Tradeweb 2Q22 Earnings Conference Call Script

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 2Q22 Earnings Call webcast.

OPERATOR

Good morning and welcome to Tradeweb's second quarter 2022 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 Chairman and CEO Lee Olesky, who will review the highlights for the quarter and provide a business update, our CEO Elect and President Billy Hult, 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 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 $0.33. 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%, we reported Adjusted Net Income per diluted share of $0.47. 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.

The frantic beginning to 2022 continued into the 2nd quarter as growing recession fears increased investor uncertainty, amidst a backdrop of global rate hikes, surging inflation, supply chain issues, and the continuation of a brutal war in Ukraine. These macro events led to 10-year government bond yields hitting 3-year highs in June coupled with wider corporate bond spreads and lower equity market valuations.

We remained very engaged with our clients as they traded more than one trillion dollars daily on average, setting another quarterly record. Our record volumes translated into continued and strong double-digit revenue growth as Tradeweb generated its highest 2nd quarter revenues in our history. It certainly wasn't all one-way traffic – while certain products were hampered by a more "risk-off" client mentality or the yield curve, the same conditions allowed other products to thrive. Our early-mover advantage in building diversity across our global, multi-asset class, multi-client and multi-protocol business over the last 25 years really shines in moments like this. We achieved record 2nd quarter revenues across U.S. Treasuries, global swaps, U.S. Credit, Munis, CDS, global ETFs, Equity Derivatives and repos. In fact, we also achieved record 2nd quarter revenues in European government bonds and European Credit on a constant currency basis. It's also great to see the continued pickup in the Retail business which produced its highest quarterly revenue in our history.

Turning to slide 4, record 2nd quarter revenues of $297 million were up 13.9% yr/yr on a reported basis and 17.8% on a constant currency basis. The revenue growth and the resulting scale translated into improved profitability relative to full year 2021 as our second quarter Adjusted EBITDA margin increased to 52.4%.

Turning to slide 5, this quarter was marked by strong performance across all of our asset classes, with rates and credit continuing to lead the way, accounting for 48% and 32% of our revenue growth, respectively. Specifically, rates posted its best 2nd quarter revenues ever, driven by our continued growth across global government bonds and swaps. In Cash Rates, global government bond revenues were partially helped by growing government debt levels, higher volatility helping the wholesale channel and the addition of NFI. Swaps produced another solid quarter with positive market share growth, while mortgage revenues declined given the challenging rate backdrop. Similarly, Credit posted its highest 2nd quarter revenues, driven by strong Muni, U.S. corporate credit and CDS trading. Not to be overshadowed, Equities also posted its highest 2nd quarter revenues driven by institutional ETFs and our efforts to diversify and grow our other equity products. Money markets set a new record fueled by organic growth in institutional repos coupled with improving fundamentals in our retail CD franchise. Finally, market data revenue growth was equally split across our Refinitiv contract and our proprietary data products, which continue to enjoy robust growth.

Moving on to slide 6—let me provide a brief update on our four main focus areas—global interest rate swaps, U.S. Treasuries, U.S. Credit and global ETFs.

Interest rate swaps, which is our largest rate product, achieved record 2nd quarter revenues. Our overall swaps volumes grew by 43% led by an improved macro backdrop relative to last year and our continued organic growth efforts which drove market share higher to 15.1% as measured by Clarus. We continue to attract new clients and deepen our client wallet share by driving higher engagement with both existing and newer products and protocols.

Moving on to U.S. Treasuries— our volumes increased 23% yr/yr led by the wholesale business and aided by our NFI acquisition. Market share rose to 19.6% of the U.S. Treasury market. In terms of client behavior, our asset manager and hedge fund clients moved to the sidelines and trimmed risk as volatility spiked. In contrast, the pickup in volatility continued to aid our wholesale channel. Our share gains have been driven by existing clients doing more business and we continue to focus on making further inroads into the T-bill market. Looking ahead, we continue to invest in driving the adoption of early-stage institutional streaming protocols like Tradeweb+. The end of June also marked the 1-year anniversary of the acquisition of NFI. We're pleased with the integration progress and are currently awaiting regulatory approval to consolidate the two broker-dealers. NFI margins are progressing as initially planned, and we expect further NFI margin expansion moving forward.

