Tradeweb 4Q24 Earnings Conference Call Script

This transcript should be read in conjunction with the related Annual Report on Form 10-K, 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 4Q24 Earnings Call webcast.

OPERATOR

Good morning and welcome to Tradeweb's fourth 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 4-10)

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

I am extremely proud of the Tradeweb team that helped produce the best revenue year and quarter in our history. As I look back at 2024, it was filled with healthy debate and continued market share gains across our core products. Since our IPO in 2019, we have more than doubled our revenues and more than tripled our quarterly adjusted EPS as well as our free cash flow. We want to honor that past, build upon our scrappy culture, continue to expand our presence across the fixed income ecosystem, and diligently accelerate our revenue growth.

We are a technology company with the core focus of electronifying markets by efficiently connecting our buyside clients with their most important liquidity providers. Central to our strategy is always remembering to strike the right balance where innovation not only helps the buyside but also benefits our dealer clients. In 2024, we expanded our developed market footprint globally across rates, credit, money markets, and equities. We also continue to make inroads into emerging markets and we are now run-rating at over $60 million in EM revenues annually. Additionally, we have deepened and expanded our client relationships with our acquisitions of Yieldbroker and r8fin, and moved into the corporate treasurer space with ICD, something we believe will collectively pay dividends for years to come. Looking ahead, we continue to evaluate more opportunities to plant more flags and deepen our multi-asset network.

Diving into the fourth quarter on slide 4, strong client activity, share gains and a risk-on environment drove 25.2% yr/yr revenue growth on a reported basis. We continue to balance investing for growth and profitability as fourth quarter Adjusted EBITDA margins expanded by 40 basis points relative to the 2023 full-year margins.

Turning to slide 5, our rates business produced a record revenue quarter, 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 fully electronic U.S. high grade and record market share across fully electronic high yield, and further supported by growth across credit derivatives. Money markets was led by the addition of ICD and aided by record quarterly revenues across global repos. Equities posted double-digit revenue growth led by growth in our global ETF and equity derivatives business. Finally, market data revenues were driven by growth in our LSEG market data contract and proprietary data products.

Turning to slide 6, our record 4th quarter capped off a record revenue year in 2024. Record volumes across most asset classes translated into 29% revenue growth on a reported basis. The scale generated by our strong top-line results drove 91 basis points of adjusted EBITDA margin expansion, and 29% adjusted EPS growth. As our growth initiatives continued to scale, we maintained our tradition of constant and focused investment.

Broadly, we enhanced our existing product capabilities, added new clients, and forged new partnerships. On the capability front, we completed our integration of r8fin and Yieldbroker, made meaningful progress across our mortgage specified pool platform, and we rolled out our new RFQ Edge offering in global cash credit. On the client side, we continued to scale our credit, mortgage, and swaps platform as we make inroads with our largest clients. Finally, on the collaboration front, we made meaningful progress on the second phase of our integration with Blackrock’s Aladdin, and expanded our partnership with FTSE indices. Additionally, we became the first strategic partner for Goldman Sachs' new GS Digital Asset platform and announced a partnership with the Tokyo Stock Exchange. We believe our investments have not only positioned us well for the future, but also helped make 2024 another banner year for Tradeweb.

Moving to slide 7, 2024 continued the streak of robust revenue growth that we have worked hard to deliver for multiple years now. Specifically, while the majority of our revenues still come from rates, 46% of our revenue growth came from our other businesses in 2024. In fact, over the past 6 years, over 50% of our revenue growth came from non-rates businesses. Over the same period, 40% of our revenue growth was attributable to our international business. International revenues have grown on average 20% per year since 2016.

Our international business is anchored by our European business, but our Asia Pacific product suite continues to scale. Our APAC business spans rates, credit, equities, and money markets and volumes more than doubled yr/yr. We have seen strong active client growth across our APAC products, with global active APAC product users up over 20% yr/yr. Over 20% of our APAC product variable revenues in 2024 came from products that weren't generating revenues on the platform in 2019, a testament to the growing product diversity across our APAC business. As we scale our presence across the APAC region, this is also driving strong APAC client engagement across non-APAC products. For example, we saw strong APAC active client growth across US and European swaps, US government bonds, and European credit.

2025 marks our 20th anniversary of being in the Japan markets, and we have made meaningful progress in scaling our offering. Our Japanese government bond volumes have grown at an average of over 30% since 2020, while our >1-year Yen swap volumes have increased at an average of 45% over that same time frame. Looking ahead, we believe Asia Pacific, and more broadly emerging markets, will continue to become a larger component of our growth story over the next few years as we expand our client and product network across the region.

