

Tradeweb Markets Inc.

4Q23E: Record January results, share divergence & well-positioned for Fed cuts

Reiterate Rating: BUY | PO: 111.00 USD | Price: 97.11 USD

TW 4Q23 financials in-line; Jan revs up 20%+

Tradeweb (TW) reported adjusted EPS of \$0.64 which matches consensus & BofAe. Net revenues were also in-line with expectations while expenses came in modestly higher (2% miss). In contrast to the recent negative forward commentary on 1Q24 from its peer MarketAxess (MKTX), TW noted on the earnings call that January revenue growth was up over 20% y/y. Additionally, TW's electronic market share for high-yield is up 69 bps m/m in January whereas MKTX's share is down 459 bps (Exhibit 2).

Increasing estimates after strong issuance month

We are increasing our EPS estimates to reflect strong QTD volumes, partially offset by a higher than expected expense guide. Industrywide credit and rates volumes were strong in January after record new issuance in both investment-grade (IG) credit and treasuries. IG issuance amounted to \$196B in January (up 25% y/y), and given the new issue calendar, February is poised to break records as well. Meanwhile, treasury issuance was \$2.4T in January, up 56% y/y. Newly issued bonds tend to be the most heavily traded fixed income securities, so the prevalence of new debt boosted industry volumes. The upward revision in volumes was partially offset by an upward revision in expenses after management's initial 2024 expense guide came in 4% higher than our estimate. Our 2024/25/26 EPS estimates increase to \$2.68/\$3.15/\$3.69 from \$2.62/\$3.03/\$3.51. Our PO increases to \$111 from \$105, still based on 30x our 2026E EPS, implying 15% total return potential.

Fed pivot should provide revenue uplift

The Federal Reserve's monetary policy pivot should provide a tailwind for TW's fixed income volumes and fee-per-million (FPM). Federal Reserve Chair Jerome Powell has indicated that the United States has already reached the terminal interest rate for this hiking cycle, and the market expects the Fed to begin cutting later this year. Already, the pivot powered a 27% q/q increase in TW's rates trading in 4Q23 and will likely be a recurring catalyst going forward. Additionally, as the Fed cuts rates, the duration on fixed income instruments will extend. This, in turn, will benefit the FPM of IG bonds and interest rate swaps, which are tied to duration.

Reiterate Buy rating on secular electrification thesis

We continue to believe TW will take considerable market share away from voice over the next five years. We forecast a 15-20% CAGR in fully-electronic volumes through 2026. Additionally, TW's innovation with protocols and wider menu of trading capabilities places the firm in a strong position vs its key competition.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.90	2.26	2.68	3.15	3.69
EPS Change (YoY)	16.6%	18.9%	18.6%	17.5%	17.1%
Consensus EPS (Bloomberg)			2.56	2.83	3.02
DPS	0.32	0.36	0.40	0.44	0.48
Valuation (Dec)					
P/E	51.1x	43.0x	36.2x	30.8x	26.3x
Dividend Yield	0.3%	0.4%	0.4%	0.5%	0.5%

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Timestamp: 06 February 2024 08:31PM EST

06 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	105.00	111.00
2024E Rev (m)	1,485.5	1,541.0
2025E Rev (m)	1,656.7	1,758.2
2026E Rev (m)	1,847.6	1,996.5
2024E EPS	2.62	2.68
2025E EPS	3.03	3.15
2026E EPS	3.51	3.69

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Stock Data

Price	97.11 USD
Price Objective	111.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-1-7
52-Week Range	64.83 USD - 100.24 USD
Mkt Val / Shares Out (mn)	20,444 USD / 210.5
Free Float	99.4%
Average Daily Value	99.10 USD
BofA Ticker / Exchange	TW / NAS
Bloomberg / Reuters	TW US / TW.OQ
ROE (2024E)	11.2%
ESGMeter™	Medium

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iQprofileSM Tradeweb Markets Inc.