Shifting to Credit, this was another great quarter as our business continues to surge ahead generating $84 million in revenues despite fee per million pressures in our largest business—institutional corporate credit. Our first half revenues of $170M were up 16% from the first half of last year. Seven years into our journey, it's amazing to see the sustainability of the business despite the tough client conditions and lackluster corporate credit industry volumes. We are continuing to see growing institutional client demand with users increasing across munis, portfolio trading, AllTrade and net spotting, and growing wholesale adoption of session trading and ReMatch. Looking ahead, we continue to see a lot of opportunity in credit as our platform continues to scale and the retail business continues to recover.

Finally, within equities, institutional ETFs produced strong quarterly revenue growth with ADV up 50% yr/yr driven by new client wins and strong industry volumes. We produced the strongest first half revenues in our history as institutional investors continue to embrace ETFs as a low cost, highly liquid and flexible option to navigate a wide range of market environments. The increasing adoption of RFQ has also driven greater usage of ETFs within institutional portfolios as it gives investors the ability to efficiently trade large amounts of risk and quickly alter the exposures of their portfolios. Looking forward, we believe we remain well-positioned to benefit from continued global ETF growth and as our growth initiatives scale.

With that I will turn it over to Billy.

BILLY HULT (Slide 7-8)

Thanks, Lee.

Since our inception, Tradeweb has been focused on meeting our clients' needs while being at the forefront of technological developments across the trading ecosystem. Our competitive advantage is our people, network, and technology, and we remain hyper focused on continuing to grow that moat. On the people front, as we continue with the CEO transition, we are excited that Tom Pluta will be joining the firm in October as President-elect, before officially becoming President at the start of next year. Tom is a seasoned global leader who most recently spent his last 27 years at JPMorgan and has had a long relationship with the firm, as a client, trader, investor, and most recently, as one of our Board of Directors. Tom likewise believes in our client-first approach, and we believe he will further enhance the team's ability to drive further innovation for our clients.

On the network and technology front, we recently launched the Spotlight Dealer Diversity program. This was a very important initiative that we crafted carefully in collaboration with our clients over the last year, placing a lot of importance on genuinely leveling the playing field. Now, diverse dealers will be able to elevate their profile and leverage electronic trading in a meaningful way by having the option to either directly provide liquidity or intermediate trades on our AllTrade network. The initiative has already hit the ground running.

U.S. Credit

Turning to slide 7 for a closer look at Credit.

Last quarter, we believe we received validation that our strategy of catering to the entire credit market was the correct one. This quarter, the first word that comes to mind is resiliency. As Lee highlighted in his opening, our clients are operating in a very uncertain and complicated time. The diversity of our credit business shined during the quarter—institutional corporate credit continued to grow, overcoming fee per million pressures in investment grade bond trading from duration falling 20% yr/yr. On the other hand, wider spreads boosted our CDS business and higher rates helped our retail credit and overall muni businesses.

As we built our corporate credit business we always thought we needed to respect the complexity of the fixed income market and give our clients the choice of picking a protocol that suits them best. Today, we are very pleased by the protocol diversity powering our business and we continue to pay close attention to our client's need for competition.

Our institutional growth continues to be underpinned by growth in RFQ and portfolio trading. Our 2nd quarter RFQ ADV grew 25% yr/yr driven by both investment grade and high yield. Expanding our RFQ presence remains our biggest opportunity and we continue to see great success cross-selling the innovations we have bought to the credit market to gain wallet share.