Relentless innovation has been critical to our success. Throughout our history we have prioritized being first to market, which requires constant investment. In the last 9 years, we have invested over $780 million in technology to help shape the future of electronic markets, growing those investments at an average of 15% since 2016. And as our investments bear fruit, adjusted EBITDA margins have expanded consistently.

Starting with U.S. Treasuries on slide 8—record fourth quarter market share of 25% drove revenue growth of 23% yr/yr. Our institutional business saw record revenues and the leading indicators of the business remain strong— we gained share and achieved record quarterly market share of over 50% in Institutional U.S. Treasuries versus our main electronic competitor, our 3rd consecutive quarter above 50%. Automation continues to be an important theme with institutional U.S. Treasury AiEX average daily trades increasing by over 20% yr/yr.

Turning to our U.S. Treasury wholesale business, we achieved our second-best revenue quarter in our history. This was led by record streaming activity, growing adoption of our sessions protocol, and continued contribution from r8fin. Wholesale continues to remain a key area of focus as we prioritize onboarding more liquidity providers and enhancing our various liquidity pools as we deliver on our holistic strategy.

Within equities, our ETF business produced record fourth quarter revenues. Our efforts to expand our equity brand beyond our flagship ETF franchise continue to bear fruit with record equity derivatives revenues increasing 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 9 for a closer look at another strong quarter for credit. Revenue growth was driven by 14% and 7% yr/yr revenue growth across U.S. and European Credit, respectively. We also achieved strong double-digit revenue growth across credit derivatives. Automation continued to grow with global credit AiEX average daily trades increasing over 10% yr/yr.

We achieved our 2nd highest fully electronic quarterly market share across U.S. IG and the highest fully electronic quarterly market share across U.S. HY. We also crossed the 1,000 client count threshold in the 4th quarter as clients gravitate towards our deepening liquidity pool and premium client experience. Our institutional business continues to scale as clients adopt our diverse set of protocols. Our institutional RFQ ADV grew over 30% yr/yr, with strong double digit growth across both IG and HY. Our RFQ volumes as a percentage of TRACE touched a new high in the fourth quarter, across both IG and HY. Moreover, portfolio trading ADV rose over 20% yr/yr with growth of over 30% across IG portfolio trading. Retail credit revenues produced another solid quarter, but revenues were down 11% primarily due to outsized muni tax-loss selling in the fourth quarter of 2023.

AllTrade produced a solid quarter with over $180 billion in volume, up over 15% yr/yr. Specifically, our all-to-all ADV grew over 10% yr/yr and our dealer-RFQ offering grew low-single digits 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 fourth quarter, the average number of responses per A2A inquiry rose over 15% yr/yr. Finally, our sessions ADV grew over 20% yr/yr.

It was a year of innovation and growth with a focus on redefining our diverse set of all-weather protocols. We enhanced our PT offering to incorporate ETF analytics, rolled out RFQ Edge, and further enhanced our algorithmic capabilities. Since 2020, we have grown our fully electronic IG share by more than double and we have more than tripled our HY share. Stepping back, 20% of our IG share growth was driven by RFQ, with 35% and 40% coming from PT and Sessions, respectively. On the HY front, 50% of our share growth was driven by RFQ with 40% and 10% being driven by PT and Sessions, respectively.

Looking ahead, U.S. Credit remains a key focus area and we like the way we are positioned across our client channels for this asset class. We believe we have a long runway for growth with ample opportunity to innovate alongside our clients. We are focused on further upgrades to our leading PT offering, new tools to further penetrate block trading workflows, enhanced analytics through the trading lifecycle, and an improved client user interface experience.

We also remain very focused on chipping away at high yield. Our average high yield response rate hit a new record in the fourth quarter, and we remain very focused in 2025 on expanding our client network. We’re near the end of phase 2 of our Aladdin integration, and both teams are formulating plans on the next deliverables with a goal to deliver real differentiated liquidity solutions over pure workflow efficiency.

Beyond U.S. Credit, we are focused on our EM expansion efforts. We expect to go live with our Saudi Arabian offering in the coming quarters, and we are working through regulatory approvals for our Indian offering. Strategically, we are looking to build a robust trading solution and expand our local network, leveraging our global product suite.