Income Statement Data (Dec)	2022A	2023A	2024E	2025E	2026E
(US\$ Millions)					
Total Net Revenue	1,189	1,338	1,541	1,758	1,997
% change	10.4%	12.6%	15.2%	14.1%	13.6%
Compensation & Benefit	(412)	(456)	(510)	(561)	(612)
% change	5.5%	10.6%	12.0%	10.0%	9.0%
Non-Compensation Expenses	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Total Expenses	(624)	(694)	(790)	(888)	(990)
% change	8.2%	11.3%	13.8%	12.3%	11.6%
Operating Income	565	644	751	871	1,006
% change	13.0%	13.9%	16.6%	16.0%	15.6%
Reported Net Income	451	535	637	750	879
% change	16.3%	18.7%	19.1%	17.7%	17.2%
Adjusted Net Income	450	536	638	751	879
% change	15.7%	19.0%	19.1%	17.7%	17.1%

Performance Metrics (Dec)

	2022A	2023A	2024E	2025E	2026E
Operating Margin	47.5%	48.1%	48.7%	49.5%	50.4%
Compensation Expense/Revenue	34.7%	34.0%	33.1%	31.9%	30.6%
Non-Compensation Expense/Revenue	17.8%	17.8%	18.2%	18.6%	19.0%
Dividend Payout Ratio	14.6%	14.2%	13.3%	12.4%	11.6%

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	6,260	6,735	7,288	7,946	8,723
Cash and Investments	1,257	1,631	2,162	2,793	3,539
Long-Term Debt	0	0	0	0	0
Total Shareholders' Equity	4,954	5,427	5,980	6,637	7,415

Company Sector

Other Financials

Company Description

Founded in 1996, Tradeweb provides trading platforms for more than 2,500 clients in over 40 products across rates, credit, money markets, and equities.

Investment Rationale

We believe that TW is the best way for investors to capitalize on the secular migration to electronic trading in fixed income, and we see compelling parallels between this opportunity and buying NDAQ in the 1990s, when electronic equity trading first started to emerge. We also expect a cyclical tailwind from rising rates.

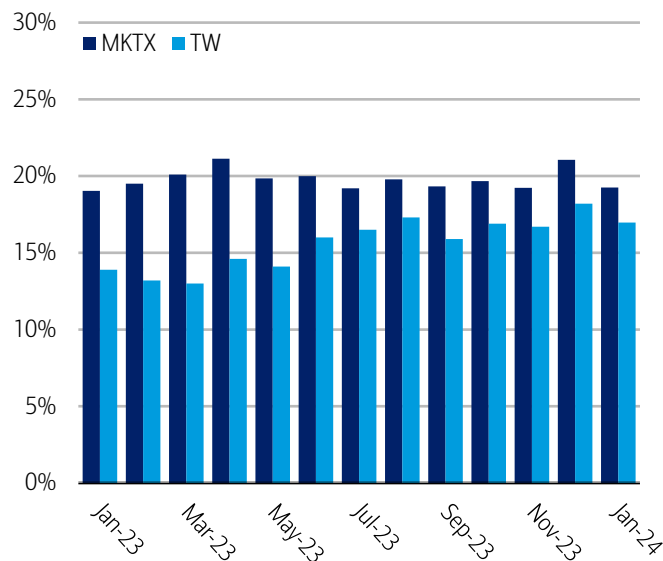
Quarterly Earnings Estimates

	2023	2024
Q1	0.54A	0.65E
Q2	0.52A	0.60E
Q3	0.55A	0.66E
Q4	0.64A	0.76E

Additional details

Exhibit 1: Investment-grade market share

Both firms market share was down slightly due to elevated new issue volume, which tends to have a higher mix of voice