Despite the continued increase in spreads and volatility, we also continue to see strong portfolio trading activity on the platform. with ADV growing 29% yr/yr. As we step back, the underlying trends were impressive--globally, the number of users and line items traded were up over 50% yr/yr while our largest trade was greater than \$1.5B in the quarter. When you introduce something new, behavior takes times to change and these trends speak to the growing comfort that clients have in executing large trades using portfolio trading despite the volatile macro environment. Dealers also remain very engaged as our in-comp portfolio volume reached 84%, up from 73% last year.

Behaviorally, we also continue to see clients substitute some RFQ and all to all trading with portfolio trading, taking advantage of the certainty of execution, time and cost savings associated with the protocol. In fact, Barclays credit research recently published a deep dive on portfolio trading. They concluded that despite the pick-up in volatility, portfolio trading remained more effective relative to other protocols in terms of transaction cost savings, reducing costs by 30-40% depending on the level of volatility. They also noted that the robust growth prospects for ETFs bodes well for future growth and adoption of portfolio trading.

The strength in RFQ and portfolio trading was matched by the strong growth of our anonymous liquidity solution AllTrade, which saw over \$94 billion in volume — with ADV increasing 7% yr/yr. Session trading submission volumes continued to remain steady despite the increased volatility, and we remain laser focused on maximizing the value of session liquidity uploaded on our platform through newer protocols like Rematch, which accesses our all-to-all liquidity. Our Rematch ADV was up nearly 100% in the 2nd quarter.

Turning to the rest of our credit business, it was great to see a lot of our products really thrive. We achieved record constant currency revenues in institutional European Credit with strong growth driven by portfolio trading. Our Muni business achieved record 2nd quarter revenues, as the retail market sprung back to life and the institutional business, which grew more than 100% yr/yr, continues to attract new clients. Last quarter we announced the launch of AiPrice for Munis, and the team is seeing strong interest out of the gate for the product given the quality of the pricing. The volatility in the market also boosted our CDS revenues which grew by over 70% yr/yr with strong growth across regions. Looking ahead, we continue to invest in building out our EM Credit offering, and we're excited about our collaboration with London Stock Exchange Group's FXall to develop hedging workflow solutions that allow emerging market products to be traded more efficiently.

In sum, it was another solid quarter for credit, and we continue to believe we have a lot of potential for growth as we look ahead.

Global Swaps

Moving on to swaps. Just like credit, the multi-year growth story continues as swaps registered another strong quarter aided by rebounding industry volumes and market share gains. Our variable swaps revenues grew 26% yr/yr, driven by strong growth across tenors and market share climbing to 15.1%.

Our momentum in major currencies continues with record first half share in euro and pound denominated swaps. We believe the LIBOR transition is progressing well—47% of our first half volumes came from SOFR trades, up from 12% in the year ago period, with 95% of our dollar swap clients having executed a SOFR-based trade since the start of the year.

I wanted to spend a minute on inflation swaps which have become an important tool in today's environment. Like credit, product and protocol diversity in the swaps market is equally important. Since executing our first cleared inflation swap transaction in 2017 using our RFQ protocol, we have responded to increasing demand from our clients to become the leaders in the electronic trading of inflation swaps. Today, clients can aggregate inflation swap liquidity across four major cleared indices taking advantage of the efficiencies of electronic trading. Our efforts are seeing early success with first half volumes up over 30% yr/yr.

Beyond the risk-free rate transition and inflation swaps, we continue to respond to structural changes in the swaps market, making strong but early advances in cleared EM swaps, RFM protocol adoption, and multi-asset trading. We saw record EM share in the first half with revenues increasing by over 140% year over year. We also saw record RFM activity as we continue to onboard dealers and deepen our liquidity pool. Our first half RFM activity is over 90% of the activity we saw in full year 2021, with strong growth across U.S., EMEA, and APAC regions.

Looking ahead, we believe the long-term swaps revenue growth potential is meaningful. This quarter we successfully completed the first-ever fully electronic institutional SOFR swaption trade, just another example of how we, in conjunction with our customers, look to grow the electronic pie. With the market still only 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.