Global Swaps

Moving to slide 10, global swaps produced record revenues driven by a combination of strong client engagement in response to the macro environment, better mix shift towards risk trading, and stable weighted-average duration. All in, global swaps revenues grew 37% yr/yr. Core risk market share, which excludes compression trading, set a new record in the fourth quarter, increasing by over 210 basis points year-over-year. Overall market share decreased to 20.8%, primarily due to a significant drop in European swap client-related compression volumes, which carries a significantly lower fee rate. During the quarter, we also achieved record share across G-11 and EM-denominated currencies and the 2nd highest share in our history across sterling swaps.

The fourth quarter exemplified the diversity of our global swaps revenue growth. We achieved record institutional swap revenues across European and EM swaps, and our 2nd highest quarterly revenues across dollar and APAC swaps. Across our 27 currencies, we saw the biggest market share increases in 2024 across Taiwan Dollar, Swiss Franc, and Hong Kong Dollar, with each gaining over 900 basis points of market share yr/yr. Beyond this, over 60% of our currencies saw at least 500 basis points of market share gains in 2024, yet many remain below 25% market share, highlighting the opportunity ahead of us.

Finally, we continue to make progress across emerging markets swaps and our rapidly growing RFM protocol. Our fourth 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 over 140% yr/yr with adoption picking up.

Looking ahead, the global macro backdrop continues to be in flux, and we believe the long-term swaps revenue growth potential is meaningful. As we build solutions for our clients, adoption can take time, but when it does happen, the upside potential could be significant. For example, we rolled out our electronic inflation swaps offering in 2017. Adoption was slow out of the gate, however, since 2020, industry inflation swaps volume is up 85%. Our risk-related inflation swaps volumes are up nearly 600% over that same timeframe. We are looking forward to providing more solutions for more parts of the 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 11-14)

Thanks Billy and good morning.

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

Slide 11 provides a summary of our quarterly earnings performance.

- As Billy recapped earlier, this quarter we saw record revenues of $463 million that were up 25.2% yr/yr on a reported basis and 25.5% on a constant currency basis. We derived approximately 40% of our 4Q 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 30% and total trading revenues increased by 26%.
- Total fixed revenues related to our four major asset classes were up 10.9% on a reported basis and 11.1% on a constant currency basis.
    - Rates fixed revenue growth was primarily driven by the movement of a dealer to a more fixed schedule and by the addition of dealers to our mortgage and US government bond platforms.
    - Credit fixed revenue growth was primarily driven by increases to our subscription fees, and by the movement of dealers to a more fixed plan this year.
- And other trading revenues were up 21%-- as a reminder, this line fluctuates as it reflects revenues tied to periodic technology enhancements performed for our retail clients.

- Full-year 2024 adjusted EBITDA margin of 53.3% increased by 91 bps on a reported basis when compared to our 2023 full-year margins.

Moving on to fees per million on Slide 12 and a highlight of the key trends for the quarter. You can see slide 18 of the earnings presentation for additional detail regarding our FPM performance this quarter.

- For cash rates products, average fees per million were down 4%, primarily due to lower fee per million across US Government bonds.
- For long tenor swaps, average fees per million were up 55%, primarily due to a decline in compression activity and greater risk taking volumes.
- For cash credit, average fees per million decreased 12% due to a mix shift away from munis and change in dealer fee plans from variable to fixed.
- For cash equities, average fees per million increased 4% due to a mix shift towards EU ETFs which carry a relatively higher fee per million.
- Finally, with money markets, average fees per million increased 55% due to the inclusion of ICD.

Slide 13 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 4Q increased 25% on both a reported basis and constant currency basis. Given the strong environment to invest for long-term growth, during the fourth quarter, we continued investments in marketing, digital assets, consulting and client relationship development.
- Adjusted compensation costs grew 21%, the vast majority related to variable or discretionary components. Over 50% of the increase came from performance related compensation and the addition of ICD.
- Technology and communication costs increased 34% primarily due to our previously communicated investments in data strategy and infrastructure.
- Adjusted professional fees grew 47% mainly due to an increase in tech consultants as we augment our onshore technology operations and build incremental scalability.
- Adjusted general and administrative costs increased 34% due to a pickup in travel and entertainment as well as marketing, which was offset by favorable movements in FX that resulted in approximately a $1.1 million gain in 4Q24 versus a $500K loss in 4Q23.