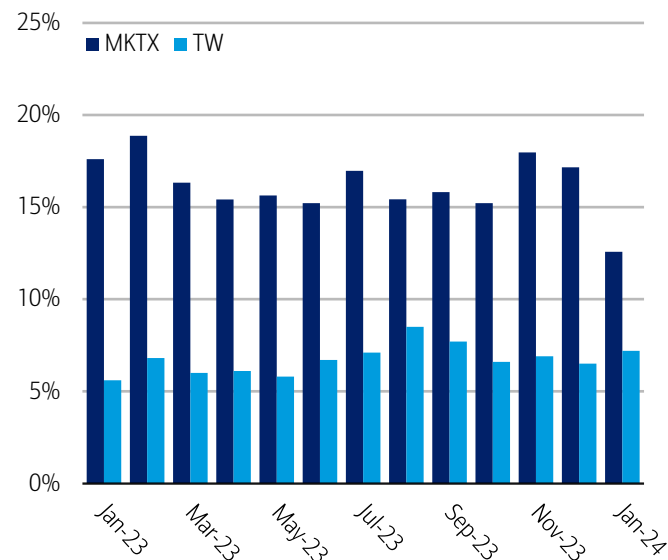


Source: Company reports, BofA Global Research

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Exhibit 2: High-yield market share

MKTX's market share in January dropped 4.5% while TW was up modestly

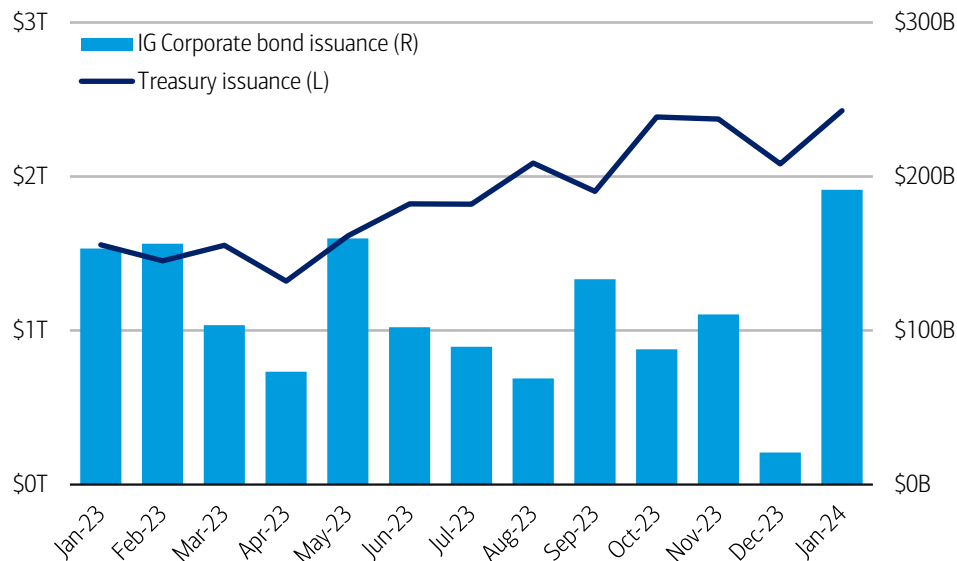


Source: Company reports, BofA Global Research

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Exhibit 3: Investment-grade corporate bond and treasury issuance

IG bond issuance is up 25% y/y whereas treasury issuance is up 56%, both of which are all-time records



Source: SIFMA, Treasury Direct, BofA Global Research

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Price objective basis & risk

Tradeweb Markets Inc. (TW)

Our price objective (PO) for Tradeweb is derived from a price to earnings valuation method. We apply a 30x multiple on our 2026E EPS to derive our \$111 PO. Our multiple is supported by TW's recent valuation range and assumes TW maintains a premium to the US exchanges due to higher visibility into its long-term growth trajectory combined with its defensive qualities.

Risks are (1) competitive pressures intensifying (MKTX, Bloomberg, ICE, Trumid), (2) a high mix of transactional revenues, (3) secular pressure to trading commissions (although TW's commissions are still a low % of bid-ask), and (4) a high valuation relative to slower-growth peers.