AiEX

Finally, we continue to invest in our leading multi-asset class automated trading capability, AiEX. 10 years into our journey, the second quarter is a testament to how we're helping our clients lower operational risk and transaction costs across trades of various sizes and complexities. Specifically, the number of AiEX trades grew by over 35% yr/yr in the second quarter.

We have recently seen the lessons learned from COVID-19 being applied by traders to navigating new challenges bought on by the Russia-Ukraine war, surging inflation, and central bank rate hike fears. The upshot has been that clients are auto-trading with relative ease, modifying rules on the fly to manage transaction costs using AiEX's innovative features. And as clients become more comfortable with automation, we are seeing them get more comfortable trading larger volumes through AiEX.

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

SARA FURBER (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 record quarterly average daily volume in excess of $1.1 trillion, up 20% yr/yr, and up 16% when excluding short tenor swaps. Among the 22 product categories that we include in our monthly activity report, 5 hit quarterly records while another 4 achieved their 2nd highest quarterly ADV. Perhaps even more notable, 10 of the 22 product areas produced year-over-year volume growth of more than 20%. Areas of strong growth include European government bonds, global swaps, U.S. corporate credit, global ETFs, and institutional repo.

Slide 10 provides a summary of our quarterly earnings performance.

- The record 2Q volumes translated into gross revenues increasing by 13.9% on a reported and 17.8% on a constant currency basis. We derived ~36% 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 20.7% and our total trading revenue increased by 14.6%.
- Total fixed revenues related to our 4 major asset classes continued to grow, up 1.3% and 5.5% on a constant currency basis.
    - Rates fixed revenue growth was primarily driven by the addition of the NFI acquisition while Money Markets fixed revenue growth was driven by global repos.
    - Other trading revenues were down 3% -- as a reminder, this line does fluctuate as it is affected by periodic revenues tied to technology enhancements performed for our retail clients.
- Market data increased by 5.1% due to growth in Refinitiv and our proprietary data products.
- This quarter's Adjusted EBITDA margin of 52.4% increased by 181 basis points relative to 2Q21 and our adjusted EBITDA margin for first 6 months of the year increased by 115 bps from the full year 2021.
- We remain committed and on track to delivering annual margin expansion in 2022 and there has been no change to our philosophy of balancing revenue growth with margin expansion.
- All in, we reported Adjusted Net Income per diluted share of $0.47.

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 3% yr/yr, primarily as a result of stronger growth in higher fee per million Rates Derivatives and Cash Equities. Excluding lower fee per million short tenor swaps and futures, our blended fees per million were up 7%.
- Let's review the underlying trends by asset class, starting with rates
    - Average fees per million for rates were up 1%.
    - For cash rates products, fees per million were up 12%, primarily due to growth in higher fee per million U.S. Treasuries and migration of certain European government bond clients from fixed to variable contracts at the end of last year.
    - For long tenor swaps, fees per million were down 4% primarily due to lower duration and billable volume mix while we continue to see growth in EM swaps and RFM.
    - In other rates derivatives, which includes rates futures and short tenor swaps, average fees per million decreased 21% due to a shift towards OIS, which carries a lower fee per million than FRAs.
- Continuing to credit
    - Average fees per million for credit decreased 18% due to relative product mix, with stronger volume growth in lower fee per million Credit Derivatives and electronically processed trades.
    - Drilling down on Cash Credit, average fees per million increased 12% due to stronger growth in U.S. High Yield, U.S High Grade and Munis, which carry a higher fee per million

than overall Cash Credit. Notably, our U.S. High Grade volumes were a record in the second quarter.
    - Looking at the Credit Derivatives and electronically processed U.S. Cash Credit category, fees per million decreased 2%, driven by stronger growth in CDS, which carries a lower fee per million than the group average.
- Continuing with equities
    - Average fees per million for equities were up 36%.
    - For cash equities, average fees per million increased by 26% due to an increase in fees per million within U.S. ETFs which was driven by a decrease in notional per share traded. Recall in the U.S. we charge per share and not for notional value traded.
    - Equity derivatives average fees per million increased 11% due to an increase in fees per million within equity futures.
- Finally, within money markets
    - Fees per million decreased 6%.
    - This was primarily driven by a decrease in our U.S. repo fees per million. The higher fee per million retail money markets business continues to improve given the higher interest rate environment.