Slide 14 details capital management and our guidance

- On our cash position and capital return policy
  - We ended 4Q in a strong position, with $1.3 billion in cash and cash equivalents and free cash flow reached approximately $809 million for the trailing twelve months.
  - Our net interest income of $14.2 million decreased due to lower cash balances as we funded our recent ICD acquisition with $771 million of cash on hand.
  - With this quarter's earnings, the Board declared a quarterly dividend of $0.12 per Class A and Class B shares up 20% y/y.
- Turning to guidance for 2025
  - We will continue to invest in the business in 2025, and are expecting Adjusted Expenses to range from $970 million - $1,030 million.
  - The midpoint of this range would represent an approximate 15% increase y/y. Excluding the impact of acquisitions, the midpoint of this range would represent an approximately 11% increase y/y, relatively in line with our average expense growth since 2016. We believe we can drive adjusted EBITDA and operating margin expansion compared to 2024 at either end of this range, although, we expect the incremental margin expansion to be

more muted as overall margins are higher and we continue to focus on balancing margin expansion with investing for the future.

- Specifically, we continue to invest in credit, rates, emerging markets, and ICD as key focus areas with a long runway for growth. We also continue to invest in technology that allows us to sustain and build our leading platform. Some of these investments will take time to scale but we continue to prize innovation and scale our technology pipeline.
- We expect 2025 quarterly run-rate technology and communications expenses to grow from 4Q24 levels as we continue to invest in our data strategy and infrastructure to support the growth of our platform and new product initiatives.
- We expect annual G&A expenses to grow in the mid-single digits, with seasonally higher levels in the second and fourth quarters due to normal cyclicality in T&E.
- We expect 2025 quarterly run-rate professional fee expenses to be at 4Q24 levels as we continue to augment our technology effort with consultants.
- We expect annual occupancy expenses to increase ~40% y/y primarily due to the move to our new NYC headquarters and overall expansion of our geographic footprint. We expect first half 2025 occupancy expenses to rise ~30% y/y and second half 2025 expenses to rise 55% yr/yr, which includes approximately $1.5 million in duplicate rent related expenses.
- For forecasting purposes, our assumed non-GAAP tax rate ranges from 24.5% - 25.5% for the year.
- We expect capex and capitalized software development to range between $99 million and $109 million. We estimate that approximately 50% will be spent on software development to support our growth initiatives, and approximately 50% will be related to growth and maintenance capex. The midpoint of our capex guidance implies a roughly 17% year-over-year increase, primarily driven by building out our new NYC office and the ICD acquisition.
- Acquisition and Refinitiv Transaction related D&A, which we adjust out due to the increase associated with pushdown accounting, is expected to be $176 million in 2025.
- Lastly, we continue to expect 2025 revenues generated under the master data agreement with LSEG to be ~$90 million. Of the ~$90M, we expect to generate $28 million in revenue in 1Q25.

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

BILLY HULT

Thanks, Sara.

As I embark on my 25th year at Tradeweb and my 3rd year as CEO, I have never been more excited about the opportunities ahead of us. The ethos of the company has not changed, and we constantly ask ourselves what can we do to bring a differentiated offering to the market that improves the overall ecosystem for our clients. Ahead of our IPO, we were known as a leading rates company that had ambitions to grow outside of rates. We believe we are now known as one of the leading financial technology companies that helps to provide innovative solutions to our clients across the fixed income ecosystem. Looking ahead, I am excited to continue to build upon our leading multi-asset class footprint. It's a good time to be in the risk intermediation business, but it's an even better time to shape the electronification of a growing fixed income ecosystem. On that note, we reported strong January volumes this morning which translated into revenue growth in January of 23% yr/yr. Excluding the $8 million contractual payment related to the LSEG market data agreement that we recognized in January, revenue growth would have been 17% yr/yr.

Before I conclude, I would like to welcome Troy Dixon to Tradeweb, who previously was a member of the Tradeweb Board. Troy, in conjunction with Enrico Bruni, will be Co-Heads of Global Markets. They will share responsibility for overseeing execution of the Company's global markets strategy, including pursuing both organic and inorganic growth opportunities across products, geographies and our four client channels. I look forward to our ongoing work together to maximize our current potential and to continue to build upon the next legs of our growth.

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

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

ASHLEY SERRAO

Thanks Billy. As a reminder, please limit yourself to one question only. Feel free to hop back in the queue and ask additional questions at the end. Q&A will end at 10.30 am ET. Operator, you can now take our first question.

THANK YOU

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