Tradeweb 1Q24 Earnings Conference Call Script

This transcript should be read in conjunction with the related Annual 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 1Q24 Earnings Call webcast.

OPERATOR

Good morning and welcome to Tradeweb's first 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 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 first quarter earnings call.

This was another record quarter as our strategy and focus on building deeper relationships with our clients through our one-stop shop offering continues to pay off. I believe it's a great time to be in the fixed income trading business—macro debate is flourishing and electronification continues to take hold leaving me optimistic about our future. Even as there is consensus around rate cuts in the U.S., questions remain on the number of cuts this year, ultimate level of rates, and shape of the yield curve. In fact, Jamie Dimon, in his most recent annual letter, highlighted the potential for U.S. rates to range from as low as 2% to as high as 8%. Traders can make a lot of money with that sort of spread.

While capitalizing on the array of organic growth opportunities in front of us remains our focus, we also continue to selectively use M&A to complement our offerings with the goal to create better outcomes for our clients. This year, we have deepened our penetration into the US Treasury market and added new futures and algorithmic functionality with r8fin and are adding corporates as a fourth client channel with our pending ICD acquisition.

Diving into the first quarter, the momentum we saw in January persisted into February and March as we eclipsed $400 million in quarterly revenues for the first time. Specifically, strong client activity, share gains and improved risk-appetite drove 24.1% yr/yr revenue growth on a reported basis. We continue to balance investing for growth and profitability as Adjusted EBITDA margins expanded by 141 basis points relative to the first quarter of 2023.

Turning to slide 5, rates and credit led the way, accounting for 55% and 34% of our revenue growth, respectively. Record revenues across rates were primarily driven by organic growth across global government bonds and swaps and were also supplemented by the addition of r8fin and Yieldbroker. Similarly, record revenues across credit were led by strong U.S. and European corporate credit, with record quarterly market share in electronic U.S. investment grade being a highlight. Money markets also hit a record fueled by continued growth in institutional repos. Equities also hit a record despite challenging industry volumes in our core ETF business. 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 turn it over to Tom who will dig deeper into U.S. credit and global interest rate swaps.

Starting with U.S. Treasuries—record first quarter revenues increased by 22% yr/yr led by records across our institutional and wholesale businesses. Our institutional business saw growing adoption of our streaming and RFQ+ offering. The leading indicators of the institutional business remain strong— we gained share and achieved record quarterly market share of U.S. Treasuries versus Bloomberg. Client engagement was healthy with institutional average daily trades up 40% yr/yr. Automation continues to be an important theme with institutional U.S. Treasury AiEX average daily trades increasing by more than 80% yr/yr and over 50% of our institutional tickets utilizing our AiEX functionality.

Our wholesale business featured record volumes across our streaming and session protocols. Our recent acquisition of r8fin is off to a strong start, contributing approximately 1.5% to our overall U.S. Treasury market share complementing our CLOB and streaming protocols. While the central limit order book continued to face tougher market conditions, the team remains focused on onboarding more liquidity providers over the coming quarters as they deliver on a holistic strategy across our wholesale protocols.

Within equities, our ETF business saw its second highest quarterly revenues which were up 1% yr/yr despite challenging industry volumes. Other initiatives to expand our equity brand beyond our flagship ETF franchise continue to bear fruit. First quarter equity derivatives revenues were up 10% yr/yr, driven by strong equity futures growth. 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. With that I will turn it over to Tom.

TOM PLUTA (Slide 7-8)

Thanks Billy.

Global Credit

Turning to slide 7 for a closer look at another record-breaking quarter for credit. Strong double-digit revenue growth was driven by 37% and 46% yr/yr revenue growth across U.S. and European Credit, respectively. Munis produced mid-single digit growth while credit derivatives revenues were more muted given softer industry volumes. Automation continued to surge with global credit AiEX average daily trades increasing by about 70% yr/yr.

We set another fully electronic quarterly market share record in U.S. IG helped by record IG block market share. Our institutional business continues to scale to new highs as clients engage with our diverse set of protocols to optimize execution across a variety of market environments. Our primary focus on growing institutional RFQ continues to pay off with ADV growing 29% yr/yr, with strong double-digit growth across both IG and HY. Moreover, Portfolio trading ADV rose over 70% yr/yr with IG portfolio trading reaching record levels. Our clients continue to get more sophisticated in their usage of PT, with 65% of our PT volume done in-comp. These in-comp volumes grew 85% y/y. Retail credit revenues were up almost 40% yr/yr as financial advisors have started to turn their focus towards credit in recent months to complement their buying of U.S. Treasuries.

AllTrade produced a record quarter with over $200 billion in volume. Specifically, our all-to-all volumes grew over 15% yr/yr and our dealer-RFQ offering grew almost 40% 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 first quarter, the average number of responses per A2A inquiry rose by over 45% yr/yr. We also continue to increase our engagement and wallet share with ETF market makers. Finally, our sessions ADV grew over 65% yr/yr and saw another record revenue quarter.

Looking ahead, US credit remains our biggest 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. Our strategy is focused on expanding our network, increasing our wallet share, enhancing our pre- and post-trade analytics and continuously improving our protocols and client experience. In the first quarter, we continued to strategically expand our salesforce to broaden our coverage and attract clients we have historically not had a presence with. With respect to high yield, we continue to chip away and believe we should be able to replicate the success we have seen in IG as we leverage our Aladdin collaboration to grow our A2A network later this year, enhance functionality and increase our presence with ETF market makers.

