also like to thank Brian West for his 2+ years of service on our board, and wish him all the best in his new role as CFO for Boeing.

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

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

ASHLEY SERRAO

Thanks Lee. 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

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