Analyst Certification

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US - Brokers, Asset Managers, & Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AllianceBernstein	AB	AB US	Craig Siegenthaler, CFA
	Ameriprise Financial	AMP	AMP US	Craig Siegenthaler, CFA
	Ares Management Corp	ARES	ARES US	Craig Siegenthaler, CFA
	BlackRock, Inc.	BLK	BLK US	Craig Siegenthaler, CFA
	Blackstone	BX	BX US	Craig Siegenthaler, CFA
	Blue Owl Capital	OWL	OWL US	Craig Siegenthaler, CFA
	Cboe Global Markets	CBOE	CBOE US	Craig Siegenthaler, CFA
	Interactive Brokers	IBKR	IBKR US	Craig Siegenthaler, CFA
	Intercontinental Exchange	ICE	ICE US	Craig Siegenthaler, CFA
	KKR & Co. Inc.	KKR	KKR US	Craig Siegenthaler, CFA
	Raymond James Financial	RJF	RJF US	Mark McLaughlin, CFA
	TPG Inc	TPG	TPG US	Craig Siegenthaler, CFA
	Tradeweb Markets Inc.	TW	TW US	Craig Siegenthaler, CFA
	Victory Capital Holdings, Inc.	VCTR	VCTR US	Craig Siegenthaler, CFA
	Virtu Financial	VIRT	VIRT US	Craig Siegenthaler, CFA
NEUTRAL				
	Affiliated Managers Group	AMG	AMG US	Craig Siegenthaler, CFA
	Apollo Global Management	APO	APO US	Craig Siegenthaler, CFA
	Brookfield Asset Management	BAM	BAM US	Craig Siegenthaler, CFA
	CME Group Inc	CME	CME US	Craig Siegenthaler, CFA
	Invesco	IVZ	IVZ US	Craig Siegenthaler, CFA
	Janus Henderson Group	JHG	JHG US	Craig Siegenthaler, CFA
	LPL Financial Holdings	LPLA	LPLA US	Craig Siegenthaler, CFA
	Patria	PAX	PAX US	Craig Siegenthaler, CFA
UNDERPERFORM				
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	Franklin Resources	BEN	BEN US	Craig Siegenthaler, CFA
	Nasdaq	NDAQ	NDAQ US	Craig Siegenthaler, CFA
	Robinhood Markets	HOOD	HOOD US	Craig Siegenthaler, CFA
	T. Rowe Price	TROW	TROW US	Craig Siegenthaler, CFA
	The Carlyle Group	CG	CG US	Craig Siegenthaler, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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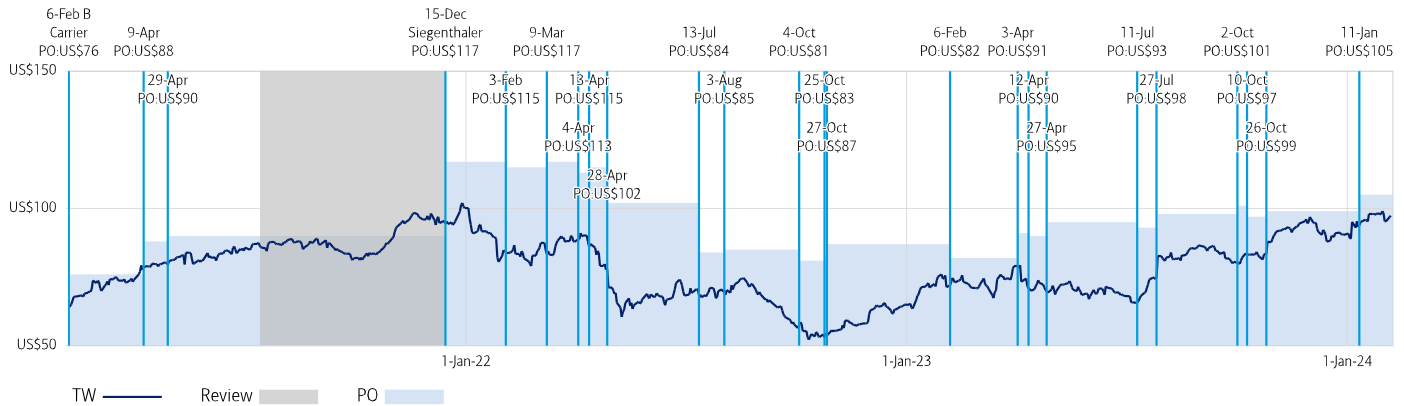
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Tradeweb (TW) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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