Beyond U.S. Credit, our EM expansion efforts continue to progress with the opening of new offices in Miami and Dubai and a steady increase in engagement with local clients. On the product side, we are focused on enhancing our integration with FXAll and continuing to build out functionality for multi-asset package trading.

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 and continued market share gains. Strength here was partially offset by an 8% reduction in duration and elevated quarterly compression activity. All in, global swaps revenues grew 35% yr/yr and market share rose to 22% with record share across other G-11 and EM-denominated currencies.

Finally, we continue to make progress across emerging markets swaps and our rapidly growing RFM protocol. Our first quarter EM swaps revenues more than doubled yr/yr, and we believe there is still significant room to grow given the low levels of electronification. Our RFM protocol saw ADV rise over 130% yr/yr with adoption picking up, especially across our European swaps business.

Looking ahead, we believe the long-term swaps revenue growth potential is meaningful. With the 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 Tom 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 $409 million that were up 24.1% yr/yr on a reported basis and 23.8% on a constant currency basis. Stepping back, looking at revenue this quarter, we generated similar average daily revenue growth with March being the strongest across all three months. We derived approximately 38% of our 1Q 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 30% and total trading revenues increased by 24%.
- Total fixed revenues related to our four major asset classes were up 7.3% on a reported and 6.9% on a constant currency basis.
    - The fixed subscription fee increase was primarily driven by the addition of new dealers and customers to the rates platform, as well as pricing increases on some of our rates subscription services.
    - Credit fixed revenue growth was driven by the previously disclosed dealer fee increases which we instituted at the start of the third quarter of 2023.
    - And other trading revenues were down 5%-- as a reminder, this line fluctuates as it reflects revenues tied to periodic technology enhancements performed for our retail clients.
- This quarter's adjusted EBITDA margin of 53.7% increased by 128 bps on a reported basis when compared to the 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, fees per million were up 1%, primarily due to an increase in the European government bond fees per million.
- For long tenor swaps, fees per million were down 18%, primarily due to an increase in compression

as well as an 8% decline in duration.

- For cash credit, average fees per million decreased 4% due to a mix shift away from high yield and munis.
- For cash equities, average fees per million decreased by 15% due to a reduction in US ETF fee per million given an increase in notional per share traded. Recall in the U.S., we charge per share and not for notional value traded.
- Finally, within money markets, average fees per million decreased 6% driven by a mix shift away from higher FPM U.S. CDs and towards our growing institutional repo business.

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 1Q increased 19.5% on a reported basis and 18.3% on a constant currency basis.
- Compensation costs increased 24.7% due to increases in performance-related compensation and headcount.
- Technology and communication costs increased 21.3% primarily due to our previously communicated investments in data strategy and infrastructure.
- Professional fees decreased 17.6% mainly due to a decrease in periodic regulatory and compliance requests relative to 1Q23. We expect professional fees to rebound over the course of the year and grow over time as we spend more on technology consulting to support our organic growth.
- General and administrative costs increased due to a pickup in marketing and well as a decline in FX gains year on year. Movements in FX resulted in a $900k gain in 1Q24 versus a $1.3 million gain in 1Q23.

Slide 12 details capital management and our guidance

- On our cash position and capital return policy
    - We ended 1Q in a strong position, with $1.54 billion in cash and cash equivalents and free cash flow reached approximately $651 million for the trailing twelve months.
    - Recall we recently entered into a definitive agreement to acquire ICD for $785 million, subject to customary adjustments, pending customary closing conditions and regulatory reviews.
    - Our net interest income of $19.3 million increased due to a combination of higher cash balances and interest yields. This was primarily driven by the higher interest rate environment and more efficient management of our cash.
    - With this quarter’s earnings, the Board declared a quarterly dividend of $0.10 per Class A and Class B shares.
- Turning to guidance for 2024
    - Given the strong start to the year, we now expect adjusted expenses to trend close to the top end of our previously communicated $755 to $805 million range for 2024.
    - We continue to believe we can drive margin expansion compared to 2023, although it will be more modest compared to last year since we expect to capitalize on the anticipated healthy revenue environment by accelerating investments to support our current and future organic growth.
    - We expect our capex spend to increase as the year progresses into our previously communicated range.

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

BILLY HULT

Thanks, Sara.

We have always recognized that we occupy a very important piece of desktop real estate connecting liquidity providers to their most important clients. The markets we live and breathe in remain dynamic and we continue to work very hard alongside our clients to innovate and push the boundaries of what can be traded electronically. Our sales and tech teams remain busy and strategically I feel good about the road ahead and durability of our one-stop shop value proposition.

With a couple of important month-end trading days left in April which tend to be our strongest revenue days, overall revenue growth is trending in excess of 40% relative to April 2023 driven in part by a favorable yr/yr comparison due to a temporary risk-off environment fueled by the regional banking crisis in the prior year period. Revenue growth this month is also being helped by a few more trading days. Focusing on average daily revenue, we are trending close to the first quarter as momentum in the business continues. The diversity of our growth remains a theme. We are seeing strong volume growth across global government bonds, mortgages, interest rate swaps, corporate credit and repos. Our IG and HY share are both higher than March levels with IG currently at record levels.

As we focus on our future, we recently expanded our Executive Leadership team adding Ashley Serrao who you all know well and Michael Cohen, our Global Head of Marketing and Communications. Both these leaders have made a significant impact on our company, and we look forward to their future contributions.

I would also like to welcome Lisa Opoku to our Board of Directors, who joined our Board as of March 7th. Lisa brings nearly 30 years of finance and legal experience to the Board, while also increasing our Board's independence and diversity. We look forward to benefiting from her valuable insight and industry experience.

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 our record quarterly revenues 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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