Slide 12 details our expenses

- Adjusted Expenses for 2Q increased 9.9% and 12.6% on a constant currency basis. Recall ~15% of our expense base is denominated in currencies other than dollars, predominantly in Sterling.
- 2Q22 adjusted operating expenses were higher as compared to 2Q21 primarily due to increased employee compensation, G&A, and technology and communication.
- Compensation costs increased 7.3% due to higher headcount and performance-related compensation.
- Adjusted non-comp expense increased 15.6% on a reported basis primarily due to G&A, technology and communications, D&A, and professional services but were helped by favorable movements in FX. Adjusted non-comp expense on a constant currency basis increased 19.8%.
- Specifically, technology and communication costs increased primarily due to higher clearing and data fees as a result of higher Credit AllTrade volumes 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 costs increased primarily due to an increase in travel and entertainment as we recover from the pandemic. Favorable movements in FX resulted in a $1.0 million gain in 2Q22 versus a $0.3 million loss in 2Q21.
- Professional fees increased 15.6% due to higher legal costs and the inclusion of NFI expenses following our acquisition in June of last year.

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 $959 million in cash and cash equivalents and free cash flow reached $538 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 $15.0 million, an increase of 17% year over year. We continue to expect capital expenditures and capitalized software to be in the range of $62 - $68 million for the full year. With this quarter's earnings, the Board declared a quarterly dividend of $0.08 per Class A and Class B share.
    - We spent $11.2 million offsetting equity dilution during the quarter. Specifically, we spent $9 million under our regular share buyback program, leaving $18 million for future

deployment as of the end of the quarter. In addition, we withheld $2.2 million in shares to cover payroll tax obligations related to equity compensation. As a reminder, we plan to use our share repurchase authorization to mostly offset dilution from ongoing equity compensation.

- Turning to other guidance items for 2022
  - In line with our previous guidance, we expect adjusted expenses to range from $620M - $655M.
  - For forecasting purposes, we continue to use an assumed non-GAAP tax rate of 22% for the year.
- Finally, on slide 14, we have updated our quarterly share count sensitivity for 3Q22 to help you calibrate your models for fluctuations in our share price.

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

LEE OLESKY

Thanks, Sara. Half way through, 2022 is off to a strong start and I am very encouraged by the diversity of growth across products and the re-emergence of our retail channel which further solidifies our growth foundation. While areas of the business continue to contend with more risk-off client behavior, we remain focused on investing in our leading position across products to drive further electronification and our earnings power higher. Taking a step back, in the majority of our markets, our clients are still trading over the phone, and we believe we have a meaningful revenue growth opportunity as we continue to collaborate and innovate with our customers to improve their trading experience.

We released July volumes this morning, and the secular trends powering electronification were on display again having already facilitated more than $1 trillion in average daily volume. July volumes increased over 10% yr/yr led by growth across interest rate swaps, money markets and institutional ETFs. The diversity of our credit business was on display yet again with strong growth in U.S IG credit, munis and CDS.

Before I conclude, I would like to welcome Tom who I think will be a terrific leader at Tradeweb. I would also like to welcome Jacques Aigrain and welcome back Rana Yared to our Board of Directors as we increase the independence of our Board. Jacques brings more than 30 years of financial services expertise and global leadership and human capital experience to our Board. Rana previously spent 5 years on the Board prior to our IPO and brings strong leadership and financial experience to the Board.

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 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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